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ENERGY AND ENVIRONMENT UPDATE
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Energy and Climate Legislation

Though Congress was in recess last week, the Obama Administration pressed forward with major energy announcements. President Obama revealed March 31 plans to expand offshore oil and gas drilling off the Atlantic coast, the eastern Gulf of Mexico, and the north coast of Alaska. The proposal is intended to reduce dependence on imported foreign oil, generate revenue from the sale of offshore leases, and potentially pave the way for bipartisan support for comprehensive energy and climate legislation later this year.

Interior Secretary Ken Salazar provided additional details of the plan. He outlined the seven year process offshore leasing plans go through, beginning with an environmental impact statement, and then a two year planning period during which the Interior Department develops the next five year plan that runs from 2012 through 2017.

The plan has been met with frustration and skepticism as well as support. Some environmental groups, including the Sierra Club, believe the move is a sell-out, and several in the business community, including American Electric Power and the American Petroleum Institute, have said that the move is not big enough, as they believe that restrictions on drilling in the OCS should be removed completely. Interior Secretary Salazar and White House chief climate advisor Carol Browner stressed the need to embrace a diverse portfolio of energy sources to address climate change and energy independence, and said that the Administration believes that oil and gas drilling, as well as nuclear and renewable energy, needs to be a part of the broader energy and climate strategy.

House and Senate Democratic leaders were supportive of the move, but not overly enthusiastic, and many Republicans called it a good first step that needed both expansion and good execution. Senator Bill Nelson (D-FL), who earlier last month said that he would not support an energy bill that allowed drilling within 50 miles of the Florida Gulf Coast, said that he could support the President's new plan if the military assured him that oil and gas exploration will not interfere with training exercises. Senator Bob Menendez (D-NJ) praised the Administration for retaining restrictions off the New Jersey coastline, but said that he is wary of the plan as a whole because he fears the negative impacts of coasting drilling. Senator Frank Lautenberg (D-NJ) blasted the plan, saying that drilling off Virginia's coast could lead to oil spills that threaten New Jersey's waters and coastline as well.

Senators John Kerry (D-MA), Lindsey Graham (R-SC), and Joe Lieberman (I-CT) are expected to include expanded OCS drilling in their compromise legislation, and the Senate energy bill also includes drilling provisions as part of the larger energy package. Early drafts of the trio's effort indicate that states could receive up to 25 percent of the revenue from new offshore oil and gas development. The revenue sharing debate is far from over, but the Senators plan to release a complete draft of their bill the week of April 19, and they hope that the President's OCS announcement may draw more support for their plan as they work to get 60 votes.

Other issues are still up in the air as well. The allocation discussion is just beginning, but with a larger auction and a smaller allocation pool, the Senators are considering eliminating allocations to renewable energy or to the states for renewable energy and energy efficiency efforts. Preemption language is still uncertain, as many businesses prefer that the legislation provides additional market certainty by preempting EPA and state efforts, but California and RGGI states especially are lobbying for protection of state and regional programs that have more stringent regulations than the legislation is likely to include; the trio is considering grandfathering in these programs. The trio will also need to walk a fine line between promoting natural gas and protecting the coal industry.

Following the Administration's formal announcement that it could begin regulating stationary source greenhouse gas emissions, last week Senator Lisa Murkowski (R-AK), Ranking Member of the Senate Energy and Natural Resources Committee, requested a meeting with EPA Administrator Lisa Jackson to clarify how the agency intends to regulate greenhouse gas emissions from stationary sources.

Senator Dick Lugar (R-IN) proposed an energy and climate plan March 31 that would tighten vehicle efficiency standards through 2030 and force electric utilities to generate half of their power from low-carbon energy sources by 2050. In a 6 page outline of his "Practical Energy and Climate Plan," Senator Lugar would reduce greenhouse gas emissions by about 8% by 2020 from 2005 levels. The program would reduce by 2/3 domestic oil imports and total energy use by 14% by 2030. The plan increases Corporate Average Fuel Economy (CAFE) standards 4% each year through 2030 beginning in 2016. A "diverse energy standard" would require electric utilities to get 11% of their power from renewable sources by 2015.

Congress returns from recess in a week, but before they turn their attention to climate legislation, they are scheduled to address both financial services reform and a number of jobs bills. Several possible candidates for inclusion in the green jobs bill include an expansion of the 48C Advanced Energy Manufacturing Tax Credit, grants in lieu of tax credits, and several investment and production tax credits for clean energy.

On the international front, outgoing chief of the UNFCCC, Yvo de Boer, said last week that binding international climate agreement is unlikely to be completed until the end of 2011. He said that he hopes that negotiators will be able to set the stage for a Kyoto treaty successor while at their annual summit in Mexico, and eventually have a new agreement in place by 2012.

Senate

<u>Senator Seeks Energy Star Review</u>
Senator Susan Collins (R-ME) sent a letter March 31 to EPA Administrator Lisa Jackson and Energy Secretary Steven Chu asking them to provide detailed plans for reforming the Energy Star program. Following a recent GAO report that the program is vulnerable to fraud and abuse, Senator Collins asked the two Administration officials to provide by April 16 the Senate Committee on Homeland Security and Governmental Affairs a detailed plan for testing improvements and reforming the program. On March 19, both the EPA and DOE announced that they are expanding testing requirements to strengthen the program.

<u>Fuel Cell Legislation in the Works</u>
Senator Christopher Dodd (D-CT) is working with fuel cell manufacturers to develop legislation that provides incentives designed to retain US leadership in the market. The legislation would require the federal government to use more stationary fuel cell power plants to generate electricity and increase investment tax credits for businesses and residents that purchase fuel cells.

House

The Ways and Means committee is planning on holding a full committee hearing on energy issues sometime during the first week back from recess. Though no official plans have been solidified, the committee is planning on looking at several energy tax policies, and may do so as early as April 14.

Department of Energy

Higher Efficiency Standards for Water Heaters
The Department of Energy issued more stringent energy efficiency standards for home water heaters on April 1. The new standards, which take effect in 2015, establish a two-tiered standard for electric and gas water heaters based on capacity. Water heaters with a 55 gallon or smaller capacity will be required to be 3 to 4 percent more efficient, and those with a 55 gallon or larger capacity will face a 25 to 50 percent efficiency increase. New standards also require higher efficiencies for gas-powered direct heating equipment and gas-fired pool equipment.

CCS Funding to Continue
Robert Wright, Senior Advisor with the Department of Energy's Office of Fossil Energy, announced last week that DOE will continue to fund carbon capture and storage research and demonstration projects as part of an "all of the above" strategy to address greenhouse gas emissions reductions. President Obama has established an interagency task force to determine how to deploy CCS technology as quickly as possible; the task force will provide recommendations within the next six months. DOE is also working with Canada and Mexico on at atlas of carbon sources and sinks, with indications that cross-border efforts are underway.

US and China Launch Research Center
The US and China announced a joint energy research center early last week with $150 million in funding to study building energy efficiency, clean coal technologies, and clean vehicles. The US-China Clean Energy Research Center is funded by $37.5 million from the Department of Energy and matching funds from US universities, national labs, and companies that receive federal grants for similar work. The Chinese government is providing the other $75 million.

NREL to Help CA Solar Grid
The National Renewable Energy Laboratory will help California stimulate solar energy research and build a sustainable solar industry. The California Public Utilities Commission awarded NREL nearly $2.8 million in California Solar Initiative Research, Development, and Demonstration program grants to help integrate photovoltaic solar energy into the utility grid.

Department of Interior

The Mineral Management Service announced last week in the wake of President Obama's new oil and gas drilling plans that potential development will not necessarily be open in the next five-year drilling program that begins in July 2012. Decisions on whether to schedule lease sales in these new areas are part of a lengthy process of developing the new five year program, the first part of that process begins with an environmental analysis required under the National Environmental Policy Act. The first sale under the new program would take place in 2012, and then it usually takes about two years for drilling to begin.

Environmental Protection Agency

Vehicle Standards Finalized
The EPA and Department of Transportation finalized a suite of new vehicle standards April 1 that will raise the fuel economy of the nation's passenger fleet and impose the first-ever federal greenhouse gas emissions standards on cars and light and medium-duty trucks beginning in 2011 for 2012 model year vehicles. The rule increases the nation's corporate average fuel economy (CAFE) standard to 35.5 mpg by 2016, four years ahead of the schedule Congress established in the Energy Policy Act. The new rules are expected to reduce CO_2 emissions by nearly 1B MT over the lifetime of the covered vehicles, and reduce fuel consumption by 1.8 billion barrels of oil.

The vehicle standards also clarify that electric cars are not necessarily zero emission vehicles since they may receive their energy from CO_2-emitting electric-power plants, but the EPA and DOT have agreed to treat them as zero emission vehicles until 2016 in order to help automakers meet fuel efficiency requirements and encourage them to produce more zero and low emission vehicles.

In anticipation of the EPA's announcement, California determined last week that it will push back the adoption of the next round of state greenhouse gas standards for model year 2017-2025 vehicles for two months, thus delaying adoption to the fall.

The standards are the first federal GHG regulation to come in response to the 2007 Supreme Court ruling that the EPA has the authority to regulate GHGs as pollutants under the Clean Air Act. When the vehicle standards take effect, greenhouse gases will officially become subject to regulation under the Clean Air Act, thus triggering GHG regulations for stationary sources as well. The EPA said earlier last week that it will start regulating stationary source emissions as soon as January 2, 2011.

Fugitive Emissions Rule Delayed
To provide more time for reconsideration, the EPA decided last week to further delay a Bush Administration rule that outlines how fugitive emissions must be accounted for in clean air permits. In a final rule published last week, the EPA will extend its stay until October 3, 2011.

EPA Proposes Aggregation Rule Revocation
On March 30, the EPA proposed to revoke a Bush Administration aggregation rule that changed when industrial facilities must combine construction projects to determine whether Clean Air Act permitting rules apply. The EPA will accept comments on the proposal, but prefers to revoke the New Source Review program aggregation amendments.

Oil Industry Sues over RFS
The National Petrochemical and Refiners Association and the American Petroleum Institute filed lawsuits March 29 in the US Court of Appeals for the District of Columbia seeking review of the EPA's final renewable fuel standard, which was published March 26. The petroleum groups argue that the standard is unlawful because it retroactively requires refiners to meet low-carbon fuel, including biofuel, volume mandates for 2009 and 2010 before the rule was issued, which could be impossible to meet. The EPA insists that the final rule is not retroactive because it will not determine companies' compliance until February 2011.

Government Accountability Office

The GAO issued a report March 31 reviewing workforce planning at the EPA, the Department of the Interior, and the US Forest Service. In the report, mandated by a FY 2009 omnibus spending law, the GAO recommended that the EPA conduct a new workforce analysis of its staffing needs for core regulatory work because the agency is at risk of not having sufficient numbers of skilled staff to effectively address its climate and other issues.

National Aeronautics and Space Administration

The National Aeronautics and Space Administration announced last Wednesday that it will boost spending on climate research by $2.4 billion, or 62 percent, by 2015. The budget increase is intended to make up for cutbacks during the Bush administration, and marks what NASA officials are calling a philosophical shift on the issue. By 2015, NASA plans to launch up to 10 new missions to collect information about ocean temperatures, ozone depletion, ice coverage, and how much CO_2 is being released through human activities. The agency currently has thirteen climate research satellites in orbit, all but one of which are old and outdated.

Personnel

The Department of Energy named Anthony Cugini as Director of the National Energy Technology Laboratory on April 1. Dr. Cugini has worked for the lab for 23 years, most recently as director of research and acting lab director. NETL employees more than 1,200 employees at five sites, Albany, OR; Fairbanks, AK; Houston, TX; Morgantown, WV; and Pittsburgh, WV.

Miscellaneous

Solar Market Grew in 2009

The European Photovoltaic Industry Association announced last week that solar photovoltaic power grew by 44 percent worldwide in 2009 despite a difficult economic climate. The global industry added 6.4 GW, bringing the total power capacity to more than 20 GW, or .5 percent of global electricity capacity. The Association expects the industry to grow 40 percent or more in 2010 as well.

Heavy-Duty Truck Fuel Efficiency Study Released

The National Academies released a study March 31 outlining a combination of technologies that could improve heavy-duty truck fuel efficiency 50 percent by 2020. Hybrid technology alone could increase fuel efficiency up to 40 percent for some trucks. Advanced diesel engines could improve fuel efficiency another 20 percent for tractors, and better aerodynamics, tires, and transmissions could improve efficiency by roughly 11 percent each. The National Research Council also recommended in a March 31 report that raising the gas tax would help improve the fuel economy of buses and trucks.

Pew Climate Releases Energy Efficiency Study

The Pew Center on Global Climate Change released a study last week on corporate voluntary energy efficiency efforts that found that using a simple set of implementation principles, companies that meet their voluntary targets for boosting energy efficiency and curbing greenhouse gas emissions tend to set increasingly stringent goals over time and to commit to the effort at the highest corporate levels. Those same companies also reap substantial cost reductions by implementing such efficiency programs.

CO Advances Natural Gas Bill

The Colorado Senate approved a bill (H 1365) March 30 requiring Denver-area utilities to replace coal-fired power plants with natural gas in order to help meet the state EPA air pollution standards. The Senate will read the bill once more before sending it to the Governor for his signature.

Higher Ethanol Content Leads to Significant Emissions Reductions

The Rochester Institute of Technology released a yearlong study last week that determined that vehicles running on 20 percent ethanol-content fuel resulted in significant reductions in tailpipe emissions compared to gasoline. A fleet of medium-, light-duty, and passenger vehicles 4 to 10 years old experienced an average 23 percent decrease in carbon monoxide emissions, a 2.4 percent decrease in N_2O emissions, a 13.7 percent reduction in hydrocarbon emissions, and a 3.6 percent decrease in CO_2 emissions.