

The Impact of the Energy Bill on the Power Industry

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While I'm on the LSU campus, I probably shouldn't say that I'm a graduate of Tulane. But I can say that I'm a former resident of New Orleans and spent some of the most productive years of my life here.

When I was at Tulane, I figured out I wanted to be journalist. At age 18, my intent was "to change the world." Twenty-five years later, I don't know what it means to change the world. But I do know what it means to "make an impression" on millions of readers around the world. I am heartened that I have the opportunity to practice my trade with Energy Central and its new online publication, EnergyBiz Insider that appears three times a week and sent around the globe to subscribers.

I also appreciate LSU inviting me to speak. I wish I could say something – or write something – that would bring life back to normal along the Gulf Coast. While I may now live in West Virginia with my two kids, my brother and sister have lived in New Orleans since the 1970s. Like others, the daily fabric of their lives has come totally unwoven.

None of us can control those things. But we can impact our industry. Along those lines, I'm here to give an overview of how the recently passed Energy Law will affect the energy sector. Like any legislation, the bill was a process whereby competing interests made compromises. Nobody agrees with every provision. But, they give and take and most everyone walked away with something they like – and dislike.

My friend and former co-worker, Nancy Spring – editor of Electric Light & Power - - said it best: "The problem: provide more power without producing more pollution. The answer: support fuel diversity."

It sounds simple. But, anyone attached to the process knows it has taken years to find an acceptable solution – or one that could pass the Congress and get signed by the president. Fuel diversity means making the most of fossil fuels as well as nuclear and renewable energy. It also means employing new technologies to increase energy efficiency and to reduce pollution levels.

Let's look at coal and then natural gas. Coal provides about 52 percent of the generation energy mix. There's 200 years worth of reserves in the ground and it's relatively cheap when compared to natural gas. It's also the dirtiest fuel source, releasing for example 3.5 times more carbon dioxide than natural gas.

It's easy to say let's just replace coal with something else. With what? Renewables, which provide less than 2 percent of the generation mix? It's more practical to pursue clean coal technologies – ones that are reported to reduce

sulfur dioxide and nitrogen dioxide by 90 percent. In fact, new coal gasification technology that will be commercially available in a couple years is the most promising and it also has the ability to bury carbon dioxide emissions that are said to cause global warming.

The Energy law sets out to fund a project called FutureGen to the tune of \$1 billion – with a goal of zero emissions. And the new law provides close to \$2 billion in loan guarantees for coal gasification projects. It also establishes tax credits for up to \$1.3 billion.

What about natural gas? It's a bit ironic that it was labeled the "fuel of choice" in the 1990 Clean Air Act when a goodly portion of the gas reserves are on federal lands off limits to production. With only 60 years of gas reserves available, we can't drill our way out of our energy dilemma. But, if gas is going to be given priority status, developers ought to be able to drill in some now forbidden areas.

The Congress is now considering a separate bill that would ease a decades-long moratorium on drilling in the so-called Outer Continental Shelf. Currently, about 35 percent of all natural gas consumed in the U.S. is drilled in the Outer Continental Shelf. But developers want the rights to drill for more in those rich areas. They also want more access to the Rocky Mountains that are rich with resources.

The coastal states will have none of it. Florida's U.S. representatives said they will block the measure because their state relies on pristine beaches for tourism dollars.

So, we turn to nuclear energy. This topic hits a raw nerve with lots of people. In fact, I recently did a story on France and how it relies on nuclear energy for 70 percent of its fuel consumption. It received well over 100 letters.

Unlike coal and natural gas, there is an infinite supply of uranium. Unlike coal and gas, it emits no pollutants. In a carbon constrained world, that makes it invaluable.

Ah, but what about those past nuclear incidents and what do we do with the spent fuel? Certainly, humans are prone to mistakes and any mishap in the nuclear field would be calamitous.

The safety record for the nuclear energy has been near perfect for 25 years. Congress is now trying to authorize Yucca Mountain as a permanent nuclear waste site. And Congress is also trying to get developers to take the risks and Wall Street to back nuclear energy. It's supported in the law with a tax credit of 1.8 cents per kilowatt hour generated for the first eight years of operation. It provides more than \$1 billion for nuclear research and developers have broad liability protection.

It's possible that the first nuclear plants could begin construction by 2010 and be operational by 2014. I'm not saying it will happen. I'm saying that the stars are starting to line up.

Renewable energy is the most promising part of the mix. Today, excluding hydro sources, it comprises less than two percent of the generation. But wind and solar technologies are advancing and the costs to build those kinds of plants are coming down.

Congress extended the tax credit given to wind until the end of 2007. In fact, the 1.8 cents per kilowatt hour generated credit has been broadened to include other alternative energy forms. Renewable portfolio standards are not part of the bill. The states have taken the lead when it comes to mandating that utilities use green energy forms in their generation mix.

If we as a nation say we want clean air and clean water, then we have to realize that the government must give incentives to developers to take certain risks. And that means backing in part the development of green energy – at least until it becomes competitive in its own right.

Fuel diversity makes good politics and good energy policy. We all want a pristine environment and we all want the lights to come on every time we hit the switch. Those goals could be incompatible if we put many of our eggs in one basket. Reliability seems like an amorphous term. But everyone along the Gulf Coasts knows what it's like to be without electricity for an extended period of time.

Government needs to be proactive when it comes to protecting our environment. It needs to be proactive when it comes to helping to bring new technologies into the mainstream. But the rules should not be so onerous that they inhibit innovation. The Energy law is imperfect. But, it's the start of developing a blueprint as to how this country should prioritize its energy policies.