

CCS Alliance Update — February 22, 2011

1. DOE Proposal Slashes Office of Fossil Energy Budget

- ♦ The U.S. Department of Energy's ("DOE") budget proposal for its Office of Fossil Energy ("OFE") would cut the division's funding by 45 percent, decreasing OFE's spending by \$418 million from 2010 levels. OFE is responsible for DOE's carbon capture and storage ("CCS") programs. Energy Secretary Steven Chu justified the cuts by stating the American Recovery and Reinvestment Act provided funding for many large-scale demonstration projects, and that moving forward, OFE will focus on research and development of longer-term technologies that improve present CCS technology. The Obama Administration has stated it wants to focus CCS spending on developing better capture technology for retrofitted and new coal-fired power plants, CO₂ monitoring, verification and accounting, and advanced coal-fueled systems such as integrated gasification combined cycle and oxy-combustion technologies. The budget request does not include funding for the FutureGen program.

2. PTTF Recommends State Regulation of CO₂ Pipelines

- ♦ The Pipeline Transportation Task Force ("PTTF") published its final report evaluating the needs and possible regulatory framework for a national CO₂ pipeline network on February 14, 2011. The report concludes that the current state-based regulatory system is sufficient to handle CO₂ transportation needs "for the foreseeable future." The report notes that in response to demand for CO₂ for enhanced oil recovery and other uses, the private sector has constructed approximately 4,000 miles of pipeline in the U.S. and explicitly states that "no federal role is required in order to develop CO₂ pipeline projects." The PTTF is comprised of regulators, policymakers, and industry representatives and is sponsored by the Interstate Oil & Gas Compact Commission and the Southern States Energy Board.

3. Indiana Senate Blocks CO₂ Gulf Pipeline

- ♦ The Indiana State Senate vetoed a bill that would have authorized a CO₂ pipeline from a Rockport, IN coal gasification plant to CO₂ buyers along the Gulf of Mexico. The measure's failure is seen as a setback for investors and the coal industry, and is an unusual defeat for Governor Mitch Daniels. The pipeline proposal was part of an energy strategy to render mid-western coal into natural gas and transfer the waste to Mississippi storage caverns. The project was backed by major firms such as Goldman Sachs and General Electric Financial.

4. South Dakota Refinery Receives Draft Permit for GHG Emissions

- ♦ A planned 500 megawatt coal-fired power plant and refinery in South Dakota has received a draft permit for its greenhouse gas (“GHG”) emissions from the South Dakota Department of Environment and Natural Resources. The draft permit moves the project closer to being one of the first major industrial plants to be built under new U.S. Environmental Protection Agency (“EPA”) climate regulations. The draft permit for the Hyperion Energy Center is one of the first to explain whether CCS is a viable option for mitigating GHG emissions. Hyperion’s draft permit explains that CCS technology does not qualify as a “Best Available Control Technology” required by EPA regulations because of “adverse environmental, energy, and associated costs of the system.” EPA has not taken a stance on the project, but has said it will review the draft permit during a 30-day public comment period and decide whether to suggest changes or to object to the permit once it is finalized.

5. Global CCS Institute Releases Regulatory “Toolkit”

- ♦ The Global CCS Institute released a regulatory toolkit on February 15, 2011, developed by the University of Edinburgh on behalf of the Scottish Government. The toolkit includes information on best practice regulations and permitting processes for CCS projects, and provides a blueprint for nations seeking to implement the technology. The Scottish Government used a mock CCS project to test its own regulations and identify any challenges and streamlining opportunities presented by their implementation framework. The toolkit has been endorsed by the European Union, which will encourage members to use the toolkit through its CCS Demonstration Project Network to test their domestic regulatory regimes.

6. Alberta Government Signs CCS Pipeline Agreement With Enhance Energy

- ♦ The Government of Alberta, Canada has signed an agreement with Enhance Energy to build a CO₂ pipeline to deliver CO₂ captured at a refinery to conventional oil fields. The Alberta Carbon Trunk Line project will receive \$495 million under the government’s CCS Funding Act. Engineering and procurement efforts are currently underway and construction is expected to begin in 2012. A contract with North West Upgrading and Canadian Natural Resources Limited Partnership will facilitate the construction of a bitumen coal refinery at which the CO₂ will be captured.