out to begin trying to take action. But there are limits as to what we can do in the short-term to address problems that have developed over long periods of time. I think that is the fundamental point.

At the same time I would say to members that we need to get the plan moved forward because the problems that repeat themselves every year do not have to repeat themselves well into the future if we can address the underlying reasons behind them.

The Chairman: Thank you. My time is up Senator Bingaman.

Senator Bingaman: Thank you very much. Let me ask first on this low-income home energy assistance program. You have said and I believe your report says that you are requesting increased funds for that. There are two fiscal years that are relevant to that discussion, it seems to me. The one we are in today and will be until the first of October and then the next fiscal year. The one we are in today there is clearly a shortfall of funds for low-income home energy assistance.

We have passed an increase in the authorizing levels through the Senate. The House has not acted on it. We have urged that the Administration request additional, supplemental appropriation so that we can actually get funds to the states to continue with that program during the rest of this fiscal year. Do you know if the Administration supports doing that?

Some type of supplemental appropriation to get us through until October 1?

Secretary Abraham: I do not know. I know that, as I remember when we put the budget together when I was still a member, that we'd had $300 million in emergency money, but we spent that, as I remember before the end of last year -- that is by December 31st. Because this is not in my department, I do not know -- and it is traditionally an OMB and the relevant department -- I am not sure what the status of that is. What I can comment on is the nature of the recommendation. It was our decision, or as we put the plan together, that we needed to find a more effective way to run this program.

So what we have proposed is not only an increase in the base funding over this year's appropriation level, but also to try to work with the Secretaries of the Interior and Health and Human Services to find a way to perhaps trigger increased supplies of money to LIHEAP based on triggers that would be set when prices would exceed a trigger price. So that we would begin supplementing the LIHEAP program in the future with monies that would be moved over from Federal oil and gas royalties. That's the future. I can't tell you what the status of the supplemental is.

Senator Bingaman: Well, let me ask about next year. As I understand it, during this current year we have appropriated and spent $2.25 billion so far. Your plan proposes that next

year we spend $1.7 billion. I don't see how that's an increase.

Secretary Abraham: I think it is an increase over the regular 2001 appropriation.

Senator Bingaman: But not over what was actually appropriated.

Secretary Abraham: I do not think it contemplated what was included in emergency additions. And I think what is meant here, if you would look at the recommendation. The recommendation is to increase the base to start with, but then also direct the Secretaries of Interior and HHS to propose legislation to bolster LIHEAP funding by using a portion of oil and gas royalty payments, redirecting royalties above a set trigger price to LIHEAP whenever crude oil, and natural gas prices exceed the trigger price.

And I think what we have envisioned here is working with Congress to see if we cannot change from a situation where we lurch in the face of emergencies to try to come up with a supplemental, which may or may not happen, to a situation where the pool of monies available for LIHEAP would grow as there is evidence in the markets that the price of heating oil is going to go up. That was -- the idea was to try to get away from estimating and emergency kind of responses into a situation where the available funds would be larger --

Senator Bingaman: So we can expect some legislation

along those lines.

Secretary Abraham: That's the goal. And again, I think that certainly we would anticipate that in putting together such legislation -- our goal is to try to find a way around the sort of crisis approach to something where we are expanding that pool of money without the need to get to supplementals at some point, and hopefully we can find one.

Senator Bingaman: Let me move on to another one of your recommendations. It says that the Cheney task force recommends -- and this is a quote from it -- recommends "that the President direct the Secretary of Energy to propose comprehensive electricity legislation."

The previous Administration did propose comprehensive electricity legislation. It was agreed to by some and disagreed with by others, but it was a fairly comprehensive proposal. When could we expect to see a proposal from your department in the nature of a comprehensive electricity --

Secretary Abraham: This week, now that the plan has been finalized, I've asked our staff to begin the process of looking at components that might be included in a comprehensive bill. Some of it will depend, I guess, on definitions too because obviously one of the issues that we want to address is reliability. And there is a separate recommendation with regard to reliability that is in this -- in our plan. And some bills I know would merge reliability legislation into

comprehensive legislation. Some wouldn't.

But the question you ask is the timetable we have just begun at the Department to begin examining possible inclusions in such legislation, I'm hopeful we will be able to move ahead fairly quickly. But we also do want to have a discussion with members of Congress to get a sense of priorities here.

The one area that I would highlight, as I mentioned in my statement, that already I can assure you would be part of any legislation we might offer, unless the Congress acts prior to that, would be the repeal of PUHCA. Because that's a position the President outlined already in his campaign.

Senator Bingaman: You also in your statement to us today said that the Administration proposes mandatory reduction targets for emissions of three major pollutants: sulfur dioxide, nitrogen oxides and mercury. My impression is that a number of utilities, and other companies, oil companies and others would like to know where the Administration is going to be on greenhouse gas emissions before they make major investments.

The constant drum beat is that we are going to need 1300 new power plants over the next twenty years. What can you tell us about your intentions? Are you going to set CO2 criteria? Are you going to give any direction as to where you believe we should be on that issue?

Secretary Abraham: Senator, on a separate track from the National Energy Policy Development Task Force track, the President has launched a multidepartment review of climate policy. In fact this afternoon I will be participating in yet another of these task force meetings, which is a principal's level task force.

Senator Bingaman: Who is in charge of that?

Secretary Abraham: It is being run by the White House, coordinated by -- I believe by the offices of National Security and National Economic Policy of the White House. But it includes the Administrator of the EPA, the Secretaries of Treasury, Interior, myself and others at a principal's level. My understanding is that this summer that review and set of recommendations will be completed. And that would presumably address these issues.

But it started later than the Energy Task Force started, and so it is a little bit later in terms of when it will finish. But that'll be, I think, the Administration's statement on policy in this area will emanate from those recommendations.

Senator Bingaman: Do you agree with my basic point that in order to give companies the certainty that they need to be going forward with these major investments and new plan, we really do need to come up with a policy on CO2 emissions?

Secretary Abraham: I think that clear guidance and

certainty of any sort, whether it is on CO2, it's on the other pollutants that are mentioned here -- the pollutants that are mentioned here, the emissions levels and so on of these different greenhouse gases, I should say, is very important. We have certainly heard from the same industries you have asking for some clarity as soon as possible. That is, I think, one of the reasons we wanted to move forward with the multipollutant bill at the same time we complete this other study, so that we really would be able to establish some guidelines people would be comfortable following.

Senator Bingaman: I guess my time is up. There are only two lights in this room, is that right? You are either go or stop. No slow down. Thank you very much, Mr. Chairman.

The Chairman: That is a good question, Senator Bingaman. So if the yellow light is on, it is just a warning, nothing more. We need one that gives you a little jolt.

Senator Wyden.

STATEMENT OF HON. RON WYDEN, U.S. SENATOR FROM OREGON

Senator Wyden: Thank you Mr. Chairman and Mr. Secretary. Welcome. It is good to have a chance to work with you.

Mr. Secretary, there is a veil of secrecy that envelops today's energy markets. Energy is now being traded as a commodity all across the country on trading floors, but the information that is needed in order to really protect the public interest is not available. I am talking about systems information, information about transmission capability, outages and this sort of thing. Not proprietary information; information about systems.

I intend to introduce legislation shortly to change that, to bring about some transparency. I would like to know at the beginning conceptually -- you cannot comment on a bill you have not seen -- but conceptually whether you would support legislation to lift this veil of secrecy that surrounds energy markets. So at a time when energy is being traded like a commodity, the public can get the information about systems that is needed to make markets work.

Secretary Abraham: Obviously I would not at all rule out supporting such legislation in a conceptual sense. One of the issues that I have asked our Energy Information Administration to look at is the question of going beyond the kind of things that we currently examine with regard to gasoline to try to give consumers an understanding of what the prices are at each

of the stages in the process, because when people are upset and they deserve to know where the fluctuations are taking place.

Senator Wyden: This is not about prices. I am going to talk about that in a second. This is about information --

Secretary Abraham: I understand.

Senator Wyden: -- on the trading floors where energy is being bought and sold. You lift this veil of secrecy so that people can find out how to make markets work.

Secretary Abraham: Again, I cannot state any objection to that notion at the onset.

Senator Wyden: The Administration recommends fast tracking the siting process for power plants. And it just seems to me there is an opportunity to be more creative here. I want to ask you about a specific approach. Instead of just saying you are going to fast track the siting process for everybody, why not say that for a developer for a company who fast tracks the environmental compliance side, that those are the people who go to the head of queue when it comes to siting. That way you've got a chance to ensure that there is environmental protection and sensitivity to economics, rather than just say, well, okay, let's push everybody to the front of the line. Wouldn't that be a more creative way to approach it?

Secretary Abraham: I do not think there is any desire on the

part of the Administration to diminish the focus on the environmental components of these permitting processes, which is why I know that the Council on Environmental Quality at the White House has been proposed as the entity that would make sure that any permitting process expediting would be consistent with the rules.

One of things which we have tried to recommend is to start focusing on the kinds of permits that affect processes such combined heat and power systems, where sometimes the permit process, as I understand it at least, the lack of flexibility in the permitting has really slowed up what could be the introduction of much, in our judgment at least, preferable ways of energy production. But I can assure you that there is every interest in our part in trying to simply eliminate what seemed to be unnecessary delays.

I found this, in a separate area in my department, with respect to transmission systems. We were holding up our responsibility with respect to international transmission siting between the United States and Mexico. It turned out, for reasons that had nothing to do with issues related to environment, health or safety, but just had to do with bureaucratic log jams. And that's I think what the principal goal we have here is and to make sure through the Council on Environmental Quality that we do not in any sense diminish the rigorous nature of those reviews.

Senator Wyden: When we come to that part of the legislative debate, I want assure you I am going to try to change the siting initiative because I think it one thing to say that you are going to put everyone on a fast track. There are delays. There is no question about it. But what we ought to be doing is in effect saying we want to fast track it for those address the other issues that are important to communities such as environmental --

Secretary Abraham: And we should -- ~~I would hope would look at~~, like I said, one of the key recommendations is the recommendation that the EPA Administrator promote combined heat and power systems through flexible permitting process. We might want to try to identify preferable areas in which we would want to be generating, and that is a good example.

Senator Wyden: On the question of gas pricing and energy pricing, I am very troubled by the Administration's unwillingness to tackle practices that are clearly anti-consumer and anti-competitive, but do not seem to technically be illegal under current law. And let me be specific. The Federal Trade Commission found in their study on the West Coast that our gasoline markets are being redlined.

We have communities where the companies actually draw a line and say distributors cannot go here. Juries in my state are handing out multimillion dollar awards because of

redlining. So the government has found that West Coast gasoline markets are being redlined. It is about as anti-competitive practice as you can find, but it is not technically illegal under current law.

I would like to see the Administration go after those kinds of practices and I do not see them mentioned anywhere in the proposal. And yet that is taking a toll right now in my state where we have lost 600 gasoline stations. In much of the West Coast a handful of companies control 60-70 percent of the gas market. And I would like to see the Administration go after some of those practices.

Secretary Abraham: I would be glad to talk further with you, Senator, on what appropriate action there might be. I would not hesitate to examine that, if there is a suggestion you might have as to an activity we might --

Senator Wyden: The suggestion I have is just because it is not illegal under current law does not mean that everybody should say, well, let's just, you know, ignore it. It is almost as if now unless a handful of these oil companies are huddled up in a hotel somewhere, nobody is going to say that we ought to be looking at these issues.

The Federal Trade Commission found evidence of redlining. West Coast gas markets are being redlined and I would hope, and I have always enjoyed working with you, that we would say that practices that are anti-consumer, anti-competitive, and

anti-markets are areas that we would also try to change even if they are not strictly illegal under current law.

Thank you, Mr. Chairman.

The Chairman: Thank you, Senator. Senator Bayh is next. I have been advised that this is not really a yellow light, it's a red light. So if anyone is color blind, I will remind them after six minutes.

Thank you. Please proceed.

STATEMENT OF HON. EVAN BAYH, U.S. SENATOR FROM INDIANA

Senator Bayh: It is not the only example around here, Mr. Chairman, of things not appearing quite the way they are in fact.

The Chairman: That's very true.

Senator Bayh: Thank you, Mr. Chairman. Mr. Secretary welcome again. It was good being with you last night for President Ford's wonderful address to the members of the Senate. And it is good to have you back before this committee.

Secretary Abraham: Thank you. Good to be with you.

Senator Bayh: I have two brief points, Mr. Secretary. First, it seems to me that this is a difficult issue and we all understand that. But sometimes out of difficulty comes the opportunity to make a great advance or to break out of old ways of thinking. And in all candor, I am concerned that the Administration may not be making the most of this opportunity.

Let me deal with it in general strategic terms and then give you some specific examples. In general philosophical terms, the old debate, the sterile debate, of the last twenty to thirty years has been some people have argued that just more production is the answer to all of our problems. I think all of us up here recognize more production is a part, an important part of the answer to our problems but alone it is not going to be enough to solve America's energy crisis.

On the other side there are those that say, well, we can just conserve our way out of this problem, and implicit in that is too often a lower standard of living for the American people. Conservation is a critically important part of the overall answer but by itself is not enough.

The American people are hungry for a third way, a new approach to this, which would aggressively invest in new technologies to promote clean, renewable, alternative energy sources that are domestically-based.

And I must say that when we look at specifics, and I am going to get down to specifics here, there is a disconnect between some of the language in the energy proposal put forward by the Administration and the specifics in the budget. We need a way of resolving this issue.

Let me just list some of the specifics. The proposal put forward instructs you and the Secretary of the Interior to promote enhanced oil recovery with new technologies. But the gas exploration and production programs are cut by 34 percent. Petroleum and oil technology is cut by 54 percent. The Natural Gas Technologies Program is cut by 53 percent. The Efficient and Renewable Energy budget is cut by 27 percent. Gas hydrates research, a very promising long-term initiative, is cut by 52 percent.

The proposal recommends that agencies be directed to reduce energy use, but the Federal Energy Management program

is cut by 48 percent. Transportation research and development is cut by 21 percent. The Industries of the Future program is cut by 35 percent. The Office of Nuclear Energy, Science and Technology is cut by 9.3 percent.

My question, Mr. Secretary is how do we square the rhetoric and the language of the energy proposal with some of these reductions that are a national commitment to new research, new energy and what really promises to break out of this sterile debate of the last twenty to thirty years.

Secretary Abraham: Well, if I can, it may take a little long and I don't want to cheat you out of your second question, but it would take a little time to answer that. I would like to answer it comprehensively.

First of all, I totally agree with your analysis that we must -- and I mentioned in my statement and have in public speeches -- understand that the solution cannot lie on either end of the traditional debate here. We cannot possibly conserve our way to energy security by the year 2020. There is no doubt in my mind that we can't simply produce our way to security. The differential between where we would be in the absence of a balanced approach and where we are is too great. So, we absolutely must do that.

Now the question you raised is what about this year's budget and how does it square with the recommendations. Let me just begin by talking about the process that brought about the

budget about. When I took office, within a matter of a week we were expected to begin the process of providing recommendations for our budget. We then went back and forth with the White House. I found myself in a slightly different position than some of my colleagues in the cabinet because in the very first week we were in office, the President launched the Energy Policy Task Force and indicated very clearly that it would incorporate all these various areas of energy policy that our department funds.

We were therefore without much guidance as to where as of June we would find ourselves versus where we were in February. And it was -- we were somewhat reluctant to begin suggesting changes in budgets, or increases or even the maintenance of some programs.

Senator Bayh: Are you suggesting that we may see some changes in these recommended allocations?

Secretary Abraham: You absolutely will because there are two very clear directives in here, which I am very enthusiastic about, to my department and me to launch reviews. One of which, for example, in the area of energy efficiency I launched yesterday, which gives clear direction for us to review and make recommendations with respect to funding levels in the areas that you have mentioned that have in fact in this budget been either held in place or reduced.

So I think that process is beginning and it will also be

applied to the areas of renewable energy and alternative energy sources, as well as to some of the programs you mentioned in the area of fossil energy.

I do want to though make a couple of qualifying comments. We did find after some analysis -- we had two guiding principles where we did make reductions that are reflected here. And they are going to continue to be guiding principles even though we may significantly change the budget. One is ~~was~~ -- in the area of energy ~~efficient~~ efficiency, the President already had established, this is an area where we had some guidance, his desire to increase the Weatherization Program very substantially by $120 million over the previous level. We have done that in the budget submission.

In order to fund that within the budget number that we were passed back from the Office of Management and Budget, we had to make some choices. And I did make some decisions which may be affected by this review. But I did make some decisions to shift monies from programs like the Industries of the Future and from the buildings programs and others to the Weatherization Program because we felt that the notion of -- at least at the level of partnership from the private sector in the areas that have been beneficiaries --

Senator Bayh: My yellow/red light is already on, Mr. Secretary, so I do not want to interrupt you. Just two final statements and then I will turn it over to the Chairman --

Secretary Abraham: Maybe I could in writing flesh out the rest of this answer because --

Senator Bayh: That would be great if you could include in a written response. I know that the Defense Department is undergoing a significant -- a similar, broad review of its mission and how to meet its mission in the future. And yet they held back the Defense Department budget submission out of respect for that review process. There seems to have been a different approach with regard to the energy issue. I would be interested in why the two different approaches were taken.

Secretary Abraham: Well, actually part of what the Defense review is undertaking affects my department with respect to the National Nuclear Security Administration and indeed those issues which tend to maybe come up a little bit more often in our Armed Services hearings, ~~then~~ than here. But the areas that deal with defense programs and non-proliferation programs are also under review and may well be affected by the defense posture review. In fact we have been working very closely with them and they will perhaps be included in what he might submit here soon. So, in part our department was affected that way but the decision was to do that in that area but not in this.

Senator Bayh: Thank you, Mr. Secretary. My final point simply is, we understand the budget was submitted under difficult circumstances where there was a search on for

dollars to help make the tax cut that now is on the verge of becoming a reality possible. My broader concern is that tax cuts are appropriate and I support significant tax cuts as part of a broader economic strategy. But it has to be a broader economic strategy. And long-term energy independence, and investment in technologies and renewable and alternative energy sources has to be a part of that strategy. And we cannot let the tax agenda crowd out the important investments in this kind of energy research for the future.

Secretary Abraham: I appreciate that, and if I could just make one comment back, if time permits Mr. Chairman. That is certainly not what we were involved in. What we were involved in was trying to gauge where this Energy Task Force set of recommendations would go. Our total budget for some of these programs was reduced though based on some analysis which we did. I don't want to leave this point unstated.

You mentioned, for example, the area of transportation efficiency. We did what we considered to be due diligence on the programs in place. This is an area where I have a lot of personal interest because it's obviously one that affects Michigan. It is also a program ~~that~~ when I was a member that I was ardently pushing every year in the budget process.

But we had a very serious analysis of the program and I guess it demonstrates that there are no sacred cows in our budget because we did scale back a component of the program

that went towards the development of a vehicle -- it started in all the best faith back in the early 1990s but which we concluded was not going to translate into the production of a real vehicle for the marketplace. We decided that in that area to continue to spend the taxpayer's money was not wise.

Now in the process of the analysis that we will initiate, we might find other transportation priorities. We funded the rest: the truck program and the fuel cell program very strongly. But we want to be very sure we are spending dollars in the Department on these technologies in areas which will actually find real world applications. And we look forward to working with Congress to hopefully come to agreement on what the priorities in these areas should be.

Senator Bayh: Thank you, Mr. Secretary. Thank you, Mr. Chairman.

The Chairman: Thank you very much.

Senator Feinstein. Good morning.

STATEMENT BY DIANNE FEINSTEIN, U.S. SENATOR FROM CALIFORNIA

Senator Feinstein: Good Morning. Thank you very much, Mr. Chairman. Welcome Mr. Secretary. I just wanted to say about the report, you know, I think there are some good things in it. There is much that I profoundly disagree with, but I wanted to think aloud with you for just a moment.

You and I have talked about the California energy situation a number of times. I just want you to know where this Senator is. I am really coming to question the deregulation in the energy area. I want to tell you why. As a consumer when you deregulate airlines, the consumer has a choice of airlines. If you do not like one airline -- the time, the price, whatever it is -- you can go to another. If you deregulate telephone service, the consumer has a choice. If I do not like one telephone company, I can go to another. If I do not like one service provider, I can go to another. I have full transparency on my bill.

You do not have that with energy. The consumer has no choice. When my natural gas bill goes up two-thirds, I have no choice and I have no way of knowing why. When my electricity bill goes up, I have no way of making a choice.

It is pretty well established that in 1999 the total cost of energy for California was $7 billion. To date this year, the total cost varied between 25 and $30 billion, and are

going to go up by the end of the year it is projected by $65 billion.

Now there are those that say there is no evidence of price gouging. Everything is fine. Let the market work its will. The market cannot function as a market should right now. In your report, and I am quoting, you say "unfortunately there are no short-term solutions to long-term neglect."

See, I profoundly differ with this. Today California per capita is the most energy efficient state in the Union. We are building new power. It is going to take a period of time. And if the Federal Power Act is not being followed, and it isn't, the Federal Energy Regulatory Commission has a mandate under that act that if rates are unjust and unreasonable to regulate. And they refuse to do it. They say it is within their discretion.

If that is the way deregulation of energy is going to be carried out, it is a supplier's marketplace dramatically. There is no choice for the consumer. There is no transparency of why natural gas prices are three to four times higher than anywhere else in the United States. We know that in overall costs the escalation is from $7 billion in two years to 25 to $30 billion. I really question whether energy should be deregulated. And I would like your response to that.

Secretary Abraham: Well, let me make a couple of comments. I think how you deregulate is as important as

whether or not you deregulate. What constitutes real deregulation to me is the principal issue, at least with respect to California. You and I have talked about this. Obviously people will draw conclusions from the California experience. They will draw conclusions from the Pennsylvania experience. They may draw very different conclusions because of the different approaches taken.

But I think if you try to, and I am not trying to go back five years or whatever, but if you tried to create a regulatory approach that -- emphasized deregulation, you would not, in my judgment, go the route that has been pursued in California. You would not only deregulate on the wholesale price side and not the retail side. By capping the amount of charges that could be assessed by the utility companies, you put the companies in a situation where they were totally at the mercy of wholesale spot market price fluctuations.

Then when you further prevented, and I do not mean you, if any state did this -- if they prevented the companies, the utility companies, from entering into -- hedging their bets with long term contracts and exclusively relying on a single type of contractual market system, the ~~wholesale~~ spot market, I think you exacerbate the problem much further.

And therefore I'm not -- I guess certainly today nobody can say deregulation, if you want to call it that, in California worked. I do not think California did deregulate.

I think they didn't. They regulated the kind of contracts utilities could engage in and regulated how much their utilities could charge.

Senator Feinstein: Stop for just a minute because I agree with everything you have said but it is not the point. The point is that you have what you have. And I agree with you, this was a bad bill. I happen to agree. I was the first one that said that the prices have to be passed on. The result of not passing them on is you bankrupt whomever has to buy the power.

But the problem becomes that when you do have a problem you have no way of adjudicating it. You have no way of regulating it because the Federal Commission will not do the job it is supposed to do. And so you have these enormous price spikes.

Secretary Abraham: Well, the other point I was going to make has to do with whether or not -- I mean, in terms of market competition obviously you also have a problem, and we have talked about this. If you don't have -- you know, if we have not added supply, which has been unfortunately the case for a number of years, while demand continues to go up -- and California I would echo completely and the President did the other day that California deserves a lot of credit for its conservation leadership in terms of its actual accomplishments.

But the demand still has gone up in spite of the conservation. Part of the problem, and I think we addressed this in our recommendations, is that we have significant constraints in terms of who you can buy from because of the bottlenecks and the limits within the electricity grids. I think one of the underlying principles of this set of recommendations of our report is that we need to address that issue as well.

Right now there is a finite amount of electricity that can get into California and into the Western grid. I mean, the Western grid has a finite amount and it is unconnected to the other grids. So we have this unusual and unfortunate situation in America of having surpluses in some parts of the country, deficits in others and no capacity for us to move electricity to help people where there are in fact shortages.

Senator Feinstein: You are circumnavigating my point.

Secretary Abraham: I am not trying to.

The Chairman: Senator --

Senator Feinstein: Just quickly let me just do this one. Just this one. My point is that you have an improper deregulation system. Granted. And you have people taking advantage of it. And you have a federal law that says when that happens there should be regulation. And the federal body empowered to do that regulation refuses to do it. That is the flaw I am trying to get at in the short-term.

Secretary Abraham: Well, let me just kind of -- I mean, I'm not trying to -- I mean, I thought your point was that deregulation might not be a good idea. I think it depends how it is done. But what I would say is that -- you know, and I have raised this issue at a previous hearing here.

The Federal Energy Regulatory Commission has the ability to regulate, as you note, within the Federal Power Act certain enumerated entities that sell electricity in the wholesale market in California, not all of them. Roughly half I think. The others, which are among others ~~which~~ are the municipals and cooperatives in the state, are not regulated. The price that they charge is -- they can do whatever they want. They're not under the -- a FERC price cap would not apply to them.

The state of California, I believe, could impose price caps on those entities. We cannot at the federal level. Yet no action has been taken to put a cap on those entities. And yet because of the structure of the purchases, the purchase arrangement, the power exchange, they were charging and in fact have clearly charged the same kinds of rates as the other entities who were selling.

So it is not simply a situation where Washington or the FERC has this authority, the state has it and has not acted on that either. I'm sort of -- I am not sure why, I really have not queried anybody, but I am not sure why they have not done it.

Senator Feinstein: I want to respond but my time is up. Thank you, Mr. Chairman.

Thank you, Secretary.

The Chairman: Senator Bingaman and I want to apologize. A number of things are happening. The Secretary has to leave at 11:00. I want to make sure everybody has an opportunity to question him. We have another panel on Price-Anderson and we have agreed to first apologize to our witnesses, Mr. Eric Fygi, the Acting General Counsel for the Department of Energy; Mr. Bill Kane, Deputy Executive Director, Reactor Programs, U.S. Nuclear Regulatory Commission of Rockville, Maryland; Mr. John Bradburne, President and CEO of Fluor Fernald of Hamilton, Ohio; Mr. John Quattrocchi, Senior Vice President for Underwriting of American Nuclear Insurers of West Hartford, Connecticut; Mr. Marvin Fertel, Senior Vice President of the Nuclear Energy Institute of Washington, D.C.; and Ms. Anna Aurilio, Legislative Director of the National Association of State Public Interest Research Groups.

With our apologies, we as a consequence of the conflicts, are going to prevent us being able to question the witness on the second panel. We have a balanced panel. We are most appreciative. We will take the prepared statements of the witnesses for the record. So if you will submit your written statements, we will have questions for the witnesses for the record from the members. I would ask all members to submit

those questions by the close of business today.

We will also accept additional statements on comments for the record. Now this is covering Price-Anderson. Price-Anderson is generally supported, to my knowledge, by the members of the committee but I wanted to extend my apologies and let you gentlemen and ladies who were going to testify know the circumstances. Our next testimony or statement will come from Senator Graham, followed by Senator Cantwell, followed by Senator Landrieu, followed by Senator Johnson.

Senator Cantwell: Mr. Chairman, I think Senator Landrieu arrived before I did.

The Chairman: Okay. I am sorry. I am keeping track of this. The staff does a better job than I do.

Senator Graham.

STATEMENT OF BOB GRAHAM, U.S. SENATOR FROM FLORIDA

Senator Graham: Thank you, Mr. Chairman. I want to welcome our good friend and Secretary, Spencer Abraham. I am going to submit some questions for subsequent response because they are relatively detailed, but let me just ask one which will sort of open up an area of my interest.

It is has been my experience in dealing with complicated subjects such as National Energy Policy that it is helpful at the beginning to set some goals that are quantifiable and placed in a time sequence, so that you know what you are going to be graded by at the end of the process. I will be submitting some questions which will be probing what this policy intends to do.

But just let me ask you as an example, in the area of electric generation. Could you give us what this policy's goals would be in terms of the distribution of sources of energy for electric generation, let us say by the year 2020 as among natural gas, coal, nuclear or other sources of electric generation?

Secretary Abraham: We have not set a specific percentage for each of those sources. But let me just talk about what the current set of policies projects into the future. When we did the assessment of our future demand levels, we assessed that electricity generation would increase by about 45 percent over the next twenty years. This is done by the Energy

Information Administration in the Department, which is an independent assessment office.

They further concluded that approximately 90 percent of that increase would be in the area of natural gas driven generation. That is assuming current policies, practices and so on were maintained. They further estimated that there would probably be a decline in the role of hydropower and nuclear, a slight decline in terms of their generation participation. Coal would, as a total, decline although levels would probably remain the same as today but because of the larger pie it would be probably be a smaller percentage. They actually saw a net reduction in terms of hydropower and nuclear, and a very slight increase in terms of renewable and alternative energy as means basis for producing electricity.

Our conclusion was that the ultimate number was probably correct, in terms of the 45 percent increase. If anything that might be a conservative estimate because in recent years the percentage increase has exceeded that which EIA is projecting forward because of new technologies, particularly computer-driven technologies that seem to be moving at a faster pace.

Our general conclusion, Senator, was to have all of the increase essentially a natural gas-driven increase was a risky course in the sense that it could place us very dependent on a specific source, not all of which could be generated

domestically. And therefore the goal of the plan was to try to not just propose policies that would allow for natural gas production and distribution, but also to try to give the other components of renewable, coal, nuclear and hydropower a chance to remain active at levels hopefully that would not decline. And that is essentially what, I think, is our projection. How that translates directly into percentages, I would have to get back to you to see if I can do that. But we did not try to set a number. We tried to balance the sources.

Senator Graham: Well, I would urge you, as a matter of policy, to establish some goals. I recognize that those goals are not mandatory, but they give you some general direction. I strongly agree with what you have said relative to the increasing reliance on natural gas not being in the nation's interest. But I am afraid there is such a momentum towards that that unless there is a clear goal as to the alternatives to natural gas that we will not end up with the policy changes that will be required to avoid the kind of 90 percent of our new generating capacity being in natural gas.

Let me move to a second issue and that is budget. Has there been a budget developed for the total number of recommendations that are in this report?

Secretary Abraham: No, not yet.

Senator Graham: When can we anticipate that?

Secretary Abraham: Obviously some of these are in areas

outside of my department. What I have been charged with is to examine our budgets relative to energy efficiency, renewable energy and some of the fossil oil and gas technology areas. I have already launched the review that will result in the energy efficiency recommendations. I hope we can get those -- we have set an initial period between now and July 1st and then a second phase through September 1st. But I honestly cannot tell you where the other departments might be in that assessment. I would be happy to keep the committee apprised as I learn of information or even try to solicit from the other departments their timeframes. But we are trying to move quickly to determine what budget adjustments are relevant to me, as a department head.

Senator Graham: Do you think we might get some initial numbers by the first of July, and more refined numbers by the first of September?

Secretary Abraham: The first area that I launched is the review ~~that is to translate into suggestions~~ in the area of energy efficiency. I expect to make further announcements very soon in regards to other areas ~~in~~ where I was asked to do budget related assessments. Our goal is to move quickly on that. But we also want to engage a lot of participation in that set of reviews.

Senator Graham: One area that concerned me is on page 5.7. I recognize this is outside of your department. But in

the --

The Chairman: Senator, could I -- he's got to leave. Please wind up. Your time is up and I have three more Senators.

Senator Graham: I will submit this in writing but it has to do with encouragement for outer continental shelf drilling through waivers or diminutions in current royalty levels. I will submit maybe to you or Ms. Norton some request for some specifics of what is being suggested there.

Secretary Abraham: My understanding, and just to be brief in response and I am happy to stay extra minutes so I may give you this response, is that the goal here was to identify whether or not there were areas where because they were on the frontiers, because of the high level of financial risk that might be involved in considering even exploration operations in these areas would warrant some adjustment in the royalties. The notion of trying to identify high-risk, financial-risk areas is I think at the heart of that recommendation, but I would want the Department of the Interior to participate in helping shape any answer.

Senator Graham: This is a comment rather than a question and will take just a second, Mr. Chairman. Yesterday the Senate voted to utilize the full tax reduction authority that has been granted under the budget resolution from now until the year 2011. So any additional tax-oriented changes, which

would have the effect of reducing revenue, are going to require offsets. I would, as part of this review, I would like your recommendation as to where we should be looking to offset any of the additional diminution of tax revenue as a result of implementing this energy policy.

Secretary Abraham: Well, I would just say two things. My impression would be that the principal focus here would be in areas where there was no anticipated revenue to the Treasury because the risk level would basically discourage investments at all and so any royalty receipts even if they were lower would, in fact, be additions.

Senator Graham: I was not speaking to that specific example but to the totality --

The Chairman: I have three more senators. I am going to reduce your time to five minutes each, if that is fair, because we have got to leave, and he has got to leave. Senator Landrieu.

STATEMENT OF HON. MARY LANDRIEU, U.S. SENATOR FROM LOUISIANA

Senator Landrieu: Thank you. And I'll try to help, I may stick to four minutes and giving some extra time to my colleagues. Mr. Secretary it is going to be a pleasure working with you on this particular subject and I look forward to working with you closely and think there is some promise in the the plan that has been laid out. But there is obviously a lot of work that needs to be done and there are some areas that are of great concern to me and the people of Louisiana.

Let me just begin by associating myself, Mr. Chairman, with the remarks from the Senator from Indiana who I think raises an excellent point that all the great plans, and rhetoric, and promises in the world do not mean very much if there is not budget authority and real money to back them up, whether we need tax cuts or tax credits or new investments in alternative energies.

So as we move forward to develop a plan, I think we have got to be very honest and responsible to make sure that the initiatives that we propose, and hopefully can work together in a bipartisan way, there are actually, Mr. Secretary, dollars that can carry those out and help create a supply of energy that this nation can depend on and grow with.

My second point is that I think in the plan I agree with the focus that must be made to increase production in our

nation. And this is sensitive in many areas. I believe we can increase production and still maintain our commitment to the environment. We are doing a very good job of that in Louisiana, and the technology has improved substantially. I want to commend the industry. The industry gets beat up on this committee from both sides and I want to say that the industry over the last twenty years has made remarkable investments and changes to be able to drill in areas that we were not able to drill before and do it in an environmentally sensitive way.

So I want to commend you for your emphasis on production both onshore and offshore. I am hoping that the Gulf, including Lease 181, we can look at in reasonable ways and try to increase the supply which is very important for our nation. My colleague from California is not here, but she made a statement, and I just want to respond, "California is the most energy efficient state in the Union." And with all due respect to that, and I most certainly think it is true and have appreciated her leadership, it brings me to my point exactly, that energy efficiency does not guarantee adequate supply. Yes being energy efficient is important, but it is also very important to have a supply and reliable sources of energy.

The second thing that I want to say on a positive note is that I think the focus on nuclear, and the role that nuclear

power can play in our nation now that we have become more sophisticated about controlling the liabilities, more sophisticated about approaches for the waste, and more sure of our science to make sure that the public is protected and is safe. Nuclear power as has been used in France can be a very good mix for the nation of a clean and efficient fuel. So I want to commend you on that.

But let me say that one of the negatives from the perspective of Louisiana particularly. There is a point in the plan that says that we might want to take royalties from offshore/onshore revenues and fund weatherization plans for the nation. But then it goes a step further to say also to help with low-income energy assistance. But as you know, southern states are not really treated as fairly in that formula and there is no help for cooling.

So I want you to know that I think it is ironic, and I am certain that we will make this change, that if you are expecting some of the Gulf coast states to actually produce the revenues necessary to fund programs that we ourselves are not able to participate in, that is a great weakness in this plan. So I wanted to call that to your attention, to say I look forward to working with you, as we hopefully develop this royalty conservation fund program which is, I think, of good merit, maybe not exactly the way it has been proposed but something along those lines. But to urge you as we do help

consumers in my state in Louisiana, around the nation, with their energy bills that you recognize that what you are proposing the money is coming from basically off the shores of Louisiana. We produce 85 percent of the offshore oil and gas yet the formula does not accommodate Louisiana. Obviously, I cannot support that and look forward to working with you to correct it. Mr. Chairman, thank you for the time, but I look forward to working with you.

The Chairman: Thank you very much, Senator Landrieu. I appreciate you staying within your time allotment. The last member of the panel, Senator Cantwell, please proceed.

STATEMENT OF HON. MARIA CANTWELL, U.S. SENATOR FROM WASHINGTON

Senator Cantwell: Thank you , Mr. Chairman. Mr. Secretary, good to see you here. Obviously my colleagues have run through some the issues and I do want to associate myself with the comments from the Senator from California about the lack of, what I believe, is a short-term solution to this plan. And I think that we have had a couple of exchanges on that, and will not focus my comments on that at this moment. But I continue to be extremely concerned about the next 10 to 24 months in the Northwest and the larger Western economy as we struggle through this. I am hopeful as we go through this process here that any energy plan that comes out of the committee will provide some short-term relief for the Northwest and particularly the West.

I wanted to ask you a couple of things in general about the report and specifically about the recommendations in the report as it relates to -- I know the President basically during his campaign had a pledge to keep the existing moratoria on outer-continental shelf leases. And I know that Secretary Norton when she came before the committee we asked her about this said the same thing. But yet the report calls for a reexamination of that. So basically it is saying we need to determine if changes are needed regarding energy related activities and siting of energy facilities in the

coastal zone and on the outer-continental shelf. So currently we in Washington have a moratoria. Is the Administration suggesting --

Secretary Abraham: No, I think my understanding of that area, and I am happy to do my best here to represent all the different departments who participated, so I want to be as effective as I can be in representing an area that the Department of Interior had the lead on in the compilation of this set of recommendations, but my understanding was that there were some concerns. There are no implications here and none should be drawn with respect to existing moratoria. I think the concern was about the implementation of the Coastal Zone Management Act in areas where in fact exploration is permissible beyond the area in which the states have direct authority. As you know in the way the law works, after so many miles, three miles, or whatever, the states still have a role but it is not the same kind of control that exists closer to the shore.

And my understanding is that there has been in some areas the goal of trying to get the federal government's decision making process and the state's process operating together in a consensus and harmonious way has not always worked out. The way the process -- I think there are multiple sorts of steps which begin with decisions by Interior which can then be challenged by the states which are then adjudicated by the Department of

Commerce and then can be taken to court. And I think the goal was to try to look at these regulations to see if there was a way to better harmonize the relationships between the state and the federal government in these decisions. That is my understanding of the thrust of that recommendation.

Senator Cantwell: So you believe the Administration still supports the moratoria on offshore drilling?

Secretary Abraham: That's my understanding, yes.

Senator Cantwell: Thank you. That is very helpful. The issue of natural gas supply in Canada is something that has come up in conversations with you before this committee and in some of the recommendations in looking at a closer energy integration plan with Canada. Can you update us on what --

Secretary Abraham: Sure. One of the things the President had recommended in the campaign was the need for us to look at energy policy on a North American basis, and had recommended that we forge a North American energy framework or strategy with our partners in Mexico and in Canada. I had the opportunity to have the first trilateral meeting with my counterparts from those two countries in March at the Hemispheric Energy Initiative Conference in Mexico City. And we agreed at that time that there were areas of common interest that had to do with a variety of cross-border matters and so on that we wanted first to identify and then perhaps assign to working groups.

And it is my understanding we are on track to have the first working group meetings in June, probably here in Washington. At which point we will principally try to identify areas of interest that each of the countries would like to work together on. If there are suggestions for topics that we might include as a list of proposed areas of joint effort, I would be very receptive to getting those from the committee, and would welcome them.

Senator Cantwell: We will certainly supply that given the large natural gas supply just over the border from us and the energy crisis that will continue to prevail in the Northwest. I think it becomes a very important discussion point that I would like to see accelerated with the Canadian government. It brings up a related issue of that relationship and the need for strong pipeline safety legislation. Does the Administration support Senator McCain's pipeline safety bill?

Secretary Abraham: That is the Department of Transportation's ultimate responsibility, but I do know that a set of recommendations in this report call for the President to direct the agencies to continue their inter-agency efforts to improve pipeline safety and expedite pipeline permitting in an environmentally-sound manner, as well as recommend that the President support legislation to improve the safety of natural gas pipelines. Those are two separate recommendations on the topic. I honestly cannot tell you but I would be glad to get

an answer for you as to whether that translates into the McCain bill.

Senator Cantwell: That would be great. I know my time has expired here. But I think it is an important question because I think we will go through a mark-up process and I think that particular legislation which seems to be stalled and seemed to be stalled in the past, and yet we want this larger integration effort with our partners. We have to assure the communities' security in how that supply is delivered.

Secretary Abraham: That was one of the recommendations, and I would be glad to determine if that suggests a separate legislation initiative by the Administration. I'll look into that for you.

Senator Cantwell: Specifically their support or nonsupport of Senator McCain's bill. Thank you very much, Mr. Chairman.

The Chairman: Thank you, Senator. For your information I advise you that I attended a U.S-Canadian interparliamentary meeting and there was a proposal as a consequence of the new government of British Columbia under Premier Campbell, to, I guess, reconsider the OCS activity off the west coast of British Colombia, which you might be interested in.

Secretary Abraham: Mr. Chairman, could I just make two quick comments. One, I was just informed by my staff that

apparently that there is a statement of the Administration's position in support of Senator McCain's bill. And second, I would just want to make sure that the record does not leave in doubt that in addition to our trilateral efforts with both Canada and Mexico, we also have a very robust and continuing on-going effort on a bilateral basis with Canada that is independent of anything we might do as part of a North American strategy. And I do not want to leave any implication that the only activities between the United States and Canada now will take place within the context of the North American initiative.

The Chairman: Thank you very much. I want to thank the Secretary and the members for their effort to try to live within the time sequence. And again, I want to apologize to those witnesses that came here to testify on Price-Anderson. Their statements will be taken by the staff and entered in the record. Again I want to thank the Secretary. I gather your short-term solution would be to challenge us to repeal the laws of supply and demand as one solution. With that profound observation, again let me thank you, Mr. Secretary. The hearing is concluded.

[The information referred to follows:]

[Whereupon, at 11:05 a.m., the committee adjourned.]

Department of Energy
Washington, DC 20585

2001-800053

July 17, 2001

The Honorable Jeff Bingaman
Chairman
Committee on Energy and Natural Resources
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Enclosed is the edited transcript of the May 24, 2001, testimony given by Spencer Abraham, Secretary of Energy, regarding the Administration's National Energy Policy Report.

If we can be of further assistance, please have your staff contact our Congressional Hearing Coordinator, Barbara Barnes at (202) 586-6341.

Sincerely,

MDWhatley

Michael Whatley
Director, Office of Congressional
Intergovernmental Affairs

Enclosure

2001-017212 7/18/01 3:08pm

Minister of Economy, Trade and Industry

The Honorable Spencer Abraham
Secretary of Energy
Department of Energy
1000 Independent Avenue, S.W.
Washington D.C. , 20585
U.S.A

Dear Mr. Secretary

Thank you very much for your letter dated May 17, 2001. I understand that the National Energy Policy is the outcome of the comprehensive deliberation at the National Energy Policy Development Group chaired by Vice President Cheney and would like to express my sincere respect of it.

Taking into account the fact that the energy policy of the U.S., the largest energy-consuming and -producing country in the world, will have a significant impact on the international energy situation, we would like to follow its development with great interest.

I understand that the U.S. and Japan share many common policy goals including improving energy efficiency, reducing dependence on imported oil and diversifying the energy mix. In particular, I am quite encouraged to find that the role of nuclear energy is emphasized in a positive manner from the viewpoints of both energy security and global warming. I appreciate that the positive reference to nuclear energy in the IEA Ministerial Communiqué was achieved thanks to the close coordination between the U.S. and Japan.

I also share your view that the rapid expansion of the oil consumption of major developing countries in the Asian region needs to be addressed in order to achieve global energy security. I believe that the U.S. and Japan

should closely cooperate in such forums as the IEA and APEC.

The Bush Administration's firm commitment to the environment is very encouraging to us. As pointed out in the National Energy Policy, it is a great challenge to ensure the compatibility of the 3Es, namely, energy security, economic growth and environmental protection. We share a common understanding that technology will play a key role in solving environmental issues including global warming. In this regard, close cooperation between the U.S. and Japan on both a bilateral and a multilateral basis is highly desirable.

Last, but not least, I have great interest in your proposal to hold a meeting of G8 energy ministers. Japan would like to make a constructive contribution to ensure the success of this meeting.

While it was a great pity that we could not meet on the occasion of the IEA Ministerial Governing Board Meeting in May, I am looking forward to an early opportunity to meet with you and enhancing our productive working relationship to tackle the energy problem.

Sincerely yours,

Takeo Hiranuma

Takeo Hiranuma
Minister of Economy, Trade and Industry

2001-013552

Department of Energy
Washington, DC 20585

JUL 18 2001

Mr. Timothy R. Warfield
Executive Director
National Association for
Community Services Programs
400 North Capitol Street, N.W.
Suite 395
Washington, DC 20001

Dear Mr. Warfield:

This is in response to your letter dated, June 4, 2001, to Secretary Abraham regarding the National Energy Policy Report and its implications for the Department of Energy's Weatherization Assistance Program, the State Energy Program, and the Department of Health and Human Services' Low-Income Home Energy Assistance Program (LIHEAP). I have been asked to respond on the Secretary's behalf.

The strong opposition of you and your colleagues to the National Energy Policy Report recommendation, "that the President support legislation to allow funds dedicated for the Weatherization and State Energy Programs to be transferred to LIHEAP if the Department of Energy deems it appropriate," is important to us. We share your concern about this provision and have developed an internal Issue Paper that includes a reference to your opposition.

Thank you for your support and the many contributions that the National Association for State Community Services Programs has provided to the Weatherization Assistance Program over the years. I look forward to your continued assistance as we work collaboratively towards meeting the energy needs of low-income Americans.

Sincerely,

for Gail McKinley, Director
Office of Building Technology Assistance
Energy Efficiency and Renewable Energy

28613

Department of Energy
Washington, DC 20585

2001-013552

JUL 18 2001

Mr. Frank Bishop
Executive Director
National Association of
State Energy Officials
1414 Prince Street, Suite 200
Alexandria, VA 22314

Dear Mr. Bishop:

This is in response to your letter dated June 4, 2001, to Secretary Abraham regarding the National Energy Policy Report and its implications for the Department of Energy's Weatherization Assistance Program, the State Energy Program, and the Department of Health and Human Services' Low-Income Home Energy Assistance Program (LIHEAP). I have been asked to respond on the Secretary's behalf.

The strong opposition of you and your colleagues to the National Energy Policy Report recommendation, "that the President support legislation to allow funds dedicated for the Weatherization and State Energy Programs to be transferred to LIHEAP if the Department of Energy deems it appropriate," is important to us. We share your concern about this provision and have developed an internal Issue Paper that includes a reference to your opposition.

Thank you for your support and the many contributions that the National Association of State Energy Officials has provided to the Weatherization Assistance Program and to the State Energy Program over the years. I look forward to your continued assistance as we work collaboratively towards meeting the energy needs of low-income Americans.

Sincerely,

for Gail McKinley, Director
Office of Building Technology Assistance
Energy Efficiency and Renewable Energy

28614

Department of Energy
Washington, DC 20585

2001-013552

JUL 18 2001

Mr. Mark Wolfe
Executive Director
National Energy Assistance
Directors' Association
1615 M Street, N.W., Suite 800
Washington, DC 20036

Dear Mr. Wolfe:

This is in response to your letter dated June 4, 2001, to Secretary Abraham regarding the National Energy Policy Report and its implications for the Department of Energy's Weatherization Assistance Program, the State Energy Program, and the Department of Health and Human Services' Low-Income Home Energy Assistance Program (LIHEAP). I have been asked to respond on the Secretary's behalf.

The strong opposition of you and your colleagues to the National Energy Policy Report recommendation, "that the President support legislation to allow funds dedicated for the Weatherization and State Energy Programs to be transferred to LIHEAP if the Department of Energy deems it appropriate," is important to us. We share your concern about this provision and have developed an internal Issue Paper that includes a reference to your opposition.

Thank you for your support and the many contributions that the National Energy Assistance Directors' Association provided to the Weatherization Assistance Program over the years. I look forward to your continued assistance as we work collaboratively towards meeting the energy needs of low-income Americans.

Sincerely,

for Gail McKinley, Director
Office of Building Technology Assistance
Energy Efficiency and Renewable Energy

28615

AA MOTORS

July 18, 2001 2001-017284 Jul 19 p 4:05

The Honorable Spencer Abraham
Department of Energy
1000 Independence Avenue, S. W.
Washington, DC 20585

Dear Mr. ~~Secretary~~ Spence:

On behalf of the Business-Government Relations Council (BGRC); I would like to extend an invitation for you to speak to our group. The BGRC is a non-profit organization whose purpose is to improve business understanding of government policies, methods, and operations, and to increase government officials' awareness of the role of business in government affairs. Our membership consists primarily of executives who run the Washington offices for their corporations. Many also have responsibility for state and international business/government relations.

Former speakers at BGRC have included Members of Congress, Administration officials, Cabinet Secretaries, and Members of the Diplomatic Corps. Traditionally, our speakers address the BGRC at a breakfast or luncheon at the Willard Hotel. We will be happy to accommodate your schedule for the location.

We would be very interested in your views on current energy policy, as well as, the 107th Congress and the Administration. I will call your office in the near future to discuss your potential availability.

Thank you.

Sincerely,

Good seeing you at the John Quincy Adams Awards —

Joann Piccolo
Corporate Vice President and Director
North America Region
Global Government Relations

cc: Mr. Arnie Havens, CSX Corporation

Government Relations
1350 I Street, N.W., Washington, DC 20005-3305 (202) 371-5900 FAX (202) 842-3578

28616

LAWRENCE
UNIVERSITY
APPLETON, WISCONSIN 54912-0599

20 July 2001

Representative Mark Green
1218 Longworth House Building
Washington. DC 20515

Dear Representative Green,

I have read with great interest the report of the **National Energy Policy Development Group – National Energy Policy –May 2001.** I find the report to be comprehensive, informative, and timely. A statement of our nation's energy policy is much needed.

As an educator I am pleased to see so much information under one cover. Among the many recommendations that I find attractive is the recommendation to develop an educational campaign to communicate the NEPD group's findings. If there is a need for outside consultants to develop educational materials I would like to express my interest and availability. I am currently working as a reservist /trainer for **FEMA** and have enjoyed helping **FEMA** develop educational materials.

If you can identify any individuals or agencies that I might contact I would appreciate hearing from you.

Sincerely,

Ron Tank

Ronald Tank
Emeritus Professor of Geology
Lawrence University
Appleton, WI 54912

Encl.: Curriculum Vitae

28617

C/1703

NATIONAL GOVERNORS ASSOCIATION

Parris N. Glendening
Governor of Maryland
Chairman

John Engler
Governor of Michigan
Vice Chairman

Raymond C. Scheppach
Executive Director

July 23, 2001

The Honorable Francis S. Blake
Deputy Secretary
U.S. Department of Energy
Forrestal Building
1000 Independence Avenue, S.W.
Washington, D.C. 20585

2001-017703 7/26 A 9:45

Dear Deputy Secretary Blake:

On behalf of the National Governors Association (NGA), we thank you for accepting our invitation to join us at the Natural Resources Committee meeting during the NGA Annual Meeting. The Committee session will take place at the Rhode Island Convention Center in Providence, Rhode Island, on August 6th, from 10:00 a.m. to 11:30 a.m. There will be two topics on the agenda (enclosed); we would like you to do a presentation on the President's national energy policy, and the role that states will play.

We would appreciate it if you would speak for approximately 20 minutes, to discuss the President's energy policy and key energy issues, including improving supply, conservation and efficiency. NGA plans to adopt its own energy policy at this meeting, and your views and perspective will be an invaluable resource to the committee. Following your remarks, time will be scheduled for an informal question and answer session with the Governors.

We hope you are able to join us and we look forward to hearing from you. If you have any questions, please do not hesitate to contact us or Diane S. Shea, Director of the Natural Resources Committee at (202) 624-5389.

Sincerely,

Governor Tom Vilsack
Chair
Committee on Natural Resources

Governor Frank Keating
Vice Chair
Committee on Natural Resources

Enclosure

Hall of the States 444 North Capitol Street Suite 267 Washington, D.C. 20001-1512
Telephone (202) 624-5300 Fax (202) 624-5313 www.nga.org

28618

COMMITTEE ON NATURAL RESOURCES

RHODE ISLAND CONVENTION CENTER
PROVIDENCE, RHODE ISLAND
MONDAY, AUGUST 6, 2001

AGENDA

10:00 A.M.	**Welcome and Introductory Remarks**
	Governor Tom Vilsack, Iowa, Chair Governor Frank Keating, Oklahoma, Vice-Chair
10:10	**Applications of Biotechnology to Crops: Benefits & Risks**
	Guests: Sally McCammon, Science Advisor Animal and Plant Health Inspection Service U.S. Department of Agriculture Dr. Gwen Acton, Assistant Director Functional Genomics Program Massachusetts Institute of Technology Whitehead Institute Dr. Robert Paarlberg, Professor of Political Science Wellesley College
10:40	**Questions and Discussion**
10:50	**National Energy Policy: The Administration's View**
	Guest: The Honorable Francis S. Blake Deputy Secretary U.S. Department of Energy
11:10	**Questions and Discussion**
11:20	**Consideration of Policy Proposals**
11:25	**Other Committee Business**
11:30	***Concluding Remarks and Adjourn***

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polydyne, inc.

July 23, 2001

30

Vice President Richard Cheney
Chairman, Energy Task Force
The White House
Washington, DC 20500

Re: National Energy Policy

Dear Vice President Cheney:

Congratulations on your rational and sound energy policy, including national exploration of natural resources to develop energy self-sufficiency. I also admire President Bush's and your stand regarding the global warming issue and withholding your support of the Kyoto Agreement.

Having over 40 years management experience in the energy field, including overseeing the development of new and renewable energy technologies at the Electric Power Research Institute (EPRI) and being a resident of California, it is really painful to witness the political mismanagement of energy resources in this state. This government created crisis has been long in the making by our Democrat controlled Legislature and their politically appointed committees, and more recently promulgated by our elected Democratic Governor Davis. The California "crisis" could have been easily resolved by letting the prices rise, which would have resulted in an immediate decrease in demand and increase in supply of electricity in the absence of political interference. Instead, Governor Davis elected to opt for the political expediency of price controls, government regulation and market interference, while blaming everyone but his own mismanagement for the problem.

Unfortunately, the press and the public have accommodated his position and most voters believe that there is no energy problem other than the one created by the "greedy" energy companies, supported by the Bush Administration. The result is a widely held perception that deregulation and the power industry are to blame, even though we only had quasi deregulation at the energy supply side, while maintaining full PUC regulation at the retail level and of new power plant

construction. Most importantly, this debacle and associated rhetoric have provided fuel for the opposition of your administration's energy policy. At the same time, the environmental political forces have faulted your administration for not supporting renewable energy resources development and the international global warming treaty.

Based upon my extensive experience in the RD&D of renewable energy technologies, to include: solar thermal, photovoltaics, wind, ocean thermal, geothermal, and fusion, I have long ago concluded that these technologies are far too expensive in cost and much too limited in reliability of supply. This is due to their low energy density and intermittent availability. Consequently, the advocates for deployment of these renewable resources cannot make a serious case for displacing most of the conventional resources available.

Fortunately, there is a new technology in the advanced stages of development which has the potential to greatly improve the overall energy efficiency of converting conventional depletable energy resources, oil and gas, while at the same time reducing and eliminating harmful emissions. This technology is the *fuel cell*, which has achieved significant progress during the last several years and has the ability to significantly improve the overall conversion efficiency of natural gas, propane gas, and oil derivatives.

The fuel cell can provide both electric and thermal energy, operating as small co-generators located at dispersed customer sites (residences, commercial buildings). The waste products are pure water and reduced carbon dioxide. Subsequently, when the cost have significantly been reduced through large-scale production for these small-scale stationary applications, these fuel cell systems can be incorporated into hybrid electric cars, with the potential of obtaining fuel efficiencies of 100 mpg. *As you can readily surmise, more than doubling the conversion efficiency of scarce energy resources, while simultaneously eliminating harmful emissions, for both stationary and mobile applications, is a two-fold political and economic winner.*

As an independent consultant, with over 25 years of experience in fuel cell development, I have conducted a great number of studies relating to the commercialization of this important 21st century technology and presented my findings as invited speaker at various national and international energy symposia and workshops. For your information, I have included a few select presentations addressing the commercialization and market opportunities of small-scale fuel cells.

To further the commercialization of fuel cells, I formed a potential users group (Small-scale Fuel Cell Commercialization Group) several years ago. This group

To further the commercialization of fuel cells, I formed a potential users group (Small-scale Fuel Cell Commercialization Group) several years ago. This group issued a Market Opportunity Notice (MON) with market-derived technical and cost specifications for small distributed market residential fuel cell systems, which has become a de facto strawman for fuel cell developers.

Unfortunately, the DOE has politically focussed its fuel cell program on the much lower value automotive applications. Since cars are relatively cheap per unit weight, the fuel cell for this application has a market-derived value of only one-twenty-fifth of that for the much higher market value small-scale stationary residential and commercial applications ($80/kW versus $2,000/kW, respectively). Consequently, the initial market entry of fuel cells is projected to be the much higher value stationary applications. Only when the fuel cell costs have been decreased sufficiently, as a result of continued production learning and innovation, will the mobile applications become market viable.

Both these stationary and subsequent mobile markets have the potential to reduce energy consumption of depletable oil and gas resources at least two-fold, while essentially eliminating harmful emissions associated with the current conversions of these resources.

Obviously, the economic and political benefits of this fuel cell technology are enormous for this country and the world. Your inclusion of this technology development and deployment in your energy plan will have tremendous political implications. *This inclusion will simultaneously reduce our foreign energy dependency, with the associated balance of trade and national security benefits, while eliminating harmful emissions, including substantially reducing the CO_2 emissions. The former being the concern of many environmental activist groups critical of your administration's policy and the latter deflating the arguments against the industrialized nations for contributing to the real or alleged global warming.*

Furthermore, this technology can facilitate off-the-grid distributed energy systems for residential and commercial applications, which will reduce the customer dependency on centrally generated power. For example, if available, these systems would have realized tremendous market expansion during the recent and future energy rotating blackouts in California. *Obviously, the potential impact of this technology on the deregulation of energy is very large.*

In addition, the fuel cell systems will provide clean electrical power with extremely high reliability, both attributes being extremely important to the Silicon Valley and other high technology industries. Consequently, these distributed fuel cell systems, when developed in the United States, can be successfully exported,

especially to those countries without the financial resources to develop the very expensive power grids associated with central power generation. This technology export will again significantly benefit the trade balance of the U.S.

In view of the above, I strongly urge you to consider inclusion of this strategically very important fuel cell energy technology in your energy plan and, thus, reflect a fully integrated and environmentally conscious approach by your administration. Obviously, the full impact of a new technology will not be immediate, since all new product or technology market penetration occurs logistically ("S-shaped) over time.

Currently, as an independent consultant, I have no specific financial interest in any fuel cell company, however, I do have a great personal interest and ambition in bringing this technology into the market. Therefore, I hope that you will perceive this important information as an unbiased assessment of an energy development opportunity and benefit for this country and the world, as well as provide significant political ammunition in response to the various vocal critics of your administration's policy. This fuel cell development is the technology of the 21st century and you can greatly facilitate in making its commercialization happen. In this context, if I can be of further assistance to you, I will be available to offer you my experience and consulting services at your convenience. I have included my biographical summary for your information.

Sincerely,

Peter B. Bos
President
Polydyne, Inc.

Enclosures.

Peter B. Bos

President, Polydyne, Inc.

Mr. Bos is the founder and President of *Polydyne, Inc.*, a multi-disciplinary management consulting company, located in Pacific Palisades, California. Since its incorporation in 1981, Polydyne, Inc. has consulted with a large number of private companies and public agencies, specializing in integrated, market-oriented assessment of clean, innovative energy technologies for stationary and mobile applications.

With over forty years of management experience, Mr. Bos has extensive experience in the interdisciplinary synthesis of energy systems to include technology development and transfer, market analysis and penetration, energy investment and policy analysis, utility interfacing and regulatory considerations, and private and public sector interaction. He has been an invited speaker at various national and international symposia and workshops.

Mr. Bos has been involved in fuel cell research, development, and commercialization efforts since 1975, starting with the early attempts to commercialize the United Technology Corporation phosphoric acid fuel cell, which efforts are currently organized under the International Fuel Cells Corporation/ONSI (IFC/ONSI). Several years ago, Mr. Bos founded and currently is Managing Director of the *Small-scale Fuel Cell Commercialization Group, Inc. (SFCCG, Inc.)*, a consortium of major electric and gas utilities in the U.S. and Canada, which is chartered to commercialize small-scale fuel cell systems following a market-driven commercialization strategy.

This *market-driven* strategy was originated by Polydyne, Inc. for the development of stationary and mobile technologies that have the potential for mitigating resource constraints and environmental problems for a large spectrum of commercial applications. This includes the identification of high value entry markets for and commercialization of fuel cells and batteries for both stationary and mobile applications. These high value entry markets identified are the distributed power stationary residential and small commercial markets and the remote telecommunications markets. To facilitate these efforts, Mr. Bos has developed several proprietary computer programs, to include Market Assessment and Penetration Models, Fuel Cell Design and Production Costing Program, Advanced Vehicle Design and Simulation Model, Financial Simulation Models, and the commercially available Financial Software: FA$T 123 (Financial Analysis STandard).

Prior to founding Polydyne, Inc., Mr. Bos was Director of the Department for New Energy Resources Development at the Electric Power Research Institute (EPRI) and was responsible for planning, direction, and control of the utility-sponsored new energy technology programs including solar, photovoltaics, wind, geothermal and fusion. Overall accomplishments at EPRI include management of major demonstration projects throughout the United States and authorship of numerous articles and reports. He has participated in many advisory committees and workshops and has contributed to significant program decisions on a national level. As a consequence, Mr. Bos is widely known throughout the utility and vendor industries, the U.S. Department of Energy and associated laboratories and in the energy community in general.

Mr. Bos holds an MBA degree from the Graduate School of Business Administration at the University of California, Los Angeles, and an Engineering degree from the Massachusetts Institute of Technology.

Polydyne, Inc.
16638 Calle Haleigh
Pacific Palisades, California 90272

Tel: *(310) 230-6083*
Fax: *(310) 230-6084*
E-Mail: *pbbos@aol.com*

CALIFORNIA HYDROGEN BUSINESS COUNCIL

July 23, 2001

Dear Mr. Secretary,

As a member of the Republican Party in Orange County, California I was invited to attend your presentation today. By way of preparation, I obtained a copy of the speech you made earlier in San Francisco to the Bay Area Council. I was very pleased with its content. And I was particularly pleased with your comments regarding distributed energy, fuel cells and hydrogen. I am currently a member of the DOE Hydrogen Technical Advisory Panel (HTAP) and as such was doubly pleased with your emphasis on these new technologies.

One of the things that those of us who are believers in the future of hydrogen as an energy carrier have done in California is to establish an organization called the California Hydrogen Business Council. This organization currently has more than 50 member companies who are interested in a wide variety of applications of hydrogen. We have even had requests from other states to join with us. Rather than doing this, we have urged them to form their own State Hydrogen Business Council. Hawaii has decided that they wish to be a chapter associated with us and they are underway. Various individuals in Nevada, Florida and New York are also discussing similar steps. So we shall all be helping you in your major task of energy diversity and energy independence.

Many of us who read the President's Energy Plan were disappointed that it lacked the diversity it needed initially. However, the newspapers as well as your comments today tell us that diversity is being added. Many of us would like to see the recent areas of discussion added to a comprehensive revised Energy Plan. Will a comprehensive new Plan be issued instead of simply addendum's?

Again, enjoyed your comments. Keep up the good work.

Henry W. Wedaa
President Henry W. Wedaa
California Hydrogen Business Council
PO Box 980
Yorba Linda, Ca 92885
714-779-1604
hwedaa@bigfoot.com

The Heritage Foundation

YOU ARE CORDIALLY INVITED TO ATTEND A LUNCHEON BRIEFING ON:

"What the Bush Energy Plan Means for America"

Featuring

MARK WILSON
Research Fellow, The Heritage Foundation

REA HEDERMAN
Manager of Operations, Center for Data Analysis
The Heritage Foundation

CHARLI COON,
Senior Policy Analyst, Energy & Environment
The Heritage Foundation

President Bush's National Energy Plan calls for significant changes to energy supply and demand over the next 30 years. Many critics of the plan, however, have characterized it as "radical" and "environmentally unsound." What exactly does the National Energy Plan contain?

The Heritage Foundation energy team has spent the past two months analyzing President Bush's National Energy Plan in great detail. They will unveil the results of their analysis at this Heritage luncheon.

Learn what will happen to electricity and petroleum prices over the next 10 years. Learn how the NEP slowly but steadily changes consumption of electricity and alters the national energy distribution system. What does the NEP have in store for the nuclear power industry? What are the long-term forecasts for electricity and gasoline demand in California, New York, Texas, and each of the other states?

This event continues the Heritage-sponsored series of policy or process-oriented briefings for political appointees. These sessions are designed to be topical, timely and helpful to you and your colleagues, while providing a forum where you can interact with fellow appointees.

MONDAY, JULY 30, 2001
12:00 – 1:30 P.M.

THE HERITAGE FOUNDATION, VAN ANDEL CENTER
214 MASSACHUSETTS AVENUE, NE
PLEASE, RSVP by July 28th TO (202) 608-6078
OR BY EMAIL TO crystal.gibson@heritage.org

2001-020952 9/10/01 3:54

020952

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Internet: www.cera.com

CERA®

DANIEL YERGIN
CHAIRMAN

July 24, 2001

Hon. Spencer Abraham
Secretary of Energy
United States Department of Energy
7A-257
Forrestal Building
1000 Independence Avenue, S.W.
Washington, DC 20585-1000

Dear Secretary Abraham,

I want to tell you how much we valued the opportunity to organize the program for you in Boston last June, and we want to thank you for thinking of us for this. It was an honor for us to be able to do this. Your presentation was excellent; you did a superb job of presenting the drivers and essential elements of the energy policy; and you very concretely outlined the role of technology. You really made a major impact.

We very much enjoyed collaborating with you and your team. The whole joint team all very smoothly got a lot done in short order!

I was also, personally, very glad to work with you, and indeed appreciated both your gracious words -- and your graciousness about *The Prize*. I was very touched.

I hope you have had a good summer, and that you found a little time to loaf.

With kind regards and best wishes.

Cordially,

Dan Yergin

Department of Energy
Washington, DC 20585

July 24, 2001

Mr. Urvan R. Sternfelds
President
National Petrochemical and Refiners Association
1899 L Street, NW
Suite 1000
Washington, DC 20036-3896

Dear Mr. Sternfelds:

Thank you for your letter of May 14, 2001, to Secretary Abraham in which you respond to the Secretary's request for your member's recommendations concerning the short and long-term responses to petroleum product price and supply constraints. These recommendations will be helpful as the Administration begins the process of developing strategies to achieve the goals of the President's National Energy Policy (NEP). The goals of the NEP as they relate to your members industries are:

- to maintain or improve the environmental benefits of state and local clean fuel programs while increasing the flexibility of the fuels distributions infrastructure, improve fungibility, and provide added gasoline market liquidity,

- to provide regulatory certainty, and streamline the permitting process,

- and consider the cumulative impacts and benefits of rules to ensure that America has adequate refining capacity.

Currently the Department is working with the relevant agencies in evaluating the New Source Review program, "boutique fuels", the Mobile Source Air Toxics rule, energy system impacts of an MTBE ban, and the reevaluating the implementation strategy of the on-road diesel rule.

We appreciate your input on these important issues affecting U.S. refinery industry and look forward to any additional input your members may have in the future.

Sincerely,

Margot Anderson
Deputy Assistant Secretary
Office of Policy and International Affairs

2001-013872

Department of Energy
Washington, DC 20585

July 24, 2001

Mr. Steve Saland
New York State Senate
President-elect, National Conference of State Legislatures
444 North Capitol Street, NW
Suite 515
Washington D.C. 20001

Dear Mr. Saland:

Thank you for your letter of June 6, 2001, addressed to President Bush, conveying the support of the National Conference of State Legislatures (NCSL) for the President's National Energy Policy (NEP). We have read your comments with interest and take note of the NCSL recommendations in areas where it believes that the NEP can be strengthened.

We take particular note of the NCSL stated principle that: "A national energy policy should ensure adequate supplies of affordably priced energy." The President's NEP released on May 17, 2001, is put forward with this principle clearly in mind and with the recognition of the role of State authorities in the implementation of an effective national energy strategy.

We agree, as some of your recommendations suggest, that further discussion may be appropriate in defining the methods by which the NEP would be implemented. The President has taken a major step toward the NEP's implementation by sending his supporting legislative initiatives to the Congress on June 28, for action. We would encourage and see continued assessment by the NCSL on the initiatives of interest to the organization as a positive contribution to the national energy debate.

Thank you for the comments provided by the NCSL. If you would like to discuss these topics further please have NCSL staff contact Mr. Michael Whatley, Director, Office of Congressional and Intergovernmental Affairs, (202) 586-5450.

Sincerely,

Margot Anderson
Deputy Assistant Secretary
Office of Policy and International Affairs

28630

Department of Energy
Washington, DC 20585

July 26, 2001

Mr. Clifton Below
New Hampshire State Senate
Chair, National Conference of State Legislatures
444 North Capitol Street, NW
Suite 515
Washington D.C. 20001

Dear Mr. Below:

Thank you for your letter of June 6, 2001, addressed to President Bush, conveying the support of the National Conference of State Legislatures (NCSL) for the President's National Energy Policy (NEP). We have read your comments with interest and take note of the NCSL recommendations in areas where it believes that the NEP can be strengthened.

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Thank you for the comments provided by the NCSL. If you would like to discuss these topics further please have NCSL staff contact Mr. Michael Whatley, Director, Office of Congressional and Intergovernmental Affairs, (202) 586-5450.

Sincerely,

Margot Anderson
Deputy Assistant Secretary
Office of Policy and International Affairs

Department of Energy
Washington, DC 20585

July 26, 2001

Mr. Jim Costa
California State Senate
President, National Conference of State Legislatures
444 North Capitol Street, NW
Suite 515
Washington D.C. 20001

Dear Mr. Costa:

Thank you for your letter of June 6, 2001, addressed to President Bush, conveying the support of the National Conference of State Legislatures (NCSL) for the President's National Energy Policy (NEP). We have read your comments with interest and take note of the NCSL recommendations in areas where it believes that the NEP can be strengthened.

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Thank you for the comments provided by the NCSL. If you would like to discuss these topics further please have NCSL staff contact Mr. Michael Whatley, Director, Office of Congressional and Intergovernmental Affairs, (202) 586-5450.

Sincerely,

Margot Anderson
Deputy Assistant Secretary
Office of Policy and International Affairs

2001-017816 7/27 12:05

DER BOTSCHAFTER
DER BUNDESREPUBLIK DEUTSCHLAND
THE AMBASSADOR
OF THE FEDERAL REPUBLIC OF GERMANY

Dear Mr. Secretary:

I have the honor of presenting to you the enclosed letter from Federal Minister for Economics and Technology Dr. Werner Müller.

A courtesy translation is attached.

Respectfully yours,

Wolfgang Ischinger
Appointed Ambassador

Washington, D. C., July 26, 2001

The Honorable
Spencer Abraham
Secretary of Energy
U.S. Department of Energy
Washington, D.C. 20585

28633

Department of Energy
Washington, DC 20585

July 30, 2001

The Honorable Strom Thurmond
United States Senate
Washington, DC 20510

Dear Senator Thurmond:

I am responding to your letter of June 12, 2001, asking Mr. Michael Whatley of the Department of Energy to review a April 25 letter from Dr. Doyne Loyd, (referencing case #468079). Mr. Loyd's letter expressed his serious concerns about the lack of a coherent energy policy and our continued dependence on imported oil.

To address the many energy issues facing the Nation, one of President Bush's first acts was to create a National Energy Policy Development Group, headed by Vice President Cheney. This Group was charged with developing recommendations to help the private sector and government at all levels promote reliable, affordable, and environmentally sound energy for America's future. On May 16, 2001, Vice President Cheney sent to the President the recommendations of this group, together with a National Energy Policy report.

The report of the National Energy Policy Development Group describes a comprehensive long-term strategy that uses leading edge technology to produce an integrated energy, environmental and economic policy. The National Energy Policy it proposes follows three basic principles:

- The Policy is a long-term, comprehensive strategy. Our energy crisis has been years in the making, and will take years to put fully behind us.
- The Policy will advance new, environmentally friendly technologies to increase energy supplies and encourage cleaner, more efficient energy use.
- The Policy seeks to raise the living standards of the American people, recognizing that to do so our country must fully integrate its energy, environmental, and economic policies.

To achieve a 21st century quality of life – enhanced by reliable energy and a clean environment – it recommends 105 actions to modernize conservation, modernize our infrastructure, increase our energy supplies, including renewables, accelerate the protection and improvement of our environment, and increase our energy security.

The President has already taken actions to implement many of the report's recommendations. Over the coming months, further actions will be taken by the President, individual Federal agencies and the Congress. These actions, once fully implemented, will help minimize future energy prices, while assuring that energy supplies are reliable and the environment is protected.

A full copy of the National Energy Policy report, with the specific recommendations to the President, is available on the White House webpage, www.whitehouse.gov, or on the webpage of the U.S. Department of Energy, www.energy.gov.

I hope this information is helpful. Thank you for writing.

Sincerely,

Margot Anderson
Deputy Assistant Secretary
Office of Policy
and International Affairs

2001-018407 8/6/01 11:03

018407

Kenneth L. Lay
Chairman of the Board

Enron Corp.
P.O. Box 1188
Houston, TX 77251-1188
713-853-6773
Fax 713-853-5313
kenneth.lay@enron.com

July 31, 2001

The Honorable Spencer Abraham
Secretary of Energy
U.S. Department of Energy
Forrestal Building
1000 Independence Ave. SW
Washington, DC 20585-1000

Dear Mr. Secretary:

I'd like to follow up with you personally on a recent invitation extended by Jeff Skilling for an event Enron is hosting, **"U.S. Energy Policy at a Crossroads: Alternative Futures for the Current Energy Crisis,"** in Washington, DC on October 3-4. We would be honored to have you as a featured keynote speaker to communicate your vision of America's energy future. The energy industry is at a critical juncture. Through this event, Enron is committed to creating an open dialogue for the industry to work together collectively and constructively to find solutions and discuss ways to get them implemented.

Your involvement in this industry forum represents an opportunity to engage with the most senior level stakeholders in our sector--key opinion leaders, policymakers, regulators, and business executives. This forum resonates with the industry. Our efforts thus far have generated a positive response, and we anticipate a productive and insightful discussion.

I'd appreciate your being part of this forum. Your participation would greatly enhance the prospects of a positive outcome.

Sincerely,

Kenneth L.

EnDurAloy
Corporation
21 Breckenridge Lane
Savannah, Georgia 31411
Telephone: (912) 598-1210
Facsimile: (912) 598-0785

31 July 2001

President George W. Bush
The White House
1600 Pennsylvania Avenue NW
Washington, DC 20500
E-Mail: President.whitehouse.gov

RE: **National Energy Policy and Funding of Critical Research**

Dear President Bush:

In recent years NIST (ATP), DOD, DOE, EERE, and other entities have wisely funded high-risk research and development, leveraging potentially hugely beneficial projects. It is sometimes falsely assumed that this amounts to "industrial pork barrel." Instead, small businesses, fueled by scarce funding not available elsewhere, are developing innovative technology that will assure continued United States leadership in productivity. Today, this group is creating new jobs faster than any other sector.

As President of a fledgling small business developing a proven new-paradigm in tool materials, **I wish to voice my fervent support for continuing these policies.** Tool materials are key drivers of technological development, manufacturing efficiency, and standard of living; our product will therefore positively impact all segments of society and business worldwide.

My company, EnDurAloy Corporation, is a spin-off of a company that could not fund tool research and development. When the funds of our angel investor were exhausted, I found that venture capitalists would only fund companies with cash flow. The two sources of funding for these risky but potentially beneficial ideas are angel investors and some of the above agencies. Interestingly, American angel investors are rare. Simply said, EnDurAloy Corporation *would have failed had it not been for a $200,000 grant from DOE that sustained us until a new angel investor was found.*

To develop new paradigm tool performance is to leverage pervasive cross-cutting improvements in multiple major sectors of the economy. *The tool is the fulcrum for 25 percent of all work done and energy expended in manufacturing, petroleum drilling, and mining. All the power of industry's motors is focused on the energy expended at the working surfaces and edges of its tools, and longer-lasting tools consume 30 percent less energy.* We project, at TCHP market maturity, **worldwide benefits in energy and productivity of over $250 billion for a pricetag of only $4 billion for our products.** Half of these benefits will occur in the United States.

This is an excellent return for DOE/OIT's (Inventions & Innovations) investment of only $200,000 in EnDurAloy.

Our capital system, based on public ownership, prioritizes short-term results (thereby constraining long-term R & D) by focusing on quarterly earnings. PLEASE maintain a balance by continuing these sources of leveraged government funding.

Sincerely,
EnDurAloy Corporation

Richard E. Toth
President

28637

018083

2001-018083 8/1 P 12:07

Facsimile Cover Sheet

To: The Honorable Spencer Abraham
Company: U. S. Department of Energy
Phone: 202-586-6210
Fax: 202-586-4403

From: Kenneth Lay
Company: Office of the Chairman
Phone: 713/853-6773
Fax: 713/853-9479

Date: August 1, 2001

ages including
his cover page: 2

C mments:

Federal Emergency Management Agency
Washington, D.C. 20472

AUG 16 2001

The Honorable Spencer Abraham
Secretary of Energy
Department of Energy
Washington, DC 20585

Dear Secretary Abraham:

Thank you for your letter regarding the Department of Energy's strategy to support the National Energy Plan and FEMA. I apologize for the delayed response.

The Department of Energy (DOE) has worked closely with FEMA and the Catastrophic Disaster Response Group (CDRG) in our joint efforts to support the National Energy Plan and to respond to potential energy emergencies in the State of California. As your letter indicated, Major General John McBroom, USAF (Ret.) has briefed the CDRG on the energy situation, and DOE provides FEMA Headquarters with regular updates on any potential or emerging energy shortfalls in California or other affected States. DOE also assisted in the development of and participated in a joint State/Federal Planning meeting on July 10, 2001, in Sacramento, CA, where CDRG agencies were presented with a detailed briefing on the California energy situation, as well as potential Federal resource requests from the State of California to respond to an energy emergency. I personally attended this meeting, and I appreciated DOE's efforts to ensure its success.

I offer my thanks to DOE for your support in this effort to date, and I look forward to working with you and your staff to ensure that the Federal Government is fully prepared to respond to any incidents that might result from an energy emergency. Should you have any further questions, please do not hesitate to contact me, or have General McBroom contact Lacy Suiter at (202) 646-3692.

Sincerely,

Joe M. Allbaugh
Director

NATIONAL GOVERNORS ASSOCIATION

John Engler
Governor of Michigan
Chairman

Paul E. Patton
Governor of Kentucky
Vice Chairman

Raymond C. Scheppach
Executive Director

August 17, 2001

The Honorable Spencer Abraham
Secretary
U.S. Department of Energy
Forrestal Building
1000 Independence Avenue, S.W.
Washington, DC 20585

Dear Secretary Abraham:

On behalf of the National Governors Association (NGA), please accept our sincere thanks for speaking at the recent NGA Annual Meeting before the Natural Resources Committee. Your comments were informative, insightful, and provocative, and we received a great deal of positive feedback on your presentation.

We appreciated your assurances that the Department of Energy will work closely with NGA to address issues relating to energy diversity, transmission reliability and routing of transmission lines. We share your optimism that the states and the federal government, working as partners, can help solve the nation's energy supply problems while protecting the environment and increasing our use of renewable and alternative fuels.

Enclosed for your information is a copy of the new NGA policy NR-18, Comprehensive National Energy Policy, approved by the nation's Governors at the closing plenary session of the Annual Meeting on August 7.

Again, it was a great pleasure to have you join us, and we look forward to working closely with you and your staff in the future. Please don't hesitate to call us directly or Diane S. Shea, NGA Natural Resources Committee Director, at dshea@nga.org, or 202/624-5389, if we can be of help.

Sincerely,

Governor Tom Vilsack
Chairman
Committee on Natural Resources

Governor Frank Keating
Vice Chairman
Committee on Natural Resources

Enclosure

Hall of the States 444 North Capitol Street Suite 267 Washington, D.C. 20001-1512
Telephone (202) 624-5300 Fax (202) 624-5313 www.nga.org

NATIONAL GOVERNORS ASSOCIATION

Policy Position

NR-18. Comprehensive National Energy Policy

18.1 Preamble

The Governors recognize the energy and environmental challenges facing the United States at the beginning of the 21st century. Periodic shortages in oil, gas, and electricity cause hardship for consumers and businesses, harm the economy, and can reduce national security.

Our nation's dependence on foreign sources of oil is at an all-time high. At the same time, improved energy efficiency and conservation has reduced energy consumption and energy costs, while allowing consumers to enjoy a cleaner environment and more energy services without commensurate increases in energy demand.

Demand for energy will continue to grow, however. Simultaneously, energy efficiency is projected to continue to improve. Yet even with more conservation, innovation, and new technology, the United States will need more energy supplies.

Energy issues must be addressed nationally, while still recognizing state and local authority over environmental and energy matters. The solution to the need for energy will require increased conservation and energy efficiency as well as exploration of new energy supplies, including environmentally responsible development of traditional sources and greater reliance on alternative and renewable sources. We also must continue the trend of reducing emissions associated with energy production.

18.2 Principles

A comprehensive national energy policy must meet the public's current and future needs for energy, environmental quality, national security, and a healthy economy. Recognizing the costs and benefits associated with these public needs, the Governors support a national energy policy based on these ten principles.

- Provide our citizens with adequate, affordable energy supplies and services.
- Ensure environmental quality.
- Promote conditions in the federal and state regulatory context that recognize the unique and complementary roles of federal, state, and local governments, and are conducive to the development of economically viable and environmentally sound energy resources.
- Recognize the authority of states, tribes, and local communities in decisionmaking.
- Promote a diverse and reliable portfolio of energy sources and increase production of domestic sources of energy in a safe and environmentally sound manner.
- Support the production and use of domestic renewable energy sources.
- Promote the prudent and efficient use of our country's resources through conservation and efficiency efforts.
- Support sustained investment of public and private funds into expansion and updating of infrastructure capacities, and ensure improved public and private investment into research and development for alternative and renewable energy resources and advanced technologies for cleaner, more efficient production of traditional energy resources.
- Provide Americans with access to the information they need to make sound energy choices.

considered as government considers new policies to promote the rapid deployment of more fuel-efficient vehicles into e market.

18.3.4 Demand Response. The federal government should create incentives for energy providers to provide mechanisms for consumers to change their energy demands in response to price fluctuations. Incentives for retail consumers also should be provided to manage demand for peak load, conserve energy, and utilize energy-efficient technologies and tools.

18.3.5 Energy Conservation Education, Research, and Development. The federal government should promote energy conservation education programs and fund research into conservation technologies. Federal funding of energy conservation programs, including grants to states, should be enhanced. The development of energy-efficient technologies, including fuel-efficient engine and vehicle technologies, should be actively promoted. DOE should be provided with adequate authority, staffing, and funding to undertake and coordinate conservation activities.

18.3.6 Energy Efficiency Programs. The federal government should provide funding and incentives for programs that help businesses, industries, schools, public agencies, and residences use energy-efficient building techniques, building materials, appliances, equipment, motors, and other systems readily available in today's market. Public benefits funds and tax incentives are examples of how these programs may be accomplished.

18.4 Improving Energy Supply

The national security and economic well-being of this nation are predicated on securing economic and environmentally sustainable supplies of energy. To improve energy supply, the Governors support the following measures:

- exploration and development of the nation's energy resources, to the extent they are competitive in energy markets and can be developed consistent with federal, state, and local environmental requirements;
- federal land management agency participation and coordination with states regarding decisions by federal agencies about energy exploration and production on federal lands, particularly regarding public lands withdrawals and lease stipulations;
- continuation of the production of energy on federal lands and allowing states physical access to federal lands for state exploration and production projects that will promote the development of clean energy supplies;
- federal policies and incentives that encourage reliable, affordable, and clean energy supplies and that encourage capital investment, protect current production,and promote marginal production; and
- removal of barriers that discourage energy-efficient technologies, renewable energy resource development, and fuel diversity.

Consistent with these measures, there is a need to develop a diverse and flexible portfolio of fuel sources, including increased domestic production from renewable, alternative,and conventional sources.

18.4.1 Oil. Promote new domestic production through exploration and development of additional petroleum reserves and refining capacity, and promotion of enhanced oil recovery technologies.

18.4.2 Natural Gas. Encourage effective market-based measures that will support production of natural gas supplies and development of infrastructure in an environmentally sound manner, reduce impediments that limit such production, provide appropriate funding levels to avoid unnecessarily lengthy reviews imposed by the Federal Energy Regulatory Commission and other federal agencies, and promote policies against unfair transportation practices. In addition, Governors endorse, pending completion of appropriate environmental reviews, a project to bring Alaska natural gas to market via a pipeline from the North Slope along the Alcan Highway through Canada to the North American distribution system, while ensuring full pipeline safety to protect the public and the environment.

3.4.3 Coal. Encourage technologies to utilize coal more cleanly and efficiently, including continued support for the Clean Coal Technology Program, in partnership with the private sector, as well as research and development in clean

responsibility for the protection of the environment and the judicious management of their energy and other natural resources. States must exercise lead authority for:

- exploration and development of energy resources within their borders, especially those resources whose development has highly regional and local impacts;
- continuation of primary state responsibility and final decision authority for the approval and siting of energy facilities, consistent with state and federal law, along with safety and environmental requirements (siting of energy transmission facilities should follow existing rights-of-way whenever possible);
- prevention and abatement of air and water pollution;
- management of water resources;
- management of the coastal zone, and continued authority under the Coastal Zone Management Act to ensure consistency of federal activities with approved state plans; and
- administration and enforcement of building codes.

Because of these primary responsibilities, the states recognize they bear a heavy burden in the achievement of our national energy goals. Successful development of these national policies requires the early, effective, and sustained participation of state and localgovernments. Essential to this partnership is consultation and concurrence between the states and the federal government in all areas of national energy policy.

- Joint federal-state task forces should ensure effective state-federal communication.
- There should be adequate and early opportunity for state review and comment on federal energy regulations and policies.
- Administration of federal programs should be flexible so that the regional differences and diversity among states are recognized and incorporated into the goals of the federal energy programs.
- Multi-state cooperation should be encouraged in identifying the economics and need for additional energy transmission and generation projects. Regional energy transmission and generation planning should be further enhanced through improved communication and coordination of regulatory reviews among the appropriate state and federal regulatory agencies, affected energy suppliers, and other affected parties.
- There should be no preemption of state regulatory authority or the establishment of federal standards governing state regulation of utilities. Utility commissions should continue to have authority over mergers, retail energy rates and ratemaking processes, and consumer protection measures. In addition, there should be no preemption of state regulatory authority governing energy exploration and development when states have primacy or delegation over the relevant environmental regulations.
- The backlog of permit applications by federal land management agencies should be addressed and unnecessarily burdensome regulations and proceduresfor energyproduction, transmission, and generation projects should be streamlined.

Regulatory practices should encourage net environmental improvements, while providing a stable planning environment for energy providers and consumers as well as a well-defined planning horizon. Unnecessary federal energy regulations, policies, and programs should be reviewed and revised as necessary. The Governors specifically recommend the following.

- Motor fuel composition must continue to be an integral component for reducing mobile-source air emissions. Efforts must be undertaken to avoid policies that promote and sustain the development of "boutique fuels." More simplified approaches and streamlined regulatory requirements that promote the standardization of motor fuel products must be explored.
- Congress should pass legislation to establish a flexible, market-based program to significantly reduce and cap emissions of sulfur dioxide, nitrogen oxides, mercury, and voluntary reductions of carbon dioxide from electric power generators. The legislation should provide regulatory certainty by establishing reduction targets for emissions, phasing in reductions over a reasonable period of time, and providing market-based incentives, such as emissions-trading credits, to help achieve the required reductions.

Department of Energy
Washington, DC 20585

AUG 17 2001

The Honorable Phil Gramm
2323 Bryan Street #2150
Dallas, Texas 75201

Dear Senator Gramm:

Thank you for providing me with a letter from your constituent A.F. Delaloye, addressing declining oil reserves in the United States and the need for energy conservation as part of our National Energy Policy. I hope the following information will be useful to A.F. Delaloye.

Your constituent is correct in noting the changing apparent distribution of oil reserves as America's fields mature and exploration has taken place in the rest of the world. The United States is still a major oil producer in the global market (at the same time, the U.S. is the greatest oil consumer in the world). With advanced technology, some of which is being developed here at the Department of Energy, it is now possible to recover a greater proportion of the oil and natural gas from a reservoir in a more environmentally sound fashion than ever before.

Your constituent states that the National Energy Policy (NEP) should place greater emphasis on conservation. Despite some reporting on the predominance of supply options in the report, about one half of the recommendations in the report pertain to energy efficiency and conservation. These recommendations include attention to automobile energy efficiency, building standards, and development of advanced technology to improve end use in all sectors of our economy. The Federal Government is taking the lead by further incorporating conservation and efficiency measures in reducing energy use in its transportation fleet and buildings. The NEP also includes incentives for utilization of these technologies.

We believe that a National Energy Policy must incorporate a broad portfolio of actions to address the energy needs of our country. The NEP presents a comprehensive set of recommendations, that does not emphasize one technology or resource over another. This balance helps to enhance energy security and protect against system upsets.

The enclosed article is an interesting one that mirrors the Administration's interest in advanced technology to address our energy situation. The Department of Energy has been involved in development of many technologies recommended in the article, including automotive hybrid technologies in the transportation technology program, fuel cells, and use of hydrogen. For example, on August 8th

a major announcement was made about research funds awarded in our fuel cell program.

I would encourage your constituent to visit the DOE website to answer many of the questions in the letter. In particular, http://www.energy.gov/scitech/index.html, will display many of the interesting things the Federal government is doing through the Department of Energy to develop the variety of advanced energy technologies we will need in the near future. This will include information on the variety of clean coal projects underway and the environmental performance of those technologies.

I hope that this information is helpful in responding to your constituent. Should you have additional questions please have your staff contact Mr. Dan R. Brouillette, Director, Office of Congressional and Intergovernmental Affairs, at (202) 586-5450.

Regards,

Vicky A. Bailey

Vicky A. Bailey
Assistant Secretary
Office of Policy and International Affairs

2001-019467 Aug 21 A 11:21

The Western States
Land Commissioners Association

August 17, 2001

The Honorable Francis S. Blake
Deputy Secretary of Energy
Room 7A-229
Forrestal Building
1000 Independence Avenue, S. W.
Washington, DC 20585

Dear Deputy Secretary Blake:

Enclosed, please find a copy of Resolution 2001-3 "A Resolution in Support of State Participation in the Development and Implementation of a National Energy Policy" which was approved by the Western States Land Commissioners Association (WSLCA) at their Summer 2001 Conference.

As elected and appointed officials given the responsibility of managing lands for the support of specific public trusts, we feel very strongly about these issues and would appreciate your support in urging Congress and the Administration to include the WSLCA and affected States early in the development and implementation of policies and initiative.

Your support will be greatly appreciated.

Sincerely,

KEVIN S. CARTER
SECRETARY

KSC/eb
Enclosure

The Western States
Land Commissioners Association

Resolution 2001-3

A RESOLUTION IN SUPPORT OF STATE PARTICIPATION IN THE DEVELOPMENT AND IMPLEMENTATION OF A NATIONAL ENERGY POLICY

WHEREAS, The Western States Land Commissioners Association (WSLCA) has a vital interest in national energy policy because its members are major contributors of national energy resources;

WHEREAS, the U.S. economy is dependent on reliable, reasonably priced energy;

WHEREAS, the high growth rate in the West has created special needs for energy and related infrastructure;

WHEREAS, after federal land holdings the WSLCA members' land holdings constitute the largest ownership of land;

WHEREAS, it is imperative that the western States and the federal government engage in a cooperative stewardship effort in order to effectively implement a national energy plan;

WHEREAS, the member states of the WSLCA produce a majority of the nation's fossil fuels;

WHEREAS, the Administration is seeking to expand natural gas pipelines and electricity transmission lines;

WHEREAS, the WSLCA recognizes the importance of research and development in expanding the production of both fossil and renewable fuels;

WHEREAS, the WSLCA members seek to participate in federal energy demonstration projects in renewables and fossil fuels;

WHEREAS, the experience of the WSLCA members would be vital in creating an effective national energy policy;

NOW, THEREFORE, BE IT RESOLVED, that the WSLCA encourages its members to urge Congress and the Administration to consult with the WSLCA in the development and implementation of national energy policies and initiatives;

BE IT FURTHER RESOLVED, that the WSLCA encourages its members to urge federal agencies involved in pipeline and transmission line rights-of-way to engage affected State Land Commissioners in early consultation;

BE IT FURTHER RESOLVED, that the WSLCA encourages its members to urge the Department of Energy to invite the participation of WSLCA members in its energy demonstrations and alert WSLCA members about important federal research results that can improve energy production.

Approved this 26th day of July, 2001.

Ernest Hellwege, President

Kevin Carter, Secretary

August 22, 2001

CETEK LIMITED

640 N. Rocky River Drive, Berea, OH 44017
Tel: 440/891-0892 Fax: 440/891-0899

1038 Rutledge Road, Transfer, PA 16154
Tel: 724/646-2800 Fax: 724/646-2809

Mr. Spencer Abraham, Secretary of Energy
Department of Energy
1000 Independence Avenue SW
Washington, DC 20585

Dear Mr. Abraham:

As we all know, the recent energy crisis has severely impacted the United States and demanded a lot of attention from our country's leaders. The development of a new energy policy was essential but, as usual, it is impossible to satisfy everyone, thus criticism abounds.

I believe that my company, Cetek Ltd., has much to offer the refining industry, our country, and government by achieving productivity improvements coincident with emission reduction, and thereby significantly reducing the potential for the aforementioned criticism. Many refineries, world wide, have taken advantage of our service, and included in this package are independent reports confirming our claims.

I respectfully request the opportunity to meet with you, or your nominee, to discuss the possibility of working with you toward our common goal of satisfying the producers and the environmentalists and strengthening the recently published energy policy.

Sincerely yours,

CETEK LTD.

Derek Scott
Chief Executive Officer

DS:jg
Encs.

Department of Energy
Washington, DC 20585
August 24, 2001

2001-019644

Mr. Derek Scott
Chief Executive Officer
Cetek Limited
640 North Rocky River Drive
Berea, Ohio 44017

Dear Mr. Scott:

We have received your correspondence dated August 22, 2001, requesting a meeting with Secretary Spencer Abraham, or his designee, to discuss the recently published energy policy.

We have forwarded your request to the Secretary's Office of Scheduling and Advance. A staff member from that office will notify you regarding the status of your request.

If you have any questions, please call Ms. Robyne Johnston at (202) 586-5534.

Sincerely,

James N. Solit
Director, Executive Secretariat

'9739 Aug 27 A 9:46

State of North Dakota
Washington Representative
400 North Capitol Street, NW, Suite 585
Washington, DC 20001
202.347.6607

MEMORANDUM

TO : Secretary's Scheduler

FROM : Toby Burke, Washington Representative

DATE : August 24, 2001

RE : Request for Meeting Between Governor Hoeven and Secretary Abraham

---

Governor Hoeven will be visiting Washington, DC on Tuesday, September 11, 2001 and respectfully requests a meeting with Secretary Abraham to discuss the current National Energy Policy and the role Governor Hoeven and his colleagues can play in the debate. In addition, the Governor would like to discuss the energy task force established at the National Governors Association. If you have any questions, please do not hesitate to contact me at 202.347.6607.

Thank you for your consideration of our request. I look forward to hearing from you.

MK Tech Solutions, Inc. – *Chemical, Environmental and Petroleum Technology* –

RECEIVED

August 25, 2001

SEP 04 2001

Mr. Lawrence B. Lindsey
Assistant to the President for Economic Policy
The White House
1600 Pennsylvania Ave
Washington, DC 22050

National Economic Council

Dear Mr. Lindsey:

Thank you for your reply to my letter to President Bush and others concerning my disappointment with the National Energy Policy Group's report. I appreciate the defense of elements of the plan that effect "conservation and efficiency." However, most of the points listed are continuations or expansions of existing programs and not bold programs leading us towards the future.

Four of the points in the your letter of reply merit further comment. These are

- "*Enacting a tax credit for fuel efficient vehicles*." Yet the administration gutted programs to help develop technology to produce vehicles competitive with Japanese models.
- "*Allocating billions of dollars of bid bonuses from ANWR to environment and alternative energy research*." ANWR is unlikely to happen in the foreseeable future, so nothing can be allocated from those monies. The government will spend the money anyway because it is essential to our future.
- "*Permanently extending research and development tax credits*." This is good, however, the credit has been renewed every five years since I have been in R&D. At least the work of renewing it is saved.
- "*Continue the ethanol excise tax exemption*." This is detrimental to good environmental policy when producing ethanol from corn requires 70% more energy than ethanol contains and meeting clean air goals does not require oxygenates. It may be impossible to convince an engineer not working for ADM that ethanol is a viable as a fuel in any way. We all know the political reasons why we are stuck with ethanol in our fuel mix.

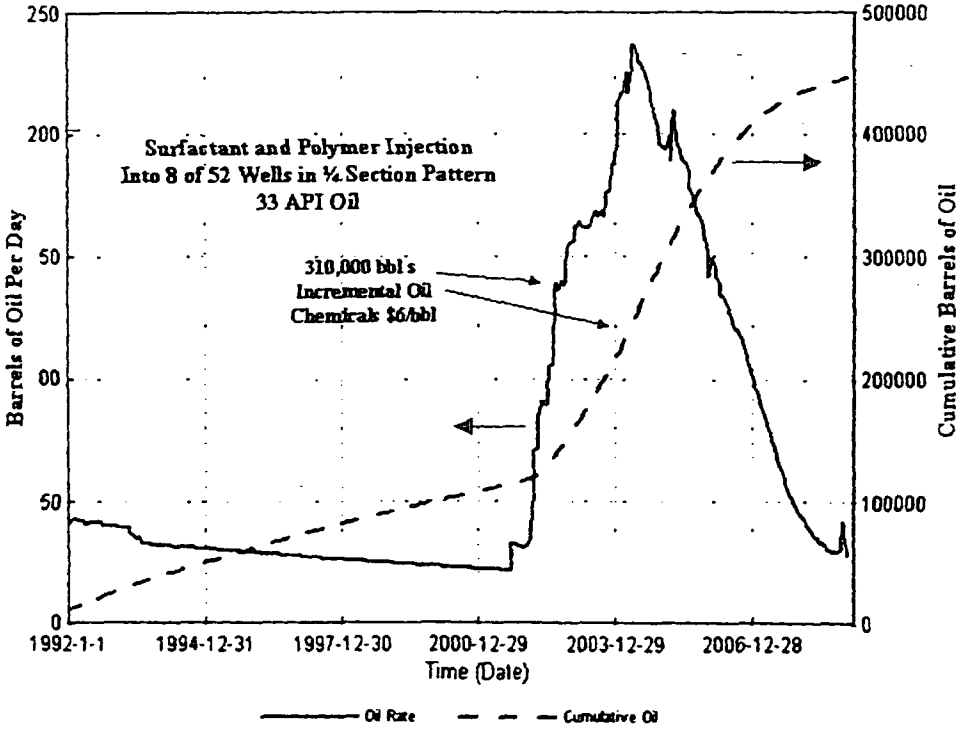
The administration's uneven support for its energy program since my original letter has been a major concern to me. It continues, for instance, to back ANWR while dropping a responsible and more promising offshore Florida drilling program and does nothing about producing oil from the more than 50 known, undeveloped, offshore California reservoirs in federal waters.

The lack of support for *Enhanced Oil Recovery* is even more disconcerting. The administration acts as if Halliburton can revitalize old American oil fields and produce 60 billion barrels of oil by "hydraulic fracturing." It will take much more than this, and government leadership will be essential. Winning WWII was not a triumph of free enterprise. It was a triumph of organization

MK Tech Solutions, Inc., 12843 Covey Lane, Houston, TX 77099
Ph: 281-564-8851, Fax: 281-564-8821, Email: Mikuhlman@aol.com

and leadership by the government. Leadership on a much smaller scale can help revitalize old oil fields in the continental United States.

The following graph is an example of what can be done in *one*, 160-acre section of *one* 2,000-acre field. It is likely that 310,000 barrels of oil can be recovered from this small plot in Oklahoma with a profit margin of 30%.



Four million to eight million barrels can be recovered from this field, and up to 10,000,000,000 barrels (2.5X ANWR) nationwide by surfactant polymer injection. Other technologies such as gas or steam injection will be useful in other types of reservoirs to help recover many times as much oil as is in ANWR. One of these, waste CO2 injection (sequestering), may have environmental benefits. The problem is that most of these fields are owned by very small independents that may not be familiar with these options or do not have the financial resources and certainly do not have the technical expertise to start these projects.

All that may be necessary for the government to do is to help promote enhanced oil recovery *NEPG*

technologies through research, education and organization. I am certain that the administration does not realize the potential of enhanced oil recovery because the administration tried to cut federal petroleum R&D funding by 50%. That would have been a mistake because government funded R&D is about the only petroleum research into enhanced oil recovery in the country.

We all loose if the federal government does not help here. It can help by working with researchers at major universities like Stanford, Rice, Texas A&M, The University of Texas and Oklahoma University who actively research these technologies and kept some alive by doing government funded R&D for the EPA for years. The government can also help by funding the DOE to promote field applications and help show small independents how to arrange financing and technology for EOR projects. This effort would be much smaller than the very successful Soil Conservation Service that helped revitalize American farms after the dust bowl in the 30's.

Lack of organization and financing appear to be the major barriers to revitalizing these old reservoirs at reasonable oil prices. Proven technology is available. The prediction in the previous figure is based on a model of the performance of a DOE funded pilot at the Sho-Vel-Tum field in Oklahoma (available for review at www.MKTechsolutions.com). All who are involved can profit if this oil is produced, the owners, their employees, the service providers, the banks, and governments through billions in new tax revenues.

I believe that this is good economic policy, and you are in a position to help fashion it.

Best Wishes,

Dr. Myron Kuhlman

MK Tech Solutions, Inc., 12843 Covey Lane, Houston, TX, 77099
Ph. (281)564-8851, Fax (281)564-8821, E-Mail: Mikuhlman@AOL.COM

2001-014284

The Secretary of Energy
Washington, DC 20585

August 28, 2001

The Honorable Paul O'Neill
Secretary of the Treasury
Washington, DC 20220

Dear Mr. Secretary:

The President's recently released "National Energy Policy" recommends developing transportation, renewable energy, and oil and gas tax incentives. As we have in the past, I am offering you our support to make these proposals a reality.

I would like to propose a more formal arrangement for coordination and exchange of analysis and information. The Department of Energy's Office of Energy Efficiency and Renewable Energy, headed by Assistant Secretary David Garman, along with the Office of Fossil Energy, headed by Acting Assistant Secretary Robert Kripowicz, are prepared to provide market assessment and acceptance, technology evaluation, and forecasts to assist in clarifying revenue estimates in a number of areas including:

Chapter 4
Recommendation #6, providing either a shorter depreciation life or an investment tax credit for combined heat and power projects. At your request, we are prepared to develop a cost-benefit study of the two options.

Recommendation #11, developing a tax credit for fuel-efficient vehicles. To augment previously provided information, we are prepared to develop additional analyses of tax credit market impacts.

Chapter 6
Recommendation #4, expanding section 29 tax credit to make it available for new landfill methane projects. We are prepared to provide assistance as required.

Recommendation #7, extending and expanding tax credits for electricity produced using renewable technology, such as wind and biomass. We are prepared to provide technology market assessments in biomass open-loop systems.

Recommendation #8, providing a new 15 percent tax credit for residential solar property. We are prepared to develop an analysis of market potential for small solar systems.

Recommendation #10, continuing the ethanol excise tax exemption. We are prepared to provide market potential analysis.

I have asked Assistant Secretary Garman to take the lead in this effort for us. He can be reached at (202) 586-9220. We look forward to working with you and the Department of Treasury to develop a clean, secure, and affordable energy future.

Sincerely,

Spencer Abraham

The Heritage Foundation
LEADERSHIP FOR AMERICA

August 29, 2001

The Honorable Spencer Abraham
Secretary, United States Department of Energy
1000 Independence Avenue, SW Room 7A-257
Washington, DC 20585

Dear Secretary Abraham:

I am writing to request the opportunity to meet with you and your key staff to discuss The Heritage Foundation's policy recommendations in several crucial areas to the Department of Energy. Specifically, we would like to brief you on our extensive analysis of the President's National Energy Plan, its impact on emissions and its impact energy efficiency.

I am also enclosing a hard copy of our evaluation of President Bush's National Energy Plan, which is the first independent, integrated analysis of this important public policy initiative. Prepared by the Center for Data Analysis of The Heritage Foundation, in partnership with DRI/WEFA, Inc. (the nation's premier economics consulting firm), this study evaluates the plan's effects in major energy markets and in the general economy.

This meeting would include up to 6 attendees from Heritage:

- Dr. Edwin J. Feulner, President
- Dr. Stuart Butler, Vice President, Domestic & Economic Policy Studies
- Mike Franc, Vice President, Government Relations
- Bill Beach, Director, Center for Data Analysis
- Mark Wilson, Research Fellow
- Charli Coon, Senior Policy Analyst, Energy & Environment

To follow up on this request, your scheduler may contact me or my Deputy, Rich Dunn, at (202) 608-6058.

We look forward to seeing you at your earliest convenience.

Sincerely,

Virginia L. Thomas
Director, Executive Branch Relations

Thank you for your public service too!

Enclosure

SUMMARY OF THE CENTER FOR DATA ANALYSIS EVALUATION OF THE NATIONAL ENERGY PLAN

This is the first independent, integrated analysis of the President's National Energy Plan (NEP). Prepared by the Center for Data Analysis of The Heritage Foundation, in partnership with DRI/WEFA, Inc. (the nation's premier economics consulting firm), this study evaluates the plan's effects in every major energy market and in the general economy.

The economic and industry models used in the study compare the NEP to a baseline stretching from 2000 to 2030. The baseline assumes that current law prevails over that time period. Thus, our estimates reflect the differences in energy supply, demand, infrastructure, price, and economic performance between current law and the alternative world of the NEP.

Americans will spend $74.4 billion more on energy this year than in 1999, an average of $934 per family. The largest increase comes from gasoline ($41.2 billion), followed by natural gas ($13.9 billion), electricity ($10.5 billion), and fuel oil ($8.8 billion). These costs will only rise if the decision makers in Washington fail to adopt a long-term energy plan.

We found that, if enacted and implemented in its entirety, the NEP would:

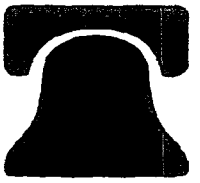
- **Reduce electricity demand.** The plan's energy efficiency programs would significantly cut electricity demand over the 30-year forecast period.
- **Improve energy efficiency.** The plan would improve energy efficiency by more than 20% by 2020. That would result in 1% efficiency improvement each year over what the Energy Department projects under current law.
- **Ease electricity capacity pressures.** Improved appliance and transmission efficiencies in the plan would reduce capacity needs by 6.2 percent in 2030. By 2030, this would cut the number of new power plants (250 MW size plants) needed by about 364.
- **Cut electricity losses suffered in transmission.** Infrastructure upgrades and expansions would reduce average line losses 50 percent by 2030.
- **Lower consumer electricity prices.** The end user's cost for electricity is consistently lower under the NEP than under current law.

- **Reduce reliance on coal and natural gas.** The NEP would reduce electricity generation from coal and natural gas fuels by 13 and 12 percent, respectively in 2030—improving prospects for reaching key environmental goals.
- **Increase nuclear capacity.** NEP policies would expand electricity generation from nuclear power more than 270 percent by 2025.
- **Reduce gasoline demand.** By 2030, demand for gasoline products would be nearly 12 percent lower under the NEP than current law.
- **Increase petroleum supplies.** The NEP's emphasis on exploration and development would increase total U.S. production by 27 percent above baseline by 2030.
- **Reduce dependence on foreign oil.** Imports would be 16 percent lower by 2030 under the NEP, and U.S. dependence on foreign petroleum would fall nearly 8 percentage points below what it would be if current law continues.
- **Increase oil refining capacity.** By providing more regulatory certainty to refinery owners and reducing the number of petroleum product specifications, the NEP would increase capacity by 7.7 percent by 2030.

Lower prices and more readily available supplies of energy would improve the nation's general economic performance. The NEP would create about 1.5 million more jobs, increase investment, reduce consumer energy costs, increase disposable income, and promote faster economic growth over the entire forecast period.

Specifically, the CDA dynamic analysis projects that the Bush energy plan would:

- **Increase economic growth.** In 2025, GDP (adjusted for inflation) would be $540 billion higher than the by-the-book forecast. The rate of economic growth would increase by an average of 0.1 percentage point per year (from 3.1 percent to 3.2 percent) from 2005 to 2025.
- **Create more job opportunities.** By 2025, over 1.5 million more Americans would be working compared with the by-the-book forecast. Moreover, the unemployment rate would average just 4.8 percent instead of 5.1 percent from 2005 to 2025.
- **Increase family income.** By 2030, lower energy prices and higher economic growth increase the disposable personal income for an average family of four (adjusted for inflation) by $1,828.
- **Increase investment.** Investment (adjusted for inflation) would increase by an average of $65 billion per year from 2005 to 2025. By the end of 2025, the net capital stock would be $1.4 trillion higher under the Bush energy plan.



Econometric and Policy Evaluation of the National Energy Plan

A Report of the Center for Data Analysis of The Heritage Foundation

CDA Project Team

William W. Beach

Charli E. Coon

Rea S. Hederman, Jr.

D. Mark Wilson

August, 2001

2001-017592

Department of Energy
Washington, DC 20585

August 29, 2001

Mr. Henry W. Wedaa
President
California Hydrogen Business Council
P.O. Box 980
Yorba Linda, CA 92885

Dear Mr. Wedaa:

Thank you for the July 23, 2001, letter expressing your agreement with remarks made by Secretary Abraham during a recent visit to California, and urging a revision of the National Energy Policy Report to add greater emphasis on the need to exploit diverse energy technologies, such as distributed energy, fuel cells and hydrogen.

The National Energy Policy Report does place considerable emphasis on the importance of new and diverse energy technologies and sources. The critical role of these technologies has been further emphasized by the actions of the Department and other agencies to implement the report's recommendations. While there are no plans to revise the National Energy Policy Report in the near future, we hope that misconceptions regarding the intent of the Administration's energy policy will lessen as we develop and implement the specific actions recommended.

Thank you for writing.

Regards,

Vicky A. Bailey
Assistant Secretary
Office of Policy and International Affairs

28661

Oil Heat Institute, Inc.

September 4, 2001

Secretary of Energy Spencer Abraham
Department of Energy
1000 Independence Avenue, SW
Washington, DC 20585

Dear Secretary of Energy Abraham:

An excellent article that appeared in the Providence Journal is enclosed with this letter. The commentary was written by Makubin Thomas Owens, Professor of Strategy and Planning at the U. S. Naval War College. He formerly worked for the U. S. Department of Energy.

Sincerely,

Peter Lombardi Jr

Peter Lombardi, Jr.
Executive Director

PL/jag
c

1395 Atwood Avenue
Suite 209A
Johnston, RI 02919-493
(401) 464-8000 - phone
(401) 464-9506 - fax
email ohiri@netsense.ne
www.oilheatri.com

8.31.2001 00:05

Toward a comprehensive energy policy

MACKUBIN THOMAS OWENS

IT IS UNDENIABLE that a major factor contributing to U.S. prosperity is affordable access to energy. Indeed, economic growth and energy growth track each other. But energy production is not keeping pace with consumption, and herein lies a major problem.

As Federal Reserve Chairman Alan Greenspan said earlier this year in testimony before the Senate Finance Committee, looming energy shortages have "emerged as a very significant question" concerning the future performance of the U.S. economy.

Before Congress's August recess, the House passed legislation designed to provide a comprehensive energy policy for the United States. The Senate will take up this legislation after the recess. Those who think that continued U.S. economic growth is a good thing must hope that the House bill passes the Senate with little change.

According to the Energy Information Administration (EIA) of the Department of Energy, U.S. energy production has grown only 14 percent since 1970 while energy use has risen by 30 percent. Things will only get tighter over the next two decades. The EIA predicts that total energy consumption in the United States will increase 32 percent by 2020, petroleum 33 percent, natural gas 62 percent, coal 22 percent, electricity 45 percent, and renewable energy 26 percent.

In addition, the dependence of the United States on foreign petroleum is growing. In 1973, the U.S. imported 36 percent of its oil. Currently, imports account for 56 of America's petroleum consumption. By 2020, more than 65 percent will be imported. There is no question that conservation and improved energy efficiency can help to curtail demand, but they can help only so much. According to the EIA, energy efficiency is projected to improve by 1.6 percent a year by 2020. More than half of the nation's increased energy requirements through 2020 are expected to be met through gains in energy efficiency. Nonetheless, the United States will still need an additional 30 quadrillion BTUs (British thermal units) to support economic growth through 2020.

But providing this additional energy will be impossible if investment in energy infrastructure continues to lag demand for energy. To have enough energy to keep pace with future economic growth, the United States needs to expand and modernize its energy infrastructure. Without comprehensive action, the U.S. will continue to pit fuel type against uel type, conservation against production, and energy "haves" against energy "have-nots."

California's recent power crisis is merely one instance of the sort of growing imbalance between supply and demand that may afflict Americans unless shortfalls in production and bottlenecks in delivery infrastructure are fixed. Here are some ways that energy infrastructure problems can be rectified.

– **Crude oil.** While U.S. production of crude oil has declined from 9.6 million barrels a day (bpd) to 5.8 million bpd since 1970, consumption has jumped from 14.7 million bpd to 20 million bpd. The number of operating U.S. refineries has declined from 315 in 1981 to 155 in 2000. A new refinery has not been built in the U.S. in over two decade. Domestic sites, including the Alaska National Wildlife Refuge (ANWR), should be opened to exploration and drilling and new refineries must be built.

– **Natural Gas.** To meet the projected increase in natural gas demand, pipeline transmission and distribution line mileage must be increased. According to the EIA, pipeline capacity needs to increase by 30 percent to meet the demand forecast for 2020.

– **Nuclear power.** In 1999, nuclear-power plants produced a record-high 727.9 billion kilowatt-hours of electricity. The efficiency of nuclear power has improved 16 percent since 1990, the equivalent of adding over 23 1,000-megawatt power plants. Yet no new nuclear plants have been ordered since 1979. This situation should be rectified by relicensing nuclear plants now in operation and moving ahead with a new generation of advanced nuclear plants. – **Generation of electricity.** The EIA projects a requirement of 1,310 new power plants capable of producing 393 gigawatts of power by 2020 to meet growing demand and to offset retirements of existing plants. Many of the new plants will need to make use of coal, the nation's primary fuel for producing electricity. Wider use of clean-coal technology, particularly systems that convert coal into synthetic gas, will help make coal more acceptable.

– **Transmission of electricity.** At the same time, transmission capacity is not keeping pace with demand. The

system faces significant increases in congestion, especially during hours of peak demand. According to a study conducted by the Electric Power Research Institute, power outages caused by the aging power grid cost the U.S. economy more than $119 billion annually. These problems can be remedied only by modernizing and expanding the transmission infrastructure.

Critics will argue that such policy prescriptions favor energy suppliers and neglect the environment. But energy suppliers provide the means for economic growth, to the benefit of all. And energy can be produced and transmitted to consumers in ways that protect the environment. Environmental concerns have become a centerpiece of the U.S. political economy, but they must be balanced against the requirement for affordable energy. The comprehensive approach embodied by the House legislation is the best way to balance the two.

Mackubin Thomas Owens, a monthly contributor, is a professor of strategy and force planning at the U.S. Naval War College. He worked for the Department of Energy during the Reagan administration. He can be reached by e-mail at owensm@nwc.navy.mil .

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Department of Energy
Washington, DC 20585

September 5, 2001

The Honorable Phil Gramm
2323 Bryan Street #2150
Dallas, Texas 75201

Dear Senator Gramm:

Thank you for providing me with a letter from your constituent A.F. Delaloye, addressing declining oil reserves in the United States and the need for energy conservation as part of our National Energy Policy. I hope the following information will be useful to A.F. Delaloye.

Your constituent is correct in noting the changing apparent distribution of oil reserves, as America's fields mature and exploration has taken place in the rest of the world. The United States is still a major oil producer in the global market (at the same time, the U.S. is the greatest oil consumer in the world). With advanced technology, some of which is being developed here at the Department of Energy, it is now possible to recover a greater proportion of the oil and natural gas from a reservoir in a more environmentally sound fashion than ever before.

Your constituent states that the National Energy Policy (NEP) should place greater emphasis on conservation. Despite some reporting on the predominance of supply options in the report, about one half of the recommendations in the report pertain to energy efficiency and conservation. These recommendations include attention to automobile energy efficiency, building standards, and development of advanced technology to improve end use in all sectors of our economy. The Federal Government is taking the lead by further incorporating conservation and efficiency measures in reducing energy use in its transportation fleet and buildings. The NEP also includes incentives for utilization of these technologies.

We believe that a National Energy Policy must incorporate a broad portfolio of actions to address the energy needs of our country. The NEP presents a comprehensive set of recommendations that does not emphasize one technology or resource over another. This balance helps to enhance energy security and protect against system upsets.

The enclosed article is an interesting one that mirrors the Administration's interest in advanced technology to address our energy situation. The Department of Energy has been involved in development of many technologies recommended in the article, including automotive hybrid technologies in the transportation technology program, fuel cells, and use of hydrogen. For example, on August 8th

a major announcement was made about research funds awarded in our fuel cell program.

I would encourage your constituent to visit the DOE website to answer many of the questions in the letter. In particular, http://www.energy.gov/scitech/index.html, will display many of the interesting things the Federal government is doing through the Department of Energy to develop the variety of advanced energy technologies we will need in the near future. This will include information on the variety of clean coal projects underway and the environmental performance of those technologies.

I hope that this information is helpful in responding to your constituent. Should you have additional questions please have your staff contact Mr. Dan R. Brouillette, Director, Office of Congressional and Intergovernmental Affairs, at (202) 586-5450.

Regards,

Vicky A. Bailey

Vicky A. Bailey
Assistant Secretary
Office of Policy and International Affairs

The Secretary of Energy
Washington, DC 20585

2001-017639

September 5, 2001

The Honorable Harry Reid
United States Senate
Washington, D.C. 20510

Dear Senator Reid:

Thank you for your recent letter to President Bush in which you and other members of the Nevada Congressional Delegation expressed your concern that the nuclear energy recommendations of the *National Energy Policy* could influence future decisions on the suitability of the Yucca Mountain site in Nevada for a geological repository.

Our *National Energy Policy* is based on the principle that all Americans should have affordable and reliable energy. The Administration has developed a balanced approach to electricity supply, an approach that includes the use of traditional sources of electricity supply such as nuclear energy. Nuclear energy provides about 20 percent of the Nation's electricity supply without producing harmful air emissions and nuclear power plants are among the most reliable and efficient electricity sources available on the grid today. For these reasons, we believe that nuclear energy is an important element of tomorrow's energy supply. Industry and the Nuclear Regulatory Commission are successfully moving forward with relicensing of existing nuclear plants, and we expect that nearly all of the 103 existing plants in this country will operate beyond their original licenses. For the first time in decades, industry is also examining business cases for new nuclear plant construction in the United States.

Regardless of the future of nuclear energy in the United States, the Federal Government must meet its obligations under the Nuclear Waste Policy Act. We must address the existing legacy of high-level radioactive waste, and to meet this objective, we believe that a geologic repository is required. At present, there are over 40,000 metric tons of spent fuel from nuclear power generation plus significant quantities of Department of Energy and Navy spent fuel, surplus plutonium, and vitrified high-level waste resulting from national security and environmental cleanup missions that must be safely managed. Regardless of whether new nuclear plants are built, renewal of the Price Anderson Act is needed to enable the Department to meet its environmental cleanup obligations and operate our facilities safely.

The Department has conducted an extensive program of investigative science at Yucca Mountain, and the scientific analysis is still underway. My decision on whether to recommend Yucca Mountain for development as a repository will follow the processes outlined by the law and will be based on sound science. I will not prejudge the outcome. I, too, want to ensure that health and safety concerns of the people of Nevada have been fully addressed.

This Administration is committed to working closely with Congress as we move forward implementing an integrated and comprehensive *National Energy Policy*. If you have further questions, please feel free to contact me or Mr. Dan Brouillette, Director, Office of Congressional and Intergovernmental Affairs, on (202) 586-5450.

Sincerely,

Spencer Abraham

The Secretary of Energy
Washington, DC 20585

September 5, 2001

The Honorable John Ensign
United States Senate
Washington, D.C. 20510

Dear Senator Ensign:

Thank you for your recent letter to President Bush in which you and other members of the Nevada Congressional Delegation expressed your concern that the nuclear energy recommendations of the *National Energy Policy* could influence future decisions on the suitability of the Yucca Mountain site in Nevada for a geological repository.

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Sincerely,

Spencer Abraham

The Secretary of Energy
Washington, DC 20585

September 5, 2001

The Honorable Shelley Berkley
U. S. House of Representatives
Washington, D.C. 20515

Dear Representative Berkley:

Thank you for your recent letter to President Bush in which you and other members of the Nevada Congressional Delegation expressed your concern that the nuclear energy recommendations of the *National Energy Policy* could influence future decisions on the suitability of the Yucca Mountain site in Nevada for a geological repository.

Our *National Energy Policy* is based on the principle that all Americans should have affordable and reliable energy. The Administration has developed a balanced approach to electricity supply, an approach that includes the use of traditional sources of electricity supply such as nuclear energy. Nuclear energy provides about 20 percent of the Nation's electricity supply without producing harmful air emissions and nuclear power plants are among the most reliable and efficient electricity sources available on the grid today. For these reasons, we believe that nuclear energy is an important element of tomorrow's energy supply. Industry and the Nuclear Regulatory Commission are successfully moving forward with relicensing of existing nuclear plants, and we expect that nearly all of the 103 existing plants in this country will operate beyond their original licenses. For the first time in decades, industry is also examining business cases for new nuclear plant construction in the United States.

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This Administration is committed to working closely with Congress as we move forward implementing an integrated and comprehensive *National Energy Policy*. If you have further questions, please feel free to contact me or Mr. Dan Brouillette, Director, Office of Congressional and Intergovernmental Affairs, on (202) 586-5450.

Sincerely,

Spencer Abraham

The Secretary of Energy
Washington, DC 20585

September 5, 2001

The Honorable Jim Gibbons
U. S. House of Representatives
Washington, D.C. 20515

Dear Representative Gibbons:

Thank you for your recent letter to President Bush in which you and other members of the Nevada Congressional Delegation expressed your concern that the nuclear energy recommendations of the *National Energy Policy* could influence future decisions on the suitability of the Yucca Mountain site in Nevada for a geological repository.

Our *National Energy Policy* is based on the principle that all Americans should have affordable and reliable energy. The Administration has developed a balanced approach to electricity supply, an approach that includes the use of traditional sources of electricity supply such as nuclear energy. Nuclear energy provides about 20 percent of the Nation's electricity supply without producing harmful air emissions and nuclear power plants are among the most reliable and efficient electricity sources available on the grid today. For these reasons, we believe that nuclear energy is an important element of tomorrow's energy supply. Industry and the Nuclear Regulatory Commission are successfully moving forward with relicensing of existing nuclear plants, and we expect that nearly all of the 103 existing plants in this country will operate beyond their original licenses. For the first time in decades, industry is also examining business cases for new nuclear plant construction in the United States.

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This Administration is committed to working closely with Congress as we move forward implementing an integrated and comprehensive *National Energy Policy*. If you have further questions, please feel free to contact me or Mr. Dan Brouillette, Director, Office of Congressional and Intergovernmental Affairs, on (202) 586-5450.

Sincerely,

Spencer Abraham

2001-020945 9/10/01 3:53

020945

epsa®
Electric Power Supply Association
Advocating the power of competition
1401 New York Avenue NW
11th Floor
Washington, DC 20005
202 628 8200
202 628 8260 fax
www.epsa.org

September 7, 2001

Hon. Frank Blake
Deputy Secretary
U.S. Department of Energy
1000 Independence Avenue, SW
Washington, DC 20585

Dear Deputy Secretary Blake:

On behalf of the Electric Power Supply Association (EPSA), I would like to invite you to be the keynote luncheon speaker at the 2001 EPSA Fall Membership Meeting to discuss the Administration's energy policy. This lunch will be held on Tuesday, October 23rd at 12:00 p.m. at The Monarch Hotel in Washington, D.C.

As you may know, EPSA is the national trade association representing competitive power suppliers, including independent power producers, merchant generators and power marketers. The competitive power supply industry owns at least 33% of the U.S. installed generating capacity and have announced plans to build over 300,000 MWs of new generation. EPSA's members also provide reliable, competitively priced electricity from environmentally responsible facilities in global power markets.

We anticipate approximately 100 business leaders in the competitive power supply industry to be present at our meeting, including power project developers, marketers, major fuel and equipment suppliers, lenders and investors. We would like you to take the podium for approximately 15-20 minutes, followed by a brief question and answer period.

I hope that your busy schedule will allow you to join us. We will contact your office soon to ascertain your availability. In the meantime, thank you for your consideration.

Sincerely,

Lynne H. Church
President

28675

2001-021007 9/12/01 9:19 am

GREG GANSKE
4TH DISTRICT, IOWA

COMMERCE COMMITTEE
SUBCOMMITTEES:
HEALTH AND ENVIRONMENT
FINANCE AND HAZARDOUS MATERIALS
OVERSIGHT AND INVESTIGATIONS

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES

September 7, 2001

Dr. Craig Reed
Senior Policy Advisor
Office of the Secretary
U.S. Department of Energy
Room 7B-222
1000 Independence Ave SW
Washington, D.C. 20585

Dear Dr. Reed:

My District Director, Clarke Scanlon, tells me that he had a nice chat with you in Nevada, Iowa at the Power Supply Forum. Your remarks about the DOE and President Bush's Energy Plan were appreciated. Clarke has shared your insights with me.

Thank you again for taking the time to visit with Clarke. If you have opinions or concerns that you would like me to know, please feel free to call or write me.

Sincerely,

Greg Ganske
Member of Congress

JGG:cs

1108 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
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FEDERAL BUILDING
210 WALNUT STREET
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40 PEARL STREET
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(712) 323-5976

28676

Department of Energy
Washington, DC 20585

SEP 11 2001

Mr. Newal K. Agnihotri
799 Roosevelt Road
Building 6, Suite 208
Glen Ellyn, IL 60137

Dear Mr. Agnihotri:

Thank you for your letter of August 10, 2001, to Secretary of Energy Spencer Abraham with your response to the recommendation in the National Energy Policy (NEP) for developing an educational campaign that communicates the benefits of alternative forms of energy.

There is a great deal of information on the Internet for educating the public about alternative energy and we believe some of the best sites available for that purpose are sponsored by the Department of Energy (DOE). For information purposes, you might wish to acquaint yourself with them and the links they provide. I would suggest visiting www.energy.gov, as well as DOE's Energy Efficiency and Renewable Energy Network at www.eren.doe.gov and exploring many of the links that you can reach from those sites. Additionally, each home page has a webmaster that can be contacted with specific concerns. Since you mentioned hydrogen and fusion, I am including a print-out of both those home pages with this letter. An education campaign recommended in the NEP, however, has not yet been put in place.

As for funding our work, DOE programs, like most government programs, receive annual appropriations for specific research and development activities. Some of the activities are implemented at National Laboratories, some through contracts and financial assistance. To the maximum extent feasible, competitive solicitations are issued when contracts and financial assistance instruments are used. In order to receive best value, we encourage all interested parties to submit proposals for our competitive solicitations. To help with that process, I have included information

and contacts for finding information about solicitations and other sources of funding. I hope the material assists you.

Thank you again for your letter and good luck in the future.

Sincerely,

Patricia M. Pickering

Patricia M. Pickering
Office of Power Technologies
Office of Energy Efficiency and Renewable Energy

Enclosures

2001-800081

Department of Energy
Washington, DC 20585

September 11, 2001

The Honorable Jim Nussle
Chairman
Committee on Budget
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Enclosed is the edited transcript of the June 20, 2001, testimony of Francis S. Blake, Deputy Secretary of Energy, regarding the Economic and Budgetary Effects of National Energy Policy.

Also enclosed are five inserts for the record requested by Representatives Capuano, Culberson and Honda. The one remaining insert is being prepared and will be forwarded to you as soon as possible.

If we can be of further assistance, please have your staff contact our congressional Hearing Coordinator, Lillian Owen, at (202) 586-2031.

Sincerely,

Dan R. Brouillette
Assistant Secretary
Congressional and Intergovernmental Affairs

Enclosure

28679

Chairman NUSSLE. Secretary Blake, we welcome you to the committee, and we would invite you for your testimony at this point.

STATEMENTS OF FRANCIS S. BLAKE, DEPUTY SECRETARY, DEPARTMENT OF ENERGY; AND R. GLENN HUBBARD, Ph.D., CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

STATEMENT OF FRANCIS S. BLAKE

Mr. BLAKE. Good morning, Mr. Chairman, Congressman Spratt, members of the committee. Thank you very much for inviting me here this morning to address what is truly both an important and timely topic, the impact of energy on the Nation's economy. What I would like to do is submit my testimony for the record and then proceed ~~just to go~~ through a few charts in an overview.

Chairman NUSSLE. We will place your entire testimony in the record. You can summarize as you would like.

Mr. BLAKE. Thank you very much.

Beth Quinn, who works with EIA at the Department of Energy, will help me as we go through these charts.

The first chart here shows just some general numbers on the country's energy consumption. In 2000, we consumed approximately 100 quadrillion BTU of energy. We produced about 72-, and the remainder we made up through imports. If we keep at the projected demand growth of about 1.3 percent a year, we would be consuming nearly 180 quads in the year 2020, but because of our energy efficiency program, structural changes in the economy and the like, we anticipate that that number is going to be more like 127 quads as shown on ~~that~~ the chart, which continues the 58 percent decline in what we call the energy intensity of the economy.

We go to the second chart. The point of this chart is that electricity represents an increasing share of our total energy consumption. As you see, the green line that is declining shows consumption per unit of GDP, and that has been declining consistently, while electricity sales, spiking as the country as a whole got access to electricity, has actually been stable over the last several years.

If we go to chart 3, we now get to one of the fundamental changes that is occurring in energy production in the country, and that is the fuel that is used for electricity generation. As you can see from this chart, now and projected into the future, coal remains an important source of fuel for our electricity generation. But what is notable on the chart is the role of natural gas. Natural gas, which

was really a modest component of our fuel generation in the 1970s and 1980s, has increased substantially over the last several years and into the year 2020, as you can see, is projected to grow dramatically.

If we go to the next chart, there are a number of reasons for this. I think you are all aware of the environmental constraints on new coal-fired capacity, the difficulty in siting nuclear plants and the like. But part of the ~~reason~~ change may be attributed to ~~also goes to~~ how we have deregulated electricity generation and the emphasis that ~~that~~ competition puts on technologies that have lower capital costs, particularly when ~~our~~ producers are not assured of the recovery of their capital costs. This chart breaks out for the different technologies, coal, combined cycle natural gas, wind, and nuclear, what their projected costs are, divided capital O and M and fuel in the future. And you will see there is an economic driver as well as an environmental driver ~~on~~ for why natural gas ~~is an~~ represents an increasing share of our fuel for electricity production in the United States.

The next chart gets to some of the practical issues that we face as we shift and add generation on our current infrastructure, ~~and~~ This challenge is one of the major issues addressed in the national energy policy. ~~This~~ A similar chart could be drawn showing constraints on the natural gas pipeline infrastructure and showing the additional pipelines that we are

going to need to supply all of this natural gas for power generation. This chart is showing what is called transmission load relief logs. It is really a way of determining when transmission systems are stressed and under constraint. It goes month by month, with the different years, and you can see last year ~~just~~ a dramatic increase in constraints on our transmission systems, and this year we have had the data through May and obviously a significant ~~uptake~~ increase there as well. ~~And~~ we have yet to determine what the numbers will be ~~obviously~~ for the rest of this year.

~~On~~ the next chart ~~this goes to~~ shows where we are in terms of capacity additions across the country. To fully understand this, as a reference point, we have about 780 gigawatts of capacity in our national system. ~~So~~ you can see very small replacement rates over the last several years as the industry has had to face--is faced with the uncertainty of deregulation in cost recoveries, including ~~actually~~ actual net removals of capacity in 1998 ~~and~~ now we are starting to see substantial pickup in capacity additions with increases in 1999, 2000 and projected to ~~increase~~ increases in 2001 and 2002.

Now, that is the last of the overview charts. How do you translate all of this into the economic impacts, and what does our national energy policy have to do with this? Dr. Hubbard, who is detained, unfortunately, in his testimony outlines the broad macroeconomic impacts of this on GDP,

inflation, downstream industries, the residential consumer, and ~~there are impacts~~ across the economy.

As you reference, Mr. Chairman, in your introduction, EIA, which is an independent statistical analytical arm of DOE, has done a study of what the impacts of increased prices of fuel as well as fuel volatility ~~what the impacts that has~~ on our overall economy. Their study suggests that if we had a steady path of energy prices from 1997 to 2001, instead of the volatility that we, ~~in fact,~~ saw, ~~that~~ could have boosted ~~GDP~~ by 2/10ths of a point from 4.1 percent to 4.3 percent. ~~So~~ that is a substantial impact on the economy just from a reduction in the volatility. That doesn't even address the question of ~~if you were~~ removing some of the pressure on the increased price, ~~what~~ that would ~~have on~~ GDP.

There are obviously as ~~well~~ some more qualitative impacts of fuel volatility and high prices. They impact business decisions ~~where they site plants, what kinds of~~ investments ~~they make~~. ~~And~~ I would point to another, a fourth impact, that I think we are only beginning to understand, which is the extent to which our economy is increasingly dependent on electricity.

We talk about our economy as entering the information age. It is worth remembering that to move a bit of information, the technical computer term "bit of information," you need an electron. An interesting example

is if you look at the energy usage--I was just looking at a study this morning that looked at the energy usage of a plain telephone. The energy usage of just the normal telephone is about 40 kilowatt hours per year. The wireless phone that we all carry around everywhere and see everywhere is 140 kilowatt hours a year when you take into account ~~the recharging,~~ the power used for recharging, the power used for the various wireless towers, and the entire infrastructure required with those phones.

In addition to the increase in the usage of electricity, the need for reliability of that electricity grid has increased, and there have been a number of studies on industries, particularly our high-tech industries, that require what is called nine 9s or six 9s of power, a high amount of power than you would have, ~~the~~ rather than what we see on our transmissions grid.

Turning just briefly, and I won't go through all the recommendations in the national energy policy, but just summarizing them, it is, we believe, a comprehensive approach. It looks at energy efficiency, conservation renewables and the role that they need to play going forward. It looks at our supply side of the equation and constrained supply and how we address that. And it also looks at stressed infrastructure, the issues on our transmission system, our pipeline system and the like, and how we address

those.

Just from my own perspective, coming to DOE from industry just ~~in~~ the last 2 weeks, the comment that I would make is a lot of it seems to me to be very sound common sense. If you know, as you can see in the charts I put up previously, that you are going to start adding large numbers of power plants to the transmission grid in the United States, you need to turn and say, what are we doing from a policy perspective to ensure that the grid can handle that additional power generation? Similarly, if you know, as outlined, that natural gas is going to play an increasingly large role, what are we doing to ensure that we get the adequate supply and adequate transmission so that we don't see these tremendous spikes in prices and volatility?

~~So~~ In summary, ~~I think~~ the policy sets forth a balanced and valuable blueprint for where the country needs to move. I think the purpose of this hearing could not be better timed in terms of a fuller understanding of the economic impacts that our energy infrastructure has on the country. And again, thank you very much for inviting me to be here this morning.

Chairman NUSSLE. Thank you, Mr. Secretary.

[The prepared statement of Francis S. Blake follows:]

******** INSERT 1-1 ********

Statement of Francis S. Blake
Deputy Secretary of Energy
U.S. Department of Energy
before the
House Budget Committee
June 20, 2001

Mr. Chairman, Congressman Spratt and Members of the Committee I want to thank you for the opportunity to testify before you today on the economic effects of energy policy.

Trends in the Energy Markets

I will begin my testimony by discussing some of the major trends in energy markets and changing patterns in US energy consumption. In 2000, America consumed 99 quadrillion British thermal units (or quads) a year in all forms of energy, while our domestic production was only 72 quads. This imbalance between energy demand and domestic energy production is made up with imports. Between now and 2020 our energy demand is projected to rise at a rate of 1.3% a year. If the energy intensity of the U.S. economy – the amount of energy needed to generate a dollar of GDP – remained constant, our energy demand would reach 179 quads in 2020. Under current policies, improved energy efficiency and structural changes in the economy suggest that forecasted energy demand in 2020 can be lowered to 127 quads. This would continue the decline of 58% in US energy intensity since 1970. [Figure 1]

Another important trend relates to energy consumption and the electricity generation mix. Electricity represents an increasingly larger share of total energy consumption. [Figure 2] This trend will likely continue as our high technology economy becomes more dependent on electricity to power everything from our computers, to our cell phones and palm pilots. At the same time, the mix of fuels we use to generate electricity has changed and will continue to do so over the next 20 years, with natural gas predicted to be the fuel choice for most new power plants. [Figure 3]

Increasing competition has also spurred significant change in the structure of our energy industry. To better understand the changing mix of electricity generation resources, it is helpful to look at both capital and fuel costs for different types of power plants. In a deregulated environment in which recovery of capital costs is no longer guaranteed to power plant developers, firms are less likely to commit the massive capital investments required to construct large nuclear and coal base load facilities. Instead, they are attracted to the relatively lower capital cost of smaller and more modular new natural gas fired facilities, despite higher fuel costs. [Figure 4]

Increased demand for natural gas has strained both production capabilities and the pipeline delivery system. Bottlenecks and capacity constraints have restricted this new dynamic industry, resulting in soaring commodity price volatility. Similarly, our electricity system is strained. Investment has not kept pace with demand, with the result that system overloads are occurring with increasing frequency. [Figure 5] These infrastructure limitations exacerbate problems of supply and demand in areas like California.

Increased volatility adds risk for energy dependent businesses, including producers and consumers. Accompanying this increased price risk has been the added regulatory uncertainty associated with an industry in transition and an outmoded set of rules and regulations that often restrict or delay new investment and can result in investment dollars being allocated inefficiently. An example of the effect of regulatory uncertainty can be seen in the slow pace of investment in new power generation throughout most of the 1990's when the rules of the newly competitive generation market were still being developed in many States. This in turn has been followed by a significant acceleration in investment over the last couple of years as competitive wholesale markets have taken hold. [Figure 6]

Economic Effects of the National Energy Policy

Chapter Two of the Report of the National Energy Policy Development Group (NEPDG) is entitled "Striking Home" and addresses the impacts of high energy prices on families, communities and businesses. The Report points to a nearly 20-year decline in the share of household income devoted to energy needs. But importantly, the Report notes that between 1998 and the end of last year, that share has risen by almost 26% from 3.8 to 4.8 percent of after-tax income. [Figure 7] The Report also cites higher fuel and oil prices as representing one-third of the increase in farm production costs in 2000.

On March 7, 2001, the Federal Reserve reported that businesses across the country experienced high fuel and other energy costs in February 2001 but were unwilling or unable to pass these costs on to consumers. This absorption of increased energy cost decreased the profit margins of many businesses. About one quarter of the increase in total unit costs of non-financial, non-energy corporations in the final quarter of last year reflected a rise in energy costs. Beyond the costs associated with higher energy prices for families, agriculture and businesses, there is also a broader macroeconomic impact of energy price increases as set out in Dr. Hubbard's testimony.

With an energy industry in transition and an economy that has been negatively affected by recent high energy prices, it is important that we develop the tools to more critically evaluate the effects of energy policies on the economy. Earlier this year the Energy Information Administration (EIA), the independent statistical and analysis arm of the Department of Energy, released a report entitled "Energy Price Impacts on the U.S. Economy." The report concluded that both the level of prices and the level of price volatility may hinder economic growth and lead to inappropriate investment decisions. The report also suggested that over the entire 4-year period 1997 through 2001, a steady path of energy prices throughout could have boosted GDP growth by 0.2 percentage points, to a rate of 4.3 percent rather than its actual 4.1 percent. As we look to implement the recommendations of the NEPDG and develop long-term solutions to our energy challenges, we will need to build on the analytical capabilities of groups like EIA to undertake further work of this kind.

As we study the effects of energy on the economy, it is important to note the need for improved transparency in competitive energy markets. Price volatility has spurred increased use of energy risk management tools ranging from long-term contracts, to futures and options and complex energy derivatives. These tools are of growing importance to businesses for the mitigation of energy price risk. In order for these markets to thrive and provide energy producers and consumers with a forum to manage risk, there must be a level of information symmetry. Transparency provides consumers with the information to make rational decisions on energy consumption, and we need reliable, independent information to provide transparency to our competitive energy markets.

National Energy Policy

The Report of the NEPDG recommends a comprehensive approach to challenges that are long-term in nature. The recommendations are balanced, with a number of proposals addressing energy efficiency to ensure that the improvements made in lowering the level of energy intensity over the last 30 years continue into the next two decades. At the same time, the report recognizes the changing nature of the energy industry and the need to address issues of constrained supply and infrastructure to meet our energy needs in the future.

The Report addresses the need to expand and diversify our energy resource base by increasing domestic production while looking to expand global markets through cooperation within our own hemisphere and encouraging increasing energy resource development abroad. Removing transmission bottlenecks, expanding refinery capacity and encouraging the expansion of our pipeline network will further decrease the likelihood for future price spikes caused by supply limitations or disruptions. The Report also recognizes the important role of renewable fuels and promotes environmentally sound increases in energy supply.

The Report further addresses regulatory barriers and regulatory complexity. Working to limit regulatory uncertainty will create a more robust investment environment; allowing refiners, electricity generators, and other energy providers to make the appropriate investment decisions to improve the efficiency of existing facilities, while simultaneously, looking to new projects to better serve the energy consumer. The Report also requires EPA to study opportunities to maintain or improve environmental benefits of state and local "boutique" clean fuel programs while exploring ways to increase the flexibility of the fuels distribution infrastructure, improve fungibility, and provide added gasoline market liquidity.

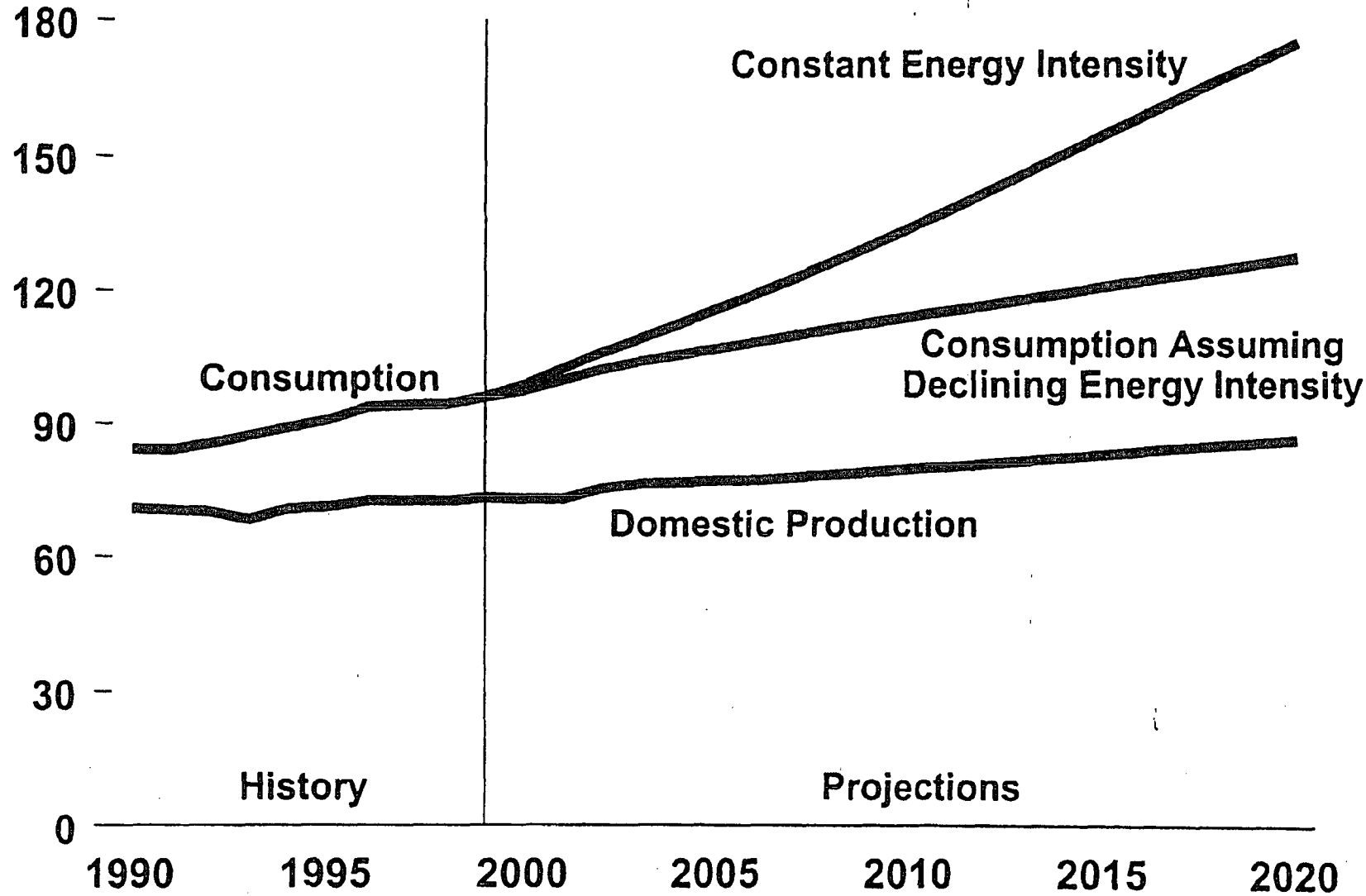
Finally, the Report advocates protecting lower income consumers from the effects of high energy prices by strengthening the Low Income Home Energy Assistance Program. Additionally, the President recently requested $150 million in FY2001 supplemental funding for LIHEAP. The NEPDG also recommends further funding of $1.2 billion over the next 10 years for the Department of Energy's Weatherization Assistance Program, which concentrates on making homes more energy efficient. This increase nearly doubles the funds dedicated to this program over the next decade.

Conclusion

Today, there is little question that the effects of energy on the economy are significant. Recognizing this fact, the NEPDG has provided a valuable and balanced blueprint to address the energy needs of the American economy through increased energy supply, improved infrastructure and more efficient use of our energy resources. Meeting our energy challenges is critical to maintaining a healthy economy and while we recognize that additional work needs to be done to quantify the relationship between the energy and the economy, we must act now to ensure that supply limitations and price volatility do not limit economic growth.

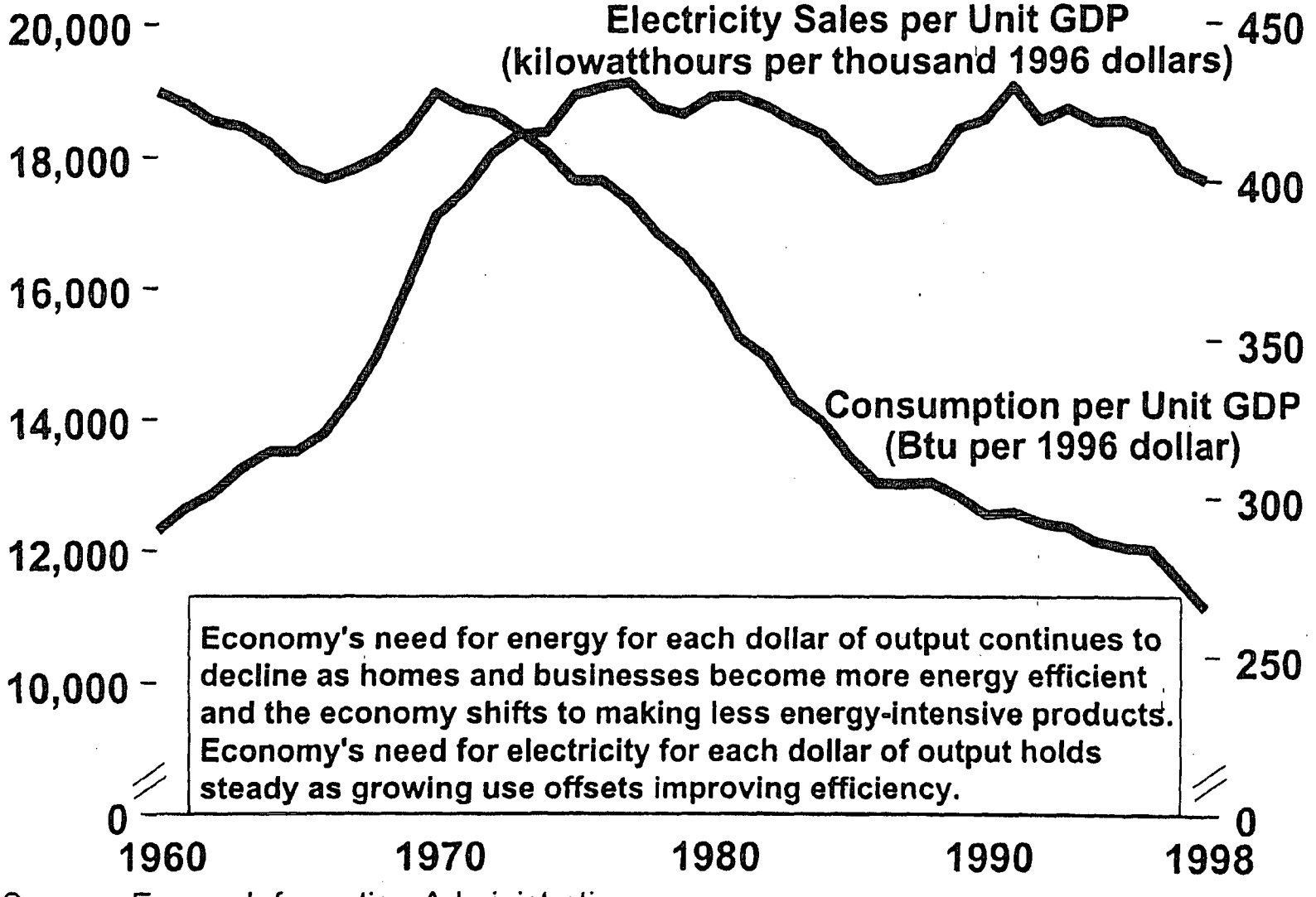
I again thank the Committee for the opportunity to testify today and look forward to answering any of your questions.

Figure 1. Projected U.S. Energy Consumption and Production in Three Cases, 1990-2020 (quadrillion Btu)



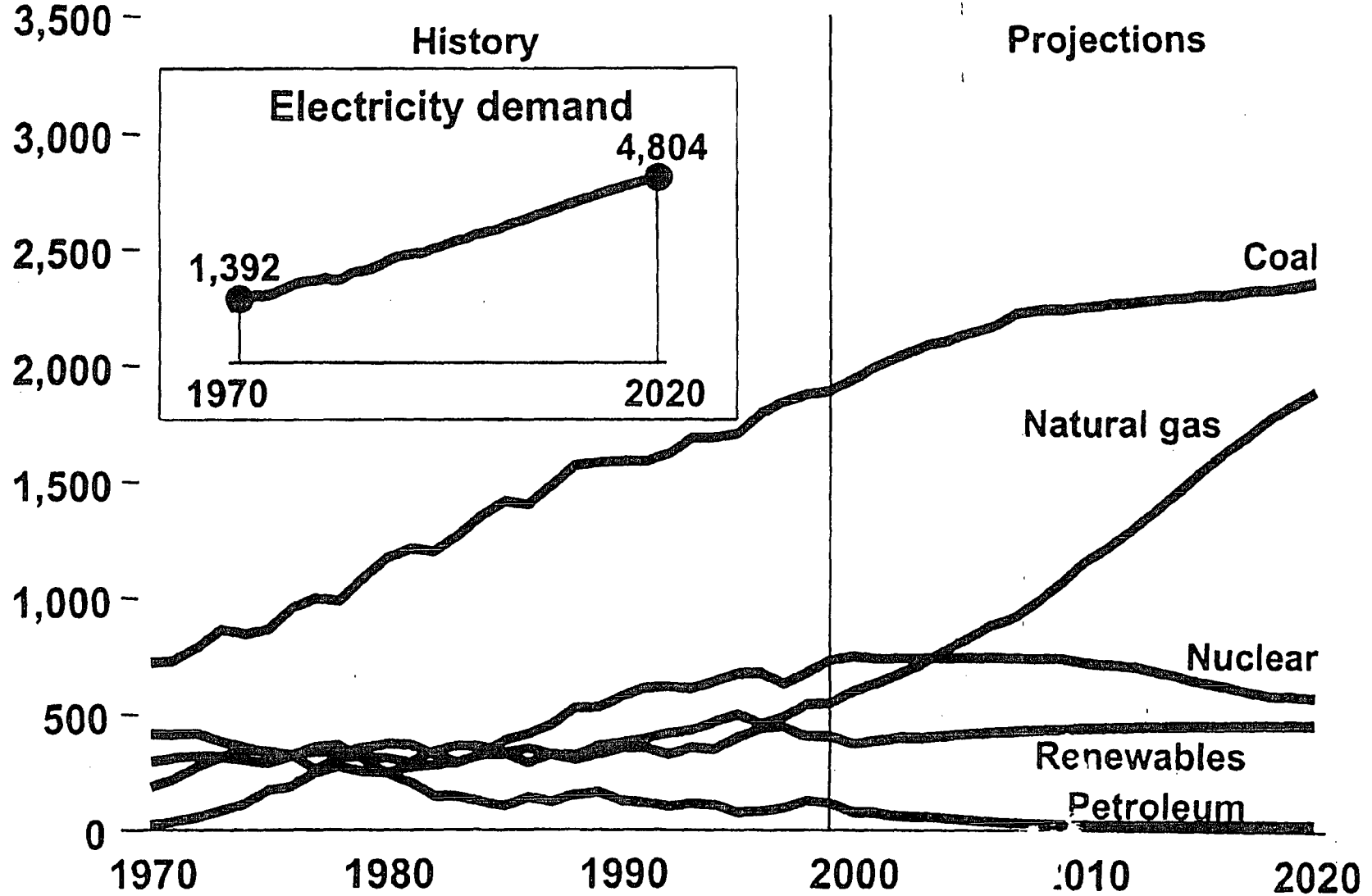
Source: Energy Information Administration

Figure 2. Total Energy Consumption and Electricity Sales per Unit of Gross Domestic Product, 1960-1998



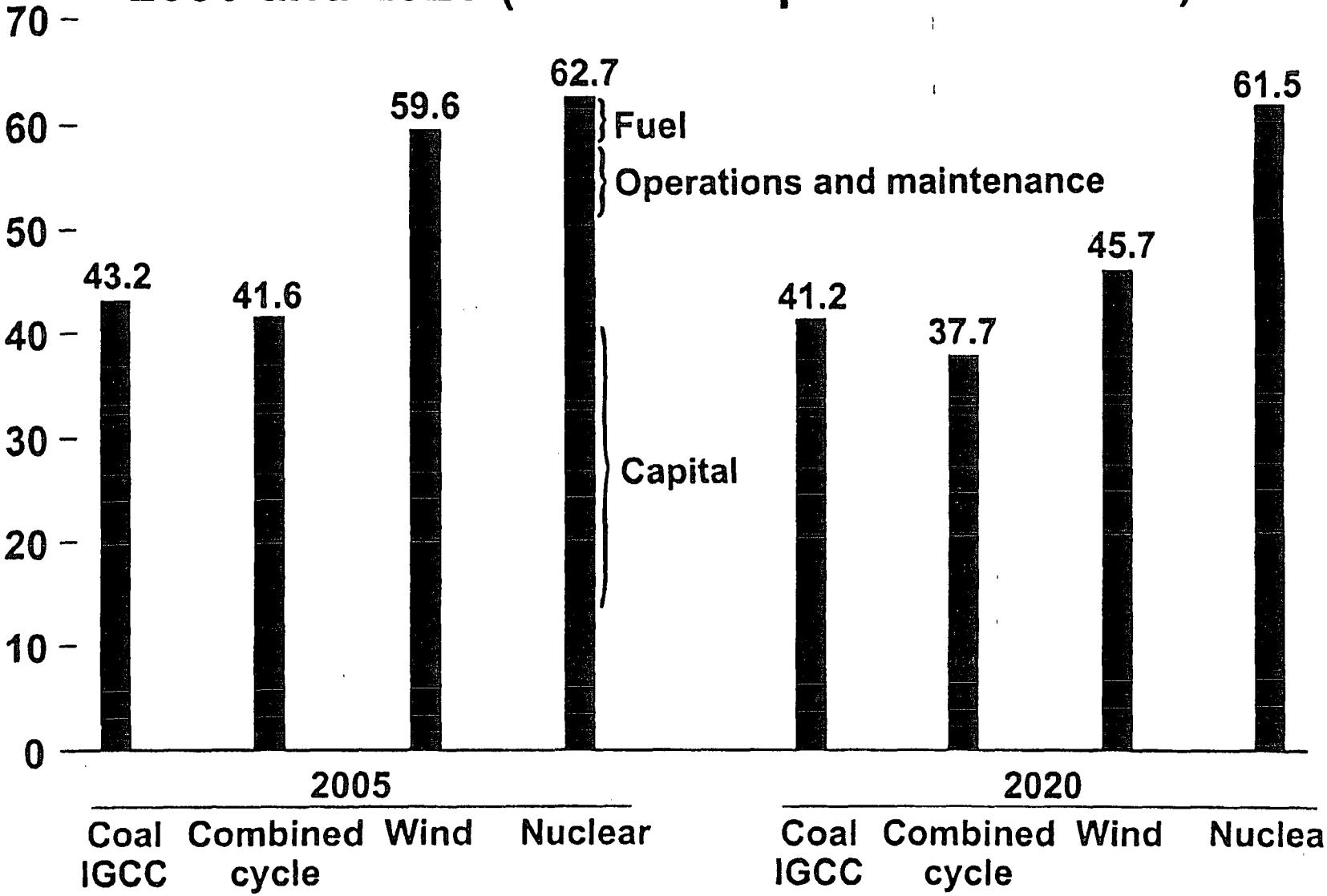
Source: Energy Information Administration

Figure 3. Electricity Generation by Fuel, 1970-2020 (billion kilowatthours)



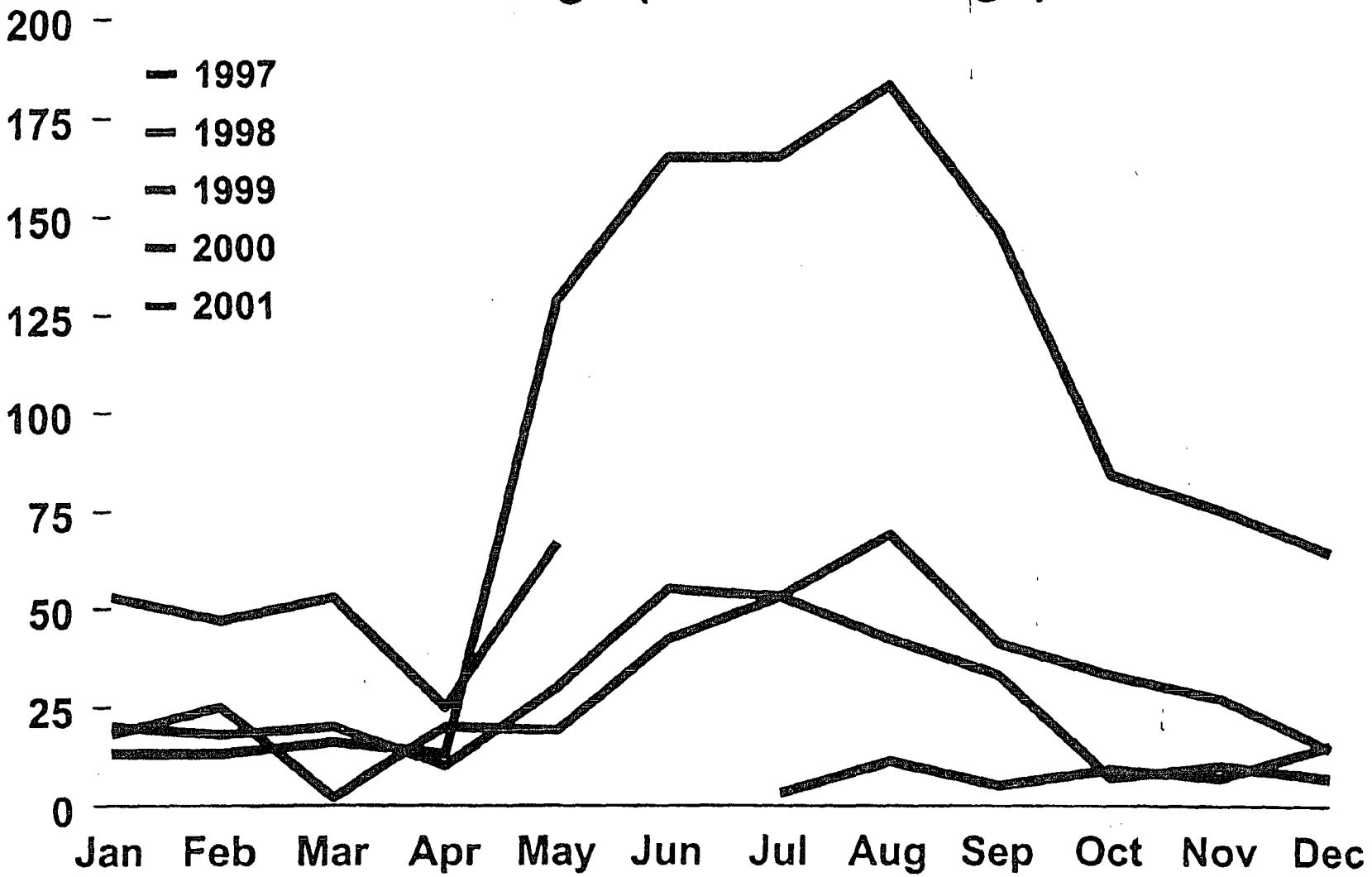
Source: Energy Information Administration

Figure 4. Projected Electricity Generation Costs, 2005 and 2020 (1999 mills per kilowatthour)



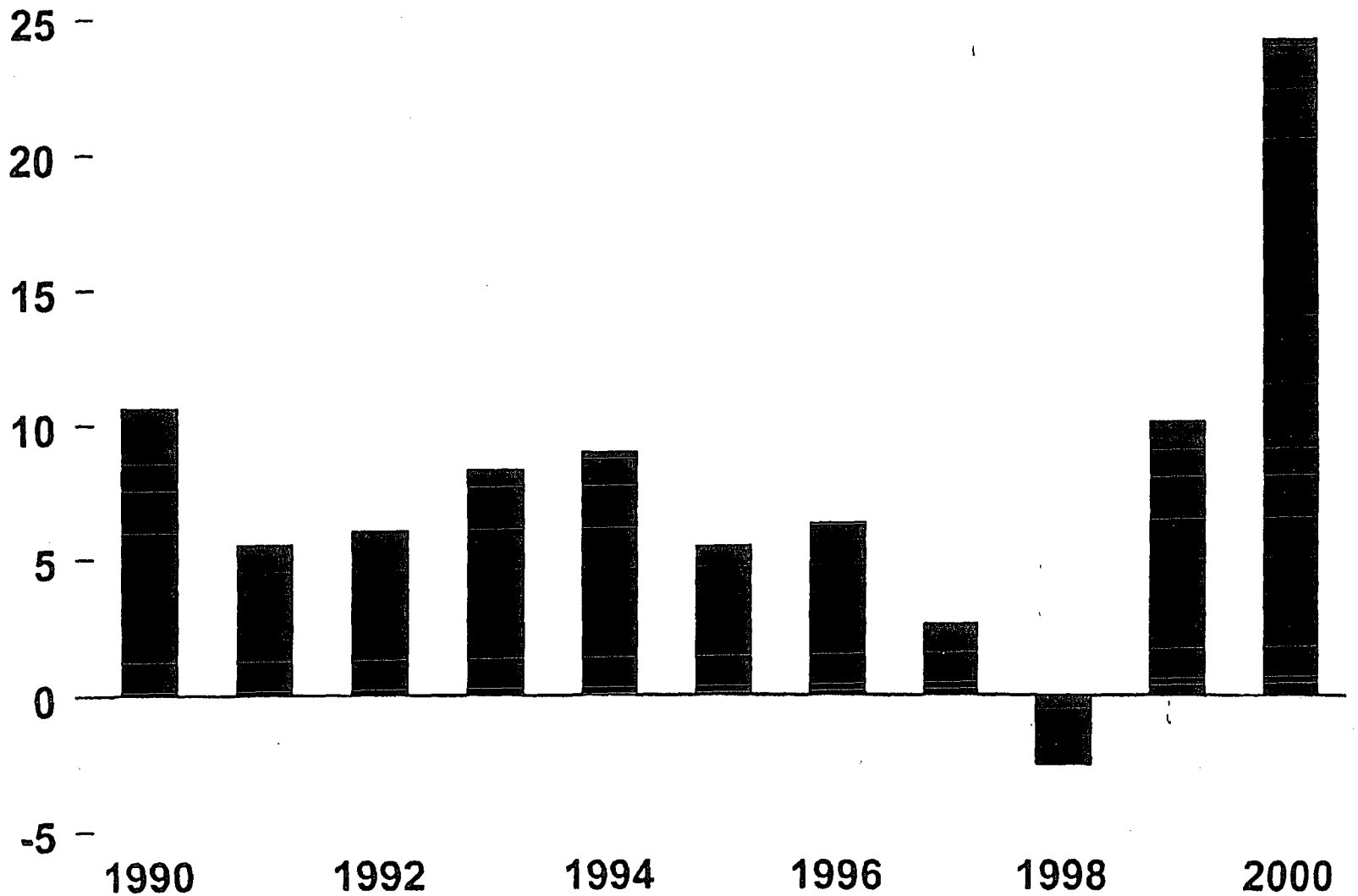
Source: Energy Information Administration

Figure 5. Level 2 or Higher Transmission Load Relief Logs (number of logs)



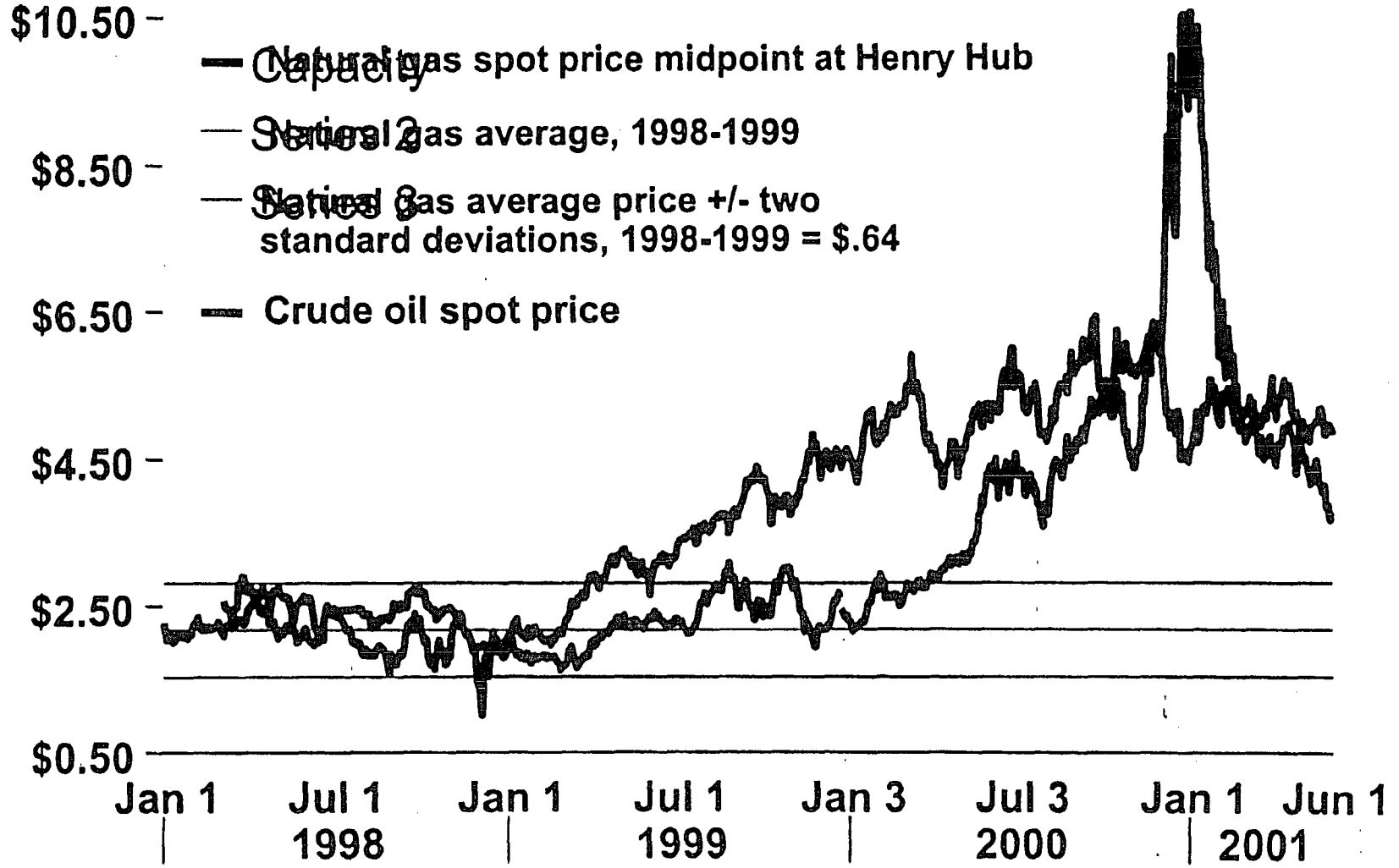
Source: North American Electric Reliability Council

Figure 6. Net U.S. Electricity Capacity Additions, 1990-2000 (gigawatts)



Source: Energy Information Administration

Figure 7. Natural Gas and Crude Oil Spot Prices, January 1, 1998 - June 1, 2001 (nominal dollars per million Btu)



Source: Financial Times Energy, Gas Daily

Chairman NUSSLE. When I was home in my district over the recess here for Memorial Day, I had the opportunity, as I know many Members did just from conversations I had with people on the way back, where we took the opportunity to visit a number of different energy kinds of examples in my district, everything from--you mentioned many of them--nuclear, coal, natural gas. We have many others out in my State as there is a variety throughout the Nation, wind, methane. We obviously have biodiesel and ethanol, but we also have ag lubricants. We are now making lubricants and transformer box oils and things out of all sorts of different renewable resources.

I noticed on your chart that renewables--and I have noted in the report and the recommendations that renewables and many different types of energy are important to the solution. To start with, I just wanted to get your impression.

It has been my impression that the Vice President has said, and others from the administration have indicated, that while they are part of the solution, we can't do--we can't do enough in renewables and we can't do enough in conservation in order to solve the problem in and of itself. I take some--not exception, but I am concerned about that to some extent because I think that part of the beauty of our economy is the--and that is what we are talking about today is the fact that people will step up to the plate and solve a

problem. It is as much as whether it is solving a problem, coming up with new ideas, using manure for methane, which is a very unseemly kind of thing for maybe some to consider, but out in Iowa we have a lot of it, and, therefore, that may be part of the solution. We also have a lot of wind, and not only when I am there, but throughout the year. There are many other opportunities. How important are these t areas, conservation and renewables, to the overall solution to the energy strategy that the administration has put forth?

Mr. BLAKE. I think they are tremendously important. You have outlined some of the really interesting technological advances, just the ingenuity people are now applying to what we can do with the resources that we have. It obviously--it happens ~~on the import~~ to be an important issue because using whether ~~it is~~ manure or wind or ethanol, whatever it is, ~~these~~ your there are going to be local U.S. sources. Conservation by definition is largely local. So it all has ~~got~~ a very important role, and I think maybe that has been somewhat misunderstood in terms of the importance of the role. ~~I think~~ the administration and the Vice President's group recognize that.

The only point that still needs to be made, though, is that this is not a set of issues that will go away through conservation and renewables. Just, again, with the data on where we are now, we already have issues with our transmission system. Those issues will remain whether that

new power plant is run on biomass or natural gas. We are going to be putting more natural gas-fired turbines on the system. That is going to put a stress on our pipeline structure. It is going to require some additional activity in terms of supply.

~~So I think it is~~ your basic point is exactly right. These are very important. ~~I think~~ they are recognized as very important. The only thing to remember is that they don't supply the entire answer.

Chairman NUSSLE. Again, as we concern ourselves with the volatility of energy prices and what that means to overall economic growth and its impact on the budget, you indicated that the Energy Information Agency has done a report, and I guess I am interested in some of its conclusions. Growing up, as I am sure we all have, with a father or mother that constantly--maybe more so for me than others--who constantly said, you know, shut the door when the air conditioning is on; what were you born in, a barn; turn the lights off, what, are you paying the bills; every one of us in the room has had that experience. So there is a mindset that we have that if the prices go up, that is bad, and if the prices come down, that is good. But what you are telling us is that the volatility in those prices can be just as bad; is that true?

In other words, is volatility worse than steadily increasing prices? Can the economy still grow with steadily

increasing prices if it is predictable, or is one worse than the other, volatility versus steadily increasing prices? What did the report indicate?

Mr. BLAKE. The report was not trying to indicate that volatility is worse than steadily increasing prices. The economy is better off on the main to the extent you have a good balance of supply and demand and prices are declining. The point of the report was that volatility itself has a drag--has an effect on the economy that is negative.

~~So that part of~~ as we think as a country ~~of our policy solutions~~, what we can do to tamp down some of that volatility, helps the overall economy. It helps investment decisions. It helps people react in a more timely way. ~~Your are not suddenly faced with as this happened to businesses,~~ as you know, on the west coast ~~that~~ some businesses have looked at dramatically increased prices and have found continued production extremely difficult.

Chairman NUSSLE. I think the two go hand in hand. The more options that we have out there, the more different alternative energy supplies that we have out there that is producing energy for us, I think the better the marketplace will be. So I appreciate those parts of the energy strategy that diversify so that it can help keep volatility to a minimum.

Mr. Spratt.

Mr. SPRATT. Thank you very much for your testimony. It was very useful.

Let me ask you this: In the 1970s, we prioritized the use of natural gas, preferring human needs customers over boiler heat customers, and even over process users of natural gas. In the late 1980s, we removed most of those restrictions and allowed gas to be used once again extensively for electric generation. When we did that, did we see or foresee or explore the consequences for human needs use? Did we have reason to see that this was going to create a demand for gas that would run the price up before the supply would be there to meet the requirements?

Mr. BLAKE. Not having been part of the planning process in the 1980s, I don't know that I can directly address that. I could say, though, that as you said, in the late 1970's with the Fuel Use Act, the use of natural gas for generation was actually prohibited in large parts of the country; that I think an objective look at that would be that that had, and a number of the other energy control programs in the late 1970s actually had, a negative impact on supply. It wasn't well calibrated to the needs of the country for clean generation, which natural gas provides. I think every estimate that I have seen is what we are going through now is a market perturbation that needs to be addressed in terms of making sure that we have the right infrastructure.

Mr. SPRATT. One of your charts showed the demand for natural gas continued to rise steeply and steadily right on to 2020 to the far end of the chart. Can that happen in today's--without today's prices? Do prices have to stay where they are for new gas to come on to meet that kind of demand level, or can gas come back down to affordable levels and still have the exploration and development of new gas needed to supply that curve?

Mr. BLAKE. I think you are already seeing natural gas prices come down. When I checked this morning, I think the price is now slightly down below $4. ~~And if I am not~~ I can't remember exactly what the forward pricing is, but that is also going down. So the markets would say, yes, it is possible to supply this demand for power generation and maintain reasonable costs for consumers.

Mr. SPRATT. If we allow electric generation fuel by natural gas, which is very efficient and very cost-efficient in particular, what happens to other alternatives like nuclear production which has a high front-end capital cost? Does it discourage the use of other alternatives, resort to other alternatives?

Mr. BLAKE. I think, and the Vice President's group addressed the use of nuclear power, nuclear power has a very important role to play for the Nation's overall energy picture both in terms of the existing plants that are now

online, how ~~do we~~ make sure that they have a full, useful life, ~~extend~~ the licensing ~~and the like~~. Building new nuclear plants, my experience at least, there the private sector would say that the capital cost issue may be secondary to some of the regulatory uncertainty issues. They are capital-intensive, as you suggested, and as you make your investments, you need some ~~spent on your~~ regulatory--.

Mr. SPRATT. Still the capital cost on the front end and the time it takes to begin and carry out a plan on your books before you get any return is a significant hurdle to cross. And if you have got natural gas out there as an easy alternative, aren't most utilities going for the easy alternative?

Mr. BLAKE. I think what you see now is exactly that, although, as I said, I would say that the issues with nuclear are that the capital issue and capital cost recovery is probably secondary in the case of nuclear to other issues.

Mr. SPRATT. You mentioned the need for transmission lines. One component of the President's recommendations, I believe, is that utilities engaged at least in wholesale sale of power would have Federal condemnation rights. Is that truly needed? I mean, are--the State utilities seem to have all the authority they need to run transmission lines about anywhere they want. I say that as someone who owns a farm, and I have a 505-foot right of way through my farm. The

power company didn't have any trouble at all acquiring it. When I tried to get them to move it, they wouldn't think of it. So why do we need to give them the additional authority of Federal prescription for doing that?

Mr. BLAKE. It is an option that is being considered. It matches the authority FERC has on natural gas.

The interesting thing, and I don't know the specific laws in your State, but nearly--I think actually over half of the States for their siting laws actually don't allow consideration of benefits that are external to the State. And the issue that the transmission is that we are now increasingly a regional system rather than a State-by-State system. And so one of the issues is how do you open up the consideration of benefits? So if the line going through Connecticut, for example, as there was a recent incident along these lines, the line going through Connecticut that is to benefit Long Island, how does Connecticut take that into account? Right now the Connecticut structure would not allow that to be taken into account, or that is my understanding of the Connecticut regulations.

Chairman NUSSLE. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

I think we can all agree that the changes in energy prices, whether it did be gasoline or electricity or natural gas or whatever, has a real impact on our economy from the

standpoint that it has forced families to change the cash flow of their own home budget. Many of you have experienced in the past the opportunity to buy other products or other items, things that they would like to have for their families, now having to shift that cash flow to provide a necessity for the families. So it has had a tremendous impact.

In Georgia about 3 years ago or 4 years ago, we had a deregulation of the natural gas industry. I believe that deregulation has probably slowed down if not completely halted the deregulation of electricity. At least I hope it has, because natural gas prices in Georgia increased dramatically, and one of the reasons, I believe, was the fact that we created another profit center. When you deregulated natural gas, you left in place a company that owned the transport lines, and then you created other entities that actually sold the gas, but had to use the transport lines. So instead of one profit center, we then had two profit centers. Then you have others that are--the gas people themselves are creating another profit center. So that, I think, has had a lot to do with the increase in price of natural gas which consumers of natural gas have to pay.

Prior to deregulation in California, because that has been the focus of this whole problem as far as the part of this problem--part of the deregulation of electricity in

California, were the utilities companies--were they profitable?

Mr. BLAKE. I am sure they were. ~~They would have~~ as regulated utilities they would have had a regular rate of return that would have included an equity return.

Mr. COLLINS. It is questionable to me. I am having a problem understanding, then, after deregulation, creating a wholesale market and entity to handle those wholesale prices or the wholesale sales of that electricity, why the rates had to increase so when the plants were producing the same power, and the lines were, you know, transporting the same current? Why did we have such a drastic increase in rates?

Mr. BLAKE. The California situation, ~~just a brief summary of it,~~ is rooted in the structure of their deregulation plan. They couldn't have had a ~~been~~ worse plan for a situation where you have constrained supply and unconstrained demand. The way they did their deregulation ~~was they did not~~--their retail rates were not reflective of the charges that they were seeing at the wholesale level. The utilities were told to buy spot market rather than long-term bilateral contracts, and they didn't build anything.

Mr. COLLINS. I understand that, but I am talking about the wholesale rate. Why did the wholesale rate in some instances increase tenfold?

Mr. BLAKE. The way they structured their deregulation,

the price of electricity, wholesale electricity, is determined at the margin by the last unit that was dispatched or the last price in. So ~~if you~~ take the least efficient, old gas turbine, say, for an example~~, and it has I won't go through the~~.

Mr. COLLINS. I understand that. But your first answer was they were profitable before deregulation, and yet when you deregulated, wholesale price coming from the same plants, carried over the same transmission lines in some instances increased tenfold. I don't follow that scenario. I know supply and demand. I have been in the marketplace for 30 something years, almost 40 years. I know what supply and demand does. But I also have a little bit of understanding and feeling when somebody is just a little bit dadgum greedy.

Mr. BLAKE. If in 1997 or 1996 to 2001, the 5 years they had remained totally regulated, and they still hadn't built these plants, they would be in the same position.

Mr. COLLINS. Maybe some folks would be sitting in the dark. I mean, that is just natural. I mean, I can take my house, and I can put in enough appliances that my switch box won't carry. My circuit breakers will go to tripping left and right. But the power company is still putting the same amount of power at my house. If the power companies were still pulling the same amount of power from those plants through those transmission lines, then why did it increase

tenfold?

Mr. BLAKE. Again--.

Mr. COLLINS. I don't understand this. Don't use the words that the natural gas prices went up considerably. Did it cost more to get the natural gas out of the well because of this fact? I go back, I understand supply and demand, but I also understand just plain greed and gouge, and I am afraid we have had a little bit of all of this as we have tried to justify supply and demand. Prices have been just accelerating too much.

Mr. BLAKE. ~~On the~~ FERC has authority on unjust and unreasonable rates. They have ordered rebates in California. I think the fundamental question, though, remains that if you don't build supply, and your demand continues to increase, something has to give.

Mr. COLLINS. I understand that, too. I think you have to have profits in order to be able to encourage investments, and that must happen. We have got to have the investments of the invested utilities to build these plants, and we need some changes in the government regulations that has hindered this from taking place as well. But we also need to be very conscious of what is happening in the power structure.

Chairman NUSSLE. The gentleman's time has expired. If you have a response, we will take it. Otherwise--do you have a response to that question? Statement?

Mr. BLAKE. No, I understand the point. Again, the structuring of the market in California was not well thought out, and that has created the pricing problem that they have now.

Chairman NUSSLE. Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman.

Mr. Blake, I just have a few questions on some of the numbers. Your first page of written testimony you talk about 99 quadrillion BTUs versus 72 that we produced. I am just curious. Of that 72, is that any of the energy resources that we exported to other countries?

Mr. BLAKE. Yes.

Mr. CAPUANO. So, that is already taken into account. So if we hadn't exported any energy anywhere, that 72 would have been a higher number?

Mr. BLAKE. Well, let me-- I will have to check on that.

Mr. CAPUANO. If you could, because I am not sure. I think the answer is not. I think that is not taken into account. So I would suggest that if we are really interested in increasing our production, that the very first thing we should do is tell those companies that have paid this government and the American people that they should stop exporting immediately if they are really concerned about what is happening in America. But, again, I will wait to hear that answer.

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Yes, of the 72 quadrillion BTUs that we produced, 4 quadrillion BTUs were exported to other countries.

I guess the other question I have for you is relative to increasing production. I don't think you are going to find too much disagreement. There may be some differences of priorities, but I don't think you find too much disagreement that increase in production is necessary. But I guess I would like to be clear, and are you suggesting that increased production is all we need to do?

Mr. BLAKE. No.

Mr. CAPUANO. I didn't think so, but I didn't hear the words. Because I don't think that is possible. I mean, I think we should increase production on certain levels, but at the same time I don't think it is possible at any level that increased production is going to solve problems that we have today or will have tomorrow. I am glad to hear that you feel the same way. I also hope that it is fully understood within the entire administration, it is not just you speaking. I presume that when you speak, that says the administration understands that as well.

I guess I have some concerns again in your written testimony, as I was trying to read quickly, I didn't see the word "conservation" or "conserve" anywhere. Now, maybe it is there and I missed it, but I didn't see it. I saw a whole bunch of things about national energy policy, talking about increased production, but the word "conservation" wasn't there with the exception of a little talk about

weatherization, which is a good thing. But I didn't see anything else there. I didn't see anything there relative to research and development, because unless I am mistaken, I don't think you will find too many people, again, unless you disagree, that would say that the current technology that we have available is going to be capable, even if fully implemented right now and fully dispersed--the economy right now would actually get us to where we want to be as far as energy efficiency standards. So that being the case, I wonder, first of all, if you agree with that; and second of all, if you do, then why did the President cut research and development into energy issues in his budget request?

Mr. BLAKE. Let me respond in two parts. First, nothing in my testimony was intended to reflect that conservation is not an important priority.

Mr. CAPUANO. But it is not mentioned there. I thought important priorities might be mentioned.

Mr. BLAKE. This was a summary, and I don't know if you were here as I summarized.

Mr. CAPUANO. Yes. I didn't hear the word until the Chairman asked the question, which was a good question and a good answer. But I didn't hear the word prior to that, but that is already--.

Mr. BLAKE. And I think ~~there have been~~--on the research and development front, the administration is putting

significant funds in research and development both on conservation and renewables and on clean coal technologies. I think the commitment is something like $2 billion.

Mr. CAPUANO. I would like to see those numbers because the last numbers I saw, they were still significantly below last year's. And the last I heard, it was actually the House Appropriations Committee that was increasing those numbers, not the administration. Again, if I am wrong, I am happy to be educated and clarified on that.

Because I said before during the budget discussions here, and I will say it again, that I think that the only way this country is really going to be ahead of the curve is not through production. I mean, production is part of it, I don't disagree. But it is not through production. That is not going to put us ahead unless we want to significantly cut out consumption, which I don't think we will. So that leaves us only with research and development to provide more energy-efficient means.

Talk about the cell phones, you know as well as I do that cell phones run for several hours on the same amount of energy that it used to take for about 30 minutes. And we all have the same thing. It can go further and further and further, as it should, all research and development, not done out of thin air, not done by the government, done by private enterprise with the help of government assistance.

And I can't argue strongly enough if we really want to look long term, past this election, past this decade, it is only going to be research that gets us out of it unless somebody comes up with new natural gas fields or whatever.

I would also like to shift a little bit again to production. It amazes me, absolutely amazes me, that we are sitting here talking about natural gas, and that is all well and good. We had a humongous natural gas reserve that is in the ground, put back into the ground, taken out and put back into the ground in Alaska in existing fields; not new fields, existing fields. This government before I was here gave the authority to build a natural gas pipeline alongside the oil pipeline. That wasn't taken. Has anybody started pushing, demanding, insisting that that natural gas pipeline be built as soon as possible? If those reserves are there, California would not have a productivity problem at this point in time. They still have some problems with power plants, but there would be no problem with energy supply.

Mr. BLAKE. I don't know what percentage of contribution that could make to California, but I take your point and will give you a response on it.

Mr. CAPUANO. I guess I have to wait for a couple of responses, because, honestly, I appreciate you being here today. I could have gotten no answers by not coming here as well. And I kind of wonder why we are doing this if thus far

COMMITTEE: HOUSE BUDGET COMMITTEE

DATE: JUNE 20, 2001

WITNESS: DEPUTY SECRETARY, FRANCIS BLAKE
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Alaskan Gas Pipeline

The Alaska North Slope gas producers currently are reviewing whether projected market conditions will support construction of a pipeline to deliver Arctic gas to the lower 48 states. Alaska's known gas reserves, which are estimated to be over 35 Tcf, could have a significant impact on the natural gas supplies for the U.S. For over a decade the gas has helped pressurize the oil reservoirs on the North Slope, which have produced over 13 billion barrels since 1977. The need to reinject gas has diminished at a time when domestic gas transmission capacity is considered insufficient to meet projected demand.

There are a number of Alaska gas pipeline proposals, including the transportation system approved in 1977. While the U.S. Government remains project neutral, the President's National Energy Policy recommends the Government coordinate its activities to expedite the construction of a gas pipeline to the lower 48. We have created an interagency working group that will smooth the way for the approval and construction of a pipeline, whenever private industry determines to begin the project.

I haven't heard any real new insight except to hear that the administration is for more production. I saw that in the news a couple weeks ago. I appreciate you coming, but I already knew that, and I would like to know what we are going to do now we have problems.

I know that FERC did a little top spin and finally came around to a little bit of something is better than nothing, but I would really like the administration to try to put together something that is comprehensive and answers the questions that we have. I don't mean to be disrespectful, but you didn't answer any questions of mine, you didn't answer many of Mr. Collins', and my guess is you are not going to be able to answer many of the questions you are going to get for the rest of the day. But I appreciate you coming.

Chairman NUSSLE. Mr. Culberson.

Mr. CULBERSON. Thank you, Mr. Chairman.

Mr. Blake, when did California cease the construction of new power plants?

Mr. BLAKE. ~~I don't think~~ There wasn't a formal policy decision not to construct new plants. It is something that has occurred over the last 5, 7 years. We really haven't seen net plan additions in the State.

Mr. CULBERSON. By not building those new plants, clearly that had an impact, wouldn't you agree, on the profitability

of the California energy industry, the utilities out there?

Mr. BLAKE. For quite a while their prices remained very reasonable because they had reserve capacity so that for a number of years they were eating into their reserve capacity without building the new facilities. But as demand continued to grow, they crossed over the point, and that is where they are now.

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Mr. BLAKE. That is an absolutely critical issue. The plan is to do a comprehensive study of our transmission grid, identify the key bottlenecks across the country, know where some of them are that prevent power from moving efficiently from one region that has the power generation sources to another region that has the demand. You see that problem just within California where they have transmission constraints preventing power from southern California from moving to northern California. ~~So that is~~ and an additional

thing that needs to be addressed is the rate structure, how people build these transmission lines so that they have the incentives to put them in the right place.

Mr. CULBERSON. From what you have seen, what led to this virtual stoppage of construction of new power plants in California? What sort of factors led that State to decide to quit building new plants?

Mr. BLAKE. I think you had a number of permitting and site issues. I think probably given a choice, a lot of localities would choose not to have a power plant in their area. ~~And~~ if you multiply that decision by locality after locality, you don't build new plants.

Mr. CULBERSON. So from the evidence you have seen, it was principally, when you say permitting issues, environmental concerns, not in my backyard, we don't want the power plant here, and that just magnified and snowballled across the State to the point where they are today with a serious--.

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Marketplace forces, what effect would that have on the price of natural gas? Would the price of natural gas support the construction of such a pipeline? What led, in your opinion, from the evidence you have seen, to the failure to build such a pipeline?

Mr. BLAKE. I have to apologize on that to Congressman Capuano. I have been on the job 2 weeks. I am real- not familiar with that. I am just not familiar enough with the dynamics of that pipeline to be able to address it, but I will get a response to it.

Mr. CULBERSON. Thank you, sir.

Chairman NUSSLE. Ms. Hooley.

Ms. HOOLEY. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here today. Actually I have several questions, but I will try to limit those questions. What I have a problem with is when you look at the proposed energy plan over the next 20 years, there are some things that I have a difficult time trying to reconcile. For example, when you have--right now the President proposed 48 percent reduction in research on solar, wind and geothermal energy, 46 percent reduction in research and development on energy efficiency. So while those are being reduced, at the same time the Department of Energy put out a report that says with increased efficiency in renewable energy, that we can meet 60 percent of the Nation's need for

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DATE: JUNE 20, 2001

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INSERT FOR THE RECORD

Alaskan Gas Pipeline

The original proposal to build a gas pipeline from the North Slope of Alaska to the lower 48 states relied on a number of factors all coming together at the right time. At the time the pipeline was proposed the nation was facing severe energy shortages. There was a belief that the United States was running out of natural gas. There were few major new finds of natural gas at the time and the Alaskan reserves seemed to be the obvious answer. With the anticipated shortfall in supply, gas prices were expected to rise dramatically. Finally, in the beginning of oil production there was no obvious need for the natural gas on the North Slope.

The market place changed. Additional natural gas deposits were found in the U.S., Canada, and off shore in the Gulf of Mexico. Price increases never materialized and in fact prices actually declined. The producers on the North Slope found that the highest and best value for gas was to reinject it to boost oil production, since oil was marketable because the Trans-Alaska Pipeline System was already operational. As a result, the gas pipeline sponsors decided that the construction of the pipeline system necessary to bring the North Slope gas to the lower 48 states' market was not economic at that time.

new electric power plants over the next 20 years. So you have a report coming out of the Department of Energy saying we can do this, and yet you have cuts going on in the budget for renewable and energy efficiency. I have a problem with that, trying to reconcile those two things.

The other thing I have a problem with is, again, I think in the energy policy it calls for some kind of a study to raise the standards gas mileage standards for light trucks and vans, and yet we know the technology is there to do that. And it would save us millions of gallons, barrels of oil if we just did that one simple thing, just to raise the CAFE standards. But I have--and you can comment on those, but I want to make sure I get all my questions in really quickly.

The third issue that I have is--and I would like to spend some time discussing this--is--and I am from the State of Oregon. We are impacted by--not only do we have the deregulation in California impacting us, but we also have a drought. Little did we think both of those things would happen in the same year. I have talked to a lot of school districts. The State board of education just did a survey with all of our schools, and what they found is those increases in electric prices are just skyrocketing. And we have not only have that increase right now by anywhere from 30 percent to 200 percent, but we anticipate in October there is going to be another jump in prices. One of my school

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And my question is do you--does the administration, does the Department have any intention of recommending some kind of a program for schools that have all of a sudden these very high increase in energy costs? I can understand tying it with you have to decrease your need for or you have to become more efficient, but you know we have a program for low-income people, but all of a sudden our schools are going to be tremendously impacted by this. And I would really like to know if you think you could go back and look at some kind of a program or plan to help these schools out. Hopefully this is temporary.

Mr. BLAKE. Congresswoman, that is a good question. We should take a look at what the impacts are in schools and in other areas. In Oregon I know because of Bonneville that Bonneville Power has gone out and done a very--what I think is a very forward-thinking thing to address the issue. They are buying down demand, and by doing that I think they have reduced the amount of the rate increase that might otherwise hit by two or three times.

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The Alaska North Slope gas producers currently are reviewing whether projected market conditions will support construction of a pipeline to deliver Arctic gas to the lower 48 states. Alaska's known gas reserves, which are estimated to be over 35 Tcf, could have a significant impact on the natural gas supplies for the U.S. For over a decade the gas has helped pressurize the oil reservoirs on the North Slope, which have produced over 13 billion barrels since 1977. The need to reinject gas has diminished at a time when domestic gas transmission capacity is considered insufficient to meet projected demand.

There are a number of Alaska gas pipeline proposals, including the transportation system approved in 1977. While the U.S. Government remains project neutral, the President's National Energy Policy recommends the Government coordinate its activities to expedite the construction of a gas pipeline to the lower 48. We have created an interagency working group that will smooth the way for the approval and construction of a pipeline, whenever private industry determines to begin the project.

I haven't heard any real new insight except to hear that the administration is for more production. I saw that in the news a couple weeks ago. I appreciate you coming, but I already knew that, and I would like to know what we are going to do now we have problems.

I know that FERC did a little top spin and finally came around to a little bit of something is better than nothing, but I would really like the administration to try to put together something that is comprehensive and answers the questions that we have. I don't mean to be disrespectful, but you didn't answer any questions of mine, you didn't answer many of Mr. Collins', and my guess is you are not going to be able to answer many of the questions you are going to get for the rest of the day. But I appreciate you coming.

Chairman NUSSLE. Mr. Culberson.

Mr. CULBERSON. Thank you, Mr. Chairman.

Mr. Blake, when did California cease the construction of new power plants?

Mr. BLAKE. ~~I don't think~~ There wasn't a formal policy decision not to construct new plants. It is something that has occurred over the last 5, 7 years. We really haven't seen net plan additions in the State.

Mr. CULBERSON. By not building those new plants, clearly that had an impact, wouldn't you agree, on the profitability

of the California energy industry, the utilities out there?

Mr. BLAKE. For quite a while their prices remained very reasonable because they had reserve capacity so that for a number of years they were eating into their reserve capacity without building the new facilities. But as demand continued to grow, they crossed over the point, and that is where they are now.

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Ms. HOOLEY. Correct.

Mr. BLAKE. Again, if you look at the situation in Oregon, there are pending new generation plants ~~that are online~~ that will start coming online, some for this year and many more for next year.

Ms. HOOLEY. Right.

Mr. BLAKE. But I will take your question on the impacts and on the schools as a question to follow up on.

side of the aisle that this probably just didn't happen yesterday. I just got up here in January myself, but this energy problem has been coming for a long time, and I think we need to all accept some responsibility for it instead of trying to plug holes in what you are trying to do.

In fact, I read in your report, in your conclusory remarks, it says, the blueprint to address the energy needs of the American economy through increased energy supply, improved infrastructure and more efficient use of our energy resources. I think that certainly answers the question the gentleman just asked a while ago that it doesn't have any efficiencies in this particular proposal; and certainly I think we are all cognizant of, whether they are closing the barn door or cutting off the lights, we all have a part in making that work.

Being from South Carolina, we have got a great energy policy there. I think each State should have their own energy policy. I don't know why they are looking to the Federal Government for a bailout or handout. We have done well, but we have had a great mix between hydropower, between coal, oil and natural gas. And it concerns me as we move to the future with the price fluctuation where we have it, how are we going to determine a good mix between public power, the private power to make a good energy plan that is going to work for everybody?

Mr. BLAKE. I thank you, Congressman.

First, I appreciate those comments; and the point of a balanced usage of fuels is in one of the charts I showed. That is critical. We need to understand as we put more reliance on natural gas both what that does on our infrastructure--but also perhaps we need to look at other resources, how we get more clean-burning coal, how we use the nuclear resources that we have in place and the hydroresources that you have in place. And the plan actually addresses--the policy actually addresses each one of those fuels as well as renewable fuels in conservation, but it is a balanced plan. States need to work towards balanced plans, and the Federal Government needs to work towards a balanced plan.

Chairman NUSSLE. Mr. Honda.

Mr. HONDA. Thank you, Mr. Chairman; and thank you, Mr. Blake, for being here.

I took particular interest in Mr. Collins' comments in asking what the difference were between pre- and post-deregulation, and I guess the query for him was why there is such a great increase in rates. Your response was, if I remember correctly, was that it was an issue of increased demand versus the supplies. Can you tell me what the--in that time frame what the increase in demand was?

Mr. BLAKE. I don't have the exact numbers, but I can get that for you.

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Demand for natural gas used in electricity generation is reflected in utility and non-utility consumption data. The Energy Information Administration (EIA) has statistics on total consumption of natural gas for electricity generation during the years pre- and post-electricity deregulation (approximately 1991-2000) in California. Electricity is generated by both regulated utilities and non-utility generators. As the electricity industry adjusted to regulatory reform, increasing quantities of electric power were provided by non-utility power generators, including industrial firms who were co-generators of electricity and steam. Over this period the use of natural gas for total electricity generation has varied from year to year and has not shown a clear trend.

Table 1. California Natural Gas Consumption by Non-Utility and Utility Generators , and Prices to Electric Utilities, 1991-2000
(Million Cubic Feet and Dollars per Thousand Cubic Feet)

California	Consumption (MMcf)			Prices ($/Mcf)
Year	Non-Utility and Utility Generators	Non-Utility Generators	Utility Generators	Utility Generators
1991	787,596	338,582	449,014	$2.95
1992	922,630	358,198	564,432	$2.81
1993	892,550	426,489	466,061	$3.05
1994	980,428	379,138	601,290	$2.56
1995	787,974	393,276	394,698	$2.28
1996	708,632	390,607	318,025	$2.75
1997	751,666	373,719	377,947	$3.08
1998	831,370	560,216	271,154	$2.79
1999	918,035	773,380	144,655	$2.76
2000 (preliminary)	1,083,801	954,052	129,749	$6.04

Note: Non-utility use excludes coke-oven, refinery, blast furnace gas, and landfill gas.
Sources: For 1991-1999 consumption–Form EIA-759, "Monthly Power Plant Report"; Form EIA-860B, "Annual Electric Generator Report- Nonutility" (data for 1997 and prior from Form EIA-867, "Annual Nonutility Power Producer Report"); for preliminary 2000 consumption–Form EIA-906, "Power Plant Report"; for 1991-2000 prices–Form FERC-423, "Monthly Report of Cost and Quality of Fuels for Electric Plants."

[The information follows:]

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Mr. HONDA. My understanding, it was 5 percent--.

Mr. BLAKE. Yes.

Mr. HONDA. --and then the increase in the rates was about what? He said 10 times.

Mr. BLAKE. Well, I think he's looking at the marginal cost, the marginal rate rather than--.

Mr. HONDA. I think he was talking about the cost of natural gas. You were talking about how the bidding goes, and there is a big gap between the cost of transport of natural gas and the price of natural gas to California and that there is a bunch of steps between that and the bidding.

I agree that the bidding process is kind of strange, but I think that there is probably a lot of questions of what goes on between those steps, and it is probably a wonderful area for examination.

My other question is, if you said that the structure was faulty, in the process of deregulation does not the plan have to go before the Federal Energy Regulatory Commission before it is completed?

FERC

Mr. BLAKE. My memory is that it would have gone before.

Mr. HONDA. And if it went before them, why was not the faults at least questioned at that point?

Mr. BLAKE. ~~I don't know what was in.~~ I wasn't in government at the time. I don't know what was in the record at that time.

Mr. HONDA. But you are criticizing it right now.

Mr. BLAKE. ~~I think the issue~~ I know what ~~that~~ people from the outside were saying, disconnecting the wholesale rate from the retail rate, relying wholly on the spot market would create an issue; and whether those comments were made by FERC at the time, I honestly don't know.

Mr. HONDA. But it did go through the process.

Mr. BLAKE. Yeah.

Mr. HONDA. And the function of FERC is to make sure that they have oversight over unreasonable, unjust rate increases. So the process was in place. So, like Mr. Brown says, there is probably enough fault to go around for everybody.

Mr. BLAKE. Yes, including the Federal level outside of California.

Mr. HONDA. The question of supply before deregulation, did the State of California receive power and negotiate power from outside of California also?

Mr. BLAKE. Before?

Mr. HONDA. Dereg.

Mr. BLAKE. Yes.

Mr. HONDA. Okay. So the reliance on supplies didn't necessary happen in the boundaries of California.

Mr. BLAKE. No, and I think that is a good point.

And to the point on the original design of the system, the deregulated system, if you maintained a structure where

you had more supply than demand, I think that what they had structured might well have worked. When you shifted to where there becomes a you have more demand than supply, the problem--.

Mr. HONDA. Demand have only 5 percent. We had reserves--we had supplies that we relied upon and negotiated from without the State, so the real issue about energy and the crisis that we face today was precipitated by a faulty deregulation plan. And perhaps there could have been some, I guess--it is not my word--I heard the word "gaming" the market.

So, you know, when there is terminology, there must be behavior; and if there is behavior, then somebody is doing it. So, you know, I am kind of concerned about gaming the market.

Does the Department of Energy get into those kinds of concerns?

Mr. BLAKE. That is the direct responsibility of FERC, ~~that~~ it does have oversight on unreasonable rates.

And just to pick up on another point that you made--.

Mr. HONDA. Well, let me continue. Then if you say that is FERC, does the Department of Energy have any responsibility in encouraging FERC to pursue the responsibility? If they in fact had determined that there was something that was unjust and unreasonable, is there a responsibility on the part of the Department of Energy to

pursue this or encourage them?

Mr. BLAKE. Well, I think the President, not just the Department of Energy, has called on FERC to exercise that responsibility. FERC actually has ordered rebates under this administration, which was not the case previously.

Mr. HONDA. When did this happen?

Mr. BLAKE. I think they ordered it January, is my memory, but I can double-check on that.

Mr. HONDA. And then they stop; and since then we have been asking for, in their terms, market mitigation measures to look at the increased rates, because it was still unfair and unjust.

I think the other area I am a little concerned about is the budgetary actions. The budget is a reflection of our priorities, and I understand that the Department of Energy's budget has been--is less than it was last year or in the previous administration. Is that a concern of yours?

If we are looking at increasing our activities in the area of conservation, which you said, increasing our activities in research, and your own laboratories have said that if we pursue conservation and alternative research that we can be less dependent by something like 47 percent, is that a direction that the Department of Energy will be pursuing based upon the laboratories that are under your Department, based upon their conclusions?

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FERC issued orders on March 9 and March 16, 2001, requiring that various suppliers of wholesale electricity to California make refunds for certain sales in January-February 2001 or provide the Commission with a justification of the pricing of such sales.

Mr. BLAKE. The labs play an important role in the research and development efforts of the Department. The Department is pursuing energy conservation and renewable energy. Those are part of the budgetary requests. There have been some supplemental requests that address that.

The Department's budget obviously addresses a number of other things as well, and you know there is a balance in the programmatic increases and decreases there. I don't think you would look just at the energy, what the Department does related to the energy plan for the budgetary impacts and what the budget submission was.

Chairman NUSSLE. Mr. Hoekstra.

Mr. HOEKSTRA. Thank you, Mr. Chairman.

Mr. Blake, good morning and thank you for being here.

I think the question that I have--Bill's offered the same kinds of questions that Mr. Collins had--is that what is going on in energy?

And you talked about natural gas prices in California, the tenfold increase in prices there for electricity. I know that when I go home and I talk to my constituents they have a hard time understanding what this deregulation and these prices, price fluctuations--they simply ask a very matter of fact question: Who is getting the extra profit?

We had a situation where in one day gas prices went up by 20 percent, and they all--all the gas stations did it at like

11 o'clock in the morning. So gas went up by 30 cents a gallon. And, you know, they don't see any problems in the Mideast. They don't see any fluctuations in the price per barrel. They don't read about a refinery going down. Refineries are running at high capacity.

So the question they come back with is, hey, Pete, who got the 30 cents? You know, who is getting the extra 30 cents this afternoon and what is it being used for?

I hope that the Department of Energy does an analysis of where this extra income is going and what is driving these costs factors. Because with a lack of a clear explanation, what is happening with consumers is there is a distrust of market forces. There is a distrust of deregulation. There is a distrust of the consolidations and the mergers that are going on in the industry and the basic conclusion that perhaps it is time for more regulation rather than less regulation.

If we don't come up with some specific answers and explanations that actually make sense, as well as a strategy that says, you know, here is what market forces will work in the long run and why they may not be working in the short term--I don't know if you have got any comments or response to that statement or not.

Mr. BLAKE. A couple of quick comments.

First, on the pricing, and, you know, there has been this

long-standing debate on price caps and whether price caps are an appropriate response to what is happening in the market and some notion of improper profits. It is worth just pausing and remembering that a price cap--if you have got an essential problem of supply and demand, a price cap addresses neither. It doesn't improve your future supply, and it doesn't affect your current demand. If anything, it ces your future supply more difficult to get on line and increases your current demand. It is a general comment.

On the oil and gas and pricing, ~~it is~~ there are constrained refineries. One of the things that the policy points out is that we haven't kept up in terms of building new refineries. And I note that as I came here this morning I asked what was the price of regular gasoline, and it is $1.60, which is 8 cents lower than it was this time last year.

One of the things that has happened is we saw an increase earlier than usual; and that, along with all of the other discussion, I think has created some of the issues that you raised. But it is worth bearing that in mind.

Mr. HOEKSTRA. We are going to need more help in understanding exactly why those prices come in, you know, because, my consumers, they understand supply and demand. What they are also facing in electricity, in natural gas and these types of other areas, they are coming out of a

regulated market where for a long time demand was not a problem, supply was not a problem, and prices weren't a problem. We had basically relatively inexpensive sources of electricity and natural gas. And what they are now seeing is they are seeing deregulation in these areas, and the only--the end result they see is now, all of a sudden, we have got a problem with supply, we have got a problem with demand, and the only benefit I am getting as a consumer is I am getting to pay these folks more money.

So tell me where the benefit of deregulating the market in these areas is. That is a question that we face when we go home, and it is a question that I ask, that says, you know, do market forces really necessarily work in these types of industries the way that we expect them to work in other markets?

Mr. BLAKE. Those are very legitimate questions, and we need to do a better job in education.

Because if you go back and you look at the concept of these regulated markets with cost of service regulation s, what the utilities did was basically add up their costs and put a return on equity. If you look at the debates that existed in the 1970s and 1980s of utilities building enormous plants that people argued weren't necessary, the debate that I am sure you are familiar with not that many years ago on stranded investments, investments that were made in a

regulated structure, where people said, we don't need this. What is all this capacity for? It is far too expensive.

The basic concept was, and I think it is proven out in a well-designed structure, the market is going to do a better job of allocating investment dollars and reduced costs. we will see you can look to a number of markets around the country where that is happening.

But your very questions emphasize the extent to which we have got to do a better job of education.

Mr. HOEKSTRA. Thank you.

Chairman NUSSLE. Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman. Appreciate your bringing the author of the fossil fuel study to the committee. I assume you wrote this. That is why they sent you up here as the spokesman.

Mr. BLAKE. No.

Mr. MCDERMOTT. Who did?

Mr. BLAKE. There were two individuals employed at EIA, at DOE.

Mr. MCDERMOTT. At EIA?

Mr. BLAKE. EIA is the Energy Information Administration.

Mr. MCDERMOTT. And who are those individuals?

Mr. BLAKE. Ron Early is one name, and Kay Smith is the other name.

Mr. MCDERMOTT. Kay Smith. Thank you very much.

I would point out to Mr. Brown that South Carolina may stand alone. They may have a wonderful energy process, but you would do a service to the country if you stopped calling this a California problem. Because those of us who are further up the West Coast, the decisions made by FERC made it much worse for us when they said Bonneville had to ship electricity down to California and force them to do it. We wound up having our dams drawn down in a drought year. We are going to have salmon problems. We are going to have all kinds of problems. So this is a regional issue and people better get it clear in their heads that no State is going to stand alone and be able to do it all by themselves.

As the pressure that you see on the West Coast comes on, it is going to come across the country. That is the view of the Department of Energy, isn't it? Or do you think this is just a California problem?

Mr. BLAKE. It is not just a California problem.

Mr. MCDERMOTT. Is it just a West Coast problem?

Mr. BLAKE. It is not just a West Coast problem.

Mr. MCDERMOTT. How far does it come?

Mr. BLAKE. Well, ~~I think the transmission,~~ there are transmission issues that exist around the country. The bottlenecks are not just on the West Coast. There are bottlenecks in the Midwest, ~~and~~ Southeast, and Northeast. So you are right in saying that the issue ~~I mean~~ is not just in California. ~~and~~

~~the Northwest face a particularly difficult~~

Mr. MCDERMOTT. We were the first to get it is what you are saying, basically.

Mr. BLAKE. The combination of the drought, the supply and demand.

Mr. MCDERMOTT. All the things that happened--.

Mr. BLAKE. Yeah.

Mr. MCDERMOTT. --happened on the West Coast first, but the rest of the country is going to get it.

Second thing is, people have asked the question here, and I want to put a finer point on it. Mr. Collins kind of walked around it, and I keep dropping a bill in the Ways and Means Committee on an excess profits tax. Do you think 20 percent profit on your investment is adequate? I mean, you are a free enterpriser, right?

Mr. BLAKE. It depends on the investment and the risks and the return. I mean, what is the return?

Mr. MCDERMOTT. Energy would be a pretty solid return, wouldn't it?

Mr. BLAKE. Here is the reason why that is--what is the period of time over which you are going to recover your investment? What are the risks associated with the investment?

Mr. MCDERMOTT. Utilities commissions have been giving out 10, 12, 14 percent for years; and everybody's been buying

Florida Gas, Electric and Commonwealth Edison and everybody else, right?

Mr. BLAKE. When you are a utility, you know that on the rate structure, if it is used and useful, you get a recovery on it. When you are developing as a merchant power plant developer, the fact that you built a ~~plant~~ plant doesn't mean that you will get a return. They are very different economic structures.

Mr. MCDERMOTT. So in this period what you are suggesting is that Enron and all these companies should make as much as they possibly can at the moment because there will be a dry period someplace, right?

Mr. BLAKE. No, I wasn't suggesting that.

Mr. MCDERMOTT. You don't think there should be any limit on them, do you, in how much they take out of the people?

Mr. BLAKE. I don't think price caps work.

Mr. MCDERMOTT. I didn't ask you about price caps. I asked you, as a public policy, do you think there should be any limit whatsoever on how much an industry takes out of an essential for living? In this country, you cannot live without electricity.

Mr. BLAKE. On the electricity structure, there is now a regulatory process where FERC ensures the wholesale rates are just and reasonable. So the answer to your question--.

Mr. MCDERMOTT. You call those--okay, that is good. I

like that. FERC just and reasonable. Do you say that the rates in California were just and reasonable?

Mr. BLAKE. I think FERC has ~~made~~ made already some decisions that have required rebates on rates where they said they were not just and reasonable.

Mr. MCDERMOTT. Where have they given these rebates?

Mr. BLAKE. I mean, they apply to the wholesale market in California. I assume they go to whoever was on the other side of the transaction. ~~the buy, sell and--I don't know.~~

Mr. MCDERMOTT. So the rebates go to Southern California Gas and Electric. Does it flow on then down to the users?

Mr. BLAKE. I don't know in those instances who were the buyers that were subject to the--that got the benefit of the rebates and how it flowed down.

Mr. MCDERMOTT. But it is your testimony that the FERC has set in motion a plan that guarantees rebates to California producers.

Mr. BLAKE. Producers?

Mr. MCDERMOTT. Of electricity.

Mr. BLAKE. ~~They would~~ they have jurisdiction over wholesale rates. They have jurisdiction to assure that the wholesale rates are just and reasonable. They have made some conclusions that they aren't. I would think the rebates in that case would go to the buyers of that wholesale power, whoever those might be. It might be a municipality. It

might be an investor-owned utility. It might be the State. I don't know enough about it.

Mr. MCDERMOTT. I will check that, because I don't think there have been any rebates. At least I am not aware of them.

Mr. BLAKE. I think they have been ordered and been found but where the actual cash transaction is, I don't know.

Mr. MCDERMOTT. The next question I have--and Mr. Honda has suggested that the budget sets the priorities. And when you have the kind of cuts that are in this budget, in solar particularly, which is one that really troubles me, because solar energy, there is seven times the energy that California uses in a given day falls on California, and I wonder why I see nothing creative in this proposal that came out of the Department of Energy on how to use the solar energy.

I have a bill in the House Ways and Means Committee on granting the abilities to sell bonds to utilities so that they can put solar panels on people's houses interest free and let them pay them back in the rates. There is an enormous sources of energy that are simply not--are not talked about and certainly no money is put into this budget. I can't understand who set those priorities except people who are interested in gas, oil and coal. That is the only thing I see.

Mr. BLAKE. No, I think the budget actually reflects sums

to renewable energy sources. I don't know the specifics on the solar. ~~I would just say~~

Mr. MCDERMOTT. It reduced it by 53 percent. The only increase was in the weatherization program. That is the only one they increased.

Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you.

Thank you very much, Secretary Blake.

There is no question that this is not merely a California problem or a West Coast problem or west of the Mississippi problem. This is a national concern, and that is why we are here today, because of its impact on the overall economy and therefore its impact on our budget. The purpose of this hearing today is to examine that and to get a handle on why we need, after many years of neglect, a national energy strategy so that we can put some predictability into the system.

I appreciate your testimony today. I applaud the administration for putting a product on the table for discussion and debate.

Other committees of jurisdiction are now engaged in debating that, coming up with ideas, proposals. We have many members who have ideas as Mr. McDermott suggested. I have some. Many other members of the committee have alternatives and ideas, and that is where the debate needs to happen.

But it is clear from this hearing that it needs to be done now. We have to begin the process because it will have a short-term, medium-term and long-term effect on this budget; and we have got to get our arms around it immediately.

We appreciate your testimony here today and the fact that the administration would at least start this process. Thank you very much.

Mr. BLAKE. Thank you very much. Congressman Spratt, members, thank you.

Chairman NUSSLE. At this point in time, we invite to the witness table a colleague from California, Congressman Bob Filner, who represents the 50th District--have I got that right, Bob?

Mr. FILNER. Yes, sir.

Mr. MCDERMOTT. You see, when you come from a State like Iowa and you have only have five, 50 is a big number. That is why I just want to make sure--the 50th District of California, which encompasses San Diego, the southern half of the City of San Diego.

Representative Filner was elected in 1992, as I understand, and serves on the Transportation and Infrastructure Committee and Veterans affairs Committee, is that correct? Any other committees you serve on?

Mr. FILNER. No, that is enough.

2001-800071

Department of Energy
Washington, DC 20585

July 26, 2001

The Honorable Joe Barton
Chairman
Subcommittee on Energy and Air Quality
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Enclosed is the edited transcript of the June 22, 2001, testimony given by David K. Garman, Assistant Secretary for Energy Efficiency and Renewable Energy, regarding National Energy Policy: Conservation and Energy Efficiency.

The three inserts requested by Representatives Boucher, Tauzin and Burr are being prepared and will be forwarded to you as soon as possible.

If we can be of further assistance, please have your staff contact our Congressional Hearing Coordinator, Lillian Owen, at (202) 586-2031.

Sincerely,

Michael Whatley
Director, Office of Congressional
and Intergovernmental Affairs

Enclosure

28756

Kenneth L. Lay
Chairman of the Board

Enron Corp.
P.O. Box 1188
Houston, TX 77251-1188
713-853-6773
Fax 713-853-5313
kenneth.lay@enron.com

July 31, 2001

Th : Honorable Spencer Abraham
Sc :retary of Energy
U. :. Department of Energy
Fc restal Building
1( )0 Independence Ave. SW
W shington, DC 20585-1000

D ar Mr. Secretary:

I'd like to follow up with you personally on a recent invitation extended by Je Skilling for an event Enron is hosting, **"U.S. Energy Policy at a Crossroads: Al ernative Futures for the Current Energy Crisis,"** in Washington, DC on O ober 3-4. We would be honored to have you as a featured keynote speaker to :ommunicate your vision of America's energy future. The energy industry is at a itical juncture. Through this event, Enron is committed to creating an open di ogue for the industry to work together collectively and constructively to find sc utions and discuss ways to get them implemented.

Your involvement in this industry forum represents an opportunity to er jage with the most senior level stakeholders in our sector–key opinion le: lers, policymakers, regulators, and business executives. This forum re onates with the industry. Our efforts thus far have generated a positive re ponse, and we anticipate a productive and insightful discussion.

I'd appreciate your being part of this forum. Your participation would gr atly enhance the prospects of a positive outcome.

Sincerely,

Kenneth Lay

Federal Emergency Management Agency
Washington, D.C. 20472

2001-018124 8/2 A 9:34

The Honorable Spencer Abraham
Secretary
Department of Energy
Washington, DC 20585

Dear Secretary Abraham:

Thank you for your recent letter to Joe M. Allbaugh, Director, Federal Emergency Management Agency (FEMA) regarding the Department of Energy's strategy to support the National Energy Plan and FEMA. I apologize for the delayed response.

Your letter has been forwarded to the appropriate FEMA officials responsible for the Plan's implementation. They will be in contact with your staff very soon to discuss a collaborative effort between FEMA and your Department.

Sincerely,

M. C. Earman
Acting Executive Officer
Readiness, Response and Recovery Directorate

28758

DO NOT DETACH FROM TRANSCRIPT

RETURN TO:

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON COMMERCE
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WASHINGTON, DC 20515

Subject: **National Energy Policy: Conservation and Energy Efficiency**

Hearing date: **June 22, 2001**

Referred to: **David Garman**

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Joe Patterson,
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RPTS STALLSWORTH

DCMN MAYER

HEARING ON NATIONAL ENERGY POLICY:

CONSERVATION AND ENERGY EFFICIENCY

Friday, June 22, 2001

House of Representatives,

Committee on Energy and Commerce,

Subcommittee on Energy and Air Quality,

Washington, D.C.

The subcommittee met, pursuant to call, at 9:33 a.m., in Room 2123, Rayburn House Office Building, Hon. Joe Barton [chairman of the subcommittee] presiding.

Present: Representatives Barton, Burr, Whitfield, Bryant, Walden, Tauzin, ex officio, Boucher, Markey, Barrett, and Dingell, ex officio.

Staff Present: Jason Bentley, Counsel; Joe Stanko, Counsel; Sean Cunningham, Counsel; Peter Kielty, Legislative Clerk, Andy Black, Policy Coordinator; Sue Sheridan, Minority Counsel; and Erick Kessler, Professional Staff Member.

STATEMENT OF THE HONORABLE DAVID GARMAN

Mr. GARMAN. Thank you, Mr. Chairman, and members of the committee. I will try to take less than 7 minutes, if possible.

It is very important and notable that you are starting out your first hearing on this very important subject of energy efficiency. Energy efficiency is, of course, a critical component of the administration's National Energy Policy. As has been pointed out, of the 105 recommendations contained in the policy, more than 20 directly or indirectly address energy efficiency and another 16, ~~the point of~~ refer to renewable energy.

By implementing these recommendations, our Nation will continue the trend that has begun on decreasing energy use per dollar of GDP while improving our standard of living and protecting the environment.

My office is responsible for DOE's research, development, demonstration and deployment of advanced energy technologies and practices. We are quickly working to implement the recommendations contained in the President's National Energy Policy.

For example, the policy calls for a review of current

funding and historic performance of the Department of Energy's Office of Energy Efficiency and Renewable Energy Programs. Within 12 days after I was sworn in, we were conducting public meetings at various locations across the Nation in an effort to receive public comments on the objectives of our energy efficiency programs, the objectives of our future programs, program implementation, whether or not our programs were achieving their intended objectives, and new ideas for public-private partnerships.

With the benefit of public comment, we are now proceeding with a top-to-bottom strategic review of all of our 31 programs to assess their performance and potential to be complete by September 1st.

Our review will complement a National Academy of Sciences' review that is also under way, studying some of our energy efficiency programs, and that review is expected to be released in mid-July. Based on these reviews, we will be in a position to propose appropriate levels of funding for our programs in the future, as well as to continue to engage the Congress as it concerns spending levels for fiscal year 2002. It is our aim to promote a diverse portfolio of activities that are performance-based and modeled on public-private partnerships.

Let me cite just a couple of examples of what we have accomplished so far to illustrate why I am enthusiastic about

our capacity to fulfill many of the recommendations contained in the President's National Energy Policy document.

In the transportation sector in our government, the investment in our government/industry partnership for new generation of vehicles is paying off. Hybrid electric drive options will be offered by each of the three automakers in the 2003-2004 time frame: Dodge Durango in 2003, Ford Escape in 2003, Chevrolet Silverado in 2004, and Ford Explorer in late 2004.

In general, these configurations of hybrid vehicles will deliver equal or better performance while also improving fuel economy between 15 and 35 percent.

In our industrial programs, through cost-shared R&D on precompetitive technologies, the Department has helped develop over 140 technologies that are now in the marketplace. For example, a new oxygen-fueled combustion process in the glass industry averages energy savings of 15 percent on larger furnaces and can achieve savings of up to 45 percent in smaller furnaces, all while reducing ~~knocks~~ NOx and particulate emissions; in the buildings arena, the introduction of new technology to increase energy efficiency that can have significant economic and environmental benefits.

Two examples of reduced energy use that EERE has played a role in include low emissivity windows that now comprise 40

percent of the market and reduce heat loss from the windows by one-third. Also, energy-efficient refrigerators, as has been pointed out this morning, use a quarter of the energy needed by refrigerators as recently as 1974.

I want to stress that nearly our entire portfolio of energy R&D is based on public-private partnerships. We believe that working with the private sector stimulates private investments and leverages Federal dollars. These partnerships also help ensure that we develop technologies that the private industry will carry forward into the marketplace.

Finally, Mr. Chairman, in the letter asking us to testify, you asked that we identify any statutory changes that might further promote energy efficiency. We find that at very first blush, we have significant existing authority to carry out programs under the provisions of the National Energy Policy Act of 1992, the Energy Policy and Conservation Act, the National Energy Conservation Act, the Energy Security Act, and many other provisions of law.

Prior to the completion of our strategic reviews, which will be complete September 1st, we are not yet in a position to identify other legislative initiatives beyond those included in the National Energy Policy that the administration is prepared to recommend at this time. However, we will look forward to working with the Congress

and this committee as you move forward in these areas.

Mr. Chairman, I believe that the National Energy Policy recognizes the critical role that energy efficiency plays in a balanced energy policy. Thank you for the opportunity to testify today, and I look forward to any questions the that the panel may have. Thank you.

Mr. BARTON. Thank you, Mr. ~~Harman~~ Garman.

[The statement of Mr. ~~Harman~~ Garman follows:]

******** INSERT 1-1 ********

Statement of David K. Garman
Assistant Secretary for
Energy Efficiency and Renewable Energy
U. S. Department of Energy

before the
Subcommittee on Energy and Air Quality
Committee on Energy and Commerce
U. S. House of Representatives

June 22, 2001

Chairman Barton and members of the Subcommittee, it is a pleasure for me to be here today to discuss the Administration's National Energy Policy and its relationship to the Department of Energy's Energy Efficiency programs. Mr. Chairman, the National Energy Policy, which was issued on May 16, 2001, by the National Energy Policy Development Group, is a balanced, comprehensive long-term approach highlighting the promise of technology in meeting our energy, environmental and economic challenges. The National Energy Policy promotes energy efficiency and improved energy conservation as a national priority. Of the 105 recommendations in the Policy, more than 20 directly or indirectly address energy efficiency in residences, commercial establishments, industrial sites, electrical power plants, and transportation. By implementing these actions, this nation will continue our trend of decreasing energy use per dollar of GDP, while improving our standard of living and protecting the environment.

Mr. Chairman, I am pleased to report the Office of Energy Efficiency and Renewable Energy will continue to build on our successful technology research, development, demonstration and deployment (RDD&D) activities to meet the recommendations of the National Energy Policy.

EERE is poised to play a major role in this nation's energy future. The Office funds research, development, demonstration and deployment of affordable, advanced energy technologies and practices. This effort is organized around five energy sectors — (1) buildings, (2) industry, (3) transportation, (4) power generation and delivery, and (5) federal government facilities --- which are incorporated into 31 programs. Let me cite only a few examples of what we've accomplished so far to illustrate why I am so enthusiastic about EERE's capacity to fulfill many of the recommendations of the National Energy Policy.

In the transportation sector, the investment in our government/industry Partnership for a New Generation of Vehicles (PNGV) is paying off: Hybrid-electric drive options will be offered by each of the three automakers in the 2003-2004 timeframe: Dodge Durango in 2003, Ford Escape in 2003, Chevrolet Silverado in 2004, and Ford Explorer in late 2004. In general, these configurations will deliver equal or better performance while also improving fuel economy by between 15 to 35 percent. To the individual consumer, this could mean roughly a twenty percent reduction in fuel use, which allow a fifth fewer trips to the gas station and reduced fuel costs.

In our industrial programs, through cost-shared R&D on pre-competitive technologies, the Department has helped develop over 140 technologies which are currently in the marketplace. These technologies provide environmental and general productivity improvements, as well as reducing farm and factory energy bills. For example, a new oxygen-fueled combustion process in the glass industry averages energy savings of 15% on larger furnaces and can achieve savings of up to 45% in smaller furnaces while reducing NOx and particulate emissions.

In the buildings arena, the introduction of new technology to increase energy efficiency can have significant economic and environmental benefits. Two examples of reduced energy use are: Low emissivity windows which reduce heat loss from windows by one-third and now comprise 40% of the windows market; and energy use in refrigerators has gone from over 1800 kilowatt hours per year for a typical unit sold in 1974 to a new standard of 476 kilowatt hours for a typical unit sold after July 1, 2001, reducing refrigerator energy use by roughly three-quarters.

And, finally, we have also had successes in our Federal Energy Management program. In FY 1999, the Government reached its Energy Policy Act of 1992 FY2000 goal of 20% decreased energy consumption per gross square foot since FY1985 - a year early. In FY 1999 constant dollars, the Federal government's utility bill in FY 1985 for facilities was $5.6 billion dollars. In FY 1999, the bill was $3.41 billion dollars - $2.2 billion less in constant dollars.

I want to stress that nearly our entire portfolio of energy efficiency programs is based on public/private partnerships. We believe that working with the private sector stimulates private investments and leverages scarce federal dollars. These partnerships also help ensure that we develop technologies that private industry will carry forward to the marketplace.

Mr. Chairman, the Department has already begun to implement some of the recommendations from the National Energy Policy report. The Policy calls for a review of current funding and historic performance of the Department of Energy's Office of Energy Efficiency and Renewable

Energy programs. I am pleased that Secretary Abraham asked me to begin the review process. My office has undertaken the reviews by using a two-pronged approach: (1) A period of public comments; and (2) an internal programmatic review. We scheduled seven meetings across the country throughout the month of June to receive public comments on the NEP as it relates to EERE programs. Six of the meetings have been completed. We've asked the public to provide their views on (1) the objectives of the current energy efficiency and renewable energy research, development, demonstration and deployment programs, (2) suggested potential objectives for future programs, (3) implementation of current and future programs, (4) whether these federal programs are achieving intended objectives, and (5) and ideas for public/private partnerships.

When public input concludes on June 29, we will begin reviewing all EERE programs to determine their performance and potential in terms of delivering benefits to the public. We have committed to reevaluating those programs that have not made progress toward national energy goals. Likewise, we will redouble our efforts in those programs that have shown, and continue to show, good performance and potential in contributing to national energy goals. We have set the ambitious goal of completing the formal program review by September 1 at which point we will provide recommendations to the Secretary. I fully expect, that when the review is complete, we will have a diverse portfolio of activities -- from basic research to deployment projects -- that is performance-based. This is consistent with the national need to develop a balanced energy technology R&D portfolio that delivers short-term, intermediate, and long-term energy benefits. Further, this review will complement the National Academy of Sciences study of our programs which is expected to be released in mid-July.

Mr. Chairman, we are leading by example. President Bush, on May 3, 2001, issued a directive to Federal agencies, echoing the NEP recommendation that Federal managers take appropriate actions to conserve energy at their facilities to the maximum extent possible. These Federal actions, which were to begin immediately, are expected to reduce peak load and serve as examples of energy conservation for the rest of the country. They may even help reduce the extent of electricity shortages this summer in susceptible areas including California, the Northeast and the Northwest. Secretary Abraham has asked EERE's Federal Energy Management Program (FEMP) to work with federal agencies to implement the President's directive. This week we transmitted to the Vice President for his review, the consolidated report of Federal Agencies outlining the Federal Government's efforts to save electricity and reduce peak load in response to the President's directive.

The National Energy Policy report recommended that the President increase funding the Weatherization Assistance Program by $1.2 billion over 10 years. In concert with this recommendation, the President requested an additional $120 million in the FY 2002 budget submission for this purpose. This funding increase will enable States to weatherize 123,000 low-income homes. This represents an increase of 48,000 additional low-income homes as compared to FY 2001, thereby providing assistance to low-income citizens whose energy costs represent a disproportionate share of their income.

Mr. Chairman, I know that the Subcommittee is considering statutory changes that might further

promote energy efficiency. We find, at first blush, that we have significant existing authority to carry out our programs under the provisions of the Energy Policy Act of 1992, the Energy Policy and Conservation Act, the National Energy Conservation Act, the Energy Security Act, the National Appliance Energy Conservation Policy Act, the Federal Energy Management Improvement Act, and the Department of Energy Organization Act, among others. Moreover, Executive Orders provide us with additional authority and guidance. Prior to completion of our strategic reviews, we cannot identify other legislative initiatives beyond those included in the National Energy Policy that the Administration is prepared to recommend.

Mr. Chairman, we believe that the National Energy Policy recognizes the critical role that energy efficiency plays in a balanced energy policy. Thank you for the opportunity to testify today and I will be happy to respond to any questions you may have.

Mr. BARTON. And we now hear from Mr. Hoover.

STATEMENT OF FREDERICK H. HOOVER, JR.

Mr. HOOVER. Mr. Chairman, members of the subcommittee, my name is Frederick Hoover, Jr., and I am pleased to testify today to discuss the views of the National Association of State Energy Officials on energy efficiency programs. I am the Director of the Maryland Energy Administration. I am also an officer of NASEO, which represents 49 of the State energy offices, as well as the territory of the District of Columbia.

NASEO's overall objective is to support balanced national energy policies and to provide State perspectives on energy issues. NASEO members operate energy programs in all sectors of the economy and all types of energy resources. The State energy officials are also generally the governor's energy advisors.

I want to congratulate Assistant Secretary Garman on his appointment. He has been open to State views, and we look forward to working with him in the future. We also applaud the subcommittee for holding this hearing today on energy efficiency.

In short, energy efficiency is a critical component of a

responsible National Energy Policy. It is certainly not the only component of a balanced policy, but it is both undervalued and underfunded.

Energy efficiency cannot be seen as one individual program or policy. It works most effectively when implemented through a combination of public-private partnerships, government encouragement and programs, deployment and research, development and demonstration.

One of the many roles that State energy offices play is to promote energy efficiency activities through all these vehicles. Our offices push for the passage of energy legislation at the State level, such as electric restructuring with public benefit programs, building code upgrades, State tax credits for energy efficiency, and the promotion of transportation efficiency programs such as telecommuting and ride-sharing.

Many in Washington, D.C., see energy efficiency as a series of stark choices in contrast. We do not view it in this manner. For example, some on Capitol Hill and in the administration believe that the only Federal Government role is to promote R&D. We believe this is not correct. NASEO strongly supports aggressive R&D programs at the Federal and State level, but R&D alone is not sufficient.

A sensible energy policy is built upon encouraging deployment of new technologies, especially in the energy

efficiency area. I would cite as an example the Energy Star program, a partnership with States between the Department of Energy and the Environmental Protection Agency to promote energy-efficient appliances.

Our State energy officials have their fingers on the pulse of the actions that businesses and homeowners are taking. We know what sells to the public. R&D without deployment is a waste. We conduct both applied and long-term R&D at the State level in concert with our business partners.

Feedback is critical to directing that work so that it is relevant. Often, our Federal R&D programs lack that necessary feedback loop to the energy offices and the industries to provide practical advice on the direction of this research and its practical application.

The recent action by the House Subcommittee on Interior of the Committee on Appropriations, and approved by the full committee on June 13, to increase funding for Federal energy efficiency programs to $940 million in fiscal year 2002 is a very positive step. The Subcommittee on Interior should be applauded for its leadership and bipartisan cooperation in recognizing the significance of our energy problems.

Of greatest importance was the proposed increase in the State energy program from $38 million to $62 million and the weatherization assistance program from $153 million to $249 million. In general, most of the energy efficiency R&D

programs unfortunately remain closed to fiscal year 2001 levels.

The review of these programs being conducted by the Department of Energy is described by Assistant Secretary Garman as a positive development. This review is intended to focus on measures of success in the presence of public-private partnerships. Our State energy offices have been participating in these meetings. We stand ready to assist the new administration during this review process.

The State energy offices are in a unique position to get us precisely this type of review which our governors and legislatures call on us to undertake on a regular basis. We look forward to providing useful input. Progress has been made in recent years, and we look forward to continuing to work with the agency in this area.

We do feel that there are a number of areas that require specific legislative attention beyond the budget and appropriation issues. Residential tax credits for new and existing building energy efficiency is a critical piece of legislation. The school sector is one area where we have a serious energy problem.

The efforts on the part of Representative Udall and the gentleman from New York, Mr. Boehlert, who had the foresight to introduce such legislation which will provide funding for energy efficiency and improvements at schools is a positive

development. This legislation is basically included in both Senator Mikulski and Chairman Bingaman's comprehensive bills. It should be included in any bill this subcommittee moves forward.

In the transportation sector, the President's proposal for hybrid and fuel cell vehicles and Senator Hatch's Clear Air Act legislation are very positive developments. We cannot fully address our energy problems without dealing with the transportation sector.

I would also like to congratulate the efforts by the gentleman from Louisiana, Chairman Tauzin, and the gentleman from North Carolina, Mr. Burr, to remove the weatherization match requirement that was taken yesterday.

NASEO is pleased to have had the opportunity to testify today. We look forward to working with the subcommittee in the future on this very important issue. Thank you.

[The statement of Mr. Hoover follows:]

******** INSERT 1-2 ********

Mr. BARTON. Thank you.

The Chair would recognize himself for 5 minutes for questions, and I don't expect to take 5 minutes.

Mr. Garman, how long have you actually been in the Department of Energy this year?

Mr. GARMAN. I was sworn on May 31st.

Mr. BARTON. So you have been there less than a month.

Mr. GARMAN. Yes, sir.

Mr. BARTON. Okay. Have you, in your mind, had adequate time to assimilate some of the programs that are under your jurisdiction? Do you feel like you have got a good working knowledge based on that?

Mr. GARMAN. I have an initial working knowledge, yes, sir.

Mr. BARTON. Okay. Of the people that are directly under your control, are any of them people that you brought with you, or are they pretty much people that were there?

Mr. GARMAN. No, sir, I brought no one with me.

Mr. BARTON. Do you expect to have some assistants that are of your choosing at some point in the near future?

Mr. GARMAN. Yes, sir, I do.

Mr. BARTON. Okay. So, so far, you have been in the Department less than a month, and you have the career staff that is in that part of the Department that you are in charge of?

Mr. GARMAN. That is correct. And I would add that it is truly an excellent and exceptional career staff. We are fortunate in that regard.

Mr. BARTON. We would expect you to say that in their presence. And I am sure it is a true statement, so I am not being facetious about that.

When I was Chairman of the Subcommittee on Oversight and Investigations of this committee, I did numerous hearings on the efficiency of the Department of Energy and the programs under that department. It was like throwing darts at a dart board. Wherever you hit, you found a problem. It was just--without exception, the programs were not well run, were not cost effective, were very wasteful of taxpayer dollars.

So I am very interested, as you settle in, in your personal analysis of these conservation programs that you are in charge of, because my experience has been, at the surface, they may appear to be performing ably, but in fact, if you look beneath the surface, there are problems. I am not talking about corruption problems, I am just talking about, do they--does the program deliver what it is supposed to deliver in terms of the expectation of the country and the Congress.

So I would encourage you to really stress in your programmatic reviews that we expect these things to deliver. We expect these programs to deliver.

Now, having given you that lecture, which is just that everybody is going to be--the first time you get elected a Congressman, everybody is nice to you, they smile at you, they laugh at jokes that they've heard 1,000 times like they have never heard them. I mean it is amazing, okay?

But be a real manager. Work underneath.

Do you feel, is there one particular program under your review that you, on initial review, you think is really performing well?

Mr. GARMAN. Part of it could be my previous position, sir, since I come from the South, I have a certain affinity for automobiles, transportation technology. Yeah, you can picture my home where I grew up is one that had cars in the back on blocks. That is where I come from.

The time that I have been able to spend with the transportation technologies, with the development of hybrid vehicles, fuel cells, and looking at some of these other technologies, I find that they are truly exciting.

I also see a great deal of promise in the area of bioproducts, biofuels, opportunities to provide renewable resources on the farm and turn them into products that can benefit the Nation from an energy standpoint and from an economic standpoint.

Those are two things that have jumped out at me.

Mr. BARTON. I will ask you a question I asked the

management of General Motors in Detroit this past Monday. Do you see a point in the future where the fuel cell will become so well developed and so efficient that it is economically competitive or preferred over the internal combustion engine, regardless of the cost of gasoline?

Mr. GARMAN. You have put your finger on a very strong technological challenge. We calculate for a fuel cell to be economically competitive with an internal combustion engine, it is going to have to come down to the level of about $50 a kilowatt.

Right now, the catalyst component of the fuel cell itself costs $57 or $60 for that unit of energy. When you add the compressor pumps, the graphite stack and all the other components that make a fuel cell, yes, we have some significant technological challenges before we have a cost-effective, efficient fuel cell vehicle.

Having said that, though, hybrid technologies, gasoline-electric-drive hybrid technologies present an excellent bridge technology that can get us--that can score some efficiency gains along that pathway.

Mr. BARTON. My time has expired, so I want to just make one final comment and recognize Mr. Boucher.

When I asked the GM executive that question, my impression was that they have given all their thought to how fuel cells are going to compete in a higher oil price market,

their assumption is that as the price of oil escalates, fuel cells become more competitive because they can bring the fuel cell cost down and the oil cost is going to go up.

I may have misinterpreted his reaction, but my interpretation of his reaction was, they haven't given any thought to what happens when OPEC says, oh, fuel cells are becoming pretty efficient. We had better lower the price of oil so that internal combustion engines are still competitive. We better pump more.

If your only asset is hundreds of billions of barrels of oil reserves, and the Western economy moves to fuel cells and says, the heck with the internal combustion engine, then you don't have an asset. So all these projections that oil prices are going to $50, $60, $70, $80 a barrel, that is only if we don't develop an alternative.

If we really develop an alternative, those prices are going to go down to stay competitive. I don't think that at least the GM people had thought about that. We need to think about that if we are going to put all of our eggs into fuel cell technology, because the people that are providing the oil are not crazy people. They are going to eventually say, we have got to lower our price to stay competitive.

The gentleman from Virginia is recognized for 5 minutes for questions.

Mr. BOUCHER. Well, thank you very much, Mr. Chairman.

And, Mr. Garman, I also want to congratulate you on your appointment and thank you very much for being here today and say that we look forward to working with you as we develop the energy conservation and efficiency portions of our national energy strategy legislation.

Let me direct your attention to a provision in the report of the administration's Energy Task Force, recently released, which recommends--and I will simply quote this; that will save you actually having to open it up. You are probably familiar with this direction, in any event. The recommendation is that "the President direct the Secretary of Energy to establish a national priority for improving energy efficiency.".

I would like for you, if you would this morning, to give us a sense of how that direction is going to be translated into concrete recommendations. Give us a status report, if you would, on your work in developing the recommendations stemming from that direction.

Here is where you may want to take a note or two. In particular, I would appreciate your indicating how the Department of Energy would propose to have energy efficiency improvements in the following areas. And I will be very precise about the areas that I would like for you to address.

First of all, how soon do you intend to update the existing standards for a residential dishwasher and for

refrigerators, residential dishwashers and refrigerators?

Secondly, how soon do you expect to complete the ongoing proceedings, which I think have been under way for a matter of years, extending well back into the last administration, relating to electricity distribution transformer efficiency?

Then, third, will the administration support new efficiency standards for the following; commercial refrigerators, exit signs, traffic lights, icemakers, and commercial unit heaters?

The reason I have selected these precise latter topics is because we are getting recommendations from other witnesses who will appear this morning that in our legislation we include these precise items with directions that energy efficiency improvement standards be established. So anticipating those recommendations, I would like to get your view on those subjects.

I will yield the balance of my time to you for that.

Mr. GARMAN. One of the things that we are working to do--and I will be candid with you, looking at that particular recommendation that you cited, making energy efficiency a national priority, gives us something of an open field.

What the Secretary has directed, the Deputy Secretary, the number two official in the Department, us to do is to take this document and to translate it into implementation actions. We were in a meeting yesterday in his office going

over some of these very points.

It is going to require in most cases a collaboration between the other agencies--the Department of Transportation, the Environmental Protection Agency--frankly, a level of collaboration we haven't always seen in the past. So in addition to the fundamental issue of translating this, we are going to have to refashion the dialogue and improve the dialogue between the disparate Federal agencies to begin to put some meat on the bones of these recommendations.

Now, that process is under way, and on a weekly basis, we have updated matrixes to try to implement the policy and really put a fine point on it.

With respect to the specific standards, we are well along the way on distribution transformers, and I can't give you an exact time frame because, of course, it is a regulatory process and there are opportunities for some of the stakeholders in the process to lengthen or expedite depending on--but let me--.

Mr. BOUCHER. Can you just give us a general sense?

Mr. GARMAN. Sure. I think we can--I think that distribution transformers are an opportunity for a reasonably expeditious win. I think that--and part of this, because one of the programs that we are actually going to review in the context of this strategic review are our rulemaking processes on setting new standards for these various items.

I can tell you that some that you have mentioned, refrigeration, commercial, are on our higher priority list. And I would beg the indulgence of the committee--and perhaps this is something I can provide you for the record--something of a matrix of our current thinking on the prioritization of these various appliances and the general time frames in which we think we will be turning to them.

Mr. BOUCHER. Mr. Chairman, thank you. My time has expired. Let me simply conclude by thanking Secretary Garman for his attendance here and his answer to this question.

And, Mr. Secretary, I would very much welcome at the earliest time that you could provide it that written response to this question that establishes these priorities and some suggested time frames for completing these various rulemakings. And to the extent that you can talk about your level of support for the specific items that I indicated in the last part of the question for refrigerators and the other items, that would be welcome, too.

Now, we are proceeding on a fairly rapid schedule here to adopt legislation on this set of issues, and so if you could provide an answer perhaps by next week, that would be timely and helpful to us. And I thank you and thank you, Mr. Chairman.

[The information follows:]

978 ******** COMMITTEE INSERT ********

Mr. WALDEN. [Presiding.] That would be good for all the committee members to have a copy of.

The Chair now recognizes the gentleman from Louisiana, the chairman of the full committee, Mr. Tauzin.

Mr. TAUZIN. Thank you, Mr. Chairman.

Mr. Garman, again my congratulations, and thanks for being here.

Let me ask you, sir, in terms of the administration's position to give the air conditioning efficiency standard a hit for me, where is the administration on this, and what kind of support can we expect for regulations that would improve air conditioning efficiency?

I realize it is pretty controversial, but maybe you can explain where you are on it.

Mr. GARMAN. Sure. I will try to make a couple of points on this.

First of all, the current air conditioning standard is set at a seasonal energy efficiency ratio of 10. Approximately 79 percent of the air conditioners on the market today are at a level 10. What the administration is expected to shortly propose--and that rulemaking has not been offered up yet, but--is to raise standards for residential air conditioners and heat pumps 20 percent from a SEER 10 to a 12. I would expect that rulemaking to occur in the next week or two.

Mr. TAUZIN. In terms of the drive to make Federal facilities more energy-efficient, you recently saw the President make an announcement that in California, he expected a 10 percent reduction in energy use in these facilities, particularly during the State's three emergencies.

In the bill that Mr. Barton was proposing, we had even increased that to 20 percent, because our information was that that was achievable. We have seen 20 percent reductions in Federal facility energy consumption mandated over time and achieved. Is it time for another mandate for the buildings and the facilities of our country that are Federal to target and to achieve energy efficiency reductions?

Mr. GARMAN. There is an existing executive order, if I am not mistaken, that is in place currently, it has not been rescinded, that is calling for continuous improvement in the Federal arena.

Mr. TAUZIN. We are told, for example, Mr. Garman, that an investment in a simple thing of replacing incandescent bulbs with more efficient bulbs could obviously be a little costly. Most Americans are more willing to buy a 30-cent incandescent bulb rather than a $4 very efficient, high-quality bulb because of the initial investment in cost. But we are told that you can recover those costs within a 4-, 5-year period; and that would, in the long term, make great

economic sense, particularly for Federal officials.

If we included a new mandated number, a target, a goal in our legislation, do you think that ideas like that could be utilized by the Federal facilities to achieve even greater efficiencies than they are currently doing?

RPTS SMITH

DCMN MAGMER

[10:30 a.m.]

Mr. GARMAN. Yes. ~~I mean well~~, let me put it this way. ~~In the last~~ against the 1985 baseline, we have outperformed the goal, slightly outperformed the goal, governmentwide, that appeared in the Energy Policy Act of 1992. We achieved the goal a year early, the 2000 goal.

Now, that is not to say there is not a lot, frankly, in pursuit of that goal, a lot of the low-hanging fruit such as those you have mentioned, ballasts, changing incandescent bulbs. That is not to say that--.

We are testing the system now, for instance, in California where the Federal government uses about one and a half percent of all the energy in California. We had our managers, in response to the President's directive, try load-sharing opportunities, and at one point I believe we were able to cut load during peak time on the order of 20, 25 percent.

Mr. TAUZIN. You know, we hear big numbers like that.

Mr. Hoover, I suspect the State facilities are doing similar work. Can we expect that if, in fact, we in our legislation encourage and incentivize State and local governments to achieve similar results, is that possible? Is that achievable?

Mr. HOOVER. Well, in my own State we have a legislative reduction goal that increases by a certain percentage each year from a 1992 base line, and now we are up to discussing going to a 30 percent reduction. So I think all of these are very achievable.

Mr. TAUZIN. I want to know what either of you know about Sterling engines. One of our members, Charlie Bass, has presented a lot of information to us on the latest developments on the Sterling engine.

We hear a lot about hybrid fuel cells, and our bill obviously is going to try to incentivize more than--and also because of the environmental aspects of fuel cell use and hybrid engines on the Nation's highways. We were thinking, for example, why not allow people to use an HOV lane if they have got a high-mileage, low-emission vehicle even if you are only one person in that car? Why not incentivize you to do that?

But in terms of the Sterling engine, do we have a good understanding of its capabilities as it has been recently modified to add to all sorts of new energy efficiencies in the market?

Mr. GARMAN. I had the opportunity to actually see a Sterling engine a couple of weeks ago. It is not a particularly new technology.

Mr. TAUZIN. It is very old.

Mr. GARMAN. But, as you pointed out, there are new modifications and possibilities that it affords. I think in--particularly in some of, you know, energy renewable where an external heat source can be applied.

Mr. TAUZIN. We are also told that in distributive energy systems Sterling engines can be extraordinarily useful, particularly new designs. I would love to have something from you to complement what Charlie Bass has brought on our committee, if you can to give us your latest of its potential as part of a conservation and distributive energy initiative.

Finally, I just wanted a comment from both of you on one of the most important elements of conservation. In California, when California had price caps on the retail market on its electricity, we discovered in our surveys in California a drop in conservation of 8 percent. It shouldn't have surprised us. Price controls tend to encourage demand and weaken conservation efforts. Price increases have the opposite results always. We saw a 13 percent increase in conservation in California the moment it was announced that those price controls would be lifted on the retail market.

Is the price of gasoline going up, shortage of natural gas, prices of natural gas going up? How much do prices and increases in prices under your analysis create conservation incentives? What is the relationship in that? Is it a one-to-one relationship? Is it a one-to-two?

How high do prices have to go before people really get serious, for example, and change all the incandescent bulbs in their houses and buy the systems that turn our air conditions on and off when we are gone and turn them back on when we are coming home? Those are very cheap items to buy. We don't buy them. We don't install them. But they could save enormous amounts of energy for the consumers a.. r the country. How high do prices have to get, and what is the relationship in price conservation reaction?

Mr. GARMAN. Pricing is, of course, an obviously--a very powerful incentive to conservation. And it is not always the magnitude of the price, but the pace of the price increase.

I know that when I was, you know, in my own home, was noticing that my price of gas was going to roughly double, based on the contract I had entered into on December 31, you can bet that in November I was at the Home Depot buying the computerized thermostat, buying the extra insulation. I mean, price was a very powerful motivator, and I think it is--particularly when it comes in a very short time span.

And I would echo, because I think you asked me for this, your observations with respect to the situation in California. However well-intentioned, the edict of the legislative body or executive can't repeal the laws of supply and demand and the impact that price has on the rational consumer economic behavior toward conservation. It is a

very, very powerful and persuading force.

Mr. TAUZIN. My time is up, Mr. Hoover, but I would love to hear your response.

Mr. HOOVER. Well, the one thing I would add to that is I think that price is a big motivator to make people want to conserve. But I also think that the increases that we saw in heating prices last year caused a lot of people to look at things that they hadn't looked at in a long, long time. The problem is you have to make sure that when the individuals get that price signal, whether it is an opening or monthly utility bill or whatever signal they see, that they have the opportunity to take advantage of conservation activities.

So the infrastructure, so to speak, for conservation and efficiency has to be there. The products have to be in the marketplace. The programs, whether they are run by State government or the Federal government, need to be there so that people can do something.

Because the problem is, a lot of times, there is that initial reaction to it. But if you don't take some substantive action to it, that opportunity is gone, so you just get a lot of--.

Mr. TAUZIN. If I may add one more thing, and that is why I think there is a responsibility, particularly at this level, it is making sure consumers know at the right moment what is available and how economic those opportunities are in

terms of cost savings for them in the short and the long run.

Thank you very much, Mr. Chairman.

Mr. BARTON. The Chair now recognizes the gentleman from Wisconsin, Mr. Barrett, for five minutes.

Mr. BARRETT. Thank you very much, Mr. Chairman. I appreciate you holding this hearing.

Good morning, gentlemen.

At least until the recent spate of rolling blackouts in California, the history of blackouts in our country seems to have been one that showed a tight correlation between blackouts in the summer and high energy demands in the summer as well. I think we all probably would recognize that. Not surprisingly, that is a time when there is the greatest demand for air conditioning; and it is for that reason that I was simply blown away by this administration's decision to basically gut the rule that the Clinton administration put into effect to increase the energy efficiency standards for air conditioners. I was amazed even more so when I realized that Amana, the second or third largest producer of air conditioners, was in support of this.

So it boggles my mind how, at the one time this administration comes to Congress, comes to the American people and says, we have an energy crisis in this country, an energy crisis, and we have to do more for production, production, production, the Vice President basically makes

fun of conservation and energy efficiency, when right before us is a rule that would allow us to save energy, energy efficiency, by increasing the energy efficiency standards for air conditioners.

I think the fact that this rule was basically set aside on Good Friday evening, when the major press didn't pay any attention to it, was a signal to anybody watching this issue that this was simply an attempt to gut this rule. Now, I understand that it is involved in litigation right now. But, for the life of me, can you tell me what was wrong with what the Clinton administration tried to do?

Mr. GARMAN. Yes, sir. And thank you for that question.

I think a couple of points--it is important to make, first of all, that the incoming administration reviewed and adopted without change efficiency standards promulgated during the last administration covering washing machines, water heaters and commercial heating and cooling systems. Only in the case of residential air conditioners and heat pumps did this administration propose any variation from the prior administration.

Mr. BARRETT. This is the big enchilada, though. This is the one that people care about.

Mr. GARMAN. Right. But the real heart of matter is that the Department of Energy analysis produced by the careerists, and it is the same analysis that was used by the prior

administration, in the 13 SEER standard showed that it would represent an unreasonable burden on consumers, particularly low-income consumers. The analysis that DOE prepared indicated that 64 percent of the low-income consumers would be faced with paying increased life-cycle costs under the 13 SEER standard for split air conditioners.

Mr. BARRETT. But they would save money with their monthly bill if it was more energy efficient.

Mr. GARMAN. No, sir. Sixty-four percent would incur increased life-cycle costs for low-income consumers.

Now, in general, when you take all of the consumers, you know, some would save more than others. The median payback period for this particular 13 SEER standard on a split air conditioning system would be 14 years. Most of these systems last an estimated 18.4 years. That is, the standard use in the rulemaking and the law directs us to use other factors other than energy efficiency to promulgate these standards.

Mr. BARRETT. But this was a standard that was already in effect when your administration took place. Isn't there a law that says you are not allowed to backtrack? Hasn't this administration violated Federal law by backtracking because it has reduced energy efficiency standards?

Mr. GARMAN. No, sir. Because that--and we are getting perilously close to the issue of contention in the legal matters.

Mr. BARRETT. That doesn't bother me. I would consider it an important issue.

Mr. GARMAN. But--no, it is the contention of the Department of Energy that the standard was not final, was not in force and effect and would not be until, I believe, 2005. So this is not a back-pedaling.

Mr. BARRETT. Why did Amana support it if this is such a bad rule?

Mr. GARMAN. Pardon?

Mr. BARRETT. Why did Amana support this if it was such a bad rule?

Mr. GARMAN. Amana's parent company, Goodman Manufacturing, is kind of an interesting niche manufacturer.

Mr. BARRETT. Irresponsible citizen?

Mr. GARMAN. No. No. In fact, they are very smart businessmen. They are essentially building a commodity product, an air conditioner. They view it as a commodity product. They don't attempt to differentiate their air conditioner from others.

Goodman Manufacturing I think markets their air conditioner under five or six brand names. They are one of the manufacturers that control, you know, 97 percent of the market. I believe that seven manufacturers control 97 percent of the market. But Goodman was in a position, under our analysis, to actually come out much better in relation to

the other manufacturers, and I think they are acting responsibly and economically, rationally, but according to our analysis, they are a manufacturer that benefits from--.

Mr. BARRETT. So the other six manufacturers were opposed to it.

Mr. GARMAN. Other manufacturers suffer pretty significant economic impacts. And again--.

Mr. BARRETT. But they could raise prices even though it would hurt the poor. Under your analysis, why would it have a negative impact if they could raise prices?

Mr. GARMAN. Our analysis indicates that, because of not only this rule but a number of other rules--.

Mr. BARRETT. But this is the rule we are talking about.

Mr. GARMAN. Yes. But the cumulative effect on manufacturers, it can affect to seriously alter the landscape of the manufacturing base of air conditioning and heat pumps in the country; and that is why the Department of Justice had expressed similar concerns with the 13 standard. The Department of Justice, as you know, under the law is required to review. It had done that with the 12 standards. But one of the things the DOE did not do in the prior administration when it jumped the 13 standard was to fully consult, it is my understanding, with the Department of Justice to fully understand the impacts, the anti-trust impacts and the way that the landscape of the market would be changed.

Mr. BARRETT. I think my time has expired. Let me just say again I find it hard to believe that that administration can come to us with a straight face and say that they care about energy efficiency and say that there is an energy crisis in this country and not act more aggressively to increase the energy efficiency standards for the product that virtually every American recognized is the demand product during the time of the year when demand is greatest, causes the most blackouts, causes the biggest pressure on our electric system in this country. It just boggles my mind.

And I would yield back my time.

Mr. BARTON. The Chair now recognizes the Vice Chair of the full committee, Mr. Burr, for 5 minutes.

Mr. BURR. I thank the chairman.

I found the last bit of information fascinating because I never knew that the Minnesota market for air conditioners was quite as high as it seems to be from the gentleman's statements. As a matter of fact, I found it interesting because, in my prior life--prior to serving in Congress--with a wholesale distributor, we represented the Amana company regionally; and North Carolina is a market where air conditioners, when it gets hot, do sell.

It is amazing to watch consumers. Some do pay attention to the energy standards, and they make a buying decision based upon that. Some people can't afford a doubling of the

price, which, in fact, some have testified the move to 13 did. But at 12 we have a 20 percent increase, and it is affordable, especially seniors who are susceptible in hot times to a health hazard.

I commend the administration for trying to find a balance of improvement but, also, the realities of the pricing constraints that many of the consumers are under.

Let me thank both of you for coming.

Mr. Hoover, I want to also thank you for being observant to what we did do yesterday on the point of order. I think sometimes we have a feeling that nobody pays any attention to what happens in Congress, but clearly you must pay a little bit of attention because that was a very quick process that we went through.

Let me ask you, Mr. Secretary, has the Bush administration taken a position as it relates to the Clinton administration's rulemaking regarding clothes washers?

Mr. GARMAN. Yes, sir. The administration is adopting the clothes washers' rule.

Mr. BURR. Were you involved in that decision?

Mr. GARMAN. No, sir.

Mr. BURR. What does the standard mean?

Mr. GARMAN. I am sorry?

Mr. BURR. What does the standard that we are moving to mean?

Mr. GARMAN. I do not have that because that is a past rulemaking. I don't have that at my fingertips, and I would be happy to supply that to you and for the record.

Mr. BURR. I think it is important that in your position you should know that, and I know you have been there a very short period of time. My concern is this is not an attempt to eliminate from the marketplace top-loading washers, is it?

Mr. GARMAN. No, sir. No, sir. And, in fact, there are now on the market some new top-loading models that do meet the new standard.

Mr. BURR. We have certainly seen in this committee a tremendous amount of evidence about the water usage of the toilet regulations that we currently have. I don't think anybody envisioned the fact that it would take three or four flushes to evacuate a toilet, and that, in fact, with a new one point six gallon standard, after four flushes you have used more than the original toilet that we replaced. But I think a move towards conservation must also make a determination as to whether the standard that we set can be met and can be met successfully.

Let me ask you, Mr. Hoover, we did move the Interior appropriations bill for fiscal year 2002 yesterday. It will now be considered in the Senate and ultimately in a conference committee to resolve the differences between the two bodies. What programs or funding initiatives would you

suggest to those potential conferees that need to be preserved that would promote energy efficiency out of that particular appropriations bill?

Mr. HOOVER. I mean, obviously, the ones that I mentioned in my testimony about the support of the State energy programs, which is what funds our efforts to do energy efficiency, we view as very important and also the weatherization assistance program which, you know, provides the type of activities and help to low-income consumers to make their housing stock much more energy efficient. It helps them not only in the wintertime with heating problems but also in the summertime with cooling situations. Those two in particular, so--okay.

Then also an increase in the Federal Energy Management program, the FEM program, and also Energy Star, the $2 million increase for the Energy Star program which we view as a critical and very important one because it is one where States take advantage of the Federal government's activities to promote energy efficient appliances, and it plays into some of the State programs.

In my own State we have a sales tax credit for the purchase of Energy Star appliances, and so we don't have to go through the certification process to determine what those products are, it is right there, and we just use that criteria to apply our sales tax credit.

Mr. BURR. Well, I can't speak for the committee, but for me personally my hope is that in this conservation piece that we can extend the Energy Star program to include more areas.

I want to thank the chairman for this opportunity and yield back the balance of my time.

Mr. BARTON. The gentleman yields back his time.

The Chair now recognizes the singer/songwriter from Massachusetts for 5 minutes.

Mr. MARKEY. Thank the chairman very much. I appreciate that introduction.

Mr. Garman, I authored this legislation back in 1987; and I have a certain proprietary interest in this air conditioning issue. So Mr. Dingell and I may be the last of the Mohicans to remember the 1980s, but we remember them vividly. And one of the reasons why we built in the no-rollback standard into this bill was that the Reagan administration had promulgated essentially a no-standard standard standard whereby they met the technically minimal requirements of a regulation by doing nothing. But they went through the whole rulemaking. So we had to make sure that in the future we would protect Congress against a willful administration violating the intent of our law.

Now, you contend that this was not a final rule. This was a final rule, Mr. Garman. It is illegal for the Bush administration to roll back this rule. It had been published

in the Federal Register. It had a delayed effective date for compliance, as many regulations do. But it was a final rule in effect as you took office.

There was no basis whatsoever, Mr. Garman, for the Bush administration to take this rule off the books, except for the fact that the Bush administration has a drilling agenda, not an energy efficiency agenda, and the entire P...s. rgy plan is nothing more than a Trojan horse designed by the energy companies to take environmental and energy efficiency and health laws off the books which they have opposed over the years.

Obviously, if the air conditioning standard reduced dramatically the need for new coal-fired or nuclear-fired or gas-fired electrical generating plants, then that is right in concert with the Bush vision. Now, at the same time, the Bush administration says that they are a technology-based administration, and they point, in fact, to the Department of Energy.

Let me put up over here--here is their vision for war fighting, for abrogation of the Anti-Ballistic Missile treaty, that we will be able to deploy this war fighting scenario in outer space with technologies that have yet to be invented, yet to be deployed, yet to be proven effective. But we are willing to destroy an entire arms control regime which has create stability in the world for 30 years, and the

Department of Energy and the weapons labs is given a responsibility for helping to develop that.

Now, at the same time, the Department of Energy, in analyzing this Bush administration, in analyzing air conditioners, says this: Here is an air conditioner. Now we can't figure out how to make an air conditioner meet a standard which the second largest manufacturer in America is already meeting.

Now, if you look at the complexity of the task that the Department of Energy has in both assignments, one, which almost every scientist at MIT and Cal Tech says is technologically impossible but the administration defies that, you have to have the will, they say, and compare that with the fact that the second largest manufacturer is already making the air conditioners that the Clinton administration has put on the books as a standard for every industry participating to meet 5 years from now, giving them plenty of time to phase in a technology that is already out on the market, it would seem to me that the careerists that you point to in the Bush administration should be put in new jobs because the consequence of not complying with that air conditioning standard is to insure that we are going to become more dependent upon energy sources that are inconsistent with the environmental and health and national security interests of the United States.

Now, I have a list of 132 air conditioners made by 25 companies that meet or exceed the standard promulgated by the Clinton administration and illegally taken off of the books by the Bush administration, and I would ask unanimous consent that this be put in the record.

Mr. BARTON. Without objection.

[The information follows:]

******** COMMITTEE INSERT ********

Mr. MARKEY. Now, let's look at this issue.

Mr. BARTON. Will the gentleman yield?

Mr. MARKEY. I will be glad to yield.

Mr. BRYANT. I just want to inform the chairman that it is a 5-minute rule, and Mr. Markey is one of our more eloquent speakers, but he has had his 5 minutes. So if he has a question, let's ask the question, rule; and if he wants to continue to make a statement, he can continue to do that at a later point in the hearing.

Mr. DINGELL. Mr. Chairman, I am enjoying this so much that I am compelled to make a unanimous consent request. I ask unanimous consent that I be permitted to insert my opening statement in the record and be recognized at this time to yield 5 minutes of my time to Mr. Markey.

Mr. BARTON. Well, reclaiming the Chair, even from this part of the podium, we will certainly accept the unanimous consent request to put the gentleman's opening statement in the record, which was already made before the gentleman arrived.

[The statement of Mr. Dingell follows:]

******** COMMITTEE INSERT ********

Mr. BARTON. In terms of the second unanimous consent request, you are asking that Mr. Markey be given an additional 5 minutes right now?

Mr. DINGELL. I am asking that you give him my 5 minutes.

Mr. BARTON. Well, your 5 minutes will be given after Mr. Walden's 5 minutes. If you want to yield at that time--.

Mr. DINGELL. I was hoping I could yield it at this time. As I have indicated, I have been enjoying Mr. Markey's comments.

Mr. BRYANT. Well, I will object to the second part of the unanimous consent request, and we will do regular order in terms of when questions are to be asked.

Mr. BARTON. Objection is so noted. We have allowed others to go over some; and Mr. Markey, if you have a question you want to pose at this point, it appears that you will have another 5 minutes there after I ask my questions.

Mr. MARKEY. I thank the chairman for yielding to me at this time for a quick question.

Well, here is the question I have. Up until my questioning, the Chair had been operating under a no-standard standard--.

Mr. BARTON. No, in terms of the time, that is not true. Mr. Markey, we have actually been keeping track. We have been going over about a minute and a half. At 48 seconds over, I flip my mike on just to give you a signal that we

were approaching that time limitation.

Mr. BRYANT. When I was in the Chair--when I asked my questions, I asked questions for 5 minutes and 20 seconds.

Mr. BARTON. We have now used up another minute and a half on this debate, so if you have--.

Mr. TAUZIN. We are not being very efficient here.

Mr. MARKEY. So how do you want to proceed, Mr. Chairman?

Mr. BARTON. Well, as I said, if you have a quick question you want to ask, it appears Mr. Dingell will be yielding you 5 minutes after I get my first round of questions in, since I haven't had that opportunity yet. So if you have a quick question, we can do it. I will take my five, and then it appears Mr. Dingell will yield to you his five.

Mr. MARKEY. Okay. I thank you, Mr. Chairman.

The EPA Energy Star website, Mr. Garman, this morning lists the 132 model lines made by 25 different manufacturers that already meet or exceeded the SEER 13 standard. Why can't the other industry participants meet that standard?

What is the difficulty, knowing that low-income users, 60 percent of whom rent, are in situations where they effectively pay the electricity bill every day that they are in these apartments, where the estimates are that the rent would only increase by $2 a month if a more efficient SEER 13 standard was installed in each one of those homes?

Why isn't a low-income user better off in the long term if the landlord is forced--not forced but because the air conditioning industry is forced to only have more efficient air conditioners out in the marketplace?

Please explain again the deep concern that this administration seems to have for low-income people in this one area if every economic analysis demonstrates that the consumer is better off by having low electricity bills in the long term.

Mr. GARMAN. You have raised a number of issues, and I will try to constrain my comments to the most recent one. But the--.

Let me, first of all, point out that the matter on the legality is an issue before the United States Court of Appeals for the Second Circuit, and we will not resolve that issue here today. So if I can put that issue of whether or not a 12 SEER is legal under the provisions of EPCA, we just need to put that aside.

I want to make it very clear, we are not arguing and it has not been argued, to my knowledge, that it is not technically possible to make an air conditioner that has a SEER 13 standard or a 15 standard or actually even a 18 standard. It is technically possible. Residing the compressor, increasing the size of the cooling array, and other steps can be taken. It is not a technological issue.

It is an economic issue.

It is economically unwise to, you know, in terms of its impact on consumers and the industry, to move to this standard this quickly. This is not to say the consumers in areas of the country where they can achieve a quick payback are not free to buy these air conditioners. They are. They are available on the market, and they can buy them. And if you live in Phoenix or Miami you should by them.

But if you live in Minnesota or Wisconsin and you are a low-income person who wants to live in his own home and you want to buy an air conditioner that is going to have a reasonable payback period, keep in mind we are promulgating a minimum national standard that has to apply in all regions of the country. If you want an Energy Star air conditioner that has a higher SEER standard, that is certainly available.

The question and the tests that are put in the law that we are supposed to use in promulgating these standards don't rest on the single issue of energy efficiency alone. We are told to evaluate the economic impact of the standard on the manufacturers and the consumers. We are told to evaluate the savings and operating costs throughout the life of the product. We are told to evaluate the total projected amount of energy that can be saved. In total, seven items in the law that we are required to evaluate in setting these standards. It is a balancing act. What the administration

is pointing toward is a standard of 12, an energy efficiency standard that will raise energy efficiency over the current standard by 20 percent.

Mr. BARTON. Okay. Thank you. We need to move on. We are 8 minutes and 56 seconds on that one.

So, Mr. Garman, I now yield myself 5 minutes for purposes of questioning.

I would like to follow up on this issue of the SEER standards and the other recommendations that the Bush administration did adopt. Can you go back through those, the ones that you did adopt and the energy savings levels for each of those appliances? Because, for some of us, air conditioning is not the biggest user of power, especially if you are in the rather cool Northwest. It is heating. It is water heating. And I wonder if you could go back through the ones that you did adopt.

Mr. GARMAN. Yes, sir. Adopted were standards covering ~~water machines,~~ washing machines, water heaters, commercial heating and cooling systems.

I would also want to point out that in the national energy policy we were expressly directed to look to new areas that--.

Mr. BARTON. What are those new areas?

Mr. GARMAN. Well, they didn't specify it. But we are looking at everything ranging from, of course, it has been

mentioned earlier, distribution transformers, residential furnaces and boilers, small electric motors, gas cooking products, residential or larger commercial central air conditioners and heat pumps, oil and gas-fired commercial package boilers, tankless gas-fired instantaneous water heaters, a whole range of things that we are looking at for possible new standards.

Mr. BARTON. So is the SEER standards on air conditioning from 13 recommended by Secretary Richardson? Was that figure the figure recommended by the professional staff of tne Department of Energy?

Mr. GARMAN. My understanding is that the--and again, this is anecdotal and I wasn't there. But it has--I have been told that the general staff recommendation presented to Secretary Richardson based on the technical support document, the same numbers developed by the same staff put before Secretary Abraham was to adopt the 12 SEER standard.

Mr. BARTON. So you are saying the 12 SEER standard is the one that the staff recommended based on your knowledge, not the 13.

Mr. GARMAN. Yes, sir.

Mr. BARTON. And what savings would people see on a 12 standard versus a 13?

Mr. GARMAN. It depends on the region of the country, where they lived, how--.