

HEADLINE: More power, cleaner skies To build generators, companies must cut pollution elsewhere.

BYLINE: Carrie Peyton and Chris Bowman Bee Staff Writers

BODY:

Take a region with air so bad it flunks federal standards. Add a demand for electricity that nearly has outpaced local power plants. Mix in a forecast for furious growth.

The resulting brew has produced the Sacramento region's latest power struggle: Can the smoggy metropolis open its doors to three proposed electricity-generating plants projected to pump 1,000 tons of pollutants into the air every year?

Air quality regulators say yes, provided energy companies can ensure emissions from other area businesses will be cut by more than 1,000 tons a year.

That way, the region's air overall actually would become cleaner as the high-polluting electricity generators go online. So goes the theory of "pollution trading."

"Making the air dirtier ... that is an absolute nonstarter in California," said David Parquet, Enron Corp.'s vice president for project development in the West. To get cleaner air and more power plants, "we have to start thinking a little more out of the box."

To that end, Enron, FPL Energy and the Sacramento Municipal Utility District have been offering record-high payments to businesses willing to go further than laws require in cleaning up their operations.

In exchange, the energy companies would receive "emission reduction credits"

they can use to offset pollution from three power plants proposed for communities ringing Sacramento.

Together, the natural gas-burning generators proposed for Roseville, Rio Linda and the south Sacramento County town of Herald would bring an estimated 1,700 to 2,400 megawatts online between 2004 and 2005.

The projects must undergo public hearings and environmental reviews by the state Energy Commission. They each also need a permit from the Sacramento Metropolitan Air Quality Management District.

Powered by natural gas and steam, and equipped with the best available pollution controls, the plants would produce only a fraction of the pollution of older generators. Yet they still are major polluters subject to the "new source review" provisions of the federal Clean Air Act.

Under the law, developers of power plants, refineries and other high-polluting industrial operations cannot get a building permit in areas that fail to meet federal clean-air standards unless they can more than offset the amount of additional smog that would be generated.

In federally designated "severe non-attainment areas" such as the six-county Sacramento region, major polluting businesses seeking to start or expand operations must eliminate at least 1.3 tons of pollutant for every ton they expect to release.

Ironically, companies have a hard time finding pollution to buy and sell in the Sacramento area, one of the nation's 10 smoggiest urban areas. That's because most smog-causing emissions come from vehicles, and because smog rules have left businesses little room for improvement.

The energy companies said they have made considerable headway, nevertheless,

by turning to operations that previously have not been tapped for purchase of pollution credits, such as agricultural burning, unregulated sources such as diesel-powered irrigation pumps, and lightly controlled wheels of commerce such as locomotives.

With energy companies trying to build plants throughout the state, market-driven prices are at an all-time high for the right to spew air pollution.

Air credits now account for close to **10** percent of the cost of a new power plant in California, Enron officials say. In the past four years, the top credit price in the Sacramento region has quadrupled to **\$40,000** per ton of pollutant, according to energy consultants and producers.

"To a degree, no amount of money will get you where you want to be (in the Sacramento area)," said Kelly Brodbeck, an Enron project developer. "And if we don't have cooperation from the regulatory authorities, plants aren't going to get built."

California smog regulators, however, are in an especially cooperative mood these energy-short days. They're under orders from Gov. Gray Davis to accommodate power plant construction as much as they legally can.

The Sacramento region generates less than half its own power, so little that the local grid has approached collapse, utility experts say. They agree that either additional power generation or upgraded transmission is critical to the region's growth.

Statewide, officials are entertaining pioneering proposals to eliminate smog

and grit from sources that have been off-limits to credit buyers because the emissions reductions are difficult to track and maintain.

San Diego County regulators last year approved a unique proposal by Calpine to offset pollution from the Otay Mesa power plant by outfitting diesel garbage trucks, street sweepers and sightseeing boats in the region with low-emission, natural gas engines. Such creation of "mobile emissions offsets" set a precedent for other industrial projects.

Energy producers now are eyeing high-polluting tugboats in Long Beach, diesel-belching ferries in San Francisco Bay, and dirt roads that could be paved to cut dust in the Southern California desert community of Victorville, according to Mike Tollstrup, a state Air Resources Board official reviewing power plant development.

In the Sacramento area, Enron is looking at offsetting pollution from its planned 750-megawatt plant in Roseville by paying Union Pacific Corp. to install clean-burning engines in its diesel locomotives at the Roseville switchyard.

Neighbors have complained of increased diesel fumes and rail traffic - dozens of trains daily - following Union Pacific's merger with Southern Pacific Rail Corp. in **1996**. Locomotives emit six to seven times as much cancer-causing soot as big-rig trucks, according to state officials.

SMUD, one of the nation's largest municipal utilities, has an agreement pending with an undisclosed owner of **1,600** acres of rice in southern Sutter County to plow under straw waste rather than burn it after harvest, said Mahesh Talwar, an environmental consultant who arranged the deal for the

landowner.

Talwar would not divulge exact terms of the deal, but he said the utility would provide the landowner a one-time payment ranging from \$20 to \$70 above the \$35 to \$80 per acre it costs to till the fields. The utility's board of directors Thursday authorized its staff to execute the agreement for purchase of 63 tons per year of emission reduction credits.

FPL Energy, an affiliate of Florida Power & Light, that state's largest utility, has lined up agreements with growers to electrify their diesel-burning irrigation pumps that run without pollution controls, state and local smog officials said.

An FPL representative said the company has secured nearly 90 percent of the pollution offsets needed to build its proposed 560-megawatt plant in Rio Linda, but she would not identify the sources of the credits.

"The more public attention that comes to this, the more difficult it is to obtain these credits at a reasonable price," said spokeswoman Carol Clawson.

Other polluting businesses are paying close attention. They want to make sure some credits are left for them to expand.

Aerojet officials, for example, are scrambling to acquire credits to compensate for the pollution to be released in three test firings of its Atlas V rocket motors.

"It's kind of a double-edged sword," said Carolyn Craig, an environmental specialist for the Rancho Cordova defense contractor. "We're concerned about blackouts here, so we want to support everything that can bring power to the

area. But on the other side, the power plants obviously are scooping up what little credits are available."

People living near the proposed plants also have concerns. While air quality may improve in the region as a whole, it may worsen in neighborhoods surrounding the plants.

Emissions posing the greatest health risk to neighbors would be "particulate matter," microscopic contaminants produced in the natural gas combustion that can lodge in the lungs and spur respiratory and heart problems.

"What kind of stuff is going to be raining down on us?" said Rio Linda resident John Vierria, who lives near the site of FPL's proposed plant.

* * *

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GRAPHIC: Sacramento Bee / Scott Flodin How pollution credits work Pollution trading allows growing businesses flexibility in meeting Clean Air Act limits.

Instead of investing in emission controls, companies can pay to have comparable amounts of pollution reduced at other businesses in the area, for less cost. For example:

1. ACME, licensed to emit 100 tons of air pollutants per year, wishes to add operations that will release 50 unpermitted tons of pollutants.
2. A nearby company is willing to reduce emissions.
3. ACME pays the company to install equipment cutting emissions at least 65 tons per year.*
4. ACME pays for the upgrade and earns 50 pollution credits, enough to obtain a permit for its expansion.**

*To earn credits, reductions must be 130% of any new-source emissions,

and the

upgrades must go beyond what is already required by law.

**The balance of 15 pollution credits results in a net gain in regional air quality.

How **SMUD** is using credits Three power plants are proposed for the Sacramento

area, including one for the Sacramento Municipal Utility District.

Together,

they must ensure other businesses will cut pollutants by more than the 1,000

tons per year they will emit.

1. **SMUD** wants to build a natural gas-burning power plant at Rancho Seco that

will emit 230 tons of air pollutants per year. To obtain a construction permit,

SMUD must acquire 299 pollution credits.*

2. In one of its deals, SMUD agrees to pay a Sutter County rice grower to cease

post-harvest burning of crop waste.

3. The Sacramento Metropolitan Air Quality Management District must approve the

deal, and the grower must record the prohibition of agricultural burning on

property deeds.

4. **SMUD** banks 63 pollution credits toward the 299 it needs.

*230 of the credits are needed to offset the power plant pollution. The remaining 69 achieve the required net gain in regional air quality.

1. Proposed SMUD power plant

2. Rice farmer who signed deal with **SMUD**

* Proposed Enron power plant

* Proposed FPL Energy power plant

Sources: SMUD, OceanAir Environmental, Feather River Air Quality Management District.

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The Baltimore Sun

August 1, 2001 Wednesday FINAL EDITION

SECTION: TELEGRAPH, Pg. 1A

LENGTH: 1591 words

HEADLINE: Bush policy energizes W.Va. coal industry;
Years of layoffs, mine closings give way to new hope

BYLINE: David L. Greene

SOURCE: SUN NATIONAL STAFF

DATELINE: MOUNDSVILLE, W.VA.

BODY:

MOUNDSVILLE, W.Va. - Coal miners in West Virginia have felt frustrated and helpless for some time.

Removing coal from the ground is the only job many of them know, and they are tantalized by the vast supply that lies buried beneath the tree-clad mountains.

And yet, mines have been shutting down, miners have been losing jobs for the better part of the past two decades, and the industry has been portrayed as dirty and polluting. The federal government has seemed determined to leave much of the coal where it is and to begin relying more on cleaner sources of energy.

Then came President Bush, who says the nation can't turn its back on an inexpensive and plentiful resource that provides 52 percent of the nation's power, especially when the demand for electricity is rising and places such as California have experienced brownouts.

Today, the House will begin debating a slew of his proposals to preserve and enhance coal's central role in energy production while offering \$2 billion in tax breaks to help power plants develop "clean coal" technology. A vote could come as early as tomorrow.

"The public policy debate, and the direction the Bush administration wants to go, is certainly helpful to us," said Thomas F. Hoffman, a vice president at Consol Energy, a Pittsburgh-based mining company that operates the McElroy Mine here and has just signed an eight-year deal to supply millions of tons of coal a year to power plants owned by American Electric Power, one of the nation's largest utilities.

For the first time in years, the McElroy Mine is expanding. There is a now a second "longwall," the machine that shears coal underground and drops it on a conveyor belt to take it to the surface. That will enable the mine to increase its annual coal production from 7 million to 12.5 million tons. Nearly 300 new miners will be hired soon, and a new parking lot and bathhouse are under construction.

'He's gonna use coal'

Around the state, veteran miners like as Carl "Sonny" Palmer have their jobs back after suffering layoffs. Sipping a beer at Undo's, a bar in Benwood that serves as a hangout for local miners, Palmer says Bush has people like him feeling much more confident these days.

"He's gonna use the coal," Palmer said. "He's told the environmental agencies that we need it. You can do all you want with fans and windmills, but

coal is
the most efficient and cheapest source of power. There's an abundance of
it.
When are we going to wake up like the Arabs did with oil?"

While Democrats and Republican moderates have scaled back the Bush
energy
proposal, environmentalists say the plan still amounts to subsidizing the
burning of coal.

"The Bush administration is taking us back to the days when the coal
industry
was able to pollute without having the costs of the pollution
recognized," said
John Walke, director of clean air programs at the Natural Resources
Defense Council, an organization that has several lawsuits pending against power
plants
that bum West Virginia coal.

He said his organization plans to fight many of Bush's proposals on
energy,
but acknowledged that with the new administration, the coal industry is
likely
headed for a resurgence.

"The climate is so ripe for them," Walke said.

Coal industry officials, who strongly backed Bush during the campaign,
celebrated when Bush reversed a campaign pledge in March and came out
against
tougher federal limits on carbon dioxide. And they have been pleased that
the
president has continued to oppose the Kyoto Protocol, a global warming
treaty
favored by many European leaders that would force industrial nations to curb
carbon dioxide emissions.

For several years, the coal industry has been asking that federal
emissions
standards be relaxed, arguing that if the government provides incentives,
the
industry can be trusted to find cleaner ways to bum coal on its own.

Environmental groups say Bush is determined to pay back his contributors. The coal mining industry poured \$3.7 million into the 2000 election, nearly three times what it contributed in 1996, according to the nonpartisan Center for Responsive Politics. The industry gave 88 cents of each dollar it contributed to Republicans.

While other states, including Wyoming, mine more coal than West Virginia, the industry has a special place in this state's history and has helped fuel its economy for more than a century.

It was not a complete surprise, then, when this Democratic stronghold handed its five electoral votes to Bush in November, enough to tip the election. While many voters in this heavy-industry state liked Democrat Al Gore's commitment to labor, their fear of his environmental record outweighed that.

Almost all electric power in West Virginia comes from coal. Coal companies pay \$160 million in coal severance taxes annually to the state - money that is distributed to every county and used for local health, education and other services. Here in the industrial panhandle, about an hour west of Pittsburgh, public officials often warn environment-minded citizens that they may have to co-exist with coal if their communities are to keep money in their budgets.

"Without noise and dirt, you don't have the tax base," said Larry Ferrera Jr., the mayor of Benwood, five miles south of Wheeling. "Unless you're in the software industry, and we're not."

The lean years

Bush's election came as many in West Virginia were bracing for coal's demise.

Last year, newspapers and television stations ran a public awareness campaign, called "West Virginia After Coal," to help prepare residents for when the local economy would have to diversify.

From **1970** to **1997**, the number of mining jobs in the state fell by 45 percent.

Coal mines replaced picks and axes with large machines, eliminating the need for many employees. The steel industry, a primary market for West Virginia coal, was in decline.

Mines also were forced to close because they lost big clients - coal-burning plants that were unable to meet clean-air standards. And as environmentalists continued to push for stricter standards, miners became more insecure about their future.

In the panhandle, a landscape of small towns with smokestacks nestled along the Ohio River, the memories of **1993** are clear. That year, the Shoemaker Mine - an underground world that stretches eight miles from the Ohio River to the Pennsylvania border - was forced to close for part of the year because its parent company could find no market for the coal coming out of the ground.

More than 300 miners were laid off. Many, like Sonny Palmer, having done nothing else their entire adult lives, were encouraged by the United Mineworkers of America union to enroll in college classes under a federal retraining program.

"What a treat that was," said Palmer, 53, rolling his eyes. "It was easier to work than go to school. We had homework. They were teaching us algebra, trigonometry."

While the Clinton administration actively sought cleaner forms of energy, Bush has said the nation is decades away from being able to depend on sources such as solar or wind power and must rely on bedrock fuels such as coal.

The Bush reprieve

In his energy policy, Bush calls for the construction of at least 1,300 new power plants by 2020. Already, applications have been pouring in from utility and other companies interested in building new plants and burning a cheap resource, coal.

Bush directed the Energy Department and the Environmental Protection Agency to examine whether the Clean Air Act, which was rigorously enforced under President Bill Clinton, has requirements too stringent for coal-burning plants to meet.

His primary target is a process called "New Source Review," which requires that older plants that were exempted from the Clean Air Act be upgraded to meet its stricter emissions standards when the facility is renovated. A report from the EPA on how the Clean Air Act could be revised is due Aug. 17.

Bush told the Justice Department to consider dropping many of the lawsuits the Clinton administration had filed against 51 power plants that had not reduced emissions as required by New Source Review.

The Bush administration's decision to reconsider the policy stunned environmentalists. Several groups, including the Clean Air Task Force and National Environmental Trust, asserted in a recent report that pollution from the 51 power plants targeted in the Clinton administration lawsuits causes 5,500 to 9,000 premature deaths each year and 107,000 to 170,000 asthma attacks.

Cindy Rank is the chair of mining at the West Virginia Highlands Conservancy, a conservation group that has been fighting surface mining, a method common in the southern part of the state that involves blasting off the tops of mountains to reach coal without venturing underground. She said many West Virginia residents have become so dependent on coal that they don't even see the environmental consequences of mining.

"People in other parts of the country see other options," she said. "But for people in the coal fields, who have grown up with coal, and for whom it has meant food on their tables, it's tough to see the other options."

At the McElroy Mine, now that coal is again an option for power companies, miners and managers feel a new confidence that many thought they would never know again. And they credit Bush.

"It just feels good to know someone is willing to say that what this industry is doing is important to us," said Hoffman, "that it's not just mining coal to make a profit."

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August 1,2001, Wednesday

LENGTH: 983 words

HEADLINE: ENVIRONMENT-U.S.: CRITICS CONDEMN REVIEW OF CLEAN AIR ACT

BYLINE: By Danielle Knight

DATELINE: WASHINGTON, Aug. 1

BODY:

President George W. Bush's request to review the Clean Air Act -- considered one of the most important U.S. environmental laws -- could halt government efforts to stop some of the worlds largest energy companies from polluting, warn health and environmental advocates.

When the White House unveiled its National Energy Policy in May, Bush directed the Environmental Protection Agency (EPA) and Department of Energy to conduct a 90-day review of the impact of the Act's regulations on coal, gas and oil power plants.

At issue is a section of the law called New Source Review, which prohibits power-plant operators from expanding old plants without also installing state-of-the-art pollution control devices.

Utility companies are lobbying heavily to dismantle this part of the law because if the regulations are upheld and enforced, it could cost the industry tens of billions of dollars to upgrade their facilities.

The EPA is suing many of the companies for violating the Act. Bush is also calling on the Department of Justice to review these lawsuits.

Environmental and health advocates describe the New Source Review as the Act's heart and lungs. Recommendations stemming from the Bush review are expected Aug. 17.

"The Bush plan would gut the Clean Air Act as well as create more pollution," says Peter Altman, coordinator of the Sustainable Energy and Economic Development Coalition based in Houston, Texas.

Altman was among environmental activists from the heavily industrialized states of Texas and Louisiana, who descended on the capital this week to

urge

lawmakers to halt Bush's proposed review.

Many, like Altman, came from Houston, site of numerous oil refineries including the country's largest, operated by ExxonMobil. The average refinery, they say, releases about 250 tons of toxic emissions, including sulfur dioxide, nitrogen oxides, and small particles that hinder proper breathing.

LaNell Anderson, an activist with the Texas Bucket Brigade, an environmental community organization named after the bucket devices it uses to test the state's air quality, lives near several refineries and chemical facilities. She blames air pollution for the cancer that killed her mother and the immune system diseases that she, her sisters, and her husband have suffered.

"We are being asked to sacrifice our children and our families to corporate profits," says Anderson. "We cannot stand any more from these lawless refineries."

The roots of the conflict over the Act stretch back to 1977, when energy companies won an exemption for their older power plants. Industry argued that these aging facilities would soon be retired and pollution controls for these plants would be too costly. To date, few have been closed.

According to the EPA, several older refineries have expanded in recent years without installing modern pollution controls -- a violation of the New Source Review requirements.

"Polluters have broken the law for years and are trying to get their tickets fixed," says Arlene Polewarczyk with the Clean Air Clear Lake group, also based in Houston. "It's our health that's getting run over in the process."

In response, the Department of Justice on behalf of the EPA, filed suit in 1999 and 2000 against dozens of old power plants for violating the Act.

Several state governments and environmental organizations have joined the government in suing the industry. For example, eight states and 17 groups have joined the EPA's suit against industry titan American Electric Power.

Janet Henry, assistant general counsel for American Electric Power, says the company has complied with the Act and that power plants listed in the lawsuit were not expanded but underwent routine maintenance, replacement of degraded equipment or failed components, and other repairs that are exempt from New Source Review requirements.

"American Electric Power believes firmly that these complaints are without merit," says Henry.

Defendants in the lawsuits have banded together to form a new lobbying group called the National Electric Reliability Coordinating Council. The Council has hired Haley Barbour, the former chairman of the Republican National Committee, to help fight the government lawsuits.

Activists contend that the companies have used litigation to weaken other provisions of the Clean Air Act and to stymie the EPA's efforts to update air quality guidelines.

In 1997, regulators issued new rules intending to strengthen national air quality standards for soot and smog because of mounting evidence that prior standards were inadequate to protect the public's health. The government agency

estimated that as many as 15,000 deaths and tens of thousands of respiratory illnesses would be prevented by the new standards for air particles.

Paul Billings of the American Lung Association says the EPA's 1997 conclusions have stood the test of time. "In fact, recent scientific evidence has given even greater cause for concern about these pollutants, linking particles to infant mortality and other serious health effects," he says.

Immediately after the EPA issued the new standards, industry and several states -- Ohio, Michigan, and West Virginia -- filed suit against the regulations, arguing that air quality standards should not be based only on public health data but on a cost-benefit analysis.

Eventually, the case made its way to the U.S. Supreme Court, which unanimously upheld the constitutionality of the Act last February. But the Supreme Court sent the case back to a lower court to rule on the specific 1997 standards.

"After four years of litigation, it's time for industry's scorched-earth battle against public health to stop," says Howard Fox, an attorney with Earthjustice, an environmental law group representing the American Lung Association in the suit.

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CHEMICAL BUSINESS NEWSBASE

July 30,2001

LENGTH: 111 words

HEADLINE: CHEMICAL MARKET REPORTER: Oil companies split on EPA's pollution control measures

BODY:

Sums of \$500 M and \$400 M have been allocated by BP and Shell respectively to upgrade pollution controls at their **US** refineries.

The spending is in response to alleged violations of EPA rules developed under the Clinton Administration.

However, ExxonMobil is refusing to pay on the grounds that it did not break the law.

It wants the Bush Administration to reverse the EPA policies in question.

The EPA says it violated federal New Source Review requirements in 1988 and 1989. and could sue if ExxonMobil does not settle.

The parties are arguing over the interpretation of the New Source regulations.

Website: <http://www.chemexpo.com/cmronline>

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THE ELECTRICITY DAILY

July 30,2001, Monday

SECTION: Vol. 17. No. 20

LENGTH: 1440 words

HEADLINE: Commentary: Good First Steps on Clean Air Act

BODY:

Complicated. Duplicative. Burdensome. Costly. Those words all describe the regulation of power plant air emissions under the Clean Air Act. So it is good news indeed that the Bush administration has proposed to straighten out the regulatory rat's nest that has grown up over the years as EPA has administered the act, coming at utility air pollution in half a dozen different directions at once.

Last week, EPA Administrator Christie Whitman gave the Senate Environment and Public Works Committee a look at what the regulatory future might look like, if Congress has the wit and guts to pay attention. That qualifier, however, is crucial and certainly not guaranteed.

Whitman gave the committee a concise description of the problem: "a complex web of existing regulations which currently confront the industry. Over the years, EPA and the state have responded to specific environmental and public health problems by developing separate regulatory programs for utilities to address the specific problems. Each individual program uses its own approach to serve its own purpose."

Here's a partial list of what she was talking about: National Ambient Air Quality Standards, section 126 and the **SIP** Call rules, new source review and new source performance standards, regional haze rules, hazardous air pollutant rules. And so it goes.

The administration wants to start largely with a blank slate and write

pollution law that simplifies, combines, and uses market forces to reduce air emissions. "If we have new legislation that significantly reduces emissions of SO[2], NOx, and mercury," Whitman told the committee, "we can eliminate many of the individual programs that apply to the power generation sector and replace them with a system that will reduce the administrative burden on industry and governments, use market-based incentives to keep compliance costs low, and provide the industry with more certainty about its future regulatory obligations." Precisely. And the SO[2] trading regime in the **1990** amendments is the model for the new approach.

Questioned by Sen. George Voinovich(R-Ohio), Whitman agreed that "new source review is certainly one of those regulatory aspects that would no longer be necessary. All of those [programs] could be aligned into one regulatory process."

Whitman concluded her testimony by stating that "our current regulatory programs are not the most efficient way to achieve the goal of ensuring a reliable energy supply in an environmentally responsible manner. Rather than take a pollutant-by-pollutant, problem-by-problem approach, we have the opportunity to examine the sector as a whole. Doing so provides us with the opportunity for cost-effective reductions and significant public health and environmental gains."

But the argument is not going to be easily won by Whitman and the power industry. Environmentalists will dig in their green heels, preferring a command-and-control approach that keeps them in the game. The Los Angeles Times quoted Frank O'Donnell of the Clean Air Trust, "She has raised an appalling prospect of junking virtually every rule and strategy to deal with emissions of electric companies in return for some vague industry-sought plan for an

emissions trading scheme. If they go forward with this, it means a wholesale fight over the Clean Air Act in Congress."

Those with long memories will recall that most of the enviros were opposed to emissions trading in 1990, and still don't like or understand the idea of market-based approaches. It was only the presence of the Environmental Defense Fund, now renamed Environmental Defense, lobbying in favor of trading that won enough Democratic votes to get trading in the bill, which otherwise was a triumph of old-style, pollutant-by-pollutant regulation.

In the current Congress, a lot of the political heat is likely to be generated by the issue of regulating CO₂, not with a new regulatory paradigm. As the solons ponder a multi-pollutant strategy, the greens will push to get CO₂ into the pollution soup. The administration will resist, and somehow or other Congress will sort it out. The betting here is that carbon dioxide will get into the act.

The Bush administration approach to clean air is a good first step. But there are plenty of ways to stumble in the months ahead.

-- Kennedy Maize

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The New York Times

July 28,2001, Saturday, Late Edition - Final

SECTION: Section A; Page 8; Column 1; National Desk

LENGTH: 847 words

HEADLINE: Whitman Begins to Consider Streamlining Pollution Checks

BYLINE: By JOSEPH KAHN

DATELINE: WASHINGTON, July 27

BODY:

The Bush administration wants Congress to collapse several of the most contentious air pollution control programs into a more flexible and less intrusive system strongly favored by leading electric utilities.

The proposal is the clearest indication to date that the administration favors overhauling the Clean Air Act in ways that would answer the complaints of utilities that the agency's rules tie them up in paperwork and make them reluctant to invest in new power plants needed to provide electricity to consumers and businesses.

In trying to revise one of the core environmental statutes, last revised in **1990**, the administration would set in motion a protracted and politically charged battle in Congress. Unlike some of the Bush administration's moves to reverse environmental regulations adopted by the Clinton administration, any changes to the Clean Air Act would require legislative approval.

Environmental groups say they fear that the plan to simplify regulations and enforcement procedures could undercut measures intended to reduce haze in national parks, cut down on interstate transmission of smog-causing pollutants and minimize health risks to people who live close to power plants.

Christie Whitman, administrator of the Environmental Protection Agency, said today that her staff was drafting a new approach to controlling emissions that

would set nationwide caps on three major pollutants and allow utilities to trade pollution credits, much as they already do for sulfur dioxide emissions that produce acid rain. She said the trading system could replace five separate enforcement programs that regulate emissions on a plant-by-plant basis.

One of those enforcement programs, known as new source review, compels utilities to install modern pollution controls when they build a new power plant or significantly expand or upgrade one already in use. Utilities have lobbied aggressively to have new source review scaled back or eliminated, and Mrs. Whitman's comments were the first indication that, at least for utilities, the administration would prefer to end the program altogether.

Mrs. Whitman's new plan would also replace established programs that seek to improve visibility in national parks and to force individual utilities to reduce nitrogen oxide emissions that cross state lines.

"We think we can produce a system that will result in cleaner air, but also make enforcement much more efficient," Mrs. Whitman said in an interview today.

"I think people will be surprised at what we can get done."

Mrs. Whitman first outlined the new plan when responding to questions at a Congressional hearing on Thursday. She has offered only a sketch of the plan, saying it will be presented formally in September.

The proposal raised a number of questions among lawmakers, environmentalists and industry groups. The idea of replacing plant-by-plant enforcement with a national trading system is popular among industry groups and acceptable to some environmentalists, though people on both sides argue about which pollutants should be capped and at what level, debates that could

take
months or years to resolve.

Senator James M. Jeffords, a Vermont independent, has introduced legislation that would set relatively stringent national caps on four major pollutants: nitrogen oxide, the main component of smog; sulfur dioxide; mercury, a toxic health hazard; and carbon dioxide, which many scientists say causes global warming.

Ms. Whitman favors a plan that would cap three pollutants, excluding carbon dioxide. The Bush administration has rejected the Kyoto Protocol to control global warming and backtracked on a campaign commitment to impose limits on carbon dioxide emissions.

Environmentalists say that the new plan raises concerns because it would end successful enforcement programs without any guarantee that the new trading scheme would have the same effectiveness in cleaning up the air.

"We have a real fear that they will try to spin this as a major step forward when it's really a step backward," said Frank O'Donnell of the Clean Air Trust, an environmental group.

For utilities, especially those that own heavily polluting coal-fired power plants, the plan could amount to a major victory. Coal-using utilities were among the most generous donors to Republicans and Democrats in the last election, and they have pushed hard to shape elements of the Bush administration's approach to energy and the environment.

"The notion of providing a new framework that would replace the command and control permitting nightmare would be an enormous step forward," said C. Boyden

Gray, a White House official in the administration of **Mr.** Bush's father who now represents several major utilities. "It sounds like the E.P.A. is trending in the right direction."

Eliminating new source review on utilities would not exempt other polluting industries from its requirements, **Mrs.** Whitman said today. Refineries, paper plants and chemical companies also must install new pollution controls when they significantly modify their plants.

<http://www.nytimes.com>

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Greenwire

July 27, 2001

SECTION: AIR, WATER & CLIMATE; Vol. 10, No. 9

LENGTH: 1257 words

HEADLINE: CLEAN AIR: AMID FOUR-POLLUTANT DEBATE, WHITMAN FLOATS REVISIONS

BODY:

Darren Samuelsohn, Greenwire staff writer

(This story originally appeared in today's Environment & Energy Daily.)

Offering a glimpse into the Bush administration's plans to address air pollution, Environmental Protection Agency Administrator Christie Whitman said on Thursday that work is underway on a three-pollutant legislative proposal that would

negate a number of Clean Air Act regulatory and enforcement programs that were most recently tweaked under the Clinton administration.

Questioned during a Senate Environment and Public Works Committee hearing by ranking member Robert Smith (R-N.H) over what kind of regulatory relief EPA could provide electric utilities should a trade and exchange system be included in legislation to regulate power plant emissions of nitrogen oxide (NOx), sulfur dioxide (SO2) and mercury, Whitman responded that some of the most contentious air pollution regulations in place today would "no longer be necessary" thanks to the "overarching" legislation the Bush administration soon plans to propose.

Included in Whitman's list of possible cuts are a pair of programs aimed at interstate pollution controls, the Section 126 permit program, the recently finalized national park and wilderness area "haze" rule, the NOx State Implementation Plan rule, New Source Review permitting process and mercury emissions cleanup targets set for **2004**.

Utility industry groups have long lucked around cutting the programs which Whitman mentioned, said Jayne Brady, a spokesperson for the Edison Electric Institute, explaining that such a change would allow utilities "more flexibility" when it comes to addressing emission controls while also allowing for additional time before older and dirtier power plants are to be phased out.

Whitman said she was not ready to discuss specifics concerning the Bush administration's three-pollutant bill, leading Brady to add that "we might be a little ahead of ourselves" in debating the pros and cons of such a streamlining proposal.

Environmentalists attending the hearing, however, immediately pounced on Whitman's remarks. Frank O'Donnell, executive director of the Clean Air Task Force, described the proposal as both "off the wall" and "as if the New York Yankees traded away Derek Jeter, Roger Clemens, Paul O'Neill, Andy Pettite and Bernie Williams in return for an unknown slugger from Sweden."

Patricio Silva, midwest activities coordinator at the Natural Resources Defense Council, said Whitman's approach would have numerous detrimental effects on states' abilities to address their own air quality issues, noting that the removal of Section 126 would take away a state's right to protest a neighboring state with power plant emissions that cross a border. Silva said the proposal has the potential to create interregional air pollution wars similar to the heated one existing between Midwestern states and their downwind, Northeastern neighbors.

Whitman's comments came amid an already tangled debate over the regulation of carbon dioxide, no doubt the stickiest point among lawmakers, interest groups and the Bush administration. Legislation introduced by the committee's chairman, Sen. James Jeffords (I-Vt.), mimics the Kyoto Protocol in capping CO₂, a known greenhouse gas, at **1990** levels. Whitman reiterated the Bush administration's position in avoiding both mandatory CO₂ caps and the Kyoto Protocol because of the level of uncertainty surrounding such emission control technologies, achievable targets and the potential impacts on the **U.S.** economy.

Lawmakers and the Bush administration are close to consensus when it comes to SO₂ and NO_x emission controls, Whitman added, explaining that CO₂ could potentially serve as a stumbling block to the successful passage of any three- or four-pollutant legislation. "It would be a shame to delay implementation of a three-pollutant bill while we await consensus on carbon dioxide legislation," Whitman said.

Looking ahead, Jeffords announced that there will be both committee staff meetings and legislative hearings in September to hammer out the details of a power plant emissions bill.

Smith, who for some **18** months has been working on his own three-pollutant bill, said he was concerned that a debate over CO₂ may not be necessary in another decade or so considering the improving technology that will clean up emissions from the transportation sector. Smith also threw his support behind increased nuclear power generation, which produces no CO₂ emissions.

Dale Heydlauff, senior vice president of environmental

affairs at American Electric Power, said C O2 emission controls, as required under the Jeffords bill, would end up being implemented overseas because of cheaper infrastructure costs. Once foreign resources were tapped, Heydlauff said U.S. coal-fired power plants would be shut down and likely replaced by natural gas power plants, which are less of, but nonetheless still, a C O2 emitter.

C. Boyden Gray, general counsel at the White House during former President George H.W. Bush's administration, testified that the Jeffords bill would be difficult to implement because technology is not yet available to reduce C O2 and mercury emissions. Heydlauff, meantime, added that switching to natural gas power plants would also eliminate the need for mercury controls.

Smith said power plant emissions should be addressed by calling for a specific level of cuts while allowing the free-market to find the best way of achieving the federal goals. "I don't think that any of us, regardless of where we are on the political spectrum, believe that the federal government is more innovative, efficient or technically competent than the private sector," he said.

Whitman's streamlining suggestion comes in the wake of several recent actions on the same components that her proposal would strike. Late last month, for example, Whitman finalized a Clinton-era rule requiring industry to use the "best available retrofit technology" to eliminate haze in national parks and wilderness areas. Industry groups including EEI protested the "BART" rule charging it would provide many of the same air quality benefits set to be enacted by other EPA rules.

As for New Source Review, both EPA and the Justice Department are currently reviewing the definition and interpretation of the contentious enforcement permitting program that industry groups contend was unfairly used by the Clinton administration. EPA held four public meetings on its NSR review over the last month and its public comment period closes Friday. A report is due to President Bush by August 10. The Justice Department, meanwhile, is reviewing the lawsuits and settlement negotiations initiated against a host of power plants, refiners and other industry sources by Clinton-era lawyers. The DOJ review has no deadline.

Both the DOJ and EPA reviews have sparked protests from environmental groups and congressional Democrats. In a letter sent last week to Attorney General John Ashcroft, Senate Governmental Affairs Committee Chairman Joe Lieberman (D-Conn.) requested more detailed information about the DOJ review, specifically a timeline, standards for the review and any outside consultants. Lieberman said he was concerned that the NSR review may cut Clean Air Act enforcement activities even as Ashcroft and his staff have made repeated statements in recent months applauding its own NSR enforcement actions.

LOAD-DATE: July 27,2001

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Copyright 2001 Investor's Business Daily, Inc.

Investor's Business Daily

July 27,2001

SECTION: A; Pg. 4

LENGTH: 1573 words

HEADLINE: EXCLUSIVE INTERVIEW Abraham Is Pumped Up Over President's Plan

BYLINE: By Douglas Austin, Investor's Daily

BODY:

Investor's Business Daily President Bush has offered a long-term national review to address America's growing appetite for energy. Investor's Business Daily spoke recently with Energy Secretary Spencer Abraham about the administration's plans to meet U.S. energy needs. IBD: The Federal Energy Regulatory Commission imposed price mitigation limiting the price of power in 11 Western states. Bush is firmly against price caps. How exactly do price caps and price mitigation differ? Don't both keep power from the market? Abraham:

I'm

concerned that any price caps that actually reduce the price below the market

rate will make blackouts occur more frequently and send a signal to markets that

will be a disincentive for new generation to be built in the West. **It's** my impression that the goal of FERC was to not accomplish that objective, but rather to prevent unjust and unreasonable rates from being charged, which in

fact are illegal. Right now, FERC has already ordered refunds and is considering additional refunds for charges that constituted unjust and excessive

amounts in previous months. My impression is that was the goal of this price

approach. And that it wasn't to ~~try~~ and artificially suppress prices.

But to

the extent it does drive price below what would be market rates, it has the very

serious risk of accomplishing the undesirable outcomes of more blackouts and

discouragement of more energy generation being brought on line in the future.

IBD: When the price mitigation went into effect, there were some blackouts in

Nevada. One of the reasons given was that power suppliers were confused as to

their reimbursement. Obviously that leads to a shortage and ultimately to blackouts. Is anyone clearing up the confusion? Abraham: Unfortunately, the DOE

doesn't have authority to act in this area. Only FERC does, and so we can't

impose a different . IBD: But you could pick up the phone to FERC Chairman

Curtis Hebert and say this isn't working and try something new? Abraham:

My

impression is that FERC is attempting to clarify it. But the real issue here is

whether this type of system is going to in fact lead to additional hours of

shortages and blackouts. Not just those brought about by confusion, but those

brought about because the price wouldn't keep certain suppliers on line.

IBD:

Your National Energy Policy recommends easing environmental rules. For example,

in 1998 alone refiners paid \$8.5 billion that was passed along to consumers. Do

you favor requiring rules to be cost-efficient or survive a risk-benefit analysis? Abraham: The Environmental Protection Agency has 90 days to review the

so-called new source review process. We play a consultative role with them, and

it's our hope we can come up with a system that not only allows us to maintain

the environmental objectives of the Clean Air Act, but allows for us to act with

respect to additions to refineries, expansion of refineries and other energy-

producing entities in a more efficient fashion. IBD: But are you going to take

an active role? Boutique gasoline rules, for instance, order at least 11 different kinds of gas in different regions. Are you going to fight hard to at

least streamline the process? Abraham: The question is really whether that can

be accomplished in a fashion that in fact increases market liquidity. We believe

it can. Again, this is an area where the EPA has been given the lead responsibility, but we'll be very aggressive in working with the EPA to try to

address it. Congress is likewise inclined to do something. I would expect to see

legislation offered very soon in the House and Senate along those lines.

IBD:

We have been told that rather than pass one big energy bill, the House is going

to debate several smaller bills, the first one being conservation. Is that the

proper approach? Abraham: I think the House knows better than anybody what makes

sense from their standpoint. I'm confident that working together we can get the

key goals we have legislatively through the House. And if it happens in several

stages, that's probably consistent with the way the House leadership wants to

proceed. IBD: The Senate's quite a different story though, isn't it?

Abraham:

No, not necessarily. But because of the nature of the Senate, any bill brought

to the floor can be amended. And any energy bill certainly can be broadly amended to add or delete components. A bill that starts as a small bill in the

Senate can turn into a big one or vice versa. In the House, there are far more

constraints. IBD: What of the difference in the political makeup between the

two? Abraham: The Senate rules allow for amendments of even a nongermane sort to

be added to bills. So even if the bill that comes to the floor isn't perhaps

what would be my first choice, the potential exists for amendments to broaden or

change that bill no matter what the circumstance. In the House, you don't have

that flexibility. IBD: A number of Senate Democrats say Bush's proposals on the

Arctic National Wildlife Refuge, offshore drilling and expanding energy supplies

by opening up Western lands are basically dead on arrival. How do you intend to

fight that kind of intransigence? Abraham: As a broad public policy matter, we

expect there to be a significant increase in energy demand over the next 20

years beyond what conservation can offset. And those who are voting time after

time against any new source of energy supply without providing any alternative

ideas with respect to how we meet energy demand are acting in a way that's inconsistent with the best interests of this country. I hope we have a

full

debate. Because the critics of our energy plan have offered virtually no new

insights into where or how we will generate the energy supply we need in the

next 20 years. And their failure to offer real alternatives is consistent with

the policies of the last eight years where there hasn't been a national

energy

plan. It's pretty easy to criticize, but it's obviously difficult for everybody

else to come up with any concrete alternative. The absence of alternatives from

those who criticize our plan will soon be well known to the American people.

IBD: To be a little pointed, you're not saying you wouldn't mind a few blackouts

here and there to help press your case, are you? Abraham: No, what I'm saying is

I'd like to have a chance, and I'd like to see the media have a chance to scrutinize an alternative to the plan we're offering. The plan we're offering

has received plenty of healthy criticism from both sides of the political aisle.

But at least we've been willing to put a plan out there that's substantive,

comprehensive and balanced. Those who have criticized us have almost to a person failed to offer any alternative way of meeting America's energy challenges. What we need is a debate between alternative viewpoints. We don't

even have an alternative to our approach. In fact, those who criticize and say

they will vote against our supply proposals have a responsibility to explain how

they would meet the energy supply needs of the country. IBD: Democrats

Harry

Reid from Nevada and Majority Leader Tom Daschle have declared the Yucca Mountain nuclear waste facility "dead." Bush wants to expand nuclear power. How

is that possible without a long-term solution to nuclear waste disposal?

Abraham: We have to have a long-term solution. And the decision with respect to

Yucca Mountain should be made on the basis of sound science and a determination

on whether the site can be built and used in a safe fashion. It shouldn't be

based on whether various members of the Senate have personal interests or declared, for reasons that are not science-based, that they are opposed to it.

IBD: How will you expand domestic oil and natural gas production? Forty percent

of natural gas reserves in the West are on government land. Will Bush increase access? Abraham: We will review those areas that are currently off-limits where that decision isn't a matter of law. For example, when you are talking about national parks and wildernesses, we are not going to re-examine those areas. But the Interior Department was already engaged in an extensive review of possible reserves on federal land. Our energy plan wants the review completed quickly.

IBD: You talk about the EPA, the Interior Department and FERC having all these responsibilities you're not the lead agency on. That leads to the question: Do we need an Energy Department? Abraham: Well, you only asked about the areas that other people have responsibility for. Our department has a very vital role to play and is playing the lead role in many areas. We've taken the lead with respect to developing electricity restructuring legislation, which we will soon be presenting. We're responsible for developing a system by which we will update and modernize our national transmission grid system. We're in the process of developing what I think will be a very effective way of addressing some of the frontier areas of energy research, such as in the area of superconductivity. We also have a lot of the energy-related duties in the international arena. We've already begun moving to open discussions with Canada and Mexico about a North American energy framework. And with our friends in Europe with respect to a greater activity level between some of the new possibilities in the Caspian and other areas of Eastern Europe.

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Los Angeles Times

July 27,2001 Friday Home Edition

SECTION: Part A; Part 1; Page 1; National Desk

LENGTH: 1296 words

HEADLINE: THE NATION;

'
Smog Rules May Be Eased;
Power plants: EPA proposes a sweeping change in how utilities' emissions
are
curbed, a flexible approach favored by the industry.

BYLINE: GARY POLAKOVIC, ELIZABETH SHOGREN, TIMES STAFF WRITERS

DATELINE: WASHINGTON

BODY:

U.S. Environmental Protection Agency Administrator Christie Whitman
proposed
sweeping changes Thursday in the regulation of power plant pollution that
would
replace five of the government's toughest programs with a single, flexible
approach favored by utilities.

Whitman outlined a plan for cleaning up major components of power plant
smog
that represents a significant departure from the EPA's traditional
regulatory
dictums. She called for a major expansion of pollution credit trading,
which, up
to now, has had varying success.

Under the new plan, the EPA would scrap some of the most stringent
measures
devised by the agency to deal with power plant emissions. One provision
to be
set aside aims to cut harmful mercury emissions; another is meant to
reduce
emissions from Midwestern power plants by 85%; another is designed to
restore

visibility at national parks.

Especially unpopular with industry, one measure, known as new source review, requires the installation of advanced pollution controls whenever power plants are expanded or modified. It too would be phased out.

"New source review is certainly one of those regulatory aspects that would no longer be necessary," Whitman told Sen. Bob Smith (R-N.H.) at the hearing by the Environment and Public Works Committee. "All of those [programs] could be aligned into one regulatory process" that she said would work better than existing rules.

Whitman's comments offer the first peek into the administration's plans for cleaning some of the dirtiest polluters left in the nation. Debate over the administration's clean-air approach has shifted to Congress as it considers whether to revise the national Clean Air Act.

The magnitude of the proposed revisions caught environmentalists by surprise but buoyed industry representatives who say existing controls are costly and inefficient.

"She has raised an appalling prospect of junking virtually every rule and strategy to deal with emissions of electric companies in return for some vague industry-sought plan for an emissions trading scheme," said Frank O'Donnell, executive director of the Clean Air Trust, an environmental advocacy group. "If they go forward with this, it means a wholesale fight over the Clean Air Act in Congress."

After the hearing, Whitman stressed that the overall goal is to clean the air

more efficiently than current rules do. Although the administration has not yet released a so-called multipollutant cleanup strategy, Whitman contended that collapsing several regulations into one far-reaching approach would be easier for regulators and industry to manage.

"What we're looking for is targets under this legislation that significantly clean up the air beyond what our current regulatory, statutory requirements would do," Whitman said. She added that new source review, for example, "could potentially be no longer necessary if you have the right lund of targets set in a multi-emissions bill. We have to wait and see where the targets are set."

Utilities have lobbied Vice President Dick Cheney's energy task force to prevent the EPA from aggressively enforcing the new source review regulation.

Industry and administration officials say the provision is onerous and prevents plant upgrades, although EPA officials say it is a key tool for forcing dirty, old plants to cut emissions by up to 95%.

During the Clinton administration, federal officials charged that **32** coal-fired power plants in several Southern and Midwestern states ignored a requirement that companies install advanced emission controls when their plants were upgraded. The government reached settlement with three utilities, but a provision in the Bush administration's energy plan stalled those enforcement actions pending a review of power plant controls.

C. Boyden Gray, attorney for the Electric Reliability Coordinating Council and former White House counsel for the first President Bush in the 1980s, praised the administration's proposal. He said major utility companies he

represents, including Southern Co., Duke Energy Co. and the Tennessee Valley Authority, could clean up with greater flexibility and less cost under the plan outlined by Whitman.

"To put everything in a market-incentives basis is a great step. It would be a real breakthrough and a plus for the business community," Gray said.

For example, Gray said EPA has four separate measures to control nitrogen oxides from power plant combustion, including programs to cut acid rain, ozone and haze. Another program scheduled to take effect in May 2004 requires power plants in 19 states to cut summer emissions by 1 million tons annually. He said those programs can be confusing and costly and could easily be replaced by a credit-trading program run largely by power companies.

Under the program being considered by the Bush administration, an emission limit could be established at hundreds of power plants followed by annual reductions in mercury, a toxic metal, as well as smog-forming nitrogen and sulfur oxides.

However, a provision to reduce carbon dioxide, a gas implicated in global warming, was dropped under industry pressure.

Power companies that reduce beyond their limits could sell emission credits, which represent a pound of pollution, to companies that exceed their limits.

Although industry and free-market advocates favor such programs, they are not without controversy. The record of market-driven programs is mixed. On the one hand, the nation's acid rain program uses marketable permits and is widely credited with cutting sulfur oxides at less cost. On the other hand, the

world's
first market-driven program to tackle urban smog has not worked in Los Angeles, where nearly 400 power companies and manufacturers failed to achieve significant cleanup for the nearly eight years the program has been in effect.

Further, many environmental groups are wary of market-driven programs because by design they preclude active government intervention. Critics say such programs could potentially limit public review of power plant operations, allow emissions to concentrate in poor communities and slow efforts to cut haze in national parks downwind from plants that elect to buy pollution credits instead of cleaning up.

The Bush administration's power plant strategy was aired before the Senate Environment and Public Works Committee, which is chaired by Sen. James M. Jeffords (I-Vt.), whose dramatic departure from the GOP threw control of the Senate to the Democrats. Jeffords is proposing legislation, different from the administration's approach, that would control four power plant pollutants, including the greenhouse gas carbon dioxide, an approach rejected by the Bush administration.

Prospects appear to be increasing that Congress will pass one or more measures designed to reduce carbon dioxide emissions, a belated response to this week's decision by more than 180 countries to deal with the problem without the involvement of the United States.

Indeed, in recent weeks several members in the GOP-led House and Democratic Senate have voted on bills with the intention of disassociating themselves from President Bush's environmental policies before the next election.

Among the votes, the House struck down a provision supported by the Bush administration that could hinder progress on global climate change policy.

The Senate banned new coal mining and oil and gas drilling in national monuments. Other recent rebuffs included rejections of administration initiatives on such issues as the Endangered Species Act, hard-rock mining regulations and offshore drilling for oil and gas.

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MORE INSIDE

Power costs: A federal cap imposed in late June did little to rein in wholesale electricity prices. B 1

GRAPHIC: PHOTO: EPA Administrator Christie Whitman testifies on the health effects of power plant emissions. PHOTOGRAPHER: Associated Press

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The Boston Herald

July 18,2001 Wednesday ALL EDITIONS

SECTION: NEWS; Pg. 026

LENGTH: 322 words

HEADLINE: Bush review of EPA regs is disputed

BYLINE: By **JULES CRITTENDEN**

BODY:

Power and industry advocates faced off against environmental groups and the Northeast's attorneys general as EPA administrators heard public comment on the nation's clean-air rules.

Environmentalists say a Bush administration plan to review the EPA's New Source Review regulations is an effort to let factories and power plants skirt costly clean-air requirements.

New Source Review rules allow the EPA to apply tough standards to old plants whenever modifications are made. But industry advocates say they are prevented from doing maintenance jobs and replacing equipment by an overreaching EPA enforcement program.

"It is way past time for the large, coal-burning plants in the Midwest and South to start doing their share," Attorney General Tom Reilly testified yesterday. "The problem is not that these plants are potentially subject to New Source Review, but rather that in one way or another these plants have escaped New Source Review for far too long."

Rob Sargent of MassPIRG slammed the Bush administration review. "The timing of it is outrageous. It is clearly intended to pull the rug out from under the EPA and Justice Department (efforts) to get some of the oldest and dirtiest plants to clean up their act," said Sargent.

C. Boyden Gray of the Electric Reliability Coordinating Council, representing power suppliers, warned, the "EPA is now retroactively challenging routine repair, replacement and maintenance activities at all existing sources, thus causing major disruption in routine maintenance schedules (and) curtailing power output."

Gray called the aggressive NSR enforcement a "fundamental unfairness of retroactively penalizing utilities through enforcement actions for behavior that has increased efficiency, done no harm to the environment, and in many

ways
improved the status quo."

The Bush administration is expected to decide this fall whether to
revise the
clean-air regulations.

LOAD-DATE: July 18,2001

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The Boston Globe

July 18,2001, Wednesday ,THIRD EDITION

SECTION: METRO/REGION; Pg. B5

LENGTH: 733 words

HEADLINE: IN BOSTON, ENVIRONMENTALISTS FAULT BUSH'S ENERGY STRATEGY

BYLINE: By Mac Daniel, GLOBE STAFF

BODY:

Environmentalists - backed by the attorneys general of four states -
ripped a
key part of President Bush's national energy strategy at a hearing in
Boston
yesterday, accusing the administration of sacrificing the air to speed
construction of power plants.

The hearing was part of Vice President Dick Cheney's proposal to build
hundreds of new power plants around the country to avoid what
administration
officials call an energy crisis. The Environmental Protection Agency is
holding
four hearings around the country to determine whether federal air
pollution
rules are hampering energy production.

Polls show that most Americans disapprove of the new administration's handling of energy and environmental issues so far, but Massachusetts may be particularly hostile. Under Acting Governor Jane Swift,

Massachusetts has become the first state in the country to require existing power plants to reduce their pollution levels.

"Strong environmental standards are the solution," said Massachusetts Attorney General Thomas Reilly, in opposing any weakening of the 24-year-old Clean Air Act. "They are not part of the problem."

But energy companies say their ability to produce power has been severely hurt by increasingly stringent environmental rules for power plants, citing California's rolling power outages as a possible sign of things to come nationwide. They say federal rules have been enforced so zealously that it interferes with even routine maintenance.

Sally V. Allen, vice president of a small Denver-based fuel refinery, said her company's cost of complying with the government's air toxics laws could be \$80 million this year, more than three times what the company paid for its largest refinery in Oklahoma six years ago.

"We're gravely concerned," she said.

In May, Bush ordered the EPA to review how the Clean Air Act's "New Source Review" regulations impact the construction of power plants and refineries, as well as energy efficiency and environmental protection.

The regulations are intended to require industry to install state of the art pollution controls on new or significantly renovated power plants and refineries

- something existing power plants are not required to do.

But utility officials say the regulations are often applied to even

minor
changes at power plants. As a result, owners of existing power plants
sometimes
delay routine maintenance for fear of triggering a costly repair.

As a result, they said, power plants don't run as efficiently and
pollute the
air more. In addition, energy producers say that if all new source review
standards are fully enacted, it could cause the loss of between 6,000 and
12,000
megawatts of energy capacity - enough energy to light up to 3 million
homes.

"The EPAs . . . enforcement program is turning this statutory scheme
and the
past 30 years of regulatory enforcement completely upside down," said C.
Boyden
Gray, the former legal adviser to President George Bush. Gray spoke for
some of
the country's leading energy companies. They want a clearer, narrower
definition
of what triggers the tougher standards.

But, in environmentally conscious Boston, energy company sympathy was in
short supply.

"This is supposed to be the hearing that was dominated by the public,"
said
Cindy Luppi, organizing director for Clean Water Action. "This is the
capital of
public support for reduced pollution from power plants."

Yesterday's speakers list was dominated by environmental activists from
Connecticut to New Hampshire.

The attorneys general from Massachusetts and Connecticut showed up to
talk
down the change, with the attorneys general from Rhode Island and New York
sending designated speakers.

By midday, the all-day hearing was extended to 9 p.m. to accommodate
speakers, including representatives from General Motors and Texas Natural
Resources Commission.

"When the Bush administration talks about 'reconsideration' of the [new source review] enforcement cases, it's talking about letting known lawbreakers off the hook with impunity," said Peter Lehner, an assistant attorney general from New York, who was speaking for Attorney General Eliot Spitzer. "This review . . . must not result in rewarding years of illegal actions."

The final public hearing on the issue will be held in Baton Rouge, La., on Friday. The final report is expected to be sent to President Bush next month.

LOAD-DATE: July 18,2001

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The Bulletin's Frontrunner

July 18,2001

LENGTH: 393 words

HEADLINE: EPA Asks To Review Rule Concerning Nonpoint Sources Of Pollution.

BODY:

The Wall Street Journal (7/18, Fialka) reports, "The Bush administration has found allies among state regulators, governors, farmers and members of Congress in seeking to rewrite a Clinton administration rule for cleaning up thousands of polluted lakes, rivers and streams." The Journal continues, "The regulation...relies on a relatively nonspecific section of the 1972 federal Clean Water Act that deals with so-called nonpoint sources of pollution, such as fertilizer-laden runoff from farmland and sediment from construction and

timber

projects. It would require states to develop plans and start cleanup and water-quality restoration programs to attack nonpoint pollution within eight to

13 years." The Journal adds, "EPA Administrator Christine Todd Whitman asked a

federal appeals court here for a stay of the case to give her agency 18 months

to review the rule, with an eye toward rewriting it. Environmental groups

attacked Ms. Whitman's move as another industry-backed step by the Bush administration to thwart a regulation. But the move was applauded by state agencies, which would have had to apply the federal rule to about 20,000 rivers,

lakes and streams it would define as polluted. State officials argue they don't

have the expertise or the billions of dollars they say it would take to comply."

The Boston Herald (7/18, Crittenden) reports, "Power and industry advocates

faced off against environmental groups and the Northeast's attorneys general as

EPA administrators heard public comment on the nation's clean-air rules.

Environmentalists say a Bush administration plan to review the EPA's New Source

Review regulations is an effort to let factories and power plants skirt costly

clean-air requirements." The Herald continues, "Rob Sargent of MassPIRG slammed

the Bush administration review. "The timing of it is outrageous. It is clearly

intended to pull the rug out from under the EPA and Justice Department (efforts)

to get some of the oldest and dirtiest plants to clean up their act," said

Sargent. C. Boyden Gray of the Electric Reliability Coordinating Council, representing power suppliers, warned, the 'EPA is now retroactively challenging

routine repair, replacement and maintenance activities at all existing sources,

thus causing major disruption in routine maintenance schedules (and curtailing

power output.'"

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Environment and Energy Daily

July 18, 2001

SECTION: ENVIRONMENTAL POLICY; Vol. 10, No. 9

LENGTH: 1142 words

HEADLINE: JEFFORDS **MAKES** AIR. CLIMATE ISSUES PRIORITIES FOR EPW

BYLINE: Colleen Luccioli

BODY:

In laying out his agenda for the Environment and Public Works Committee, Sen. Jim Jeffords (I-Vt.), the new chairman of the panel, indicated his top priority is to move quickly on a four-pollutant bill to regulate emissions from power plants. **In** fact, the panel intends to hold a hearing next week to look at the environmental and public health impacts of utility emissions, an aide to Jeffords indicated.

“I plan to move ahead with the legislation in the committee, holding hearings in the coming weeks and months ahead, with a goal of moving a bill out of committee by the year’s end,” Jeffords said.

The legislation would require reductions of sulfur dioxide, nitrogen oxide, mercury and carbon dioxide (CO₂) emissions from power plants.

The real point of contention on the four-pollutant bill lies with CO₂ regulations. The Bush administration -- not to mention the power plant industry -- remains staunchly opposed to regulations on CO₂, despite a campaign pledge to control the emissions.

Jeffords acceded that obstacles confront a four-pollutant bill. "I'm not overly confident we will succeed," he said. "I understand the problems with it, but no progress will be made unless we try."

On a related note, an aide to Jeffords said a joint briefing between EPW and the Senate Judiciary Committee would occur soon to get an update on the administration's review of the New Source Review program, a controversial program under the Clean Air Act that requires pollution-control upgrades for facilities that were grandfathered under the Clean Air Act if certain changes were made to the sites. Currently, a host of utilities are involved in litigation due to Clinton administration-initiated suits charging the facilities were modified, should have installed pollution-control upgrades and contributed to smog problems. Given the Bush administration's review, it is unclear what will happen to those cases, but the staffer said, "we'd be just as happy if they disband" the review.

Jeffords also stressed his interest in addressing climate change issues and reducing greenhouse gases to at least 1990 levels. "I am deeply disappointed in the Bush administration's positions in the current round of negotiations on the climate treaty underway in Bonn right now. I urge the Bush administration to commit to the Kyoto treaty, then work with Congress to show leadership and start to implement programs that will achieve its targets," Jeffords said.

Given the Bush administration and Republican Party's resistance to the Kyoto treaty, Jeffords acknowledged that getting far with global warming legislation would be difficult, but said, "I'll work with them the best I can to press upon them the importance of global warming."

One of the reasons Bush and other Republicans cite in explaining their opposition to the Kyoto program is that it would pose economic difficulties to the United States. Jeffords downplayed those concerns by saying, "We always overdramatize economic impact on these issues."

WATER INFRASTRUCTURE

Touching on one of the panel's priorities when it was under Republican control, Jeffords vowed to pursue legislation to help water infrastructure needs.

"I will also focus on improving the water infrastructure of our nation. We plan to write and consider legislation to help rebuild and meet drinking water and wastewater treatment needs," Jeffords said.

He added, "Water infrastructure is in dire need of repair and will be a high priority."

BROWNFIELDS

Jeffords outlined an ambitious goal for brownfields: getting the Senate-passed brownfields bill signed this summer.

Jeffords was referring to S. 350, a bill that passed the Senate in April by a 99-0 vote. The legislation, which purports to increase cleanups of brownfields sites by limiting the Environmental Protection Agency's ability to require additional cleanup work after the site has been certified clean by a state agency, has not advanced in the House because of dispute over EPAs authority to intervene in cleanups.

Despite the controversy, Jeffords said he intends to make every effort to get the legislation enacted. He said, "I look forward to worlung with the House to complete legislative action on the bill by the August recess and see it signed into law this summer."

TRANSPORTATION

Congress must reauthorize transportation legislation by 2003, and Jeffords said he's putting his panel on an "aggressive hearing schedule" to meet that deadline.

"I will work to marry our environmental goals with our transportation needs," he said.

EPA NOMINATIONS

Jeffords also vowed to move as many EPA nominations "as

possible in the weeks ahead." The committee will hold a hearing on the nominations next week.

Among the EPA nominations still awaiting confirmation by the Senate are: Jeffrey Holmstead, to be assistant administrator for air and radiation; Tracy Meehan, to be assistant administrator for water; Donald Schregardus, to be assistant administrator for enforcement and compliance assurance; Judith Ayres, to be assistant administrator for international activities; and Robert Fabricant, to be general counsel.

So far, the most controversial candidate is Holmstead, whose nomination is not expected to be discussed next week and who worked in former President Bush's office of general counsel. Senate Majority Whip Harry Reid (D-Nev.) has put a hold on the nomination because he wants access to all information dealing with air and radiation within the **411** Holmstead files at the George Bush Presidential Library in College Station, Texas. Earlier this week, the White House said it would not open up the files due to attorney-client privilege, a Jeffords staffer said.

When asked what position he would take on the nomination, Jeffords said, "I'll look into it." A staffer to Jeffords later said the committee would seek follow-up reviews with the White House on the attorney-client privilege issue.

SMITH'S REMARKS

On a different note, Sen. Bob Smith (R-N.H.), formerly the chairman of the committee and now the ranking member, made clear he has two pieces of legislation he would like to see acted on by the committee in the near future. The first measure he would like to see action on is **S. 950**, a bill he introduced with Reid to phase out the use of methyl tertiary butyl ether (MTBE) and clean up any contamination resulting from its use. According to Smith, "This bill will also reduce the patchwork of boutique fuels around the nation."

The second bill Smith seeks quick action on is **S. 990**, which purports to help increase wildlife conservation efforts by promoting local control and state partnerships through flexible, incentive-driven conservation programs and increased partnerships with private owners.

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TESTIMONY-BY: MARGO THORNING, PH.D., SENIOR VICE PRESIDENT & CHIEF
ECONOMIST

AFFILIATION: AMERICAN COUNCIL FOR CAPITAL INFORMATION

BODY:

Tax Policy and Technological Innovation: Key Partners in Productive
Climate
Change Policy

Margo Thorning, Ph.D. ACCF Senior Vice President and Chief Economist
Before
the Senate Governmental Affairs Committee

The mission of the American Council for Capital Formation is to promote
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EXECUTIVE SUMMARY

Macroeconomic Effects of Caps on CO₂ Emissions Are Significant. A wide range of economic models predict that capping U.S. carbon dioxide (CO₂) emissions at the Kyoto target (7 percent below 1990 levels) would reduce U.S. GDP and slow wage growth significantly, worsen the distribution of income, and reduce growth in living standards. Proposed future reductions of 60 percent below 1990 levels by 2050 have not been modeled, but would have extremely serious consequences for all economies dependent on fossil fuels.

U.S. Budget Surplus Is Reduced Sharply. Slower economic growth means that federal tax receipts would be reduced. If implementation of the Kyoto Protocol reduces annual GDP by 3 percent per year, for example, the projected budget surplus in 2010 falls from \$47.1 billion to only \$3.15 billion.

International Emissions Trading Issues Are Major. Major obstacles to trading include securing developing country participation, allocating CO₂ emission rights, and distributing the resulting revenue.

European Union Unable to Meet Targets. Even though several EU members continue to support ratification of the Kyoto Protocol, a number of recent studies document that the EU will not be able to achieve its targets; in fact by 2010 the EU countries will be 10 to 25 percent above their targets.

Science of Climate Change Needs to Be Better Understood Before Costly Policies Are Implemented. Despite the United States' intensive investment in climate change science, numerous gaps remain in our knowledge, including conflict between global atmospheric and "surface" temperature

measurement, and
uncertainty about the amount of carbon sequestered in the oceans and soil
and
about the feedbacks in the climate system that determine the magnitude
and rate
of temperature increase.

Conclusion. A U.S. strategy for a productive climate policy providing
energy
security should include: fixing the U.S. tax code; expanding nuclear
energy;
expanding bilateral cooperation with developing countries; expanding
incentives
for use of landfill methane and biomass including ethanol from cellulose;
implementing a multi-year plan for improvement of coal technology;
removing
regulatory barriers; avoiding caps on CO₂ emissions by U.S. industry; and
avoiding setting targets for global CO₂ concentrations in the range of
550 ppm
in the next 75- 100 years.

INTRODUCTION My name is Margo Thorning and I am pleased to present this
testimony to the Senate Governmental Affairs Committee.

The American Council for Capital Formation rep-resents a broad
cross-section
of the American business community, including the manufacturing and
financial
sectors, Fortune 500 companies and smaller firms, investors, and
associations
from all sectors of the economy. Our distinguished board of directors
includes
cabinet members of prior Republican and Democratic administrations, former
members of Congress, prominent business leaders, and public finance and
environmental policy experts.

The ACCF is now celebrating its 28th year of leadership in advocating
tax,
regulatory, environmental, and trade policies to increase U.S. economic
growth
and environmental quality.

We commend Chairman Lieberman, Senators Byrd and Stevens and the Senate

Governmental Affairs Committee for their focus on the role of technology in addressing climate mitigation. In our view, tax incentives should be a key component in the push to develop new technology. Given the ACCF's extensive studies on the impact of tax policy on investment, my testimony will develop an aspect of what should become the foundation for an integrated approach to climate change policy. We believe that progress on technology proposals such as those in S. 1008, the Climate Change Strategy and Technology Act of 2001, is vitally important.

My testimony begins with a review of the macro-economic consequences of near-term CO₂ emission caps. It includes information from a number of analyses sponsored by the ACCF Center for Policy Research, the public policy research affiliate of the American Council for Capital Formation. These studies describe the economic costs of near-term caps on U.S. carbon emissions and the impact of emissions limits on the growth of the capital stock, as well as suggest tax incentives to encourage voluntary efforts such as the purchase of energy-efficient equipment and sequestration initiatives to reduce CO₂ emissions both in the United States and abroad. (Summaries of the Center's climate policy studies are available on our Web site, <http://www.accf.org>.) I also discuss issues related to long-term options for reducing CO₂ concentrations. Finally, strategies for a cost-effective, long-term approach to CO₂ stabilization are presented.

MACROECONOMICS EFFECTS OF CAPPING CO₂ EMISSIONS

The Kyoto Protocol to the United Nations Framework Convention on Climate Change, which was negotiated in December 1997, calls for industrial economies such as the United States, Canada, Europe, and Japan (termed Annex B countries) to reduce their collective emissions of six greenhouse gases by an

average of 5.2 percent from 1990 levels by 2008-2012. The U.S. target under the Protocol, which was rejected by the Bush Administration in March, is a 7 percent reduction from 1990 levels (or 1,251 million metric tons); this amounts to a projected 536 million metric ton cutback in carbon emissions relative to the projected amount in 2010, growing to a 728 million metric ton setback by 2020 (see Figure 1). In 1999, U.S. emissions were 1,527 million metric tons, or 22 per-cent above the Kyoto target. By 2010, the U.S. Department of Energy's Energy Information Administration (EIA) projects that emissions will be 43 percent above the target, and the gap will grow to 58 percent by 2020. (In 2010, carbon emissions from the transportation and utility sectors alone are projected to 1,300 million metric tons (see Figure 1). It is also worth noting that Mr. Tim Wirth, the former Clinton Administration climate policy negotiator, testified in 1997 that carbon emissions would need to be cut by up to 10 times the Kyoto targets (a 70 percent reduction). The United Kingdom has assumed it must reduce its emissions by 60 percent by 2050

The emissions cap would, in effect, ration the use of energy in the United States and require very large taxes, either directly or indirectly through the purchase of "permits," to restrain the demand for energy. The "multi-pollutant" approach would have the same effect. Research conducted over the past decade for the ACCF Center for Policy Research by top climate policy scholars concludes that the cost of reducing carbon emissions in the near term would impose a heavy burden on U.S. households, industry, and agriculture by reducing economic growth.

IMPACT ON GDP

Many climate policy experts believe that the emission reductions called for in the Kyoto agreement have potentially serious consequences for all Americans. Predicting the economic impact of reducing carbon emissions depends upon how an economic forecasting model handles several factors, including how rapidly industry and consumers respond to higher energy prices by substituting less carbon-intensive production methods and reducing the consumption of carbon-intensive goods and services. Other factors that can affect a model's results are the rate of technological change, the projected base-line greenhouse gas emissions, the amount of emissions trading, and use of carbon sinks and sequestration.

The rate of technological improvement for energy production and consumption assumed by most models under their baseline forecasts is fairly rapid. For example, the EIA's reference case assumes continued improvements in new and existing buildings, transportation, coal production, exploration for oil and gas, and electricity generation technologies. In fact, total energy intensity (defined as the ratio of primary energy consumption per dollar of **GDP**) declines at an average rate of **1.1** percent annually between 1998 and **2020**. The faster the rate of economic growth, the faster energy intensity declines in the EIA reference cases due to the more rapid turnover of the capital stock.

Recent model results show that as carbon emissions are capped or constrained, economic growth slows due to lost output as new energy taxes are imposed and prices rise for carbon-intensive goods- goods that must be produced using less carbon and/or more expensive processes. In addition, the capital stock

accumulates more slowly, reflecting the premature obsolescence of capital equipment due to the sharp energy price increases required to meet the carbon emission reductions mandated under the Protocol. It takes from **20** to 30 years to "turn over" or replace the entire U.S. capital stock. Thus, meeting the Protocol's **2008-2012** timetable for emission reductions would mean either continuing to utilize plant and equipment designed to use much lower-cost (pre-Kyoto) fuels, or replacing the capital stock much more rapidly than its owners had planned.

ECONOMIC IMPACT OF ADDITIONAL REDUCTIONS BEYOND THE KYOTO TARGET

The economic costs of the Kyoto Protocol described above do not reflect the additional economic impact of emission reductions beyond the Kyoto target. Kyoto supporters contemplate substantial future carbon emission reductions well below **1990** levels. At least one model has analyzed this scenario. A study using the Charles River Associates model (MS-MRT) shows that the cost of going beyond the carbon emission reductions required by the Kyoto Protocol is high. For example, a target of **21** percent below **1990** emission levels (or three times the Kyoto target) would reduce U.S. GDP by **2.4** percent annually in **2020** with Annex B emission trading and by 3.0 percent with domestic abatement alone.

IMPACT ON THE FEDERAL BUDGET SURPLUS

One way of assessing the impact of the Kyoto Protocol is to examine how slower economic growth would affect projected U.S. federal tax receipts and federal budget surpluses. Policymakers need to consider the potentially large negative impact of the Protocol on GDP growth and federal budget receipts, particularly since both the Administration and Congress are already chipping away at the federal budget surpluses to finance spending initiatives and

tax cuts for fiscal year 2001 and beyond. Using a simple calculation based on the relationship of increases in GDP to federal tax receipts, if GDP is 3 percent lower annually, the on-budget surplus in 2010 would decline by \$156 billion dollars, from \$471 billion to \$315 billion (see Figure 3). If, as the EIA model predicts, the Kyoto Protocol reduces GDP by 4 percent in 2010, the budget surplus drops to only \$261 billion dollars.

IMPORTANCE OF INTERNATIONAL EMISSIONS TRADING

Numerous studies show that a major determinant of the cost of curbing emissions is whether the United States can purchase permits from abroad where emissions can be reduced at a lower cost than in the United States. In the absence of an unfettered international trading system, the United States would be forced to curb its own carbon emissions by about 30 percent within 10 years. Due to population growth and increases in output, the gap between projected emissions and the Kyoto target will continue to grow (see Figure 1). Neither this growing gap nor the impact of additional reductions beyond the Kyoto targets have been addressed by Kyoto advocates.

IMPACT ON WAGE GROWTH AND CONSUMERS

U.S. consumers suffer declines in wage growth and the distribution of income worsens under carbon stabilization policies. Wesleyan University Professor Gary Yohe estimates that reducing emissions to 1990 levels (the Clinton Administration's pre-Kyoto target) would reduce wage growth by 5 percent to 10 percent per year, and the lowest quintile of the population would see its share of the economic "pie" shrink by about 10 percent. Texas A&M University Professor John Moroney estimates that U.S. living standards would fall by 15

percent under the Kyoto Protocol compared to the base case energy forecast. **U.S.** households also face much higher prices for energy under near-term reductions. A range of estimates by various experts concludes that gasoline prices would rise from almost 30 percent to over 50 percent and that electricity prices would go up by anywhere from 50 percent over 80 percent (see Figure 4). Predictions by the Clinton Administration Council of Economic Advisers (a 2.7 percent increase in gasoline prices and 3.4 percent rise in prices for electricity) are far below those of widely respected climate policy modelers.

U.S. COMPETITIVENESS IN ENERGY-INTENSIVE SECTORS AND AGRICULTURE

Several studies, including those by Dr. Brian Fisher and his colleagues at ABARE, University of Colorado's Professor Thomas Rutherford, DRI's Dr. Brinner, and WEFA's Ms. Novak, have concluded that near-term emission reductions would result in the migration of energy-intensive industry from the United States to non-Annex B countries (sometimes called "carbon leakage").

The 1999 study by Professor Manne of Stanford University and Dr. Richels of EPRI also analyzed this question. The Manne-Richels model results suggest that the Kyoto Protocol could lead to serious competitive problems for energy-intensive sector (EIS) producers in the United States, Japan, and OECD Europe. Meeting the emission targets in the Protocol would lead to significant reductions in output and employment among EIS producers, and there would be offsetting increases in countries with low energy costs. U.S. out-put of energy-intensive products such as autos, steel, paper, and chemicals could be 15

percent less than under the reference case by 2020. In contrast, countries such as China, India, and Mexico would increase their output of energy-intensive products. In its present form, the Protocol could lead to acrimonious conflicts between those who advocate free international trade and those who advocate a low-carbon environment, Professor Manne and Dr. Richels conclude.

U.S. agriculture would also lose competitiveness if the United States complied with the Kyoto Protocol. A study based on the DRI model by Terry Francl of the American Farm Bureau Federation, Richard Nadler of K.C. Jones Monthly, and Joseph Bast of the Heartland Institute (FNB) predicts that implementation of the Protocol would cause higher fuel oil, motor oil, fertilizer, and other farm operating costs. This would mean higher consumer food prices and greater demand for public assistance with higher costs. In addition, by increasing the energy costs of farm production in America while leaving them unchanged in developing countries, the Kyoto Protocol would cause U.S. food exports to decline and imports to rise. Reduced efficiency of the world food system could add to a political backlash against free trade policies at home and abroad.

The FNB analysis, which concludes that U.S. agriculture would be adversely affected by the Kyoto Protocol, stands in sharp contrast with the May 1999 report by the U.S. Department of Agriculture (USDA), which finds that the Kyoto Protocol would have "relatively modest" impacts on U.S. agriculture. The USDA report is seriously flawed for two reasons, according to a recent analysis by **Mr. Francl**. First, the USDA report relies on the unrealistic assumptions about the impact of the Kyoto Protocol on energy prices contained in the Administration's 1998 CEA analysis. Second, the USDA report makes the

heroic

assumption that **U.S.** farmers will have unrestricted access to carbon credit trading.

FLAWS IN THE CLINTON ADMINISTRATION CEA ANALYSIS

The Clinton Administration Council of Economic Advisers' July **1998** economic analysis of the impact of reducing carbon emissions to 7 percent below **1990** levels, mentioned earlier, is seriously flawed for three reasons.

First, CEA cost estimates assume full global trading in tradable emission permits (including trading with China and India). Most top climate policy experts conclude that this assumption is extremely unrealistic, because the Protocol does not require developing nations—who will be responsible for most of the growth in future carbon emissions—to reduce their emissions, and many have stated that they will not do so.

Second, the CEA's cost estimates assume that an international carbon emissions trading system can be developed and operating by **2008-2012**. This assumption is unrealistic, according to analysis by Massachusetts Institute of Technology's Professor A. Denny Ellerman.

Third, the cost estimates are based on the Second Generation Model (SGM) developed by Battelle Memorial Institute. The SGM appears to assume cost-less, instantaneous adjustments in all markets; the model is not appropriate for analyzing the Protocol's near-term economic impacts, according to CRA's Dr. Montgomery. As Massachusetts Institute of Technology Professor Henry Jacoby observes, there are no short-term technical changes that would significantly lower **U.S.** carbon emissions.

Finally, a former Clinton Administration official acknowledged that the

CEA

estimates understated the cost of the Kyoto Protocol by a factor of ten in a USA

Today article (June 12,2001).

EUROPEAN UNION UNABLE TO MEET TARGETS

Even though several EU members continue to support ratification of the Kyoto

Protocol, a number of recent studies document that the EU will not be able to

achieve its Kyoto CO 2 emission reduction targets by 2008-2012 (see Figure 5).

These studies include:

European Commission, "Towards a European Strategy for the Security of Energy

Supply"(November 28, 2000). The EU's own report shows that their CO 2 emissions

will be 15 percent above their Kyoto target by 2010, rising to almost 20 percent

above by 2020. While stressing the need to reduce CO 2 emissions, the EU report

cautions that climate change policy should not be allowed to "endanger economic

development."

The Pew Center on Global Climate Change, "The European Union & Global Climate

Change"(June 2000). In an analysis of five major EU member states (Germany,

United Kingdom, Netherlands, Austria, and Spain) responsible for 60 percent of

CO 2 emissions in 1990, Pew concludes that only the United Kingdom has a good

chance of meeting its targets and Germany will find it "difficult." The other

three countries are "not on track"; emissions in the Netherlands currently exceed 1990 levels by 17 percent; Austria has no plans in place to meet

its target; and Spain is already close to reaching its allowed growth in CO 2 emissions (a concession to its relative poverty), meaning that Spain is

likely

to be well above its emission target by 2010.

MIT Joint Program on the Science and Policy of Global Change, "Carbon Emissions and the Kyoto Commitment in the European Union"(February 2001). According to the results of the MIT Emissions Prediction and Policy Analysis model, CO 2 emissions in the EU will rise by 14 percent above the 1990 levels in 2010 instead of decreasing by 8 percent as required by the Kyoto Protocol.

The Australian Bureau of Agricultural and Resource Economics, "Climate Change Policy and the European Union"(September 2000). ABARE's report concludes CO 2 emissions in the EU will increase by an average of 0.3 percent per year from 1990 to 2010 unless stringent new measures are undertaken. (In other words, emissions will rise by about 10 percent rather than fall to 8 percent below 1990 levels).

U.S. Department of Energy, Energy Information Administration, International Energy Outlook (March 2001). The EIA analysis predicts that by 2010, emissions in Western Europe will be almost 25 percent higher than they were in 1990, falling far short of their Kyoto targets.

WEFA, "The Kyoto Protocol: Can Annex B Countries Meet Their Commitments?"(October 1999). WEFA surveys five other government reports, including an EU study (as well as its own analysis), and concludes that Western Europe is unlikely to meet its targets. Emissions would need to fall by 15 percent to 30 percent, which would constrain economic growth in politically unacceptable terms. While a new European Commission report from the European Climate Change Programme (June 2001) analyzed measures affecting all sectors of their economy and concluded that "the potential of cost-effective options is twice the size of the EU's required emission reductions," the EU's new

report is
flawed for several reasons, including:

"Cost-effective" is defined as policies that cost no more than 20 euros per metric ton of avoided CO₂ emissions, or \$62 per metric ton of carbon in U.S. dollars. Most experts consider \$62 per metric ton of carbon "expensive." (Some of the suggested policies cost up to \$312 per metric ton of carbon to put in place.)

The policy yielding the largest impact affects buildings. The costs of these policies was calculated with a very low discount rate (4 percent), a rate of return that no private investor would accept. Thus, the new EU study is actually a "wish list" of policies the environmental ministry "wishes" that businesses and households would adopt, but that are not likely to be undertaken voluntarily because of their high costs.

SCIENCE OF CLIMATE CHANGE NEEDS TO BE BETTER UNDERSTOOD

Despite the United States' intensive investment in climate change science over the past decade, numerous gaps remain in our understanding of climate change. The National Academy of Sciences' National Research Council identified critical uncertainties about the science of climate change in its white paper, Climate Change Science: An Analysis of Some Key Questions:

Conflict between global atmospheric and "surface" temperature measurements
(see Figure 6);

Uncertainty about how much carbon is sequestered by oceans and terrestrial sinks and how much remains in the atmosphere;

Uncertainty about feedbacks in the climate system that determine the

magnitude and rate of temperature increases;

Uncertainty about the direct and indirect effects of aerosols;

Uncertainty about the details and impacts of regional climate change resulting from global climate change;

Uncertainty about the nature and causes of the natural variability of climate, including the sun, and its interactions with forced changes;

Uncertainty about the emissions and usage of fossil fuels and future emissions of methane. These science questions must be addressed before the United States and its allies embark on a path as nonproductive as that of the Kyoto Protocol. (For more detail, please see the Appendix to this testimony.)

GREENHOUSE GAS EMISSION TARGETS PREMATURE AND UNJUSTIFIED

According to scholars such as Brookings Institution economist Dr. Robert Crandall, setting targets and timetables for U.S. greenhouse gas emissions is premature. He bases this conclusion on:

The uncertainty about whether or the extent to which global warming is occurring (see Figure 6); new data from climatologist and U.N. Intergovernmental Panel on Climate Change author Professor John Christy of the University of Alabama demonstrates that while surface-based measures show warming, satellite data shows little warming; and

The high cost of foregone investment if the United States sacrifices badly needed economic growth to reduce emissions.

In a 1999 report, Dr. Crandall observes that the economic estimates of the costs and benefits of reducing emissions to 1990 levels that are in the literature are not particularly supportive of going ahead immediately with any policy of abatement. For example, as an analysis by Brookings Institution fellows Drs. Warwick McKibben and Peter Wilcoxon points out, the estimates of

the costs of capping emissions at 1990 levels generally range from 1 to 2 percent of GDP per year, while the benefits, estimated at most to be 1.3 percent of GDP, will not arise for at least 30 to 50 years. Dr. Crandall notes that

"Every dollar dedicated to green-house gas abatement today could be invested to grow into \$150 in the next 50 years at a 10 percent social rate of return, even at a puny 5 percent annual return, each dollar would grow into \$12 in 50 years.

Therefore, we need to be sure that the prospective benefits, when realized, are at least 12 to 150 times the current cost of securing them. Otherwise, we should simply not act, but use our scarce resources in other ways." Moreover, the climate models generally forecast that it would require far greater reductions than a return to 1990 emissions to stabilize the climate. Dr. Crandall concludes, "We cannot justify a return to 1990 emissions based on the average estimates in the literature, no matter how efficiently it is done."

It is clear that the marginal costs of abatement in low-income societies such as China and India are substantially below those in developing countries, Dr.

Crandall notes. Economists envision a marketable permits program as being global in scope. The United States, France, Japan, and Germany, for example, would buy permits from China, India, or Bangladesh. The latter would, in turn, reduce their CO₂ or other greenhouse gas emissions by this amount over the levels that would have occurred without the permits policy in all future years. The difficulties involved in such a future program would be immense: measuring emissions from millions of sources from motor scooters to bovine animals; forecasting emission levels for the uncontrolled scenario; and, finally, enforcing the reductions from these myriad sources. If enforcing nuclear nonproliferation treaties is difficult, enforcing a global greenhouse gases trading program would be incomparably more complicated.

Yale University Professor William D. Nordhaus has also analyzed the costs and benefits of CO 2 emission limits. Dr. Nordhaus' research shows that the costs of even an efficiently designed emission reduction program exceed the value of environmental benefits by a ratio of 7 to 1 and that the United States would bear almost two-thirds of the global cost. Targets and timetables for emission reductions would also tend to discourage businesses and households from investing now in new equipment and processes that would reduce greenhouse gas emissions. This unfortunate result stems from the fact that tax depreciation schedules for many types of investments that could reduce CO 2 emissions are very slow. Slow capital cost recovery means that investments that are deemed "risky" because of possible future emission caps face a much higher hurdle rate to gain acceptance than would an investment whose cost could be recouped immediately through expensing (first-year write-off). The prospect of emission constraints in the future will tend to retard the very type of capital expenditures that many believe would facilitate emission reductions without curtailing economic growth.

TAX POLICY FOR VOLUNTARY ACTION

Current U.S. tax policy treats capital formation- including investments that increase energy efficiency and reduce pollution- harshly compared with other industrialized countries and with our own recent past. For example, before the **1986** Tax Reform Act (TRA '86), the United States had one of the best capital cost-recovery systems in the world.

Under the strongly pro-investment tax regime in effect during **1981-85**,

the present value of cost-recovery allowances for wastewater treatment facilities used in pulp and paper production was about 100 percent (meaning that the deductions were the equivalent of an immediate write-off of the entire cost of the equipment), according to an analysis by Arthur Andersen LLP (see Table 1).

Under TRA '86, the present value for wastewater treatment facilities fell to 81 percent for pulp and paper, dropping the U.S. capital cost recovery system to near the bottom ranking of an eight-country inter-national survey. Allowances for scrubbers used in the production of electricity were 90 percent before TRA '86; the present value fell to 55 percent after TRA '86, ranking the United States at the bottom of the survey. As is true in the case of productive equipment, both the loss of the investment tax credit and the lengthening of depreciable lives enacted in TRA '86 raised effective tax rates on new investment in pollution- control and energy-efficient equipment. Slower capital cost recovery means that equipment embodying new technology and energy efficiency will not be put in place as rapidly as it would be under a more-favorable tax code. A variety of tax incentives such as expensing, accelerated depreciation, tax-exempt bond financing, or more-generous loss carrybacks that reduce the cost of capital for voluntary efforts to reduce greenhouse gas emissions, such as those included in S. 1777, the Climate Change Tax Amendment introduced in the 106th Congress by Senator Larry Craig (R-ID), would be more effective than the "credit for early action" regulatory framework proposal or the multi-pollutant approach proposed by some in Congress.

CONCLUSIONS: A PARTNERSHIP BETWEEN TAX POLICY AND TECHNOLOGICAL INNOVATION

If, as knowledge of the climate system increases, policy changes to reduce

carbon emissions become necessary, these changes should be implemented in a way that minimizes damage to the U.S. economy. Above all, experts agree that voluntary measures clearly and cost-effectively reduce the growth in greenhouse gas emissions, as the U.S. Second National Communication to the Framework Convention on Climate Change noted in 1997.

A U.S. strategy for reducing CO 2 emissions and providing energy security should include:

Fix the U.S. Tax Code: Providing expensing (first-year write-off) or faster depreciation for new investments that reduce CO 2 can reduce the cost of capital by 20-30 percent.

Expand Nuclear Energy: Nuclear power expansion has a vital role to play in managing CO 2 emissions while strengthening U.S. energy security.

Expand Bilateral Cooperation With Developing Countries: Promoting the use of existing and emerging technology in developing countries for clean coal, natural gas, and hydro electricity production could substantially slow the growth of global CO 2 emissions.

Expand Incentives for use of landfill methane and biomass including ethanol from cellulose. The EIA's April 2000 Climate Change Technology Initiative report shows that these programs are the most efficient use of tax incentives to reduce CO 2 emissions.

Implement Multi-Year Plan for Improvement of Coal Technology: In the short term, focus on new clean coal technology, co-firing with biomass, and coal to gas; in the long term, institute a capture target of 50 percent

(converts coal emissions to the equivalent of natural gas).

Remove Regulatory Barriers: New Source Review is impeding the retrofiting and expansion of U.S. electricity generating, refining, and manufacturing capacity and making it more difficult to put in place the kinds of changes that would reduce CO 2 for each unit produced.

Avoid Caps on CO 2 Emissions by U.S. industry. Such a policy will have a negative impact on the willingness of industry to invest here in the United States in the new technologies because of the concern that "voluntary" emission cuts will become mandatory. Allowing industry to recover its costs faster will spur the kind of investments that reduce CO 2 and expand output of energy as well as other products and services.

Avoid Setting Targets for Global CO 2 Concentrations in the range of 550 ppm in the next 75-100 years. Such targets would require the developed countries' CO 2 emissions to fall to zero by about 2050 and would likely severely constrain U.S. economic growth. Models which show that their targets can be achieved at low cost, such as the Second Generation Model used by Jae Edmonds at Battelle Memorial Institute, are seriously flawed. The SGM model assumes costless, instantaneous adjustments in all markets and does not specify how the new technology required to move off carbon-based fuels is to be developed.

The consensus of the noted climate policy scholars whose work is discussed in this report is clear. Given the need to maintain strong U.S. economic growth to address such challenges as a growing population, the retirement of the baby boom generation, and a persistent trade deficit, policymakers need to weigh carefully

the Kyoto Protocol's negative economic impacts and its failure to engage developing nations in full participation. Adopting a thoughtfully timed climate change policy-based on accurate science, improved climate models, global participation, tax incentives to accelerate investment in energy efficiency and sequestration, and new technology-is essential, both to **U.S.** and global economic growth and to eventual stabilization of the carbon concentration in the atmosphere, if growing scientific understanding indicates such a policy is needed.

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Smog Feared in Power Buildup;
Electricity: Bush administration's plan for up to 1,900 plants over **20**
years
poses a threat to air quality, especially in the Midwest and South,
experts say.

BYLINE: GARY POLAKOVIC. TIMES ENVIRONMENTAL WRITER

BODY:

The Bush administration's plans for a massive buildup of power plants nationwide could result in dirtier air in places where smog is already bad and

getting worse--particularly in the Midwest and the South, air quality experts fear.

Smog levels have been cut nationwide in the last 20 years, but the 1990s saw deteriorating air quality in places such as Columbus, Ohio, where the number of smoggy days jumped 78% during the decade, and Memphis, Tenn., where they doubled, according to figures from the federal Environmental Protection Agency.

A large part of the deterioration is attributable to power plant emissions--a major contributor to ozone, which is colorless, and haze. Despite cleanup efforts, power plant emissions are up across much of the fast-growing South and in the Plains states.

Meanwhile, generating plants running at peak capacity to produce electricity for California are sullyng Western skies too. Smokestack emissions are up from Washington state to Utah and Arizona to Montana, the EPA says.

"The interior West has fantastic visibility, and power plants are one of the primary causes of visibility degradation," said Bruce Driver, executive director of the Land and Water Fund of the Rockies. "The emissions stand out like pouring red wine on white carpet. We have concerns about building new power plants in the West."

The administration's energy plan calls for building up to 1,900 plants over the next two decades, increasing the nation's electrical generating capacity by at least half. That is equivalent to two new 300-megawatt plants a week--the fastest rate of expansion over such a long period since the end of World war II,

according to the Department of Energy.

Republicans at the White House and in Congress say they are confident they can chart a path toward energy stability without harming the environment.

"Whichever way we go, we'll maintain the air quality standards," said Rep. Joe Barton (R-Texas), who chairs the House energy and air quality subcommittee.

In theory, more power plants do not have to mean worse air quality. Even plants burning coal, which is the dirtiest of the fuels in current use, can be made much cleaner. (A separate problem--emission of gases that can contribute to global warming--is worsened by any increase in the number of power plants burning coal, oil or natural gas.)

What most concerns air quality officials is that the administration not only has proposed increasing the number of plants, but it also has stalled efforts initiated by the Clinton administration to force dozens of dirty, older coal-fired plants to install up-to-date pollution control equipment through a rule, known as new source review, that is designed to control emissions from new and modified plants.

Administration officials began a series of public hearings last week on their proposals to replace the new source review rules.

When it comes to air quality, the administration's energy plan offers a fork in the road, said John D. Bachmann, associate director of science policy in the EPA's air quality division.

"The good path is: We can build a lot of new power plants with modern technology that have less emissions and phase out older plants," he said. "Or we can loosen emissions caps and the new source review regulations, but

lots of
coal and let the power plants go."

Under that scenario, "you would see a worsening of air quality," he said.

Power plants will be the major factor governing air quality in much of the nation for decades, said William Chameides, a chemist in the School of Earth and Atmospheric Sciences at the Georgia Institute of Technology.

"Extra power plants will put more emissions in the air," he said. "I don't know if people have thought this out very well, and I don't think people are aware of the magnitudes we are talking about."

In the optimistic view, the future could look like the Polk Power Station, now operating in a swamp near Fort Lonesome, Fla. The plant is one of two commercial clean-coal plants, which burn gases emitted from superheated coal. It emits 85% fewer nitrogen oxides than a typical coal-fired plant.

Nitrogen oxides, which contribute to haze and acid rain, are one of the major pollutants produced by power plants. In the air, they are key to forming ozone, a toxic gas that can sear lung tissue and cause shortness of breath, headaches, nausea and long-term loss of lung function.

Nitrogen oxides are also the only major pollutant targeted under the Clean Air Act that is not in decline. Emissions have increased nearly 20% since 1970, according to the EPA, with most growth due to coal-fired power plants and heavy-duty diesel engines.

Nationwide, emissions of all smog-forming pollutants from power plants dropped slightly over the last 10 years. But across the rapidly growing South

and parts of the Great Plains and Midwest, emissions during the decade rose--growing as much as one-third in some areas, according to EPA figures.

The administration has committed \$2 billion to clean coal research over the next 10 years. President Bush comes from Texas, which uses more coal-fired power than any other state; Vice President Dick Cheney hails from Wyoming, the largest coal-producing state.

But power plants like the one at Fort Lonesome are only clean relative to conventional coal plants and are expensive to construct. The Florida plant emits 20 times more nitrogen oxides than a comparable plant fired by natural gas and costs three times as much to build. Moreover, a coal-burning plant, even with the cleanest technologies, poses much more of a global warming problem than a plant using natural gas or oil.

The major provision of the Clean Air Act that is aimed at controlling emissions from new power plants is the new source review rule. EPA officials say the rule has typically resulted in emissions cuts at power plants of 70% to 95%.

Air pollution control officials consider new source review to be a key to controlling power plant emissions. Weakening the rules will certainly worsen air quality in many areas of the country, said S. William Becker, executive director of the State and Territorial Air Pollution Program Administrators and the Assn. of Local Air Pollution Control Officials.

Administration officials, by contrast, consider the rule bureaucratic, costly and ineffective. "New source review is a roadblock to clean-burning energy plants," said Cheney's spokeswoman, Julienna Glover-Weiss.

What the administration favors is a market-based program that would cap total emissions from power plants and allow companies to buy and sell credits to reach reduction targets. Companies that reduce more than their pollution allocation can sell to companies that produce over their limit.

Such programs are favored by free-market advocates, industry groups and many economists. Supporters say market-based programs cost less, offer businesses more options for knocking down emissions and rely on the invisible hand of the marketplace rather than the strong arm of regulatory mandate to find the most effective remedies.

Air-quality officials and environmental activists fear that the proposed market-based programs would not work. And they say the administration is already showing signs of backsliding in its enforcement of air quality regulations.

Under intense lobbying pressure from power companies, the White House earlier this year instructed the Justice Department and the EPA to review enforcement actions against companies accused of violating the Clean Air Act.

In 1999, federal officials charged that 32 coal-fired power plants in several Southern and Midwestern states had ignored a requirement that companies install advanced emission controls whenever their plants are upgraded.

The government reached a settlement with Tampa Electric Co. Two other settlements are pending with Cinergy Corp. and Virginia Power Co. But several other cases are being reconsidered, including ones against Duke Power Corp., Southern Co. and the Tennessee Valley Authority.

Critics of the administration's plans also say the record of market-based approaches is mixed. On the one hand, the nation's 11-year-old program to reduce acid rain by allowing power plants to trade emissions credits is widely credited with cutting emissions and saving compliance costs. It corrals hundreds of coal-fired power plants into one market-trading block, caps the annual emissions at 9 million tons and then lets power producers swap credits to achieve the goal.

On the other hand, a similar market-based program to cut smog in Los Angeles has not worked. Called RECLAIM, it was the world's first attempt to harness market forces to tackle urban smog. Eight years after its inception, however, polluters have avoided installing controls and the state's power crisis has led to a shortage of pollution credits that has driven up compliance costs. The program has failed to cut emissions as expected, although officials are trying to salvage it.

Many environmentalists oppose market-based strategies to fight pollution. They say they are difficult to enforce, allow too much self-policing by businesses and have the potential to concentrate emissions in poor and minority communities.

A coalition of 20 environmental groups earlier this month urged EPA Administrator Christie Todd Whitman to suspend trading programs being considered by four states. That request came a week after a letter from the EPA's inspector general's office agreed to investigate concerns about market-based programs.

Smog U.S.A.

Power plant emissions of nitrogen oxides are down nationwide over the last decade, but the reductions are not uniform. Added emissions in the South and parts of the Midwest contribute to deteriorating air quality.

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Days per year exceeding 8-hour ozone limit

Los Angeles

Average of '90-'92: 132

Average of '97-'99: 37

*

Knoxville, TN

Average of '90-'92: 13

Average of '97-'99: 50

*

Atlanta

Average of '90-'92: 28

Average of '97-'99: 47

*

Charlotte, NC

Average of '90-'92: 17

Average of '97-'99: 36

*

Pittsburgh

Average of '90-'92: 13

Average of '97-'99: 27

*

Louisville, KY

Average of '90-'92: 9

Average of '97-'99: 27

*

Raleigh, NC

Average of '90-'92: 7

Average of '97-'99: 20

*

Youngstown, OH

Average of '90-'92: 9

Average of '97-'99: 15

*

Indianapolis

Average of '90-'92: 9

Average of '97-'99: 14

*

New Orleans

Average of '90-'92: 4

Average of '97-'99: 11

*

Ozone is in decline in Los Angeles and the Northeast, but progress against smog is lacking across much of the nation.

Source: U.S. Environmental Protection Agency

GRAPHIC: GRAPHIC: Smog U.S.A., Los Angeles Times

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