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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.

Federal Ruling Could Block Coal, Oil and Gas Projects Across U.S.

Posted August 16, 2017, 03:37 P.M. ET

By [Stephen Lee](#)

Environmentalists say a recent district court decision stopping the expansion of a Montana coal mine provides a blueprint for them to block other coal, oil, and gas projects across the country.

“The decision has national significance, and it can and will be applied in other cases that we are bringing to challenge the federal government’s analysis of coal development, oil and gas development, and other fossil fuel projects,” Laura King, staff attorney at the Western Environmental Law Center, told Bloomberg BNA.

Especially vulnerable could be two Bureau of Land Management decisions. A 2015 decision made more than 80 billion tons of coal and nearly 10 million acres of land available for federal oil and gas leasing in Wyoming’s Power River Basin. Another decision approved 147,000 acres for oil and gas leasing in Colorado, King said.

The U.S. District Court for the District of Montana found Aug. 14 that the Office of Surface Mining Reclamation and Enforcement (OSMRE) didn’t consider the social cost of Signal Peak Energy’s proposed expansion of Bull Mountain Mine in Montana ([Mont. Env’tl. Info. Ctr. v. U.S. Office of Surface Mining](#), 2017 BL 283856, D. Mont., No. CV 15-106-M-DWM, 8/14/17).

The court ruled OSMRE violated the National Environmental Policy Act by focusing on the benefits of the mine plan while minimizing the environmental and social impacts of trains transporting coal to ports in Canada and on the Great Lakes, as well as the air pollution emissions of coal combustion.

Strategy’s Potential

Hayden Baker, an attorney with Sullivan & Worcester LLP, told Bloomberg BNA that the decision “really shows how courts—and, by extension, non-governmental organizations and states—can continue to use the other mechanisms at their disposal to slow down infrastructure in mining.”

But Baker also cautioned that one impediment to environmentalists using the strategy again is that each case is different and highly contingent on specific sets of facts.

“What’s more important is that they scored a win here and will therefore push their strategy further,” he said. “Any case will be dependent on how good a job the agency or proponent did in justifying their National Environmental Policy Act Review. So yes, while opponents will push forward with this strategy, it’s hard to gauge the precedential value this has because it’s always so fact-specific.”

Signal Peak Responds

Mike Dawson, a spokesman for Signal Peak Energy, told Bloomberg BNA that the company will be “evaluating all of our options” in the coming weeks and months. For now, the mine remains open, and no workers have been laid off, Dawson said.

“Depending on a number of factors, this court decision could affect some operations in the future,” Dawson said.

Luke Popovich, a spokesman for the National Mining Association, told Bloomberg BNA that, “aside from the absence of any legal obligation to consider these wider costs, there is no actionable, reliable value in doing so.”

China Coal Capacity Cuts Parallel Nudge Toward Gas Production

Posted August 16, 2017, 11:10 A.M. ET

By [Michael Standaert](#)

China is more than halfway to its goal of cutting 800 million metric tons of coal production capacity by the end of 2020, signaling to investors the government isn’t projecting coal production to grow much more.

The National Energy Administration announced Aug. 14 that it cut 111 million metric tons in the first six months of 2017, following a cut of 290 million metric tons in 2016.

While most of the cuts have targeted operations with lower quality coal, and “zombie firms” that operated with minimal actual production, the efforts could mean reducing coal consumption and air pollution in the long term, and have beneficial climate impacts as funding moves toward utilizing coal-bed methane and shale gas.

“[The cuts] may not have visible [short-term] impact to reduce air pollution in urban centers, where coal consumption rather than production is the main culprit,” Ranping Song, climate policy associate at the World Resources Institute in Washington, told Bloomberg BNA Aug. 16.

“However, closing mines send signals that the government does not project coal production to grow significantly and [that] the energy transition is already underway,” Song said. “It encourages workers and investors to move on from coal.”

The NEA aims to cap the coal-fired power supply at 1.1 billion kilowatts by the end of 2020, and seeks to cut or slow some 150 million kilowatts of planned coal-fired capacity to meet those goals, according to an Aug. 2 [notice](#).

NEA officials said in late July that total coal consumption increased by about 1 percent in the first half of 2017 over the same period in 2016, but that coal power as a proportion of the energy mix dropped 0.6 percent in that period, reflecting increased use of natural gas and renewable energy.

Transforming the Coal Industry

Nudging the coal industry toward coal-bed methane and shale gas in areas within the Sichuan basin of central and southwest China goes hand-in-hand with efforts to reduce coal production capacity and cap coal-fire power.

In Guizhou province in the southwestern part of the country, the provincial government will provide 1 billion yuan per year (\$787 million) in subsidies for coal companies to reduce production capacity and adopt more coal-bed methane and other upgrades.

Shanxi province is also in the process of auctioning coal-bed methane mining rights as part of a pilot program which is expected to start this year, state-run media reported Aug. 14.

China's Ministry of Land and Resources announced on Aug. 15 that in 2016, shale gas production reached 7.88 billion cubic meters while coal-bed methane reached 4.5 billion cubic meters.

The U.S. Energy Information Administration projects that around 40 percent of China's natural gas production will come from shale gas by 2040, making it second only to the US in shale-gas production.

Potential Climate Benefits

Capturing coal-bed methane before it leaks into the atmosphere from old coal mines could significantly reduce some of China's greenhouse gas emissions, according to Song.

Leaking methane from coal mining in China was estimated at around 300 megatons of carbon dioxide equivalent, or about 18 percent of annual non-carbon emissions, according to 2010 data.

"Capturing coal-bed methane, especially from coal mining activities, would have significant climate benefits," Song said adding that research suggests that if China meets 13th Five-Year Plan (2016-2020) targets for coal-bed methane exploitation, coal mining-related methane emissions could drop to about 173 megatons of carbon dioxide equivalent by the end of 2020.

"These are efforts to modernize the energy industry as well as move to less polluting fuels," Song said.

Still, there is insufficient data at the moment to determine the amount of leakage occurring during coal-bed methane and shale gas production operations in China, Song cautioned.

Climate Bonds Pioneered by Goldman Lure Storm-Plagued Cities

Posted August 16, 2017, 10:20 A.M. ET

By Christopher Flavelle

As climate change pushes U.S. cities to build protections against stronger storms and more frequent floods, the Rockefeller Foundation is helping cities with a novel kind of financing, one that transfers some of the risk of innovative projects from cities to investors.

The foundation, established with John D. Rockefeller's oil wealth, announced today it will pay

\$342,000 to underwrite the costs for two municipalities in issuing environmental impact bonds, pioneered by The Goldman Sachs Group Inc. and Washington, D.C. More than a dozen cities have expressed interest in the bonds, which link an investor bonus or penalty to how well the underlying project works.

“You take the risk off the project not working” for city officials, said Saadia Madsbjerg, who leads the Rockefeller Foundation’s work on financial innovation. “There are many, many municipalities that have the exact same problem that D.C. has.”

The goal is to give local governments room to experiment with ways of protecting their residents against the impacts of climate change by providing a sort of insurance policy against failure of the micro-grids, flood walls or other untested projects. For investors, there’s a upside, too: If the project works better than expected, they get a bonus payment.

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U.S. Offshore Lease Sale Draws \$121 Million in High Bids

Posted August 16, 2017, 02:29 P.M. ET

By Catherine Traywick (Bloomberg)

A U.S. auction of offshore oil and gas leases in the Gulf of Mexico drew \$121 million in high bids from 27 companies Aug. 16. The top bidders were Royal Dutch Shell Plc, Chevron Corp., Exxon Mobil Corp., Total S.A., and Anadarko Petroleum Corp. The sale drew 99 bids on 90 tracts. The last Gulf of Mexico lease sale, in March, drew \$275 million in high bids on 163 tracts.

Oil companies have reduced their capital spending over the last two years amid a prolonged market slump, a factor alluded to by Randall Luthi, president of the National Ocean Industries Association, in a statement issued after the sale.

“While the results of today’s Gulf of Mexico oil and gas lease sale reflect market realities, they also demonstrate the offshore oil and gas industry’s commitment to the U.S. Gulf of Mexico, even with extended low commodity prices and lingering regulatory dysfunction,” Luthi said.

The sale was the first of 10 scheduled under Bureau of Ocean Energy Management’s current five-year leasing program, which runs from mid-2017 to mid-2022.

—With assistance from Alan Kovski (Bloomberg BNA)

Trump Push for Natural Gas Exports Opposed by Manufacturers

Posted August 16, 2017, 11:22 A.M. ET

By Ari Natter

President Donald Trump’s effort to boost U.S. energy is facing push back from manufacturers who say exporting more natural gas may undercut his “America First” jobs focus.

The Industrial Energy Consumers of America asked the administration Aug. 16 for a moratorium on U.S. approvals for liquefied natural gas projects. The trade association, which represents U.S.

manufacturers that depend on cheap energy to fuel their factories, sent a [letter](#) to Energy Secretary Rick Perry Aug. 16.

It's "inconsistent with President Trump's fair trade and America-first policy," Paul N. Cicio, the group's president, said in a phone interview. "It's a stunningly breathtaking amount of natural gas that could be exported."

The dispute between oil and gas companies and manufacturers is but one among business groups over Trump's agenda. Oil companies oppose Trump's idea to require that pipelines be made in the U.S.; agriculture producers oppose some of his trade policies; and refiners have pushed the White House to drop consideration of sanctions on Venezuelan oil imports.

In its letter, the energy consumers group says that exports could drain as much as two-thirds of U.S. natural gas resources by 2050. The group doesn't disclose its members, but its 2015 tax filing says it represented The Dow Chemical Co., Corning Inc. and other factory owners. The chief executives of both companies, Andrew Liveris for Dow and Wendell Weeks for Corning, are members of the president's manufacturing council.

Neither Dow nor Corning responded to requests for comment.

More Approvals

"We remain alarmed at the volume of LNG exports that have been approved for periods of 20-30 years," the group says in its letter. "Of greatest concern, is that the administration has said publicly that it will approve more applications to export" to countries that don't have a free-trade agreement with the U.S.

The dispute shows how Trump's formulation of American energy dominance could have a downside for other U.S. companies, said Kevin Book, managing director of Washington-based ClearView Energy Partners LLC.

"The question isn't about the next five years, it's about the next 20 years," Book said in an interview. "For anyone who is making an industrial investment in the U.S. these days is thinking very much in that time frame."

U.S. natural gas futures have risen since the first cargo of liquefied shale gas left Louisiana's shores last year—and more of the fuel is slated to set sail this year as Cheniere Energy Inc. starts up another LNG plant at its Sabine Pass terminal.

Meanwhile, the natural gas industry rejects the idea the U.S. doesn't have enough natural gas supplies to do it all.

"It advances our national security interests by providing allies access to diverse sources of energy, improves the global environment and contributes to correcting the U.S. trade deficit," said Charlie Riedl, executive director for the Center for LNG, which represents companies such as Golden Pass LNG, a Texas export terminal being developed by a joint venture of Qatar Petroleum, ExxonMobil Corp. and ConocoPhillips. "The U.S. has a limited window to take advantage of new demand."

The number of countries seeking to import U.S. liquefied natural gas has increased to 39 from 10 in 2000, according to the Washington-based trade group. ©2017 Bloomberg L.P. All rights reserved. Used with permission

Scana Needs 'Willing Partner' to Resume Nuclear Construction

Posted August 16, 2017, 12:43 P.M. ET

By [Jim Polson](#), [Robert Lavelle](#), and [Mark Chediak](#)

Scana Corp. executives said the company would need to sign new contracts to revive construction on a South Carolina nuclear power plant—and that federal tax credits would be “an important factor.”

The executives were commenting on the company’s withdrawal of a petition to abandon work at the V.C. Summer nuclear station in an Aug. 16 conference call.

Scana halted construction last month on the nuclear power plant after its price tag ballooned to more than \$20 billion. It withdrew its petition to officially abandon the project on Aug. 15, giving state officials more time to review the plan.

On the conference call, Scana CEO Kevin Marsh said the company would need to find a “willing partner” before the project could be resumed. Restarting work would take about a year, including signing new agreements with a new partner, a construction contractor and with Westinghouse for nuclear services and support, and there would also be the issue of qualifying for tax credits.

Nuclear abandonment remains the right decision, the executives said. Scana still expects to seek abandonment costs from customers but hasn’t set a deadline to revive abandonment cost request.

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Mishap Triggers Taiwan Blackout as Power Policies Questioned

Posted August 16, 2017, 9:54 A.M. ET

By Bloomberg News

A blackout caused by a blunder at Taiwan’s biggest gas-fired plant is the latest challenge to an electricity grid recently pushed to its limit and to President Tsai Ing-wen’s efforts to reshape the island’s power mix.

A combination of unusually hot weather, infrastructure damage from typhoons, and Tsai’s drive to abandon nuclear power left Taiwan barely able to supply sufficient electricity to residential and business users in the past week. That balance gave way late Aug. 15 when the Tatan power plant, which accounts for almost 9 percent of the island’s generation capacity, stopped after workers accidentally shut off its natural gas supply.

Tsai publicly apologized for the power outage that hit more than 6 million households and disrupted some semiconductor production. Electricity was restored by 10 p.m., but not before Lee Chih-kung, Tsai’s economy minister, offered his resignation. Both the operator and supplier of the plant, Taiwan Power Co. and CPC Corp., are state-run.

“The outages hurt President Tsai’s creditability,” Jeffrey Bor, economics professor at Chinese Culture University in Taipei, said by phone. “The impact on the economy is comprehensive. It’s like

sending a signal to companies to escape fast, because of the risks of electricity supply disruption.”

Shift to Gas, Renewables

While the Aug. 15 outage was caused by human error, the blackouts heightened scrutiny of Tsai’s policies, including a pledge to rid Taiwan of nuclear and cut its use of coal. The island, which plays a critical role in the world’s electronics supply chain, will rely instead under her plan on natural gas, renewables, and distributed generation, which entails multiple, smaller power sources that decrease reliance on single plants and can offer greater grid stability.

The disruption occurred when engineers replacing power supply equipment for a control system at Tatan’s metering station didn’t switch the system from automated to manual before starting the work, according to CPC Corp., which provides the plant natural gas. That resulted in two valves being automatically closed, one for about six minutes, shutting off gas supplies.

There had been multiple warnings about Taiwan’s electricity reliability before the blackouts. A week earlier, state-run utility Taiwan Power Co. issued a red alert as the operating reserve margin, the amount of maximum capacity available above peak demand on a particular day, fell to the second-lowest on record. Business associations, including the Chinese National Federation of Industries, had called for slowing the pace of closing nuclear plants.

Tsai’s apology, posted on Facebook late Aug. 15, included a reiteration of her determination to push forward phasing out nuclear in favor of renewable energy.

“The government is promoting distributed green energy to avoid the situation where an incident at a single power station can affect the power supply for the whole country,” Tsai wrote. “We will not change course. Today’s incident only makes us more determined.”

New Plants Delayed

New capacity not being delivered on schedule is compounding Taiwan’s energy woes, according to Kerry Anne Shanks, a Singapore-based analyst at Wood Mackenzie Ltd.

“Commissioning of the new gas-fired units has been delayed again and again,” Shanks said by email Aug. 16. “There are now appeals for a review of the nuclear phase-out policy. The government remains committed to a nuclear-free Taiwan by 2025, but this stance will depend on whether the power system can survive the summer.”

Taiwan has mothballed one of its four nuclear power stations, and three of the remaining six remaining reactors are shut down. Wu Tsai-yi, president at Taiwan Research Institute, said the restart of two of the shut reactors has been stalled by lawmakers. Nuclear made up 12 percent of Taiwan’s power mix last year, down from 17 percent in 2013, according to its Bureau of Energy.

Legislation passed in January set a goal of getting rid of nuclear power by 2025, as well as lowering the share of coal to 30 percent, and raising natural gas to 50 percent, with the remainder coming from renewables, according to Bloomberg New Energy Finance.

Taiwan’s three shut reactors—both units at Jinshan and the No. 2 unit at Kuosheng—have combined capacity of almost 2.26 gigawatts, according to the Atomic Energy Council. The Tatan plant accidentally shut Aug. 15 can produce 4.38 gigawatts, according to Taiwan Power Co., known as Taipower. The country’s total generation capacity is 49.9 gigawatts, according to Bureau of Energy, Ministry of Economic Affairs.

Semiconductors

The impact so far on Taiwan's technology industry has been limited. Advanced Semiconductor Engineering Inc. said production lines are operating again at two plants hit by the blackout and the company is evaluating any losses. ChipMOS Technologies Inc. said production has been restored, while Taiwan Semiconductor Manufacturing Co. said there was no impact on output, with all lines operating as normal.

Advanced Semiconductor and TSMC are both suppliers to Apple Inc. The main assembler of iPhones, Hon Hai Precision Industry Co., locates most of the production for the U.S. company in mainland China.

The power cut Aug. 15 hit Taiwan's Hsinchu Science Park, the "heart" of its semiconductor industry, said Annabelle Hsu, a senior research manager in Taiwan at International Data Corp.

"Factories there are running 24 hours a day, so sudden power cut without warning could cause a big damage," Hsu said.

—With assistance from Dan Murtaugh, Jing Yang, Aibing Guo and Gao Yuan.

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Tesla Skipping Green Bond Label Keeps Fledgling Market Limited

Posted August 16, 2017, 8:15 A.M. ET

By [Emily Chasan](#)

Investors are hungrier than ever for green bonds, yet companies known for their sustainable prowess—including Tesla Inc.—are choosing to sit out, raising questions about just how valuable the green bond label is.

U.S. non-financial companies have been among the slowest to embrace green bonds—debt that's designated to only finance eligible green projects—issuing just \$4.3 billion last year, a tiny fraction of an overall U.S. corporate bond market that sold \$1.6 trillion. U.S. companies are expected to issue \$5.2 billion in green bonds this year, meaning a green label for Tesla's offering last week would have grown U.S. corporate issuance in 2017 by more than a third, according to Bloomberg New Energy Finance data.

Tesla, whose declared mission is to accelerate the world's transition to sustainable energy, didn't need the label as much as the nascent green bond market needed Tesla. Green bonds are a way for big companies to highlight their sustainable credentials, and also to help little-known renewable energy companies get the attention of institutional investors with like-minded interests. Tesla doesn't fit in either of those buckets.

"Even if a company does know what a green bond is, and understands that they could issue one, they may not see any outright benefits in doing so, versus the costs and commitments associated with issuing a green bond," Daniel Shurey, a green bonds analyst at BNEF, said in an email.

Companies that issue green bonds say they help attract a more diverse and long-term oriented

group of investors than they would otherwise. They're betting the label can improve liquidity, lead to more committed bondholders or at least raise their profile among green investors. Global assets linked to sustainable and responsible investing strategies hit \$23 trillion at the end of 2015, according to the Global Sustainable Investment Alliance.

SolarCity Corp. was one of the most frequent issuers of green bonds before Tesla bought it in 2016. The company used the offerings as a way to raise low-cost money directly from environmentally friendly investors.

Palo Alto, Calif.-based Tesla didn't comment on why it chose not to designate the recent offering as green. But with the company led by Chief Executive Officer Elon Musk already a household name in zero-emission automobiles, it may not have needed to spend the extra money and time to snag the certification.

Costs, Commitments

Interest was high for Tesla's debt sale regardless, with the B3/B- rated deal aimed at supporting production of its mass-market Model 3 electric car increased to \$1.8 billion from the original \$1.5 billion. The 5.3 percent coupon was a record low for a bond of its rating and maturity, according to data compiled by Bloomberg.

Costs to certify an offering as green can vary significantly. Sean Kidney, chief executive and co-founder of the Climate Bonds Initiative, estimates annual certification costs at between \$18,000 and \$41,000. Tesla choosing not to label its bond green was a "missed opportunity" for a fledgling sector hungry for another marquee name, he said.

"At the very minimum issuing green bonds for Tesla is a way to highlight its obvious green credentials to an investment community that is thirsty for green bonds," said Kidney, whose London-based nonprofit aims to grow the environmentally friendly bond market.

Though corporate green bonds continue to lag, issuers globally are expected to sell a record \$131 billion green bonds this year, up from just \$5 billion in 2012, BNEF data show. The pickup has been led by development banks, municipalities and sovereign issuers who've jumped into the market to meet global climate change goals.

Green Demand

Investors with more than \$11 trillion in assets have signed onto the [Paris Green Bonds Statement](#), aimed at boosting issuance in the market. Ethical investors, ranging from millennials to public pensions, increasingly seek out the bonds as a way to offset broader climate risks in their portfolios. Many green offerings are several times oversubscribed and underwriters report rapidly filling order books for green bonds.

"There just aren't enough green bonds to go around," BNEF's Shurey said.

Corporate green bonds have taken hold more quickly at European companies, as issuers there face more pressure from central banks and institutional investors to help lower carbon emissions. In the U.S., companies have been more hesitant amid concerns about backing up their green credentials legally or being accused of "greenwashing," or trumping up their commitments to clean energy.

A handful of other automakers including the finance arms of Hyundai Motor Co. and Toyota Motor Corp. have issued green bonds to fund consumer purchases or development of electric vehicles. In

those cases, green investors may have needed the label to see that the proceeds were going to projects they supported.

“There is a tacit acceptance by green bond funds that their investible universe is, at least at present, limited,” Alastair Sewell, a senior director at Fitch Ratings’ fund and asset manager rating group in London, said in an email. “In the case of Tesla, were a green bond fund to consider Tesla sufficiently ‘green’ in and of itself, then it might consider the issue despite it not being a labeled green bond.”

—With assistance from Suborna Panja.

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