



March 13, 2007

Steering Committee

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Executive Director

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The Honorable Harry Reid
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Dear Harry:

As the 110th Congress prepares to address U.S. energy policy, two topics should be front and center – oil dependence and climate change. These two threats must be addressed together, with an integrated strategy, so that one objective does not trample on the other. The reason is not just policy coherence. Managed right, the transition to more secure and environmentally protective energy technologies can be a catalyst for economic growth and job creation, much as the information and telecommunications revolutions were over the last 20 years.

We write on behalf of the Energy Future Coalition – a broad-based, bipartisan alliance that seeks to build on the significant issues of agreement among business, labor, and environmental groups and identify new ways to address the major energy challenges confronting the U.S. and the world.

We do not propose to elaborate on the obvious in this letter – that oil dependence and climate change pose enormous risks to the U.S. economy and national security. They are ticking time bombs, and each will take a long time to address – which makes it all the more urgent to begin. However, the actions needed to address them should be seen for what they are – great opportunities – and not as painful medicine.

Three elements stand out as essential to an integrated strategy – energy efficiency, renewable energy, and carbon capture and sequestration. The Steering Committee, diverse as it is, is united on this point, which we believe has broad-based public support as well. Accordingly, we recommend that Congress:

1. Set a national objective of doubling the rate of energy efficiency improvement in the U.S. economy within five years.
2. Set a goal of getting 25% of U.S. energy from renewable resources by 2025.
3. Support a crash program to demonstrate the commercial readiness of capture and sequestration technologies by 2015.

With regard to *climate change*, the most important and challenging task at hand is to design a strong and effective strategy for reducing U.S. greenhouse gas emissions, and the new Congress has already made it clear that it will make that a high priority for consideration and action. We applaud that sense of urgency and welcome the aggressive proposals put forward by the business and environmental leaders who comprise the U.S. Climate Action Partnership. By adopting policies to limit greenhouse gas emissions, Congress will speed the deployment of the low-carbon technologies we need to meet this threat and create the price signal needed to ensure their acceptance in the market. Congress should also consider how best to prepare itself and the nation for a new round of global climate negotiations.

Below, we outline some specific policies – and funding mechanisms – that are worthy of your immediate attention, which fall into the jurisdictions of several different Committees. They do not represent a complete and comprehensive national energy and climate policy, but by taking these initial steps Congress would help put the U.S. on a new and more sustainable course.

1. **Energy policy:** Adoption of the three steps listed above, coupled with a very sharply increased program of research, development, and deployment of technology to support them.
2. **Environmental policy:** A clear and convincing signal from Congress that newly built conventional coal-fired power plants will not be grandfathered under a future carbon management regime.
3. **Tax policy:** Long-term extension of the tax credits for renewable energy and energy efficiency.
4. **Farm policy:** Support for the sustainable production of energy crops, as called for by the 25x'25 Renewable Energy Alliance.
5. **Appropriations:** Full funding of the renewable energy and energy efficiency provisions of the Energy Policy Act of 2005, especially as they pertain to the commercialization of cellulosic biofuels.
6. **Infrastructure:** A major new initiative to make the electric power grid more reliable, secure, efficient, and capable of delivering enhanced services to consumers.

Some words of explanation follow:

1. **Energy policy:** Energy efficiency – long acknowledged as the cheapest, cleanest source of energy – has not been pursued by utilities and regulators as aggressively as new supply, and many studies have shown the large opportunity for further gains in this area. Congress should set a national objective of doubling the rate of energy efficiency improvement in the U.S. economy within five years – measured as energy use per unit of GDP – and require annual reports from the Secretary of Energy on the nation's progress toward that target, as well as any additional measures needed to achieve it.

In many states the ratemaking system does not provide adequate incentives for utilities to pursue energy efficiency. While this system is primarily the responsibility of states, Congress should encourage states to make it more profitable for utilities to invest in saving energy than in producing and selling it. California has moved forward in this direction, and other states should be encouraged to do likewise. Congress should also direct FERC to reward demand response measures in wholesale markets, and direct DOE to take immediate action to update energy efficiency standards for appliances.

On the supply side, Congress should endorse the national goal put forward by the 25x'25 Renewable Energy Alliance – to get 25 percent of America's energy from renewable resources by 2025. Such a goal will serve as a lodestar for our national energy policy and help guide future legislation.

The two most important sources of greenhouse gas emissions in the energy sector are oil (44%), principally for transportation, and coal (36%), principally for electric power generation. Coal can continue its large role in meeting the nation's power needs only if its global warming emissions are sequestered. A greatly intensified program of research, development, and especially deployment of carbon capture and storage technology is essential. Much more effective mitigation of the environmental damage caused by coal mining must also be a priority.

With regard to transportation fuels, the goal of reducing U.S. demand for foreign oil is sometimes described as “energy independence” – but elimination of oil imports is neither feasible nor sufficient. Rather, our objective should be to diminish the role of oil in the economy – and increase the flexibility of the transportation sector – so that the nation is no longer hostage to a single commodity and its volatile prices and politics.

Clean alternative fuels, efficiently used, must be the centerpiece of such a strategy. The near-term options that address both oil dependence and climate change most effectively are biofuels and electricity, provided they are produced in ways that minimize greenhouse gas emissions and protect habitat, together with increased vehicle efficiency to make those fuels go farther. Alternative fuels that may improve energy security but make global warming worse are a dead-end street. Coal with carbon capture and storage can become an important source of transport energy – as electricity. Plug-in hybrid vehicles, operating first on clean electricity and secondarily on biofuels, could all but eliminate the need for gasoline in light-duty vehicles, while reducing their global warming emissions by at least 75 percent.

2. ***Environmental policy:*** According to the National Energy Technology Laboratory, more than 100 new conventional coal-fired power plants are on the drawing boards in the U.S. The prospect of adding major new long-lived emissions sources to the fleet is very troubling – particularly if the developers expect to be protected under any future carbon management program. The first rule of holes is to stop digging. Congress should make it clear that any newly constructed conventional coal-fired power plants will not be grandfathered.

3. **Tax policy:** Substantial renewable energy resources remain untapped, particularly offshore wind. Long-term extension of the production tax credit is critically needed to encourage domestic investment in manufacturing for the fast-growing renewable energy industry, as is increased transmission capacity to move remote wind power to markets. Solar energy and energy efficiency tax credits should be similarly extended, and an incremental tax credit would help spur production of the first billion gallons of cellulosic ethanol.
4. **Farm policy:** The Energy Future Coalition is proud to be a partner, together with 400 other groups, in the 25x'25 Renewable Energy Alliance. This broad-based group has just released its recommendations for implementing the 25x'25 vision. Provisions to encourage the sustainable production of energy crops, consistent with conservation values and habitat protection, should be an important part of the 2007 Farm Bill.
5. **Appropriations:** The Energy Policy Act of 2005 authorized many programs needed to advance renewable energy, energy efficiency, and other climate-friendly technologies, but it must be fully funded and focused on low-carbon resources to be effective. Improved batteries for plug-in hybrid vehicles are also worthy of increased attention and support.
6. **Infrastructure:** A critical step that Congress could take to facilitate greater energy efficiency and renewable energy use – and one that is urgently needed in its own right – is to make modernization of the electric power grid a high national priority. The grid continues to rely heavily on 50-year-old technology and is dangerously vulnerable to disruption from natural or human causes. It is rapidly becoming as inadequate to today's economy as the nation's highway system was before the interstates. Updating the grid to take advantage of the digital revolution of the past 20 years would greatly improve its reliability and efficiency and create significant new technological and business opportunities for remote management of energy use and other consumer services.

We are mindful that these recommendations come with price tags, and we recognize the commitment that the 110th Congress is making to fiscal discipline. Accordingly, we suggest some possible options for funding:

- For renewable energy, the proposal to recapture certain tax breaks and royalty relief from the oil and gas industry (as in H.R. 6) is a good first step. It could be augmented by putting tax incentives for both fossil fuels and renewable fuels on a countercyclical sliding scale and phasing them out as oil prices rise. Such a step would save many billions of dollars if prices remain as high as the government forecasts.
- Advanced coal RD&D could be fully funded by a modest surcharge on coal generation. A surcharge of one mill per kilowatt-hour would produce \$2 billion annually, with little to no effect on wholesale prices and consumer costs.
- For the electric power grid, a fee of one mill per kilowatt-hour – an increase of 1 to 2 percent for consumers – would raise \$4 billion annually and support a matching fund

for public-private investments that could modernize the system completely over the next 10 years.

As a nation, we cannot continue on our current energy course. It is dangerous to our national and economic security and ruinous to the climate that sustains us. Investments in energy efficiency and renewable energy can increase energy security and cut climate change emissions, allowing us to develop additional climate-friendly technologies and an energy future that plays to American strengths. We respectfully urge your consideration of these measures and look forward to the opportunity to work with you in any way.

On behalf of the Energy Future Coalition,

A handwritten signature in black ink, appearing to read 'Tim', with a stylized flourish above the 'i'.

Timothy E. Wirth