

December 8, 2009

Dear Senator,

The undersigned investors, asset managers and other financial companies, representing approximately \$127.5 billion in assets, wish to share our concerns regarding measures to increase unconventional heavy fuels, such as Canadian tar sand oil, liquid coal, and oil shale, into the fuel mix of the United States.

Specifically, we urge you to ensure that the final climate and energy bill retains the integrity of Section 526 of the Energy Independence and Security Act of 2007 (EISA). Section 526 prohibits federal agencies from procuring unconventional fuels with higher greenhouse gas impacts than conventional fuels. We therefore urge you to reject section 356 of the Senate Energy bill (S. 1462) that would significantly weaken this common sense protection. Further, while we understand that a Low Carbon Fuel Standard (LCFS) is not currently included in the Senate Energy bill under consideration, we support the adoption of an LCFS that takes into account life cycle emissions (including indirect land use effects) of fuels.

Unconventional heavy fuels increase the risks posed to the United States by oil price volatility. On July 11, 2008, West Texas Intermediate (WTI) hit \$147.27 a barrel. By December it fell as low as \$32.40. This volatility led to dramatic price changes at the gas pump, stirred global political challenges, and inhibited future energy investments (such as those in renewable fuels). Canadian tar sands projects felt the brunt of these fluctuations; since oil peaked in July 2008, 85% of the deferred or cancelled non-OPEC oil production capacity was located in the tar sands.ⁱ The expansion of Canadian tar sands projects can require up to 20 times more capital expenditure than conventional oil extractionⁱⁱ and liquid coal facilities could cost up to \$125,000 per barrel of daily production capacity.ⁱⁱⁱ Oil price volatility is likely to continue in coming years, as sector analysts predict that macroeconomic and geopolitical forces may cause the same kind of supply and demand shocks witnessed in 2008.^{iv} Legislation that makes the United States more dependent on these energy sources could worsen the impact of future volatility.

Current and possible future regulations also pose substantial challenges to unconventional heavy fuels. Tar sand oil in particular carries other significant risks, such as lawsuits brought against operators and pipeline developers by First Nations that have constitutional rights to challenge these projects in Canada. Moreover, litigation stemming from land remediation and water pollution disadvantage tar sands, liquid coal and oil shale to varying degrees. Finally regulatory risks stemming from emerging climate regulation and the lack of proven technologies to control greenhouse gas emissions create an open ended risk for these long term investments.

Amending Section 526 to allow federal agencies to expand these fuels implicitly encourages U.S. companies here and abroad to invest in costly energy and infrastructure projects that are economically uncompetitive. As we've recently seen, the U.S. economy pays a heavy price when high-capital ventures fail. To that extent, we must steer investments instead to account for foreseeable market volatility and carbon regulation. Unfortunately, Section 356 of the Senate Energy Bill takes us in the wrong direction.

In contrast, an LCFS will forestall future price spikes by providing for an efficient transition to cleaner fuels. Rather than dictating the use of particular fuels, it will allow the market to determine the most efficient way to reduce the carbon content of fuel. It is clear that such reductions will eventually be obligatory, and we must ensure that our economy is prepared for a carbon constrained future.

Accordingly, we must send a consistent signal through avenues such as Section 526 and an LCFS that encourages the growth of a robust clean fuels market.

It is becoming increasingly clear, and acknowledged by businesses, economists and scientists alike, that climate change will have unprecedented impacts on corporations in a variety of sectors around the world, jeopardizing the profitability and shareholder value of companies as well as entire industries. Preserving Section 526 and incorporating an effective LCFS will not only serve to mitigate the physical and economic impacts of climate change, it will also provide the regulatory certainty and consistency business needs in order to adapt to a carbon constrained global economy.

Sincerely,

Michael Passoff
Associate Director, Corporate Social Responsibility Program
As You Sow

Bennett Freeman
Senior Vice President, Sustainability Research and Policy
Calvert Asset Management Company, Inc.

Susan Vickers, RSM
VP Community Health
Catholic Healthcare West

Steve Scheuth
President
First Affirmative Financial Network, LLC

Kristina Curtis
Senior Vice President
Green Century Capital Management, Inc.

William C. Thompson, Jr.
New York City Comptroller
Office of the New York City Comptroller

Leslie E. Christian
President and CEO
Portfolio 21 Investments

Sister Patricia Marshall
Director, Social Justice Office
Sisters of the Blessed Sacrament

Shelley Alpern
Director, Social Research and Advocacy
Trillium Asset Management Corporation

Patricia A. Daly, OP
Executive Director
Tri-State Coalition for Responsible Investment
Sisters of St. Dominic of Caldwell, NJ

ⁱ International Energy Agency, June 2009. *Medium-Term Oil Market Report – 2009 Edition*. p.48.

ⁱⁱ *Scraping the Bottom*, World Wildlife Fund, May 2008. Pg 7.

ⁱⁱⁱ James Bartis et al, *Producing Liquid Fuels from Coal*, RAND Corporation, 2008.

^{iv} *The 2009 Ernst & Young Business Risk Report: Oil and Gas*, Ernst & Young 2009. Available at:
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