

David Leiter Sarah Litke DJLeiter@mlstrategies.com SLitke@mlstrategies.com ML Strategies, LLC 701 Pennsylvania Avenue, N.W. Washington, D.C. 20004 USA 202 434 7300 202 434 7400 fax www.mlstrategies.com

ENERGY AND ENVIRONMENT UPDATE June 5, 2011

Energy and Climate Debate

With the debt limit and budget serving as the principle areas of focus for the time being, the budget is rapidly becoming the battleground where the near future of energy policy will be decided. The Senate returns from its week-long Memorial Day recess June 6, while members of the House will spend the week in their home districts.

The House Energy and Water Development Appropriations Subcommittee cleared a \$30.6 billion fiscal year 2012 funding measure for the Department of Energy (\$24.7 billion) and Army Corps of Engineers (\$4.8 billion) June 2. Appropriations Committee Chairman Hal Rogers (R-KY) promised to move the bill through the full committee and to the House floor before the August recess. Overall, the legislation would cut renewable energy and energy efficiency funding while increasing funding for fossil fuel programs. The budget is \$6 billion less than what President Obama requested and \$850 million less than the FY 2011 spending levels, and put spending on par with 2005 levels, though \$35 million was added to continue operation of the Yucca Mountain nuclear waste repository that President Obama has sought to close.

The bulk of cuts come from renewable energy programs, with the Department of Energy's Office of Energy Efficiency and Renewable Energy receiving \$1.9 billion less than the president's request and \$491 million less than FY 2011. The Department of Energy's loan guarantee program would receive \$160 million in subsidy costs for renewable projects, while ARPA-E would receive \$100 million. Funding for small nuclear reactors would be equal to the President's request, and overall nuclear spending would exceed his request by \$8 million. The agency's Office of Science would be increased from three to five.

The House Appropriations Subcommittee on Interior, Environment, and Related Agencies is expected to vote July 6 on the fiscal 2012 Interior-Environment spending measure that would fund the EPA, the Interior Department's Office of Surface Mining Reclamation and Enforcement, the corps' regulatory program, and a host of related agencies. Continued efforts to rein in EPA regulations are anticipated via the budgetary process.

More details have emerged on the reductions to the current budget, as mandated by legislation (H.R. 1473, long term continuing resolution) approved April 14 by Congress, include more than \$400 million from the Department of Energy's Office of Energy Efficiency and Renewable Energy which have resulted in large cuts for research and development programs, weatherization, and other areas. Among the largest reductions is a \$37.3 million cut in funds for the office's biomass and biorefinery program, a \$35.7 million reduction in weatherization funding, and a \$20 million reduction in the water technologies program, supports research in marine and hydrokinetic energy as well as traditional hydropower. The office's hydrogen technology

www.mlstrategies.com

program, which was funded at \$174 million in fiscal year 2010, was zeroed out, and the office's building technologies program was cut by \$11.5 million while the vehicle technologies program was reduced by \$11.4 million. Some programs received funding increases, including the newly established hydrogen fuel cell technologies program, which will receive \$98 million this fiscal year, and the SunShot Initiative, which received an increase of \$16.5 million.

Senate Majority Leader Harry Reid (D-NV) has not yet set a public timetable for when the Senate will address the fiscal year 2012 appropriations, but said last week that he, Senate Appropriations Chairman Daniel Inouye (D-HI), and others will meet with Vice President Joe Biden to write the 12 bills that can be marked up this summer.

In other interesting news, as presidential hopefuls begin to jockey for position, numerous Republicans are calling for an end to energy subsidies. Last Tuesday, Sarah Palin joined the call, and Jon Huntsman suggested striking energy subsidies as a part of the debt ceiling votes. Congressman Mike Pompeo (R-KS) circulated a "dear colleague" letter urging his colleagues to support a resolution he recently introduced that would repeal all energy subsidies.

Congress

ENR Continues with Full Schedule

The Senate Energy and Natural Resources Committee approved five bills by voice vote May 26, including legislation to promote marine and hydrokinetic renewable energy research and development (S. 630); to promote carbon capture and storage (S. 699 and S. 757); to analyze the impact of energy development and production on water resources; and to protect the bulk-power system and electric infrastructure against cyber security threats. Legislation to create a Clean Energy Deployment Administration, address offshore drilling, incent small modular nuclear reactors, create a clean energy standard, and incent electric vehicles may receive additional consideration this month, as the committee continues with a full June schedule.

House Subcommittee Approves EPA Measures

The House Energy and Commerce Energy and Power Subcommittee advanced the Transparency in Regulatory Analysis of Impacts on the Nation (H.R. 1705) May 24. The legislation would require a panel of federal agencies to evaluate the effect of ten Environmental Protection Agency pollution rules on jobs and report its findings to the committee by January 2012. The subcommittee also approved the Jobs and Energy Permitting Act of 2011, which would accelerate the process for the EPA to approve air pollution permitts necessary for oil exploration drilling.

Administration Denies Causing High Gas Prices

Environmental Protection Agency Administrator Lisa Jackson and Deputy Interior Secretary David Hayes appeared before the House Committee on Oversight and Government Reform May 24 and said that the Obama administration's energy and environmental policies are not the cause of today's high crude oil and gasoline prices. Committee Chairman Darrell Issa (R-CA) recently released a report, *Rising Energy Costs: An Intentional Result of Government Action*, that found that the Administration is pursuing an agenda to raise the price of energy, while Ranking Member Elijah Cummings (D-MD) has released a rebuttal, *Real Help for American Consumers: Who's Profiting at the Pump?*, which argues that addressing market speculation will lower gas prices for consumers. Several Democratic senators emerged from a closed-door meeting May 26 with Gary Gensler, chairman of the Commodity Future Trading Commission, expressing frustration with that they see as the commission's lack of action in curbing the role of speculators in U.S. oil markets.

Open Fuel Standard Promoted

Congressmen John Shimkus (R-IL), Eliot Engel (D-NY) and Roscoe Bartlett (R-MD) held a press conference June 2 to urge support for legislation they introduced last month that creates an open fuel standard. The legislation would require the country's cars to use an increasing amount of any non-oil fuel. Senator Dick Lugar (R-IN) introduced a similar bill in January.

Expanded Oil and Gas Development Sought

At a June 2 hearing of the House Natural Resources Subcommittee on Energy and Mineral Resources, House Republicans called for expanded oil and natural gas development in Alaska and offshore, citing the state's substantial energy resources and the need to find new supplies to reverse the decline of crude oil flowing through the Trans Alaska Pipeline. The same day, the House Energy and Commerce Committee held a markup to approve legislation (H.R. 2021) that is aimed at making it easier for companies to obtain Clean Air Act permits from the EPA to drill in Arctic waters.

Additional Keystone XL Review Requested

Thirty-four House Democrats sent a letter May 31 to Secretary of State Hillary Clinton and EPA Administrator Lisa Jackson requesting a meeting with State Department officials to make the case for at least 120 days of additional review of the proposed Keystone XL tar sands pipeline and for field hearings in several states regarding the agency's supplemental draft environmental impact statement. In contrast, key House Republicans have introduced a bill (H.R. 1938) that would set a November 1 deadline for the State Department to make a decision on TransCanada's request for a presidential permit.

Reverse Auction Sparks Interest

Though generally viewed as the Republican energy plan, Congressman Devin Nunes' (R-CA) Roadmap for America's Energy Future (H.R. 909) contains one section that would create a trust fund to finance renewable energy projects that could attract enough bipartisan support to survive the partisan Congress. Highlights of the legislation include drilling for oil in the Arctic National Wildlife Refuge, building 200 nuclear plants by 2040, lifting carbon emission restrictions on coal-to-liquids fuel, requiring offshore lease sales every 270 days, siting a nuclear waste site, and amending the Clean Air Act and Endangered Species Act to prohibit regulation of emissions for climate change purposes or to consider the climate-related impact of greenhouse gases upon plants, fish, or wildlife. Though most of these provisions are opposed by House Democrats, Congressman Henry Waxman (D-CA) has expressed interest in Titles 2 and 3 that would create a trust fund to finance renewable electric generation and renewable fuel production by means of a reverse auction that would be used to dispense funds to build the facilities. The two congressmen are expected to soon meet to discuss the concept.

Practical Energy Plan Forthcoming

Senator Dick Lugar (R-IN) said last week that he will reintroduce his Practical Energy Plan sometime this month. The senator had originally rolled out his plan this time last year. The legislation contains a diverse energy standard and vehicle efficiency measures with the intent to reduce dependence on foreign oil and save money by saving energy.

Legislation Introduced

Senator Mark Udall (D-CO) reintroduced a quartet of bills May 23 addressing renewable energy and energy efficiency. The first measure would ensure that consumers have access to information on their electric meters to help them make real-time decisions about energy use. The second piece of legislation would help small- and medium-sized renewable and energy efficiency businesses enter into marketing and trade assistance agreements to make their energy efficiency products more competitive for exports. The third bill would expand requirements for a 30 percent renewable energy tax credit to include neighborhood groups and rural cooperatives installing community solar projects. The fourth measure would coordinate information about federal energy efficiency programs and funding sources to help school officials better access the resources.

Senator Tom Coburn (R-OK) introduced legislation (S. 1057) May 25 to repeal the Volumetric Ethanol Tax Credit.

Congressman Paul Tonko (D-NY) introduced legislation (H.R. 1959) May 25 to deny certain tax benefits to oil and gas companies and to invest the savings in clean energy programs.

Congressman Dan Boren (D-OK) introduced legislation (H.R. 1961) to amend the Internal Revenue Code of 1986 to eliminate the taxable income limit on the percentage depletion for oil and natural gas produced from marginal properties.

Congressman Jim Gerlach (R-PA) introduced legislation (H.R. 1964) to amend the Internal Revenue Code of 1986 to make permanent the special rule for contributions of qualified conservation contributions.

Senators Jim Inhofe (R-OK) and Olympia Snowe (R-ME) introduced legislation (S. 1085) May 26 to amend the Clean Air Act to define next generation biofuel, and to allow states the option of not participating in the corn ethanol portions of the renewable fuel standard due to conflicts with agricultural, economic, energy, and environmental goals. Congressman Brian Bilbray (R-CA) introduced companion legislation (H.R. 2009) the same day.

Senator Mark Udall (D-CO) introduced legislation (S. 1093) to amend the Internal Revenue Code of 1986 to provide that solar energy property need not be located on the property with respect to which it is generating electricity in order to qualify for the residential energy efficient property credit.

Senators Bernie Sanders (I-VT), John Boozman (R-AR), and Jeff Bingaman (D-NM) introduced the 10 Million Solar Roofs Act of 2011 (S. 1108); the legislation will provide local communities with tools to make solar permitting more efficient.

Senators Tom Udall (D-NM), Sheldon Whitehouse (D-RI), and Ben Cardin (D-MD) introduced legislation (S. 1115) to establish centers of excellence for green infrastructure.

Senator Sheldon Whitehouse (D-RI) introduced legislation (S. 1126) to amend the Energy Independence and Security Act of 2007 to authorize the Secretary of Energy to insure loans for financing of renewable energy systems leased for residential use.

Congressman Peter DeFazio (R-OR) introduced legislation (H.R. 2003) May 26 to amend the Internal Revenue Code of 1986 to impose a tax on transactions in oil futures, options, and swaps.

Upcoming Hearings

The Senate Energy and Natural Resources Committee will hold a hearing June 7 to consider the Nuclear Power 2021 Act (S. 512), the American Alternative Fuels Act of 2011 (S. 937), and the Nuclear Energy Research Initiative Improvement Act of 2011 (S. 1067).

The Senate Energy and Natural Resources Committee will hold a hearing June 9 to consider the Reducing Federal Energy Dollars Act of 2011 (S. 963), the Alternative Fuel Vehicles Competitiveness and Energy Security Act of 2011 (S. 1001), and a bill to promote energy savings in residential and commercial buildings and industry (S. 1000).

The same day, the Senate Energy Subcommittee on Energy will hold a hearing on the Critical Minerals and Materials Promotion Act of 2011 (S. 383), the Power America's Lithium Production Act of 2011 (S. 421), and the Critical Minerals Policy Act (S. 1113).

Administration

Fleet Performance Memo Released

President Obama released a memorandum on federal fleet performance May 24 that requires all new lightduty vehicles purchased by the federal government to be powered by alternative fuels by the end of 2015. The Government Services Agency will also be required to determine the optimal fleet size for all federal agencies within 90 days and provide agencies with recommendations for alternative-fuel vehicle acquisition and fleet optimization. The GSA announced a pilot program in conjunction with the memo to incorporate electric vehicles into the federal fleet; it has purchased 116 electric vehicles and will install charging stations at federal buildings in Detroit, Los Angeles, San Diego, San Francisco, and Washington, DC.

Department of Energy

\$45.6 Million Loan Guarantee Announced

The Department of Energy announced a conditional commitment for a \$45.6 million loan guarantee June 2. The Fotowatio PV solar facility will operate a 20 MW AC PV facility outside of Las Vegas.

\$27 Million for Solar Projects

As part of the SunShot Initiative to make solar energy cost-competitive with fossil fuels within the decade, Energy Secretary Steven Chu announced the availability of more than \$27 million in new funding June 1 that will reduce the non-hardware costs of solar energy projects. The funding will support a \$12.5 million Rooftop Solar challenge to encourage cities and counties to compete to streamline and digitize permitting processes, as well as \$15 million that will be made to advance innovations in information technology systems, local zoning, and building codes, and regulations.

Streamlining Efforts Underway

As part of the administration's initiative to cut federal red tape, the Department of Energy announced May 26 a delay of the effective date of two regulations as it attempts to ease its testing requirements for determining the efficiency of equipment. Manufacturers of commercial heating, ventilating, and air conditioning equipment, commercial refrigeration and water heating equipment, walk-in coolers and freezers, and automatic commercial ice makers may be given an additional 18 months to comply with the certification requirements. The agency will also provide a grace period of two years before enforcing new enforcement guidance on water conservation standards for shower heads. Proposed changes in the use of categorical exclusions under the National Environmental policy Act would add solar, wind, and other alternative energy sources to the list of activities that can be excluded from requirements for environmental impact statements.

Education Challenge Launched

The Departments of Energy and Education joined with the National Science Teachers Association on May 24 to launch America's Home Energy Education Challenge. The goal of the program is to motivate students across the country to learn about energy efficiency and to help their families save money.

Department of Interior

Streamlining Efforts Underway

The Department of Interior announced May 26 that it will revise and update implementing regulations of the Endangered Species Act to enhance their clarity and consistency and reduce administrative burden.

Environmental Protection Agency

Fuel Economy Labels Announced

The Environmental Protection Agency and Transportation Department announced new vehicle labels May 25 that indicate fuel efficiency and tailpipe greenhouse gas emissions. The new labels are updates from those currently in use and include label designs for cars that use alternative fuel or energy sources as well as for cars that use traditional gasoline. Specifically, the labels, which will be voluntary in 2012 and mandated in 2013, provide information including estimated annual fuel costs, savings, and information on each vehicle's environmental impact.

Landfill Methane Collaboration Announced

The Environmental Protection Agency and the International Solid Waste Association reached an agreement June 3 to solidify an informal partnership to reduce methane emissions from landfills. The EPA and ISWA will organize a biennial conference and an annual workshop on climate change and waste issues, mitigation of emissions, and energy recovery from the waste sector. Additionally, the two parties will collaborate on training in Global Methane Initiative member countries and international best practices for capturing landfill gas.

Confidential Data Specified

The Environmental Protection Agency published a final rule May 26 that concludes that data on greenhouse gas emissions from industrial facilities and the calculations and test methods used to measure emissions are public information and will not be treated as confidential business information. The final rule is intended to prevent disclosure of trade secrets and other confidential information.

Advisors Caution Study of Fracking Risks

The Environmental Protection Agency's Science Advisory Board urged the agency to expand its planned study of hydraulic fracturing to take better account of its impact on water quality. In teleconferences May 19 and 25, members of the advisory board generally expressed support for the EPA draft study plan but struggled with some of the blurry areas in the subject.

Additional Lawsuits Filed

Rhodia Inc. filed two lawsuits May 23 challenging the Environmental Protection Agency's new source performance standards for solid waste incinerators and an EPA rule that differentiates fuels and solid wastes. More than 40 petitions for review have been filed in the U.S. Court of Appeals for the District of Columbia Circuit against EPA regarding the two rules and three additional rules that establish air pollution standards for sewage sludge incinerators and major and area source boilers. The five rules were published March 21, but the agency intends to reconsider portions of the rules.

Federal Trade Commission

Alternative Fuel Labeling Comments Requested

The Federal Trade Commission announced May 24 that it is seeking public comments on its Labeling Requirements for Alternative Fuels and Alternative Fueled Vehicles. The commission will examine the costs, benefits, necessity, and regulatory impacts of the rule. The FTC will suspend its continuing examination of the Fuel Economy Guide until the agency completes its rule review and the EPA publishes updated fuel economy labeling requirements.

Personnel

Secretary of Energy Steven Chu recently hired Lauren Azar as a senior energy advisor. Previously, Ms. Azar served on the Wisconsin Public Service Commission, and has also served as President of the Organization of MISO states. She was co-founder and the first President of the Eastern Interconnection States' Planning Council.

On May 31, President Obama announced his intent to nominate John Bryson as his next secretary of Commerce. Mr. Bryson is a director of The Boeing Company, The Walt Disney Company, and Coda Automotive., Inc. Previously, he served as chairman and CEO of Edison International, president of the California Public Utilities Commission, and chairman of the California State Water Resources Control Board. He was also a cofounder and attorney for the Natural Resources Defense Council.

Miscellaneous

Philippines Prioritizes Climate Changes Issues

Philippines President Benigno Aquino issued Executive Order No. 43 May 16 to create a Climate Change Adaptation and Mitigation Cluster, along with five other cabinet clusters to guide the adoption of strategies and measures by local governments, national agencies, and the general public.

CARB Challenges Court Order

On behalf of the California Air Resources Board, the state's attorney general filed a notice of appeal May 23 with the California Superior Court in San Francisco taking the first step to challenge a court order that temporarily blocks the state's greenhouse gas emissions cap and trade program. On May 20, Superior Court Judge Ernest Goldsmith held that CARB had failed to adequately weigh alternatives to the cap and trade program when the agency adopted the A.B. 32 scoping plan. Leaders of more than four dozen clean technology companies and venture capital firms urged California Governor Jerry Brown (D) May 31 to make a commitment to fully implement A.B. 32; the governor has yet to comment on the recent court order.

WRI Releases Funding Summary

The World Resources Institute released a report May 20 that found that although developed countries have pledged \$28 billion in fast-start funding to help poorer nations address climate change, details are lacking

about how much money was given to developing countries in 2010. The Copenhagen Accord included a \$30 billion pledge for three years of funding from 2010 through 2012 to help developing countries adapt to climate change and reduce emissions.

NJ Out of RGGI

New Jersey Governor Chris Christie (R) announced May 26 that the state will withdraw from the Regional Greenhouse Gas Initiative at the end of the year. In his announcement, Governor Christie said that emissions allowances for the regional trading program are not expensive enough to change behavior and encourage different choices for fueling power plants. The state has participated in 11 auctions since 2008, generating \$113 million for energy efficiency programs, subsidies for solar power installations, and reforestation projects, and roughly \$65 million was diverted in fiscal year 2011 to balance the state budget. Nine northeastern and mid-Atlantic states will remain in the cap and trade program for power companies.

Emissions Reach Record High

The International Energy Agency released a report June 1 that found that worldwide CO2 emissions from burning fossil fuels reached a record 30.6 billion MT in 2010. The increase is attributed to a growing economy, specifically in China and India.

EV Charging Credit Enacted

Maryland enacted legislation (H.B. 163) May 19 that creates a new tax credit for qualified electric vehicle recharging equipment. A tax credit is available to corporations in an amount equal to 20 percent of the cost of the recharging equipment placed in service by the taxpayer during the taxable year between 2011 and 2013.

Fracking Chemical Disclosure Bill Passed

Texas lawmakers sent a bill (H.B. 3328) to Governor Rick Perry (R) May 31 that would be one of the country's first state laws requiring oil and gas operators to publically disclose specific chemicals in hydraulic fracturing fluids used in the production process. The legislation would require operators to list the chemicals regardless of whether they are regulated under the hazard communication standard of the federal Occupational Safety and Health Administration. The governor must take action on this and several other bills, including S.B. 1125, which modernizes the energy efficiency goals and programs that investor-owned utilities must run; H.B. 51, which requires the State Energy Conservation Office to adopt high-performance building standards for state agency and university buildings; and S.B. 981, which will clarify that third-party ownership of on-site solar powers facilities is allowed in Texas, by June 19.

10th Circuit OKs Sierra Club's Lawsuit Dismissal

On May 31, the U.S. Court of Appeals for the Tenth Circuit upheld a lower court's dismissal of a lawsuit filed by the Sierra Club against a power generator in Wyoming, saying the conservation group's legal action was barred by the doctrine of issue preclusion. The Sierra Club originally filed its case in January 2009 under the citizen suit provision of the Clean Air Act against Two Elk Generation Partners, which is attempting the build a coal-fired power plant in the state.

Climate Financing Eased

New York Mayor Michael Bloomberg (I) and World Bank President Robert Zoellick announced June 1 that the C40 Cities Climate Leadership Group joined the World Bank in an agreement to ease procedures for cities to obtain financing for climate-related projects. The lack of a consistent approach has made it difficult to assess the plans for funding. The next day, the C40 Cities Climate Leadership Group and the ICLEI-Local Governments for Sustainability announced that they will work together to create a standard to measure and report community-level greenhouse gas emissions.

Voluntary Market Growing

Ecosystem Marketplace and Bloomberg New Energy Finance released an analysis June 2 that found that the volume of transactions in the global voluntary carbon market grew by 34 percent in 2010. In contrast, the global regulatory carbon market shrank for the first time in 2010 after five years of growth.

IA Expands Biofuels Credits

Iowa Governor Terry Branstad (R) signed legislation (H.F. 531) May 26 that will expand and extend the state's tax credit for biofuels as a means of getting more retailers to stock the alternate motor fuels. The legislation will also create two new credits for biofuels to increase the use of E-15 and biodiesel in the state.

Electric Reliability Enforcer Forecasts Positive Scenario

The North American Electric Reliability Corporation released a reliability assessment May 31 that projected that summer demand for electricity in the United States and Canada will increase by 10,000 MW, or 1.2 percent, to 851,879 MW. NERC predicts an adequate, reliable power supply for this summer, although warns that some localized problems where hot weather could spike demand or generation and transmission are possible. The projected peak would be the first increase since summer 2008.

\$1 Trillion in Upgrades Needed

The Fraser Institute released a report May 30 that concluded that North America's electricity infrastructure needs close to \$1 trillion in investment over the next decade to meet the growing needs of Canada, the United States, and Mexico. The report, *North American Electricity: Escalating Prices Possible Unless Infrastructure Investment Barriers are Eased*, said that substantial investment will also be required in new and expanded electricity transmission and distribution facilities to transport the increased volume of electricity from where it is generated to where it is used.

Japanese Residents File Suits

Less than three months after the Japanese nuclear disaster, residents near other nuclear facilities in the country have filed lawsuits seeking to shut down those reactors. On May 27, a group of 35 residents near Chubu Electric Power Company's Hamaoka Nuclear Power Station filed a suit against the utility in an effort to close the facility's five reactors. The country has a total of 54 nuclear power reactors with only 19 currently in service. Others are suspended indefinitely or are scheduled to be decommissioned, as is the case with the six reactors at the Fukushima Daiichi facility. The Japanese government is considering shutting down its 19 active reactors as well. The Swiss and German governments have already moved to phase out their nuclear power by 2022, and though the country had previously announced a moratorium on the further development of nuclear power, Italy's national appeals court approved June 1 an upcoming national referendum on whether to reintroduce nuclear power in the country. The referendum will take place June 12-13.

U.N. Bonn Negotiations in June

Delegates to the U.N. climate change conference in Bonn June 6-17 are expected to focus on relatively lowprofile issues even though the gathering is likely to be the last round of large-scale negotiations before the U.N. summit in Durban, South Africa, in late November. Expected topics include national pledges for technology transfer; assessments of vulnerability and adaptation issues; public awareness issues; commitments to international cooperation; the need to establish political clarity on the future of the Kyoto Protocol; and greater agreement on the need to establish a second compliance period under the protocol.

Poland to Assume EU Presidency

Poland is preparing to assume the six-month presidency of the European Union as the block ponders whether to raise its 2020 goal for reducing greenhouse gas emissions, potentially before the next U.N. climate summit at the end of the year. Coal is the dominant energy source for electricity production in the nation.

Legislation Requires Sea Rise Plans

The California Assembly approved (42-27) a bill (A.B. 752) June 1 that would require airports in coastal areas and container ports to plan for rising sea levels. The Senate will soon debate the legislation.