MEMORANDUM
March 22, 2001

To: Joe Kelliber

From: Darrell Henry


I'm sure you may already have this information, but here again are the AGA energy policy principles and additional background for your consideration as you work on the Energy Task Force policy recommendations. We had a good meeting this morning with Joe McMonigle and offered any assistance that AGA or the new coalition, which has been formed to support the development of a comprehensive national energy policy, could provide. I will follow up with you shortly on these recommendations and your efforts for the task force.

c: Rick Shelby
Natural Gas Utilities
Recommendations for National Energy Policy

Overview
It is in the nation's best interest to cultivate and develop a varied portfolio of energy resources that makes the most of each fuel's unique attributes and advantages. Natural gas is making a significant contribution to meeting Americans' energy needs for an affordable, reliable energy resource. In order to provide Americans an energy future that is free of oil embargoes and rolling power blackouts, we must now adopt a balanced national energy policy that recognizes the vital role of natural gas. Such a policy provides the energy to ensure the prosperity of American families and businesses.

Future of Natural Gas in the United States
The United States relies on natural gas for one-fourth of its energy needs. Natural gas burns cleaner than any other fossil fuel, is almost 100 percent North American and provides efficient, responsive heat and energy for consumers. Because of the many advantages that natural gas offers Americans, demand for natural gas could grow by as much as 60 percent in the first two decades of the 21st century, according to projections by the Department of Energy and the American Gas Foundation—but only if recommended policy changes are made.

Results of Greater Use of Natural Gas
The increased use of natural gas would provide numerous benefits for all Americans:

- Lower oil imports by 4.5 million barrels per day, providing national security.
- Provide Americans an extremely efficient use of energy, especially in its "direct" applications, such as furnaces, water heaters, microturbines, desiccant dehumidifiers and combined heat and power.
- Supply needed relief to the over-burdened electric grid, along with greater reliability to businesses and home offices, through new technologies which generate both heat and electricity and can be sited closer to the consumer.
- Clean up the air by lowering carbon dioxide emissions by 930 million tons per year.

(Over for AGA's specific policy recommendations)
AGA’s Recommendations for a National Energy Policy

• Protection of low-income consumers: Expand current Low Income Home Energy Assistance Program (LIHEAP) and weatherization funding.

• Expansion of natural gas infrastructure: Change the current tax depreciation schedule for natural gas utility expenses to an accelerated 7-year schedule. This will free up capital for natural gas utilities to invest in new pipelines, storage facilities and upgrading the existing infrastructure; ensuring continued reliable service for all natural gas consumers. Also increase RD&D on natural gas infrastructure reliability and safety; repeal tax on new customer connections (Contributions in Aid of Construction.)

• Development of new natural gas technologies: Provide RD&D funding for new technologies to produce, deliver and use natural gas in a highly-efficient and safe manner; provide favorable tax treatment for highly efficient end-use technologies; reduce or eliminate barriers to market entry.

• Increased energy efficiency: Provide funding to improve the energy efficiency of government facilities and schools; RD&D and tax incentives for highly efficient technologies; policy recognition of total energy efficiency.

• Adequate supplies of natural gas: North America has abundant supplies of natural gas. More supply of natural gas means lower prices for consumers. AGA supports the recommendations by natural gas producers for expanded access to federal lands for exploration and production; tax provisions to stimulate domestic production; simplified agency review and permitting process.

- AGA -

American Gas Association (202) 824-7000
400 N. Capitol St., N.W., Suite 400, Washington, D.C. 20001
FEDERAL ENERGY POLICY PRINCIPLES

Preamble
Ample, reliable energy supply at affordable prices is key to providing economic and national security for Americans. The American Gas Association (AGA) recognizes that, while the United States has tremendous energy resources, America's current energy supply and infrastructure will not sustain our growing economy and we need to act now to meet our country's energy needs for the 21st Century.

In order to continue to meet the energy needs of our unprecedented growing economy and provide affordable energy for consumers, America will need to utilize all domestic fuels and energy sources efficiently. This is also the right approach for American citizens who will benefit from more reliable and affordable energy from domestic energy sources, cleaner air, and a stronger economy.

AGA is committed to working to enact a bipartisan, consensus, market-based national energy strategy that will ensure the future security, comfort, and economic well being of our nation's citizens by meeting their energy needs, without sacrificing the quality of our environment. AGA will work with consumers, policy makers, and its partners in the energy industry to accomplish this goal.

Principles
To realize the goal of abundant energy supply for the 21st Century, America needs to enact a market-based, federal energy strategy that would accomplish the following:

1. Meet Consumer Energy Needs
   ◆ Ensure safe, reliable and affordable energy supply for all American families and businesses today and in the future
   ◆ Provide a balanced energy portfolio that promotes the wise use and efficient use of all fuels
   ◆ Encourage necessary long-term energy supply and infrastructure investments
   ◆ Meet the needs of our growing economy and create and preserve American jobs
   ◆ Seek market-based solutions that reduce regulatory uncertainty

2. Ensure the Quality of Our Environment
   ◆ Increase the use of new cleaner and more efficient energy technologies
   ◆ Enhance the development of renewable and cleaner energy sources
   ◆ Increase energy efficiency and energy conservation through sustainable development and fair and balanced incentives and standards
   ◆ Ensure short-term energy and environmental policies support long-term goals

3. Increase our National Security
   ◆ Increase domestic energy supply
   ◆ Achieve greater energy independence through lower foreign oil imports

Obtained and made public by the Natural Resources Defense Council, March/April 2002
RECOMMENDED NATURAL GAS UTILITY PROVISIONS
FOR INCLUSION IN
NATIONAL ENERGY POLICY LEGISLATION

Goals:

To decrease America's dependence on foreign oil to fifty percent of oil consumption by the year 2010 by conserving energy resources, improving energy efficiencies, increasing domestic energy supplies, and enhancing the use of renewable energy resources.

To accommodate and facilitate development of an expanded direct use natural gas market for residential, commercial, and industrial consumers, which would benefit the nation through increased economic and energy efficiency, enhanced energy security resulting from reduced dependence on imported oil, and improved environmental quality as a result of lower emissions of CO₂ and pollutants.

Key Legislative Components of the Bill

TITLE I—PROVISIONS TO ENHANCE THE USE OF DOMESTIC ENERGY RESOURCES.


Direct the National Academy of Sciences to perform a cost-benefit analysis with respect to utilizing the domestic natural gas resource base to reduce oil-import dependence and to assess the role of new technological developments in the exploration and production process. In making its cost-benefit analysis, NAS must include new exploration and production technologies as a part of the algorithm tested to determine the net benefits of providing access to additional domestic gas resources.

TITLE II—PROVISIONS TO FACILITATE RENEWAL AND EXPANSION OF DOMESTIC ENERGY INFRASTRUCTURE.


(a) Create, within the Executive Office of the President, an Office of National Energy Policy, which will be directed to coordinate and expedite actions of executive-branch agencies and independent agencies to implement national energy policy as expeditiously as possible. The Office shall be directed to coordinate and expedite the actions of these agencies to reduce dependence on foreign oil to fifty percent of consumption, to conserve energy resources, to improve energy efficiencies, to increase domestic energy supplies, to increase energy infrastructure to meet America's energy needs, and to enhance the use of renewable resources. The Office will be empowered to work with relevant state agencies to achieve these goals and shall specifically address state concerns with respect to federal impediments to achieving these goals as well as encouraging solutions to state impediments to achieving these goals.

Direct the Office of National Energy Policy, within 6 months, to prepare and deliver to the President and Congress a report assessing existing impediments to development of the domestic energy infrastructure necessary to sustain projected energy demand in the year 2010. The report shall include, among other things, an identification of those impediments that may be overcome by federal administrative action and those impediments that require legislative action.

Section 203. Interagency Working Group on Natural Gas.

Establish, within the Office of National Energy Policy, an Interagency Working Group on Natural Gas to produce a biannual report setting forth a policy and strategy relating to expanding natural gas usage. The Working Group will consult with cognizant state agencies to receive their views with respect to such a strategy.

Section 204. Interagency Task Force on Exploration and Production on Federal Lands.

Establish, within the Office of National Energy Policy, an Interagency and Intergovernmental Task Force on Energy and Federal Lands to streamline regulation of exploration and production on federal lands (including federal waters and the Outer Continental Shelf), while protecting the environment.

The task force shall, within 6 months, prepare and deliver a report to the President and Congress assessing existing impediments to development of the domestic natural gas resource base on federal lands. The report shall include, among other things, an identification of those impediments that may be overcome by federal administrative action and those impediments that require legislative action.

Section 205. Interagency Agreement on Energy Infrastructure.

Direct the Federal Energy Regulatory Commission and all other federal agencies involved in the environmental review of interstate pipeline applications to enter into an interagency agreement to expedite processing of applications, including deadlines for each agency to complete its required actions. Failure of an agency to complete its review by the deadline shall be deemed to be assent to the project.
Section 206. Reduction of Infrastructure Lead Times.

Reduce infrastructure lead-times and federal impediments of state siting through regulatory reform of federal agencies.

Section 207. Increased Funding for Infrastructure Safety and Reliability.

Increase funding on RD&D to enhance pipeline and distribution infrastructure safety and reliability to optimize utilization of pipeline and distribution infrastructure, and to increase the operational efficiency of pipeline and distribution infrastructure.[S. 3002.]

Title III—Provisions to Establish Comprehensive, Balanced and Equitable Efficiency and Environmental Regulations.

Section 301. Congressional Findings.

Congress finds that it is the policy of the United States to reduce the reliance upon foreign-source energy (i.e., energy produced outside North America), to encourage reliance upon energy produced in North America, and to improve the energy efficiency of the United States as a whole. Furthermore, Congress finds that it is the policy of the United States, in implementing energy efficiency measures, to consider principally, but not exclusively, the total energy consumed in an application.

Section 302. Energy Efficiency Programs.

Direct DOE and other agencies to reexamine current efficiency and environmental regulations in light of the stated national energy policy. Charge DOE with placing priority in energy efficiency rulemaking, analysis of energy efficiency policies, and all codes and standards activities on energy efficiency as measured over the full fuel cycle (i.e., Total Energy Efficiency), including air emissions of criteria air pollutants and carbon dioxide and on cost effectiveness of alternatives for achieving efficiency targets.

Section 303. Cost Effectiveness and Economic Justification.

Direct DOE and other agencies to review current regulations and assess future regulations to ensure that the costs and benefits of each energy option are accurately assessed. Provide specific guidance for DOE's consideration of cost effectiveness and economic justification of energy efficiency regulations and standards, including cost-benefit analysis, stakeholders to be addressed, and fuel competitiveness issues. Much of this section would codify and clarify DOE procedures currently covered by regulations (e.g., the 1996 "Process Improvement Rule"), but which provide considerable ambiguity on the specifics of compliance.
Section 304. Voluntary Standards.

Revise and define the role of DOE staff, national laboratories, and contractors in regard to model codes and voluntary standards to reduce undue federal government influence. Revise the roles of voluntary standards (including ASHRAE standards) in energy policy and the role of DOE in establishing minimum efficiency standards for equipment and buildings to gain more equitable treatment of natural gas end use options.

TITLE IV—PROVISIONS TO PROTECT CONSUMERS AND LOW-INCOME FAMILIES AND ENCOURAGE ENERGY EFFICIENCY.

Section 401. Extend and Increase Funding for LIHEAP Program.

(a) Extend the LIHEAP program from 2001 to 2006, increase the base authorization from $2 billion to $3 billion annually, and increase emergency funds authorization from $600 million to $1 billion annually.

(b) For years subsequent to 2001, ensure that LIHEAP funding tracks changes in low-income consumer fuel costs by increasing the authorization specified in Section 401(a), in formulaic fashion, tracking increases in Energy Information Administration short-term forecasts of residential heating costs.


Authorize $500 million per year for 5 years for capital improvements, including distributed energy resources and natural gas systems, to modernize government facilities through the installation of sustainable energy systems, especially to replace energy systems that are older, less energy efficient and less environmentally sensitive, including high efficiency and renewable energy systems. Sustainable energy systems funded with this authorization must be cost effective as well as environmentally beneficial.

Section 403. Energy Efficiency of School Buildings.

Reauthorize DOE program to increase energy efficiency in school buildings and provide funds to switch buildings to the most economical and efficient energy source.

Section 404. Conversion of Federal Facilities from Oil-Fueled to Gas-Fired.

Authorize federal funds to convert federal buildings and other facilities from fuel oil to natural gas.
TITLE V—TAX PROVISIONS TO ENHANCE THE USE OF CLEAN AND DOMESTIC ENERGY RESOURCES AND TO IMPROVE ENERGY EFFICIENCY.

Section 501. Tax Incentives For Environmental Preservation And Other Costs Associated With Siting and Construction of Energy Infrastructure.

(a) Allow current-year deduction of costs for environmental scoping and preparation of environmental impact statements and studies for new gas distribution, storage, and transmission infrastructure.

(b) Allow three-year accelerated depreciation for environmental mitigation and related actions for new gas distribution, storage, and transmission infrastructure.

(c) Allow seven-year accelerated depreciation for other costs of new gas distribution, storage, and transmission infrastructure.

Section 502. Tax Incentives For Clean, High-Efficiency, Distributed Energy Resources.

(a) Provide tax credits for distributed energy resources, including but not limited to natural gas fuel cells, microturbines, turbines, reciprocating engines, and natural gas cooling and desiccant systems. For natural gas fuel cells, microturbines, turbines, and reciprocating engines, tax credits would be available only for units that are highly efficient and comparatively environmentally beneficial.

(b) Revise depreciation schedules for distributed energy resources and combined heat and power to provide for seven-year depreciation. "Distributed energy resources" for purposes of this section is not limited to particular technologies; instead, electric generation of any type shall qualify so long as approximately fifty percent of the power generated is consumed at the site of the generation, or within reasonable proximity of the site of generation, and the facility has a capacity of 5Mw or less.

Section 503. CIAC Repeal.

Remove tax associated with homes and businesses connecting to a utility to receive natural gas.

Section 504. Deduction For Costs of Storing Natural Gas.

Allow deduction of certain expenses associated with the storage of natural gas, including liquefaction facilities and propane-air injection facilities.

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Provide tax credits for NGVs and alternative transportation fuels, including infrastructure required to serve these alternatives.

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Normalize the treatment of the revised tax provisions in the bill.
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Section 601. Energy Research, Development, and Demonstration Funding.

(a) Increase federal funding for research, development, and demonstration for sustained and improved natural gas system reliability and integrity, infrastructure expansion, and reasonable natural gas prices and rapid commercialization of new on-site natural-gas equipment advances that would provide lower emissions, greater North American energy reliability, and sustain America's leadership in energy technologies.

(b) Utilize ten percent of the federal share of royalties received for production from new federal lands opened to exploration and production to support research, development, and demonstration. This funding will, in aggregate, be subject to a stated dollar cap. Approximately half of these royalties will be designated to support exploration and production RD&D, and half of these royalties shall be designated to support distribution and transmission RD&D.

(c) Authorize for each of the fiscal years 2001-2006 federal funding for natural gas research, development, and demonstration of $600 million annually.


Direct federal government agencies to review existing rules and standards periodically to ensure that promising technologies, such as distributed energy resources that offer diversity of supply and other benefits are not discourage from market entry.

TITLE VII—PROVISIONS TO SUPPORT AND ENCOURAGE ENHANCED DOMESTIC NATURAL GAS EXPLORATION AND PRODUCTION

AGA supports legislative initiatives to increase the production of natural gas from current sources and to bring forth enhanced production from new and potential sources of domestic natural gas supply.
MEMORANDUM
March 22, 2001

To: Joe McMonigle
Fr: Darrell Henry
Re: AGA Legislative Policy Principles.

Thanks for meeting with Charlie Fritts and me this morning. As promised, here are the AGA Legislative Policy Principles your work on the Energy Task Force policy recommendations. I also sent a copy to Joe Kelliher. Please call me, 202-824-7219, if you have any questions or if we can provide any assistance for the Secretary’s efforts.

c: Charlie Fritts
American Gas Association

March 1, 2001

Natural Gas Utilities
Recommendations for National Energy Policy

Overview
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400 North Capitol St., NW, Washington, DC 20001 Telephone 202-824-7000, Fax 202-824-7115 Web Site http://www.aga.org
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(b) The Office will be empowered to coordinate and expedite decision-making on permitting processes for development of the pipeline and gas distribution infrastructure necessary to sustain projected natural gas demand in the year 2010. The Office shall be empowered to issue, by rule or order, binding deadlines for completion of required agency actions and to provide that failure to act within the deadlines specified shall be deemed to be approval of the pending application.

(c) The Office will be empowered to enter into consultations with officials of Canada and Mexico with regard to energy issues of mutual concern.


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(b) Revise depreciation schedules for distributed energy resources and combined heat and power to provide for seven-year depreciation. "Distributed energy resources" for purposes of this section is not limited to particular technologies; instead, electric generation of any type shall qualify so long as approximately fifty percent of the power generated is consumed at the site of the generation, or within reasonable proximity of the site of generation, and the facility has a capacity of 5MW or less.

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April 12, 2001

Mr. Joseph T. Kelliher
Senior Policy Advisor
Office of the Secretary
U.S. Department of Energy
Room 7B-252
1000 Independence Ave., SW
Washington, D.C. 20585

Dear Mr. Kelliher:

Green Mountain Energy Company greatly appreciated the opportunity to meet with you last week to discuss the development of national energy policy. As a follow-up to that meeting, we would like to provide in writing some information about Green Mountain Energy and a few thoughts regarding competition in the electric industry as a key component of our national energy strategy.

Since its inception in 1997, Green Mountain Energy Company has been committed to using the power of customer demand to help change the way power is made. As a result of its activities in competitive markets to date, the company has spurred the development of several new renewable energy projects, including one of the largest wind farms on the East coast, the first new wind turbines to be built as a result of customer demand in California, and the largest solar array in the San Francisco Bay area.

Green Mountain Energy currently supplies cleaner and renewable electricity to residential, business and government consumers in California, Pennsylvania, New Jersey and Connecticut, and we plan to expand nationwide as more states open their energy markets to competition. Near-term plans include entering the Texas market when the state begins its pilot program in June, 2001, and starting service in September, 2001, to over 400,000 residential customers in Ohio pursuant to a six-year agreement with the Northeast Ohio Public Energy Council ("NOPEC"), a public electricity buying group which represents households across eight Ohio counties.

Green Mountain Energy firmly believes that effective competition in the electric industry can produce benefits for even the smallest customers and is part of the solution to, rather than the cause of, current problems in the western wholesale power markets. We also believe that
competition can be an important complement to responsible policy initiatives in support of the environment. Competition presents the opportunity for choice, and choices available in competitive energy markets today include products that are significantly cleaner and higher in renewable content than traditional system power. Moreover, experience in markets to date clearly demonstrates that a significant percentage of switching customers will choose energy products based on their environmental characteristics as well as price. In addition, in several situations where significant blocks of customers were up for bid, Green Mountain Energy, at least, has been able to bid successfully with energy products that are significantly cleaner than system average power. In short, the potential for the market to impact how power is made in the future is significant, and grows as consumers become more educated about the environmental consequences of alternative power generation sources.

The potential economic and environmental benefits of competition, however, will not be realized without support and leadership from policymakers. This is a critical time for the competitive energy industry. Recent events in California, high prices in wholesale markets across the country, less-than-effective federal regulation of the interstate transmission grid, and a variety of flawed state restructuring programs are making it increasingly difficult for competitive suppliers to deliver to customers the benefits that would flow from free and fair competition. A number of states are delaying their restructuring programs or considering price control measures that are likely to kill off the competition that would provide the best long-term protection for customers. Leadership is needed now on the federal level to address directly the obstacles to competition that are within the federal government’s control, and to provide guidance and encouragement to the states to address effectively those issues within their jurisdiction. We urge the Administration to provide that leadership as part of its national energy policy.

Specifically, we urge that the national energy policy, at a minimum, incorporate the following two elements with respect to electric industry restructuring:

- **Support for federal legislation that 1) assures a robust interstate transmission grid, 2) clarifies federal/state authority over the interstate grid, and 3) mandates efficient interconnection with the transmission grid.** These issues are addressed in a recent letter to you from the Electric Power Supply Association, of which Green Mountain Energy is a member. We will not repeat its discussion of the issues here, but commend EPSA’s letter for your consideration.

- **Encouragement of, and support for, retail electric competition.** As described above, it is important that the states and the public hear that effective competition in the energy industry, at both the wholesale and retail levels, will benefit customers and is part of this nation’s energy policy. There is much that the federal government could do now to promote competition by, for instance, rationalizing a hodgepodge of state rules and procedures, limiting monopoly functions, and providing tax incentives for restructuring.
investments. But even if, as many have suggested, the time is not right politically for federal action affecting retail electric restructuring, it is still possible to set a broad direction and begin plotting a course toward full competition. Currently, the Federal Trade Commission, at the request of Congress, is considering comments and developing a report on what is working and what is not in retail electric competition programs, and on what additional federal legislation or regulation might be desirable. Green Mountain Energy urges the Administration to ensure that this is a serious effort, and to utilize the resulting FTC report to inform further direct federal action and/or to press states to reform existing programs and implement new programs that will bring the benefits of competition to customers. The FTC has played the role of advocate and expert advisor to states before, and might productively play such a role with respect to retail electric competition.

Of course, as a marketer of and advocate for renewable energy, Green Mountain Energy also urges the Administration’s aggressive support for renewable energy as part of our national energy strategy.

Thank you again for the opportunity to meet and to provide you with our views on electric restructuring and national energy strategy. We are, of course, available to discuss these issues in greater detail at any time.

Sincerely,

Karen O’Neill
Vice President, New Markets
Green Mountain Energy Company
March 5, 2001

Mr. Joe Kelliher
Senior Policy Analyst
U.S. Department of Energy
Room 7B-252
1000 Independence Avenue, SW
Washington, DC 20585

Dear Joe,

John Snow and I very much appreciated the opportunity to visit with Secretary Abraham and you to share our thoughts on the importance of developing and implementing a broad-based energy policy that maximizes the use of abundant domestic fuel sources including coal.

We also appreciated the chance to discuss the need to eliminate the unjustified 4.3 cents-per-gallon deficit reduction fuel tax that the rail and barge industries continue to pay into the general funds of the Treasury.

Given how fuel efficient railroads are, the elimination of the tax would have both fuel savings and environmental benefits (see attachment).

Once you have had the chance to review the attachment I would be happy to respond to any questions you may have.

Again, many thanks for your time and consideration.

Sincerely,

attachment
Energy-Related Benefits of Eliminating the 4.3 Cents Per Gallon Deficit Reduction Tax on Railroad Fuel

1. Coal is an abundant energy source which plays a vital role in the U.S. economy. In addition to its use for industrial purposes, including the production of iron and steel, coal is the source of more than half of our nation’s electricity. And coal will be increasingly important in meeting America’s future energy demands and energy independence – the U.S. Department of Energy projects demand for U.S. coal to grow from 20 percent to 38 percent over the next 15 years. Because freight railroads handle 65 percent of all coal transported in the United States, their ability to offer efficient, economical, and safe transportation is critical to America’s energy outlook.

The annual $174 million cost reduction produced by the elimination of the 4.3 cents per gallon deficit reduction fuel tax would greatly assist freight railroads in responding to our nation’s energy transportation needs. Over the next 10 years, these savings would enable railroads to make needed investments such as the following:

- Augment their locomotive and freight car fleets used in the transportation of coal. By adding one new locomotive for every eight currently in coal service or one additional coal freight car for every five currently hauling coal.

- More readily fund the heavy costs of track and signaling expansion – which can amount to millions of dollars per mile – needed to create the increased rail capacity required to accommodate the higher volumes of rail-transported coal.

2. The deficit reduction fuel tax on railroads and barges artificially increases their operating costs. Elimination of the tax would allow these modes to compete more effectively with motor carriers based upon actual price, service, and other competitive factors. Because freight railroads are, on average, three times more fuel efficient than trucks, according to the Environmental Protection Agency, the elimination of the tax would allow more traffic to move by rail as competitive forces dictated, thereby producing both fuel savings and environmental benefits that would result from rail’s greater fuel efficiency.

3. Elimination of the deficit reduction fuel tax would allow railroads to continue investment in research which has the goal of reducing locomotive emissions and increasing locomotive fuel efficiency.

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