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| 01. Memo | From Ede Holiday to POTUS<br>Re: Decision Memorandum on National Energy Strategy (49 pp.) | 1/11/91 | P/5 | |

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THE PRESIDENT HAS SEEN

1-11-91

THE WHITE HOUSE

WASHINGTON

91 JAN 11 PM 7:06

January 11, 1991

MEMORANDUM FOR THE PRESIDENT

FROM: EDE HOLIDAY

SUBJECT: NATIONAL ENERGY STRATEGY

Attached for your consideration is a decision memorandum from Secretary Brady setting forth the recommendations of the Economic Policy Council with respect to the National Energy Strategy (NES). This memorandum also contains in the appendices the non-consensus options each of which individually requires your decision.

The decision memorandum from Secretary Brady is essentially the same memorandum used for discussion at the EPC meetings on December 21 and January 8. The transmittal memorandum from Secretary Brady notes the significant modifications.

Also attached here is a memorandum from Secretary Watkins describing a narrowing of the differences on two of the non-consensus options and recommending that the NES be publicly announced no later than the date the FY 92 budget is submitted to the Congress. Secretary Brady, and others among your senior advisers, may have views on the timing question which differ from those of Secretary Watkins. A small meeting in the Oval Office may be necessary to resolve the timing issue.

Attachments

Ede
if needed
I'd welcome
such a
meeting
Gov. S
says
he will
talk
with
me soon on
this
GP

cc of this page
to C of Staff

THE WHITE HOUSE

WASHINGTON

January 11, 1991

MEMORANDUM FOR THE PRESIDENT

SUBJECT: NATIONAL ENERGY STRATEGY

The Economic Policy Council met with you on December 21, 1990 and January 8, 1991 to consider the proposed National Energy Strategy (NES) and to discuss in some detail various non-consensus options.

The EPC is now ready to submit to you a formal decision document. I am, therefore, transmitting to you the attached decision memorandum for your consideration. This memorandum is essentially the same document circulated for the December 21 and January 8 EPC meetings. It contains an overall strategy paper that summarizes the energy goals and policy proposals that have been developed interagency under the leadership of Secretary Watkins. In addition, the appendices to the strategy paper set forth the six non-consensus options that individually require your decision. The presentation of these non-consensus options has been modified to take account of recommendations or suggestions for compromise made at the January 8 EPC meeting in the following respects:

- The alternative fuels option (Appendix 2), which would have required all centrally fueled fleets with 10 or more vehicles to be 90% alternatively fueled by the year 2000, has been modified to raise the minimum number of vehicles to 20, except in urban areas specified in the Clean Air Act for which 10 would be the number of vehicles.

- DOE has proposed a scaled-back renewable energy production credit (Appendix 3) that would narrow the coverage and reduce the federal revenue cost from $1.8 billion over five years to $670 million. In addition, options entailing an extension of the current renewable energy investment tax credit have been included.

- Treasury has proposed a compromise option with respect to utility rebates (Appendix 4) which would support exclusion of income from rebates to electricity customers so long as the rebates are in the form of discounts on electricity bills, rather than a direct rebate on the efficiency investment.

Each appendix also now lists the positions of agencies with respect to each option. In some instances, agencies have declined to take a position on the various options, and thus their views have not been recorded.

For your reference, I am appending here my December 20 memorandum to you transmitting the prior draft of the decision document. It contains some overall observations on the strategy and process which you may find of interest.

As indicated both by Admiral Watkins and myself at the meeting, the issue of timing of public release of the NES needs to be dealt with separately. I am seeking to schedule a meeting with you as soon as possible in order that Admiral Watkins and I, along with your senior White House advisers, can address the timing issue.

Nicholas F. Brady
Chairman Pro Tempore
Economic Policy Council

Attachments

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

91 JAN 10 PM 12:08

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, <u>when announced</u>, must be balanced. Conservation

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)

THE WHITE HOUSE

WASHINGTON

December 20, 1990

MEMORANDUM FOR THE PRESIDENT

SUBJECT: NATIONAL ENERGY STRATEGY

The Economic Policy Council is ready to begin discussions with you on the National Energy Strategy (NES). An initial meeting is scheduled for Friday, December 21, at 10:00 a.m.

Attached you will find a strategy paper that summarizes the energy goals and policy proposals that have been developed interagency under the leadership of Secretary Watkins and the Department of Energy. With the exception of several areas referenced below, this paper presents a consensus package of approximately 40 separate options.

The package takes a strong growth-oriented approach and underscores our continued commitment to the environment and to a policy of market reliance. At the same time, it recognizes an appropriate role for federal government leadership, because energy markets are frequently influenced by security, environmental, and regulatory factors.

The EPC considered the energy policy dilemmas highlighted by recent events in the Persian Gulf. The EPC has sought to face the significant reliance on foreign oil by the United States and to think realistically about the available policy options for managing that vulnerability.

Key Observations on Oil Import Reliance

As a result of the Iraqi situation, some in this country would propose to force the level of oil imports sharply downward, without regard to economic or social costs. In this regard, the EPC has reached several general conclusions:

- The U.S. and its allies will continue to import a significant amount of oil from insecure suppliers for the foreseeable future, even with conservation and domestic production measures.

- Because the U.S. is a world power with global responsibilities and far-reaching economic interests, the U.S. cannot insulate itself from world energy markets, even if it could eliminate imports.

- o Stimulate exploration and production of foreign, non-Persian Gulf resources.

- o Spur a new wave of innovation through support of industry-led R&D consortia and a national prize program for achieving specific technological breakthroughs.

The NES also builds on previously announced Bush Administration initiatives including:

- o incentives for domestic oil and gas production

- o the Clean Air Act

- o a strong commitment to the Strategic Petroleum Reserve

Combined with these Administration policies, the NES would in the long term seek to reduce the risks of oil imports, while relying on market-driven gains in energy efficiency and environmental quality.

Options Not Proposed for Presidential Decision

The EPC has examined, but is not proposing, several options that were opposed on policy grounds:

- o Increasing the Corporate Average Fuel Economy (CAFE) standard.

- o Reducing consumption by imposing new taxes, such as an oil import fee, carbon taxes, BTU taxes, ad valorem taxes, and raising the motor fuels tax. Department of Energy analyses showed that even a $1 per gallon tax would reduce imports by only a moderate amount.

- o Providing additional tax credits or incentives to stimulate production or conservation, except as noted below.

Issue for Presidential Decision:

The NES consensus package does not now contain a strong set of options that promote renewable energy, efficiency or alternative fuels. The Clean Air Act will have some impact in these areas. However, the Department of Energy and some other Cabinet agencies believe that it is important to balance the consensus package emphasis on development of fossil fuels and nuclear energy.

The EPC did not reach agreement on the substantive merits of the following six options:

- o alternative fuels package
- o renewable energy production tax credit
- o tax treatment of utility rebates
- o phase out of federal power subsidies
- o federal lighting efficiency standards
- o reform hydropower licensing process

These items require Presidential decision. Separate options papers on each of these specific issues are attached to the overall strategy memorandum.

Public Announcement of NES

The packaging and timing of the public release of the NES is important. This issue will be addressed separately.

Nicholas F. Brady
Chairman Pro Tempore
Economic Policy Council

Attachments

**A NATIONAL STRATEGY: SETTING THE COURSE ON ENERGY**

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[1] 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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[1]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:

- Secure and maintain unrestricted flows of oil from all major producing regions;
- Reduce the importance of oil use in the U.S. economy by using oil more efficiently and replacing it with other fuels;
- Develop and maintain contingency mechanisms, including international strategic oil reserves and stocks, and "excess" world production capacity;
- Reduce underlying tensions that threaten major world oil producing regions, via foreign policy mechanisms; and
- 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.

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:

- cooperation in Soviet oil and gas development;
- cooperation in Eastern Europe, the USSR and the Third World to promote efficient energy use, a prerequisite to sound economic development;
- ways to accelerate SPR fill within existing budgetary limitations;
- 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;
- 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 <u>any</u> 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. Recover more of the Government's cost of debt from the Federal Power Marketing Administration. (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.

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

- 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;
- Technologies that increase production of domestic energy resources, especially oil and gas; and
- 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 Design Nuclear Energy Plants: Expanded R&D aimed at second-generation, passively-safe reactors.

2. Advanced Oil Recovery Technologies: Expanded R&D aimed at reducing per barrel recovery costs to $20 - $30.

3. Advanced Transportation Fuels From Biomass Technologies: Expand research aimed at reducing the production cost of ethanol to $.60/gal.

4. Aeronautics and Air Systems: Research on new materials and engine designs.

5. Basic research to support advanced energy technologies.

6. Electric Vehicles: Expanded R&D on batteries to increase vehicle range and performance.

7. High Speed Rail and Magnetic Levitation (Maglev) transportation: Research on advanced propulsion and guideway construction methods.

8. Industrial Technologies: Research aimed at reducing oil use in energy intensive industrial processes.

9. Intelligent Vehicle/Highway Systems: Implementation of the DOT Intelligent Highway System Initiation as a means to reduce oil consumption and increasing safety.

10. Telecommuting: R&D to promote technical solutions to increased use of telecommunications that could reduce work related travel.

11. 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 (CO2). Since 1950, the U.S. share of total CO2 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 CO2 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. CO2 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:

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

ISSUES FOR DECISION

Approve the strategy paper and the consensus options recommended by the Economic Policy Council.

Approve ✓ Disapprove_____ Need more information_____

The attached Appendices 2-7 present the non-consensus options for Presidential decision.

Attachments

# APPENDIX 1

# CONSENSUS OPTIONS

| Option # | Option |
|---|---|
| 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 |

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 Act imposes clean fuel requirements on the owners of fleets of 10 or more vehicles in the 26 smoggiest urban areas. Under this option, legislation would be

proposed to require nationwide that all centrally-fueled fleets with 20 or more vehicles be 90% alternative-fueled by 2000, except that in the 26 urban "non-attainment" areas specified in the Clean Air Act the requirement would apply to fleets with 10 or more vehicles. Exemptions similar to those in the Clean Air Act would apply.

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 cost competitive with gasoline.

Pros:

The package as a whole is projected to reduce oil demand by 1 million barrels/day in 2005, rising to 1.9 - 2.7 million in 2010. Parts (1) and (2) of the package are projected to reduce oil demand by 800,000 in 2005, rising to 910,000 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

Option 1: Approve the consolidated package outlined above.

Approve _____ Disapprove _____ Need more information____

Agencies in Favor: Agriculture

Agencies Opposed: All Others (except EPA, State, and Interior which declined to record a position on the consolidated package)

Option 2: Approve one or more of the components of the consolidated package.

(i) CAFE Incentive for Alternative Fueled Vehicles

Approve _____ Disapprove _____ Need more information_____

Agencies in Favor: Energy, Treasury, OMB, CEA, OPD, CEQ, Commerce, Defense, Transportation, EPA, State, Agriculture, Interior, OSTP

Agencies Opposed: None

(ii) Expanded Alternative Fueled Fleets

Approve _____ Disapprove _____ Need more Information_____

Agencies in Favor: Energy, Treasury, OMB, CEA, OPD, CEQ, Commerce, Defense, Transportation, EPA, State, Agriculture, Interior, OSTP

Agencies Opposed: None

(iii) Non-petroleum Fuel Mandates

Approve _____ Disapprove _____ Need more Information_____

Agencies in Favor: Agriculture

Agencies Opposed: All Others (except EPA, State, and Interior which declined to record a position)

Title: Renewable Energy Production Incentive

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

Discussion: The proposal for a production incentive 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 direcit 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.

The production incentive 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. Current law allows a 10% investment tax credit for investment in solar or geothermal properties. This tax credit is due to expire on December 31, 1991.

Estimated Benefits and Costs: These options are not intended to displace oil. Instead, these incentives would accelerate the penetration of renewable energy technology. The production incentive 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 for the production incentive option are estimated to be $1.8 billion for the first 5 years and $17.3 billion total over the life of the program (in constant 1990 dollars).

Alternatively, the Department of Energy has proposed that the cost of the production-based credit could be reduced by halving the credit for geothermal energy and further restricting the geothermal and biomass technologies eligible for

the credit. These changes would be configured to fit within a maximum revenue cost proposal of $670 million over five years. Additional projected renewable energy production would be .7 quads by 2000 and 1.1 quads by 2010.

Further, this compares with an approximate annual cost of $67 million for the existing investment tax credit for solar and geothermal systems, which was extended by the Budget Reconciliation Act through December 31, 1991. A five-year extension of the existing investment tax credit has an estimated revenue cost of $228 million.

Option 1 — Performance-based Production Incentive.

Pros: Provides a stimulus to energy technologies capable of delivering power from domestic energy sources with little pollution and provides broader coverage (wind and biomass) than the existing credit.

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.

Option 2 — Extension of current renewable energy investment tax credit.

Pros: A one-year extension reflects a continuing interest in the development of alternative fuel technologies at a minimal revenue cost.

A five-year extension would signal an even greater commitment to renewable fuel technology.

Cons: The investment tax credit rewards only investment, not necessarily electricity generated from renewable energy sources.

Continues to subsidize high cost investments without significant oil displacement.

**Action Required and By Whom:** The proposed legislation would be developed by DOE and Treasury.

ISSUES FOR DECISION

Option 1: Approve the performance-based production incentive:

(i) Approve the full package ($1.8 billion over 5 years)

Approve____ Disapprove_____ Need more information_____

(ii) Approve the modified package (configured to $670 million over 5 years)

Approve_____ Disapprove_____ Need more information_____

Agencies in Favor: Energy, Defense, State, Interior, EPA, CEQ, OSTP, Agriculture, USTR. (All agencies supporting the full package support the modified package as a fall-back preference.) Commerce supports the modified package, but does not support the full package.

Agencies Opposed: Treasury, OMB, CEA, OPD

Option 2: Approve extension of the investment tax credit for renewable energy:

(i) Approve a one-year extension to December 31, 1992 ($67 million revenue cost)

Approve_____ Disapprove_____ Need more information_____

(ii) Approve a five-year extension ($228 million revenue cost)

Approve_____ Disapprove_____ Need more information_____

Agencies in Favor: CEA and OPD favor a one-year extension. (Treasury and OMB could accept a one-year extension as a fall-back position consistent with other budget decisions.)

Agencies Opposed: Energy, Commerce, Agriculture (Other agencies favoring Option 1 could support some form of extension if Option 1 is disapproved.)

3. Disapprove both the performance-based production incentive and the extension of the investment tax credit for renewable energy:

Approve_____ Disapprove_____ Need more information_____

Agencies in Favor: Treasury, OMB

Agencies Opposed: Energy, Defense, State, Interior, EPA, CEQ, OSTP, Agriculture, USTR

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.

ISSUES FOR DECISION

Option 1: Support exempting from federal taxation utility rebates to customers on the cost of buying conservation equipment.

Approve____ Disapprove____ Need More Information____

Agencies in Favor: Energy, CEQ, EPA, Defense, Justice, Interior, State, Agriculture

Agencies Opposed: Treasury, OMB, CEA, OPD, OSTP, Commerce

Option 2: Provide administrative guidance exempting from federal taxation only utility rebates structured as discounts on the price of electricity.

Approve_____ Disapprove_____ Need More Information_____

Agencies in Favor: Treasury, OMB, CEA, OPD, OSTP, Commerce

Agencies Opposed: Energy, CEQ, EPA, Defense, Justice, Interior, State, Agriculture

Title: Recover More of the Government's Cost of Debt from Federal Power Marketing Administrations (PMAs)

Option: Reduce PMA 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. (This option does not extend to the Rural Electrification Administration.)

Discussion: Federal policies historically have provided lower electricity prices and preferential treatment to different classes of utilities and their customers. The inequities arising from some customers or regions of the country receiving preferential treatment would be reduced somewhat. 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 artificially low, 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. Many PMAs are allowed to repay project debt at low or no interest. The Administration has previously proposed to charge full interest on this debt. This compromise option would charge the PMAs the cost of Treasury borrowing at the time the project went into service -- likely to be far lower than current Treasury rates.

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 multi-billion 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. The proposal would be included in the NES report.

ISSUE FOR DECISION

Approve____ Disapprove____ Need More Information____

Agencies in Favor: OMB, OPD, OSTP, State, Treasury, Agriculture, CEA, CEQ, EPA

Agencies Opposed: Energy, Commerce, Defense

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.

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.)

ISSUE FOR DECISION

Approve_____ Disapprove_____ Need More Information_____

Agencies in Favor: Energy, CEQ, Defense, EPA, HUD, OSTP, State, Agriculture, USTR

Agencies Opposed: CEA, Commerce, OMB, OPD, Treasury

**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 concensus 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 responsiblity for resolving competing interests. However, in practice its ability to exercise this responsiblity 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

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.

ISSUE FOR DECISION

Approve____ Disapprove____ Need More Information____

Agencies in Favor: Energy, CEA, Commerce, Interior, OPD, OSTP, State, Treasury, Agriculture

Agencies Opposed: EPA, CEQ, Defense, OMB

# Withdrawal/Redaction Sheet
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| Document No. and Type | Subject/Title of Document | Date | Restriction | Class. |
|---|---|---|---|---|
| 02. Memo | To POTUS<br>Re: National Energy Strategy (49 pp.) | 1/11/91 | 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 [4]

Open on Expiration of PRA
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4/21/08

| | | | |
|---|---|---|---|
| **Date Closed:** | 1/4/2005 | **OA/ID Number:** | 29154-007 |
| **FOIA/SYS Case #:** | 1998-0004-F[2] | **Appeal Case #:** | |
| **Re-review Case #:** | 2005-0426-S | **Appeal Disposition:** | |
| **P-2/P-5 Review Case #:** | | **Disposition Date:** | |
| **AR Case #:** | | **MR Case #:** | |
| **AR Disposition:** | | **MR Disposition:** | |
| **AR Disposition Date:** | | **MR Disposition Date:** | |

## 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]**
**(b)(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]**
**(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**

CLOSE HOLD

THE WHITE HOUSE

WASHINGTON

January 11, 1991

Signed 1-21-91 OB

MEMORANDUM FOR THE PRESIDENT

SUBJECT: NATIONAL ENERGY STRATEGY

The Economic Policy Council met with you on December 21, 1990 and January 8, 1991 to consider the proposed National Energy Strategy (NES) and to discuss in some detail various non-consensus options.

The EPC is now ready to submit to you a formal decision document. I am, therefore, transmitting to you the attached decision memorandum for your consideration. This memorandum is essentially the same document circulated for the December 21 and January 8 EPC meetings. It contains an overall strategy paper that summarizes the energy goals and policy proposals that have been developed interagency under the leadership of Secretary Watkins. In addition, the appendices to the strategy paper set forth the six non-consensus options that individually require your decision. The presentation of these non-consensus options has been modified to take account of recommendations or suggestions for compromise made at the January 8 EPC meeting in the following respects:

- The alternative fuels option (Appendix 2), which would have required all centrally fueled fleets with 10 or more vehicles to be 90% alternatively fueled by the year 2000, has been modified to raise the minimum number of vehicles to 20, except in urban areas specified in the Clean Air Act for which 10 would be the number of vehicles.

- DOE has proposed a scaled-back renewable energy production credit (Appendix 3) that would narrow the coverage and reduce the federal revenue cost from $1.8 billion over five years to $670 million. In addition, options entailing an extension of the current renewable energy investment tax credit have been included.

- Treasury has proposed a compromise option with respect to utility rebates (Appendix 4) which would support exclusion of income from rebates to electricity customers so long as the rebates are in the form of discounts on electricity bills, rather than a direct rebate on the efficiency investment.

Each appendix also now lists the positions of agencies with respect to each option. In some instances, agencies have declined to take a position on the various options, and thus their views have not been recorded.

For your reference, I am appending here my December 20 memorandum to you transmitting the prior draft of the decision document. It contains some overall observations on the strategy and process which you may find of interest.

As indicated both by Admiral Watkins and myself at the meeting, the issue of timing of public release of the NES needs to be dealt with separately. I am seeking to schedule a meeting with you as soon as possible in order that Admiral Watkins and I, along with your senior White House advisers, can address the timing issue.

Nicholas F. Brady
Chairman Pro Tempore
Economic Policy Council

Attachments

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

91 JAN 10 PM 12:08

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, <u>when announced</u>, must be balanced. Conservation

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,

Jim

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

THE WHITE HOUSE

WASHINGTON

December 20, 1990

MEMORANDUM FOR THE PRESIDENT

SUBJECT: NATIONAL ENERGY STRATEGY

The Economic Policy Council is ready to begin discussions with you on the National Energy Strategy (NES). An initial meeting is scheduled for Friday, December 21, at 10:00 a.m.

Attached you will find a strategy paper that summarizes the energy goals and policy proposals that have been developed interagency under the leadership of Secretary Watkins and the Department of Energy. With the exception of several areas referenced below, this paper presents a consensus package of approximately 40 separate options.

The package takes a strong growth-oriented approach and underscores our continued commitment to the environment and to a policy of market reliance. At the same time, it recognizes an appropriate role for federal government leadership, because energy markets are frequently influenced by security, environmental, and regulatory factors.

The EPC considered the energy policy dilemmas highlighted by recent events in the Persian Gulf. The EPC has sought to face the significant reliance on foreign oil by the United States and to think realistically about the available policy options for managing that vulnerability.

Key Observations on Oil Import Reliance

As a result of the Iraqi situation, some in this country would propose to force the level of oil imports sharply downward, without regard to economic or social costs. In this regard, the EPC has reached several general conclusions:

- The U.S. and its allies will continue to import a significant amount of oil from insecure suppliers for the foreseeable future, even with conservation and domestic production measures.

- Because the U.S. is a world power with global responsibilities and far-reaching economic interests, the U.S. cannot insulate itself from world energy markets, even if it could eliminate imports.

- The appropriate response to vulnerability to world oil market disruptions is to reduce the use of oil in the U.S. economy over the long term. The key is the transportation sector, which is responsible for nearly two-thirds of U.S. oil consumption.

- There are policies the U.S. government can pursue to reduce the risks of vulnerability without imposing unacceptably high economic and social costs. This goal can be achieved, in part, by removing regulatory impediments in oil, natural gas, hydroelectric and nuclear power markets.

- In addition, the U.S. should focus on managing and reducing vulnerability to world oil disruptions, such as through foreign policy measures and by working internationally to expand oil production capacity and strategic reserves.

To pursue these approaches, the Administration will need to be prepared to address the degree to which the goal of energy independence is difficult to attain. The Administration should define the energy agenda by underlining the importance of: free markets; energy market deregulation; energy efficiency; diversified sources of production; foreign policy measures to reduce international supply uncertainties; and potential technological breakthroughs in energy-related fields, especially transportation.

The NES Consensus Package

Rather than embracing the failed energy policies of the 1970s, which included gasoline allocation rules and price controls, the NES continues the successful policy of market reliance and augments it with an appreciation for foreign policy factors and the potential for technological advances.

Key policy initiatives in the NES package include:

- Increase domestic oil and gas production by developing the Arctic National Wildlife Refuge (ANWR), Alaska's North Slope, and outer continental shelf (OCS) areas (consistent with your earlier decisions), under strict environmental safeguards.

- Further deregulate natural gas markets and enhance competition in electricity markets, by removing outdated barriers to production and transmission of energy.

- o Stimulate exploration and production of foreign, non-Persian Gulf resources.

- o Spur a new wave of innovation through support of industry-led R&D consortia and a national prize program for achieving specific technological breakthroughs.

The NES also builds on previously announced Bush Administration initiatives including:

- o incentives for domestic oil and gas production

- o the Clean Air Act

- o a strong commitment to the Strategic Petroleum Reserve

Combined with these Administration policies, the NES would in the long term seek to reduce the risks of oil imports, while relying on market-driven gains in energy efficiency and environmental quality.

Options Not Proposed for Presidential Decision

The EPC has examined, but is not proposing, several options that were opposed on policy grounds:

- o Increasing the Corporate Average Fuel Economy (CAFE) standard.

- o Reducing consumption by imposing new taxes, such as an oil import fee, carbon taxes, BTU taxes, ad valorem taxes, and raising the motor fuels tax. Department of Energy analyses showed that even a $1 per gallon tax would reduce imports by only a moderate amount.

- o Providing additional tax credits or incentives to stimulate production or conservation, except as noted below.

Issue for Presidential Decision:

The NES consensus package does not now contain a strong set of options that promote renewable energy, efficiency or alternative fuels. The Clean Air Act will have some impact in these areas. However, the Department of Energy and some other Cabinet agencies believe that it is important to balance the consensus package emphasis on development of fossil fuels and nuclear energy.

The EPC did not reach agreement on the substantive merits of the following six options:

- o alternative fuels package
- o renewable energy production tax credit
- o tax treatment of utility rebates
- o phase out of federal power subsidies
- o federal lighting efficiency standards
- o reform hydropower licensing process

These items require Presidential decision. Separate options papers on each of these specific issues are attached to the overall strategy memorandum.

Public Announcement of NES

The packaging and timing of the public release of the NES is important. This issue will be addressed separately.

Nicholas F. Brady
Chairman Pro Tempore
Economic Policy Council

Attachments

**A NATIONAL STRATEGY: SETTING THE COURSE ON ENERGY**

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[1] 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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[1]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:

- Secure and maintain unrestricted flows of oil from all major producing regions;
- Reduce the importance of oil use in the U.S. economy by using oil more efficiently and replacing it with other fuels;
- Develop and maintain contingency mechanisms, including international strategic oil reserves and stocks, and "excess" world production capacity;
- Reduce underlying tensions that threaten major world oil producing regions, via foreign policy mechanisms; and
- 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.

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 <u>any</u> 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. Recover more of the Government's cost of debt from the Federal Power Marketing Administration. (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.

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

- 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;

- Technologies that increase production of domestic energy resources, especially oil and gas; and

- 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 Design Nuclear Energy Plants: Expanded R&D aimed at second-generation, passively-safe reactors.

2. Advanced Oil Recovery Technologies: Expanded R&D aimed at reducing per barrel recovery costs to $20 - $30.

3. Advanced Transportation Fuels From Biomass Technologies: Expand research aimed at reducing the production cost of ethanol to $.60/gal.

4. Aeronautics and Air Systems: Research on new materials and engine designs.

5. Basic research to support advanced energy technologies.

6. Electric Vehicles: Expanded R&D on batteries to increase vehicle range and performance.

7. High Speed Rail and Magnetic Levitation (Maglev) transportation: Research on advanced propulsion and guideway construction methods.

8. Industrial Technologies: Research aimed at reducing oil use in energy intensive industrial processes.

9. Intelligent Vehicle/Highway Systems: Implementation of the DOT Intelligent Highway System Initiation as a means to reduce oil consumption and increasing safety.

10. Telecommuting: R&D to promote technical solutions to increased use of telecommunications that could reduce work related travel.

11. 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 (CO2). Since 1950, the U.S. share of total CO2 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 CO2 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. CO2 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:

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

ISSUES FOR DECISION

Approve the strategy paper and the consensus options recommended by the Economic Policy Council.

Approve_____ Disapprove_____ Need more information_____

The attached Appendices 2-7 present the non-consensus options for Presidential decision.

Attachments


1

# APPENDIX 1

# CONSENSUS OPTIONS

| Option # | Option |
|---|---|
| 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 |


2

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 Act imposes clean fuel requirements on the owners of fleets of 10 or more vehicles in the 26 smoggiest urban areas. Under this option, legislation would be

proposed to require nationwide that all centrally-fueled fleets with 20 or more vehicles be 90% alternative-fueled by 2000, except that in the 26 urban "non-attainment" areas specified in the Clean Air Act the requirement would apply to fleets with 10 or more vehicles. Exemptions similar to those in the Clean Air Act would apply.

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 cost competitive with gasoline.

Pros:

The package as a whole is projected to reduce oil demand by 1 million barrels/day in 2005, rising to 1.9 - 2.7 million in 2010. Parts (1) and (2) of the package are projected to reduce oil demand by 800,000 in 2005, rising to 910,000 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

Option 1: Approve the consolidated package outlined above.

Approve _____ Disapprove ✓ Need more information____

Agencies in Favor: Agriculture

Agencies Opposed: All Others (except EPA, State, and Interior which declined to record a position on the consolidated package)

Option 2: Approve one or more of the components of the consolidated package.

(i) CAFE Incentive for Alternative Fueled Vehicles

Approve CM Disapprove _____ Need more information_____

Agencies in Favor: Energy, Treasury, OMB, CEA, OPD, CEQ, Commerce, Defense, Transportation, EPA, State, Agriculture, Interior, OSTP

Agencies Opposed: None

(ii) Expanded Alternative Fueled Fleets

Approve CR Disapprove _____ Need more Information as modified_____

Agencies in Favor: Energy, Treasury, OMB, CEA, OPD, CEQ, Commerce, Defense, Transportation, EPA, State, Agriculture, Interior, OSTP

Agencies Opposed: None

(iii) Non-petroleum Fuel Mandates

Approve _____ Disapprove ✓ OD Need more Information_____

Agencies in Favor: Agriculture

Agencies Opposed: All Others (except EPA, State, and Interior which declined to record a position)

Title: Renewable Energy Production Incentive

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

Discussion: The proposal for a production incentive 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 direcit 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.

The production incentive 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. Current law allows a 10% investment tax credit for investment in solar or geothermal properties. This tax credit is due to expire on December 31, 1991.

Estimated Benefits and Costs: These options are not intended to displace oil. Instead, these incentives would accelerate the penetration of renewable energy technology. The production incentive 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 for the production incentive option are estimated to be $1.8 billion for the first 5 years and $17.3 billion total over the life of the program (in constant 1990 dollars).

Alternatively, the Department of Energy has proposed that the cost of the production-based credit could be reduced by halving the credit for geothermal energy and further restricting the geothermal and biomass technologies eligible for

the credit. These changes would be configured to fit within a maximum revenue cost proposal of $670 million over five years. Additional projected renewable energy production would be .7 quads by 2000 and 1.1 quads by 2010.

Further, this compares with an approximate annual cost of $67 million for the existing investment tax credit for solar and geothermal systems, which was extended by the Budget Reconciliation Act through December 31, 1991. A five-year extension of the existing investment tax credit has an estimated revenue cost of $228 million.

Option 1 — Performance-based Production Incentive.

Pros: Provides a stimulus to energy technologies capable of delivering power from domestic energy sources with little pollution and provides broader coverage (wind and biomass) than the existing credit.

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.

Option 2 — Extension of current renewable energy investment tax credit.

Pros: A one-year extension reflects a continuing interest in the development of alternative fuel technologies at a minimal revenue cost.

A five-year extension would signal an even greater commitment to renewable fuel technology.

Cons: The investment tax credit rewards only investment, not necessarily electricity generated from renewable energy sources.

Continues to subsidize high cost investments without significant oil displacement.

**Action Required and By Whom:** The proposed legislation would be developed by DOE and Treasury.

ISSUES FOR DECISION

Option 1: Approve the performance-based production incentive:

(i) Approve the full package ($1.8 billion over 5 years)

Approve____ Disapprove_____ Need more information_____

(ii) Approve the modified package (configured to $670 million over 5 years)

Approve_____ Disapprove_____ Need more information_____

Agencies in Favor: Energy, Defense, State, Interior, EPA, CEQ, OSTP, Agriculture, USTR. (All agencies supporting the full package support the modified package as a fall-back preference.) Commerce supports the modified package, but does not support the full package.

Agencies Opposed: Treasury, OMB, CEA, OPD

Option 2: Approve extension of the investment tax credit for renewable energy:

(i) Approve a one-year extension to December 31, 1992 ($67 million revenue cost)

Approve ✓ Disapprove_____ Need more information_____

1-21-91

(ii) Approve a five-year extension ($228 million revenue cost)

Approve_____ Disapprove_____ Need more information_____

Agencies in Favor: CEA and OPD favor a one-year extension. (Treasury and OMB could accept a one-year extension as a fall-back position consistent with other budget decisions.)

Agencies Opposed: Energy, Commerce, Agriculture (Other agencies favoring Option 1 could support some form of extension if Option 1 is disapproved.)

3. Disapprove both the performance-based production incentive and the extension of the investment tax credit for renewable energy:

Approve_____ Disapprove_____ Need more information_____

Agencies in Favor: Treasury, OMB

Agencies Opposed: Energy, Defense, State, Interior, EPA, CEQ, OSTP, Agriculture, USTR


4

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.

ISSUES FOR DECISION

Option 1: Support exempting from federal taxation utility rebates to customers on the cost of buying conservation equipment.

Approve____ Disapprove____ Need More Information____

Agencies in Favor: Energy, CEQ, EPA, Defense, Justice, Interior, State, Agriculture

Agencies Opposed: Treasury, OMB, CEA, OPD, OSTP, Commerce

Option 2: Provide administrative guidance exempting from federal taxation only utility rebates structured as discounts on the price of electricity.

Approve ✓ CB 1-21 Disapprove_____ Need More Information_____

Agencies in Favor: Treasury, OMB, CEA, OPD, OSTP, Commerce

Agencies Opposed: Energy, CEQ, EPA, Defense, Justice, Interior, State, Agriculture

Title: Recover More of the Government's Cost of Debt from Federal Power Marketing Administrations (PMAs)

Option: Reduce PMA 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. (This option does not extend to the Rural Electrification Administration.)

Discussion: Federal policies historically have provided lower electricity prices and preferential treatment to different classes of utilities and their customers. The inequities arising from some customers or regions of the country receiving preferential treatment would be reduced somewhat. 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 artificially low, 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. Many PMAs are allowed to repay project debt at low or no interest. The Administration has previously proposed to charge full interest on this debt. This compromise option would charge the PMAs the cost of Treasury borrowing at the time the project went into service -- likely to be far lower than current Treasury rates.

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 multi-billion 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.

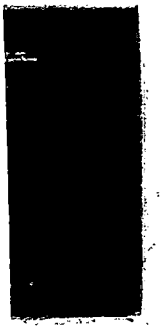
**Action Required and By Whom:** DOE can administratively reduce PMA financing subsidies by requiring debt repayment practices which cover federal costs. Legislation would be developed to change some historic interest rates. The proposal would be included in the NES report.

ISSUE FOR DECISION

Approve ✓ Disapprove___ Need More Information___

Agencies in Favor: OMB, OPD, OSTP, State, Treasury, Agriculture, CEA, CEQ, EPA

Agencies Opposed: Energy, Commerce, Defense



**APPENDIX 6**

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.

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.)

ISSUE FOR DECISION

Approve_____ Disapprove_____ Need More Information_____

Agencies in Favor: Energy, CEQ, Defense, EPA, HUD, OSTP, State, Agriculture, USTR

Agencies Opposed: CEA, Commerce, OMB, OPD, Treasury


7

**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 concensus 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 responsiblity for resolving competing interests. However, in practice its ability to exercise this responsiblity 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

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.

ISSUE FOR DECISION

Approve ✓ 5-21-91 Disapprove____ Need More Information____

Agencies in Favor: Energy, CEA, Commerce, Interior, OPD, OSTP, State, Treasury, Agriculture

Agencies Opposed: EPA, CEQ, Defense, OMB

# Withdrawal/Redaction Sheet
# (George Bush Library)

| Document No. and Type | Subject/Title of Document | Date | Restriction | Class. |
|---|---|---|---|---|
| 03. Memo | From Ede Holiday To John Sununu<br>Re: GAO Report on the National Energy Strategy (NES) (1 pp.) | 1/24/91 | 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 [4]

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

| | | | |
|---|---|---|---|
| **Date Closed:** | 1/4/2005 | **OA/ID Number:** | 29154-007 |
| **FOIA/SYS Case #:** | 1998-0004-F[2] | **Appeal Case #:** | |
| **Re-review Case #:** | 2005-0426-S | **Appeal Disposition:** | |
| **P-2/P-5 Review Case #:** | | **Disposition Date:** | |
| **AR Case #:** | | **MR Case #:** | |
| **AR Disposition:** | | **MR Disposition:** | |
| **AR Disposition Date:** | | **MR Disposition Date:** | |

## 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]**
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THE WHITE HOUSE

WASHINGTON

January 24, 1991

THE CHIEF of STAFF has seen

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: EDE HOLIDAY

SUBJECT: GAO Report on the National Energy Strategy (NES)

At the request of Rep. Ron Wyden (chairman of the Subcommittee on Regulation, Business Opportunities, and Energy), GAO is investigating the development of the NES. The DOE Organization Act of 1977, which mandates the Administration to issue an energy plan biennially, requires the President to ensure wide public consultation. The GAO audit is aimed at testing whether this public element was satisfied.

GAO has shared its preliminary findings with DOE. The draft focuses on the procedures DOE used for assuring public participation, and it criticizes DOE for inadequate notice of public hearings and inadequate public access to EPC options papers. In fact, DOE has afforded the public a very high degree of access to Administration decision-making and has frequently briefed interested parties on NES issues.

DOE met with GAO yesterday to dispute the draft findings. According to DOE, GAO agreed to reassess and modify their conclusions. GAO will present a report on the NES process to Rep. Wyden in mid-February.

In addition, GAO is conducting its own policy analyses to review the Administration's substantive conclusions on NES options. GAO has requested copies of the voluminous cost-benefit analyses that underlie the EPC options papers. DOE is coordinating with White House Counsel's Office on GAO's document demands. GAO expects to complete this report by early April.

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

91 JAN 29 PM 7:17

January 29, 1991

MEMORANDUM FOR THE PRESIDENT

SUBJECT: STRATEGIC PETROLEUM RESERVE DRAWDOWN

As you recall, on January 11, the IEA nations adopted a plan to make 2.5 million barrels of oil available automatically at the onset of hostilities. This action was in consonance with your requests to both Prime Minister Kaifu and Chancellor Kohl on January 8.

According to most experts, the allied military successes, buttressed by the IEA action, have calmed the oil markets and removed the "war premium" which was keeping prices high.

As planned, the IEA Governing Board met again yesterday and reaffirmed the Agency's commitment to proceed with the January 11 plan, but allowed for "flexibility" in implementation. This memorandum informs you how we are proceeding in the execution of our final U.S. drawdown plans.

The IEA plan allocated about 1.1 million barrels per day to the United States. Following normal U.S. bidding practices, this offered for sale a total of 33.75 million barrels over the next 30-day contract period. In response to our offer of sale, we received bids for 25 percent more SPR oil than we offered, but with a heavy preference (2:1) for sweet crude. We are now ready to act on bids received.

Taking into account the actual worldwide surplus crude situation; remaining sensitive to expected taxpayer interests in selling at the best price possible; anticipating that the "flexibility" concept will result in achieving somewhere between 50-75 percent of goal by IEA nations against initially planned objectives; and satisfying American crude oil buyers that we are reliable suppliers, I have made a decision that the best approach would be to set a policy of acceptance of only the highest priced bids.

As a consequence of the aforementioned, by setting a policy of selecting only those bids that are above 97.5 percent of benchmark value for SPR crude oils, we will achieve sales that actually yield 99 percent of the benchmark value. As a result, the total amount sold would be approximately 51 percent of the 33.75 million barrels of crude oil originally offered for sale, or 17.3 million barrels. This action will satisfy the full U.S. commitment to the IEA plan. Unless unforeseen disruption to oil supplies occur, we have no intention of executing further draws.

Our informal contacts with members of the IEA, oil industry leaders, and key Hill members indicate that the approach we have taken is prudent and will be viewed as balanced under the circumstances. We intend to notify successful offerors early Wednesday morning, January 30, so that contract awards can take place as scheduled, and expected, by 6 February. Deliveries will commence any time thereafter as the successful offeror desires.

It may be useful to note that, were the SPR oil to be delivered under current market conditions, the average sale price would be about $20. This could be compared with the five-year average purchase price of SPR oil from 1986 to 1991 (includes 100 million barrels) which was $17.54 per barrel. From SPR opening in 1977, the total average purchase price of oil, on the other hand, is $27.17 per barrel.

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

cc: The Honorable John H. Sununu
The Honorable Brent Scowcroft
The Honorable Nicholas Brady

# Withdrawal/Redaction Sheet
# (George Bush Library)

| Document No. and Type | Subject/Title of Document | Date | Restriction | Class. |
|---|---|---|---|---|
| 05. Memo | From Gary Andres to John Sununu<br>Re: Legislative Plan for National Energy Strategy (3 pp.) | 1/30/91 | 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 [4]

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

| | | | |
|---|---|---|---|
| **Date Closed:** | 1/4/2005 | **OA/ID Number:** | 29154-007 |
| **FOIA/SYS Case #:** | 1998-0004-F[2] | **Appeal Case #:** | |
| **Re-review Case #:** | 2005-0426-S | **Appeal Disposition:** | |
| **P-2/P-5 Review Case #:** | | **Disposition Date:** | |
| **AR Case #:** | | **MR Case #:** | |
| **AR Disposition:** | | **MR Disposition:** | |
| **AR Disposition Date:** | | **MR Disposition Date:** | |

## RESTRICTION CODES

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THE WHITE HOUSE

WASHINGTON

THE CHIEF of STAFF
has seen

January 30, 1991

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: GARY ANDRES GA
SHAWN SMEALLIE SS

THROUGH: FREDERICK D. MCCLURE FM

RE: LEGISLATIVE PLAN FOR NATIONAL ENERGY STRATEGY

Now that the Economic Policy Council (EPC) is near completion of presentation of the National Energy Strategy (NES) to the President, several legislative considerations should be raised.

Enacting the legislative portions of the NES will be a difficult and complicated task. Partisan politics, jurisdictional disputes among Congressional Committees, and policy differences between the White House and Congress will all be obstacles to passage.

Many in Congress will consider the plan too modest. They are looking for bolder initiatives, in particular policies that would more quickly and dramatically reduce this country's dependence on foreign oil.

We should be prepared to respond to these concerns.

We should also be aware that there will be many attempts through the Congressional process to add more ambitious and economically costly provisions to the NES. New CAFE standards, large subsidies for alternative fuels, and various forms of new petroleum taxes are among the possibilities.

Given these potential pitfalls, we recommend the following initial steps to help get the NES off to a good start in the Congress:

1. <u>Solicit early legislative advice from leaders of key Congressional committees.</u>

The President should meet, in a group, with Congressmen John Dingell (D-MI), Phil Sharp (D-IN), Norman Lent (R-NY),

Carlos Moorhead (R-CA), and Senators Bennett Johnston (D-LA) and Malcolm Wallop (R-WY). This meeting should take place in the Oval Office and the President should solicit their advice and help.

These Members represent the leadership of the two key energy committees in the House and Senate. The reason for a slightly expanded number of House Members is to include Phil Sharp, who is the Chairman of the House Energy and Power Subcommittee. Unlike Clean Air, where Chairman Dingell was at odds on many issues with another Subcommittee Chairman, Henry Waxman (D-CA), and wanted to preempt Waxman's actions, Dingell will want to cooperate with Sharp. Also, Sharp's views on the NES are more consistent with the Administration's than Waxman's were on Clean Air.

There is a clear difference between the NES and some other Presidential initiatives, like Clean Air. On other initiatives, the President consulted personally with Members before announcing our proposal. On the NES, the major policy decisions will have been made at the time of our proposed Congressional "consultation."

Some in Congress may criticize the President for not consulting with them earlier in the policy development process. This is an unfair criticism and we should not let it go unchallenged. Although the President may not have consulted personally with a broad range of Members on this specific report, the Department of Energy has done a significant amount of consultation with a wide variety of groups, including Congress. Congressional input was seriously considered in the development of the options that went to the President, and the meetings we are proposing should be seen as an example of our good faith effort to continue to work cooperatively with the Hill.

2. Meet with an expanded group of Congressman and Senators whose Committees have jurisdiction over the NES.

The President should follow the small meeting described above with an expanded one of approximately 20 Members. The meeting should include a selected group of Members from the key Committees of jurisdiction in the House and Senate.

Again, the President should emphasize his commitment to the plan and ask for their help in enacting it.

At both Congressional meetings the President should try to diffuse some of the potential criticism of the plan. He may want to talk about why some of the more "interventionist" options were rejected and why this is a balanced plan.

He should also emphasize that while this plan does not dramatically reduce our dependence on foreign oil in the short term, it does include a number of elements that makes our foreign supplies less vulnerable and equips us to respond to more effectively to disruptions in the future.

Finally, we should consider inviting the Speaker, Bob Michel, Senator Mitchell and Senator Dole to this larger meeting. The President should ask the leadership to help expedite Congressional consideration of the NES and to overcome potential roadblocks to speedy passage of the plan.

If we decide not to have the leaders at this meeting, the President should follow up the meeting with phone calls, asking for their help on these matters.

3. Coordinate legislative strategy with the Department of Energy and other agencies.

I recommend that my office convene an initial legislative coordination meeting with the Department of Energy, White House staff and other interested agencies. After an initial meeting, we could meet periodically to discuss the status and progress of the NES on an as needed basis.

4. Identify and work with supportive private sector groups

The Office of Public Liaison should identify groups to serve as a private sector coalition in support of the President's NES. The coalition would work with the Administration, particularly when the Congress begins voting on various elements of the legislation.

Coalition participants should be invited to the White House periodically during the process for legislative updates and progress reports.

I look forward to getting your thoughts on this proposed plan of action.

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# (George Bush Library)

| Document No. and Type | Subject/Title of Document | Date | Restriction | Class. |
|---|---|---|---|---|
| 06. Memo | From Ede Holiday to John Sununu<br>Re: Meeting with Secretary Watkins on National Energy Strategy (2 pp.) | 1/31/91 | 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 [4]

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THE WHITE HOUSE

WASHINGTON

THE CHIEF of STAFF has seen

January 31, 1991

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: EDE HOLIDAY

SUBJECT: MEETING WITH SECRETARY WATKINS ON NES

Below is a check list of items I recommend you cover when you meet this afternoon with Secretary Watkins on the National Energy Strategy:

- Release date
  - consider adequate time for pre-release briefings with key members of Congress (week of Feb. 10 is congressional recess) and for careful internal consideration of the public storyline and approach to public presentation, although week of February 10 may enable better Administration spin
  - the full draft report is now in interagency clearance and can probably be ready, with intensive effort, in printed form by February 11
  - DOE has indicated this morning that Watkins now believes that Feb. 19 timeframe would be best for release

- President's decisions on the six non-consensus items

- Legislative and Media gameplan
  - DOE has been preparing an overall legislative and media gameplan for White House consideration
  - Watkins will give you the DOE plan in the meeting
  - the DOE plan is expected to recommend:
    - significant Presidential involvement at time of release
    - a public presentation approach analogous to Clean Air Act
    - authorization for DOE to begin shortly Congressional consultations, particularly with key members of the Senate Energy Committee (Watkins may seek permission for DOE to work with Johnston/Wallop to shape the Committee bill as they believe there exists a wide common ground)

  - Watkins may request that someone in the White House be designated as the point of contact on legislative strategy to coordinate with DOE
  - suggest a separate session on this early next week after White House staff has had a chance to assess the DOE proposals
  - McClure's shop is preparing a memorandum on NES legislative strategy

- The public storyline
  - need careful, senior White House/DOE consideration of the public spin on the report, particularly on the oil import reliance issue
  - meet on draft press statement/fact sheets early next week

- OCS resource management plan
  - reaffirm release with NES report

- Watkin's Feb. 4 session with Republican Governors and NGA
  - NES expected topic--guidance: avoid making news

THE WHITE HOUSE

WASHINGTON

January 31, 1991

THE CHIEF of STAFF has seen

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: EDE HOLIDAY

SUBJECT: President's Decisions on the NES

The following decisions have been made by the President regarding the National Energy Strategy:

1. Approval of the consensus options.

2. Approval of the option regarding the CAFE incentive for alternative fueled vehicles.

3. Approval of expanded alternative fuel fleets as modified.

4. Disapproval of the non-petroleum fuel mandates.

5. Approval of the extension of the investment tax credit for renewable energy for one year to December 31, 1992. → ALT. INCENT.

6. Approval of providing Administrative guidance exempting from Federal taxation only utility rebates structured as discounts on the price of electricity.

7. Approval of including in the NES the reduction of PMA 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. (This option does not extend to the Rural Electrification Administration.)

8. Disapproval of proposed legislation giving DOE authority to set agency standards for residential, commercial and industrial lamps.

9. Approval of hydropower regulatory reform.