NATIONAL ENERGY POLICY AND ENERGY OVERVIEW

1997 Energy Snapshot[i]

Energy Consumption per Capita: 352 million Btu	Energy Related Carbon Emissions: 1,463 million metric tons (24% of world carbon emissions)
"Kyoto Commitment": 7% reduction from 1990 levels in GHG emissions by 2008-2012	Carbon Emissions per Capita: 5.4 metric tons

Energy Policy: Perhaps the two most significant energy policy issues facing the United States at this time are the movement towards a deregulated electric utility industry and what, if anything, should be done to control US emissions of greenhouse gases (principally carbon dioxide). To a large extent these two issues are being debated separately though there appear to be many interconnections between the two. For example, the Clinton Administration claims that its Comprehensive Electricity Competition Plan will reduce greenhouse gas emissions by 25-40 million metric tons of carbon equivalent.[ii] Others have pointed to evidence that suggests that utility restructuring has resulted in significant reductions (real decrease of 42% between 1985-1995) in the private sector's investments in energy R&D and that these reductions will make it more difficult for the US to reduce its emissions of greenhouse gases.[iii]

Utility Deregulation – The push to deregulate the US utility industry formally began with the passage of the Energy Policy Act of 1992 and the subsequent release of the April 24, 1996, Federal Energy Regulatory Commission Order Number 888, which required electric utilities to open their transmission systems to power generated by other companies. However, unlike the situation in many other nations, the process by which utility deregulation in the United States is being implemented is not being driven by any overarching national policy. Rather, for the time being, the direction and the pace for utility deregulation is largely being set by state-level decisions.

At the national level, five major bills were introduced in the 105th Session of Congress to "comprehensively" implement utility deregulation, and in March 1998 the Clinton Administration finalized its proposal to comprehensively deregulate the nation's utilities.[1] In the context of the United States, "comprehensive" utility restructuring legislation would: (1) allow (and in some cases mandate) retail wheeling, i.e., allow customers to choose their electricity suppliers; (2) fundamentally reform and/or repeal various aspects of the Public Utility Regulatory Policies Act (PURPA) that guaranteed small generators and cogenerators of electricity a market for their electricity; and (3) seek to repeal aspects of the Public Utility Holding Company Act (PUHCA) which regulates financial transactions between companies that have interests in public utility companies. The six major legislative proposals differ significantly with respect to how utility

[1] Sources for this overview of federal utility restructuring legislation include the following: Howard Buskirk, "Draft Administration Bill Gives FERC Sweeping New Deregulation Powers" (*The Energy Daily* 26 (95) May 20, 1998): 1-2; *DOE's Legislative Proposal to Restructure the Utility Industry* (*Inside Energy /with Federal Lands* May 18, 1998): 7; National Association of Regulatory Utility Commissioners, *Electric Restructuring Legislation In the 105th Congress & NARUC Principles: Issues Comparison* (July 1997 http://www.naruc.org/legislat.htm; Larry Parker, *Electricity: The Road toward Restructuring* (Washington, DC: Congressional Research Service, Environment and Natural Resources Policy Division, October 14, 1997); Larry Parker, *Electricity Restructuring: Comparison of S. 1401, H.R. 655, H.R. 1230, S. 722, and H.R. 1960* (Washington, DC: Congressional Research Service, Environment and Natural Resources Policy Division, November 17, 1997); United States Department of Energy's Energy Information Administration, *The Restructuring of the Electric Power Industry: A Capsule of Issues and Event.* (Washington, DC: February 10, 1998).

deregulation should unfold across the United States. For example, these bills establish "dates certain" for full nationwide retail competition that vary from January 1, 1999, to January 1, 2003, while other bills do not specify a date, leaving that decision up to the individual states. The proposals also differ as to how "stranded costs" should be recovered and on the desirability of federal mandates for public benefit surcharges and renewable energy portfolio standards (both of which are designed to retain some of the "public benefit" programs that were supported by utilities when they were regulated).

Given so much uncertainty at the federal level on how utility restructuring should be carried out, for the time being the States have been allowed to set the pace of utility restructuring. Indeed, some states such as California, New York and New Hampshire are the forefront in rapidly pushing utility deregulation.[2] On March 31, 1998, California became the first State to completely deregulate its utilities and to allow all consumers to buy electric power from any supplier. However, owing to technical difficulties in implementing the law, deregulation and its hoped-for lower energy prices for consumers appears to be unfolding rather slowly in California.[iv] Many other states are, at least for the time being, slowing their push to deregulate utilities within their jurisdiction as they pause to observe how California will overcome the difficulties it has encountered in implementing its ambitious deregulation plans. Currently, 48 states and the District of Columbia have initiated some form of activity ranging from passing legislation and actually beginning the process of deregulation to asking the state regulatory body or other advisory boards to study whether and how the state should pursue utility deregulation.[v]

Climate Change -- The United States is the world's largest producer and consumer of energy. It is also the largest source of anthropogenic carbon emissions in the world. In June of 1992, the United States ratified an international treaty that formally committed itself to the stabilization of US emissions of greenhouse gases by 2000 at their 1990 levels. Current projections indicate that the United States will be unable to meet this commitment given that its emissions of carbon (the principal greenhouse gas of concern) will reach 1,577 million metric tons in 2000, an increase of 18% (240 million metric tons) from the 1,337 million metric tons emitted in 1990.[vi]

There are three principal explanations behind the rise in US carbon emissions since 1990. First, because of the vigorous economic growth that has characterized much of the 1990s, energy consumption and therefore energy-related emissions have increased. Second, many of the gains in energy efficiency that were realized in the 1980s (caused in large measure by the oil price shocks of the previous decade) have started to peak and decline, e.g., low gasoline prices have encouraged many Americans to purchase less fuel efficient sport utility vehicles, minivans, and small trucks, all of which are less fuel efficient than small cars. Third, electricity production from the United States' two principal emissions-free energy sources, nuclear power and hydropower has stagnated since the early 1990s, thus implying that the increasing energy demand has been met with by increasing reliance on fossil fuels. [vii]

In December 1997 at the global warming summit in Kyoto, Japan, the US delegation agreed to reduce United States carbon emissions by 7% from 1990 levels by 2008-2012. Many believe that it will be exceedingly difficult to meet this reduction.[viii] In order to attempt to meet this and previous emission reduction challenges, the Clinton Administration has announced a number of programs including the 1993 Climate Change Action Plan (a series of 44 actions designed to reduce emissions), the 1997 Million Solar Roofs Initiative (an initiative to install solar energy

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[2] For an up-to-date summary of utility deregulation initiatives at the state level, see US Department of Energy, Energy Information Agency, "Status of State Electric Utility Deregulation Activity as of August 1, 1998 (updated monthly)" (http://www.eia.doe.gov/cneaf/electricity/chg_str/tab5rev.html).

panels on 1 million roofs in the United States by 2010), and the 1998 Climate Change Technology Initiative (a $6.3 billion package of R&D, tax breaks and other incentives for the deployment of new technologies) designed to reduce US emissions of greenhouse gasses.[ix] For the most part, the US Congress has received these initiatives with some skepticism. This skepticism is in part based on a disagreement with the Administration as to how urgent and how severe the threat posed by climate change really is. Congress has scaled back many of the proposals the Clinton Administration has put forward to address climate change, which has conceivably reduced the hoped-for effectiveness of these programs as tools for reducing greenhouse gas emissions. One area in which there is some level of agreement between the two sides is on the need for further research to understand the science of climate change.

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[i] Energy Information Agency, "United States of America: Country Analysis Brief" (April 1998 http://www.eia.doe.gov/emeu/cabs/usa.html).

[ii] The Council of Economic Advisors, *The Kyoto Protocol and the President's Policies to Address Climate Change: Administration Economic Analysis* (Washington, DC: July 1998).

[iii] J.J. Dooley, "Unintended Consequences: Energy R&D in Deregulated Market," *Energy Policy* (June 1998): 547-555.

[iv] US Department of Energy, Energy Information Agency, "United States of America: Country Analysis Brief" (April 1998. http://www.eia.doe.gov/emeu/cabs/usa.html).

[v] US Department of Energy, Energy Information Agency, "Status of State Electric Utility Deregulation Activity as of April 1, 1999" (April 1999. http://www.eia.doe.gov/cneaf/electricity/chg_str/tab5rev.html).

[vi] US Department of Energy, Energy Information Agency. "United States of America: Country Analysis Brief."

[vii] Ibid.

[viii] Ibid.

[ix] US Department of Energy, Energy Information Agency, "United States of America: Country Analysis Brief" (April 1998. http://www.eia.doe.gov/emeu/cabs/usa.html); General Accounting Office, "Department of Energy: Proposed Budget in Support of the President's Climate Change Technology Initiative" (Letter Report, 04/10/98, GAO/RCED-98-147, Washington, DC); US Department of Energy, Energy Information Agency, *Annual Energy Outlook 1998* (Washington, DC, December 18, 1997).