America's Energy Infrastructure

A Comprehensive Delivery System

One of the greatest energy challenges facing America is the need to use 21st- century technology to improve America's aging energy infrastructure. Americans need a comprehensive, long-term solution to deliver energy to industry and consumers in a reliable and safe manner.

Our energy infrastructure is comprised of many components, such as the physical network of pipes for oil and natural gas, electricity transmission lines and other means for transporting energy to consumers. This infrastructure also includes facilities that turn raw natural resources into useful energy products. The rail network, truck lines, and marine transportation are also key components of America's energy infrastructure.

The energy industry has undergone major changes in the last two decades, and more are expected. These changes affect how our energy infrastructure operates. For example, while the electricity industry was once vertically integrated, it is increasingly separated into three isolated segments: generation, transmission, and distribution.

Our energy infrastructure has failed to keep pace with the changing requirements of our energy system. Domestic refining capacity has not matched increases in demand, requiring the United States to import refined products. Natural gas pipelines have not expanded sufficiently to meet demand. The electricity transmission system is constrained by insufficient capacity. Rail capacity was significantly increased during the 1970s when rail facilities were improved to move more coal. Since then, however, few additions to the coal transportation rail network have been built.

The United States needs to modernize its energy infrastructure. One sign of a lack of an energy policy in recent years has been the failure to maintain the infrastructure needed to move energy where it is needed most.

Electricity

The electricity infrastructure includes a nationwide power grid of long-distance transmission lines that move electricity from region to region, as well as the local distribution lines that carry electricity to homes and businesses. Electricity originates at power plants, which are primarily fueled by coal, nuclear, natural gas, water and, to a lesser extent, oil. Coal, natural gas and oil powered plants require a dependable transportation infrastructure to deliver the fuels necessary for the production of electricity. A transportation network for waste disposal is also necessary for power plants that create by-products.

Restructuring

The electricity industry has undergone considerable changes in the last two decades. These changes affect how our electricity infrastructure operates. Major industry restructuring has separated once vertically integrated electric utilities that supplied generation, transmission, and distribution services into distinct entities. To facilitate competition at the wholesale level, in 1996, the Federal Energy Regulatory Commission (FERC) required transmission-owning utilities to "unbundle" their transmission and power marketing functions, and provide nondiscriminatory, open access to their transmission systems by other utilities

FIGURE 7-1
North American Transmission Lines

About 204,000 miles of long-distance transmission lines move power from region to region. The four integrated transmission grids serving North America are the Western Interconnection, Eastern Interconnection, Electric Reliability Council of Texas, and Province of Quebec.

Source: PA Consulting Group


Eastern
Interconnect
Legend
Below 230kv
230kv - 344kv
345kv - 499kv
500kv - 734kv
735kv - 999kv
AC-DC-AC Tie
DC Line
Dashed lines indicate proposed transmission lines.
Prepared using RDI PowerMap data. Information on this map is believed to be accurate but is not guaranteed.

and independent power producers. At the retail level, some states have required utilities to divest their generation assets as part of restructuring. These utilities currently supply only transmission and distribution services for customers who purchase electricity (i.e., generation services) from other firms. In addition, power marketers—who often do not own generation, transmission, or distribution facilities—buy and sell power on wholesale markets and market electricity directly to customers.

Electricity competition has led to significant changes in the operation of the bulk power grid, which are the power plants and high-voltage transmission facilities that make up the wholesale power market. More electricity is being shipped longer distances over a transmission system that was initially designed only to provide limited power and reserve sharing among neighboring utilities. Electric utilities that were once solely responsible for ensuring that adequate generation was available to meet demand now purchase a substantial amount of the power they need from the wholesale market, relying on independent power producers to build and operate plants.

Electricity Generation

There are roughly 5,000 power plants in the United States, and they have a total generating capacity of nearly 800,000 megawatts. Over the past few years, there has been an explosion of "merchant" power plants proposed by independent power producers seeking to sell into wholesale markets. In spite of this interest, a number of regions of the country are experiencing capacity shortages as a result of wholesale market design problems and barriers to siting and building new power plants.

Over the next ten years, demand for electric power is expected to increase by about 25 percent, and more than 200,000 megawatts of new capacity will be required. However, under current plans electric transmission capacity will increase by only 4 percent. This shortage could lead to serious transmission congestion and reliability problems.

Transmission Grid

The United States does not have a national transmission grid. Instead, there are four integrated transmission grids serving North America: the Western Interconnection, Eastern Interconnection, Electric Reliability of Council of Texas, and the Province of Quebec (Figure 7-1). These regional grids themselves are international, encompassing the United States, Canada, and part of Mexico.

Transactions between the four integrated transmission grids are very limited because they are interconnected at only a few locations through interties, so for all practical purposes they can be viewed as separate transmission grids. The four integrated transmission grids break down into a series of smaller regions, largely defined by transmission constraints. Altogether, 204,000 miles of transmission lines in North America move power from the point of generation to where electricity is needed. There are 157,810 miles of transmission lines in the United States. Transmission grid expansions are expected to be slow over the next ten years, with additions totaling only 7,000 miles.

The transmission system is the highway system for interstate commerce in electricity. Transmission allows the sale of electricity between regions. In a particular region, transmission can be a substitute for generation, allowing that region to import power that otherwise would have to be generated within that region. In some cases, transmission expansion may be more cost-effective than generation additions, allowing a region better access to lower-cost generation.

Transmission constraints limit these power flows, and result in consumers paying higher prices for electricity. The electricity price spikes in the Midwest in the summer of 1998 were caused in part by transmission constraints limiting the ability of the region to import electricity from other regions of the country that had available electricity. During the summer of 2000, transmission constraints limited the ability to sell low-cost power from the Midwest to the South during a period of peak demand,

resulting in higher prices for consumers. Transmission capacity limits could result in price pressures and reliability problems this summer in California, Long Island, the Great Lakes, the Southeast, and New England (Figure 7-2).

Regional shortages of generating capacity and transmission constraints combine to reduce the overall reliability of electric supply in the country and are reducing the quality of power delivered to end users. Power quality is becoming an increasingly important issue as our digital economy continues to grow.

One factor limiting reliability is the lack of enforceable reliability standards. Since 1968, the reliability of the U.S. transmission grid has depended entirely on voluntary compliance with reliability standards. There is a broad recognition that voluntary adherence with reliability standards is no longer a viable approach in an increasingly competitive electricity market. There is a need to provide for enforcement of mandatory reliability standards. Broad support has emerged for development of these standards by a self-regulating organization overseen by FERC.

Recommendations:

★ The NEPD Group recommends that the President direct the Secretary of Energy to work with FERC to improve the reliability of the interstate transmission system and to develop legislation providing for enforcement by a self-regulatory organization subject to FERC oversight.

★ The NEPD Group recommends that the President direct the Secretary of Energy to expand the Department's research and development on transmission reliability and superconductivity.

Transmission constraints were also a primary factor in blackouts in northern California, which imports power from both the Northwest and southern California. When resources are not available in the Northwest, electricity supply must come from southern California's Path 15 transmission route. Path 15 does not have sufficient capacity to provide all of the power needed in northern California.

Figure 7-2

Current Electric Power Bottlenecks

Transmission capacity limits could result in price pressures and reliability problems this summer in California, Long Island, the Great Lakes, the Southeast, and New England. The arrows in this figure depict the locations and directions of current transmission congestion.

Source: North American Electric Reliability Council.

Recommendation:

★ The NEPD Group recommends that the President direct the Secretary of Energy to authorize the Western Area Power Administration to explore relieving the "Path 15" bottleneck through transmission expansion financed by nonfederal contributions.

Transmission constraints have been a persistent cause of price spikes in New York City in recent years. The New York Independent System Operator (the grid operator in that state) estimates that the city will be short about 400 MW below their desired reserve margin of power during the summer peak. To fill this gap, the New York Power Authority is trying to install additional generation capacity in the city. Market-oriented approaches could also be used to create additional capacity and alleviate some of the potential problems.

If transmission constraints are not removed, the result can be higher prices and

lower reliability. There are various reasons why transmission constraints exist. One is the lack of sufficient investment in transmission. Transmission investment has lagged dramatically over the past decade (Figure 7-3). There is a need to ensure that transmission rates create incentives for adequate investment in the transmission system, especially as restructuring leads to the creation of transmission companies whose only business is operation of transmission facilities. FERC recognizes this need and has expressed a willingness to consider innovative transmission pricing proposals.

Another cause of transmission constraints is the siting process. Under current law, siting of transmission facilities is a responsibility of state governments, not the federal government, even though the transmission system is not only interstate but also international, extending into both Canada and Mexico. This stands in stark contrast to siting of other interstate facilities, such as natural gas pipelines, oil pipelines, railroads, and interstate highways.

Federal law governing the responsibility for siting transmission facilities was written in 1935, nearly 80 years ago. At the time, transmission facilities were not interstate, and there was virtually no interstate commerce in electricity. Congress did not anticipate the development of an interstate and international transmission system.

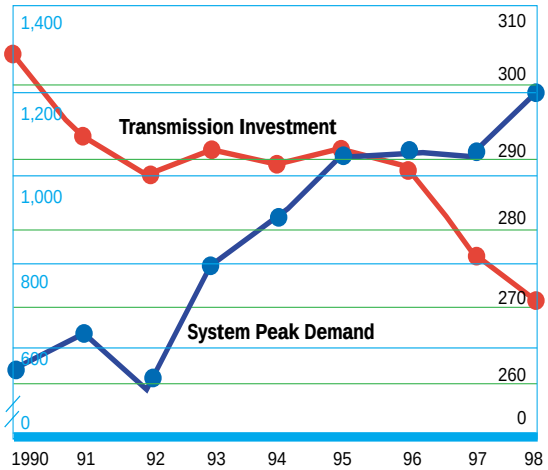
State decisions on where to locate transmission lines often do not recognize the importance of proposed transmission facilities to the interstate grid. For example, a recent decision by regulators in Connecticut to block a proposed transmission line to Long Island did not recognize the need for electricity on Long Island. Some state siting laws require that the benefits of a proposed transmission facility accrue to the individual state, resulting in the rejection of transmission proposals that benefit an entire region, rather than a single state.

Much has changed since 1935. The transmission system is the highway for interstate commerce in electricity. Transmission constraints are resulting in higher prices for consumers and lower reliability. The siting process must be changed to reflect the interstate nature of the transmission system.

Figure 7-3

U.S. Investment in New Electric Power Transmission

(Millions of 1990 Dollars)



Growth in peak demand for electricity has far outstripped investment in transmission capacity. As a result, transmission constraints could aggravate already limited supplies of power and could result in high prices in some areas of the country.

Source: PA Consulting Group, based on data from the UDI data base.

Recommendations:

★ The NEPD Group recommends that the President direct the appropriate federal agencies to take actions to remove constraints on the interstate transmission grid and allow our nation's electricity supply to meet the growing needs of our economy.

- Direct the Secretary of Energy, by December 31, 2001, to examine the benefits of establishing a national grid, identify transmission bottlenecks, and identify measures to remove transmission bottlenecks.
- Direct the Secretary of Energy to work with FERC to relieve transmission constraints by encouraging the use of incentive rate-making proposals.
- Direct the federal utilities to determine whether transmission expansions are necessary to remove constraints. The Administration should review the Bonneville Power Administration's (BPA's) capital and

financing requirements in the context of its membership in a regional RTO, and if additional Treasury financing appears warranted or necessary in the future, the Administration should seek an increase in BPA's borrowing authority at that time.

- Direct the Secretary of Energy, in consultation with appropriate federal agencies and state and local government officials, to develop legislation to grant authority to obtain rights-of-way for electricity transmission lines, with the goal of creating a reliable national transmission grid. Similar authority already exists for natural gas pipelines in recognition of their role in interstate commerce.

Another cause of transmission constraints is limited access to federal lands. The federal government is the largest landowner in the United States and owns most of the land in some western states. Limited access to federal lands can block needed transmission expansion. A case in point is a transmission line being built from West Virginia to Virginia. Five years ago, the Department of Energy identified that line as critical to the reliability of the transmission system on the East Coast. Five years later, the line is still not complete. Improved access to federal land can help remove transmission constraints.

Rights-of-Way on Federal Lands

The Bureau of Land Management (BLM) estimates that 90 percent of the oil and natural gas pipeline and electric transmission rights-of-way in the western United States cross federal lands. These lands are principally lands managed by either the BLM or the U.S. Forest Service. Rights-of-way are authorized through an approval process that allows the public to comment on proposals to locate infrastructure items, like utility poles, on these rights-of way. As part of this process, proposals are examined for resource and other use conflicts, and a national interest test is applied prior to approval.

The BLM administers 85,000 rights-of-way, including 23,000 for oil and gas pipelines and 12,000 for electric transmission lines. It processes over 1,200 pipeline and electric system right-of-way applications a year, with an increase in applications of

The electric power infrastructure includes a nationwide "power grid" of long-distance transmission lines that move electricity from the point of generation to where the electricity is needed. Over the next ten years, U.S. demand for electric power is expected to increase by 25 percent, while transmission capacity is expected to increase by only 4 percent.

Virtually all natural gas in the United States is moved via pipeline. The current domestic natural gas transmission capacity of approximately 23 trillion cubic feet (tcf) will be insufficient to meet the projected 50 percent increase in U.S. consumption projected for 2020.

over 10 percent a year in recent years. The demand for additional energy and electricity is expected to increase the need for rights-of-way across federal lands.

Other federal entities also deal with rights-of-way, each approaching the issue from a unique perspective. The National Park Service is authorized to grant leases and permits, but discourages rights-of-way corridors unless there are no practical alternatives. The U.S. Fish and Wildlife Service manages National Wildlife Refuge lands for wildlife and habitat values, and allows corridors where they were pre-existing or are determined to be compatible with the purposes for which a refuge was established. The Bureau of Reclamation is authorized to grant rights-of-way over lands acquired or withdrawn for reclamation purposes, if compatible with authorized project purposes. The Bureau of Indian Affairs and tribal governments are authorized to grant rights-of-way across both tribal and individually owned Indian lands.

Pipelines

After being pumped from the ground in domestic oil fields, oil travels through gathering lines to pipelines, which bring it to refineries, where it is transformed into petroleum products like gasoline, diesel fuel, or heating oil. These products then travel through pipelines and tanker trucks to distribution outlets for purchase by consumers. Natural gas must similarly travel from gas fields through gathering lines to processing facilities, and then into pipelines and local distribution lines to its final destination. These pipeline systems involve a complex infrastructure of their own, including pump stations or compressor stations, and control systems that open and close valves and switch product flow through pipes, often with the use of computer technology.

Oil Pipelines

The two million miles of oil pipelines in the United States are the principal mode for transporting oil and petroleum products such as gasoline. They account for about 66 percent of domestic product movements (Figure 7-4). Increases in the demand for oil and changes in where it is supplied will lead to the need for more pipeline capacity.

Pipelines are less flexible than other forms of oil transport, because they are fixed assets that cannot be easily adjusted to changes in supply and demand. Once built, they are an efficient way to move petroleum and petroleum products. A modest-sized pipeline carries the equivalent of 750 tanker truckloads a day—the equivalent of a truckload leaving every two minutes, 24 hours a day, 7 days a week. Replacing the same pipeline with a railroad train of tank cars, carrying 2,000 barrels each, would require a 75-car train to arrive and be unloaded every day. Pipelines are relatively inexpensive to operate and are generally quiet and safe. Ensuring pipeline safety requires careful management, as multiple products move through a single pipeline system at the same time.

Insufficient domestic pipeline capacity has caused peak-load problems in moving oil and petroleum products such as gasoline from one region of the country to another. For example, many energy analysts forecasted the possibility of a shortage last winter in the upper Midwest of liquefied petroleum gas used for heating and for drying crops. Others were concerned about possible shortages of heating oil in New England.

Energy supply shortages can create operational difficulties for the pipelines themselves. The complex interrelationship

of our energy infrastructure is evident, since pipelines have been shut down for varying time periods due to regional electricity shortages.

For example, fuel supplies to Las Vegas and Phoenix became dangerously low when blackouts in California shut down the main pipeline serving those areas. The California Public Utilities Commission (CPUC) has granted a waiver of penalties to oil pipelines that have interruptible contracts for electricity to help ensure the uninterrupted flow of motor fuel supplies to California. The California Energy Commission asked the CPUC to grant the waiver in order to minimize the threat to public health due to disruptions of fossil fuel supplies. While the waiver of penalties does not guarantee that disruptions of power to petroleum product pipelines will not occur, it diminishes the threat by allowing disruptions to occur only when they are coordinated with the entire petroleum product delivery system, from refiner to pipeline to terminals. Both Phoenix and Las Vegas would benefit from this decision because refineries and pipelines from California supply the two cities.

Much of the existing oil pipeline infrastructure is old, requiring regular safety and environmental reviews to ensure its reliability. The potential risk of pipeline accidents to human health and safety is of grave concern. In June 1999, a petroleum product pipeline ruptured and caught fire in Bellingham, Washington. In addition to tragic loss of life, the pipeline's 18-month shutdown caused an economic hardship to the Seattle–Tacoma Airport and other local businesses that relied on the pipeline for aviation and diesel fuels. To avoid similar crises, the Department of Transportation, which has responsibility for pipeline safety, has adopted regulations and other risk management approaches to ensure safety in pipeline design, construction, testing, operation, maintenance, and emergency response.

Recommendation:

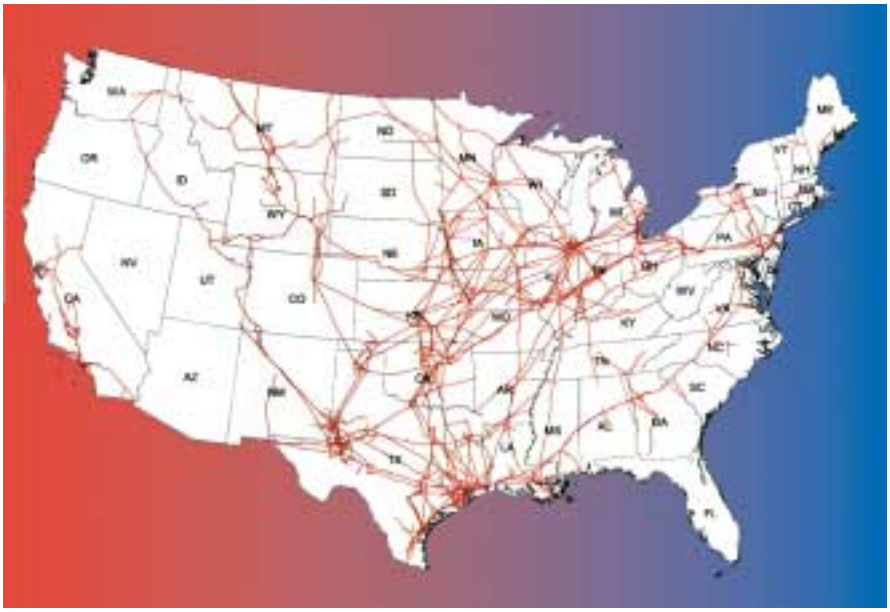
★ The NEPD Group recommends that the President direct the Secretary of the Interior to work with Congress and the State of Alaska to put in place the most expeditious process for renewal of the Trans-Alaskan Pipeline System rights-of-way to ensure that Alaskan oil continues to flow uninterrupted to the West Coast of the United States.

The Trans-Alaska Pipeline System is the single most important crude oil pipeline in the United States, and is perhaps the most regulated oil pipeline in the world. The pipeline system has carried nearly one-fifth of all domestically produced oil for the last two decades. Since beginning operations in 1977, it has transported more than 13 billion barrels of oil from Alaska's North Slope across 800 miles to the Port of Valdez. Since the pipeline began operation, only 0.00014 percent of the total amount of oil transported through it has been spilled.

The pipeline's federal grant and state lease for right-of-way expires in 2004 and will require renewal. That process will in-

Figure 7-4

U.S. Oil Pipelines



The two million miles of oil pipelines in the United States are the principal mode for transporting crude oil and refined products. They account for about 66 percent of domestic product movements.

Source: U.S. Department of Transportation, Office of Pipeline Safety.

Several federal agencies are authorized to grant rights-of-way for oil and gas pipeline and electric transmission systems on federal lands, and each approaches the issue from a unique perspective. Authorizing agencies include the Bureau of Land Management, the U.S. Forest Service the National Park Service, the U.S. Fish and Wildlife Service, the Bureau of Reclamation, and the Bureau of Indian Affairs.

volve a thorough review of compliance with federal laws and regulations, including those related to safety and environmental impacts. Because nearly 50 percent of the right-of-way is owned by the State of Alaska, they must also renew the applicable state permits. To commence the formal portion of the federal renewal process, regulations require a renewal application to be filed with the Alaska Office of the BLM of the Department of the Interior. To the extent possible, a single, joint federal/state approach should be considered.

Natural Gas Pipelines

Virtually all natural gas in the United States is moved via pipeline (Figure 7-5). The current domestic natural gas transmission capacity of approximately 23 trillion cubic feet (tcf) will be insufficient to meet the projected 50 percent increase in U.S. consumption projected for 2020.

Some parts of the country, such as California and New England, already face capacity shortages. Several pipeline operators have applied for permits to increase their delivery of natural gas to California, but right-of-way issues and local permitting delays have constrained the ability to transport natural gas to California, contributing to high prices. In addition, the natural gas pipeline connections from Canada are near capacity, so any greater U.S. reliance on Canadian natural gas will require increased pipeline capacity.

One of the largest known reserves of natural gas in the United States has been found in the Arctic, associated with the development of oil at Alaska's Prudhoe Bay. These known gas reserves, over 35 tcf, would make a significant long-term contribution to the nation's energy supplies if delivered to the lower 48 states. It is estimated there may be an additional 100 tcf on the North Slope of Alaska. Recently, as the energy supply situation has changed, interest has renewed in tapping into Alaska's natural gas supplies. Over the past year, the Alaska North Slope gas producers have been reviewing whether projected market conditions will make transportation of this natural gas economically feasible. The North Slope gas producers are scheduled to complete that review by the end of 2001.

Recommendation:

★ The NEPD Group recommends that the President direct the Secretaries of Energy and State, coordinating with the Secretary of the Interior and the Federal Energy Regulatory Commission, to work closely with Canada, the State of Alaska, and all other interested parties to expedite the construction of a pipeline to deliver natural gas to the lower 48 states. This should include proposing to Congress any changes or waivers of law pursuant to the Alaska Natural Gas Transportation Act of 1976 that may be required.

America needs the energy that Alaska's North Slope natural gas can provide. The Administration seeks to expedite the construction of a pipeline to deliver this natural gas to the lower 48 states.

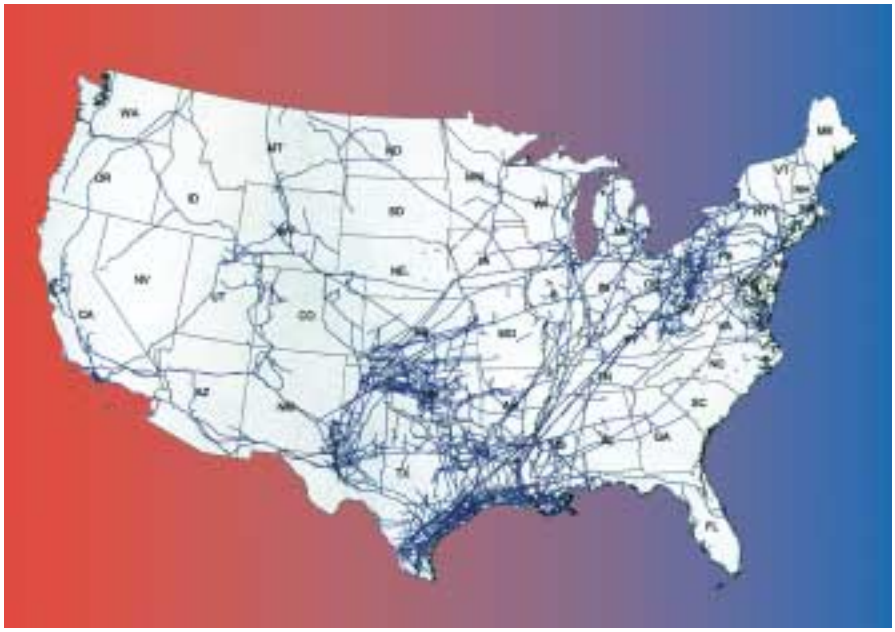
In addition to shortfalls in capacity, sources of natural gas have shifted from the Southwest to the deep water of the Gulf of Mexico, the Rocky Mountains, western Canada, and the Canadian Atlantic. At the same time, demand has shifted from the industrial Midwest to the growing population centers in the South and the West. An additional 263,000 miles of distribution pipelines and 38,000 miles of new transmission pipelines will be necessary to meet increased consumption and the new geographic realities of supply and demand.

Several factors complicate efforts to meet the need for increased pipeline capacity, including encroachment on existing rights-of-way and heightened community resistance to pipeline construction. Currently it takes an average of four years to obtain approvals to construct a new natural gas pipeline. In some cases it can take much longer.

The projected growth in energy demand has called into question whether regulatory actions and permitting processes can keep pace with the necessary construction of new facilities for storage and delivery. Consistent federal, state, and local government policies, and faster, more predictable regulatory decisions on permitting for oil and natural gas pipelines are needed to enable timely and cost-effective infrastructure development. The permitting process has a positive role in protecting the environment, public health, and safety by allowing all interested parties an opportunity to participate effectively and fully in the deliberations prior to the permit issuance.

Recent pipeline ruptures involving a natural gas pipeline near Carlsbad, New Mexico, and an underground natural gas storage facility near Hutchinson, Kansas, highlight the need to develop technologies and policies that protect people, environment, and the safety of the nation's energy infrastructure. The federal government has an important role in ensuring and improving the safety of these gas pipelines. New technologies need to be developed to improve monitoring and assessment of system integrity, improve data quality for system planning, extend the serviceability and life of the national natural gas transmission and distribution network, provide safer transport of energy products, and lessen the impacts of the energy infrastructure on the environment.

Figure 7-5
U.S. Natural Gas Transmission Pipelines



Virtually all natural gas in the United States is moved via pipeline. The forecast of a doubling in the number of new natural gas wells drilled annually and an 80 percent increase in the number of active drilling rigs will require new pipelines.

Source: U.S. Department of Transportation, Office of Pipeline Safety.

Recommendations:

★ The NEPD Group recommends that the President support legislation to improve the safety of natural gas pipelines, protect the environment, strengthen emergency preparedness and inspections and bolster enforcement.

★ The NEPD Group recommends that the President direct agencies to continue their interagency efforts to improve pipeline safety and expedite pipeline permitting in an environmentally sound manner and encourage the Federal Energy Regulatory Commission to consider improvements in the regulatory process governing approval of interstate natural gas pipeline projects.

U.S. demand for refined petroleum products currently exceeds its domestic capacity to produce them. The refinery industry is now running at nearly 100 percent of capacity during the peak gasoline consumption season.

Oil Refineries

U.S. demand for refined petroleum products, such as gasoline and heating oil, currently exceeds our domestic capacity to produce them. The refinery industry is now running at nearly 100 percent of capacity during the peak gasoline consumption season and is producing record levels of needed products at other times. The excess demand has recently been met by increased imports.

The U.S. refining industry has experienced a decade of low profitability and rates of return on investment. This has discouraged investment in new refineries. In fact, almost 50 U.S. refineries closed over the last ten years, and no major refineries have been built in the last twenty-five years.

During the last ten years, overall refining capacity grew by about 1 to 2 percent a year as a result of expansion in the capacity of existing, larger refineries. Although there was a significant, sustained improvement in margins during 2000, those gains arose out of a very tight supply situation and high, volatile prices. Industry consolidation has been a key response to this poor profitability.

The U.S. refining industry is also facing major infrastructure problems. While the industry expanded steadily through the 1970s, it went through a period of consolidation after the oil shocks of 1973 and 1978. Ongoing industry consolidation, in an effort to improve profitability, inevitably leads to the sale or closure of redundant facilities by the new combined ownership. This has been particularly true of terminal facilities, which can lead to reductions in inventory and system flexibility. While excess capacity may have deterred some new capacity investments in the past, more recently, other factors, such as regulations, have deterred investments.

Refiners are subject to significant environmental regulation and face several new clean air requirements over the next decade. Refiners will face many clean fuel production standards, which require the production of many different kinds of gasoline and diesel fuel for different parts of the country. New Environmental Protection Agency rules will require refiners to produce gasoline and diesel fuel with significantly lower sulfur content. New clean air requirements will benefit the environment, but will also require substantial capital investments and additional government permits. The proliferation of distinct regional and state gasoline and diesel product standards, the significant permitting needed, and the downtime to make the needed physical and operational changes will challenge refiners and governments to effectively coordinate in order to reduce the likelihood of supply shortfalls and price spikes.

Recommendation:

★ The NEPD Group recommends that the President direct the Administrator of the EPA to study opportunities to maintain or improve the environmental benefits of state and local "boutique" clean fuel programs while exploring ways to increase the flexibility of the fuels distribution infrastructure, improve fungibility, and provide added gasoline market liquidity. In concluding this study, the Administrator shall consult with the Departments of Energy and Agriculture, and other agencies as needed.

Since 1990, refiners have met growing demand by increasing the use of existing equipment and increasing the efficiency and capacity of existing plants. Even with these efforts, however, refining capacity has begun to lag behind peak summer demand. Price volatility and the cyclical nature of oil markets inhibit investment in supply infrastructure. While investors can withstand market fluctuations for some commodities, large investments in oil exploration and development—such as for drilling required to maintain a steady supply and the pipelines needed to bring supply to market—are often curtailed during times of low oil prices. The outcome of this lack of steady investment is less supply, higher prices, and the abandonment of marginal oil resources that may never be recovered.

Recommendations:

★ The NEPD Group recommends that the President direct the Administrator of the Environmental Protection Agency and the Secretary of Energy to take steps to ensure America has adequate refining capacity to meet the needs of consumers.

- Provide more regulatory certainty to refinery owners and streamline the permitting process where possible to ensure that regulatory overlap is limited.
- Adopt comprehensive regulations (covering more than one pollutant and requirement) and consider the rules' cumulative impacts and benefits.

★ The NEPD Group recommends that the President to direct the Administrator of the Environmental Protection Agency, in consultation with the Secretary of Energy and other relevant agencies, to review New Source Review regulations, including administrative interpretation and implementation, and report to the President within 90 days on the impact of the regulations on investment in new utility and refinery generation capacity, energy efficiency, and environmental protection.

- The NEPD Group recommends that the President direct the Attorney General to review existing enforcement actions regarding New Source Review to ensure that the enforcement actions are consistent with the Clean Air Act and its regulations.

Energy Transportation Infrastructure

The infrastructure used to transport energy products includes ocean tankers; inland barges; specialized trucks for oil and refined products, such as gasoline and heating oil; railroad tank cars and coal cars; and the waterways, highways, and railroads upon which they travel. There is also a substantial inventory of river and oceanside port facilities that are used for moving energy materials.

Marine Transportation

Marine transportation of oil and refined products accounts for nearly one-third of domestic shipments. Approximately 3.3 billion barrels of oil and petroleum products and 229 million short tons of coal move through the nation's ports and waterways every year.

There are three kinds of ship transports of domestic energy products. Tankers

Double-hulled tank barges provide distribution of petroleum products.

Nicole Leigh Reinauer and RTC 135

primarily carry Alaskan oil to the West Coast. Product tankers transport refined products from the Gulf of Mexico to the Atlantic Coast, from the Gulf to the West Coast, and between ports within the West Coast. Tank barges provide coastwise distribution of refined product imports, distribution from pipeline terminals, and inland distribution. In addition, 477 foreign tankers and 64 U.S. flag tankers deliver oil and petroleum products to the United States. They deliver approximately 2.1 million barrels a day, for a total of 770 million barrels a year.

Ships are also used to import liquefied natural gas (LNG). With increasing demand for natural gas for electricity generation, there is a potential for substantial growth in the demand for LNG imports. From 1998 to 1999, the number of LNG carrier arrivals in Boston increased by 350 percent. In addition, mothballed terminals at Elba Island, Georgia, and Cove Point, Maryland, may reinitiate LNG imports by 2002.

Winter storms, extended darkness, and ice formation disrupt barge and tanker movements. The U.S. Coast Guard's fleet of ice breakers has become an important component of the energy infrastructure for the New England, Mid-Atlantic, and Great Lakes regions.
U.S. Coast Guard

Unlike pipelines, water transportation requires the positioning of vessels to where cargoes are located. For example, it can take three weeks to move a tanker from the Gulf of Mexico to the West Coast. Consequently, tanker markets do not respond quickly to temporary surges in demand, which typically result in price spikes.

Safety

In accordance with the Oil Pollution Act of 1990, a timeline has been established to replace all single-hulled vessels with double-hulled vessels. Many have already been replaced. Modern navigation and port services also help to prevent maritime oil spills. Spill-response technologies and coordinated response plans are key to minimizing damage to property and the environment. Oil spill technology has improved during the last decade and will continue to do so. Risk assessments, preparedness drills, and cleanup strategies are all necessary safeguards for transporting energy goods. As maritime transportation grows, port and waterway infrastructure, as well as the availability of accurate and timely navigation information, will continue to be important for the safe, efficient delivery of energy.

New England's Dependence on Marine Transportation

New England has no refineries, and its small oil pipeline system is not connected to the interstate pipeline system. As a result, New England must rely on tanker and barge shipments of petroleum products from the south as well as direct imports from overseas. There is some question as to whether this distribution system is sufficient to meet the future needs of the region and, if not, what steps need to be taken to ensure future economical, reliable energy supplies.

In recent years, lower national inventories, market forces, and other factors have combined to create much lower inventories for petroleum products such as heating oil in the Northeast. A supply system with less capacity in reserve is more vulnerable to variations in product delivery, and is less capable of absorbing the disruptions in barge and tanker movements that inevitably come

with winter storms, extended darkness, and ice formation. A rapid change to colder weather affects both supply and demand: households need more fuel at the same time that harbors and rivers experience severe ice conditions.

For the New England and Mid-Atlantic seaboards, U.S. Coast Guard icebreakers have become an important component of the infrastructure necessary to provide energy to the region.

The Department of Energy established the Northeast Heating Oil Reserve to ensure heating oil supplies in the region. This emergency buffer can support a shortage for approximately ten days, which is the time required for ships to carry heating oil from the Gulf of Mexico to New York Harbor.

Even with the Reserve in place, marine transportation remains the only source of heating oil for the New England's winter months.

Recommendation:

★ The NEPD Group supports the President's budget proposal to provide $8 million to maintain the two-million-barrel Northeast Heating Oil Reserve. Operated by the private sector, the Reserve helps ensure adequate supplies of heating oil in the event that colder than normal winters occur in the Northeast United States.

Rail Transportation

Coal, which provides about 52 percent of America's electricity, is the most important single commodity carried by rail. Over the past ten years, the rail share of coal transportation has increased, primarily as a result of increases in low-sulfur western coal, which moves long distances over rail. In 1999, domestic railroads carried 68 percent of the nation's coal, and in 2000, they transported an average of 14.4 million tons of coal a week.

Transportation costs account for 30 to 50 percent of the final delivered price of coal to utilities. About 74 percent of U.S. low-sulfur coal reserves are located in Montana and Wyoming. Demand for clean coal from Wyoming's Powder River Basin is expected to increase because of its environmental benefits. However, rail capacity problems in the Powder River Basin have created a bottleneck in the coal transportation system.

With little excess capacity in the rail lines supporting the Powder River Basin, expected increases in demand could result in capacity shortfalls and delays in providing coal to power plants that are relying increasingly on "just-in-time" shipments to reduce inventory costs. Additionally, delays in other parts of the rail network, such as at key rail facilities, can undermine the efficiency and reliability of the system. There is a need to eliminate bottlenecks in the coal transportation system.

Infrastructure Security

The energy infrastructure is vulnerable to physical and cyber disruption that could threaten its integrity and safety. Disruptions could come from natural events, like geomagnetic storms and earthquakes, or could come from accidents, equipment failures, or deliberate sabotage. In addition, the nation's transportation and power infrastructures have grown increasingly complex and interdependent. Consequently, any disruption can have extensive consequences.

Transportation facilities have weathered relatively short interruptions in power as a result of natural disasters and accidents, with varying degrees of impact. In a few instances, they have experienced intermittent, lengthy outages that have affected not only primary systems, but integrated services as well, such as voice, data, Internet, and wireless networks that may be used to transmit control information. The growing reliance on computer technologies, automated monitoring and control systems, and electronic commerce makes the system more efficient and vibrant, but also requires a greater level of diligence and use of safeguards.

Accurate weather and climate forecasting can prevent millions of dollars in

damage to U.S. energy infrastructure. For example, the interaction of geomagnetic storms with the Earth's magnetic field can cause additional current to enter transmission lines, which at times has caused regional grid collapse and has destroyed power plant electrical transformers. Given sufficient warning, the industry can initiate protective countermeasures, such as when several northeastern power plants shed 20 percent of their load during a July 2000 geomagnetic storm.

Improvements in forecasting can further assist in the management of energy resources and materials, can prevent power outages in many cases, and can accelerate restoration of power after outages that do occur. Also, data from extreme weather events can be used to design and build infrastructure, such as transmission lines, pipelines, and hydropower dams.

Summary of Recommendations

America's Energy Infrastructure: A Comprehensive Delivery System

★ The NEPD Group recommends that the President direct the Secretary of Energy to work with the Federal Energy Regulatory Commission (FERC) to improve the reliability of the interstate transmission system and to develop legislation providing for enforcement by a self-regulatory organization subject to FERC oversight.

★ The NEPD Group recommends that the President direct the Secretary of Energy to expand the Department's research and development on transmission reliability and superconductivity.

★ The NEPD Group recommends that the President direct the Secretary of Energy to authorize the Western Area Power Administration to explore relieving the "Path 15" bottleneck through transmission expansion financed by nonfederal contributions.

★ The NEPD Group recommends that the President direct the appropriate federal agencies to take actions to remove constraints on the interstate transmission grid and allow our nation's electricity supply to meet the growing needs of our economy.

- Direct the Secretary of Energy, by December 31, 2001, to examine the benefits of establishing a national grid, identify transmission bottlenecks, and identify measures to remove transmission bottlenecks.
- Direct the Secretary of Energy to work with FERC to relieve transmission constraints by encouraging the use of incentive rate-making proposals.
- Direct the federal utilities to determine whether transmission expansions are necessary to remove constraints. The Administration should review the Bonneville Power Administration's (BPA's) capital and financing requirements in the context of its membership in a regional RTO, and if additional Treasury financing appears warranted or necessary in the future, the Administration should seek an increase in BPA's borrowing authority at that time.
- Direct the Secretary of Energy, in consultation with appropriate federal agencies and state and local government officials, to develop legislation to grant authority to obtain rights-of-way for electricity transmission lines, with the goal of creating a reliable national transmission grid. Similar authority already exists for natural gas pipelines in recognition of their role in interstate commerce.

★ The NEPD Group recommends that the President direct the Secretary of the Interior to work with Congress and the State of Alaska to put in place the most expeditious process for renewal of the Trans-Alaskan Pipeline System rights-of-way to ensure that Alaskan oil continues to flow uninterrupted to the West Coast of the United States.

★ The NEPD Group recommends that the President direct the Secretaries of Energy and State, coordinating with the Secretary of the Interior and the Federal Energy Regulatory Commission, to work closely with Canada, the State of Alaska, and all other interested parties to expedite the construction of a pipeline to deliver natural gas to the lower 48 states. This should include proposing to Congress any changes or waivers of law pursuant to the Alaska Natural Gas Transportation Act of 1976 that may be required.

★ The NEPD Group recommends that the President support legislation to improve the safety of natural gas pipelines, protect the environment, strengthen emergency preparedness and inspections and bolster enforcement.

★ The NEPD Group recommends that the President direct agencies to continue their interagency efforts to improve pipeline safety and expedite pipeline permitting in an environmentally sound manner and encourage FERC to consider improvements in the regulatory process governing approval of interstate natural gas pipeline projects.

★ The NEPD Group recommends that the President direct the Administrator of the EPA to study opportunities to maintain or improve the environmental benefits of state and local "boutique" clean fuel programs while exploring ways to increase the flexibility of the fuels distribution infrastructure, improve fungibility, and provide added gasoline market liquidity. In concluding this study, the Administrator shall consult with the Departments of Energy and Agriculture, and other agencies as needed.

★ The NEPD Group recommends that the President direct the Administrator of the Environmental Protection Agency and the Secretary of Energy to take steps to ensure America has adequate refining capacity to meet the needs of consumers.

- Provide more regulatory certainty to refinery owners and streamline the permitting process where possible to ensure that regulatory overlap is limited.
- Adopt comprehensive regulations (covering more than one pollutant and requirement) and consider the rules' cumulative impacts and benefits.

★ The NEPD Group recommends that the President direct the Administrator of the Environmental Protection Agency, in consultation with the Secretary of Energy and other relevant agencies, to review New Source Review regulations, including administrative interpretation and implementation, and report to the President within 90 days on the impact of the regulations on investment in new utility and refinery generation capacity, energy efficiency, and environmental protection.

★ The NEPD Group recommends that the President direct the Attorney General to review existing enforcement actions regarding New Source Review to ensure that the enforcement actions are consistent with the Clean Air Act and its regulations.

★ The NEPD Group supports the President's budget proposal to provide $8 million to maintain the two-million-barrel Northeast Heating Oil Reserve. Operated by the private sector, the Reserve helps ensure adequate supplies of heating oil in the event that colder than normal winters occur in the Northeast United States.