



Executive Memorandum

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THE PRESIDENT'S NATIONAL ENERGY PLAN: A STEP IN THE RIGHT DIRECTION

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President George Bush has proposed a bold plan to address America's energy needs that includes 105 specific recommendations on how to tackle the nation's current energy shortage and provide a reliable and affordable supply for the future. Years of misguided federal and state environmental policies have raised the cost of production, failed to improve our nation's aging infrastructure, and dangerously increased America's dependence on unreliable foreign sources. The result: rising consumer utility bills, rapidly increasing gasoline prices, and rolling blackouts and brownouts.

The President's *National Energy Policy Report* is a step in the right direction. It recommends environmentally sound changes to increase domestic supply, improve delivery, reform counterproductive regulations, and encourage energy diversity. Although more should be done to ensure that any new policies adhere to free-market principles, the plan provides a blueprint for reform.

Increasing Domestic Supplies. Ironically, the nation is experiencing the impact of an increasingly insufficient energy supply even as domestic sources of energy lie untapped. The President's plan proposes to increase supply and upgrade the country's infrastructure. It addresses the lengthy and expensive permitting process for energy production by directing federal agencies to expedite permits and facilitate energy-related projects. It also proposes using new technology to enhance oil and gas recovery from wells on federal land; studying impediments to oil and gas exploration on federal land;

opening 2,000 acres of the 19 million-acre Arctic National Wildlife Refuge to oil and gas exploration and providing additional oil and gas leases in the National Petroleum Reserve—Alaska; and continuing Outer Continental Shelf oil and gas leasing while allowing environmentally sound off-shore oil and gas development.

Finally, the plan addresses energy security by seeking improved access to foreign markets through stronger trade alliances with major oil producers and increased production and cooperation with Canada and Mexico, countries in Africa and the Caspian Sea region, and elsewhere.

Improving Delivery. Another major problem, especially in the short term, is inefficient delivery, particularly across state lines. To ensure efficient, reliable, and safe energy delivery, the plan proposes modernizing America's infrastructure by removing interstate transmission constraints, improving pipeline safety, streamlining approvals for interstate natural gas pipeline projects, and assuring adequate refining capacity. It would accelerate the renewal process for Trans-Alaska Pipeline

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System right-of-ways to assure an uninterrupted flow of Alaskan oil to the West Coast, as well as construction of a pipeline to deliver natural gas from Alaska's North Slope to the lower 48 states.

Such improvements will require the government to take property as an exercise of its authority over interstate commerce. This approach must be used only sparingly and with appropriate compensation.

Reducing the Regulatory Burden. Excessive regulations and price controls have increased consumption and forced utilities, faced with rising wholesale costs, into bankruptcy. The Public Utility Regulatory Policies Act of 1978 (PURPA), for example, requires utilities to purchase some power from "qualifying facilities" at prices that are not based on actual production costs, and the Public Utility Holding Company Act of 1935 (PUHCA) discourages diversification and inhibits competition. The President's plan directs the Secretary of Energy to propose comprehensive electricity legislation that includes reform of PURPA and repeal of PUHCA.

The plan directs the Environmental Protection Agency (EPA) and the Department of Energy to examine the New Source Review (NSR) program, including how EPA interprets and implements its regulations, and within 90 days report back to the President on the impact of NSR regulations on investment in new utilities and refinery generation, capacity, energy efficiency, and environmental protection. It also directs the Attorney General to review NSR enforcement actions to ensure that they are consistent with the Clean Air Act and its regulations.

The plan orders the EPA to review regional reformulated gasoline standards that require "boutique" fuels (blends that contain high levels of chemical oxygenates to produce fewer emissions) to determine their effects. To continue improving air quality, the plan directs EPA and Congress to establish a flexible, market-based program that will further reduce and cap sulfur dioxide, nitrogen oxides, and mercury emissions from electric power generators. Any multi-pollutant policy approved by the Administration to reduce emissions should be truly market-based and afford utilities the regulatory certainty that they will not be sued for making routine modifications or upgrades in existing facilities.

Encouraging Energy Diversity. Nuclear power, the cleanest source of energy, provides about 20 percent of all U.S. electricity generation. One pound of uranium produces as much energy as 6 tons of coal or 1,200 gallons of oil. Nuclear fuel is cheap (half a cent per kilowatt hour), is rigorously regulated, and has a strong safety record. New design features, operator training, diverse and redundant systems to prevent accidents, and multiple safety barriers have been incorporated to assure that the industry meets high safety standards. To promote nuclear energy, the President proposes streamlining licensing procedures; reauthorizing the Price-Anderson Act of 1957, which limits industry liability from nuclear accidents; and providing tax breaks for the purchase of nuclear plants. Estimates suggest that using new technologies and methods to increase rated power levels at existing plants could produce enough electricity to power an additional 12 million homes for as long as the plant is operational.

The plan proposes federal subsidies for research on clean coal technology; wind, solar, organic waste, and biomass power; co-generation; and hybrid gas-electric vehicles. While such research and development is needed, however, the way to encourage it is through the market, not tax-subsidized corporate welfare. As technology advances, consumer demand increases, and the industry responds to rising revenue with more options and lower costs to remain competitive. Interfering with such market forces is counterproductive.

Conclusion. Most of the President's energy proposals would help ensure that America has an adequate, affordable, and environmentally responsible energy supply. However, his plan should be strengthened by omitting such mechanisms as subsidies and tax credits that would achieve outcomes an unfettered competitive market would otherwise produce.

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