

SCOMM

62:24

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 5-DAY NOTICE 2/2/89
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER

OIL & GAS

**FISCAL NOTE(S) MUST BE ATTACHED
IN ACCORDANCE WITH AS 24.08.035

DATE TURNED INTO OFFICE 2/13/89

2/8/89

Mr. President:

Resources

Committee considered

SJR 26

Urging adoption of a national energy strategy

and recommended:

☐ replace with CS _____ ☐ same title

☐ attached amendment(s) and ☐ new title

maple ☐ _____ letter of intent adopted

☒ do pass

☐ do not pass

☐ no recommendation

☐ individual recommendations

☐ further referral to _____

FISCAL NOTE(S) attached ☒ zero
☐ appropriation no FN attached

☐ fiscal impact
☐ Gov. FN introduced w/ bill

MEMBERS SIGNING DO PASS

Arthur J. Jorgensen
Rich Halpern
Donna Frank
Lud. J. Jorgensen

OTHER RECOMMENDATIONS

Bettye Johnson Do Pass
Chairman signature and recommendation

☐ Committee backup attached

SENATE COMMITTEE REPORT

FURTHER

2/14/89

DATE TURNED INTO OFFICE _____

Mr. President:

Oil & Gas

Committee considered

SJR 26

adoption of a national energy strategy

and recommended

☐ replace with _____ CS _____) ☐ same title
☐ or adopt _____ CS _____) ☐ new title
☐ attached amendment(s) and ☐ technical
title change
☐ _____ letter of intent adopted (HB only)

☒ do pass

☐ do not pass

☐ no recommendation

☒ individual recommendations

☐ further referral to _____

FISCAL NOTE(S) ☐ zero ☐ fiscal impact ☐ appropriation no FN
☐ new ☐ updated ☐ previous
☒ same as previous fiscal note(s) published _____

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Tim Kell

Paul Frank

Al Adams

Rick Halford

Paul Adams - 10 Pass
Chairman signature and recommendation

☐ Committee Backup attached

Alaska State Legislature

JUDICIARY
CHAIRMAN
907-465-4523



JAN FAIKS
POST OFFICE BOX V
JUNEAU, ALASKA 99811

Senate

February 27, 1989

MEMORANDUM

TO: Senate Oil and Gas Committee

FROM: Senator Jan Faiks
Chairman, Senate Judiciary Committee

SUBJECT: SJR 26 "Urging adoption of a national energy strategy"

SJR 26 is in response to work undertaken by the South/West Energy Council. The resolution will allow Alaska's voice to be among the first to urge Congress and the President to adopt a National Energy Strategy.

As you know, Alaska is one of eight members of the Council, which consists of legislators from the oil producing states: Alaska, Alabama, Arkansas, Colorado, Louisiana, New Mexico, Oklahoma and Texas.

The Council has offered its proposal as a starting point for consideration at the national level. Alaska's resolution in support of the plan is among the first to be introduced.

The goal of the proposal is to provide a stable supply of reasonably priced energy in an efficient and environmentally sound manner to meet the needs of U.S. citizens, the economy and national security interests.

The Council believes the long term goal of the U.S. should be energy independence. The proposal addresses energy conservation, crude oil, natural gas, coal, renewable energy and electricity.

Sending this resolution to Congress is an opportunity for Alaska to be among the very first to formally stand in support of a National Energy Strategy.

OUT OF SESSION

3111 C STREET ANCHORAGE, ALASKA 99503 907-561-7610

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: SJR 26

PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: 9-Feb-89

Agency Affected: Natural Resources

Title: Urging adoption of a national
energy strategy.

BRU: Petroleum Management

Sponsor: Faiks, Fahrenkamp, Coghill, Halford, Uehling, Jones

Components: Petroleum Management

Requestor: Senate Resources

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0.0					

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

See Attached

Prepared by: Carol Wilson

Phone: 465-2400

Division: Commissioners Office

Date: 9-Feb-89

Approved by Commissioner: Lennie Gorsuch

Date: 9-Feb-89

Agency: Department of Natural Resources

Distribution (by preparer):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

page 1 of 1

ZERO FISCAL NOTE

South West
Energy Council

A NATIONAL ENERGY STRATEGY

ALABAMA



ALASKA



ARKANSAS



COLORADO



LOUISIANA



NEW MEXICO



OKLAHOMA



TEXAS



The South/West Energy Council believes that the President and Congress should aggressively implement a national energy strategy. Energy is the key to assuring a viable economy, a strong national defense and sustaining the American way of life. This Strategy is strongly recommended as a starting point for federal efforts.

The South/West Energy Council was formed in 1975 by elected leaders of key energy producing states to encourage the development of the nation's indigenous energy resources while maintaining the integrity of our natural environment.

Funded by state appropriations, the Energy Council provides its member states a forum for addressing state and federal policies toward energy development and environmental protection. Its activities range from fact-finding meetings and policy workshops to representation before the Congress and federal agencies.

Delegates to the Energy Council are appointed by the legislative leadership from the House and Senate in each member state, and are served by professional staff from offices in Irving, Texas.

A NATIONAL ENERGY STRATEGY

Goal

It shall be the goal of the United States' energy strategy to provide a stable supply of reasonably-priced energy in an efficient and environmentally-sound manner to meet the needs of its citizens, economy, and national security interests. Energy independence shall be the long term goal of the United States.

Conservation

It shall be the energy strategy of the United States to promote energy conservation, improving efficiency, in a variety of ways by setting or strengthening: Corporate Average Fuel Efficiency Standards for automobiles; energy efficiency provisions in building codes (including lighting efficiency standards); home appliance and heating and cooling unit efficiency standards; and waste recycling or reduction standards for industrial manufacturing.

Also, the federal government shall promote energy conservation education and fund research into conservation technologies. Basic energy conservation research funded by the government shall include superconductivity studies.

Crude Oil

It shall be the strategy of the United States to promote the environmentally-sound production of domestic energy resources, the conservation and efficient use of energy resources, and the management of energy imports.

It shall be the policy of the United States to promote and encourage domestic production of crude oil in an environmentally-sound manner in order to supply United States consumers with a secure source of petroleum, and provide a stabilizing influence to the world price of crude oil. In this regard the federal government shall provide tax and tax accounting incentives to oil producers for domestic exploration and development efforts with specific investment tax credits for research and development and enhanced oil and gas recovery.

It shall be the policy of the United States to assure that energy resources are utilized in a manner that recovers the most energy value possible. Similarly, it is the strategy of the United States to alleviate oil dependency by funding research and development to perfect alternative fuels, particularly for the transportation sector and primary modes of personal transportation. Enhanced oil and gas recovery from known reserves shall be promoted, and a research, development, demonstration, and commercialization program for unconventional sources of crude oil shall be pursued through a cooperative effort among industry, higher education, and national laboratories.

It shall be the policy of the federal government to manage United States imports by diversifying import suppliers, allowing the exportation of Alaskan crude oil, pursuing a Pan American Energy Alliance with Western Hemisphere producing nations, resolving technological barriers to the use of vast reserves of unconventional crude oil in the Western Hemisphere, and opening a dialogue with suppliers worldwide. It shall also be the policy of the United States to continue filling the Strategic Petroleum Reserve, at least to its present goal of 750 million barrels.

It shall be the strategy of the United States to support active management of federal lands and Outer Continental Shelf areas in accordance with principles of multiple use and to recognize the potential that public lands hold, particularly in Alaska, for environmentally-sound development of energy resources.

Coal

Coal is America's leading fuel in terms of reserves. It holds the promise of long-term energy security for this nation. However, its current use is constrained by aged technology and environmental concerns.

The Clean Coal Technology Program addresses both these constraints and offers additional benefits as well. The Program commits 5 billion dollars, half federal government funding and the half private sector monies, to demonstrate improved technology.

These projects not only burn coal in an environmentally-safe manner, but more efficiently as well. Many environmental concerns can be satisfied through the aggressive development and implementation of clean coal technologies which will allow the use of all types of coal reserves economically and cleanly without environmentally significant by-products or waste materials.

The Program will make the United States a technological leader, with the ability to export not only coal but clean, efficient coal technology to other nations of the world. The program also fulfills this nation's promise to its neighbor, Canada, to forcefully address transboundary environmental problems.

It shall be the strategy of the United States that the Clean Coal Technology Program be continued for its environmental, conservation, and export potential.

Natural Gas

It shall be part of the strategy of the United States to promote the use of clean, efficient natural gas in residential, commercial, industrial, utility, and transportation applications. Such use shall include the co-firing of natural gas with other fuels for efficiency or environmental purposes.

The United States shall promote and encourage domestic production of natural gas in an environmentally-sound manner by providing tax and tax accounting incentives to producers of natural gas. Further, the federal government shall complete price deregulation as existing contracts expire.

The Federal Energy Regulatory Commission shall expedite approval of pipeline construction serving new markets, particularly the oil-dependent residential market of the Northeast, and shall assure that all such projects provide access by interconnecting pipelines to producing areas of this nation.

The federal government shall fund continuing research and development relative to the environmentally-sound production and use of natural gas, in order to conserve energy by improving efficiency and shall promote development of methanol and natural gas-fueled vehicles.

Renewable Energy

Renewable energy sources are characterized by a broad range of technologies, costs, efficiencies, and environmental concerns. Recognizing this spectrum of resources, it shall be the strategy of the United States to institute a long range, stable Renewable Energy Development Program which identifies and assists renewable energy sources from research and development through demonstration projects and commercialization in a cooperative effort among industry, higher education, and national laboratories.

Renewable energy resource development must be ranked and funded on the basis of factors including energy efficiency, economic competitiveness, environmental impacts, and technological adaptability. Part of this program, and critical to its success, is federal development of alternative technologies that improve renewable energy efficiencies, cut costs, and assist in integrating renewable energy into existing energy systems. Also needed is a translation and distribution system for international technical and marketing papers on renewable energy.

Electricity

It shall be the strategy of the United States to promote the development of sources of electric energy that are sufficient to meet national needs, secure from external threat, reliable in availability and delivery, safe relative to people and the environment, and efficient for use in homes, businesses and industries.

The electricity sector today is marked by tremendous regional diversity, especially with regard to capacity. Fuel usage also varies widely. Implementation of federal legislation that fails to recognize this diversity inevitably penalizes one region or another.

State regulatory bodies are close to consumers, utilities, industries, and concerned for state economic well-being. State regulatory bodies are in the best position to evaluate consumer needs, questions relative to fuel choice, economic development implications, and system reliability.

A federal government program for storage and disposal of spent nuclear fuel shall be finalized as quickly as is safely possible. Federally-acceptable, standardized nuclear powerplant designs must also be established.

Electricity research and development efforts shall be intensified with regard to energy efficiency, superconductivity, advanced and reasonable environmental controls in power generation, and development of cost-effective renewable supply technologies. The development of electric vehicles shall also be pursued.

Implementation

The development of environmentally-sound energy conservation, supply and distribution systems requires long range planning and sustained efforts. The immediate establishment and implementation of a national energy strategy, as recommended in this document and discussed in the related Background Paper, will assure that the future energy needs of American citizens, the United States economy and national security interests are met in an efficient and environmentally-sound manner.



REP. BILL K. BREWSTER (OK)
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SOUTH/WEST ENERGY COUNCIL

REP. JOHN W. RAMSEY (AR)
CHAIRMAN
SOUTH/WEST ENERGY RESEARCH FOUNDATION

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**Testimony of Patrick J. Raffaniello
Alaska Senate Committee on Oil and Gas
3 March 1989**

Madam Chairman, members of the Committee, thank you for allowing me the opportunity to visit with you this afternoon. My name is Pat Raffaniello; I am the Executive Director of the South/West Energy Council. The Council is the lobbying organization for the energy producing states. The Council consists of legislators from Alaska, Alabama, Arkansas, Colorado, Louisiana, New Mexico, Oklahoma, and Texas.

Last year, the Council embarked on a project to draft a comprehensive national energy strategy, addressing the energy needs of the entire nation, not just the producing states. We held a series of workshops and heard everyone from the President of the Renewable Energy Institute to the President of Mobil Exploration; and from the New York State Energy Officer to the Chairman of the California Energy Commission.

A copy of the our proposed National Energy Strategy has been distributed to you. The Strategy is three pages long, and addresses energy conservation, crude oil, coal, natural gas, renewable energy, and electricity. It was adopted unanimously by the eight member states of the Council in December.

The goal of the Strategy is to provide a stable supply of reasonably priced energy in an efficient and environmentally sound manner to meet the needs of United States citizens, the economy, and national security interests. We feel that the long term goal of the United States should be energy independence.

However, in our discussion, it became clear that a policy that would rely today solely on domestic energy production simply can not live up to its promise. This nation now sends four billion dollars a month abroad for oil. We are heading quickly for a fifty percent dependence level on foreign crude.

Relative to crude oil, a three point policy approach emerged: conservation, domestic production, and import management. Energy conservation is key; not only does it make economic sense to use our energy resources efficiently, it makes environmental sense as well. We proposed that the United States continue to promote energy conservation.

Of course, essential to American energy policy is a strong domestic energy industry. This industry can and must operate in an environmentally sound manner to develop the resources we have in this nation. We need to support domestic oil and gas exploration with tax incentives, just as we need to support enhanced oil and gas recovery to assure maximum recovery of those resources already identified.

The third point with regard to crude oil is the management of imports. By this we do not mean direct federal intervention in purchasing foreign crude but rather common sense tactics to lessen dependency. One means of doing this is by encouraging a Pan American Energy Alliance. Canada, Mexico, and Venezuela all have substantial reserves right here in this hemisphere.

Another proposal relative to imports is as simple as opening a dialogue with suppliers worldwide, particularly, OPEC, which represents three-quarters of the world's reserves. In addition, the United States should continue to fill the Strategic Petroleum Reserve. And finally, the Council recommends that the ban on exporting Alaskan crude oil be lifted.

It is also the recommended policy of the Council to pursue active management of federal lands and Outer Continental Shelf areas in accordance with the principals of multiple use. This comports with the Council's long standing policy urging the exploration and development of ANWR.

So far, I have focused on relatively short term policies dealing with conservation and crude oil. However, it will take a combination of other fuels and technologies to meet our long term goal of energy independence. For instance, coal is America's leading fuel in terms of reserves.

Coal holds the promise of long-term energy security. But, today, its use is constrained by aged technology and environmental concerns. The Clean Coal Technology Program is a demonstration program, funded by federal and private dollars, to dramatically reduce emissions while improving the efficiency of coal use. The Clean Coal Technology Program is supported wholeheartedly in the National Energy Strategy.

Natural gas is an extremely important component of our energy mix. This domestic resource is more plentiful than recently thought. Importantly, it is clean burning and efficient. The Council recommends promoting the domestic production and use of natural gas and pursuing the development of natural gas fueled vehicles.

Renewable energy sources are characterized by a broad range of technologies, costs, efficiencies, and environmental concerns. Renewables represent a diverse group of energy sources that need a long term, stable program to research, develop, demonstrate, and commercialize the most promising of these resources.

The National Energy Strategy recommends that work on these technologies be pursued as a cooperative effort among industry, higher education, and the national laboratories.

Although not an energy source, electricity is also addressed in our energy strategy. We urge that regulation of electric power companies with regard to questions like fuel choice, rates, and system reliability be maintained at the state level, where regulators are closer to the consuming public.

Further, we specifically addressed two important points with regard to nuclear power. First, that a federally, acceptable, standardized nuclear powerplant design be established and, second, that a federal program for storage and disposal of spent nuclear fuel be finalized as quickly as is safely possible.

Just as long term planning is critical to assuring sufficient energy supplies, so also is it key to avoiding or minimizing environmental impacts. In fact, that is why energy conservation was given premier billing in our Energy Strategy. By saving energy, we avoid environmental impacts. Environmental impacts are minimized by fuel choices, improved technology, and careful project siting.

In the final section of Energy Strategy, titled *Implementation*, we note that the development of environmentally sound energy conservation, supply, and distribution systems require long range planning and sustained effort. Our National Energy Strategy is a starting point for federal consideration. We do not expect it to be accepted in its entirety, unchanged, but we recognize that it is much easier to edit a proposal than to start from scratch.

The Council's National Energy Strategy has already been hand carried to President Bush and is now being distributed to key members of both the House and Senate.

As a bipartisan effort, we are seeking the support of the leadership of both parties. We are briefing Congressional delegations so they might promote the National Energy Strategy in both Houses.

On the state level, as we are doing here today, the National Energy Strategy is being presented to a number of legislatures, some which are not members of the Council, for resolutions of support.

Madam Chairman, ladies and gentlemen of the committee, thank you for your attention. I would be pleased to answer questions if the Chair will allow.

Perspective

Garden of New Studies Produces a Rose

Reprinted with permission from the February 20, 1989 issue of Natural Gas Week.

Along with the dawn of a new year and the blooming of the 101st Congress, comments on the future of America's energy policy are popping up like spring daffodils.

But the quality of the new garden is uneven. As with any growing venture, the nature of the product depends greatly on the effort that went before. Further, the effort is not measured alone by size of staff, but by the level of perspicacity, logic, integrity and public honesty.

Another key aspect is the broadness of the view. Narrow views, no matter how good, must eventually be woven into the whole fabric of compromise cloth.

There are the usual comments from producers ("let's have tax incentives for E&P"), pipelines ("we're stuck in the middle") and distributors ("don't bypass us"), as well as independent marketers ("don't discriminate against us"), independent producers ("we need protection"), majors ("we like free trade") and environmentalists ("don't use energy, it pollutes").

But there are also a crop of studies that bear greater attention. I'd like to mention one in particular.

It is "A National Energy Strategy and Background Paper" by the South/West Energy Council, a group of energy-state legislators from Alabama, Alaska, Arkansas, Colorado, Louisiana, New Mexico, Oklahoma, and Texas. The Council, which has staff offices in Irving, Texas, was established in 1975 and is funded by the states. A draft of its paper was presented to President Bush last December and copies are being distributed now to state legislators and to congressional delegations. The project was directed by Lori Cameron, a lawyer with Adams & Reese in Baton Rouge, La.

The 99-page paper discusses energy conservation, crude oil, coal, natural gas, renewable energy and electricity. The council declares that the goal of U.S. energy strategy should be "to provide a stable, reasonable priced supply of energy in an efficient and environmentally sound manner to meet the needs of its citizens, economy and national security interests. Energy independence shall be a long-term goal of the United States."

That sounds bland enough, and the call for energy independence is not a man-the-barriers cry for dramatic but impractical solutions. It does not, for example, ask for an oil import fee.

It does seek a "management plan" that maximizes American resources - both through more production and greater energy-use efficiency - while "managing necessary imports to the country's best advantage."

On the key issue of crude oil, it notes that the U.S. position "is a relatively simple matter of supply and demand. This country has 4% of the free world's oil reserves; the Organization of Petroleum Exporting Countries (OPEC) has fully three-quarters." On the other hand, the U.S. consumes 30% of free world oil. "Given the nation's current energy supply mix and consumption habits, the U.S. has long passed any hope of self-sufficiency through the crude oil production."

The council says that by 2010, imports will equal two-thirds of U.S. consumption. It favors a strategy of tax incentives for oil production, especially enhanced production, diversification of import suppliers, allowing export of Alaskan crude oil, pursuing a Pan American energy alliance dialog with worldwide suppliers, continuation of filling the Strategic Petroleum Reserve, and multiple use of federal lands.

Because much of oil use is for transportation, the council also favors strengthening the Corporate Average Fuel Efficiency standards, plus improved efficiencies in building codes (including lighting), home appliance (including heating and cooling units) and industrial waste recycling.

Natural gas is a major element in the council's plan, albeit a somewhat limited one. "The United States is at a policy crossroad of environmental protection and energy security," says the council. "One fuel promises to deliver the country into the next century in a cleaner, more efficient manner, while offering a degree of independence from imported oil, thereby increasing domestic energy security. That fuel is natural gas."

But it also states that natural gas is "not a long-term energy panacea, but a link between the nation's current energy situation, with its attendant environmental and security problems, and a more secure energy future that maximizes energy conservation, renewable energy use and consumption of other energy resources in a clean, efficient manner."

The council traces the history of the upheaval of the gas industry, and adds the important fact that today 80% of industrial boilers can burn either gas or residual fuel oil. That allows fuel shopping based on price, eliminates dependence on one fuel and "offers some protection against shortages like the one in the 1970s."

While there is a federal movement toward a market economy in gas, the council notes that "In the world of open-access and competition as defined by [the Federal Energy Regulatory Commission], there remains a regulated sector of the industry. [Local distribution companies] are regulated by the state rather than FERC." No solution is offered, but the council says resolution of problems involving "interface between federal and state regulatory schemes" will confront legislators and Congress alike over the next few years.

The council notes the driving force behind future gas use. "Although the price is low, the supply secure the distribution system well developed and the technology efficient," the council says, "a primary impetus behind increasing use of natural gas is concern for the environment. Importantly, gas is also viewed as a means of backing out imported oil."

In its strategy statement, the council favors federal promotion of gas use, including in co-firing applications, tax incentives for production, complete wellhead decontrol "as existing contracts expire," expedited pipeline approvals for new markets and federal R&D for production and use.

While the report does not specify what the interim period will be for gas use (other than "into the next century"), it probably is a bit conservative in estimating the longevity of the social and economic needs for a clean, domestic and readily available fuel. But its conservatism is a major part of its appeal, thus making this report a reasonable foundation for the energy debate.

--John H. Jennrich

South West
Energy Council

**A NATIONAL ENERGY STRATEGY
AND BACKGROUND PAPER**

ALABAMA

■

ALASKA

■

ARKANSAS

■

COLORADO

■

LOUISIANA

■

NEW MEXICO

■

OKLAHOMA

■

TEXAS

■

The South/West Energy Council believes that the President and Congress should aggressively implement a national energy strategy. Energy is the key to assuring a viable economy, a strong national defense and sustaining the American way of life. This Strategy is strongly recommended as a starting point for federal efforts.

A NATIONAL ENERGY STRATEGY AND BACKGROUND PAPER

The South/West Energy Council and the South/West Energy Research Foundation believes that the President and Congress should aggressively implement a national energy strategy. Energy is the key to assuring a viable economy, a strong national defense and sustaining the American way of life. This Strategy is strongly recommended as a starting point for federal efforts.

**SOUTH/WEST ENERGY COUNCIL
AND
SOUTH/WEST ENERGY RESEARCH FOUNDATION**

**SOUTH/WEST ENERGY COUNCIL
AND
THE SOUTH/WEST ENERGY RESEARCH FOUNDATION
NATIONAL ENERGY STRATEGY PROJECT**

TABLE OF CONTENTS

A National Energy Strategy	1
Executive Committee	5
Introduction to Energy Strategy Background Paper	7
Goal Statement	15
Conservation	17
Crude Oil	23
Coal	33
Natural Gas	45
Renewable Energy	57
Electricity	71
Issue Index	85
Bibliography	89

List of Tables

1987 U. S. Energy Consumption.....	10
Indicators and Trends Related to Energy and Economic Security.....	13
U. S. Reserves, Production, Imports, and Consumption 1970 - 1987.....	24
1988 DOE Crude Oil Outlook.....	27
Retrofit Technologies.....	40
Repowering Technologies.....	41
Conversion Technologies.....	41
Total United States Gas Reserves and Resources Assessed.....	46
Summary of Fuel and Vehicle Characteristics When Alternative Energy Sources Replace Gasoline.....	55
Renewable Energy Contribution to U.S. Energy Supply.....	58
Renewable Energy Electric Generation.....	59
Matching Up Renewable Energy Sources with End-Uses.....	64

List of Figures

1986 Free World Oil Reserves and Consumption.....	9
Production, Conservation and Imports Scenario.....	11
All Sectors of U. S. Economy Now Use Energy More Efficiently.....	17
Percentage Improvement in End-Use Efficiencies (Beyond 1973 Averages).....	18
Consumption of All U. S. Primary Energy Broke Down Like This in 1985.....	19
U. S. Fossil Fuel Consumption By Use Sector (1986).....	34
Emissions of SO ₂ and NO _x in Continental U.S. (1984).....	36
1986 Sources of U.S. Sulfur Dioxide Emissions.....	37
Proposed Funding For DOE's Clean Coal Technology Program.....	39
Natural Gas Consumption By End-Use Sector, 1987.....	48
Renewable Energy Electric Generation.....	60
Total Federal Renewable Energy Budget 1977-88.....	66
1987 Electricity Generation By Utilities By Fuel Source.....	71
1987 Electricity Consumption By Sector.....	74
North American Electric Reliability Council Region Map.....	76
Electric Generating Capacity Additions By U.S. Utilities Made and Planned, 1966-1996.....	79

A NATIONAL ENERGY STRATEGY

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The Clean Coal Technology Program addresses both these constraints and offers additional benefits as well. The Program commits 5 billion dollars, half federal government funding and half private sector monies, to demonstrate improved technology.

These projects not only burn coal in an environmentally-safe manner, but more efficiently as well. Many environmental concerns can be satisfied through the aggressive development and implementation of clean coal technologies which will allow the use of all types of coal reserves economically and cleanly without environmentally significant by-products or waste materials.

The Program will make the U.S. a technological leader, with the ability to export not only coal but clean, efficient coal technology to other nations of the world. The program also fulfills this nation's promise to its neighbor, Canada, to forcefully address transboundary environmental problems.

It shall be the strategy of the United States that the Clean Coal Technology Program be continued for its environmental, conservation and export potential.

Natural Gas

It shall be part of the strategy of the United States to promote the use of clean, efficient natural gas in residential, commercial, industrial, utility and transportation applications. Such use shall include the co-firing of natural gas with other fuels for efficiency or environmental purposes.

The United States shall promote and encourage domestic production of natural gas in an environmentally-sound manner by providing tax and tax accounting incentives to producers of natural gas. Further, the federal government shall complete price deregulation as existing contracts expire.

The Federal Energy Regulatory Commission shall expedite approval of pipeline construction serving new markets, particularly the oil-dependent residential market of the Northeast, and shall assure that all such projects provide access by interconnecting pipelines to producing areas of this nation.

The federal government shall fund continuing research and development relative to the environmentally-sound production and use of natural gas, in order to conserve energy by improving efficiency and shall promote development of methanol and natural gas-fueled vehicles.

Renewable Energy

Renewable energy sources are characterized by a broad range of technologies, efficiencies and environmental concerns. Recognizing this spectrum of resources, it shall be the strategy of the U. S. to institute a long range, stable Renewable Energy Development Program which identifies and assists renewable energy sources from research and development through demonstration projects and commercialization in a cooperative effort among industry, higher education and national laboratories.

Renewable energy resource development must be ranked and funded on the basis of factors including energy efficiency, economic competitiveness, environmental impacts and technological adaptability. Part of this program, and critical to its success, is federal development of alternative technologies that improve renewable energy efficiencies, cut costs and assist in integrating renewable energy into existing energy systems. Also needed is a translation and distribution system for international technical and marketing papers on renewable energy.

Electricity

It shall be the strategy of the United States to promote the development of sources of electric energy that are sufficient to meet national needs, secure from external threat, reliable in availability and delivery, safe relative to people and the environment and efficient for use in homes, businesses and industries.

The electricity sector today is marked by tremendous regional diversity, especially with regard to capacity. Fuel usage also varies widely. Implementation of federal legislation that fails to recognize this diversity inevitably penalizes one region or another.

State regulatory bodies are close to consumers, utilities, industries, and concerned for economic well-being. State regulatory bodies are in the best position to evaluate consumer needs and questions relative to fuel choice, economic development implications, and system reliability.

A federal government program for storage and disposal of spent nuclear fuel shall be finalized as quickly as is safely possible. Federally-acceptable, standardized nuclear power plant designs must also be established.

Electricity research and development efforts shall be intensified with regard to energy efficiency, superconductivity, advanced and reasonable environmental controls in power generation, and development of cost-effective renewable supply technologies. The development of electric vehicles shall also be pursued.

Implementation

The development of environmentally-sound energy conservation, supply and distribution systems requires long range planning and sustained efforts. The immediate establishment and implementation of a national energy strategy, as recommended in this document and discussed in the related Background Paper, will assure that the future energy needs of American citizens, the U.S. economy and national security interests are met in an efficient and environmentally-sound manner.

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National Energy Strategy Project Director

INTRODUCTION

In 1988, because of the vital relationship between energy, the economy and the long term security of this nation, the South/West Energy Council (the Council) and the South/West Energy Research Foundation (the Foundation) undertook a project to provide a national energy strategy. As proposed, the National Energy Strategy presents a series of recommendations relative to conservation, crude oil, coal, natural gas, renewable energy and electricity.

The South/West Energy Council consists of legislators from the states of Alabama, Alaska, Arkansas, Colorado, Louisiana, New Mexico, Oklahoma and Texas. The National Energy Strategy has been unanimously adopted by the South/West Energy Council for transmittal to President-elect George Bush and the One Hundred and First Congress of the United States.

In preparing the National Energy Strategy, the Council and its research affiliate, the Foundation, held a series of workshops, drawing on distinguished experts. This Background Paper was commissioned to provide a research overview and consolidate points raised at the workshops. It attempts to identify current energy-related issues while providing the basis for long term policy. As such, the Background Paper is a tool and some members of the Council or the Foundation may not agree with specific parts of it.

Overall, the South/West Energy Council has found that the nation's commitment to energy conservation, which led to substantial gains in efficiency over the last decade, needs to be renewed, and domestic production of crude oil promoted. Simultaneously, crude oil imports should be managed by a variety of means including a Pan American Energy Alliance, import diversification and the opening of a dialogue with major suppliers to the U.S.

The Clean Coal Technology Program is supported in order to provide advanced technology, improving the environment acceptability and efficiency of coal-powered generation. A stable, long term Renewable Energy Development Program will address the broad range of renewable energy sources awaiting research, development, demonstration or commercialization. Continued emphasis on state regulation of electric power, keeping considerations of electric system reliability and efficiency close to the consumer, is recommended. Finally, immediate action to clearly articulate and implement a national energy strategy is required.

The concern that calls today for a national energy strategy, or a national energy management plan, is not a crisis such as the elimination of a major source of supply. It is less tangible than a military disruption of a crude oil flow line, but more threatening. It is the future stability of our national economy.

Over the last 15 years, the U. S. has seen three major changes in the price of oil, two significant increases and a decrease from which a solid price has not yet clearly emerged. These price fluctuations have been followed by two national recessions and a depression in producing regions of the country.

Forty-three percent of the energy consumed in this country is petroleum. The U. S. economy is subject to control of an essential commodity, which in turn is subject to the control of foreign interests. Energy dependency and the economic dislocation threat it portends does not require that the U. S. take over foreign interests but neither does it recommend that the threat be ignored, in hopes of beating the odds on an economic disruption.

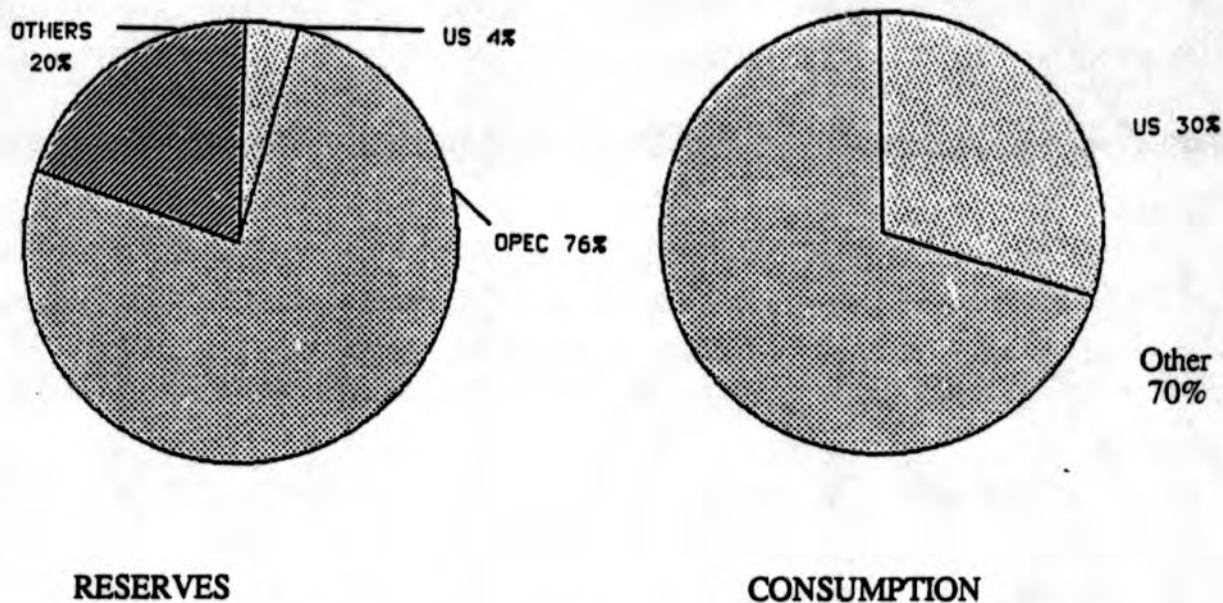
It requires a management plan that maximizes American resources, recovering domestic resources and recovering energy value from those resources, while managing necessary imports to the country's best advantage. This plan must move the U.S. toward eventual energy independence.

The U.S. position is a relatively simple matter of supply and demand. This country has four percent of the free world's oil reserves; the Organization of Petroleum Exporting Countries (OPEC) has fully three-quarters.

On the other hand, as Figure 1 indicates, the U.S. accounts for 30 percent of the free world's consumption of oil. Given the nation's current energy supply mix and consumption habits, the U. S. has long passed any hope of energy self-sufficiency through crude oil production. In a little more than a year (at the end of 1990), imports are expected to account for half of the nation's consumption of crude oil.

FIGURE 1

1986 FREE WORLD OIL RESERVES AND CONSUMPTION



Source: South/West Energy Council

While oil is not the only indigenous energy source, its role in the national consumption pattern is a dominant one. As Table 1 indicates, petroleum products account for well over forty percent of the energy consumed in the U.S. Importantly, particularly with regard to the transportation sector, there are virtually no technically-feasible alternate fuels currently available for use as substitutes for petroleum. Consequently, a national energy policy must first and foremost deal with crude oil.

TABLE 1
1987 U.S. ENERGY CONSUMPTION

	Quadrillion Btu	Percent
Petroleum Products	32.63	41
Coal	18.00	23
Natural Gas	17.18	22
Nuclear	4.92	6
Hydropower	3.04	4
Other	2.85	4
Total	78.62	100

Source: DOE-EIA, South/West Energy Council

In terms of crafting an energy policy, the last two decades has provided a wealth of experience upon which to draw. Some of it has been unfortunate, like the last national policy which in 1985, declared the U. S. to be in good energy health immediately prior to the world price collapse that halved domestic exploration.

Some of the experience has been extremely hopeful, like the conservation strides of the 1970s that have allowed the national economy to grow by 2.5 percent a year while consumption of oil has remained at its 1973 level; or the production of this country's greatest oil field at Prudhoe Bay. Despite this experience, crude oil dependency and dogmatically exclusive proposals for energy security still face policy makers.

The dependency is clear. Examine for example, the transportation sector. The U.S. is 97 percent dependent on oil for transportation. Without oil, this nation does not move.

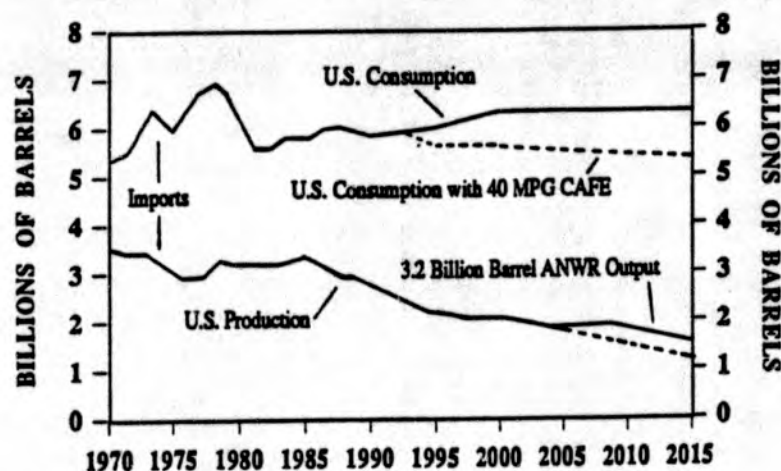
Exclusive policy proposals are perhaps best characterized by the most recent federal approach -- let the market take care of the problem. With 76 percent of the free world's supply of oil belonging to OPEC nations, it is clear that the world oil market is not guided by an invisible hand but rather by some very real foreign governments.

Battles rage nationally over domestic production policies. A policy that would rely solely on domestic reserves simply can't live up to its promise. A policy that vilifies oil companies for "draining America first" may in fact lead to draining America of needed capital, as even now the U. S. sends four billion dollars a month abroad for foreign oil.

In fact, Figure 2 demonstrates the need to add to domestic production as national consumption levels are decreased. Clearly, despite conservation and domestic production efforts, imports will continue to be a critical component of America's energy mix over the short to medium term.

FIGURE 2

PRODUCTION, CONSERVATION AND IMPORTS SCENARIO



CAFE refers to corporate automobile fleet efficiency (federal mileage standards) and ANWR refers to potential production from oil and gas development of the Arctic National Wildlife Refuge.

Source: Yeager, p. 20.

Over the last decade, a degree of comfort has been afforded the U.S. as significant non-OPEC sources of oil were brought on line. Diversifying the sources of supply of imports is one way to manage the import situation. However, many of these producing nations are in supply positions similar to that of the U.S.; Canada has a smaller crude oil reserve base than does the U.S. and reserves in the United Kingdom are being fast depleted, just as are American reserves.

This is not to say that non-Middle Eastern sources of oil will not be available. In the Western Hemisphere, Mexico holds promise for the long term (in this case 12 years or more is long term) and new discoveries are being made, e.g. Brazil's largely unquantified strikes. The largest reserves, conventional and nonconventional, in this hemisphere are in Venezuela which, although a member of OPEC, supplied the U.S. during embargoes in the 1970s.

But the bulk of the world's conventional reserves rest in the Middle Eastern OPEC nations. If indeed this part of the world will be such important suppliers, then the U. S. should start a dialogue to find the common ground that no doubt exists between the world's largest consumer and its largest suppliers.

However much experience past energy policies have granted the nation, it has not been matched by security. In fact, as a nation the U. S. is in an unenviable position of having almost all of its indicators pointing away from a secure energy and economic position. The only bright spot is the Strategic Petroleum Reserve (SPR) which has become this nation's primary energy insurance policy. Consider the factors addressed in Table 2.

The goal of the nation's energy policy is clear; to provide a stable supply of reasonably-priced energy in an efficient and environmentally sound manner to meet the needs of its citizens, economy and national security interests. Energy independence should be the long term goal of the United States.

Over the short term the nation's energy management plan must provide for economic growth while testing the flexibility of supply and demand constraints; that is, how to maximize recovery of both domestic resources and energy from those resources through improved efficiency and conservation measures. Equally important, how can the U. S. best manage its oil imports as an essential component of the national energy mix.

TABLE 2**INDICATORS AND TRENDS RELATED
TO ENERGY AND ECONOMIC SECURITY**

U. S. Energy Consumption	↑	Consumption is once again increasing, after leveling off as a result of conservation efforts,
U. S. Production	↓	Decreasing, reflecting declining reserves and depressed world price,
Imports of Foreign Oil	↑	Predicted to break 50 percent by 1990,
Conservation	↓	Conservation incentives have been weakened,
Development of Renewable Fuels	↓	Federal research and development budgets gutted,
Strategic Petroleum Reserve	↑	Slowly increasing,
Trade Deficit	↑	In 1987, the U.S. trade deficit increased for the sixth year in a row, and
Environmental Concerns	↑	Greenhouse effect, ozone nonattainment and acid rain head the list of growing concerns.

Source: South/West Energy Council

Environmental concerns, available domestic supplies and the possibility of backing out some imported oil, point to natural gas as a near-term link to the nation's energy future. Finally, national security, international considerations and regional impacts must be addressed.

An energy strategy must look beyond a four year term or even eight years. It must be a continuum of policy measures addressing weak points immediately and strengthening the very basis of the economy over the long term by shifting to a less dependent position. It must not of itself be the cause of economic dislocations by mandating drastic changes in energy supply or demand parameters. Ultimately it must reach for energy independence.

GOAL

It shall be the goal of the United States' energy strategy to provide a stable, reasonably-priced supply of energy in an efficient and environmentally-sound manner to meet the needs of its citizens, economy and national security interests. Energy independence shall be a long term goal of the United States.

CONSERVATION

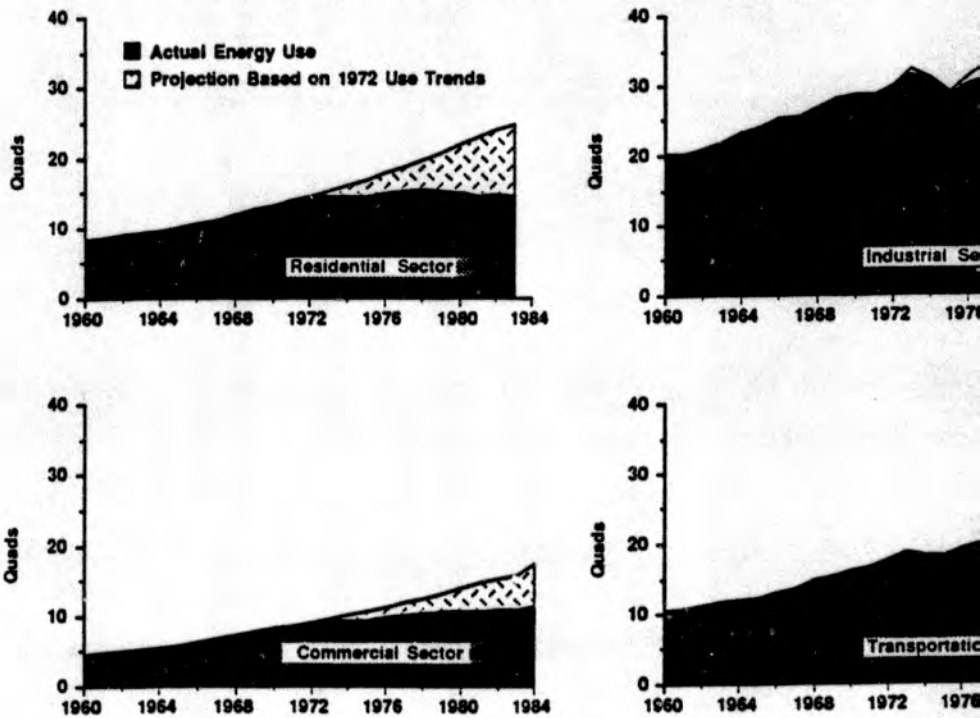
The future of productive and secure energy in our society rests not on the supply is but rather on how intelligent we are in using what we have.

Peter

The 1970s brought a new element to the nation's energy picture -- conservation. Driven by high energy prices, the oil embargo and federal policy, energy conservation efforts were undertaken in all sectors; residential/commercial, transportation, industry, and electric power generation. The result of those efforts is that the U. S. uses the same amount of energy it did in 1973, although the economy has grown 30 percent in the intervening 15 years. Figure 1 demonstrates energy efficiency gains by sector.

FIGURE 1

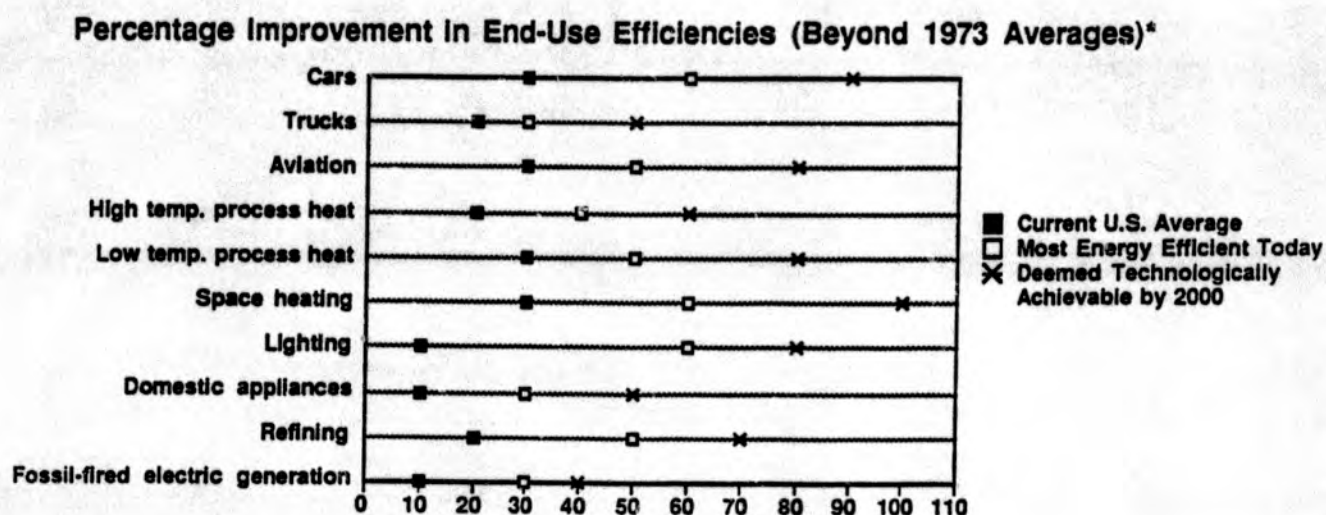
All Sectors of U.S. Economy Now Use Energy More Efficiently



Source: U. S. Department of Energy (DOE/S 0057), p. 97.

However, there are still conservation gains to be made, based on existing technology. Americans use 2.4 times the energy per capita as the Japanese use. For instance, half the electricity used for lighting in the U. S. could be saved by energy efficiency strategies without sacrificing productivity.¹ Figure 2 illustrates end use efficiencies beyond 1973 averages.

FIGURE 2



Source: U. S. Department of Energy (DOE/S 0057), p. 106

Conservation, often referred to as energy productivity, means decreasing the amount of energy required to sustain a given level of goods and services.² Increasing the efficiency of our energy resources makes dollars invested more productive and eliminates certain environmental costs related to energy production.

In this regard, recycling and waste reduction programs are also energy conservation programs. Recycled paper requires 36 percent of the energy required to produce "new" paper and recycled aluminum 4 percent of such energy.³

¹ Gibbons, p. 11

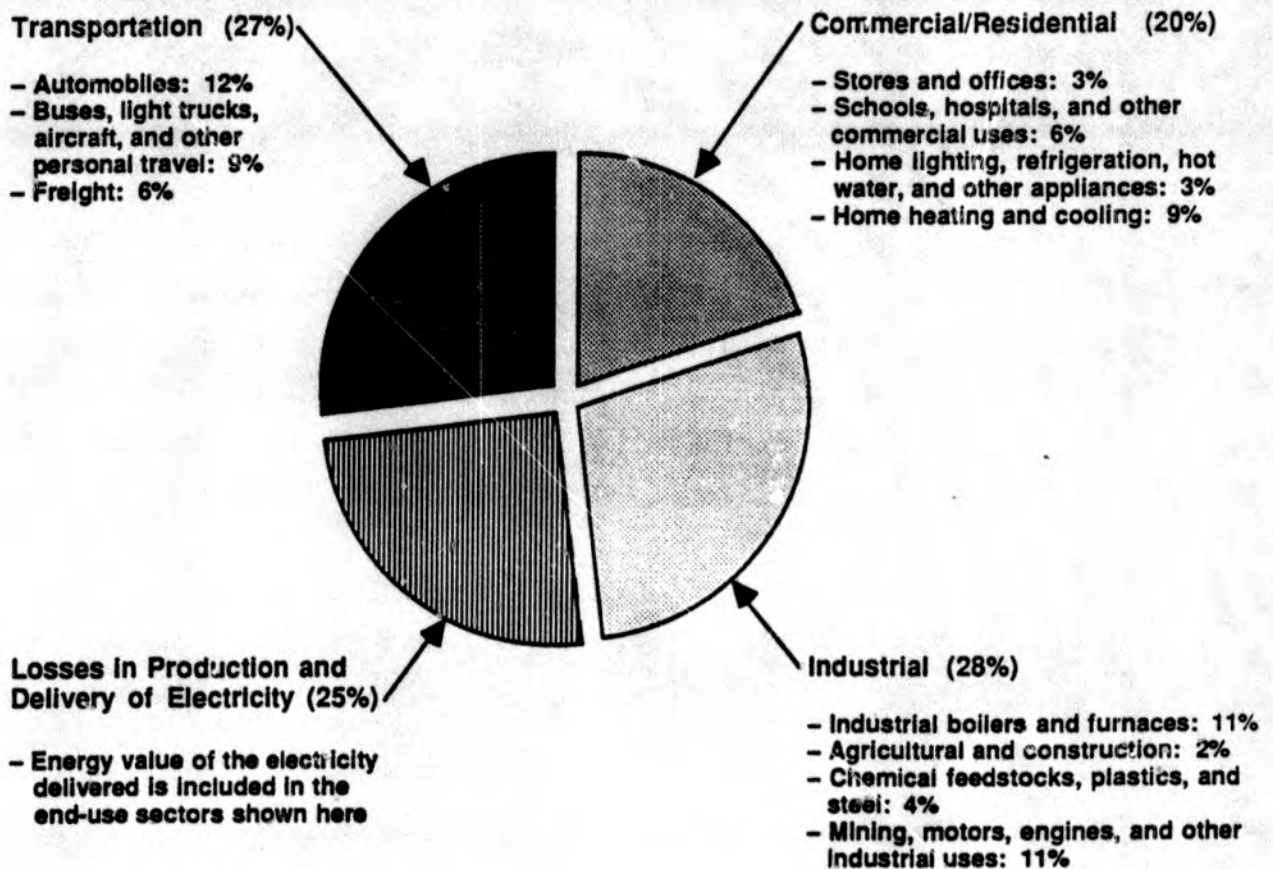
² Gibbons, p. 11

³ Scull, p. 1

All energy consumers may benefit from conservation. As Figure 3 indicates, consumption of U.S. primary energy in 1985 was fairly evenly distributed among transportation, commercial and residential use, industrial consumption and losses in electricity production and transmission.

FIGURE 3

Consumption of all U.S. primary energy broke down like this in 1985:



Source: U. S. Department of Energy (DOE/S-0057), p. 100

Transportation represents over a quarter of our energy consumption. Fully 97 percent of our transportation runs on petroleum. The lack of alternative fuels that might replace gasoline and the strategic importance of crude to the U. S., make automobile fuel efficiency standards an essential component of any energy conservation policy.

In the area of commercial and residential consumption, building codes and appliance standards can have a real impact on energy savings. Refrigerator efficiency standards, part of a federal household appliance statute passed last year, are expected to reduce the need for power generation for household refrigeration by 1995 from as much as 107,000 Megawatts, as would have been indicated by earlier growth trends, to 21,000 Megawatts.⁴

About 73 percent of the fuel used by the industrial sector is petroleum and natural gas, strategically important fuels. Industrial conservation gains, primarily savings in oil and gas, have been noteworthy since the 1970s; energy use per unit of production has decreased about 20 percent.⁵

Future conservation in the industrial sector is expected to be derived mainly from new processes or process technology improvements. Recent studies have shown that industrial energy efficiency improvements are simply a matter of investment choice by large corporations and depend primarily on return on the dollar.⁶ However, federal research on improving the economic efficiency of industrial processes may promote industrial conservation.

Electricity losses in production and delivery account for one quarter of the nation's primary energy consumption. Research into ways to eliminate these losses includes work on superconductivity, which would represent a major conservation breakthrough.

⁴ Cavanagh, p. 17

⁵ U.S. Congress, OTA; p. xi

⁶ Ibid.

CONSERVATION STRATEGY STATEMENT

It shall be the energy strategy of the United States to promote energy conservation, improving efficiency, in a variety of ways by setting or strengthening: Corporate Average Fuel Efficiency Standards for automobiles; energy efficiency provisions in building codes (including lighting efficiency standards); home appliance, heating and cooling unit efficiency standards; and waste recycling or reduction standards for industrial manufacturing.

Also, the federal government shall promote energy conservation education and fund research into conservation technologies. Basic energy conservation research funded by the government shall include superconductivity studies.

CRUDE OIL

Over the last 15 years, there have been three worldwide oil price crises. Two of those saw prices double or triple while the third saw the price of oil fall to one-third of its previous level. Economic dislocation in the U.S. as a result of those price swings was severe. Each of the price increases caused nationwide recessions while the price decrease meant severely depressed economic conditions in the oil producing states of the U.S.

In order to define an energy policy that would avoid such economic havoc, nationally and regionally, it is important to review the status of the U.S. with regard to crude oil. Table 1 illustrates U.S. reserve, production, import and consumption levels since 1970.

This nation has not seen a major increase in reserves since the addition of Prudhoe Bay and the North Slope fields in the early 1970s. The oil price crash of late 1985 decreased domestic exploration by half (48 percent) in 1986. Exploratory drilling fell still further in 1987, boding ill for U.S. reserve replacement.

Production in the U.S. has generally declined over the last 20 years with the exception of production increases for a period during the late 1970s and early 1980s. According to the U.S. Department of Energy, conventional U.S. oil production will begin a permanent decline by 1990.

In 1987 oil imports were up for the second year in a row. However, these imports were marked by a diversity of source. Indeed, the world oil price collapse in 1985 - 86 was import-related, as OPEC attempted to regain the world market share it had lost to new international producers. In the late 1970s OPEC supplied 77 percent of U.S. imports. In 1987, OPEC supplied 52 percent of oil imports to the U.S.

TABLE 1

U.S. RESERVES, PRODUCTION, IMPORTS, AND CONSUMPTION

1970 - 1987

	'70	'71	'72	'73	'74	'75	'76	'77	'78	'79	'80	'81	'82	'83	'84	'85	'86	'87
RESERVES (Crude Oil)																		
(Billion Bls)	39.0	38.1	36.3	35.3	34.2	32.7	30.9	31.8	31.4	29.8	29.8	29.4	27.9	27.7	28.4	28.4	26.9	24.6
PRODUCTION (Crude Oil and Condensate)																		
(MMbbl/d)	9.63	9.46	9.44	9.20	8.77	8.37	8.13	8.24	8.70	8.55	8.59	8.57	8.64	8.68	8.87	8.97	8.68	8.31
NET IMPORTS (Crude Oil and Petroleum Products)																		
(MMbbl/d)	3.16	3.70	4.51	6.02	5.89	5.84	7.09	8.56	8.00	7.98	6.36	5.40	4.29	4.31	5.71	4.28	5.43	5.76
CONSUMPTION (Crude Oil and Natural Gas Liquids)																		
(MMbbl/d)	14.70	15.21	16.37	17.31	16.25	16.32	17.46	18.43	18.85	18.51	17.06	16.06	15.30	15.23	15.73	15.73	16.28	16.56

Source: DOE-EIA, Arthur Anderson & Co. and Cambridge Energy Research Associates, South/West Energy Council

Oil consumption levels in the U.S. reflect the impact of conservation efforts begun during the 1970s. Although oil consumption has risen for the last two years, it is still more than 15 percent below the nation's high consumption mark of 1978. While national economic output has grown at an average rate of 2.5 percent, the U.S. uses no more energy now than was consumed in 1973. In fact, U. S. oil consumption in 1987 was below 1973 levels.

As domestic oil and gas fields mature, interest is turning to the maintenance of stripper wells and enhanced recovery to maximize recovery from known reserves. Primary production methods may leave as much as 60 percent of oil and gas reserves in place. Once a well is shut down ("plugged and abandoned"), it is unlikely that a new well will be drilled to recover remaining reserves.

Enhanced production techniques, now generally expensive, recover some of the remaining increments of oil and gas. Research and development is needed to reduce the cost of enhanced recovery of identified reserves.

In addition to "conventional" crude oil, this nation has a wealth of nonconventional oil resources. For instance, oil shale deposits are found in sedimentary rocks, principally in the western U.S. Kerogen is extracted as a liquid oil and hydrocarbon gases when the rock is heated.

The U.S. leads the world in oil shale reserves. Deposits in Colorado, Utah and Wyoming may exceed 1000 feet. The total extent of the resource is estimated at over 2.5 trillion barrels of oil.

Although shale oil can be substituted for refinery feedstock, it is currently expensive, relative to conventional crude oil. Estimates of the cost of production range from \$30 to \$60 per barrel. Environmental, as well as economic, factors concerning oil shale require further research, development, demonstration and commercialization projects.

Related to domestic production is the matter of multiple use of federal lands. There are 727.1 million acres of federally owned land in the United States. That is approximately one in three acres or 32 percent of the nation's land mass.

The vast majority of the federal lands is managed by either the Department of Interior or the Department of Agriculture. The Department of Interior (e.g. the Bureau of Land Management, the National Parks Service, and the United States Fish and Wildlife Service) manages half a billion acres while Agriculture (e.g. the National Forest Service) administers about 190 million acres.

Each administrative agency is authorized to manage public lands under different statutory grants of authority. Consequently each has developed a separate set of standards or regulations for addressing issues of multiple use or access.

Almost half (44 percent) of all federal lands are found in Alaska. In fact, 87 percent of the state of Alaska is owned by the federal or state government.

Referred to as this nation's most significant federal conservation measure, the Alaska National Interest Lands Conservation Act (the Alaska Lands Act), passed in 1980, added 104 million acres to federal ownership.¹ The area set aside by the Alaska Lands Act for public ownership is equivalent to the entire Northeastern part of the country; equal to the total land areas of the states of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey and Pennsylvania.

Importantly, it is in Alaska that about one-quarter of this nation's proved crude oil reserves are known to exist and 17 percent of the nation's natural gas is found. There are also large coal deposits in Alaska.

Those reserves are this nation's energy "ace in the hole." The oil will be needed shortly, the natural gas may well be needed over the next few decades, and the coal represents a long term energy asset. The preservation of multiple use rights with regard to federal lands, especially those in Alaska, is essential if the United States is to develop our energy resources in an environmentally sound-manner.

The outlook for crude oil has been summarized by the Department of Energy in Table 2. According to DOE, in less than 25 years, even if consumption is held relatively constant, the U.S. will depend on foreign imports for almost two-thirds of our supply of crude oil.

¹Quarles and Lundquist.

TABLE 2

1988
DOE CRUDE OIL OUTLOOK
(Quadrillion Btu's per Year)

	<u>1986</u>	<u>1990</u>	<u>1995</u>	<u>2000</u>	<u>2010</u>
Domestic Production	20	18.9	15.9	14.2	12.3
Imports	11.3	14.8	17.9	19.7	21.3
Consumption (Petroleum Liquids)	30.6	32.1	32.2	32.5	32.6

Source: DOE; South/West Energy Council

The U.S. balance of trade is even now suffering from oil imports. In 1987, the U.S. external trade deficit increased for the sixth year in a row. Oil represents about 10 percent by value of total U.S. imports. Increased oil imports will only put a greater burden on the trade deficit by sending capital abroad. The current rate of imports is costing the U.S. almost four billion dollars a month.

One means of mitigating the balance of trade problem may be to lift restrictions on the export of Alaskan crude oil. Sold on the world market, to nations like Japan, Alaskan oil will net-back a higher price and encourage the continued development of Alaskan resources, while offsetting some of the U.S. balance of trade deficit. Under the current regulatory scheme, Alaskan oil sells to domestic markets at a low, distorted price, discouraging development of resources in both Alaska and California.

Another national concern is this country's vulnerability based on oil dependency. The U.S. transportation sector is 97 percent dependent on oil. In fact, 62 percent of our oil is consumed by the transportation sector, the bulk of it for personal transportation.

There is no substitute for oil for the transportation sector. Oil dependence, as defined by DOE, is the short term inability to use fuel substitutes, due to either a lack of access to alternative fuels or limitations that make oil the only technically suitable fuel.

Interestingly, with one notable exception, the residential sector is not generally dependent on oil. The northeastern part of the country has limited access to natural gas and is the only region of the nation heavily dependent on fuel oil for home heating.

In addition to national security interests in a secure supply, this nation has a real interest in the exploration, production, downstream activities, jobs and investments in domestic producing regions. The producing states have been gutted by world oil price declines since 1985 resulting in high unemployment, a severe loss of state revenues, bankruptcies and bank failures. Unemployment approached twice the national average in many oil producing states.

A national energy policy based on economic stability can not tolerate severe regional disruption in spite of national prosperity. The economic health of producing regions of the nation must be considered in any national energy policy just as must the residential oil dependency of the Northeast. A national policy seeking economic stability must extend such stability to all regions.

In sorting through the trends that define this country's energy status, the Strategic Petroleum Reserve (SPR) is a bright spot of stability. The goal of the government is to fill the SPR to 750 million barrels. The SPR held 540 million barrels at the end of 1987. This is equivalent to 94 days of net petroleum imports, derived by dividing the end-of-year SPR stocks by the annual average daily net imports of all petroleum.

This measure may be somewhat misleading. In the event of an embargo, the U.S. Department of Defense would require a substantial portion of the SPR. Additionally, the U.S. is committed to supplying the needs of its allies in an embargo situation.

Beyond concerns relative to the size of reserve, there are questions about the rate at which crude oil could be distributed from the SPR to U.S. refiners. Recent tests indicate a maximum draw-down rate would not replace the amount currently supplied by foreign imports. Although it is highly unlikely that an oil embargo would completely cut off foreign supplies, economic and national security interests in avoiding supply disruption require that questions of supply and distribution capacity relative to the SPR be answered.

In addition to the SPR, there are privately held reserves belonging to energy companies. However, it appears that as the government-owned SPR continues to fill, private reserves are being limited to "minimum operating inventory" levels (MOI). The MOI levels are currently only slightly above the level necessary to maintain normal day-to-day operations. Thus the privately owned reserves, about 350 million barrels, would be of limited value in a shortage situation.

Related to the SPR is the U.S. commitment to the International Energy Program (IEP). The U.S. entered into the IEP in 1974. The IEP creates an International Energy Agency (IEA) within the Organization for Economic Cooperation and Development (OECD).

According to the agreement, a seven percent shortage situation authorizes a member country to ask the IEA to consider a sharing arrangement whereby member nations would draw down reserves to assist other members. The IEA's 21 members include the OECD members, basically our European allies, as well as Japan and Australia.

Of governmental reserves held by IEA nations, the U.S. has the greatest amount stockpiled. Japan has 160 million barrels or about 30 percent of the U.S. SPR, West Germany has 180 million barrels (about one-third of the U.S. reserve) and all other nations have 50 million barrels in reserve. The IEA arrangement would rely on private oil companies, 17 of whom are also signatories to the IEA agreement, to affect transfers of crude oil in emergency shortages.

In 1988, the U.S. House of Representatives passed a bill authorizing the extension of the IEA, and calling for a study by DOE on ways to improve cooperation between the United States and Western Hemisphere nations on energy and natural resource policies. This was an important step toward recognizing a Pan American Energy Alliance as proposed by the South/West Energy Council the previous year.

At a joint meeting in New Orleans in April, 1987, the South/West Energy Council and the Louisiana Energy Development Commission brought together representatives of the Canadian and U.S. governments and officials of Petroleos de Mexico and Petroleos de Venezuela to explore the mutual benefits of a Pan American Energy Alliance. Also attending the conference was a delegation of more than 15 Organization of American States ambassadors.

In requesting the DOE study as part of IEA reauthorization, the House Committee on Energy and Commerce cited the points that make a Pan American Energy Alliance attractive, points discussed nationally by the South/West Energy Council over the last two years --

- the global and interdependent nature of energy markets;
- the extent of the Western Hemisphere crude oil resource;
- the increasing frequency of international joint ventures relative to energy;
- international cooperation like the IEA or other trade agreements that limit the danger of oil supply disruption;
- the variety of measures that might raise the productive potential of Western Hemisphere nations including increasing the security of capital investments;
- mutual benefits for consumers, producers and creditors in Western Hemisphere nations; and
- the history of political and economic cooperation and stability enjoyed among Western Hemisphere neighbors.

Finally, any long-term view of oil policy has to return to the facts that three quarters of the free world's reserves are owned by OPEC nations, that U.S. reserves represent four percent of the free world's supply and that the U.S. represents 30 percent of the free world's demand (consumption). Given U.S. dependence on oil, economic vulnerability to oil price shocks and inability to produce a sufficient supply of oil, it is evident that this country, as part of an energy management plan to assure economic stability through energy security, must reach out and open a dialogue with world oil suppliers.

CRUDE OIL STRATEGY STATEMENT

It shall be the strategy of the United States to promote the environmentally-sound production of domestic energy resources, the conservation and efficient use of energy resources, and the management of energy imports.

It shall be the policy of the United States to promote and encourage domestic production of crude oil in an environmentally-sound manner in order to supply U.S. consumers with a secure source of petroleum, and provide a stabilizing influence to the world price of crude oil. In this regard the federal government shall provide tax and tax accounting incentives to oil producers for domestic exploration and development efforts with specific investment tax credits for research and development and enhanced oil and gas recovery.

It shall be the policy of the United States to assure that energy resources are utilized in a manner that recovers the most energy value possible. Similarly, it is the strategy of the United States to alleviate oil dependency by funding research and development to perfect alternative fuels, particularly for the transportation sector and primary modes of personal transportation. Enhanced oil and gas recovery from known reserves shall be promoted, and a research, development, demonstration and commercialization program for unconventional sources of crude oil shall be pursued through a cooperative effort among industry, higher education and national laboratories.

It shall be the policy of the federal government to manage U. S. imports by diversifying import suppliers, allowing the exportation of Alaskan crude oil, pursuing a Pan American Energy Alliance with Western Hemisphere producing nations, considering technological barriers to the use of vast reserves of unconventional crude oil in the Western Hemisphere and opening a dialogue with suppliers worldwide. It shall also be the policy of the United States to continue filling the Strategic Petroleum Reserve, at least to its present goal of 750 million barrels.

It shall be the strategy of the United States to support active management of federal lands and Outer Continental Shelf areas in accordance with principles of multiple use and to recognize the potential that public lands hold, particularly in Alaska, for environmentally-sound development of energy resources.

COAL

In terms of reserves, coal is America's leading fuel. Indeed, one-fourth of the world's coal is in the United States. It is a ubiquitous fuel in this country. Coal is found in 38 states and mined in 27.

Primary coal regions are Appalachia, the Midwest, and the Rocky Mountain area. As a general rule, coal from northern Appalachia and the Midwest has higher energy (Btu) values than does coal from central Appalachia, the Rockies and the Northern Great Plains, but higher sulfur contents as well.

The U.S. produced about 900 million tons of coal in 1984 and has recoverable reserves of 239 billion tons. At the present rate of consumption, our coal reserves would provide fuel for more than 250 years. Coal is consumed in all fifty states. Ten percent of U.S. coal production is exported to 50 countries around the world.

Coal has been mined commercially in this nation since 1748. At the beginning of this century, it supplied 90 percent of the country's power. By 1975, coal had slipped to supplying 18 percent of our energy demand. The 1970s oil embargos benefitted U.S. coal producers and by 1987, coal supplied 24 percent or about one-fourth of our nation's energy.

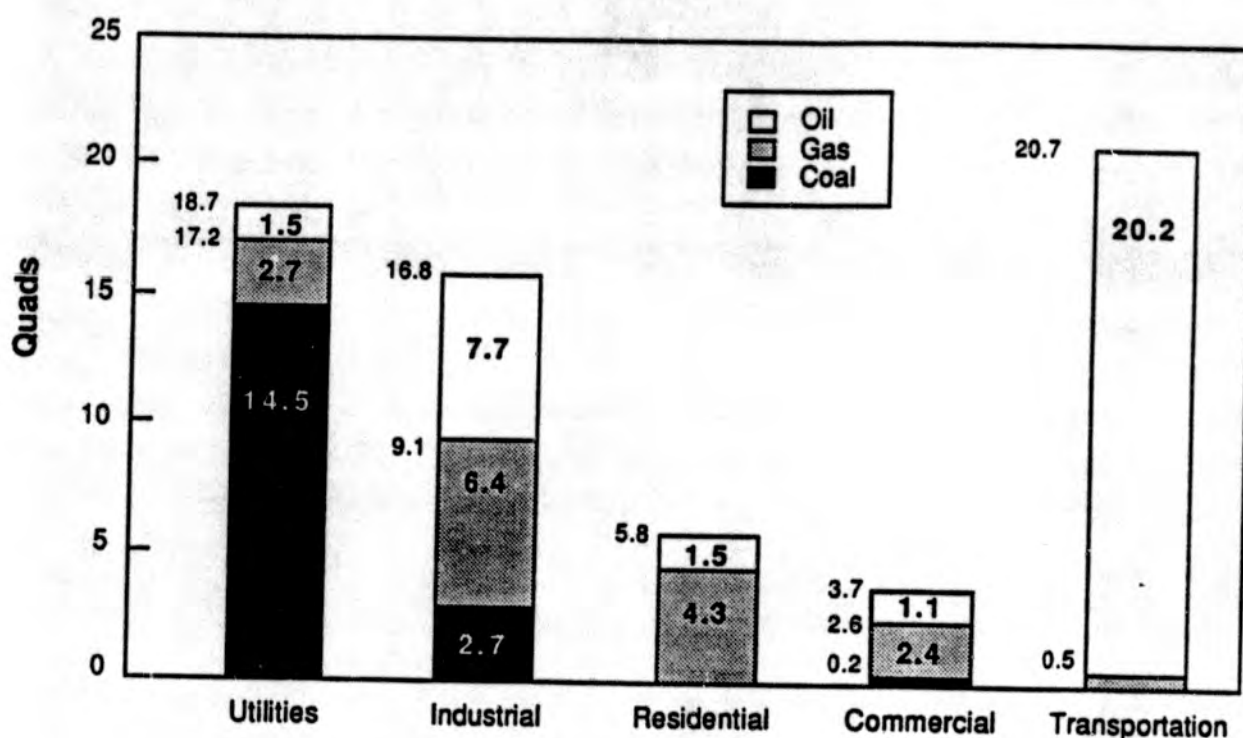
Most coal (60 percent) is transported by rail in the U.S. Coal is the major revenue source for U.S. railroads. Barges, ships and trucks also deliver coal to market. Large coal-carrying ships called colliers transport coal for export from Norfolk, Virginia and other ports.

Some powerplants are located at the edge of the mine. These so-called "mine-mouth" plants are supplied by trucks, rail or conveyor belts. There is one coal slurry pipeline in the nation, which runs 273 miles from Arizona to a powerplant in Nevada.

In many cases though rail is the sole means of transporting coal to consumers. Congress and the coal and railroad industries continue to explore means of alleviating impacts on captive shippers.

Coal is primarily used to fire utility powerplants, producing over half (55 percent) the electricity generated in the U.S. Aside from a very small amount (1 percent) used by the commercial sector, coal is consumed in industrial boilers and processes (16 percent) and utility powerplants (83 percent). Fossil fuel consumption by sector is illustrated in Figure 1.

FIGURE 1
U.S. FOSSIL FUEL CONSUMPTION BY USE SECTOR
(1986)



Source: DOE/FE-0102, p. 5.

Coal consumption is expected to increase slowly in the U.S., primarily in the utility (electricity) sector. Increased use of coal by industrials is expected to be slight because of maturing markets for down-stream products most important to coal (chemicals, cement, paper, primary metals and food processing) and a shift in industry to small scale cogenerating units (producing both process steam and electricity). Coal faces strong competition from natural gas in cogeneration units.¹

¹Resource Data, Inc., p. 5.

On the world market, the U.S. is often a high-priced exporter because of higher labor and transportation costs. Western Europe will probably remain this country's principal coal export market, as Pacific Rim importers seek lower cost coal from Australia, South Africa and China. Despite higher prices, the U.S. will remain a swing exporter because of its ability to provide large amounts of quality coal on short notice.

Since significant increases in industrial consumption and exports are not predicted, the future of coal consumption rests with electric utilities. Environmental concerns and aged technology are two hurdles facing expanded coal usage by utilities. Primary among environmental concerns is acid rain. However, the "greenhouse effect" is emerging as an environmental concern linked to coal and other fossil fuel combustion.

Scientists are presently researching what effect acid rain or acid precipitation may have upon agricultural crops, forests, aquatic systems (including fish, streams, and lakes), materials, and human health and visibility. Acid rain precursor emissions are sulfur dioxide, nitrogen oxide and volatile organic compounds.

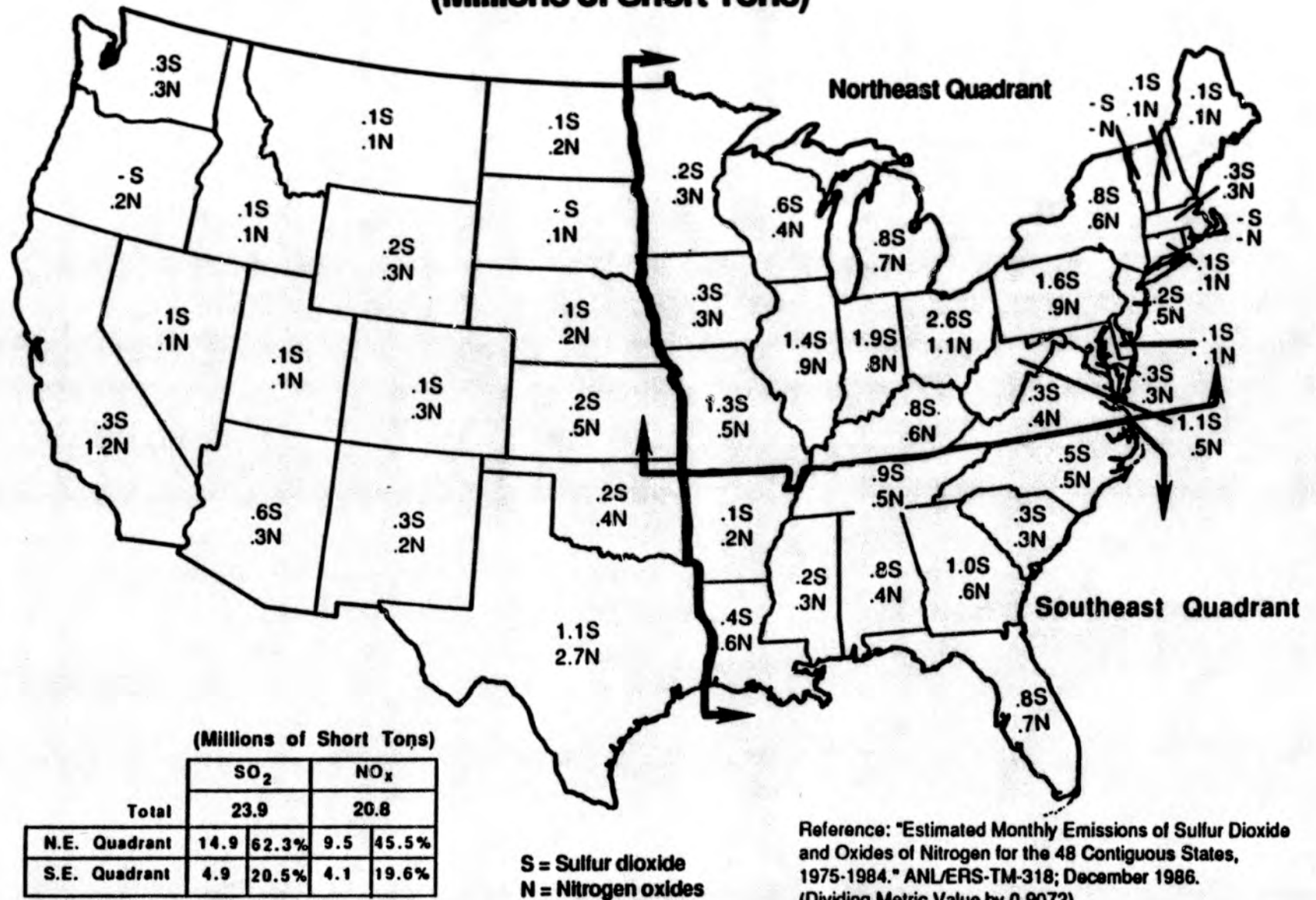
Sulfur dioxide (SO₂), nitrogen oxide (NO_x) emissions and volatile organic compounds (VOC) are found in every state. Different emissions are thought to be responsible for different effects. Sulfur dioxide is the "precursor of interest" with regard to chronic lake acidification. Relative to crop damage, nitrogen oxide is the primary precursor.

Acid rain precursor emissions, SO₂, NO_x, and VOC, are of natural origin as well as man-made. Man-made acid rain has been present in the Northeast since the turn of the century. Rain is considered acidic when it has a pH of 5 or less.

In 1985, 25 million tons of SO₂ was emitted into the air in the U.S. -- that is approximately the same amount of SO₂ emissions released in the 1920s. As Figure 2 indicates, in 1984 about 83 percent of SO₂ emissions were in the Eastern U.S. Almost half (48 percent) of all SO₂ emissions in the U.S. were from Northeastern utility plants. Figure 3 details sources of SO₂ emissions.

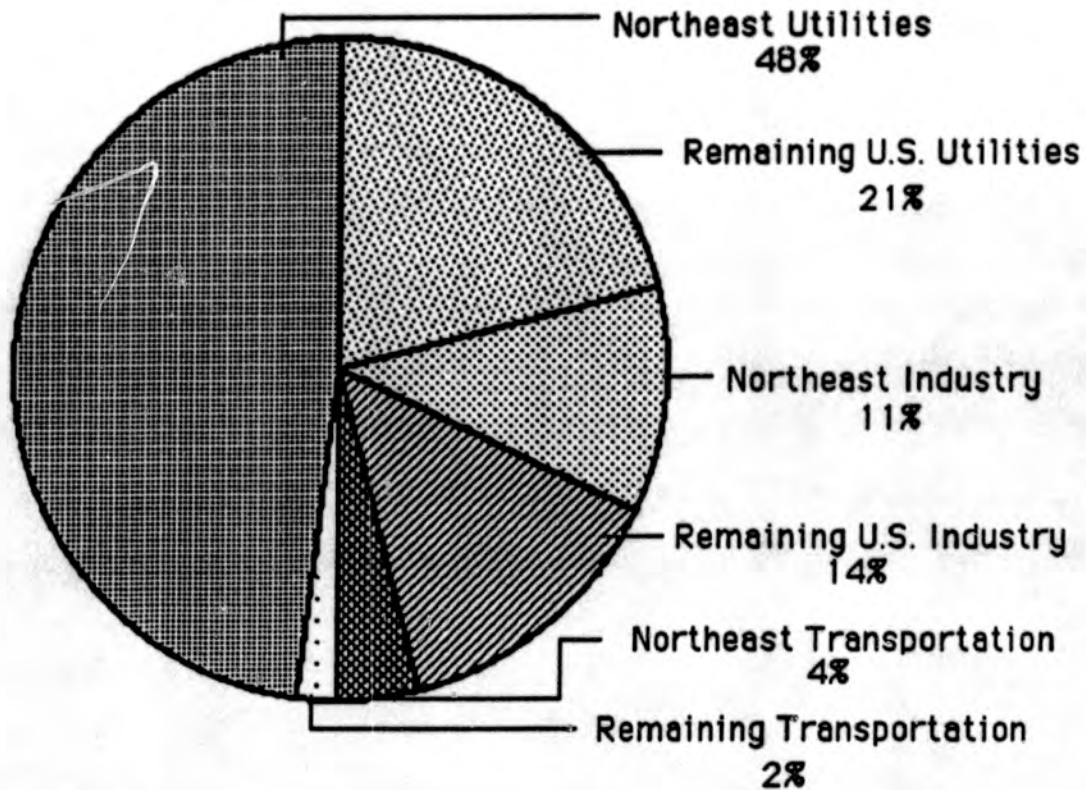
FIGURE 2

Emissions of SO_2 and NO_x in Continental U.S. (1984) (Millions of Short Tons)



Source: DOE/FE - 0083, p. 21

FIGURE 3
1986
Sources of U.S Sulfur Dioxide Emissions



Source: DOE/FE-0083 p. 23.

In the period 1975 to 1985, EPA estimates that utilities have spent \$60 billion to capture SO₂ emissions. The impetus behind declining SO₂ emissions was the 1970 Clean Air Act and its 1977 amendments.

The three options utilized in this effort were flue gas scrubbing, coal cleaning, and coal switching (the substitution of higher priced low sulfur coal for high sulfur coal). The investment has paid off. From 1973 to 1985, the use of coal by utilities increased by 78 percent while SO₂ emissions decreased by 23 percent.

By contrast, emissions of NO_x in the U.S. have remained fairly constant since the 1970s. As Figure 2 indicates, of the 20 million tons of NO_x released in 1984, 65 percent originated in the Eastern part of the country. Forty-five percent of NO_x emissions originated in the Northeast quadrant of the nation, where fully half the country's population resides.

Nationally, NO_x emissions are less concentrated by source than are SO_2 emissions. A little less than one-third (32 percent) is attributable to utilities, and a little more than one-third (33 percent) is attributable to the transportation sector. Of the remaining third, 19 percent is generated by industry and 13 percent is attributable to "other sources," like forest fires and open burning.

In North America, natural sources are estimated to contribute six percent of total SO_2 emissions and up to 12 percent of NO_x emissions. However, natural emissions of volatile organic compounds (35 million tons) in the U.S. exceeds man-made emissions (21 million tons). Ninety percent of the natural volatile organic compounds are attributable to forests.

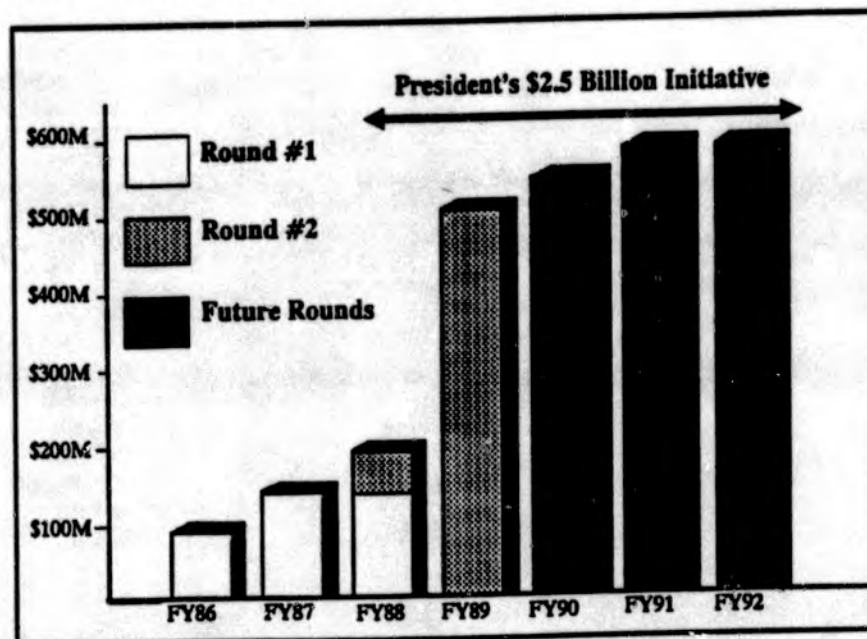
Thirty-eight percent of VOCs released are attributable to the transportation sector. Due largely to federal regulations, vehicles currently being produced emit 90 percent fewer volatile organic compounds than did vehicles manufactured in the 1970s.

In 1980, Congress passed the Acid Precipitation Act which created the National Acid Precipitation Assessment Program (NAPAP), a comprehensive 10 year research plan. The NAPAP has released more than a thousand papers to date and will issue its final report in 1990. The purpose of the NAPAP is to increase general understanding of acid deposition while testing several specific hypothesis relating to environmental damage and acid rain.

In 1985, the U.S. and Canadian governments each appointed a Special Envoy to study the acid rain problem and suggest means of resolving the transboundary pollution problem. In 1986, the Special Envoys' report recommended that the U.S. undertake a five year, five billion dollar effort, jointly funded by industry and government, to demonstrate an expanded menu of environmentally-clean coal base technologies.

Subsequently, in 1986, President Reagan unveiled the Clean Coal Technology Program, administered by DOE. It is proposed that the Clean Coal Technology Program be funded as illustrated in Figure 4.

FIGURE 4
Proposed Funding For DOE's Clean Coal Technology Program



Source: DOE - FE, Fossil Energy Review, January - February 1988, p. 5.

The federal government's proposed \$2.5 billion funds will be used to share in the financing of demonstration projects to prove commercial feasibility of new clean coal technologies. There are three categories of projects: retrofitting, repowering and conversion.

Retrofitting (e.g. adding pollution reduction equipment to older plants) impacts older coal fired power units for the remainder of their useful plant life. Because many of the newer plants were built subject to Clean Air Act amendments, the bulk of acid rain precursor emissions are attributable to older plants. Examples of retrofitting technologies are listed in Table 1.

TABLE 1

Retrofit Technologies

Pre-Combustion Cleaning	Combustion Modification	Post-Combustion
Physical • Fine Grinding (micronization) • Advanced Froth Flotation • Heavy Media Cyclones • Micronization w/Limestone • Microbubble Flotation Physiochemical • Molten Caustic Leaching • Organic Solvent Microbial • Bioleaching	Combustor/Burner Types • Slagging Combustors • Rotary Cascading Bed Combustors • Entrained Combustors • Limestone Injection Multistage Burners • Gas Reburning Fuel Types • Coal-Water Slurries • Coal-Gas Co-Firing • Coal-Water-Gas Co-Firing	In-Duct Injection • Sorbent Injection • Catalytic Reduction Post-Combustion Devices • Vanadium Pentoxide Afterburners • Ternary Boiler w/Pollutant Capture • Furnace Injection w/Water Activation Reactor • Post-Combustion Oxidation w/Fluid Bed Lime Reactor • Fluid Bed Absorption Advanced Scrubbers/FGD Devices • Spray Dryers • Regenerable Scrubbers • Dual Alkali Scrubbers • Electron Beam Scrubbers • Ion Exchange Membrane FGD • Magnesium Enhancements • NO_x Specific Scrubbers • Electrode Precharger Enhancements to Precipitators • High-Temperature Baghouses

Source: DOE/FE - 0107, p. 11.

Repowering means replacing parts of the original plant with units that will limit emissions while increasing the efficiency of the plant. Much of the technology used in existing plants dates back to the 1940s. Repowering can improve electric power output by 150 - 170 percent, while reducing SO₂ emissions by 99 percent and extending plant life by 30 years according to DOE officials.² Repowering technologies are listed in Table 2.

²Siegel, p. 5.

TABLE 2
Repowering Technologies

Fluidized Bed Combustion	Gasification-Based	Advanced Options
Atmospheric • Circulating Bed • Bubbling Bed Pressurized • Circulating Bed • Bubbling Bed Hybrid Designs • Bubbling-Circulating Bed • Coal Pyrolyzer/Fluid Bed	Gasifier Types • Fixed Bed • Fluid Bed • Entrained Flow • Rotary Kiln-type Gas Cleanup systems • Conventional "Cool" Gas Cleanup • Zinc Ferrite Hot Gas Cleanup • Ceramic Filter Cleanup • In-situ Desulfurization	Gasification w/Fuel Cell Magnetohydrodynamics Direct Coal-Fired Turbines

Source: DOE/FE - 0107, p. 12.

Conversion techniques produce liquid and gaseous fuels from coal. This makes coal readily available for use by industrial, commercial, residential and transportation sectors. In the case of the transportation sector, it could have a positive impact on U.S. dependence on crude oil. Conversion technologies are listed in Table 3.

TABLE 3
Conversion Technologies

- Mild Gasification
- Gasification with Once-Through Methanol Production
- Underground Coal Gasification
- Gasification in Indirect Liquefaction
- Liquefaction
- Coal/Oil Coprocessing

Source: DOE/FE - 0107, p. 13.

Round One of the Clean Coal Technologies Program funded seven projects, valued at \$750 million, of which \$225 million will be contributed by the federal government. The Second Round Solicitation drew 54 proposals from 20 states. DOE selected 16 projects located in 12 states for funding under Round Two. Investments in the Second Round projects are expected to total about \$1.3 billion, of which over 60 percent (\$800 million) will be private sector monies.

In addition to cleaning up this nation's environment, the Clean Coal Technologies Program gives the United States an opportunity to gain technological leadership and export not only coal, but clean, efficient coal-burning technologies abroad as well. It also meets U.S. commitments to Canada to address this issue of mutual concern.

Just as concerns about the acid rain problem transcend the U.S. - Canadian border, the possibility of global warming transcends national boundaries as well. The U.S. Environmental Protection Agency (EPA) points out that "greenhouse gases" such as carbon dioxide, nitrous oxide, methane and others occur naturally in the atmosphere, serving as a thermal blanket for the planet. EPA states that there is scientific consensus that an increase in greenhouse gas emissions will result in climate change, popularly referred to as the Greenhouse Effect.³

Environmentalists are pushing for tougher acid rain precursor emission standards, maintaining that there is no reason to delay strengthening such standards since demonstrated technologies exist to reduce acid rain precursor emissions. The Administration has urged delay of new standards until the NAPAP report is final and the Clean Coal Technology demonstration projects results are available. Moreover, DOE officials cite problems with current major control technologies.

Pointing to flue gas scrubbing expense and energy loss (five to eight percent of the powerplant's energy is spent to power the clean up process) and the economic dislocation (loss of jobs and revenues in high sulfur coal areas) of switching to low sulfur coal, DOE claims, "additional sulfur emission reductions pose severe difficulties for conventional controls."⁴ The Reagan Administration has looked to the early to mid 1990s as the critical time for decision making, both in terms of continuing reliable electric service and meeting environmental objectives.

³EPA, p. 1.

⁴DOE/FE - 0083, p. 4.

COAL STRATEGY STATEMENT

Coal is America's leading fuel in terms of reserves. It holds the promise of long-term energy security for this nation. However, its current use is constrained by aged technology and environmental concerns.

The Clean Coal Technology Program addresses both these constraints and offers additional benefits as well. The Program commits 5 billion dollars, half federal government funding and half private sector monies, to demonstrate improved technology.

These projects not only burn coal in an environmentally-safe manner, but more efficiently as well. Many environmental concerns can be satisfied through the aggressive development and implementation of clean coal technologies which will allow the use of all types of coal reserves economically and cleanly without environmentally significant by-products or waste materials.

The Program will make the U.S. a technological leader, with the ability to export not only coal but clean, efficient coal technology to other nations of the world. The program also fulfills this nation's promise to its neighbor, Canada, to forcefully address transboundary environmental problems.

It shall be the strategy of the United States that the Clean Coal Technology Program be continued for its environmental, conservation and export potential.

NATURAL GAS

The United States is at a policy crossroad of environmental protection and energy security. One fuel promises to deliver the country into the next century in a cleaner, more efficient manner, while offering a degree of independence from imported oil, thereby increasing domestic energy security. That fuel is natural gas.

Natural gas is not a long-term energy panacea, but a link between the nation's current energy situation, with its attendant environmental and security problems, and a more secure energy future that maximizes energy conservation, renewable energy use, and consumption of other energy resources in a clean, efficient manner.

Today natural gas accounts for roughly one-quarter of the energy used in this country; 16.5 trillion cubic feet (Tcf) of gas was produced in 1987 and 17 Tcf was consumed. That same year the U.S. had about 187 Tcf in proven domestic reserves of natural gas (including Alaska's).

However, as Table 1 indicates, geologists calculate that the U.S. has upwards of 600 Tcf of recoverable gas at a price of less than \$3 per thousand cubic feet (mcf). Additionally, Canada, the major importer of natural gas to the U.S., has reserves of 73 Tcf, and a reserves/production ratio of 27 years. Potential reserves of up to 500 Tcf are estimated for Canada. Under the Free Trade Agreement, Canadian export restrictions will be removed, making Canadian reserves readily available for purchase and consumption in the U.S.

Mexico also has natural gas reserves, but is not now exporting production. Liquefied natural gas, relatively expensive because of processing and handling costs, is available on the world market.

TABLE 1. TOTAL UNITED STATES GAS RESERVES AND RESOURCES ASSESSED

LOWER 48 (Conventional)	TECHNICALLY RECOVERABLE GAS, Tcf*	RECOVERABLE GAS BY PRICE**	
		<\$3./Mcf	\$3.-5./Mcf
PROVED RESERVES, 12/31/86, ONSHORE AND OFFSHORE	159	159	---
INFERRED RESERVES/ PROBABLE RESOURCES, 12/31/86, ONSHORE	85	85	---
INFERRED RESERVES, 12/31/86, OFFSHORE	23	23	---
EXTENDED RESERVE GROWTH IN NONASSOCIATED FIELDS, ONSHORE	119	56	18
GAS RESOURCES ASSOCIATED WITH OIL RESERVE GROWTH***	61	30	11
UNDISCOVERED ONSHORE RESOURCES	219	88	59
UNDISCOVERED OFFSHORE RESOURCES****	134	54	28
SUBTOTAL	800	495	116
LOWER 48 (Unconventional)			
GAS IN LOW-PERMEABILITY RESERVOIRS	180	70	49
COALBED METHANE	48	8	4
SHALE GAS	31	10	5
SUBTOTAL	1,059	583	174
ALASKA			
ALASKA: RESERVES	33	7 #	0
ALASKA INFERRED RESERVES (COOK INLET AREA)	3	3	0
ALASKA UNDISCOVERED, ONSHORE AND OFFSHORE	93	2 #	2 #
SUBTOTAL	1,188	595	176
TOTAL	1,188	595	176

*Volumes of gas judged recoverable with existing technology

**Volumes of gas (Tcf) judged recoverable with existing technology by Review Panel at wellhead prices shown (1987\$)

***Judged at oil prices of <\$24./bbl and \$24.-40./bbl

****Outer Continental Shelf

#Component in southern Alaska

Source: DOE/W/31109-H1, p. 2.

Natural gas is produced in 32 states and in federal Outer Continental Shelf (OCS) areas. Over three-quarters of domestic production comes from Texas, Louisiana, Oklahoma, and the federal OCS. Imports from Canada augment domestic production, averaging about 5 percent of U.S. consumption.

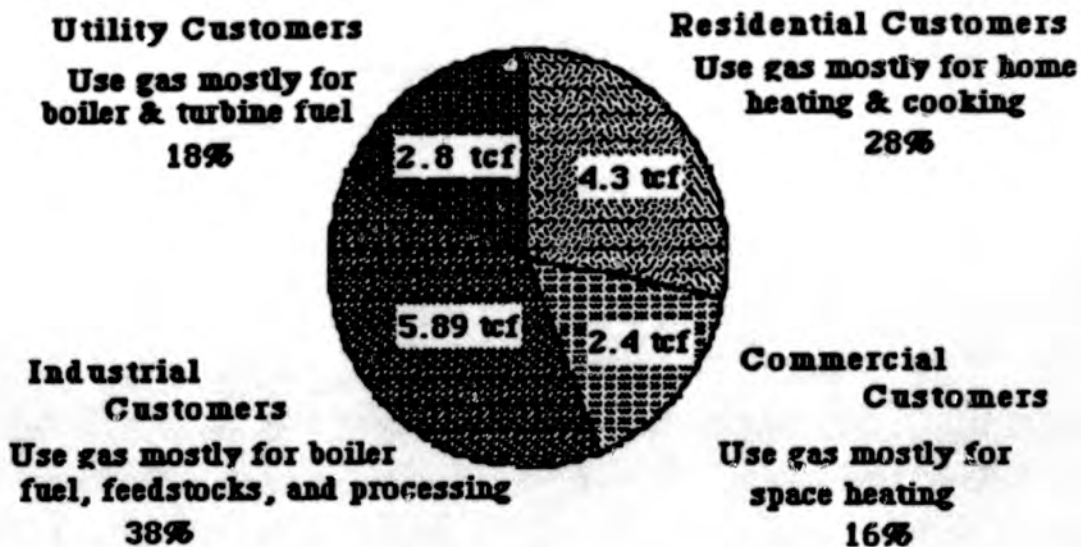
Natural gas pipelines connect every state in the Lower 48 except Vermont, which is supplied by a pipeline from Canada. Gas is transported to the major pipelines from the wellhead by a gas gathering system. From the transmission pipeline, it is generally bought at the "city gate" and distributed by local distribution companies (LDCs).

Major producing states like Texas, Louisiana, and Oklahoma have developed intrastate pipeline systems that operate only within the state. Historically, these pipelines have sold to LDCs, as well as directly to industrials. Intrastate lines and LDCs are subject to state regulation, while interstate transactions, and until relatively recently, all wellhead prices, are subject to federal regulation by the Federal Energy Regulatory Commission (FERC).

Almost a tenth (9 percent) of U.S. natural gas production is consumed in production and transmission activities related to delivering the gas to the end user (as lease, plant and pipeline fuel). End-users include electric utilities, residentials, commercials and industrials. Figure 1 illustrates end-use consumption by sector.

FIGURE 1

NATURAL GAS CONSUMPTION BY END-USE SECTOR, 1987



Source: DOE/S-0057, p.118, updated with DOE data.

Federal regulation has played a major role in the history of the U.S. natural gas industry. Shortages, now widely attributed to market distortions caused by regulation, shut down schools and factories in 1977. The American public was left with the impression that this country had run out of natural gas.

In fact, natural gas was available on intrastate systems where price was not regulated. Left to function as a market, the price rose somewhat on intrastate systems, but demand was met. Interstate natural gas shortages occurred in the same decade as did foreign oil embargoes, setting the political stage for the National Energy Act of 1978.

Actually five separate bills in one, the National Energy Act package included the Fuel Use Act which prohibited new natural gas boilers for electric utilities, and required a phase-out of natural gas use in existing boilers. Gas was also prohibited for use in larger new industrial boilers. The use of coal was encouraged with tax credits, while tax breaks were withheld from oil and gas boilers.

Energy conservation and efficiency were promoted with tax credits for industry and loan programs for residencials, schools, and hospitals. The Natural Gas Policy Act (NGPA) initiated the deregulation of wellhead pricing of natural gas.

On the heels of NGPA natural gas wellhead price deregulation, FERC began the deregulation of the natural gas transmission industry. FERC Order 436, issued in 1986, adopted an open access policy for interstate gas pipelines.¹

Traditionally, producers sold their gas, under long term contract, to the pipeline located closest to the wellhead. The pipeline then ran pipe to an LDC, and sold gas owned by the pipeline, known as "system supply gas". FERC reasoned that neither the producer nor the LDC had competitive options and that market efficiency and price were suffering. FERC declared that, in the name of competition, producers and LDCs deserved open access to the nation's interstate natural gas pipeline system.

In Order 436 FERC turned the traditional scheme upside down. It essentially forced interstate pipelines to transport natural gas for others. Theoretically producers could sell their gas to whomever they cared to deal with and force the pipeline to act as a transporter. LDCs could shop around for the best deal and then line up transportation for gas they had purchased.

As FERC began transmission deregulation the natural gas market was a troubled one. By 1986, both price and demand for natural gas had plummeted. The price of natural gas fell by more than 25 percent between 1984 and 1986, from a U.S. wellhead average of \$2.66 to \$1.94 per Mcf. It continued its downward trend to a national wellhead average of \$1.67 per Mcf in 1987.

Demand suffered under the cumulative effects of industrial conservation and natural gas prohibitions imposed by the National Energy Act of 1978. Declining demand was aggravated as industrials installed fuel-switching capacity.

¹See Arthur Andersen and Cambridge Energy Research Associates, p. 10-13.

It is estimated that as many as 80 percent of industrial boilers now have dual capacity to burn either natural gas or residual fuel oil.² Industrials with dual capacity may shop between the two fuels for a price advantage that may amount to pennies per thousand Btu's. Dual capacity also eliminates dependence on one type of fuel and offers some protection against shortages like the one in the 1970s on the interstate natural gas market. The proliferation of dual capacity industrial consumers has tied the price of natural gas to the price of residual fuel oil.

From a peak in the early 1970s, industrial and electric utility demand for natural gas had fallen by 35 percent in 1986. Surplus deliverability, also known as the gas "bubble," further depressed prices. Disappearing markets, price instability, and regulatory revisions sent an industry that had traditionally dealt in 20 and 30 year contracts into a month-to-month spot market.

The situation was complicated by obligations incurred by pipelines when supply looked short. In the bullish natural gas market of the early 1980s, pipelines had routinely signed take-or-pay contracts to assure adequate system gas supplies. Take-or-pay provisions require the purchaser to take the gas or pay for it (even if not taken). Pipeline take-or-pay liabilities mounted into the billions of dollars.

In a 1987 decision, a U.S. Court of Appeals upheld FERC's authority to encourage competition but asked the regulators to revisit a few issues not addressed in Order 436, particularly resolution of take-or-pay problems. Subsequently, FERC's Order 500 provided a mechanism for crediting gas transported for producers against take-or-pay balances. Settlement guidelines were also approved for take-or-pay obligations, assisting open access pipelines in the spreading take-or-pay settlement losses.

The FERC orders changed the primary business function of interstate pipelines from marketing (which included moving gas owned by the pipeline to buyers) to transporting (simply moving gas owned by others). During the period 1982 to 1987, the percentage of gas transported for others by interstate pipelines increased from 3 percent to 56 percent; the percentage of natural gas throughout sold by interstate pipelines fell from 97 percent to 44 percent.³

²Crosby.

³Interstate Natural Gas Association of America.

In the world of open access and competition as defined by FERC, there remains a regulated sector of the industry. LDCs are regulated by the state rather than FERC.

Industrial customers, many of whom have installed dual-fired capacity in order to gain a competitive price advantage, are equally as aggressive in their gas purchasing practices. Many are seeking gas from sources other than their traditional supplier, the LDC. Termed the "by pass issue" because of industrials' attempts to by-pass the LDCs and purchase gas on the open market, it pits producers, pipelines and industrials against LDCs and state regulators against their federal counterparts.

LDCs point to their statutory obligation to serve all customers and the substantial capital investment which that obligation requires. LDCs argue that if industrial customers leave the system, fixed costs may shift to those customers without the option to leave -- principally residential.

Industrials and pipelines respond that it is futile to stand in the way of economic efficiency, that the producer and pipeline sectors of the industry have emerged alive, if somewhat battered, from their regulatory transformation to a competitive system. Prices have decreased, the industry has survived, and the LDCs have no claim to special treatment.

Producers and pipelines fear that industrials, frustrated in attempts to reduce their purchase price of gas, will simply switch to residual fuel oil, thereby further eroding the natural gas market. Producers maintain everyone loses in that case; producers, pipelines, and LDCs lose markets while residential may be stuck assuming fixed costs.

A second regulatory concern of LDCs relates to balancing security of supply (longer term, more expensive gas contracts, if available) with economy considerations (i.e. price to residential). LDCs are uncertain how state regulators will weigh competing interests.

These questions and others resulting from the interface between federal and state regulatory schemes have prompted some LDCs to call for a designation of state regulatory primacy or, alternatively, concurrent, shared state-federal regulation. The resolution of such questions will face legislators and Congress alike over the next few years.

Although the price is low, the supply secure, the distribution system well developed, and the technology efficient, a primary impetus behind increasing use of natural gas is concern for the environment. Importantly, gas is also viewed as a means of backing out imported oil.

Environmental concerns, particularly related to air quality, acid rain and global warming, are steering policy makers towards increase use of gas. Burning natural gas produces significantly less sulfur dioxide (SO_2), nitrogen oxides (NO_x), small particles, carbon monoxide (CO), and carbon dioxide (CO_2) than does oil or coal combustion. Virtually no reactive hydrocarbons are emitted from natural gas combustion.⁴ In contrast to oil - or coal-fired units, natural gas consumption at stationery sources creates no ash or sludge.⁵

Increased use of natural gas, in the industrial, electric utilities, and transportation sectors would reduce air pollution problems. Industrials and electric utilities alike are attracted to combined cycle gas turbine technology. When used in efficient cogeneration units, the exhaust gases from the natural gas-fired turbine are hot enough to power a steam generator, providing two types of power from the single energy source.

Turnkey cogeneration units are available for industrials, and utilities are looking at combined cycle generation for smaller additions of power capacity. Both sectors are concerned about air quality standards.

Natural gas is a candidate for fuel substitution on an environmental basis. For instance, in warm summer months, when ozone and acid precipitation is most likely to be formed, natural gas might be substituted for oil. Further, co-firing natural gas with other fossil fuels actually "scavenges" pollutants like NO_x which usually result from combustion of such other fuels.⁶ Thus, co-firing may reduce harmful emissions dramatically.

⁴Campbell and Martin, p.30.

⁵Dring and Aboud, p.6.

⁶Campbell and Martin, p. 31.

Air quality considerations are also behind the most significant movement in the nation to implement alternate fuel vehicles -- California's methanol fuel vehicle program. Populous California has significant air quality problems. In its 1987 Biennial Energy Report, the California Energy Commission made three recommendations relative to alternate fuel vehicles:

- California's governmental agencies in nonattainment air basins should adopt programs by 1989 to substitute methanol for 50 percent of their use of motor fuels by the year 2000;
- The federal government should provide Corporate Average Fuel Economy (CAFE) credits for methanol as an incentive to auto manufacturers to produce vehicles capable of using methanol fuels; and
- To provide consumers with transportation fuel use options, California should support the introduction of flexible fuel vehicles into the transportation market.

Of all alternate fuels for vehicles now under consideration, a DOE report recently identified methanol as the preliminary choice for substitution on the basis of technical acceptability, economic competitiveness, environmental acceptability, as well as availability and accessibility.⁷

Although methanol may be produced from a variety of renewable (biomass) and non-renewable (coal) feedstocks, over two-thirds of the methanol produced in this country is from steam reforming of natural gas. Table 2 compares the four leading alternate fuels for replacement of gasoline in vehicles.

In addition to addressing environmental concerns, the use of natural gas for vehicular power would be a first, albeit small, step to reducing U.S. dependence on crude oil in the transportation sector, thus improving U.S. energy security.

⁷DOE/PE-0080, p. 22.

Despite these apparent benefits questions are being raised about methanol. The first question is whether the domestic natural gas resource base is large enough to provide natural gas feedstock for methanol fuel or would a large scale conversion to methanol fuel only increase dependency on foreign energy sources.

A second concern relates to the cost of retrofitting present transportation, storage and distribution systems or developing new systems to handle methanol. Some metals, elastomers and plastics in existing terminals, tank trucks and service stations may be incompatible with methanol.

A third concern relates to air quality arguments. If "flexible fuel vehicles" (those which use gasoline, methanol or a blend of the two) are promoted, the emission control benefits of methanol may be lost to less than optimal engine operation levels.

Dependence on crude oil is not limited to the transportation sector. The Northeast residential sector, which has limited access to natural gas, is also oil dependent. Interstate natural gas pipelines proposed to serve the region are under consideration at FERC.

Some of the competing projects would interconnect only with Canadian gas pipelines. Domestic producers have urged federal regulators to assure that any new markets opened by interstate pipelines, have, at a minimum, interconnects that would allow domestic producers, as well as Canadian gas, access to new markets. In the new deregulated, extremely competitive natural gas business, access to markets is tantamount to assuring viability of producing regions.

Natural gas is the link to America's energy future. In that future, energy savings and environmental concerns must be as important as power considerations. Natural gas gives the U.S. an opportunity to move closer to environmental goals, while enhancing energy security as well.

**Table 2 — Summary of Fuel and Vehicle Characteristics When
Alternative Energy Sources Replace Gasoline**

	Ethanol	Methanol	CNG	Electricity
Near-Term Technical Acceptability	Proven	Proven	Satisfactory for some uses	Close to commercial
Economic Competitiveness (for energy output)	Much more expensive	Near equivalent	The same or better ^a	More expensive; wide range ^b
Availability	Limited	Limited; good future potential	Limited	Limited by generation constraints
Fuel Volume, Compared With Gasoline ^d	1.5x	2x	5x	2x - 3x ^c
Refueling Procedure	No different from gasoline	No different from gasoline	More complex and lengthy	Recharging takes hours; battery replacement cumbersome
Fuel Storage Container Weight ^d	1.3x	1.6x	100-140x (steel); 50-70x (aluminum)	Heavy; depends on technology
Fuel Storage Tank Cost ^d	Nominal	Nominal	\$850-1,000	Battery type determines equivalence
Current State of Fuel System Technology Development	Production technology in Brazil	Pre-production stage	Commercial, but requires updating	Being used in niche markets
Representative Type of Vehicle	Light and heavy duty	Light and heavy duty	Niche fleets; light and heavy duty	Short range, light duty
Engine Performance Characteristics	Power gain, but less than methanol	Approximately 8% power gain ^e	Approximately 10% power loss	Comparable, at expense of range
Exhaust Emissions: HC, CO, NO _x and HC reactivity	Same or better; lower NO _x and HC reactivity	Same or better; lower NO _x & HC reactivity; potential for lower CO ^g	NO _x : same or higher HC: same or higher ^f CO: lower	Only emissions from generating plants (variable with facilities)
Energy Content (Net)				
Compared with about 18,500-19,000 BTU/lb for gasoline and diesel	11,500	8,600	21,300 ⁱ	N.A.
Compared with 112,000-128,000 BTU/gal for gasoline and diesel	75,700	56,600	22,800 ⁱ	N.A.

^aDepends on vehicle operational characteristics and refueling costs, which are linked to the natural gas rates assigned to transport uses by regulatory bodies.

^bDepends on battery technology and electricity costs (which have a wide range, based on variations in production technology and local regulation).

^cBased on equivalent driving range.

^dTwenty-gallon gasoline tank equivalent.

^eBased on engines optimized to use gasoline (methanol optimization yields higher gains).

^fPure methane. Other minor constituents (such as ethane and propane) boil at higher temperatures.

^gUnder "lean-burn" conditions.

Source: DOE/PE-0080, p. 19.

NATURAL GAS STRATEGY STATEMENT

It shall be part of the strategy of the United States to promote the use of clean, efficient natural gas in residential, commercial, industrial, utility and transportation applications. Such use shall include the co-firing of natural gas with other fuels for efficiency or environmental purposes.

The United States shall promote and encourage domestic production of natural gas in an environmentally-sound manner by providing tax and tax accounting incentives to producers of natural gas. Further, the federal government shall complete price deregulation as existing contracts expire.

The Federal Energy Regulatory Commission shall expedite approval of pipeline construction serving new markets, particularly the oil-dependent residential market of the Northeast, and shall assure that all such projects provide access by interconnecting pipelines to producing areas of this nation.

The federal government shall fund continuing research and development relative to the environmentally-sound production and use of natural gas, in order to conserve energy by improving efficiency and shall promote development of methanol and natural gas-fueled vehicles.

RENEWABLE ENERGY

In terms of the long range energy goals of this nation, i.e. energy independence, alternative or renewable energy sources constitute a key energy option. Over the near term, commercial or near-commercial renewable energy technologies will continue to supplement conventional energy supply, offering diversification and relief from environmental pressures associated with fossil fuels.

Renewable energy resources are broadly defined as indigenous resources with relatively inexhaustible supply. Resources include solar energy, biomass energy (wood and other waste products), geothermal energy, hydropower, wind energy, and ocean energy sources. Renewable energy technologies are used to produce industrial applications, and liquid fuels for transportation. They range in technological status from fully commercial wood combustion, hydropower, wind and solar thermal facilities to research-oriented ocean energy experiments.

While fossil fuels are limited by finite supply, renewable energy sources are limited by comparative economics and conversion efficiencies. Progress in renewable energy technology development has continued throughout the period of low world oil prices and reduced federal support.

The U.S. Department of Energy has estimated that in excess of 80 quadrillion Btu's (quads) of renewable energy could be economically extracted within 25 years as a result of research, development and demonstration work. This would provide more than 70 percent of the nation's total energy consumption projected over this period.

Today renewable energy sources contribute over nine percent of the energy consumed in the U.S. Hydropower accounts for about 4 percent, while wood and wood/agricultural wastes contribute roughly 5 percent. All other renewable energy sources account for less than one percent of the U.S. energy consumption. Table 1 provides the current and additional renewable energy supplies expected to be available by the end of the century.

TABLE 1

**RENEWABLE ENERGY CONTRIBUTION TO U.S. ENERGY SUPPLY:
CURRENT, ADDITIONAL AND TOTALS PROJECTED FOR 1995-2000**
In Quadrillion Btu's (Quads)

<u>Source</u>	<u>Current</u>	<u>Additional</u>	<u>Totals Projected For 1995-2000</u>
Wind	0.0174	0.01	0.03
Photovoltaics	0.0003	0.02	0.02
Biomass	3.80	4.20	8.00
Geothermal	0.1744	0.21	0.38
Hydropower	2.60	1.40	4.00
Solar thermal	0.0059	0.02	0.03
Active solar	0.017	0.08	0.10
Passive solar	0.0350	1.70	1.73

Source: Public Citizen, (Updated with U.S. Department of Energy and industry estimates.)

The most notable renewable energy contribution can be found in the electric utility sector. Table 2 illustrates renewable energy electric generating capacity in the U.S., listing the number of states involved. California is the most diversified state with nine different renewable energy resources under development.

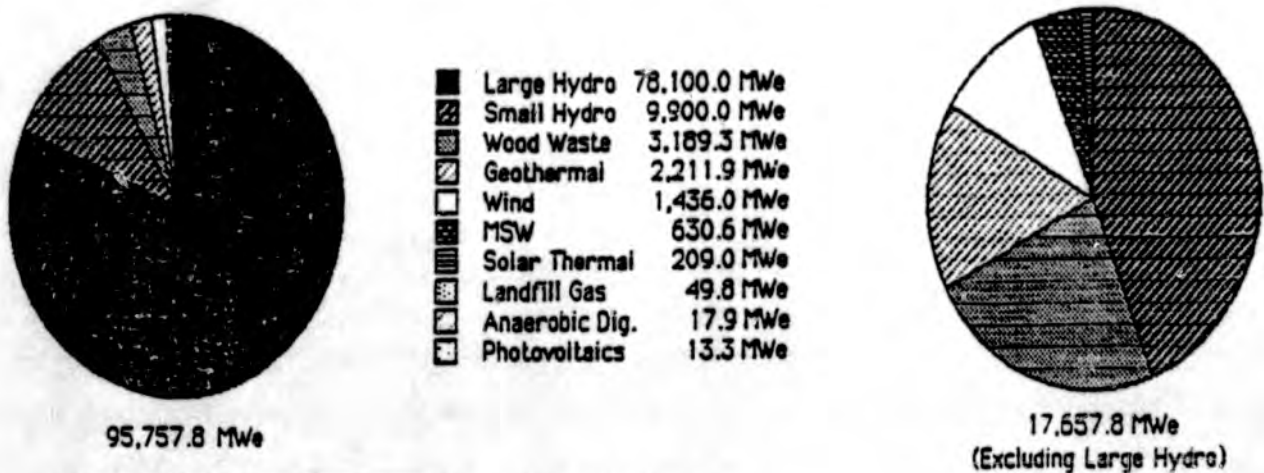
TABLE 2
RENEWABLE ENERGY ELECTRIC GENERATION

<u>Energy Source</u>	<u>No. of States</u>	<u>Generating Capacity(MWe)</u>	<u>% of Total</u>
Large hydropower	37	78,100.0	83%
Small hydropower	46	9900.0	7
Wood/ag. waste	31	3189.3	4
Geothermal	4	2211.9	3
Wind	21	1436.0	2
Municipal solid waste	16	630.6	<1
Solar thermal	3	209.0	<1
Landfill gas	7	49.8	<1
Anaerobic digestion	6	17.9	<1
Photovoltaics	16	<u>13.3</u>	<1
TOTAL		82,186.2	

Source: U.S. Export Council for Renewable Energy (with updated industry estimates).

As Figure 1 indicates that large scale hydropower provides the bulk of the generating capacity. However, in addition to large hydropower, renewable energy electric generating capacity includes significant contributions from resources that have largely been developed in the past decade.

FIGURE 1
RENEWABLE ENERGY ELECTRIC GENERATION



Source: Council for Renewable Energy Education

Hydropower is a very well developed technology for generating electricity. It provides much of the electricity generated in the Pacific Northwest and other Western states; Tennessee, North and South Carolina in the South; and New York and Pennsylvania in the Northeast. In fact, more electricity is generated by hydropower in the U.S. than by oil or natural gas.

Most U.S. hydropower electricity generation is by large units sited at major dams. In addition, the U.S. Army Corps of Engineers (Corps) has estimated that up to 10,000 MW capacity exists for small scale, "low head" hydro. The number of small, privately-owned hydro facilities operating in the U.S. has grown during most of the 1980s, due in part to tax and regulatory incentives.

As of 1986, there were 579 privately-owned small hydroplants in the U.S. with a total capacity of 1,309 megawatts. Another 651 projects were licensed or under construction, representing an additional 1,056 megawatts.

U.S. hydroelectric power development, both large and small, has recently come under increasing regulation. Conducting highly site-specific environmental impact assessments and meeting conflicting jurisdictional requirements of federal and state agencies can significantly increase project costs and add several years to the time needed for a facility to be planned and built. Consequently, some small hydrodevelopers in the U.S. have built plants mostly at the sites of existing but non-operating dams, where questions about environmental impacts have been resolved.

Solar energy includes three main categories: solar thermal, photovoltaics, and solar for building applications. Solar thermal technologies concentrate sunlight for thermal or electric applications. Government-sponsored research has been conducted on central receiver, parabolic dish and parabolic trough systems. Of these, parabolic troughs have experienced the greatest commercial activity.

The most notable solar thermal contribution to U.S. energy supply is the Solar Electric Generating Systems (SEGS) developed and operated by California-based LUZ International. By the end of 1988, LUZ will be operating a total of 194 MW of parabolic trough systems and has contracts with the local utility to triple that capacity over the next 5 years. SEGS successfully supplements solar energy with natural gas to provide a close match with peak electricity demand in southern California.

Solar thermal is being used commercially in a number of industrial process heat applications such as metal plating, and copper foil manufacturing. Concentrated high temperature solar thermal processes also hold potential for the destruction of toxic wastes (e.g., dioxins and chlorofluorocarbons).

Photovoltaics (PV) convert sunlight directly to electricity. Photovoltaic systems range in size from power sources for hand-held calculators to multi-megawatt installations employing concentrators and solar tracking systems. While the domestic market for photovoltaics has grown slowly, the market in developing countries has emerged much more rapidly. U.S. photovoltaic products are used to provide power in remote locations for health, communication and small domestic applications.

Although 16 states have developed photovoltaic projects, the principal activities have been in California, Arizona and Texas. Electric utilities have shown increasing interest in photovoltaics. In 1987, a consortium of utilities created PVUSA (photovoltaic utility scale applications) to investigate the operation of utility-owned photovoltaic installations.

Passive solar systems employ building designs to directly tap or regulate the sun's rays for heating, cooling or lighting. These designs can be incorporated into both new and existing residential, commercial and office buildings. A well-designed passive solar home can reduce energy bills by 75 percent. Added construction costs ranges from 5 to 10 percent.

Active solar systems are used primarily for domestic water heating. As of 1987, there were an estimated 800,000 water heating systems and 100,000 active space heating systems in use in the U.S. The majority of active solar installations are in Southern and Western states, most notably California, Arizona, Florida, and Hawaii.

Biomass energy involves the conversion of organic feedstocks into useful forms of energy such as heat (thermal energy), electricity, or liquid fuels for transportation. Wood and wood waste account for 90 percent of the total biomass energy produced. Lumber companies and pulp and paper companies are the greatest users of biomass energy, meeting more than 65 percent of their energy needs with biomass.¹ Fuelwood provides about 10 percent of the energy used in households; 5.6 million homes are heated exclusively with fuelwood and 21 million homes are heated partially with wood.

Pressures on refuse landfills has increased the attractiveness of municipal solid waste (MSW) as an energy source. The U.S. Department of Energy estimates that about 80 percent of the 160 million tons of MSW produced each year in the U.S. is combustible, with an energy equivalent of 1.2 Quads. An additional 0.3 Quads could be extracted from the methane produced by the decomposition of wastes at existing landfills. Direct combustion of MSW has raised concerns over the dioxin, lead and cadmium found in the resultant ash, issues that must be addressed before this technology can reach its full potential.

Domestic fuel ethanol production capacity has increased from 180 million gallons of anhydrous (99.9 percent pure) ethanol in 1980 to 1,364 million gallons in 1988. During that same time, ethanol sales to the transportation sector have increased from 80 million gallons to an estimated 824 million gallons.² There are over 100 ethanol production facilities operating in 32 states.

In 1987, ethanol-gasoline blends accounted for 8 percent of the total motor fuel used and the ethanol in these fuels reduced oil consumption by 29.8 million barrels. It is likely that ethanol will be increasingly used to replace lead as an octane enhancer to meet EPA lead reduction standards in gasoline.

¹National Wood Energy Association

²Information Resources, Inc.

The Department of Energy Biofuels Program includes regional biomass centers, providing technical assistance corresponding to the geographic diversity of biomass energy needs. Western Area Power Authority maintains the Western regional program and Tennessee Valley Authority, the Southeastern program.

The primary use of wind energy in the U.S. is for the production of electricity. Wind turbines are often developed as "wind farms". Although wind is used to generate electricity in 21 states, fully 94 percent of the U.S. wind generation is in California. Other favorable wind regimes are found in the Rocky and Appalachian Mountain states, Northern Plains states, Alaska and Hawaii.

Over 16,000 wind turbines have been installed in California by the end of 1987, with a total generating capacity of 1,300 megawatts. California wind farms generated 1.7 billion kilowatt-hours of electricity in 1987, with an energy equivalent of approximately 2.6 million barrels of oil.³

Installed costs of wind turbines have dropped from \$3,000 per kilowatt in 1981 to \$900 per kilowatt in 1987. This is due, in part, to the introduction of foreign subsidized wind turbine sales. In 1987, imports of foreign wind machines accounted for 58 percent of the U.S. market.

Geothermal energy converts the earth's natural heat to useful forms of energy. Concentrated in the Western U.S., geothermal electric generating capacity reached 2211.85 megawatts by mid-1988.⁴ The Geysers in northern California account for 1918 megawatts, or 86 percent of the nation's total.

Direct use of geothermal energy development include space conditioning of buildings, district heating, groundwater heat pumps, greenhouse heating, industrial processing, aquaculture, and swimming pool heating. Forty-four states have experienced geothermal direct use development in the last ten years. The total installed capacity is 5.7 billion Btu/hr., with an annual energy capacity of 17,000 billion Btu/yr. (4.5 million barrels of oil energy equivalent).⁵

³American Wind Energy Association.

⁴DiPippo.

⁵Geo-Heat Center.

Ocean thermal energy conversion can be utilized to generate electricity by exploiting ocean temperature gradients between surface to deep waters. This process is called Ocean Thermal Energy Conversion (OTEC). It holds promise for island areas and the Gulf of Mexico. Not surprisingly, U.S. OTEC projects to date have been demonstrated off the coast of Hawaii.

Ocean thermal energy provides additional benefits when considered as an energy system. Desalination processes may be integrated into OTEC technology. Also, the colder water brought from the deep ocean is free of micro-organisms and rich in nutrients making it an attractive resource for aquaculture projects.⁶ Ocean energy is also available in the form of wave energy and tidal power. Table 3 summarizes major renewable energy sources with end-uses.

TABLE 3
MATCHING UP MAJOR RENEWABLE ENERGY SOURCES WITH END-USES

RESOURCE	TECHNOLOGY	ENERGY TYPE
HYDRO	HYDROPOWER	ELECTRICITY
SOLAR RADIATION	BUILDINGS: ACTIVE, PASSIVE	HEATING, LIGHTING, COOLING
	SOLAR THERMAL: CENTRAL RECEIVER, DISHES, TROUGH	ELECTRICITY, HEAT
	PHOTOVOLTAICS: THIN FILM, CRYSTALLINE MULTI-JUNCTION, CONCENTRATORS	ELECTRICITY
BIOMASS	DIRECT COMBUSTION, BIOCHEMICAL THERMOCHEMICAL	HEAT, ELECTRICITY, FUELS
WIND	HORIZONTAL, AND VERTICAL AXIS TURBINES	ELECTRICITY
OCEAN	OCEAN THERMAL ENERGY CONVERSION (OPEN CYCLE)	ELECTRICITY
GEO THERMAL	DIRECT DRY STEAM, SINGLE- AND MULTI-STATE FLASH BINARY HYBRID BINARY	ELECTRICITY, HEAT GASEOUS FUELS

Source: From U.S. DOE/S - 0057, p. 199

⁶Takahashi, p. 2.

Various lists of renewable energy sources often include technologies that may make renewable energy resources more efficient and, therefore, cost effective. Cogeneration, energy storage systems (e.g. batteries, molten salt), and superconductivity are all frequently mentioned. These technologies would also help integrate renewable energy systems into present, "conventional" energy systems.

Renewable energy captured the imagination of the U.S. after the oil crisis of the mid-1970s. Touted as a group of resources that would help wean America off oil, government support for renewable energy was largely abandoned in the face of lower oil prices and the mounting federal deficit. Despite the inconsistent treatment under federal energy policy, renewable energy systems made remarkable strides in the past decade and a half.

Because of the broad range of renewable energy technologies, federal support requirements vary widely. Some technologies need basic research and development to make a renewable resource feasible, others need demonstration efforts, while some need commercialization incentives to promote market acceptance.

The renewable energy research commitment since the late 1970s has contributed to great efficiency and cost improvements. DOE cites the reduction, over 10 years, of the cost of photovoltaics from more than \$600 per peak watt to less than \$5 per peak watt, with doubled efficiencies. Likewise the cost of ethanol processes have been reduced from \$4 per gallon to less than \$1.50 per gallon.⁷

Wind energy cost have dropped from \$3000 to \$900 per installed kilowatt. Solar thermal generated electricity costs have fallen from 45 cents/kilowatt-hour for a demonstration central receiver plant in 1978 (Solar One) to less than 12 cents/kwh for The LUZ Solar Electric Generation Systems (SEGS IV and V), a commercial parabolic trough system installed in 1988.

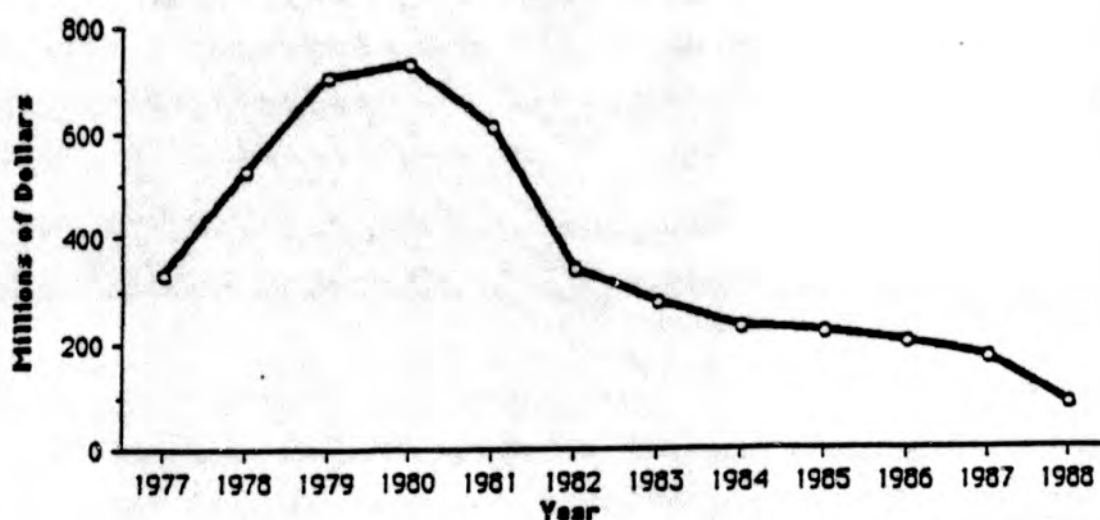
However, during the 1980s, concern about the federal budget deficit and a change in DOE's research and development policies led to a dramatic decline in federal research and development funding. The DOE's policy has restricted federal funding to long-term, high risk areas, cutting or removing support for demonstration and commercialization projects. Consequently, renewable energy received substantially less federal support in 1988 than it had in the mid-1970s.

⁷Martin, p. 4.

Figure 2 illustrates federal research and development commitments to renewable energy from 1976 to 1988. The federal budget for renewable energy research and development has fallen 87 percent since 1960.

FIGURE 2

**TOTAL FEDERAL RENEWABLE ENERGY BUDGET
1977 - 1988**



Source: Potter, p. 180.

Other events have hindered development of renewable energy as well. Most notably, low world oil prices have made alternatives less attractive economically. In addition to directly affecting the market for ethanol fuel, low oil prices have dissipated consumer interest in solar and other technologies. Finally, the low price of oil has affected the price utilities are willing to pay for renewable energy generated electricity.

In 1978, Congress passed the Public Utility Regulatory Policies Act (PURPA), as part of the National Energy Act. It provided that utilities must interconnect with independent cogenerators and small power production facilities. PURPA required utilities to buy surplus electricity from the cogenerators and small power producers at the utility's marginal or avoided cost and to sell the facilities back-up power.

PURPA has been a very important legislative incentive for renewable energy small power facilities. However, the low price of oil, which in turn influences the price of other fossil fuels, has kept utilities' avoided costs down as well, reducing the price paid to independent renewable energy projects.

Renewable energy received another set back in the Tax Reform Act of 1986 which phased out all renewable energy tax credits by December 31, 1988. Solar, geothermal, ocean thermal and biomass energy investments had all been subject to investment tax credits ranging from 10 to 15 percent. Wind energy investment tax credits and residential solar tax credits, which had originally been enacted in the National Energy Act of 1978, were not extended in the Tax Reform Act.

One positive development for renewable energy in the 1980s was formation of the Committee on Renewable Energy Commerce and Trade (CORECT). An interagency committee including the Departments of State, Commerce, Energy, Defense, the Agency for International Development, the U.S. Trade representative and others, was formed as part of the Renewable Energy Industry Development Act of 1983. The purpose of CORECT is to facilitate exports of U.S. renewable energy equipment. CORECT plays an important role in assisting small renewable energy firms and in coordinating the development efforts of various government agencies.

In the mid-1980s the American share of the world photovoltaic market fell, in three years time, to less than 50 percent. Other nations are vigorously pursuing technological research, development, demonstration and commercialization strategies in photovoltaics and other alternative energy areas. Although nations like Japan and those in Europe build on U.S. technology, American researchers and entrepreneurs are limited by language and information distribution constraints from benefitting from foreign advancements.

Current federal support for renewable energy is insufficient to allow renewable resources to reach their potential in the long term. As the Congressional Office of Technology Assessment points out, the low price of oil has provided the nation with a window of opportunity to bring these technologies to the market place. The nation has benefitted from low oil prices, "buying" time for development of renewable energy, a luxury that would disappear with another world oil crisis.⁸

⁸Blair, p. 2.

The government's goal of lessening dependence on imported oil and relieving environmental pressures cannot be assumed to be the concerns of the private sector. Those concerns, basic to development of renewable energy, are national ones.

RENEWABLE ENERGY STRATEGY STATEMENT

Renewable energy sources are characterized by a broad range of technologies, costs, efficiencies and environmental concerns. Recognizing this spectrum of resources, it shall be the strategy of the U. S. to institute a long range, stable Renewable Energy Development Program which identifies and assists renewable energy sources from research and development through demonstration projects and commercialization in a cooperative effort among industry, higher education and national laboratories.

Renewable energy resource development must be ranked and funded on the basis of factors including energy efficiency, economic competitiveness, environmental impacts and technological adaptability. Part of this program, and critical to its success, is federal development of alternative technologies that improve renewable energy efficiencies, cut costs and assist in integrating renewable energy into existing energy systems. Also needed is a translation and distribution system for international technical and marketing papers on renewable energy.

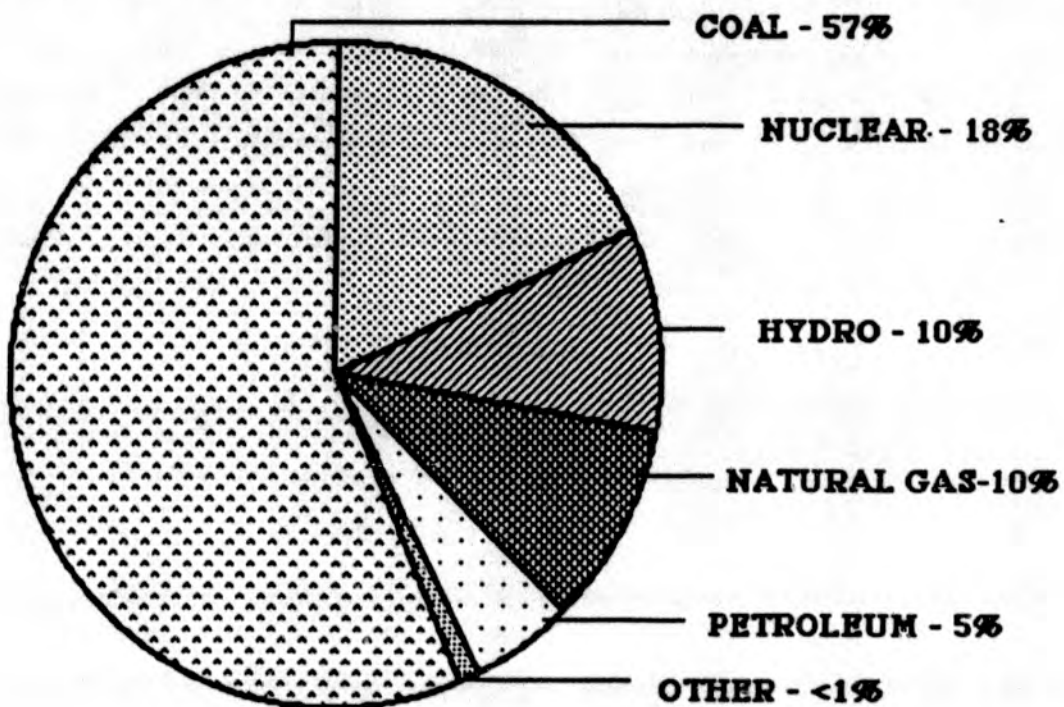
ELECTRICITY

There are three phases to the U.S. electricity industry: generation, transmission and distribution. Traditionally, electric utilities have been integrated and involved in all three phases of the industry. However, transmission and distribution functions may be separated from generation in some cases.

Electricity generation in the U.S. is quite diversified. Powerplants are fueled by coal, nuclear, hydropower, natural gas, petroleum and other energy sources. However, coal fired more utility powerplants in 1987 than all other fuels combined. Figure 1 shows U.S. electric generation by utilities by fuel source for 1987.

FIGURE 1

1987 ELECTRICITY GENERATION BY UTILITIES BY FUEL SOURCE



Source: South/West Energy Council From DOE-EIA - 0348 (87) p. 13.

Not surprisingly, coal is the most important generating fuel to states in the Eastern coal belt -- Ohio, Pennsylvania, West Virginia and Indiana. Texas also uses a lot of coal, much of it lignite mined in the state. There are 108 nuclear units in the U.S. and more than fifty percent of the electricity in New Jersey, Connecticut, South Carolina, Maine and Vermont is supplied by nuclear powerplants.

Hydropower is a significant source of generation on the West Coast (Washington, Oregon and California) as well as in New York State and Arizona. Over 85 percent of the natural gas used for electricity generation is burned in Texas, California, Louisiana, Oklahoma and Florida.

Petroleum is a significant source of power generation for areas of New England (Massachusetts and Connecticut), certain Middle Atlantic states (New York and Pennsylvania) and Florida. Almost 90 percent of U.S. generation from "other fuels" (including geothermal, wood, waste and solar) is located in California.

A utility has a responsibility to provide reliable power. Thus it must stand ready to supply the peak power requirements of its customers. This means having enough power available to meet the highest demand level, or the "peak demand," of the year.

Unlike other forms of energy or fuel, electricity cannot be stored. Consequently, it must be produced as needed. "Baseload" plants run continuously to meet average electricity needs. However, daily peak demands on a utility system may be met by "peaking" plants. Such plants are often more expensive to run and smaller than baseload plants but their electricity production levels may be increased quickly to meet rising demand.

Utilities employ computerized economic dispatch programs which constantly monitor electric power demand on the system. The dispatch program calls up additional generation on the basis of plant efficiency, power economics and transmission limitations.

Capacity to produce electricity beyond that required in peak usage periods is called the reserve margin. Reserve margins of 15 to 25 percent are considered an industry norm. Reserve margins cover contingencies such as having a generating unit down for emergency repairs during a peak demand period.

Peak demand varies by consumption sector. Cost of service also varies by sector. Residential consumers have well-defined daily and seasonal peaking patterns. Daily peaks occur in the late afternoon when consumers come home from work, watch the news and prepare supper.

The second distinguishing characteristic of residential consumers is the high cost of service per consumer. The peaking nature of residential demand is expensive since it requires additional generation units for brief periods of excessive demand. Also, residential are expensive to serve since each unit must be connected, metered and billed separately.

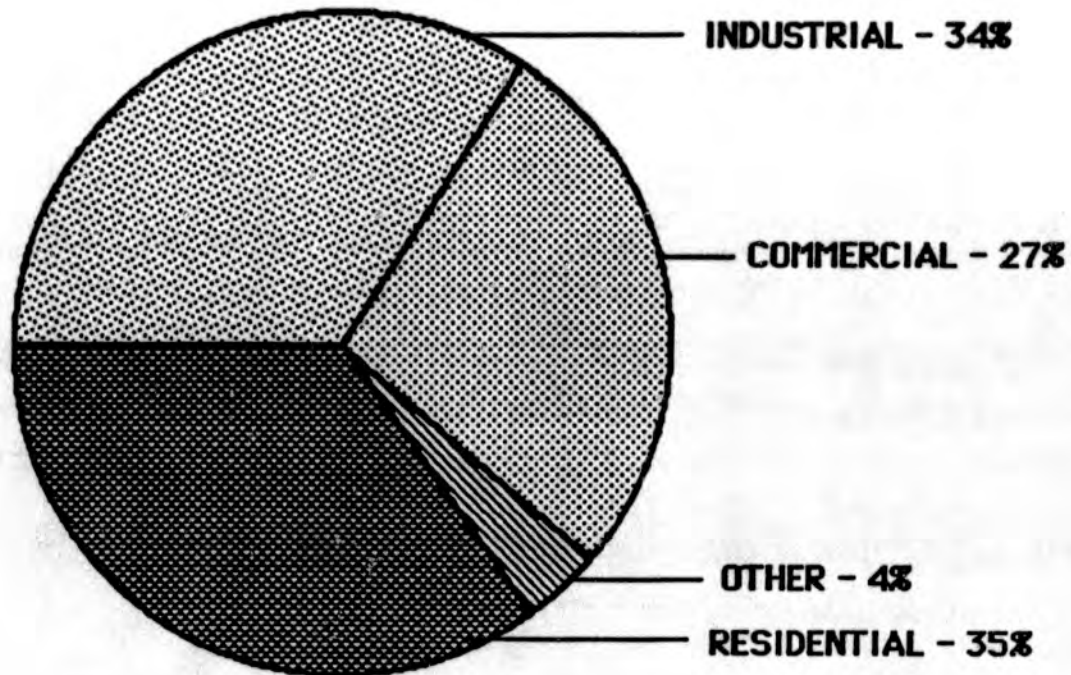
Industrial consumers represent a relatively constant load (demand) for electricity since many industrial processes run continuously, 24 hours a day, 365 days a year. Many industrials use large amounts of electric power at high voltage levels. They require a limited number of connections to the system and often represent a single or limited number of metering and billing operations. All these factors make industry less expensive, on a per kilowatt/hour basis, for an electric utility to supply.

The third consumer group is the commercial sector which includes businesses, hospitals, schools, government buildings and such large electricity consumers as shopping malls. Although system reliability is obviously critical to institutional consumers like hospitals, it is becoming increasingly important to the business sector in general. The pervasive integration of electronic data processing and computers into office operations underscores the need for a reliable supply of electricity.

Electricity consumption by sector for 1987 is illustrated in Figure 2. The "other" category is defined by DOE as including street lighting and sales to public authorities, railroads and interdepartmental sales by utilities.

FIGURE 2

1987 ELECTRICITY CONSUMPTION BY SECTOR



Source: South/West Energy Council From DOE-EIA - 0348 (87).

Transmission systems tie the source of electric power, the generation sector, to the consuming sector. The transmission systems of individual companies are usually linked together at points called interconnects. The transmission systems of a region may be connected in a "pool". This permits companies to buy and sell power to assure reliability and economy, as well as to share power in emergency situations.

Distribution systems "deliver" electricity to consumers. There are three main types of utilities providing generation, transmission and distribution services in the U.S. today. They are investor-owned utilities serving over three-quarters of the consumers; municipally-owned utilities serving 13 percent; and the electric co-operatives, known as co-ops, serving 11 percent of the nation's consumers. Additionally, there are federal power authorities like the Tennessee Valley Authority, Bonneville Power Authority and others which sell wholesale power to utilities for distribution.

Largely on the basis of completion or abandonment of major generating projects during this decade, generating capacity varies greatly from region to region in the U. S. Some regions, like the Northeast, experienced brown-outs (power reductions) during the summer of 1988. In other areas, where large generating units came on line at roughly the same time demand slacked off, reserve margins may exceed 50 percent.

Regions with excess capacity have been particularly affected by the requirement to purchase PURPA power, which has been enforced even though additional capacity was clearly not needed. This means further increases to utility bills which had recently been increased to pay for new generating capacity.

Regional regulation, in light of the regional nature of electricity markets, has been suggested by policy makers like the National Governors Association. Such efforts have proved unsuccessful largely because of a fear of adding another regulatory layer to an already complex regulatory system.

Improved interconnects and transmission technology, as well as regional capacity differences, have led to tremendous growth in bulk power sales between utilities. Other bulk power sales have come from independent power producers and Canadian imports. Increases in long term contract sales, spot power exchanges, contract power pooling, shared facility ownership, and economic dispatch are all related, at least in part, to the growth in the bulk power market.

Canadian electricity imports, primarily generated by Canada's vast hydro-resources, provide up to 10 percent of New York's and New England's electricity consumption. Proponents of Canadian electricity imports point to cheaper rates for U.S. consumers, a reduction of air pollutants by backing out coal-powered generation and a decrease in imported oil for generation. Opponents cite increased trade deficits and question reliability, dependence on foreign power, and subsidies granted Canadian utilities by that government.

Additions to utility capacity have definitely decreased from their peak in the early 1970s. Figure 4 shows capacity additions made and planned.

Construction schedules were disrupted when regulatory agencies responded to the Three Mile Island Nuclear Plant accident with revised safety requirements. Further, nuclear plants were built on an unprecedented scale and often ran into construction problems and delays because of unforeseen technical difficulties. Finally, organized legal challenges slowed many projects significantly.

In the political arena, the oil embargoes of the seventies provided the impetus for the National Energy Act (NEA) which included the Fuel Use Act (FUA) and the Public Utility Regulatory Policies Act (PURPA). In an effort to temper U.S. dependence on what was perceived to be limited domestic oil and natural gas resources, the FUA prohibited the construction of new oil and gas utility powerplants and industrial boilers. Those prohibitions were removed in 1988, but by that time a number of coal-fired generating units had been built in lieu of natural gas plants.

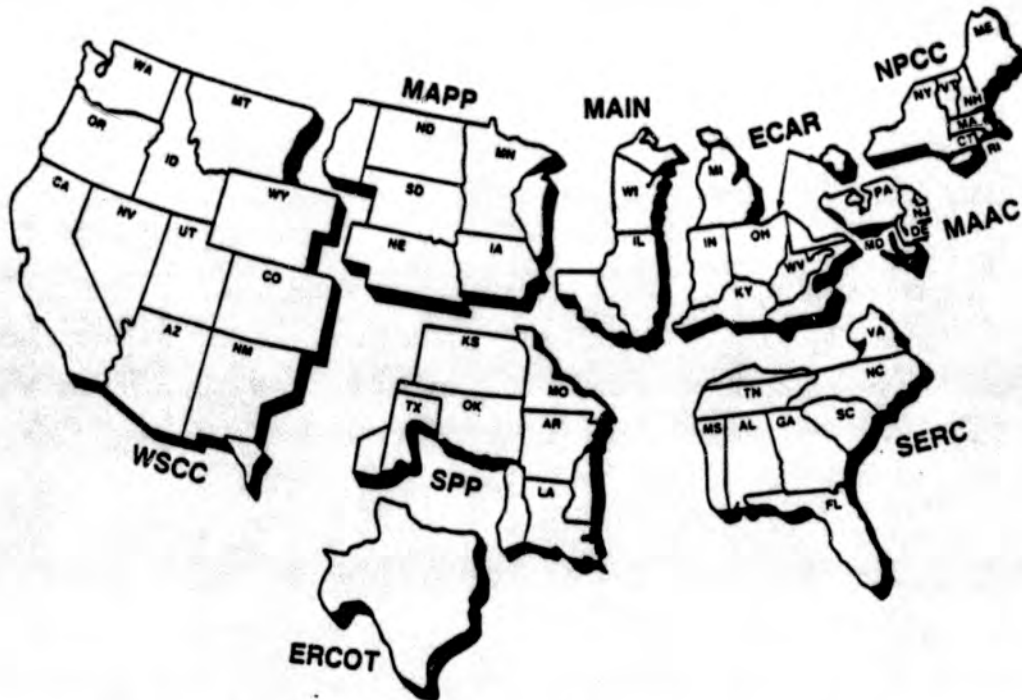
PURPA attempted to conserve energy by encouraging small alternative fuel generation and cogeneration units. Cogeneration, practiced by industry since early this century, is the simultaneous generation of electric power and heat for industrial processes. PURPA directed that utilities must buy power if offered for sale by small power producers and cogenerators at rates no higher than the purchasing utility's avoided cost.

During the upheaval of the late seventies and early eighties, the public became politicized as utility rates climbed with higher fuel costs and plant construction overruns. Unfortunately, during this same period, demand growth which had averaged 10 percent per year, dropped precipitously and settled at an annual rate of two to five percent.

Once under construction, large-scale power generation stations afforded utilities little flexibility in completion or financing (e.g. utilities were faced with completing plants no longer needed or abandoning their sunk investments). Prudence reviews, alternatively viewed as witch hunts or management accountability tools, were conducted by PUCs facing rate increase requests from cash-strapped utilities.

FIGURE 3

NORTH AMERICAN ELECTRIC RELIABILITY COUNCIL REGION MAP



Regional Electric Reliability Council Areas

ECAR—East Central Area Reliability Coordination Agreement
MAIN—Mid-American Interpool Network
MAAC—Mid-Atlantic Area Council
MAPP—Mid-Continent Area Power Pool
NPCC—Northeast Power Coordinating Council
SERC—Southeastern Electric Reliability Council
SPP—Southwest Power Pool
ERCOT—Electric Reliability Council of Texas
WSCC—Western Systems Coordinating Council

Source: DOE-EIA, Electric Power Annual, 1986

The post-war period of utility growth and prosperity came to an end in the 1970s. Foreign oil embargoes caused energy costs to rise in an unprecedented manner. Since fuel costs average 50 percent of a utility's operating and maintenance costs, PUCs allowed automatic fuel adjustments to consumer's bills.

Secondly, utility construction programs, based on previous demand growth rates, ran into cost-of-capital problems with high inflation. Many of these new construction projects were large nuclear plants.

Utilities are generally either publicly regulated or publicly-owned. Regulation at the federal level is by the Federal Energy Regulatory Commission (FERC). FERC's authority extends to all sales for resale, whether intrastate or interstate, and all transmission transactions except most in the state of Texas.

State regulation usually includes the regulation of most or all retail sales to consumers of electricity. Much of state regulation is related to the monopolistic status granted the utility by the state.

The traditional regulatory compact grants utilities a geographical service franchise in exchange for meeting the obligation to provide service on reasonable terms to all those who request it. Further, earnings are limited on opportunity to earn a "fair" return on invested capital, as set by the regulatory body.

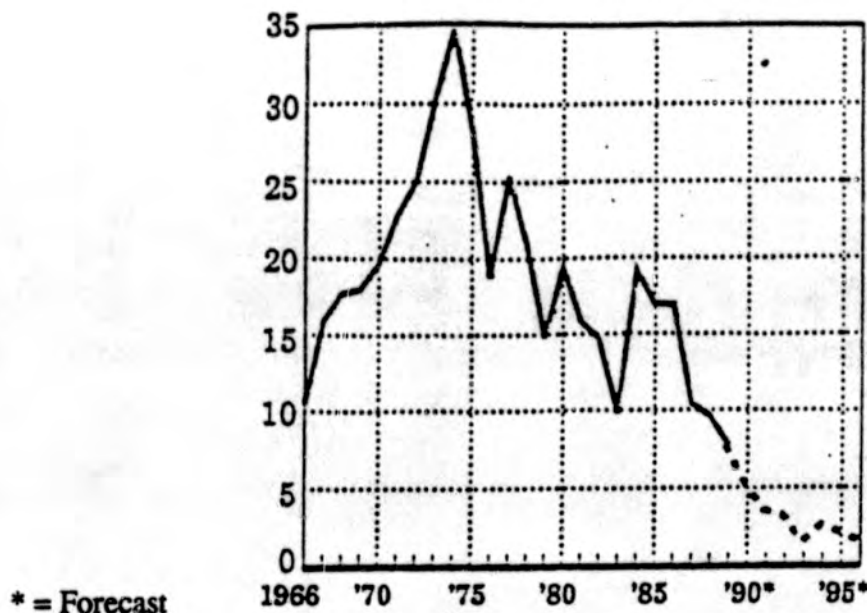
Most states have utility regulatory bodies, commonly called public utility commissions (PUCs) or public service commissions (PSCs). Their members may be elected by the public or appointed by the governor. State PUCs or PSCs normally regulate rate schedules, security offerings and certain contractual relationships, as well as other matters, under state statutory or constitutional grants of authority.

In some cases such authority may be withheld in favor of local government regulation. Local regulation normally takes one of two forms; the granting of franchises to locate distribution facilities (poles and wires) on public right-of-ways, and the regulation (or actual operation) of a municipal utility.

In retrospect, the period from the close of World War II to the mid-1970s was a golden one for electric utilities in the United States. Technological improvements meant declining costs while demand grew steadily at rates as high as 10 percent per year.

One exception to this generally trouble-free era was the so-called "New York City Black-Out" which occurred in November, 1965 and plunged 30 million people on the Eastern seaboard into darkness. That incident led to the formation of the National Electric Reliability Council, composed of 10 Regional Reliability Councils as illustrated in Figure 3. Interconnects and pooling arrangements within the regional reliability councils improved system reliability and the ability to make bulk (wholesale) power sales between utilities.

FIGURE 4
ELECTRIC GENERATING CAPACITY ADDITIONS BY U.S. UTILITIES
MADE AND PLANNED, 1966 - 1996
(Thousands of Megawatts)



Source: Wall Street Journal from Utility Data Institute

Finally, the residential electricity consumer movement, born of the rate battles waged earlier this decade, is promoting "least-cost alternatives" to new generating construction. Least-cost planning is recommended by its advocates as a process to assure that electric utilities meet future load growth with reliable and adequate energy services by employing demand management, as well as supply-side options.

Least cost proponents want a voice in the utility's planning process. They say that if state PUCs and public advocates become involved in front-end "management decisions" relative to new generation, they will share responsibility for the decision with the utility after the powerplant is built.

One least-cost approach, called integrated resource planning,¹ has been outlined for PUCs. It would consider a number of factors including utility protection from prudence reviews, standardized means of evaluating demand-side programs, expensing of utility conservation program costs and a review of automatic adjustment rates to account for lost revenues associated with conservation programs. Integrated resource planning would also require the development of appropriate funding and staffing levels at state PUCs to properly review utility plans.

Ordered to buy PURPA power and able to buy bulk power, many utilities are looking at new generation construction long and hard. Powerplant conversion (e.g. conversion of incomplete nuclear plants to natural gas) and refurbishing existing powerplants also look less risky than construction. However, all these alternatives raise questions of system reliability.

Regardless of who builds the next generation of power stations, environmental factors will play a significant role in the type of facility selected. The so-called "greenhouse effect" may impact future power production decisions in two regards. First, it may influence the choice of fuel and secondly, an increase in the earth's temperature might increase electric utility capacity needs.

Coal and fossil fuel combustion has also been linked to acid rain. Regional differences arise when utility generators using "compliance coal" (low sulfur coal), low sulfur oil, natural gas or nuclear power are threatened with paying for the clean up of older, high sulfur coal facilities. Many recent coal-burning utilities, forced off of indigenous oil and gas by the FUA, built more expensive compliance coal generation units. Such utilities fear double jeopardy now with regard to the cost of cleaning up acid rain problems.

Although there are over a hundred nuclear generating plants in this country, it is unlikely that new plants will be considered until matters of licensing reform, uniform design and disposal of spent nuclear fuel are settled. Regulation of nuclear plant construction has been greatly simplified by European nations relying on an approved, standardized plant design.

¹ Hurst.

Another nuclear concern relates to the disposal of spent nuclear powerplant fuel, presently being stored on the plant site. Finalization of federal policy regulating disposal of spent fuel is a pressing energy policy need.

Industries, seeking to buy power from generators other than the franchised utility, have long sought wheeling (transmission) privileges in the name of economy and efficiency. Utilities generally oppose wheeling on the grounds that transmission systems, designed to handle power generated by the utility, are unable to move specific blocks of power from point to point but rather must be balanced systematically and could become overloaded with wheeling demands. Further, according to utilities, wheeling-off system power to the utility's industrial consumers would mean a loss of baseload consumption, and consequently, higher rates to the utility's remaining customers.

Utilities feel beleaguered by increasing competition from PURPA power generators, pressure to wheel from industrials, regional capacity problems which pit utilities against one another (under excess or shortage conditions), and least-cost planning processes enforced by state PUCs. They voice grave concerns over the status of their service obligation, loss of control of transmission systems and system failure due to unreliable generation.

It is in this environment that FERC has issued Notices of Proposed Rulemaking (NOPRs) which in the words of electricity industry analysts, "Could change forever both the structure of the utility industry and the regulatory framework within which it operates."²

In an effort to reform electric power regulation, FERC's notices label traditional cost-based regulation as flawed because it provides insufficient incentives to utilities to minimize costs to consumers. FERC also feels that the present regulatory scheme holds utilities accountable for failures, but fails to reward utility successes proportionately. As a result, utilities may minimize capital expenditures. This may also result in a bias toward less fuel diversity and a reduction in technological innovation.

² Smartt.

Citing the terms of PURPA, the first phase of FERC's efforts are to target near term decisions in meeting new capacity needs. Subsequent phases of reform regulation will focus on pricing for bulk power markets, utility wholesale sales and transmission.

The current NOPRs, issued in March, 1988, clarify federal rules relative to state PUC administrative determinations of "full avoided cost" for PURPA power purchased by utilities. They also eliminate unnecessary capacity purchases. The second part of the NOPRs provides for a bidding program as an alternative to administrative determinations of full avoided cost. Coincidentally, PUCs in states like New York are pursuing bidding programs as well.

The third set of NOPRs establishes a framework free of regulation for Independent Power Producers (IPPs) who do not qualify for benefits under PURPA and also do not have market power sufficient to fix or maintain prices. Utilities charge that this NOPR would create an unregulated class of generators with an unfair competitive advantage. This proposal will no doubt be challenged in court as exceeding FERC's authority under the Federal Power Act and PURPA.

Although FERC's policy changes may be considered dramatic, the NOPRs are no match for the excitement generated by physicists pursuing superconductivity as the subject of private, as well as public, research efforts. Fully 25 percent of the primary energy consumed in the United States is attributable to electricity generation and transmission losses; superconductivity has the potential to greatly reduce those losses and provide storage technology to levelize electricity demand peaks.

Although now largely limited to the laboratory, concerted research on superconductivity may be expected to impact power generation, transmission and storage, shortly after the turn of the century. Other energy, or specifically, electricity storage systems, are also under development. The potential for electricity conservation is tremendous.

ELECTRICITY STRATEGY STATEMENT

It shall be the strategy of the United States to promote the development of sources of electric energy that are sufficient to meet national needs, secure from external threat, reliable in availability and delivery, safe relative to people and the environment and efficient for use in homes, businesses and industries.

The electricity sector today is marked by tremendous regional diversity, especially with regard to capacity. Fuel usage also varies widely. Implementation of federal legislation that fails to recognize this diversity inevitably penalizes one region or another.

State regulatory bodies are close to consumers, utilities, industries, and concerned for state economic well-being. State regulatory bodies are in the best position to evaluate consumer needs, questions relative to fuel choice, economic development implications, and system reliability.

A federal government program for storage and disposal of spent nuclear fuel shall be finalized as quickly as is safely possible. Federally-acceptable, standardized nuclear powerplant designs must also be established.

Electricity research and development efforts shall be intensified with regard to energy efficiency, superconductivity, advanced and reasonable environmental controls in power generation, and development of cost-effective renewable supply technologies. The development of electric vehicles shall also be pursued.

Issue Index

	Page
Acid precipitation	35, 52
Alternative fuel vehicles	1, 27, 53
Balance of trade	13, 27
Biomass	57, 62
Building solar	61
By-Pass Issue	51
Canada	11, 29, 38, 42, 45, 54, 78
Clean Coal Technology Program	2, 7, 39, 42
Coal	2, 33, 72
Cogeneration	52, 65, 77
Committee on Renewable Energy Commerce and Trade (CORECT)	67
Conservation	1, 17, 25
Conversion Technologies (Coal)	41
Corporate Automobile Fuel Efficiency (CAFE) Standards	1, 11, 53
Crude Oil	1, 23, 24, 27
Dual Capacity Boilers	50
Efficiency standards	1, 20
Electricity	3, 71
Energy consumption	10, 19, 30
Energy storage system	65, 82
Enhanced Oil and Gas Recovery	1, 25
Federal Energy Regulatory Commission	2, 47, 54, 75, 81, 82
FERC Order 436	49
FERC Order 500	50
Federal lands	25
Free Trade Agreement	45
Fuel Use Act	48, 77, 80

Geothermal	57, 63
Goal	1, 15
Greenhouse effect	35, 42, 80
Hydropower	57, 60, 72
Implementation	3
Independent Power Producers (IPPs)	82
International Energy Agency	29
Introduction	7
Investment tax credits	1, 67
Least cost alternatives	79, 80
Local Distribution Companies (LDCs)	47, 51
Methanol	2, 53, 55
Mexico	12, 29, 45
Multiple use of federal lands	2, 26
Municipal Solid Waste (MSW)	62
National Acid Precipitation Assessment Program	38, 42
National Energy Act of 1978	48, 77
Natural Gas	2, 45
Natural Gas Policy Act of 1978 (NGPA)	48
Notices of Proposed Rulemakings (NPRs)	81, 82
Nuclear plant design standards	3, 80
Nuclear power	77, 80, 81
Ocean Thermal Energy Conversion	57, 64
Oil shale	25
Organization of Petroleum Exporting Countries (OPEC)	8, 12, 23, 30
Pan American Energy Alliance	1, 7, 29
Peak demand	72, 73
Photovoltaics	61, 67
Pipeline construction approval	2, 54

Price deregulation (Natural Gas)	2, 48
Producer incentives	1, 2
Public utility commissions (PUCs)	75, 76, 77, 79, 80
Public Utility Regulatory Policies Act (PURPA)	66, 67, 77, 78, 81, 82
Regulatory compact	75
Renewable Energy	3, 57
Renewable Energy Development Program	3
Repowering Technologies (Coal)	40, 41
Retrofit Technologies (Coal)	39, 40
Solar thermal	61
Spent nuclear fuel	3
Strategic Petroleum Reserve (SPR)	1, 12, 28, 79
Superconductivity	1, 3, 65, 82
Take-or-pay contracts	50
Tax Reform Act of 1986	67
Venezuela	12, 29
Waste recycling and reduction	1, 18
Wind	57, 63

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HIGHLIGHTS OF NGA NATIONAL ENERGY POLICY

The Governors believe that the development of a comprehensive, coherent, and productive national energy policy is imperative as the nation approaches the 1990's.

Policy Framework

The Governors suggest a national energy policy be based on eight guidelines:

- o Energy policy should use our resources prudently and efficiently, and pursue a long-term least-cost energy strategy to minimize the cost of reliable energy supplies and services;
- o Energy policy should reflect security and reliability concerns by pursuing a diverse and flexible energy supply mix, and by providing for future energy needs;
- o Address environmental concerns
- o Energy policy should ensure sustained public and private investment in energy research and development;
- o Energy policy should include a well-specified division of regulatory authority between the states and the federal government;
- o Energy policy should provide our citizens with affordable and secure energy supplies and services; and
- o Energy policy should provide Americans with access to the information they need to make sound energy choices.

Governors urge the Department of Energy (DOE), with assistance from the Departments of Defense and State and in conjunction with the states, to develop an analytic base to assess the productivity costs, and risks of the various energy choices available. Energy options should be ranked and grouped by end use -- transportation, residential heating, and so forth -- not by specific fuels or efficiency improvements.

Policy Options

The Governors recommend the following policy options which are expected to promote additional domestic energy supplies or efficiency.

I. IMPROVING ENERGY SUPPLY

☒ Encourage exploration and development of nation's primary energy resources...including consideration of currently restricted areas.

Provide tax incentives for oil & gas exploration, development and enhanced recovery...encourage new domestic reserve development and avoid premature shut-in of wells.

Provide tax incentives for coal production, transportation & utilization.

Encourage early resolution of nuclear power issues.

Deregulate natural gas wellhead prices upon contract expiration.

Provide open access to consumer & producers to natural gas pipeline capacity...consistent with state regulatory decisions re: by-pass issue.

Rely on state responsibility to ensure expeditious siting, and licensing of electrical generation facilities.

Encourage multi-state cooperation in identifying economics of and need for additional energy transmission and generation projects.

Allow expanded regional and interregional electricity markets.

Make states responsible for regulation of intrastate electricity wholesales, ensure regulation of interstate wholesale markets does not impede states regulation of utility investments.

Shift FERC jurisdiction over intrastate wholesale transactions to individual states or to regional regulatory bodies at option of state or states involved.

Provide full utilization of existing rights-of-way for energy transmission.

Y Encourage hemispheric energy trade agreements. Governors support the barrel-for-barrel trade of Alaskan oil for oil from other countries, except in times of energy emergency.

Provide tax incentives for renewable energy resource development.

II. IMPROVING ENERGY UTILIZATION

Increase vehicle fuel efficiency through CAFE.

Provide incentives for use of alternative motor fuels and production of alternative motor fuel vehicles.

Fully consider energy implications of alternative transportation.

Provide federal incentives for energy efficiency and conservation improvements...equivalent to those provided for fossil fuels and renewable resources.

Energy-rate new and existing housing stock and appliances.

Work w/industry to promote energy efficiency in design & building.

Government to take leadership role in purchase & use of energy efficient technologies and products.

Expand energy conservation programs to government owned buildings.

Develop effective energy information programs...for all sectors.

Develop alternative financing programs for energy efficiency improvements...for all sectors.

Restore federal funding of low income energy service programs.

Encourage regulated and unregulated energy suppliers to work with states to develop supplemental programs of financial assistance for low income people.

III. RESEARCH AND DEVELOPMENT

Undertake the following:

Petroleum and natural gas: Enhanced oil and gas recovery by joint federal-state-private initiatives.

Energy Efficiency: Capturing opportunities for cost-effective energy efficiency improvements. Additional federal research, development, and technology transfer activities.

Coal: The production, transportation, and utilization of coal in an environmentally acceptable manner...including the clean coal program.

Renewable Resources: Additional Federal support in partnership w/private sector to improve cost, reliability, & efficiency of renewable energy resources.

Alternative Fuels: Development of alternative fuels, especially those which can be used in the transportation sector.

Nuclear Energy: Development and evaluation of advanced, safe, reactor designs, waste management technology, nuclear fusion, and plant retrofit and life extension.

Increase & Better Coordinate Energy R&D by:

Strong federal-state-private research partnership.

Examine benefits of removal of anti-trust barriers to pooled research; and

Promote federal funding of R&D in areas in which businesses & industries are unable to capture benefits.

Increase emphasis on timely transfer of research findings and new technologies from the laboratories to factories, builders, and users.

IV. EMERGENCY PREPAREDNESS

Fill the strategic petroleum reserve (SPR) to its authorized level and provide flexibility to increase or decrease fill rates in response to changes in oil prices.

Encourage continued refinement of timely sales process for SPR oil and continued, regular, testing of the SPR sales mechanism and physical drawdown capabilities....urge the development of a region-by-region analysis of the impact of SPR use on the availability of various fuels.

Ensure full state, federal, local, international, and private partnership in energy emergency response planning.

Encourage fuel switching.

V. FUNDING

The costs and benefits of a national energy program will depend upon which policy options we elect, as a nation, to pursue. The Governors believe that many of the options identified in this paper may be implemented at little or no cost to the federal government. The Governors also recognize that additional federal expenditures may be required to fund adequately other options identified in this paper. In part, these funds could come from a reallocation of existing federal expenditures. The Governors believe that energy should be a national priority.

D-50. A COMPREHENSIVE NATIONAL ENERGY POLICY

50.1

PREFACE

FROM THE TIME OF THE INDUSTRIAL REVOLUTION, ENERGY HAS BEEN THE LIFEBLOOD OF ECONOMIC ACTIVITY AND GROWTH. TO PROVIDE A FOUNDATION FOR CONTINUING ECONOMIC DEVELOPMENT, IT IS IMPORTANT THAT OUR CHANGING ECONOMY HAVE AVAILABLE THE APPROPRIATE ENERGY SUPPLIES AND SERVICES. OUR ENERGY INFRASTRUCTURE MUST BE SUFFICIENTLY FLEXIBLE TO ADAPT TO CHANGING NEEDS.

CURRENTLY THE UNITED STATES IMPORTS MORE THAN 40 PERCENT OF THE OIL IT CONSUMES, AND IN 1987 ENERGY IMPORTS ACCOUNTED FOR ALMOST ONE-FOURTH OF THE NATION'S BALANCE OF TRADE DEFICIT. DOMESTIC OIL PRODUCTION IS DECREASING AND WILL CONTINUE TO DECLINE, AND BY THE MIDDLE OF THE NEXT DECADE, OIL IMPORTS COULD RISE TO 50 PERCENT OR MORE OF AMERICAN OIL CONSUMPTION. IN THE CRITICAL TRANSPORTATION SECTOR ALONE - WHERE THERE ARE VIRTUALLY NO ALTERNATIVES TO PETROLEUM-BASED FUELS - THE NATION CONSUMES MORE OIL THAN IT PRODUCES. THE IMPLICATIONS FOR THE NATION'S ECONOMY, NATIONAL SECURITY, AND BALANCE OF TRADE ARE ENORMOUS. THERE IS ALSO A GREAT RISK THAT FOREIGN POLICY OPTIONS WILL BECOME CONSTRAINED AS THE RESULT OF OUR DEPENDENCE ON FOREIGN ENERGY SUPPLIES.

YET AMERICA IS ALSO BLESSED WITH ABUNDANT DOMESTIC ENERGY RESOURCES, INCLUDING SUPPLIES OF OIL, COAL, GAS, URANIUM, AND A VARIETY OF RENEWABLE ENERGY RESOURCES, WHICH CAN HELP MEET OUR ENERGY NEEDS AND REDUCE LEVELS THAT MUST BE IMPORTED. THE NATION IS ALSO LEARNING TO USE ENERGY SUPPLIES MORE EFFICIENTLY. INDEED, SINCE THE 1973 OIL EMBARGO, THE NATION'S USE OF ENERGY HAS DECLINED SIGNIFICANTLY BOTH PER CAPITA AND PER UNIT OF THE GNP, AND GREATER EFFICIENCY HAS BEEN OUR LARGEST NEW "SOURCE" OF ENERGY SUPPLY. IN PARTICULAR, THE NATION'S USE OF NONELECTRIC ENERGY FORMS HAS DECLINED APPRECIABLY, WHILE ITS USE OF ELECTRICITY HAS INCREASED SIGNIFICANTLY, WITH ALMOST ALL OF THE INCREASE PROVIDED BY COAL AND NUCLEAR ENERGY.

THE GOVERNORS BELIEVE THAT THE DEVELOPMENT OF A COMPREHENSIVE COHERENT, AND PRODUCTIVE NATIONAL ENERGY POLICY IS IMPERATIVE AS THE NATION APPROACHES THE 1990s. THIS POLICY SHOULD RECOGNIZE THE RISKS INVOLVED IN RELYING HEAVILY ON IMPORTED ENERGY AND SHOULD PROVIDE FOR THE OPTIMUM USE OF DOMESTIC ENERGY RESOURCES. IT MUST PROMOTE BOTH DEVELOPMENT OF ADDITIONAL DOMESTIC ENERGY SUPPLIES AND INCREASED ENERGY EFFICIENCY AS CONSUMERS MEET THEIR NEEDS FOR

ENERGY SERVICES. A VIABLE DOMESTIC ENERGY SUPPLY INDUSTRY MUST BE MAINTAINED. THE NATION'S ECONOMY MUST BECOME MORE ENERGY EFFICIENT IN ORDER TO COMPETE GLOBALLY.

50.2 POLICY FRAMEWORK

A COMPREHENSIVE NATIONAL ENERGY POLICY MUST MEET PUBLIC NEEDS FOR ENERGY, RECOGNIZING THE TRADEOFFS BETWEEN COSTS AND RISKS AND STRIVING FOR CONSISTENCY WITH OTHER NATIONAL PRIORITIES AND GOALS. THE PRINCIPAL GOAL OF OUR NATIONAL ENERGY POLICY SHOULD BE TO PROVIDE SECURE AND AFFORDABLE ENERGY SUPPLIES AND SERVICES THAT WILL ENSURE THE HEALTH OF OUR ECONOMY AND OUR ENVIRONMENT. THE GOVERNORS SUGGEST A NATIONAL ENERGY POLICY BASED ON SEVEN GUIDELINES. ENERGY POLICY SHOULD:

- PROMOTE THE PRUDENT AND EFFICIENT USE OF OUR RESOURCES AND THE PURSUIT OF A LONG-TERM LEAST-COST ENERGY STRATEGY TO MINIMIZE THE COST OF RELIABLE ENERGY SUPPLIES AND SERVICES;
- PURSUE A DIVERSE AND FLEXIBLE ENERGY SUPPLY MIX THAT PROVIDES FOR FUTURE NEEDS AND REFLECTS SECURITY AND RELIABILITY CONCERNS;
- ADDRESS ENVIRONMENTAL CONCERNS;
- ENSURE SUSTAINED PUBLIC AND PRIVATE INVESTMENT IN ENERGY RESEARCH AND DEVELOPMENT;
- INCLUDE A WELL-SPECIFIED DIVISION OF REGULATORY AUTHORITY BETWEEN THE STATES AND THE FEDERAL GOVERNMENT;
- PROVIDE OUR CITIZENS WITH AFFORDABLE AND ADEQUATE ENERGY SUPPLIES AND SERVICES; AND
- PROVIDE AMERICANS WITH ACCESS TO THE INFORMATION THEY NEED TO MAKE SOUND ENERGY CHOICES.

50.2.1 ENERGY EFFICIENCY. ENERGY EFFICIENCY OFFERS A PRACTICAL MEANS OF ACHIEVING MANY OF OUR ENERGY POLICY GOALS. INCREASED EFFICIENCY WILL DECREASE OUR RELIANCE ON IMPORTED OIL, REDUCE THE ENVIRONMENTAL IMPACTS OF FOSSIL FUELS, ENHANCE THE COMPETITIVENESS OF U.S. INDUSTRIES, SLOW THE DEPLETION OF OUR FINITE FOSSIL FUELS,

AND EXTEND THE TIME WE HAVE TO MAKE THE TRANSITION TO NEW AND INNOVATIVE ENERGY TECHNOLOGIES.

THERE ARE ENVIRONMENTAL IMPLICATIONS ASSOCIATED WITH ENERGY POLICY CHOICES. MOUNTING CONCERNS OVER OZONE POLLUTION, ACID DEPOSITION, AND GLOBAL WARMING BRING THIS ISSUE TO THE FOREFRONT. WE MUST RECOGNIZE AND ADDRESS THE SHORT- AND LONG-TERM ENVIRONMENTAL IMPACTS OF OUR ENERGY CHOICES AND MAKE THEM ENVIRONMENTALLY ACCEPTABLE. THE GOVERNORS BELIEVE ADDRESSING THESE ENVIRONMENTAL CONCERNS CAN BE ACCOMPLISHED MOST EFFECTIVELY BY IMPROVING THE EFFICIENCY OF THIS NATION'S ENERGY USE AND BY MAKING SURE THAT CHOICES AMONG FUELS AND ENERGY PRODUCTS AND SERVICES REFLECT THEIR TRUE ENVIRONMENTAL COSTS. THIS PRINCIPLE SHOULD APPLY TO IMPORTED ENERGY AS WELL AS DOMESTIC ENERGY.

50.2.2 ENERGY EMERGENCIES. IT IS ALSO IMPERATIVE THAT THE STATES AND FEDERAL GOVERNMENT DEVELOP STRATEGIES FOR RESPONDING TO A BROAD VARIETY OF POSSIBLE ENERGY EMERGENCIES. INITIAL EFFORTS SHOULD FOCUS ON STRATEGIES TO PREVENT EMERGENCIES FROM OCCURRING. EFFORTS TO DIVERSIFY OUR ENERGY SYSTEMS WHILE MAXIMIZING OUR USE OF COST-EFFECTIVE DOMESTIC ENERGY RESOURCES ARE PART OF THIS LONG-TERM EFFORT. ADDITIONAL EFFORTS IN THE INTERIM MUST FOCUS ON PLANNING THE RESPONSE FEDERAL AND STATE GOVERNMENTS WOULD TAKE IF ANY ENERGY EMERGENCY OCCURS. IT IS ESSENTIAL THAT EMERGENCY RESPONSE PROCEDURES BE WELL TESTED TO ENSURE THE COORDINATION AND FLOW OF INFORMATION BETWEEN ENERGY SUPPLIERS, CONSUMERS, AND FEDERAL, STATE, AND LOCAL GOVERNMENTS.

50.2.3 COST-EFFECTIVE ENERGY SERVICES. THE GOVERNORS REITERATE THEIR SUPPORT FOR PROGRAMS TO ASSIST THOSE UNABLE TO AFFORD A MINIMAL LEVEL OF ENERGY SERVICES. THE FOCUS SHOULD BE ON PROVIDING ENERGY SERVICES IN THE MOST COST-EFFECTIVE MANNER. PERMANENT SOLUTIONS SUCH AS EFFICIENCY IMPROVEMENTS SHOULD BE STRESSED, RECOGNIZING THAT TEMPORARY ASSISTANCE MAY BE NECESSARY TO DEFRAY FUEL BILLS. ALSO, JOB RETRAINING AND RELOCATION ASSISTANCE MAY BE NECESSARY FOR THOSE IN THE ENERGY INDUSTRIES WHO SUFFER JOB DISLOCATIONS AS THE RESULT OF ENERGY POLICY DECISIONS.

50.2.4 RISK REDUCTION. THE GOVERNORS RECOGNIZE THAT ALL ENERGY SOURCES CARRY SOME DEGREE OF RISK - EITHER MILITARY, ECONOMIC, ENVIRONMENTAL, OR SOCIAL. OPTIONS CARRYING HIGH RISK SHOULD BE COMPARED TO ALTERNATIVES. THEN THE QUESTION BECOMES WHETHER A PREMIUM NEEDS TO BE PAID TO REDUCE THE RISK. THE GOVERNORS

RECOGNIZE THAT SOME PREMIUMS ARE WORTH PAYING. THE COUNTRY MAY PURCHASE ADDITIONAL ENERGY SECURITY AND RELIABILITY THROUGH MEASURES THAT ASSURE DIVERSIFIED SUPPLIES OF THOSE ENERGY RESOURCES ON WHICH WE CURRENTLY DEPEND, INCLUDING GREATER DOMESTIC PRODUCTION, AND BY EXPANDING OUR ENERGY CHOICES THROUGH IMPROVED ENERGY EFFICIENCY AND THE DEVELOPMENT OF COMMERCIALY AVAILABLE ALTERNATIVES.

- 30.2.5 INFORMATION NEEDS. THE GOVERNORS ALSO RECOGNIZE THAT THE STRENGTH OF THE ECONOMY IS ITS RELIANCE ON THE PRIVATE SECTOR, AND THAT A GOVERNMENT HAS A RESPONSIBILITY TO PROVIDE CONSISTENT, CLEAR POLICY DIRECTION AND MAKE RATIONAL DECISIONS THAT CAN HELP GUIDE PRIVATE SECTOR INITIATIVES. FEDERAL, STATE, AND LOCAL GOVERNMENTS CANNOT PROVIDE CREDIBLE POLICY DIRECTION OR RESPOND PROPERLY TO THE NEEDS OF CONSUMERS WITHOUT GOOD INFORMATION. THUS, AN ESSENTIAL STEP IN FORMULATING A BALANCED ENERGY POLICY IS TO DEVELOP THE NECESSARY DATA AND EMPLOY ANALYTICAL METHODS AND MODELS TO ASSESS THE PRODUCTIVITY COSTS AND RISKS OF THE VARIOUS ENERGY CHOICES AVAILABLE TO THE NATION.

THE GOVERNORS URGE THE DEPARTMENT OF ENERGY (DOE), WITH ASSISTANCE FROM THE DEPARTMENTS OF DEFENSE AND STATE, AND IN CONJUNCTION WITH THE STATES, TO DEVELOP THIS ANALYTIC BASE. DOE SHOULD RANK THE ENERGY OPTIONS AVAILABLE TO THE NATION. THE OPTIONS SHOULD BE GROUPED BY END USE AND NOT BY SPECIFIC FUELS OR EFFICIENCY IMPROVEMENTS. THE RANKING OF EACH OPTION WITHIN A GROUP SHOULD REFLECT THE MARKET AND NONMARKET COSTS OF ENERGY SAVED OR DELIVERED, THE RELATIVE DEGREE OF UNCERTAINTY AND RISK EXPOSURE, AND THE COMPATIBILITY OF EACH OPTION WITH OTHER NATIONAL GOALS. BECAUSE THE COSTS AND RISKS ASSOCIATED WITH EACH OPTION CHANGE OVER TIME, DOE SHOULD PERIODICALLY REVISE THE RANKINGS. THE RESULTS OF THIS WORK WOULD PROVIDE CONGRESS AND FEDERAL AND STATE ENERGY POLICYMAKERS WITH THE INFORMATION TO RESPOND APPROPRIATELY AS THE FUTURE UNFOLDS, AND TO TAKE THE STEPS NECESSARY TO PROTECT THE NEEDS OF CONSUMERS AND THE COUNTRY.

- 30.2.6 LONG-TERM COSTS. IN CHOOSING AMONG ENERGY POLICY ALTERNATIVES, INCLUDING THOSE IN THIS POLICY, THE GOVERNORS BELIEVE THAT A COST-BENEFIT APPROACH SHOULD BE APPLIED IN WHICH THE FULL LONG-TERM COSTS OF AN OPTION IN TAXES, CONSUMER ENERGY BILLS, ENVIRONMENTAL IMPACTS, SECURITY RISKS, AND OTHER NATIONAL GOALS ARE WEIGHED AGAINST THE ADDITIONAL AVAILABILITY OR CONSERVATION OF ENERGY AND OTHER LONG-TERM BENEFITS IT MIGHT BE EXPECTED TO GENERATE.

THOSE MEASURES INVOLVING THE LOWEST COSTS, IN TERMS OF PUBLIC EXPENDITURES, REVENUE LOSSES, COSTS TO CONSUMERS, OR ENVIRONMENTAL OR OTHER IMPACTS, SHOULD BE CONSIDERED FIRST, AND INDEED, THERE ARE MEASURES THAT WOULD IMPROVE OUR ENERGY SECURITY AND RELIABILITY WITHOUT IMPOSING SIGNIFICANT NEW COSTS. ALTHOUGH THE POTENTIAL COSTS AND BENEFITS OF A GIVEN PROPOSAL CAN BE EXTREMELY DIFFICULT TO ESTIMATE, THIS FRAMEWORK IS VALUABLE IN SETTING CONSISTENT TERMS OF DEBATE FOR OUR VARIOUS ENERGY POLICY CHOICES, BOTH NOW AND IN THE FUTURE.

50.3 POLICY OPTIONS

THE GOVERNORS RECOGNIZE THAT WHILE A COMPREHENSIVE EVALUATION OF ENERGY POLICY OPTIONS IS NEEDED, SOME ENERGY DECISIONS MUST BE MADE NOW. CONSISTENT WITH THE POLICY FRAMEWORK DESCRIBED HEREIN, THE GOVERNORS RECOMMEND SEVERAL POLICY OPTIONS THAT ARE EXPECTED TO PROMOTE ADDITIONAL DOMESTIC ENERGY SUPPLIES OR EFFICIENCY. THE FOLLOWING RECOMMENDED OPTIONS PROVIDE A SOUND BEGINNING FOR A COMPREHENSIVE NATIONAL ENERGY POLICY. IN CONSIDERING THE IMPLEMENTATION OF THESE OPTIONS, SPECIFIC PROGRAMS AND STRATEGIES MUST BE CAREFULLY DESIGNED TO PROPERLY BALANCE ALL OF THEIR SHORT- AND LONG-TERM BENEFITS AND COSTS.

50.3.1 IMPROVING ENERGY SUPPLY

- ENCOURAGE EXPLORATION AND DEVELOPMENT OF THE NATION'S PRIMARY ENERGY RESOURCES, INCLUDING OIL, GAS, COAL, URANIUM, RENEWABLE ENERGY RESOURCES, AND OTHERS, TO THE EXTENT THEY ARE COMPETITIVE IN ENERGY MARKETS AND CONSISTENT WITH ENVIRONMENTAL REQUIREMENTS. CONSIDERATION SHOULD BE GIVEN TO EXPANDING EXPLORATION AND DEVELOPMENT IN CURRENTLY RESTRICTED AREAS.
- PROVIDE TAX INCENTIVES FOR DOMESTIC OIL AND GAS EXPLORATION AND DEVELOPMENT AND ENHANCED RECOVERY, TO ENCOURAGE NEW DOMESTIC RESERVE DEVELOPMENT AND AVOID PREMATURE SHUT-IN OF WELLS. THESE INCENTIVES COULD INCLUDE, AS EXAMPLES, A STANDARD INVESTMENT TAX CREDIT ON EXPLORATION AND DEVELOPMENT EXPENDITURES, FOR STRIPPER WELL OPERATION AND MAINTENANCE EXPENDITURES, AND FOR SECONDARY OR TERTIARY ENHANCED RECOVERY PROJECT EXPENDITURES; EXPENSING OF GEOLOGICAL AND GEOPHYSICAL COSTS; REPEAL OF THE WELL TRANSFER RULE; AND ELIMINATION OF

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**EXPLORATION AND DEVELOPMENT EXPENDITURES AS AN ALTERNATIVE MINIMUM TAX
"PREFERENCE" ITEM.**

- **PROVIDE TAX INCENTIVES FOR COAL PRODUCTION, TRANSPORTATION, AND UTILIZATION WHICH WILL ALLOW FOR THE INCREASED USE OF COAL IN AN ENVIRONMENTALLY ACCEPTABLE MANNER.**
- **ENCOURAGE EARLY RESOLUTION OF NUCLEAR POWER ISSUES, CONSISTENT WITH SAFETY AND ENVIRONMENTAL REQUIREMENTS. THESE ISSUES INCLUDE PLANT STANDARDIZATION AND TIMELY PERMITTING, CONSISTENT REGULATORY OVERSIGHT OF OPERATIONS, PLANT LIFE EXTENSION AND DECOMMISSIONING, AND WASTE DISPOSAL. STATES SHOULD CONTINUE TO HAVE THE RIGHT TO MONITOR OPERATING CONDITIONS AT NUCLEAR POWER PLANTS.**
- **DEREGULATE NATURAL GAS WELLHEAD PRICES UPON CONTRACT EXPIRATION.**
- **PROVIDE OPEN ACCESS ON THE PART OF CONSUMERS AND PRODUCERS TO NATURAL GAS PIPELINE CAPACITY, CONSISTENT WITH STATE REGULATORY DECISIONS REGARDING BY-PASS OF LOCAL DISTRIBUTION COMPANIES.**
- **RECOGNIZE STATE RESPONSIBILITY TO ENSURE TIMELY DECISIONS ON PERMITTING, SITING, AND LICENSING OF ENERGY FACILITIES, CONSISTENT WITH STATE AND FEDERAL LAW AND HEALTH AND SAFETY REQUIREMENTS.**
- **ENCOURAGE MULTI-STATE COOPERATION IN IDENTIFYING THE ECONOMICS OF AND NEED FOR ADDITIONAL ENERGY TRANSMISSION AND GENERATION PROJECTS. REGIONAL ENERGY TRANSMISSION AND GENERATION PLANNING COULD BE FURTHER ENHANCED THROUGH IMPROVED COMMUNICATION AMONG THE APPROPRIATE STATE AND FEDERAL REGULATORY AGENCIES, AFFECTED UTILITY COMPANIES, AND ANY OTHER AFFECTED PARTIES.**
- **ALLOW EXPANDED REGIONAL AND INTERREGIONAL ELECTRICITY MARKETS WHERE COST-EFFECTIVE. FURTHER CONSIDERATION NEEDS TO BE GIVEN TO QUESTIONS OF TRANSMISSION ACCESS AND LOCAL BY-PASS.**
- **ENSURE THAT REGULATION OF INTERSTATE WHOLESALE MARKETS DOES NOT IMPED E STATE REGULATION OF UTILITY INVESTMENTS. STATES SHOULD BE FREE TO REFLECT PUBLIC INTEREST CONCERNS AND LEAST-COST OBJECTIVES IN THEIR REGULATORY ACTIVITIES.**

- SHIFT FERC JURISDICTION OVER INTRASTATE WHOLESALE TRANSACTIONS TO INDIVIDUAL STATES OR TO REGIONAL REGULATORY BODIES AT THE OPTION OF THE STATE OR STATES INVOLVED.
- PROVIDE FOR FULL UTILIZATION OF EXISTING RIGHTS OF WAY, INCLUDING HIGHWAY RIGHTS OF WAY, FOR ENERGY TRANSMISSION. THE SITING OF ENERGY TRANSMISSION FACILITIES MUST BE CONSISTENT WITH STATE AND FEDERAL LAW AND SAFETY AND ENVIRONMENTAL REQUIREMENTS.
- ENCOURAGE FAIR AND MUTUALLY BENEFICIAL HEMISPHERIC ENERGY TRADE AGREEMENTS CONSISTENT WITH OBLIGATIONS UNDER INTERNATIONAL AGREEMENTS. IN ADDITION, THE GOVERNORS SUPPORT THE BARREL-FOR-BARREL TRADE OF ALASKAN OIL FOR OIL FROM OTHER COUNTRIES, EXCEPT IN TIMES OF ENERGY EMERGENCY.
- PROVIDE FEDERAL INCENTIVES FOR RENEWABLE ENERGY RESOURCES EQUIVALENT (IN TERMS OF COST PER UNIT OF ENERGY) TO THE TAX CREDITS AND OTHER INCENTIVES PROVIDED FOR TRADITIONAL FOSSIL FUELS. THESE COULD INCLUDE TAX CREDITS FOR PURCHASERS, COST SHARING OF DEMONSTRATION PROJECTS, OR LIKE MEASURES.

50.3.2 IMPROVING ENERGY UTILIZATION

- INCREASE VEHICLE FUEL EFFICIENCY THROUGH MEANS SUCH AS RAISING THE CORPORATE AVERAGE FUEL EFFICIENCY STANDARDS.
- PROVIDE INCENTIVES FOR USE OF ALTERNATIVE MOTOR FUELS AND PRODUCTION OF ALTERNATIVE MOTOR FUEL VEHICLES, INCLUDING A VARIETY OF EARLY FLEET DEMONSTRATIONS, SUCH AS CONVERSION OF POSTAL VEHICLES TO ALTERNATIVE FUELS.
- FULLY CONSIDER THE ENERGY IMPLICATIONS OF ALTERNATIVE TRANSPORTATION STRATEGIES AND RESULTING ACTIONS IN TRANSPORTATION PLANNING.
- PROVIDE FEDERAL INCENTIVES FOR ENERGY EFFICIENCY AND CONSERVATION IMPROVEMENTS EQUIVALENT TO THOSE PROVIDED FOR FOSSIL FUELS AND RENEWABLE ENERGY RESOURCES.

- ENCOURAGE THE ENERGY RATING OF NEW AND EXISTING BUILDING STOCK AND ESTABLISH STANDARDS FOR MAJOR ENERGY-USING APPLIANCES THAT GENERALLY CONVEY WITH PROPERTY.
- WORK WITH THE HOUSING AND CONSTRUCTION INDUSTRIES AND OTHER PRIVATE AND PUBLIC ORGANIZATIONS TO PROMOTE IMPROVED BUILDING DESIGN AND CONSTRUCTION TECHNOLOGIES FOR ENERGY EFFICIENT BUILDINGS AND THE PROTECTION OF INDOOR AIR QUALITY.
- EXPAND THE GOVERNMENT'S LEADERSHIP ROLE IN THE PURCHASE AND USE OF NEW ENERGY EFFICIENT TECHNOLOGIES AND PRODUCTS.
- EXPAND ENERGY CONSERVATION PROGRAMS FOR GOVERNMENT-OWNED BUILDINGS.
- ENCOURAGE ENERGY INFORMATION PROGRAMS FOR THE RESIDENTIAL, SMALL BUSINESS, COMMERCIAL, INDUSTRIAL, AGRICULTURE, AND GOVERNMENT SECTORS TO INCREASE AWARENESS OF ENERGY USE AND CONSERVATION; NEW OUTREACH PROGRAMS FOR ENERGY INFORMATION; AND ENERGY EDUCATION IN PRIMARY AND SECONDARY SCHOOLS AND IN VOCATIONAL/TECHNICAL SCHOOLS.
- DEVELOP ALTERNATIVE FINANCING PROGRAMS FOR ENERGY EFFICIENCY IMPROVEMENTS IN THE RESIDENTIAL, SMALL BUSINESS, COMMERCIAL, INDUSTRIAL, AGRICULTURE, AND GOVERNMENT SECTORS. EXAMPLES COULD INCLUDE PROGRAMS SUCH AS REVOLVING LOANS, THIRD PARTY FINANCING, AND MORTGAGES THAT INCLUDE FINANCING FOR EFFICIENCY IMPROVEMENTS.
- RESTORE FEDERAL FUNDING OF LOW-INCOME ENERGY SERVICE PROGRAMS. WITHIN BOTH LIHEAP AND WEATHERIZATION, ALLOW THE STATES MAXIMUM FLEXIBILITY TO BALANCE IMMEDIATE AND LONG-TERM NEEDS. REGULATIONS SHOULD ENCOURAGE STATE-BY-STATE INNOVATION IN APPROACHES TO MEET VARIED NEEDS.
- ENCOURAGE REGULATED AND UNREGULATED ENERGY SUPPLIERS TO WORK WITH STATES TO DEVELOP SUPPLEMENTAL PROGRAMS OF FINANCIAL ASSISTANCE FOR LOW-INCOME HOUSEHOLDS IN ORDER TO MAKE ENERGY EFFICIENCY IMPROVEMENTS, AND OTHER PROGRAMS THAT REDUCE FUEL COSTS.

50.3.3 RESEARCH AND DEVELOPMENT

- TWO-THIRDS OF THE CURRENT DOE RESEARCH BUDGET IS DEVOTED TO BASIC SCIENCES AND LONG-TERM FUSION ACTIVITIES. THE REMAINING THIRD IS DIVIDED

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AMONG CURRENT AND EMERGING TECHNOLOGIES, AND IS DOMINATED BY CLEAN COAL AND NUCLEAR RESEARCH. THE GOVERNORS ENCOURAGE EFFORTS TO EMPHASIZE EMERGING FIELDS AND TECHNOLOGY TRANSFER IN PROMISING AREAS REQUIRED TO MEET IMMEDIATE AND FUTURE ENERGY SERVICE NEEDS. PRIORITY SHOULD BE GIVEN TO RESEARCH IN THE FOLLOWING AREAS:

- PETROLEUM AND NATURAL GAS ENHANCED OIL AND GAS RECOVERY BY JOINT FEDERAL-STATE-PRIVATE INITIATIVES SUCH AS THE GEOSCIENCE INSTITUTE FOR OIL AND GAS RECOVERY.
- ENERGY EFFICIENCY. CAPTURING OPPORTUNITIES FOR COST-EFFECTIVE ENERGY EFFICIENCY IMPROVEMENTS. ADDITIONAL FEDERAL RESEARCH, DEVELOPMENT, AND TECHNOLOGY TRANSFER ACTIVITIES SHOULD INCLUDE SUPPORT FOR RESOURCE ASSESSMENT, APPLIED RESEARCH IN BUILDING SCIENCES, TRANSPORTATION SYSTEMS STUDIES, AND OTHER END-USER APPLICATIONS.
- COAL THE PRODUCTION, TRANSPORTATION, AND UTILIZATION OF COAL IN AN ENVIRONMENTALLY ACCEPTABLE MANNER, WITH PARTICULAR EMPHASIS ON TRANSPORTATION FUELS AND ELECTRIC POWER GENERATION, INCLUDING THE CONTINUATION OF THE CLEAN COAL TECHNOLOGY PROGRAM.
- RENEWABLE RESOURCES. REDUCING THE COST AND IMPROVING THE RELIABILITY AND EFFICIENCY OF RENEWABLE ENERGY SOURCES, IN PARTNERSHIP WITH THE PRIVATE SECTOR. THIS SHOULD INCLUDE SELECTIVE COMMERCIALIZATION AND IMPLEMENTATION ASSISTANCE AIMED AT DEMONSTRATING PROMISING TECHNOLOGIES.
- ALTERNATIVE FUELS. DEVELOPING ALTERNATIVE FUELS, ESPECIALLY THOSE THAT MAY BE USED IN THE TRANSPORTATION SECTOR. DEMONSTRATION AND COMMERCIALIZATION OF ALTERNATIVE FUELS THAT MAY BE PRODUCED AND USED IN A MANNER CONSISTENT WITH PROTECTION OF THE ATMOSPHERE IS PARTICULARLY IMPORTANT.
- NUCLEAR ENERGY. THE DEVELOPMENT AND EVALUATION OF ADVANCED, SAFE, REACTOR DESIGNS, WASTE MANAGEMENT TECHNOLOGY, NUCLEAR FUSION, AND PLANT RETROFIT AND LIFE EXTENSION.

• INCREASE AND BETTER COORDINATE ENERGY RESEARCH AND DEVELOPMENT BY:

- STRENGTHENING THE FEDERAL-STATE-PRIVATE RESEARCH PARTNERSHIP, AND SHIFTING RESEARCH PRIORITIES TO ENSURE A BALANCE BETWEEN BASIC AND APPLIED RESEARCH AND AMONG FUEL TYPES AND ENERGY EFFICIENCY IMPROVEMENTS.

- EXAMINING THE BENEFITS OF REMOVING ANTI-TRUST BARRIERS TO POOLED INDUSTRY RESEARCH EFFORTS.

- PROMOTING FEDERAL FUNDING OF RESEARCH AND DEVELOPMENT IN AREAS IN WHICH BUSINESSES AND INDUSTRIES ARE UNABLE TO CAPTURE THE BENEFITS OF ENERGY RESEARCH AND DEVELOPMENT.

- INCREASE THE EMPHASIS ON TIMELY TRANSFER OF RESEARCH FINDINGS AND NEW TECHNOLOGIES FROM THE LABORATORY TO FACTORIES, BUILDERS, AND USERS.

50.3.4 EMERGENCY PREPAREDNESS

- FILL THE STRATEGIC PETROLEUM RESERVE (SPR) TO ITS AUTHORIZED LEVEL AND PROVIDE FLEXIBILITY TO INCREASE OR DECREASE FILL RATES IN RESPONSE TO CHANGES IN OIL PRICES. THE GOVERNORS RECOGNIZE THE EFFORTS OF INTERNATIONAL ENERGY AGENCY MEMBER NATIONS TO ESTABLISH COMPARABLE STOCKS AND URGE THE CONTINUATION AND EXPANSION OF THIS EFFORT AS WELL THE CONTINUATION OF COOPERATION IN DESIGNING STRATEGIC AND DIPLOMATIC MECHANISMS TO AVOID SUPPLY INTERRUPTIONS.

- ENCOURAGE CONTINUED REFINEMENT OF THE TIMELY SALES PROCESS FOR SPR OIL AND THE CONTINUED REGULAR TESTING OF THE SPR SALES MECHANISM AND PHYSICAL DRAWDOWN CAPABILITIES. THE GOVERNORS URGE THE DEVELOPMENT OF A REGION-BY-REGION ANALYSIS OF THE IMPACT OF SPR USE ON THE AVAILABILITY OF VARIOUS FUELS. IF THIS ANALYSIS INDICATES THAT ANY REGION OF THE COUNTRY WOULD NOT BE ASSURED OF THE AVAILABILITY OF FUELS IN THE EVENT OF A DRAWDOWN, THEN STATES SHOULD WORK CLOSELY WITH THE PETROLEUM INDUSTRY TO DEVELOP REGIONAL ROTATING PRODUCT STOCKS OR SOME OTHER MECHANISM TO ENSURE REGIONAL AVAILABILITY OF SUPPLIES.

- ENSURE A FULL STATE, FEDERAL, LOCAL, INTERNATIONAL, AND PRIVATE PARTNERSHIP IN ENERGY EMERGENCY RESPONSE PLANNING FOR DIVERSE SUPPLY SHORTAGE SCENARIOS.

- ENCOURAGE FUEL SWITCHING CAPABILITY FOR LARGE ENERGY USERS TO REDUCE DEPENDENCE UPON A SINGLE FUEL SOURCE.

30.4 FUNDING

THE COSTS AND BENEFITS OF A NATIONAL ENERGY PROGRAM WILL DEPEND UPON WHICH POLICY OPTIONS WE, AS A NATION, ELECT TO PURSUE. THE GOVERNORS BELIEVE THAT MANY OF THE OPTIONS IDENTIFIED IN THIS POLICY MAY BE IMPLEMENTED AT LITTLE OR NO COST TO THE FEDERAL GOVERNMENT. THE GOVERNORS ALSO RECOGNIZE THAT ADDITIONAL FEDERAL EXPENDITURES MAY BE REQUIRED TO FUND ADEQUATELY OTHER OPTIONS IDENTIFIED IN THIS POLICY. IN PART, THESE FUNDS COULD COME FROM A REALLOCATION OF EXISTING FEDERAL EXPENDITURES. THE GOVERNORS BELIEVE THAT ENERGY SHOULD BE A NATIONAL PRIORITY.

Anch. Daily News
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Please see Back Page, TOWER

Energy effort falls off

By MATTHEW L. WALD
The New York Times

NEW YORK — Energy efficiency in the United States has stopped growing, government statistics show, ending a powerful trend dating from the energy crisis of the early 1970s.

Energy efficiency, a comparison of energy used with the amount of goods and services produced, increased 24 percent between 1976 and 1986, but after the price of oil collapsed in 1986, efficiency stopped growing. It was flat in 1987, and it declined in the first nine months of 1988.

One reason, analysts say, is that cheap gasoline has rekindled America's taste for big cars. And during this period of low prices, all energy users are less inclined to spend money to save fuel.

Some shorter-term factors, like severe weather last year and a resurgence of the energy-intensive steel and aluminum industries, also contributed. In addition, government efforts to deal with the problem were cut back during the Reagan administration.

Experts see little chance for a quick turnaround in efficiency, unless a new shortage occurs or environmental concerns suddenly become more pressing.

The halt in improving energy efficiency means increased dependence on foreign oil, which is already

Please see Back Page, ENERGY

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Efficiency in U.S. falls

Continued from Page A-1

near an all-time high. This makes the United States more vulnerable to shortages and price increases. The halt also bodes ill for efforts to limit smog, acid rain and the "greenhouse effect."

The change means that the economy is no longer squeezing ever-greater amounts of production from each gallon of oil, ton of coal and cubic foot of natural gas. The shift marks the end of more than a decade of doing more with less.

From 1973, the year of the Arab oil embargo, through 1986, the United States increased its output of goods and services by 40 percent while energy use barely budged.

Since the collapse of oil prices in 1986, however, energy use has increased slightly faster than gross national product.

"It's awful," said Howard S. Geller, associate director of the American Council for an Energy-Efficient Economy, a Washington-based non-profit research organization. "We've really stalled out."

Daniel Yergin, president of Cambridge Energy Research Associates, said: "People are not worried about being more efficient now. There isn't a sense of urgency about it, either."

"People are not worried about a shortage, or anything like that."

Even some oil company executives are troubled.

"I like to drive fast and have a high-powered car, but it's bad public policy," Lodwick M. Cook, chairman of Arco, said. Cook said he favors conservation as one component of future energy policy, to assure that the country is secure and solvent.

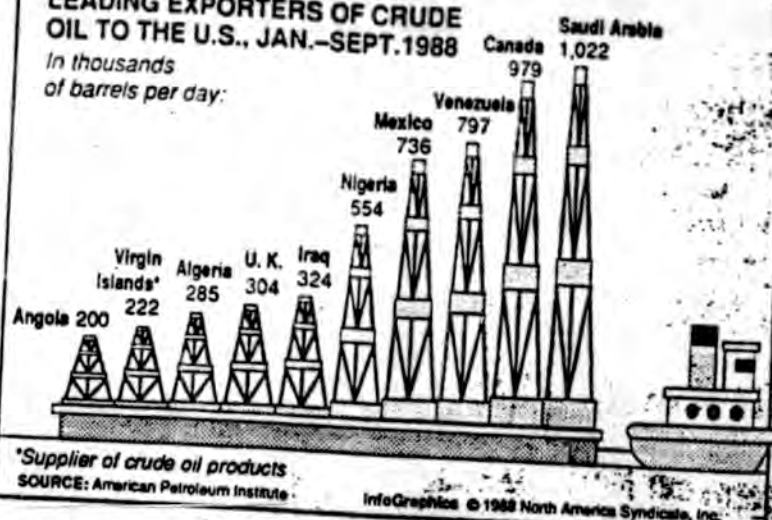
With rising demand for oil and declining United States oil production, oil imports are now virtually equal to domestic production and the import bill is almost \$40 billion a year, one-third of

oil exports to the U.S.

From January through September of 1988, Saudi Arabia was the leading exporter of crude oil to the U.S., supplying an estimated average of 1.02 million barrels per day.

LEADING EXPORTERS OF CRUDE OIL TO THE U.S., JAN.-SEPT. 1988

In thousands of barrels per day:



the trade deficit.

By the broadest measure used by the Department of Energy, peak efficiency was reached in 1986 and was maintained in 1987. During the first three quarters of 1988, the most recent period for which figures are available, energy use was slightly less efficient than for 1987 as a whole.

The Department of Energy calculation integrates all fuels into a single unit, the British thermal unit, or BTU, the amount of heat needed to increase the temperature of a pound of water by 1 degree Fahrenheit. Efficiency is the ratio between BTUs consumed and goods and services produced.

According to the department, the United States now uses 20.1 BTUs to produce \$1 of goods and services, a major improvement from the 27.1 BTUs used in 1973, the year of the first energy crisis.

But three years ago, the progress stopped, at 20.0 BTUs per dollar, according to the department's figures. The figures are adjusted for inflation.

Experts also say that in the current period of cheap, plentiful imports, improvements in efficiency are unlikely. "We're victims of the Pearl Harbor syndrome," said Elihu Bergman, executive director of Americans for Energy Independence, a Washington-based lobbying group.

"We know there could be

trouble ahead. We're told there's trouble. We see it, and we don't react."

"Then," he added, "when it strikes, we ask for a quick fix, and usually the quick fixes are wrong."

Bergman's group is supported by utilities, engineering companies, natural gas suppliers, labor unions and other organizations.

The United States is not the only nation in which the drive toward efficiency has slowed, calculations by Yergin's group show.

But a comparison of efficiency efforts in industrialized countries shows that the United States is not doing as well as most of its major trading partners, raising competitive concerns. Japan, for example, was 44.9 percent more efficient than the United States in 1970. Last year it was 49.1 percent more efficient.

Experts say there are some benign reasons for the shift. The revival of the steel and aluminum industries, brought on by the decline in the value of the dollar, means lower energy efficiency, because it takes more energy to make \$1,000 worth of steel than, say, \$1,000 worth of computer software.

Also, unusually cold weather last winter and hot weather last summer pushed up energy consumption.

Another reason is a cut of about 50 percent during the Reagan years in government spending to promote efficiency.

CALLS HARASS FAMILY

Study: Reliance on foreign oil long-range threat

By ROBERT BURNS
The Associated Press

WASHINGTON — Growing U.S. reliance on foreign oil is a long-range threat to national security but has not jeopardized the Pentagon's ability to fight a major non-nuclear war, according to study released Tuesday.

As a result, no government action is needed to restrict oil imports, the Commerce Department study said.

Military wartime fuel needs could be met by a combination of domestic oil production, imports from reliable suppliers and the Strategic Petroleum Reserve, the

government's underground stockpile of 555 million barrels, the study said.

"Our analysis concludes that the United States will be able to meet direct and indirect military petroleum requirements during a major conventional war," the report said. It added that forced curtailment of fuel use by the general public during wartime would result in serious economic hardships.

The report assumed 1987 levels of domestic oil production, or about 8.3 million barrels a day, although output last year fell to about 8.2 million barrels daily and the Energy Department foresees an

accelerating decline in the 1990s.

The report was prepared by the Commerce Department's Bureau of Export Administration at the request of a coalition of energy industry groups, which asserted in a petition that the domestic oil industry has been so damaged by rising imports that it could not meet the military's needs in the event of a major war.

Domestic oil production has been declining since 1986 when world oil prices collapsed from about \$30 a barrel to below \$10 a barrel. Prices currently are in a range of \$15-\$17 a barrel, which the nation's oil producers contend is

too low to prevent a further drop in production and a rise in imports.

The Energy Department in a forecast published last month said oil imports, currently about 38 percent of total oil supplies, would jump above 50 percent by 1994 and could approach 60 percent before the end of the century.

The Commerce Department report concluded that trend was a threat to national security, but that it was a long-range concern and did not mean the domestic industry was too weak to meet the military's fuel needs.

It said the nation's energy secu-

rity had improved since 1979, when the second oil-price shock of the decade sent most industrial economies into a tailspin, but that nevertheless "petroleum imports threaten to impair the national security."

Jim Groninger, director of governmental affairs for the Independent Petroleum Association of America, said his group was pleased that the report recognized a threat to national security but disappointed that it saw no need for action.

Then-President Ronald Reagan on Jan. 3 endorsed the report's conclusion.

Khrushchev's son foresees chance for superpower unity

By ALAN COOPERMAN
The Associated Press

CAMBRIDGE, Mass. — The son of former Soviet Premier Nikita Khrushchev said Tuesday the opportunity for improvement in superpower relations is greater today than at any time since his father's ouster in 1964.

"In the past, unity between peoples was considered science fiction. But today, we see that as a real possibility," Sergei Khrushchev said at a Harvard University news conference on his first trip to the United States in 30 years.

The 54-year-old computer scientist came to the univer-



Sergel Khrushchev, left, and Sergo Mikoyan, right, stand with Harvard's John F. Kennedy School of Government

NATION NEWS

Car thief also steals baby

PINELLAS PARK, Fla. — A 13-year-old swiped a car and sped off with a baby sleeping on the back seat, then dumped the infant on the pavement 65 miles away, police said. The 15-month-old girl suffered a broken ankle and bruises on her face. The teen-ager was arrested in Orlando around midnight Monday. Investigators say the teen-ager, not identified because of his age, apparently didn't realize little Ashley Barksdale was in the car.

Housing chief goes on tour

ATLANTA — New HUD Secretary Jack Kemp, beginning a personal tour of inner cities, visited poor Atlanta neighborhoods Tuesday and said he wants to create "dramatic incentives" that will bring jobs and

Baker to sell stock

ROME — Secretary of State James Baker announced Tuesday he will sell his holdings in a New York bank and all his other publicly traded stock, a move prompted by questions from President Bush's ethics chief about potential conflicts of interest. Baker said the decision went "well beyond" what was required by law or had been recommended to him by government lawyers. Baker's decision, which a spokesman said had been reached Saturday but was announced only Tuesday, came as Senate Foreign Relations Committee sources said the panel had asked Baker more than a week ago for additional detailed information about his holdings. The controversy revolves primarily around Baker's holdings in Chemical New York Corp.