



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

March 5, 2002
(Senate)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

S. 517 - Energy Policy Act of 2002

(Sen. Bingaman (D) NM and 3 cosponsors)

The Administration strongly supports comprehensive energy legislation that improves energy efficiency, fosters conservation, and increases and diversifies domestic energy supply as called for in the President's National Energy Policy (NEP) report. The NEP's legislative recommendations would enable the Nation to improve energy security, while protecting and enhancing the environment, creating jobs, and promoting economic growth. Enactment of such comprehensive legislation this year is critical to ensuring the Nation's energy and economic security.

Comprehensive energy legislation must increase energy conservation and efficiency. Nearly every dollar of the NEP's \$9.2 billion energy tax proposals for FYs 2003-2012 would be devoted to increasing efficiency, conservation, and renewable energy. The fiscal centerpiece of the NEP is a \$3 billion consumer tax credit for the purchase of hybrid and fuel cell vehicles. Other fiscal incentives include extending and modifying the tax credit for producing electricity from environmentally friendly sources, such as biomass and wind; providing tax credits for energy produced from landfill gas, residential solar energy systems, and investment in combined heat and power; and extending the ethanol tax exemption.

The cost of the Administration's energy tax proposals is balanced within the President's priorities of economic, homeland, and military security. The Administration is pleased that many of the Administration's proposals were included in the bipartisan measure reported by the Senate Finance Committee.

With regard to nuclear energy, the Administration strongly believes that comprehensive energy legislation should include reauthorization of the Price-Anderson Act nuclear liability insurance. The Administration supports language in S. 517 that reauthorizes Price Anderson protection to DOE contractors, but notes that this reauthorization does not extend to other nuclear facility operators. The Administration will work with the Senate to modify this provision in order to fully reauthorize the Price-Anderson Act.

With regard to electricity, the Administration strongly believes that comprehensive energy legislation

should include provisions to modernize our Nation's antiquated wholesale electricity laws. The Administration strongly supports enactment of electricity legislation that, as outlined in the NEP, promotes competition, protects consumers from market power abuses, enhances investment in and improves reliability of the transmission grid, improves efficiency, and promotes the production and use of domestic renewable energy. The electricity title in S. 517 is a step in the right direction, and the Administration supports several of its provisions including the repeal of the outdated 1930s-era Public Utilities Holding Company Act and promotion of open access to the transmission grid. The Administration will work with the Senate to modify other provisions of the electricity title of S. 517 in order to develop legislation that is consistent with the Administration's objectives.

The Administration supports the expanded use of cost-effective renewable fuels, including ethanol and other biomass, which would promote energy security, farm economy, and clean air. The Administration would welcome a proposal to expand the use of renewable fuels in ways that are cost-effective and environmentally beneficial.

The Administration, however, has serious concerns about S. 517 in its current form, and urges the Senate to modify the bill to bring it more closely into conformance with the NEP.

Most significantly, S. 517 is not comprehensive energy legislation. In order to be comprehensive, energy legislation must increase domestic energy supply and promote conservation and efficiency. S. 517 does very little to increase our Nation's energy supply.

For example, S. 517 does not provide for the exploration and development of the significant oil and gas resources contained within the Arctic National Wildlife Refuge (ANWR). ANWR is by far the largest untapped source of domestic petroleum potential and would equal nearly 40 years of imports from Iraq. The Administration strongly supports the exploration and development of a very small portion (approximately 2,000 acres) of the 19 million acre ANWR using advanced technology that is protective of the environment and migratory wildlife using the most stringent natural resource protection standards ever enacted in law. Increasing domestic petroleum supply, thereby reducing dependence on foreign sources of oil, is a vital component of our Nation's energy security. Environmentally sound exploration of ANWR will also result in hundreds of thousands of jobs for American workers.

Concerning fleet fuel economy, the Administration has consistently supported improving fuel economy while protecting passenger safety and jobs. The Administration wants to work closely with Congress to achieve significant improvements to fleet fuel economy through sound science by encouraging the development and introduction of new technologies, rather than jeopardizing passenger safety by making vehicles smaller and lighter. The Administration has already shown its support for the FREEDOM CAR initiative and other R&D and tax incentives in this area.

As one component to this effort, the Administration has asked Congress for authority to reform the Corporate Average Fuel Economy (CAFÉ) program, as recommended by the congressionally-requested National Academy of Sciences (NAS) CAFE report, to include possible reforms such as attribute-based standards and tradeable fuel economy credits. Such reforms have the potential to

enable the Nation to simultaneously save fuel, lives, and jobs. The NAS report clearly highlighted the additional traffic injuries and fatalities caused by CAFE's current incentives for manufacturers to produce and sell smaller and lighter vehicles. Moreover, the NAS warned of the possibility of further fatalities and injuries if current CAFE standards are arbitrarily increased.

For these reasons, the Administration strongly opposes the CAFE provisions in S. 517. Based on the NAS report, the Administration is deeply concerned that S. 517 would contribute to many thousands of additional passenger fatalities and injuries. In the wake of the report's findings about CAFE's safety implications, protecting passenger safety should be explicitly incorporated as a consideration in setting future fuel economy standards.

The Administration also notes with concern that a recent analysis by the Energy Information Administration found that S. 517's CAFE provision would (1) cause new vehicles to be several hundred pounds lighter, which the NAS warned would increase passenger fatalities and injuries; (2) lead to 200,000 total job losses in 2010 and 450,000 job losses in 2015; (3) cost \$170 billion in lost economic output between 2003 and 2020.

Concerning global climate initiatives, the President recently announced an aggressive plan to reduce the projected growth in U.S. greenhouse gas emissions in the next decade, along with a comprehensive set of domestic and international policy initiatives. The Administration would support legislation that is consistent with this plan, particularly to advance the goal of reducing the "greenhouse gas intensity" of the American economy and improving the existing Department of Energy registry for reporting and crediting voluntary emissions reductions. Improving the existing registry would be more productive than imposing new expansive and burdensome mandatory nation-wide emissions reporting requirements as contained in S. 517.

In addition, the Administration has recently established a new Committee on Climate Change Science and Technology Integration, chaired by the Secretary of Commerce, to manage the Federal climate science and technology research programs and report to the ongoing cabinet-level global climate working group. The Administration, therefore, has serious concerns about S. 517's highly prescriptive provisions, which would create an unwieldy new climate policy bureaucracy. The bill's requirements would also interfere with the President's constitutional authority to supervise the Executive Branch and unconstitutionally restrict the President's powers under the Appointments Clause.

Finally, the Administration opposes provisions in the bill authorizing Federal spending at unrealistically high levels that significantly exceed the President's Budget request.

The Administration remains strongly committed to enactment of energy legislation this year and will work with Congress to pass comprehensive, environmentally sensitive, and economically responsible energy legislation as called for by the NEP.

Pay-As-You-Go Scoring

Any law that would reduce receipts or increase direct spending is subject to the pay-as-you-go requirements of the Balanced Budget and Emergency Deficit Control Act. Accordingly, S. 517, or any substitute amendment in lieu thereof that would reduce revenues or increase direct spending, will be subject to the pay-as-you-go requirement. OMB has not completed the scoring of S. 517, but a preliminary scoring indicates that S. 517 would have net budget costs. The Administration will work with Congress to ensure that any unintended sequester of spending does not occur under current law or through the enactment of any other proposals that meet the President's objectives.

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