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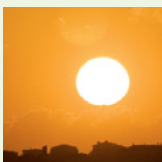
April 2007



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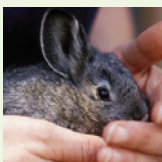
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After our study blamed a little-used shipping channel for funneling Katrina's storm surge into the heart of New Orleans, the U.S. Army Corps of Engineers agreed to close it.

TXU: A green deal as big as Texas

ENVIRONMENTAL DEFENSE HELPS USHER IN A NEW ERA OF CLEANER ENERGY

In the Lone Star State, nothing happens on a small scale. Two top private equity firms proved this in February when they enlisted our help in a bold bid to acquire TXU Corporation, the state's huge electric utility. Thanks in large part to our influence, the \$45 billion buyout—the largest in U.S. history—will yield Texas-sized benefits for the environment.

As part of the landmark deal, the new buyers, Texas Pacific Group and Kohlberg Kravis Roberts & Co., agreed to withdraw applications for eight coal-fired power plants proposed in Texas and adopt an unprecedented set of environmental initiatives, including a pledge to support a mandatory cap on carbon emissions (*see details, p. 4*).

"This is a watershed moment in America's fight against global warming," says our president Fred Krupp, who played a key role in the agreement. "It sends a clear message about the undeniable momentum for federal global warming legislation."

While the actual deal happened quickly, it was the result of a year-long campaign by Environmental Defense to halt TXU's rush to dirty coal.

In April 2006, TXU had announced alarming plans to build 11 old-fashioned coal power plants in Texas. These inefficient plants would spew out 78 million tons of carbon dioxide annually—more than the emissions of 21 states and twice the expected carbon reductions from California's clean-car legislation.

The agreement marks a watershed moment in the fight against global warming.

From the start, most business and political experts considered it a done deal. Texas Governor Rick Perry got involved personally, fast-tracking the permits and declaring "we're not going to let these bureaucrats jerk us around."

After TXU rebuffed our efforts to find constructive solutions, we mounted an aggressive public campaign against their plan, including television ads and a full-court press at the Texas State Capitol. We showed that energy efficiency is the fastest, cleanest and cheapest way to meet Texas's short-term electricity needs.

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The new deal could spell the beginning of the end for dirty coal.

Businesses make 10 bold green moves

Businesses across America are adopting environmentally preferable “green” practices and technologies that also can improve their bottom lines. Our *Top 10 List of Green Corporate Initiatives* highlights companies that have worked recently with Environmental Defense on projects from safer seafood to cleaner energy. (While businesses serve as our allies in pursuit of common goals, we accept no payments from our corporate partners.)

We advised technology company **Cisco Systems** on its \$20 million investment in collaborative technologies, including video-conferencing and networking equipment, that will reduce the need for physical travel



Jon Feingersh/Corbis

by its more than 50,000 worldwide employees. As a result, Cisco anticipates a dramatic reduction in air travel this year, reducing carbon dioxide emissions at least 10%.

In collaboration with Environmental Defense, **Xcel Energy** announced plans to build an IGCC (integrated gasification combined cycle) coal-fired power plant in Colorado. It will be the first coal plant in America to reduce global warming pollution by capturing greenhouse gases and storing a portion of them underground.

PHH Arval provides vehicles to nearly one-third of the Fortune 500 corporations. Last year Arval joined Environmental Defense to create a climate-neutral fleet program that will measure and reduce fuel consumption and greenhouse gas emissions and then offset the remaining emissions by making reductions elsewhere.

Yahoo! Autos introduced new Green

Ratings that make it easy for buyers to compare vehicles. We provided Yahoo!



with a methodology to calculate the rating, which accounts for the total environmental impact of any car, from the steel going into the body to the pollutants coming out the tailpipe.

Five years ago, **Entergy** became the first U.S. electric company to commit to cutting global warming pollution, when it signed an agreement with Environmental Defense. In 2006, the company agreed to hold emissions at 20% below 2000 levels, even while meeting growing electricity demand.

Random House—the world’s largest trade book publisher—committed to increasing its use of recycled fiber tenfold by 2010 (from 3% to 30% of its total book paper). The company relied on our Paper Calculator to quantify the benefits, which include saving 550,000 trees a year.

Environmental Defense and **DuPont** joined forces to develop a framework for



Bill Varie/Corbis

evaluating potential health and safety risks of nanotechnology, the science of creating tiny engineered materials now

used in more than 200 products. Together we are developing a model for the responsible production, use and disposal of nano-products.

Wal-Mart will buy all its wild-caught fish for its North American stores from fisheries that meet the Marine Stewardship Council’s standard for sustainable and well-managed fisheries. Environmental Defense has been working with Wal-Mart on many sustainability initiatives (see full story on facing page).

Food services corporation **Bon Appétit Management Company**, which serves 150 corporations, universities and others nationwide, partnered with Environmental Defense to end the routine use of medically important antibiotics in chicken. Now it is asking beef and



Grant Heitman

turkey suppliers to meet the same standards, and is working with us to craft health and environmental requirements for farmed seafood.

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ENVIRONMENTAL DEFENSE
finding the ways that work

Solutions

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Wal-Mart: Can a giant retailer find the green path?

For 127 million Americans, a trip to Wal-Mart is part of their weekly household ritual. They flock to the giant discount retailer to buy everything from diapers to digital cameras. Now, Environmental Defense is partnering with the retail chain to make it—and its customers—greener.

“I never thought I’d find myself shopping here,” said Linda Gray at the West Lebanon, NH, store. “But I’m saving money—and maybe helping save the planet, too.” Lured by Wal-Mart’s new commitment to environmental sustainability, Gray snapped up a dozen compact fluorescent light bulbs that use one-fourth the amount of electricity and last ten times longer than conventional bulbs.

Guided by Environmental Defense, Wal-Mart has put its retail muscle behind a project that could cut energy use dramatically. In October, the discount chain announced an ambitious goal of selling 100 million fluorescent bulbs annually by 2008.

The company also supports the goals of the U.S. Climate Action Partnership, our business-environmental coalition that is advocating a national cap on global warming pollution. As the world’s largest retailer—and the nation’s largest private purchaser of electricity—Wal-Mart sets policies that have a huge impact.

A HIGH-LEVEL MEETING

The inspiration came in 2005 when Wal-Mart CEO Lee Scott accompanied our president Fred Krupp to the summit of Mt. Washington in New Hampshire. At the Mt. Washington Observatory, where scientists measure atmospheric changes, they discussed global warming and air pollution and what Wal-Mart could do about these problems.

A short time later, the company launched its campaign to blanket the United States with energy-saving light bulbs. If every American home had just a single compact fluorescent bulb, it could



Wal-Mart has the power to influence 60,000 suppliers and millions of shoppers.

reduce climate-changing gas emissions as much as taking 1.3 million cars off the road, by cutting demand for electricity from power plants.

The campaign is part of a broader effort by the retail giant to reduce its environmental footprint. The company has pledged to invest \$500 million in energy-saving technologies such as advanced refrigeration and lighting systems. The target: To cut in-store energy use by 20 to 30% within three years.

Environmental Defense is helping Wal-Mart set aggressive goals to reduce its environmental impacts across all aspects of operations and products. For example, the company hopes to double the fuel efficiency of its vehicle fleet over the next decade and already has adopted a policy reducing idling by its truck fleet. By turning off engines while trucks are being loaded, Wal-Mart is reducing greenhouse gas emissions by 100,000 tons a year—equivalent to taking 20,000 cars off the road. In the process, the company is

saving \$25 million annually in fuel costs.

Wal-Mart is also selling more organic food and organic cotton clothing, which reduces pesticide use by growers. With our help, Wal-Mart has also embarked on a program to purchase wild-caught seafood from fisheries that are certified as sustainable by the Marine Stewardship Council.

Wal-Mart’s ability to drive environmental change lies in its size and its capacity to influence its 60,000 suppliers. By demanding better environmental practices such as reducing packaging waste, Wal-Mart could help power a green wave across the U.S. economy.

“We’ve learned through experience that you really can create environmental progress by leveraging corporate purchasing power,” says Elizabeth Sturcken, our corporate partnership managing director. “And who’s got more purchasing power than Wal-Mart?”

With 6,600 stores worldwide—and five new ones sprouting up each week—Wal-Mart continues to grow fast. To promote further environmental change, Environmental Defense is opening a satellite office near Wal-Mart corporate headquarters in Bentonville, AR. “Wal-Mart is off to a promising start,” says Sturcken, “but ultimately it will be judged by results.”



Where it all began: Environmental Defense president Krupp and Wal-Mart CEO Scott met at the summit of Mt. Washington to discuss global warming.

TXU turnaround signals major shift in energy priorities

Continued from page 1.

We then orchestrated the distribution of a letter, signed by 50 environmental groups, urging TXU to reverse course. Nearly 50,000 Environmental Defense members sent messages, attended public hearings and submitted public comments against the plants.

A SUDDEN TURNING POINT

The strategy worked, though not exactly as expected. In February, Krupp received a call from William Reilly, the former head of EPA under President George H.W. Bush and a vice president with



A. Ramey/PhotoEdit

Winds of change in Texas

Texas Pacific Group. Reilly said his company wanted to buy TXU and gain support from Environmental Defense. He noted that they would not go through with the deal unless they could re-create the company as “a green electricity generator.”

Krupp dispatched our attorney Jim Marston to San Francisco to meet with the investors. Marston led a 17-hour negotiating session, resulting in the historic deal between the buyers, Environmental Defense and the Natural Resources Defense Council. As part of the accord, we agreed to settle our lawsuit against TXU regarding the 600-megawatt Sandow plant in Rockdale, TX, in exchange for an aggressive environmental pledge from the buyers.

If approved by shareholders and state and federal regulators, the buyout will encourage energy companies nationwide to build cleaner plants. It also could prompt new support in Congress for a mandatory federal cap on global warming pollution. “It’s one thing for companies in California to take the lead in reducing pollution,” says Marston, “but this is Texas.” As a representative on the new company’s advisory board, Marston will insist that TXU hold to its commitments.

“Smart companies are realizing that

What they agreed to

As a result of negotiations with Environmental Defense and its allies, TXU’s new buyers will:

- Withdraw plans for eight of 11 proposed dirty coal plants in Texas
- Scrap plans to expand coal operations in other states
- Endorse the U.S. Climate Action Partnership, including its call for a mandatory federal cap on carbon emissions
- Reduce the company’s carbon emissions to 1990 levels by 2020
- Increase spending on energy efficiency to \$400 million
- Double TXU’s investment in wind power
- Honor the company’s commitment to cut nitrogen oxides, sulfur dioxide and mercury by 20%
- Establish a Sustainable Energy Advisory Board, including a representative from Environmental Defense

green business is good business,” says Krupp. “You know that the world is changing when the biggest buyout deal yet is made contingent on conditions having to do with global warming.”

Massachusetts cleans up dangerous diesel

With asthma rates rising, Massachusetts has taken a dramatic step to improve air quality by promising to clean up every aging, publicly owned diesel bus in the state. Over the next four years, the state will spend \$22.5 million to equip 7,800 school buses and 600 regional transit buses with filters that reduce diesel emissions by as much as 90%.

Children will be the big winners. Riding to school, they can be exposed to diesel soot levels four to five times higher than the air outside, because exhaust leaks into the bus. Even brief exposure can damage developing lungs and has been linked to asthma and bronchitis, as well as

increased heart attacks and stroke in adults.

Our Living Cities staff met with the state to push for the strongest emis-



Getty Images

Destination: Clean air.

sions-cutting tools. “This is a very cost-effective way to cut air pollution,” said Gwen Ruta, regional director at our Boston office. “Every dollar invested in filtering out pollutants in diesel exhaust yields \$13 in health benefits.”

Environmental Defense is now working to pass legislation we drafted in Massachusetts that would require all contractors working on public projects in the state to equip their backhoes, bulldozers and other diesel equipment with emissions filters. The bill builds on an ordinance we helped enact in New York City that covered all of the city’s public construction contracts.

Green living

Ready when you need them

CAR SHARING COMES OF AGE

Say you're shopping for a vehicle and having a hard time deciding between a stylish, fuel-efficient sedan and an extended-cab pickup truck. You remember that time you needed to carry the entire Little League team—with all their gear. And then you remember helping a friend move, and how handy the truck was that day. And so—even though you wince at the meager 15 mpg rating on the window sticker—finally, with a sigh, you buy the truck.

The problem is you're paying dearly for a heavy vehicle you'll really need maybe five days a year, and you're hauling its bulk around the other 360 days as it burns fossil fuel and spews global warming pollution. Or maybe, given your transit options, you could even commute by train and get away with no car at all. But vacations, errands and other necessary trips loom large. So you buy, pay for registration and insurance and bite the bullet on annual depreciation.

There's another way. Bill Kiniry, a Washington, DC, marketing director, gave his Saab away to charity when he signed

Easy riding

Bio-Beetle (www.bio-beetle.com) is in Los Angeles and Maui, HI only. Cars run on vegetable oil.

EV Rentals (www.evrental.com) is in Las Vegas, Oakland, Phoenix, San Diego, San Francisco, San Jose and Santa Ana.

Flexcar (www.flexcar.com) is in Atlanta, Chicago, Gainesville, Portland, OR, San Francisco, San Diego, Seattle and Washington, DC.

Zipcar (www.zipcar.com) is in Ann Arbor, Boston, Chapel Hill, Chicago, Minneapolis, New York City, San Francisco, Toronto and Washington, DC.



Caterina Bernardi/Getty Images

Car sharing offers the convenience of ownership at half the expense.

up with a car sharing service. "Now I have the luxury of using a car without the headache of owning one," he says. Kiniry uses a share car on the weekends for groceries and errands. "It's fantastic. And I'm contributing to a better environment."

Car sharing services own fleets of vehicles, from pickup trucks to hybrids. For a monthly fee and with the aid of sophisticated reservation systems, subscribers can get the keys to these strategically located vehicles when they need them. The concept, which first gained popularity in Europe in the 1980s, is now firmly established and has spread to more than 600 cities worldwide.

More than a dozen car sharing services are operating in the United States. Two, Zipcar and Flexcar, have built large national followings with branches in major cities and on many college campuses. Zipcar, founded in 1999, now has more than 80,000 drivers signed

up in 13 states. Flexcar, also founded in 1999, operates in seven metropolitan areas and says it has signed up tens of thousands of individual members and 600 companies and public agencies.

Is car sharing for you? If you're a college student or live in a city with high parking fees and other hassles, it's a great option. Here are some major advantages:

- **Save money.** Zipcar says that owning a typical mid-sized car will cost \$839 a month, compared with \$301 a month for one of its frequent car-sharing users. The average Flexcar member will save \$436 a month, or \$5,232 a year, according to the company.

- **Help the planet.** Driving only the right size vehicle for each trip cuts down on air pollution. Flexcar says its cars and trucks average 30 mpg, and many are

Guest columnist Jim Motavalli is editor of E/The Environmental Magazine (for subscription information: 800-967-6572 or emagazine.com). Opinions are the author's and not those of Environmental Defense staff.

hybrids or Partial-Zero Emission Vehicles (PZEVs).

- **Enjoy the convenience.** Cars are parked in strategic locations around cities and towns to be within easy walking distance away from most customers.

Meanwhile, traditional car-for-rent services are also adapting to the new breed of customer. New York City-based OZOcar, for instance, offers a luxury-oriented private car service with all hybrid vehicles. Last fall Hertz launched its “Green Collection” of more than 35,000 roomy cars with highway ratings of at least 28 miles per gallon, and other rental companies have fuel-efficient cars as well.

By Jim Motavalli

New tax-free gifts from your IRA

If you are 70 or older, new legislation allows you to make charitable gifts totaling up to \$100,000 from your traditional or Roth IRA without incurring income tax on the withdrawal. This is good news for you if you have wanted to use your IRA to benefit your favorite charitable organization during your lifetime but have been discouraged from doing so because of the income tax penalty.



Zia Saleh/Getty Images

In addition, this tax-free withdrawal will count towards satisfying your annual IRA distribution requirements. This opportunity is only available until December 31, 2007, so act now to make the most of your charitable gift to Environmental Defense. Please contact us at 1-877-677-7397, email ospreys@environmentaldefense.org, or write us at Environmental Defense, 257 Park Avenue South, New York, NY 10010.

IN BRIEF

New law protects oceans by introducing a market approach

President Bush took a powerful step toward protecting dwindling ocean fisheries in January when he signed the Magnuson-Stevens Fishery Conservation and Management Reauthorization Act, the most sweeping fishery legislation in a decade.

Environmental Defense helped shape the new law which for the first time requires that catch limits, or caps, be set for all fisheries. It also encourages the use of tradable “catch shares,” an innovative, market-based program that was pioneered in Alaska to revive halibut stocks.

Such a “cap and trade” program limits the number of fish that can be harvested each year and assigns fishermen individual shares of that total. As fish stocks recover, the shares—which can be bought and sold—increase in value, thus giving fishermen a financial stake in conservation.

Environmental Defense is working around the country to implement catch shares. We won a critical victory in January when a new program we developed for the red snapper took effect in the Gulf of Mexico.

Fewer bad air days

Millions of Americans with respiratory problems can breathe easier, thanks to a recent decision by the U.S. Court of Appeals. In response to a lawsuit by Environmental Defense and our allies, the court unanimously ruled that EPA violated the Clean Air Act when it adopted weak national rules on



Jim West

Smog plagues even rural areas in America.

ozone smog in 2004. In the 1990s, we urged EPA to update air standards for public health. We then kept pressing to ensure that EPA identified areas around the country that were out of compliance. In 2004, however, EPA issued lax pollution control requirements for areas in violation. We teamed up with Earthjustice to strengthen clean-air protections.

“As a doctor, I know that enforcing this provision of the Clean Air Act will save lives and prevent suffering by protecting children and seniors from ozone-triggered illnesses,” said our Health program director Dr. John Balbus.

Despite this victory, the battle for clean air isn’t won: We filed suit against EPA again in December for ignoring the advice of its own scientific advisory panel and failing to tighten limits on unhealthy particulates.

Safe Harbor offers hope for world's smallest rabbit

The Columbia Basin pygmy rabbit, which exists only in Washington State, fits into the palm of one's hand. With a brown body, white-margined ears and alert dark eyes, the tiny creature has endured for thousands of years, but now it is threatened with extinction.

Unlike many other rabbit species, the pygmy rabbit digs its own burrows in deep, loose soil and depends on sagebrush for food and habitat. Sagebrush in Washington has been reduced greatly by the spread of farming.

When the Washington Department of Fish and Game set out to restore pygmy rabbit habitat last year, they chose the Environmental Defense Safe Harbor program to enlist private landowners. "Without private lands, there is almost nowhere for this rabbit to survive," says our wildlife specialist Tim Male.

Our Safe Harbor approach lets owners restore habitat without risking new federal restrictions on their land. Environmental Defense launched Safe Harbor in 1995. The first Safe Harbor agreements took years of struggle to finalize, but the approach has gained popularity nationwide as conservation groups and the federal government recognize its power.

Nearly four million acres are currently enrolled in Safe Harbor, assisting more than 50 rare species.



Oregon Zoo

A tiny rabbit with big problems

Dead end for 'Hurricane Highway'

CANAL THAT FUNNELED KATRINA'S STORM SURGE INTO NEW ORLEANS IS SLATED FOR CLOSURE

In a rare move, the U.S. Army Corps of Engineers has volunteered to undo one of its own engineering projects, a \$12-million-a-year boondoggle called the Mississippi River Gulf Outlet. The little-used shipping channel, known locally as "Mr. Go," sent Hurricane Katrina's flood waters coursing into the heart of New Orleans.

The decision is a major victory for Environmental Defense and our allies in Louisiana who have sought to close this "Hurricane Highway." In December, we released a blueprint for plugging up Mr. Go and restoring the 922 square miles of wetlands and cypress forests devastated by the channel. Our scientific modeling showed how this natural buffer once provided critical protection for New Orleans. The buffer's absence increased the velocity of Katrina's storm surge, overwhelming levees.

"The cost of closing the channel and rebuilding wetlands pales in comparison to the risk that New Orleans faces if Mr. Go remains open," notes our coastal Louisiana project manager



Longer than the Panama Canal, Mr. Go is used by only a handful of ships each year.

Paul Harrison.

After Katrina, Congress directed the Corps to develop a plan to close the channel to large ships, and possibly entirely. The Corps concluded the channel should be closed for economic reasons. Built in the 1960s as a 76-mile shortcut from the Gulf of Mexico, Mr. Go was supposed to bring commerce to the New Orleans inner harbor, but only a handful of ships used the channel each year. The Corps report includes many of our recommendations for closing the channel and healing the coast, but puts off any action until after 2007. "New Orleans can't wait that long while this deadly channel remains open," says Harrison. "It's time for Mr. Go to go."



Mario Tama/Getty Images

New Orleans will rise again, but its coastal wetland defenses must be restored.