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New on the Web

Tackling junk science

by Iain Murray, The Washington Times July 2, 2003

Environmental activists and their allies in the media, such as the New York Times, have been up in arms over the Bush administration's latest outbreak of good sense. In the normal course of review, the White House altered a new study from the Environmental Protection Agency to remove references to discredited studies on climate change and to delete a sentence that could be an environmentalist's holy mantra. This led to cries of "censorship" and even "junk science" from the environmental lobby and their allies in the media, when it is actually they who want to censor real science while

promulgating junk science. In not moving quickly to back up its actions, however, the administration lost an opportunity to point out who the real purveyors of junk science are in this debate.

Here's what happened: White House climate experts took exception to the EPA tiredly repeating what has become conventional wisdom about global warming. It is taken as given that mankind's actions are heating up the world to an unacceptable level that could prove catastrophic. Yet this is not what the science is telling us. While there is probably some degree of warming going on, it is nowhere near certain that this is not mainly part of some natural climate variability. While human influence on the climate may be discernable, this does not mean that we are wrecking the world.

In fact, the increase in global average temperature over the past century is about 1 degree Fahrenheit, which is less than the normal annual variability in North America. In other words, temperature changes naturally year-on-year more than from man's effect on it over a century, assuming man is responsible for all of the change, which is unlikely.

Beyond that, we know very little. All the dire predictions that we hear so much are based on a series of "ifs," embodied in computer models and unlikely assumptions. Moreover, since the IPCC reported last, the scientific picture has gotten even hazier. All the accumulated scientific research points to more and more uncertainty about what we know in the area of climate change.

So the deleted sentence the environmentalists focused on, "climate change has global consequences for human health and the environment," was both meaningless and dangerous. It is on one level a simple truism - climate change does change other things. However, when the clear implication is that the consequences are negative (tell that to the Amazon rainforest, where vegetation has grown abundantly over the last decade) or that the change is mostly human-induced, then it should be replaced with a clearer statement of the state of the science. That is what the administration did when it noted that "the complexities ... make it a scientific challenge to document change, diagnose its causes and develop useful projections [of climate change]."

It was also interesting that the media condemned the addition of newer, more reputable science to the outdated report. The New York Times suggested that reference to one study had been challenged only so it could be replaced by a study backed by the oil industry. In fact, the 1999 study that was deleted is junk science at its worst - based on models that it is agreed do not predict the climate better than do tables of random numbers - which is why the Competitive Enterprise Institute has petitioned the administration to stop disseminating it.

The study that was inserted is a much more up-to-date survey of what we know about the natural variability of temperature, which suggests the Earth has been much warmer than it is presently (during the "medieval warm period" when Greenland was colonized and wine grapes grown in England). It is interesting that of all the funding agencies that contributed to the new study, the Times noted only the American Petroleum Institute, which provided the small amount of funding necessary to finish and publish the study. Ninety percent of the study's funding actually came from the government - the Air Force Office of Scientific Research, NASA and the National Oceanic and Atmospheric Administration.

Yet while the administration took the correct steps in suggesting changes to the report, it did not respond well to the communications challenge.

Part of the reason why the environmental lobby was able to shout so loudly is that the administration did not issue a comprehensive science-based defense of its actions. The White House could do that by ordering agencies to cease dissemination of discredited reports and listing the reasons they are not a sound basis for policy decisions. The administration should state clearly that tackling junk science is not censoring science, but championing it.

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Iain Murray is a senior fellow at the Competitive Enterprise Institute

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Global warming: Science versus spin

By Nick Nichols and Paul Driessen

Policy wonks and scientists have long worried about the vast gulf that often separates facts from news stories and public perception. Perhaps few issues exemplify this better than global warming.

In the age of dinosaurs, the Earth was much warmer than today, and atmospheric carbon dioxide levels were 5-10 times higher. Following the last ice age, oceans rose nearly 400 feet - rapidly at first, then at around 6-8 inches a century for the past 7,000 years. Unless the glaciers return, the seas could continue rising for another millennium.

When Leif Eriksson colonized Greenland in 980, the big ice island, Europe and much of the world basked in the "Medieval warm period." By 1300, those halcyon days had been replaced by a "Little ice age" that lasted until around 1850, when the atmosphere began warming again.

Wild weather whipsawed Detroit back in '68 to '79. Six snowstorms hit during April of '68, frosts in mid-August of '69, ice in mid-May and a 98° heat wave in June of '74. Local lakes were ice-free in January of '77 and '79. Actually, this was 1868 to 1879! Abnormal, violent weather is nothing new.

The biggest U.S. tornado in history lasted three hours, killed 700 people and leveled entire communities along its 220-mile path - in 1925. In more recent years, while the number of news stories about hurricanes and tornadoes has skyrocketed, the frequency and severity of these storms has actually remained constant or even declined slightly.

The climate scare

Scientists generally agree that the Earth's atmosphere warmed by about 1.0°F (0.6°C) between 1850 and 1940, then cooled for several decades. Around 1960, cars and industries began emitting far more greenhouse gases, just as people began noticing that temperatures had fallen.

An April 1975 Newsweek story proclaimed, "There are ominous signs that the Earth's weather patterns have begun to change dramatically." Scientists are "almost unanimous" in the view that agricultural productivity will decline for the rest of the century, because temperatures in the Northern Hemisphere are cooling, due to air pollution, it said.

Obviously, those ominous trends did not continue. Instead, dire prophecies that the Earth might cool by 5-10°F were transformed into alarmist predictions that it could warm by 5-10°F.

Satellites and weather balloons reveal only slight atmospheric warming since 1979, mostly in Alaska and Siberia, at night, in mid-winter. Land-based thermometers located away from urban "heat islands" are in general agreement with these readings. Other urban monitors suggest slightly more surface warming over the past 20 years, while some computer models predict much higher temperatures by the end of the century.

Many people are clearly concerned about catastrophic global warming. But over 17,000 scientists (including hundreds of climate experts) have signed the Oregon Petition, saying they see "no convincing scientific evidence" that humans are disrupting the earth's climate. More than 100 climate scientists signed the Leipzig Declaration, expressing serious doubts about computer-driven climate change forecasts.

As debate continues, even former warming theory stalwarts like Dr. James Hansen are now saying "empirical evidence does not lend much support to the notion that climate is headed precipitously toward more extreme heat and drought." His views are supported by a major study recently published by Cambridge University Press, concluding that a doubling of CO2 and moderate warming (1-3°F) would bring numerous benefits, especially for forests and agriculture, with few downsides.

#### Science versus spin

Nevertheless, proponents of cataclysmic climate change theories continue to thunder that any planetary warming, rise in sea level or wacky weather pattern is due - not to solar variations or other natural causes - but to our growing use of fossil fuels. We are heading toward a catastrophe, say PR mavens Sheldon Rampton and John Stauber - and the only reason the world hasn't already adopted the Kyoto Protocol on global climate change is that "industry PR has been successful in creating the illusion that global warming is some kind of controversial, hotly disputed theory." ("Global Warming is Good for You," PRSA's The Public Relations Strategist, spring 2001.)

How can there be such a yawning chasm between the evidence and alarmist claims that the Kyoto treaty is the only thing standing between a livable planet and a climate fiasco?

Atmospheric physicist Richard S. Lindzen offers a perceptive analysis: "Science, in the public arena, is commonly used as a source of authority with which to bludgeon political opponents and propagandize uninformed citizens. This is what has been done with both the reports of the IPCC and NAS [Intergovernmental Panel on Climate Change and National Academy of Sciences]. It is a reprehensible practice that corrodes our ability to make rational decisions. A fairer view of the science will show that there is still a vast amount of uncertainty - far more than advocates of Kyoto would like to acknowledge."

Climate alarmists have found they can dramatically alter the scientific findings, by drafting "summaries" and press releases that emotionalize the issues and tilt the findings in favor of their agenda. Why would they do that? "To capture the public imagination," climate scientist, global warming activist and former global-cooling prophet Stephen Schneider once said, "we have to offer up some scary scenarios, make simplified dramatic statements, and make little mention of any doubts we might have. Each of us has to decide what the right balance is between being effective and being honest."

The NAS used the words "uncertain" and "uncertainty" 43 times in its 28-page June 2001 report, which concluded: "A causal linkage between the buildup of greenhouse gases in the atmosphere and the observed climate changes during the 20th century cannot be unequivocally established." The panel's summary and news release, however, were drafted by several warming activists, who ignored the uncertainties and focused on computer forecasts of a planet baking under 10øF higher global temperatures by 2100.

In October 2000, a few IPCC zealots had done the same thing, turning a relatively evenhanded report into a headline-grabbing horror story. Sent to the New York Times, Washington Post and other carefully selected media outlets, the news release and summary falsely claimed "an international panel of climate scientists" had discovered even "stronger evidence" that greenhouse gases could devastate the planet by the end of this century.

In 1995, alarmists altered another IPCC document, after the final peer review process was complete; they deleted important conclusions and inserted the hotly disputed claim that there is a "discernible human influence on global climate."

Models, media and more spin

In each case, print and electronic news outlets trumpeted the hysterical claims and quoted alarmist views at great length. They largely ignored contradictory evidence, dozens of climate catastrophe skeptics, and even NAS and IPCC scientists who might have corrected the errors and explained how the scary temperature projections were actually developed.

The "Frankenclime" forecasts were based on a series of worst-case scenarios that began by assuming that global energy demands will soar, be met primarily by fossil fuels with few pollution controls, and send air emissions up exponentially. The emission numbers then drove models that still cannot calculate climate conditions just one year ahead - and the most extreme of 245 possible outcomes were chosen to form the centerpiece for "summaries" and news releases.

Messrs. Stauber and Rampton have likewise spun the facts to make their case. For example:

ú They claim 1998 was the "hottest year ever." Actually, several years in the past century were warmer, the 1998 temperature spike was due to a major El Niño event, and 2000 was slightly cooler worldwide. 2001 was only 0.1 degrees Fahrenheit warmer than the global average over the past 20 years. Reliable satellite and weather balloon data on global atmospheric temperatures do not support the surface data cited by Stauber and Rampton.

ú They also impugn the character of atmospheric physicist Dr. S. Fred Singer, a leading climate alarm skeptic, by calling him a paid consultant for the oil industry. Singer did do some consulting 20 years ago but had only one oil company project - on petroleum pricing. He has not been a consultant since then and does not solicit industry funding.

Neo-ethics

All these claims and tactics fall under Rules for Corporate Warriors' Ethics Edict 5: The more important the mission, the less activists feel they need to be concerned about ethics. Activists justify their use of phony summaries, slanted news stories, grievous errors of omission, and even ad hominem attacks, by claiming they are saving the world from a climate or other apocalypse.

Journalistic integrity, objectivity and ethics suffer the same fate. Former

Boston Globe editor Ross Gelbspan urged an Institute for Policy Studies audience in July 2000, "Not only do journalists not have a responsibility to report what skeptical scientists have to say about global warming - they have a responsibility not to report what these scientists say." So much for "all the news that's fit to print."

In a similar vein, Time science editor Charles Alexander admitted to a Smithsonian Institution global warming conference: "I would freely admit that on this issue we have crossed the boundary from news reporting to advocacy." And Boston Globe environmental reporter Dianne Dumanoski once boasted, "I've become even more crafty about finding the voices to say the things I think are true. That's my subversive mission."

"Environmentalists are quick to accuse their opponents in business of having vested interests," The Economist has observed. "But their own incomes, their fame, and their very existence can depend on supporting the most alarming versions of every environmental scare. Pressure groups, journalists, and fame seekers will no doubt continue to peddle ecological catastrophes at an undiminishing speed."

Actually, industry has much stronger motivations for honesty than do the activists, as Daniel Koshland, Jr. noted when he was Science magazine editor. "Businesses today have product liability and can incur legal damages if they place a dangerous product on the market." Environmental pressure groups "have no such constraints at the moment."

Money and power versus accountability

Not at that moment and not now, either. In fact, the Crisis Creation Industry is the last unregulated, unaccountable big business in America. This fact has helped make it incredibly successful in generating revenue, amassing power and promoting its agenda.

Recent studies have found that the overall budget for the environmental division of this vast industry is \$4 billion a year! The ten largest U.S. environmental groups collectively had annual 1998 revenues in excess of \$1 billion, according to Robert Lichter and Stanley Rothman. This revenue comes primarily from foundations, government grants, a constant barrage of shrill direct mail campaigns, and even corporate grants and shakedowns.

Global warming too is a big business. The White House alone spent \$18 billion on global warming research and "education" between 1992 and 2000. The United Nations spent billions more, as did the European Union.

Big foundations provided still more millions to aid The Cause. The Pew Charitable Trusts gave \$5 million to its Global Climate Change Center in 2000, and the International Institute for Sustainable Development is spending \$700,000 just to assess "how farmers in India may be vulnerable" to problems supposedly due to "economic globalization and climate change."

Skeptics generally need not even bother applying for these grants. And for the most part, the press has said little about them, the incentives they create for bureaucrats and scientists, the pressure groups' real motives behind global warming scares, the vested interests some companies have in supporting the Kyoto accords, or the anemic level of industry efforts to ensure that other viewpoints are heard above the alarmist hurricane.

The environmental pressure groups' primary motive, of course, is raising money, curtailing fossil fuel use and economic growth, and dictating lifestyle, housing and transportation choices. Frankenclime is by far the

most brilliant, audacious strategy yet conceived to accomplish these ends.

The stakes get higher

Ethics Edict 5 also gives activists, bureaucrats and journalists an excuse for presenting only one side of the precautionary balance sheet. If there is any chance at all that the global warming theory is right, we must adopt drastic measures immediately, they say. Better safe than sorry. But only rarely do they mention the social or economic devastation that those measures might cause, or that they will actually do little or nothing to address hypothetical climate problems

The Kyoto accord would slash America's fossil fuel use to some 40 percent below what it would otherwise be by 2012. The U.S. Energy Information Administration has calculated that the treaty could drain as much as \$340 billion a year from a U.S. economy that drives one-third of the entire global economy. This means the climate treaty would sharply curtail the developing countries' economic growth, health and environmental progress, and hope for the future. Kyoto-style pollution edicts would deal another crippling blow to a U.S. and global economy already battered by the year-2000 stock market collapse and September 11, 2001 terrorist attacks.

Even worse, the misery would be for naught. According to the National Center for Atmospheric Research, even "full and perfect compliance" with Kyoto would mean average global temperatures in 2050 would be only 0.13°F lower than they would be in the absence of a climate treaty! Actually stabilizing "greenhouse gases" at current concentrations would require "19 Kyotos" - and send our use of fossil fuels tumbling to Depression Era levels.

It's no wonder that only a few nations that ratified the Kyoto Protocol have finalized various "operational details," regarding how the treaty would be implemented. Economically comatose Japan has rejected the treaty's mandatory carbon dioxide emission caps. Even the Europeans are hardly stampeding to implement it - though it could be another useful weapon of trade protectionism, and a way to bring the United States down to the EU's less productive levels (just as its campaign for "global tax equity" would do).

It is time to take an honest look at these environmental scares - and demand that the Green pressure groups, their PR spin doctors and the dominant media be held to the same standards of ethics, honesty, integrity and accountability that we now demand for industry. At a minimum, public relations professionals must insist that news stories accurately and fairly report all sides of this important debate over science, economics, energy use and our nation's future.

Only then will the United States be able to ensure rational decisions, based on science and a full, accurate assessment of claims, uncertainties, costs, benefits and potential consequences.

The stakes are too high to accept anything less.

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 Nick Nichols is president of Nichols-Dezenhall communications management firm ([www.nicholsdezenhall.com](http://www.nicholsdezenhall.com)) and author of Rules for Corporate Warriors: How to fight and survive attack group shakedowns. Paul Driessen, APR, Esq. has written extensively on climate change and other energy and environmental issues for 25 years. He manages his own public relations and public policy firm ([www.Global-CommPartners.net](http://www.Global-CommPartners.net)) and was editor of Nichols'

book.

The Week That Was (July 19, 2003) brought to you by SEPP

1. New on the Web: JUNK SCIENCE REARS ITS HEAD AGAIN IN THE GLOBAL WARMING DEBATE. Nick Nichols and Paul Driessen discuss the perversion of the PR apparatus to send out apocalyptic messages. Iain Murray describes the PR debacle caused by the insertion and then deletion of junk statements from an EPA report.

<http://www.sepp.org/NewSEPP/TacklingJunkSci-Murray.html>

[http://www.sepp.org/NewSEPP/GloblaWarmingSciVsSpin-Nic\\_Driessen.html](http://www.sepp.org/NewSEPP/GloblaWarmingSciVsSpin-Nic_Driessen.html)

2.. GORE CRITICIZES BUSH ON CLIMATE CHANGE: Yet another debacle involving a politically inspired EPA report

3. THE IRS FINALLY GOES AFTER INDUSTRIES THAT MISUSE GOVERNMENT-CREATED ENERGY SUBSIDIES. Good for the IRS!

4. THE FERC MAY GO AFTER "WINDFARMS" THAT MISUSE GOVERNMENT-CREATED ENERGY SUBSIDIES. Good for FERC! And more power to our friend Glenn Schleede for exposing these subsidies that are paid by taxpayers and consumers

5. AIR POLLUTION AND ASTHMA: NO CONNECTION?

6. CATO INSTITUTE REPORT BLOWS WHISTLE ON REGULATORY SPRAWL: \$860 BILLION, 8% OF GDP

7. MICROBE THAT EATS TOXIC WASTE:

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2. White House refuses to endorse junk conclusions in an EPA report produced by "the bureaucracy."

Former Vice President Al Gore criticized President Bush for refusing to accept a federal agency report that blames humans for global warming, according to Reuters.

The recently released Environmental Protection Agency report appeared to back the view of many scientists who believe global warming is caused mainly by emissions from automobiles, power plants and oil refineries.

Bush dismissed the report, calling it a product of "the bureaucracy," and said he would continue to press for voluntary efforts and financial incentives for U.S. companies to reduce emissions.

In "Flips, Flops, and Facts About Global Warming," (<http://www.cato.org/dailys/06-10-02.html>) Patrick J. Michaels explains: "The problem is that the core of the [EPA's] Climate Action Report was produced by the wrong administration. Chapter 6, the section on climate change effects on the U.S., is largely an outtake from the 'National Assessment of Climate Change' (NACC), a politically inspired document rushed to publication some 10 days before the 2000 presidential election."

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3. I.R.S. Inquiry Creates Anxiety in Synthetic-Fuel Industry by Lynnley Browning



For more than two decades, ever since President Jimmy Carter donned a cardigan sweater and challenged Americans to wean themselves of their dependence on imported oil, companies have enjoyed a rich tax credit for investments in so-called synfuels - oil alternatives made from America's abundant stores of coal. Now, though, the government is threatening to rescind billions of dollars' worth of tax credits claimed not just by owners of plants that make synfuel but by their corporate investors like Marriott International, the hotel operator, and the American International Group, the insurer.

The Internal Revenue Service said last week that it was investigating the synthetic-fuel industry, trying to determine whether the credits were justified. Besides Marriott and A.I.G., businesses that have claimed the credit include big energy companies like Teco Energy, the PPL Corporation and DTE Energy; Rex Stores, a consumer electronics retailer; and a host of little known private partnerships and investment firms, including Carbontronics and Palmer Capital. One of the largest synthetic fuel producers, Progress Energy, a utility based in Raleigh, N.C., said that it alone had generated \$950 million in tax credits since entering the business in 1998.

Under a 1980 federal law, companies like these that own all or part of synthetic fuel plants can claim a tax credit of about \$26 per ton of fuel produced - about the price of a ton of regular coal. Without the tax credits, the plants lose money.

Among other requirements, companies must demonstrate through laboratory tests that their coal-based synthetic fuel has undergone a "significant chemical change" while being made. At the heart of the I.R.S. review is the question of whether such a transformation takes place.

The law was intended for producers to transform a byproduct of coal production into usable energy. Few, if any are still doing that, though. Instead, they manufacture synthetic coal typically by spraying regular coal with substances like latex, asphalt derivatives or pine-tar resin.

In announcing its inquiry, the I.R.S. said that it might decline to grant future credits - Hill & Associates, an energy consulting firm in Annapolis, Md., had projected that about \$3 billion in credits would be claimed next year - or revoke past credits. Synfuel producers and most analysts said that revoking credits seemed unlikely. But if carried out, that threat could force companies to restate previous earnings and leave them with bills for back taxes totaling hundreds of millions of dollars.

After the tax credits were created, companies found that production with waste coal was not profitable, even with the credits, and output of the synthetic fuel was mostly dormant until 1998 or so. Then, some producers discovered that using regular coal made the business profitable under the credits. As tax-credit-hungry companies from outside the energy sector bought or built plants, output soared, to more than 50 million last year from around five million tons in 1999, according to Platts Research and Consulting in Boulder, Colo. About 55 plants - mostly in Appalachia, the Midwest and the Southeast - manufacture synthetic coal.

Critics of the credits, including some traditional coal mining concerns, criticize the manufacturing methods as alchemical chimera that does nothing to improve or substantially change already-usable coal. Nor, they say, do these plants provide the environmental benefits contemplated by the Carter-era legislation. "We're really not generating the benefits that the

law intended," said Jim L. Thompson, manager of Coal and Energy Price Report and U.S. Coal Review, two trade publications. Producers counter that they are following the letter of the law regarding chemical change, adding that they provide utilities with a good energy source.

The I.R.S. review began with questions over test results at two Kentucky plants owned by Progress Energy's Colonna synthetic-fuel subsidiary. Progress's synfuel output accounted for 15 percent of earnings last year. Twice over the last 10 or so years, the I.R.S. announced similar or related investigations but backed down. Still, some producers have revised their earnings and dividend forecasts downward in recent months. Equity and credit analysts have downgraded the ratings of some operators of synfuel plants, including Teco, and several companies have attracted short sellers, who bet that stocks will fall.

A less-noted effect of the new I.R.S. scrutiny is that the once-booming market for sales of synthetic coal plants or interests in them has frozen up. Producers often generate more tax credits than they can use, and so they have sought in recent years to sell portions of their interests, a process known as monetization. By increasing revenues, such sales also allow producers to use more of the credits generated by their remaining interests. Perhaps half of all tax credits are for sale, Mr. Thompson, the trade publication editor, said. The halt in sales of plant interests has come because the I.R.S., in its announcement last week, said it was not going to issue so-called private letter rulings, or P.L.R.'s, to synfuel producers during its investigation. Such letters certify that a plant performs "substantial chemical change" on coal, as required by law, and is eligible for the credits. Though a letter is not required for a company to claim the credit - and while far from all producers have one - no potential buyer now wants to be without one.

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 SEPP Comments: Syn Fuels get hit by IRS. Remember Jimmy Carter and his fantasy of Energy Independence? This created the Synfuels Corporation, the giant industrial enterprise to produce synthetic oil and gas from coal, with the help of subsidies and tax breaks.

[That was also when he declared an embargo against the import of oil from Iran! But what does a "nuclear" engineer know from oil?]

Lucky thing that Synfuels disappeared when Carter left the White House - or we'd be stuck with \$100-a-barrel oil and oodles of pollution, plus megatons of CO2. Will we ever learn to leave energy to the market? No govt policy is better than a bad one.

Anyway, the chickens are coming home to roost. The IRS is now going after companies that are diddling the government by misusing the tax breaks (Yes, they are still on the books -- after a quarter century!). Instead of the chemical change of the coal (as envisaged by the 1980 law), companies are just spraying pulverized coal with fuel oil and claiming huge tax breaks. According to the WSJ (6/30/03), the cost to the Treasury is from \$650 to \$850 million a year.

Hooray for the IRS and shame on Congress for legislating tax breaks. Will wind power be next? See below.

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## 4. FERC to review misuse of wind-farm tax credits

WASHINGTON, July 10 (Reuters)- Staff lawyers with the Federal Energy Regulatory Commission yesterday urged the agency to investigate 17 wind farms and cogeneration plants that may have been improperly used by Enron Corp. to boost its profits.

The FERC has already begun reviewing Enron's ownership of five cogeneration facilities in Nevada and New Jersey.

A 1978 federal law requires U.S. electric utilities to buy renewable wholesale electricity from so-called "qualifying facilities," which must be owned by independent power producers. The law allows such plants to charge premium prices for their power.

"The ownership status of every qualifying facility cited by Enron is in question," FERC lawyers said in a filing.

"There has been insufficient time to date to ascertain with certainty that any specific qualifying facilities has fully complied with the qualifying facility-ownership criteria throughout the period of time in which it has been affiliated with Enron and/or its affiliates," the lawyers added.

Last month, California energy officials announced that 10 wind-energy plants owned by affiliates of bankrupt Enron agreed to refund the state nearly \$634,000. The refunds are linked to production incentives the state gave the plants to encourage renewable energy projects.

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Our friend Glenn Schleede sent us a letter about wind-farm tax credits, which is excerpted here:

Recently, an official of Meridian Investments in Massachusetts wrote to inform me that his firm was "the largest independent broker in the tax credit industry," and asked that I answer questions about wind energy. I declined to help him because I believe most tax credits are an abomination from a national and public interest point of view -- despite the fact that tax credits for favored interest groups are wildly popular with the members of Congress who just can't find much room "in the budget" for tax cuts for ordinary people.

However, I did use the occasion to outline some of the results from research I've been doing on tax breaks and subsidies for wind energy and explain that these measures shift tax burden and cost from "wind farm" developers to remaining taxpayers and to electric customers.

July 12, 2003

Mr. Tim MacDonald  
Senior Vice President  
Meridian Clean Fuels, LLC  
1266 Furnace Brook Parkway  
Quincy, MA 02169

Dear Mr. MacDonald:

Thank you for your July 2, 2003, letter:

ú            Indicating that Meridian is in the business of brokering Section 29

and 45 tax credits, with plans to focus on the extensive tax credits available for wind energy, and

ú Asking that I help you understand the reasons why wind energy does not really have all the advantages that its supporters claim.

In summary, I do not propose to help you because I believe:

ú Your letter is evidence that you have not done the objective research that would, if undertaken, reveal the answers you are asking me to provide.

ú Federal tax credits available under Sections 29 and 45 of the Internal Revenue Code often:

ú Encourage investments in projects that are undertaken for tax avoidance purposes rather than sound business reasons.

ú Distort private sector capital investments by directing capital to projects with little intrinsic merit.

ú Shift tax burden from highly profitable organizations to ordinary individuals.

ú Encourage investments in projects that help push up consumers' electricity prices.

ú Result in damage to environmental, ecological, scenic and property values that has not been taken into account by lawmakers and regulators.

ú Are not in the national and public interest, despite the fact that they may be legal.

Based on your letter, it appears that Meridian plans to serve as a "money changer" by using faulty federal and state tax law and tax policies for wind energy to aid in transferring wealth (hundreds of \$ millions) from ordinary taxpayers and consumers to organizations with high profits that wish to avoid taxes.

Such a role probably is quite legal. Whether helping to load more tax burden and high (regressive) electricity costs on ordinary citizens is morally acceptable is a separate consideration. My sympathies in this matter lie with the taxpayers, electric customers and citizens who would bear the economic burden as well as the cost of impaired environmental, ecological, scenic and property values resulting from "wind farms."

The magnitude and merits of energy tax breaks and subsidies

Normally, I would be quite willing to help keep tax dollars from flowing to Washington where they are wasted with such abandon -- as illustrated by the hundreds of millions of tax dollars that flow through the US Department of Energy(DOE) each year. As you probably know, DOE and its predecessors have spent over \$100 billion on "energy R&D" that has produced little that is technologically sound, economically competitive, and environmentally acceptable.

For example, DOE has spent hundreds of millions on wind energy R&D, often using the argument that this was an "investment" in technology that would give the US an advantage in world markets. However, some 90% of the wind turbine market is supplied by foreign companies. The dollars being spent for wind turbines imported for "wind farms" in the US are, like dollars for imported oil, a part of the US balance of payments deficit.

My normal desire to keep tax dollars out of Washington does not extend to either:

1. Unwarranted Section 29 and 45 tax credits, which, demonstrably, are among the more wasteful and outrageous measures pushed through the Congress by various special-interest groups. For example, you may be aware that Section 29 tax credits for coal-bed methane at times exceeded the wellhead market price for natural gas. Also, the abusive use of "synfuels" tax

credits is nearly legendary. The recent Wall Street Journal story indicating that the US Treasury Department is finally preparing to clamp down on this abusive tax credits is a welcome sign.

2. "Windfall" tax breaks and subsidies, now being captured by the wind-energy industry at the expense of the nation's electric customers and taxpayers. Contrary to the claims by wind energy advocates, wind energy may now be THE most heavily subsidized energy source WHEN CONSIDERED IN LIGHT OF EITHER ITS CURRENT OR PROSPECTIVE CONTRIBUTION TOWARD SUPPLYING THE NATION'S ENERGY REQUIREMENTS.

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Many federal, state and local tax breaks and subsidies (some from regulators) are now available for commercial-scale windmills even though the huge machines produce very little electricity. The list includes:

a. Federal five-year double-declining balance accelerated depreciation (MACRS) which, with the recently enacted depreciation "bonus," permits "wind farm" owners to deduct 60% of the capital cost of a "wind farm" from otherwise taxable income in the 1st tax year, another 16% in the 2nd tax year, and the remainder over the next 36 - 48 months..

b. A ten-year, \$0.018-per-kilowatt-hour (kWh) Production Tax Credit which permits the owners of "wind farms" or their parent companies to deduct additional millions of dollars each year from their tax liability.

c. Depreciation deductions from income that would otherwise be subject to state corporate income tax in states that conform their corporate taxes to the federal income-tax system.

d. Dozens of state and local-government tax breaks, enacted in response to wind-industry lobbyists, including (depending on the state) state production-tax credits, reductions in or exemptions from business and occupation taxes, sales-and use-taxes, and state and local property-taxes. Some reductions are in the 85% to 95% range.

e. Direct DOE subsidies (via contracts, grants and subcontracts) for wind-energy R&D and for wind-promotional activities carried out by DOE national laboratories, trade associations and numerous non-government organizations that have been created to promote expensive "renewable" energy.

f. Similar state subsidies (e.g., in New York), which are provided to "wind-farm" developers from funds collected from electric customers via so-called "public benefit funds."

g. "Renewable Portfolio Standards," (RPS), enacted in several states (and proposed as a federal measure), which shift additional costs to electric customers. This insidious subsidy forces electric distribution companies to purchase high-cost electricity from "renewable" energy companies and pass energy and administrative costs not recovered through "green" programs on to all electric customers.

- h. "Green" energy programs that are forced on electric distribution companies to provide a market for high-cost renewable energy.
- i. Mandated or voluntary "green" energy purchases by federal, state and local government agencies and schools, with the higher cost of renewable energy borne by taxpayers.
- j. Costs of building electric transmission capacity to serve "wind farms," with costs shifted by regulators from the "wind farm" owners to electric customers. Examples include a \$148 million Xcel project in Minnesota and capacity additions in Texas.
- k. Arbitrarily awarded "capacity" credits for "wind farms" that exceed the true contribution that this intermittent, variable, and largely unpredictable source can provide.
- My preliminary estimates indicated that tax breaks and subsidies for wind energy from the first few items in the above list will easily exceed \$300 million in 2002 and will be higher in the years ahead.
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The wind industry's claims that it does not get its fair share of government subsidies should be considered in light of the small contribution that wind is expected to contribute in supplying US energy requirements. This small contribution (despite the enormous growth in subsidies) can be seen in the following table that is based on the Energy Information Administration's (EIA) Annual Energy Outlook 2003.

U.S. Energy Consumption by Energy Source: 2000 Actual and EIA Forecast for 2025

(For Tabular Info PLEASE VISIT <http://www.sepp.org/weekwas/2003/Jul19.htm>)

As the table shows, fossil energy sources (petroleum, natural gas and coal, combined) are expected to supply 87.27% of US energy requirements in 2025 - or 323 times the 27/100 of 1% expected from wind. If wind subsidies totaled \$300,000,000 in 2002, the industry's "fair share" argument would suggest that subsidies for fossil energy sources should be at least \$96,900,000,000! Clearly, the wind industry's claim is without merit.

The implications of your activities

Please consider seriously the fact that subsidies for wind energy are shifting hundreds of millions of dollars in cost from "wind farm" owners and placing it on the backs of ordinary taxpayers and electric customers - with this extra burden then hidden in tax bills and monthly electric bills. Does Meridian really want to participate in, encourage and profit from this activity?

Please note also the point that subsidies distort investments by directing capital toward endeavors that often have little long-term value. The federal and state governments are repeating a mistake made during the 1980s when tax credits were the motivation for building thousands of windmills in California which produce little electricity. Many were abandoned once tax benefits were exploited - resulting in California's "windmill junkyards."

Finally, please note that the high front-end tax benefits for wind energy provide an incentive for (a) similar abandonment of today's "wind farms" once tax benefits have been captured, and/or (b) "churning" of "wind farm" ownership to permit successive owners to take advantage of lucrative accelerated depreciation benefits.

Adequacy of your research.

I have some doubt whether your research has been as thorough as you suggest. Your questions suggest that you have focused primarily on promotional information from the wind industry, DOE, the National Renewable Energy Laboratory (NREL), and various wind-energy advocacy groups - none of which can be relied on for objectivity. You should have found answers to most of your questions if your research had extended to such sources as the following:

- ú The growing number of articles in the general press on opposition to proposed "wind farms."
- ú Open literature and web sites that include analyses and commentary from individuals and organizations that are not biased in favor of wind energy.
- ú Web sites sponsored by organizations that actively oppose wind energy because of its adverse impacts on environmental, ecological, scenic and/or property values, and sites that encourage discussion of the issues that are involved. Such sites exist in the US, UK, Denmark, Germany, Spain, Italy, Australia and probably other nations.
- ú Numerous papers that I have written and distributed.

True cost of electricity from wind energy

While not important to your plan to capitalize on faulty government tax policies, you may want to note that most claims about the per kWh cost of electricity from wind turbines are without a solid foundation and are often understated. For example:

- ú Often, those calculations are based on assumed turbine (and related windmill components) lifetimes of 20 years and assumptions about O&M, repair and replacement costs. In fact, no one has experience with today's generation of wind turbines over a long enough period to demonstrate the validity of those assumptions.
- ú The claimed per kWh costs often ignore the fact that the generous subsidies for wind energy described above shift large portions of the true cost from "wind farm" owners and hide them in bills paid by ordinary taxpayers and electric customers.
- ú The claimed per kWh costs generally do not include the true cost of backup generation, integration of electricity from intermittent wind generation into electric grids, or transmitting electricity from "wind farms" to areas where the electricity can be used.

I hope that the above information will explain adequately why I do not wish to provide the help for Meridian's venture that you requested in your letter. In summary, like the tax benefits you wish to exploit, I do not believe that your venture would make a positive contribution to the national or public interest.

Sincerely,

Glenn R. Schleede  
PO Box 3875  
Reston, VA 20195-1875  
Phone: 703 709-2213  
Email: EMPAInc@aol.com.

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5. Air pollution and asthma: Is there a connection?

Australia, Ireland, New Zealand, UK, and USA, all countries with low levels of air pollution have populations with a high percentage of asthma symptoms (25% and higher). Countries with high levels of pollution like China, India, Indonesia, and Mexico have low levels of asthma (around 5%). These data from an International Study of Asthma and Allergies in Childhood are quoted in The American Enterprise of July 2003.

Meanwhile , the WSJ reports that EPA agreed to review and possibly tighten its standards for minimizing soot and smog , part of a lawsuit brought by the American Lung Association and other environmental groups. The ALA quotes medical research showing the danger of soot and smog for aggravating - yes - asthma in children.

A search of the web of the ALA was revealing<www.lungusa.org > Nearly 20% of its budget comes from the government. In the past 25 years while the air has been getting cleaner and tobacco use has diminished, the mortality from chronic bronchitis and emphysema has nearly doubled (from 24 to 42 per 100,000 age-adjusted population). The incidence of asthma has also increased and is highest in states with cold winters. Might global warming help? Interesting!

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6. Cato Institute Report Blows Whistle on Regulatory Sprawl: \$860 Billion, 8% of GDP

In 2002 the Federal Register totaled over 75,000 pages, compared to 10,000 pages 50 years ago. Regulatory cost adds an additional 40% to the federal tax burden. EPA leads the list of agencies, followed by Transportation, Treasury (IRS), Agriculture, and Interior.

What to do? Cato recommends: A sunseting review, a bipartisan Regulatory Reduction Commission, and support for the proposed Congressional Responsibility Act that would make elected representatives, not unelected bureaucrats, answerable for costly regulations.

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7. Microbe That Eats Toxic Waste:

The Associated Press reports that a newly discovered microbe, known as BAV1, "eats" vinyl chloride in material packed below the surface of the earth. Researchers found that injecting soil with concentrated amounts of BAV1 destroyed and rendered harmless the vinyl chloride at a contaminated site in Michigan. After use, the microbes remain in the soil, yet, even when used in large concentrations, have not been shown to harm humans. In addition, the organisms can only grow when the contaminants are present. When the toxic material is gone, the numbers of microbes decline because they lack food. Vinyl chloride, present at up to a third of Superfund sites, is most often produced by the breakdown of such common chemicals as dry cleaning fluid and metal cleaners. The research is published in the current issue of Nature. The full AP story is available at <http://www.msnbc.com/news/933922.asp?0cl=cR>



