

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

Collection/Record Group: Clinton Presidential Records
Subgroup/Office of Origin: Office of Environmental Initiatives
Series/Staff Member: Roger Ballentine
Subseries:

OA/ID Number: 19512
FolderID:

Folder Title:
Climate Change Other Oil Prices/Policy

Stack:	Row:	Section:	Shelf:	Position:
S	62	1	1	3

WHITE HOUSE
OFFICE OF ENVIRONMENTAL INITIATIVES
FILES OF ROGER BALLENTINE,
DEPUTY ASSISTANT TO THE PRESIDENT

(prepared by Angie Mizeur)

Box 5 of 9
Submitted 12/22/2000

CLIMATE CHANGE (CONT)

Other (Cont)

Oil Prices/ Policy

PATH/Housing

Pepco/GSA/Capitol Region

Press/Arts Clips

Religion

Science

21st Century Trucks

Utilities

Wildlife/Parks/Habitat

Wind

ENCLOSURES FILED OVERSIZE ATTACHMENTS

19512

NARA # 16716

Vehicle Fuel Economy – Our Most Productive Oil Reserve

Raising the fuel economy of U. S. cars and light trucks (including sport utility vehicles) by 0.2 miles per gallon (mpg) – for one year – saves about 30 million barrels of oil.

- o This increase can be accomplished by simple changes in our driving habits – more observance of speed limits, proper tire inflation, and avoiding unnecessary idling and excessive acceleration. More details are available at the fuel economy web site: <http://www.fueleconomy.gov/feg/drive.shtml>. There would be no need for different vehicles or reducing miles traveled

- o 30 million barrels is what we're taking from the Strategic Petroleum Reserve currently.

Raising the fuel economy of U. S. cars and light trucks by 5 mpg – for 20 years – would save 10.4 billion barrels of oil.

- o Technology exists to achieve this mpg improvement.
- o This is an amount of oil equal to that expected from the Arctic National Wildlife Refuge (ANWR) – but without carbon emissions, lost habitat, etc.
- o This increase could be brought to market in the same time frame as producing oil from ANWR.
- o This is a benefit which doesn't end when the field is spent.

Raising the fuel economy of U.S. cars and light trucks by 20 mpg – for 20 years – would save 29 billion barrels of oil.

- o This increase could be achieved in the new vehicle fleet within 10 years.
- o This is an amount of oil equal to that which may be supplied by the Caspian Sea

region.

As a result of the 55% increase in light vehicle mpg since 1975, 1.6 billion barrels less oil was required in 1999. This is nearly three times the amount of oil in SPRO and about 15 percent of the average estimated total resources in ANWR .

COMPARISON OF OIL SUPPLY ALTERNATIVES WITH LIGHT VEHICLE MPG IMPROVEMENTS						
	Annual amount of light vehicle fuel use in the U.S. in 2000 currently is 8 million barrels per day (mbpd) = 122 billion gallons per year = 2.9 billion barrels per year (bb/y)					
	World total oil use is 75 mbpd = 27.4 billion barrels per year					
Alternative	Resource (billions of barrels)	Yearly Amount (20 yr lifetime for oil fields) [bb/y]	Number of Years Able to Fuel Vehicles in 2000	Number of Years to Supply the World Oil in 2000	Total Carbon Generation (million mtc)	Ambient Pollution
SPRO	0.57	0.0285	0.2	0.02	66	Yes
ANWR						
Low	5.7	0.285	2.0	0.21	661	Yes
High	16	0.8	5.5	0.58	1856	Yes
Caspian Sea						
Low	8	0.4	2.8	0.29	928	Yes
High	50	2.5	17.2	1.82	5800	Yes
MPG Increase for U.S. Light Vehicles						
.2 MPG		0.029	0.01	N.A.	None	No
1 MPG		0.13	0.04	N.A.	None	No
2.2 MPG		0.285	0.10	N.A.	None	No
5 MPG		0.52	0.18	N.A.	None	No
7.6 MPG		0.8	0.28	N.A.	None	No
10 MPG		0.97	0.33	N.A.	None	No
20 MPG		1.45	0.50	N.A.	None	No
The 570 million barrels of oil in SPRO is the equivalent of about a 5 mpg gain in light vehicle fuel economy in one year or a 0.2 mpg gain over 20 years.						

Cost to	Benefits
Society	After 20
	Years
Expensive	0
Lost	0
Habitat	0
Energy	0
Security	0
	.03 bb/year
Payback	.13 bb/year
to vehicle	.285 bb/year
buyer	.52 bb/year
within	.8 bb/year
3-5 years	.97 bb/year
	1.45 bb/year

Dear Majority Leader:

With so much attention focused on the recent spike in gasoline prices and OPEC's decision to increase production quotas, it is critical that we not lose sight of our nation's long-term energy needs. For seven years, my Administration has pursued a sound, comprehensive policy to address those needs. Regrettably, several key elements of my strategy have languished in Congress. In recent days, in fact, my budget initiatives to strengthen our energy supply have suffered significant cuts, while some Members have advanced proposals that would seriously harm our environment in the name of energy security. I write to urge that we work together to enact my pending energy proposals without further delay.

I remain concerned about high gasoline prices, particularly in the Chicago/Milwaukee region. Last week, the Department of Energy (DOE) and the Environmental Protection Agency sent analysts to the region to explore the reasons for this price differential. While a number of legitimate factors appear to have contributed to the unusually high prices in the region, it is possible that they may not account for the entire increase in gas prices. The Federal Trade Commission has initiated an investigation of pricing practices in the region to determine if there is any unfair or illegal activity there. We look forward to the results of these investigations.

Our concern about high gasoline prices in the short-term, however, cannot be allowed to distract us from addressing the long-term energy needs of our nation. My Administration has pursued an energy policy that provides a comprehensive and balanced approach to addressing the Nation's energy needs. Unfortunately, Congress is considering proposals that are unnecessary and would do irrevocable harm to the environment, such as opening the Arctic refuge to drilling. Instead, Congress should act on the following key pieces of my energy policy.

First, I have proposed a \$4 billion package of tax incentives to encourage consumers to purchase more efficient cars, homes, and consumer products. Congress has failed to enact this package for over two years, even though these tax credits would save consumers money, protect our environment, and reduce our dependence on foreign oil. I also have proposed tax incentives to support renewable energy and the domestic oil industry, including the expensing of geological and geophysical expenses and delay rental payments.

Second, throughout my Administration I have proposed significant increases in Federal investments in domestic sources of energy, including most recently \$1.4 billion in FY 2001 for high-priority items at the Department of Energy (DOE) for energy efficiency, renewable energy, natural gas, and distributed power generation systems. Specific examples of these investments include more efficient technologies for our factories and homes, weatherization of low income households, technologies to produce biofuels and power from biomass, and the Partnership for a New Generation of Vehicles (PNGV) -- a collaborative effort with automakers to deliver affordable cars that are three times more fuel efficient. Yet, Congress has failed to support these critical goals, approving only 12 percent of our proposed increases for energy efficient and

renewables over the past seven years. This year, the House has already cut DOE's FY 2001 budget for energy efficiency programs below last year's enacted level and has completely cut virtually all DOE funding for the PNGV program.

Third, two years ago I submitted the Comprehensive Electricity Restructuring Act to Congress, to improve the operation and efficiency of the electricity sector. Congress to date has not enacted a comprehensive restructuring bill. Such legislation would improve the reliability of our electric power system, provide American consumers an estimated annual savings of \$20 billion that will come with competition in electricity markets, and significantly reduce greenhouse gas emissions.

Fourth, to address energy supply emergencies, I have called for reauthorization of the Strategic Petroleum Reserve (SPR), the establishment of a regional home heating oil reserve in the Northeast, and replenishment of the Low Income Home Energy Assistance Program emergency funds. Authorization for the SPR expired on March 31, 2000. It is critical that the SPR be reauthorized so that I have available all means to respond to any possible energy supply emergency. Further, the Department of Energy cannot establish a regional home heating oil reserve in the Northeast to respond to shortages of home heating oil until Congress either reauthorizes the SPR or separately passes legislation authorizing the creation of such a reserve with a responsible trigger. Because Congress has failed to act thus far, it will be virtually impossible to establish a home heating oil reserve in time for next winter.

America needs a balanced, forward-looking energy policy based on the proposals that my Administration has put before Congress. We are committed to a responsible approach that will infuse our energy sector with both efficiency and competition; that values clean air, clean water, and healthy lands; and that seeks to cushion America against emergencies in the energy market. Congress should act on my proposals without further hesitation.

Sincerely,

REVENGE OF THE OLD ECONOMY

Oil shock 2000 shows that energy costs can still pack a wallop

Apparently, some Old Economy bogeymen can still reach out from the grave. High oil prices are hurting economies and angering consumers around the world. In Europe, protesters are seeking relief via a rollback of high fuel taxes. Truckers brought chaos to central London on Sept. 13. The same week, cabbies demonstrated in Germany and fishermen occupied ports in Italy. In the Pacific Rim, finance ministers from oil-dependent industrializing nations called on OPEC to hike production further. And in the U.S., where soaring prices of home heating oil are becoming a Campaign 2000 issue, President Clinton announced the creation of a heating-oil reserve.

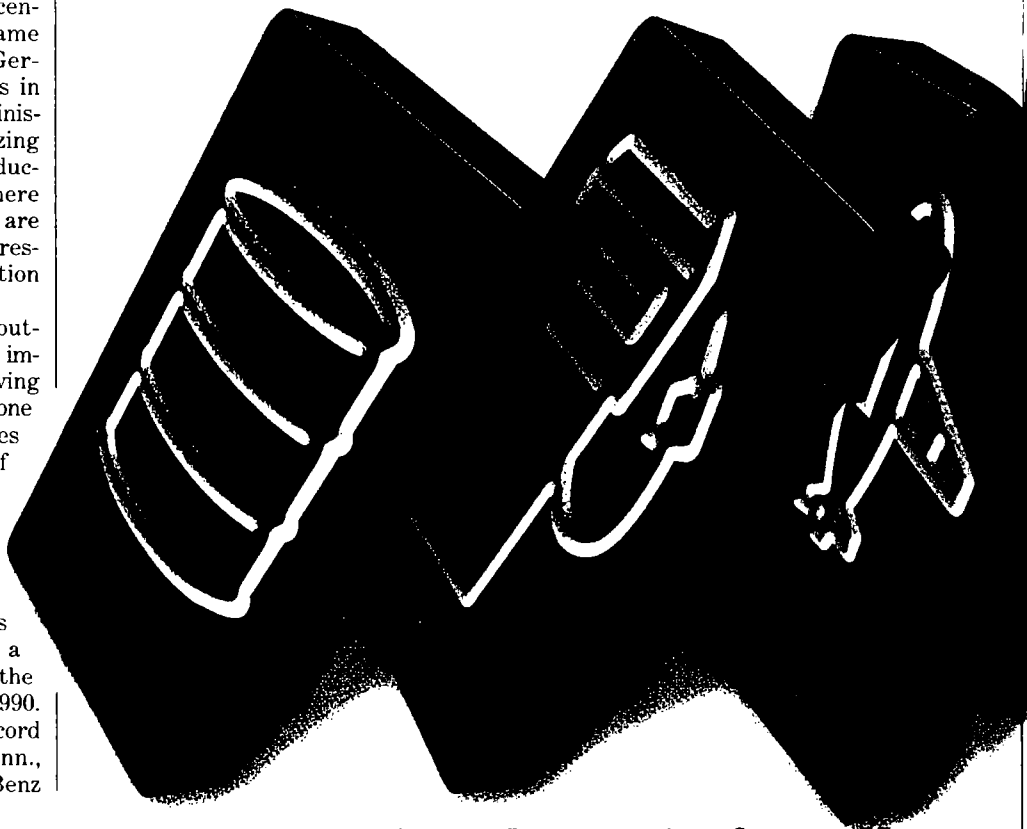
What's behind all the sudden outrage? Impatience with the spreading impact of high oil prices—and a gnawing fear that they are here to stay. No one worried much last year when prices began rebounding from their low of less than \$11 a barrel reached in December, 1998. Even when they hit \$30 a barrel earlier this year, many thought the spike would be brief. But despite three production-boosting agreements by OPEC this year—the latest Sept. 10—oil is \$34 a barrel, near its highest level since the eve of the Persian Gulf War in 1990. And natural gas prices are near record highs, too. In frigid Roseau, Minn., Schools Superintendent Herbert Benz

worries that higher prices for diesel for buses and natural gas for heating may drain money from his instructional budget: "If it's more than just a spike, we've got some real problems."

For now, few are predicting the energy price rise will throw the world into a recession. But that's not to say that it won't exact a hefty toll as its effects roll through the economy: A prolonged price hike will measurably slow growth and raise inflation in oil-consuming nations, economists say. While rich countries are feeling the pain primarily in a handful of sectors, poorer countries such as India, Thailand, and South Korea that depend heavily on imported oil are

getting walloped across the board.

So what's the outlook? Most oil experts believe that for the foreseeable future, prices are likely to remain volatile—and high—because of several factors. Oil inventories remain low. OPEC is approaching the limits of what it can produce without fresh investment, which has a long lead time. And Western oil companies, refusing to believe that higher prices are here to stay, are holding back on exploration and production spending (page 40). Goldman, Sachs & Co. analyst Stephen Strongin expects "a series of roving crises" over the next 12 to 18 months. He says there's even a 10% chance that oil could hit \$50 a barrel.



No one predicts global recession, but a hefty toll may

Not everyone is that downbeat, however. In the futures market, which has admittedly been wrong before, traders expect the spike to reverse. For the world economy, the best-case scenario would be a drop in oil and gas prices to a more reasonable, sustainable level. That could happen through a combination of production increases and slowing growth in demand, resulting in lower prices in the spot oil market. But even the fu-

tures traders aren't expecting a big drop; they anticipate crude to be back under \$27 a barrel by early 2002.

FED-PROOF. Until there's some relief, high oil prices will pose a nasty problem for central bankers. Such spikes don't just spawn inflation; they slow the economy by robbing consumers of spending potential. That's what the stagflation of the 1970s—when prices soared and growth slowed—was about. It's a crisis bankers can't easily fight by raising rates or by cutting them, either. If costly energy significantly slows the world

HOW BAD A HIT? THREE PRICE SCENARIOS

Standard & Poor's DRI estimates that oil prices will drift steadily downward to \$25 a barrel by the end of 2001. It ran the numbers for BUSINESS WEEK on two other scenarios: oil rising to \$40 a barrel or falling to \$20.

economy, it's possible that consumers will retrench, businesses will cut back investment, and a downward spiral will take hold. Says DuPont Co. Chief Financial Officer Gary M. Pfeiffer: "I worry about what high energy prices will do to the growth of the world economy if they were sustained at these levels."

To see where energy bites, start with the U.S., the world's biggest energy consumer. Overall, the U.S. economy remains in excellent health, with growth expected to top 5% again this year and unemployment just over 4%. And

	\$20 OIL	\$25 OIL	\$40 OIL
GDP GROWTH*			
2000	4.3	4.2	4.1
2001	3.8	3.6	3.2
CONSUMER PRICE INFLATION*			
2000	3.0	3.3	3.8
2001	1.8	2.0	2.3
UNEMPLOYMENT RATE			
2000	4.1	4.1	4.1
2001	4.4	4.5	4.7

*Change from fourth quarter to fourth quarter. Oil price used in calculations is about \$2 less than commonly quoted West Texas Intermediate.

DATA: STANDARD & POOR'S DRI

though consumers paid 19% more for energy in July than they did a year earlier, contributing to a 3.5% annual rise in the Consumer Price Index, that hike has not significantly driven up the cost of other consumer goods. The core CPI, excluding food and energy, rose a modest 2.4% through July. The major reason: The New Economy has been so productive, it's overwhelmed the negative effects of costly energy, says John A. Tatom, a Chicago-based economic consultant.

But that could change as oil prices move. The U.S. forecast of Standard & Poor's DRI, a sister company of BUSINESS WEEK, is for continued healthy, noninflationary growth. DRI expects gross domestic product growth to slip to 3.6% next year, inflation to drop back to 2%, and unemployment to rise

ay be exacted as the shock ripples through the economy

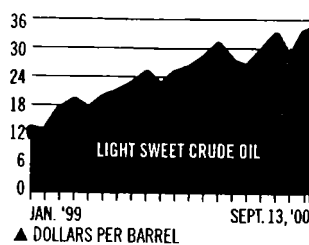
A prolonged spike will measurably slow growth and

to 4.5%. That's assuming oil is around \$30 a barrel the rest of this year and falls to \$25 by the end of 2001.

If oil were at \$20 throughout the period, things would have been a little better. DRI says 2001 growth would have been 3.8%, inflation 1.8%, and unemployment 4.4%. But if oil heads up to \$40 throughout the period, the bite could be much stiffer. Then, 2001 growth would drop to 3.2%, inflation could hit 2.3%, and unemployment 4.7%.

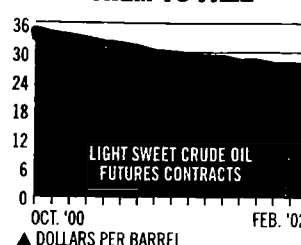
For now, it's easy to find sectors where trouble is already popping up. Motorists remain frustrated by high prices at the pump, and businesses are starting to pass along higher fuel costs. Last month, United Parcel Service Inc. im-

ENERGY PRICES HAVE SOARED...



DATA: NEW YORK MERCANTILE EXCHANGE

...BUT TRADERS EXPECT THEM TO FALL



posed its first fuel surcharge in 20 years, 1.25% on all packages. Starting with Continental Airlines Inc. on Sept. 7, airlines have doubled, to \$40, their fuel surcharge on round-trip tickets. Truckers and railroads are howling about costly diesel.

With winter approaching, the political focus—and consumer outrage—in the

that sales of small pickups are more hurt by fuel hikes than sales of big sport-utility vehicles. "The upscale buyer is going to drive no matter what. This doesn't even faze them," says Van Bussman, chief economist of Daimler-Chrysler Corp.

One reason the U.S. is in decent

U.S. is shifting from gasoline to home heating oil and natural gas. The price of natural gas—about \$5 per thousand cubic feet—is more than twice what traders were forecasting last winter. And heating oil is up 80% since the start of the year, with inventories 37% below a year ago.

Those who feel oil shock most are the poor and working class. General Motors Corp.'s research indicates

COMMENTARY

By Christopher Palmeri

BIG OIL'S PRIORITY: PUMP UP THE STOCK PRICE

It has been the problem that won't go away: the skyrocketing price of oil. Already three times this year, OPEC has increased its oil production quotas in an effort to alleviate the pressure.

So what about the major non-OPEC oil companies, who, along with a number of non-OPEC nations, collectively produce more than half of the world's crude? Surprisingly, while OPEC is pumping harder than it has in decades, some of the world's largest oil companies are actually producing less. BP slashed its production by 4% and midsize producers such as Texaco Inc. and Occidental Petroleum Corp. have been even less active. Both saw their worldwide oil output slide 7% in the first half of this year. Together, ten of the largest reduced their output by 0.4% in the first half of this year, according to a recent report from Merrill Lynch & Co. "The lack of a production increase from non-OPEC sources is a big reason why prices remain high," says Merrill Lynch analyst Steven A. Pfeifer.

Many longtime industry watchers say that's because

a new reality has set in among the world's oil titans. Wall Street has demanded that companies like Exxon-Mobil Corp. and the Royal Dutch/Shell Group increase profits to buttress their long-languishing stock prices and avoid the boom-and-bust cycles that once defined the industry. Daniel J. Rice, manager of the \$800 million State Street Global Natural Resources fund, is one of many money managers who, under threat of selling off shares, has continually pressured oil company executives not to overspend in the pursuit of production increases. "We give them money, they produce a lot more, and the price goes down," he says.

The focus on profits has only been exacerbated as oil companies on Wall Street have had to compete for capital with technology companies and other outperforming stocks. As a result, the majors have reacted to the current crude price runup by being ultraconservative in pursuing new fields. "The major oil companies are not responding to the high prices with significantly increased exploration and production spending," explains Pfeifer.

Consequently, last year, while prices were on the rise, oil companies replaced just 92% of their production through new discoveries. That was below their three-year average replacement rate of 95%, according to Arthur Andersen.

To be sure, the world's oil companies are not asleep at the well. This year, Merrill Lynch is expecting exploration and production spending at the companies it follows to rebound by 16% to nearly \$34 billion. Unfortunately for the world's energy consumers, most of that spending is coming in the second half of

DRILLING IS DOWN

Oil production at five of the largest publicly traded global producers

	PRODUCTION*	YEAR-OVER-YEAR % CHANGE
EXXONMOBIL	2,546	2
ROYAL DUTCH/SHELL	2,254	3
BP	2,014	-4
CHEVRON	1,151	-1
TEXACO	809	-7

CHANGE FOR 10 OF THE LARGEST PRODUCERS: -4%

*Thousands of barrels per day, first six months of 2000

DATA: MERRILL LYNCH & CO., MULTEX.COM

and raise inflation in oil-consuming nations

shape is that energy efficiency has risen steadily since the 1970s. Over the past five years, the economy's output is up 20% while oil consumption is up only 9%. That's in spite of the power drained by the flood of PCs, servers, and the like: Technology companies use less energy than heavy manufacturers. Even Intel Corp., a heavy user of electricity in its chipmaking plants, says energy represents a tiny percentage of its costs.

Elsewhere in the world, energy matters more. High prices have touched off gas-station boycotts and oil-refinery blockades in Europe. Bigger bills for imported oil have turned the euro zone's trade account from surplus to deficit (page 60). Already, higher oil costs could knock up to half a percent off Europe's growth next year, economists say. In Japan, Goldman Sachs estimates that more costly oil could cut 1.7% from

corporate profits in the coming fiscal year.

Most vulnerable to higher oil prices are less-wealthy industrializing nations. To soften the blow, China is deferring planned new fuel taxes. Thai Airways and Malaysian Airline System have been hard-hit by jet fuel costs. Even OPEC member Indonesia has suffered. It's short on diesel fuel, which it imports.

In the U.S., high oil prices have helped Federal Reserve Chairman Alan Greenspan do his job of slowing the economy. But it's a dangerous way to chill consumer demand. A bigger bill for imported oil increases the need for the U.S. to import capital. Not surpris-

ingly, the government reported Sept. 13 that the current account deficit widened in the second quarter to a record \$106 billion.

Moreover, Greenspan worries that the oil price runup could cause unforeseen trouble. That's what happened in 1973, 1979, and 1990, when price jumps helped trigger recessions no one predicted. Even so, it's not clear what policy decision flows from that concern: As Greenspan knows from past tangles with rising oil and gas prices, you're damned if you raise rates, damned if you lower them. About all he can do is sit and worry. Like the rest of us.

By Peter Coy in New York, with David Fairlamb in Frankfurt, Michael Arndt in Chicago, Jeff Green in Detroit, Richard M. Miller in Washington, Amy Barrett in Philadelphia, and Joan Oleck in New York

the year and won't translate into new oil supplies for many months.

And not everyone is opening their spigots. Exxon and Royal Dutch slashed their oil exploration and production budgets by more than 30% in the first half of this year. At Chevron Corp., the cuts were less severe, but a still hefty 8% drop.

But with oil now bouncing around the mid-\$30s, how do these producers continue to rationalize such tightfistedness? Many cite the fact that it was a scant two years ago that overproduction in the face of weakening demand from Asia caused the price of oil to fall to a meager \$10 a barrel. Producers are naturally wary of a repeat. "We take the long view of oil and gas prices," says Chevron Corp. Chairman and Chief Executive David J. O'Reilly. "It's counterproductive to overreact to prices that are either atypically low or high."

STIFF CRITERIA. Recent statements by some of the men who run the major oil companies reveal just how conservative they have become regarding their pricing forecasts and their production investment decisions. The key in determining new spending these days is not how high oil is—it's how far it could fall. BP Amoco PLC Chairman John Browne put out a press release in July that said his company only invests in projects that will be profitable at prices as low as \$11 a barrel. ExxonMobil Chairman Lee



Raymond told analysts much the same thing in August: "All projects must meet our return-on-capital requirements in a low-price environment."

Given such stringent investment criteria for new wells, it's no wonder that high prices have left the major oil

Wall Street pressure to hike profits has American oil companies keeping a lid on production

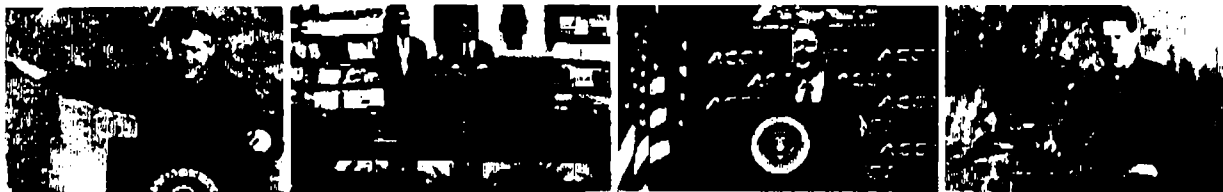
companies gushing profits. At the ten large companies tracked by Merrill Lynch, net income more than doubled in the first half of this year, to \$26.4 billion. "The new mantra at the oil giants is conservative and cynical," says Arthur L. Smith, chairman of oil company researcher John S. Herold Inc. "After years of being bludgeoned by institutional investors about their low returns on capital, they are out to prove they can make money." Faced with a choice between making Wall Street happy or pleasing the world's energy consumers, the major oil companies have clearly chosen sides.

Palmeri covers the oil industry from Los Angeles.

THE WHITE HOUSE

Clinton/Gore actions to Enhance America's Energy Security

[Help](#) [Site Map](#) [Text Only](#)



Go

President &
First Lady

Vice President &
Mrs. Gore

Record of
Progress

The Briefing
Room

Gateway to
Government

Contacting the
White House

White House
for Kids

White House
History

White House
Tours

THE WHITE HOUSE Office of the Press Secretary

For
Immediate
Release

March 18,
2000

DETAILS OF THE CLINTON/GORE ACTIONS TO ENHANCE AMERICA'S ENERGY SECURITY

Energy-Efficiency Enhances Energy Security And Strengthens The Economy: The strong performance of our economy over the past year, despite oil price rises, underscores the dramatic improvements in energy efficiency and reliability over the past quarter century. While past oil shortages have taken a significant toll on the U.S. economy, the recent increases in oil prices have yet to have a major impact on the U.S. economy. Increased energy efficiency – in cars, homes, and manufacturing – has helped insulate the economy from these short-term market fluctuations. In 1974, we consumed 15 barrels of oil for every \$10,000 of gross domestic product. Today we consume only 8 barrels of oil for the same amount of economic output. But we can do even better.

President Clinton And Vice-President Gore Today Announced Important Steps To Promote Energy Security & Efficiency In America. These Steps Include:

- **I. Establishing A Regional Home Heating Oil Reserve:** The President remains concerned about the effect that future shortages of home heating oil may have on consumers of home

[What's New - March 2000](#)

[Women's History Month 2000](#)

[The Minimum Wage: Increasing the Reward for Work](#)

[New Medicare Prescription Drug Benefit](#)

[Meeting with Religious Leaders](#)

[Women's History Month](#)

[New Public Private Initiative to reduce Weather Related Air Travel Delays](#)

[Gun Violence](#)

[Agreement with Smith & Wesson](#)

[Restoring](#)

[Colorectal Cancer Awareness Month](#)

[American Red Cross Month](#)

[Prescription Drug Plan](#)

[U.S. - China WTO Accession Deal](#)

[Common Sense Gun Laws](#)

[Irish-American Heritage Month](#)

heating oil may have on consumers of home heating oil, particularly in the Northeast and New England. In order to reduce the likelihood that future shortages will harm consumers, the President will:

- *Support The Establishment of a Regional Reserve:* The President supports the creation of a home heating oil reserve with an appropriate trigger in the Northeast to combat future product shortages. In the event of home heating oil shortages, heating oil can be sold from the reserve in order to increase the supply on the market.
- *Direct DOE To Undertake Necessary Environmental Reviews:* The President has directed the Department of Energy to begin the appropriate environmental reviews for the creation of a home heating oil reserve in the Northeast.
- *Call on Congress to Establish Reserve Through Legislation:* The President calls on Congress to pass legislation that authorize the creation of a regional product reserve, and includes an appropriate trigger. The President reserves his right to establish a reserve under his existing authority, subject to the outcome of the environmental reviews, in the event that Congress fails to act.

- **II. Reauthorizing the Strategic Petroleum Reserve:** Current authorization to operate the Strategic Petroleum Reserve expires on March 31st, even as OPEC oil ministers will be meeting in Vienna to discuss production quotas. In order to ensure that the President maintains the ability to use all available tools to respond to the needs of the United States economy, he will call on Congress to immediately reauthorize Titles I and II of the Energy Policy and Conservation Act, which authorize the Strategic Petroleum Reserve and the International Energy Program at the Department of Energy.

- **III. Enacting A Comprehensive Tax Incentive Package:** In order to insulate the economy from the effects of future energy price increases, the United States needs comprehensive and balanced package of tax incentives. This comprehensive approach includes support for

Civilian Research and Development

Patient's Bill of Rights

Joint Statement by President Clinton and Prime Minister Tony Blair of the UK

Vaccines to Developing Countries

Human Genome Project

Information Age

Semi-Finalists for 2000-2001 White House Fellowships

President Clinton Urges Congress to Pass Budget

Congressional Budget Resolution

Save your Vision Week

St. Patrick's Day, 2000

Clinton/Gore actions to Enhance America's Energy Security

Social Security Trustees Report - March 30, 2000

Strengthen America's Energy Security

Report Shows Unprecedented Progress

Proclamation: Cancer Control Month, 2000

National Poison Prevention Week

Education and

comprehensive approach includes support for domestic oil producers to reduce our reliance on oil imports and must include incentives to continue expanding renewable energy and increasing the energy efficiency of our economy. These tax proposals are either paid for in the President's budget or will be paid for with offsets.

- **A. Preserving Productive Capacity of the Domestic Oil Industry:** In addition to calling for steps to decrease our demand for oil through increased efficiency, the President is proposing new steps to support new domestic exploration and production, and to lower the business costs of producers when oil prices are low. These tax proposals will cost less than \$1 billion over ten years. The Administration will also continue examining opportunities to preserve marginal well production.

■ **Support New Domestic Exploration and Production:** Major technological advances in oil exploration, such as three- and four-dimensional seismic drilling, are helping us to find more oil, at greater depths, on and off-shore. At the same time, these technologies have reduced the environmental footprint left by exploration and production to 1/10th the size it was 25 years ago. We need to encourage the use of these advanced technologies at the same time we support exploration for oil and gas.

- **Expensing of Geological and Geophysical Costs:** The President is proposing to support domestic exploration and production by adjusting the treatment of the costs of exploration and development -- geological and geophysical costs -- in the tax code. Under current law, geological and geophysical costs may be deducted in current year if exploration activity was

Executive Order
Sharing Day, U.S.A., 2000

Greek Independence Day

Proclamation
National Child Abuse Prevention Month, 2000

Statement by the President on NPT

Common Sense Gun Legislation

Raising the Minimum Wage

U.S. - China WTO Accession Deal

U.S. - China WTO Agreement

Enforcement of The U.S. - China WTO Accession Deal

unsuccessful, but must be capitalized if the exploration activity was successful. By allowing the industry to expense these costs, we will be encouraging the discovery of new reserves. The Department of Energy estimates that G&G will add 126,000 barrels of oil a day to domestic production.

■ **Allowing Expensing of Delay**

Rental Payments: A "delay rental payment" is an amount paid by a lessee to the lessor of a petroleum resource when the lessee does not begin producing commercial quantities of oil or natural gas as soon as was agreed to. The delay rental payment is intended to compensate the lessor for the royalties he does not receive while production is delayed. Currently, the Federal tax code requires delayed rental expenses to be capitalized to the depletable base of the property to which they relate if the property is being held for development. Prior to 1993 all delayed rental payments were allowed to be expensed in the year incurred. Allowing producers to expense delay rental payments will lower the cost of doing business on Federal lands.

■ **Examining Measures to Preserve Marginal Production:** The

Administration will continue to examine measures to preserve marginal well production, which accounts for over 20 percent of on-shore oil production in the lower-48 states.

- **B. Improving the Energy Efficiency of the Economy:** Any tax package to improve the energy security of the country must include incentives to improve energy efficiency and promote the use of

renewable energy. The President has proposed:

■ **Tax Credits For Electric, Fuel Cell, and Qualified Hybrid Vehicles.** Cars and light trucks (including minivans, sport utilities, and pickups) currently account for about 40 percent of the nation's oil consumption. Tax credits for electric, fuel cell, and hybrid vehicles will help to move advanced technologies that use less or no oil from the laboratory to the highway. President Clinton is calling for Congress to:

■ *Extend the current tax credit for electric vehicles and fuel cell vehicles.* Under current law, a 10 percent credit, up to \$4,000, is provided for the cost of qualified electric vehicles and fuel cell vehicles. The credit begins to phase down in 2002 and phases out in 2005. The President's proposal would extend the tax credit at its \$4,000 maximum level through 2006.

■ *Pass tax credits for hybrid vehicles.* The President proposes a \$500 to \$3,000 credit, depending on the vehicle's design performance, for all qualifying hybrid vehicles, including cars, minivans, sport utility vehicles, and pickup trucks.

■ **Tax Credits for Efficient Homes and Buildings.** Increasing the efficient use of power will reduce our reliance on fossil fuels. To encourage energy efficiency, the President is calling on Congress to pass tax incentive that will promote the use of energy efficient practices and technologies in our homes and buildings.

- Tax credit for new energy efficient homes. To encourage the purchase of new energy efficient homes, the President proposes a tax credit of between \$1,000 and \$2,000 for new energy efficient homes.
 - Tax credit for energy efficient equipment in new and existing homes or buildings. To encourage the purchase of electric heat pump water heaters, natural gas heat pumps, and fuel cells, the President proposes a tax credit equal to 20 percent of the cost of the investment, subject to a cap, for equipment purchased between 2001 and 2004.
- **C. Enacting Tax Credits To Diversify Fuel Sources in the Economy:** The President's Council of Advisors on Science and Technology, in its 1997 report to the President recommended that the federal government invest in developing a broad portfolio of energy sources. To promote the development of these new energy sources, the President has proposed:
- **Tax Credits for Efficient Non-Petroleum Based Sources of Power:** In support of the PCAST recommendation, the President has proposed, and calls on Congress to pass tax credits to promote innovative and sustainable sources of energy supply including:
 - Tax Credits For Solar Energy Systems. A 15 percent tax credit will encourage the purchase by consumers and businesses of solar energy systems. The maximum credit would be \$2,000 for rooftop

photovoltaic systems and \$1,000 for solar water heating systems.

■ Tax Credits For Wind Power.

Current law encourages the production of electricity from wind through a tax credit of 1.5 cents per kilowatt hour (adjusted for inflation after 1992). The current tax credit covers facilities placed in service before January 1, 2002. The President proposes a 2.5-year extension of this tax credit.

■ Tax Credits For Electricity Produced From Biomass.

Biomass refers to trees, crops and agricultural wastes used to produce power, fuels or chemicals. This package of credits would:

■ Extend Tax Credits For Closed Loop Biomass:

Extend current "closed-loop" biomass credit of 1.5 cents per kilowatt hour for 2.5 years.

■ Provide Tax Credits For Open Loop Biomass:

Expand the availability of the biomass credit of 1.5 cents per kilowatt hour to include "open-loop" biomass (certain forest-related resources and agricultural and other sources) for facilities placed in service from 2001-2005, and provides a 1.0 cent credit for electricity produced from 2001-2003 from facilities placed in service prior to January 1, 2001.

■ Provide Tax Credits

For Cofiring Biomass:

Add a 0.5 cent per kilowatt hour tax credit for electricity produced by cofiring biomass in coal plants from 2001-2005.

- Tax Credits For Methane from Landfills: Adds a 1.5 cent per kilowatt hour credit for electricity produced from landfills not subject to EPA's 1996 New Source Performance Standards/Emissions Guidelines (NSPS/EG) and 1.0 cent per kilowatt hour for landfills subject to NSPS/EG. Qualified facilities would be facilities placed in service after December 31, 2000 and before January 1, 2006.

- **IV. Making Common Sense Investments In Promoting Energy Efficiency And Alternative Energy Technologies.** In addition to providing tax credits to promote domestic oil production and energy efficiency, the President and Vice President have already presented budget requests for appropriations that will further promote energy security. They have proposed a budget that includes over \$1.4 billion next year to accelerate the research, development, and deployment of alternative and more efficient energy technologies.

- **\$275 Million To Make America's Homes and Buildings More Efficient:** The Administration has proposed funding for research to make offices, homes, and appliances 50 percent more energy efficient within a decade and has proposed \$275 million in the budget to help do so. People understand what that means for their home heating bill. Overall, meeting this goal would save consumers \$11 billion a year in energy costs.
- **\$173 Million To Weatherize Low Income Households:** Our budget proposes expanding DOE's

Weatherization Assistance Program, which helps low-income households make their homes more energy efficient. These are the Americans that most need to reduce monthly energy costs. This program has already weatherized almost 5 million low-income homes and is saving 3.0 million barrels of oil each year. With funding from DOE and the states, we plan to add more than 150,000 homes to the list in the next year – which will save more than an additional 91,000 barrels of oil per year. Our budget seeks \$154 million for this important program for next year and an additional \$19 million for the current year in the FY 2000 supplemental appropriation.

- **\$255 Million To Make America's Vehicles More Efficient:** Our *Partnership for a New Generation of Vehicles* is on track to deliver attractive, affordable cars that get up to three times the fuel efficiency of today's cars. A car that gets twice the fuel economy of today's comparable vehicle is the equivalent of cutting the price of gas in half for the American driver. A typical consumer would save more than \$300 a year in fuel costs and SUV owners would save more than \$400 a year. By 2010, DOE plans to develop and commercialize fuel efficiency and alternative-fuel technologies that reduce oil consumption by nearly 700,000 barrels per day. By 2020, these technologies will reduce oil consumption by nearly 1.5 million barrels per day. Our budget seeks \$255 million for PNGV.
- **\$410 Million To Promote Clean Renewable Energy:** The President's FY01 budget proposes \$410 million for DOE efforts to develop domestic sources of renewable energy, including wind, photovoltaics and geothermal energy. In addition, the President's Bioenergy Initiative will help us create new fuels for our cars that will reduce U.S. oil consumption, create new income opportunities in rural America, and meet

environmental challenges, such as climate change.

- **Studies on Diversifying Fuels in the Northeast and New England:** The Northeast and New England are disproportionately reliant on home heating oil as a fuel to heat and power homes, businesses and industry. On February 16th the President directed Department of Energy to undertake a study of ways the region could diversify its energy sources thereby minimizing the effect of a volatile home heating oil market on the regional economy. The Department is also studying the effects of interruptible natural gas contracts on the home heating oil market in the region.

[President and First Lady](#) | [Vice President and Mrs. Gore](#)

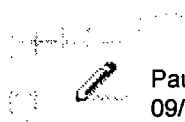
[Record of Progress](#) | [The Briefing Room](#)

[Gateway to Government](#) | [Contacting the White House](#)

[White House for Kids](#) | [White House History](#)

[White House Tours](#) | [Help](#) | [Text Only](#)

[Privacy Statement](#)



Paul Bledsoe
09/25/2000 10:57:29 AM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: REMARKS BY THE PRESIDENT ON THE STRATEGIC PETROLEUM RESERVE (attached)

The clip the networks all used: "I proposed electricity restructuring legislation, they abandoned it. And for every new dollar we have sought to invest in clean, efficient sources of energy they have provided the dime. Today I urge Congress to get off that dime and take action." This shows how effective our clean energy budget argument can be in the broader energy context.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release September 23, 2000

REMARKS BY THE PRESIDENT
ON THE STRATEGIC PETROLEUM RESERVE

The South Lawn

9:30 A.M. EDT

THE PRESIDENT: Good morning. Yesterday I directed the Secretary of Energy to exchange 30 million barrels of crude oil from the Strategic Petroleum Reserve over the next 30 days.

As it stands, overall heating oil inventories are more than 20 percent lower than they were last year; 50 percent lower on the East Coast; more than 60 percent lower in New England. The underlying cause of low inventories is the high price of crude oil.

The overriding purpose for our action is to increase supply and help consumers make it through the cold winter. Families shouldn't have to drain their wallets to drive their cars or heat their homes.

I would also note that this action will result in more oil in the reserve. This is a swap. And the reserve will be replenished along with a premium, further increasing our long-term protection against energy supply disruptions. This is the right thing to do. It's good energy policy, good

national security policy, and good family policy.

Today I'm announcing new actions to help make sure that heating oil is available and affordable for our families. First, I'm directing the Department of Health and Human Services to release \$400 million in low-income home energy assistance program funds; the largest ever emergency funding release of its kind to help families who can least bear the burden of high energy prices this winter.

Second, I'm asking the EPA to help states identify ways to use more and different kinds of home heating oil while minimizing environmental consequences. This could help to further build home heating oil inventories.

Third, I am directing Federal agencies to make early contractual commitments to purchase heating oil throughout the winter so the wholesalers will have the confidence to build inventories in advance.

Fourth, I'm asking state public utility commissions to ensure that factories and businesses that use heating oil as a backup fuel keep adequate reserves.

And finally, Secretary Richardson will meet with the National Petroleum Council, an energy policy advisory committee, to discuss heating oil production this fall and winter. Taken together, these steps will enhance our nation's energy security and help to cushion working families from high heating bills. It builds on our decision in July to establish a home heating oil reserve in the Northeast.

Now, we've also taken some important steps to strengthen our long-term energy policy. To ease reliance on imported oil we've invested in new technologies to enhance recovery of domestic oil reserves. And they are quite promising. To promote clean energy alternatives we've expanded research and development of solar, wind, bio-fuels and other renewable resources.

We have also expanded research in the development of alternative forms of engines, including fuel-cell engines and engines that run on both electricity and gasoline, or electricity and other fuels. To save energy and tax dollars we have taken dramatic steps to reduce energy use in the Federal Government, America's largest consumer. By making our Federal buildings more energy efficient we will reduce electricity consumption by 30 percent, saving taxpayers \$800 million a year.

We've adopted energy efficient standards for appliances and forged new alliances with industry, including the partnership for a new generation of vehicles, and the 21st Century Truck Initiative. We're on track to tripling the mileage of passenger vehicles, and more than doubling the mileage of medium and heavy-duty trucks. We have made headway. But too many critical elements of our energy strategy have been chopped, blocked or ignored by the Republican majority in Congress.

I proposed electricity restructuring legislation, they abandoned it. And for every new dollar we have sought to invest in clean, efficient

sources of energy they have provided the dime. Today I urge Congress to get off that dime and take action.

Take up my energy budget initiatives and tax incentives to help families and businesses buy fuel saving vehicles, and energy efficient office buildings and homes and appliances; fully fund development and research into clean energy technology; provide clear guidelines for using home heating oil reserves when we need to; reauthorize the strategic petroleum reserve and stop trying to make this about drilling in the Arctic National Wildlife Refuge.

We cannot achieve energy security by endangering the environment, denying critical funding, or delaying vital action. We ought to do something more than offer cold comfort to people who simply want a warm home.

Once again, I ask Congress for its support. We can work together. There are many things that we can do. If you look -- let me just emphasize this because it always gets overlooked every time an energy issue comes up -- just look at what we have done with immediately available technologies to reduce energy consumption in the Federal Government. If we did the same thing throughout the domestic and the business sectors of the American economy, using off-the-shelf technology with a two year or less pay off -- if we did it throughout the economy you would see reduced reliance on foreign oil, lower fuel bills, higher productivity and more jobs in the American economy.

But we need help from Congress to give people the incentives to do the kinds of things that we're already doing throughout the Federal Government and that many, but nowhere near enough, businesses and consumers are doing.

So I hope we can get some action on the long-term issues as well. But I believe we have done the right thing with the petroleum reserve.

Thank you.

Q Mr. President, I was wondering how you would respond to critics, like to Speaker Hastert, Governor Bush, who say this is really politics, this is more about the ballot box than it is the gasoline prices?

THE PRESIDENT: Well, first I would say I doubt if they are relying on home heating oil this winter. If you look at it, the reason that the prices got so high is that the supplies got so low. And what we're trying to do here is to even out supply and price. We're in an unusual situation, I might add, where if you look at the projected price of oil for next spring, it's actually lower than it is now.

Now what does that indicate? If people believe that the price of oil is going to go down in several months, why is it so much higher now? It must be because there is a supply shortage in the stocks and reserves. So what we decided to do, after debating this for weeks, and looking at all of our options, was to have a release from the petroleum reserve, and to do it in the form of a swap. So we release the oil now, and then those who

get it will replace it next spring when the oil is projected to be more plentiful, and therefore much cheaper.

So what we're trying to do is to compensate for the fact that the stocks are too low and the price is too high now, and to get the oil back into the reserve in the springtime, when the stocks are supposed to be higher and the price is supposed to be lower. I think it's plainly a prudent thing to do.

Who else had a question?

Q When do you think prices are going to come down?

THE PRESIDENT: Well, I think -- haven't they dropped almost three dollars a barrel in the last two days? I think they've dropped quite a bit just in the last couple of days, and former Secretary Rubin used to say, markets go up and markets go down; it's hard for me to know. All I can tell you is, I think this is a prudent thing to do to increase stocks for the winter, and to try to make sure it has a moderating effect on prices, but basically, to deal with the supply issue. And normally, in a market situation, the price will follow. That's what I hope will happen here.

But I will say again, I think it is important that we accelerate the long-term issues. But if you look at the things that are out there now that are available for us, if you look at how close we are to breaking the chemical barriers, to the efficient production of bio-fuels, and all these other things that we're working on -- if you look at how close we are to having a truly affordable, efficient fuel-cell vehicle, all these things are out there. We should be accelerating efforts into where we know the future is. And if we do that, we will reduce the number of these instances that the United States and the world will face in the future.

Thank you very much.

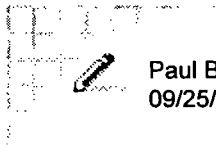
Q Can you say anything about Martin Indyk, Sir?

THE PRESIDENT: No, I have nothing else to say, except I've got to go to California. If you want to come, you're welcome to do it. I think some of you are coming with me.

-END-

9:44 A.M. EDT

Message Sent To: _____



Paul Bledsoe
09/25/2000 11:19:19 AM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: Factsheet: President Clinton's 21st Century Approach to America's Energy Needs

President Clinton's 21st Century Approach
to America's Energy Needs
September 23, 2000

Ensuring the availability of affordable and environmentally responsible energy is central to maintaining our unparalleled economic growth and prosperity. For more than seven years, the Clinton-Gore Administration has consistently pursued a forward-looking and balanced approach to meeting America's energy needs in the 21st century. This strategy supports continued development of traditional energy sources, and aggressive efforts to improve energy efficiency and promote alternative energy sources.

To ease reliance on imported oil, the Administration has invested in new technologies that have significantly enhanced recovery of domestic oil reserves. To promote clean energy alternatives, the Administration has expanded research and development of solar, wind, biomass and other renewable sources. To save energy and money, the Administration has adopted new energy-efficiency standards for appliances and forged new partnerships with industry. These include Energy Star and the Partnership for a New Generation of Vehicles (PNGV), which is on track to producing affordable vehicles that get three times the mileage of today's models. And to demonstrate federal leadership, the President has issued Executive Orders directing federal agencies to dramatically improve the energy efficiency of their buildings and automotive fleets. To save energy and tax dollars, we have taken dramatic steps to reduce the energy use of the federal government, the larger energy user in the world, reducing energy consumption by 30 percent and saving \$800 million a year.

CONGRESS HAS FAILED TO ACT TO IMPROVE AMERICA'S ENERGY SECURITY: The Republican leadership has failed to act on key elements of the President's long-term energy policy, including: tax incentives to consumers for the purchase of energy-efficient cars, homes and appliances; comprehensive electricity restructuring; and reauthorization of the Strategic Petroleum Reserve. Over the past seven years, Congress has approved only 12 percent of the increased funding proposed by the President for energy efficiency and renewable energy.

Now, the Republican leadership wants to open the Arctic National Wildlife Refuge to oil drilling -- despoiling one of America's last wild places for a

short-term supply of oil. Furthermore, they continue to cut programs critical to meeting our long-term energy needs. For instance:

- * The House appropriation of \$650 million for Energy Conservation is \$201 million less than the President's request, and \$95 million below the current year's appropriations. These cuts include:
 - * A \$143 million cut -- complete elimination of applied R&D at the Department of Energy (DOE) for the PNGV program, canceling over 400 R&D projects in 33 States by 15 Federal labs, 22 universities, and others;
 - * A \$14 million cut in the low-income home Weatherization Assistance Program, which will mean about 7,000 fewer low-income families will have their energy bills reduced; and,
 - * A \$2 million cut from industrial cogeneration, which funds R&D on more efficient turbines that increase energy efficiency and reliability of the electrical grid.
- * The House appropriation of \$343 million for Solar and Renewable Energy is \$67 million less than the President's budget request. These cuts include:
 - * Cuts in biomass fuels and biopower R&D, virtually eliminating our planned increase to develop alternative transportation fuels and to make better use of biomass and waste materials for generating electricity
 - * Reductions in solar electricity R&D, designed to make solar energy cost-competitive;
 - * Cuts in R&D for wind-power, which, if adequately funded, will be competitive within a few years.

CONGRESS SHOULD IMMEDIATELY PASS THE FOLLOWING KEY COMPONENTS OF CLINTON/GORE ENERGY POLICY:

I. Tax Incentives to Encourage Greater Efficiency, Renewable Energy, and Domestic Oil Production

The Administration has proposed a balanced package of tax incentives to promote responsible development of traditional energy sources, and, for three years has proposed tax incentives to promote a wide range of alternative and renewable energy sources. The President and Vice President, once again, call on Congress to enact:

- * Tax incentives to support the domestic oil and gas industries, including the expensing of geological and geophysical testing and ?delay? rental payments;
- * Tax credits to promote wind, solar, biomass, and other domestic alternative sources of energy;
- * Tax Credits For Electric, Fuel Cell, and Qualified Hybrid Vehicles (\$2 billion, five-year package); and,
- * Tax Credits for Efficient Homes and Buildings.

II. Investments in R&D to Improve Energy Efficiency, Make Renewable Energy Affordable, and Promote the Clean Use of Fossil Energy

Increased energy efficiency has significantly enhanced our energy security by reducing our demand for oil. In 1974, we consumed 15 barrels of oil for each \$10,000 of GDP; today we only consume 8 barrels of oil per unit of GDP. But much more can be done. The President and Vice President have secured substantial increases to accelerate the research, development, and deployment of alternative and more efficient energy technologies. They

call on Congress to build on these efforts by approving the following FY 2001 requests:

- * \$1.7 billion for Federal R&D efforts to promote energy efficiency in buildings, industry, and transportation, and expanded use of renewable energy and distributed power generation systems, including:
- * \$254 million to continue the Partnership for a New Generation of Vehicles (PNGV), which is on track to deliver affordable cars that get up to three times the fuel efficiency of today's cars (an increase in average fuel economy of just three miles per gallon would save almost a million barrels of oil per day);
- * \$289 million, a 47 percent increase, for a bioenergy initiative that will help us develop new fuels for cars and new sources of electricity, reducing U.S. oil consumption;
- * \$275 million, a 42 percent increase, for R&D investments to develop technologies to make homes and buildings more energy efficient;
- * \$154 million to weatherize low-income homes, reducing energy bills and the demand for oil, and;
- * An increase for Energy Star product and building partnerships, to promote the purchase of energy-efficient products and buildings. (If all consumers purchased Energy Star? products and buildings, the Nation's energy bill could be reduced by \$100 billion over the next 15 years);
- * \$376 million for fossil energy R&D to enhance domestic oil exploration and promote clean use of fossil fuels, including \$10 million to continue an Ultra-Clean Fuels Initiative to develop cleaner fuels in existing refineries;
- * \$5 million for research to help safely extend the life of nuclear power plants; and,
- * \$85 million to create a new Clean Air Partnership Fund to help States and localities reduce pollution and become more energy efficient.

III. Preparation for Energy Supply Emergencies

Notwithstanding our best efforts to promote a diverse and secure supply of energy, because of the location of the world's oil reserves, the fact remains that we import a sizeable portion of the oil we consume. In order to mitigate that risk, and to address emergencies created by unusually cold or warm weather, the Administration calls on Congress to:

- * Reauthorize the Energy Policy and Conservation Act, which governs the use of the Strategic Petroleum Reserve; and,
- * Authorizing the establishment of the Northeast/New England Home Heating Oil Reserve with an appropriate trigger for its use.

Comprehensive Electricity Restructuring for Reliability and Savings

The President is disappointed that Congress has abandoned efforts to pass comprehensive electricity restructuring legislation. Comprehensive restructuring would lower electricity prices, clean the environment, encourage innovation and new services, and increase the reliability of our Nation's power supply grid. It will also enhance energy security by enabling us to operate our economy on less fuel. The President and Vice President's proposed legislation, which Congress failed to enact for over two years would:

- * Provide \$20 billion in annual savings to America's families, saving typical family of four \$232 per year;
- * Strengthen Reliable Service by requiring all participants in electric

transactions on the grid to comply with mandatory reliability standards developed by a reliability organization; and,
* Improve the environment, through both market mechanisms and policies that promote investments in energy efficiency, renewable energy, distributed power and combined heat and power technologies.

Message Sent To:

David Gardiner/WHCCTF/EOP@EOP
Roger S. Ballentine/WHO/EOP@EOP
Elliot J. Diringer/WHO/EOP@EOP
Ian A. Bowles/NSC/EOP@EOP
John D. Gibson/WHCCTF/EOP@EOP
Debra Reed/CEQ/EOP@EOP
Shelley N. Fidler/WHCCTF/EOP@EOP
Janet Anderson/WHCCTF/EOP@EOP
Rosina M. Bierbaum/OSTP/EOP@EOP
Peter W. Backlund/OSTP/EOP@EOP
Angela C. Mizeur/WHO/EOP@EOP
Linda Ricci/OMB/EOP@EOP
Wesley P. Warren/OMB/EOP@EOP
Brooke D. Anderson/NSC/EOP@EOP
James E. Kennedy/OVP/EOP@EOP
"(OES) Sandalow, David B" <SandalowDB@state.gov> @ inet
"(OES) Povenmire, Susan L" <PovenmireSL@state.gov> @ inet
"English, Kate" <Kate.English@hq.doe.gov> @ inet
"Wymer, Natalie" <Natalie.Wymer@hq.doe.gov> @ inet

TODAY'S ENERGY CHALLENGES: MISSED OPPORTUNITIES IN CONGRESS

Over the last year, with rising gas prices, inadequate inventories of home heating oil, and fears of increasing electricity outages there has been great concern over the perceived lack of a national energy policy. Our problem is not the lack of a federal energy policy that hampers us today, but rather a lack of sufficient sustained resources and, in some cases, authority to implement that policy that leaves us more vulnerable to price spikes, supply shortages and brownouts. Let me cite a few examples in the area of Energy Efficiency and Renewable Energy:

Auto Fuel Efficiency. In major energy policy set by President Clinton and Vice President Gore in 1993, the U.S. Government and the Detroit automakers agreed to a major partnership to develop technology that will radically increase auto fuel economy -- up to 80 miles per gallon -- and cut emissions. **In recent years, however, Congressional support for the Partnership for a New Generation of Vehicles (PNGV) has not been adequate. And as I'm sure you will agree, the recent House vote to zero DOE funding for the program was a blow to one of the cornerstones of our national policy to cut foreign oil demand, decrease oil price volatility and reduce air pollution.** Just a one mile per gallon increase in the U.S. fleet average fuel economy would save more than 100 million barrels of oil a year and cut greenhouse gas emissions by over 10 million metric tons of carbon

Home Heating and Cooling. In the Energy Conservation in Existing Buildings Act of 1976, Congress created the low income weatherization assistance program. Our Weatherization Assistance Program has retrofitted almost 5 million homes to date. **But today it finds itself without adequate funds to complete the task of making the 29 million homes of financially disadvantaged citizens energy efficient, thereby reducing family energy use for space heating and cooling by about one-third. In fact, with level funding for this program between 1996 and today, DOE would have been able to weatherize nearly 250,000 additional low-income family homes, saving energy and an average of \$200 per year per family in utility bills.** Many of these families would have been shielded from the worst of last winter's run-up in prices for home heating fuels.

Appliance Standards. In the Energy Policy and Conservation Act of 1975 (EPCA) and National Appliance Energy Conservation Act, Congress directed DOE to set energy efficiency standards for appliances. **Reduced appropriations and Congress' withdrawal of authority for the program between 1995 and 1996 -- in addition to DOE's own technical challenges -- delayed promulgation of many standards.** Recent unprecedented peak electricity demand and price spikes could have been dampened had these standards been in effect, particularly for air conditioners. Fortunately, Mr. Chairman, we expect to have several of the "high priority" appliance standards in place by the end of this year

Federal Energy Use. In a variety of federal legislation since 1973, including EPCA, the National Energy Conservation Policy Act of 1978 and the Energy Policy Act of 1992, Congress set aggressive goals for cutting energy use in federal buildings and vehicles. The federal government today consumes almost 2 percent of U.S. energy and by cutting use we can increase energy

security, dampen price volatility and decrease pollution. Unfortunately, in the 1980's and early 1990's support for the Federal Energy Management Program, and individual agency conservation programs, was weak and we lost the opportunity for major savings. The good news is that support has grown somewhat in recent years and we recently met our EPACT goal for the year 2000. However, we are not nearly as far along as we might have been in cutting federal energy demand for oil, natural gas and electricity, thus exacerbating our current energy challenges.

Alternative Fuels. In the Energy Policy Act of 1992, Congress took a number of actions to spur the introduction of alternative fuels -- e.g., natural gas and ethanol -- in vehicles. For example, in Section 502 (b) Congress set the goal of achieving alternative fuel use in vehicles of 10 percent by 2000 and 30 percent by 2010. Some tax incentives were established and certain regulatory authorities were provided, but these actions were not sufficient to have a substantial impact on the transportation sector's continuing dependence on petroleum products. Following Presidential Executive Orders, this Administration has worked hard to advance alternative vehicle technologies and fuel use, most recently for federal fleets. As a result, the nation is better positioned to respond to tight world oil markets than it might have been, although fully funding budget requests for alternative fuels in transportation would enable the nation to further lessen its dependence on petroleum.

Tax Incentives. For the past several years, the Administration has proposed a variety of tax incentives to cut energy use and stimulate the development of clean energy technologies. These include:

- Tax credits for fuel-efficient cars
- Tax credits for energy-efficient homes
- Tax credits for clean energy

Despite the great benefits these would deliver in dealing with today's energy crises, Congress has adopted none of them.

Budget and appropriations. Over nearly the entire Clinton Administration, the President's request for energy efficiency programs (Interior appropriations) and for renewable energy (Energy and Water Development) have greatly exceeded what the Congress has appropriated. Beginning from FY 1996 through FY 2000, the Administration requested a total of approximately \$6 billion for energy efficiency and renewable energy programs but received only \$4.6 billion in appropriated funds, a 23% cut. See attached funding table.

DRAFT

Improving America's Energy Efficiency: Part of a Long-term, Common Sense Energy Policy

"What I want to do, because I think it's important for our long-term security, is get America in a position where the fuel efficiency of our vehicles is so great -- or our ability to use alternative-fuel vehicles, or dual-use vehicles, biofuels, mixed electric and gasoline-fuel vehicles that have automatically regenerating batteries -- that our capacity to do that is so great that we will not be reliant on the ups and downs of supplies, and the increases that might come in the future would have a much more limited impact on us."

-- President Clinton, February 16, 2000.

As America considers its long-term energy future, and as we deal with short-term market fluctuations, we must consider the fundamental benefits of becoming more energy efficient and using alternative energy. By pursuing an energy policy that allows us to get more from a barrel of oil, we can help shield the economy and consumers from future energy price shocks, while at the same time creating new job opportunities and reducing air pollution and greenhouse gas emissions.

This Administration has an energy policy to achieve this. The President and the Vice President have put in place or proposed a broad array of common-sense policy, budget, and tax initiatives to further these goals. Our policies and initiatives will accelerate the research, development, and deployment of clean and efficient energy technologies. The initiatives span the major energy using sectors of the economy: buildings, transportation, industry, and electricity.

While some believe that the way to respond to market fluctuations is to unbalance the budget and hurt the environment, the President and Vice President have a policy that rejects this false choice and that is putting us on a path to a more self-reliant energy future that will save Americans' money and protect our environment.

MAKING AMERICA'S HOMES AND BUILDINGS MORE EFFICIENT

- **R&D for Energy Efficient Homes.** *Partnership for Advancing Technology in Housing* is a partnership between the Federal government and building industry to develop and deploy affordable, safe housing technologies to make new homes 50 percent more energy efficient and to make at least 15 million existing homes 30 percent more energy efficient within a decade. Meeting PATH's goals would save consumers \$11 billion a year in energy costs. The President's FY 2001 budget for building efficiency efforts, such as PATH, Energy Star, and Building America totals \$275 million.
- **Tax Credits for Energy Efficient Homes.** Buyers of new homes that are 50% more energy efficient than current standards would receive a tax credit of \$2000. Buyers of new homes that are 30% more efficient would receive a tax credit of \$1000. A home that is 50% more efficient reduces demand for energy for both heating and cooling. This provides a double benefit -- consumers get a tax credit when they purchase their home, as well as the ongoing savings of reduced energy bills.

- **Labeling Energy Efficient Buildings.** Buildings in the top 25 percent of energy efficiency qualify for EPA's and DOE's "Energy Star Buildings" label. In 2001, EPA's buildings programs (both residential and commercial) will help reduce energy consumption by more than 70 billion kilowatt hours, resulting in over \$5.5 billion in energy savings to participating consumers and businesses. By 2010, the savings will reach more than \$30 billion per year.
- **Energy Efficient Appliances and Products.** Various DOE and EPA programs aim to promote the dissemination of energy efficient appliances and products:
 - DOE is accelerating its program to establish **energy efficiency standards** for commercial heating and cooling, water heaters, and electrical distribution transformers, and will begin efforts to harmonize international energy-efficiency standards and test methods to promote exports of efficient U.S. products.
 - EPA and DOE's **Energy Star Products** program saves consumers money and reduces greenhouse gas emissions at the same time by promoting the use of energy efficient products – everything from computers to refrigerators to central air-conditioning units. Proposed new funding will support the launch of new Energy Star product lines and will promote the Energy Star labeling program in 6-10 export markets. If we all used Energy Star products, America would reduce its energy bill by *\$100 billion over the next 15 years!*
- **Federal Government Leadership in Energy Efficient Buildings.** On June 3, 1999, President Clinton issued Executive Order 13123 that requires each Federal agency to improve its energy efficiency in its buildings by 35% relative to 1985 levels by 2010. The Federal government is the largest energy consumer in the United States, and spends more than \$4 billion annually to heat, cool, and power 500,000 buildings. Federal agencies have already reduced energy consumption 19 percent per square foot relative to 1985 levels. The President's action will also reduce greenhouse gas emissions equal to taking 1.7 million cars off the road, and save taxpayers more than \$750 million a year.
- **Low-Income Weatherization.** DOE's Weatherization Assistance Program delivers home energy efficiency services, such as insulation, to low-income U.S. households, reducing energy consumption and costs. Since 1976, 4.8 million low-income homes have been weatherized. Some 75 million gallons of oil have been saved in the half a million weatherized homes heated by oil. Over 900,000 homes will be weatherized from 2000 to 2005, more than 10 percent of which use fuel oil for heating, saving an additional 15 million gallons of oil.

MAKING AMERICA'S VEHICLES MORE EFFICIENT

- **R&D for Energy Efficient Cars and Trucks.** *Partnership for a New Generation of Vehicles* is a government-industry effort that aims to develop attractive, affordable cars that meet all applicable safety and environmental standards and get up to three times the fuel efficiency of today's cars. In January 2000, the auto-industry partners unveiled their PNGV

“concept cars”, keeping the program on schedule for meeting its 2004 goal. Similar government-industry efforts are aimed at developing cleaner, more efficient diesel engines for both light and heavy trucks. The President’s FY 2001 budget includes \$255 million for PNGV-related work. A new car which gets twice the fuel economy of today’s average car would save customers more than \$300 a year in fuel costs; SUV owners would save more than \$400 a year. *By 2010, DOE will help develop and commercialize fuel efficiency and alternative-fuel technologies that reduce oil consumption by nearly 700,000 barrels per day. By 2020, these same technologies will reduce oil consumption by nearly 1.5 million barrels per day.*

- **New Tax Credits for Energy Efficient Cars.** The President’s proposed tax package extends the current tax credit (of up to \$4000) through 2006 for qualified electric and fuel cell vehicles and also includes a credit of \$500-3000 for the purchase of a qualifying hybrid vehicles from 2003-2006.

PROMOTING CLEAN RENEWABLE ENERGY

- **R&D for Clean, Renewable Energy.** Over the past 20 years, Federal R&D has resulted in a 90 percent cost reduction in solar photovoltaics and wind power. The President’s FY 2001 budget proposes a total of \$410 million for DOE’s solar and other renewable energy programs. The package includes expanded efforts in key renewable technologies, such as wind, bioenergy, photovoltaics, and geothermal energy.

-- In 2001, U.S. wind-power generating capacity (using many technologies developed by DOE) will increase to 3,000 megawatts on-line (up from 2,000 megawatts in 1999). Under the *Wind Powering America* initiative, DOE will accelerate research on next-generation wind technologies with a long-term goal of supplying 5 percent of U.S. electricity needs by 2020.

-- DOE’s *GeoPowering the West* initiative seeks to supply at least 10 percent of the electricity of the American West with geothermal energy by 2020, with 20,000 megawatts of capacity installed.

-- DOE is continuing research on low-cost hydrogen production and storage, prerequisites to the widespread use of hydrogen in Proton-Exchange Membrane fuel cells for hybrid vehicles and buildings, which will be ready within 5 years.

- **Bioenergy & Bioproducts.** On August 12, 1999, President Clinton issued Executive Order 13134 coordinating Federal efforts to accelerate the development and deployment of technologies that convert trees, crops and other biomass into a vast array of fuels and products. The President specifically called for tripling U.S. use of bioenergy and bioproducts by 2010. Meeting the President’s goal would reduce U.S. oil consumption, create new income opportunities in agricultural communities, and meet environmental challenges, including global warming. To follow through on that commitment, the President is proposing \$289 million to accelerate the development of bioproducts and bioenergy.

- **Tax Credits for Clean Electricity Production.** The President proposes to extend the current 1.5 cent per kilowatt hour tax credit for production of electricity from wind and closed-loop biomass and to provide new credits for electricity produced from open-loop biomass facilities, coal-biomass cofiring, and methane from landfills. These efforts will reduce demand for oil to produce electricity.
- **Electricity Restructuring.** The Administration's proposal to restructure the electricity industry will make the industry more competitive, save consumers at least \$20 billion annually on their electricity bills, improve energy security, and reduce air pollution and greenhouse gas emissions. The Administration's proposal includes a requirement that utilities open up their distribution and transmission wires to all qualified sellers; a renewable portfolio standard to increase the use of renewable energy; a \$3 billion per year Public Benefits Fund to spur greater investment in energy efficiency and renewable energy technologies; and a labeling requirement to inform consumers about clean energy options.

MAKING AMERICA'S INDUSTRY MORE EFFICIENT AND COMPETITIVE

- **Industrial Combined Heat and Power (CHP) Systems.** DOE is developing new industrial CHP systems to capture thermal heat that would otherwise be wasted. These systems are expected to be 15 percent more energy efficient and 80 percent cleaner than conventional power systems and cut electricity costs by 10 percent. In addition, EPA and DOE are also working to eliminate barriers to the rapid dissemination of combined heat and power technology.
- **Voluntary Industrial Partnerships.** EPA is proposing to expand a host of industrial partnership programs that help businesses develop and implement win-win strategies for cutting energy use, saving on energy costs, and reducing both air pollution and greenhouse gas emissions.
- **Industries of the Future.** This DOE program works cooperatively with the nation's most energy-intensive industries – such as aluminum, glass, chemicals, forest products, mining, petroleum refining, and steel – on developing technologies that increase energy and resource efficiency. By 2010, industrial energy intensity (energy consumption per unit of output) will be reduced 25 percent below 1990 levels, increasing the competitiveness of U.S. industries through \$30 billion in reduced energy costs (from 2000 to 2010) and saving 1.4 Quads of energy.

DRAFT

Energy Efficiency & Clean Energy Make Common Sense for America

"What I want to do, because I think it's important for our long-term security, is get America in a position where the fuel efficiency of our vehicles is so great -- or our ability to use alternative-fuel vehicles, or dual-use vehicles, biofuels, mixed electric and gasoline-fuel vehicles that have automatically regenerating batteries -- that our capacity to do that is so great that we will not be reliant on the ups and downs of supplies, and the increases that might come in the future would have a much more limited impact on us."

-- President Clinton, February 16, 2000.

As America considers its long-term energy future, and as we deal with short-term market fluctuations, we must consider the fundamental benefits of becoming more energy efficient and using alternative energy. By pursuing an energy policy that allows us to get more from a barrel of oil, we can help shield the economy and consumers from future energy price shocks, while at the same time creating new job opportunities and reducing air pollution and greenhouse gas emissions. While some believe that the way to respond to market fluctuations is to unbalance the budget and hurt the environment, the President and Vice President have a policy that rejects this false choice and that is putting us on a path to a more self-reliant energy future that will save Americans' money and protect our environment.

MAKING AMERICA'S HOMES AND BUILDINGS MORE EFFICIENT

- **R&D for Energy Efficient Homes.** The President's FY 2001 budget proposes \$275 million for building efficiency efforts, including the *Partnership for Advancing Technology in Housing* – a government-industry partnership to develop and deploy affordable, safe housing technologies to make new homes 50% more energy efficient and at least 15 million existing homes 30% more energy efficient within a decade. Meeting these goals would save consumers \$11 billion per year.
- **Tax Credits for Energy Efficient Homes.** Buyers of new homes that are 50% more energy efficient than current standards would receive a tax credit of \$2000. Buyers of new homes that are 30% more efficient would receive a tax credit of \$1000.
- **Buildings in the top 25% of energy efficiency qualify for EPA's "Energy Star Buildings" label.** In 2001, EPA's buildings programs (both residential and commercial) will help reduce energy consumption by more than 70 billion kilowatt hours, resulting in over \$5.5 billion in energy savings to participating consumers and businesses.
- **Energy Efficient Appliances and Products.**
 - DOE is accelerating its program to establish **energy efficiency standards** for commercial heating and cooling, water heaters, and electrical distribution transformers.
 - EPA and DOE's **Energy Star Products** program saves consumers money and reduces greenhouse gas emissions at the same time by promoting the use of energy efficient products – everything from computers to refrigerators. If we all used Energy Star products, America would reduce its energy bill by *\$100 billion over the next 15 years!*
- **Federal Government Leadership in Energy Efficient Buildings.** The President's Executive Order of June 1999 requires each Federal agency to improve buildings energy efficiency by 35% relative to 1985 levels by 2010. The President's action will save taxpayers more than \$750 million a year and also reduce greenhouse gas emissions equal to taking 1.7 million cars off the road.
- Since 1976 DOE's **Weatherization Assistance Program** has weatherized some 4.8 million low-income households. Some 75 million gallons of oil have been saved in the half a million

weatherized homes heated by oil. Over 900,000 homes will be weatherized from 2000 to 2005, more than 10% of which use fuel oil, saving an additional 15 million gallons of oil.

MAKING AMERICA'S VEHICLES MORE EFFICIENT

- **R&D for Energy Efficient Cars and Trucks.** *Partnership for a New Generation of Vehicles* is a government-industry effort that aims to develop attractive, affordable cars that meet all applicable safety and environmental standards and get up to three times the fuel efficiency of today's cars. *By 2010, DOE will help develop and commercialize fuel efficiency and alternative-fuel technologies that reduce oil consumption by nearly 700,000 barrels per day. By 2020, these same technologies will reduce oil consumption by nearly 1.5 million barrels per day.*
- **New Tax Credits for Energy Efficient Cars.** The President's proposed tax package extends the current tax credit (of up to \$4000) through 2006 for qualified electric and fuel cell vehicles and also includes a credit of \$500-3000 for the purchase of a qualifying hybrid vehicles from 2003-2006.

PROMOTING CLEAN RENEWABLE ENERGY

- **R&D for Renewable Energy.** The President's FY01 budget proposes \$410 million for DOE efforts to develop key renewable technologies, including wind, bioenergy, photovoltaics and geothermal energy.
- **Bioenergy & Bioproducts.** The President's August 1999 Executive Order coordinates Federal efforts to accelerate the development and deployment of technologies that convert trees, crops and other biomass into a vast array of fuels and products. Meeting the President's goal of tripling U.S. use of bioenergy and bioproducts by 2010 would reduce U.S. oil consumption, create new income opportunities in rural America, and meet environmental challenges, such as climate change.
- **Tax Credits for Clean Electricity Production.** The President proposes to reduce the demand for oil to produce electricity by extending current tax credits for electricity from wind and closed-loop biomass and providing new credits for electricity produced from open-loop biomass facilities, coal-biomass cofiring, and methane from landfills.
- **Electricity Restructuring.** The Administration's proposal to restructure the electricity industry will make the industry more competitive, save consumers at least \$20 billion annually on their electricity bills, improve energy security, and reduce air pollution and greenhouse gas emissions.

MAKING AMERICA'S INDUSTRY MORE EFFICIENT AND COMPETITIVE

- **Industrial Combined Heat and Power (CHP) Systems.** DOE is developing new industrial CHP systems to capture thermal heat that would otherwise be wasted. These systems are expected to be 15% more energy efficient, 80% cleaner, and 10% less expensive than conventional power systems
- **Voluntary Industrial Partnerships.** EPA's array of partnership programs help businesses cut energy costs while reducing both air pollution and greenhouse gas emissions.
- **Industries of the Future.** This DOE program works cooperatively with the nation's most energy-intensive industries (aluminum, glass, chemicals, forest products, mining, petroleum refining, and steel), aiming to reduce energy consumption per unit of output by 25% below 1990 levels by 2010, increasing the competitiveness of U.S. industries through \$30 billion in reduced energy costs (from 2000 to 2010) and saving 2.2 Quads of energy.

Oil Price Benefits of Increasing Replacement/Alternative Fuel Market Share
Draft Analysis
Office of Transportation Technologies
U.S. Department of Energy

Increasing the market share of alternative and replacement transportation fuels would have significant energy security and oil market benefits for the United States. Some of these benefits will occur even if use of the fuels is induced by regulations, subsidies, or demonstration programs. Additional energy security benefits would be generated if the fuels are competitive with petroleum fuels in at least some market segments.

Competitive alternative and replacement fuels produce energy security benefits in two principal ways:

- First, by reducing the quantity of petroleum consumed and imported, they reduce the vulnerability of the economy to oil price shocks.
- Second, by increasing the price-responsiveness of oil demand, they reduce the market power of the OPEC cartel, making it more difficult for OPEC to raise prices and the sustain those price increases.

Today alternative and replacement fuels account for 3.6 percent of total U.S. gasoline demand. The majority of this is blending stocks used in gasoline. Methyl tertiary butyl ether, MTBE, which is predominately derived from natural gas, comprises 2.6 percent of gasoline demand. Ethanol produced from renewable energy sources, which is primarily blended into gasoline, comprises 0.7 percent of gasoline demand. The use of MTBE is driven by clean air requirements, while ethanol use is subsidized by a partial exemption from motor fuel excise taxes. Alternatives to petroleum-based fuels, such as propane, compressed natural gas, alcohols, electricity and biodiesel comprise only 0.3 percent of total U.S. gasoline use.

Even these modest levels of alternative and replacement fuel uses are providing some energy security benefits. In a very preliminary, draft market simulation of world oil markets, we have estimated the world oil price impacts of U.S. alternative and replacement fuel use. The following results were obtained:

- The present 3.6 percent market share of alternative/replacement fuels produces an approximately \$1.00/barrel reduction in oil prices from what they would be if alternative/replacement fuels were not used at all. At current U.S. oil consumption levels of 6.8 billion barrels, this level of alternative/replacement fuel use results in a savings of approximately \$ 7 billion on an annual basis.
- If the U.S. were to achieve the 10 percent replacement fuel goal of the Energy Policy Act of 1992, oil prices could be reduced by approximately \$3.00/barrel. At current U.S. oil consumption levels of 6.8 billion barrels, this level of alternative/replacement fuel use

would result in a savings of approximately \$ 20 billion on an annual basis.

**PRESIDENT CLINTON ANNOUNCES STEPS TO ADDRESS HIGH ENERGY PRICES
AND LOW STOCKS OF HOME HEATING OIL**
September ??, 2000

President Clinton today announced a five-part package to reduce the burden of high heating fuel prices and the risk of heating oil shortages this winter. These steps build on the President's July decision to establish a home heating oil reserve in the Northeast. He once again renewed his call for Congress to reauthorize the Energy Policy and Conservation Act, which authorizes operation of the Strategic Petroleum Reserve (SPR), and to authorize the establishment and operation of a permanent heating oil reserve in the Northeast with appropriate criteria for its use. The President also renewed his call on Congress to enact key parts of his comprehensive energy strategy, including his energy tax and investment packages and comprehensive electricity restructuring legislation. These are critical steps towards reducing energy costs for American families and businesses.

PRESIDENT CLINTON RELEASES LIHEAP EMERGENCY FUNDS IN RESPONSE TO HIGH HEATING FUEL PRICES: President Clinton today directed the Department of Health and Human Services (HHS) to release \$400 million in Low Income Home Energy Assistance Program (LIHEAP) emergency funds to all States to assist low-income households facing significant increases for heating oil, natural gas, and propane this coming winter. The President strongly encourages the recipient states that are reliant on heating oil to use the funds to encourage low-income households to fill their heating oil tanks shortly, before the weather turns cold, and to enter into fixed price heating oil contracts or contracts that include a price cap. Each of these steps would reduce the risk that low income households will be burdened by higher heating fuel costs this winter. By acting now, the President is offering states an opportunity to take steps now to help low-income households cope with high fuel prices this winter.

PRESIDENT CLINTON TAKES ADDITIONAL STEPS TO REDUCE THE RISK OF HEATING OIL SHORTAGES THIS WINTER: Distillate inventories, which include both home heating oil and diesel fuel, are at unusually low levels as we head into the Fall. In the Northeast and Mid-Atlantic, where heating oil is an important residential heating fuel, inventories are currently ___ percent and ____ percent below last year's inventory levels, suggesting an increased risk of heating oil shortages this winter. In order to reduce the likelihood and severity of heating oil shortages, the President today directed:

- The Secretary of Energy to meet with refiners and encourage them to keep operating at high utilization rates in order to help build heating oil inventories;
- The Department of Energy and the Office of Management and Budget to work with Federal agencies to ensure that they fill their heating oil tanks and enter into contracts for the purchase of heating oil this winter as early as possible, and the Department of Energy to meet with representatives of state and local governments to encourage them to do the same. Filling tanks in advance of the heating season will reduce the likelihood and severity of a surge in heating oil demand when it first gets cold. Contracting to purchase oil throughout the winter gives heating oil retailers the certainty to increase their inventory of heating oil;
- The Department of Energy to work with representatives of state public utility commissions and encourage them to encourage or require natural gas customers with interruptible contracts to obtain physical stock on premises or on account for use if their natural gas service is interrupted. When natural gas customers with such contracts have backup supplies on hand, it keeps them from entering the heating oil market when their natural gas service is interrupted, causing a sudden surge in demand that affects prices paid by all consumers; and,
- The Environmental Protection Agency to encourage states to review their air quality implementation plans, and work with them to loosen the sulfur content restrictions on home heating oil in a manner that minimizes environmental impacts and creates the potential to improve heating oil inventories this winter. Refineries capable of producing heating oil that meets current sulfur standards are currently operating near capacity. By loosening the sulfur standard, domestic and foreign refineries that cannot meet the tighter standards will be able to produce heating oil and contribute to the faster building of stocks.

PRESIDENT CALLS ON CONGRESS TO ENACT KEY PARTS OF HIS ENERGY POLICY: President Clinton took

today's steps to reduce burden of high heating fuel prices and to reduce the risk of home heating oil shortages this winter. He once again renewed his call for Congress to authorize permanently a home heating oil reserve with an appropriate trigger, because the release of heating oil from the regional reserve that he established in July using existing administrative authority will remain governed by current law. The President believes, however, that a permanent home heating oil reserve in the Northeast needs a trigger for its use that is more appropriate to possible regional shortages than current law permits. Congress must also pass the President's energy tax package and budget initiatives, which would help families and businesses buy fuel-saving cars, energy efficient homes, buildings, and appliances, would accelerate the research and development of cleaner, more efficient energy technology and his comprehensive electricity restructuring legislation, in order to ensure that America has a secure energy future for the 21st century.

Heating Oil Base Package

Earlier this week, we were directed to proceed with a rollout package for the heating oil base package. This outlines some of the details related to each item in the package. I have also attached a draft press paper for the announcement. These drafts will form the basis of our discussion on Thursday morning.

The base response to the heating oil situation that the President approved included five components:

- A significant release of LIHEAP funds, tied with a strong recommendation that states use the funds to encourage the early purchases of, and early fixed price contracting for, heating oil in low income households;
- Meeting with refiners and encouraging them to keep refineries operating at high utilization rates after gasoline demand drops;
- Encouraging federal, state and local governments to begin filling their heating oil tanks early and to enter into firm contracts for the purchase of heating oil for the winter;
- Working with state public utility commissions to encourage or require natural gas customers with interruptible contracts to obtain physical stock on premises or on account for use if their gas service is interrupted; and,
- Directing EPA to work, on a state-by-state basis, to review their air quality implementation plans, and work with them to loosen the sulfur content restrictions on home heating oil in a manner that minimizes environmental impacts and creates the potential to improve heating oil supply during supply emergencies.

LIHEAP Release: In addition to the release, I recommend that we make a serious attempt to convince heating oil states to use the funds to encourage consumers to enter into fixed price or price capped contracts. We could do this in a letter from HHS or in a series of phone calls with state LIHEAP offices. This detail needs some further discussion at the staff level.

Meeting With Refiners: I propose that Secretary Richardson should meet with refiners to encourage them to operate as close to capacity as possible, consistent with safety and maintenance needs. A White House meeting (with Podesta and Sperling) would likely attract a higher level of company representation from the industry. Given the opportunity to meet at the White House, however, the industry could use the meeting to expand the topics of discussion to include environmental regulation of refineries, an important topic, but one that might distract us from focusing on home heating oil in the short term.

Work with State Public Utility Commissions: I propose that DOE and CEA staff and myself meet with representatives of state public utility commissions in order to encourage them to take available steps to require that natural gas customers with interruptible contracts maintain a backup supply of heating oil. We would arrange this meeting (or conference call) with the assistance of the association of utility regulators.

Encourage Government to Fill its Tanks: I propose that OMB, DOE and I meet with GSA and Defense regarding their purchases of distillate over the next few months, and work to ensure that they contract for their oil as soon as possible. The same group should then meet with representatives of Northeastern and Mid-Atlantic Governors to encourage them to take similar steps at the state level.

Relaxing Sulfur Requirements: EPA and DOE senior staff should meet with state environmental officials. The goal would be to work with states to raise the sulfur limit in heating oil (from 0.2 percent to _____) in order to increase the capacity of refineries to produce heating oil for the region. Although this would help even if only a few states raise the limit, it would be helpful, to the extent that they do increase the limit, if that raised it to a new common standard, so that heating oil could be moved from state to state as necessary.

MEMORANDUM FOR**FROM:****SUBJECT:** Additional Steps on Home Heating Oil**DATE:** August 31, 2000

This memo provides a base program and additional options to reduce the risk of home heating oil shortages and price spikes this winter. We recognize the risk that natural gas shortages this winter may affect a wider section of the country, and think any response should be framed in the context of your overall energy security efforts (and the extent the Congress has failed to support them). Nonetheless, this memo focuses on home heating oil, primarily on the options discussed in our draft from last week.

BASE PROGRAMS

All of your advisers (DOE, Treasury, OMB, CEA, NEC, OVP, NSC) believe that any program should go beyond Federal actions, to encourage and involve state and local governments and private institutions, who can by their early actions build up stocks and mitigate any possible shortages. Building upon the regional home heating reserve, we recommend a base program that includes:

1. Meeting with refiners and encouraging them to keep refineries operating at high utilization rates after gasoline demand drops;
2. Encouraging federal, state and local governments to begin filling their heating oil tanks early and to enter into firm contracts for the purchase of heating oil for the winter;
3. Initiating now a substantial release of LIHEAP funds, tied with a direction that states use the funds to encourage the early purchases of, and early fixed price contracting for, heating oil in low income households;
4. Working with state public utility commissions to encourage or require natural gas customers with interruptible contracts to obtain physical stock on premises or on account for use if their gas service is interrupted; and,
5. Direct EPA to work with states to help them find ways to permit use of higher sulfur home heating oil. Last year some states used existing flexibility in state implementation plans to allow higher sulfur home heating oil, achieving SO₂ requirements in other ways. EPA believes it could help other states to do so, in a way that minimizes environmental consequences. This would allow

greater production of domestic heating oil, as well as production by some foreign refineries that cannot meet current state sulfur limits. EIA and industry representatives believe this could increase production by more than 1.5 million barrels of heating oil a month.

POSSIBLE ADDITIONAL STEPS

Your advisors recognize there may be a need to take additional steps. They have prepared three options that would be seen as more aggressive. These are listed in order of increasing consequence, moving from an expansion of the current home heating oil reserve to the Strategic Petroleum Reserve swap, which could affect all petroleum markets.

Option 1: Double the Regional Home Heating Oil Reserve

We could direct DOE to double the size of the home heating oil reserve, and to obtain the product from refineries outside the United States that are not operating at capacity so as not to divert current domestic production. DOE probably would have to pay an above market price to obtain such heating oil. Further, we would have to address the absence of effective criteria for the use of the reserve, because until Congress authorizes a reserve with a workable trigger, the trigger for the reserve is an energy supply emergency, the same as the crude oil reserve. Enlarging the reserve runs the risk of discouraging private stockpiling and of underscoring our dependence on foreign production. Nonetheless, it would build on and support a program that we have already begun, one that clearly helps us to cushion the effects of shortages or price spikes.

If you decide to go beyond the base program, your economic advisers prefer this approach to either of the next two options.

Option 2: Tax Incentive to Purchase Heating Oil Early in Season

We can design a tax credit to reward home heating wholesalers for purchasing heating oil early in the season and either storing it themselves or selling it to customers. This would be a clear incentive to build private stocks. However, it could be expensive (depending on the design, Treasury estimates up to \$500 million) and difficult to administer. Most critical, however, is that although a defensible policy, it would be difficult to get enacted; it might serve to shift responsibility to the Congress, but not provide actual relief.

Option 3. Initiate an Exchange of SPR Crude Oil

Secretary Richardson recommends using providing 30 million barrels of oil from the SPR in September and October in exchange for commitments to return slightly more oil to the SPR next year. He hopes that putting additional crude oil on the market now will reduce the current price relative to the future price and encourage near term production, including of home heating oil (about 2.5 million barrels total). There is not

consensus among the agencies whether this would actually happen, but the move would nonetheless be seen as an attempt to increase supply and reduce prices. Your economic advisers have opposed this because it is the clearest attempt to intervene in world commodity markets, because it is a clear departure from the basic national security rationale of the SPR, and because its effects may be negligible or (if OPEC reacts) negative.

The NSC is concerned that this action might provoke a response from the Saudis (or other producing states), who could unilaterally reduce production by an even larger amount and completely undermine the action. NSC believes that any consideration of this approach should be deferred until, or done in conjunction with, your consultation with the Saudis next week and perhaps the OPEC meeting in Vienna September 10th. NSC and the economic advisers are also concerned that using the SPR for economic purposes would limit our ability to use it as a response to actual production cuts (e.g., by Iraq).

* * *

Your economic advisers (Treasury, CEA) recommend you defer considering any of these options until after we have a better sense of the likely OPEC actions next month. [Your other WH advisers believe that action on the home heating oil reserve is appropriate now.] DOE recommends authorizing the SPR swap immediately[,as well as_____].



MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

SUBJECT: Options to Address Prices/Shortages of Home Heating Oil This Winter

DATE: August 25, 2000

As we move towards winter, we face the possibility of higher than normal prices for home heating oil, and the possibility of heating oil price spikes in response to short term spikes in demand. Although it is important to recognize that we may be facing a period of higher prices that could last well beyond this winter, this memo identifies possible responses with respect to heating oil problems this winter. It is also worth noting that the price of natural gas also is rising, that production is essentially at capacity, and that it cannot be increased meaningfully before this winter. Accordingly, the natural gas supply situation is more likely to aggravate the heating oil situation than offer possible solutions.

OUTLOOK FOR HOME HEATING OIL

Low stocks of distillate (which includes diesel fuel home heating oil) as we enter the winter may lead to higher than average home heating oil prices, and increase the likelihood of price spikes or product shortages. Distillate stocks were low coming out of last winter, and have remained below seasonal averages since then as refineries have concentrated on making gasoline in response to its high price. Mid-August nationwide stocks of total distillate were about 111 million barrels compared to 141 million barrels last year at this time; the industry needs to build stocks of distillate by about 35 million barrels between August 16 and December 1 just to get to the 3 year average of 146 million barrels. This would require a build in inventories more than 2 times greater than any we have experienced in the last 5 years.

Nearly the entire distillate shortfall is in East Coast heating oil inventories, precisely the region that consumes much of the nation's heating oil. As of August 16, East Coast total distillate stocks were 36 million barrels, 44 percent below year-ago levels. Of this total, 6.3 million barrels were held in New England, 60 percent below last year. Heating oil inventories on the East Coast were even lower at 20 million barrels, 56 percent below last year; New England's heating oil stocks are 4 million barrels, 74 percent below last year. At the same time, according to the American Petroleum Institute, during the week of August 14, refineries were operating at 99 percent of capacity in the East, and at 96.9 percent of capacity nationwide. These high refinery

utilization rates are not unexpected, as refineries currently are earning very high margins for refined products.

Inventories of Distillate Fuel By Region, 1999 & 2000

Region	Inventory Aug '99	Inventory Aug '00	Current Inventory as Percentage of Year Ago Inventory
East	65.5	35.7	54.50%
New England	15.8	4.9	31.01%
Mid Atlantic	38.4	19.1	49.74%
Central Atlantic	11.4	11.7	102.63%
Midwest	30.0	31	103.33%
Gulf Coast	31.4	29.5	93.95%
Mountains	2.8	3.1	110.71%
West Coast	11.4	11	96.49%
National	141.2	110.3	78.12%

Although the cost of crude oil is an important factor in the cost of refining heating oil, the key to maintaining moderate retail prices of heating oil in a particular geographic region throughout the winter is to provide adequate supplies to the market, both by building stocks before the heating season and continuing to refine heating oil throughout the heating season. In recent months, however, the future price of crude oil has been lower than the current price of crude oil (a situation referred to as "backwardation"), which discourages the storage of oil that could be less valuable in the future. High crude oil prices, combined with backwardation, reduce the economic incentive to store crude oil. Heating oil futures are prices as follows:

Heating Oil for Delivery in:	Cents Per Gallon
September	95.33
October	94.45
November	93.20
December	92.15
January	90.70

Given that the market is backwardated, there is little incentive to build inventories beyond those necessary to meet firm contracts. Therefore, although refiners have an incentive to produce refined products because of high operating margins, wholesalers lack the incentive to build inventories because of backwardation. This may help explain why we are reportedly exporting heating oil, some to countries that are not even our traditional customers.

According to market participants, the market remains backwardated primarily because of the possibility that Saudi oil may come onto the market at some point over the next few months, significantly lowering the price of crude oil, and hence heating oil.

Further, we are hearing from participants in the market that having been burned several times over the last few winters (by low prices in 1997/98 and 1998/99 and high prices in 1999/2000), distributors and retailers are purchasing sufficient oil heating oil to meet their firm contracts, but not levels beyond that. Because a significant proportion of customers are not under firm contract, however, a significant proportion of customers are at risk of price spikes or high prices.

Putting extra supplies of crude oil on the market could lower the price of crude oil and might reduce (or eliminate) the level of backwardation of crude oil sufficiently to convince refineries to continue to operate near peak capacity. That might, in turn, increase the stocks of heating oil before winter. Likewise, if heating oil customers entered into more contracts to purchase heating oil for delivery during the winter months, that would increase the future price relative to the current price, reducing the backwardation of heating oil and encouraging the building of stocks.

With respect to the upcoming winter, we face two distinct (although related) possible problems. First, high prices for crude oil and low inventories of home heating oil could result in relatively higher prices. To the extent that we can encourage the building of heating oil inventories, we may be able to have some influence on its price. Second, if stocks are low when it first gets cold, there is the possibility of demand and price spikes. Policies that would encourage the early filling of tanks and the pre-purchase of backup heating oil could reduce the likelihood of price spikes by reducing the demand for heating oil when the weather first turns cold.

POLICY OPTIONS

Option 1. Initiate an Exchange of SPR Crude Oil

You could direct that the Department of Energy (DOE) conduct a relatively large time exchange of crude oil from the SPR. Secretary Richardson possesses the authority to obtain crude oil for the SPR by exchange (in addition to his separate authority to sell oil from the SPR in the event of an energy supply emergency). He proposes offering a total of 30 million barrels of oil to oil companies in September and October in exchange for an obligation to return more oil to the SPR in the future.

By putting additional crude oil on the market in the near future, Secretary Richardson hopes to increase the economic incentives for building home heating oil stocks. The price of oil for delivery in the short term is currently higher than the price of oil for later delivery (backwardation), which creates a disincentive to store stocks. Secretary Richardson hopes that putting 30 million barrels of oil on the market in the near future (500,000 barrels a day for 60 days) would lower the current price of crude oil relative to the future price, thereby increasing the likelihood that the industry would build home heating oil stocks faster and to a large volume than expected.

The SPR's authorizing statute allows for sale of oil from the SPR in the event of energy supply emergency. The only notable use of the SPR under its authorizing statute was a release of approximately 17 million barrels in 1991, after the fighting had begun in the Gulf War. (Oil from the SPR has been sold for budgetary reasons pursuant to other legal authorities.)

Pros:

- EIA estimates that a 30 million barrel SPR release could increase heating oil stocks by about 2.5 million barrels, helping to close the shortfall between forecasted stocks and expected demand.
- Demonstrates our relentless desire to seek solutions in response to potential home heating oil shortages. When combined with the establishment of a home heating oil reserve, a SPR exchange represents a significant effort to both lower prices and reduce price spikes.
- Initiating an exchange is more effective than a home heating oil reserve in reducing risk of high prices or price spikes. A home heating oil reserve is a response to a demand and price spike that creates a crisis, but getting more oil on the market early may reduce the risk of the crisis ever occurring.
- Would demonstrate good management of the SPR by increasing the volume of oil in the SPR at the end of the time exchange.

Cons:

- Economic advisors are concerned that the SPR is an imprecise tool, and that its use may not work. High margins are providing an incentive for refineries to operate at or near capacity, and more crude oil on the market will not affect the backwardation in the heating oil market. In fact, since this memo was first drafted, the justification for an exchange (reducing backwardation) has disappeared and reappeared as the price of oil fluctuated. An SPR exchange could be similar to an ill-founded currency intervention that failed, but established a bad precedent.
- The entire effect of an SPR exchange could be negated if the Saudis or any OPEC member reduce production. Further, it would undermine Saudi efforts to forge consensus within OPEC to increase production.
- Will fundamentally alter the degree to which the SPR is seen as an insurance policy against energy supply emergencies. Once the market believes that we may use reserves to influence the market in the future, they may adjust their production and storage patterns accordingly.
- Administration could take ownership of heating oil situation that we cannot control.

Option 1a. Decide to Initiate a Time Exchange, Notify the Saudis, and Reconsider Only in the Event of a Strong Saudi Reaction

Pros:

- Engaging in discussions with the Saudis reduces chance that our action will lead to OPEC or Saudi decision not to increase oil production.
- Pays proper attention to close relationship with Saudi Arabia.

Cons:

- If we wait too long, could delay exchanges into October and reduce likelihood of getting heating oil onto the market prior to winter.

Option 2: Early Release of LIHEAP Funds.

The Department of Health and Human Services could release emergency LIHEAP funds to states with low heating oil inventories as early as September. In doing so, we would be making it unambiguously clear that we are concerned about the effect of energy prices on low income households, and are ready to get ample assistance to consumers as quickly as possible. By acting early we would be raising awareness of the price risk that consumers face this winter, hopefully encouraging them to take steps available to reduce the risks and effects of high prices, such as filling their tanks early and/or entering into fixed price or price capped contracts. The size of such a release would need to consider evidence that other heating fuel prices, especially natural gas, are also increasing.

Pros:

- Not market intrusive. Cushions the effects of high prices on low income households while allowing price signals to allocate scarce supplies to areas most in need.
- Funds could be used for early fill of residential heating oil tanks, stimulating current demand and the building of inventories.
- Filling tanks in advance reduces the risk of demand spikes when it first gets cold.
- Funds could be used to encourage the use of fixed price or capped price contracts, which reduce the risk of price spikes or high prices, which can have a particularly burdensome effect of low income households.
- By entering into fixed price contracts, customers are effectively directing wholesalers to purchase forward contracts for heating oil during the winter. This would increase the futures prices, thereby lessening backwardation.

Cons:

- Will not achieve desired effect if program participants do not take advantage of program. LIHEAP is state run program and HHS is limited in its ability to dictate that States use funds for specific purposes, such fixed price contracts or early fill.
- Addresses consequences of high prices only for the most vulnerable households, without directly addressing the underlying prices, which are of concern to all heating oil consumers.

Option 3: Encourage Federal, State and Local Governments to Begin Filling Their Heating Oil Tanks Early and To Enter Into Firm Contracts For the Purchase of Heating Oil For the Winter.

The Federal government could work with state and local governments to encourage them to fill their own tanks in government buildings and schools as soon as

possible. By stimulating current demand for home heating oil, we could increase the incentive for wholesalers to purchase home heating oil in the near future. That, in turn, would constitute an additional incentive for refiners to continue producing home heating oil at as high a rate as possible. To the extent that government purchases are made sooner rather than later, it also means that they will not be entering the market closer to winter when the market may be tighter.

We also could encourage state and local governments to enter into firm contracts for their heating oil needs throughout the winter. Because heating oil is backwardated, wholesalers are not building inventories beyond what is required to serve their firm commitments. They are reluctant to purchase heating oil that they may subsequently have to sell at a lower price. To the extent that we can promote the growth of firm commitments, wholesalers will enter into contracts for the delivery of heating oil throughout the winter to meet those contracts, and this will reduce the level of backwardation, while also helping customers by limiting their price risk.

Pros:

- Early purchases of heating oil will stimulate the supply chain, creating an incentive for wholesalers and retailers to increase their level of purchases.
- By purchasing oil early, customers would be spreading the demand over a longer period of time, giving the market a better opportunity to react and increase supplies.
- By contracting for heating oil for the entire winter, wholesalers will have the assurance to purchase oil for delivery during the winter, thereby reducing the backwardation curve.
- The government would be leading by example by taking steps to reduce the risk of price spikes and to promote the building of inventories as we move towards winter.

Cons:

- Requires cooperation of states.
- States may not have funds available to purchase heating oil earlier than planned.
- States may be unwilling to enter into contracts that require them to forego the opportunity to obtain lower cost heating oil if the prices fall.

Option 4: Meet With Refiners and Encourage Them to Keep Refineries Operating at High Utilization Rates After Gasoline Demand Drops.

As noted in the discussion above, although backwardation represents a disincentive for wholesalers to build stocks of home heating oil right now it is still profitable for refineries to produce home heating oil because of high margins. By the end of August they will be in a position to reduce their output as the driving season comes to an end and the demand for gasoline declines. We could meet with refiners and encourage them to keep operating as near to capacity as possible in order to build heating oil stocks. We could attempt to exert some influence by indicating that we might consider doubling the size of the regional home heating oil reserve in the event that they do not produce heating oil at sufficient levels to build inventories before the winter.

Pros:

- If refiners keep producing at capacity after end of gas season, would build stocks and decrease risk of higher prices or price spikes.
- Refiners are perhaps best positioned to encourage the building of supplies of heating oil early in the season.
- Sets stage for identifying refiners as partly responsible for meeting consumers' needs.

Cons:

- Since the heating oil premium to crude oil is near its all time high, it is not clear that refiners need to be encouraged to do what is already in their economic interest.
- May be impossible to defer maintenance. We already asked refiners to defer spring maintenance to produce gasoline in advance of the summer.
- Unions may be concerned about safety consequences of deferring maintenance.
- Refineries will likely use the opportunity to point out that their operations are hampered by strict environmental regulations, which are making it more difficult to produce refined products and is raising their price.

Option 5: Interruptible Contracts, Encourage/Require Participants to Obtain Physical Stock on Premises or on Account

Among the factors leading to last winter's home heating oil price spikes was the entrance into the heating oil market of customers who were served by interruptible natural gas contracts. As noted above, such customers obtain a lower price for natural gas in exchange for the supplier's ability to interrupt supplies during peak demand. When their natural gas service is interrupted, many of these customers use heating oil as a backup fuel. Interruptible contracts are an efficient form of contracting because they prevent the natural gas system from having to be built to meet the peak capacity that may only be needed once every several years. However, the entrance of these customers into the heating oil market all at once contributes to price spikes. As we saw this past summer in Chicago, when short term demand is inelastic (or, in this case, growing), and short term supply is constrained, even small increase in demand or decreases in supply can lead to significant price hikes as the market moves towards a market clearing price.

On August 16th, the New York Public Utility Commission issued an order requiring that natural gas customers with interruptible contracts maintain a backup supply fuel or enter into firm contracts to assure the availability of a backup fuel. That will keep them from immediately and simultaneously entering the heating oil market and spike demand for heating oil when their natural gas service is interrupted. We could meet with public utility commissions from the remaining affected states, and encourage them to follow New York's example.

In addition, to the extent that state and local governments enter into interruptible contracts, we could encourage them to build stock of heating oil for use in the event of an

interruption. Finally, we could call a meeting of large customers with interruptible contracts and explain that we expect them to act responsibly and build emergency stocks of heating oil so that they will not spike the market if their natural gas service is interrupted.

Pros:

- Would reduce severity or likelihood of price spikes in response to interruption of natural gas contracts.
- To the extent that they met the requirement through futures contracts, they would be reducing the backwardation in the heating oil market.

Cons:

- There exists no federal authority to require interruptible natural gas customers to obtain backup fuel. Only states can require this type of planning.
- Little incentive for private parties to incur the cost of obtaining more than a minimal volume of backup fuel unless required to do so.

Option 6: Tax Incentive to Purchase Heating Oil Early in Season

As discussed above, heating oil wholesalers lack the appropriate economic incentives to build stocks because heating oil is backwardated. Specifically, they risk losing money by purchasing heating oil this month that they will sell in the future at what the market predicts will be a lower price. We could attempt to remove this incentive in the fall by proposing a tax credit available to wholesalers based on the volume of heating oil purchased by specified deadlines. For instance, we could offer a \$2 per barrel credit for heating oil purchased by October 15, \$1.50 for heating oil purchased by November 15, and \$1 for heating oil purchased by December 15. This would be much more direct and could be less distortive than using the SPR. We would know for certain that we would only be spending the money if we obtained the desired effect, in contrast to a 30 million barrel SPR exchange that would only yield an additional 2.5 million barrels of home heating oil. Proceeding with this option would require some additional analysis to refine both the level of the incentive and its total cost.

Pros:

- Less distortive than using the SPR.
- Directly encourages the building of stocks, in contrast to SPR exchange which is a more convoluted way of trying to encourage building of stocks, which may or may not work.

Cons:

- Would require legislation that may not pass.
- Suggests a government willingness to intervene in commodity markets.
- Unclear that it would even affect meaningfully heating oil inventories.
- Could be difficult to administer.
- Could be very expensive.

* * *

Staff also examined several other options, which we rejected because they each presented a particular problem. They examined doubling the size of the Northeast Home Heating Oil Reserve from 2 million to 4 million barrels to provide a larger cushion from price spikes should they occur. They rejected that idea because it would draw more heating oil away from private stocks, where it is needed badly, and because a previous DOE study indicated that a product reserve larger than 2 million barrels was not economically justifiable. Staff examined taking steps to discourage exports by waiving the Jones Act requirements that domestic shipments of heating oil be transported on U.S. flagged vessels, thereby reducing the cost of shipping by vessel. They rejected that idea because a primary pipeline used to ship heating oil to Northeast is currently operating well below capacity. Because pipelines are generally less expensive than vessels, it seemed unlikely that allowing foreign ships into the market would reduce the cost of transportation. Staff examined loosening the product specifications of home heating oil (sulfur content) to reduce the cost of producing it and to allow for increased imports. They rejected that idea because regulation of environmental criteria of heating oil is done at the state level (although it also requires EPA approval), and states may resist because it would be severely opposed by the environmental community. Staff also examined the possibility of seeking distillate from Asia and/or the Middle East. Staff rejected that idea because if such oil could be sold profitably to the United States, it would likely have already occurred, and it was unclear what the government could add.

AGENCY POSITIONS

At the outset, Secretary Summers questions the underlying concern about the heating oil market this winter. He notes that the futures market is not expecting a problem, as indicated by current futures prices of heating oil that are falling through the winter. Chairman Baily appreciates the futures market signals, but notes that they have been wrong with respect to oil this year. In contrast, Secretary Richardson is more concerned about low stocks, and not the futures market. He is concerned that if the heating oil is not physically available when it gets cold, then old futures market forecasts will be meaningless.

Despite their different perspectives about the underlying problem, none of your advisors oppose Options 2 through 5, which they generally regard as acceptable steps that may or may not have any real effect on the home heating oil situation. They recognize, however, that the policies are more likely to be perceived as the Administration trying to jawbone the industry once again, and not likely to be regarded as significant steps likely to materially affect the heating oil market.

Secretary Richardson supports Option 1, initiating a time exchange of SPR crude oil, because he believes that it presents a real opportunity to meaningfully reduce the risk of heating oil problems. In contrast, your economic advisors (Treasury, CEA, OMB, and

NEC Director) believe that it is likely to be ineffective (and perhaps counterproductive) and will establish a bad precedent. They also are concerned about undermining the Saudis, and how they and other OPEC producers will react. Secretary Summers' concern about this option is particularly intense.

Secretary Summers also opposes Option 6, enacting a tax incentive for wholesalers who purchase heating oil in advance of the heating season. He believes that it is a bad idea that will not pass Congress, but might confuse the market as it waits to see if the proposal is enacted. He is uncertain that it would meaningfully affect stocks, but feels that successful or not, it establishes a bad precedent with respect to government intervention in commodity markets. Nevertheless, he remains open to persuasion if a more fully developed idea appears. Your other economic advisors (CEA, OMB, NEC Director) appreciate Secretary Summers' concerns, but are more open to the possibility that a targeted tax credit designed to support the building of stocks may represent the best opportunity that we have to improve the heating oil outlook. They are interested in more fully exploring the idea, and have requested that staff do so immediately.

AGENDA
NEC Meeting With the President
March 16, 2000

- I. Background on Oil Issues
 - A. Prices Predicted by Futures Markets
 - B. Effects of Range of OPEC Announcements
 - C. Possible Swaps of Oil from Strategic Petroleum Reserve
 - D. Pending Expiration of Energy Policy and Conservation Act
 - ✓ Statute Expires March 31st
 - ✓ House Commerce Committee Yet to Schedule Hearings or Votes
 - E. Other Legislative Issues
 - ✓ House International Affairs Committee Reports Bill to Floor
- II. Policy Initiatives
 - A. Northeast Home Heating Oil
 - ✓ Regional Product Reserve
 - Create Reserve by Administrative Action
 - Seek Legislation With Modified Trigger
 - Seek Straight Reauthorization
 - ✓ Minimum Inventories
 - B. Tax Proposals to Preserve Domestic Production
 - ✓ Marginal Well Tax Credit
 - ✓ Expensing of Geological and Geophysical Costs
 - C. Supply Diversification and Conservation
 - ✓ Conservation Approach
 - ✓ Should Administration issue statement regarding need for additional natural gas infrastructure prior to completion of DOE's 60 day report.
 - D. Consumer Concerns
 - ✓ Gas Tax
 - ✓ Energy Summit

begin EIS; offer legislative solution - reserve right to act administratively.

Regional Product Reserves

Description: Establish a heating oil reserve of 2 million barrels in the Northeast. The government could release heating oil from the reserve to moderate the price of home heating oil during future price spikes.

Background: DOE currently has statutory authority to establish a regional product reserve in the Northeast, subject to the same Presidential trigger that governs release of crude oil from the SPR. Under current authority, DOE could acquire heating oil for the SPR by exchanging crude oil held in the SPR or through a Royalty-in-Kind program. The Energy Policy and Conservation Act, which authorizes that SPR, expires on March 31st. The House has not yet taken any action and the House Commerce Committee (and the Energy and Power Subcommittee) has not scheduled any hearings. OMB has drafted a letter to the House Commerce Committee requesting an extension of the statute, but is holding the letter pending a decision by the Administration regarding the creation of a regional product reserve. The Administration's current SPR reauthorization bill, pending in Congress, deletes the currently existing regional reserve authorities.

Pros:

- **Responds to Congress:** Responds to calls from Members of Congress and Governors from the Northeast to establish a heating oil reserve.
- **Might Mitigate Price Spikes:** DOE believes that a small reserve with a carefully designed trigger might help mitigate problems associated with extreme price spikes without negatively affecting private stocks. It will provide an emergency supply of heating oil for up to 10 days, which is the steaming time for products coming from the Gulf of Mexico, and could also take the Northeast to a break in the weather.
- **2 Million Barrel Reserve Too Small to Displace Private Inventories:** A 2 million barrel reserve is small relative to size of industry; by way of comparison, during January 2000 inventories dropped 21 million barrels. Year-to-year, inventories dropped 45 million. OPEC supply, refinery margins, refinery problems, wars and weather determine inventory decisions - not a small emergency inventory.
- **Other Countries Have Used Reserves Successfully:** The United States is the only industrialized country with all of its strategic reserves in crude oil. Germany, for example, has heating oil reserves that have not displaced commercial supplies.

Cons:

- **Reduces Incentives to Build Private Inventories:** The economic agencies are concerned that if dealers believe that the government will release oil from a regional reserve in the event of a supply shortage or price spike, they will reduce the size of their inventory to account for that fact, paradoxically increasing the need for the government reserve.
- **Could Reduce Shipments to Northeast During Price Spike:** If government owned reserves could be released in response to political factors, private parties would be less willing to find heating oil and ship it to the market because of the risk that prices might fall while the oil was in shipment.

- **Political Pressure to Moderate Prices Would be Relentless:** Pressure to use the reserve to moderate prices would be relentless. Once the government used the reserve, the pressure to do so in the future would be even stronger. Moreover, each of the problems described above would get increasingly worse every time the reserve was used, because it would reduce the future incentive to maintain private stocks.

Other Issues Related to Creating Regional Product Reserve:

- **DOE Could Create Regional Reserve Under Administrative Authority**
 - ✓ May Create Regional Reserve Under Existing Authority, Using Existing Trigger: The Secretary could create a regional reserve under his existing authority. The trigger to use the reserve would be the same as that for the SPR, a Presidential declaration of a severe energy supply interruption.
 - ✓ SPR Operations Continue if Statute Expires: DOE's General Counsel has stated that if the SPR authority lapses, a case could be made that existing appropriations language would authorize ongoing SPR activities (such as operation and maintenance of the SPR). DOE could be on less comfortable legal ground if it undertook new actions under lapsed authorities. In an emergency, the President could possibly draw down the SPR under other legal authorities.
- **Administration Could Seek Congressional Authorization, Request New Trigger**
 - ✓ Request Authorization for Less Restrictive Trigger: Instead of using existing Administrative authority, we could seek legislation that would allow the creation of a regional product reserve with a trigger that had a lower threshold, which might be more reasonable in the context of Northeastern and New England heating oil. We could propose that Congress create a trigger based on the price of heating oil, specified level of low inventories of heating oil in the region, or other factors.
 - ✓ Current Trigger is Restrictive: The current trigger for use of a regional reserve is a Presidential finding of a severe energy supply interruption.
 - ✓ Would Slow Down the Process: This path would significantly slow down the process, and it is unclear whether the proposal could pass Congress.
- **Administration Could Request Straight Reauthorization:**
 - ✓ Straight Reauthorization is Opportunity for Quick SPR/Regional Reserve Authority: If we are concerned that requesting modification to the trigger for a regional reserve would slow down reauthorization, we could request a simple one year extension.
 - ✓ Would Maintain Restrictive Trigger: Straight reauthorization would allow for the creation of a regional reserve, but would maintain the current high threshold for use.
 - ✓ Would Demonstrative Movement by Administration: This alternative would indicate movement on our part, in that we would no longer be requesting deletion of the regional reserve authority, but could leave open a decision regarding the actual creation of a reserve.

Alternatives to Establishment of Regional Reserve:

- **Call for Environmental Study:** Direct DOE to conduct a legislative EIS of a legislative proposal for a regional reserve. While the study was being conducted, we could more carefully reflect on the effects of and support for a heating oil reserve.
- **Early Warning System:** Support Senator Kerry proposal to require the Secretary of Energy to report to Congress on the readiness of the heating oil and propane industries. We could support this approach as an alternative that does not interfere in the market.

Marginal Well Tax Credit

Description: Establish a tax credit for “marginal” wells of \$3.00 per barrel for the first 3 barrels of oil produced per day from marginal wells when prices are low. The credit would be activated when domestic wellhead prices fall below \$15 per barrel. The credit would be phased in (or out) as prices decline from \$15 to \$12 per barrel.

Pros:

- **Provides Safety Net:** Provide safety net for marginal producers if prices do go below \$15 per barrel. Would allow them to plan and invest with more confidence.
- **Preserves Domestic Production:** If triggered, would preserve between 75,000 and 150,000 barrels per day of domestic production (depending on price). During 1998 price decline, DOE estimates that 300,000 barrels per day of production was lost, most permanently, due to the high costs of reactivating these small wells.
- **Marginal Wells Are Important:** More than 500,000 marginal oil wells in the U.S. produce about 700 million barrels of oil per year. They account for one-third of lower-48 onshore production and contribute nearly 80,000 jobs and \$8 to \$10 billion per year in economic activity, according to DOE.
- **Low Cost:** Although Treasury has not conducted a formal cost estimate, if enacted for three years, proposal should have no cost because prices are not currently forecast to fall within the price range that triggers the tax.

Cons:

- **Poor Tax Policy:** Treasury believes that it is bad economic and tax policy to tailor tax incentives for specific industries in response to transitory economic fluctuations.
- **Bad Precedent:** Implementing commodity price supports for the oil industry through the tax code would create a bad precedent. Other industries would request similar treatment to increase production of their commodities.
- **Oil Industry Already Tax Favored:** Marginal wells are particularly tax favored, and those benefits have increased in recent years. Marginal wells are eligible for percentage depletion, including increased percentage depletion for marginal wells, expensing of intangible drilling costs, and the enhanced oil recovery credit.
- **Subsidizes Least Efficient Producers:** The proposed credit would subsidize oil production from the least efficient sources when prices are already low due to excess oil on the market.

Improving Energy Efficiency/Reduce Consumption

Descriptions: In addition to increasing domestic production, we can significantly reduce oil imports through increased efficiency measures and the use of domestically-produced alternative fuels. Two-thirds of all the oil consumed in the United States is used in the transportation sector.

The Administration can take the following steps to reduce consumption:

- **Issue Executive Order on Alternative Fuel and Fuel Efficient Vehicles** – This order, which is currently in near-final draft, would set a goal of 20% reduction in oil use for transportation by Federal agencies by 2005. Agencies would be required to increase the use of alternative fuel vehicles and, for the first time, would have to purchase more fuel efficient vehicles.
- **Increase Mass Transit Subsidy for Federal Employees** – Some Federal agencies do not offer the full subsidy available to employees that use mass transit.
- **Announce New Initiative on Improving Fuel Economy of Larger Trucks** – The “21st Century Truck Initiative” is currently being negotiated between the Administration and truck and engine manufacturers. This initiative will raise the fuel economy of an 18-wheeler from 7 miles per gallon to 10 miles per gallon.
- **Enhance PNGV Through Increased SUV Fuel Economy** – The current PNGV program, which will triple the fuel economy of 5-6 passenger sedans, should be extended to include sport utility vehicles. The Administration has been negotiating this opportunity with the American auto companies. Additional pressure from the White House is necessary to convince the auto companies to enter into this partnership.
- **Call on Congress to Fully Fund Key Fuel Efficiency Programs** – Congress has failed over the last several years to fully fund three key fuel efficiency programs: (1) PNGV; (2) Alternative-Fuels and (3) Low-Income Weatherization. For instance, if Congress had fully funded the weatherization program since 1995, we would have weatherized a quarter of a million more homes, a portion of which are heated with oil.

Expense Geological and Geophysical Costs

Description: Allow producers to deduct all geological and geophysical (G&G) costs in current year regardless of the success of the venture. G&G costs represent the cost of exploring for and finding oil. Under current law, G&G costs may be deducted in current year if exploration activity was unsuccessful but must be capitalized if exploration was successful.

Pros:

- **Increases Domestic Reserves:** Would increase domestic reserves by an estimated 230 MMBOE (million barrels of oil equivalent) over 5 years.
- **Reduces Administrative Burden:** Would eliminate continual litigation and arguments between the industry and the IRS, and simplify the associated accounting systems for both parties. IRS has estimated that it would save \$500,000 per year in audit expenses.
- **Reduces Costs to Industry:** DOE estimates savings for the industry of between \$225,000 per year for a medium to large independent company, and \$525,000 to \$675,000 per year for a major integrated company. That represents \$60 million per year in savings, not including the savings for thousands of small independent producers.

Cons:

- **Mismeasures Income:** Treasury believes that proposal mismeasures income by allowing a capital expenditure to be deducted in the year incurred, rather than capitalized. Costs or expenses that benefit future periods and future revenue production should be capitalized and recovered in such future periods. G&G costs associated with proven oil and gas reserves should be capitalized and recovered as the underlying resource is recovered.
- **Interest Free Loan to Industry:** Although the revenue loss from expensing G&G costs is recovered in the future, such periods may be significantly far off (i.e., the producing life of the oil property) and thus allowing expensing represents a significant interest-free loan from the Government.
- **Costs \$270 Million:** Treasury estimates that the proposal would cost \$270 million over 5 years.

Suspend 5 Cents of the Gas Tax for 1 Year

Description: The current gas tax is 18.4 cents. This proposal would suspend 5 cents of the tax for one year. The tax funds the highway trust fund, the mass transit trust fund, and the leaking underground storage tank fund. Suspension of the tax would reduce the funds available for these purposes. A one year suspension would reduce highway spending outlays by \$2,243 million through FY '03 and would reduce BR by \$6,729 million through FY '03. A one year suspension would increase the deficit by \$4,065 million through FY '03. The Administration could also propose suspending 5 cents of the diesel tax for one year.

Pros:

- **Responds to Political Pressure:** Suspending the gas tax would respond to political pressure to take concrete steps to lower the price of gas.
- **Lower Gas Price:** Suspending the tax should lower the price of gas at the pump.

Cons:

- **House GOP Has Backed off Gas Tax Proposal**
- **Significant Reductions in Funding for Transportation Projects:** This reduction would increase traffic congestion and a loss of related economic activity. Supporters of highway construction, including truckers, would strongly oppose these reductions. Congressional opposition would be significant, even among Republicans.
- **Cuts in Air Pollution Control Programs:** The Highway Trust Fund also pays for air pollution reduction programs and programs that give alternative choices to commuters. According to OMB, a suspension of five cents of the gas tax for the rest of the year would be greater than the increases proposed in these programs for FY 2001.
- **Small Price Effect at Pump:** The size of the reduction is small relative to the increase in price that is due to OPEC supply reductions. Relative to the current (or projected) price of gas, eliminating a 5 cent tax would have a negligible effect at the gas pump. Further, some of the reduction may not be reflected at the gas pump.
- **Risks Breaking Link Between User Fees and Transportation Spending:** The close forging of this link in TEA-21, preventing the use of general revenues for these projects, was a major goal achieved by the Administration in TEA-21. We fought and won on the same principle in the recent FAA reauthorization. Once we lose this principle in TEA-21, we may never get it back. Risks breaking the link between gas taxes and highway spending.
- **Strong Environmentalist Criticism:** The environmental community would criticize a repeal or suspension of the tax, as they believe that our comparatively low gas prices encourage the purchase and use of inefficient vehicles and result in high greenhouse gas emissions. The international community would also sharply criticize the U.S. in the context of the Kyoto Protocol negotiations, particularly as members of the EU are moving toward increasing energy taxes.

Framework for Administration Response

- **Comprehensive Energy Strategy:** The President and the Vice President have presented the Congress with a comprehensive national energy strategy.
 - ✓ The plan focused on improving efficiency of energy system.
 - ✓ Insuring against energy disruptions
 - ✓ Promoting energy production in ways that respect health and environmental values
 - ✓ Expanding energy choices
- **The President's Plan Increases Efficiency of Economy:** The plan's long term focus has helped contribute to the increasing energy efficiency of the economy, such that we use half as much oil per unit of GDP (and just over half as much energy per unit of GDP) than we did in 1970.
- **Administration Proposed Increased Funding:** President and Vice President have proposed funding for research and development of clean energy sources.
- **Congress Underfunded Administration Request:** Although the Administration has secured more that \$2 billion over the past 2 years, Congress has still vastly underfunded the Administration's requests. In doing so they have put the nation's long term energy security at risk.
- **Energy Efficiency Programs at DOE Underfunded:** Over the past four years, the Administration has sought over \$1 billion in increased funding for energy efficiency and renewable energy programs at the Department of Energy. Congress has funded only 12 percent of this request.
 - Identify examples of programs that could not proceed.
- **Tax Package to Reduce Use of Fuels:** The President and Vice President also have proposed tax credits to promote the use of energy efficient technologies throughout the economy, which would help sustain economic growth.
 - Energy Efficient Homes: The President and Vice President have proposed tax credits of \$1000 to \$2000 for homes that are 30% to 50% more energy efficient so that Americans can reduce their heating and cooling costs.
 - Energy Efficient Cars: They have proposed tax credits ranging from \$500 to \$4000 for energy efficient cars, such as electric, fuel cell, and hybrid vehicles. These care would reduce oil consumption and save consumers money.
 - Clean Energy Production: The Administration has proposed, tax credits for clean energy production – such as, wind, biomass, and methane from landfills – that will reduce demand for oil to produce electricity.

- **Congress Failed to Pass Critical Tax Package:** Although these are the kinds of tax cuts that will make a real difference in our energy future, Congress has failed to pass these proposals.
- **Action by the President:** In addition for calling for passage of energy efficiency spending and tax cuts, the President announces that he will:
 - ✓ **Issue Executive Order on Alternative Fuel and Fuel Efficient Vehicles:** This forthcoming order would set a goal of 20% reduction in oil use for transportation by Federal agencies by 2005. Agencies would be required to increase the use of alternative fuel vehicles and, for the first time, would have to purchase more fuel efficient vehicles.
 - ✓ **Increase Mass Transit Subsidy for Federal Employees:** Some Federal agencies do not offer the full subsidy available to employees that use mass transit.
 - ✓ **Undertake New Initiative to Improve Fuel Economy of Larger Trucks:** The "21st Century Truck Initiative" is currently being negotiated between the Administration and truck and engine manufacturers. This initiative will ~~raise~~ the fuel economy of an 18-wheeler ~~from 7 miles per gallon to 10 miles per gallon.~~ *double*

The President Calls on Congress to Fully Fund Key Fuel Efficiency Programs: Congress has failed over the last several years to fully fund three key fuel efficiency programs: (1) PNGV; (2) Alternative-Fuels and (3) Low-Income Weatherization. For instance, if Congress had fully funded the weatherization program since 1995, we would have weatherized a quarter of a million more homes, a portion of which are heated with oil.



Department of Energy

Washington, DC 20585

OFFICE OF ENERGY EFFICIENCY
AND RENEWABLE ENERGY

Facsimile Cover Sheet

To: Roger BullentineFrom: David Leites

Office: _____

Date: _____

Fax Number: 456-1736

Fax Number: (202) 586-9260

Phone Number: _____

Phone: (202) 586-9220

Number of pages (including cover): 1Comments: Roger,

Here's a cut on stuff
in the "Buildings" area. I
think this is pretty good. Let
me know if it is not what
you are looking for



Printed with soy ink on recycled paper

Theresa
David
586-1404

Mark Ginsberg
03/16/2000 05:56 PM

"Buildings" staff

To: David Leiter
cc: Barbara Sisson, Jerry Dion
Subject: What if....more BTS funds

David, we can expand on these if needed, but I've got to leave now. I'm at 703 271-8921 after 10 PM tonight.

If BTS had received full funding during the last 8 years, significant accomplishments would have been already achieved or accelerated. The budget cut of 50% in Weatherization and State Grants in 1995 obviously had severe impact. Overall, the BTS budget went from \$331 million in FY91 up to \$383 million in FY95 and then plunged to \$212 million in FY96. We have inched up to \$274 million in FY 2000 (below the request of \$334 million). Here are a few examples of what we might have accomplished.

- * We would have completed many of the Climate Change Action Plan (CCAP) items. Those include the residential, commercial and equipment projects we would have been able to undertake.

- * We would probably have implemented the "fridge for the 21st century" to kick in by 2000 instead of several years later (thus saving American consumers billions of dollars earlier.) Other high priority appliance standards might already be in place or accelerated.

- * Building America (a product of CCAP) would have become institutionalized with large homebuilders and we would have 10,000 homes that achieved 50% savings at no extra cost to the builder or buyer. Those strategies would be in widespread use throughout the homebuilding industry.

- * R&D for heating and cooling would have been accelerated and advances would have already reached the market to reduce electricity demand, consumer cost and environmental harm.

- * We would have been able to fully integrate solar and renewables into buildings. Examples of the 180 solar homes at Village Green in LA and the "green giant" 4 Times Square building in NY (with solar, fuel cells and two dozen efficiency features) would be more widespread and commonly accepted practice.

- * Market acceptance for Energy Star products and labels would be fully integrated into the consumer market, giving buyers confidence that the products they buy are efficient, environmentally-sound and save money. More products and retailers as well as states and agencies would be Energy Star partners.

- * We would probably have an advanced ballast for Compact Fluorescent Lights (CFLs) that would allow lower initial prices and smaller products that fit more fixtures and thus are in widespread use in homes and offices (saving 75% of the energy over incandescent bulbs).

- * If Congress had level-funded Weatherization Assistance from 1996-2000, DOE would have weatherized 248,000 more homes, giving low-income families the benefits of advanced technology, energy savings and allowing them to be part of the Climate solution. by reducing emissions. If Congress provided funding at the request level (lower than level funding due to the 50% cut in 1995), we would have weatherized 111,000 more homes for low income families.



Department of Energy

Washington, DC 20585

OFFICE OF ENERGY EFFICIENCY
AND RENEWABLE ENERGY

Facsimile Cover Sheet

To: RogerFrom: David

Office: _____

Date: _____

Fax Number: _____

Fax Number: (202) 586-9260

Phone Number: _____

Phone: (202) 586-9220

Number of pages (including cover): _____

Comments: Roger,

I've already faxed you "Building"
info. Attached are "Transportation"
(6 pages) and "Renewables (1 page)".

Let me know if you need additional
information or want us present the
information in different way. tried
to turn this around as fast as



Printed with soy ink on recycled paper

possible. Also shared this info with
Randy Steer. Call me if you need anything
else (O) 586-1404 (H) 202-543-8720

TRANSPORTATION SECTOR

Working in partnership with the Nation's industry and research organizations, the mission of the Transportation Sector program is to support the development and user acceptance of advanced transportation vehicle technologies and alternative fuels which will: reduce energy demand, particularly for petroleum; decrease criteria pollutant emissions; reduce greenhouse gas emissions; and enable the United States transportation industry to sustain a strong competitive position in domestic and world markets.

Industry is already offering numerous alternative fuel vehicles for sale and beginning to use, and incorporate into its concept vehicles, many of the technologies developed through the Partnership for a New Generation of Vehicles (PNGV) and DOE's truck programs. At major international auto and truck shows, concept vehicles are shown which now routinely include DOE-supported technologies. These technologies have included advanced compression-ignition, direct-injection (CIDI) engines, parallel-hybrid vehicle configurations, proton exchange membrane (PEM) fuel cells, a methanol reformer for fuel cell vehicles, and nickel-metal hydride batteries. While considerable R&D remains to make the most of these technologies commercially viable, these public demonstrations clearly demonstrate the interest of the U.S. auto companies in bringing DOE-supported technologies to market.

Despite significant advances in the use of alternative fuels and the development of advanced technologies, much more could have been accomplished if Administration budget requests for research, development, demonstration, and deployment had been made available

Partnership for a New Generation of Vehicles

As the recent increases in gasoline and home heating oil prices illustrate, the issue of getting the most from every gallon that we burn is critically important to this country. That is why the efforts of DaimlerChrysler, along with Ford and General Motors, in the government/industry Partnership for a New Generation of Vehicles are so important. Success in this technology development program will allow American drivers to maintain the performance, comfort and mobility that they depend on, while going up to three times further on each gallon of gasoline. This Administration requested \$1.1 billion dollars for the budget years 1997-2000 to support cooperative research with the auto industry aimed at developing full sized family sedans that achieve 80 miles per gallon. Unfortunately Congress trimmed 16% from these PNGV requests. What could we have accomplished had Congress given us the additional \$200 million we requested? Such technologies as affordable fuel cells for automobiles, gas-sipping hybrid propulsion systems for family cars, and highly efficient diesel engines with near zero emissions would be closer to the showroom.

Biofuels

The Department of Energy has made great strides in the development of technologies to reduce the cost of bio-based fuels and products. These fuels are clean and renewable, and are already displacing over 1 billion gallons of gasoline each year. However, our R&D budget for accelerating the development and introduction of low-cost beefaloes production technologies has been consistently underfunded. This has slowed the development of low-cost biomass feedstocks; genetically engineered enzymes; and systems engineering.

Clean Fuels

Shortage of funding for R&D on fuel quality has slowed the development and testing of using renewable

1

bio-fuels and ultra-clean fuels made from natural gas. These fuels could be critical to the introduction of high fuel efficiency engines that can reduce our reliance on oil.

Trucks

Trucks are the fastest growing segment of the U.S. transportation market. Although significant gains have been made in developing heavy-duty natural gas engines, funding for demonstration and deployment of natural gas vehicles has been lower than the requested. Trucks are also strong candidates for the application of hybrid-electric propulsion systems that can reduce oil use and emissions. Yet these efforts have been limited due to the lack of funds.

Clean Cities

The Department of Energy's Clean Cities program has grown to include over 75 participating communities, 3,800 stakeholders, using over 160,000 alternative fuel vehicles, displacing at least 150 million gallons of oil through the use of alternative fuel. Clean Cities grants to states have resulted in dozens of alternative fuel projects in more than 35 states, each one leveraging significant State, local, and private investments. Getting advanced technologies out of the lab and onto the road is the goal of Clean Cities, but appropriations have not kept pace with the request or the need. For example, in FY 2000, the Clean Cities program has over 140 applications from more than 35 states for alternative fuel vehicle projects competing for only \$3 million in grant funding. The Department could easily spend \$10 million per year on meritorious projects, such as natural gas school buses, electric shuttles, and ethanol refueling stations, in States and cities that are seeking our help.

Federal Fleet AFVs

Starting in 1993, this Administration took aggressive steps to implement the Energy Policy Act, passed by Congress and signed by President Bush in October 1992. However, the FY 1993 budget handed down to President Clinton included only \$7 million to help agencies defray the cost of alternative fuel vehicles. President Clinton moved aggressively to strengthen these efforts, requesting an additional \$35 million for the Department of Energy to expand the Federal fleet program, accelerate implementation of the Energy Policy Act programs, and build interagency cooperation. The President's Federal Fleet Conversion Task Force, chaired by Gary Mauro, laid out an aggressive strategy for moving quickly to increase the use of alternative fuel vehicles, such as natural gas, propane, electric, and ethanol. Unfortunately, Congress denied the President's supplemental budget request. In FY 1995, Congress rescinded \$10 million in funding for Federal agencies AFV programs, and in 1996, the Congress zeroed out all funding at the Department of Energy that helped Federal agencies to acquire AFVs. These budget cuts hit hardest at those agencies that had made aggressive plans to acquire alternative fuel vehicles and sent a signal to U.S. automakers that the U.S. Congress was not supportive of alternative fuel vehicles. The agencies now operate over 40,000 alternative fuel vehicles, but we estimate that could have been closer to 100,000 if Congress had supported our requests.

Hybrid incentives

The President proposed tax incentives in 1999 to accelerate the introduction of advanced technology, fuel efficient vehicle technologies developed under the PNGV program. The program was re-introduced in FY 2000 and this year. The program would provide rebates to users of advanced technology vehicles, rewarding early adopters and increasing demand for fuel efficient technologies and vehicles. By not endorsing the President's proposed incentives, this Congress sends a signal to the automotive industry that fuel efficiency and advanced technology are not a priority.

PNGV Program

As the recent increases in gasoline and home heating oil prices illustrate, the issue of getting the most from every gallon that we burn is critically important to this country. That is why the efforts of DaimlerChrysler, along with Ford and General Motors, in the government/industry Partnership for a New Generation of Vehicles are so important. Success in this technology development program will allow American drivers to maintain the performance, comfort and mobility that they depend on, while going up to three times further on each gallon of gasoline.

Perhaps the best way to insulate ourselves from fuel price increases is to bring vehicles to the market in the next few years that contain the technologies displayed in the PNGV Concept Vehicles - DaimlerChrysler's ESX 3, Ford's Prodigy, and General Motors' Precept. These concepts, unveiled earlier this year, incorporate many breakthrough innovations in an appealing vehicle that delivers high fuel economy, with no compromise in the performance and features that Americans want in their cars. Individual technologies developed by the PNGV initiative have already made it into production where they are saving gasoline and reducing vehicle emissions. These include pickup truck beds and sport utility hardtops made from light weight, high strength plastics, aluminum fenders and doors, lightweight suspension parts and tires that offer reduced rolling resistance. Improved sensors and injection systems help each vehicle go further on a gallon of gasoline than earlier models. While tremendous progress had been made, there are still major hurdles to be overcome - these technologies must be smaller, lighter and less costly.

We saw the day coming when fuel prices would rise again. As a kind of insurance policy for the nation, this Administration requested \$1.1 billion dollars for the budget years 1997-2000 to support cooperative research with the auto industry aimed at developing full sized family sedans that achieve 80 miles per gallon. Unfortunately Congress trimmed 16% from these PNGV requests. What could we have accomplished had Congress given us the additional \$200 million we requested? Such technologies as affordable fuel cells for automobiles, gas-sipping hybrid propulsion systems for family cars, and highly efficient diesel engines with near zero emissions would be closer to the showroom.

Transportation Success Stories

Discover Magazine Awards

1998 A. Erdemir (ANL) : Near Frictionless Carbon Coating. The coating is many times slicker than Teflon. Most promising applications appear to be those that operate in essentially air-free environments, such as bearing for ultrahigh vacuum instruments, certain mechanical seals, and selected cryogenic, space, and aircraft applications. Among the most promising automotive and engine applications are turbocharger rotors, piston rings, gears and bearings, air-conditioning compressors, and fuel injector components.

1999 Daniel Cohn (US DOE, MIT) : Microplasmatron (On board Refinery) for Technological Innovation in Transportation. Engineers have known for years that adding hydrogen to the fuel mix can make an automobile engine run much cleaner. The problem has been figuring out a way to create the hydrogen onboard as it is needed. This innovation does the trick using blasts of electricity that convert ordinary gasoline and air into a hydrogen-rich gas. The prototype version, the size of a soup can, produces enough hydrogen to cut emissions of smog-causing nitrogen oxides by 90 percent.

R&D 100 Awards

The R&D 100 Awards are given annually by R&D Magazine to recognize the 100 most technologically significant new products of the previous year. This competition acknowledges both the organizations and the inventors for their outstanding technological advances. This is a list of R&D Awards that we have won in the past five years.

1995 NREL (S.K. Picataggio, M. Zhang, S. Picataggio, K. Deanda, M. Finkelstein) : Single Fermenter Cellulosic Biocatalyst (*Zymomonas mobilis*). A metabolically engineered bacterium that effectively ferments both glucose from cellulose and xylose from hemicellulose simultaneously, making it possible to effectively produce ethanol from cellulosic biomass feedstocks in a single process.

1995 ORNL (M. Janney, O. Omatete, S. Nunn, C. Walls): Gel Casting. The development of gel casting technology for manufacturing complex components from ceramics will revolutionize the ceramics industry.

1996 NREL (D. Benson, S. Burch, M. Keyser, T. Potter, E. Tracy, R. Voss) with Benteller Industries : Variable-Conductance Insulation Catalytic Converter. A catalytic converter that reduces cold start emissions by staying hot from one motor vehicle up to the next cold start emissions; pollutions emitted during the first minute or two of vehicle operations before the catalytic converter heats up to effective temperature now cause about 70% of automotive pollution.

1996 ORNL (J. Bates): Thin Film Rechargeable Batteries. These are solid-state batteries less than 10 micrometers thick. They have energy densities unequalled by any other battery technology, can be cycled thousands of times, and fabricated on a variety of substrates, in arbitrary sizes and shapes to meet specific application requirements.

1997 ANL (S. Tsai, M. Donnelly, C. Mallard, C. Wu), NREL (R. Landucci), ORNL (B. Davison, N. Nghiem, B. Suttle), PNNL (J. Frye, T. Werpy, Y. Wang), Applied Carbochemicals (M. Griffin):

4

Production of Chemicals from Biologically -Derived Succinic Acid. The process can be used to make chemicals from corn. Researchers applied genetic techniques to create a mutant bacterium that is the key to the new process. The chemicals can be incorporated into polymers and solvents for use in clothing, fibers, paints, inks, food additives, and other industrial and consumer products.

1997 ORNL(S. Viswanathan) and Thompson Aluminum Casting Co. (R.M. Purgert): Metal compression forming (S. Viswanathan) process for manufacturing pore-free cast aluminum components with properties comparable to those of forged parts up to one- third the cost.

1998 ANL (A. Erdemir): Near Frictionless Carbon Coating. The coating is many times slicker than Teflon. Most promising applications appear to be those that operate in essentially air-free environments, such as bearing for ultrahigh vacuum instruments, certain mechanical seals, and selected cryogenic, space, and aircraft applications. Among the most promising automotive and engine applications are turbocharger rotors, piston rings, gears and bearings, air-conditioning compressors, and fuel injector components.

1999 ANL: Clean Diesel Technology which will allow diesel engines to operate more cleanly and efficiently. Researchers made the diesel fuel burn more completely by adding extra oxygen to the engine's air supply under specific, optimized engine conditions. The oxygen-rich air is supplied by separating it from ambient air using membranes that act as a chemical filter. It reduces visible smoke and minimizes production of both particulate matter and nitrogen oxides.

Successes for the PNGV Program

As part of the PNGV agreement, the automakers committed to introducing innovative technologies as soon as they made economic sense rather than waiting for the introduction of a super efficient vehicle.

The following are examples that demonstrate that the automakers are meeting their commitment:

- The United States Council for Automotive Research and the Department of Energy (DOE) developed a programmable powdered preforming process (P4) machine capable of producing an entire pickup truck box preform in 4 minutes. GM is using the process to produce the truck bed for its Silverado.
- GM Saturn vehicles use intermediate axial shafts that are case-hardened with an intelligent induction-hardening process controller developed with DOE support. Ford has installed and is evaluating a similar controller.
- DOE has sponsored a program to develop polymer electrolyte membrane fuel cells (PEMFC). As a spinoff of this work, one of the participating companies (Stimsonite) joined with ENDESCO Services to form a new company, PEM Plates. PEM Plates is supplying PEMFC bipolar plates to developers worldwide.
- DaimlerChrysler (DC) experimented with an aluminum-intensive vehicle and introduced the Prowler in model year 1998.
- In order to reduce vehicle weight and develop additional experience with lightweight materials, DC

5

incorporated a plastic top in its Jeep Cherokee.

- The DC ESX3 concept vehicle includes the following technologies which are also being incorporated into some DC next generation vehicle platforms:

- AC systems which incorporate low heat capacity and low heat transfer materials;
- Lightweight heated and cooled seats;
- Automatic ventilation systems; and
- Low rolling resistance and run flat tires.
- Solar reflection glass;

A future platform also is planned to include the E-MAT transmission which has the efficiency of a manual, while operating like an automatic, transmission.

- Under the DOE hybrid propulsion development program, GM, Ford and DC and their subcontractors generated a total of 79 patents. It is likely that several of them will find their way into hybrid vehicles that are being planned for production in the next few years.
- Gas turbine technology that was developed under the hybrid vehicle program has found its way to market in another sector. Allied Signal is currently marketing gas turbine gensets (stand alone electric power generators) based on gas turbine development work performed under the Ford hybrid vehicle program. Similarly, Allison Engine company is developing a gas turbine auxiliary power unit for the Army's main battle tank, based on the engine developed under the GM hybrid program.

 David Leiter
03/16/2000 06:55 PM

To: Randolph_steer
Subject: What if...more OPT funds

Here is some of the good stuff we're doing in the renewables area--David

Some quick bullets:

Renewable energy sources such as Hydrogen, biofuels, and distributed energy hybrid systems (eg, wind and natural gas, fuel cells) could help close the current 2 million barrel oil import gap. These efficient, alternative fuels can power vehicles and heat homes.

Increased turbine size, research and development advances, and manufacturing improvements have reduced the price of electricity produced from wind from over 80 cents kWh in 1979 to about 4-6 cents kWh today. America has an enormous wind energy resource. For example, North Dakota, Texas and Kansas have a larger wind energy potential than the country of Germany (the world's leading wind energy investor). Wind is a new cash crop for rural America which helps reduce the impacts of the farm crisis. Worldwide, in 1999, wind additions of installed electricity generating capacity exceeded nuclear energy additions (source: IAEA).

Untapped geothermal resources, which could provide heat and generate electricity, are located below over 270 large towns and cities in the western USA. Due to advances in drilling technology, economies of scale and reduced finance cost, geothermal resources can yield electricity at 5-8 KWh. Nevada, California, Utah, Idaho, Hawaii, New Mexico, Oregon, South Dakota, Texas and Wyoming could all benefit in the near term from geothermal energy resources.

Photovoltaic systems are increasingly competitive and America has an enormous solar energy resource. PV systems are increasingly competitive and currently provide electricity at 20 cents kWh, competitive in remote locations and during peak loads.

Under investment in U.S. PV research and development activities has permitted Japan to take the 1999 lead in world exports of PV technologies. The government of Japan invests 3-5 times more resources in PV research and development relative to the U.S.

Distributed Energy Resources (DER), locating power production and storage facilities closer to the consumer, will greatly improve the reliability and quality of America's electricity supply. The recent large-scale power outages in various regions of America are a function of long-term under investment in electricity distribution systems. General Electric, Allied Signal and other private sector firms are working closely with the federal government to realize the goal of 20-40% new generating capacity from DER in the next ten years.

High temperature Superconductivity (HTS), developed by government, university and private sector partnerships, have developed electricity transmission systems that are light weight, environmentally friendly, and highly efficient. HTS reduces reliance on bulky, heavy wire systems and polluting transformers and is being field validated in Chicago and Detroit.

Federal investment of \$1 billion annually (quadruples current annual federal investment) in renewable energy research and development activities would help America achieve a goal of tripling electricity production from renewables, and reducing our reliance on imported oil, coal and nuclear energy.



Department of Energy

Washington, DC 20585

OFFICE OF ENERGY EFFICIENCY
AND RENEWABLE ENERGY

Facsimile Cover Sheet

To: Roger BulentineFrom: David Zutter

Office: _____

Date: _____

Fax Number: 456-1736

Fax Number: (202) 586-9260

Phone Number: _____

Phone: (202) 586-9220

Number of pages (including cover): 1Comments: Roger,

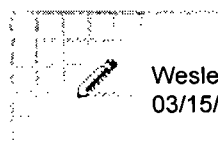
Here is a couple of quick
items that EOTUS might want
to mention tomorrow. MORE
TO COME ASAP.

David

586-1404



Printed with soy ink on recycled paper



Wesley P. Warren
03/15/2000 06:44:08 PM

Record Type: Record

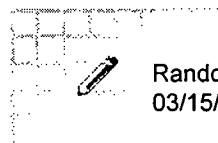
To: Elliot J. Diringier/CEQ/EOP@EOP, Roger S. Ballentine/WHO/EOP@EOP

cc:

Subject: Energy Efficiency & Renewable Energy budget history

I will be trying to put this into some kind of digestible form tomorrow.

----- Forwarded by Wesley P. Warren/CEQ/EOP on 03/15/2000 05:47 PM -----



Randolph J. Steer
03/15/2000 03:43:55 PM

Record Type: Record

To: Wesley P. Warren/CEQ/EOP@EOP

cc: Lori A. Krauss/OMB/EOP@EOP, Kathleen Peroff/OMB/EOP@EOP, Gary L. Bennethum/OMB/EOP@EOP, Kevin Carroll/OMB/EOP@EOP

Subject: Energy Efficiency & Renewable Energy budget history

I'm faxing this to you as well, since I don't know if there's a way to print "landscape" from Notes. But you can keep this for reference, and scroll left and right to see the whole table. The last two columns show the total request and approp for the Clinton years, and the total cuts imposed by Congress.

Randy.

Energy Efficiency & Renewable Energy Budget History

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Solar and Renewable Energy R&D									
REQUESTS	250	327	398	419	363	328	372	398	410
APPROPS	249	318	363	272	251	270	331	310	
Energy Conservation R&D									
REQUESTS	366	478	654	647	566	517	617	647	660
APPROPS	346	433	486	415	420	457	526	577	
Energy Conservation Grants									
REQUESTS	155	301	325	276	194	191	191	191	191
APPROPS	230	254	268	138	150	155	166	169	

Energy Conservation Total

REQUESTS	521	778	978	924	760	708	809	838	851
APPROPS	576	687	754	553	570	612	692	745	0

EERE Total (Solar + Conservation)

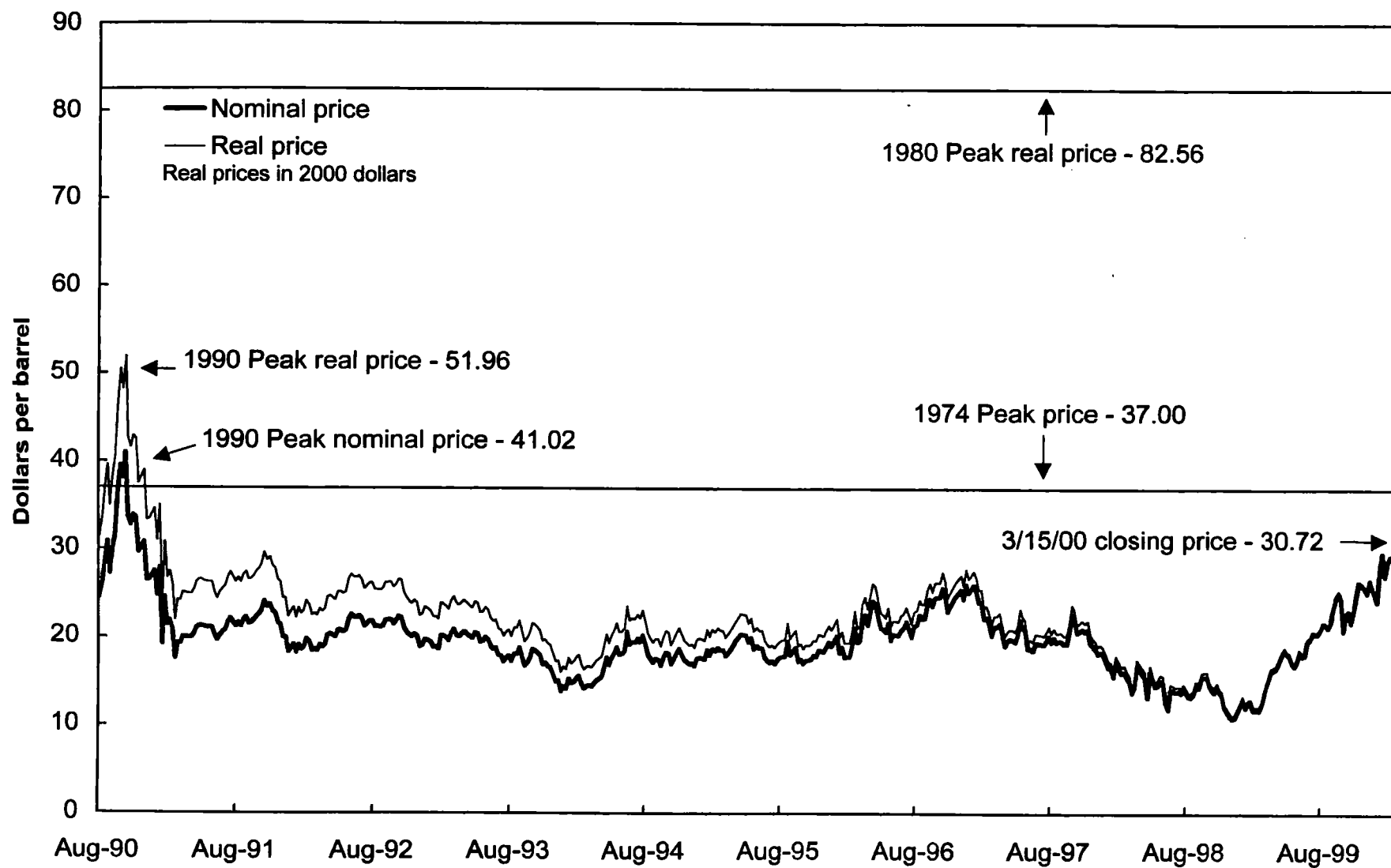
REQUESTS	771	1,106	1,376	1,342	1,123	1,035	1,181	1,236	1,260
APPROPS	825	1,005	1,118	825	821	882	1,023	1,055	0

NOTES: FY 1993 was the last Bush budget

The drops in FY 1996 reflect the first budget of the Republicans who came in with the 1994 mid-term election.

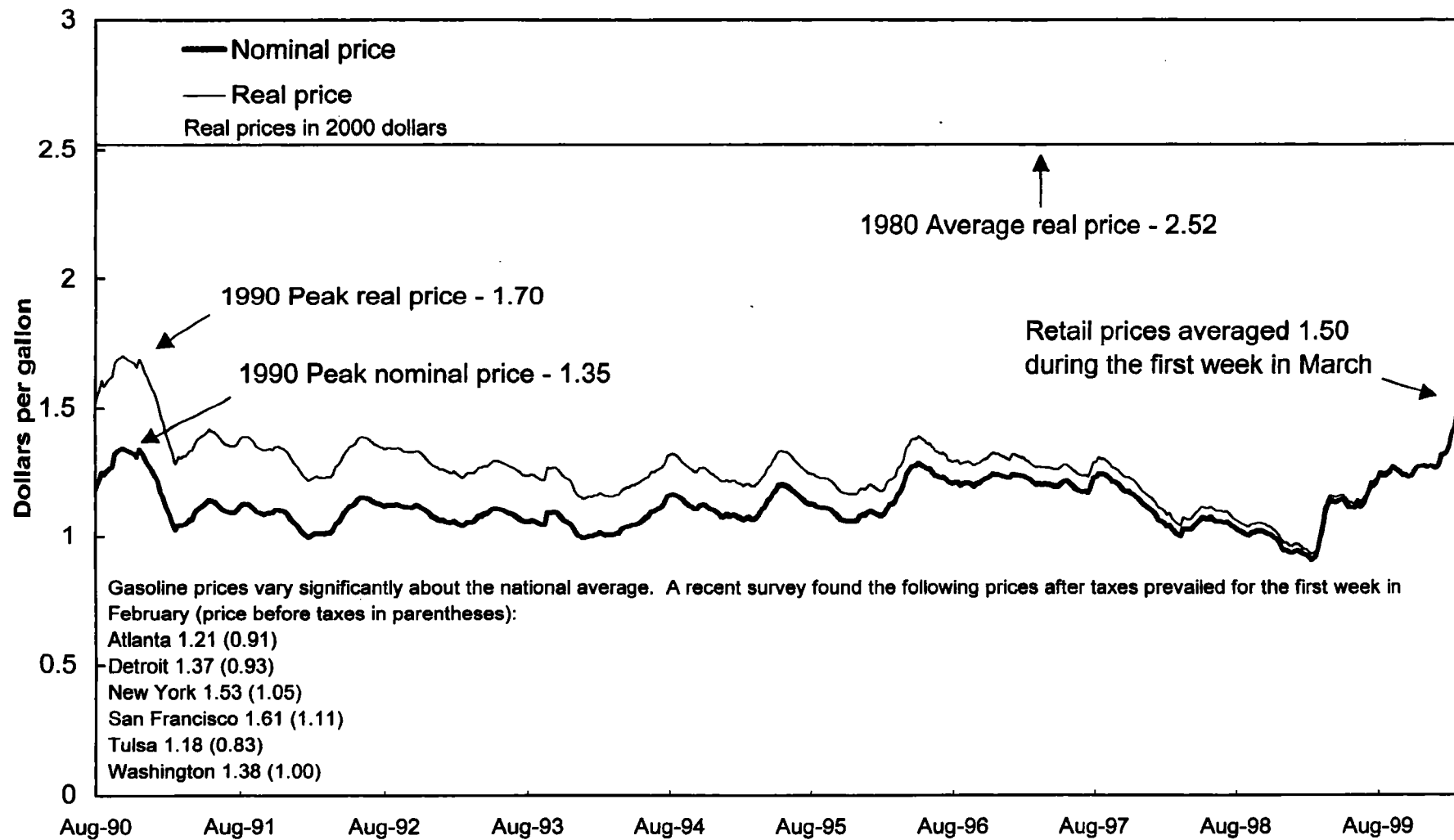
Crude Oil Prices:

Oil prices are roughly 2.5 times higher today than at the end of 1998.



Gasoline Prices:

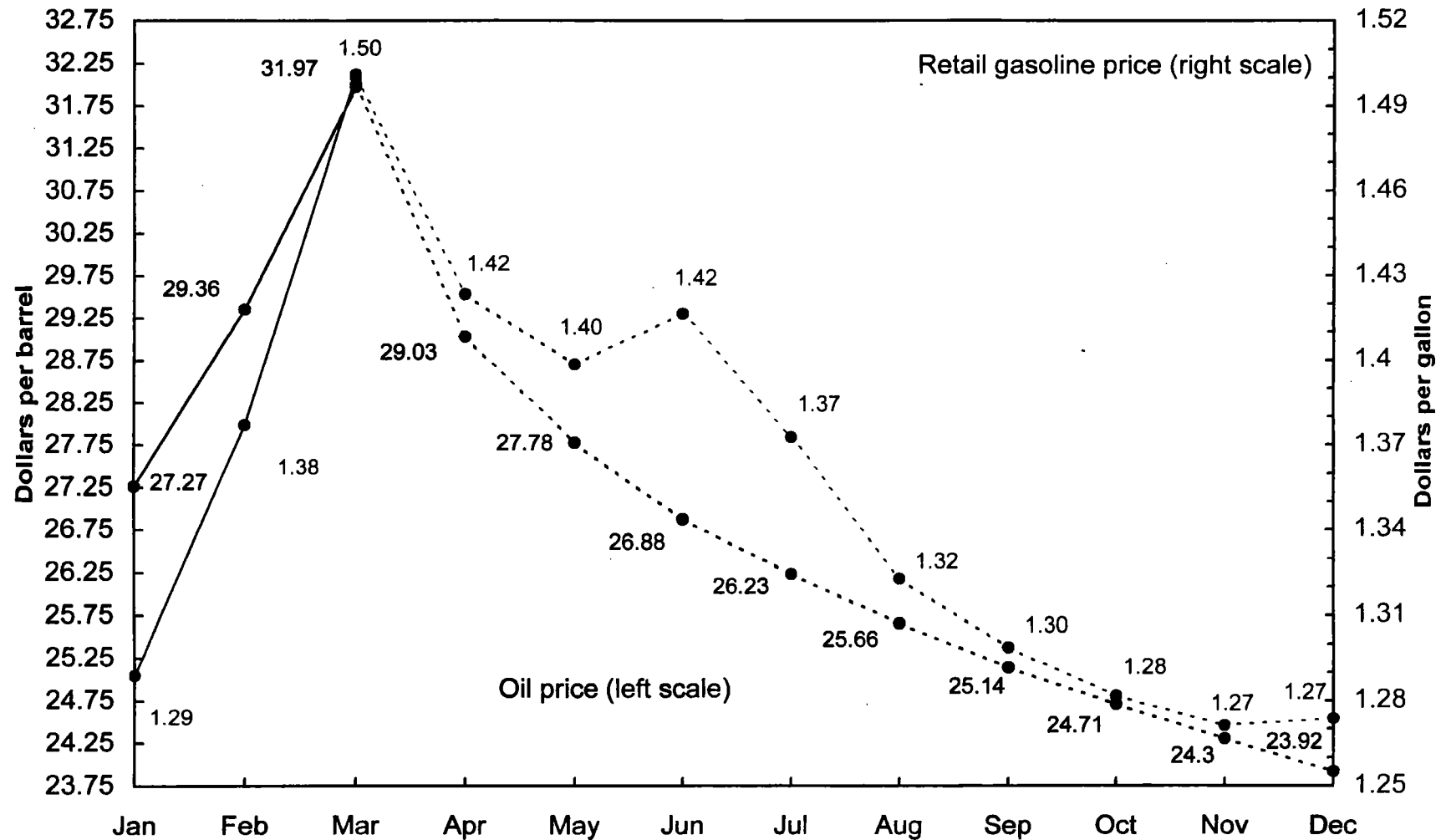
Gasoline prices (unleaded regular) are over 50% higher than at the end of 1998.



Survey not conducted from 12/3/1990 to 1/17/1991

Futures Markets for Oil and Gas:

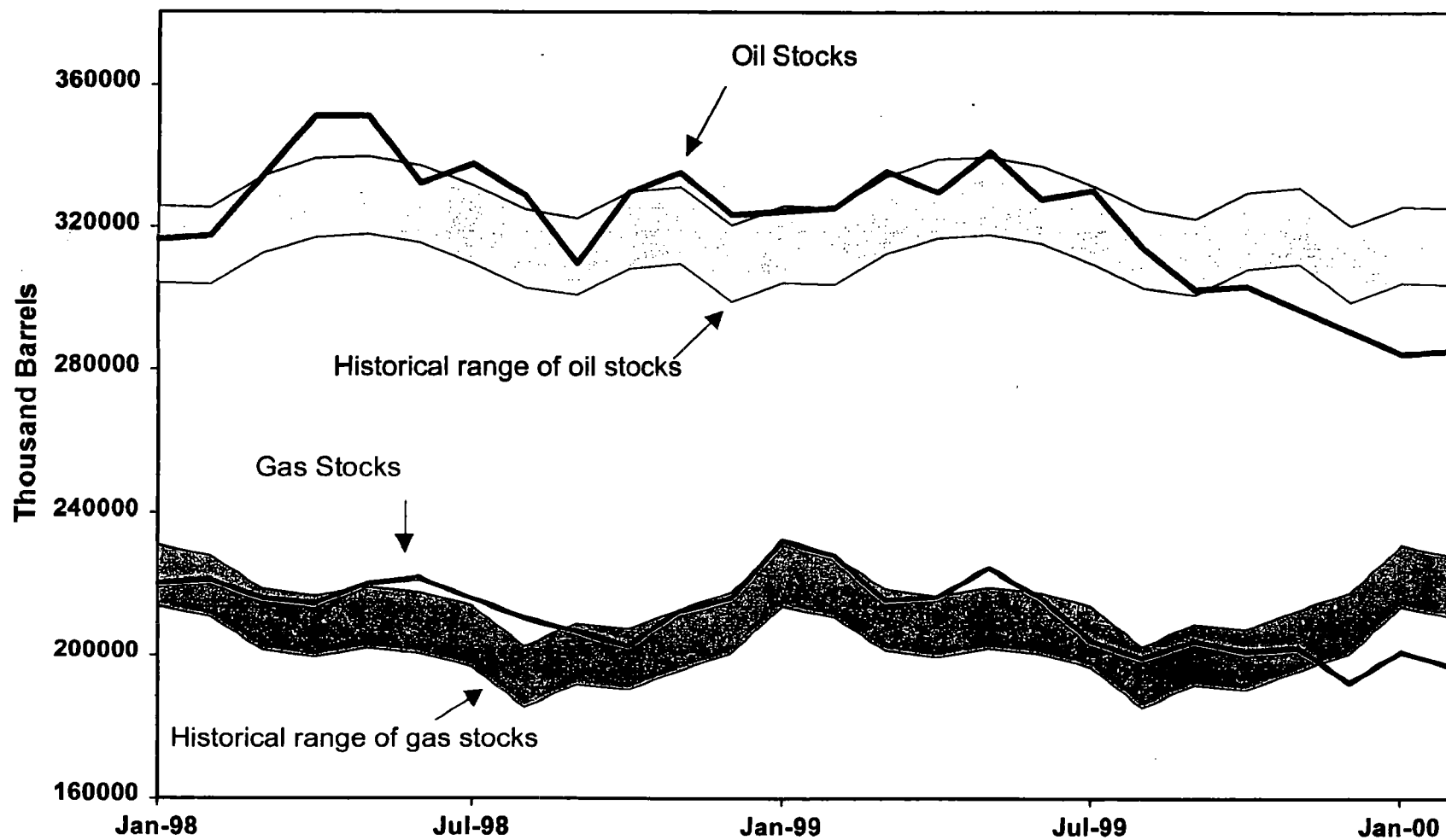
The futures markets project that oil prices will fall from their current level of \$30.72 per barrel to \$23.92 per barrel by December. Retail prices for gas will fall from \$1.50 to \$1.27.



Reflects 3/15/00 closing prices.

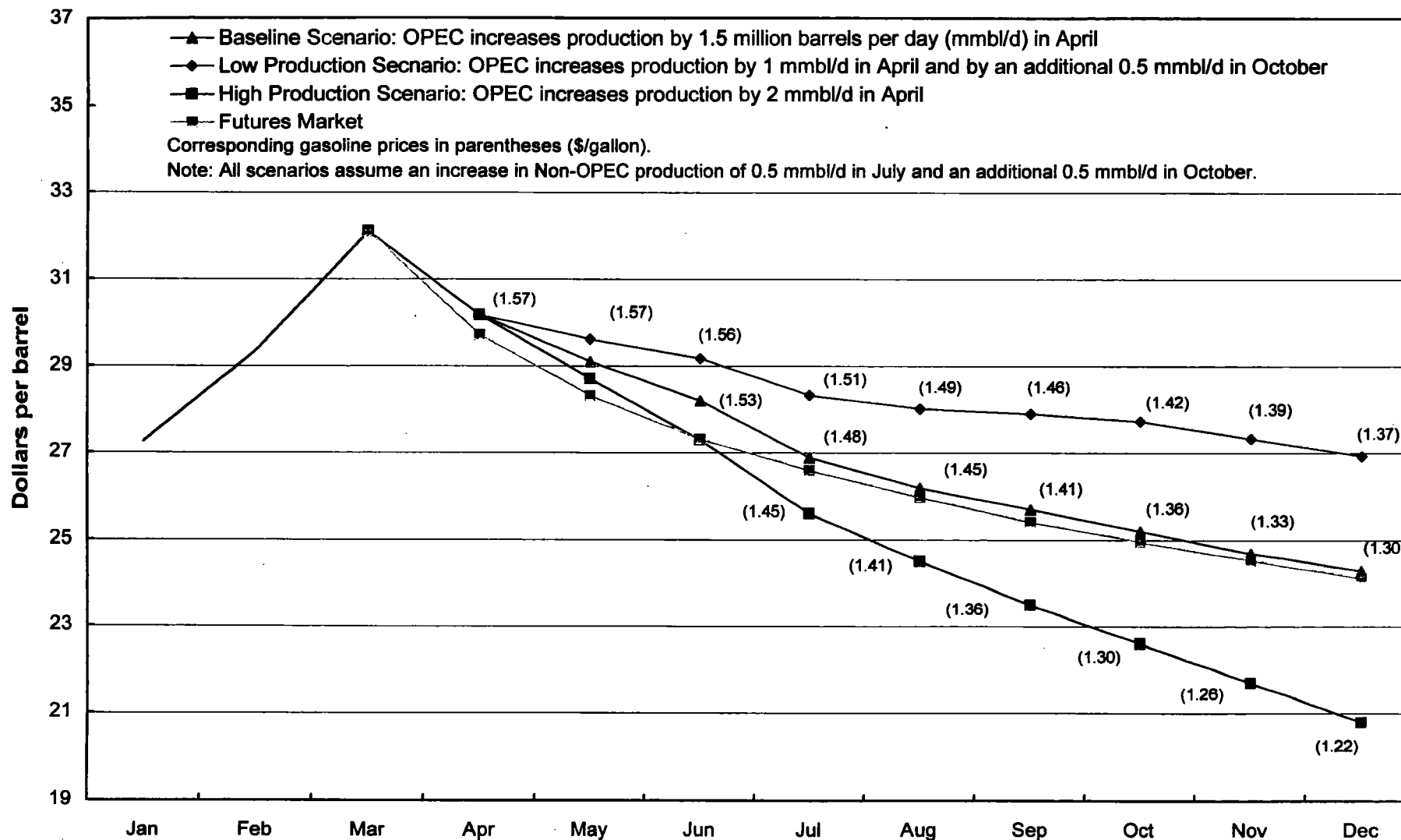
Oil and Gas Stocks:

Stocks for both gas and crude oil are at historically low levels



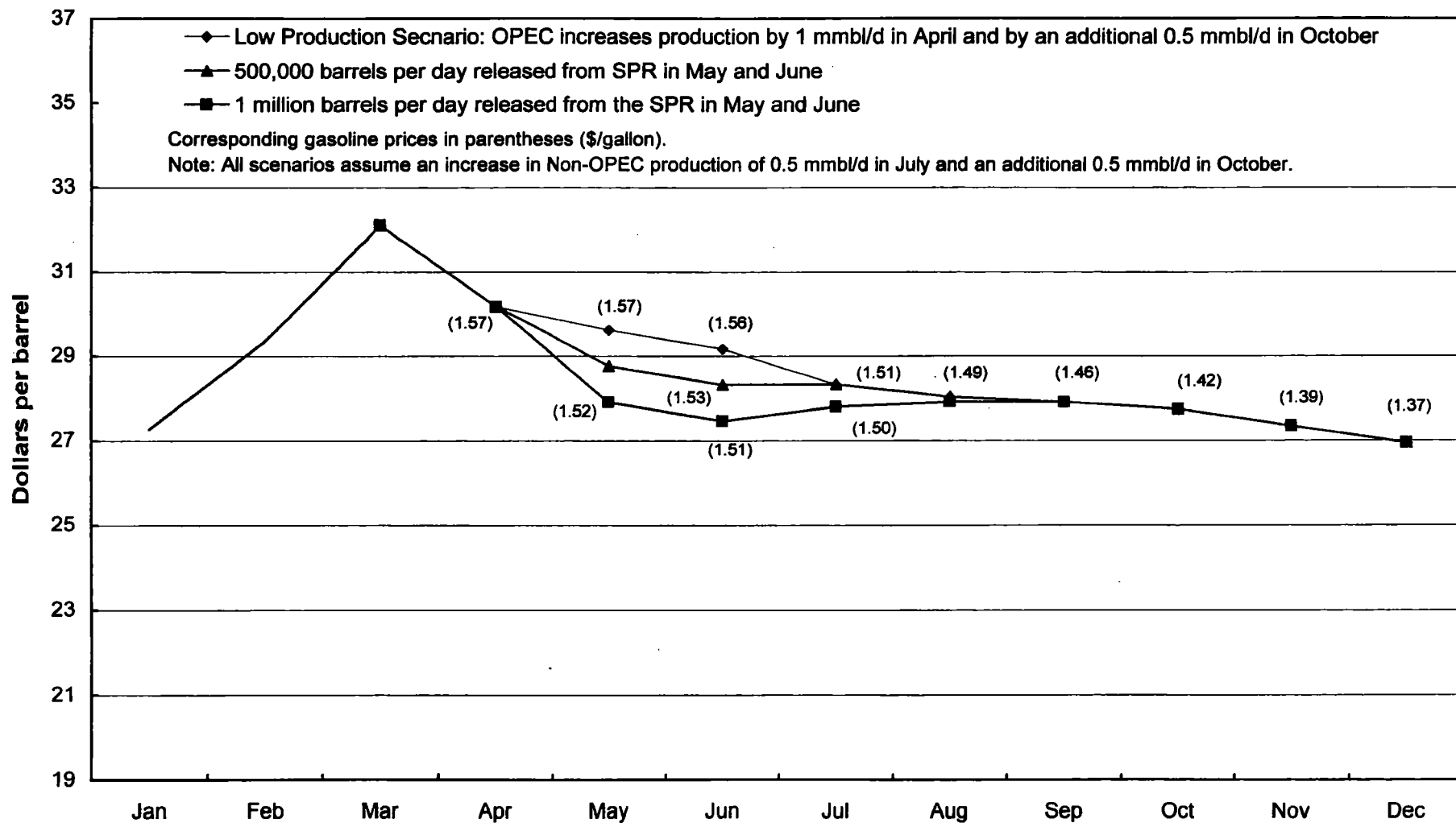
OPEC Production Scenarios:

Even with a disappointing increase in OPEC production, crude oil prices are projected to fall.



Scenarios for Using the Strategic Petroleum Reserve:

Releasing 1 million barrels per day from the SPR during May and June will reduce oil prices by \$1.72 a barrel (gas prices will fall \$0.05).



DRAFT

Energy Efficiency & Clean Energy Make Common Sense for America

"What I want to do, because I think it's important for our long-term security, is get America in a position where the fuel efficiency of our vehicles is so great -- or our ability to use alternative-fuel vehicles, or dual-use vehicles, biofuels, mixed electric and gasoline-fuel vehicles that have automatically regenerating batteries -- that our capacity to do that is so great that we will not be reliant on the ups and downs of supplies, and the increases that might come in the future would have a much more limited impact on us."

-- President Clinton, February 16, 2000.

As America considers its long-term energy future, and as we deal with short-term market fluctuations, we must consider the fundamental benefits of becoming more energy efficient and using alternative energy. By pursuing an energy policy that allows us to get more from a barrel of oil, we can help shield the economy and consumers from future energy price shocks, while at the same time creating new job opportunities and reducing air pollution and greenhouse gas emissions. While some believe that the way to respond to market fluctuations is to unbalance the budget and hurt the environment, the President and Vice President have a policy that rejects this false choice and that is putting us on a path to a more self-reliant energy future that will save Americans' money and protect our environment.

MAKING AMERICA'S HOMES AND BUILDINGS MORE EFFICIENT

- **R&D for Energy Efficient Homes.** The President's FY 2001 budget proposes \$275 million for building efficiency efforts, including the *Partnership for Advancing Technology in Housing* – a government-industry partnership to develop and deploy affordable, safe housing technologies to make new homes 50% more energy efficient and at least 15 million existing homes 30% more energy efficient within a decade. Meeting these goals would save consumers \$11 billion per year.
- **Tax Credits for Energy Efficient Homes.** Buyers of new homes that are 50% more energy efficient than current standards would receive a tax credit of \$2000. Buyers of new homes that are 30% more efficient would receive a tax credit of \$1000.
- **Buildings in the top 25% of energy efficiency qualify for EPA's "Energy Star Buildings" label.** In 2001, EPA's buildings programs (both residential and commercial) will help reduce energy consumption by more than 70 billion kilowatt hours, resulting in over \$5.5 billion in energy savings to participating consumers and businesses.
- **Energy Efficient Appliances and Products.**
 - DOE is accelerating its program to establish **energy efficiency standards** for commercial heating and cooling, water heaters, and electrical distribution transformers.
 - EPA and DOE's **Energy Star Products** program saves consumers money and reduces greenhouse gas emissions at the same time by promoting the use of energy efficient products – everything from computers to refrigerators. If we all used Energy Star products, America would reduce its energy bill by *\$100 billion over the next 15 years!*
- **Federal Government Leadership in Energy Efficient Buildings.** The President's Executive Order of June 1999 requires each Federal agency to improve buildings energy efficiency by 35% relative to 1985 levels by 2010. The President's action will save taxpayers more than \$750 million a year and also reduce greenhouse gas emissions equal to taking 1.7 million cars off the road.
- Since 1976 DOE's **Weatherization Assistance Program** has weatherized some 4.8 million low-income households. Some 75 million gallons of oil have been saved in the half a million

weatherized homes heated by oil. Over 900,000 homes will be weatherized from 2000 to 2005, more than 10% of which use fuel oil, saving an additional 15 million gallons of oil.

MAKING AMERICA'S VEHICLES MORE EFFICIENT

- **R&D for Energy Efficient Cars and Trucks.** *Partnership for a New Generation of Vehicles* is a government-industry effort that aims to develop attractive, affordable cars that meet all applicable safety and environmental standards and get up to three times the fuel efficiency of today's cars. *By 2010, DOE will help develop and commercialize fuel efficiency and alternative-fuel technologies that reduce oil consumption by nearly 700,000 barrels per day. By 2020, these same technologies will reduce oil consumption by nearly 1.5 million barrels per day.*
- **New Tax Credits for Energy Efficient Cars.** The President's proposed tax package extends the current tax credit (of up to \$4000) through 2006 for qualified electric and fuel cell vehicles and also includes a credit of \$500-3000 for the purchase of a qualifying hybrid vehicles from 2003-2006.

PROMOTING CLEAN RENEWABLE ENERGY

- **R&D for Renewable Energy.** The President's FY01 budget proposes \$410 million for DOE efforts to develop key renewable technologies, including wind, bioenergy, photovoltaics and geothermal energy.
- **Bioenergy & Bioproducts.** The President's August 1999 Executive Order coordinates Federal efforts to accelerate the development and deployment of technologies that convert trees, crops and other biomass into a vast array of fuels and products. Meeting the President's goal of tripling U.S. use of bioenergy and bioproducts by 2010 would reduce U.S. oil consumption, create new income opportunities in rural America, and meet environmental challenges, such as climate change.
- **Tax Credits for Clean Electricity Production.** The President proposes to reduce the demand for oil to produce electricity by extending current tax credits for electricity from wind and closed-loop biomass and providing new credits for electricity produced from open-loop biomass facilities, coal-biomass cofiring, and methane from landfills.
- **Electricity Restructuring.** The Administration's proposal to restructure the electricity industry will make the industry more competitive, save consumers at least \$20 billion annually on their electricity bills, improve energy security, and reduce air pollution and greenhouse gas emissions.

MAKING AMERICA'S INDUSTRY MORE EFFICIENT AND COMPETITIVE

- **Industrial Combined Heat and Power (CHP) Systems.** DOE is developing new industrial CHP systems to capture thermal heat that would otherwise be wasted. These systems are expected to be 15% more energy efficient, 80% cleaner, and 10% less expensive than conventional power systems
- **Voluntary Industrial Partnerships.** EPA's array of partnership programs help businesses cut energy costs while reducing both air pollution and greenhouse gas emissions.
- **Industries of the Future.** This DOE program works cooperatively with the nation's most energy-intensive industries (aluminum, glass, chemicals, forest products, mining, petroleum refining, and steel), aiming to reduce energy consumption per unit of output by 25% below 1990 levels by 2010, increasing the competitiveness of U.S. industries through \$30 billion in reduced energy costs (from 2000 to 2010) and saving 2.2 Quads of energy.

DRAFT

Energy Efficiency & Clean Energy Make Common Sense for America

"What I want to do, because I think it's important for our long-term security, is get America in a position where the fuel efficiency of our vehicles is so great -- or our ability to use alternative-fuel vehicles, or dual-use vehicles, biofuels, mixed electric and gasoline-fuel vehicles that have automatically regenerating batteries -- that our capacity to do that is so great that we will not be reliant on the ups and downs of supplies, and the increases that might come in the future would have a much more limited impact on us."

-- President Clinton, February 16, 2000.

As America considers its long-term energy future, and as we deal with short-term market fluctuations, we must consider the fundamental benefits of becoming more energy efficient and using alternative energy. By pursuing an energy policy that allows us to get more from a barrel of oil, we can help shield the economy and consumers from future energy price shocks, while at the same time creating new job opportunities and reducing air pollution and greenhouse gas emissions. While some believe that the way to respond to market fluctuations is to unbalance the budget and hurt the environment, the President and Vice President have a policy that rejects this false choice and that is putting us on a path to a more self-reliant energy future that will save Americans' money and protect our environment.

MAKING AMERICA'S HOMES AND BUILDINGS MORE EFFICIENT

- **R&D for Energy Efficient Homes.** The President's FY 2001 budget proposes \$275 million for building efficiency efforts, including the *Partnership for Advancing Technology in Housing* – a government-industry partnership to develop and deploy affordable, safe housing technologies to make new homes 50% more energy efficient and at least 15 million existing homes 30% more energy efficient within a decade. Meeting these goals would save consumers \$11 billion per year.
- **Tax Credits for Energy Efficient Homes.** Buyers of new homes that are 50% more energy efficient than current standards would receive a tax credit of \$2000. Buyers of new homes that are 30% more efficient would receive a tax credit of \$1000.
- **Buildings in the top 25% of energy efficiency qualify for EPA's "Energy Star Buildings" label.** In 2001, EPA's buildings programs (both residential and commercial) will help reduce energy consumption by more than 70 billion kilowatt hours, resulting in over \$5.5 billion in energy savings to participating consumers and businesses.
- **Energy Efficient Appliances and Products.**
 - DOE is accelerating its program to establish **energy efficiency standards** for commercial heating and cooling, water heaters, and electrical distribution transformers.
 - EPA and DOE's **Energy Star Products** program saves consumers money and reduces greenhouse gas emissions at the same time by promoting the use of energy efficient products – everything from computers to refrigerators. If we all used Energy Star products, America would reduce its energy bill by *\$100 billion over the next 15 years!*
- **Federal Government Leadership in Energy Efficient Buildings.** The President's Executive Order of June 1999 requires each Federal agency to improve buildings energy efficiency by 35% relative to 1985 levels by 2010. The President's action will save taxpayers more than \$750 million a year and also reduce greenhouse gas emissions equal to taking 1.7 million cars off the road.
- Since 1976 DOE's **Weatherization Assistance Program** has weatherized some 4.8 million low-income households. Some 75 million gallons of oil have been saved in the half a million

weatherized homes heated by oil. Over 900,000 homes will be weatherized from 2000 to 2005, more than 10% of which use fuel oil, saving an additional 15 million gallons of oil.

MAKING AMERICA'S VEHICLES MORE EFFICIENT

- **R&D for Energy Efficient Cars and Trucks.** *Partnership for a New Generation of Vehicles* is a government-industry effort that aims to develop attractive, affordable cars that meet all applicable safety and environmental standards and get up to three times the fuel efficiency of today's cars. *By 2010, DOE will help develop and commercialize fuel efficiency and alternative-fuel technologies that reduce oil consumption by nearly 700,000 barrels per day. By 2020, these same technologies will reduce oil consumption by nearly 1.5 million barrels per day.*
- **New Tax Credits for Energy Efficient Cars.** The President's proposed tax package extends the current tax credit (of up to \$4000) through 2006 for qualified electric and fuel cell vehicles and also includes a credit of \$500-3000 for the purchase of a qualifying hybrid vehicles from 2003-2006.

PROMOTING CLEAN RENEWABLE ENERGY

- **R&D for Renewable Energy.** The President's FY01 budget proposes \$410 million for DOE efforts to develop key renewable technologies, including wind, bioenergy, photovoltaics and geothermal energy.
- **Bioenergy & Bioproducts.** The President's August 1999 Executive Order coordinates Federal efforts to accelerate the development and deployment of technologies that convert trees, crops and other biomass into a vast array of fuels and products. Meeting the President's goal of tripling U.S. use of bioenergy and bioproducts by 2010 would reduce U.S. oil consumption, create new income opportunities in rural America, and meet environmental challenges, such as climate change.
- **Tax Credits for Clean Electricity Production.** The President proposes to reduce the demand for oil to produce electricity by extending current tax credits for electricity from wind and closed-loop biomass and providing new credits for electricity produced from open-loop biomass facilities, coal-biomass cofiring, and methane from landfills.
- **Electricity Restructuring.** The Administration's proposal to restructure the electricity industry will make the industry more competitive, save consumers at least \$20 billion annually on their electricity bills, improve energy security, and reduce air pollution and greenhouse gas emissions.

MAKING AMERICA'S INDUSTRY MORE EFFICIENT AND COMPETITIVE

- **Industrial Combined Heat and Power (CHP) Systems.** DOE is developing new industrial CHP systems to capture thermal heat that would otherwise be wasted. These systems are expected to be 15% more energy efficient, 80% cleaner, and 10% less expensive than conventional power systems
- **Voluntary Industrial Partnerships.** EPA's array of partnership programs help businesses cut energy costs while reducing both air pollution and greenhouse gas emissions.
- **Industries of the Future.** This DOE program works cooperatively with the nation's most energy-intensive industries (aluminum, glass, chemicals, forest products, mining, petroleum refining, and steel), aiming to reduce energy consumption per unit of output by 25% below 1990 levels by 2010, increasing the competitiveness of U.S. industries through \$30 billion in reduced energy costs (from 2000 to 2010) and saving 2.2 Quads of energy.

Energy Efficiency & Clean Energy Make Common Sense for America

"What I want to do, because I think it's important for our long-term security, is get America in a position where the fuel efficiency of our vehicles is so great -- or our ability to use alternative-fuel vehicles, or dual-use vehicles, biofuels, mixed electric and gasoline-fuel vehicles that have automatically regenerating batteries -- that our capacity to do that is so great that we will not be reliant on the ups and downs of supplies, and the increases that might come in the future would have a much more limited impact on us."

-- President Clinton, February 16, 2000.

As America considers its long-term energy future, and as we deal with short-term market fluctuations, we must consider the fundamental benefits of becoming more energy efficient and using alternative energy. By pursuing an energy policy that allows us to get more from a barrel of oil, we can help shield the economy and consumers from future energy price shocks, while at the same time creating new job opportunities and reducing air pollution and greenhouse gas emissions. While some believe that the way to respond to market fluctuations is to unbalance the budget and hurt the environment, the President and Vice President have a policy that rejects this false choice and that is putting us on a path to a more self-reliant energy future that will save Americans' money and protect our environment.

MAKING AMERICA'S HOMES AND BUILDINGS MORE EFFICIENT

- **R&D for Energy Efficient Homes.** The President's FY 2001 budget proposes \$275 million for building efficiency efforts, including the *Partnership for Advancing Technology in Housing* – a government-industry partnership to develop and deploy affordable, safe housing technologies to make new homes 50% more energy efficient and at least 15 million existing homes 30% more energy efficient within a decade. Meeting these goals would save consumers \$11 billion per year.
- **Tax Credits for Energy Efficient Homes.** Buyers of new homes that are 50% more energy efficient than current standards would receive a tax credit of \$2000. Buyers of new homes that are 30% more efficient would receive a tax credit of \$1000.
- Buildings in the top 25% of energy efficiency qualify for EPA's "**Energy Star Buildings**" label. In 2001, EPA's buildings programs (both residential and commercial) will help reduce energy consumption by more than 70 billion kilowatt hours, resulting in over \$5.5 billion in energy savings to participating consumers and businesses.
- **Energy Efficient Appliances and Products.**
 - DOE is accelerating its program to establish **energy efficiency standards** for commercial heating and cooling, water heaters, and electrical distribution transformers.
 - EPA and DOE's **Energy Star Products** program saves consumers money and reduces greenhouse gas emissions at the same time by promoting the use of energy efficient products – everything from computers to refrigerators. If we all used Energy Star products, America would reduce its energy bill by \$100 billion over the next 15 years!
- **Federal Government Leadership in Energy Efficient Buildings.** The President's Executive Order of June 1999 requires each Federal agency to improve buildings energy efficiency by 35% relative to 1985 levels by 2010. The President's action will save taxpayers more than \$750 million a year and also reduce greenhouse gas emissions equal to taking 1.7 million cars off the road.
- Since 1976 DOE's **Weatherization Assistance Program** has weatherized some 4.8 million low-income households. Some 75 million gallons of oil have been saved in the half a million

weatherized homes heated by oil. Over 900,000 homes will be weatherized from 2000 to 2005, more than 10% of which use fuel oil, saving an additional 15 million gallons of oil.

MAKING AMERICA'S VEHICLES MORE EFFICIENT

- **R&D for Energy Efficient Cars and Trucks.** *Partnership for a New Generation of Vehicles* is a government-industry effort that aims to develop attractive, affordable cars that meet all applicable safety and environmental standards and get up to three times the fuel efficiency of today's cars. By 2010, DOE will help develop and commercialize fuel efficiency and alternative-fuel technologies that reduce oil consumption by nearly 700,000 barrels per day. By 2020, these same technologies will reduce oil consumption by nearly 1.5 million barrels per day.
- **New Tax Credits for Energy Efficient Cars.** The President's proposed tax package extends the current tax credit (of up to \$4000) through 2006 for qualified electric and fuel cell vehicles and also includes a credit of \$500-3000 for the purchase of a qualifying hybrid vehicles from 2003-2006.

PROMOTING CLEAN RENEWABLE ENERGY

- **R&D for Renewable Energy.** The President's FY01 budget proposes \$410 million for DOE efforts to develop key renewable technologies, including wind, bioenergy, photovoltaics and geothermal energy.
- **Bioenergy & Bioproducts.** The President's August 1999 Executive Order coordinates Federal efforts to accelerate the development and deployment of technologies that convert trees, crops and other biomass into a vast array of fuels and products. Meeting the President's goal of tripling U.S. use of bioenergy and bioproducts by 2010 would reduce U.S. oil consumption, create new income opportunities in rural America, and meet environmental challenges, such as climate change.
- **Tax Credits for Clean Electricity Production.** The President proposes to reduce the demand for oil to produce electricity by extending current tax credits for electricity from wind and closed-loop biomass and providing new credits for electricity produced from open-loop biomass facilities, coal-biomass cofiring, and methane from landfills.
- **Electricity Restructuring.** The Administration's proposal to restructure the electricity industry will make the industry more competitive, save consumers at least \$20 billion annually on their electricity bills, improve energy security, and reduce air pollution and greenhouse gas emissions.

MAKING AMERICA'S INDUSTRY MORE EFFICIENT AND COMPETITIVE

- **Industrial Combined Heat and Power (CHP) Systems.** DOE is developing new industrial CHP systems to capture thermal heat that would otherwise be wasted. These systems are expected to be 15% more energy efficient, 80% cleaner, and 10% less expensive than conventional power systems
- **Voluntary Industrial Partnerships.** EPA's array of partnership programs help businesses cut energy costs while reducing both air pollution and greenhouse gas emissions.
- **Industries of the Future.** This DOE program works cooperatively with the nation's most energy-intensive industries (aluminum, glass, chemicals, forest products, mining, petroleum refining, and steel), aiming to reduce energy consumption per unit of output by 25% below 1990 levels by 2010, increasing the competitiveness of U.S. industries through \$30 billion in reduced energy costs (from 2000 to 2010) and saving 2.2 Quads of energy.

Talking Points on Energy Efficiency and Clean Energy Policy

- As America considers its long-term energy future, and as we deal with short-term market fluctuations, we must consider the fundamental benefits of becoming more energy efficient and using alternative energy. The President and Vice President believe that we should be in a position where the American people are protected from energy price shocks while having access to the energy and fuel they need. *We can do this by increasing our energy efficiency and diversifying our fuel supply base.*
- Some believe that the way to respond to market fluctuations is to unbalance the budget and hurt the environment. *The President and Vice President reject that false choice and have a plan to put us on a path of a more self-reliant energy future that will save Americans money, create new job opportunities, and protect our environment*
- *This Administration has already presented the Congress an energy policy to achieve this.* For example, the President and the Vice President have proposed a budget that includes over \$1 billion next year to accelerate the research, development, and deployment of alternative and more efficient energy technologies, as well as \$4.0 billion in tax incentives over five years to benefit our energy-reliant consumers and businesses.
- *This Administration has a tax-cut plan to provide long-term benefits.* Our common sense tax package on clean energy and energy efficiency provides tax credits for the purchase of energy-efficient homes, cars, and appliances.
 - President and Vice President has proposed tax credits of \$1000 to \$2000 for homes that are 30% to 50% more energy efficient. *Americans understand that a home that is 50% more efficient can cut their heating bill in half.* So under this proposal, consumers get a double benefit – a tax credit as well as ongoing savings from reduced energy bills.
 - We have proposed tax credits ranging from \$500 to \$4000 for energy efficient cars, such as electric, fuel cell, and hybrid vehicles. That's money in Americans' pockets right now for cars that will cost them less at the pump.
 - And, we have proposed, tax credits for clean energy production – such as, wind, biomass, and methane from landfills – that will reduce demand for oil to produce electricity.
 - *These are the kinds of tax cuts that will make a real difference in our energy future, and will save consumers more money in the long run than a small break on the gas tax.*
- *We Are Making America's Homes and Buildings More Efficient:*
 - The Administration has proposed \$275 million in R&D efforts next year to make offices, homes, and appliances 50% more energy efficient within a decade. People understand what that means for their home heating bill. *Overall, meeting this goal would save consumers \$11 billion a year in energy costs.*
 - We are accelerating efforts to establish energy efficiency standards for appliances and encouraging more Americans to use Energy Star Products. *If we all used Energy Star products, America would reduce its energy bill by \$100 billion over the next 15 years!*
 - The President's recent Executive Order 13123 has made the Federal Government a leader in building energy efficiency, saving taxpayers \$750 million annually.

- We are expanding DOE's *Weatherization Assistance Program* that helps low-income households make their homes more energy efficient. These are the Americans that most need to reduce monthly energy costs. *This program has already weatherized almost 5 million low-income homes and is saving 3.0 million barrels of oil each year.* With funding from DOE and the states, we plan to add more than 150,000 homes to the list in the next year *which will save more than an additional 91,000 barrels of oil per year.* Our budget seeks \$154 million for FY 2001 and an additional \$19 million for the current year in the FY 2000 supplemental spending bill.
- *We Are Making America's Vehicles More Efficient:*
 - Our *Partnership for a New Generation of Vehicles* is on track to deliver us attractive, affordable cars that get up to three times the fuel efficiency of today's cars. *A car that gets twice the fuel economy of today's comparable vehicle is the equivalent of cutting the price of gas in half for the American driver* and would save a typical consumer more than \$300 a year in fuel costs; SUV owners would save more than \$400 a year.
 - *By 2010, DOE will help develop and commercialize fuel efficiency and alternative-fuel technologies that reduce oil consumption by nearly 700,000 barrels per day.* By 2020, these technologies will reduce oil consumption by nearly 1.5 million barrels per day.
- *We Are Promoting Clean Renewable Energy:*
 - The President's FY01 budget proposes \$410 million for DOE efforts to develop key renewable technologies, including wind, photovoltaics and geothermal energy.
 - The President's Bioenergy Initiative will help us create new fuels for our cars that will reduce U.S. oil consumption, create new income opportunities in rural America, and meet environmental challenges, such as climate change.
 - The Administration has proposed restructuring electricity industry to make it more efficient and cleaner, while saving consumers at least \$20 billion annually on their electricity bills.
- *We Are Helping Make America's Industry More Efficient and Competitive:*
 - Our plan helps industry implement win-win strategies for cutting energy costs.
 - We invest in R&D with America's most energy intensive industries get more output for each unit of energy they use – this will save them \$30 billion in reduced energy costs through 2010.
- *We Have More Initiatives in the Works:*
 - We are finalizing an Executive Order that would require the Federal Government to reduce its own petroleum consumption.
 - We are finalizing an agreement with industry that will lead to dramatic increases in fuel efficiency for heavy trucks.
- *We Need the Congress to Stop Playing Politics Over Energy Policy and Pass Our Long Term Plan, so We can Give the American People the Energy Security they Deserve without Unbalancing the Budget and Harming the Environment.*

DRAFT

Improving America's Energy Efficiency: Part of a Long-term, Common Sense Energy Policy

"What I want to do, because I think it's important for our long-term security, is get America in a position where the fuel efficiency of our vehicles is so great -- or our ability to use alternative-fuel vehicles, or dual-use vehicles, biofuels, mixed electric and gasoline-fuel vehicles that have automatically regenerating batteries -- that our capacity to do that is so great that we will not be reliant on the ups and downs of supplies, and the increases that might come in the future would have a much more limited impact on us."

-- President Clinton, February 16, 2000.

As America considers its long-term energy future, and as we deal with short-term market fluctuations, we must consider the fundamental benefits of becoming more energy efficient and using alternative energy. By pursuing an energy policy that allows us to get more from a barrel of oil, we can help shield the economy and consumers from future energy price shocks, while at the same time creating new job opportunities and reducing air pollution and greenhouse gas emissions.

This Administration has an energy policy to achieve this. The President and the Vice President have put in place or proposed a broad array of common-sense policy, budget, and tax initiatives to further these goals. Our policies and initiatives will accelerate the research, development, and deployment of clean and efficient energy technologies. The initiatives span the major energy using sectors of the economy: buildings, transportation, industry, and electricity.

While some believe that the way to respond to market fluctuations is to unbalance the budget and hurt the environment, the President and Vice President have a policy that rejects this false choice and that is putting us on a path to a more self-reliant energy future that will save Americans' money and protect our environment.

MAKING AMERICA'S HOMES AND BUILDINGS MORE EFFICIENT

- **R&D for Energy Efficient Homes.** *Partnership for Advancing Technology in Housing* is a partnership between the Federal government and building industry to develop and deploy affordable, safe housing technologies to make new homes 50 percent more energy efficient and to make at least 15 million existing homes 30 percent more energy efficient within a decade. Meeting PATH's goals would save consumers \$11 billion a year in energy costs. The President's FY 2001 budget for building efficiency efforts, such as PATH, Energy Star, and Building America totals \$275 million.
- **Tax Credits for Energy Efficient Homes.** Buyers of new homes that are 50% more energy efficient than current standards would receive a tax credit of \$2000. Buyers of new homes that are 30% more efficient would receive a tax credit of \$1000. A home that is 50% more efficient reduces demand for energy for both heating and cooling. This provides a double benefit -- consumers get a tax credit when they purchase their home, as well as the ongoing savings of reduced energy bills.

- **Labeling Energy Efficient Buildings.** Buildings in the top 25 percent of energy efficiency qualify for EPA's and DOE's "Energy Star Buildings" label. In 2001, EPA's buildings programs (both residential and commercial) will help reduce energy consumption by more than 70 billion kilowatt hours, resulting in over \$5.5 billion in energy savings to participating consumers and businesses. By 2010, the savings will reach more than \$30 billion per year.
- **Energy Efficient Appliances and Products.** Various DOE and EPA programs aim to promote the dissemination of energy efficient appliances and products:
 - DOE is accelerating its program to establish **energy efficiency standards** for commercial heating and cooling, water heaters, and electrical distribution transformers, and will begin efforts to harmonize international energy-efficiency standards and test methods to promote exports of efficient U.S. products.
 - EPA and DOE's **Energy Star Products** program saves consumers money and reduces greenhouse gas emissions at the same time by promoting the use of energy efficient products – everything from computers to refrigerators to central air-conditioning units. Proposed new funding will support the launch of new Energy Star product lines and will promote the Energy Star labeling program in 6-10 export markets. If we all used Energy Star products, America would reduce its energy bill by *\$100 billion over the next 15 years!*
- **Federal Government Leadership in Energy Efficient Buildings.** On June 3, 1999, President Clinton issued Executive Order 13123 that requires each Federal agency to improve its energy efficiency in its buildings by 35% relative to 1985 levels by 2010. The Federal government is the largest energy consumer in the United States, and spends more than \$4 billion annually to heat, cool, and power 500,000 buildings. Federal agencies have already reduced energy consumption 19 percent per square foot relative to 1985 levels. The President's action will also reduce greenhouse gas emissions equal to taking 1.7 million cars off the road, and save taxpayers more than \$750 million a year.
- **Low-Income Weatherization.** DOE's Weatherization Assistance Program delivers home energy efficiency services, such as insulation, to low-income U.S. households, reducing energy consumption and costs. Since 1976, 4.8 million low-income homes have been weatherized. Some 75 million gallons of oil have been saved in the half a million weatherized homes heated by oil. Over 900,000 homes will be weatherized from 2000 to 2005, more than 10 percent of which use fuel oil for heating, saving an additional 15 million gallons of oil.

MAKING AMERICA'S VEHICLES MORE EFFICIENT

- **R&D for Energy Efficient Cars and Trucks.** *Partnership for a New Generation of Vehicles* is a government-industry effort that aims to develop attractive, affordable cars that meet all applicable safety and environmental standards and get up to three times the fuel efficiency of today's cars. In January 2000, the auto-industry partners unveiled their PNGV

“concept cars”, keeping the program on schedule for meeting its 2004 goal. Similar government-industry efforts are aimed at developing cleaner, more efficient diesel engines for both light and heavy trucks. The President’s FY 2001 budget includes \$255 million for PNGV-related work. A new car which gets twice the fuel economy of today’s average car would save customers more than \$300 a year in fuel costs; SUV owners would save more than \$400 a year. *By 2010, DOE will help develop and commercialize fuel efficiency and alternative-fuel technologies that reduce oil consumption by nearly 700,000 barrels per day. By 2020, these same technologies will reduce oil consumption by nearly 1.5 million barrels per day.*

- **New Tax Credits for Energy Efficient Cars.** The President’s proposed tax package extends the current tax credit (of up to \$4000) through 2006 for qualified electric and fuel cell vehicles and also includes a credit of \$500-3000 for the purchase of a qualifying hybrid vehicles from 2003-2006.

PROMOTING CLEAN RENEWABLE ENERGY

- **R&D for Clean, Renewable Energy.** Over the past 20 years, Federal R&D has resulted in a 90 percent cost reduction in solar photovoltaics and wind power. The President’s FY 2001 budget proposes a total of \$410 million for DOE’s solar and other renewable energy programs. The package includes expanded efforts in key renewable technologies, such as wind, bioenergy, photovoltaics, and geothermal energy.
 - In 2001, U.S. wind-power generating capacity (using many technologies developed by DOE) will increase to 3,000 megawatts on-line (up from 2,000 megawatts in 1999). Under the *Wind Powering America* initiative, DOE will accelerate research on next-generation wind technologies with a long-term goal of supplying 5 percent of U.S. electricity needs by 2020.
 - DOE’s *GeoPowering the West* initiative seeks to supply at least 10 percent of the electricity of the American West with geothermal energy by 2020, with 20,000 megawatts of capacity installed.
 - DOE is continuing research on low-cost hydrogen production and storage, prerequisites to the widespread use of hydrogen in Proton-Exchange Membrane fuel cells for hybrid vehicles and buildings, which will be ready within 5 years.
- **Bioenergy & Bioproducts.** On August 12, 1999, President Clinton issued Executive Order 13134 coordinating Federal efforts to accelerate the development and deployment of technologies that convert trees, crops and other biomass into a vast array of fuels and products. The President specifically called for tripling U.S. use of bioenergy and bioproducts by 2010. Meeting the President’s goal would reduce U.S. oil consumption, create new income opportunities in agricultural communities, and meet environmental challenges, including global warming. To follow through on that commitment, the President is proposing \$289 million to accelerate the development of bioproducts and bioenergy.

- **Tax Credits for Clean Electricity Production.** The President proposes to extend the current 1.5 cent per kilowatt hour tax credit for production of electricity from wind and closed-loop biomass and to provide new credits for electricity produced from open-loop biomass facilities, coal-biomass cofiring, and methane from landfills. These efforts will reduce demand for oil to produce electricity.
- **Electricity Restructuring.** The Administration's proposal to restructure the electricity industry will make the industry more competitive, save consumers at least \$20 billion annually on their electricity bills, improve energy security, and reduce air pollution and greenhouse gas emissions. The Administration's proposal includes a requirement that utilities open up their distribution and transmission wires to all qualified sellers; a renewable portfolio standard to increase the use of renewable energy; a \$3 billion per year Public Benefits Fund to spur greater investment in energy efficiency and renewable energy technologies; and a labeling requirement to inform consumers about clean energy options.

MAKING AMERICA'S INDUSTRY MORE EFFICIENT AND COMPETITIVE

- **Industrial Combined Heat and Power (CHP) Systems.** DOE is developing new industrial CHP systems to capture thermal heat that would otherwise be wasted. These systems are expected to be 15 percent more energy efficient and 80 percent cleaner than conventional power systems and cut electricity costs by 10 percent. In addition, EPA and DOE are also working to eliminate barriers to the rapid dissemination of combined heat and power technology.
- **Voluntary Industrial Partnerships.** EPA is proposing to expand a host of industrial partnership programs that help businesses develop and implement win-win strategies for cutting energy use, saving on energy costs, and reducing both air pollution and greenhouse gas emissions.
- **Industries of the Future.** This DOE program works cooperatively with the nation's most energy-intensive industries – such as aluminum, glass, chemicals, forest products, mining, petroleum refining, and steel – on developing technologies that increase energy and resource efficiency. By 2010, industrial energy intensity (energy consumption per unit of output) will be reduced 25 percent below 1990 levels, increasing the competitiveness of U.S. industries through \$30 billion in reduced energy costs (from 2000 to 2010) and saving 1.4 Quads of energy.

OIL AND GAS TALKING POINTS

Our energy policy is based on:

- * market forces – not artificial pricing;**
- * diversity of supply and strong diplomatic relations with energy producing nations;**
- * improving the production and use of traditional fuels through new technology development;**
- * diversity of energy sources with long-term investment in alternative fuels and energy sources;**
- * increasing efficiency in the way we use energy;**
- * maintaining and strengthening our insurance policy against supply distributions – the Strategic Petroleum Reserve.**

These are the foundations of the Clinton Administration's policies – and over the long-term they work to provide affordable, secure supplies of energy.

- * The Administration is very concerned about the impact of the recent price spike on consumers, businesses and truckers. When prices jump like this, there's little warning and you don't really have many options – you can't decide to switch fuel sources and fill your car or truck with coal instead of gas.
- * We've been monitoring the situation carefully since we first saw indications of a problem in October and acting aggressively to address the problem.
- * It's important to keep this price spike in context and not overreact with policies that will worsen the situation or create a different set of problems.
- * When you adjust for inflation, today's gas prices are still less than they were in 1990 and 40% less than gas prices when they were at their peak in 1981. (October 1990 – \$1.77 per gallon whereas today's average is \$1.52.) And the economy is much less energy dependent than it was 20 years ago.

What's causing today's price spike...

- * The problem we're facing today is low inventories caused by cutbacks in production by OPEC nations. We have low stocks at the same time the world is consuming 75 million barrels while producing only 73 million barrels.
- * What we need to do is rebuild stocks, increase production and work to increase efficiency in the way we use energy. That means looking for oil producers who have what's called "excess capacity" – the ability to increase production immediately without additional drilling or exploration. And it means reducing the energy waste in our economy.

- * Out of 5.5 million barrels of excess production capacity in the world, 4.5 million barrels are in OPEC countries. Our efforts to address the near-term problem naturally take us to OPEC – we are going “where the oil is.”

Our diplomatic efforts are working...

- * The United States was out in front in recognizing the problem.
- * Because of our efforts, we are no longer the lone voice calling for action – there is now a growing consensus among leading oil producers to increase production.
- * Before the Administration’s diplomatic efforts began, many energy producing nations believed there was no problem in the oil markets – that stock levels were adequate and the world’s economy was not suffering.
- * Secretary Richardson returned from a diplomatic mission to Mexico, Norway, Saudi Arabia, Kuwait and met with the minister from Venezuela with strong joint statements that reflected a common understanding that volatility is bad – that stability is in the interest of producing and consuming nations.
- * The momentum continues – Kuwait – Saudi Arabia – Iran – Mexico – Norway – are now all saying they support production increases.
- * So we’re now in an environment where the question has gone from **if** or **when** to **how much**.

Markets should dictate prices...

- * The Clinton Administration firmly believes that consumers – families, truckers, businesses – are best served when markets dictate prices.
- * The price controls of President Nixon gave us gas lines and shortages.
- * Allowing market forces to work – even when dealing with a cartel like OPEC – is the most effective approach over the long run. History has shown that when cartels limit production and raise prices, they lose market share.
- * For example, since the U.S. government has taken a more market based approach, OPEC’s share of world oil markets has fallen. Last year, we imported 4.85 million barrels of oil per day from OPEC, down 22% from the 6.19 million barrels of oil per day we imported from OPEC in 1977.

D R A F T

Talking Points Arctic National Wildlife Refuge (ANWR) March 10, 2000, 6:30 p.m.

Why doesn't the Administration support ANWR being opened up for oil and gas development?

- The Administration is committed to ensuring adequate supplies of petroleum products at reasonable prices. However, we need to show restraint and preserve for future generations America's precious wilderness by not acting to destroy wilderness and unique natural resources for short-term monetary gain, or reacting to cyclical events that could force us to make a short-sighted, isolated policy decision.
- The Alaska wilderness is the last remaining region where the complete spectrum of the arctic and subarctic ecosystems comes together. Opening ANWR to oil development would threaten the breeding ground of thousands of caribou, polar bears, swans, snow geese, musk oxen and numerous other species.
- Many proponents for opening ANWR to oil production argue that its development would help to insulate our energy markets from some world oil crises. However, oil markets are global in nature, and the U.S. cannot insulate itself from global oil market dynamics.
- The U.S. consumes about 19 million barrels of oil daily, or almost seven billion barrels of oil a year. If all the economically recoverable reserves identified by the U.S. Geological Survey in 1998 for ANWR were developed, they would provide less than one-half of one year's supply of oil to the Nation and then would be depleted.
- In addition, to actually get the oil to the consumer, it would take more than 10 years to just develop the fields, and the initial amount would be a small fraction of the total reserves available because of the harsh weather conditions in Alaska, and the fact that the oil reserves are not located in one large accumulation.
- President Clinton has been strongly opposed to opening up ANWR for oil drilling. During the 1995 reconciliation bill process the President said he would veto any bill that would open up ANWR to drilling (which he subsequently followed through on in December 1995). And, as early as 1992 in *Putting People First*, the President called for the designation of the 1.5 million-acre arctic coastal plain as a wilderness area.

Background:

- The Refuge was set aside in 1960 to preserve its unique values; it more than doubled in size with the passage of the Alaska National Interest Lands Conservation Act (ANILCA) in 1980, and other Acts. Today, ANWR encompasses nearly 20 million acres, an area the

size of South Carolina, with eight million acres designated by Congress as wilderness, 9.5 million acres designated "Refuge," and another 1.5 million acres (commonly referred to as the 1002 area -- ANILCA's section 1002) located on the coastal plain also designated "Refuge" but requiring a report to Congress on plant and animal resources and the oil and gas potential in the 1.5 million acre area. Congress would have to authorize oil and gas development in any area of the Refuge.

- In April 1987 (during the Reagan Administration), the Interior Department submitted to Congress a report describing oil and gas leasing alternatives and recommending that the 1.5 million acres of ANWR's coastal plain be fully leased.
- In 1989, there was a concerted Senate effort to authorize ANWR oil and gas leasing, which was stymied following the Exxon Valdez oil spill in March 1989.
- In April 1998, Secretary Babbitt, at a ceremony, in Boston, honoring Paul Tsongas, pledged Interior's support for congressional legislation to protect ANWR. The Secretary said "The coastal plain of the Arctic Refuge is under a constant threat of oil and gas development. I believe that it should be further protected by designating it wilderness, like much the rest of the Refuge." On March 8, 2000, the Secretary reiterated his opposition to opening up ANWR to oil drilling (in an uncleared Interior press release).
- With reduced oil production for the Prudhoe Bay area, the State of Alaska strongly supports opening ANWR to oil development because of increased economic development and jobs, and because the State would likely receive at least 50% of any Federal ANWR oil revenue receipts.
- In 1999, the Interior Secretary opened up a portion of the NPR-A (West of Prudhoe Bay) for oil drilling. However, the Secretary carried out an extensive EIS process before he opened up the NPR-A for oil and gas development. About \$105 million has been collected in subsequent bids; however, production is not expected to begin before 2009.
- In 1998, Interior's Geological Survey (USGS) completed a revaluation of the amount of oil that the coastal plan could contain, and estimated that the coastal plain contains between 11.6 and 31.5 billion barrels of oil with only between 4.3 and 11.8 billion barrels are technically recoverable. The USGS estimates that no oil is economically recoverable at a market price below \$15 per barrel and at \$20 per barrel about 3.2 billion barrels are recoverable. The USGS points out that of these amounts, most oil is expected to occur in numerous accumulations, rather than in one large accumulation
- The U.S. consumes about 19 million barrels of oil a day (almost seven billion barrels of oil annually), with about 52 percent being met by net oil imports (source: Department of Energy).

The Administration is currently reviewing proposals to suspend temporarily a portion of the Federal excise tax on gasoline (either 4.3 or 5.0 cents) in response to the recent spike in energy prices. Under current law (TEA-21), the revenue from this tax goes into the Highway Trust Fund and is used for highway construction and other initiatives such as the Congestion Mitigation and Air Quality (CMAQ) program. Each penny of the gas tax yields just over a billion dollars a year in net revenue.

Proposals to reduce the gas tax under current law suffer from several serious drawbacks:

- Significant reductions in funding for transportation projects. The consequence of this reduction would be an increase in traffic congestion and a loss of related economic activity. Supporters of highway construction, including truckers, would strongly oppose these reductions. Congressional opposition would be significant, even among Republicans.
- Cuts in air pollution control programs. In addition to highway construction, the Highway Trust Fund helps to pay for air pollution reduction programs such as CMAQ and the transportation enhancements program, which gives alternative choices to commuters. A suspension in this tax in the proposed range for the rest of the year would be greater than the increases proposed in these programs for FY 2001.
- No decreased oil dependency. The Administration is pursuing a national energy strategy that promotes domestic supplies of oil while encouraging reduced oil consumption through energy efficiency and renewable energy sources such as biofuels. A reduction in the gas tax would not provide any additional incentives to domestic producers to increase oil production. However, it would move in the opposite direction from encouraging conservation and would increase the quantity of oil demanded.
- Small relief to the consumer. Reductions in the gas tax of the sizes currently being considered would provide little benefit to consumers. First, the size of the reduction is small in comparison to the increase in price that is due to OPEC supply reductions. Second, much of the reduction in the amount of the tax may not be passed on to the consumer in the form of a price reduction due to the increase in the quantity demanded by the consumer as the price goes down.

Proposals to make up the shortfall in revenues from a gas tax suspension by finding offsets in other parts of the budget is an even worse solution:

- The Administration has fought hard to link user fees (such as the gas tax) to the amount of money spent on transportation programs. The close forging of this link in TEA-21, preventing the use of general revenues for these projects, was a major goal achieved by the Administration in TEA-21. We fought and won on the same principle in the recent FAA reauthorization. Once we lose this principle in TEA-21, we may never get it back.
- Finding offsets from other areas will be difficult and painful. Even temporary suspension of the gas tax would cause a loss of billions of dollars in government revenue. Congress would almost certainly target other Administration priorities as the source of such offsets.

As an alternative to suspending a portion of the gas tax (costing the government between \$3-5 billion a year), the Administration could push for its own proposed energy tax cut. Under the Climate Change Technology Initiative, the Administration has proposed a \$3.6 billion package of tax credits to help consumers purchase renewable and energy efficient cars, homes, and other products. This tax package, paid for within the Administration's budget framework, would help reduce oil dependency and air pollution, while saving consumers more money in the long-run than a small and temporary gas tax break.

THIS SEARCH	THIS DOCUMENT	THIS CR ISSUE	GO TO
Next Hit	Forward	Next Document	New CR Search
Prev Hit	Back	Prev Document	HomePage
Hit List	Best Sections	Daily Digest	Help
	Doc Contents		

[Full Display](#) - 16,891 bytes.[\[Help\]](#)

THE HIGH PRICE OF OIL (Senate - March 06, 2000)

[Page: S1164] [GPO's PDF](#)

Mr. MURKOWSKI. Mr. President, Friday, the price of oil exceeded \$30. It was close to \$31.26. That is high--not necessarily an all-time high, but it is pretty close.

Back in 1973, when we had the Arab oil embargo, the prices were in that neighborhood. A lot of people don't remember 1973, or the consequences of the Arab oil embargo; but for those who do, it was a day of reckoning. It was at a time when you went to the gas station to fill up and you waited--not just a little while, but in some cases a couple of hours. You stood in line because gasoline was short in this country.

There was an indignant response from the American public that never again would we be so dependent on imported oil from other countries. As a consequence, at that time, we formed the Strategic Petroleum Reserve. The important thing to note is that in 1973 we were about 37 percent dependent on imported oil.

The idea of the Strategic Petroleum Reserve was to have a supply of oil on hand in case there was an interruption on our imports and we could have that oil available for use to meet that emergency. That was in 1973.

Today, in the year 2000, we are approximately 56 percent dependent on imported oil. The Department of Energy has indicated by the year 2015 to 2020, we will probably be dependent to the tune of about 65 percent. Now, the question, of course, from the standpoint of our national energy security interests, is: What are the implications of this? What are the ramifications of our increasing dependence on imported oil?

Clearly, the pricing structure is determined by the availability of oil from the producing countries that have an excess capacity. That is primarily in the Mideast. We have seen the efforts by both Iran and Iraq to cut production. It is interesting that between those two countries, they account for about 8 percent of the world's 75 million barrels of daily oil production. But now we see Baghdad and Teheran in a new position of power and influence to push their separate agendas in various ways.

We have OPEC. We know the significance of what that cartel controls. They decided to have a meeting to address our emergency. The irony of that is, that meeting is going to take place on March 27, which is hardly responding to our emergency.

As a matter of fact, our Secretary of Energy traveled extensively through the Mideast, meeting with the OPEC ministers, encouraging them to produce more oil so we will not see the price escalation that is currently occurring.

The results of that meeting were that we could expect some relief from Venezuela and Mexico. Both countries, of course, are outside of OPEC, but they wanted to remind us of something, and they communicated a little message. This didn't come from the Secretary of Energy, but it came from those who have had an opportunity to relate to both Mexico and Venezuela with regard to oil prices. On the manner in which we came and pled for more production, the Mexicans and the Venezuelans said: Where

were you when we were going broke selling our oil at \$11 and \$12? Were you giving us any assistance? Were you encouraging higher prices so we could maintain our economy? Certainly not. That was not the case at all.

Now when we see oil at \$30, we go to Mexico and we go to Venezuela, and say: We need increased production. But they are reminding us that we weren't at all concerned when the price was low, and when their economy was in collapse, they couldn't count on the United States.

Those are the dangers of that kind of dependence.

Now we are seeing OPEC on March 27 perhaps responding to increased oil production. But it is a little more complex than that because there are wheels within wheels in OPEC and relationships within relationships.

Kuwait this weekend signaled its support for an agreement to boost production. Remember, it wasn't so long ago that we fought a war against Saddam Hussein. It was a war over oil to keep that country, Kuwait, from being taken over by Saddam Hussein and Iraq.

We are now seeing within Iran and Iraq a group of price hawks, if you will, within OPEC. They are going to do what is best for their country--not what is best for the United States. Teheran has said that this is not the time to increase output because demand typically declines and higher production could lead to a quick collapse of prices. They are certainly looking out for their own best interests. Iran, with 3.5 million barrels of daily production, is at about its maximum, analysts say.

Since we are talking about bedfellows, let's talk about Algeria and Libya. They also have little reason in the short term to care about the world's economy, or the United States economy specifically.

An interesting suggestion is in this report from the Wall Street Journal. If the United States wants to lower its price of gasoline, it should reduce its taxes. That is their answer. They simply want to reduce our highway taxes and our other taxes and our State taxes that are associated with the price of oil. They say that if we really care about higher prices, we should simply eliminate our taxes. That is an interesting point of view.

Saudi Arabia, the world's largest producer of oil and an OPEC shareholder, has a special interest in keeping Iran happy now because relations between those countries are at their

best since the Iranian revolution in 1979.

We see countries within OPEC working for their own best interests and not necessarily what is good for the United States. The Saudis have been more responsive in the past, but not necessarily at this time because of their relationship with Iran.

OPEC producers want to continue the cartel's new-found unity because it funds the cash-flow. Wouldn't you rather produce more oil at a higher price to meet your cash-flow than a lot of oil at lower prices? That is just what they are doing.

We are seeing the role of OPEC and our neighbors in Mexico, Venezuela, and other countries evaluating the kind of response they are going to make to the United States at this time of emergency.

Over the last decade--most of it under the Clinton administration--production has decreased 17 percent and consumption has increased 14 percent. That is the reality of what has occurred in this country because we have not had an energy policy. We do not have an energy policy on coal. We do not have an energy policy on natural gas.

We just saw the Federal Energy Regulatory Commission basically kill prospects for a gas line in the Northeast corridor by making it economically unattractive for investors. We have an administration that suggests hydro is nonrenewable. It wants to take dams down in the Pacific Northwest. So we look at oil,

we look at gas, we look at hydro, and we look at coal; there is no energy policy of any consequence.

Renewables are something we all support. But the reality is they contribute less than 4 percent of the total energy consumed in this country, and the prospects, while encouraging, are not going to give us the immediate relief we need.

As a consequence, we are experiencing a shock. The American public, when it drives down to the gas station to fill up the family Blazer or sports vehicle, may find itself subjected to a situation where it makes a pretty good hole in a \$100 bill if it takes a 40-gallon gas tank at \$2 a gallon, or thereabouts.

We also have a couple of other considerations. We have the potential for added inflation. Somebody made the interesting observation that if you consider the cost and availability of labor, if you consider the cost of money--namely, interest rates that have been going up--and the cost of energy, you have the three factors for inflation. It has been estimated that for every \$10 increase in the price of oil, inflation increases one-half percent.

It is a very real threat to our economy, a very real exposure to our consumers out there, and I don't think we realize what is ahead. Not too many people know that every time they get in the airplane now, they are paying a \$20 surcharge on that airline ticket, whether they go from here to Seattle or from here to Baltimore. The Northeast corridor has felt the impact of \$2 a gallon for heating oil.

The question is, Is it going to get worse? The answer is, probably. When can we get relief? The question is whether we want to just depend on the Mideast or whether we want to reduce our dependence on imported oil.

There are many areas of this country over the overthrust belt of the Rocky Mountains--Utah, Montana, North Dakota, New Mexico, Wyoming, and my State of Alaska--where we have a tremendous abundance of oil and gas if given the opportunity to initiate exploration.

This is not supported by President Clinton. I am glad to say it is supported by some of the Republican candidates running for President.

The point is, what are we going to learn from history? Some say not much. If the Department of Energy predicts we will be 65-percent dependent in the years 2015 to 2020, should we not be doing something about it now? We should be committed to a policy of reducing our dependence on imported energy sources by developing sources in the United States. My State of Alaska, in the ANWR area, has an estimated 16 billion barrels. That would be an amount equal to what Saudi Arabia exports to America over an estimated 30-year timeframe.

We have areas in Louisiana, in Texas, and other coastal States that want to have OCS activity, yet we have an administration that does not support that activity. That is, indeed, unfortunate.

The bottom line is, when are we going to wake up? When will we relieve our dependency on imported oil? I might add, for those who think imported oil is the answer from an environmental point of view, it is estimated that from the year 2015 to 2020, it will take more than 30 tankers, 500,000 barrels each, docking every day in the United States, to supply that increase; that would be 10,000 ships per year. If that is not an environmental risk, I suggest anyone check the registration of the ships because they will be foreign ships.

Finally, in 1990 we had 657 rigs working in this country; today we have 153. In 1990, we had 405,000 jobs in the oil industry; today we have 293,000, a 28-percent decline.

If one considers the makeup of our trade deficit, a trade deficit of \$300 billion, \$100 billion is the cost of imported oil.

I encourage my colleagues to recognize that it is time to move. It is time to address opportunities to relieve our dependence on imported oil with meaningful proposals on the basic premise that charity

begins at home.

I ask unanimous consent an article from the Wall Street Journal be printed in the **Record**.

There being no objection, the article was ordered to be printed in the **Record**, as follows:

[Page: S1165] GPO's PDF

From the Wall Street Journal, Mar. 6, 2000

[FROM THE WALL STREET JOURNAL, MAR. 6, 2000]

Oil Output May Be Hostage to Iran, Iraq Agendas

(BY STEVE LIESMAN AND NEIL KING, JR.)

Iran and Iraq, the two major oil producers over which the U.S. has the least sway, are playing a crucial role in determining where oil prices are headed and are positioned to affect the world economy.

Together, the two countries account for 8% of the world's 75 million barrels of daily oil production. But tight world oil inventories, high prices and declining production capacity in the Organization of Petroleum Exporting Countries have given Baghdad and Tehran new power to push their separate agendas, analysts say.

OPEC members will gather in three weeks to decide whether to reverse the past year's production cutbacks, which reduced world output by about five million barrels a day. Leading producers support an increase as soon as April to cool prices that recently topped \$31 a barrel for the benchmark West Texas Intermediate crude.

After initial reluctance, Kuwait during the weekend signaled its support for an agreement by Saudi Arabia, Venezuela and Mexico to boost production. Meanwhile, a strike by oil workers in Venezuela withered quickly.

Iran still leads the group of price hawks within OPEC and 'is one of the key stumbling blocks to coming out with a new decision,' said Raad Alkadiri, an analyst with the Petroleum Finance Co., a Washington energy consultant.

Officially, Tehran says the second quarter is the wrong time to increase output because demand typically declines and higher production could lead to a quick collapse in prices. But domestic economics are at least as much of a factor. Unlike other major producers, which have extra capacity, Iran's 3.5 million barrels of daily production is about its maximum, analysts believe. Declining investments in its oil fields, as well as continued U.S. sanctions on spare parts, suggest production capacity may actually be declining. 'They don't have more capacity to make up for the price drop,' Mr. Alkadiri said. Higher output world-wide--which could result in lower prices--would do little for the Iranian treasury at a time when payments on \$11 billion of foreign debt begin to peak.

Iran, which has the backing of Algeria and Libya, also has little reason in the short term to care about the world economy. Its oil minister recently said that oil-consuming nations should lower energy taxes if they are concerned about inflation from higher oil prices.

Saudi Arabia, the world's largest exporter and OPEC's clear leader, has a special interest in keeping Iran happy. Relations between the two countries are at their best since the Iranian revolution of 1979. Their rapprochement last year was the linchpin of OPEC's ability to cut back production. 'The Saudis might have been more responsive more quickly [to world oil markets] had it not been for this relationship with Iran,' said Amy Jaffe, senior energy analyst at the James A. Baker III Institute for Public Policy in Houston.

OPEC producers want to continue the cartel's newfound unity, fear a production free-for-all if OPEC cooperation dissolves. Of course, oil-producing countries ultimately could go ahead without Iran, as they have in the past. Venezuela's oil minister is to visit Tehran in coming weeks to lobby the government to accept higher production levels.

But the one million to two million barrels that OPEC is considering putting back on the market could be quickly removed if Iraq withheld its two million barrels a day of exports. In November, Iraqi President Saddam Hussein pushed oil prices up almost \$1 a barrel in a single day when he turned off his spigots to protest United Nations sanctions. This time, 'with oil inventories very low, any interruption in crude supply could cause prices to skyrocket,' said Gary Ross, president of PIRA Energy Group, a New York energy-consulting company.

Whether Mr. Hussein would use the opportunity is a matter of debate, but few dispute he has ample reason. Baghdad is feuding with the U.S. about Iraq's need to import spare parts for its oil industry. It could decide to use the tight oil market, analysts say, to get Washington to ease up--or to undermine U.N. sanctions altogether. 'We have seen him do this before and we would not be surprised if he resorted to the same tactics again,' one U.S. official said.

Other OPEC producers' ability to make up for any Iraqi cutbacks would be strained in the short term. Mr. Ross said OPEC production capacity has fallen by about 500,000 barrels a day during the past year. Venezuela in particular has let its capacity dwindle as it diverted oil revenue to pay for the extensive social agenda of President Hugo Chavez. In time, however, OPEC countries should be able to make up any shortfall with their four million to five million barrels a day of excess capacity.

Mr. MURKOWSKI. I yield the floor.

The PRESIDING OFFICER (Mr. **Thomas**). The Senator from Alabama.

Mr. SESSIONS. Mr. President, I thank the distinguished chairman of our Energy Committee for the remarks. They are not new. He is not making a political statement. Chairman **Murkowski** is here because he has spoken out for years, virtually since this administration has been in office, about discouraging--through so many rules, regulations, and taxes--the domestic production of oil and gas.

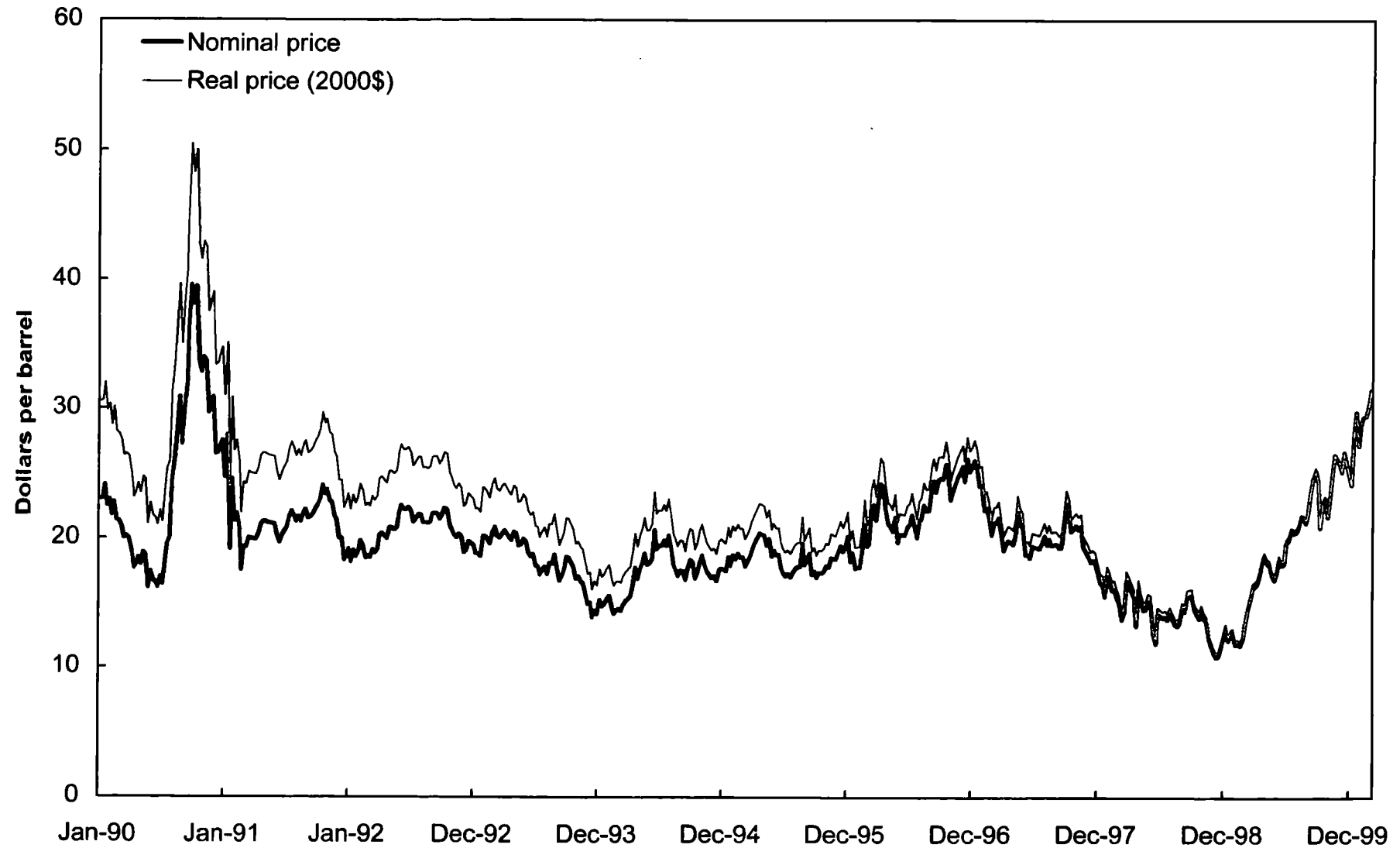
He has warned we would be at this point. Here we are. The best way by far to deal with this is to make sure we have more domestic production because it will help keep the prices down, and it will also help ease our balance of payments.

I thank the Senator for his leadership on this issue.

THIS SEARCH	THIS DOCUMENT	THIS CR ISSUE	GO TO
Next Hit	Forward	Next Document	New CR Search
Prev Hit	Back	Prev Document	HomePage
Hit List	Best Sections	Daily Digest	Help
	Doc Contents		

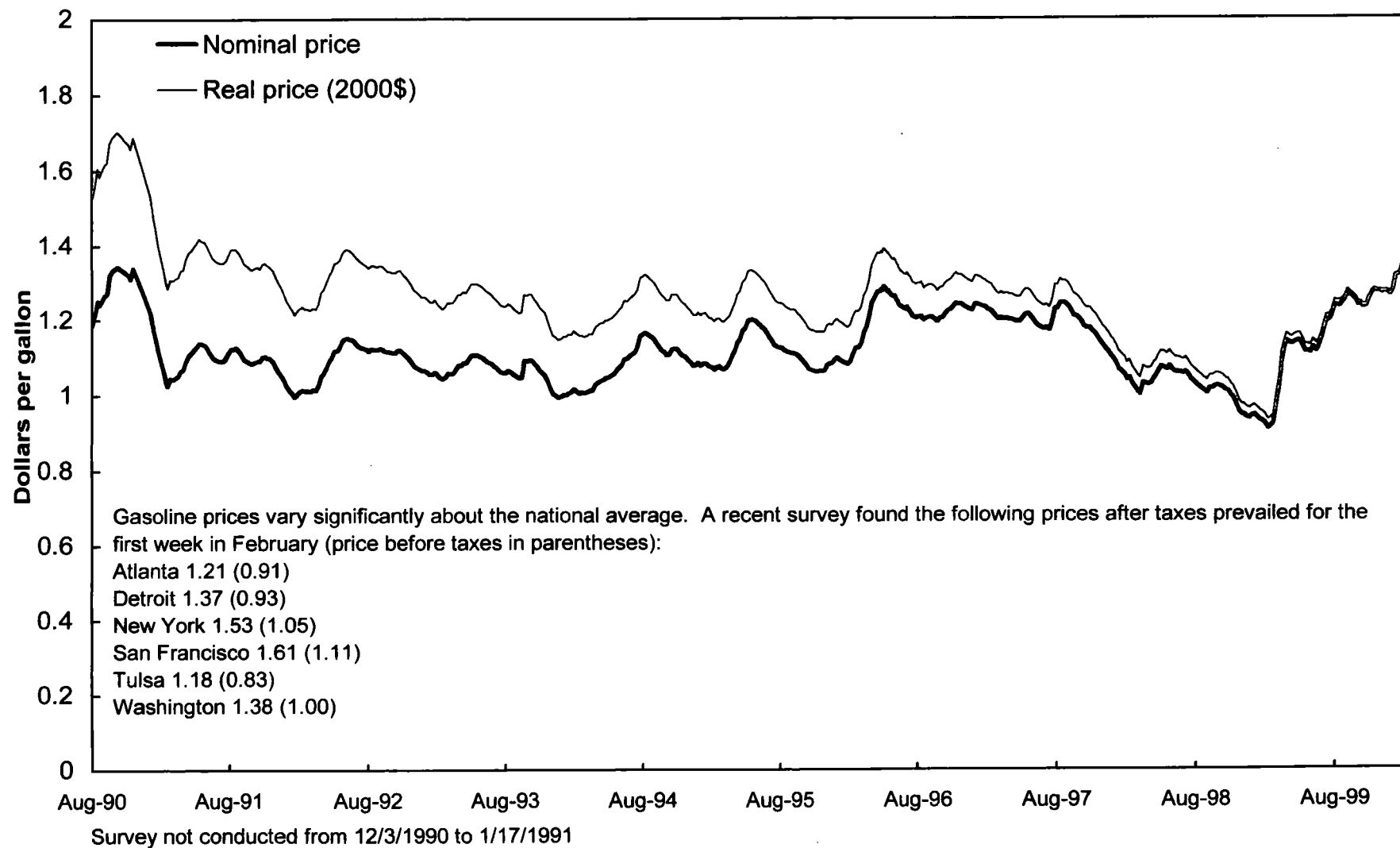
Crude Oil Prices:

Oil prices are roughly 2.5 times higher today than at the end of 1998.



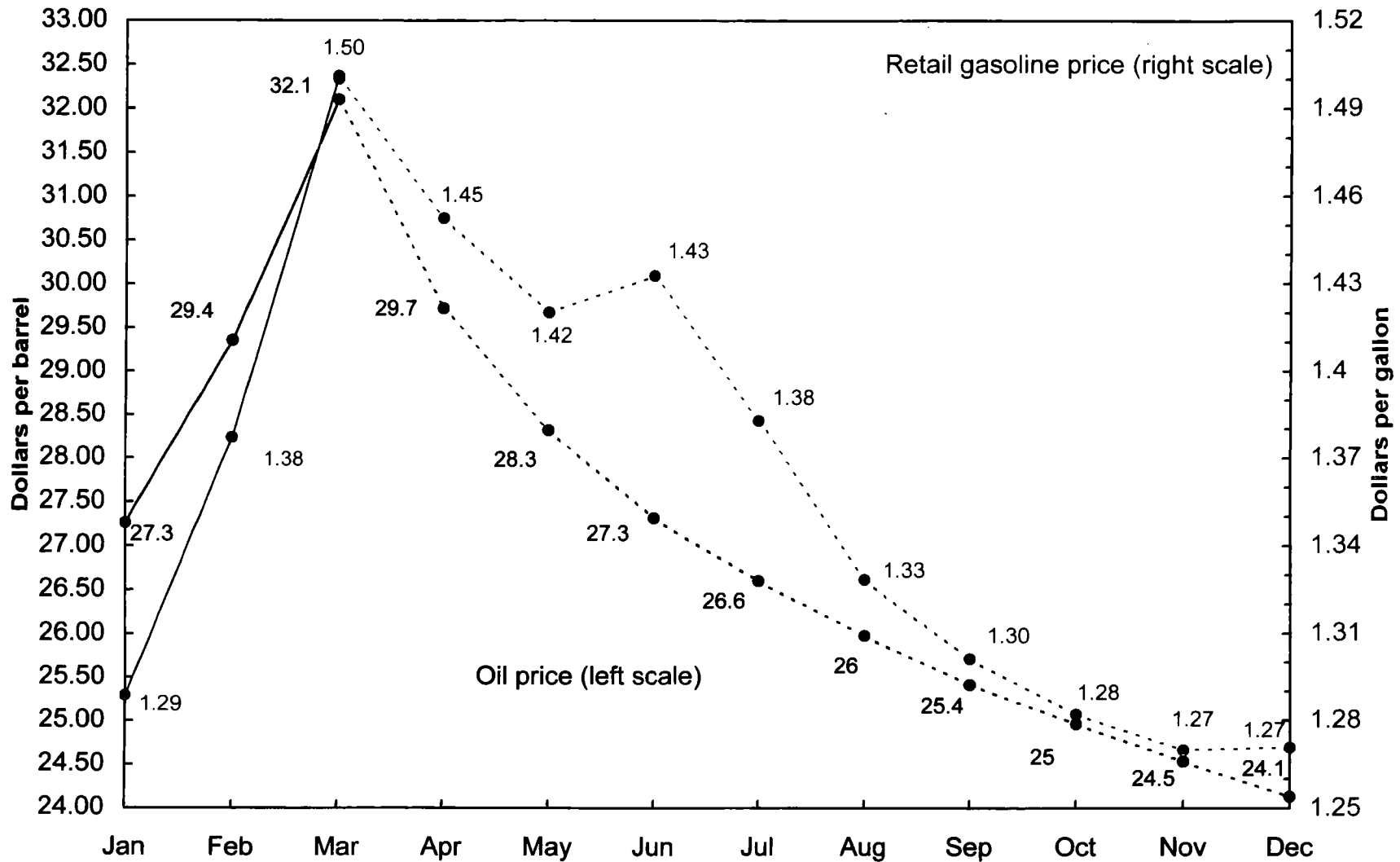
Gasoline Prices:

Gasoline prices (unleaded regular) are over 50% higher than at the end of 1998.



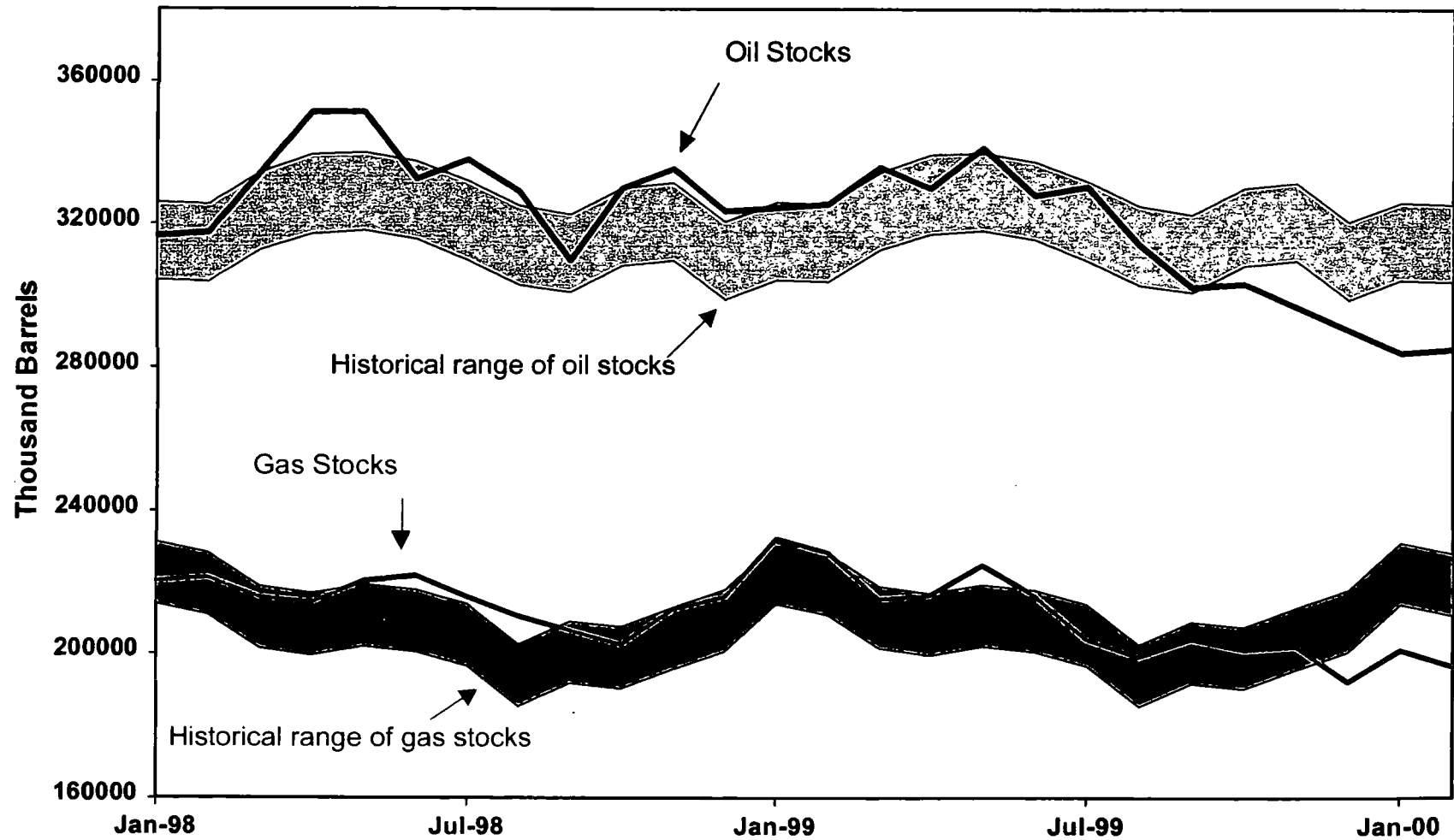
Futures Markets for Oil and Gas:

The futures markets project that oil prices will fall from their current level of \$31.69 per barrel to \$24.13 per barrel by December. Retail prices for gas will fall from \$1.50 to \$1.27.



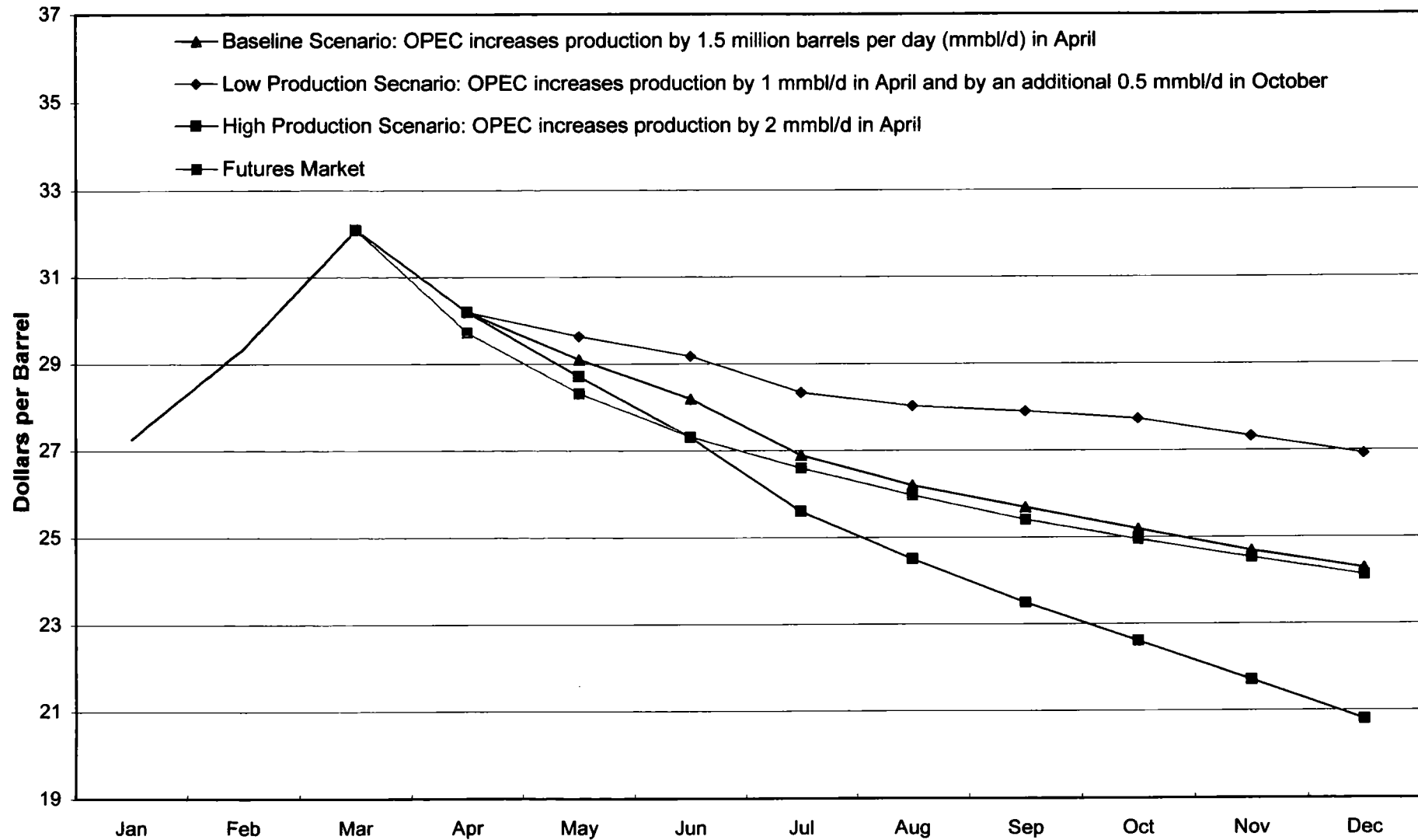
Oil and Gas Stocks:

Stocks for both gas and crude oil are at historically low levels



OPEC Production Scenarios:

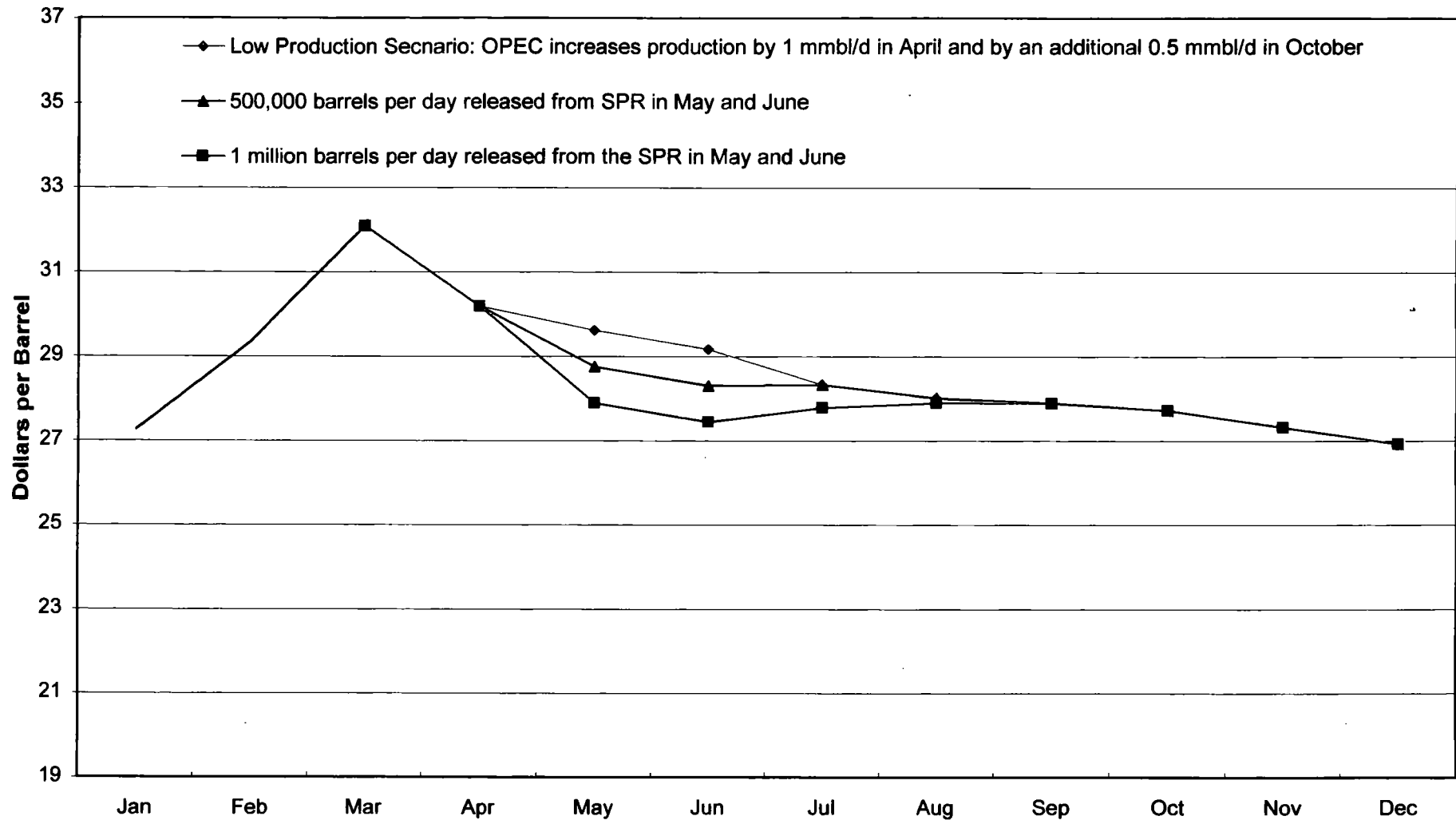
Even with a disappointing increase in OPEC production, prices are projected to fall.



Note: All scenarios assume an increase in Non-OPEC production of 0.5 mmb/d in July and an additional 0.5 mmb/d in October.

Scenarios for Using the Strategic Petroleum Reserve:

Releasing 1 million barrels per day from the SPR during May and June will reduce oil prices by \$1.72 a barrel (gas prices will fall \$0.05).



Note: All scenarios assume an increase in Non-OPEC production of 0.5 mmb/d in July and an additional 0.5 mmb/d in October.

Why have you just started talking about energy efficiency now that gas prices are rising?

It may be that the press has just start paying attention, but we've working on this issue, and talking about it, from day one:

- One of the first things I did after taking office was launch the Greening of the White House, which included a whole range of energy efficiency improvements that are saving taxpayers \$300,000 a year.
- Elsewhere throughout the federal government, we've cut energy use in buildings more than 12 percent. An Executive Order I issued last year will cut federal energy use in buildings 35 percent by 2010, saving over \$750 million a year.
- We've adopted stronger energy-efficiency standards for appliances, such as refrigerators, washers, and dryers. These new standards will cut the average appliance's energy use by 30 percent and save consumers almost \$50 billion by 2010.
- In 1993, we launched a new partnership with our auto makers to develop cars that are three times more fuel efficient, and theiratest concept cars show we are close to meeting that goal. We've also launched a new partnership with the building industry to make new homes 50 percent more energy efficient within a decade.
- We've expanded our Energy Star program, forming new partnerships with utilities, electronics manufacturers and others, to promote energy-efficient products – everything from computers to refrigerators to VCRs. If we all used these products, America would cut its energy bill by \$100 billion over the next 15 years.
- Last year I signed an Executive Order aimed at tripling our use of bioenergy from crops and other biomass by 2010, giving us an environmentally sound alternative to imported oil.
- Finally, we've invested billions to research and develop new energy efficiency and renewable energy technologies. After some substantial increases, Republicans in Congress cut those investments way back. We've got the numbers back up again, but Congress continues to fall far short of the increases we've proposed. In fact, since the beginning of this Administration, Congress has provided only 12 percent of the increases we've sought for our long-term strategy for energy security.
- Congress also has twice failed to act on my proposed tax credits for energy-efficient cars, homes, and appliances. These are measures that will save consumers money, improve our environment, and strengthen our energy security. I again call on Congress to enact them.

S.2285 – Repeal of the Gas Tax

- **Cutting the Gas Tax Risks Highways and Mass Transit.** The Republican plan is inconsistent with longstanding national policy that users of the nation's transportation system should pay for the costs of building, maintaining, and operating the nation's transportation infrastructure.
- **A 4.3 Cent Tax Cut Cannot Result in a 4.3 Cent Reduction for Consumers at the Pump.** Reducing the gasoline tax will increase demand for oil. Because OPEC has effectively fixed the quantity of oil on the world market, supply will not increase. When demand increases and supply is fixed, the price goes up and consumers will not see the gas tax reduction at the pump.
- **Two Groups Favor Repeal/Suspension of Gas Tax: Republicans and OPEC.** OPEC released after its meeting this week a report blaming gasoline and other petroleum taxes in the U.S., Europe, and other developed countries for the high price of gas, because it understands that if gas taxes are cut, part of the value of the tax is shifted to their coffers. In other words, OPEC understands that S.2285 will enrich OPEC producers at the expense of American taxpayers.
- **The President's Tax Incentives Support Real Solutions That Benefit Consumers.** Unlike the Republican plan that will risk critical highway funding or social security, education and health care, the President's plan promotes technologies that will permanently benefit consumers. For instance, driving a car that is twice as efficient is the same as cutting a driver's gasoline bill in half. We should be providing permanent solutions to these critical problems -- not cheap gimmicks that will destroy highways and fund OPEC at the expense of American consumers.

● Brooke B. Livingston

03/22/2000 09:38:54 AM

Record Type: Record

To: See the distribution list at the bottom of this message
CC:
bcc:
Subject: Re: SAP on 3822 

Per the 8:30 meeting this morning, this is the FINAL version. I am getting it up to the Hill in the next 10 minutes. If you have anything critical that needs to be addressed, PLEASE LET ME KNOW ASAP. THANKS, Brooke 5-4790

THanks.

March 22, 2000

(House)

H.R. 3822 - Oil Price Reduction Act of 2000

(Gilman (R) NY and 28 cosponsors)

The Administration remains concerned about the current oil market situation and is taking steps to address it. The Administration opposes H.R. 3822 because it would harm ongoing diplomatic efforts to persuade major oil producing states to expand production and infringe on the President's constitutional authority.

The Administration remains concerned about the current oil market situation and is taking every opportunity to convey to senior officials of OPEC and other major oil producing states its belief that more oil production is needed. Proceeding with this legislation, particularly at this time, would harm these diplomatic efforts. The bill also raises constitutional concerns regarding the President's responsibilities to conduct foreign affairs by requiring the President to undertake certain diplomatic actions and to disclose information about these diplomatic negotiations.

Moreover, the strong performance of our economy over the past year, despite oil price rises, underscores the dramatic improvements in energy efficiency and reliability over

the past quarter century. Over the long term, increasing the energy efficiency of the economy provides the best opportunity to enhance our energy security. The Administration therefore calls on Congress to pass the Administration's comprehensive package of tax incentives that promote energy efficiency and renewable sources of energy for the U.S. economy, and new tax incentives for domestic oil producers to reduce U.S. reliance on oil imports. The Congress should also fully fund the Administration's proposed funding for natural gas, renewable energy, and energy efficiency including the funding for weatherization proposed in the FY 2000 supplemental. In addition, the Administration urges the House to approve the Administration's proposed supplemental request for Low Income Home Energy Assistance Program (LIHEAP).

The Administration also calls for Congress to immediately reauthorize the Strategic Petroleum Reserve and the International Energy Program at the Department of Energy. This is necessary to ensure that the President maintains the ability to use all available tools to respond to the needs of the U. S. economy. Further, in order to reduce the likelihood that future heating oil shortages will harm consumers, the Administration calls on Congress to authorize the creation of a home heating oil reserve in the Northeast with an appropriate trigger that could supply additional heating oil to the market in the event of a supply shortage.

* * * * *

(Do Not Distribute Outside the Executive Office of the President)

This Statement of Administration Policy (SAP) was developed by the Legislative Reference Division (Rooney) in consultation with IAD (Kulikowski/Lindsey), ESD (Bennethum), NEC (Minsk), NSC (), State (Cooks), Energy (Pulliam), Defense (Brick), Justice (Silas), Treasury (Levy), Commerce (Dalmut), and AID (Miller).

OMB/LA clearance: Bob Kyle, Wesley Warren, Chuck Kieffer, Elizabeth Gore (OMB); Chuck Brain, Lisa Kountoupes (WHLA); Gene Sperling, Ron Minsk (NEC).

****This SAP was discussed and signed-off on at the 8:30am meeting held by the Chief of Staff.**

On March 15, 2000, H.R. 3822 was ordered reported by the House International Affairs Committee by voice vote.

The House Rules Committee is scheduled to consider the bill on March 21st, and the bill is expected to be reported with a modified open rule - all amendments pre-printed in the Congressional Record would be in order.

Provisions of H.R. 3822

H.R. 3822 would:

- Require the President, within 30 days of enactment, to submit a report to Congress containing: (1) a description of the economic and security relationship between the United States and each major oil-exporting country; (2) a description of the effect of coordinated oil price fixing on the U.S. economy and energy supplies; (3) a list of all foreign assistance programs, arms sales and defense services provided to each major oil-exporting country; and (4) a determination of which countries are engaged in oil price fixing to the detriment of the U.S. economy.
- Require the President within 30 days of transmitting this report to Congress to undertake a concerted diplomatic campaign to convince any country engaged in price fixing that such actions are harmful to the global economy and take necessary steps to begin negotiations on multilateral action to reduce, suspend or terminate bilateral assistance and arms exports to countries engaged in price fixing.
- Require the President within 120 days of enactment to report to Congress on diplomatic efforts by the United States and the effects of those efforts.
- Authorize the President to restrict foreign assistance and defense sales to countries engaged in oil price fixing for items or services that only the United States or U.S. companies offer.

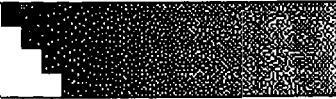
Pay-As-You-Go Scoring

According to IAD (Nix), H.R. 3822 would not affect revenue or direct spending; therefore, it is not subject to the pay-as-you-go requirements of the Omnibus Budget Reconciliation Act of 1990. CBO concurs (final).

LEGISLATIVE REFERENCE DIVISION

3/20/00 -- 4:50 p.m.

Lisa M. Kountoupes

 **Lisa M. Kountoupes**
03/22/2000 08:52:03 AM 

Record Type: Record

To: Brooke B. Livingston/OMB/EOP@EOP

cc:

Subject: SAP on 3822

----- Forwarded by Lisa M. Kountoupes/WHO/EOP on 03/22/2000 08:51 AM -----

 **Ronald Minsk**  03/21/2000 10:30

Record Type: Record

To: See the distribution list at the bottom of this message

cc: Ronald Minsk/OPD/EOP@EOP, John D. Duncan Jr/NSC/EOP@EOP

Subject: SAP on 3822



Oil Sperling SAP.d Oil Draft SAP 2.0.d

Message Sent To: _____

DARRELL BESCHEN

03/16/2000 09:56 AM

To: Ronald_minsk

cc: Richard Glick, David Leiter, MELANIE KENDERDINE, Abe Haspel, Nancy Jeffery, buddy.garland

Subject:

Weatherization

If congress had level funded the Weatherization Assistance program between 1996 and 2000 DOE would have weatherized nearly 250,000 more low income family homes.

Note that in 1995 Congress cut the Weatherization Assistance Program by 50%.

If congress had provided the amounts we requested during those years we would have weatherized more than 110,000 more homes of low income families.

PNGV

If congress had full funded the PNGV at the request level \$ 840, vs. \$669, more of the technologies associated with the future vehicle such as fuel cell components, power electronics and emission control technologies, would have been available to the manufacturers for incorporation in todays designs....just a tenth of a gallon improvement in automotive fuel economy translates to millions of gallons of fuel nationwide.

Clean Cities

Congress cut millions from our request for Clean Cities. Every million dollars invested in the Clean Cities program has saved almost 10 million gallons of gasoline a year.

Please note that these numbers have not been vetted by the department.

DETAILS OF THE CLINTON/GORE ACTIONS TO ENHANCE AMERICA'S ENERGY SECURITY

Energy-Efficiency Enhances Energy Security And Strengthens The Economy: The strong performance of our economy over the past year, despite oil price rises, underscores the dramatic improvements in energy efficiency and reliability over the past quarter century. While past oil shortages have taken a significant toll on the U.S. economy, the recent increases in oil prices have yet to have a major impact on the U.S. economy. Increased energy efficiency – in cars, homes, and manufacturing – has helped insulate the economy from these short-term market fluctuations. In 1974, we consumed 15 barrels of oil for every \$10,000 of gross domestic product. Today we consume only 8 barrels of oil for the same amount of economic output. But we can do even better.

President Clinton And Vice-President Gore Today Announced Important Steps To Promote Energy Security & Efficiency In America. These Steps Include:

I. Establishing A Regional Home Heating Oil Reserve: The President remains concerned about the effect that future shortages of home heating oil may have on consumers of home heating oil, particularly in the Northeast and New England. In order to reduce the likelihood that future shortages will harm consumers, the President will:

- Support The Establishment of a Regional Reserve: The President supports the creation of a home heating oil reserve with an appropriate trigger in the Northeast to combat future product shortages. In the event of home heating oil shortages, heating oil can be sold from the reserve in order to increase the supply on the market.
- Direct DOE To Undertake Necessary Environmental Reviews: The President has directed the Department of Energy to begin the appropriate environmental reviews for the creation of a home heating oil reserve in the Northeast.
- Call on Congress to Establish Reserve Through Legislation: The President calls on Congress to pass legislation that authorize the creation of a regional product reserve, and includes an appropriate trigger. The President reserves his right to establish a reserve under his existing authority, subject to the outcome of the environmental reviews, in the event that Congress fails to act.

II. Reauthorizing the Strategic Petroleum Reserve: Current authorization to operate the Strategic Petroleum Reserve expires on March 31st, even as OPEC oil ministers will be meeting in Vienna to discuss production quotas. In order to ensure that the President maintains the ability to use all available tools to respond to the needs of the United States economy, he will call on Congress to immediately reauthorize Titles I and II of the Energy Policy and Conservation Act, which authorize the Strategic Petroleum Reserve and the International Energy Program at the Department of Energy.

III. Enacting A Comprehensive Tax Incentive Package: In order to insulate the economy from the effects of future energy price increases, the United States needs comprehensive and balanced package of tax incentives. This comprehensive approach includes support for domestic oil producers to reduce our reliance on oil imports and must include incentives to continue expanding renewable energy and increasing the energy efficiency of our economy. These tax proposals are either paid for in the President's budget or will be paid for with offsets.

A. Preserving Productive Capacity of the Domestic Oil Industry: In addition to calling for steps to decrease our demand for oil through increased efficiency, the President is proposing new steps to support new domestic exploration and production, and to lower the business costs of producers when oil prices are low. These tax proposals will cost less than \$1 billion over ten years. The Administration will also continue examining opportunities to preserve marginal well production.

- **Support New Domestic Exploration and Production:** Major technological advances in oil exploration, such as three- and four-dimensional seismic drilling, are helping us to find more oil, at greater depths, on and off-shore. At the same time, these technologies have reduced the environmental footprint left by exploration and production to 1/10th the size it was 25 years ago. We need to encourage the use of these advanced technologies at the same time we support exploration for oil and gas.
 - ✓ Expensing of Geological and Geophysical Costs: The President will propose to support domestic exploration and production by adjusting the treatment of the costs of exploration and development -- geological and geophysical costs -- in the tax code. Under current law, geological and geophysical costs may be deducted in current year if exploration activity was unsuccessful, but must be capitalized if the exploration activity was successful. By allowing the industry to expense these costs, we will be encouraging the discovery of new reserves. The Department of Energy estimates that G&G will add 126,000 barrels of oil a day to domestic production.
- **Allowing Expensing of Delay Rental Payments:** A "delay rental payment" is an amount paid by a lessee to the lessor of a petroleum resource when the lessee does not begin producing commercial quantities of oil or natural gas as soon as was agreed to. The delay rental payment is intended to compensate the lessor for the royalties he does not receive while production is delayed. Currently, the Federal tax code requires delayed rental expenses to be capitalized to the depletable base of the property to which they relate if the property is being held for development. Prior to 1993 all delayed rental payments were allowed to be expensed in the year incurred. Allowing producers to expense delay rental payments will lower the cost of doing business on Federal lands.
- **Examining Measures to Preserve Marginal Production:** The Administration will continue to examine measures to preserve marginal well production, which accounts for over 20 percent of on-shore oil production in the lower-48 states.

B. Improving the Energy Efficiency of the Economy: Any tax package to improve the energy security of the country must include incentives to improve energy efficiency and promote the use of renewable energy. The President has proposed:

- **Tax Credits For Electric, Fuel Cell, and Qualified Hybrid Vehicles.** Cars and light trucks (including minivans, sport utilities, and pickups) currently account for about 40 percent of the nation's oil consumption. Tax credits for electric, fuel cell, and hybrid vehicles will help to move advanced technologies that use less or no oil from the laboratory to the highway. President Clinton will call for Congress to:
 - ✓ Extend the current tax credit for electric vehicles and fuel cell vehicles. Under current law, a 10 percent credit, up to \$4,000, is provided for the cost of qualified electric vehicles and fuel cell vehicles. The credit begins to phase down in 2002 and phases out in 2005. The President's proposal would extend the tax credit at its \$4,000 maximum level through 2006.
 - ✓ Pass tax credits for hybrid vehicles. The President proposes a \$500 to \$3,000 credit, depending on the vehicle's design performance, for all qualifying hybrid vehicles, including cars, minivans, sport utility vehicles, and pickup trucks.
- **Tax Credits for Efficient Homes and Buildings.** Increasing the efficient use of power will reduce our reliance on fossil fuels. To encourage energy efficiency, the President will call on Congress to pass tax incentive that will promote the use of energy efficient practices and technologies in our homes and buildings.
 - ✓ Tax credit for new energy efficient homes. To encourage the purchase of new energy efficient homes, the President proposes a tax credit of between \$1,000 and \$2,000 for new energy efficient homes.
 - ✓ Tax credit for energy efficient equipment in new and existing homes or buildings. To encourage the purchase of electric heat pump water heaters, natural gas heat pumps, and fuel cells, the President proposes a tax credit equal to 20 percent of the cost of the investment, subject to a cap, for equipment purchased between 2001 and 2004.

C. Enacting Tax Credits To Diversify Fuel Sources in the Economy: The President's Council of Advisors on Science and Technology, in its 1997 report to the President recommended that the federal government invest in developing a broad portfolio of energy sources. To promote the development of these new energy sources, the President has proposed:

- **Tax Credits for Efficient Non-Petroleum Based Sources of Power:** In support of the PCAST recommendation, the President has proposed, and calls on Congress to pass tax credits to promote innovative and sustainable sources of energy supply including:

- ✓ Tax Credits For Solar Energy Systems. A 15 percent tax credit will encourage the purchase by consumers and businesses of solar energy systems. The maximum credit would be \$2,000 for rooftop photovoltaic systems and \$1,000 for solar water heating systems.
- ✓ Tax Credits For Wind Power. Current law encourages the production of electricity from wind through a tax credit of 1.5 cents per kilowatt hour (adjusted for inflation after 1992). The current tax credit covers facilities placed in service before January 1, 2002. The President proposes a 2.5-year extension of this tax credit.
- ✓ Tax Credits For Electricity Produced From Biomass. Biomass refers to trees, crops and agricultural wastes used to produce power, fuels or chemicals. This package of credits would:
 - Extend Tax Credits For Closed Loop Biomass: Extend current "closed-loop" biomass credit of 1.5 cents per kilowatt hour for 2.5 years.
 - Provide Tax Credits For Open Loop Biomass: Expand the availability of the biomass credit of 1.5 cents per kilowatt hour to include "open-loop" biomass (certain forest-related resources and agricultural and other sources) for facilities placed in service from 2001-2005, and provides a 1.0 cent credit for electricity produced from 2001-2003 from facilities placed in service prior to January 1, 2001.
 - Provide Tax Credits For Cofiring Biomass: Add a 0.5 cent per kilowatt hour tax credit for electricity produced by cofiring biomass in coal plants from 2001-2005.
- ✓ Tax Credits For Methane from Landfills: Adds a 1.5 cent per kilowatt hour credit for electricity produced from landfills not subject to EPA's 1996 New Source Performance Standards/Emissions Guidelines (NSPS/EG) and 1.0 cent per kilowatt hour for landfills subject to NSPS/EG. Qualified facilities would be facilities placed in service after December 31, 2000 and before January 1, 2006.

IV. Making Common Sense Investments In Promoting Energy Efficiency And Alternative Energy Technologies. In addition to providing tax credits to promote domestic oil production and energy efficiency, the President and Vice President have already presented budget requests for appropriations that will further promote energy security. They have proposed a budget that includes over \$1.4 billion next year to accelerate the research, development, and deployment of alternative and more efficient energy technologies.

- **\$275 Million To Make America's Homes and Buildings More Efficient:** The Administration has proposed funding for research to make offices, homes, and appliances 50 percent more energy efficient within a decade and has proposed \$275 million in the budget to help do so. People understand what that means for their home heating bill. Overall, meeting this goal would save consumers \$11 billion a year in energy costs.
- **\$173 Million To Weatherize Low Income Households:** Our budget proposes expanding DOE's Weatherization Assistance Program, which helps low-income households make their homes more energy efficient. These are the Americans that most need to reduce monthly energy costs. This program has already weatherized almost 5 million low-

income homes and is saving 3.0 million barrels of oil each year. With funding from DOE and the states, we plan to add more than 150,000 homes to the list in the next year – which will save more than an additional 91,000 barrels of oil per year. Our budget seeks \$154 million for this important program for next year and an additional \$19 million for the current year in the FY 2000 supplemental appropriation.

- **\$255 Million To Make America's Vehicles More Efficient:** Our *Partnership for a New Generation of Vehicles* is on track to deliver attractive, affordable cars that get up to three times the fuel efficiency of today's cars. A car that gets twice the fuel economy of today's comparable vehicle is the equivalent of cutting the price of gas in half for the American driver. A typical consumer would save more than \$300 a year in fuel costs and SUV owners would save more than \$400 a year. By 2010, DOE plans to develop and commercialize fuel efficiency and alternative-fuel technologies that reduce oil consumption by nearly 700,000 barrels per day. By 2020, these technologies will reduce oil consumption by nearly 1.5 million barrels per day. Our budget seeks \$255 million for PNGV.
- **\$410 Million To Promote Clean Renewable Energy:** The President's FY01 budget proposes \$410 million for DOE efforts to develop domestic sources of renewable energy, including wind, photovoltaics and geothermal energy. In addition, the President's Bioenergy Initiative will help us create new fuels for our cars that will reduce U.S. oil consumption, create new income opportunities in rural America, and meet environmental challenges, such as climate change.
- **Studies on Diversifying Fuels in the Northeast and New England:** The Northeast and New England are disproportionately reliant on home heating oil as a fuel to heat and power homes, businesses and industry. On February 16th the President directed Department of Energy to undertake a study of ways the region could diversify its energy sources thereby minimizing the effect of a volatile home heating oil market on the regional economy. The Department is also studying the effects of interruptible natural gas contracts on the home heating oil market in the region.

THE CLINTON/GORE ADMINISTRATION:
TAKING ACTION TO STRENGTHEN AMERICA'S ENERGY SECURITY
MARCH 22, 2000

President Clinton today will propose new steps to strengthen the sound, comprehensive energy strategy that has helped keep the U.S. economy robust. The President will call for the creation of a regional home heating oil reserve and reauthorization of the Strategic Petroleum Reserve. He will also call for enactment of a tax package that will help ensure the productive capacity of the domestic oil industry and that must include measures to promote greater energy efficiency and renewable energy -- measures which Congress has failed to act on twice before. These steps will enhance America's energy security, create jobs, protect the environment, and produce long-term savings for consumers.

PRESIDENT CLINTON AND VICE PRESIDENT GORE'S PLAN TO STRENGTHEN AMERICA'S ENERGY SECURITY INCLUDES:

- **Establishing A Regional Home Heating Oil Reserve:** In order to reduce the likelihood that future heating oil shortages will harm consumers, the President is proposing the creation of a home heating oil reserve in the Northeast with an appropriate trigger that could supply additional heating oil to the market in the event of a supply shortage. The President will today direct the Department of Energy to commence the appropriate environmental reviews to create this home heating oil reserve and will work with Congress to pass authorizing legislation this year.
- **Reauthorizing the Strategic Petroleum Reserve:** Current authorization to operate the Strategic Petroleum Reserve expires on March 31st, even as OPEC oil ministers are meeting in Vienna to discuss production quotas. To ensure the ability to use all available tools to respond to the needs of the U. S. economy, the President will call on Congress to immediately reauthorize the Energy Policy and Conservation Act, which authorizes the Strategic Petroleum Reserve and the International Energy Program at DOE.
- **Enacting A Comprehensive Tax Package To Promote Energy Security:** The President today will propose a comprehensive package of tax incentives, including new tax incentives for domestic oil producers to reduce U.S. reliance on oil imports and essential incentives to promote renewable and efficient sources of energy for U.S. economy. **This tax package:**
 - **Will Help Preserve Productive Capacity of the Domestic Oil Industry:** President Clinton will propose adjusting the tax treatment for certain exploration activities and to lower the business costs to producers when oil prices are low. The Administration will also continue examining opportunities to preserve marginal well production, which accounts for over 20 percent of on-shore oil production in the lower-48 states.
 - **Must Include Measures To Improve the Energy Efficiency of the Economy and to Promote the Use of Alternative Energy Sources:** To improve the energy security of our economy, President will call on Congress to pass the energy efficiency and renewable energy tax components proposed in his current budget. These include tax credits for electric, fuel cell, and qualified hybrid vehicles, tax credits for efficient homes and buildings, and tax credits for non-petroleum based energy sources including wind, biomass, and methane.
- **Investing In Energy Efficiency And Alternative Energy Technologies.** President Clinton and Vice President Gore are calling on Congress to enact more than \$1.4 billion in budget requests that will promote energy security and the use of alternative and more efficient energy technologies, including:
 - \$275 Million To Make America's Homes and Buildings More Efficient
 - \$173 Million To Weatherize Low Income Households
 - \$255 Million To A Partnership For A New Generation Of More Efficient Vehicles
 - \$410 Million To Develop Sources Of Domestic Renewable Energy

Energy Efficiency + Renewable Spending

President Clinton's FY 2001 Climate Change Budget

"The greatest environmental challenge of the new century is global warming . . . If we fail to reduce the emission of greenhouse gases, deadly heat waves and droughts will become more frequent, coastal areas will flood, and economies will be disrupted. That is going to happen, unless we act. Many people . . . still believe you cannot cut greenhouse gas emissions without slowing economic growth. In the Industrial Age that may well have been true. But in this digital economy, it is not true anymore. New technologies make it possible to cut harmful emissions and provide even more growth."

-- President Bill Clinton, State of the Union Address, January 27, 2000

Meeting the Challenge of Global Warming. Against a backdrop of growing scientific consensus that the Earth is warming – and that human activities are at least partly to blame – President Clinton's FY 2001 budget is proposing \$2.4 billion (a 43 percent increase over FY 2000 enacted levels) in funding to combat global climate change. This includes a series of new initiatives, such as accelerated efforts to develop clean energy sources both at home and abroad and a new Clean Air Partnership Fund to boost state and local efforts to reduce greenhouse gases and air pollution, as well as a five-year package of tax incentives to spur clean energy technologies and increased investment for R&D in energy efficient technology and renewable energy. In addition, the President is proposing more than \$1.7 billion for global change research, for a total package for FY 2001 of over \$4 billion.

International Clean Energy Initiative. To help accelerate the development and deployment of clean energy technologies around the world, President Clinton is proposing \$201 million (a more than 100 percent increase over FY 2000 enacted levels) for a multi-agency initiative to encourage open competitive markets; remove market barriers in developing countries to clean energy technologies; and to provide new incentives for clean energy technology innovation and export. The initiative will promote U.S. clean energy exports, create high-value jobs, and assist developing countries in fighting air pollution and climate change.

Bioenergy & Bio-based Products Initiative. The budget includes \$289 million to accelerate the development of bio-based technologies, which convert crops, trees and other "biomass" into a vast array of fuels and products – an increase of \$93 million over FY 2000 enacted levels. In addition to helping meet environmental challenges like global warming, this initiative will increase the viability of alternative energy sources, support farm incomes, and diversify and strengthen the rural economy.

Bio fuels

Clean Air Partnership Fund. The President proposes \$85 million for a new fund to provide grants to state and local governments for projects that reduce both greenhouse gases and pollutants like soot, smog, and air toxics.

Climate Change Technology Initiative (CCTI). The CCTI is a package of targeted tax incentives and investments aimed at increasing energy efficiency and spurring the broader use of renewable energy. The package will save consumers money and reduce greenhouse gas emissions at the same time. CCTI investments have risen substantially each of the past two years. The President's new budget proposes a still more accelerated effort.

\$4.0 billion in Tax Incentives over 5 years. The proposed package contains \$4.0 billion over five years in tax cuts (\$201 million for FY 2001) for consumers who purchase energy efficient products and for producers of energy from renewable sources. This year's CCTI tax package is \$400 million greater than last year's proposed five-year package. Highlights include:

- Tax credits for energy efficient homes. Consumers can receive a \$1000-2000 credit

- Tax credits for fuel-efficient cars. The package extends the current tax credit (of up to \$4000) through 2006 for qualified electric and fuel cell vehicles and also includes a tax credit of \$500-3000 for the purchase of a qualifying hybrid vehicle from 2003-2006.
- Tax credits for clean energy. The package extends the 1.5 cent per kilowatt hour tax credit for the production of electricity from wind and closed-loop biomass; provides credits for open-loop biomass facilities and coal-biomass cofiring; and provides credits for electricity produced from methane from certain landfills.

\$1.4 billion for Energy Efficiency & Clean Energy. The proposed package contains over \$1.4 billion in FY 2001 to research, develop, and deploy clean technologies for the four major carbon-emitting sectors of the economy -- buildings, transportation, industry, and electricity -- a 30 percent increase over the amount appropriated in FY 2000. Highlights include:

- Partnership for a New Generation of Vehicles. PNGV is a government-industry effort to develop comfortable, affordable cars that meet all applicable safety and environmental standards and get up to three times the fuel efficiency of today's cars. The combined proposal for PNGV in the FY 2001 budget is \$255 million, an increase of \$30 million over FY 2000 enacted levels.
- Partnership for Advancing Technology in Housing. PATH is a government-industry partnership to improve the energy efficiency of new homes by more than 50 percent and to retrofit 15 million existing homes to make them 30 percent more energy efficient within a decade. The FY 2001 budget request for building efficiency efforts, such as PATH, Energy Star, and Building America, totals \$275 million, a 42 percent increase over FY 2000 appropriations.
- Renewable Energy. The President proposes \$410 million for the Department of Energy's solar and renewable energy programs, a 32 percent increase over the amount appropriated in FY 2000. The package includes expanded efforts in key renewable technologies, such as wind, bioenergy, photovoltaics, and geothermal energy.

Cleaner Fossil Fuels. The budget request contains \$233 million for R&D to develop next-generation technologies for coal combustion with much higher energy efficiency and lower greenhouse gas emissions.

Weatherization & State Energy Grants. The budget request includes \$191 million -- a \$22 million increase over FY 2000 appropriations -- to deliver energy conservation services to low-income Americans and to assist state energy offices in addressing their energy priorities.

U.S. Global Change Research Program. The FY 2001 request includes over \$1.7 billion for scientific research to improve our understanding of human and natural forces that influence the Earth's climate system and to assess the likely consequences of global warming.

March 31st will get done

- incompetence. - Blitely

- worry about amendments.

- we said extend it - but letter
hasn't gone.

- 1yr last yr

General Explanations
of the
Administration's Fiscal Year 2001
Revenue Proposals

Energy Efficiency
and
Renewable Energy
Tax Provisions

Department of the Treasury
February 2000

Promote Energy Efficiency and Improve the Environment

PROVIDE TAX CREDIT FOR ENERGY-EFFICIENT BUILDING EQUIPMENT

Current Law

No income tax credit is provided currently for investment in energy-efficient building equipment.

Equip.

Reasons for Change

A credit for types of building equipment that are substantially more energy efficient than conventional equipment will help to accelerate the development and distribution of energy-efficient technologies. A credit would reduce costs to consumers, increasing demand for the equipment and reducing manufacturing costs, while also spurring technological innovation and reducing energy consumption.

Proposal

A credit of 20 percent of the purchase price would be allowed for the purchase after December 31, 2000 and before January 1, 2005 of the following building equipment:

Fuel cells (equipment using an electrochemical process to generate electricity and heat) with an electricity-only generation efficiency of at least 35 percent and a minimum generating capacity of 5 kilowatts. The maximum credit would be \$500 per kilowatt of capacity.

Electric heat pump hot water heaters (equipment using electrically powered vapor compression cycles to extract heat from air and deliver it to a hot water storage tank) with an Energy Factor of at least 1.7 in the standard DOE test procedure. The maximum credit would be \$500 per unit.

Natural gas heat pumps (equipment using either a gas-absorption cycle or a gas-driven engine to power the vapor compression cycle to extract heat from one source and deliver it to another) with a coefficient of performance for heating of at least 1.25 and for cooling of at least 0.70. The maximum credit would be \$1,000 per unit.

A credit would be allowed only for final purchases from unrelated third parties. The credit would be nonrefundable. Credits for equipment used for business purposes would be subject to the limitations on the general business credit and would reduce the basis of the equipment by the amount of the credit.

TAX CREDIT FOR PURCHASE OF ENERGY-EFFICIENT NEW HOMES

Homes

Current Law

No deductions or credits are provided currently for the purchase of energy-efficient new homes.

Reasons for Change

Residences, which account for about one-sixth of all U.S. greenhouse gases, offer one of the largest single sources of carbon saving potential. Some States and certain Federal programs require new houses to meet Model Energy Code standards for insulation and related construction standards, and for heating, cooling and hot water equipment. By the use of cost-effective means, many new homes could reduce energy consumption by 30 to 50 percent or more compared to the standards in the Model Energy Code or the more recent 1998 International Energy Conservation Code (IECC). A targeted credit for such highly energy-efficient new housing could increase the use of energy-efficient building practices and efficient heating and cooling equipment. In addition, it may help spur innovation in the ways that houses are designed and built, thereby providing significant energy-saving and environmental benefits over the long term.

Proposal

A tax credit of up to \$2,000 would be available to purchasers of highly energy-efficient new homes that meet energy-efficiency standards for heating, cooling and hot water that significantly exceed those of the IECC. A taxpayer may claim the credit only if the new home is the taxpayer's principal residence and reduces energy use by prescribed amounts as compared to the IECC for single family residences. The tax credit would be \$1,000 for new homes that reduce energy use by at least 30 percent compared with the IECC standard, and that are purchased in the three-year period beginning January 1, 2001 and ending December 31, 2003. The tax credit would be \$2,000 for new homes that reduce energy use by at least 50 percent compared with the IECC standard, and are purchased in the five-year period beginning January 1, 2001 and ending December 31, 2005.

Cars

EXTEND TAX CREDIT FOR ELECTRIC VEHICLES AND PROVIDE TAX CREDIT FOR CERTAIN HYBRID VEHICLES

Current Law

No generally available income tax credit for purchases of hybrid vehicles is available currently. A 10-percent tax credit is provided for the cost of a qualified electric vehicle, up to a maximum credit of \$4,000. A qualified electric vehicle is a motor vehicle that is powered primarily by an electric motor drawing current from rechargeable batteries, fuel cells, or other portable sources of electric current, the original use of which commences with the taxpayer, and that is acquired for use by the taxpayer and not for resale. The full amount of the credit is available for purchases prior to 2002. The credit begins to phase down in 2002 and does not apply to vehicles placed in service after 2004.

Certain costs of qualified clean-fuel property, including clean-fuel vehicles, may be deducted when such property is placed in service. Qualified electric vehicles do not qualify for the clean-fuel vehicle deduction. The deduction begins to phase down in 2002 and does not apply to property placed in service after 2004.

Reasons for Change

The transportation sector now accounts for one-third of greenhouse gas emissions in the United States. Cars, sport utility vehicles, light trucks and minivans alone account for 20 percent of our greenhouse gas emissions. These vehicles also account for about 20 to 40 percent of all urban smog-forming emissions and 40 percent of U.S. oil consumption. Almost all of these vehicles use a single gasoline-fueled engine.

Hybrid vehicles, which have more than one source of power on-board the vehicle, and electric vehicles have the potential to reduce greenhouse gas emissions, air pollution, and petroleum consumption. The proposed credits will encourage the purchase of vehicles that incorporate advanced automotive technologies and will help to move hybrid vehicles from the laboratory to the highway. These vehicles can significantly reduce emissions of carbon dioxide, the most prevalent greenhouse gas.

Proposal

The proposal would extend the present credit for qualified electric vehicles and provide temporary tax credits for certain hybrid vehicles:

- (1) Credit for electric vehicles. The phase down of the credit for electric vehicles would be eliminated and the credit would be extended through 2006. Thus, the maximum \$4,000 credit would be available for purchases before 2007.
- (2) Credit for qualified hybrid vehicles. A credit, of up to \$3,000 would be available for purchases of qualified hybrid vehicles after December 31, 2002, and before January 1, 2007. The credit would be:
 - (a) \$500 if the rechargeable energy storage system provides at least 5 percent but less than 10 percent of the maximum available power;
 - (b) \$1,000 if the rechargeable energy storage system provides at least 10 percent and less than 20 percent of the maximum available power;
 - (c) \$1,500 if the rechargeable energy storage system provides at least 20 percent and less than 30 percent of the maximum available power; and
 - (d) \$2,000 if the rechargeable energy storage system provides 30 percent or more of the maximum available power.

If the vehicle actively employs a regenerative braking system, the amount of the credit shown in (a) through (d) above would be increased by the following amounts:

- (i) \$250 if the regenerative braking system supplies at least 20 percent but less than 40 percent of the energy available from braking in a typical 60 miles per hour (mph) to 0 mph braking event to the rechargeable energy storage system;
- (ii) \$500 if the regenerative braking system supplies at least 40 percent but less than 60 percent of such energy; and
- (iii) \$1,000 if the regenerative braking system supplies 60 percent or more of such energy.

A qualifying hybrid vehicle is a road vehicle that can draw propulsion energy from both of the following on-board sources of stored energy: (1) a consumable fuel, and (2) a rechargeable energy storage system. A qualifying vehicle must meet all applicable regulatory requirements.

Maximum available power means the maximum value of the sum of the heat engine and electric drive system power or other non-heat energy conversion devices available for a driver's command for maximum acceleration at vehicle speeds under 75 mph.

These credits would be available for all qualifying light vehicles including cars, minivans, sport utility vehicles, and light trucks. Taxpayers who claim one of the qualified hybrid vehicle credits would not be able to claim the qualified electric vehicle credit or the deduction for clean-fuel vehicle property for the same vehicle. Business taxpayers claiming the qualified hybrid vehicle credit would be subject to the limitations on the general business credit and would be required to reduce the basis of the vehicle by the amount of the credit.

EXTEND AND MODIFY THE TAX CREDIT FOR PRODUCING ELECTRICITY FROM CERTAIN SOURCES

Elec. Product

Current Law

Current law provides taxpayers a 1.5-cent-per-kilowatt-hour tax credit for electricity produced from wind, "closed-loop" biomass (organic material from a plant that is planted exclusively for purposes of being used at a qualified facility to produce electricity), and poultry waste. The electricity must be sold to an unrelated third party and the credit is limited to the first 10 years of production. The credit applies only to facilities placed in service before January 1, 2002. The credit amount is indexed for inflation after 1992.

Reasons for Change

The tax credit helps make electricity produced from wind and biomass price competitive with other forms of electricity. These renewable energy sources produce virtually no greenhouse gas emissions. Expanding eligible biomass sources would increase the use of this renewable energy source.

Allowing a tax credit for electricity produced from methane from landfills would reduce greenhouse gas emissions. Methane gas, which has approximately 21 times the greenhouse gas effect as carbon dioxide, accounts for about 10 percent of the warming caused by U.S. emissions.

Methane from landfills, the single largest source of methane emissions, accounted for 37 percent of total U.S. methane emissions in 1997.

Proposal

The proposal would extend the present credit for wind and closed-loop biomass, expand eligible biomass sources, and provide a credit for electricity produced from methane from landfills:

Wind and biomass. The present credit for wind and closed-loop biomass would be extended for two and one-half years to facilities placed in service before July 1, 2004 and eligible biomass sources would be expanded for facilities placed in service after December 31, 2000 and before January 1, 2006. Biomass facilities that were placed in service before January 1, 2001 would be eligible for a credit of 1.0 cent per kilowatt hour for electricity produced from the newly eligible sources from January 1, 2001 through December 31, 2003. Biomass that is co-fired in coal plants to produce electricity would be eligible for the credit at a reduced rate (0.5 cent per kilowatt hour adjusted for inflation after 2000) from January 1, 2001 through December 31, 2005.

Biomass qualifying for the credit would include (i) closed-loop biomass and (ii) any solid, nonhazardous, cellulosic waste material, which is segregated from other waste materials, and which is derived from: (a) any of the following forest-related resources: mill residues, pre-commercial thinnings, slash and brush, but not including old growth timber or wood waste incidental to pulp and paper production, (b) waste pallets, crates, and dunnage, and landscape or right-of-way tree trimmings, but not including unsegregated municipal solid waste (garbage) and post-consumer waste paper, or (c) agricultural sources, including orchard tree crops, vineyard grain, legumes, sugar, and other crop-by-products or residues.

A facility that produces electricity from wind or biomass (other than a facility that cofires biomass with coal) would be treated as being placed in service before July 1, 2004 if it is placed in service before July 1, 2005 and (1) the facility is constructed, reconstructed, or acquired by the taxpayer pursuant to a written contract binding on June 30, 2004; or (2) the facility is constructed or reconstructed by the taxpayer and (i) the lesser of (a) \$1 million, or (b) 5 percent of the cost of such facility has been incurred or committed by June 30, 2004, and (ii) the construction or reconstruction of such facility began by such date.

Methane from landfills. Facilities that produce electricity from landfill methane would be eligible for a credit for the first ten years of production if the facility is placed in service after December 31, 2000 and before January 1, 2006. The credit for electricity produced from methane from qualified facilities would equal 1.5 cent per kilowatt hour for facilities at landfills that are not subject to EPA's 1996 New Source Performance Standards/Emissions Guidelines (NSPS/EG) and 1.0 cent per kilowatt hour for facilities at landfills that are subject to NSPS/EG. These credits would be adjusted for inflation after 2000. A qualified facility would include equipment and housing required to generate electricity (but not wells and related systems required to collect and transmit gas to the production facility).

A facility that produces electricity from methane from landfills would be treated as being placed in service before January 1, 2006 if it is placed in service before January 1, 2007 and (1) the facility is constructed, reconstructed, or acquired by the taxpayer pursuant to a written contract binding on December 31, 2005; or (2) the facility is constructed or reconstructed by the taxpayer and (i) the lesser of (a) \$1 million, or (b) 5 percent of the cost of such facility has been incurred or committed by December 31, 2005, and (ii) the construction or reconstruction of such facility began by such date.

PROVIDE TAX CREDIT FOR SOLAR ENERGY SYSTEMS

Solar

Current Law

A 10-percent investment tax credit is provided to businesses for qualifying equipment that uses solar energy to generate electricity, to heat or cool or provide hot water for use in a structure, or to provide solar process heat.

Reasons for Change

A tax credit for rooftop solar photovoltaic systems and solar water heating systems will reduce the cost of these investments and encourage individuals and businesses to adopt these systems. Heat and electricity from these sources produce no greenhouse gasses.

Proposal

Under this proposal, a tax credit would be available for purchasers of rooftop photovoltaic systems and solar water heating systems that are located on or adjacent to a building and are used exclusively for purposes other than heating swimming pools. The credit would be equal to 15 percent of qualified investment up to a maximum of \$1,000 for solar water heating systems and \$2,000 for rooftop photovoltaic systems. This credit would be nonrefundable. For businesses, this credit would be subject to the limitations of the general business credit and the basis of the qualified property would be reduced by the amount of the credit claimed. The credit would apply only to equipment placed in service during the five-year period after December 31, 2000 and before January 1, 2006 for solar water heating systems and during the seven-year period after December 31, 2000 and before January 1, 2008 for rooftop photovoltaic systems. Taxpayers must choose between the proposed credit and the present tax credit for each investment.

PROVIDE A 15-YEAR DEPRECIABLE LIFE FOR DISTRIBUTED POWER PROPERTY

Current Law

Distributed power property used to produce electricity and/or steam for use in a taxpayer's industrial manufacturing process or plant activity, and not ordinarily available for sale to others,

THE CLINTON/GORE ADMINISTRATION: TAKING ACTION TO STRENGTHEN AMERICA'S ENERGY SECURITY

March 18, 2000

President Clinton today proposed new steps to strengthen the sound, comprehensive energy strategy that has helped keep the U.S. economy robust. The President called for the creation of a regional home heating oil reserve and reauthorization of the Strategic Petroleum Reserve. He also called for enactment of a tax package that will help ensure the productive capacity of the domestic oil industry and that must include measures to promote greater energy efficiency and renewable energy -- measures which Congress has failed to act on twice before. These steps will enhance America's energy security, create jobs, protect the environment, and produce long-term savings for consumers.

- **Establishing A Regional Home Heating Oil Reserve:** In order to reduce the likelihood that future heating oil shortages will harm consumers, the President is proposing the creation of a home heating oil reserve in the Northeast with an appropriate trigger that could supply additional heating oil to the market in the event of a supply shortage. The President today directed the Department of Energy to commence the appropriate environmental reviews to create this home heating oil reserve and will work with Congress to pass authorizing legislation this year.

- **Reauthorizing the Strategic Petroleum Reserve:** Current authorization to operate the Strategic Petroleum Reserve expires on March 31st, even as OPEC oil ministers are meeting in Vienna to discuss production quotas. To ensure the ability to use all available tools to respond to the needs of the U. S. economy, the President called on Congress to immediately reauthorize the Energy Policy and Conservation Act, which authorizes the Strategic Petroleum Reserve and the International Energy Program at DOE.

- **Enacting A Comprehensive Tax Package To Promote Energy Security:** The President today proposed a comprehensive package of tax incentives, including new tax credits for domestic oil producers to reduce U.S. reliance on oil imports and essential incentives to promote renewable and efficient sources of energy for U.S. economy. **This tax package:**

- **Will Help Preserve Productive Capacity of the Domestic Oil Industry:** President Clinton will propose adjusting the tax treatment for certain exploration activities and to lower the business costs to producers when oil prices are low. The Administration will also continue examining opportunities to preserve marginal well production, which accounts for over 20 percent of on-shore oil production in the lower-48 states.
- **Must Include Measures To Improve the Energy Efficiency of the Economy and to Promote the Use of Alternative Energy Sources:** To improve the energy security of our economy, President called on Congress to pass the energy efficiency and renewable energy tax components proposed in his current budget. These include tax credits for electric, fuel cell, and qualified hybrid vehicles, tax credits for efficient homes and buildings, and tax credits for non-petroleum based energy sources including wind, biomass, and methane.

- **Investing In Energy Efficiency and Alternative Energy Technologies.** President Clinton and Vice President Gore are calling on Congress to enact more than \$1.4 billion in budget requests that will promote energy security and the use of alternative and more efficient energy technologies, including:

- \$275 Million To Make America's Homes and Buildings More Efficient
- \$173 Million To Weatherize Low Income Households
- \$255 Million To A Partnership For A New Generation Of More Efficient Vehicles
- \$410 Million To Develop Sources Of Domestic Renewable Energy.

THE CLINTON/GORE ADMINISTRATION: TAKING ACTION TO STRENGTHEN AMERICA'S ENERGY SECURITY

March 18, 2000

President Clinton today proposed new steps to strengthen the sound, comprehensive energy strategy that has helped keep the U.S. economy robust. The President called for the creation of a regional home heating oil reserve and reauthorization of the Strategic Petroleum Reserve. He also called for enactment of a tax package that will help ensure the productive capacity of the domestic oil industry and that must include measures to promote greater energy efficiency and renewable energy -- measures which Congress has failed to act on twice before. These steps will enhance America's energy security, create jobs, protect the environment, and produce long-term savings for consumers.

- **Establishing A Regional Home Heating Oil Reserve:** In order to reduce the likelihood that future heating oil shortages will harm consumers, the President is proposing the creation of a home heating oil reserve in the Northeast with an appropriate trigger that could supply additional heating oil to the market in the event of a supply shortage. The President today directed the Department of Energy to commence the appropriate environmental reviews to create this home heating oil reserve and will work with Congress to pass authorizing legislation this year.

- **Reauthorizing the Strategic Petroleum Reserve:** Current authorization to operate the Strategic Petroleum Reserve expires on March 31st, even as OPEC oil ministers are meeting in Vienna to discuss production quotas. To ensure the ability to use all available tools to respond to the needs of the U. S. economy, the President called on Congress to immediately reauthorize the Energy Policy and Conservation Act, which authorizes the Strategic Petroleum Reserve and the International Energy Program at DOE.

- **Enacting A Comprehensive Tax Package To Promote Energy Security:** The President today proposed a comprehensive package of tax incentives, including new tax credits for domestic oil producers to reduce U.S. reliance on oil imports and essential incentives to promote renewable and efficient sources of energy for U.S. economy. **This tax package:**

- **Will Help Preserve Productive Capacity of the Domestic Oil Industry:** President Clinton will propose adjusting the tax treatment for certain exploration activities and to lower the business costs to producers when oil prices are low. The Administration will also continue examining opportunities to preserve marginal well production, which accounts for over 20 percent of on-shore oil production in the lower-48 states.
- **Must Include Measures To Improve the Energy Efficiency of the Economy and to Promote the Use of Alternative Energy Sources:** To improve the energy security of our economy, President called on Congress to pass the energy efficiency and renewable energy tax components proposed in his current budget. These include tax credits for electric, fuel cell, and qualified hybrid vehicles, tax credits for efficient homes and buildings, and tax credits for non-petroleum based energy sources including wind, biomass, and methane.

- **Investing In Energy Efficiency and Alternative Energy Technologies.** President Clinton and Vice President Gore are calling on Congress to enact more than \$1.4 billion in budget requests that will promote energy security and the use of alternative and more efficient energy technologies, including:

- \$275 Million To Make America's Homes and Buildings More Efficient
- \$173 Million To Weatherize Low Income Households
- \$255 Million To A Partnership For A New Generation Of More Efficient Vehicles
- \$410 Million To Develop Sources Of Domestic Renewable Energy.

President Clinton's FY 2001 Climate Change Budget

"The greatest environmental challenge of the new century is global warming . . . If we fail to reduce the emission of greenhouse gases, deadly heat waves and droughts will become more frequent, coastal areas will flood, and economies will be disrupted. That is going to happen, unless we act. Many people . . . still believe you cannot cut greenhouse gas emissions without slowing economic growth. In the Industrial Age that may well have been true. But in this digital economy, it is not true anymore. New technologies make it possible to cut harmful emissions and provide even more growth."

-- President Bill Clinton, State of the Union Address, January 27, 2000

Meeting the Challenge of Global Warming. Against a backdrop of growing scientific consensus that the Earth is warming – and that human activities are at least partly to blame – President Clinton's FY 2001 budget is proposing \$2.4 billion (a 43 percent increase over FY 2000 enacted levels) in funding to combat global climate change. This includes a series of new initiatives, such as accelerated efforts to develop clean energy sources both at home and abroad and a new Clean Air Partnership Fund to boost state and local efforts to reduce greenhouse gases and air pollution, as well as a five-year package of tax incentives to spur clean energy technologies and increased investment for R&D in energy efficient technology and renewable energy. In addition, the President is proposing more than \$1.7 billion for global change research, for a total package for FY 2001 of over \$4 billion.

International Clean Energy Initiative. To help accelerate the development and deployment of clean energy technologies around the world, President Clinton is proposing \$201 million (a more than 100 percent increase over FY 2000 enacted levels) for a multi-agency initiative to encourage open competitive markets; remove market barriers in developing countries to clean energy technologies; and to provide new incentives for clean energy technology innovation and export. The initiative will promote U.S. clean energy exports, create high-value jobs, and assist developing countries in fighting air pollution and climate change.

Bioenergy & Bio-based Products Initiative. The budget includes \$289 million to accelerate the development of bio-based technologies, which convert crops, trees and other "biomass" into a vast array of fuels and products – an increase of \$93 million over FY 2000 enacted levels. In addition to helping meet environmental challenges like global warming, this initiative will increase the viability of alternative energy sources, support farm incomes, and diversify and strengthen the rural economy.

Clean Air Partnership Fund. The President proposes \$85 million for a new fund to provide grants to state and local governments for projects that reduce both greenhouse gases and pollutants like soot, smog, and air toxics.

Climate Change Technology Initiative (CCTI). The CCTI is a package of targeted tax incentives and investments aimed at increasing energy efficiency and spurring the broader use of renewable energy. The package will save consumers money and reduce greenhouse gas emissions at the same time. CCTI investments have risen substantially each of the past two years. The President's new budget proposes a still more accelerated effort.

\$4.0 billion in Tax Incentives over 5 years. The proposed package contains \$4.0 billion over five years in tax cuts (\$201 million for FY 2001) for consumers who purchase energy efficient products and for producers of energy from renewable sources. This year's CCTI tax package is \$400 million greater than last year's proposed five-year package. Highlights include:

- Tax credits for energy efficient homes. Consumers can receive a \$1000-2000 credit

- Tax credits for fuel-efficient cars. The package extends the current tax credit (of up to \$4000) through 2006 for qualified electric and fuel cell vehicles and also includes a tax credit of \$500-3000 for the purchase of a qualifying hybrid vehicle from 2003-2006.
- Tax credits for clean energy. The package extends the 1.5 cent per kilowatt hour tax credit for the production of electricity from wind and closed-loop biomass; provides credits for open-loop biomass facilities and coal-biomass cofiring; and provides credits for electricity produced from methane from certain landfills.

\$1.4 billion for Energy Efficiency & Clean Energy. The proposed package contains over \$1.4 billion in FY 2001 to research, develop, and deploy clean technologies for the four major carbon-emitting sectors of the economy -- buildings, transportation, industry, and electricity -- a 30 percent increase over the amount appropriated in FY 2000. Highlights include:

- Partnership for a New Generation of Vehicles. PNGV is a government-industry effort to develop comfortable, affordable cars that meet all applicable safety and environmental standards and get up to three times the fuel efficiency of today's cars. The combined proposal for PNGV in the FY 2001 budget is \$255 million, an increase of \$30 million over FY 2000 enacted levels.
- Partnership for Advancing Technology in Housing. PATH is a government-industry partnership to improve the energy efficiency of new homes by more than 50 percent and to retrofit 15 million existing homes to make them 30 percent more energy efficient within a decade. The FY 2001 budget request for building efficiency efforts, such as PATH, Energy Star, and Building America, totals \$275 million, a 42 percent increase over FY 2000 appropriations.
- Renewable Energy. The President proposes \$410 million for the Department of Energy's solar and renewable energy programs, a 32 percent increase over the amount appropriated in FY 2000. The package includes expanded efforts in key renewable technologies, such as wind, bioenergy, photovoltaics, and geothermal energy.

Cleaner Fossil Fuels. The budget request contains \$233 million for R&D to develop next-generation technologies for coal combustion with much higher energy efficiency and lower greenhouse gas emissions.

Weatherization & State Energy Grants. The budget request includes \$191 million -- a \$22 million increase over FY 2000 appropriations -- to deliver energy conservation services to low-income Americans and to assist state energy offices in addressing their energy priorities.

U.S. Global Change Research Program. The FY 2001 request includes over \$1.7 billion for scientific research to improve our understanding of human and natural forces that influence the Earth's climate system and to assess the likely consequences of global warming.