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Oil—Unsafe at Any Price

A confluence of circumstances promised to make 2008 a transformative year for renewable energy in the U.S. States enacted additional, and more demanding, renewable portfolio standards, promoting accelerated and sustained development of “green” energy resources. Increasing concerns about global warming and climate change prompted some of this activity. However, the unprecedented escalation of oil prices to almost \$150 a barrel (translating into prices at the pump in excess of \$4) was the largest impetus for demands that this nation end its addiction to fossil fuels.

The concluding months of 2008 were marked by even greater volatility in oil prices: a decline of over \$100 a barrel, to lows not experienced in half a decade and not expected ever to be seen again. This drop in oil prices provides obvious economic benefits; the greater danger is that we allow this transitory price relief to again divert us from the national imperative to reduce our dependence on oil.

The current circumstances are very reminiscent of the latter decades of the last century. The emergence of OPEC and continued Middle East tensions in the 1960s and 1970s resulted in the price of oil climbing from historic levels of under \$5 a barrel to then-unbelievable heights approaching \$40 a barrel. The era of gas stations offering a free six-pack of Coke as an inducement to fill up with 29 cent a gallon gasoline would be no more.

The Moral Equivalent of War

Within a few months after his inauguration, President Jimmy Carter explained the severity and consequences of the energy crisis to the American people: “With the exception of preventing war, [the energy crisis] is the greatest challenge our country will face during our lifetimes. . . . By acting now, we can control our future instead of letting the future control us. . . . Further delay can affect our strength and our power as a nation. . . . Our decision about energy will test the character of the American people. . . . This difficult effort will be the ‘moral equivalent of war.’”

Congress responded by enacting the Public Utility Regulatory Policies Act to spur development of nonfossil fuel generation resources and thereby reduce our dependence on foreign oil. It also enacted the Natural Gas Policy Act, which removed price controls on natural gas. State legislators and regulatory commissions initiated similar programs designed to promote alternative energy development, energy conservation, and demand response programs.

Short-Term Success/Long-Term Failure

From many perspectives these Carter-era initiatives proved successful. Their legacy includes the first commercial-size applications of wind, solar, and biomass technologies. At the beginning of the 1980s, conventional wisdom assumed that oil prices would exceed \$100 a barrel by the end of the decade. Oil prices

did not breach that barrier until 2008 and remained in the teens throughout periods during the 1990s.

Ironically, the initial success of these initiatives resulted in their failure over the longer term. Increased confidence in the adequacy of natural gas resources, greater efficiencies in combined-cycle generation, and low natural gas prices made natural gas the preferred choice for new power generation. The decline of oil prices ushered in a new generation of gas-guzzling SUVs.

State regulators and utilities became more enamored with “competition,” deregulation, and the promise of lower prices “today” than with committing the funds and resources necessary for advancing renewable power and infrastructure development. This mind-set was epitomized by the Federal Energy Regulatory Commission (FERC) in 1995. At the behest of the California electric utilities, FERC invalidated a competitive solicitation that yielded offers of 20-year contracts for new wind and solar projects. The price (less than 7 cents/kWh) was opposed for being higher than for natural gas projects and was demeaned for subjecting the utility purchasers to “stranded” investment.

Those Who Can Not Learn from History . . .

History teaches that oil is anything but a one-dimensional “economic commodity.” Its price movements reflect more than just changing balances of supply and demand. An early and repeated lesson has been that oil prices fluctuate dramatically with global geopolitical events. The lesson of this decade has been that oil is subject to wild and unpredictable price gyrations for the same vagaries, uncertainties, and perhaps manipulations associated with derivatives and other financial instruments.

The biggest lesson for the U.S. must be that we can not again be seduced by seemingly low fossil fuel prices. We must not again postpone to some future, more convenient time the pursuit of renewable resources and transmission facilities on the basis that fossil fuel resources are “less expensive.” The long-term economic, political, and environmental costs of fossil fuels demand that the nation’s commitment to “green energy” not be discarded as outdated political campaign rhetoric.

We must seize this reduction in oil prices as an opportunity, and not again foolishly persuade ourselves that \$2 gallon prices can be the long-term solution. President Carter’s energy admonitions are truer today than when they were spoken over a quarter century ago: “It is a problem we will not solve in the next few years, and it is likely to get progressively worse through the rest of this century. We must not be selfish or timid if we hope to have a decent world for our children and grandchildren.” ■

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