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ENERGY AND ENVIRONMENT UPDATE
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Energy and Climate Debate

During his State of the Union Address January 25, President Obama will address a joint session of the House and the Senate and is expected to call for new Federal spending, even while trying to reduce the budget deficit. The new spending, likely to be in areas of renewable energy and infrastructure investments, is important to improving US competitiveness, and President Obama is expected to call for cuts in other areas as he lays out his legislative agenda for the coming year. House Budget Committee Chairman Paul Ryan (R-WI) will deliver the Republican response to the president's speech.

With gasoline prices nearing the record highs of summer 2008, Congress is increasingly focused on the current high price of gasoline. Last week, American Petroleum Institute's chief economist blamed the high prices on the rising price of crude oil in the global market. Senator Sherrod Brown (D-OH) wrote to the Commodity Futures Trading Commission January 20 asking Chairman Gary Gensler to use his new authority under financial services reform to investigate whether excessive speculation by hedge funds and index funds is contributing to the unusual winter rise in gas prices.

In the meantime, discussion over a clean energy standard continues to heat up. Senator Lindsey Graham (R-SC) said last week that the high gasoline prices will make passage of such a standard increasingly imperative, and perhaps more possible. The Chamber of Commerce and the Environmental Defense Fund both publically supported discussing CES legislation, and ultimately, perhaps even the legislation, last week. Senator Kent Conrad (D-ND), who announced last week that he will not seek reelection in 2012, discussed bringing the Gang of 10, a group of Senators who put out an energy plan in 2008, together around a multifront energy policy this year that might combine a clean energy standard with drilling and efficient vehicle technology legislation. Senators Conrad and Saxby Chambliss (R-GA) formed the Gang of 10, which more than doubled in size before putting out a plan that called for increasing offshore drilling in the eastern Gulf of Mexico and off the East Coast; raising fuel efficiency in vehicles; requiring 85 percent of vehicles to run on non-petroleum based fuel in two decades; and boosting renewable power and nuclear energy, as well as carbon capture technologies. Despite a broad caucus of senator support, the bill did not move forward with Democrats in control of both the House and Senate. During a more measured 112th Congress, such an effort may increasingly become viable.

Additionally, Senators Maria Cantwell (D-WA) and Susan Collins (R-ME) are planning to soon reintroduce their cap and dividend bill with at least one more Republican and several other cosponsors as well.

Senate Majority Leader Harry Reid (D-NV) last week vowed to prioritize legislation to boost renewable energy and infrastructure for clean water and transportation over the next two years. Creating good-paying clean energy jobs is at the top of his legislative priorities for the 112th Congress, which he outlined during a press conference at solar energy company Bombard Electric in Nevada. In particular, he cited the need for the federal government to facilitate the expansion of states transmission capacities for renewable energy while also extending production and investment tax incentives and promoting clean energy research.

Infrastructure issues are likely to take center stage this Congress as well. Moving away from massive climate change legislation, Senator John Kerry (D-MA) will devote much of the 112th Congress toward pushing for a national infrastructure bank to spur transportation, energy, and communications development. An infrastructure bank is designed to offer merit-based federal loans for large-scale projects that have not secured other loans or government grants.

Congress

House Subcommittees to Play Key Roles

Three House Energy and Commerce subcommittees will play significant roles in a Republican effort to slow or stop the Administration's energy and environmental policies over the next two years. The subcommittees on Energy and Economy, Oversight and Investigations, and Energy and Power will have jurisdiction over issues ranging from clean water to CO2 limits. The Subcommittee on Environment and Economy will be chaired by Representative John Shimkus (R-IL), with Gene Green (D-TX) serving as ranking member, and will focus on matters relating to soil and water contamination as well as solid, hazardous, and nuclear waste. The Subcommittee on Energy and Power will be chaired by Congressman Ed Whitfield (R-KY), with Bobby Rush (D-IL) serving as ranking member, and will have jurisdiction over energy regulation, electricity transmission issues, and other energy issues including CO2 limits. The Subcommittee on Oversight and Investigations, chaired by Representative Cliff Stearns (R-FL), with Diana DeGette (D-CO) serving as ranking member, will conduct oversight hearings of the Administration's energy and environment policies, though some high profile issues such as the EPA emissions rules are likely to be taken up in the full committee.

EPA GHG Rule Options Weighed

Republicans hoping to stop the Environmental Protection Agency from regulating greenhouse gases are counting votes and determining whether they can go beyond a delay for a permanent block. During closed-door conversations with industry representatives and technical experts last week, GOP aids to the House Energy and Commerce and Senate Environment and Public Works committees said that they are evaluating whether to pursue a permanent block of the EPA rules, even if they lack the votes for passage. Following earlier legislation this Congress and EPA's takeover over Texas' authority on the matter, Congressman Joe Barton (R-TX) said recently that he is drafting legislation to stop the agency from moving forward with its greenhouse gas rules, and is also creating a task force to build support for his effort. The Senate is likely to have at least two bills that would limit the EPA. Legislation from Senator Jay Rockefeller (D-WV) would put a two year stay on the agency's authority to regulate GHGs from stationary sources, and a bill from Senator John Barrasso (R-WY) would seek to prevent the administration from regulating CO2 under all existing environmental laws.

Spending Reductions Floated

The House Republican Study Committee proposed the Spending Reduction Act of 2011 January 20, calling for a \$2.5 trillion reduction in spending over 10 years. In the text, Committee Chairman Jim Jordan (R-OH), Representative Scott Garrett (R-NJ), and Senator Jim DeMint (R-C) call for the elimination of the Energy Star efficiency labeling program, grants for weatherization, and more than \$10 billion in research funding.

Legislation Introduced

Congressman Randy Forbes (R-VA) introduced legislation (H.R. 301) January 18 to ensure the energy independence of the US by promoting research, development, demonstration, and commercial application of technologies through a system of grants and prizes on the scale of the original Manhattan Project.

Congressman John Carter (R-TX) introduced a joint resolution (H.J. Res. 21) January 20 disapproving a rule submitted by the EPA relating to "Approval and Promulgation of Implementation Plans; Texas; Revisions to the New Source Review State Implementation Plan; Flexible Permits; Final Rule."

Upcoming Hearings

The Senate will return January 25 after a two-week recess to continue organizing for the 112th Congress.

The Senate Energy Committee will hold a hearing January 26 to receive reports and recommendations from the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling.

The House Natural Resources Committee will meet January 26 for a hearing on the Gulf Coast oil spill report and offshore drilling policy.

The House Energy and Commerce Subcommittee on Oversight and Investigations is holding a hearing this week to focus on the impact of President Obama's executive order addressing regulatory policy. The Environmental Protection Agency's GHG emissions rules are likely to come under fire during the hearing, though the EPA said last week that they are certain that the President's executive order would not impact the regulations.

Administration

US-China Bilateral Cooperation Highlighted

During Chinese President Hu Jintao's visit to Washington last week, President Obama and the Chinese leader emphasized several joint energy and climate efforts. Bilateral initiatives include an expansion of the EcoPartnership program in which the US government, energy companies, or academic institutions partner with Chinese local governments or companies to share best practices and conduct demonstration projects. The White House announced January 19 that more than \$45 billion in new business deals, including clean-energy-related deals with 13 companies from the two countries had been approved. President Obama also pressed President Jintao to open the country's markets to foreign competitors, and the two also discussed the growing concern over the protection of intellectual property.

Executive Order Issued

President Obama issued an executive order January 18 that would increase oversight of federal regulations and get rid of rules that are outdated and harmful to the economy. The order is seen as the President's latest effort to mend ties with businesses, and will require agencies to take stock of existing regulations and consider ways to reduce burdens for U.S. businesses when they develop rules, allowing more public participation and while also following the scientific integrity guidelines that were released last month.

Department of Agriculture

Advanced Biofuels Funding Awarded

Agriculture Secretary Tom Vilsack announced a series of grants, loan guarantees, and other financial assistance January 20 to promote the production of advanced biofuels. Coskata will receive a \$250 million loan guarantee to construct and operate a cellulosic ethanol biorefinery facility that will produce 55 million gallons of ethanol a year from woody biomass. Enerkem Corp. will receive an \$80 million loan guarantee to build and operate a biorefinery capable of producing 10 million gallons per year using municipal solid waste. INEOS New Planet BioEnergy, LLC will receive a \$75 million loan guarantee to build and operate a biorefinery capable of producing 8 million gallons of cellulosic ethanol fuel each year using vegetative and other waste. The announcements come as the market for cellulosic biofuels has failed to produce enough ethanol to meet legal requirements set in 2007 for biofuels in the nation's energy supply. Secretary Vilsack also awarded \$15.2 million to eligible producers in 33 states under the Advanced Biofuels Payment Program last week to expand production of advanced biofuels based on the amount of advanced biofuels a recipient produces from non-corn sources. The same day, the Secretary announced \$1.6 million in grant funding for 68 feasibility studies under the Rural Energy for America Program.

Department of Energy

Bioenergy Collaboration Tool Launched

The Department of Energy launched a new online collaboration tool and data resource focused on bioenergy January 21. The Bioenergy Knowledge Discovery Framework allows researchers, policymakers, and investors to share large data sets as well as the latest bioenergy research.

\$241 Million Loan Guarantee Announced

Energy Secretary Steven Chu offered the first conditional commitment for a loan guarantee for an advanced biofuels plant on January 20. The proposed joint venture between Valero Energy Corporation and Darling International Inc. will receive a \$241 million loan guarantee to support the construction of a 137 million gallon per year renewable diesel facility in Norco, Louisiana.

Solar Loan Guarantee Commitment Announced

Energy Secretary Steven Chu offered a conditional loan guarantee commitment January 20 to Agua Caliente Solar January 20. The loan guarantee of up to \$967 million will support the construction of a 290 MW photovoltaic solar generating facility in Yuma County, Arizona that will use thin film solar panels from First Solar, Inc. Project sponsor NRG Solar estimates that the project will be the largest PV generating facility in the world when completed.

US-China Research Center Report Unveiled

The Department of Energy released a progress report January 18 detailing US-China cooperation. The report highlighted several programs including the \$150 million US-China Clean Energy Research Center, a jointly funded program that awards research and development grants in the two countries. The center is currently focusing on energy efficiency, clean coal, and clean vehicles.

Weatherization Goals on Track

Energy Secretary Steven Chu announced January 19 that the US has now weatherized more than 300,000 low-income homes under the Recovery Act. Marking a major milestone in the Department's efforts to reduce home energy bills for families, states are now more than 50 percent of the way toward meeting President Obama's goal of weatherizing approximately 600,000 homes under the Recovery Act.

Tribal Clean Energy Promoted

Energy Secretary Seven Chu unveiled January 19 two initiatives to promote tribal energy development and continue strengthening the partnership between the agency and tribal nations. Up to \$10 million will be available in 2011 through DOE's Tribal Energy Program to support the evaluation, development, and deployment of energy efficiency and renewable energy projects on tribal lands that will save energy and money, expand the use of renewable energy resources, and promote economy development. Secretary Chu also announced that the Department's Tribal Summit with American Indian and Alaska Native leaders will be held on May 5.

Department of Interior

Interest in MD OCS Wind Projects

Responding to a solicitation issued in November by the Department of Interior's Bureau of Ocean Energy Management, Regulation, and Enforcement, eight companies expressed interest by the January 10 deadline in developing wind energy projects in the outer continental shelf off Maryland's Atlantic coast. Maryland Governor Martin O'Malley (D) is expected to make an announcement this week regarding long-term purchase agreements.

Former MMS Division Completed

Completing an order he signed last May to divide the former Minerals Management Service into three distinct agencies, Interior Secretary Ken Salazar announced the creation of two new agencies January 19 to oversee offshore oil and gas development and environmental safety. The Bureau of Ocean Energy Management will be responsible for managing the development of offshore resources, including leasing, environmental studies, resource evaluation, economy analyses, and renewable energy. The Bureau of Safety and Environmental Enforcement will enforce safety and environmental regulations, including permitting and research, inspections, oil spill response, and the newly formed training and environmental compliance functions.

Environmental Protection Agency

E15 Waiver Granted

The Environmental Protection Agency granted a Clean Air Act waiver for gasoline containing 15 percent ethanol for use in model year 2001-2006 cars and light trucks, including sport-utility vehicles and minivans, January 21. The previous limit on ethanol content had been 10 percent for all vehicles, and though a waiver for model year 2007 and newer vehicles was granted October 13, the limit remains in place for pre-2001 vehicles. The agency did not approve E15 for older vehicles because of concerns that the corrosive nature of ethanol would damage engine performance and emissions controls.

Boiler MACT Rules Sent to OMB

Following a federal judge's rejection of the Environmental Protection Agency's bid to wait 15 months before setting a set of controversial air pollution rules for industrial boilers and incinerators, the agency sent the final rules to the White House for review January 20. Review at the White House Office of Management and Budget is generally the last step before an agency issues new regulations, signaling that the EPA has already completed a draft of the final rules that it is now legally obligated to release by February 21. The agency had requested that the U.S. District Court for the District of Columbia extend the deadline due to a high volume of comments about the proposed regulations, and it wanted to review those comments before issuing a draft final rule. The agency anticipates that its standards will be significantly different than what it proposed in April 2010, though the regulations will require facilities to install the maximum achievable control technology to limit their emissions of mercury, dioxins, and other toxic pollutants.

Reversal of CA GHG Limits Waiver Sought

The U.S. Chamber of Commerce and the National Automobile Dealers Association argued January 18 before the U.S. Court of Appeals for the District of Columbia Circuit that it should reverse a waiver granted by the Environmental Protection Agency in 2009 to California and other states to imposed GHG emissions limits of cars and light trucks. Attorneys for California and the U.S. Department of Justice said that the EPA made no mistake when it gave the state permission to issue its own tailpipe standards. The waiver was part of a deal between the Obama administration, California, and vehicle manufacturers to implement nationwide GHG emissions standards for model year 2012-2016 cars and light trucks as well as fuel economy increases based in the state's standards.

Federal Energy Regulatory Commission

Renewables Impact on Grid Studied

The Federal Energy Regulatory Commission released a study January 20 that suggests that renewable energy can be added to the country's electricity grid without harming reliability. The study focuses on frequency response, the ability of the grid to respond to changes in system frequency, which is measured in cycles per second, or in hertz. The study does not address how much renewable generation the domestic electric grid can accommodate without jeopardizing safety and reliability, leaving several congressmen, including Senator Lisa Murkowski (R) with questions yet to be answered. FERC worked with the Department of Energy's Lawrence Berkeley National Laboratory on the six-month study.

Personnel

Michael Goo, a former top Democratic congressional aid on climate change issues who served most recently as staff director and chief counsel to the House Select Committee on Energy Independence and Global Warming, will soon become the Environmental Protection Agency's Associate Administrator for the Office of Policy. He will support Administrator Lisa Jackson's priorities, including coordinating interagency reviews of rulemakings and economic analysis of EPA policies. Mr. Goo replaces Lisa Heinzerling, who returned to her post at Georgetown University's law school.

Joel Beauvais, another former Energy Independence and Global Warming Committee aid, will serve as special counsel to Administrator Jackson.

Miscellaneous

World Energy Summit Held

The fourth annual World Energy Summit took place in Abu Dhabi last week, and included a challenge from UN Secretary General Ban Ki-moon for countries to begin moving ahead of climate change treaty negotiations. Leaders from across the globe were joined by UN Framework Convention on Climate Change Executive Secretary Christina Figueres and hundreds of energy companies to discuss practical answers to the energy security global challenge.

Global Clean Energy Investment Up

New investment in global clean energy rose 30 percent from 2009 levels to \$243 billion in 2010. China's clean energy spending, expansion of European offshore wind, and installations of rooftop photovoltaics in Europe led increase, making 2010 the strongest year thus far for investment in clean energy.

Regional GHG Targets for China

The Chinese Ministry of Environmental Protection announced January 13 that the nation will establish provincial targets to reduce four pollutants and energy and carbon intensity in its 12th Five-Year Plan (2011-2015). Eastern coastal areas will have higher goals than provinces in the central or western part of the country.

Total Renewable Energy Possible

A study published in the Energy Policy journal last week found that new research has shown that it is possible and affordable for the world to achieve 100 percent renewable energy by 2030 with the right political support. With fossil fuels currently providing over 80 percent of the world's energy supply, researchers aimed to show that enough renewable energy is available and could be harnessed to meet demand indefinitely by 2030.

Japanese Fuel Cell Production Up

Thirteen Japanese companies announced January 13 that they will begin large-scale commercial production of fuel cell vehicles by 2015 and will increase the number of hydrogen refueling station from 14 to at least 100. Noting that they have advanced fuel cell technology to levels matching those of gasoline-powered vehicles and that they have resolved problems surrounding cold starts and batteries freezing, the companies plan to locate their stations in the country's four largest urban areas.

EU ETS Suspended

The European Commission suspended activity on the European Union's Emission Trading System the evening of January 19 because of fraud made possible by insufficient security of some member states' carbon credit registries. The suspension of the world's first and largest international scheme for trading GHG allowances will last until at least January 26.

Feed-in Tariff Reductions Accelerated

German Environment Minister Norbert Röttgen proposed January 20 reducing feed-in tariffs for solar energy producers up to 15 percent in mid-2011 because of the rapid development of the solar industry market. The reduction, which would hasten cuts already planned for next year, would depend on the industry's market growth in March, April, and May of this year. Solar power accounts for 2 percent of the country's overall electricity consumption, and the industry is aiming for a 10 percent share by 2020.

CO2 Leakage Disputed

An international review team disputed a consultant's report that found CO2 leakage at one of the world's largest carbon sequestration sites January 20. The Weyburn-Midale CO2 Monitoring and Storage Project site in Canada holds 17.6 million tons of CO2 almost a mile underground, and a couple reported high CO2 levels in their Saskatchewan soil earlier this month. The International Energy Agency Greenhouse Gas project said the Petro-Find report did not support its claim that the found CO2 is anthropogenic injected into the reservoir.