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The Alternative Energy Landscape

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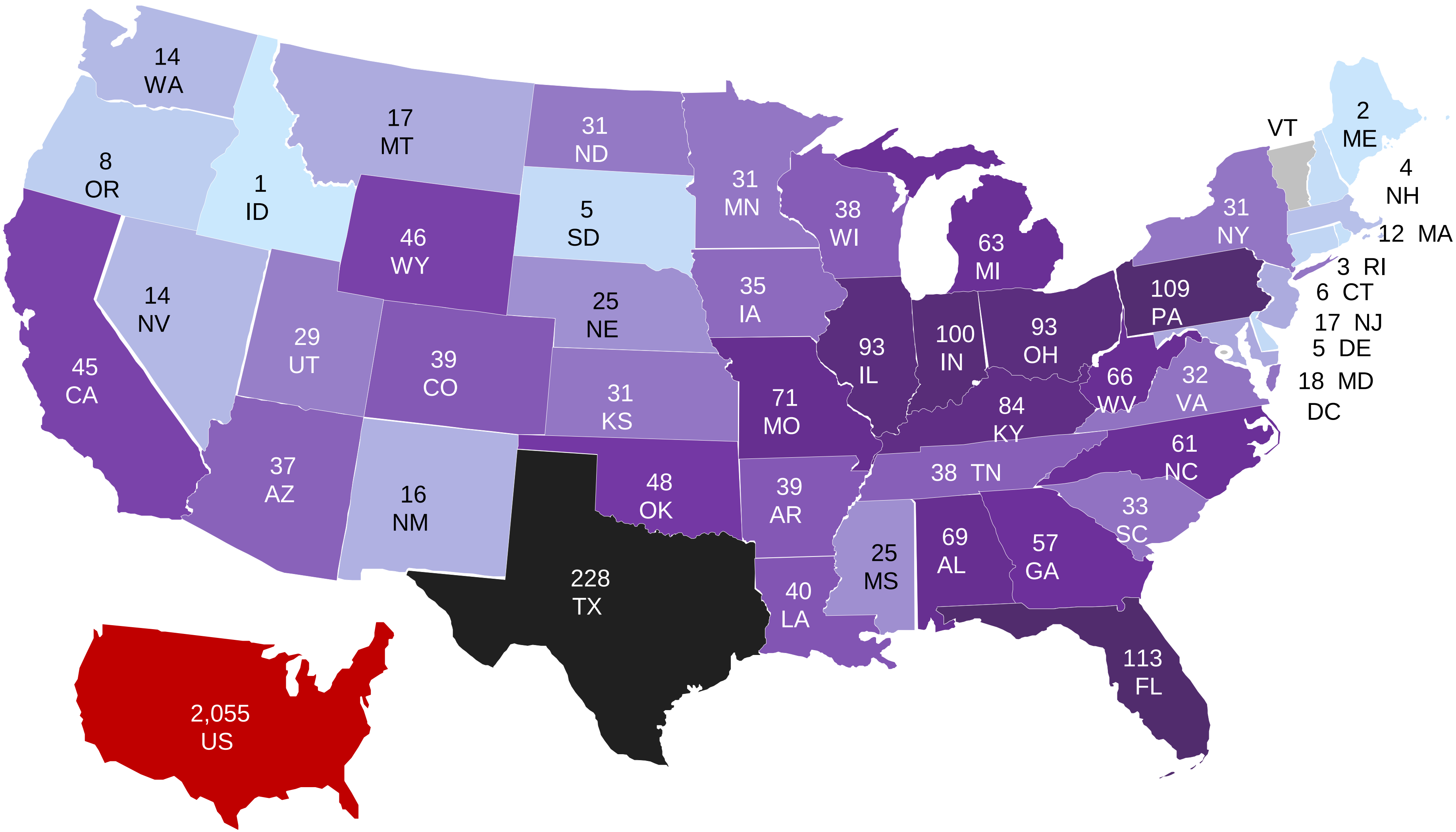
2012 *mass* baseline: emissions covered under the Clean Power Plan

Emissions from covered units (million metric tonnes of CO_2; Mt)

According to Clean Power Plan

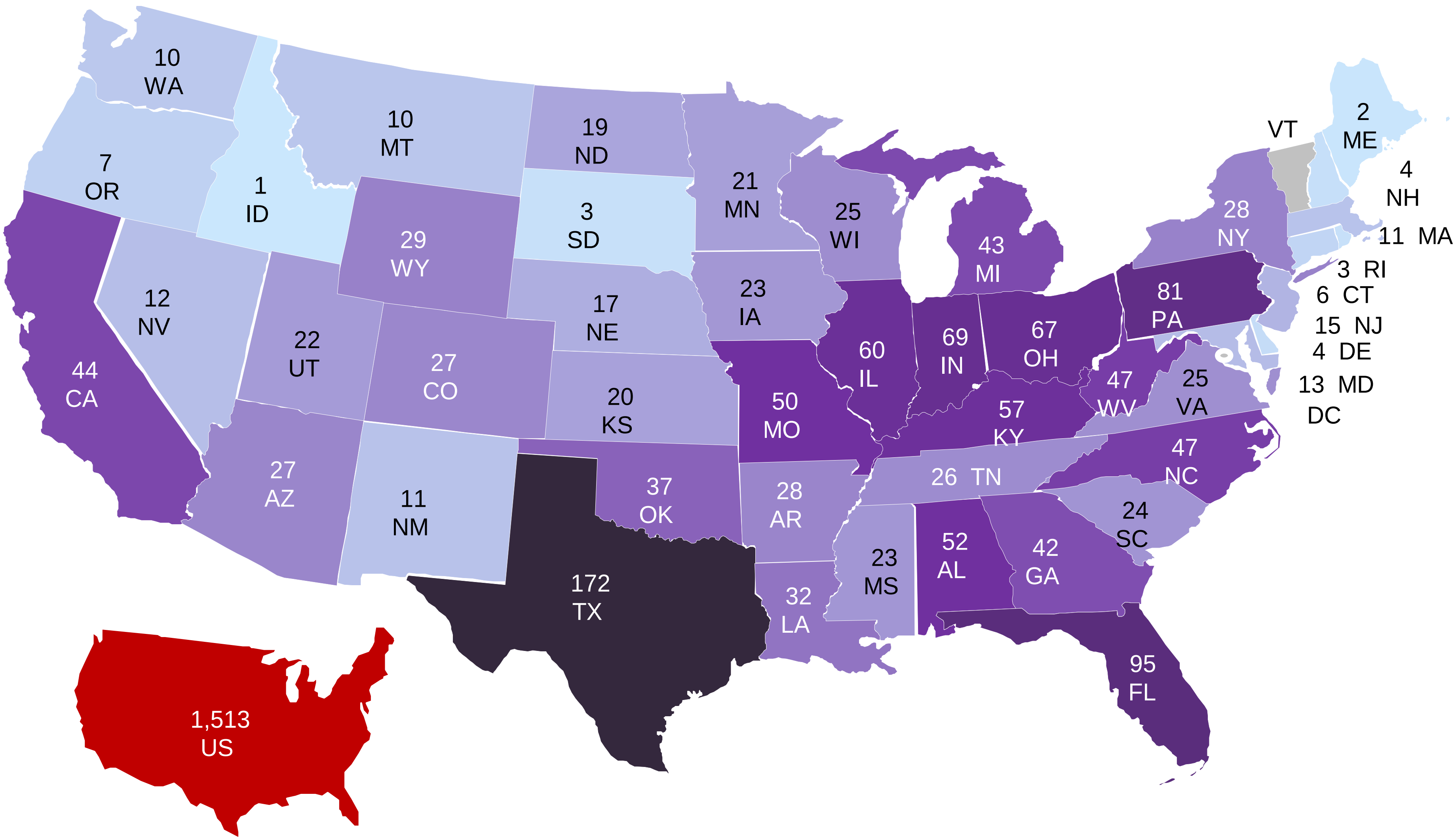


Source: EPA

2030 *mass* targets: emissions covered under the Clean Power Plan

Emissions from covered units (million metric tonnes of CO_2; Mt)

According to Clean Power Plan



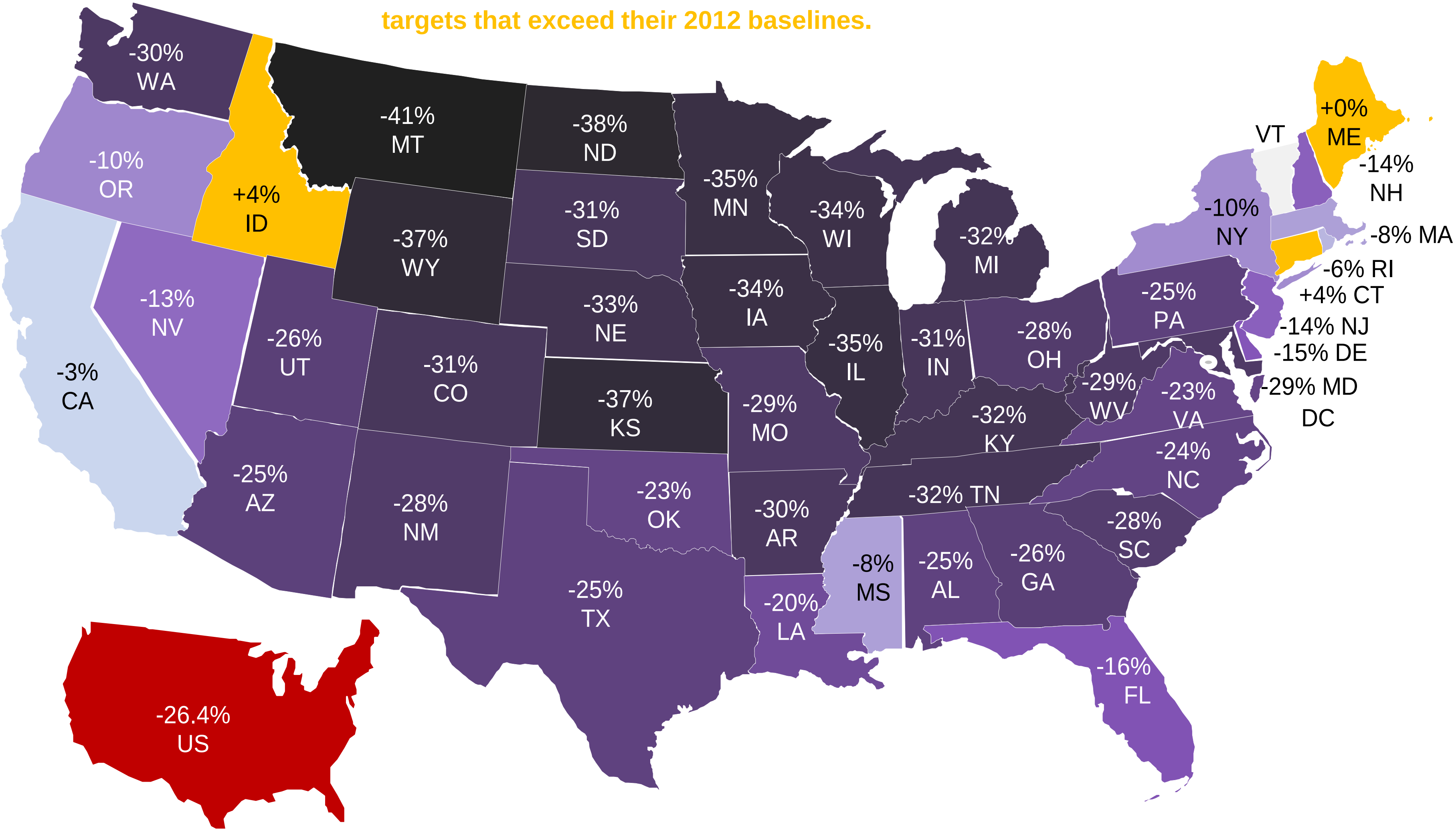
Source: EPA

Mass cuts required: 2030 target to 2012 baseline

2030 mass-based targets / 2012 baseline - 1

According to Clean Power Plan

Yellow states have 2030 mass-based targets that exceed their 2012 baselines.



Source: EPA

Incremental reductions needed: cuts needed beyond current plans

Further emissions rate cuts required to meet mass-based targets, accounting for early progress associated with recent and planned actions

According to Clean Power Plan

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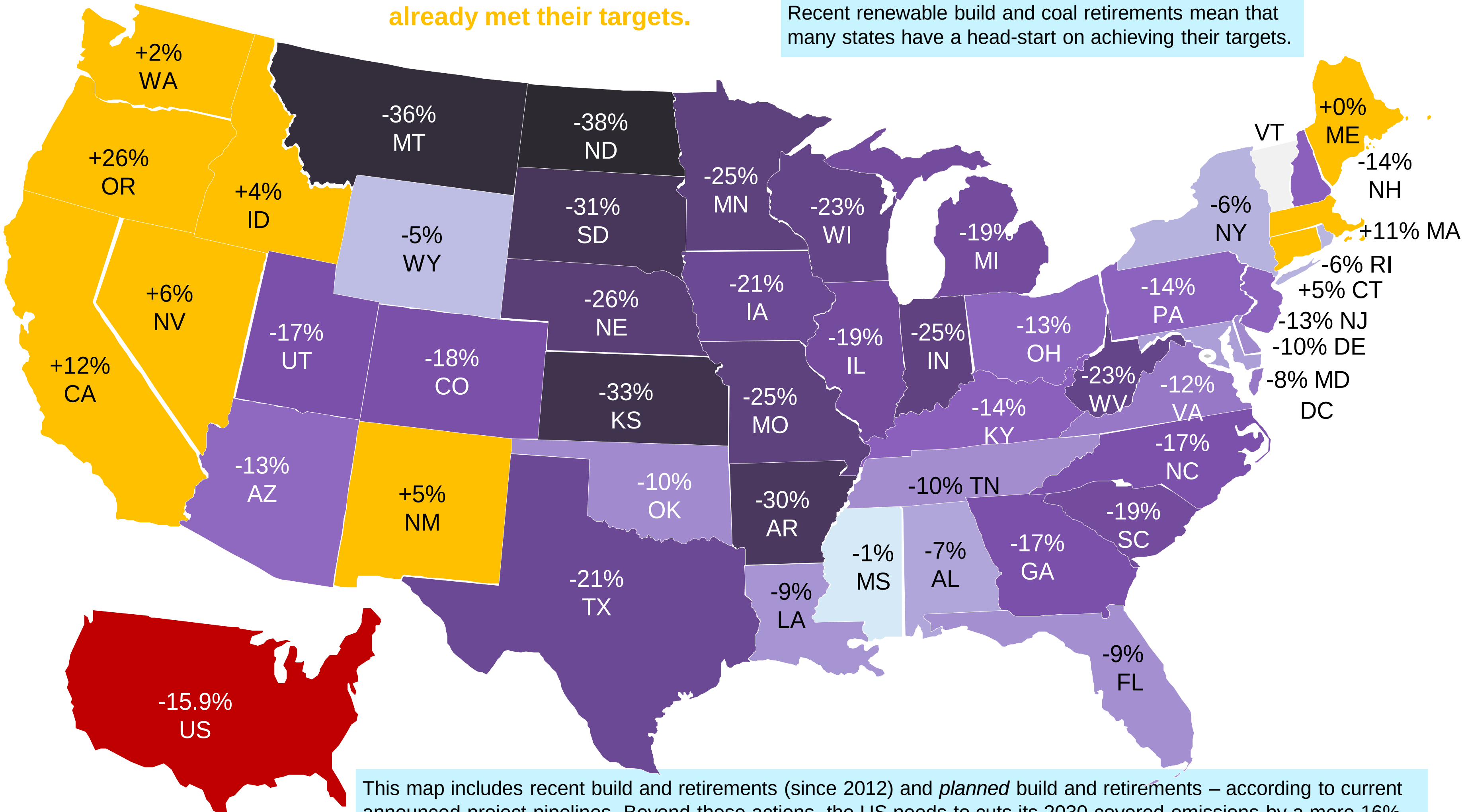
Yellow states have effectively already met their targets.

The Power Plan rewards actions taken since 2012. Recent renewable build and coal retirements mean that many states have a head-start on achieving their targets.



This map includes recent build and retirements (since 2012) and *planned* build and retirements – according to current announced project pipelines. Beyond these actions, the US needs to cuts its 2030 covered emissions by a mere 16%.

Source: EPA

Clean Power Plan: only half the country should be worried

Regional carbon prices required in 2030 to comply (real 2014$)

Assuming region-level cap and trade, based on BNEF modeling

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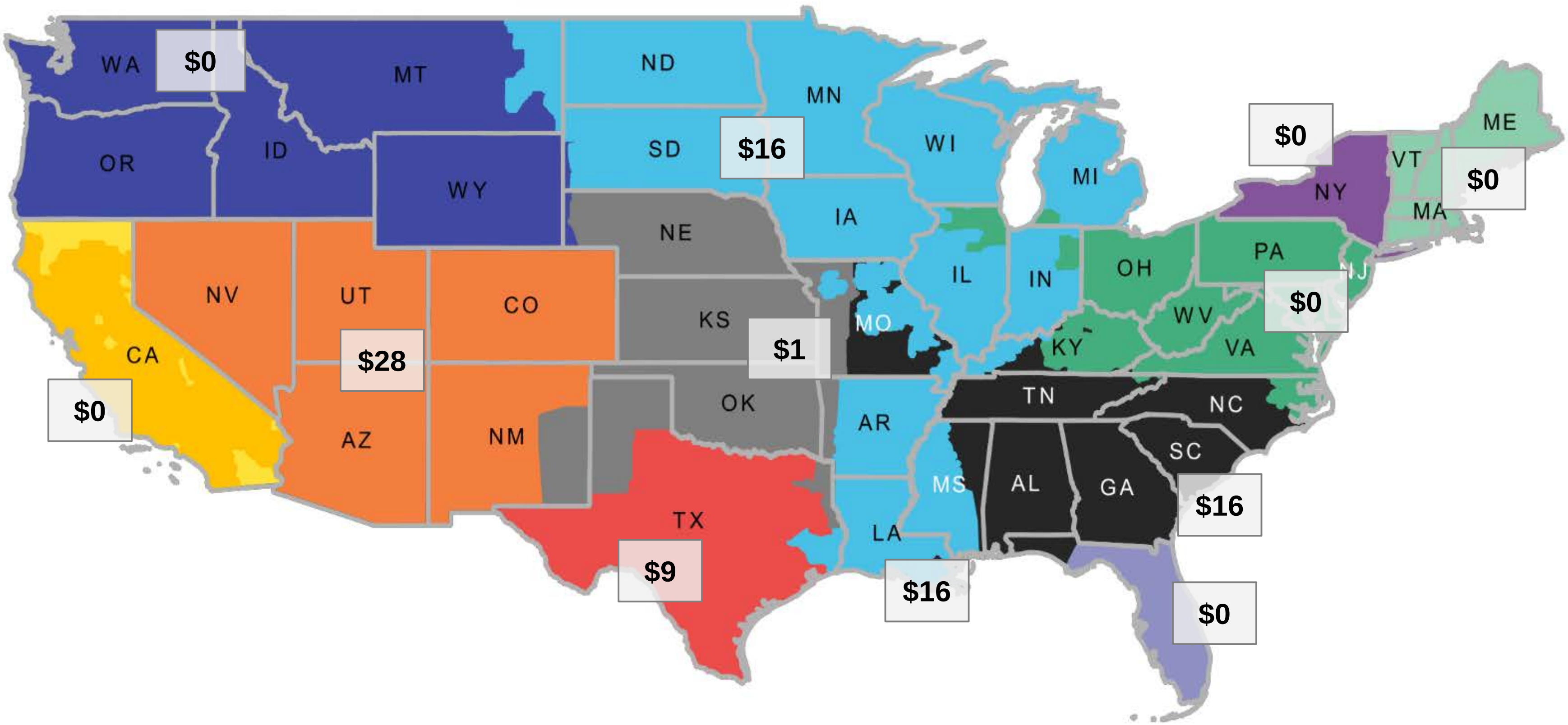

Source: EPA, EIA 923, BNEF modelling

Clean Power Plan: most negatively impacted entities in 2030
Assuming region-level cap and trade
Based on 2012 generation profile and BNEF modeling

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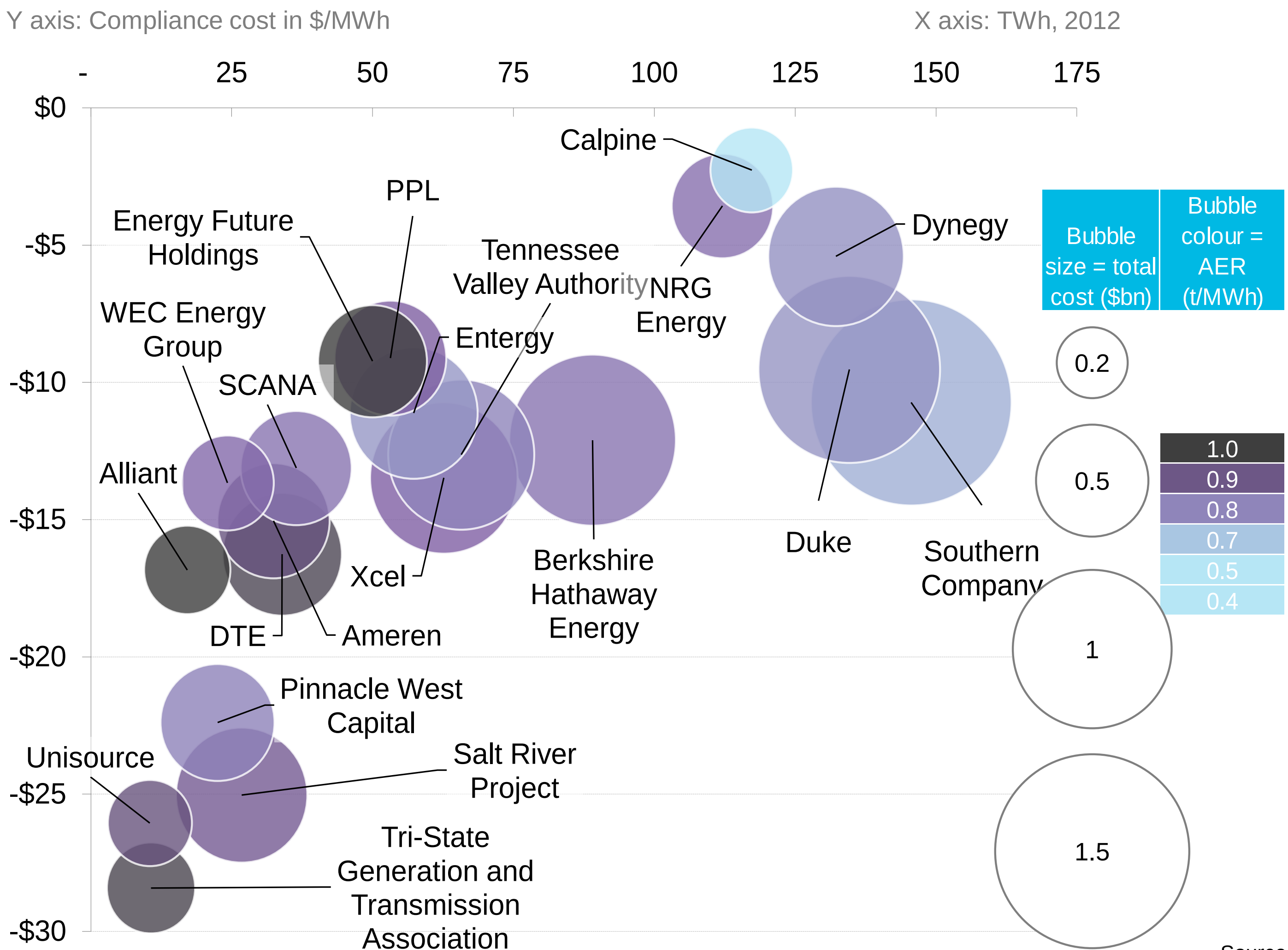

- Southern Company stands to be the ‘biggest loser’ under the Clean Power Plan: its affected fleet generated 146TWh in 2012, releasing carbon at a rate of 0.7t/MWh. Under EPA modelling, SoCo may pay as much as $10.70/MWh, or $1.6bn in total compliance costs.
- Numbers do not take into account potential cost recovery – SoCo may be able to use projected costs to gain approval to rate-base the costs of overhauling its fleet.

Source: EPA, EIA 923, BNEF modelling
Note: numbers are net of planned retirements

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Hot Topic: International-only Tax Reform Tied to the Highway Bill?

Highway Bill – The Action Forcing Event Tax Reform Needs?

- The major funding source for federal highway programs – fuel taxes – is projected to be insufficient to keep pace with current spending patterns; the six-year shortfall estimated at about $90 billion
- Nobody has identified a $90 billion tax increase Republicans will support or a $90 billion spending cut Democrats will support
- Congress approved a short-term highway bill (three months) in late July to keep the program solvent, though there was actually enough funding in the bill to keep the fund solvent for longer than that
- Sets the stage for a vigorous debate on international tax reform this Fall, as deemed repatriation can raise substantial revenue

Why This Plan is Inevitable

- Support in Congress for finding more funds for infrastructure is strong and bipartisan, but an acceptable "pay for" has been hard to find
- While many taxwriters still want to enact comprehensive tax reform, differences between Congressional Republicans and President Obama on key individual income tax issues appear impossible to overcome
- At the same time, there is increasing bipartisan consensus that inversions, foreign acquisitions, the OECD project on "base erosion and profit shifting" etc. – require Congress to act sooner rather than later on international tax reform
- Deemed repatriation can raise substantial revenue
- Support for using international tax reform to help pay for highway construction comes from key legislators on both sides of the aisle and the White House

Why This Plan is ~~Inevitable~~ **Impossible**

- Opponents include some key Republicans who doubt that a “good” tax deal can be struck with President Obama
- Business support not guaranteed:
  - No reduction of tax rates
  - Potential new restrictions for inbound companies
  - Deemed repatriation rate / minimum tax rate / other offsets may be larger than many companies can support, etc.
  - The innovation box may not be as generous as companies would like
- There will be concern about the politics of appearing to help multinationals without doing anything for domestic businesses and individuals
- Is there enough money to go around? Can that be resolved with the addition of the tax extenders?
- DOT report showing the trust fund will be solvent through at least June of 2106 may remove an action-forcing deadline in 2015

Speaking of Extenders….

- House and Senate passed a one-year package at the end of 2014, after plans for a bigger package making several items permanent collapsed
- Despite the White House veto threat over the size of the package, it failed because it was too small, not because it was too large
- Key players still interested in making several items permanent
  - For Democrats, this is a chance to seal in several expansions of tax credit refundability enacted in the 2009 stimulus law
  - For Republicans, it is a chance to build a better baseline for tax reform
- The House has already approved permanent extensions of several expired provisions, including R&D, higher expensing limits for small businesses, S corp. and charitable extenders, the state/local sales tax deduction
- The Senate Finance Committee approved a two-year extension of the expired provisions in July; not yet voted on by the Senate
- Permanent extenders as possible “grease” for the international tax deal?
- If not, resolution not likely until closer to the end of CY 2015

Recent Political Developments

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