

July 16, 2001

The Honorable George W. Bush
President
United States of America
The White House
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Dear Mr. President:

As the Administration and Congress takes up legislation addressing the nation's energy strategy, we are pleased to share with you this policy statement which represents the perspective of the Coalition of Northeastern Governors (CONEG) on the important principles and federal actions necessary to an effective national energy policy.

The CONEG Governors believe that a comprehensive, balanced national energy policy should include a mix of public policy and market signals that will promote effective and competitive markets for reliable and reasonably priced energy for the nation's economy. Domestic energy production from diverse sources and an effective energy delivery infrastructure are essential for a reliable energy supply, and conservation and energy efficiency are critical to a productive economy and environmental quality. The ongoing transformation in the nation's energy markets also requires a regulatory framework that encourages and fosters workable competition and interstate cooperation. Finally, national energy policy should strengthen state-federal energy partnerships, as well as the federal commitment to assist the nation's most vulnerable citizens to meet their essential energy needs.

The nation's energy strategy must also address the needs of the distinct regional energy markets with their differing patterns of energy resource availability, fuel use and delivery infrastructure. The Northeast is uniquely dependent upon imported energy, particularly heating oil, gasoline and natural gas. Even as the region depends upon the continued availability of diverse fuel supplies from both domestic and international sources, the Northeast is strongly committed to energy efficiency and renewable energy such as biomass, reliable energy delivery systems, and effective, competitive wholesale and retail markets. Regional solutions to energy infrastructure are important, but they must also respect state siting authority and take into account the needs of individual states.

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We appreciate this opportunity to share our views. We stand ready to work with you in the coming weeks and months to provide additional information on these matters as the discussion about a national energy policy continues.

Sincerely,

George E. Pataki
Chair

Howard Dean, M.D.
Vice Chair

Jeanne Shaheen
Lead Governor for Energy

Enclosure

A Northeast Perspective on National Energy Policy Principles for Action

- Domestic energy production, undertaken in an environmentally sound manner, is needed from diverse sources — natural gas, oil, nuclear, hydroelectric, clean coal and, increasingly, renewable forms of energy such as wind, solar, biomass and fuel cells.
- Conservation, energy efficiency and demand management are viable and cost-effective strategies for meeting energy needs, and are necessary components of a balanced national energy strategy.
- Energy and environmental policy are linked and must be addressed in an integrated manner. Federal action that addresses power plant emissions of nitrogen oxides (NO_x), sulfur dioxide (SO₂), carbon dioxide (CO₂), and mercury on a national basis is necessary to ensure that the health and other effects that result from the accumulation of these pollutants in the environment are appropriately addressed, and to maintain fairness between the various regions of the nation. Federal standards on emissions from the transportation sector should be further developed.
- Adequate and reliable energy delivery infrastructure is critical to a growing economy and to continued expansion of competitive markets, and the federal government must do all it can to provide incentives for cost-effective investments in delivery infrastructure, while promoting regional solutions that take into account the needs of individual states.
- Existing state authority governing energy facility siting must be strengthened by greater responsiveness from federal agencies and elimination of duplicative or unnecessary federal reviews.
- Effective, competitive energy markets benefit from rules set by federal and state governments that ensure equity, fairness and access to markets; provide vigilant market monitoring; account for regional differences in energy markets; and encourage interstate cooperation as these markets emerge.
- State-federal partnerships for energy programs must be continued and strengthened through increased funding and close program collaboration among federal agencies and between federal and state programs.
- Adequate assistance to help the nation's most vulnerable citizens meet their essential energy needs remains a federal responsibility which must be implemented in coordination with the states.

Policy Statement: A Northeast Perspective on National Energy Policy

Energy is a vital element of the economy of the nation and the Northeast. The Coalition of Northeastern Governors (CONEG) believes that a balanced, comprehensive national energy policy — backed by a commitment of financial and program resources necessary to achieve the policy goals — is essential for reliable, reasonably priced energy which strengthens the nation's economy and protects the environment.

The Nation's Energy Industry Is in Transition. The United States, with its energy-intensive economy and growing need for energy, is experiencing the supply shortages and volatile prices of today's energy markets. These challenges are not unexpected for an industry which has begun and is still undergoing significant transformation. The energy industry continues to adjust to the restructured markets, technological advances and increasing globalization which characterize the past decade. In response to these changes, energy markets have become increasingly complex, interdependent, international in scope and competitive. Energy resources and facilities, particularly production and delivery infrastructure designed for a different market system, are straining to meet the fast-growing demands of consumers. In this time of transition, a comprehensive national energy policy is an opportunity to identify and implement the mix of public policy and market signals that will promote effective and competitive markets which can deliver reliable and reasonably priced energy for the nation's economy.

A Balanced, Comprehensive National Energy Policy Is Essential. The challenges which the nation currently confronts in meeting its energy needs require a balanced, comprehensive national energy policy. A balanced energy strategy addresses near and longer-term energy needs. It encourages sound production of diverse fuel supplies from both domestic and international sources. It improves productivity and mitigates the risks of energy shortages and price volatility. It brings together environmentally sound strategies for energy planning, exploration and production; improved delivery infrastructure; and efficiency and demand management practices and technologies. A balanced, comprehensive national energy policy recognizes that truly competitive energy markets are still emerging, and that appropriate market mechanisms and rules must be developed. It also ensures that the essential energy needs of the nation's most vulnerable citizens are met.

Regional Energy Markets Differ. A balanced energy strategy must also address the needs of distinct regional energy markets with their differing patterns of energy resource availability, fuel use and delivery infrastructure. The Northeast is uniquely dependent upon imported energy, particularly heating oil, gasoline and natural gas, both from domestic and international markets. As a result, the region is strongly committed to energy efficiency and renewable energy, reliable energy delivery systems, and the emergence of effective, competitive wholesale and retail energy markets. At the

same time, the region depends upon the continued availability of diverse fuel supplies from both domestic and international sources.

Conservation and Energy Efficiency Contribute to a Productive Economy and a Quality Environment. Efficient use of energy, through technologies, conservation or demand management practices, offers households, business, industry and governments a tool for managing immediate energy supply problems while also providing the foundation for longer term energy solutions. Conservation and energy efficiency contribute to improved productivity throughout the economy by reducing the amount of energy needed to manufacture products, transport goods to market, or provide commercial services; while also providing cost-effective strategies to reduce pollutants generated by these economic activities. Domestic and export markets for energy efficiency services, technology, and manufacturing create jobs. However, successful implementation of conservation, energy efficiency and demand management, as well as deployment of existing but under-utilized technologies, require adequate and sustained actions by the public and private sector to address market barriers and provide investment and other financing incentives.

Delivery Infrastructure Needs To Be Strengthened. Increased energy production alone will not address the nation's energy needs. The infrastructure which delivers energy — the transmission grids and pipelines, petroleum terminals, and the barge, rail and trucking fleets — is as vital to the nation's economy as the transportation infrastructure which supports the movement of people and goods across the nation and to global markets. Coordinated planning and monitoring among industry and federal and state governments, adequate investment, and the use of capacity-boosting technologies can strengthen the energy delivery infrastructure.

Government Must Encourage and Foster Competition. Robust retail markets cannot function without robust wholesale markets. Therefore, as the energy industry continues to restructure, federal and state governments must support a regulatory framework that encourages and fosters workable competition. Competitive energy markets require appropriate government oversight and monitoring to ensure equity, access to markets and services, and protection of the public health and safety. Competitive markets also require government support to guard against exclusivity or market power, and to develop and maintain an adequate infrastructure to meet the public needs for energy services.

National Energy Policy Principles

The CONEG Governors urge the Administration and the Congress to develop, commit the necessary program and financial resources to, and implement a balanced and comprehensive national energy policy which incorporates the following principles.

1. Domestic energy production, undertaken in an environmentally sound manner, is needed from diverse sources — natural gas, oil, nuclear, hydroelectric, clean coal and, increasingly, renewable forms of energy such as wind, solar, biomass and fuel cells.

2. Conservation, energy efficiency and demand management are viable and cost-effective strategies for meeting energy needs, and are necessary components of a balanced national energy strategy.
3. Energy and environmental policy are linked and must be addressed in an integrated manner. Federal action that addresses power plant emissions of nitrogen oxides (NO_x), sulfur dioxide (SO₂), carbon dioxide (CO₂), and mercury on a national basis is necessary to ensure that the health and other effects that result from the accumulation of these pollutants in the environment are appropriately addressed, and to maintain fairness between the various regions of the nation. Federal standards on emissions from the transportation sector should be further developed.
4. Adequate and reliable energy delivery infrastructure is critical to a growing economy and to continued expansion of competitive markets, and the federal government must do all it can to provide incentives for cost-effective investments in delivery infrastructure, while promoting regional solutions that take into account the needs of individual states.
5. Existing state authority governing energy facility siting must be strengthened by greater responsiveness from federal agencies and elimination of duplicative or unnecessary federal reviews.
6. Effective, competitive energy markets benefit from rules set by federal and state governments that ensure equity, fairness and access to markets; provide vigilant market monitoring; account for regional differences in energy markets; and encourage interstate cooperation as these markets emerge.
7. State-federal partnerships for energy programs must be continued and strengthened through increased funding and close program collaboration among federal agencies and between federal and state programs.
8. Adequate assistance to help the nation's most vulnerable citizens meet their essential energy needs remains a federal responsibility which must be implemented in coordination with the states.

Specific actions to implement these national energy policy principles are outlined in the accompanying CONEG Blueprint for Federal Actions. The CONEG Governors urge their serious consideration by the Congress and the Administration.

A Northeast Perspective on National Energy Policy

A CONEG Blueprint for Federal Actions

1. Encourage environmentally-sound domestic energy production from diverse sources.

- Adequate and sustained federal support is essential to ensure a reliable and diverse mix of environmentally-sound supply options, as well as to achieve the full potential offered by renewable and alternative energy. Such federal support might be provided through targeted tax policy, direct investments, expedited licensing, hydropower licensing reform procedures, and coordinated research and deployment initiatives.
- Federal investments in research, development, demonstration and deployment (RDD&D) activities in energy supply should be coordinated with state programs, and should give priority to near-term opportunities and promising supply technologies that are not currently eligible for tax policy incentives.
- High priority should be given to greater development and integration of the North American energy markets as a means to further encourage supply reliability and market efficiency.

2. Support and implement conservation, energy efficiency and demand management for the production and use of energy.

- The federal government's programs to reduce energy use in federal facilities should be strengthened.
- Federal programs and tax policy should provide appropriate, targeted incentives for investments in conservation, energy efficiency and demand management solutions.
- Federal programs, in coordination with state and industry initiatives, should support consumer education initiatives which provide credible information on the importance of and techniques for energy conservation, efficiency and demand management.
- Direct federal research investment, coordinated with state activities, should be committed to advance the development and deployment of conservation and energy efficiency technologies that are not currently eligible for tax policy incentives.
- Federal policies, programs and investments should encourage more efficient use of energy in the nation's transportation system through such means as continued federal support for transit and intercity passenger rail systems, intelligent transportation systems, intermodal programs for passenger and freight movements, and development of clean-fueled transportation systems.

3. Integrate and coordinate energy and environmental policy, maintain federal health-based environmental standards, and ensure environmental emissions standards are equitably applied.

- Federal and state policies, programs and regulations should encourage concurrent consideration of environmental, energy and transportation policies and objectives.
- Federal health-based environmental standards and rules which govern air, water and natural resources quality protection programs should be maintained and implemented. Current environmental quality permitting programs are adequate, without modification, to permit new energy supply.
- Federal policy should encourage inclusion of emissions reduction credits for energy efficiency and relevant energy resources in State Implementation Plans and any greenhouse gas reduction programs.

4. Support an adequate and reliable energy delivery infrastructure.

- Federal actions should encourage and support effective multi-state coordination in the planning and management of energy delivery infrastructure, particularly for electricity generation markets and transmission systems.
- Federal policies and programs can support greater use of demand management practices to reduce peak demand and reduce stress on existing transmission systems.
- Targeted federal support can encourage emerging technologies that enhance the capacity of existing transmission and pipeline systems and also foster environmentally-sound development of new delivery infrastructure.
- Federal policies and programs should, in cooperation with states and industry, encourage public and private sector initiatives which help ensure that national and regional inventories of winter fuels are adequate to minimize supply disruptions and volatile prices.
- Federal programs which affect the safe and efficient operations of the waterborne energy delivery infrastructure should be adequately supported and implemented in a timely manner.

5. Uphold and strengthen existing state authority governing energy facility siting.

- Federal actions to develop energy delivery infrastructure must respect states' authority in the siting and permitting of these facilities.
- Closer coordination among federal agencies with environmental permitting authority can contribute to more timely decisions on the siting of energy facilities.

6. Establish the rules which support workable competitive markets.

- FERC, working cooperatively with the states, must ensure that regional electricity market operators have compatible market rules.
- Federal policy should encourage states to work collaboratively with each other and the federal government to develop regional electricity transmission solutions and options tailored to their unique energy needs. The federal government should support market-based solutions to energy infrastructure and streamline federal review and approval processes to remove barriers inhibiting the development of workable competitive energy markets.
- FERC should support state and regional efforts to integrate peak demand reduction programs with energy markets and foster the development of risk management products.
- FERC should support state and regional programs to monitor electricity markets and correct prices where market design flaws or market power are found to exist.
- The federal government should not limit states' access to and use of energy data, consistent with states' established confidentiality policies, procedures and practices.

7. Strengthen state-federal energy partnerships with sustained, adequate federal funding support and close program coordination.

- Federal support for the State Energy Program (SEP) should be strengthened through increased funding and closer state-federal program coordination.
- National and regional partnerships to advance research, development, demonstration and deployment of conservation, energy efficiency and renewable energy technologies should be strengthened through sustained and increased federal funding and closer state-federal and interagency program coordination.
- The federal government must maintain a strong energy emergency preparedness capability, with continuous monitoring and reporting on energy markets and strong state involvement in developing and coordinating government's response to energy emergencies.

8. Provide sufficient federal funding to enable the nation's most vulnerable citizens to meet their essential energy needs.

- The LIHEAP authorization must be increased and the program fully funded.
- Federal support for the Weatherization Assistance Program must be strengthened, with increased funding and continued eligibility for a variety of energy efficiency measures.