UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

JUN 13 2002

THE ADMINISTRATOR

The President
The White House
Washington, DC 20500

Dear Mr. President:

In May 2001, the National Energy Policy Development Group asked the Environmental Protection Agency (EPA) to investigate the impact of the Clean Air Act's New Source Review (NSR) regulations on investment in new power plant and refinery capacity, energy efficiency, and environmental protection. The NSR program is designed to assure that air quality is protected when major sources of air emissions are constructed or undertake major modifications. Enclosed is the report that summarizes our findings.

In conducting our review of the NSR program, we went to great lengths to solicit input from all interested parties. Over the past year, EPA met with more than 100 environmental and consumer groups and public officials from across the political spectrum, held public meetings around the country, and evaluated more than 130,000 written comments to assess the effect of NSR on the energy sector. We also consulted with representatives from several federal agencies, including the Department of Energy and the Department of the Interior. Last summer, the nation's governors and the state environmental commissioners – on a bipartisan basis – called for reform of the NSR program. Our report supports this call for NSR reform.

With regard to the energy sector, EPA finds that the NSR program has not significantly impeded investment in new power plants or refineries. However, for existing power plants and refineries, we conclude that the NSR program has impeded or resulted in the cancellation of projects that would maintain or improve reliability, efficiency, or safety. Moreover, at existing industrial facilities outside the power plants sector, the NSR program does discourage projects that improve capacity or efficiency but do not result in increases in actual air emissions.

With regard to environmental protection, we conclude that preventing emissions of pollutants covered by NSR does result in significant environmental and public health benefits. EPA also believes, however, that for the power generating sector the benefits currently attributed to NSR can be achieved much more efficiently and at much lower cost through the implementation of a multi-emission national cap and trade program, such as your Clear Skies proposal for the power plant industry.

From the inception of the NSR program over 20 years ago, EPA has worked closely with a large and diverse group of stakeholders to find ways to improve the program. Virtually all stakeholders are convinced that "reform" of the program is long overdue. In light of the conclusions presented in our report and based on the extensive record developed through years of stakeholder discussions, we now plan to finish the task of improving and reforming the NSR program. While many important reforms can be accomplished through administrative rulemaking, your Clear Skies proposal offers a unique opportunity to provide a much more effective and lasting solution for the power-generation sector.

Sincerely yours,

Christine Todd Whitman

Enclosure