

SRC Energy Update

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Dear Friends,

Welcome to the inaugural edition of the Senate Republican Caucus' *Energy Update*.

The rise in the cost of energy and gasoline, the global debate over biofuels and their effects on food shortages, and statewide and national plans to tax and ration the public's carbon emissions ("cap and trade") have put the issue of energy generation and use at the forefront of political thought.

Senate Republicans support energy proposals aimed at reducing fuel and heating costs, creating jobs, protecting the environment and boosting national security.

With the legislative interim in full swing, now is a good time to examine some of the key energy issues affecting Washingtonians and review the energy-related bills passed in Olympia this year.

Sincerely,



ENERGY 101

The people want lower energy costs, but not all politicians and special interests do. Some want higher!

The price of gasoline affects every family and employer in our state. Parents are having trouble driving back and forth to work and fueling up the minivan to shuttle the kids from school to soccer. Everything from the price of airline tickets to food costs more. And some entrepreneurs will ultimately be forced out of business by high fuel prices.

You would think everyone would want lower gas prices, right?

Well, not everyone. There are some politicians in the majority party, and their allies and political contributors in the extreme eco-lobby, who have wanted Washingtonians to pay higher fuel prices for some time.

They have argued that gas has been too cheap and that Americans should be forced off gasoline by higher prices and gas taxes. They believe you should be forced to conserve more, drive less, live closer to work and shops, and use expensive, inefficient public transportation that may or may not meet your specific needs.

These environmental extremists see the automobile as America's cardinal sin and mass transit and government control of the economy as its savior. Four-dollar-a-gallon gas prices have already given them some of what they want, with mass transit seeing a noticeable spike across the country, but they want more.

Democrats want more government mandates on individuals and industries, higher fuel prices and more government control over how individuals live their lives.

Chris Pummer, a reporter for the *San José Mercury News*, summed up the long-standing Democrat position in a recent opinion piece: "Americans should be celebrating rather than shuddering over the arrival of four-dollar-a-gallon gasoline. We lived on cheap gas too long, failed to innovate and now face the consequences of competing for a finite resource amid fast-expanding global demand. A further price rise as in Europe to eight-dollars-a-gallon would be a catalyst for economic, political and social change of profound national and global impact."

The Left is actually calling for \$8-a-gallon gas? Enough is enough. This is not what the people want. In poll after poll, the public has made clear that it wants:

- responsible stewardship and a clean environment; but also
- a strong economy;
- energy independence;
- lower energy costs;
- enough energy to meet their personal needs and desires; and most importantly,
- more personal freedom.

So why are energy/fuel costs so high?

Falling value of the dollar

A significant reason why oil and gas prices are hitting record highs is that the dollar is losing its value in comparison to other currencies. Oil is priced in dollars on the world market. So when the dollar loses some of its value, it means people in other countries can buy more oil for the same amount of money. As people in other countries buy more, it drives up the price of oil in dollars.

Instability in oil-producing nations

Violence in the Middle East, ethnic and religious strife in Nigeria, disputes between Russia's government and the country's biggest oil company, Yukos, and strikes in Venezuela have also had an effect on oil and gas prices.

Emerging economies in China and India (higher demand)

The strong U.S. economy and rapid economic growth in China and India have resulted in the greatest increase in oil demand in nearly 24 years. Chinese demand alone is up 20 percent over the past year.

Speculators in the energy market

The notion that speculators may be driving up oil prices may bring to mind the Hollywood film character “Dr. Evil,” stroking his kitty, as he plots the downfall of civilization. In reality, speculators are simply investors, hedge fund managers and other professionals (maybe even your pension fund manager), who look at events in the world and then make investment decisions based on those realities. Speculators betting on the possibility of higher prices have themselves intensified price pressure in the market. Speculation in crude futures has nearly doubled since 2000. The role of speculators, however, is minimal in the big picture.

OPEC manipulation

OPEC is the cartel of oil-producing countries. It represents nearly half of the world's crude oil exports and is aggressively shifting production in order to maintain higher prices. Many OPEC nations are openly hostile towards the U.S. and are eager to see higher energy costs cripple our economic and military strength.

Limited supply

The main issue causing prices to go up for Washingtonians is American lack of willingness to explore domestic energy supplies. A clear signal to world markets that America is willing to explore its own vast resources would help drive prices down.

No new U.S. refineries

Environmental regulations and planning permission processes are also driving up the cost of fuel. Environmentalists demand new grades of gasoline, which are different in many states, and make it too expensive and difficult for refineries to obtain new permits.

So what can we do right now to lower energy costs?

Unfortunately, the majority party in Olympia (and in D.C.) has a “NO” answer approach. They answer NO to additional refineries, NO to greater domestic exploration, NO to drilling in the Arctic National Wildlife Refuge (ANWR), NO to clean, carbon-neutral nuclear power, NO to clean coal, NO to hydropower... just plain NO to all options.

There are steps we could take in Olympia and in D.C. to help meet our citizens’ energy needs:

- Adopt a comprehensive energy policy that includes more refinery permits, more nuclear power, more wind and solar, recognition of hydropower as a renewable fuels source, smart grid and electric vehicle technology, clean coal, tidal power, and natural gas;

- Encourage expansion of refinery capacity through, among other things, a more reasonable permitting process;
- Save consumers money on their natural gas and electric bills through a cap on the public utility tax;
- Give renewable electricity developers and investors more certainty by extending and expanding renewable electricity exemptions;
- Reward consumers and utilities for using “smart” technologies and provide incentives for makers of these products to locate in Washington;
- Offer tax incentives for companies that voluntarily reduce carbon emissions;
- Expand roads to reduce traffic, and therefore emissions;
- Examine all environmental policies to make sure they are in line with current science;
- Phase out the state gas tax and eliminate the sales tax on highly fuel-efficient vehicles, hybrids, and flex fuel vehicles;
- Reevaluate biofuels to make sure they still make environmental and economic sense, given today’s food and fuel prices;
- Promote healthy forests and responsible stewardship of public lands;
- Call on our federal delegation to support domestic exploration in order to bridge the gap until newer sources of energy can meet our demands. Untapped resources are available in
 - ANWR – The Arctic National Wildlife Refuge is an important source of domestic energy with experts projecting reserves matching as much as 30 years of oil imports from Saudi Arabia. Oil can be extracted in a safe and environmentally conscious way from as little as 2,000 of ANWR's 19.5 million acres — a patch proportionately comparable to a postage stamp placed in the middle of a football field.
 - The Atlantic, Pacific and Eastern Gulf and the U.S. outer continental shelf in Alaska, California, Virginia and Florida, which is estimated to contain at least 86 billion barrels of oil and 420 trillion cubic feet of natural gas.

In Australia up to 100 offshore wells are drilled each year. The Independent Scientific Review has found that there is no environmental impact from offshore exploration and production.

- The western United States shale, where there are up to 800 billion barrels of oil located along the Green River formation that spans through Utah, Colorado and Wyoming, is another potential source of domestic energy. It has more than three times the oil we get from Saudi Arabia.

When the Legislature reconvenes in January, Senate Republicans will offer concrete solutions to help protect our environment, while meeting the energy needs of all Washingtonians.

Gregoire's climate-change proposals could cost business billions and limit personal freedom

In March, Gov. Christine Gregoire signed a controversial climate-change bill that requires Washington to reduce emissions to 1990 levels by 2020, to 25 percent below 1990 levels by 2035, and to 50 percent below 1990 levels by 2050.

The law requires the Department of Ecology to submit to the Legislature by January a plan detailing how those goals will be achieved.

On Monday, June 9, Gregoire's Ecology department staff provided a briefing to legislative staffers on several energy- and climate-related issues, including the Western Climate Initiative negotiations, Ecology's design of a tax-and-ration (or cap and trade) system, and the Climate Advisory Team (CAT) work to refine its interim report to develop specific proposals.

According to the briefing, a panel selected by Gregoire is already selecting the greenhouse-gas-cutting recommendations that could be adopted by the 2009 Legislature. Final recommendations are expected to include increased taxes on parking and driving; new taxes and fees on drivers who travel in single-occupancy vehicles; new mandates on industries and individual businesses; and increased government bureaucracy.

The new climate-change law also directs the state to participate in the Western Climate Initiative (WCI), a regional cap-and-trade effort.

Under a cap-and-trade system, the Western Climate Initiative would set limits on total emissions. A company that can cheaply reduce its emissions could sell credits to a company that can't.

Ecology staff admitted that many of the key questions about how the program would work are still unanswered. No decision has been made as to whether companies have to buy the rights to emit greenhouse gases, or if they will be given to them. They were equally unsure as to how to keep speculators from running up the price of credits and getting rich off of the system. It is also possible that companies could get credit for actions they've already taken.

Ecology expects some of the questions to be answered by August, when the WCI is scheduled to release its "design plan." Experts agree, that depending on that plan, the initiative could mean higher costs for some of Washington's electricity consumers.

Hydropower is a clean, renewable energy source

Hydroelectric power is an abundant resource that balances the needs of the environment with the need for clean, nonpolluting, and reliable electricity. Hydro is a carbon-free resource that can provide the flexible power needed to firm up and back up the growing development of wind power in our region.

Initiative-937 requires large utilities to obtain 3 percent of their electricity load from new (and more expensive) renewable resources, such as solar and wind, by 2012, and ratchets the renewable requirement to 9 percent of load by 2015, and 15 percent by 2020.

Unfortunately, the initiative's definition of renewable energy does not include most existing hydroelectric facilities. For instance, hydropower purchased from the federal Bonneville Power Administration does not count. Though some incremental improvements to existing hydro facilities can qualify, even dams certified as “green” by the Low Impact Hydro Institute don’t qualify as renewable.

That’s simply not reasonable. California, for example, does count carbon-free hydropower as a renewable resource. As a result, with the passage of I-937, California businesses and ratepayers are now reaping the benefits from Washington's low-cost hydropower because our utilities are signing power contracts with California utilities, to help California meet its greenhouse gas reduction goals.

Sen. Janéa Holmquist, R-Moses Lake, proposed two amendments to the massive greenhouse gas bill signed by Gregoire in March, which would have recognized hydropower as a source of renewable energy.

“Washington relies primarily on hydropower – one of the cleanest power sources, which produces no carbon dioxide or other greenhouse gases,” said Holmquist, who serves on the Senate Water, Energy and Telecommunications Committee. “The hydro-based economy generates thousands of family-wage jobs and ensures our citizens can heat and cool their homes affordably.”

Unfortunately, Holmquist’s amendment to address this flaw in the bill was defeated generally along party lines.

“I am disappointed this amendment was rejected,” said Holmquist. “We should be building on our success with proven hydropower, not just chasing incremental increases in new, but extremely expensive and sometimes experimental, technologies.

“California recognizes hydropower as green; why shouldn’t Washington?”

Senate Republicans will be working next session to correct this fatal flaw in I-937.

Senate Republicans call for creating joint legislative task force on nuclear energy

Sen. Jerome Delvin, R-Richland, believes Washington leaders from both parties have an obligation to look into the possibility of increasing clean, carbon-neutral nuclear power.

“Democrats and Republicans alike are vitally interested in clean energy sources,” Delvin said. “It is estimated that a million people will move into our state by 2020. They will demand an enormous amount of energy – and our current clean energy sources will only be able to furnish a fraction of what we’ll need.”

This past legislative session, Delvin introduced Senate Bill 6568, which called for a legislative study of the pros and cons of nuclear power as a future energy source. The bill would have also looked at nuclear energy generation and at technologies that recycle waste and reduce the need for storing nuclear materials.

Unfortunately, the majority party allowed this important bill to die without even giving it the courtesy of a hearing. This is mainly a result of the radical environmental movement that refuses to even examine nuclear power.

More and more mainstream environmentalists, however, are recognizing that nuclear power is one of the safest, cleanest, cheapest, and most reliable sources of energy. Nuclear power has absolutely no global effect, produces only very small amounts of waste that are easy to manage, doesn’t affect the planet's climate, and, if well-managed, is sustainable in the very long term.

France’s 56 working nuclear plants generate 76 percent of its electricity. It is now the world's largest net exporter of electric power, exporting 18 percent of its total production to Italy, the Netherlands, Britain, and Germany, and its electricity cost is among the lowest in Europe.

“If it’s true that 100 years from now, Washington can have an unlimited supply of clean, cheap, safe energy from nuclear power, for example, we want to know that...,” Delvin said.

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