

CHAPTER 184**(HB 299)**

AN ACT relating to energy independence.

Be it enacted by the General Assembly of the Commonwealth of Kentucky:

SECTION 1. A NEW SECTION OF KRS CHAPTER 152 IS CREATED TO READ AS FOLLOWS:

The General Assembly finds and determines that:

- (1) The United States currently imports almost sixty percent (60%) of its petroleum needs and nearly half of these imports come from highly unstable regions and countries. It is projected that this percentage will grow to over seventy percent (70%) by 2025 unless the United States changes its policy on producing liquid fuels.*
- (2) Events in the Middle East, Africa, and South America, coupled with China's efforts to secure world oil reserves and production facilities, demonstrate that increasing reliance on foreign sources of petroleum threatens the homeland security of the United States. America's military is increasingly looking at the potential of alternate liquid fuels produced from fossil energy resources or agricultural materials as a reliable, secure source of fuel.*
- (3) Petroleum imports are the single largest cause of the nation's negative balance of trade with the rest of the world and are a major cause of inflation and economic slowdown.*
- (4) Experts project that world oil prices will remain very high because production is at or near its peak while world demand for oil is increasing rapidly. This increase in demand is due largely to economic growth in developing nations, especially China, where oil demand grew by twenty percent (20%) in 2004 and is expected to grow by a similar amount in 2005.*
- (5) The price of crude oil is the major factor driving up prices for gasoline as well as for oil used for home heating in addition to commercial and industrial purposes. Natural gas for home heating and other purposes has been driven to record-high prices as a result of supply constriction and increased demand from the industrial sector.*
- (6) Technologies have long existed for producing transportation fuels from indigenous fossil and biomass energy resources in the United States, and research has demonstrated that coal-based alternate fuel technologies are cost-effective when the world price of petroleum exceeds thirty-five dollars (\$35) per barrel.*
- (7) The United States has trillions of tons of indigenous fossil energy resources and agricultural capacity that rival total worldwide conventional oil reserves. These domestic resources are capable of producing alternate transportation fuels sufficient to make the United States independent of foreign petroleum imports. Kentucky has hundreds of years of fossil energy resources, and the Commonwealth's agriculture produces substantial biomass materials for production of premium-quality liquid transportation fuels.*
- (8) The development of an alternate transportation fuels industry in the United States will create long-term reliable demand for Kentucky's energy and agricultural resources, stabilizing both the energy industries and the agriculture community.*
- (9) Coal-based alternate transportation fuel technologies are capable of producing environmentally superior transportation fuels from near-zero-emission plants with removal or capture of virtually all pollutants including sulfur dioxide, nitrous oxides, mercury, and carbon dioxide, and from biomass-based technologies that are very environmentally positive. The United States can set an example for the world by implementing these technologies and Kentucky is poised to lead the way.*
- (10) Coal-based technologies in the United States are capable of producing pipeline-quality natural gas and industrial-quality natural gas at prices which are below current annual market prices for natural gas.*
- (11) Kentucky's universities have for several decades been among the leading entities in the United States doing research on transportation fuels from coal and oil shale. The Kentucky Department of Agriculture has provided support relating to development of transportation fuels from Kentucky agricultural materials.*

- (12) *Although developing an alternate fuels industry capable of reducing America's dependence on foreign sources of petroleum requires the large-scale financial and technical resources of the federal government and private industry, only government and industry in the states can ensure the most efficient and productive on-site joining of technologies, energy resources, industrial and transportation infrastructure.*
- (13) *The economic, national security, and environmental advantages of establishing thriving domestic alternative liquid fuels and synthetic natural gas industries vastly outweigh the development costs. In contrast, doing little or nothing subjects America to continued and repeated energy supply disruptions and to potentially severe economic consequences.*
- (14) *Embarking on a national mission to achieve energy security and move toward liquid and synthetic fuels independence will not only reduce risk and lower oil prices, natural gas prices, and oil price volatility, it will also facilitate an industrial rebirth, create jobs, foster new technology, and enhance economic growth.*
- (15) *Kentucky, through its universities, has done the research and testing of these environmentally responsible alternative liquid fuel technologies. Kentucky has the natural resources to be the leader in achieving energy security and independence for the United States.*

SECTION 2. A NEW SECTION OF KRS CHAPTER 152 IS CREATED TO READ AS FOLLOWS:

As used in Sections 1 to 4 of this Act, unless the context requires otherwise:

- (1) *"Alternate transportation fuels" means transportation fuels produced by processes that convert coal or biomass resources or extract oil from oil shale to produce fuels for powering vehicles, aircraft and machinery. Alternate transportation fuels may include but are not limited to petroleum, jet fuel, gasoline, diesel fuel, hydrogen derived from coal, and diesel fuel and ethanol derived from biomass;*
- (2) *"Synthetic natural gas" means pipeline quality or industrial quality natural gas produced from coal through gasification processes;*
- (3) *"Fossil energy resources" means reserves of coal, oil shale, and natural gas; and*
- (4) *"Biomass resources" means agricultural materials that may be used for production of transportation fuels such as biodiesel or ethanol or that may themselves be used as a fuel, alone or in combination with a fossil fuel, for generation of electricity.*

SECTION 3. A NEW SECTION OF KRS CHAPTER 152 IS CREATED TO READ AS FOLLOWS:

To ensure that Kentucky will lead the states in securing the energy independence of the United States and will consequently benefit from economic growth and stabilization of the Commonwealth's coal industry and agriculture, the Kentucky Office of Energy Policy shall develop and implement a strategy for production of transportation fuels and synthetic natural gas from fossil energy resources and biomass resources. The strategy shall address:

- (1) *Technologies available or in use for producing transportation fuels and synthetic natural gas from fossil energy resources and biomass resources and the relative advantages of these in terms of process efficiencies, environmental performance, and marketable products including chemicals, industrial feedstocks, and electricity;*
- (2) *Research, demonstration, and commercial-scale construction and operation of one or more technologies, and follow-up expansion;*
- (3) *The essential nature of efficient cooperation, coordination, and synergy between the efforts of the Office of Energy Policy and those of Kentucky's universities in order to maximize Kentucky's opportunities to tap federal funding streams and receive research grants and awards from federal and other sources funding the development of clean coal technology, coal-to-liquid-fuel conversion, synthetic natural gas, alternate transportation fuels, and biomass energy resources;*
- (4) *Federal funds for research, development, construction, and operation of alternate fuels or synthetic natural gas plants at laboratory, demonstration, and commercial scale;*
- (5) *Establishment of a major federal energy research laboratory in Kentucky;*
- (6) *Industry participation, both by single firms and by consortia, in research, development, construction, and operation of alternate transportation fuels or synthetic natural gas plants;*

- (7) *Establishment or expansion of Kentucky state government incentives for development, construction, or operation of alternate transportation fuels and synthetic natural gas production facilities, including but not limited to financial incentives, tax incentives, mandating or providing incentives for use of alternate transportation fuels and synthetic natural gas by state government, school districts, or utilities, authority to issue bonds, and acquisition and preliminary environmental assessment of industrial sites; and*
- (8) *Development of incentives to encourage energy conservation and renewable fuel and energy use and deployment including solar, wind, hydro, and other sources. State incentives should mirror those established at the federal level.*

SECTION 4. A NEW SECTION OF KRS CHAPTER 152 IS CREATED TO READ AS FOLLOWS:

On or before December 1, 2006 and every three (3) months thereafter, the Kentucky Office of Energy Policy shall report to the Governor and the Special Subcommittee on Energy its findings and any further legislative recommendations needed to implement the strategy defined in Sections 1 to 4 of this Act.

SECTION 5. A NEW SECTION OF KRS CHAPTER 45A IS CREATED TO READ AS FOLLOWS:

- (1) *On every bid for new construction or for upgrading existing facilities that is solicited under this chapter, the Finance and Administration Cabinet shall require, where feasible, a life-cycle cost comparison of at least two (2) types of energy-efficient heating, ventilation, and air conditioning (HVAC) equipment, including geothermal equipment when feasible.*
- (2) *The Finance and Administration Cabinet shall give particular consideration in the awarding of a contract to energy-efficient HVAC equipment, including geothermal equipment when feasible, having a lower or lowest life-cycle cost, all other factors being equal.*

Section 6. This Act shall be known as the Kentucky Energy Security National Leadership Act.

Approved April 21, 2006.