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THE WHITE HOUSE

WASHINGTON

December 20, 1990

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: OLIN L. WETHINGTON, <sup>OLW</sup> EXECUTIVE SECRETARY

SUBJECT: ECONOMIC POLICY COUNCIL MEETING ON THE NATIONAL ENERGY  
STRATEGY  
DECEMBER 21, 1990, 10:00 A.M.  
THE CABINET ROOM

The Economic Policy Council will meet on December 21, 1990, at 10:00 a.m., in the Cabinet Room to consider the National Energy Strategy (NES). The meeting will be with the President.

Enclosed please find for discussion an overall NES strategy paper. This paper builds on the strategy paper prepared for the December 12 EPC meeting and seeks to incorporate views expressed at that meeting. In addition, it includes an expanded discussion of the energy security issue.

Attached to the strategy paper are appendices containing a list of the consensus options and separate papers presenting the options which do not have full interagency support.

These documents are sensitive. All members are requested to limit circulation within their agency to only those with a need to know.

## A NATIONAL STRATEGY: SETTING THE COURSE ON ENERGY

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| 01. Paper                | A National Strategy: Setting the Course on Energy (15 pp.) | 12/20/90 | <del>P</del> 5 |        |

**Collection:**

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## A National Strategy: Setting The Course On Energy

### Introduction:

As recent events have demonstrated, energy is closely linked to economic prosperity at home and abroad. The United States is the world's largest energy consumer, and its second largest energy producer. With 5 percent of the world's population, we consume 25 percent of its oil.

The market-oriented energy policies of the 1980s have substantially improved the ability of the U.S. economy to withstand disruptions in world oil markets. Oil import costs as a percentage of GNP fell from 2.8 percent in 1980 to 1.0 percent in 1989. During the recent crisis, the United States has through market reliance avoided the gasoline lines and excessive economic disruption that earlier crises precipitated.

Nevertheless, the U.S., as the largest oil consumer in the world, remains vulnerable to world oil market disruptions. In addition, the drive to enhance global environmental quality places new pressures on energy production, distribution and consumption.

For many years, we were able to supply our oil needs, but the gradual depletion of American reserves has led us since the 1950s to rely increasingly on imports. Much of the oil on which we and the rest of the world depend is produced in politically volatile regions of the globe. The oil fields of the Persian Gulf area alone provide one-quarter of the oil the world presently consumes; they contain nearly two-thirds of its known reserves.

For seventeen years, American administrations have sought to balance the economic and environmental benefits of increasing reliance on imported oil against the foreign policy and military costs of dealing with threats to the free flow of oil, in particular from the Persian Gulf. Although the probabilities of events such as the current Gulf crisis are quite small at any time, when one occurs it shows conclusively the high cost of supply disruptions and military intervention.

It is tempting to imagine the United States free of all dependence on external sources of energy. The term "energy independence" seemed at one time to describe an important goal we could achieve in the relatively short term, but it proved elusive. The NES review confirmed that no feasible combination of domestic or foreign energy policy options can fully relieve us of the risks of oil dependency in the next two decades. Indeed, it shows that America's and the world's oil dependency on Middle East suppliers is likely to grow -- and as the current crisis demonstrates, with major implications for our foreign, economic and defense policies.

We can, however, by implementing prudent policies, reduce our dependence on oil, increase our foreign policy flexibility in time of crisis, and thus reduce our vulnerability to supply disruption. To achieve this result, our energy policy response must be multifaceted.

The United States could, at great economic cost, institute a series of policy measures aimed at radically curtailing oil imports. These measures would include an oil import fee; large taxes on gasoline; subsidies for the production of liquid fuels from coal, shale and gas; rapid introduction of alternative transportation fuels; and sharply higher fuel efficiency standards that would force auto makers and consumers to choose smaller cars. The combined impact of these measures would be to reduce oil imports dramatically or substantially depending on the level, type, and phase-in of subsidy or taxation. But the result would be unacceptable GNP losses and unemployment increases. Moreover, these policies would not shield the U.S. economy from future oil market disruptions.

To the extent that we cannot substantially reduce our oil vulnerability problem through energy policies, we must prepare our diplomatic and defense assets to cope with its consequences. We cannot wish away the geology of world oil, and we cannot turn our backs on the Middle East. More and more in recent decades, energy security is national security -- for us and for every country. The enormous and enduring costs of such a commitment are clearly the strongest argument for taking to the American people the difficult choices essential to reaching consensus on a robust, market-driven NES.

The proposed NES package<sup>1</sup> charts a course for reduced vulnerability to oil disruptions, a more efficient and technologically diverse electricity sector, an unconstrained natural gas industry, enhanced environmental quality, and availability of ample supplies of reasonably priced energy to fuel a growing economy. It has been shaped by consideration of the role that petroleum plays in the security of the U.S. and other nations; by the influence that regulation in the electricity and natural gas sector exerts on technology choices, economic efficiency and environmental quality; and by the promise of science and technology.

The proposed NES continues the successful policy of market reliance, recognizing, however, that market forces do not give

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<sup>1</sup>The specific measures proposed in this package are interagency consensus items, except for six bracketed items for which options papers are attached in Appendices 2-7.

adequate consideration to the objectives of environmental quality and national security.

The proposed NES package seeks to balance the often conflicting objectives of our increasing need for energy at reasonable prices, our commitment to a cleaner and safer environment, our determination to foster economic growth, and our goal to reduce our vulnerability, and that of our friends and allies, to potentially unreliable energy supplies.

## I. ENERGY SECURITY

A key goal of the NES is to reduce our vulnerability to oil market disruptions. Assessing the options to achieve this goal is made more difficult because national security and environmental costs are much more difficult to establish than are direct economic costs. Thus, as policy proposals were screened, we sought to identify those NES options that would help the United States to:

- o Secure and maintain unrestricted flows of oil from all major producing regions;
- o Reduce the importance of oil use in the U.S. economy by using oil more efficiently and replacing it with other fuels;
- o Develop and maintain contingency mechanisms, including international strategic oil reserves and stocks, and "excess" world production capacity;
- o Reduce underlying tensions that threaten major world oil producing regions, via foreign policy mechanisms; and
- o Diversify the sources of supply outside the Persian Gulf into producing regions such as the U.S. (OCS, ANWR), the Western Hemisphere, Europe and Asia.

The United States uses oil to transport people and goods (62%), in buildings (8%), in industry (25%) and to generate electricity (5%). The availability of world oil supplies for the foreseeable future will be substantially influenced by a limited number of producers holding both large reserves and excess production capacity.

Sixty-five percent of the world's known oil reserves lie in the Gulf region, where oil can be produced at lowest cost. Recent events have once again illustrated the risks inherent in reliance on a key energy source that is found in greatest abundance in this historically unstable area of the world.

Moreover, oil imports play a substantial role in the U.S. balance of trade. The U.S. trade deficit for the third quarter of 1990 was \$30.7 billion, driven in part by higher oil prices. In the past four years, oil's share of total imports has more than doubled, from 23 percent in 1986 to 52 percent in the first nine months of 1990.

Between August 1 and December 1, 1990, U.S. consumers paid \$21 billion more to oil producers (\$8 billion to foreign producers) than would have been the case without the Iraqi crisis. Worldwide, \$83 billion were transferred from oil consumers to oil producers in the same period.

### The Forecast

Oil use in the U.S. economy, measured as the ratio of barrels per day of oil used per \$1 million of annual GNP, has been substantially reduced over the last 30 years (from 4.5 to about 3.1). Japan, however, uses about 1.2 barrels per day per \$1 million of annual GNP.

There are many reasons for this disparity. Some are structural and can never be changed. For example, Americans travel greater distances because of the large land area, and because development patterns have induced more dispersed settlement. Japan is roughly the size of California, but has a population about half the size of the U.S. Reflecting geography and development patterns, the U.S. has 5.1 times as many highway miles as Japan.

Other aspects of U.S. oil consumption lend themselves to improved efficiency and fuel diversity, which can be brought about by policy changes and application of new or improved technology for private and public transportation. Policies and R&D need to address U.S. energy consumption patterns which are shaped, for example, by the fact that nearly 90% of American passenger travel is by private vehicle, compared to less than 45% in Japan.

Without new policy initiatives, U.S. imports of oil are forecast to rise from 42% of domestic consumption in 1989 to 62%, or about 11 mmB/D in 2000, and to nearly 70% in 2010. The U.S. oil and gas import bill is forecast to rise by between \$25 and \$30 billion (in 1989 real dollars) in 2000, and by about \$90 billion by 2010. Gulf producers will supply an estimated 30% of the world's oil in 2000.

### Policy Response

The goal of energy security policy is to manage and reduce the risks from vulnerability to supply disruption. It is not energy independence. An increase in the world price of oil, brought about by events, anywhere, would raise the price of U.S. oil, and the price of oil to our allies and trading partners, regardless

of the degree of import dependence. In 1979, for example, Great Britain, which was almost totally self-sufficient in oil, suffered the same oil price shock as other Western nations.

The U.S. should not define the problem in a way that makes eliminating foreign supply the objective. At the same time, steps can be taken to reduce dependence. Improvement in U.S. energy security requires efforts on several broad fronts: (1) support the environmentally responsible development of oil production capacity around the world, including the U.S., and increase strategic reserves; and (2) reduce the use of oil in the U.S. economy through increased efficiency and fuel switching, and by broader use of alternative fuels to decrease the transportation sector's near total reliance on petroleum. More specifically:

- A. Measures to increase strategic reserves and production capacity around the world, including U.S. production:
  1. Improve the investment climate in nations such as the Soviet Union to encourage the necessary foreign investment to rehabilitate and expand the hydrocarbon industry; stimulate exploration and production in promising developing countries. (Option 24)
  2. Substantially increase the level of worldwide strategic reserves by the year 2000; review the conditions under which these reserves would be used so as to affect the expectations of oil market participants and maximize the deterrent value of the reserves; lease the Naval Petroleum Reserve. (Option 23)
  3. Development of ANWR, Alaska's North Slope, and areas of the OCS unrestricted by Presidential decision, under strict environmental safeguards. (Options 2, 3, and 4)
  4. Expand research and development for enhanced oil recovery; deregulation of oil pipelines. (Options 25 and 60)
- B. Measures to reduce the use of oil in the U.S. economy through higher efficiency and fuel switching, and by broader use of alternative fuels to decrease the transportation sector's near total reliance on petroleum.
  1. Assess the impact of Clean Air Act and safety requirements on manufacturers' ability to increase auto and light duty truck fuel efficiency, without restricting consumer choice, or adversely affecting competition in the transportation market. (Option 11)

2. Enhance research and development of auto efficiency technology and develop new technology for intra and inter city movement of people and goods. (Option 60)
3. Establish Federal/State incentives to scrap old cars. (Options 12)
- [4. Remove the cap on fuel efficiency incentives to manufacturers of alternative fuel vehicles by amending the Alternative Motor Fuels Act of 1988; expand alternative fuel use in all commercial light and heavy duty vehicle fleets, including Federal fleets; require the sale of non-petroleum fuels. (Option 18)] (See Appendix 2)
5. Reform natural gas pipeline construction regulations and pipeline rate design; deregulate pipeline sales rates; improve non-discriminatory access to pipeline transportation; and eliminate DOE import/export regulation. (Options 5 through 9)
6. Increase the amount of non-taxable employment mass transit benefits and study the appropriate longer term level. (Option 14)

U.S. international initiatives long underway contribute to greater global energy flexibility:

-- Greater consumer country cohesion was the object and the result of formation of the International Energy Agency in 1974. Its members are the world's leading industrial democracies. Our collective readiness to meet short-term supply interruptions through consultation, release of stocks and, if needed, sharing of scarce supplies deters panicky responses to a crisis. Because strategic stocks have proven their effectiveness as a safety net during the Gulf crisis, NES option 23 calls for a substantial expansion of these reserves by the U.S. and other consuming countries;

-- Regular, bilateral dialogue with our major oil suppliers helps develop awareness of mutual dependency and promotes a stronger commitment to a stable market. It has paid off in the Gulf crisis, as Saudi Arabia and other producers rapidly increased supply in order to offset the loss to the market of embargoed Iraqi and Kuwaiti crude;

-- Nor have we exhausted the potential for diversification of supply, substitution, and conservation of oil. Great gains in energy efficiency can be realized in Eastern Europe and the Soviet Union, and this is an object of Western efforts to assist these nations' transition to market-based economics. Similarly, in the Soviet Union and in many nations of Latin America, Africa

and Asia, major increases in oil, gas and coal production are possible if (as NES option 24 indicates) investment climates are liberalized sufficiently that foreign investors find it feasible to introduce advanced technologies.

Additional international energy policy measures in progress include:

- o cooperation in Soviet oil and gas development;
- o cooperation in Eastern Europe, the USSR and the Third World to promote efficient energy use, a prerequisite to sound economic development;
- o ways to accelerate SPR fill within existing budgetary limitations;
- o vigorous efforts in the International Energy Agency to address the need for alternative fuels, energy cooperation with non-OECD countries, and broader strategic stock building, and to deal with the consequences of global climate change;
- o expanding the energy agenda in new regional initiatives: the Enterprise for the Americas and the Asia-Pacific Economic Cooperation forum.

#### Effects of New Measures

Taken together, the consensus measures are forecast to reduce oil imports to 50% of projected U.S. consumption in 2000 and in 2010. If the alternative fuels measures are included, oil imports would be 48% of projected U.S. consumption in 2000 and in 2010.

Domestic oil production will increase by 1.7 mmB/D above levels projected for 2000, largely due to enhanced oil recovery (EOR). Domestic production will increase by 3.3 to 5.3 mmB/D above projected 2010 levels, due primarily to EOR (2.5 mmB/D), OCS (0.4 - 1.3 mmB/D), and ANWR (0.4 - 1.5 mmB/D).

U.S. oil consumption will decrease by 0.5 mmB/D in 2000, largely due to displacement of oil by natural gas in electric utilities and by reduction in electricity demand. The alternative fuels options which remain under discussion would decrease U.S. oil consumption an additional 0.7 mmB/D by 2000 and 1.9 - 2.7 mmB/D by 2010.

The projected cost of oil imports is reduced by about \$24 billion ('89 real dollars) in 2000, due to reduced oil import levels and an assumed oil price of \$27.90/barrel. In 2010, the projected cost of oil imports is reduced by about \$70 billion ('89 real

dollars) due to reduced import levels and an assumed oil price of \$37.20/barrel.

## II. ELECTRICITY

Key goals of the NES are to provide more reliable, lower cost service to consumers, increase efficiency in the electricity sector and foster fuel and technology diversity, including renewable energy technologies, in electricity generation and end use.

In 1970, electricity accounted for 24% of primary energy consumption. This figure is expected to rise to 36% in 1990 and to 42% in 2010. Because our economy is becoming increasingly electrified, the technologies and systems used to produce and deliver electricity must be efficient, reliable and protective of the environment.

The Nation presently has about 700 gigawatts (GW) of installed electric generating capacity. It is estimated that, under conservative assumptions, a minimum of 200 GWs of new capacity will be required to meet demand in the next 20 years.

The electric utility industry is one of the most highly regulated sectors of the U.S. economy. Thus, what capacity will be built, by whom, with what technology/fuels, and with what environmental consequences, will to a large degree depend on the Federal/State regulatory regime that governs investment decisions in electricity supply and demand.

Statutory and regulatory provisions impede construction of new hydroelectric capacity or expansion of capacity at existing dams. The State-Federal impasse on construction of a high-level nuclear waste repository, an impossibly cumbersome nuclear licensing process, and the loss of public confidence in our ability to manage the technology, have contributed to halting the development of new nuclear capacity.

New coal technologies offer substantial efficiency and emissions reduction benefits, but excessively risk-averse regulators and utilities will make it difficult for these new technologies to enter the marketplace, especially given the requirements of the Clean Air Act Amendments of 1990. Use of wind, solar, geothermal, and biomass technologies, though promising for the longer term, is constrained to varying degrees by location, economics, or technical limitations that will not be fully overcome before 2000. Siting new generating facilities of any kind has become all but impossible in some parts of the country.

On the supply side, competition among wholesale electricity producers, on a regional or inter-regional scale, was not considered feasible when PUHCA was passed in 1935. Since the

enactment in 1978 of PURPA, limited competition has emerged, but under PUHCA some of the most able potential competitors cannot participate, a result seemingly at odds with the public interest in reliable supplies of electricity at the lowest reasonable cost.

On the demand side, wide-ranging experimentation is taking place at State and local levels to increase efficiency and reduce consumption. Key factors that influence demand choices include technology, efficiency standards, prices, regulatory policy, tax policy, and consumer behavior. For each of these elements an opportunity exists for Federal and State governments to achieve progress through constructive partnerships.

Integrated Resources Planning (IRP) (also known as "Least Cost Utility Planning") is the process increasingly used by public utility commissions to determine the relative cost-effectiveness and desirability of new investments in electricity supply additions and demand reductions. Although the development of this process has been supported by the Federal government, its adoption has been limited.

Successful implementation of measures proposed in the National Energy Strategy will free electric utility markets from outdated regulatory and statutory barriers to greater competition; revitalize technology choices whose benefits have been overwhelmed by regulatory uncertainty, imbalance, and cost; impose discipline on the currently fragmented nuclear and hydroelectric licensing processes; establish clearer Federal/State responsibility for setting performance standards; and improve the environmental performance of electricity generation.

Specific measures to achieve a more efficient, technologically diverse electricity sector include:

A. Regulatory/Statutory Reform

1. Amend PUHCA to increase wholesale power generation options with protection for consumers. (Option 26)
2. Amend PURPA to permanently eliminate size caps for all renewable generation sources selected by a competitive bidding process, and reduce co-firing limits. (Options 36 and 37)
3. Pursue wholesale transmission access under current authority to assure that greater competition in supply is not hampered by uncertain access to transmission. (Option 27)
- [4. Reform hydropower licensing in order to reduce current uncertainty and costs; deregulate licensing of small

dams; expand capacity at existing Federal and non-Federal dams. (Option 29)] (See Appendix 7)

5. Reform nuclear power licensing and obtain legislation to implement the high level waste repository. (Options 30 and 31)
- [6. Phase out federal power subsidies. (Option 28)] (See Appendix 5)

B. Technology Development and Transfer

1. Accelerate deployment of clean coal technologies through regulatory treatment. (Option 33)
2. Develop standardized advanced light water reactors design certified by the NRC. (Option 30)
- [3. Transform the renewable energy tax credit due to expire in 1991 into a production tax credit. (Option 34)] (See Appendix 3)

C. Federal, State and Private Efficiency Measures

1. Require IRP processes for all Federal power producers. (Option 38)
- [2. Eliminate taxation of utility efficiency rebates. (Option 38)] (See Appendix 4)
- [3. Extend current appliance standards to lighting and require labeling for lighting fixtures. (Option 39)] (See Appendix 6)
4. Assist States in promulgating and implementing improved building standards. (Option 40)
5. Encourage more widespread use of mortgage incentives for energy efficient housing. (Option 41)
6. Increase emphasis on home weatherization under existing low income energy assistance programs. (Option 16)
7. Improve the energy management of Federally funded public housing. (Option 43)

These measures would reduce electricity consumption by up to 7% in 2000 relative to projections based on current policy, and by 12% in 2010. This is equivalent to generation of power from about 80 (1000 Megawatt) power plants in 2000 and about 150 plants in 2010, although the reduction in capacity needs will lag reduction in energy use by several years. The measures would

increase renewable electricity generation capacity by 8% in 2000 and 30% in 2010, and nuclear power generation capacity by 10% in 2010.

### III. SCIENCE AND TECHNOLOGY

A key goal of the NES is to expand the role that energy science and technology plays in achieving energy, economic and environmental objectives.

Technology development, application and management is the foundation of future U.S. economic and energy security. New technology is also a prerequisite to achieving global environmental objectives.

The primary responsibility for technology development and commercialization lies with the private sector. But the Federal government plays a critical role in basic and applied scientific research, which is the basis for technological breakthroughs. Through its extensive system of National research laboratories and its support of academic and private research, the Federal government substantially influences the scope and pace of energy technology development.

The results of laboratory research do not always reach the market place in a timely fashion, nor are they necessarily applied in areas of special national concern. To the extent that investments in technology development or improvement are likely to yield near term economic benefits, private firms have strong incentives to undertake them. In areas where future prospects are clouded by price and other economic or policy uncertainties, private investments are less likely. For this reason, some agencies have advocated enhanced research in nuclear fission technology that would lead to a passively safe reactor design.

Three areas of technology development are key to the successful implementation of the NES:

- o Technologies that reduce the transportation sector's near total reliance on oil either by increasing efficiency of oil use, introducing alternative fuels and technology, and diversifying travel modes;
- o Technologies that increase production of domestic energy resources, especially oil and gas; and
- o Technologies that improve energy efficiency and increase technological choice and competition in all sectors of the economy.

Cooperative technology development efforts between industry and government reduce private sector investment risks and increase

the likelihood of timely commercialization of R&D results. Specifically proposed in the NES are: greater industry-led, 50/50 cost shared research, encouragement for the formation of R&D consortia, and encouragement of major innovation through a national prize/award program.

The NES will foster investment in a diversified portfolio of research that will offer the possibility of major breakthroughs, or major improvements, in technologies deemed critical to meeting U.S. energy, economic and environmental objectives in the late 1990s and in the first decade of the 21st century.

Specific high pay-off R&D measures under consideration for the NES, and subject to budget negotiations between the agencies involved and OMB, comprise:

1. Advanced Oil Recovery Technologies: Expanded R&D aimed at reducing per barrel recovery costs to \$20 - \$30.
2. Advanced Transportation Fuels From Biomass Technologies: Expand research aimed at reducing the production cost of ethanol to \$.60/gal.
3. Aeronautics and Air Systems: Research on new materials and engine designs
4. Basic research to support advanced energy technologies.
5. Electric Vehicles: Expanded R&D on batteries to increase vehicle range and performance.
6. High Speed Rail and Magnetic Levitation (Maglev) transportation: Research on advanced propulsion and guideway construction methods.
7. Industrial Technologies: Research aimed at reducing oil use in energy intensive industrial processes.
8. Intelligent Vehicle/Highway Systems: Implementation of the DOT Intelligent Highway System Initiation as a means to reduce oil consumption and increasing safety.
9. Telecommuting: R&D to promote technical solutions to increased use of telecommunications that could reduce work related travel.
10. Vehicle Propulsion: Enhanced R&D on ceramic components to increase market potential for more efficient alternative vehicles such as gas turbines.

Overall, the proposed R&D initiatives could achieve combined oil savings of 5 to 8 mmB/D by 2030.

Additionally, the NES recognizes that America's energy security, future energy technology growth, and workforce competitiveness are directly linked to the quality of our national mathematics and science education. By all accounts, American student achievement in these areas is below desired levels. The NES contains key recommendations for improving and increasing the technical competence of the American workforce through improved math, science, technology and engineering education.

#### IV. ENVIRONMENTAL QUALITY

A key goal of the NES is to improve environmental quality through policies that emphasize clean, efficient energy sources and technologies, without sacrificing economic growth or affordable energy.

Energy policies that do not enhance environmental quality and protect public health cannot be sustained. Environmentally sensitive energy policies, plus science and technology, can substantially reduce the impacts of energy production, distribution and consumption on the biosphere.

Electric utilities produce approximately two thirds of total national SOX emissions. Other air pollutants -- NOX, CO, and VOCs -- result primarily from transportation energy use. Also, power plants, petroleum refineries, coal and uranium mines and some oil wells produce waste that unless carefully managed, adversely affects water quality. About 20% of all point sources discharges to surface waters in the U.S. are energy related.

Notwithstanding current statutes, which are more comprehensive than those enacted by any other Nation, the current policy case forecasts increased environmental stress, largely due to growth in population, cars and vehicle miles travelled, unless the American standard of living is to be reduced.

The 1990 Clean Air Act Amendments will limit, and in many cases reduce substantially from current levels, the major air pollutants from power plants, transportation use and energy using industries. The NES, coupled with existing DOE R&D programs, such as the development of alternative fuels for transportation, clean coal technologies, and energy efficiency improvements, would further reduce air and water pollutants and waste from projected levels.

NES measures are estimated to reduce sulfur dioxide emissions by 30 percent, nitrogen oxide by 25 percent and volatile organic compound emissions by 10 percent in the year 2030 from estimated projections. To offset the volumes of waste from energy

production, the NES proposes measures to reduce current regulatory inefficiency, and encourage greater use of technologies that minimize wastes.

Although there remains a great deal of scientific uncertainty, growing international concern regarding the potential for climate change is causing many nations to consider measures to reduce greenhouse gases, in particular carbon dioxide (CO<sub>2</sub>). Since 1950, the U.S. share of total CO<sub>2</sub> emissions has declined from about 42% to 23%. By 2025, the U.S. share is projected to be 14% of the world total. By contrast, developing countries have increased their share of CO<sub>2</sub> contributions from 9% in 1950 to 30% today. By 2025, their share is projected to be about 48% of world total.

The measures set out in the NES would reduce the rate of growth of U.S. CO<sub>2</sub> emissions by about 60% of the projected growth from 1990 to 2030. Greater use of nuclear power, renewable energy, and improvements in energy efficiency in the electricity and transportation sector, would be the major contributors to this reduction.

Implementation of the measures proposed in the NES will substantially improve environmental quality while improving economic efficiency and maintaining reasonably priced energy. The cost to the Nation of environmental regulation is over \$100 billion per year and growing (1.5% of GNP). The NES proposes to reduce these costs through more efficient management of environmental compliance. It calls for wider use of emissions-trading and other market mechanisms that will be demonstrated in the implementation of the CAA, and should be extended to other environmental protection programs. Also, to reduce the costs of energy, the NES proposes measures to expedite the citing, permitting and licensing of new energy facilities. Ultimately, the key to meeting National requirements for energy, for economic well being, and for environmental quality, will be new technology. For these reasons, the NES concerns itself not only with the historical Federal role in basic science and research, but also with technology transfer and with the quality of the educational system that will train future technology developers and managers. Specific measures to better harmonize energy and environmental objectives include:

1. Implementing greenhouse gas emission reduction measures that also make sense for other environmental, energy security, and economic reasons. (Option 45)
2. Pursuing research aimed at resolving uncertainties associated with potential global climate change. (Option 47)

3. Greater use of mechanisms such as emissions trading and marketable allowances to reduce compliance costs. (Option 50)
4. Greater use of waste minimization technologies in all energy using sectors. (Option 52)
5. Clarifying the application of new source review requirements to existing power plants. (Option 51)
6. Using model programs to expedite citing, permitting and licensing of energy facilities. (Option 48)
7. Assuring that State programs to regulate radionuclide emissions are promulgated only if they improve health and environmental protection, and are applied equally against risks from all sources. (Option 53)
8. Better assessments of the impacts on energy supply, distribution and cost of environmental rulemaking. (Option 49)

### Conclusion

As a National Energy Strategy, these measures advance the national interest by:

- o Securing adequate energy supplies at reasonable cost
- o Reducing our vulnerability to oil market disruptions
- o Increasing efficiency in the production and use of energy
- o Removing barriers to the development of domestic energy resources
- o Exerting U.S. leadership in energy research, science and technology.
- o Enhancing environmental quality.

The NES, as constructed by the measures identified in this paper, seeks to satisfy the President's directive to improve energy security, enhance environmental quality, and provide the energy necessary to fuel a healthy economy.

### Attachments

# APPENDIX 1

## CONSENSUS OPTIONS

| <u>Option<br/>#</u> | <u>Option</u>                                                  |
|---------------------|----------------------------------------------------------------|
| 2                   | Allow Access to OCS Consistent with President's 1990 Decisions |
| 3                   | Allow Access to ANWR                                           |
| 4                   | Alaskan North Slope Development                                |
| 5                   | Gas Pipeline Construction without Federal Certification        |
| 6                   | Gas Pipeline - Coordinated NEPA Review                         |
| 7                   | Deregulate Pipeline Sales Rates                                |
| 8                   | Reform Pipeline Rate Design                                    |
| 9                   | Improve Pipeline Transportation                                |
| 10                  | Eliminate DOE Import/Export Regulation                         |
| 11                  | CAFE Study                                                     |
| 12                  | Accelerate Scrappage of Older Cars                             |
| 14                  | Stimulate Mass Transit                                         |
| 16                  | Low Income Home Efficiency                                     |
| 23                  | NPR Leasing                                                    |
| 24                  | Stimulate Oil and Gas Production Outside Persian Gulf          |
| 25                  | Oil Pipeline Deregulation                                      |
| 26                  | PUHCA Reform - Greater Competition                             |
| 27                  | Transmission Access for Wholesalers                            |
| 30                  | Facilitate Expansion of Nuclear Power                          |
| 31                  | Nuclear Waste - Comprehensive Solution                         |
| 32                  | Nuclear Waste - Alternative to Federal Management              |
| 33                  | Encourage Clean Coal in Electric Utilities                     |
| 35                  | Municipal Solid Waste to Energy                                |
| 36                  | Reform PURPA - Remove Size Cap                                 |
| 37                  | Reform PURPA - Relax Co-firing Limits                          |
| 38                  | Promote Integrated Resource Planning by Utilities              |
| 40                  | Strengthen Building Energy Efficiency Standards                |
| 41                  | Mortgage Financing Incentives                                  |
| 43                  | Improve the Efficiency for Public Housing                      |
| 44                  | Reducing Environmental Impacts of Energy Systems               |
| 45                  | Global Climate Change - Integrate NES                          |
| 47                  | Added Global Climate Change Research                           |
| 48                  | Reduce Delays in Siting and Permitting                         |
| 49                  | Enhanced Energy Analysis for Environmental Rulemaking          |
| 50                  | Emissions Trading for Environmental Compliance                 |
| 51                  | Modified New Source Applicability                              |
| 52                  | Encourage Waste Minimization in Industry                       |
| 53                  | Dual Regulation of Radionuclides                               |
| 54                  | Re-align Federal R&D Priorities                                |
| 55                  | DOE Basic Research Capabilities                                |
| 56                  | Leverage NES-Related R&D Resources                             |
| 57                  | Reform the National Technology Transfer Service                |
| 58                  | Spur the Export of Energy Technologies                         |
| 59                  | Math/Science Education Initiative                              |
| 60                  | Enhanced R&D                                                   |

# Withdrawal/Redaction Sheet

## (George Bush Library)

| Document No.<br>and Type | Subject/Title of Document                 | Date     | Restriction     | Class. |
|--------------------------|-------------------------------------------|----------|-----------------|--------|
| 02. Paper                | Alternative Fuels Options Package (3 pp.) | 12/20/90 | <del>P</del> /5 |        |

**Collection:**

**Record Group:** Bush Presidential Records  
**Office:** Chief of Staff, White House Office of  
**Series:** Sununu, John, Files  
**Subseries:** Issues Files  
**WHORM Cat.:**  
**File Location:** National Energy Strategy (1 of 2) 1991 [3]

Open on Expiration of PRA  
 (Document Follows)  
 By JP (NLGB) on 10/28/05

|                                        |                                |
|----------------------------------------|--------------------------------|
| <b>Date Closed:</b> 1/4/2005           | <b>OA/ID Number:</b> 29154-006 |
| <b>FOIA/SYS Case #:</b> 1998-0004-F[2] | <b>Appeal Case #:</b>          |
| <b>Re-review Case #:</b> 2005-0426-S   | <b>Appeal Disposition:</b>     |
| <b>P-2/P-5 Review Case #:</b>          | <b>Disposition Date:</b>       |
| <b>AR Case #:</b>                      | <b>MR Case #:</b>              |
| <b>AR Disposition:</b>                 | <b>MR Disposition:</b>         |
| <b>AR Disposition Date:</b>            | <b>MR Disposition Date:</b>    |

### RESTRICTION CODES

**Presidential Records Act - [44 U.S.C. 2204(a)]**

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**Title:** Alternative Fuels Options Package

**Option:** Support an integrated package of incentives and regulations designed to replace a significant fraction of vehicle oil use with alternative fuels (including methanol, ethanol and compressed natural gas) by the year 2005.

**Discussion:** The NES reference case projections show oil consumption growing from about 17.4 million barrels/day today to 20.7 million barrels/day in 2005. Other NES options are projected to reduce this by 1.0 million barrels/day. Significant additional reductions can only be achieved by reducing oil use in vehicles. This option package would reduce oil consumption by 1 million barrels/day in 2005, rising to 1.9 - 2.7 million in 2010.

A significant increase in the use of alternative fuels would enhance energy security by diversifying the supply of transportation fuels. In the absence of government action, alternative fuels would probably not achieve significant market penetration in the next 15 years.

The Clean Air Act Amendments of 1990, and clean air programs in California, will promote alternative fuels because of their potential to reduce air pollutants. This option package, combined with a commitment to some use of alternative fuels in the Federal fleet, would expand those programs significantly.

**Components of the Package:**

1. CAFE Incentive for Alternative Fueled Vehicles: Current law gives vehicle manufacturers a credit towards their required Corporate Average Fuel Economy (CAFE) level for producing vehicles that can burn alternative fuels, but caps the credit at 600,000 vehicles/year. Under this option, legislation would be proposed to remove this cap. It is expected that this would result in the sale of numerous "flexible-fueled vehicles" (FFVs), capable of burning either gasoline or methanol.
2. Expanded Alternative Fueled Fleets: The clean air programs mentioned may lead to the use of alternative fueled fleets in areas with air pollution problems. Under this option, legislation would be proposed to

require all centrally-fueled fleets nationwide with 10 or more vehicles to be 90% alternative-fueled by 2000.

3. Non-petroleum Fuel Mandate: To increase the use of non-petroleum-based fuels in the general vehicle population, this option would propose legislation to require all refiners and importers to sell 5% non-petroleum fuel by 2000 and 10% by 2005. Credits and trading would be used.

Estimated  
Costs:

Flexible Fueled Vehicles are estimated to cost an extra \$275 dollars today, falling to \$100 (in today's dollars) by 2010. Constructing vehicles to burn compressed natural gas is estimated to increase vehicle cost by \$800, although much of this cost could be offset by savings in lower fuel costs.

Parts (1) and (2) of the package are expected to lead to increased vehicle and infrastructure costs of about \$5 billion and \$7 billion, respectively (discounted present value, 1990 dollars). Overall, the package would incur vehicle and infrastructure costs of \$5 - \$7 per barrel of oil displaced. This range is a discounted average over the entire period; costs per barrel would be higher in early years and lower later on.

The cost of the alternative fuels themselves is subject to great controversy, and varies depending on the fuel considered. If oil prices rise steadily in real terms from 1990 pre-crisis levels, imported methanol-based fuels would likely be cost-competitive with imported oil within the next ten years. It is possible, however, that they will be more expensive for the foreseeable future. Ethanol costs nearly twice as much to produce today than gasoline, while compressed natural gas is cheaper than gasoline.

Pros:

The package is projected to reduce oil demand by 1 million barrels/day in 2005, rising to 1.9 - 2.7 million in 2010.

This is the only potential NES component that can be confidently predicted to reduce the demand for oil. By increasing supply diversity, it may make it more difficult for OPEC to artificially increase oil prices.

The CAFE incentive provides an alternative to manufacturers that may be more cost-effective than meeting CAFE levels.

Provides an incentive for the use of U.S. natural gas and for the development of a U.S. alcohols industry based on biomass, waste or coal.

Cons:

Creates a new government regulatory program.

Imposes significant costs on the economy, which may be wasted if alternative fuels do not prove economic.

Much of the new fuel is expected to be imported methanol made from natural gas. Although worldwide natural gas reserves are more widely dispersed than oil reserves and significant amounts of methanol are expected to come from the Western Hemisphere, the Persian Gulf countries would be among the lowest cost suppliers.

Changing the CAFE incentive would require a legislative proposal that might be difficult to control once suggested, and may make it more difficult to resist increases in CAFE levels themselves.

ISSUES FOR DECISION

1. That you approve the consolidated package outlined above.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_ More information \_\_\_\_\_

2. That you approve one or more of the components of the consolidated package.

CAFE Incentive for Alternative Fueled Vehicles

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_ More information \_\_\_\_\_

Expanded Alternative Fueled Fleets

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_ More Information \_\_\_\_\_

Non-petroleum Fuel Mandates

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_ More Information \_\_\_\_\_

# Withdrawal/Redaction Sheet

## (George Bush Library)

| Document No.<br>and Type | Subject/Title of Document                     | Date     | Restriction    | Class. |
|--------------------------|-----------------------------------------------|----------|----------------|--------|
| 03. Paper                | Renewable Energy Production Incentive (2 pp.) | 12/20/90 | <del>P</del> 5 |        |

**Collection:**

**Record Group:** Bush Presidential Records  
**Office:** Chief of Staff, White House Office of  
**Series:** Sununu, John, Files  
**Subseries:** Issues Files  
**WHORM Cat.:**  
**File Location:** National Energy Strategy (1 of 2) 1991 [3]

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|----------------------------------------|--------------------------------|
| <b>Date Closed:</b> 1/4/2005           | <b>OA/ID Number:</b> 29154-006 |
| <b>FOIA/SYS Case #:</b> 1998-0004-F[2] | <b>Appeal Case #:</b>          |
| <b>Re-review Case #:</b> 2005-0426-S   | <b>Appeal Disposition:</b>     |
| <b>P-2/P-5 Review Case #:</b>          | <b>Disposition Date:</b>       |
| <b>AR Case #:</b>                      | <b>MR Case #:</b>              |
| <b>AR Disposition:</b>                 | <b>MR Disposition:</b>         |
| <b>AR Disposition Date:</b>            | <b>MR Disposition Date:</b>    |

### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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**Title:** Renewable Energy Production Incentive

**Option:** Enact a performance-based production incentive for certain renewable electric energy technologies.

**Discussion:** The proposal would provide a tax credit of up to 2 cents per kilowatt hour to producers of electricity generated from new renewable energy sources. Electricity generated by wind, solar thermal, photovoltaics, geothermal (excluding dry steam systems), and biomass (excluding the direct combustion of waste) would qualify. The credit would be allowed for the first seven years of system operation. The incentives would be available to facilities placed in service over the next ten years, but the rate of credit would be phased down from 2 cents per kilowatt hour after five years. The credit would, however, be adjusted for inflation.

This option represents a shift in policy because benefits are directly tied to energy production, in contrast to investment credits, which benefit investors regardless of the amount of energy produced.

**Estimated  
Benefits  
and Costs:**

This option is not intended to displace oil. Instead, the incentive would accelerate the penetration of renewable energy technology. This option is projected to result in earlier renewable energy capacity and production additions relative to the NES base case: approximately 19.1 gigawatts (or 1.4 quads) by the year 2000 and 28 gigawatts (or 2.2 quads) by the year 2010.

The program costs are estimated to be \$1.8B for the first 5 years and \$17.3B total over the life of the program (in constant 1990 dollars). This compares with an approximate annual cost of \$80 million for the existing investment tax credit for solar and geothermal systems, which was extended by the Budget Reconciliation Act.

**Pros:** Provides a stimulus to energy technologies capable of delivering power from domestic energy sources with little pollution.

The phase-down of credit rates and limited program life is expected to encourage accelerated

development of the technologies, with benefits felt beyond the period of the tax credit provided.

Because the credit supports only actual production, if systems fail to perform, incentive costs to the federal government are reduced accordingly.

Cons:

Subsidizes projects that may not be cost-effective, without providing energy security benefits.

Producers of other energy sources may seek similar tax incentives in order to maintain a "level playing field."

Would be economically and politically difficult to propose a significant new tax credit in light of the budget agreement.

Action Required and By Whom: Proposed legislation would be developed by DOE and Treasury.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_ Need more information \_\_\_\_\_

# Withdrawal/Redaction Sheet

## (George Bush Library)

| Document No.<br>and Type | Subject/Title of Document                        | Date     | Restriction | Class. |
|--------------------------|--------------------------------------------------|----------|-------------|--------|
| 04. Paper                | Eliminate Taxation of Efficiency Rebates (2 pp.) | 12/20/90 | P/5         |        |

### Collection:

**Record Group:** Bush Presidential Records  
**Office:** Chief of Staff, White House Office of  
**Series:** Sununu, John, Files  
**Subseries:** Issues Files  
**WHORM Cat.:**  
**File Location:** National Energy Strategy (1 of 2) 1991 [3]

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 By JP (NLGB) on 10/29/05

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|----------------------------------------|--------------------------------|
| <b>Date Closed:</b> 1/4/2005           | <b>OA/ID Number:</b> 29154-006 |
| <b>FOIA/SYS Case #:</b> 1998-0004-F[2] | <b>Appeal Case #:</b>          |
| <b>Re-review Case #:</b> 2005-0426-S   | <b>Appeal Disposition:</b>     |
| <b>P-2/P-5 Review Case #:</b>          | <b>Disposition Date:</b>       |
| <b>AR Case #:</b>                      | <b>MR Case #:</b>              |
| <b>AR Disposition:</b>                 | <b>MR Disposition:</b>         |
| <b>AR Disposition Date:</b>            | <b>MR Disposition Date:</b>    |

### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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Title: Eliminate Taxation of Efficiency Rebates

Option: The Administration would support exemption from taxation of electric utility rebates for efficiency investments.

Discussion: Electric utilities throughout the United States have developed programs to encourage investments in electricity efficiency by customers. These programs commonly involve efficiency rebates to residential, commercial, and industrial customers. These incentives may take the form of payments to customers of a portion of the cost of their investment in electricity conservation and efficiency. For example, if a customer purchases equipment from a third party that will reduce electricity consumption, the utility may make a payment to the customer equal to part of the cost of the equipment. Alternatively, a utility may agree to allow a discount on utility bills to customers that participate in conservation programs.

Roughly half of the nation's electric utility customers are served by utilities with energy efficiency rebate programs.

The Internal Revenue Service has determined that utility rebates to customers of part of the cost of buying conservation equipment result in taxable income to the customers. The Service has distinguished these payments from purchase price discounts, which have traditionally not been subject to tax. The rebate payments are not made by the seller of the conservation equipment, and thus cannot be viewed as discounts on the price of the equipment. The payments are not conditioned on the purchase of electricity, and thus cannot be viewed as discounts on the price of electricity.

Legislation has been introduced in the Congress last session to exclude from gross income for Federal tax purposes utility conservation program rebates to customers.

Pros: By lowering the cost, the proposal encourages consumer investment in energy efficient technologies.

The reduced demand for electricity would reduce the need for new generating plants.

The proposal would preempt Congressional initiative as passage of legislation is likely.

Cons:

The proposal deviates from existing tax policy by creating a new category of tax-exempt income.

Tax-exemption could be accomplished without a statutory change by utility programs that allow discounts on monthly utility bills to customers who participate in conservation programs.

DOE estimates that the proposal would cost \$400 million over the 5-year budget period. Although Treasury's projections are much closer to DOE's estimates, the Joint Committee on Taxation estimated that a similar proposal would cost about \$800 million over 5 years.

**Action Required and By Whom:** The Administration would support exempting from federal taxation utility efficiency rebates to consumers either through administrative clarification or amendment of the federal tax code.

Approve\_\_\_\_\_

Disapprove\_\_\_\_\_

Need More Information\_\_\_\_\_

# Withdrawal/Redaction Sheet

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| Document No.<br>and Type | Subject/Title of Document                 | Date     | Restriction   | Class. |
|--------------------------|-------------------------------------------|----------|---------------|--------|
| 05. Paper                | Phase Out Federal Power Subsidies (2 pp.) | 12/20/90 | <del>P5</del> |        |

**Collection:**

**Record Group:** Bush Presidential Records  
**Office:** Chief of Staff, White House Office of  
**Series:** Sununu, John, Files  
**Subseries:** Issues Files  
**WHORM Cat.:**  
**File Location:** National Energy Strategy (1 of 2) 1991 [3]

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| <b>Date Closed:</b> 1/4/2005           | <b>OA/ID Number:</b> 29154-006 |
| <b>FOIA/SYS Case #:</b> 1998-0004-F[2] | <b>Appeal Case #:</b>          |
| <b>Re-review Case #:</b> 2005-0426-S   | <b>Appeal Disposition:</b>     |
| <b>P-2/P-5 Review Case #:</b>          | <b>Disposition Date:</b>       |
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Title: Phase-out Federal Power Subsidies

Option: Phase-out federal hydro-electric subsidies by requiring that outstanding debt be repaid at the Treasury long-term interest rates in effect when the project went into service.

Discussion: Federal policies historically have provided lower electricity prices and preferential treatment to different classes of utilities and their customers. By phasing out the special treatment and subsidies all of the country's electric utilities would be put on a more equal footing and the true cost of producing power would be reflected in prices. The inequities arising from some customers or regions of the country receiving preferential treatment would be ended. The major remaining federal electricity subsidy is DOE's Power Marketing Administration (PMA) debt repayment practice.

The Government's current policy allows PMAs to sell power at a price which is below the Government's cost of providing it thereby inducing additional demand for federal hydro-power. OMB estimates that to date this below cost pricing policy has cost the Treasury over \$4 billion. Over the life of existing loans the subsidy will cost the federal government over \$15 billion.

Pros: Equitable to both PMA customers and federal taxpayers because the interest rates would be those the lender (Treasury) had to pay at the time the projects were built.

Stimulates energy conservation and reduces the need to build new dams. Requiring Treasury-cost financing for the PMAs would eliminate multibillion dollar energy consumption subsidies at a time when the government is encouraging conservation measures in the NES.

Fiscally advantageous, because it reduces financing subsidies and increases federal revenues by almost \$500 million per year.

Cons: Many in Congress will strongly oppose any change in the status quo. In the past, Congress has been unwilling to reform federal electricity policies.

Negatively affect the economy in areas where federal power provides a significant portion of electric

use, such as in the Pacific Northwest.

Opposition to this proposal may jeopardize other elements of the NES.

**Action Required and By Whom:** DOE can administratively reduce PMA financing subsidies by requiring debt repayment practices which cover federal costs. Legislation would be developed to change some historic interest rates.

Approve\_\_\_\_\_ Disapprove\_\_\_\_\_ Need More Information\_\_\_\_\_

# Withdrawal/Redaction Sheet

## (George Bush Library)

| Document No.<br>and Type | Subject/Title of Document                     | Date     | Restriction    | Class. |
|--------------------------|-----------------------------------------------|----------|----------------|--------|
| 06. Paper                | Federal Lighting Efficiency Standards (2 pp.) | 12/20/90 | <del>P</del> 5 |        |

**Collection:**

**Record Group:** Bush Presidential Records  
**Office:** Chief of Staff, White House Office of  
**Series:** Sununu, John, Files  
**Subseries:** Issues Files  
**WHORM Cat.:**  
**File Location:** National Energy Strategy (1 of 2) 1991 [3]

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(b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]  
(b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]  
(b)(9) Release would disclose geological or geophysical information

Title: Federal Lighting Efficiency Standards

Option: The Administration would propose legislation giving DOE authority to set efficiency standards for residential, commercial, and industrial lamps (i.e., light bulbs).

Discussion: DOE has established efficiency labeling and standards for 13 categories of residential appliances and for fluorescent lighting system ballasts. Under this option, the current program would be expanded to include lamps. (Other components of commercial lighting systems (fixtures and controls) and other categories of equipment, including commercial space conditioning equipment and controls, office equipment, and small (up to 25 hp) electric motors will be required to carry labels indicating energy performance. There is no dispute regarding this labeling program.)

A variety of barriers appear to have limited the penetration of energy-efficient lamp technologies that are cost-efficient in many uses. These barriers include poor information and weak incentives to incur higher initial costs that produce small energy savings relative to total business costs or to household budgets.

About 16 percent of electricity demand (5 percent of total energy demand) is accounted for by lighting; about 5 percent of electricity generation is oil-fired. Approximately \$2 billion is spent annually on large incandescent and fluorescent lamps. Incandescent bulbs consume about 45 percent of electricity used in lighting but produce only about 17 percent of light output. DOE estimates that adoption of cost-efficient lamp standards would reduce electricity demand by 1.3 percent by 2010 using 1990 technology.

Pros: Standard-setting is confined to the area in which evidence for market failure is strongest, with labeling relied upon elsewhere, and enforcement is simplified by setting bulb standards rather than lighting system performance standards.

Engineering studies suggest that a shift to more efficient bulbs would both save energy and create net economic benefits at current market prices.

## APPENDIX 6

A mandatory conservation effort of this sort may be necessary to produce an NES that will be perceived as balanced.

### Cons:

This proposal is at odds with Administration regulatory philosophy: it does not seek the least intrusive means of correcting an alleged market failure; it substitutes the judgement of regulators for that of the market; and it does not provide maximum flexibility to respond to a lighting system performance standard.

Estimated energy savings from this program are very small, and oil savings are tiny, even after 20 years.

Congress may react to this legislative proposal by requiring national standards for other components of commercial lighting systems and other classes of equipment or by imposing stricter lamp standards.

**Actions Required and by Whom:** DOE would develop an amendment to existing appliance standards legislation. (DOE will also develop and implement a multi-year action plan for assessing commercial equipment markets and establishing new labeling requirements.)

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_ Need More Information \_\_\_\_\_

# Withdrawal/Redaction Sheet

## (George Bush Library)

| Document No.<br>and Type | Subject/Title of Document            | Date     | Restriction   | Class. |
|--------------------------|--------------------------------------|----------|---------------|--------|
| 07. Paper                | Hydropower Regulatory Reform (2 pp.) | 12/20/90 | <del>P5</del> |        |

**Collection:**

**Record Group:** Bush Presidential Records  
**Office:** Chief of Staff, White House Office of  
**Series:** Sununu, John, Files  
**Subseries:** Issues Files  
**WHORM Cat.:**  
**File Location:** National Energy Strategy (1 of 2) 1991 [3]

Open on Expiration of PRA  
 (Document Follows)  
 By JP (NLGB) on 10/28/05

|                                        |                                |
|----------------------------------------|--------------------------------|
| <b>Date Closed:</b> 1/4/2005           | <b>OA/ID Number:</b> 29154-006 |
| <b>FOIA/SYS Case #:</b> 1998-0004-F[2] | <b>Appeal Case #:</b>          |
| <b>Re-review Case #:</b> 2005-0426-S   | <b>Appeal Disposition:</b>     |
| <b>P-2/P-5 Review Case #:</b>          | <b>Disposition Date:</b>       |
| <b>AR Case #:</b>                      | <b>MR Case #:</b>              |
| <b>AR Disposition:</b>                 | <b>MR Disposition:</b>         |
| <b>AR Disposition Date:</b>            | <b>MR Disposition Date:</b>    |

### RESTRICTION CODES

**Presidential Records Act - [44 U.S.C. 2204(a)]**

- P-1 National Security Classified Information [(a)(1) of the PRA]
- P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P-3 Release would violate a Federal statute [(a)(3) of the PRA]
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Removed as a personal record misfile.

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## APPENDIX 7

**Title:** Hydropower Regulatory Reform

**Option:** Support reform of the Federal Power Act (FPA) to require the FERC to coordinate a single, comprehensive (federal and state) review of hydropower projects, and if a consensus decision on a project cannot be reached FERC would serve as the sole decision-making agency on the matter.

**Discussion:** The process for licensing hydropower projects commonly runs five or more years. This is the result of multiple and complex regulatory requirements and competing claims of decision-making jurisdiction. Under federal law, FERC has responsibility for resolving competing interests. However, in practice its ability to exercise this responsibility is limited. Recent legislation, court decisions, and regulatory actions of other agencies have significantly constrained FERC authority. No single agency now can effectively resolve these overlapping and competing regulatory interests.

During the next several decades, substantial existing hydropower capacity will be subject to relicensing by the FERC. The licensing process may retard or terminate the continued use of this capacity.

Hydropower projects can have significant environmental consequences in terms of aquatic habitat and also frequently interfere with recreational activities. Therefore, licensing of the projects is often a matter of intense local interest and controversy.

**Pros:**

- Restores a better balance between power and non-power uses of waterways.
- Eliminates administrative duplication and serves to reduce the time and expense of decision-making on projects by up to an estimated two years.
- Enables greater use of hydropower resources, and retention of existing hydropower capacity.

**Cons:**

- Sharply limits state water quality authority to deal with intensely felt local issues, contrary to

## APPENDIX 7

the principles of current environmental law concerning state and local prerogatives and to the Administration's preference for encouraging state and local responsibility.

Perceived as reducing the extent to which environmental considerations are addressed in the licensing process, thereby prompting strong opposition by state and local governments and environmental and recreational interests.

Increases the likelihood of adverse impacts on water quality, fisheries, and recreation.

**Action Required and by Whom:** The proposed legislation and regulatory reforms would be developed by DOE, FERC, and other federal agencies.

Approve\_\_\_\_ Disapprove\_\_\_\_ Need More Information\_\_\_\_

JOHN J. RHODES III  
1ST DISTRICT, ARIZONA

OFFICES  
412 CANNON HOUSE OFFICE BUILDING  
WASHINGTON, DC 20515  
(202) 225-2635  
2345 SOUTH ALMA SCHOOL ROAD  
SUITE 108, Box 8  
MESA, AZ 85210  
(602) 831-6433

82

**Congress of the United States**  
**House of Representatives**  
**Washington, DC 20515**

COMMITTEE ON INTERIOR  
AND INSULAR AFFAIRS  
CHAIRMAN, REPUBLICAN TASK FORCE  
ON INDIAN AFFAIRS  
SUBCOMMITTEES:  
WATER AND POWER RESOURCES  
ENERGY AND THE ENVIRONMENT  
NATIONAL PARKS AND  
PUBLIC LANDS  
COMMITTEE ON SMALL BUSINESS  
SUBCOMMITTEES:  
PROCUREMENT, INNOVATION AND  
MINORITY ENTERPRISE DEVELOPMENT  
ANTITRUST, IMPACT OF DEREGULATION  
AND PRIVATIZATION  
REPUBLICAN POLICY COMMITTEE

December 31, 1990

The President  
The White House  
Washington, D.C. 20500

THE CHIEF of STAFF  
has seen

Dear Mr. President:

You will shortly be presented a series of options prepared, at your direction, in order to allow you to enunciate a National Energy Strategy. It is my understanding that the Office of Management and Budget has, on its own initiative, included an option that would change the pricing policy on the sale of power produced at Federal Reclamation facilities, and would alter or abolish preference power pricing policy.

These suggestions are based solely on increasing revenues to the Federal government, and have absolutely nothing to do with a strategy to maximize the availability of electrical energy to the country and its citizens. The system of pricing of power produced at Federal facilities, and the system of preference pricing, has been part of American public policy for almost a century. These policies are at the very base of the economic foundations of many communities and businesses in the West, and to suggest, almost casually, that this fundamental principle should be done away with as part of a National Energy Strategy makes no sense, and would divert attention away from the other very positive, options being presented to you for the formation of such a strategy.

Page 2  
The President  
December 31, 1990

I would sincerely urge you to recognize that this proposal represents nothing more than an OMB desire to find revenue, without any real regard for public policy consequences, and that you reject this proposed option in the formulation of your National Energy Strategy.

Thank you for your consideration.

Sincerely,

John J. Rhodes, III  
Member of Congress

cc: The Honorable James D. Watkins  
The Honorable Richard G. Darman  
The Honorable John H. Sununu ✓



**The Secretary of Energy**  
Washington, DC 20585

January 4, 1991

THE CHIEF of STAFF  
has seen

MEMORANDUM FOR THE HONORABLE JOHN H. SUNUNU  
CHIEF OF STAFF TO THE PRESIDENT

SUBJECT: ELECTRIC VEHICLES IMPACT ON GENERATION  
CAPACITY

John:

In response to a question you raised at the last Economic Policy Council Meeting on the National Energy Strategy, I thought you might be interested in the following:

- o A recent study by the Electric Power Research Institute (EPRI) estimates that available off-peak power in the United States is adequate to support recharging of about 130 million electric commuter (two seater) vehicles or 40 million electric minivans.
- o DOE estimates that the number of electric or hybrid vehicles that might reasonably be in use by the year 2010 is in the range of 12 million vehicles. These vehicles would be in use mainly in the 101 cities that do not meet ozone standards.
- o California, with the most aggressive electric vehicle program in the Nation, estimates an electric vehicle fleet of 500,000 units in 2003.
- o While using potentially large amounts of off-peak power for electric vehicles recharging would ultimately lead to the need for increased baseload capacity, this need would emerge over decades, not in any near or mid-term time frame.

  
James D. Watkins  
Admiral, U.S. Navy (Retired)

cc: The Honorable D. Allan Bromley

# HILL AND KNOWLTON

Hill and Knowlton  
Public Affairs Worldwide Co.  
Washington Harbour  
901 31st Street, N.W.  
Washington, D.C. 20007-3838  
202-333-7400  
Telecopy 202-333-1638  
Telex 440143 HKDC

THE CHIEF of STAFF  
has seen

NES

(202) 333-1638 (auto)  
(202) 337-4239 (auto)  
(202) 342-2378 (auto)

## TELECOPY TRANSMISSION

Number of Pages (including cover sheet) 3

Date: 1/4/91

Time: 6pm

To: Governor John Sununu

for The President

fx # 456-2397

From: Craig Fuller

Hill and Knowlton  
Washington, D.C.  
(202) 333-7400

## MESSAGE

PLEASE DELIVER IMMEDIATELY UPON RECEIPT

Lod Cook asked me to pass this along to  
you for your information.

If you have trouble receiving this transmission or you did not receive the specified number of pages shown above, please call the sending party immediately at the phone number listed above.

**L. M. Cook**  
Chairman and  
Chief Executive Officer

**The Honorable James D. Watkins**  
**Secretary of Energy**  
**1000 Independence Avenue S.W.**  
**Washington, D.C. 20585**

Our meeting on December 18 was most beneficial, since it enabled me to share with you the current status of National Petroleum Council projects that you requested. As we discussed, the NPC is moving forward with both of your requests and expects to provide information that will contribute to the decisions which you must make.

During our meeting, you pointed out that proposals are being considered by the Administration which could result in the mandated sales of alternative fuels. It was not clear to me what might be considered as an alternative fuel but it seemed as if the proposals that you described included the mandated sale of such fuels as methanol and ethanol. As you will recall, I expressed reservations concerning mandated sales and pointed out that low cost supplies of domestic natural gas do not exist and that both of these alternatives would dramatically increase consumer costs. Further, any such mandate would inevitably lead to the export of jobs since the manufacturing of methanol would occur in foreign countries at the source of natural gas. Energy security would not be enhanced since an imported product (methanol) would be traded for an imported raw material (crude oil).

During 1990, the Congress and the Administration devoted thousands of hours to developing a Clean Air Act designed to provide a market-based strategy for providing fuels in the future. There are mandates in the legislation, such as those provisions which set the performance standard or formula for fuels to be sold in areas that are not in compliance with federal

The Honorable James D. Watkins  
Page 2

law. Even though these mandates exist, it is left to the suppliers and consumers to determine which fuels to offer to the public and which fuels to purchase. For example, even though there is a mandate to use oxygenates, no specific oxygenate is required.

As we understand the alternative fuels proposal being made to the Administration, a fuel supplier would be required to offer as a percentage of its total sales an alternative fuel other than the reformulated gasoline described in the Clean Air Act. We are told that the percentage requirement would increase on a periodic basis. I consider this to be inconsistent with the requirements of the Clean Air Act. It is also bad policy, since there is no showing that mandated sales of fuels like methanol will be acceptable to consumers or will in fact provide a better environmental result than the reformulated gasolines included in the 1990 legislation.

The Clean Air Act must be given an opportunity to work, and we should not now undertake a new and potentially inconsistent program. Fuel suppliers cannot develop investment policies and undertake long term refinery reconstruction plans if the law or national policy is to be changed every year. There must be clear direction and some degree of certainty in future policies if we are to respond to the nation's clean air goals.

I enjoyed our meeting and look forward to future exchanges with you. As I mentioned during our conversation, ARCO is committed to improving the quality of fuels in all areas where it markets and is engaged in detailed research to determine how we can reformulate our gasolines to fit both federal and state standards. Along the way, we hope to significantly improve the environment in every area where we market ARCO gasoline.

Sincerely,



L. M. Cook

THE WHITE HOUSE  
CORRESPONDENCE TRACKING WORKSHEET

INCOMING

CT

DATE RECEIVED: JANUARY 14, 1991

NAME OF CORRESPONDENT: THE HONORABLE J. BENNETT JOHNSTON

SUBJECT: URGES THE PRESIDENT TO TAKE WHATEVER ACTIONS  
ARE NECESSARY TO BRING THE NATIONAL ENERGY  
STRATEGY TO FRUITION AT THE EARLIEST DATE  
POSSIBLE

## ACTION

## DISPOSITION

ROUTE TO:  
OFFICE/AGENCY

(STAFF NAME)

ACT DATE TYPE C COMPLETED  
CODE YY/MM/DD RESP D YY/MM/DD

FREDERICK MCCLURE

ORG 91/01/14 Fm A 91/01/15 W

REFERRAL NOTE: \_\_\_\_\_

A 910122 W 1 1

REFERRAL NOTE: \_\_\_\_\_

E 910122 W 1 1

REFERRAL NOTE: \_\_\_\_\_

I 91/01/22 W 1 1

REFERRAL NOTE: \_\_\_\_\_

I 910122 W 1 1

REFERRAL NOTE: \_\_\_\_\_

COMMENTS: INCOMING REC'D FROM HENRY PLASTER FOR  
TRACKING, JAN 14 91

ADDITIONAL CORRESPONDENTS: 1 MEDIA:L INDIVIDUAL CODES: 1210 1220

MAIL USER CODES: (A) \_\_\_\_\_ (B) \_\_\_\_\_ (C) \_\_\_\_\_

\*\*\*\*\*  
\*ACTION CODES:                   \*DISPOSITION                   \*OUTGOING                   \*  
\*                                   \*                                   \*CORRESPONDENCE:           \*  
\*A-APPROPRIATE ACTION       \*A-ANSWERED                   \*TYPE RESP=INITIALS       \*  
\*C-COMMENT/RECOM           \*B-NON-SPEC-REFERRAL       \*                   OF SIGNER           \*  
\*D-DRAFT RESPONSE           \*C-COMPLETED               \*                   CODE = A               \*  
\*F-FURNISH FACT SHEET       \*S-SUSPENDED               \*COMPLETED = DATE OF    \*  
\*I-INFO COPY/NO ACT NEC\*     \*                               \*                   OUTGOING               \*  
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\*S-FOR-SIGNATURE           \*                               \*                   \*                   \*  
\*X-INTERIM REPLY           \*                               \*                   \*                   \*  
\*\*\*\*\*

REFER QUESTIONS AND ROUTING UPDATES TO CENTRAL REFERENCE  
(ROOM 75, OEOB) EXT-2590  
KEEP THIS WORKSHEET ATTACHED TO THE ORIGINAL INCOMING  
LETTER AT ALL TIMES AND SEND COMPLETED RECORD TO RECORDS  
MANAGEMENT.

January 15, 1991

Dear Senator Johnston:

Thank you for your recent letter to the President, cosigned by Senator Wallop, regarding the development of a National Energy Strategy.

We appreciate your contacting us to express your concern that the presentation of the NES may be delayed. I have provided the President with your comments. I have also taken the liberty of sharing your correspondence with a number of the President's advisors in this area so that they, too, are aware of your views and recommendation that the NES be issued promptly.

Thank you again for writing.

With best regards,

Sincerely,

Frederick D. McClure  
Assistant to the President  
for Legislative Affairs

The Honorable J. Bennett Johnston  
United States Senate  
Washington, D.C. 20510

FDM:SLM:

bcc: w/ copy of inc to Dept. of Energy - for appropriate action  
bcc: w/ copy of inc to OMB - FYI  
bcc: w/ copy of inc to OEDP - FYI  
bcc: w/ copy of inc to Governor Sununu - FYI

January 15, 1991

Dear Malcolm:

Thank you for your recent letter to the President, cosigned by Senator Johnston, regarding the development of a National Energy Strategy.

We appreciate your contacting us to express your concern that the presentation of the NES may be delayed. I have provided the President with your comments. I have also taken the liberty of sharing your correspondence with a number of the President's advisors in this area so that they, too, are aware of your views and recommendation that the NES be issued promptly.

Thank you again for your interest in writing.

With best regards,

Sincerely,

Frederick D. McClure  
Assistant to the President  
for Legislative Affairs

The Honorable Malcolm Wallop  
United States Senate  
Washington, D.C. 20510

FDM:SLM:

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✓ 2nd Hr 3  
January 15, 1991

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With best regards,

Sincerely,

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Assistant to the President  
for Legislative Affairs

The Honorable J. Bennett Johnston  
United States Senate  
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J. BENNETT JOHNSTON, LOUISIANA, CHAIRMAN

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FRANK M. CUSHING, STAFF DIRECTOR FOR THE MINORITY  
GARY G. ELLSWORTH, CHIEF COUNSEL FOR THE MINORITY

# United States Senate

COMMITTEE ON  
ENERGY AND NATURAL RESOURCES

WASHINGTON, DC 20510-6150

January 9, 1991

THE CHIEF of STAFF  
has seen

The President  
The White House  
1600 Pennsylvania Avenue, N.W.  
Washington, D.C. 20500

Dear Mr. President:

We have watched with interest and anticipation the process that has been underway at the Department of Energy for the last two years to develop a national energy strategy (NES). Extensive effort and resources have been expended by Administration officials, representatives of affected constituencies, and members of the public in seeking to formulate the NES. We applaud the progress thus far.

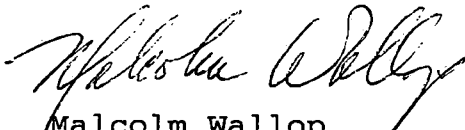
However, we are concerned that presentation of the NES to the 102nd Congress and the Nation is in danger of being delayed for several months. Action at this time, we believe, is a necessity.

Legislative proposals and Congressional debate on this subject are at this time both highly important and inevitable. We intend to be very active in this debate and to urge consideration of legislation to address oil import dependence. The Secretary of Energy has asked that we withhold introduction of our own legislative proposals until after you transmit your budget for fiscal year 1992. We have agreed to do so.

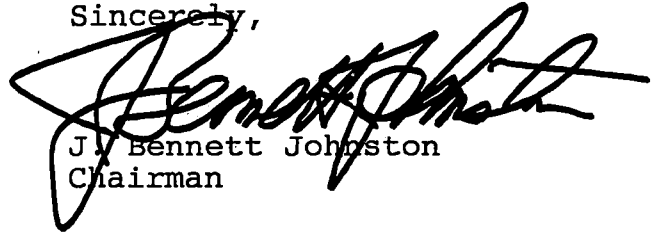
Certainly it is in the public interest for the Administration to be a full participant in this process. The Administration should be playing a leading role in helping to frame the energy policy debate in the Congress and the nation and in devising appropriate legislation. We therefore strongly urge you to personally take whatever actions are necessary to bring the NES to fruition at the earliest possible date. We, of course, stand ready to assist you and the Secretary of Energy in this effort.

The President  
January 9, 1991  
Page Two

Surely now is the time to put forth our best proposals to address a dependence on imported oil that has led us to the brink of war. We have the attention of the American people. They expect intelligent, decisive action. With your leadership we can meet that expectation.

  
Malcolm Wallop  
Ranking Minority Member

Sincerely,

  
J. Bennett Johnston  
Chairman



**THE SECRETARY OF ENERGY**

WASHINGTON, D.C. 20585

January 10, 1991

The Honorable John H. Sununu  
Chief of Staff to the President  
The White House  
Washington, D.C. 20500

Dear John:

Enclosed is a copy of a letter that I sent  
to the President earlier today.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jim", is written over the typed name.

James D. Watkins  
Admiral, U.S. Navy (Retired)

Enclosure

# Withdrawal/Redaction Sheet

## (George Bush Library)

| Document No.<br>and Type | Subject/Title of Document                                                                                      | Date    | Restriction   | Class. |
|--------------------------|----------------------------------------------------------------------------------------------------------------|---------|---------------|--------|
| 08. Letter               | From James D. Watkins to POTUS<br>Re: Elements of National Energy Strategy Still Needing<br>Resolution (2 pp.) | 1/10/91 | <del>P5</del> |        |

### Collection:

**Record Group:** Bush Presidential Records  
**Office:** Chief of Staff, White House Office of  
**Series:** Sununu, John, Files  
**Subseries:** Issues Files  
**WHORM Cat.:**  
**File Location:** National Energy Strategy (1 of 2) 1991 [3]

Open on Expiration of PRA  
(Document Follows)

By JP (NLGB) on 4/21/08

|                                        |                                |
|----------------------------------------|--------------------------------|
| <b>Date Closed:</b> 1/4/2005           | <b>OA/ID Number:</b> 29154-006 |
| <b>FOIA/SYS Case #:</b> 1998-0004-F[2] | <b>Appeal Case #:</b>          |
| <b>Re-review Case #:</b> 2005-0426-S   | <b>Appeal Disposition:</b>     |
| <b>P-2/P-5 Review Case #:</b>          | <b>Disposition Date:</b>       |
| <b>AR Case #:</b>                      | <b>MR Case #:</b>              |
| <b>AR Disposition:</b>                 | <b>MR Disposition:</b>         |
| <b>AR Disposition Date:</b>            | <b>MR Disposition Date:</b>    |

### RESTRICTION CODES

#### Presidential Records Act - [44 U.S.C. 2204(a)]

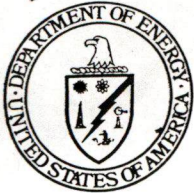
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 P-6 Release would constitute a clearly unwarranted invasion of  
 personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Removed as a personal record misfile.

#### Freedom of Information Act - [5 U.S.C. 552(b)]

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 financial institutions [(b)(8) of the FOIA]  
 (b)(9) Release would disclose geological or geophysical information



**The Secretary of Energy**  
Washington, DC 20585

January 10, 1991

The President  
The White House  
Washington, D.C. 20500

Dear Mr. President:

After Tuesday's second EPC Meeting with you regarding the National Energy Strategy (NES), I thought it might be helpful to summarize what I believe to be sole remaining elements of strategy development still needing resolution. These include:

- o final resolution of the six non-consensus options (as modified)
- o timing and tactics of announcement of the NES

Regarding the first element, of the six non-consensus options, one was modified and largely resolved (Alternative Fuels) as you heard at the meeting. However, sizing of the fleets at ten vehicles to be alternatively fueled needed further review. I have forwarded a proposed compromise and explanation on this one to Secretary Brady. The compromise results from aligning fleet sizing rationale more precisely with that of the Clean Air Act for consistency, while at the same time, lessening unnecessary burdens on small businesses.

Of the remaining five non-consensus options, only one required my further review (Renewable Energy Production Incentive). A substantially less costly proposal, responsive to the Chief of Staff's concerns about geothermal energy, is set forth in my letter to Secretary Brady. The other four option papers seemed to require no further review or modification by me. Merits, pros and cons, of all non-consensus options have now been well aired by EPC members in your presence.

Before proceeding to the second element--timing--however, I want to endorse strongly the point you made that the strategy, when announced, must be balanced. Conservation

Page 2 - The President

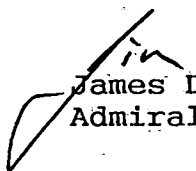
and renewable energy provisions, principally embodied in the five non-consensus options within the Department of Energy package I placed before the EPC, are critical to achieving political consensus that would, in turn, allow desired energy security outcomes...for example, opening the ANWR. Were we not to include reasonable, cost-effective measures in these "balancing" areas up-front in your strategy, the Congress would surely adopt their own. As a result, they would deprive you of the credit you deserve for taking leadership control over this important domestic policy initiative.

Now, regarding the second element, as I indicated at Tuesday's meeting, I believe it is important that your National Energy Strategy be announced no later than the date the FY 1992 budget is submitted to the Hill. In this connection, however, Brent Scowcroft is rightly concerned about consequences of releasing an anemic or unbalanced NES at a time when war is imminent or underway in the Middle East. But I feel confident that, with the non-consensus five options (as modified) I have advocated, in addition to the 45 option EPC consensus package, you will have an effective, credible, and balanced NES that will support, not undermine, your Persian Gulf policy.

Congress already has begun the debate on national energy policy. More than 25 bills have been introduced, or are likely to be introduced, in the near future. Yet, it was you who took the initiative over a year before Iraq's invasion of Kuwait when you tasked us to develop a comprehensive NES in consultation with the American people. I strongly believe that timely action in early February is necessary in order to lead the Congressional debate and to take credit for your 18-month effort.

I look forward to assisting you in any way to help resolve the remaining elements.

Respectfully,

  
James D. Watkins  
Admiral, U.S. Navy (Retired)

bcc: The Honorable John H. Sununu ✓

# Withdrawal/Redaction Sheet

## (George Bush Library)

| Document No.<br>and Type | Subject/Title of Document                                                                     | Date    | Restriction    | Class. |
|--------------------------|-----------------------------------------------------------------------------------------------|---------|----------------|--------|
| 09a. Letter              | From James D. Watkins to Nicholas Brady<br>Re: Unresolved Issues from Cabinet Meeting (1 pp.) | 1/10/91 | <del>P-5</del> |        |

**Collection:**

**Record Group:** Bush Presidential Records  
**Office:** Chief of Staff, White House Office of  
**Series:** Sununu, John, Files  
**Subseries:** Issues Files  
**WHORM Cat.:**  
**File Location:** National Energy Strategy (1 of 2) 1991 [3]

Open on Expiration of PRA  
(Document Follows)  
By JP (NLGB) on 10/23/05

|                                        |                                |
|----------------------------------------|--------------------------------|
| <b>Date Closed:</b> 1/4/2005           | <b>OA/ID Number:</b> 29154-006 |
| <b>FOIA/SYS Case #:</b> 1998-0004-F[2] | <b>Appeal Case #:</b>          |
| <b>Re-review Case #:</b> 2005-0426-S   | <b>Appeal Disposition:</b>     |
| <b>P-2/P-5 Review Case #:</b>          | <b>Disposition Date:</b>       |
| <b>AR Case #:</b>                      | <b>MR Case #:</b>              |
| <b>AR Disposition:</b>                 | <b>MR Disposition:</b>         |
| <b>AR Disposition Date:</b>            | <b>MR Disposition Date:</b>    |

### RESTRICTION CODES

**Presidential Records Act - [44 U.S.C. 2204(a)]**

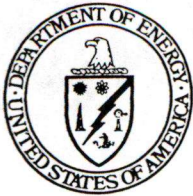
P-1 National Security Classified Information [(a)(1) of the PRA]  
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]  
P-3 Release would violate a Federal statute [(a)(3) of the PRA]  
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]  
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]  
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Removed as a personal record misfile.

**Freedom of Information Act - [5 U.S.C. 552(b)]**

(b)(1) National security classified information [(b)(1) of the FOIA]  
(b)(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]  
(b)(3) Release would violate a Federal statute [(b)(3) of the FOIA]  
(b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]  
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(b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]  
(b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]  
(b)(9) Release would disclose geological or geophysical information



**The Secretary of Energy**  
Washington, DC 20585

January 10, 1991

The Honorable Nicholas Brady  
Secretary of the Treasury  
Washington, DC 20220

Dear Nick:

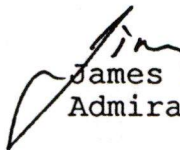
As you know, two issues remain unresolved from last Tuesday's Cabinet meeting on the National Energy Strategy (NES): the size of the fleet affected by the alternative fuels mandate and the scope of the renewable energy tax credit. I am prepared to suggest a compromise on both issues.

For the alternative fuels fleet mandate, I think that in order to be consistent with the Clean Air Act (CAA), the NES requirement should extend to fleets of 10 vehicles or more in the 26 urban non-attainment areas for which the CAA has established new emissions standards. For all other areas of the country, the requirement would cover fleets of 20 or more vehicles.

The cost of the renewable energy production incentive can be cut to about one-third of the current estimate, or about \$670 million over five years, by halving the credit for geothermal production, and further restricting the eligible geothermal and biomass technologies.

Enclosed is additional detail on these two proposals. Please let me know if you need further clarifications on these issues.

Sincerely,

  
James D. Watkins  
Admiral, U.S. Navy (Retired)

Enclosure

cc: The Honorable John H. Sununu ✓  
The Honorable Richard G. Darman  
The Honorable Michael J. Boskin

# Withdrawal/Redaction Sheet

## (George Bush Library)

| Document No.<br>and Type | Subject/Title of Document                                                    | Date | Restriction    | Class. |
|--------------------------|------------------------------------------------------------------------------|------|----------------|--------|
| 09b. Memo                | From James D. Watkins to Nicholas Brady<br>Re: EPC Meeting of 1/8/91 (3 pp.) | n.d. | <del>P/5</del> |        |

### Collection:

**Record Group:** Bush Presidential Records  
**Office:** Chief of Staff, White House Office of  
**Series:** Sununu, John, Files  
**Subseries:** Issues Files  
**WHORM Cat.:**  
**File Location:** National Energy Strategy (1 of 2) 1991 [3]

Open on Expiration of PRA  
 (Document Follows)  
 By JP (NLGB) on 10/28/05

|                                        |                                |
|----------------------------------------|--------------------------------|
| <b>Date Closed:</b> 1/4/2005           | <b>OA/ID Number:</b> 29154-006 |
| <b>FOIA/SYS Case #:</b> 1998-0004-F[2] | <b>Appeal Case #:</b>          |
| <b>Re-review Case #:</b> 2005-0426-S   | <b>Appeal Disposition:</b>     |
| <b>P-2/P-5 Review Case #:</b>          | <b>Disposition Date:</b>       |
| <b>AR Case #:</b>                      | <b>MR Case #:</b>              |
| <b>AR Disposition:</b>                 | <b>MR Disposition:</b>         |
| <b>AR Disposition Date:</b>            | <b>MR Disposition Date:</b>    |

### RESTRICTION CODES

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MEMORANDUM FOR THE SECRETARY

SUBJECT: EPC Meeting of January 8, 1991

Two issues remain unresolved from last Tuesday's Cabinet meeting on the National Energy Strategy (NES): (1) the size of the fleet required to meet the alternative fuels mandate; and (2) the scope of the renewable energy production tax credit. Compromises on both issues are feasible that will maintain NES energy objectives while reducing the cost of these options to both the Government and consumers.

Alternative Fuels Fleet Requirements

It had been recommended for the NES that owners of fleets of 10 or more vehicles that are centrally fueled be required to operate 10% of their vehicles on alternative fuels by 1995, and 90% by 2000. This mandate would cover 250,000 vehicles by 1995, and 2.5 million vehicles by 2000. It would displace 900,000 b/d of oil by 2000.

The applicability of the mandate to fleets of 10 or more vehicles was selected to be consistent with the requirements of the 1990 Clean Air Act Amendments (CAA), which established new emission standards for fleets of this size in 26 urban non-attainment areas. Defining fleets in the same places differently for purposes of the NES and the CAA would cause confusion.

There is a concern about the burden alternative fuel use requirements may place on small businesses. This burden will fall most heavily on large fleet owners that operate, or would need to build, central fueling facilities. Most fleet operators, including most small businesses, use public refueling stations, and thus would be less affected.

Notwithstanding how the NES fleet program would affect small fleet operators, it is recommended that the 10 vehicle fleet definition be maintained for the 26 non-attainment areas, in order to avoid potential conflict with the CAA, but that the fleet size be raised to 20 vehicles in all other areas.

Renewable Energy Tax Credit

The Federal cost of the NES renewable energy production tax credit has been estimated to be \$1.77 billion over five years. This cost can be substantially reduced by halving the credit for geothermal energy and further restricting the geothermal and biomass technologies eligible for the credit. Only biomass

systems using advanced generating technologies, or new kinds of feedstocks produced specifically for energy use, would be eligible for the production tax credit. Municipal solid waste, for example, would not be eligible. The geothermal credit would be only 1 cent/kwh for the first five years, declining to zero at the same rate as the other technologies. This would still be an effective incentive because the capacity factor for geothermal plants is more than double that of solar, photovoltaic or wind.

These changes, coupled with a realistic assessment of the manufacturing, licensing and siting constraints that will limit growth in each of the technology categories over the next five years, leads to the conclusion that the upper limit of Federal costs will be about \$670 million (five years). To the extent that the technology application estimates are optimistic, and the quantity of renewable energy produced is less than we expect, the five year budget cost for these production credits could be no more than the \$400 million five year cost of the present investment tax credit.

Thus, for about one third the cost of the original NES option, as much as half the renewable energy can be obtained. The attached table shows the annual costs, capacity increments and relative contribution of each qualifying technology.

## Program Impacts and Costs

|               | Existing<br>Capacity<br>1990<br>(MW) | 5-Year<br>Qualifying<br>Capacity<br>Additions<br>(MW) | 5-Year<br>Energy<br>Production<br>(BkWh) | 5-Year Program<br>Cost <sup>1</sup><br>(\$millions) |
|---------------|--------------------------------------|-------------------------------------------------------|------------------------------------------|-----------------------------------------------------|
| Photovoltaic  | 11                                   | 200                                                   | 0.8                                      | \$15                                                |
| Solar Thermal | 280                                  | 875                                                   | 4.5                                      | \$90                                                |
| Wind          | 1,600                                | 1,100                                                 | 5.7                                      | \$113                                               |
| Biomass       | 4,400                                | 550 <sup>2</sup>                                      | 6.8                                      | \$136                                               |
| Geothermal    | 2,800                                | 2,200 <sup>3</sup>                                    | 31.7                                     | \$317                                               |
| Total         | 9,091                                | 4,925                                                 | 49.5                                     | \$671                                               |

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<sup>1</sup> Undiscounted 1990 dollars

<sup>2</sup> Virtually all existing capacity uses conventional steam Rankine cycles, which would be ineligible for the production incentive.

<sup>3</sup> Dry steam resources such as the 1600 MW at the Geysers would be ineligible.