

INSIGHTS

Top 12 Energy Issues for '12

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With the 2012 election year upon us, it promises to be an interesting year in energy politics and policy. Here are 12 (really 13 because of some creative headline writing) issues that will keep the sector hopping this year. **1. Keystone Cops** "" The biggest energy story of the first quarter without a doubt will be the Keystone pipeline. Not only has this issue blossomed into a larger-than-reality political issue, the President has seemingly been boxed into a corner on the issue that will force him to choose between two major constituencies "" labor and environmentalists "" just after he thought he got the political break he needed to delay the decision, thanks to Nebraska Republicans. Nonetheless, the battle will rage as the decision approaches. Regardless of the final result after 60 days (I'm predicting politics/jobs will win the day), the legal battle will likely begin then (promising a real fight) "" of course likely delaying a final decision until after the election anyway. **2. End of a NM Energy Era** "" For the better part of 30-plus years, New Mexico has had a major role in formulating our national energy policy from a perch on the Senate Energy Committee. But this year will be the last in that run as Senator/two-time Committee Chair/noted professorial policy wonk Jeff Bingaman retires. It will be nearly 12 years straight of either Bingaman or former NM Republican Sen. Pete Domenici running the Committee, at times together with each as Chair/ranking member. While I'm certain it will be a sad day for New Mexico, more likely, it may be another little notch out of the long history of great collaboration and statesmanship that the committee has exhibited during that time. **3. NatGas Battle is Hitting Full Stride** "" So, NY drilling opponents are trying to work local elections to ban drilling, Ohio is worried about earthquakes and industry is in a full-fledged campaign mode. All this really means in 2012 is that natural gas drilling has arrived as Led Zeppelin's "Mothership" as an issue. No more sleepy, unchallenged decisions, leases or permits. Game On! As well, the big oil and gas giants are now sweeping in as well, with Exxon, Shell and BP, as well as China, looking to take big pieces of action in US shale plays. Look for increased scrutiny, but also increased openness, collaboration and industry partnership. With EPA and environmentalists caught in the "cleaner gas" box and the crazy job and revenue benefits hitting states like PA and OH, look for the battle to rage on as a political football. **4a. How Long Will a \$4 Gas Price Survive, Part I?** "" Very much in line with #3, one of the major questions for 2012 will be the continued persistence of the \$4 price for natural gas. If it stays there, there will be significant willingness in the utility market to move toward gas. But that low price will also continue to pinch drillers who in many cases are getting more for the liquids they get out of shale wells. Regardless, the price of natural gas and its ability to stay low in the face of expanding utility use, competition in the chemical sector, potential export and increasing

scrutiny will be a key issue for 2012. **4b. How Long Will a \$4 Gas Price Survive, Part II?** "" One the other hand, the other \$4 gas price also will pose significant problems for politicians and consumers in 2012. Rising domestic demand as the U.S. economy improves, the regular resource competition from China/India and the potential renewed unrest in the Middle East and Iran's saber-rattling all create a potential for political trouble. As you well know, during an election year summer not all the facts may be evident in the gasoline-price political/PR fight come late spring/summer. Look for the usual suspects to make the usual calls for investigations in 2012, of course, only to be released after November and showing nothing but the regular market order. **5. Offshore Drilling Returns 'I' and So Do Jobs, Economic Recovery** "" One major issue that has lagged the last two years has been offshore drilling. The Administration has been slow to pull the trigger on any real timely drilling because of the 2010 Macondo spill. But if 2011 was down because of reaction, look for 2012 to rebound because the President is on the ballot and jobs are important to his success. Interior's recent Western Gulf oil and gas lease sale attracted more than \$337 million in high bids, and now they are hot to trot with 10 more. As well, a recent IHS study said efficient review and approval of applications for Gulf energy activity could create over 200,000 new U.S. jobs. The fact is, without equal commitment to running an efficient permitting regime, the objectives will be tough to meet in 2012. **6. Offshore Wind Woes Saved by Infrastructure Project** "" In late December, Interior Secretary Salazar held a press call to tout the Administration's commitment to renewables, but most of the event focused on the Atlantic Wind Connection, a massive offshore transmission project that will be essential to establishing an infrastructure for new offshore wind projects and the jobs they will create. The project has drawn backing from big players including Good Energies and Google. In the face of recent offshore wind industry struggles, like the backtrack from NRG on its Delaware project, the AWC project may be just what the budding offshore wind industry needs to make it through 2012. Look for more key decisions from Interior starting in 60 days. **7. President, Environmentalists Coal Battle Finally Hitting Home** "" Environmentalists have had coal in their sights for years, and after chipping away slowly, this year they may be poised to push another step further with the slate of pending EPA rules. With outside forces such as financial markets and low gas prices adding extra pressure, coal as a resource in the U.S. may face hard times in 2012. Certainly it won't matter much globally as developing countries continue to use coal in record numbers and US companies are exporting more, but affordable energy in many parts of the country that rely on coal are truly being threatened. With that comes the loss of jobs and economic activity in these regions. **8. The End of the Ethanol Political Era** "" In the political shocker of the last several decades, Congress declined to renew both the 45-cent-per-gallon tax credit for corn-based ethanol or the 54-cent-per-gallon tariff on imported ethanol as well. And interestingly, they did it just a few days before the nation opens Presidential politicking in Iowa. While the ethanol industry finally (and quietly) gave up the jig, both the [Washington Post](#) and the [Wall Street Journal](#), longtime critics who have rarely found agreement on other issues, celebrated the demise. Interesting for 2012 will be how they move forward. With cellulosic ethanol woefully short on its requirements, look for things to be stable for now even as the RFS requirements increase. The key will be to watch for increased import from places like the Caribbean and Brazil. **9. Solar Resurgence Post-Solyndra** "" While the Solyndra issue has cast a pall on the solar outlook right now, it seems the worst has passed despite the best efforts of

Republicans in the House. While I expect there will be minor resurgences in the political heat of the battle, the reality for the solar industry is it likely has survived the toughest part. Recently, GTM Resources [released a report](#) that said the solar industry achieved a new record for installations and growth in the third quarter of 2011 thanks to utility-scale project completions, a strong residential market, effective policies and the plummeting price of solar panels. And it is happening across the board in the industry. Grid-connected PV installations grew 140% over 2010. The utility PV market installed more than 200 MW in the quarter, an increase of more than 400% over the previous quarter, and the residential PV market grew 21% to reach nearly 75 MW. While they may be slowed slightly by the loss of the 1603 Treasury grant program, the solar industry will likely be stronger in 2012 because of increasing demand for their products.

10. Nuclear Renaissance Hangs on Vogtle, Southern "With NRC's late-year decision to approve use of the AP1000 at Southern Nuclear's Vogtle Plant, it is now getting close to "put up or shut up" time for the nuclear renaissance. With many others now fallen by the wayside who had promising projects but lacked demand, strong financial support, or regulated markets, it looks like Southern's Vogtle expansion may be the place where the rubber meets the nuclear future's road. In fact, if Southern is able to move forward, we may look back at 2012 as the key point that made future nuclear projects a reality. There still are uncertainties like Yucca Mountain and financing that may affect the size of the long-term expansion, but right now all eyes are on Southern. Ironically, the utilities with the most nuclear assets, and therefore the most hope for a strong nuclear future, have been busily undercutting Southern on the remainder of its fleet by supporting tougher EPA regulations on coal plants. Maybe nobody will notice" | **11. Busy Courtrooms in Election Year** "Well, the action has already started a few days early when EPA's Cross State Air Pollution Rule was stayed by the DC Circuit Court and California's LCF Standard was blocked by a District Court in Fresno. Expect a lot more of this in 2012, and much of it will likely be welcomed by the Obama Administration who may be happy to have a reason for many of these politically unpopular hot potatoes to be put off until after Election Day. They already tried delays with the Keystone pipeline, so with other issues "notably the GHG rules" look for a busy year in the courtroom. **12. GHG Glorious Mess** "What can I really say that House of Representatives Dean John Dingell hasn't already said" | Delay after delay has led us to GHGs reaching the election year. Look for more delays this year because as my colleague Jeff Holmstead (a veteran of EPA's inner workings) told me over a year ago, writing GHG rules for everything is not an easy task, since there are significant unintended consequences and it will take way longer than the political officials at EPA think it will take. Given the ozone decision released on Friday before Labor Day last year, my bet is that 2012 will see the GHG rules slip as well given the political stakes. Of course, you never know when the next natural disaster, explosion or unforeseen event will add issues to this list. But for now, it looks like 2012 will be busy.