Joe,

Of course, if I were King we would already have a national energy policy that would have kept California out of the mess in which it now finds itself. Also, I was pleased to see that the Secretary is now saying that OPEC pricing is the action of a cartel and not market forces -- he is certainly on the right track.

Now, to the point of your question, what to do about pipeline certification and pricing. Frankly, I do not recall much of the gas title that was basically dropped from the 92 EPAct. I do recall that much of what the pipelines wanted was on the pricing side, and not just market pricing, but "cost of service" at such, in my view, ridiculous things as replacement pricing, which is basically "profiteering" of the worst kind because it is with the government as "regulator," and market pricing for existing systems irrespective of the pipeline's market power. Anyway, enough bemoaning what the pipelines will seek.

As to certification or licensing, the process is both mature and daunting. There seems to be little that can be done in terms of reducing intervenors rights (such as restricting intervention from competing fuels, like oil jobbers -- by the way, this notion once "had legs", but I would not pursue it for the simple reason that, while one could theoretically restrict the rights of such intervenors, the EIS process still requires the consideration of alternatives and that, perforce, brings in the alternative fuel issues anyway). There are some things around the edges that could be done, such as what FERC just proposed for California service -- that is, raising the dollar level for facilities built under blanket certificates, which helps in terms of adding compression. In short, I do think that the certificate process is seriously process constrained, but, absent suggestions that would be highly controversial, I do not see much procedurally that can be done in terms of really expediting it. (Remember the ill-fated Optional Expedited Certificate procedure -- basically saying that if the pipeline agrees to "take the economic risk" of the project, it could proceed much more rapidly.

Fortunately, pipeline certificates come with rights of eminent domain and allowing such on an expedited basis is truly problematic, if not at the
certificate stage itself, then when the pipeline goes to court to condemn property and is challenged on public benefit grounds.)

So, having said that, what can be done. Here are some ideas: First, while the process itself is constrained with environmental assessments and EISs, it seems to me that the government could do something to make sure that the process is not resource constrained. In other words, my guess is that more resources at FERC for some period of time -- perhaps outside contractors so as not to commit to higher staffing for the next century -- could expedite pipeline certificates substantially. Presently, my recollection is that FERC costs the government nothing -- that is, the fees and charges generated by FERC are sufficient to cover its costs of operations. Nonetheless, the idea is that if it takes two FERC staff people two weeks to review an application, four staff people should be able to do so in less time. Granted that this increase in FERC resources might cost the surplus some tens of millions of dollars, it probably could have a significantly beneficial impact on the time it takes to complete a certificate application review.

Second, and in a similar vein, I do not think that FERC has the power to control other agencies that are necessary to process a pipeline certificate -- for example, the Corps of Engineers for water crossings or dredge and fill permits or DOI's Fish and Wildlife for endangered species determinations. I believe that one idea floated in the past was for FERC to be the central clearing agency. The problem is, what do you do when the agencies do not comply with FERC deadlines -- it is politically unacceptable to say, well, if you do not meet the deadline, whatever you are looking into will be deemed done and acceptable. So, again, this is another kind of process constraint that in my view can also be viewed as a resource constraint -- that is, if more money could be put into the process to hire (again, perhaps contracting out is the real answer) qualified people to get the job done in a more time manner, it could in fact be done in a more timely manner. So, again, increase the resources as necessary to move pipeline certificate applications and related requirements of other agencies in a faster manner. Do not compromise the substance, just get it done quicker with more resources.

Finally, the norm for gas transmission operating pressures in the U.S. is around 1000 psi. In other parts of the world, pipelines are operating at higher pressures -- the Bolivia-Brazil line is 1400 psi. With higher pressures, more gas moves. Obviously, some pipelines could not handle such higher pressures, but new pipelines could be built to move more gas at such higher pressures. This is an idea I would take up with INGAA, also with the obvious first order being safety.
As mentioned above, rates, that is money and returns on equity, are central to incentives. To my mind, rolled in pricing is problematic from the outset unless there are truly system benefits that are fairly evenly spread in terms of better service or lower rates. Incremental pricing in my mind should, however, be the order of the day -- that is, those who use the incremental capacity created by the project or system enhancement pay for it. The good thing about this is that it quells complaints by existing customer, which can kill projects. Another interesting pricing idea is to allow market rates on new projects where there are more than one competing pipeline for the customers and where the pipeline does not possess market power -- obviously, it is quite difficult for a pipeline to possess market power when it is trying to enter a new market. The downside to this from an existing customer perspective is, how do we know that the pipeline will really be able to operate at such prices -- that is, what happens when it fails and tries to put the cost on other customers or tries to increase rates to cover its higher cost of capital for having a large failed project. Having said this, I still believe that negotiated, market rates on new projects would greatly enhance the pipelines' incentives to build new projects. The customers are usually large and sophisticated and do not need government protection from the hands of market power because the pipeline just does not have market power in those circumstances where it is trying to build new facilities to serve new customers. The key, to me, is to require the pipeline to bear the risk of failure on such projects.

So, there you have it. The best of my quick thinking at the moment recognizing that I am also on vacation in St. Lucia at the moment. I will be back next week and be able to discuss this or other items further with you if you want. By the way, as to ANGTS, I have not reviewed it for some time. However, anything done in 1976 probably should be revisited to see if it is still viable. Sorry I do not have more at this time to offer on that subject.

Good luck.

Dana

-----Original Message-----
From: Kelliher, Joseph [mailto:Joseph.Kelliher@hq.doe.gov]
Sent: Sunday, March 18, 2001 5:44 PM
To: 'Dana Contratto'
Subject: national energy policy

If you were King, or Il Duce, what would you include in a national energy
policy, especially with respect to natural gas issues? Should I look at all of the gas pipeline provisions in the House EPAct bill that were dropped in conference? I am just looking for your immediate thoughts, please do not put a lot of time into this. I am working up the policy elements, and am less confident of my judgement on gas pipeline issues than other areas, and thought I would pick your brain. With respect to the Alaska Natural Gas Transportation Act of 1976, I am operating a suspicion that law would have to be substantially amended to serve as a basis for licensing an Alaskan gas pipeline. Do you agree?
Per George's request, I've attached some comments on the National Energy Policy paper he gave me this morning.
For Immediate Release September 27, 1993

Fact Sheet
Nonproliferation And Export Control Policy

The President today established a framework for U.S. efforts to prevent the proliferation of weapons of mass destruction and the missiles that deliver them. He outlined three major principles to guide our nonproliferation and export control policy:

- Our national security requires us to accord higher priority to nonproliferation, and to make it an integral element of our relations with other countries.

- To strengthen U.S. economic growth, democratization abroad and international stability, we actively seek expanded trade and technology exchange with nations, including former adversaries, that abide by global nonproliferation norms.

- We need to build a new consensus - embracing the Executive and Legislative branches, industry and public, and friends abroad - to promote effective nonproliferation efforts and integrate our nonproliferation and economic goals.

The President reaffirmed U.S. support for a strong, effective nonproliferation regime that enjoys broad multilateral support and employs all of the means at our disposal to advance our objectives.

Key elements of the policy follow.

Fissile Material

The U.S. will undertake a comprehensive approach to the growing accumulation of fissile material from dismantled nuclear weapons and within civil nuclear programs. Under this approach, the U.S. will:

- Seek to eliminate where possible the accumulation of stockpiles of highly-enriched uranium or plutonium, and to ensure that where these materials already exist they are subject to the highest standards of safety, security, and international accountability.

- Propose a multilateral convention prohibiting the production of highly-enriched uranium or plutonium for nuclear explosives purposes or outside of international safeguards.

- Encourage more restrictive regional arrangements to constrain fissile material production in regions of instability and high proliferation risk.

- Submit U.S. fissile material no longer needed for our deterrent to inspection by the International Atomic Energy Agency.
- Pursue the purchase of highly-enriched uranium from the former Soviet Union and other countries and its conversion to peaceful use as reactor fuel.

- Explore means to limit the stockpiling of plutonium from civil nuclear programs, and seek to minimize the civil use of highly-enriched uranium.

- Initiate a comprehensive review of long-term options for plutonium disposition, taking into account technical, nonproliferation, environmental, budgetary and economic considerations. Russia and other nations with relevant interests and experience will be invited to participate in this study.

The United States does not encourage the civil use of plutonium and, accordingly, does not itself engage in plutonium reprocessing for either nuclear power or nuclear explosive purposes. The United States, however, will maintain its existing commitments regarding the use of plutonium in civil nuclear programs in Western Europe and Japan.

Export Controls

To be truly effective, export controls should be applied uniformly by all suppliers. The United States will harmonize domestic and multilateral controls to the greatest extent possible. At the same time, the need to lead the International policy interests may justify unilateral export controls in specific cases. We will review our unilateral dual-use export controls and policies, and eliminate them unless such controls are essential to national security and foreign policy interests.

We will streamline the implementation of U.S. nonproliferation export controls. Our system must be more responsive and efficient, and not inhibit legitimate exports that play a key role in American economic strength while preventing exports that would make a material contribution to the proliferation of weapons of mass destruction and the missiles that deliver them.

Nuclear Proliferation

The U.S. will make every effort to secure the indefinite extension of the Non-Proliferation Treaty in 1995. We will seek to ensure that the International Atomic Energy Agency has the resources needed to implement its vital safeguards responsibilities, and will work to strengthen the IAEA's ability to detect clandestine nuclear activities.

Missile Proliferation

We will maintain our strong support for the Missile Technology Control Regime. We will promote the principles of the Mtcr Guidelines as a global missile nonproliferation norm and seek to use the Mtcr as a mechanism for taking joint action to combat missile proliferation. We will support prudent expansion of the Mtcr's membership to include additional countries that subscribe to international nonproliferation standards, enforce effective export controls and abandon offensive ballistic missile programs. The United States will also promote regional efforts to reduce the demand for missile capabilities.

The United States will continue to oppose missile programs of proliferation concern, and will exercise particular restraint in missile-related cooperation. We will continue to retain a strong presumption of denial against exports to any country of complete space launch vehicles or major components.
The United States will not support the development or acquisition of space-launch vehicles in countries outside the Mtcr.

For Mtcr member countries, we will not encourage new space launch vehicle programs, which raise questions on both nonproliferation and economic viability grounds. The United States will, however, consider exports of Mtcr-controlled items to Mtcr member countries for peaceful space launch programs on a case-by-case basis. We will review whether additional constraints or safeguards could reduce the risk of misuse of space launch technology. We will seek adoption by all Mtcr partners of policies as vigilant as our own.

Chemical and Biological Weapons

To help deter violations of the Biological Weapons Convention, we will promote new measures to provide increased transparency of activities and facilities that could have biological weapons applications. We call on all nations -- including our own -- to ratify the Chemical Weapons Convention quickly so that it may enter into force by January 13, 1995. We will work with others to support the international Organization for the Prohibition of Chemical Weapons created by the Convention.

Regional Nonproliferation Initiatives

Nonproliferation will receive greater priority in our diplomacy, and will be taken into account in our relations with countries around the world. We will make special efforts to address the proliferation threat in regions of tension such as the Korean peninsula, the Middle East and South Asia, including efforts to address the underlying motivations for weapons acquisition and to promote regional confidence-building steps.

In Korea, our goal remains a non-nuclear peninsula. We will make every effort to secure North Korea's full compliance with its nonproliferation commitments and effective implementation of the North-South denuclearization agreement.

In parallel with our efforts to obtain a secure, just, and lasting peace in the Middle East, we will promote dialogue and confidence-building steps to create the basis for a Middle East free of weapons of mass destruction. In the Persian Gulf, we will work with other suppliers to contain Iran's nuclear, missile, and Cbw ambitions, while preventing reconstruction of Iraq's activities in these areas. In South Asia, we will encourage India and Pakistan to proceed with multilateral discussions of nonproliferation and security issues, with the goal of capping and eventually rolling back their nuclear and missile capabilities.

In developing our overall approach to Latin America and South Africa, we will take account of the significant nonproliferation progress made in these regions in recent years. We will intensify efforts to ensure that the former Soviet Union, Eastern Europe and China do not contribute to the spread of weapons of mass destruction and missiles.

Military Planning and Doctrine

We will give proliferation a higher profile in our intelligence collection and analysis and defense planning, and ensure that our own force structure and military planning address the potential threat from weapons of mass destruction and missiles around the world.

Conventional Arms Transfers
We will actively seek greater transparency in the area of conventional arms transfers and promote regional confidence-building measures to encourage restraint on such transfers to regions of instability. The U.S. will undertake a comprehensive review of conventional arms transfer policy, taking into account national security, arms control, trade, budgetary and economic competitiveness considerations.

# # #
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- To strengthen U.S. economic growth, democratization abroad and international stability, we actively seek expanded trade and technology exchange with nations, including former adversaries, that abide by global nonproliferation norms.

- We need to build a new consensus - embracing the Executive and Legislative branches, industry and public, and friends abroad - to promote effective nonproliferation efforts and integrate our nonproliferation and economic goals.

The President reaffirmed U.S. support for a strong, effective nonproliferation regime that enjoys broad multilateral support and employs all of the means at our disposal to advance our objectives.

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Fissile Material

The U.S. will undertake a comprehensive approach to the growing accumulation of fissile material from dismantled nuclear weapons and within civil nuclear programs. Under this approach, the U.S. will:

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- Propose a multilateral convention prohibiting the production of highly-enriched uranium or plutonium for nuclear explosives purposes or outside of international safeguards.

- Encourage more restrictive regional arrangements to constrain fissile material production in regions of instability and high proliferation risk.

- Submit U.S. fissile material no longer needed for our deterrent to inspection by the International Atomic Energy Agency.
Stable, reliable and affordable supplies of energy and more efficient energy use are essential to maintaining living standards and supporting economic growth.

Greater emphasis should be placed on diversifying the sources of US energy supplies. Domestic supplies can be enhanced through incentives for improved recovery from existing fields and through improved access to promising acreage.

Energy policy cannot just focus on the “upstream” sector, i.e. exploration and production. There needs to be a clear understanding that local/regional bottlenecks can occur in producing and distributing feedstocks and products. Further, refineries have been operating near maximum capacity and it has been almost twenty years since a new refinery has been built.

Petroleum product pipelines are increasingly challenged by the proliferation of “boutique” (area-specific fuels) due to limits on their ability to handle segregated shipments and availability of adequate storage tank capacity. And, additional constraints may arise from the need to gain regulatory approvals for new facilities or pipelines, e.g., the Longhorn pipeline recently agreed not to carry MTBE products in order to gain approval.

Siting and permitting challenges can seriously delay needed modifications/expansions of existing manufacturing (refining and petrochemical) capacity and constrain additions to downstream infrastructure (e.g. pipelines).

No single action or single fuel can resolve all energy concerns. The nation needs a balanced mix of policies – which fosters a mix of fuels and balances environmental goals and energy supply concerns.

A balanced approach to energy policy should examine both demand and supply. Incentives for greater energy efficiency (e.g. through the use of lighter weight materials in vehicles) can play an important role.

Regulatory programs that distort markets can divert energy supplies from essential (i.e., where there are limited, if any, substitutes) and/or highest valued markets. For example, environmental programs are increasingly drawing natural gas to use in electric generation, thus depriving petrochemical manufacturers of feedstocks or making them so costly that the US petrochemical industry is placed at a competitive disadvantage in global markets.

Both energy and environmental policy should be based on sound science and the best and most current data available. Cost-benefit analyses and reasonable risk assessment are key tools for choosing the most effective policies to achieve national goals. Regulations should:

- take into account the cumulative effect of regulations in that sector;
- set performance goals and avoid mandating specific technologies or setting product specifications;
- provide adequate leadtime and avoid overlapping requirements wherever possible;
- provide flexibility through the use of market-based incentives; explicitly evaluate their impact on energy supplies; and
be fairly and consistently enforced, without retroactive reinterpretation of regulations through enforcement programs.

Potential Energy Policy Improvements

Process

- Require annual study by Secretary of Energy of refining and product distribution infrastructure including assessment of cumulative impact of regulations and specific recommendations for improvements.

- Periodic OMB-led review of supply impact of environmental regulations. Could be included as part of National Energy Policy Plan.

- Require Energy Impact Analysis for new regulations.

- Enhance regulatory certainty, e.g., avoid retroactive reinterpretation of regulations such as in recent EPA NSR enforcement actions.

Incentives

- Accelerated depreciation for clean fuels upgrades.

- Accelerated depreciation for pollution control equipment on stationary sources.

- Tax credits for energy efficiency improvements.

- Investment tax credit for clean fuel capital investments.

- Relief from Alternative Minimum Tax to ensure any incentives offered are not automatically recaptured.

- Excise tax incentives for early introduction of clean fuels, e.g. for low sulfur gasoline and diesel.

Streamlining/Flexibility

- Reasonable guidance on BACT and LAER for Tier 2 gasoline and diesel sulfur programs. Guidance on the emissions level and cost used to determine BACT/LAER requirements. [NOTE: Current draft guidance is not reasonable on this point].

- Allow for trading of credits from mobile source emission reductions with stationary sources.

- Expedited permitting review. Provision of greater certainty that once permits are approved, they will not have to be reopened/renegotiated due to third party intervention.
- Linkage between regulatory implementation deadlines and permitting process, e.g., if delay in permitting despite good-faith efforts to comply, the regulatory deadline is adjusted.

**Fuels**

- Reassess the sequencing of major fuel regulatory programs. Eliminate the overlap in timing between the gasoline sulfur and diesel sulfur requirements.

- Eliminate 1.5% minimum oxygen requirement for RFG.

- No additional product specifications (such as aromatics caps) that will further constrict gasoline supplies. Focus on performance goals not product specs.

- Reassess mobile source air toxics program to allow greater flexibility through trading among refineries. Reevaluate baseline calculation to remove penalty on refiners who are cleaner than average. Reevaluate standard in light of state programs that limit MTBE use (e.g., Connecticut, New York) which could make regulatory requirement unattainable or very expensive.

- National Academy of Sciences study of MTBE to provide a science-based assessment of impact on groundwater and effectiveness of remediation technologies and including assessment of role of MTBE in meeting gasoline demand.

- Determine appropriate sequencing for any future off-road diesel requirements. Avoid overlap with other regulations, set a reasonable standard for sulfur content.
Did I send this to you? PO guys took a look at the NPRA recommendations.

-----Original Message-----
From: Breed, William
Sent: Friday, March 23, 2001 5:05 PM
To: Anderson, Margot
Cc: McNutt, Barry
Subject: RE: NPRA Recommendations on National Energy Policy

After talking with Barry, here are some comments:

Comments on NPRA energy policy ideas (23 MAR 01)
William Breed
Acting Director, Office of Energy Efficiency,
Alternative Fuels, and Oil Analysis (PO-22)
202-586-4763

-----Original Message-----
From: Anderson, Margot
Sent: Friday, March 23, 2001 11:58 AM
To: Breed, William
Subject: FW: NPRA Recommendations on National Energy Policy

Bill,

Can you ask your crack staff if any of these policy recommendations from NPRA have merit?

Margot

-----Original Message-----
From: Keilher, Joseph
Sent: Friday, March 23, 2001 9:04 AM
To: Anderson, Margot
Subject: NPRA Recommendations on National Energy Policy

Do any of these have merit? Many of the recs are so general is it hard to figure out exactly what the action is.

-----Original Message-----
From: Slaughter, Bob [mailto:Bob Slaughter@npradc.org]
Sent: Thursday, March 22, 2001 3:52 PM
To: Keilher, Joseph
Cc: Anthony, Betty; Sternfels, Urvan
Subject: NPRA Recommendations on National Energy Policy

Joe Keilher: Attached is a short document which includes NPRA's current thinking as to what changes in national energy policy are needed to help the refining sector.

I would like specifically to highlight three:

One. We believe that the Administration is missing an important opportunity to improve energy policy by not addressing the onroad diesel sulfur rule. This rule will have a greater adverse supply impact than any other in the next five years and should be reviewed. Instead of requiring essentially 100% of onroad diesel output to be reduced from 500 ppm to 15 ppm sulfur by mid-2006, at a cost of $8 billion, the Administration could move the

Obtained and made public by the Natural Resources Defense Council, March / April 2002
required supply date back to 2008-9 and provide a reduction in the
diesel excise tax for 15ppm sulfur diesel sold in advance of the 2008 date.
This could provide all the necessary supply for new trucks which need the
diesel in 2006-7 (probably only 5% of demand). There are no environmental
benefits from using the new diesel in old truck engines, so the program in its
current form constitutes massive waste, since those trucks aren't a
sufficient force in the market until 2008 at the earliest. This change
will help prevent loss of diesel supply and refinery closures which will
take place under the rule in its current form. The overall benefits of the
program are not reduced. We would like to talk with you more on this.

Two. The EPA's enforcement campaign against U.S. refineries should be
halted and reexamined. As you know, it is impossible to build new
refineries, so the industry has had to add capacity at existing sites in an
attempt to maintain an adequate supply of products for consumers in the past
twenty years. Even at that, the industry has been able to keep U.S.
capacity only flat over the past decade, so new demand has been met by
increased imports of refined products. The Browner EPA launched an
extensive and coordinated campaign against the industry, alleging that capacity
additions during the past twenty years were not appropriately permitted.
This despite the fact that refinery improvements were made with the
knowledge of both state and federal environmental agencies and in keeping
with permitting requirements as they were understood at that time. The EPA
has sent section 114 requests, in effect blanket subpoenas, to most
refiners, and many are now facing notices of violation and legal action. A
few have settled because they believe that it is easier to pay a fine,
sign a consent decree and move forward than resist. All this comes at a time
when federal and state authorities have urged the industry to continue its
herculean efforts to produce product all-out to avoid shortages. EPA's
actions are really nothing more than an attempt to discredit the industry
and collect tribute in the form of fines in order to allow refiners to get-
on with their business. We believe that everyone in the industry should
obey the law, and we believe that they do, often under difficult
circumstances. But this activity goes far beyond the pale of reasonable
enforcement activity and should cease.

Three. The Unocal patents, recently upheld by a federal court of
appeals in a decision that the Supreme Court let stand, provide no real benefit to the
industry or consumers. The huge royalties granted by a California
District Court—5.3/4 cents/gallon—are far in excess of the cost of even the
refurbished gasoline program and may well cost consumers over $200 million
per year when implemented. The existence of the payents will increase the
cost of gasoline, reduce supply, and eliminate all of the incentive for
overcompliance with environmental regulations. The patent will also
make it even harder to use ethanol in gasoline where ozone problems exist during
the

Obtained and made public by the Natural Resources Defense Council, March / April 2002
summer months (e.g. Chicago and Milwaukee). The Administration should study this issue and take steps to put any royalty collections on hold. Otherwise, this situation will affect Midwestern and East Coast gasoline supplies adversely this summer, as it did last year.

The rest of our thinking is attached. Thank you for your call yesterday. I'm available to discuss these matters with you at any time.

Bob Slaughter
NPRA 202.457.0480 x 152; home

<<natenergpol2.doc>>
RECOMMENDATION TO ENHANCE US NUCLEAR ENERGY RD&D

The Need for Long-term R&D

The Nuclear Energy Research Advisory Committee (NERAC), formed in compliance with the Federal Advisory Committee Act (FACA), has recommended that DOE pursue nuclear energy RD&D programs to:

- Revitalize U.S. nuclear energy supply,
- Re-instate effective radio-isotope production for medicine and industry,
- Increase basic nuclear research, and
- Re-build the physical and human infrastructure needed for these purposes.

Roadmap for Expanded Nuclear Power Capability

NERAC has also been charged to oversee DOE’s development of a Roadmap defining:

- The goals of both a long- and short-term nuclear energy R&D program,
- The technology gaps that need to be closed to reach those goals,
- Advanced nuclear power plant candidates with potential for short term (by 2020) and long term (by 2050) deployment,
- Appropriate resource requirements and time frames, and
- Criteria to measure progress toward the goals.

Goals for Future Nuclear Power Plants

The three primary, and their subsidiary, goals for new nuclear power plants are:

- Sustainability, providing
  - Free energy with essentially no air pollution or greenhouse gas emissions
  - A stable and abundant fuel supply
  - Minimum amounts of radioactive waste
  - A reduced long-term stewardship burden
  - Route to weapons proliferation.
- Improved safety and reliability, ensuring
  - Equal or better plant availability factors (>90%) than today
  - Reduced chance of accidental fuel damage
  - Need for emergency response.
- Economic competitiveness against other energy sources, including
  - A full life-cycle cost advantage
  - A comparable level of financial risk.

These criteria will allow screening down to a small number of candidates on which to place primary focus and resources. Safety, environmental, and non-proliferation goals and criteria, along with cost competitiveness, are of key importance in assuring successful deployment. Of these, NERAC has recommended that internationally accepted methods of assessment and standards for proliferation resistance should be more fully developed, building on the existing international non-proliferation regime. This need is of particular importance for development of acceptable advanced plant candidates slated for long-term deployment that recycle to maximize the use of nuclear fuel.

Industrial and International Cooperation

Two common themes in the NERAC recommendations are:

Obtained and made public by the Natural Resources Defense Council, March / April 2002
industry and DOE, with its national labs, should enter into cost-share partnering, especially for the nuclear power plants slated for near term deployment, and international cooperation should be fostered to assure global development consistent with U. S. policies on safety, the environment, and proliferation resistance.

Doe has engaged U.S. industry, and those of its overseas allies with on-going nuclear energy programs, in the development of the Roadmap.

**Recommendations to Strengthen Nuclear Energy RD&D**

- Strengthen the NERI program to foster innovative nuclear power concepts.
- Strengthen the NEPO program, cost-shared with industry, to assure the continued effective operation of present plants.
- Strengthen the university program to develop a new generation of nuclear engineers and scientists.
- Expand long-term R&D by an additional $280 million annually by 2005.
- Implement the roadmap by developing a vigorous program to demonstrate the most promising of these technologies. This will require substantial additional funding and will involve a concerted interaction with industry.

**Re-building the Nuclear Energy Infrastructure**

NERAC has advised that to achieve the goals and meet the needs outlined above will require re-building the U.S. nuclear energy infrastructure, both in human skills and facilities. Re-building is required also for national security and the long-term stewardship of defense nuclear materials and facilities as well as the effective management of radioactive wastes and spent fuels from both civilian and defense sectors. A fundamental starting point is the training of qualified personnel in our universities.

This re-building, coupled with the implementation of the RD&D programs recommended above, will entail substantial funding increases and enhanced priority within the federal government and industry, without which the nation's energy needs and national security will not be achieved.

Contact:
American Gas Association

March 1, 2001

Natural Gas Utilities
Recommendations for National Energy Policy

Overview
It is in the nation's best interest to cultivate and ___ 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 national energy policy that recognizes the vital. 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 burns ___ than any other fossil fuel, is almost ___ 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 ___ percent in the 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:

- ___ per year, providing national security.
- ___ such as furnaces, water heaters, microturbines, desiccant dehumidifiers and combined heat and power.
- ___ and home offices, through new technologies which generate both heat and electricity and can be sited closer to the consumer.
- ___ 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 schedule for natural gas utility expenses to an accelerated 1-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 government funding for natural gas infrastructure reliability and safety; repeal tax on new customer connections (Contributions in Aid of Construction).

- **Development of new natural gas technologies**: Provide R&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; R&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 Legislation
Comparison of AGA Recommended Provisions
And Provisions Contained in Senator Murkowski’s
National Energy Security Act of 2001 (S. 389)

Summary: The bill introduced by Senator Murkowski contains almost every provision recommended by AGA. It would:

- Encourage increased production of natural gas
- Allow seven-year depreciation of all new natural gas distribution, transmission, and storage facilities (representing potential tax savings to AGA gas distribution members of approximately $8 billion over ten years)
- Repeal CIAC and PUHCA
- Remove barriers to infrastructure expansion
- Create incentives for distributed generation and
- Increase LIHEAP authorizations.

On November 30, 2000, the Government Relations Policy Committee and the Executive Committee of the Board of Directors created the AGA Energy Legislative Steering Committee under the leadership of Dick Reiten of NW Natural. During the months of December and January, the steering committee worked closely with AGA Staff to craft a set of core principles essential to any legislation as well as specific legislative proposals embodying the advocacy priorities of AGA member companies. The result of these efforts was circulated on January 16, 2001, and was approved by the GRPC and the AGA Board of Directors on February 26, 2001. AGA Staff has also been working with other associations and Congressional Staff to ensure that these principles and proposals are incorporated in the comprehensive, bipartisan legislation that will soon be a topic of Congressional attention.

On February 26, 2001, Senator Frank Murkowski, Chairman of the Senate Energy and Natural Resources Committee, introduced the National Energy Security Act of 2001 (S. 389.). This bill addresses a broad spectrum of energy issues and incorporates most of the principles and proposals that AGA has advocated throughout this effort. This memorandum highlights the natural gas provisions of interest to AGA members in the bill as well as some of the other more important energy issues it addresses.

Although much effort has already been invested, introduction of the Murkowski bill is only the starting point in the legislative process. AGA Staff will work closely with Senator Murkowski, his staff, other Senators, Members of the House of Representatives, and the Bush Administration in the weeks ahead to advance the AGA legislative proposals approved by the GRPC.

Following is a brief summary of what is included in the bill, organized to follow the order of the legislative proposals as recommended and ultimately approved by the AGA Legislative Steering Committee and GRPC.
Federal E&P Studies
The bill calls for reports on all federal actions affecting energy supply or delivery and annual reports on progress toward energy independence, which would be produced by DOE rather than the National Academy of Sciences. (Sections 101, 102.)

Renewal and Expansion of Infrastructure
Senator Murkowski has decided not to mandate a White House Office of National Energy Policy in light of President Bush's creation of a Cabinet-level "National Energy Policy Development Group" led by Vice President Cheney. The staff director of this group is Andrew Lundquist, until recently the staff director of the Senate Energy and Natural Resources Committee. However, codifying such an effort in the Executive Office of the President is still desirable.

The bill requires federal studies of rights of way over federal lands to determine which of these can support additional energy infrastructure. (Section 104.)

It requires FERC and other pertinent agencies to review the pipeline certification process to determine where time and cost can be saved. (Section 109.)

The bill requires DOE, FERC and other agencies having a role in the pipeline certification process to enter into an interagency agreement regarding environmental review of interstate pipeline certificate applications with deadlines for completion of required review. (Section 113.)

It requires DOT to implement an accelerated cooperative program of R&D regarding pipeline safety. (Section 114.)

The bill contains several significant tax incentives to expand infrastructure that are described under Tax Provisions in this memorandum.

Equitable Energy Efficiency Regulations
The bill does not address the need to give fair and equitable treatment to natural gas in energy-efficiency standards and related administrative proceedings before DOE and other federal agencies. AGA expects to continue to pursue this issue as this bill and others move forward through Congress.

LIHEAP
The bill increases LIHEAP authorization to $3 billion annually for the years 2000-2010 and $1 billion in emergency funds annually. It does not call for indexing authorizations to rising costs. (Section 601.)

Building Efficiency
The bill extends authority regarding federal energy-savings performance contracts. (Section 605.)

The bill creates in DOE an energy-efficient schools program, with authorizations in excess of $200 million. (Section 602.)
Tax Provisions
The bill provides for seven-year tax depreciation for new natural gas pipe, storage facilities, equipment and appurtenances. (Section 921.) It also allows the expensing of storage facilities. (Section 922.)

It provides for a tax credit for distributed power facilities used in nonresidential real or rental residential property used in trade or business (in excess of 1 kW) and used in manufacturing or plant activities (in excess of 500 kW). A credit is also extended to combined heat and power systems. (Section 971.)

The bill provides for the repeal of the tax on contributions in aid of construction (CIAC). (Section 959.)

The bill provides tax incentives for NGVs and other alternative-fuel vehicles. (Sections 981-985.)

New Natural Gas Technologies
DOE is required to conduct a five-year RD&D program to increase the reliability, efficiency, safety, and integrity of the natural gas delivery infrastructure and for distributed energy resources with such funds authorized as are necessary. (Section 115.)

Each federal agency is required to carry out periodic review of its regulations to ensure that they do not inhibit market entry of new energy-efficient technologies. (Section 112.)

Production Incentives
- Tax credit for nonconventional fuels (Section 29)
- Expensing geological and geophysical costs and shut-in royalties
- Tax credits for marginal oil and gas wells
- Royalty relief when the Henry Hub price is less than $2.30 per MMBtu
- Deepwater royalty relief

Other significant gas-related provisions included in the Murkowski bill include:
- PUHCA repeal
- Improvements to federal oil and gas leasing management, including the ability of states to assume responsibility for leasing on federal lands
- ANWR leasing program
- FERC jurisdiction over wholesale electric reliability
- Prospective PURPA repeal
- Tax credits for energy-efficient appliances and homes

A copy of the complete bill can be downloaded at:
http://thomas.loc.gov/cgi-bin/query/z?c107:S.389; or at http://energy.senate.gov

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