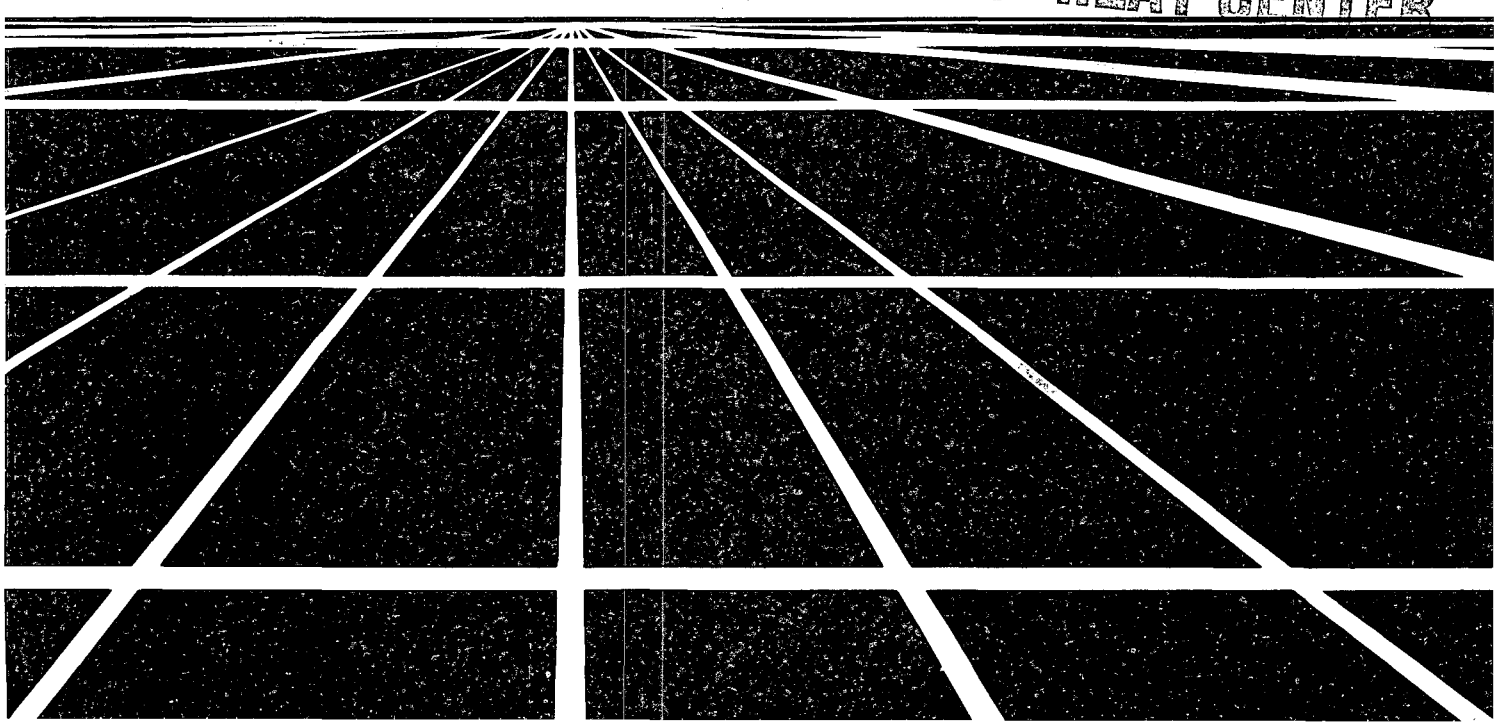
DOE/OPA-0003

DOE Information Kit

Reference Information from the Department of Energy
Office of Public Affairs

The National Energy Act



DISCLAIMER

Department of Energy Information

Office of Public Affairs
Washington, D.C. 20585

TABLE OF CONTENTS

NATIONAL ENERGY ACT (NEA)
General Information

Department of Energy Information

Office of Public Affairs
Washington, D.C. 20585

I.

SUMMARY

NATIONAL ENERGY ACT TO CONSERVE ENERGY, ACCELERATE SHIFT TO COAL AND REDUCE U.S. OIL IMPORT NEEDS

Provisions of the National Energy Act (NEA) are expected to result in reduced oil import needs by 1985, increased use of fuels other than oil and gas, and more efficient and equitable use of energy in the United States.

President Carter stated after congressional passage of the act, "We have declared to ourselves and the world our intent to control our use of energy, and thereby to control our own destiny as a nation."

Energy Secretary Schlesinger commented, "The NEA represents an historic turning point. The era of cheap and abundant energy is recognized to be over. For the first time, energy conservation is recognized as an indispensible ingredient in national energy policy. With the NEA, we will save 2.5 to 3 million barrels a day by 1985, compared to what we would otherwise have required for an estimated balance of payments savings of approximately $14 billion in current dollars (as much as $20 billion in 1985 dollars)."

"The purpose of the National Energy Act," Secretary Schlesinger added, "is to put into place a policy framework for decreasing oil imports by:

- replacing oil and gas with abundant domestic fuels in industry and electric utilities,

- reducing energy demand through improved efficiency,

- increasing production of conventional sources of domestic energy through more rational pricing policies, and

- building a base for the development of solar and renewable energy sources."

(MORE)

NEA was passed by the Congress on October 15, 1978 after nearly a year and a half of deliberation. The act is composed of five bills:

- the National Energy Conservation Policy Act of 1978,
- the Powerplant and Industrial Fuel Use Act of 1978,
- the Public Utilities Regulatory Policy Act,
- the Natural Gas Policy Act of 1978, and
- the Energy Tax Act of 1978.

- DOE -

November 1978

II.

HIGHLIGHTS

ENERGY CONSERVATION

The National Energy Conservation Policy Act of 1978 provides for --

* Utility Conservation Program for Residences

  A program requiring utilities to offer energy audits to their residential customers that would identify appropriate energy conservation and solar energy measures and estimate their likely costs and savings. Utilities also will be required to offer to arrange for the installation and financing of any such measures.

* Weatherization Grants for Low Income Families

  Extension through 1980 of the DOE weatherization grants program for insulating lower income homes at an authorized level of $200 million in FY 1979 and 1980.

* Solar Energy Loan Program

  A $100 million program administered by HUD which will provide support for loans of up to $8,000 to homeowners and builders for the purchase and installation of solar heating and cooling equipment in residential units.

* Energy Conservation Loan Programs

  A $5 billion program of federally-supported home improvement loans for energy conservation measures; $3 billion for support of reduced interest loans up to $2,500 for elderly or moderate income families and $2 billion for general standby financing assistance.

* Grant Program for Schools and Hospitals

  Grants of $900 million over the next 3 years to improve the energy efficiency of schools and hospitals.

* Energy Audits for Public Buildings

A 2-year, $65 million program for energy audits in local public buildings and public care institutions.

* Applicance Efficiency Standards

Energy efficiency standards for major home appliances, such as refrigerators and air conditioning units.

* Civil Penalties Relating to Automobile Fuel Efficiency

Authority for the Secretary of Transportation to increase the civil penalties on auto manufacturers from $5 to $10 per car for each 1/10 of a mile a manufacturer's average fleet mileage fails to meet the EPCA automobile fleet average fuel economy standards.

* Other Provisions

Other provisions in the Act include the following:

- Grants and standards for energy conservation in Federally-assisted housing,
- Federally insured loans for conservation improvements in multi-family housing,
- $100 million for a Solar Demonstration program in Federal buildings,
- Conservation requirements for Federal buildings,
- $98 million for solar photovoltaic systems in Federal facilities,
- Industrial recycling targets and reporting requirements,
- Energy efficiency labelling of industrial equipment,
- A study of the energy efficiency of off-road and recreational vehicles,
- An assessment of the conservation potential of bicycles.

COAL CONVERSION

The Power Plant and Industrial Fuel Use Act of 1978 provides for --

* Prohibition of New Oil and Gas Fired Boilers

  Prohibition against use of oil or natural gas in new electric utility generation facilities or in new industrial boilers with a fuel heat input rate of 100 million Btu's per hour or greater, unless exemptions are granted by DOE.

* Restrictions on Existing Coal Capable Large Boilers

  DOE authority to require existing coal capable facilities, individually or by categories, to use coal and to require non-coal capable units to use coal-oil mixtures.

* Restrictions on Users of Natural Gas for Boiler Fuel

  Limitation of natural gas use by existing utility power plants to the proportion of total fuel used during 1974-1976, and a requirement that there be no switches from oil to gas. There is also a requirement that natural gas use in such facilities cease by 1990 (with certain exceptions).

* Pollution Control Loan Program

  An $800 million loan program to assist utilities to raise necessary funds for pollution control.

* Supplemental Authority

  Supplemental authority to prohibit use of natural gas in small boilers for space heating and in decorative outdoor lighting and to allocate coal in emergencies.

* Other Provisions

  Funding of several programs to reduce negative impacts from increased coal production; energy impact assistance and railroad rehabilitation.

PUBLIC UTILITY REGULATORY POLICIES

The Public Utility Regulatory Policies Act of 1978 provides for --

* Rate Design Standards

  Eleven voluntary standards on rate design and other utility practices for consideration by State regulatory authorities and non-regulated utilities -- including time-of-day-rates, seasonal rates, cost of service pricing, interruptible rates, prohibition of declining block rates and lifeline rates.

* Consideration of Rate Design Standards

  A requirement that state regulatory authorities and utilities consider each standard within prescribed periods and determine if they are appropriate for conservation, efficiency and equity, as well as consistent with state laws. Voluntary guidelines with respect to the standards may be prescribed.

* Retail Policies For Natural Gas Activities:

  Consideration by gas utilities of two standards -- i.e., service termination procedures and advertising expenditures. A DOE study of the best rate design for gas utilities is also required.

* Cogeneration

  FERC rules favoring industrial cogeneration facilties, and requiring utilities to buy or sell power from qualified cogenerators at just and reasonable rates.

* Wholesale Provisions

  FERC authority to require interconnections of electric power transmission facilities, to order utilities to provide transmission services between two noncontiguous utilities, and to report anticipated power shortages; FERC review of automatic rate adjustment-clauses.

* Aid to States and Consumer Representation

  Funding to assist state implementation and consumer intervention in proceedings.

* Small Hydroelectric Facilities

  Loan program to aid development of small hydroelectric projects.

* Expediting Legislation for Crude Oil Transportation Systems

  Establishes a process for selecting and expediting issuance of permits for a crude oil transportation system to move oil from the West Coast to northern tier inland states, as well as expediting the issuance of permits for the SOHIO pipeline in the south, running from Long Beach, California to Midland, Texas.

* Significant Miscellaneous Provisions

  Authorization funding for the National Regulatory Research Institute; Establishment of 3 additional University Coal Research Laboratories; rules for conversion of natural gas users to less desirable heavy fuel oils; Emergency Conversion of utilities and other facilities during natural gas emergencies; natural gas transportation policy, and rules for treatment of conserved natural gas.

NATURAL GAS PRICING REGULATION

The Natural Gas Policy Act of 1978 provides for --

* Price Controls

  The NGPA sets a series of maximum lawful prices for various categories of natural gas, including gas sold in both the interstate and intrastate markets. This eliminates the regulatory distinction which had previously existed between the two markets, with interstate rates set on the Federal level and intrastate rates largely unregulated.

* Deregulation of Certain Gas

  Price controls on new gas and certain intrastate gas will be lifted as of January 1, 1985. Certain high-cost gas will be dereguated approximately one year after the NGPA's enactment. Gas from certain new onshore wells will also be deregulated but not until July 1987. Other gas will remain under price controls indefinitely. Price controls may be reimposed by Congress or the President for one eighteen-month period.

* Incremental Pricing

  Protection of residential consumers by first passing through some portion of increased gas prices to industrial users. This incremental pricing to industrial users cannot result in industrial gas prices higher than the regional cost of substitute fuels as determined by the FERC.

  The average cost of natural gas to industry, even under incremental pricing, is expected to remain well below the cost of alternate fuels. Initially this rule applies only to boiler fuel users of natural gas.

(MORE)

* Emergency Authority

The President may declare an emergency if a gas shortage exists or is imminent which endangers supplies for "high-priority" users. High-priority use means the use of gas in a residence or small commercial establishment, or any use, the curtailment of which would endanger life, health, or maintenance of physical property. During an emergency, the President may authorize certain emergency sales of gas. If these emergency sales are not sufficient to protect high-priority users, he may allocate certain supplies of gas, as necessary.

* Curtailment Priorities

Interstate gas supplies needed for certain agricultural and industrial uses generally will not be curtailed unless the gas is needed to serve high-priority users ("high-priority" defined above).

ENERGY TAX ACT

The Energy Tax Act of 1978 provides for --

* Residential Insulation & Conservation Tax Credits

  A non-refundable income tax credit for residential insulation and energy conservation measures--up to $300 or 15% of the first $2,000 expended.

* Residential Solar Tax Cedits

  A non-refundable income tax credit for the residential installation of solar or wind equipment--up to a total maximum credit of $2,200 covering $10,000 of expenditures.

* Exemption of Gasohol from Excise Tax

  Exemption of gasoline containing at least 10% alcohol produced from agricultural products or waste from the 4 cents per gallon Federal Excise Tax.

* Gas Guzzler Tax

  Graduated excise tax on gas guzzling cars that fall substantially below Federally mandated fleetwide mileage standards for each year.

* Geothermal Energy & Geopressured Natural Gas Tax Provisions

  Incentives for the development of geothermal resources through an investment tax credit, the expensing of intangible drilling costs and a percentage depletion allowance. Geopressured natural gas is granted a special 10% depletion allowance.

* Minimum Tax Exclusion for Intangible Drilling Costs

  Extension of favorable minimum tax treatment of intangible drilling costs for oil and gas into future years.

* Business Energy Tax Credits

  Business tax credits for industrial investment in alternative energy property (such as boilers for coal, non-boiler burners for alternate fuels, heat conservation equipment and recycling equipment).

* Denial of Tax Benefits for New Oil & Gas Fired Boilers

  Denial of investment tax credit and accelerated depreciation for new gas and oil boilers.

III.

IMPORT SAVINGS

1985 Import Savings Estimates
for the
National Energy Act

	Savings in thousands of barrels per day
CONSERVATION	
Building Conservation Programs/Appliances	410
Auto & Truck Standards	265 a/
UTILITY RATE REFORM	0-160
NATURAL GAS PRICING	1000-1400 b/
COAL CONVERSION	300
ENERGY TAXES	
Residential Tax Credits	225
COET	--
Oil & Gas User Tax	--
Gas Guzzler Tax	80
Business Energy Credits	110
TOTAL	2390-2950

a/ Assumes EPCA penalties are increased to full extent permitted. Assumes completion of administrative action to implement truck standards.

b/ DOE estimates of savings under the natural gas bill range from 1.0 million barrels per day to 1.4 million barrels per day depending upon the degree of oil displacement which occurs as a result of increased gas supply. Increases in gas supply may displace LNG, propane and butane as well as oil. The precise displacement ratios will depend upon world oil prices and other market conditions.

IV.

FACT SHEETS

ENERGY CONSERVATION

The Energy Conservation Bill emphasizes both energy conservation and solar energy measures. It thereby recognizes that a major component of the Nation's effort to sustain economic growth over the long run depends upon initiatives for conserving energy as well as developing renewable energy sources.

The major conservation and solar energy initiatives in this bill include:

1. Utility Conservation Program for Residential Buildings

Governors will submit plans to the Secretary of Energy outlining how electric and gas utilities and oil dealers in their states will inform customers of suggested energy conservation and solar energy measures, and provide estimates of the energy savings and costs of such measures. These measures include: insulation, storm windows and doors, caulking and weatherstripping, replacement furnaces, furnace efficiency modifications, clock thermostats, solar hot water heaters, and solar heating and air conditioning systems.

A utility must inspect the customer's residence upon request to determine which conservation and solar energy measures would be cost effective. The utility must also provide lists of lenders, suppliers and contractors and offer to arrange for the installation or financing of conservation and solar measures by listed firms. Except in certain cases, utilities are prohibited from directly installing such materials or actually making loans. One exception is that utilities may install furnace modifications and thermostats if customers desire.

Utilities must bill those customers for whom conservation or solar measures are installed rather than include the costs of installation in general utility rates. They may offer billing arrangements so that customers can choose to pay back the installation costs over an extended period on their monthly utility bills. State regulatory authorities may require utilities to pay for other services provided under this legislation, such as the inspection of homes, out of their general operating funds. In addition, utilities are required to charge fair and reasonable prices and rates of interest in connection with this program.

Oil dealers must assume similar responsibilities if they elect to participate, unless excepted by the governor.

2. Weatherization Grants for Low-Income Families

The legislation extends to 1980 a grant program for states to purchase and install materials to weatherize homes occupied by low-income families, particularly the elderly and handicapped. "Low-income" families are defined as families with incomes of 125 percent or below that of the Federally-established poverty level. Eligible materials include: insulation, storm windows and doors, caulking and weatherstripping, furnace efficiency modifications, and clock thermostats. The maximum grant expenditure for any dwelling unit is $800. Grants can be used for both owner-occupied and renter-occupied residences. Appropriations authorized for this program are $200 million in both fiscal years 1979 and 1980.

A separate $25 million grant program under the Farmers Home Administration has been established to finance the weatherization of dwelling units of low-income families located in rural areas.

3. Energy Conservation Financing Program

The Government National Mortage Association (GNMA), under HUD, is directed to purchase and sell home improvement loans for energy conservation measures -- with priority given to elderly and moderate income families. Moderate income is defined as 100 percent or less of the median income for the area. A loan cannot exceed $2500.

Two GNMA programs would be established with a total purchase authority of $5 billion. A $3 billion fund is provided for reduced interest loans to moderate income borrowers. A $2 billion stand-by fund is provided for non-subsidized loans that may be used where credit is not otherwise available for such purposes.

4. Solar Energy Financing Program

The GNMA also will be authorized to purchase up to $100 million of reduced interest loans to homeowners and builders for the purchase and installation of solar heating and cooling equipment in residential dwellings. Support for up to $8,000 per unit will be provided. The financing program will be available for 5 years with loan repayments due within 15 years.

5. Other Residential Financing Programs

The legislation authorizes the Department of Housing and Urban Development (HUD) to insure loans for energy conserving improvements to multi-family housing and to make grants and establish standards for such improvements to Federally-assisted housing. HUD is also authorized funds to make energy conserving improvements to public housing. The mortagage limits for housing insured by FHA or the Farmers Home Administration (FmHA) may be increased, as a result of the NEA, to account for the increased cost of solar energy systems and other provisions direct that the minimum energy conservation standards governing new housing insured by FHA or FmHA be strengthened. DOE and HUD are also required to conduct studies of energy conservation in apartment buildings and the possible needs for mandatory standards governing all existing residential buildings.

6. Schools, Hospitals, and Public Buildings Grant Program

Grants to States of $900 million over the next 3 years are authorized to assist schools and hospitals to pay for energy audits and installation of energy conservation and solar energy measures. These grants will generally cover up to 50 percent of the costs. Institutions eligible for grants to schools and hospitals include public and private non-profit elementary and secondary schools, colleges and universities, and hospitals.

In addition, $65 million in grants are authorized over 2 years to conduct energy audits of public buildings. Institutions eligible for public buildings grants include buildings owned by units of local governments and non-profit nursing homes, community health centers, neighborhood health centers and orphanages.

Applications of schools, hospitals, local governments and public care institutions for grants must be made through the State energy agency.

7. Appliance Efficiency Standards

The Department of Energy is required to set energy efficiency standards for 13 categories of appliances. The standards for these appliances must be established within the next 2 years and 45 days from date of enactment.

The appliances covered are:

Refrigerators and refrigerator-freezers

Freezers

Dishwashers

Clothes dryers

Water heaters

Room air conditioners

Home heating equipment, not including furnaces

Television sets

Kitchen ranges and ovens

Clothes washers

Humidifiers and dehumidifiers

Central air conditioners, and

Furnaces

The Department of Energy has the authority to expand the list to cover other major appliances. The Department may, in certain instances, preempt State appliance efficiency standards for items in the listed categories. Any state appliance efficiency standards for products not listed among the 13 categories of covered products will be preempted if prescribed after January 1, 1978.

8. State Energy Conservation Program Grants

The grant programs established under The Energy Policy and Conservation Act (EPCA) and The Energy Conservation and Production Act (ECPA) to develop and implement energy conservation activities in each participating State will be extended through fiscal year 1979 at an authorized total figure of $100 million. To receive Federal grants, States are required to undertake certain specific conservation actions, e.g., instituting programs to promote carpools and vanpools, requiring lighting efficiency standards in non-Federal public buildings, and carrying out a continuing public education effort on energy conservation.

9. Civil Penalties Relating to Automobile Fuel Efficiency

The Secretary of Transportation presently has authority to impose on auto manufacturers civil penalties of $5 per car manufactured for every 1/10th of a mile per gallon by which the company's fleet average fails to meet the mandated fuel efficiency standard in any given year. The Secretary would be authorized to increase the civil penalties up to $10 upon a finding that such an increase would result in substantial energy conservation for automobiles. Such an increase, however, could only be imposed if the Secretary found that it would not cause undue economic hardship, cause a significant increase in unemployment, adversely effect competition, or lead to significantly greater imports.

10. Federal Solar Energy Demonstration Program

The Federal Government is authorized up to $100 million to demonstrate solar technology by undertaking a 3-year program for installation of solar equipment in Federal buildings. The program is designed to stimulate the manufacture of solar equipment, help lower its costs, and thereby make solar energy systems more attractive for widespread commercial use. In addition to this program, the Federal Government is authorized $98 million over three years to purchase photovoltaic energy devices for use in Federal buildings. The purpose is to stimulate the development of a permanent low-cost private photovoltaic production capability.

11. Energy Conservation in Federal Buildings

Energy audits are required of all existing Federal buildings. Each Federal agency must retrofit a certain percentage of its total square footage with energy conservation measures or solar energy systems so that by 1990 all Federal buildings are retrofitted to assure maximum efficiency. All new buildings must be designed to minimize their life cycle energy costs. These provisions would strengthen existing requirements for energy conservation in Federal buildings.

12. Industrial Energy Conservation

The existing industrial reporting requirements would be expanded so that all companies which consume at least 1 trillion Btu's per year in each of the 10 most energy-consuming industries must report their energy consumption figures to the Department of Energy (DOE) each year and show what actions are being taken to conserve energy. Companies may report indirectly through third parties, such as trade associations, if DOE finds that such a reporting program is effective.

13. Miscellaneous Provisions

a. Recycling Targets and Reporting - Directs that targets be established for increased industrial utilization of recovered materials and requires DOE to report annually on progress.

b. Industrial Equipment - Directs DOE to evaluate pumps and motors to determine if performance standards are necessary and to propose test procedures and labeling requirements for any equipment covered.

c. Off-road Vehicle/RV Study - Directs DOT to study the energy conservation potential of recreational motor vehicles, including airplanes and boats used for recreational purposes.

d. Bicycles - Directs DOT to study the energy conservation potential of bicycle transportation.

COAL CONVERSION

Since 1974, the Federal Government has administered a coal conversion program under the Energy Supply and Environmental Coordination Act of 1974 (ESECA). The coal conversion portion of the NEA modifies and expands that program in several important ways. The effect of these changes will be to streamline the regulatory process and to improve dramatically the program's effectiveness in reducing consumption of oil and gas in industrial and utility boilers as a result of the increased use of alternate fuels such as coal.

Under the current program, the Federal Government must individually identify new units planning to burn oil or gas and then order them to burn coal or other fuels. Under the new law, the burden of making such determinations is shifted. New facilities (above 10 MW) may not now legally burn oil or gas until the owners have demonstrated to DOE that an exemption is justified. Thus, the operators of the facility, who are most knowledgeable about the particulars of their case, instead of the government, will be responsible for making the necessary showings. As a result, regulatory decisionmaking will be substantially improved and simplified, while the potential for delay will be reduced.

The major change under the new law for existing facilities is a streamlining of the procedures for ordering units with the capability for burning coal to return to coal use.

Utilities. The bill contains a prohibition against the use of oil or natural gas as a primary fuel in any newly constructed utility generation facility. Permanent exemptions from this prohibition for a new base load power plant 1/ may be obtained from DOE if a utility plans to use synthetic fuels derived from coal, or if there is no reasonable site at which coal or an alternative fuel can be burned for any of the following reasons:

- o environmental regulations preclude coal use;
- o site-specific limitations, such as space for handling equipment or waste disposal, preclude coal use;
- o system reliability would be impaired; or
- o the cost of using coal or an alternative fuel would substantially exceed the cost of using imported oil.

1/ Base load is the primary generating capacity of an electric facility. These are generally the facilities which have the lowest average cost.

The Department of Energy may also grant a temporary "public interest" exemption in other circumstances where the use of oil or natural gas serves the public interest.

The Act permits construction of oil fired peak load 2/ power plants. Natural gas may be used for peak load and, in some cases, for intermediate load 3/ facilities only where needed to meet environmental requirements.

Existing power plants are subject to a different procedure. Existing coal-capable 4/ facilities may be ordered, individually or in categories, to convert to coal or an alternative fuel where the Department of Energy finds that such use is technically and financially feasible. Any such facility may be exempted for the same reasons as new power plants. For existing non-coal-capable units, DOE may require the use of coal-oil mixtures, or mixtures using other alternate fuels.

Existing facilities are also required by statute to limit use of natural gas to the proportion of total fuel used during 1974-1976, to refrain from oil to gas switches, and to cease use of natural gas entirely by 1990. This latter requirement may be delayed beyond 1990 by filing a "system compliance plan" under which natural gas use must be reduced by 80 percent (from 1976 levels) and limited to only peak load operation by 1990.

2/ Peak load are the most costly generating facilities of an electric utility used only during "peak" electricity demand.

3/ Intermediate load are the secondary generating facilities of an electric utility used when demand exceeds base load.

4/ An existing coal-capable unit is one which was originally designed to burn coal, but is now burning oil or natural gas. These units can be modified to burn coal again. However, units which were not originally designed to burn coal cannot burn coal unless they are virtually rebuilt. DOE cannot require use of a fuel that a unit is not capable of burning.

Overall, the Coal Conversion bill will serve to reinforce the strong trend among utilities to switch to coal and alternative fuels.

Industrial Users. In the industrial sector, the Coal Conversion bill should substantially reduce reliance upon oil and natural gas. New industrial boilers with a fuel heat input rate of 100 million Btu's per hour* or greater are prohibited from using oil or natural gas unless an exemption is granted by DOE on grounds that the use of coal or an alternate fuel is precluded by environmental regulations, cost, site limitations or for other reasons. A variety of other exemptions is also provided. A temporary "public interest" exemption may also be granted to allow for an exemption in other special circumstances not currently anticipated.

For existing industrial facilities, the Department of Energy may order individual coal-capable units with a fuel heat input rate of 100 million Btu's per hour* or greater not to burn oil or gas by making the same findings required for existing power plants. Of course, such units may be exempted from conversion for the reasons noted above. Units that are not coal-capable may be required where feasible to burn mixtures of oil and alternate fuels, using only the minimum amount of oil necessary to maintain fuel efficiency.

Additional Authority. The NEA also contains supplemental authority to prohibit use of natural gas in smaller boilers for space heating. The Act also prohibits the use of natural gas in decorative outdoor lighting.

In the event of an emergency, the NEA empowers the President to allocate supplies of coal.

Other Provisions. The Coal Conversion bill also contains several other provisions which will reduce any negative impacts as a result of increased coal production. It provides, for example, a program of $60 million in FY 1979 and $120 million in FY 1980 for energy impact assistance in regions particularly affected by expansion of coal or uranium production. In addition, $100 million is authorized for the rehabilitation of railroads for transportation of coal. Finally, it establishes an $800 million loan program to assist utilities that cannot raise the necessary funds for pollution control equipment.

---

* Or aggregations of units of total capacity above 250 MMBtu/Hr.

PUBLIC UTILITY REGULATORY POLICIES

1. Rate-making Standards for Electric Utility Rate Structures

In the last several years, the costs of producing electric power have risen substantially because of marked increases in the cost of construction, capital, and fuels. To address the problem of rising costs, the Congress adopted the principle that the retail rates charged by utilities should be structured in a way that would encourage (1) conservation of energy, (2) efficient use of facilities and resources, and (3) equitable rates to electric consumers.

The Federal Government has conducted extensive research into utility pricing policies to determine what retail rate structures result in the optimal efficient use of the financial and energy resources by utilities and their customers. Accordingly, the national energy legislation sets forth eleven standards for rate design and other utility practices that must be considered by State regulatory authorities and nonregulated utilities.

Each State regulatory authority and each nonregulated utility must consider the applicability of the following six standards for rate design:

* Time of day rates - rates that vary according to whether electricity is consumed during peak or offpeak periods of the day.

* Seasonal rates - rates that vary according to whether electricity is consumed during peak or offpeak periods of the year.

* Cost of service - rates that are charged to each class of electric consumers based on the different costs for serving each such class.

* Interruptible rates - lower rates offered to customers who are willing to have their power interrupted at times of highest peak demand.

* Load management techniques - non-price techniques designed to reduce the maximum kilowatt demand on the utility.

* Prohibition of declining block rates which are not cost justified - discontinuance of rates which favor larger users by pricing successive blocks of electricity at lower per-unit prices.

Within 3 years of enactment, each State regulatory authority and nonregulated utility must review these standards and determine whether they are appropriate for conservation, efficiency and equity and otherwise appropriate and consistent with State law. There is no requirement that the standards be adopted. The Secretary may prescribe voluntary guidelines with respect to all eleven rate standards to aid in their consideration.

Notwithstanding "cost of service" pricing, lifeline rates for essential needs must also be formally considered by each State regulatory authority and non regulated utility within two years of enactment.

A second group of standards concern utility practices other than rate design:

* Prohibition of master metering;
* Review of automatic adjustment clauses;
* Provision of information to consumers;
* Prohibtion on charging certain advertising expenses to ratepayers; and
* Procedures to prevent abrupt termination of service.

Within 2 years of enactment, each State regulatory authority and nonregulated utility must formally consider each of these standards. If adoption of any such standard would be appropriate for conservation, efficiency and equity, and otherwise appropriate and consistent with State law, the standard must be adopted.

Each regulatory authority or nonregulated utility must report to the Department of Energy (DOE) annually with respect to its consideration of the NEA standards.

Each utility shall also within two years of enactment, and periodically thereafter, gather general information on cost of service, and make it available to the public in such form and manner as the Federal Energy Regulatory Commission (FERC) prescribes.

The Secretary of Energy, any affected utility or any ratepayer of the affected utility will have the right to intervene in State ratemaking cases. The intervenors may participate in the proceeding to seek consideration of one or more of the NEA standards, or other concepts which contribute to the achievement of the purposes of the Act.

Any intervenor or participant may seek review of a determination made under this Act by a regulatory authority or nonregulated utility in State court, pursuant to the applicable requirements of State law.

This legislation also establishes procedures for providing attorney and witness fees to certain consumers whose participation in a proceeding "substantially contributed to the approval, in whole or in part, of a position advocated by such ratepayer relating to the standards set out in this Act".

2. Cogeneration Provisions

The Act provides for a variety of activities which will lead to greater realization of the Nation's potential for recovering and using waste heat energy thru cogeneration (i.e., the simultaneous production of process steam and electricity). The FERC will develop regulations requiring electric utilities to offer to sell or buy power at just and reasonable rates from qualified cogenerators and small power producers (up to 30 megawatts) who are eligible under the criteria established by FERC pursuant to this Act.

In addition, FERC will prescribe rules by which qualifying cogenerators and small power producers may be exempted from certain State and Federal regulations which currently apply only to electric utilities, if the Secretary of Energy determines that such exemption is necessary.

3. Wholesale Provisions

(a) Interconnection - New authorities are provided for FERC to order the physical connection of electric power transmission facilities to allow for the sale or exchange of energy across the interconnection. The Federal Power Act is amended to empower FERC to order such electric utility interconnections on its own motion or upon application.

Prior to issuing such an order, FERC must find that it is in the public interest, and that it will improve one or more aspects of energy and economic conservation, efficiency, or overall utility systems reliability. Furthermore, FERC must determine that the interconnection order will not adversely affect reliability and ability to render adequate service or result in a burdensome economic loss for a utility affected by the order.

Any order for interconnection applied for by a utility may not be issued unless the applicant utility adequately demonstrates that it is ready, willing and able to reimburse the utility subject to the order.

(b) Wheeling - New authority is provided for FERC to order an electric utility to provide transmission services to allow two noncontiguous utilities to transmit electric power over the utility's system. The FERC must find that a wheeling order will:

(1) conserve a significant amount of energy;
(2) significantly further the efficient use of electric generation and transmission facilities; or
(3) improve the reliability of utility systems without a reduction in the reliability of other systems.

FERC must also determine that a wheeling order will preserve existing competitive relationships, and will not place an undue burden on a utility affected by the order, impair the reliability of the system or any other utility, or compel the enlargement of generation facilities. (Enlargement of transmission facilities may be ordered to facilitate wheeling, if the utility seeking the order will pay the costs of such enlargement). No wheeling order may be issued if any other utility is likely to incur an uncompensated loss as a result of the order.

(c) Pooling - The Secretary, in consultation with FERC, shall conduct a 1-year review of the opportunities for energy conservation and increased efficiency in use of facilities or resources through pooling arrangements among utilities. In appropriate cases FERC may exempt utilities from any State law or rule which prohibits voluntary coordination between utilities to obtain more economic use of facilities and resources.

(d) Automatic Adjustment Clauses - These clauses permit increases or decreases of rates, without prior hearing, to reflect increases or decreases of certain costs subject to periodic fluctuation incurred by the utility, e.g., fuel costs. Within two years of enactment and every four years thereafter, FERC shall make a thorough review of the automatic adjustment clauses in public utility rate schedules to determine whether they effectively provide incentives for the efficient use of resources, including the economical purchase and use of fuel, and do not cover costs inappropriate for such treatment.

In each rate application, based on findings resulting from an evidentiary hearing, FERC may order a utility to modify the formula design of an adjustment clause or cease any practice which does not fulfill the purposes of this section.

(e) Reliability - The Secretary, in consultation with FERC, shall conduct an 18 month study with respect to the appropriate level of reliability, methods of achieving this level of reliability, and methods of minimizing disruption and economic losses caused by energy outages. The Secretary, in consultation with FERC, may recommend industry standards for reliability.

(f) Continuance of Service - FERC shall require each public utility under its jurisdiction to report promptly any anticipated shortage of electric energy or capacity which would restrict such utility's service to its wholesale customers. Each utility is also required to develop acceptable contingency plans for accommodating such shortages in a manner consistent with public health and safety and the equitable treatment of customers.

4. Aid to the States and Consumer Representation Provisions

(a) The Secretary of Energy is authorized to make grants to State utility regulatory commissions and nonregulated electric utilities solely to assist them in meeting their responsibilities under the provisions of the Public Utility Regulatory Policies Act. Each State will be eligible to receive an equal amount of the total $40 million authorized annually in FY's 1979 and 1980. The Secretary of Energy is authorized to provide information and technical assistance to State regulatory authorities, electric utilities, or nonregulated utilities affected by this Act.

(b) This legislation authorizes $5 million in FY 1978 and $10 million in FY's 1979 and 1980 to State offices of consumer services which are operated independently of any utility regulatory commission and assist consumers in the presentation of their positions before utility regulatory commissions pursuant to Section 205 of the Energy Conservation and Production Act (P.L. 94-385).

(c) An Office of Public Participation will be established within FERC. This office will be responsible for coordinating FERC staff assistance to the public, and administering intervenor funding provisions.

5. Gas Utilities

The Secretary of Energy is authorized to intervene in rate-making proceedings for gas utilities to present factual information in support of retail rate designs which would achieve the purposes of this legislation for encouraging conservation of energy and capital, optimization of the efficient use of facilities and resources, and equitable rates.

The standards for procedures regarding termination of service and advertising expenditures prescribed for electric utilities are extended to gas utilities, and similar findings and determinations are required. In addition, the Secretary of Energy, in consultation with FERC, the States and other affected parties, will conduct a study of retail rate design for gas utilities within 18 months of enactment.

6. Small Hydroelectric Facilities

(a) Small Hydroelectric Power Projects - The Secretary of Energy is authorized to establish a loan program to encourage the development of small hydroelectric facilities in existing dams which are not being used to generate electric power. The Secretary may make loans (for up to 90% of the cost) to any municipality, cooperative or other person to determine the feasibility of small hydroelectric power projects, and assist in the preparation of the necessary license applications. The outstanding balance of any feasibility loan may be forgiven if the project turns out not to be feasible.

If the project would be feasible, eligible applicants may obtain loans for up to 75 percent of the cost of the project. The loan program will be subject to the following conditions:

(1) preference shall be given to applicants who do not have access to alternative financing and whose projects will provide useful information concerning the generation and use of energy by hydroelectric projects,
(2) the maximum term of a loan shall be 30 years; and
(3) the proper licenses shall have been approved.

This loan program is funded under a 3-year authorization of $10 million each year for feasibility studies and a two year authorization of $100 million each year for direct project loans.

(b) Conduit Hydroelectric Facilities - FERC has discretionary authority to grant an exemption to Part I of the Federal Power Act, especially with respect to licensing requirements for any facility of less than 15 megawatts, which is located on non-Federal lands and uses the hydroelectric potential of manmade conduits not built primarily for the generation of electricity.

7. Significant Miscellaneous Provisions

(a) National Regulatory Reserach Institute - The Secretary is authorized to provide up to $2 million in FY 1979 and 1980 to an institute established by the National Association of Regulatory Utility Commissioners to provide State regulatory authorities with independent expertise on regulatory policy issues and improved data retrieval systems. Funding for the institute shall be at least 20 percent non-Federal in 1979 and 40 percent non-Federal in 1980.

(b) University Coal Research Laboratories - Title VIII of the Surface Mining Control and Reclamation Act of 1977 is amended to establish three additional university coal research laboratories, with funding of $6.5 million for the first year and $2 million for each of the following three years. Title VIII previously authorized the establishment of 10 university coal research laboratories at institutions of higher education.

(c) Conversion of Natural Gas Users to Heavy Fuel Oils - FERC is authorized to establish rules that facilitate conversion of natural gas users to less desirable heavy fuel oils. An existing facility user could transfer its entitlement to receive natural gas under an existing contract to an interstate pipeline or distribution company or high priority end-user served by the pipeline. FERC would prescribe appropriate compensation to the transferer.

(d) Emergency Conversion of Utilities and Other Facilities - The Secretary is granted authority to prohibit, during a natural gas emergency, any electric utility power plant or major fuel burning installation from burning natural gas. The Secretary must make certain findings set forth in the Act, and determine appropriate compensation.

(e) Natural Gas Transportation Policies - FERC is authorized to issue a certificate of public convenience and necessity for interstate transportation of natural gas which is used for high priority needs.

(f) Conserved Natural Gas - If FERC updates the base period for natural gas curtailment plan, it must adjust the distribution system's entitlement under the curtailment plan to reflect any volumes of gas saved through implementation of conservation measures.

8. Crude Oil Transportation Systems

This section of the Act provides an expedited process for selection of a crude oil transportation system to carry Alaskan and other crude oil to northern tier and inland states, and to redress the west coast oil surplus and the crude oil shortage of the northern tier states. Application for such systems must be received within 30 days of enactment.

After reviewing the environmental impact statements, and recommendations of Federal agencies, States and the public, the President shall determine which one or more systems, if any, are in the national interest, according to various economic, energy and environmental criteria set forth in the Act. Each approved system is entitled to expedited issuance of rights of ways across Federal lands and other Federal permits. In addition, the Long Beach-Midland project (SOHIO) shall be Federally approved within 30 days of the effective date of the Act. The President may extend this deadline an additional 90 days if it is in the national interest to do so.

NATURAL GAS PRICING REGULATION

The regulation of sales of natural gas in interstate commerce under the Natural Gas Act of 1938 has in recent years led to declining supplies for the interstate market, extensive curtailments of firm industrial service and occasional threats to essential residential and small commercial service. At the same time, the unregulated intrastate markets have maintained or expanded service. Recently, major surpluses of natural gas have accumulated in the intrastate market. This disparity between the markets has resulted in increased oil imports in those states served by the interstate system and will inevitably lead to a slackening of gas exploration and development in the producing states as one means of reducing the surplus.

The Natural Gas Policy Act is designed to redress these fundamental market distortions by establishing prices that are certain and applicable to both systems, as well as removing outmoded regulatory burdens on sales in the interstate market. The price ceiling system is designed to provide the highest incentives for more risky exploratory drilling, while restraining price increases on previously discovered gas to prevent significant inflationary impacts.

In addition, the bill provides for

- protection of residential and small commercial consumers from price increases over current law through incremental pricing of higher cost gas supplies to industrial consumers;

- emergency authorities to ensure continued supplies for high priority uses; and

- protection of essential agricultural users and industrial feedstock and process users from curtailment of gas supplies.

The Federal Energy Regulatory Commission (FERC) will have the primary federal responsibility for implementing the Natural Gas Policy Act of 1978. A FERC fact sheet describing the pricing provisions in the Act and reveiwing the history of natural gas regulation follows.

DEPARTMENT OF ENERGY

FEDERAL ENERGY REGULATORY COMMISSION

WASHINGTON, D. C. 20426

FACT SHEET

(Note: This fact sheet, along with the accompanying table, was prepared by the FERC Office of Public Information. It should not be construed as an official Commission interpretation of the Natural Gas Policy Act.)

NATURAL GAS POLICY ACT OF 1978

INTRODUCTION

The Natural Gas Policy Act (NGPA) of 1978 is one of the parts of the comprehensive National Energy Act. The NGPA is divided into six titles, as follows:

I - Wellhead Pricing
  A - Wellhead Price Controls
  B - Decontrol of Certain Natural Gas Prices

II - Incremental Pricing

III - Additional Authorities and Requirements
  A - Emergency Authorities
  B - Other Authorities and Requirements

IV - Natural Gas Curtailment Policies

V - Administration, Enforcement, and Review

VI - Coordination with the Natural Gas Act; Effect on State Laws

The Federal Energy Regulatory Commission (FERC) will be primarily responsible for administering and enforcing the NGPA. The Commission is given the authority to issue any rules or orders necessary to carry out its functions under the NGPA and may define certain technical terms used in the Act.

The natural gas industry consists of four segments: producers, which find and produce the gas; pipeline companies, which transport gas from the producing areas to consuming markets; local distributors, which sell gas to ultimate

(more)

consumers, such as residences, business, and industry; and direct industrial customers. As described in the following pages, all four segments of the industry are affected in some way by the Natural Gas Policy Act.

WELLHEAD PRICING

Historical Background

In June 1954, the Supreme Court ruled that under the Natural Gas Act of 1938 the rates for natural gas sold by producers in interstate commerce were subject to the jurisdiction of the former Federal Power Commission, the FERC's predecessor agency. Under the Natural Gas Act, rates set by the FPC were required to be "just and reasonable" -- that is, permitting recovery of the costs of producing gas plus a reasonable rate of return.

The FPC in 1954 began setting rates for producers on a case-by-case basis. When this became impractical due to the large number of cases, the Commission set rates for different areas of the country based upon the average cost of production in a given area. The FPC set rates for "new" natural gas on a nationwide basis for the first time in July 1974. The Commission has subsequently set new nationwide rates for several categories of "new" and "old" natural gas (in Opinions 749 and 770-A.) These base ceiling prices will remain in effect under section 104 of the Act (see attached table) for most gas which was dedicated to interstate commerce as of the day before the date of enactment of the NGPA.

The Natural Gas Policy Act of 1978 gives FERC jurisdiction over producer sales in intrastate commerce. Neither the FPC or the FERC had jurisdiction over the rates for natural gas sold in intrastate commerce under the Natural Gas Act. Intrastate sales currently account for an estimated 40 to 45 percent of the total nationwide gas sales.

Price Ceilings Set by the NGPA

The Natural Gas Policy Act establishes a series of statutory maximum lawful prices for various categories of natural gas, including gas destined for both the intrastate and interstate markets. (These prices and categories are shown in the attached table.) The prices will be adjusted monthly for inflation, although the price of some new gas will be allowed to increase at a rate which is somewhat faster than inflation. The Commission will publish the maximum lawful prices each month.

(more)

To collect the price for certain categories of gas, a producer must first obtain a determination that the gas he wishes to sell actually qualifies for that price. Specifically, producers must obtain this determination of eligibility to collect rates for new natural gas (Section 102), gas from new onshore production wells (Section 103), high-cost gas (Section 107), or stripper well gas (Section 108).

Under the NGPA, determinations of eligibility are to be made by the appropriate State agency regulating gas production, if the gas involved is located on lands subject to state jurisdiction, or by a Federal agency such as the U.S. Geological Survey, if the gas is located on lands under Federal domain. Determinations of eligibility will be subject to the FERC's review and, under the NGPA, they can be appealed to the courts only if the FERC remands or reverses the determination of the state or Federal agency. Pending a final determination of eligibility, a producer may collect the price for which he believes his gas qualifies pursuant to implementing regulations to be promulgated by the Commission. Any amount collected in excess of the subsequently determined maximum lawful price will be required to be refunded, with interest.

The NGPA specifically states that it is unlawful for any person to sell natural gas at a price in excess of the applicable maximum lawful price, or to violate any of the Act's other provisions or rules. The NGPA contains both civil and criminal penalties for such violations.

Deregulation Provisions

Under the NGPA, price controls will be lifted from new gas as of January 1, 1985. As shown on the attached table, intrastate gas selling for more than $1.00 per million Btu's will also be deregulated as of January 1, 1985. Certain high-cost gas will be deregulated on the effective date of the incremental pricing rule. Gas from certain new onshore wells will also be deregulated but not until July 1987. All other gas will remain under price controls indefinitely.

Either the President, with Congressional approval, or Congress itself may reimpose price controls for one eighteen-month period. Reimposition of controls may not take effect earlier than July 1, 1985, or later than June 30, 1987. The Department of Energy is to report to the President and Congress on natural gas prices, supply and demand, and market conditions before January 1, 1985.

(more)

NON-PRICE REGULATION OF GAS PRODUCERS

Under the Natural Gas Act of 1938, the Commission has regulated other aspects of producers' sales in interstate commerce in addition to price. Specifically, once a producer obtained Commisison approval to make an interstate sale, he incurred a continuing obligation to provide service, unless authorized by the Commission to cease, or "abandon," the sale. The FERC will continue to have non-price Natural Gas Act jurisdiction over most gas which was dedicated to interstate commerce as of the day before the date of enactment of the NGPA. Under the new Act, however, certain natural gas sold in interstate commerce after that date will not be subject to this type of non-price regulation.

The NGPA does give the Commission certain non-price authority over sales of new natural gas. It permits the Commission to establish minimum contract periods of up to 15 years for sales of new onshore natural gas. For high-cost gas or new gas produced from the Outer Continental Shelf, the Commission must set a contract term of at least 15 years. The NGPA also provides that the Commission may require that the original purchaser of gas which is committed or dedicated to interstate commerce on the day before the date of enactment of the Act under an expired contract be given the right of first refusal to any subsequent sale of the gas.

INCREMENTAL PRICING

Under this provision of the NGPA, interstate pipelines and distribution companies served by interstate pipelines must pass along the higher costs of certain new, high-cost, and imported natural gas to their large industrial customers who use gas for boiler fuel to generate steam or electricity. Under incremental pricing, industrial boiler fuel users will bear the portion, or "increment," of gas costs above $1.48 per million Btu's (as of March 1978, adjusted each month for inflation), until the price to these users rises to the cost of alternate fuel (fuel oil) in the region. Only when the rates of all of an interstate pipeline's or distributor's industrial boiler fuel customers reach this level will its other customers, including residential and small commercial users, have to bear a portion of the higher gas costs.

Within a year after enactment, the FERC must prescribe the specific mechanism for passing through incremental costs to industrial boiler fuel users. The NGPA generally requires that interstate pipelines keep a special incremental pricing

(more)

account, with incremental costs to be passed through by means of a surcharge. Within 18 months of enactment, the Commission is to propose an amendment to the earlier rule which will apply incremental pricing to other industrial gas users, in addition to large boiler fuel users. This amendment will be subject to Congressional review.

The NGPA exempts from incremental pricing schools, hospitals, and other similar institutions; the generation of electricity by electric utilities; and certain industrial cogenerators of steam and electricity. Small industrial boiler fuel facilities (using less than 300,000 cubic feet of gas per day) and agricultural users of natural gas (including food processors and fertilizer manufacturers) are exempted on an interim basis. Within 18 months of enactment, the FERC is to provide for the permanent exemption of certain small boiler fuel users and, where alternate fuel is not reasonably available or economically practicable, agricultural gas users. The Commission may exempt other gas users from incremental pricing, subject to Congressional review.

The NGPA also provides that the transportation costs for gas transported from the Prudhoe Bay Area of Alaska to the lower 48 states theough the yet-to-be-constructed Alaskan Natural Gas Transportation System will be "rolled-in" -- that is, the cost will be shared equally by all users -- rather than priced incrementally.

EMERGENCY PROVISIONS

Under this section, the President may declare a natural gas supply emergency if a gas shortage exists or is imminent which endangers supplies of gas for "high-priority" use. High-priority use is defined as any use of gas in a residence or a commercial establishment, using less than 50,000 cubic feet per day, and any use, the curtailment of which would endanger life, health or maintenance of physical property. The President's declaration of emergency will terminate after 120 days or earlier, unless extended because of continued emergency conditions. The emergency authority is similar to that conferred upon the President by the Emergency Natural Gas Act of 1977, which was in effect during the unusually cold 1976-1977 winter.

During an emergency, the President may authorize interstate pipelines and distributors served by interstate pipelines to make emergency purchases of gas, under any contract terms and conditions he believes necessary. Eligible sellers of this emergency gas include producers not affiliated with an interstate pipeline, intrastate pipelines, local distribution companies, and any persons or companies other than interstate pipelines.

(more)

If the President finds that the emergency purchases described above are not sufficient to meet high-priority needs, the Act gives him authority to allocate certain supplies of gas, as necessary. This allocation authority may be used only after an affected pipeline or distributor has stopped deliveries to all but its high-priority customers.

NATURAL GAS CURTAILMENT POLICIES

Historical Background

Since the early 1970's, demand for natural gas has exceeded supply in the interstate market, causing pipelines to curtail deliveries of gas to some of their customers. The FERC is responsible for reviewing a pipeline's curtailment plan, which is used to divide this reduced supply among its customers. The former FPC, as a general policy, established curtailment priorities which classify gas users into general categories by group (residential, commercial, and industrial), use (the specific end-use of the gas), and size (the amount of gas used). The majority of interstate curtailment plans are based on these "end-use" criteria.

It should be noted that under the Department of Energy Organization Act which took effect last October 1, 1977, the Secretary of Energy is responsible for establishing and reviewing any new priorities for curtailments and the FERC is responsible for implementing those priorities.

Curtailment Provisions of the NGPA

This section provides that interstate gas supplies needed for certain essential agricultural and industrial uses generally will not be curtailed unless the gas is needed to serve high-priority customers. As previously defined, high-priority use would include uses of gas in a residence, small commercial establishment, school, hospital, or similar institution, or any use the curtailment of which would endanger life, health, welfare or maintenance of physical property.

Within 120 days of the date of enactment, the Secretary of Energy must prescribe a rule prohibiting interstate pipeline companies from curtailing essential agricultural users, unless the Commission, in conjunction with the Secretary of Agriculture, determines that alternate fuels are reasonably available and economically practicable to these users. An essential agricultural use is defined as gas used for agricultural production, natural fiber production

(more)

and processing, food quality maintenance, irrigation, pumping, crop drying, or as a feedstock in making fertilizer, agricultural chemicals, or animal feed.

The NGPA also requires the Secretary of Energy to prescribe a rule prohibiting interstate pipelines from curtailing what he determines to be essential industrial process and feedstock uses of gas, unless the gas would be needed to serve high-priority users. Feedstock gas is gas used as a raw material for its chemical properties in creating an end product, and process gas is gas used in applications requiring precise temperature controls and flame characteristics. The curtailment of these uses would be prohibited under the Act only if the Commission determines that alternate fuels are not reasonably available and economically practicable for these uses.

MAXIMUM GAS PRICE CEILINGS SET BY THE NATURAL GAS POLICY ACT

SECTION OF THE ACT	PRICE PER MILLION BTU'S[1]/	CATEGORY OF GAS	DATE OF DEREGULATION
102	$1.75 + inflation[2]/ and escalation[3]/ ($2.07)[4]/	NEW NATURAL GAS - new Outer Continental Shelf (offshore) leases (on or after 4/20/77) - new onshore wells 1) 2.5 miles from the nearest marker well[5]/ 2) if closer than 2.5 miles to a marker well, 1000 feet deeper than the deepest completion location of each marker well within 2.5 miles - new onshore reservoirs	- 1/1/85
		Gas from reservoirs discovered after 7/27/76 on old (pre-4/20/77) Offshore Continental Shelf	- not deregulated
103	$1.75 + inflation ($1.97)[4]/	NEW ONSHORE PRODUCTION WELLS (wells, the surface drilling of which began after 2/19/77, that are within 2.5 miles of a marker well and not 1000 feet deeper than the deepest completion location in each marker well within 2.5 miles)	
		- gas produced above 5000-foot depth	- 7/1/87
		- gas produced from below 5000-foot depth	- 1/1/85
104		GAS DEDICATED TO INTERSTATE COMMERCE BEFORE THE DATE OF ENACTMENT (rates previously set by FPC)	- not deregulated
	$1.45 + inflation ($1.63)[4]/	- from wells commenced from 1/1/75 - 2/18/77	
	$ .94 + inflation ($1.06)[4]/	- from wells commenced from 1/1/73 - 12/31/74	
	$ .295 + inflation ($ .33)[4]/	- from wells commenced prior to 1/1/73	
	applicable FERC rate + inflation	- other gas (gas produced by small producers, gas qualifying for special relief rates, etc.)	

SECTION OF THE ACT	PRICE PER MILLION BTU'S	CATEGORY OF GAS	DATE OF DEREGULATION
105	contract price[6]	GAS SOLD UNDER EXISTING INTRASTATE CONTRACTS	- 1/1/85 - if unescalated contract price exceeds $1.00 by 12/31/84
		- if contract price is less than Section 102 price it may escalate, as called for by contract, up to Section 102 price	- if lower, not deregulated
		- if contract exceeds Section 102 price then contract price plus annual inflation factor or Section 102 price plus escalation applies, whichever is higher	
106		SALES OF GAS MADE UNDER "ROLLOVER" CONTRACTS (an expired contract which has been renegotiated)	
	$ .54 or other applicable FERC price + inflation ($ .61)[4]	- interstate	- not deregulated
	the higher of expired contract price or $1.00 + inflation ($1.13)[4]	- intrastate	- 1/1/85 if more than $1.00
107		HIGH COST NATURAL GAS	
	$1.75 + inflation + escalation[3] ($2.07)[4]	- production from below 15,000 feet from wells drilled after 2/19/77	- deregulated on effective date of FERC incremental pricing rule called for by the Act (approximately one year after enactment)
	applicable rate under the Act or higher incentive rate as set by FERC	- gas produced from geopressurized brine, coal seams, Devonian shale	
		- gas produced under other conditions the FERC determines to present "extraordinary risks or costs"	- not deregulated

SECTION OF THE ACT	PRICE PER MILLION BTU'S	CATEGORY OF GAS	DATE OF DEREGULATION
108	$2.09 + inflation (after 5/78) + escalation[3]/ ($2.21)[4]/	STRIPPER WELL NATURAL GAS (natural gas not produced in association with crude oil, which is produced at an average rate less than or equal to 60,000 cubic feet per day over a 90-day period)	- not deregulated
109	$1.45, or other "just and reasonable" rate set by FERC, + inflation ($1.63)[4]/	OTHER CATEGORIES OF NATURAL GAS - any natural gas not covered under any other section of the bill - natural gas produced from the Prudhoe Bay area of Alaska	- not deregulated

1/ Under the NGPA, if natural gas qualifies under more than one price category the seller may be permitted to collect the higher price. The ceiling prices set by the NGPA do not include state severance taxes.

2/ These prices include an "annual inflation adjustment factor" in order to adjust prices for inflation. The price for a given month is arrived at by multiplying the price for the previous month by the monthly equivalent of the annual inflation factor. Since most of the prices set by the NGPA are as of April 20, 1977, the adjustment for inflation begins in May 1977.

3/ These prices will escalate monthly, in addition to the inflation adjustment factor, by an annual rate of 3.5 percent until April 1981, after which they will escalate by 4 percent.

4/ The estimated maximum ceiling price as of October 1978, due to operation of inflation and escalation adjusters.

5/ A marker well is any well from which natural gas was produced in commercial quantities after January 1, 1970, and before April 20, 1977, with the exception of wells the surface drilling of which began after February 19, 1977.

6/ The average price reported to the FERC for intrastate gas sales contracted for during the second quarter of 1978 was approximately $1.90.

ENERGY TAX ACT

1. Residential Insulation and Conservation

A non-refundable credit--up to $300--is provided for 15 percent of the first $2,000 invested in qualifying equipment. The property claimed for the credit must be installed between April 20, 1977 and December 31, 1985 in a principal residence already in existence on April 20, 1977. Condominiums and cooperatives are included in the credit if used as a principal residence; vacation homes are not.

a. Qualifying property: A credit is provided for investments in insulation, caulking, weather-stripping, modified flue openings, storm or thermal doors and windows, automatic furnace ignition systems, clock thermostats, and other items.

2. Residential Solar

A non-refundable credit for investments in solar, wind, and other renewable sources of energy is available for both new and existing residences. The credit would be 30 percent of the first $2,000 and 20 percent of the next $8,000 spent, for a maximum of $2,200. Any investment from April 20, 1977 through December 31, 1985 will be eligible if the equipment is used to heat or cool a home or provide hot water.

3. Gas Guzzler

Beginning in the 1980 model year, a tax would be imposed on cars whose fuel economy is far below the fleet average standard set by the Energy Production and Conservation Act (EPCA). The tax rate increases as fuel economy decreases to a maximum of $3,850 on the most inefficient cars by 1985. The tax would not apply to light trucks, vans, recreational vehicles, vehicles with four-wheel drive, or other non-highway vehicles or emergency vehicles.

The Act also contains special provisions to protect small manufacturers.

A copy of the full Gas Guzzler Tax Schedule is attached.

4. Exemption for Gasohol from Excise Taxes

The Act provides an exemption from the 4 cent Federal excise tax on gasoline for fuels containing a mixture of at least 10 percent alcohol produced from agricultural products or waste. Alcohol produced from coal, oil or natural gas is ineligible for the exemption. The Act also provides for expedited consideration of applications to produce ethanol.

5. Other Transportation Excise Tax Actions

The Act denies the current refund of excise taxes for gasoline used in motorboats or other non-business, off-highway uses. Excise taxes on certain bus parts and on inter-city, local and school buses would be eliminated.

6. Vanpooling

The Act provides that employer furnished vanpool service will not be considered income to the employee, thus removing a potential obstacle to increased use of vanpooling.

7. Business Energy Tax Credits

A variety of tax credits for investment by business is provided. An additional 10 percent investment tax credit (non-refundable except for solar equipment) is provided for investment in:

a. Alternative Energy Property: This applies to boilers and other combustors which use coal or an alternative fuel, equipment to produce alternative fuels, pollution control equipment, equipment for handling and storage of alternate fuels, and geothermal equipment. This credit compliments and provides a major economic underpinning for the coal conversion regulatory program. The credit is not available to utilities.

b. Solar or Wind Energy Property: A refundable credit for investments in equipment to use renewable energy to generate electricity or to heat or cool, or provide hot water. This credit is not available to utilities.

c. Specially Defined Energy Property: This applies to equipment to improve the heat efficiency of existing industrial processes, including heat exchangers and recuperators.

d. Shale Oil and Geopressurized Methane Equipment: This applies to equipment for the extraction and production of geopressurized methane and shale oil (but not for refining).

e. Recycling Equipment: This applies to equipment for the recycling of waste materials.

8. Restriction of Investment Tax Credit and Accelerated Depreciation on New Oil- and Gas-Fired Boilers

New industrial oil- or natural gas-fired boilers will not be entitled to an investment tax credit and will be limited to straight line depreciation unless the use of coal at any such facility is precluded by Federal air pollution regulations or existing state air pollution regulations.

The credit and accelerated depreciation for new oil- or natural gas fired boilers are also allowed for certain exempt uses; these include residential use, transportation use, farming use, use in any facility which is not an integral part of manufacturing, processing, or mining, use in highly efficient (heat rate of 9,500 btu per KWH or lower) facilities that are capable of converting to synthetic fuels, and use in production or distribution of oil or natural gas.

9. Depreciation Allowance for Early Retirement of Oil- or Gas-Fired Boilers

If the taxpayer demonstrates that an oil- or gas-fired boiler will be retired earlier than originally anticipated, the useful life may be decreased and the remaining basis subjected to straight line depreciation over that shortened remaining life.

10. Geopressured Natural Gas Depletion Allowance

Geopressured natural gas (for wells drilled between October 1, 1978 and December 31, 1983) will be entitled to a 10 percent depletion allowance.

11. Geothermal Energy

A percentage depletion allowance will be provided for geothermal energy in the amount of 22 percent for 1978-1980 that phases down to 15 percent for 1984 and beyond. An election is provided to deduct intangible drilling costs (IDC) for geothermal wells.

12. Intangible Drilling Costs for Oil, Gas and Geothermal Wells

Under the Tax Reform Act of 1976, the deduction for intangible drilling costs (IDC) in excess of 10 year straight line recovery is a tax preference item subject to the minimum tax for individuals. The Tax Reduction and Simplification Act of 1977 changed the 1976 Act by providing that for the 1977 tax year, the tax preference would be limited to IDC's in excess of oil and gas income. This Act extends the provisions of the 1977 Act to subsequent years.

The IDC provisions in the Tax Code were also extended to geothermal deposits.

13. Re-refined Lubricating Oil

Blends of lubricating oil containing re-refined oil are exempted from the 6-cent per gallon Federal Excise Tax.

GAS GUZZLER TAX SCHEDULE

A gas guzzler tax shall be imposed on the sale of automobiles according to the following schedule:

In the case of a 1980 model year automobile:

* If the fuel economy of the model type in which the automobile falls is:

	The tax is:
At least 15	0
At least 14 but less than 15	$200
At least 13 but less than 14	300
Less than 13	550

In the case of a 1981 model year automobile:

* If the fuel economy of the model type in which the automobile falls is:

	The tax is:
At least 17	0
At least 16 but less than 17	$200
At least 15 but less than 16	350
At least 14 but less than 15	450
At least 13 but less then 14	550
Less than 13	650

In the case of a 1982 model year automobile:

* If the fuel economy of the model type in which the automobile falls is:

	The tax is:
At least 18.5	0
At least 17.5 but less than 18.5	$200
At least 16.5 but less than 17.5	350
At least 15.5 but less than 16.5	450
At least 14.5 but less than 15.5	600
At least 13.5 but less than 14.5	750
At least 12.5 but less than 13.5	950
Less than 12.5	1,200

In the case of a 1983 model year automobile:

* If the fuel economy of the model type in which the automobile falls is:

	The tax is:
At least 19	0
At least 18 but less than 19	$350
At least 17 but less than 18	500
At least 16 but less than 17	650
At least 15 but less than 16	800
At least 14 but less than 15	1,000
At least 13 but less than 14	1,250
Less than 13	1,550

In the case of a 1984 model year automobile:

* If the fuel economy of the model type in which the automobile falls is:

	The tax is:
At least 19.5	0
At least 18.5 but less than 19.5	$450
At least 17.5 but less than 18.5	600
At least 16.5 but less than 17.5	750
At least 15.5 but less than 16.5	950
At least 14.5 but less than 15.5	1,150
At least 13.5 but less than 14.5	1,450
At least 12.5 but less than 13.5	1,750
Less than 12.5	2,150

In the case of a 1985 model year automobile:

* If the fuel economy of the model type in which the automobile falls is:

	The tax is:
At least 21	0
At least 20 but less than 21	$500
At least 19 but less than 20	600
At least 18 but less than 19	800
At least 17 but less than 18	1,000
At least 16 but less than 17	1,200
At least 15 but less than 16	1,500
At least 14 but less than 15	1,800
At least 13 but less than 14	2,200
Less than 13	2,650

In the case of a 1986 or later model year automobile:

* If the fuel economy of the model type in which the automobile falls is:

	The tax is:
At least 22.5	0
At least 21.5 but less than 22.5	$500
At least 20.5 but less than 21.5	650
At least 19.5 but less than 20.5	850
At least 18.5 but less than 19.5	1,050
At least 17.5 but less than 18.5	1,300
At least 16.5 but less than 17.5	1,500
At least 15.5 but less than 16.5	1,850
At least 14.5 but less than 15.5	2,250
At least 13.5 but less than 14.5	2,700
At least 12.5 but less than 13.5	3,200
Less than 12.5	3,850

V.

CONTACTS FOR FURTHER INFORMATION

GENERAL

Provisions of the National Energy Act (NEA) are carried out by a number of state and federal government units.

States, for example, handle grants for energy conservation programs in schools and hospitals. States submit plans to the Department of Energy (DOE) for utility audits and aid for residential energy conservation.

Loans and loan guarantees may fall into several categories and be handled by different units, including the Department of Housing and Urban Development (HUD) the Farmers Home Administration, and the Federal Home Loan Bank Board.

Contacts, at least initially, could be made with the office of public affairs in those federal agencies or, in the case of state-administered programs, the particular state energy office.

The U.S. Internal Revenue Service sets rules for tax credits, such as for solar heating and insulation, and the local IRS offices can be contacted.

CONTACTS

Here are some contacts that may be useful:

Department of Housing and Urban Development
Washington, D.C. 20410

- Conservation grants in federal housing
- Conservation loans for homeowners
- Conservation loans in multi-family housing
- Conservation standards for housing
- Solar energy loans

State Energy Offices

- Energy audits for public buildings
- Grants for schools and hospitals
- Utilities program for residential conservation
- Utility rate reform

(MORE)

Director
Office of Buildings and Community Systems,
Department of Energy
Washington, D.C. 20545

Appliance efficiency standards
Energy audits for public buildings
Federal buildings conservation requirements
Utilities program for residential conservation

Director
Office of State and Local Programs
Department of Energy
Washington, D.C. 20545

Grants for schools and hospitals
Weatherization grants for low-income families

Office of Public Information
Federal Energy Regulatory Commission
Washington, D.C. 20426
202/275-4006 or 800/424-5200 (toll free)

Natural gas pricing regulations
Public utility regulatory policies (cogeneration and wholesale provisions)

Office of Information
Economic Regulatory Administration
Washington, D.C. 20461
202/634-2170

Coal conversion for utilities and industrial boilers
Public utility regulatory policies (other than cogeneration and wholesale provisions)

Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224
(or any local IRS office)

Tax Credits

National Solar Heating and Cooling Information Center
P.O. Box 1607
Rockville, Md. 20850
(toll free) 800-523-2929 (in Pennsylvania, 800-462-4983)

Tax credits (plus information on solar equipment and contractors)

(MORE)

Director
Office of Solar Applications
Department of Energy
Washington, D.C. 20545

Solar demonstrations in federal buildings
Photovoltaic systems in federal facilities

Director
Office of Industrial Programs
Department of Energy
Washington, D.C. 20545

Industrial equipment efficiency
Industrial efficiency progress reporting
Industrial recovered materials targets
Second-law efficiency study

The National Energy Information Center of DOE's Energy Information Administration may be contacted for answers to general questions. 202/634-5610, Address: 1726 M St., N.W., Room 210, Washington, D.C. 20461.

DOE's Office of Public Affairs in Washington, D.C. may also be contacted for overall information or referrals.

Public Inquiries Branch Office of Public Affairs Department of Energy Washington, D.C. 20585 202/252-5568	Press Services Office of Public Affairs Department of Energy Washington, D.C. 20585 202/252-5806

Regional DOE offices may also be contacted for general questions or referrals. They are:

Region 1
Analex Building, Room 700
150 Causeway Street
Boston, Massachusetts 02114
617/223-5257

Region II
26 Federal Plaza
Room 3206
New York, New York 10007
212/264-0560

Region III
1421 Cherry Street
10th Floor
Philadelphia, Pennsylvania 19102
215/597-0792

(MORE)

Region IV
1655 Peachtree Street, N.E.
8th Floor
Atlanta, Georgia 30309
404/881-2062

Region V
175 West Jackson Boulevard
Room A-333
Chicago, Illinois 60604
312/353-5779

Region VI
P.O. Box 35228
2626 West Mockingbird Lane
Dallas, Texas 75235
214/749-7621

Region VII
324 East 11th Street
Kansas City, Missouri 64106
816/374-2061

Region VIII
P.O. Box 26247 - Belmar Branch
1075 South Yukon Street
Lakewood, Colorado 80226
303/234-2420

Region IX
111 Pine Street
Third Floor
San Francisco, California 94111
415/556-0418 (or 7157)

Region X
1992 Federal Building
915 Second Avenue
Seattle, Washington 98174
206/442-7285