"Pursuing a Balanced National Energy Policy"

Remarks by

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Good morning. I appreciate the opportunity to speak to you today, even though I cannot be there in person. I hope that in future conferences, I can offer a more personal, face-to-face greeting.

The past few days have been difficult ones for our nation and our community. We are still absorbing the enormity of the tragedy in New York, Washington, and Pennsylvania. And we are still grappling with the enormity of the challenges that lie ahead.

I was in China on September 11th, helping to open a joint U.S.-Chinese oil and gas conference. I can tell you firsthand that the Chinese were shocked and outraged, and profuse in their sympathies to our delegation and to all Americans. In deference to us, and in recognition that our attentions would be elsewhere, the Chinese agreed to cancel the conference.

I can only hope that the solidarity of international outrage we saw in Beijing will evolve into a global unity of determination and purpose. As we ultimately turn from recovery, the challenges we confront will demand the best from all Americans and from all of America's neighbors in the civilized world.

I want to talk briefly this morning about the President's National Energy Policy. It is difficult to discuss such matters as energy supply and demand, or energy prices, or energy reliability in the context of

"business as usual." There will be little in this country that will be "business as usual" in the coming days. But energy and energy security must never be far from our national attention, even if that attention is currently focused on more immediate needs.

To meet the challenges of the coming months perhaps the coming years America must be strong and secure in many respects. Energy security is but one aspect of national security, but it is certainly one of the most important. And it will gain even greater importance as we enter into a prolonged period of struggle that will undoubtedly test global alliances.

That is why we, as a Nation, must get our own energy house in order. The President has put forth a plan for greater energy security. It sets out a direction for our Nation to follow. It offers a balance of measures to increase energy supply and reduce demand. It recognizes that a diversity of energy resources leads to inherent energy stability, and that, in turn, leads to greater energy strength and greater energy security.

There are 105 specific recommendations in the President's energy plan. More than 80 of them can be implemented administratively -- and we are doing that -- but 20 or so need Congressional action.

So while the attention of Congress will obviously -- and correctly -- be focused on the Nation's recovery and response in the coming weeks, ultimately it is important that we move into this very uncertain future

not only with the full strength of our military but also with a strong and fully capable energy industry.

Your organization can play a major role in this effort as you have in the past. I am proud of the association that the Department of Energy and my office specifically have had with the Gas Industry Standards Board,GISB.

On several occasions, we have worked closely with you in providing logistics and staff to assist in your efforts to address natural gas and electric market standards. I am proud that we were the first Federal agency to become a dues-paying member of GISB and that my office has a representative on your advisory board.

We have been active in helping to set some of your standards. In April of 1997, the Office of Fossil Energy submitted the Funds Transfer Agent Agreement, an alternative financing and credit mechanism developed by Visage Energy and Union Bank of California, to the standards review committee. This FTAA addition was accepted by the GISB membership and approved by the Executive Committee in December 1997. The agreement is now a part of the model gas sales contract.

Thanks to GISB's support, the National Association of Regulatory Utility Commissioners passed a resolution supporting the Department's efforts to increase minority business participation in the natural gas industry and the Funds Transfer Agent Agreement was highlighted.

Recently we have turned our attention to other matters that unfortunately are likely to define the increasingly complex challenges we will face in the 21st century. The Department of Energy is a lead agency in examining the threat computer hackers pose to certain national security sites. One does not need to look any further than the GISB web sites and the important information that is transmitted through the Internet electronic delivery mechanism protocol to appreciate the value and vulnerability of our new digital economy.

Our National Energy Technology Laboratory and Sandia National Laboratories in New Mexico joined to help review the GISB Internet electronic delivery mechanism. The final report was delivered last year and I'm pleased that the report is posted on your web site and that GISB has incorporated the 36 recommendations from the Sandia findings. Last week's tragic events underscore the value of the time and resources you have invested to ensure the integrity of your electronic delivery mechanism.

This Department has been a champion and advocate for the type of work you are doing at GISB because we believe that creating a seamless nationwide marketplace for natural gas and electricity is critically important to the energy vitality and strength of this country. And I want to especially thank Rae McQuade, Bill Boswell, and all of the industry volunteers who serve on various GISB committees.

As I alluded to before, our collective efforts to strengthen America's energy future have taken on added significance. Over the last 24

months, we have seen price spikes and volatility in oil and gas markets. The good news is that predictions of $3 a gallon and higher gasoline by Labor Day fizzled. However, the price fluctuations have certainly caught the nation's attention and focused it on the need for both new supplies and a renewed commitment to energy efficiency.

In the next 20 years we expect overall U.S. energy consumption to increase by more than 30 percent. Natural gas consumption could increase by 52 percent. Electricity demand is projected to rise by 45 percent in part due to the expanding role of power hungry information technology.

At the same time, we produce 39 percent less oil than we did in 1970, and domestic production continues to decline. Many experts predict that hydroelectric power generation will continue to decrease as it becomes more difficult and expensive to relicense hydroelectric dams. There is a question as to whether the public will accept a renewal of the nuclear option, and coal-fired power generation -- which now accounts for 52 percent of our electricity -- is under attack.

Thirty-seven (37) refineries have closed in our country since 1992, and none have been built in the last quarter century. Forty (40) percent of our domestic natural gas resources are now off limits or subject to restrictions that make them virtually impossible to develop.

Our gas pipeline infrastructure is aging, much of it in need of repair andat the same time more than 300,000 miles of transmission and

distribution lines will need to be built in the next 15 years.

Our electric grid system still has significant regional bottlenecks that prevent power from reaching areas of the nation that need it the most.

Overall, our Energy Information Administration estimates that in the next 20 years, U.S. demand for energy could grow from today's 98 quadrillion Btus, or quads, to 175 quads. It may be possible through the concerted energy conservation effort envisioned in the President's National Energy Policy to reduce energy consumption by 48 quads. But that will require energy efficiency improvements to proceed at a pace unmatched in the last 10 years.

Even if that is possible, we will still face a shortfall of 29 quads by the year 2020. We will have to increase energy supplies in this country by that much over the next 20 years or alternatively, we will have to import more energy or suffer the consequences of reduced economic growth.

And to put the challenge of boosting supply by 29 quads into context, consider that over the past decade, this country has increased domestic energy supply by exactly one quad. That's right, one quad.

That is why the President's National Energy Policy recognizes that an energy-strong America is one that not only consumes energy wisely but one that seeks to develop energy resources responsibly within its own borders.

The President's policy focuses on five specific national goals. We must increase conservation, modernize our energy infrastructure, increase energy supplies, accelerate the protection and improvement of the environment, and work internationally to increase global energy security.

Some critics began attacking the President's plan well before he issued it in March, saying it paid too little attention to conservation. But energy efficiency not only stands alone as a central feature in our pursuit of energy security; it is an idea woven into every facet of our strategy.

Since 1973, the U. S. economy has grown nearly 5 times faster than energy use. But there is more we can do. We will consider higher appliance standards and expand the scope of this program to include appliances not yet covered. And we are also recommending efficiency-based tax credits for the purchase of new hybrid fuel cell vehicles.

Combined heat and power technologies have great potential for increasing efficiency and reducing emissions. We will encourage more combined heat and power projects by shortening their depreciation life or providing an investment tax credit.

To increase domestic energy supplies, the National Energy Policy departs from some past thinking and declares that it is no longer in our best interests to stake our future on any single energy resource.

In the power sector, for example, we are looking at the need for between 1,300 and 1,900 new power plants in this country. That amounts to something like 60 to 90 plants a year. The last time we added that much power was 1985. Even if we meet the construction challenge, under a "business as usual" scenario, virtually all of these plants would be fired by natural gas.

Natural gas has many advantages, but we believe energy security is not enhanced by relying on just one fuel -- even if that fuel is relatively abundant. The President's balanced approach seeks the security that comes from a diverse supply of energy. So we will strengthen all available sources.

Hydropower must remain a key electricity source so we propose streamlining the current cumbersome and costly relicensing process.

Coal supplies half our Nation's electricity, but presents environmental challenges. Through our clean coal technology initiative we are going to invest $2 billion over the next ten years to help make coal a cleaner burning fuel.

Just as urgently, we need to add some regulatory certainty to coal fired electricity generation. So our energy plan recommends a clearer set of multi-pollutant regulatory policies related to coal that are more easily applied to business decisions.

Nuclear energy provides 20 percent of our electricity, and we believe expanding nuclear energy makes sense. We also have to harness the power of renewable energy, so we recommend extending and broadening tax incentives for wind and biomass generation, and we propose new tax credits for using solar generation.

Even as we work to expand the contribution of all our domestic energy resources, we recognize that natural gas will still be an increasingly crucial part of our energy mix. We expect it to remain our fastest growing energy supply source, especially for power generation.

The major hindrance to expanded gas production today is the lack of access to promising gas resources. I mentioned earlier that as much as 40 percent of the Nation's gas-bearing lands are off-limits or restricted to exploration and production. That's the average. In some of the most promising areas such as the gas-rich Greater Green River Basin in the Rockies the restrictions apply to as much as 68 percent of the land area.

Our energy plan calls for a review of these public lands restrictions with full public consultation to explore and where possible, remove impediments to environmentally sound production.

Along with ensuring that we meet the growing demand for electricity, we've also got to meet the growing demand for oil. Back in 1973 at the height of the oil crisis America imported just 36 percent of its oil from abroad. Today, we import 54 percent. That figure is not going to drop, in

fact, it's likely to rise. But that doesn't mean we shouldn't do everything we can to boost our domestic sources.

Here again, technology has forged ahead and changed the exploration and production industry as much as it has changed anything else. The introduction of cutting-edge seismic and drilling technologies means fewer rigs, fewer roads and fewer pipelines...and more successes. Drilling operations that required 65 acres in the 1970s need only 10 acres today.

Infrastructure improvement is another key element in our energy plan. America is going to need an additional 38,000 miles of transmission pipelines and 263,000 miles of distribution lines to bring natural gas to homes and businesses. If it is economically feasible, we need a new pipeline to deliver the vast resource of currently unmarketable natural gas
on Alaska's North Slope to the rest of the nation. And we must improve pipeline safety. Each of these issues is addressed in the President's Plan.

We also need greater refinery capacity. As I mentioned, the last refinery was built in the U.S. some 25 years ago. Limited refinery capacity was one of
the major causes of gasoline price spikes in the Midwest and elsewhere in the last few summers. Unless we take action that problem will simply continue. Our plan recommends streamlining permitting and providing greater regulatory certainty to give the industry confidence to expand.

Our electricity grid needs to move from one designed to meet regional energy needs to one able to send power coast to coast. America's transmission lines, substations, and transformers were built in another age when utilities were tightly regulated. Our power distribution infrastructure was not built with large-scale power wheeling in mind.

The President's policy calls for an end to power bottlenecks by creating an electricity superhighway, one where power can move from coast to coast as freely as the family automobile. The Department will seek legislation that brings us closer to a true interstate highway system for electricity and brings more sellers into today's largely isolated regional power markets.

None of this, however, must come at the expense of our environmental quality. Environmental stewardship is also woven throughout the President's plan from support for cleaner coal technologies, to less environmentally intrusive oil and gas technologies, to a commitment to cleaner, renewable energy resources. Since 1970, our emissions of key air pollutants are down 31 percent. Cars today emit 85 percent less carbon monoxide than 30 years ago. Lead emissions are down 90 percent. But again, more is possible.

That is why the President includes mercury emissions, along with tighter sulfur and nitrogen oxide restrictions, in his multi-pollutant control strategy. That is also why he retained the Environmental Protection Agency's targets for reduced sulfur levels in gasoline and diesel fuel.

Finally, the President's energy plan understands the global scope of energy. It recognizes the necessity of wide ranging diplomatic efforts to increase energy supply around the world. It stresses the importance of cooperation within our own hemisphere and with energy-producing nations throughout the world. And it emphasizes the need for emergency preparedness. The President's plan endorses the importance of strategic oil reserves both in this country and in other consuming nations. In areas of our country that are most vulnerable, the energy policy emphasizes the need for emergency stockpiling of high-demand products, such as the 2-million barrels of heating oil we now store in the Northeast.

Implementing a truly effective national energy policy is not something that the Department of Energy can accomplish on its own. Other government agencies are key players. The Department of the Interior is examining incentives to encourage drilling of continental and offshore reserves. The Federal Energy Regulatory Commission is expediting the processing of applications for new and expanded pipelines. The Department of Transportation is working to improve pipeline safety and encourage higher-efficiency vehicles.

Nor is a sound energy policy solely the product of federal efforts. State and local agencies must work in concert to apply the best decisionmaking possible at the local and regional level. Industry must plan for capital, infrastructure, and human resource needs. And customer service must steadily evolve to take advantage of new technologies and capabilities.

These past few days, perhaps more than at any time in the last half century, have underscored the importance of unity in both our response and resolve. Our nation is strong, but it will need to summon all of its strength to confront the challenges that await us. Energy is part-and-parcel of our national strength, and likewise, we must summon all of our determination and wisdom to ensure that we remain an energy-strong and energy-secure nation.

National goals have been redefined in the last week, but the fundamental means to achieve those goals have not changed. The will of a strong and resolute people, the technology of a great nation, and the courage to take on the challenges of an uncertain future these are the values that define our country. They are the values on which we will rely in the coming days.

I want to thank all of you for your work in helping to strengthen the energy future of this country. You are making a positive and lasting contribution. I ask that you continue to do your part to make America stronger and more secure. It is more important than ever.

Thank you for your courtesy, especially in accepting this video presentation, and God bless America.