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Energy and Climate Report

Afternoon Briefing - Your Preview of Today's News

The following news provides a snapshot of what Bloomberg BNA is working on today. Read the full version of all the stories in the final issue, published each night.

Trump's UN Diplomat Pledges No Interference in Climate Study

Posted August 08, 2017, 03:15 P.M. ET

By Dean Scott

The Trump administration won't interfere in a broad [climate study](#) focusing on how rising sea level, increasing temperatures, and other climate impacts are already affecting the U.S., the president's United Nations ambassador pledged today.

"I haven't seen the report, but I don't see any reason why they wouldn't" back the study, Nikki Haley, U.S. Ambassador to the U.N., said on NBC's "[Today](#)" show. Haley pushed back against reports suggesting scientists are worried Trump will torpedo the draft report—known as the Fourth National Climate Assessment and slated for completion in late 2018—given Trump's June withdrawal from the Paris climate pact.

"First of all ... just because we pulled out of the Paris accord doesn't mean we don't believe in climate protection," Haley said.

The report, compiled by the U.S. Global Change Research Program, is required under a 1990 law to be provided to Congress. One draft portion of the report, known as the climate science special report, said even "stronger evidence" has emerged of "continuing, rapid, human-caused warming of the global atmosphere and ocean" since the last report in 2014.

Tax Breaks Powered Wind Energy Growth in 2016

Posted August 08, 2017, 02:06 P.M. ET

By Rebecca Kern

Wind energy installations in the U.S. continued to grow in 2016 thanks in part to the production tax credit that went into effect in late 2015, the Energy Department said in reports out today.

"A combination of federal subsidies, state mandates, and technological advancements continue to help drive new wind capacity additions," Daniel Simmons, acting assistant secretary at the Energy Department's Office of Energy Efficiency and Renewable Energy, said in a Aug. 8 statement.

The Energy Department's 2016 Wind Technologies Market [Report](#) found the U.S. wind industry added 8,203 megawatts of new wind power capacity, or 27 percent of total capacity additions, in 2016.

This continues the growth of new installations that included 8,598 megawatts of new wind capacity in 2015, which made up even more of total U.S. capacity additions—40 percent—in that year.

Congress passed the production tax credit in December 2015, encouraging new wind installation through phased-down tax credits that last until 2019. The tax credits have helped spur new wind installations, with 102,000 wind energy jobs in 2016, up 32 percent from 2015, according to the report.

The report notes, however, that forecasts from 2021-2025 show a downturn in expected new wind energy capacity installations as the production tax credit phases out.

The Energy Department also released [offshore wind](#) and [distributed wind](#) market reports documenting growth in these areas as well.

Keystone XL's Path Up for Grabs as Nebraska Commission Weighs In

Posted August 08, 2017, 11:40 A.M. ET

By [Andrew Harris](#)

The future of TransCanada Corp.'s Keystone XL pipeline could hinge on whether a Nebraska commission believes the project is in the public's interest or is a private land grab as property owners claim.

More than 90 percent of TransCanada's preferred 270-mile route through the state would cut across privately owned land, as would an alternate route, company project manager Paul Fuhrer testified Aug. 7 during the first day of a hearing in Lincoln, Neb.

To gain approval for one of its [proposed paths](#), Keystone lawyers will need to convince the Public Service Commission—made up of four Republicans and one Democrat—and overcome vehement opposition from dozens of landowners, environmental conservation groups, and Native American tribes.

The elected commission, created under the state's constitution, began hearing testimony in what is scheduled to be a week-long hearing. Much of the Aug. 7 hearing was dominated by testimony from company executives on the pipeline's maintenance details, including responsibility for cleanup, restoration, and removal once the conduit reaches its life expectancy.

A ruling from the panel is due no later than Nov. 23. Whether the pipeline gets built, however, may ultimately rest upon what the state's seven-member Supreme Court decides, as the loser is likely to appeal.

"The pipeline is not in the public interest," activist Jane Kleeb, president of the environmental advocacy group [Bold Alliance](#) who was elected last year as the state's Democratic Party chair, said in an interview prior to the Aug. 7 hearing. "This will be a private, foreign corporation that would be using eminent domain for private gain."

\$8 Billion Project

Keystone XL has been in the planning stages for nearly 10 years. The conduit would carry heavy crude from Canada's oil sands region in Alberta to a terminal more than 1,100 miles away in Steele City, Neb., where it would connect with an already existing network leading to Gulf Coast refineries.

Labor unions are backing the \$8 billion project for its promise of jobs.

TransCanada and President Donald Trump have promoted the project as one that will provide employment and boost the state's economy. Nebraska will benefit from as many as 4,500 jobs during the two-year construction period, and \$12 million in property tax revenues, according to the Calgary-based company.

Environmental groups sued over its original path through the state because it would have traversed Nebraska's environmentally sensitive Sand Hills region. That route was soon abandoned for one charted by the state's now-former governor, Dave Heineman, and TransCanada, provoking lawsuits contending only the commission could approve its path.

While the pipeline company ultimately agreed to apply to the Public Service Commission, the Obama administration rejected TransCanada's request for permission to cross the U.S.-Canada border, effectively killing the project until Trump revived it earlier this year.

Despite the delays, during which crude oil prices have tumbled, TransCanada maintains that the pipeline still has commercial support.

Eminent Domain

Some landowners who fought the previous pipeline battle have returned for this one. The commission allowed 94 landowners to intervene in the hearing without limitations, ruling in March that they "have real property interests that will be directly impacted" by the pipeline's route.

Kleeb, alongside groups such as the Sierra Club and 350.org, have been working with landowners, highlighting the issue of eminent domain. They argue that it's unnecessary and unfair to take private property for the pipeline using eminent domain, particularly given certain liability provisions the company is putting into landowner easements. TransCanada says 91 percent of landowners in the state have agreed to allow the project on their land.

David Domina, a lawyer for landowners, questioned TransCanada executive Tony Palmer during Monday's hearing about the pipeline's complex corporate ownership structure. Palmer said he's the president of an intermediate entity called TransCanada Keystone General Partner LLC, which holds less than 1 percent of the company seeking the permit. Domina also questioned Palmer on who bears responsibility for maintenance or removal should the conduit become obsolete.

TransCanada still hasn't made a final decision on whether to push ahead with the Keystone XL project. Domina asked Palmer whether that meant the company would use the commission's ruling to "make better investment decisions?"

"No sir," Palmer replied. Asked if selling the route was an option if the commission approves the application but TransCanada scraps the project, he said, "I don't think that I could fulsomely respond with a yes or no answer."

—With assistance from Meenal Vamburkar and Kevin Orland.

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Warren Buffett Likes Solar, But Not the Price Tag

Posted August 08, 2017, 9:23 A.M. ET

By [Brian Eckhouse](#) and [Noah Buhayar](#)

Warren Buffett has called global warming a “[major problem](#)” and put his company’s money where his mouth is, spending billions to develop solar and wind power, yet he’s no hero to some renewable energy proponents.

Their beef: They say the utility arm of Berkshire Hathaway Inc., his conglomerate, has been trying to undermine an almost 40-year-old law intended in part to promote the growth of cleaner energy. Berkshire, they say, is effectively stifling solar projects to protect utilities it owns, such as PacifiCorp, based in Portland, Ore.

“I’m sympathetic to reasons that the law is difficult for utilities, but PacifiCorp speaks out of both sides of its mouth,” says David Brown, co-founder of solar developer Obsidian Renewables LLC in Lake Oswego, Ore.

Berkshire Hathaway Energy says it’s not so simple. The company, which owns several utilities using conventional and renewable power sources, is the second-largest owner of clean-energy assets in the U.S. But along with other utilities, it argues that the law is outdated, often raises costs for its customers, and forces utilities to buy more electricity than needed.

The law is called the Public Utility Regulatory Policies Act, or PURPA. Congress enacted it after the 1970s OPEC oil embargo to draw new players into the utility-dominated business of generating power. It required some utilities to buy power from certain power providers if doing so was less expensive than building new plants themselves. The idea was to boost the then-emerging natural gas industry—and perhaps spur renewables including solar.

Prices Locked In

The act worked—too well, from the standpoint of the utilities. As solar panel prices plunged in recent years, developers deluged utilities with projects to sell them power. Utilities complain the law is producing a surplus of power. Moreover, utilities say the contracts with developers, whose terms are generally set by state utilities regulators, often lock them in for years at high prices that don’t necessarily reflect the current market.

“Why should our customers be saddled with billions and billions of dollars of above-market prices?” asks Kathy Steckelberg, vice president for government relations at the Edison Electric Institute, which represents U.S. investor-owned electric companies.

“The fact that renewables are increasing in our market we don’t see as a problem,” Steckelberg says. Utilities would rather build or buy solar and wind farms themselves so they can pass on the development cost to ratepayers, rather than pay outsiders for the power. Yet under PURPA, they often can’t refuse an eligible deal.

Solar developers have proposed plans to generate about 3.5 gigawatts of power in Berkshire Hathaway's territories, the second most among regulated utilities in the U.S., according to Bloomberg New Energy Finance.

A spokeswoman for Berkshire's utilities unit wrote in a statement that PURPA "is no longer the key driver for renewable energy development." She cited rising corporate demand for renewables, falling costs, and government initiatives, such as state and federal tax incentives.

Utility Seeks Price Cut

In Wyoming, the company's Rocky Mountain Power, a division of PacifiCorp, is seeking a 40 percent cut to what it must pay small PURPA-eligible projects. PacifiCorp, which serves 1.8 million customers throughout the western U.S., has estimated the long-term contracts will cost consumers \$1.1 billion above market prices in the 10 years through 2025.

In Oregon, PacifiCorp asked regulators to reduce the size of any renewable deal it's forced to take, as well as the length of the contract during which it must buy power. The utility won a partial victory last year: Regulators said certain facilities of up to 3 megawatts would qualify, down from a threshold of 10 megawatts, but left the required contract term at 20 years.

"There's no project that I can imagine that I would do for PacifiCorp," says Brown, whose Obsidian has developed multiple solar farms that provide power to the utility. "The prices are too low, and they say they don't have any interest or need for renewable energy."

States including Idaho and Montana have sided with the utilities by reducing the length of power-purchase contracts. In Idaho's case, the term went to 2 years from 20, according to EnerKnol, a research firm. Contracts of such short duration make it almost impossible to get financing for new projects, solar developers say.

Long-term contracts are important for renewable providers because lenders prefer companies that can project a steady cash flow for many years.

"You cannot raise capital against a two-year contract," says Matthew McGovern, chief executive officer of Santa Monica, Calif.-based Cypress Creek Renewables LLC, one of the most active PURPA developers. "Utilities are now saying, 'Well, why not?' They know the answer."

Utilities may have a friend in President Donald Trump, who's said [climate change is a hoax](#) and who's keen to tip the scale from renewables to coal and other fossil fuels. Trump is in a position to reshape the Federal Energy Regulatory Commission, an agency with some authority over PURPA.

Then there's Congress, where some members are eager to strip away much of PURPA. Berkshire Hathaway Energy has proposed [altering the law](#) by, among other things, making it so utilities wouldn't be obligated to buy power from PURPA projects when states determine the extra electricity isn't needed. Its Rocky Mountain Power unit recently announced a plan to invest an additional \$3.5 billion in wind generation and transmission lines to bring the energy to customers.

Solar companies are resisting the changes. Many utilities are saying, "'we need to take this back,'" says Adam Foodman, chief operating officer of solar developer O2 Energies Inc. "But that's not in the interest of the public."

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Gas Sellers Sidestep China State Giants to Ride Demand Surge

Posted August 08, 2017, 10:08 A.M. ET

By [Bloomberg News](#)

China's independent energy firms are seeking to circumvent its state-backed giants as they cash in on swelling natural gas use, buoyed by President Xi Jinping's drive for cleaner fuels and nimbler companies.

New import facilities developed by firms including Guanghai Energy Co. and ENN Group offer direct access to cheap liquefied natural gas and cut their reliance on supply and infrastructure controlled by the country's national oil companies. That may help new players tap China's booming gas demand, up 15 percent in the first half of the year.

"The key thing about having your own terminal is that you can take advantage of potentially lower pricing in the market," said Neil Beveridge, an analyst at Sanford C. Bernstein & Co. in Hong Kong. "Also, it's very difficult to get supply through the infrastructure of the Chinese oil majors because the access rules and regulations are not terribly transparent and not terribly well enforced."

Smaller gas distributors and importers have found an opening as Xi's government seeks alternatives to coal and encourages private competition in the energy sector. They're poised to follow a similar trend in the oil industry, where independent refiners known as "teapots" have been allowed greater freedom to import crude, helping push China ahead of the U.S. this year as the world's biggest importer.

Guanghai Energy last month received the second LNG cargo at its Qidong terminal, about 100 kilometers (62 miles) north of Shanghai. At least three more terminals are under construction or proposed including a port by ENN Group that's scheduled to start next year. Guangzhou Development Group Inc. has proposed a new import terminal, as has China Huadian Corp., one of the nation's biggest power generators, according to Bloomberg New Energy Finance.

New private ports enhance the bargaining power for distributors, which will lower downstream sales prices and boost China's consumption, ENN Energy Holdings Ltd., the listed unit of ENN Group, said in an emailed response to questions. It declined to comment specifically on the Zhoushan LNG terminal owned by its parent, which didn't respond to a separate request for comment.

Xinjiang-based Guanghai, which was one of the first non-state companies to receive a license to import crude, plans to allow third parties to deliver and store LNG at the Qidong site, chief engineer Xue Wenting said last month. The terminal's annual capacity will be expanded to 3 million metric tons by 2019 from 650,000 tons now, he said.

Jovo Energy Co., which was the first private Chinese company to begin importing LNG, began operating its Dongguan facility in Guangdong in 2012. The company also stores and sells liquefied petroleum gas and has an oil and chemicals business, according to its [website](#).

China, which is forecast to more than double LNG purchases by 2022, has more than a dozen import terminals owned by its three state energy giants, which buy most of their cargoes on long-term contracts. But given the current global gas glut, new buyers can pick up cheaper shipments on the spot market, where analysts at SCI International estimate costs are about 50 percent less than average rates under the country's existing term contracts.

“Those companies can get cheaper LNG prices from the spot market on a more flexible basis and they can meet demand from their widespread distribution networks,” said Maggie Kuang, an analyst with BNEF in Singapore.

China’s LNG demand will expand by 5 million to 6 million tons annually over the next few years and private investors may account for about 20 percent of that growth, according to Michal Meidan, an analyst with Energy Aspects Ltd. in London. Bernstein’s Beveridge estimates that share to be less than 10 percent of the 60 million tons of LNG he forecasts the country will be importing annually by the end of the decade.

China’s national oil companies account for about 92 percent of the country’s long-term contracts and “still firmly dominate the LNG import market,” said BNEF analyst Nannan Kou. While Guanghai Energy has been buying spot LNG, it’s seeking to sign long-term contracts with suppliers, including Malaysia’s Petroliaam Nasional Bhd, chief engineer Xue said.

The Chinese government is encouraging private capital to help construct LNG receiving facilities and pipelines, according to guidelines published last month by the country’s National Development and Reform Commission. China’s top economic planner also said LNG import capacity and natural gas pipeline length will more than double in the 10 years to 2025.

Opening Up

“This is part of the government’s efforts to open up the sector to non-state actors and increase efficiencies through greater competition,” said Meidan at Energy Aspects.

China National Offshore Oil Corp. and China National Petroleum Corp., the country’s first and second-largest LNG importers, didn’t respond to calls seeking comment. A spokesman for China Petrochemical Corp., known as Sinopec Group, said Monday he couldn’t immediately respond to questions.

LNG imports in June hit the highest on record for that month, in line with the country’s booming demand, offering a boost for gas distributors. China Gas Holdings Ltd. has gained 85 percent this year while ENN Energy has climbed 69 percent. That compares with a 27 percent gain for the benchmark Hong Kong Hang Seng Index.

The Chinese government has set a goal of getting as much as 10 percent of its energy from gas by 2020 and 15 percent by 2030, up from 6 percent in 2015. To meet these goals, demand will grow by an average of 15 percent annually between 2016 and 2020, according to Macquarie Group Ltd.

Enough Supply?

The country’s natural gas production, which is dominated by CNPC and Sinopec Group, rose 8 percent in the first half of 2017 compared to the same period a year ago. Meanwhile, imports have jumped 21 percent in the first seven months of the year, according to data released Tuesday.

Fast-growing supply may be needed, as Sinopec Group has already flagged a possible “big” increase in gas demand this coming winter compared to last year, particularly in the country’s north, Shanghai Securities News reported Tuesday, citing a company meeting.

Even after independent gas distributors build LNG facilities, they’re often still reliant on pipeline

networks operated by the state-backed giants, according to Bernstein's Beveridge.

"It's still all about access with the majors" for an independent distributor, he said. "There are still more regulatory rules that are needed, so these companies are very much pioneers."

—With assistance from Dan Murtaugh, Aibing Guo and Adrian Leung.

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China Importing Less Coal Amid New Import Rules

Posted August 08, 2017, 8:38 A.M. ET

By [Bloomberg News](#)

China's coal imports in July declined to the lowest in more than a year as a new import rule may have delayed some shipments.

Imports by the world's largest energy user dropped 13 percent from the previous month to the equivalent of 627,742 metric tons a day, according to Bloomberg calculations based on data from the General Administration of Customs on Aug. 8. That's the least since May 2016.

The nation started to ban coal shipments from July 1 at ports that were set up through approvals by provincial authorities. Some imports have been diverted to enter China through ports approved under the authority of the State Council, which may have created delays, according to Deng Shun, an analyst with GF Futures Co.

"Coal demand was very robust last month, but the shipment volumes reported by customs could have been affected by the new import rule," Deng said before the data were released.

On a monthly basis, China's coal imports were 19.46 million tons in July, according to the data released Aug. 8. They totaled 152.71 million tons during the first seven months of the year, up 18 percent from the same period a year earlier.

Imports also declined as China's coal production rose in June to the highest since November 2015 after the government lifted restrictions on output to boost supplies amid higher demand.

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Egypt Moves to End State Monopoly of Natural Gas Market

Posted August 08, 2017, 8:52 A.M. ET

By [Salma El Wardany](#), [Mirette Magdy](#) and [Tamim Elyan](#)

Egypt is opening the door to private participation in its natural gas sector, moving to end the state's monopoly as it pushes ahead with reforms meant to encourage investment and revive the economy.

A new law signed by President Abdel-Fattah El-Sisi sets up a natural gas regulatory authority charged with licensing and devising a plan to open the gas market to competition. It also allows for the eventual import of natural gas by private companies, a move that could help end supply

shortages that have hampered businesses.

The measure, which had been more than two years in the making, is the government's latest push to spur investment in an economy that has struggled to revive since the 2011 uprising against President Hosni Mubarak. Over the past year, authorities have instituted sweeping reforms, backed by the International Monetary Fund, that have included floating the currency, sharp subsidy cuts and enacting legislation aimed at drawing in sorely needed foreign money.

The new legislation also advances Egypt's objective to achieve energy self-sufficiency by 2019, largely through eventual output from the giant Zohr natural gas field.

The law would allow the private sector to directly ship, transport, store, market and trade natural gas using the pipeline and network infrastructure. Its executive regulations are to be issued within six months of the legislation's enactment, according to the Official Gazette.

"This law effectively relieves the government from the burden of providing for the rapidly growing natural-gas consumption and turns it into a regulator," said Radwa El-Swaify, head of research at Cairo-based Pharos Holding. "It's all part of the same direction of having freer markets in Egypt."

In July, the government said it will stop subsidizing bread flour and raised household electricity prices by as much as 42 percent, just a week after it increased fuel prices.

The move to liberalize the gas market will bring in greater transparency and flexibility, said Haitham Abdul Moneim, investor relations manager at Egypt Kuwait Holding, which partially owns and manages fertilizer producer AlexFert. "This will give us more options for sources of gas and maybe better prices," he said.

—With assistance from Tarek El-Tablawy, Ahmed Feteha and Tamim Elyan.

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