September 29, 2000

Governor George W. Bush:

"A Comprehensive National Energy Policy"

"America must have an energy policy that plans for the future, but meets the needs of today. I believe that we can develop our natural resources and protect our environment. We are paying a steep price for seven and a half years without an energy policy." – Governor George W. Bush

EXECUTIVE SUMMARY

The Clinton-Gore Administration has failed to develop a comprehensive energy policy. It has raised gasoline taxes, discouraged domestic production of oil and natural gas, and admitted it was "caught napping" when oil prices spiked earlier this year. **It has also failed to plan for the** New Economy's accelerating demand for electricity. On this Administration's watch, **U.S. dependence on foreign oil has jumped to 56 percent – the highest percentage ever. In 1973, during the oil crisis, U.S. dependence on foreign oil was at only 36 percent.** Over the past seven and a half years, our international credibility has been diminished, and Saddam Hussein's Iraq is now a major oil supplier to the U.S.

Governor Bush understands that ensuring U.S. energy security requires presidential leadership and a comprehensive national energy policy. His policy, which includes more than 20 initiatives, helps low-income households with their energy bills, improves air quality, encourages the development of renewable and alternative fuels, and, recognizing that alternative sources supply less than 4 percent of U.S. energy needs, promotes access to foreign oil and the development of U.S. oil, coal and natural gas resources.

To Provide Energy Assistance to Low-Income Households and Address Short-Term Supply Threats, Governor Bush will:

- Expand the Low Income Home Energy Assistance Program (LIHEAP) by seeking the release of $155 million, and directing a portion of oil and gas royalty payments to the program, costing $1 billion over ten years.
- Reform and increase the funding for the Weatherization Program and State Energy Program, costing $1.4 billion over ten years.
- Establish a privately-managed Northeast Home Heating Oil Reserve and allocate $100 million over 10 years.
- Use the Strategic Petroleum Reserve only in times of war or major disruption in supply, and propose "wake up" legislation requiring the Department of Energy to notify Congress when oil stocks are low.

To Make Energy Security a Priority of U.S. Foreign Policy, Governor Bush will:

- Promote the development of a "North American Energy Policy" with Canada and Mexico.
- Reestablish U.S. influence and credibility with oil-producing nations in the Persian Gulf.
- Promote development of energy resources in non-OPEC countries, such as the Caspian Sea Basin and Western and Southern Africa.
- Establish an annual meeting of G-8 Energy Ministers, or their equivalents, to encourage international energy cooperation.

EXECUTIVE SUMMARY

To Promote the Development of U.S. Oil and Gas Resources, and To Meet the Electricity Needs of the New Economy, Governor Bush will:

- Open only 8 percent of the Arctic National Wildlife Refuge to environmentally responsible exploration, which could replace the oil that the U.S. now imports from Iraq.
- Examine whether certain promising natural gas reserves in federal lands should be opened to environmentally responsible and regulated exploration.
- Improve the regulatory process to encourage more refining capacity.
- Require federal regulators to develop a comprehensive policy for approving pipelines.
- Invest $2 billion over ten years to fund research in "clean coal" technologies, $1 billion over ten years to establish clear rules to help efficient utilities purchase nuclear plants, streamline the re-licensing process for hydroelectric projects, and oppose the breaching of dams.
- Support federal legislation restructuring the electric utility industry.

To Protect the Environment and Develop Alternative Energy Sources, Governor Bush will:

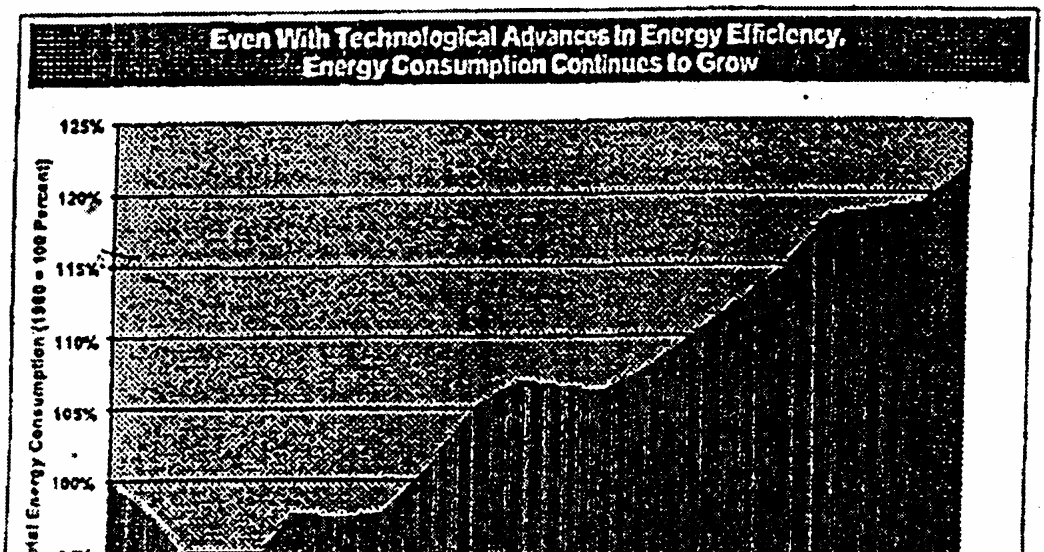
- Propose legislation *requiring* electric utilities to reduce harmful emissions; in contrast, Vice President Gore has advocated only a voluntary program.
- Create the "Royalties Conservation Fund" by earmarking potentially billions in royalties from new oil and gas exploration in ANWR to fund conservation efforts.
- Earmark an estimated $1.2 billion of bid bonuses from opening up ANWR for funding research into alternative energy resources.
- Support tax credits for electricity produced from renewable and alternative fuels at a cost of $1.4 billion over ten years.

I. The Need for a Comprehensive Energy Policy

"Against this background, our country has a great and urgent need for a comprehensive energy policy, with leadership from the president himself." -- Governor George W. Bush

For most of its history, one of America's greatest strengths was its energy self-sufficiency. Until the late 1950s, production and consumption of energy were nearly in balance. Since 1960, however, U.S. energy demand has more than doubled, far outstripping domestic production. (See Chart 1). Today, the United States consumes one-quarter of the world's energy – 28 percent of which is imported from abroad.

Chart 1



America's Increasing Dependence on Foreign Oil

The 1973 Arab oil embargo – and the ensuing fuel shortages, gas lines, double-digit inflation and economic stagnation – dramatically highlighted the degree to which U.S. economic security is dependent upon foreign energy providers. Indeed, the last three economic recessions in the U.S. were induced by high energy prices.

The last eight years have witnessed an accelerated decline in America's energy security, particularly as it relates to oil. Since the Clinton-Gore Administration took office:

- Oil consumption has increased by 14 percent to its highest level in U.S. history;
- Domestic oil production has declined by 18 percent, reaching its lowest level since 1954; and
- Imports of foreign oil have increased by 34 percent to their highest level ever.

As a result, America is now more dependent on foreign oil than at any time in its history. In 1973, the country imported 36 percent of its oil needs. Today, the U.S. imports 56 percent of its crude oil from foreign sources – up from 50 percent when the Clinton-Gore Administration took office – and over 7 percent of that comes from Saddam Hussein's Iraq. The U.S. bill for foreign oil has more than doubled from last year – during the first six months of 2000, the United States spent $56 billion on foreign oil, up from $26 billion in the first six months of 1999.

The New Economy's Increasing Demand for Electricity

As important as oil is, however, it supplies less than half of America's energy needs. Increasingly, the most critical source of energy for the country is electricity, which is principally produced not by oil, but by natural gas, coal, nuclear energy, and hydroelectric power.

Meeting America's growing appetite for electricity will be critical to the long-term success of the digital revolution. The energy-intensive New Economy is accelerating the demand for electricity. Although few homes had Internet access just a decade ago, use of the Internet today consumes about 8 percent of U.S. electric output.

Unfortunately, the Administration's policies have discouraged investment in additional electrical generating capacity and transmission, and the development of domestic reserves of oil, coal, and natural gas. As a result, demand is outstripping supply in certain areas of the country, causing regional brownouts and blackouts.

The Administration's Lack of Leadership

Instead of encouraging new energy supplies, the Clinton-Gore Administration has increased gasoline taxes and consistently advocated policies that would generate higher oil and gas prices. Domestically, the Administration has focused on developing renewable energy sources and replacing the internal combustion engine, while discouraging domestic energy exploration, production and development. Internationally, it has failed to maintain the Gulf War coalition and has squandered U.S. credibility with oil-producing nations in the Persian Gulf that can influence OPEC policies. This leadership failure has increased Iraqi leverage over the U.S. and international economies.

Energy Secretary Richardson admitted in February that when the price of crude oil spiked the Administration was "caught napping." Yet the Department of Energy's own statistical agency had reported that crude oil and petroleum stocks had fallen below normal levels in early December. The Administration just simply failed to take action. As a result, high heating oil and gasoline prices are now impacting millions of Americans. In the absence of a comprehensive policy, the Administration recently decided to use a key national security resource – the Strategic Petroleum Reserve – to address short-term price problems for political gain.

The Need for a Comprehensive Energy Policy

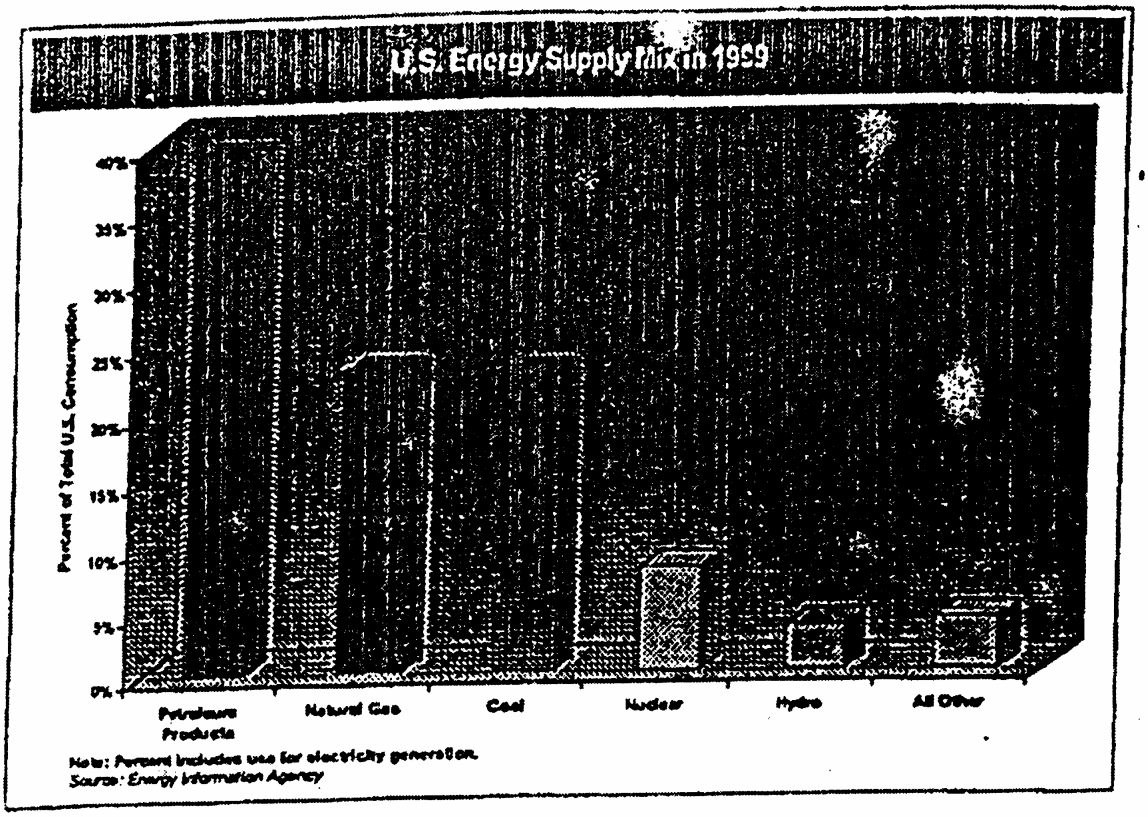
Governor Bush believes that ensuring U.S. energy security requires the exercise of presidential leadership and a comprehensive national energy policy. Such a policy must be forward looking, encouraging the development of renewable energy sources and increased conservation. Our energy policy must also be realistic about our current situation, recognizing that while renewable energy is important, it currently represents less than four percent of the total U.S. energy consumption. As a result, an effective energy policy must reflect the fact that, for the foreseeable future, hydrocarbons – oil, coal, and especially clean-burning natural gas – will continue to play a critical role in meeting the growing energy needs of the New Economy. Hydroelectric and nuclear power will also play an important role.

II. U.S. Dependence on Foreign Oil

> *"Let me put this plainly: oil consumption is increasing. Our production is dropping. Our imports of foreign oil are skyrocketing. And this Administration has failed to act."*
>
> – Governor George W. Bush

Petroleum products account for nearly 40 percent of total U.S. energy consumption, followed by natural gas (23 percent), coal (23 percent), nuclear energy (8 percent), hydro (3 percent), and other renewable sources (4 percent). (See Chart 2).

Chart 2

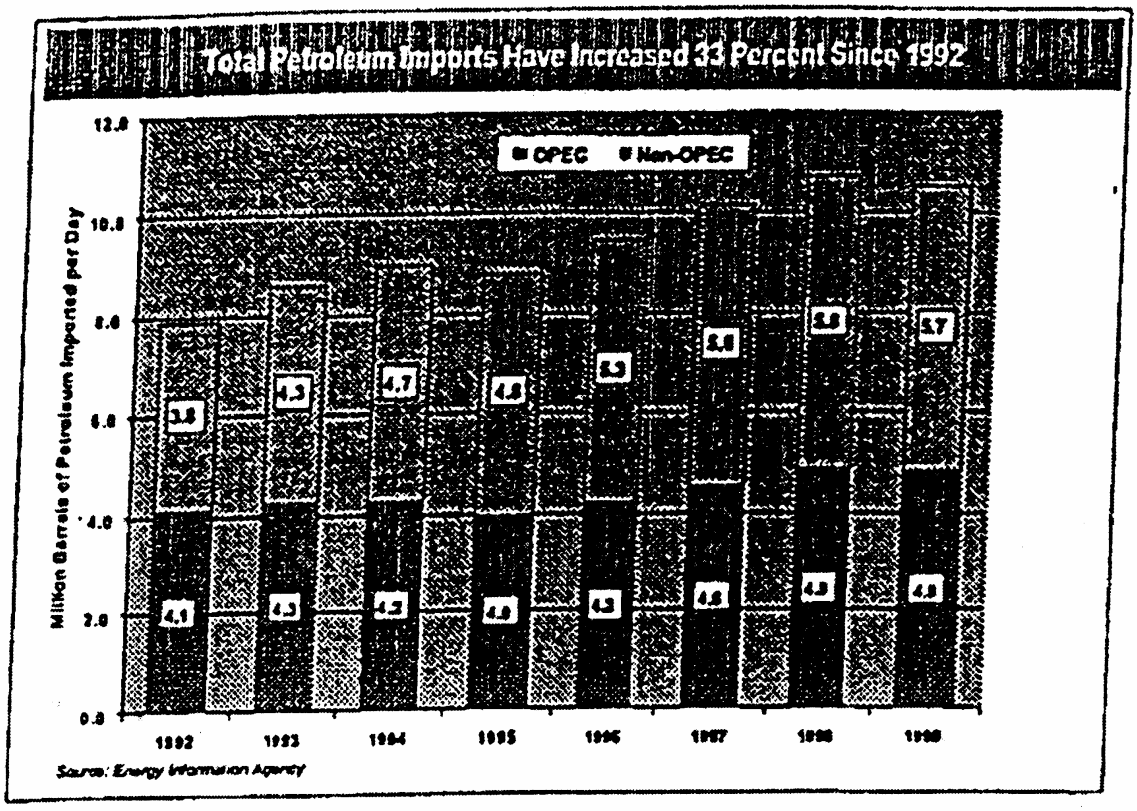


Oil consumption has increased 14 percent under the Clinton-Gore Administration, reaching its highest level ever. To meet its petroleum needs, the United States has become the world's largest oil importer. U.S. imports of crude oil and petroleum products total 11 million barrels a day – more than the total consumption of South America, Central America, Africa, and the former Soviet Union combined. Imports are projected to rise to 15 million barrels per day by 2010 and will exceed this amount if recent demand trends continue. As a result, while U.S. dependence on foreign oil has increased from 50 percent in 1993 to 56 percent today, the Department of Energy is projecting this amount to jump to 64 percent by 2020.

Increasing OPEC and Iraqi Influence

OPEC countries supply 46 percent of U.S. oil imports, while non-OPEC countries such as Canada, Mexico and Colombia supply the remaining 54 percent. (See Chart 3.) Maintaining U.S. influence with OPEC, and especially with its Persian Gulf members, is thus critical to ensuring an adequate supply of imported oil from our economy and our homes.

Chart 3



When the Clinton-Gore Administration took office in January of 1993, the Gulf War coalition was intact, economic sanctions were in place against Iraq, UN weapons inspectors were operating in Iraq, there was an active Iraqi opposition, and U.S. influence in the Gulf was at an all-time high. Almost eight years later, due to the failed leadership of the Administration:

- The international coalition assembled during the Gulf War has come apart.
- UN inspectors have not set foot in Iraq for almost two years, failing to monitor any attempts to produce weapons of mass destruction.
- The Administration has spent only a negligible amount of the $97 million appropriated by Congress under the Iraq Liberation Act to support the Iraqi resistance.
- U.S. credibility in the Gulf is so low that the United Arab Emirates and Bahrain – once critical members of the Gulf War coalition – recently restored full diplomatic relations with Iraq.

As U.S. influence in the Gulf has waned, Iraq's relative influence as an oil supplier to U.S. and world markets has increased:

- Iraq is now the fastest growing oil supplier to the United States, selling 850,000 barrels of crude oil a day to the United States in June (latest month available) – or over seven percent of total imports.

- As spare production capacity becomes tighter, Iraq is moving into a position to become an important "swing producer," with an ability to single handedly impact and manipulate global markets.

- Perhaps most ominously, Saddam Hussein is threatening to cut back production and is again claiming that Kuwait is stealing Iraq's oil – the same claim Iraq made in 1990.

III. Domestic Oil and Gas Exploration and Production

> *"My opponent says he is for natural gas – he just doesn't like people to find it or move it."*
> -- Governor George W. Bush

Just as the Administration has failed to address the implications of increasing U.S. dependence on foreign oil, so too has it failed to address the implications of declining domestic production.

Declining Oil Production and Constrained Refinery Capacity

In recent years, most of the oil and gas produced in the United States has come from old wells. Indeed, since 1990, 89 percent of additions to U.S. oil reserves, and 92 percent of additions to gas reserves, have come not from new exploration, but from increased production from existing fields.

While better extraction from mature wells is obviously beneficial, it is a poor substitute for finding new deposits and does little to halt declining production rates. As a result, the Department of Energy is projecting U.S. crude oil production will decline from 6.3 million barrels per day in 1998 to 5.3 million barrels per day in 2020. Incredibly, production for the first seven months of this year averaged just 5.8 million barrels per day – meaning 50 percent of DOE's 22-year forecasted drop has been achieved in under 2 years.

Another problem facing the country is limited refinery capacity. While the consumption of petroleum products grew 14 percent from 1992 to 1999, U.S. refining capacity to create those products grew at half that rate, requiring a greater reliance on imported products, such as heating oil and gasoline.

Increasing Demand for Natural Gas

America's ability to meet its growing demand for natural gas is also in doubt. Natural gas is the preferred fuel for new electric generation facilities because gas plants have lower capital costs than coal plants, and because natural gas is the cleanest burning fossil fuel. A greater reliance on natural gas will diminish air pollution and help sustain forests, waters, and farmlands now being affected by acid rain. Also, unlike oil, natural gas is relatively abundant in North America; it is hemispheric in nature and not subject to manipulation on the world market by other countries.

Thus, demand for natural gas is accelerating at a rapid rate. Indeed, DOE projects that demand for natural gas will rise 40 percent in coming years, from 22 trillion cubic feet (TCF) in 1998 to 31 TCF in 2015. Although proven U.S. gas reserves totaled 167 TCF in 1998, and unproven

reserves are estimated at 6.5 times that amount, 14 percent of U.S. natural gas consumption is imported, largely from Canada.

Need for Access to New Fields

Unfortunately, rather than supporting environmentally responsible development of new domestic supplies of oil and natural gas, the Clinton-Gore Administration has aggressively restricted access to some of the largest potential new fields. For example:

- The Department of Energy reports that just 8 percent of the 19-million-acre Arctic National Wildlife Refuge (ANWR) could hold over 35 percent of current total proven U.S. oil reserves – but the Administration has not permitted any oil exploration in ANWR.

- The National Petroleum Council recently estimated that 40 percent of potential gas resources in Western states – up to 137 TCF – is on federal land that is either closed to exploration or under restrictive provisions.

Need for New Pipelines

A number of new pipeline additions and capacity expansions will be necessary to meet the increasing demand for oil and natural gas. The National Petroleum Council estimates that the gas industry will require 38,000 miles of new transmission pipelines and 255,000 miles of distribution lines by 2015. This is particularly true for the Northeast and the Midwest, where incremental electricity demand historically met by coal or nuclear plants will instead be met by gas-fired plants, and where refinery consolidations have restricted the amount of petroleum products being produced locally.

Interstate pipelines are regulated by the Federal Energy Regulatory Commission (FERC). Under the Clinton-Gore Administration, the process of approving new pipeline construction has become slow and cumbersome. For example, the Independence and Millenium pipelines, which were proposed to bring natural gas to the Northeast in 1997 and 1998, respectively, have been languishing in bureaucratic limbo.

IV. The Accelerating Demand for Electricity

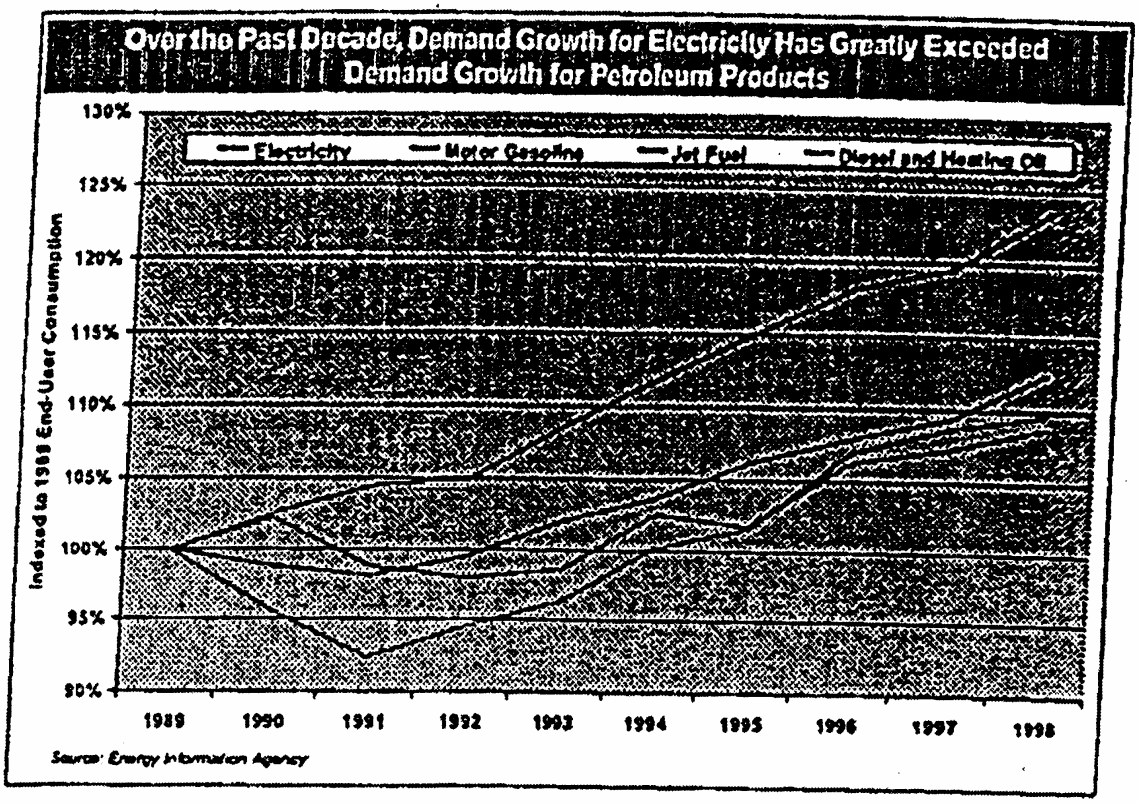
"We think of our New Economy as quiet and far removed from the Industrial Age. In some ways it is. Yet, today the equipment needed to power the Internet consumes eight percent of all the electricity produced in the United States." – Governor George W. Bush

An energy policy that reduces U.S. dependence on foreign oil, while increasing domestic production of oil and gas, will help ameliorate the current energy imbalance. However, the most critical source of energy for the U.S. will be electricity. (See Chart 4).

Electricity is not a primary source of energy like oil or gas, but is generated by using these and other fuel sources such as coal, wind, nuclear energy and water. In 1975, roughly 25 percent of

U.S. energy demand was delivered in the form of electricity. That figure has risen to almost 37 percent in recent years and is likely to continue to rise due to the growth of the New Economy.

Chart 4



Electricity and the New Economy

The New Economy has not only changed U.S. industry and culture, it has also fundamentally altered the use of electricity. Nowhere is this trend more apparent than with the Internet. The Internet has been growing by several hundred percent annually, with approximately 80 percent of that growth occurring in the United States. Powering this backbone of the New Economy requires a phenomenal amount of electricity. While a decade ago most Americans did not use the Internet, one industry expert recently estimated that all of the equipment necessary to run the Internet consumed about 8 percent of U.S. electric demand in 1999. When the electricity required to manufacture and use other information technology equipment is added, that figure jumps to 13 percent.

Further growth of the Internet will only cause demand for electricity to escalate. Intel estimates the number of Internet nodes will reach 1 *billion* sometime during the current decade. New web sites translate into more users, more traffic, more servers, more peripherals, more air conditioning – in short, more demand for electricity and for the fuels that are used to produce it.

Meeting this demand will be particularly challenging. By 2015, 60 percent of the existing coal-fired plants and 40 percent of nuclear plants will be over 40 years old. Thus, a significant amount of new investment will be required in generating plants to replace those that are retired and to meet incremental electricity demand. In addition, greater investment is needed in the electric transmission grid to move power to areas of growing demand. Unfortunately, the Clinton-Gore Administration has failed to establish a framework to encourage this investment.

Coal

Coal generates over 50 percent of America's electricity supply and plays an important role in meeting the electric needs of the New Economy. For example, some estimate that one half of a pound of coal is required to order a book from an online book order website. Nine out of every 10 tons of coal consumed in the U.S. is for electricity generation. The U.S. holds over 25 percent of the world's coal reserves and has almost 250 years worth of supply at current production rates. However, the Administration has done little to meet the challenge of using these abundant coal reserves, while protecting the environment.

Excessive regulation is not the answer. A recent study by the Electric Power Research Institute (EPRI) determined that the combined effect of Administration policies and implementation of the Kyoto global climate treaty would reduce electricity derived from coal in the U.S. from over 50 percent today to less than 10 percent by 2020. As a result, electricity prices would increase 50 percent in real terms and a massive investment in natural gas infrastructure would be required to replace the lost coal capacity. EPRI found that substantial emission reductions could be more readily achieved by scheduling emission reductions to coincide with technological advances, but the Administration is instead insisting upon substantial reductions before these advances can be reasonably deployed.

Nuclear

Nuclear power provides 20 percent of the country's electric needs and is an integral part of U.S. energy security. Its feedstock is not subject to volatile price fluctuations and it plays an important part in meeting air-emissions targets. Yet no new nuclear reactors have been ordered since 1978. As a result, the DOE estimates that over 40 percent of the U.S. nuclear capacity available in 1998 will be retired by 2020 with no new plant construction.

Hydro

Hydropower represents 10 percent of the electricity produced in the United States and approximately 85 percent of all renewable energy generation. It is a significant portion of the nation's electricity produced without air pollution or greenhouse gas emissions, and it is accomplished at relatively low cost.

Over 1,600 hydroelectric projects are regulated by the FERC under the Federal Power Act of 1920, of which 220 will be subject to relicensing during the next 10 years. However, the current relicensing process can be costly, time consuming, and result in delays and lost capacity. According to a September 1997 DOE study, of 52 hydro projects relicensed since 1987, only four projects increased capacity, while 48 actually *decreased* capacity.

Although hydroelectric power is clean, reliable and low-cost, it is coming under increasing attack. Secretary of the Interior Babbitt has advocated destroying dams, thus limiting hydro generation. President Clinton and Vice President Gore have yet to take a stand on the issue.

The Need for Deregulation

The Energy Policy Act of 1992 set the stage for a more competitive, less regulated electric industry. Deregulation benefits customers by allowing markets – and not government officials – to efficiently determine investment decisions, and by ultimately giving customers a choice of supplier. Roughly half of the states, including Texas, have passed some form of electric restructuring legislation to deal with retail markets.

It has become increasingly clear, however, that federal legislation is needed to assure the reliability of the nation's electrical grid, and to promote consumer choice by removing federal barriers to competition. Unfortunately, the Administration has not offered the leadership necessary to pass a comprehensive electric restructuring bill, thus preventing consumers from receiving all of the benefits that deregulation can provide.

V. Governor Bush's National Energy Policy

Despite presiding over a period of unprecedented economic growth and increasing energy demand, it is clear that the Clinton-Gore Administration has done little to plan for America's future energy needs.

At best, for the last seven and a half years the Administration has had no energy policy. At worst, its policy has been to ignore America's increasing reliance on foreign oil, while discouraging domestic energy exploration and production.

Moreover, the Administration's actions have been inherently contradictory: extolling the virtues of information technology, but failing to plan for the increased energy needs of the New Economy; promoting the development of electric vehicles, but discouraging investment in new electrical generating capacity.

In contrast, Governor Bush recognizes the need for a comprehensive, strategic approach to ensuring U.S. energy security. He understands that the only way to meet America's growing energy needs is to utilize a range of fuels and technologies: oil, natural gas, coal, nuclear, hydroelectric, wind, and biomass, as well as increased conservation. He also understands the critical need to help low income Americans with their energy bills.

Thus, as President, Governor Bush will promote a comprehensive national energy policy that will:

- Provide Energy Assistance to Low-Income Households.
- Address Short Term Supply Threats.
- Make Energy Security a Priority of U.S. Foreign Policy.
- Promote the Development of U.S. Oil and Gas Resources.
- Meet the Electricity Demands of the New Economy.
- Protect the Environment and Promote Alternative Energy Sources.

Providing Energy Assistance to Low-Income Households

Governor Bush believes that markets – and not the government – should set prices and should determine which energy sources prevail. He understands, however, that energy is a vital resource for all Americans regardless of income, and often those who can least afford high prices face the largest bills as a percent of their income. That is why he supports the Low Income Home Energy Assistance Program (LIHEAP).

LIHEAP is the largest direct expenditure energy subsidy program, spending $1.3 billion in fiscal year 1999, which included $155 million in emergency funds for cooling assistance. This fiscal year, Congress passed a supplemental appropriation of $600 million for LIHEAP to meet future emergencies. President Clinton has released $445 million of that, leaving $155 million undistributed.

The DOE also runs the Weatherization Assistance Program, which will spend $154 million during fiscal year 2000 supporting 76,900 low-income homes. The Weatherization Program was borne out of the 1973 oil crisis and allocates money to state agencies that distribute the funds to local agencies and nonprofit organizations to encourage energy conservation. The DOE also funds the State Energy Program, which will spend $37 million during 2000 to promote innovative state energy efficiency and renewable energy activities.

Government Bush believes that those who can least afford periods of high energy prices should receive assistance to lower their costs. As President, he will:

Enhance LIHEAP's Ability to Respond to High Energy Prices. Governor Bush calls on the Administration to immediately release the remaining $155 million of energy assistance for LIHEAP. In addition, as President, Governor Bush will seek legislation to bolster LIHEAP funding by using oil and gas royalty payments. Specifically, whenever crude oil and natural gas prices exceed certain price triggers, royalties collected above that price will be redirected to LIHEAP. For example, if the oil trigger was West Texas Intermediate crude prices exceeding $30.00 per barrel and the natural gas trigger was Henry Hub gas prices exceeding $3.00 per MMBtu, LIHEAP would receive an additional $500 million this year to help Americans cope with high prices. If the government receives a windfall due to high prices, it will give it back to those who are most vulnerable.

Reform and Double the Funding for the Weatherization Program and State Energy Program. Governor Bush will increase spending for Weatherization programs by $1.4 billion over 10 years. He will also allow funds dedicated for the Weatherization and State Energy programs to be transferred to LIHEAP if the DOE deems it appropriate.

Addressing Short Term Supply Threats

Both parties in Congress recognize the need to ensure an adequate supply of home heating oil, particularly in the Northeast. Thus, there is bipartisan support for the establishment of a Northeast Home Heating Oil Reserve. Since home heating oil cannot be stored for long periods of time, it would have to be regularly bought and sold to ensure that a ready supply is always on hand in the reserve.

In contrast to heating oil, a reserve already exists for crude oil. The Strategic Petroleum Reserve (SPR) was created in 1975, in the wake of the Arab Oil embargo, so that the United States would have access to crude oil in the event of temporary foreign supply disruptions.

President Bush used the SPR in a time of crisis during the Gulf War. In contrast, the Clinton-Gore Administration has used the SPR merely as a price-control tool. In the midst of the 1996 presidential campaign, President Clinton released 12.8 million barrels from the SPR in response to high gasoline prices. Recently, at Vice President Gore's urging, he again decided to release 30 million barrels of the reserve in an effort to drive down oil prices.

Governor Bush supports the creation of a home heating oil reserve, but believes that the Strategic Petroleum Reserve should be used only in the event of serious disruptions in the supply of foreign oil. Thus, as President, he will:

Establish a Privately-Managed Northeast Home Heating Oil Reserve. Governor Bush supports the creation of a Northeast Home Heating Oil Reserve. However, he does not believe that the government should be actively trading petroleum products into, and out of, storage, as this represents significant government involvement in the oil markets. Rather, the government should contract with private companies to perform storage services. This will minimize government expenditures and interference in the market, while ensuring that heating oil supplies will be available when needed. This proposal will cost $100 million over 10 years.

Use the SPR Only During War or Major Disruptions of Supply. Governor Bush believes that the Strategic Petroleum Reserve is what its name implies – "strategic" in nature. It can alleviate short-term supply disruptions but cannot impact the price of oil long-term in the global market. He will not use it to interfere with functioning global oil markets or to manipulate prices. Instead, he will reserve it to deal with major supply disruptions and threats to U.S. national security.

Support "Wake-Up" Legislation to Notify Congress When Stocks are Low. Governor Bush believes that the American people should never be subjected to government officials "napping" when warning signs of a shortage appear. As President, he will propose legislation that requires the DOE to report to Congress whenever stocks fall below normal levels, with an analysis of why stocks are low and what actions should be taken (e.g. consultation with OPEC on crude production, or discussions with regional pipelines and distributors for area-specific shortages).

Making Energy Security a Priority of U.S. Foreign Policy

The Clinton-Gore Administration has failed to recognize the strategic importance of energy policy. An adequate supply of affordable heating oil, gasoline and other refined petroleum products is critical to ensuring sustained U.S. economic growth. It is also important for maintaining peace and stability in key regions of the world. For example, the current spike in oil prices has caused turmoil among our European allies and, according to a recent World Bank report, threatens the still fragile recovery of East Asian and Southeast Asian nations battling back from the financial crisis of the late 1990s.

Ensuring an adequate supply of foreign oil requires effective diplomacy with both OPEC and non-OPEC sources of supply. It also requires better coordination within the Western Hemisphere itself, among the United States, Mexico and Canada.

Canada now supplies 9 percent of U.S. oil needs, and 14 percent of total U.S. demand for gas. Analysts expect Canadian exports of natural gas to increase by an additional 50 percent over the next 10 years.

Mexico supplies 7 percent of U.S. oil needs. It has not fully developed its natural gas resources, in part because of the lack of gas pipelines. However, because of increased demand for cleaner-burning fuels, Mexico's Energy Regulatory Commission expects that Mexican demand for natural gas will double over the next decade.

Governor Bush understands that access to an adequate supply of foreign oil and gas is strategically important to the United States and to the global economy. Thus, as President, he will:

Work with Canada and Mexico to Develop a North American Energy Policy. The U.S. must develop policies and strategies to support the increasing cross-border flows of oil, natural gas and electricity within North America. Governor Bush and his Secretary of Energy will work with their counterparts in Canada and Mexico to improve oil and gas distribution, enhance the reliability of the North American electrical grid, and promote cross-border energy trade. For example, Canada and the U.S. could work together to streamline permitting so that a natural gas pipeline from Alaska to the Midwest could be built.

Reestablish U.S. Influence and Credibility with Oil-Producing Nations in the Persian Gulf. Governor Bush will make it a priority to restore credibility with oil-producing nations in the Persian Gulf War. He will work with such nations to ensure an adequate supply of foreign oil.

Promote Development of Energy Resources in Non-OPEC Countries. To help diversify the world's energy resources, Governor Bush will support energy exploration and development in non-OPEC nations. For example, the Caspian Sea Basin and Western and Southern Africa hold promising deposits of oil and natural gas. Developing such resources requires a legal and security framework for investors, and multiple access routes.

Establish an Annual Meeting of G-8 Energy Ministers. Governor Bush will promote a coordinated approach to energy security by calling for an annual meeting of G-8 (U.S., United Kingdom, Japan, Canada, Germany, France, Italy and Russia) energy ministers or their equivalents. Just as the G-8 cooperates on economic policy, so, too, should it cooperate on energy policy.

Promoting the Development of U.S. Oil and Gas Resources

The Department of Energy estimates that more than two-thirds of the roughly 600 billion barrels of known U.S. oil resources remain untapped. Though much of this is in the form of less conventional oil resources that are uneconomic with current technology, the other great obstacle to expanding domestic production is existing restrictions on access to promising fields, such as those in the Arctic National Wildlife Refuge (ANWR).

A similar situation exists with natural gas. With U.S. demand for gas projected to grow by over 40 percent during the next 15 years, major challenges exist in both finding and developing natural gas deposits and delivering it to end users.

Many industry experts and the DOE believe that significant amounts of domestic natural gas remain to be discovered. Yet exploration on federal lands is complicated by a myriad of regulations from several different federal agencies. Proven gas reserves in Alaska comprise 6 percent of total U.S. reserves, but have yet to be tapped due to the need for a pipeline or other means of transportation (e.g., converting it to liquefied natural gas).

As the current heating oil crisis demonstrates, the U.S. has limited refining capacity to meet its increasing demand for petroleum products. Until unnecessary regulatory costs are reduced and greater regulatory certainty exists, it is unlikely that significant new refining capacity will be added. For example, the National Petroleum Council, which formally advises the DOE Secretary, suggested that the "EPA should support state and local agency decisions where environmental justice issues have been addressed during the permitting process."

Governor Bush recognizes the need to promote environmentally responsible development of U.S. oil and gas resources. Thus, as President, he will:

Open a Small Portion of the Arctic National Wildlife Refuge to Environmentally Responsible, Regulated Exploration. Technological advances in the last 10 years have dramatically decreased the environmental impact of oil and gas exploration. Consistent with protecting the environment, Governor Bush will propose opening 1.5 million acres, or 8 percent, of ANWR to oil exploration. It is estimated that this could eventually produce more than the amount of oil the United States now imports from Iraq.

Examine Whether Certain Promising Natural Gas Reserves in Federal Lands Should be Opened to Environmentally Responsible, Regulated Exploration. Governor Bush will order the DOE, in conjunction with states, to review currently restricted federal lands and report on which ones could be opened to environmentally responsible exploration. This will help develop both natural gas and oil reserves.

Improve the Regulatory Process to Encourage More Refining Capacity. Governor Bush will provide refinery owners with more regulatory certainty so that necessary capital improvements can be made with the knowledge that further regulatory changes will not result in wasted investment. In addition, he will streamline the permitting process where possible to ensure that regulatory overlap is limited.

Require the FERC and the DOE to Develop a Comprehensive Policy for Pipeline Transportation. This policy will include both gas and petroleum pipelines and evaluate regional requirements, analyze jurisdictional overlap, and make recommendations on streamlining the regulatory process. Governor Bush will work to expedite the decision making process for new natural gas pipelines.

Meeting the Electricity Demands of the New Economy

Improving Existing Generating Capacity

Developing North American oil and natural gas resources will help meet America's long-term demand for electricity. At the same time, however, Governor Bush recognizes the importance of encouraging environmentally responsible development of existing coal, nuclear, and hydro capacity to keep pace with the New Economy's growing demand for electricity. Thus, as President, he will:

Fund Research into "Clean Coal" Technologies. Coal can make a significant contribution to U.S. energy security, if the environmental challenges of coal-fired plants can be met. Due in part to funding for clean coal technologies, overall emissions from U.S. coal-based generating plants have been reduced by one-third since 1970, but more needs to be done. Thus, as President, Governor Bush will invest $2 billion over 10 years to fund research into "clean coal" technologies. In addition, he will support the permanent extension of the existing R&D tax credit.

Establish Clear Rules to Help Efficient Utilities to Purchase Existing Nuclear Plants. Several U.S. utilities with extensive experience in operating nuclear facilities are pursuing plant purchases. These beneficial transactions are impeded by confusion over whether the funds that plant owners are required to set aside for eventual decommissioning should be considered as a taxable asset by the Internal Revenue Service. Governor Bush will seek legislation clarifying that such funds shall be reserved for decommissioning, but not taxed as part of the transaction.

Propose Legislation to Streamline the Relicensing Process for Hydroelectric Projects. Governor Bush believes that the relicensing process should be inclusive, fair, and include appropriate analysis of the costs and benefits of projects.

Oppose Dam Breaching. Governor Bush will oppose efforts to breach hydroelectric dams and instead support science to protect and promote the habitat.

Promoting Electric Utility Restructuring

Deregulation is needed to encourage the investment necessary to expand electrical generating capacity. For example, there is no single entity responsible for the reliability of the interstate electric grid. There are also several federal statutes that hamper competition and lead to higher consumer prices.

The Public Utility Holding Company Act (PUHCA) places onerous regulations on utilities that fall under its jurisdiction and is often cited as an impediment to new entrants and to needed investment in the industry. In addition, the mandatory purchase provision of the Public Utility Regulatory Policy Act (PURPA) requires a utility to purchase power from third party producers at the utility's avoided cost, which is often higher than what the utility could achieve if it built a new facility on its own. Written in the 1970s to foster competition, the provision's actual result has been higher consumer bills to fund unwanted and expensive plants.

Having enacted one of the most successful and comprehensive electricity deregulation bills in the nation, Governor Bush understands the need for complementary federal deregulation legislation. Thus, as President, he will:

Support Federal Restructuring Legislation that empowers a single organization to oversee reliability concerns and have the ability to assess penalties to those that abuse the transmission grid. In addition, Governor Bush believes that a more comprehensive deregulation bill should also contain consumer protection provisions, promote competition, repeal PUHCA, and end the mandatory purchase requirement of PURPA.

Protecting the Environment and Developing Alternative Energy Sources

Reducing Emissions from Electric Utilities

Electric utilities account for almost 40 percent of all reported toxic air emissions. However, in 1971 and again in 1977, Congress exempted then-existing utility facilities from the stringent emission standards of the Clean Air Act on the assumption that these older utilities would soon be obsolete. Thirty years later, however, most of these plants are still running.

Governor Bush addressed this issue in Texas in 1999, when he signed electric utility restructuring legislation that made Texas only the third state in the nation to require "grandfathered" power plants to reduce their emissions of nitrogen oxide and sulfur dioxide. The group, Environmental Defense, calls the Texas law the "strongest in the nation," and says it "now serves as a model for energy reform in other states." In contrast to the Texas law, Vice President Gore has only proposed offering incentives to electric utilities that voluntarily reduce their emissions.

Governor Bush is committed to doing for the country what he has done for Texas to improve air quality. Thus, as President, he will:

Propose Legislation that Will Require Electric Utilities to Reduce Emissions and Significantly Improve Air Quality. Governor Bush will work with Congress, the Environmental Protection Agency, the Department of Energy, consumer and environmental groups and industry to develop legislation that will:

- Establish mandatory reduction targets for emissions of four main pollutants: sulfur dioxide, nitrogen oxide, mercury and carbon dioxide.
- Phase in the reductions over a reasonable time period, similar to the successful acid rain reduction program established by the 1990 amendments to the Clean Air Act.
- Provide regulatory certainty to allow utilities to make modifications to their plants without fear of new litigation.
- Provide market-based incentives, such as emissions trading and carbon credits, to help industry achieve the required reductions.

Promoting Conservation and Renewable and Alternative Sources of Energy

With over 95 percent of electric generation coming from coal, nuclear, natural gas, and hydro, any energy policy that focuses exclusively on alternative fuels and energy efficiency would be dangerously incomplete. Nevertheless, alternative fuels need to play an important part of any strategic plan to meet the nation's future energy needs.

Governor Bush understands the promise of renewable energy and believes strongly in encouraging alternative fuel sources such as wind, biomass, and solar. Indeed, the electric utility restructuring bill he signed in 1999 will make Texas the country's largest market for renewable energy by 2009. He also supports ethanol as a choice to consumers because he believes that it, too, might play an important role in meeting our energy needs in the future.

Thus, to encourage the development of renewable and alternative energy sources, and to promote conservation, Governor Bush will:

Create the "Royalties Conservation Fund" by Earmarking Royalties Collected from New Oil and Gas Exploration on Federal Lands to Fund Conservation Efforts: It is estimated that royalties collected from opening just 8 percent of the Arctic National Wildlife Refuge to oil and gas exploration could produce hundreds of millions of dollars in royalties annually. As President, Governor Bush will earmark these federal royalties for conservation efforts, including the elimination of the maintenance and improvements backlog on federal lands.

Use the Bid Bonuses from Exploration in ANWR and on other Federal Lands to Fund Basic Research on Alternative Fuels: Companies wishing to explore for oil and gas in the Arctic National Wildlife Refuge and other federal lands will be required to bid for the opportunity. These "bid bonuses" are estimated to total $1.2 billion over ten years. Governor Bush will earmark these funds exclusively for basic research into alternative energy sources, such as wind, solar and biomass.

Support Tax Credits for Electricity Produced from Alternative and Renewable Resources. Tax credits will include extensions of the wind power credit and the closed loop biomass credit, and also include an open loop biomass credit and a 15 percent credit for residential solar power facilities, capped at $2,000. These credits will cost $1.4 billion over 10 years.