



THE SECRETARY OF ENERGY
WASHINGTON, D.C. 20585

June 9, 1983

Mr. Nunzio J. Palladino
Nuclear Regulatory Commission
1717 H Street, N.W.
Washington, D.C. 20555

Dear Mr. Palladino:

In the spring of 1982, the Department of Energy undertook a substantial analytical effort focused on the Nation's electric power industry and its ability to continue to provide the high-quality electric service that will be necessary to sustain economic growth over the remainder of this century. The effort included consultation with a wide variety of interested parties as well as a survey of public attitudes about electric service. The enclosed report presents the results of this effort.

I believe this report raises many important issues relating to electric power in America. Among these is the question of whether today's decisions will lead to efficiency in tomorrow's electricity supply. In addressing this question, the report seeks to favor no particular options for shaping supply or demand. Rather, it identifies those new investments and actions that appear most likely to be economically efficient in the long run.

Using this approach, the report finds that substantial investments in new conventional powerplants will remain economically desirable, even when alternative technologies and conservation are pursued to their economic limits. In short, the report suggests that the most efficient path to new electricity supply most likely includes a mix of investments, and the precise mix will vary from utility to utility.

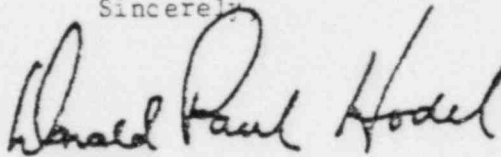
I recognize that there is a diversity of views and circumstances within the industry as well as among State and local jurisdictions that have regulatory authority over the electric utility industry. For that reason, the conclusions in this report are intended to provide a springboard for discussion and debate on the critical issues affecting electricity in this country. Such a discussion must recognize the uncertainties inherent in our economy and the strong role that State and local governments have traditionally played in resolving these uncertainties in connection with the regulation of electric power. A healthy diversity of perspectives on electricity issues is essential if the industry, the general public, and the regulators are to be adequately prepared for the challenges that lie ahead.

I would sincerely appreciate and highly value your comments on this report, and I would be especially interested in your thoughts regarding three questions:

1. Have we accurately portrayed the current circumstances of the electric utility industry, particularly the rate-regulated utilities?
2. In assessing long-run efficiency, have we accurately characterized the choices facing utility management, the uncertainty surrounding those choices, and the incentives that shape management's decisionmaking?
3. To the extent that the report identifies real problems, what are the implications for current Federal policies and programs, and the urgency of any necessary changes?

Your responses to these questions will be weighed most carefully as we decide what further steps, if any, are warranted. Knowing that you, as we, are committed to an efficient and abundant energy supply, I thank you in advance for your advice on this important matter.

Sincerely,



DONALD PAUL HODEL

Enclosure Copy of enclosure in SECY Records

Report of the Electricity Policy Project

The Future of Electric Power in America:
Economic Supply for Economic Growth

June 1983

U.S. Department of Energy
Office of Policy, Planning and Analysis

