



REPORT FROM THE ENERGY & INFRASTRUCTURE GROUP

Proposed Obama Energy Initiatives

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With Senator Barack Obama's victory in the presidential election on Tuesday comes the prospect of significant changes in the nation's energy policy and regulation. During his campaign, Senator Obama proposed a wide range of new energy initiatives, including: a mandatory cap-and-trade system for emissions; standards requiring utilities to generate more power from renewable sources; increased regulation of energy trading and markets; programs to increase the reliability of the electric grid; efficiency and conservation initiatives; and measures to promote domestic oil and natural gas production. While it is too soon to predict which of these initiatives will make their way into viable legislative proposals, the following briefly summarizes the initiatives on which Senator Obama focused during the campaign. We note that both the continued struggles of the economy and credit

markets, as well as recent downward trends in commodity prices (which adversely affect some alternative energy projects), likely will result in some alteration and/or delay of those proposals. Many of them, in any event, will require Congressional action. Since many aspects of energy politics are much more nuanced than simple "blue versus red" calculations, the Democrats' strong gains in the Senate and House will not necessarily lead to easy approval of Senator Obama's proposals below.

REDUCTION OF CARBON EMISSIONS

Senator Obama has proposed a cap-and-trade program to reduce greenhouse gas emissions to 80% below 1990 levels by 2050. The plan would be "economy-wide" and require that all pollution credits be auctioned. Approximately \$15 billion per year of the proceeds from the auction

would go towards clean energy initiatives and habitat protection. The remaining proceeds would be used for rebates and transitional relief for families and individuals.

Also, Senator Obama has proposed a Federal Renewable Portfolio Standard requiring that 10% of electricity consumed in the United States be derived from renewable sources (e.g., solar, wind, and geothermal) by 2012, rising to 25% by 2025. Senator Obama also supports extending the Production Tax Credit for another five years to encourage more production of renewable energy. Additional Obama proposals include investing \$150 billion over 10 years in low-carbon energy sources; doubling research and development spending on biomass, solar, and wind resources; investing in advanced vehicle technology (with specific focus on research and development in advanced battery technology); and accelerating commercialization of plug-in hybrid vehicles.

Regarding vehicular emissions, Obama would double vehicle fuel economy standards within 18 years (increasing fuel mileage standards 4% per year) and provide for \$4 billion in tax credits and loan guarantees to domestic automakers and parts manufacturers for investments in advanced lightweight materials, fuel-efficient engines and retooled factories. He also would provide a tax credit for the purchase of advanced technology vehicles as well as conversion tax credits, and has proposed that one million 150-mile-per-gallon plug-in electric vehicles be on the road in the United States by 2015 (with plug-in hybrids or all-electric vehicles representing half of all cars purchased by the federal government by 2012).

With respect to fuel suppliers, Senator Obama has proposed a National Low Carbon Fuel Standard that would require suppliers, starting in 2010, to begin to reduce carbon in fuel by 5% within 5 years and 10%

within 10 years. He also supports tax incentives and government contracts to encourage development of sustainable biofuels and supporting infrastructure, and would require the production of at least 60 billion gallons of advanced biofuels by 2030. He also would require that all new vehicles have flexible fuel capability (i.e., the ability to run on gasoline, alternative fuels such as ethanol or methanol, or a mixture) by the end of his first term. Senator Obama has stated his continued support for the ethanol industry, as well as non-food-based biofuels.

In the case of manufacturing businesses, Senator Obama has suggested the creation of a federal grant program to states to support re-tooling small and mid-size manufacturers to produce innovative, clean technologies and related products. The initial amount proposed for this program is \$1 billion.

In regard to coal generation and carbon sequestration, Senator Obama plans to provide incentives for private-sector investments in commercial scale zero-carbon coal generating facilities. He has further proposed instructing the Department of Energy to enter into public/private partnerships to develop five commercial scale coal-fired plants with carbon capture and sequestration technology. Some have suggested that this will lead to resuscitation of government support for the FutureGen project in Illinois or similar projects.

While Senator Obama supports nuclear generation, he has raised concerns with respect to safety and security issues. It is his position that Yucca Mountain is not a suitable site for nuclear waste storage. Additional regulation of the handling of nuclear materials is likely, as Senator Obama has introduced legislation in this area. It remains to be seen if he will support any significant initiatives to promote new nuclear generation before these issues can be resolved.

ELECTRIC TRANSMISSION

Senator Obama would pursue improvements in the electric grid and has proposed using smart metering, distributed storage, and other technologies to improve electric grid reliability and security. He also has proposed establishing a Grid Modernization Commission to facilitate adoption of "Smart Grid" practices, as well as instructing the Secretary of Energy to establish a Smart Grid Investment Matching Grant Program that would reimburse one-fourth of qualifying investments in the "Smart Grid," to deploy advanced techniques for managing peak load reductions and energy efficiency savings, and to establish demonstration projects focused on power grid sensing, communications, analysis, and power flow control, including integration of demand-side resources into management of the grid. One specific regulatory change to implement electric grid improvements may be to strengthen Federal Energy Regulatory Commission ("FERC") authority over transmission siting.

ENERGY TRADING AND MARKETS

As President, Senator Obama likely will take action to increase the level of regulation of energy trading and markets. These changes will include the appointment of like-minded Democrats to key roles at the FERC and other agencies. Senator Obama has proposed regulations to prevent and penalize speculation in the energy trading markets, including closing the so-called "Enron Loophole," which exempts certain energy traders from Commodity Futures Trading Commission ("CFTC") regulations applicable to exchange-traded commodities. Senator Obama has proposed requiring that all U.S. energy futures be traded on regulated exchanges, that institutional investors participating in commodities futures markets provide disaggregated data, and that the CFTC investigate whether additional regulatory requirements (such as

higher margin requirements and position limits) are necessary to eliminate excessive speculation. Senator Obama also has proposed working with other nations to harmonize trading regulations across borders and called on the Federal Trade Commission and Department of Justice to investigate manipulation in futures markets.

EFFICIENCY AND CONSERVATION INITIATIVES

Senator Obama has proposed some of the most ambitious and far-reaching demand-side initiatives in decades. He has set a goal of reducing electricity demand by 15% from the Department of Energy's ("DOE's") projected levels by 2020. To do so, he would set goals of making all new buildings carbon neutral by 2030. In the shorter term, he has proposed goals of improving new building efficiency by 50% and existing building efficiency by 25% over the next decade. Senator Obama also has proposed overhauling the process by which the DOE sets appliance efficiency standards and providing it with more resources to regularly update those standards.

The Senator has proposed a goal of achieving a 40% increase in efficiency in all new federal buildings within five years and ensuring all new federal buildings are zero-emission by 2025. He also proposed retrofitting federal buildings to achieve a 25% increase in efficiency within 5 years and reducing federal energy consumption by 15% by 2015.

Recognizing that utilities may increase profits by encouraging higher energy consumption, Senator Obama has proposed to "flip" incentives for utilities by requiring states to conduct proceedings to implement incentive rates and other policy changes and to offer targeted technical assistance that would decouple profits from increased energy usage. He has proposed regulatory changes that would change the utility sector's profit model so that utilities' profits would be based on reliability and performance instead of total production.

OIL/NATURAL GAS PRODUCTION

Senator Obama opposed a blanket lifting of the congressional moratorium on offshore drilling on federal land, but said he would support limited expanded offshore drilling if it were part of broader legislation that would increase production from renewable power sources. He supports the ban on drilling in the Arctic National Wildlife Refuge in Alaska, but has called on prioritizing construction of the Alaska Natural Gas Pipeline. He has proposed requiring oil companies to either develop existing oilfield leases or to turn them over so that another company can develop them. The stated goal of these efforts, combined with conservation and alternative fuel efforts, is to save or domestically produce an amount of oil greater than the amount of oil the United States currently imports from the Middle East and Venezuela within ten years.

In addition, Senator Obama supports releasing light crude oil supplies from the Strategic Petroleum Reserve and later replacing them with heavier crude, although it is possible that the recent decline in oil prices would forestall such a move. Finally, he supports a five-year windfall tax on the profits of oil companies, which would help pay for a tax rebate for low- and middle-income families.

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