

**House Report 107-112 - ENERGY AND WATER DEVELOPMENT
APPROPRIATIONS BILL, 2002**

ADDITIONAL VIEWS

OVERVIEW

The Majority fully cooperated with the Minority to develop this bill. It fairly represents the views of both. It is a bipartisan bill that Democrats can and will support.

It is not a perfect bill since it overemphasizes funding for nuclear weapons and does not contain sufficient funding to address the nation's energy crisis. But given the constraints that are imposed on the Committee by the Majority's budget resolution, which preclude the Committee from fully addressing the nation's energy and water needs in this bill, it is nonetheless a reasonable and prudent response to the Administration's budget proposals. The Administration proposed unwarranted reductions to water programs, non-proliferation of nuclear materials in Russia, renewable energy technologies, and environmental cleanup of nuclear weapons production sites. This bill rejects that approach, and instead restores funding to these important programs near the funding levels appropriated by Congress last year.

We commend the Majority for working with Democrats to fashion another bipartisan appropriations bill this year. We appreciate the many courtesies the Majority showed us as the bill was being developed, and the professionalism of the Majority staff.

RESPONSE TO THE NATIONAL ENERGY CRISIS

The major weakness of this bill is that it contains no significant increase in funding to address the nation's energy crisis or the President's recent National Energy Policy. It does not take a number of simple and straightforward steps that could be critical in boosting the near term availability of electrical power, protecting consumers from the extreme price gouging occurring in some segments of the industry and insulating the American economy from further damage from rising energy prices. It also does not invest a sufficient amount in developing renewable energy alternatives to fossil fuels.

That is deeply disturbing since the recent House-passed Supplemental Appropriations bill for fiscal year 2001 and this bill are the best and--perhaps only--legislative vehicles that can put resources in place quickly to mitigate the national energy crisis. The Majority has missed the key opportunity to

respond to the national energy crisis by failing to properly address these issues in the appropriations bills.

THE ENERGY PROBLEM

The problems facing Americans today are in some respects quite different from those the country faced last fall when Appropriations were enacted for the current fiscal year. With gasoline prices up as much as 50 cents a gallon over the last year, a typical two car family can expect to pay about \$600 a year more to the oil companies and see a similar increase in heating and electrical costs. This is about a thousand or so dollars per household that won't be available for replacing the family car, buying new clothes or saving for college education. As a result many businesses are suffering and the whole economy has gotten softer.

While higher energy prices have affected households in every part of the United States, the impact on the West Coast has been much more severe. Many Americans in other parts of the United States are still not aware of how serious the situation is in the West and how much it may impact the overall national economy. Because more than one in eight Americans live in the three West Coast states and because so much of our export oriented and high tech industries are concentrated in those states, serious economic disruptions on the coast are certain to have a big impact on the economies of virtually all of the 47 other states.

Fluctuations in the cost of energy have played a major role in the performance of the American economy since the early 1970s. Rising fuel prices have contributed to at least three recessions over the last three decades and falling fuel prices have caused dislocations and bankruptcies in our own energy producing states and wreaked serious havoc with the entire international financial system.

The current situation differs from those of the past in that it is caused not only by an imbalance between the demand and supply of fossil fuels but also by serious emerging structural problems in the industries that generate and transmit electricity. While California and the West Coast provide the most obvious examples of these problems they are not strictly West Coast problems.

The deregulation and restructuring of the electrical utility industry that began more than a decade ago has left investors with considerable uncertainty as to how far deregulation will eventually go and how competitive the market for electricity will be. As a result there has been

little growth in capacity for either generating or transmitting electrical power even though the economy has grown at a remarkable pace for most of that same period. As demand for electricity began to approach the capacity to

generate it some producers came to realize that by withholding output they could force significantly higher prices in the newly deregulated environment. As a result, consumers are faced with a market that is neither competitive nor regulated.

Western States

There are three fundamental reasons that this problem is more severe in California and on the West Coast. First, California's attempt at deregulation was particularly inept. Wholesale prices were unleashed while retail prices remained regulated. That worked only as long as the price of the oil and natural gas used for generating electricity continued to fall. Once oil and gas prices began to rise, retail suppliers were caught in an untenable squeeze and consumers were given no incentive to conserve.

Second, the national power grid has never had significant capacity to transmit electricity from east of the Rockies to California and the West Coast. As a result, there is much less competition in the wholesale electricity market in the West than in other parts of the country.

Third, the West has relied more heavily on hydroelectric power than most other parts of the country. Hydroelectric power is dependent on rainfall and the Pacific Northwest where most of the dams are located has been suffering from a severe drought.

The combination of these factors has produced not only dramatic increases in the price of electricity but also in blackouts that jeopardize production and profitability in a wide array of industries. Producers are typically charging between 10 and 30 times the historical rate for electricity and in some instances they have been able to charge as much as 129 times the historical rate. Typical homeowners in many parts of the state have seen their monthly electricity bills go from \$100 to more than \$800. In some communities more than half of all small businesses are either in bankruptcy or in the process of applying for bankruptcy protection. A significant number of larger employers have actually shut down operations. In total, electricity costs in California have gone from \$7 billion a year to around \$70 billion. Even in a state with a trillion dollar a year economy, that is a huge diversion of GDP from other sectors of the economy to the utility companies.

That means that states like Wisconsin that produce capital goods have seen their California markets evaporate and now have surplus inventories. States like Michigan, Ohio and Missouri are seeing layoffs in the automobile industry. Sales are off in the publishing, recording and household products industries largely because of the bite the electricity market in California is taking out of that state's ability to grow and consume products from other parts of the United States.

What can be done?

The United States faces both short-term and long-term problems with respect to energy. Under existing technologies our growing economy requires more and more energy, makes us more and more dependent on oil from the Persian Gulf, and therefore inevitably more vulnerable to political disruptions in that part of the world. At the same time it increases air and water pollution and jeopardizes the global climate. Finding ways to reduce our consumption of energy will help control prices, improve the quality of our air and water and reduce the vulnerability of our economy to events in Southwest Asia. Finding alternative forms of energy will also help achieve all three of those objectives. Those activities require the kind of long term and high-risk investments that the private sector is not likely to undertake and they should be funded in our regular appropriation bills as the high priority investments which any sensible assessment of our economic and security needs indicate they deserve.

The Democrats on the Committee have recently proposed initiatives dealing with separate portions of the energy crisis. These include *temporary* cost-of-service price limits in Western states; \$350 million for national electric power grid improvement loans; and \$125 million for national hydroelectric power improvement loans. None of them were considered for inclusion in this bill.

Alternative renewable energy sources

The Department of Energy leads the national research effort to develop clean, competitive, and reliable renewable energy and power delivery technologies for the 21st century.

The combination of environmental concerns, current and potential constraints of large system power transmission and distribution systems, and technological advances are all causing distributed and hybrid systems and technologies such as combined heat and power system, fuel cells,

photovoltaics, wind turbines, geothermal, and biomass systems to gradually augment and eventually replace conventional large-scale power generating technologies. This is the best way to reduce pollutant and greenhouse gas emissions from power generation within the United States in the long term.

Although regulated utilities traditionally invested in power generation R&D, increased competitive pressures from the ongoing restructuring of the U.S. electric power industry has forced utilities and other companies to reduce or eliminate their R&D budgets. This makes federal R&D essential. This bill fails to make investments that are needed to address the national energy crisis in the *near term* by getting R&D out of the lab and into use:

The bill includes no funds for the 'Million Solar Roofs' initiative, which is a bipartisan cost-shared partnership between the Department of Energy and states and local communities to get solar technology out of the labs and into practical applications;

The bill includes no funds for the 'Wind Powering America' initiative, which is a bipartisan cost-shared partnership between the Department of Energy and states and local communities to deploy advanced wind turbine technology'

The bill includes no funds for 'Geopowering the West', which is a bipartisan cost-shared partnership between the Department of Energy and states and local communities to deploy geothermal power generation projects;

The bill contains very little for distributed energy resources, an area that the Department of Energy has recently concluded offers potentially high payoff in the future by reducing energy loss over long transmission distances.

The bill also fails to start increased investments in R&D that are needed to address the national energy crisis in the *far term* to meet goals set by the Department of Energy to:

Triple installed U.S. electricity generation capacity of non-hydroelectric renewable energy resources by 2015;

Overcome barriers to distributed power to achieve a 20 percent market penetration of new generation capacity by 2012;

Maintain the high reliability of the Nation's transmission and distribution systems during a period of increased consumer demand for electricity, while enduring numerous constraints on siting and building new transmission and distribution systems; and

To launch an ethanol industry by having (A) at least one ethanol production facility using agricultural and/or municipal solid wastes operational or under construction by 2004 and (B) a demonstration at a commercial facility in 2005 using an energy crop or closely related biomass to demonstrate a tenfold cost reduction for converting biomass to ethanol.

These are the things the Majority should have properly funded in this bill for fiscal year 2002 if they believe the President when he says there is an energy crisis.

AUBURN DAM

This bill contains legislation on Auburn Dam that should not be adopted because it is not good public policy.

Section 103 of the bill directs the Army Corps of Engineers to include a multi-purpose detention dam in Auburn, California as part of the Final Supplemental Plan Formulation Report for the American River Watershed which is currently estimated to be published in August, 2001. Ongoing studies underway by the Corps of Engineers are limited only to flood control

aspects of the American River. The Chief of the Army Corps of Engineers testified to the Committee earlier this year that 'Our belief is that carrying through the study as it is presently designed is probably the best way to go at this time.'

This provision would delay the report and prevent Sacramento, California from securing additional flood protection for up to 14 additional years. Sacramento has been identified by the Corps of Engineers as the city with the least amount of flood protection for a city of its size in the nation. Over half a million people and more than \$40 billion in property and infrastructure would be impacted by a flood in Sacramento, which is the capitol to the world's sixth largest economy.

Current estimates of the cost of a multipurpose Auburn dam are roughly \$2.5 billion. Construction of the dam was halted in the mid-1970s after a regional earthquake revealed multiple fault lines near the construction site. Auburn dam no longer enjoys support from local, state, or federal agencies. Its construction would do major environmental damage to a pristine part of California.

The bill contains other legislative provisions, relating to the use of water within the region and to recreational rafting, that are aimed at putting roadblocks in place to pressure certain groups to support the Auburn dam project. These provisions are also improper, and should be removed from the bill.

CONCLUSION

It is a shame that this appropriations bill contains nothing of substance to address the immediate needs of American citizens who face a national energy crisis according to the President. The citizens in Western States will endure more hardship as the summer unfolds. Democrats offer national initiatives for real near-term solutions that could be implemented quickly on a bipartisan basis. It is unfortunate that Republicans reject such proposals, and instead have produced this appropriations bill that fails to respond to the national energy crisis in any meaningful way.

DAVID R. OBEY.

