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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.

Arch, Peabody Coal Mines Need New Climate Analysis, Court Rules

Posted September 15, 2017, 02:22 P.M. ET

By Tripp Baltz

The Bureau of Land Management must revise its analysis of the climate change impacts of four coal leases in Wyoming's Powder River Basin, a federal appellate court ruled today.

The U.S. Court of Appeals for the Tenth Circuit reversed an earlier court ruling and sided with WildEarth Guardians and the Sierra Club in their challenge of BLM's approval of the leases for four coal tracts. The leases would extend the life of two existing surface mines in northeast Wyoming—Arch Coal's Black Thunder mine and Peabody Energy's North Antelope Rochelle mine.

The two mines account for 19.7 percent of annual U.S. domestic coal production, the court said.

The environmental groups say the BLM failed to comply with the National Environmental Policy Act when it concluded that issuing the leases would not result in higher carbon dioxide emissions in the Powder River Basin. The Sierra Club has received funding from Bloomberg Philanthropies, the charitable organization founded by Michael Bloomberg, the majority owner of Bloomberg L.P., parent of Bloomberg BNA.

The court did not vacate the resulting leases, but remanded the case with instructions to BLM to revise its Environmental Impact Statement and Records of Decision for the lease approvals.

Federal Regulator Overrides New York's Denial of Millennium Pipeline

Posted September 15, 2017, 02:23 P.M. ET

By Rebecca Kern

Millennium Pipeline Co.'s proposed 7.8-mile natural gas pipeline in southeast New York state gained a nudge of support from the Federal Energy Regulatory Commission, which overruled the state's denial of water permit rights.

FERC issued a waiver Sept. 15 that overrides an Aug. 30 decision from the New York Department of Environmental Conservation (NYSDEC) that denied water permit rights for the Valley Lateral

Project in Orange County, N.Y. The federal regulator said in the waiver that the New York department failed to act on a water permit within the one-year statutory deadline under the Clean Water Act.

“It is near certain that the NYSDEC will appeal this waiver decision to the,” U.S. Court of Appeals for the District of Columbia Circuit, analyst James Lucier, a managing director at Capital Alpha, said in Sept. 15 analyst note.

The NYSDEC did not immediately respond to a request for comment.

“This is a positive step forward for what is an important project for New York consumers,” Michelle Hook, a Millennium spokeswoman, told Bloomberg BNA.

Millennium now plans to file for a notice to proceed with construction with FERC, Hook said.

The pipeline would supply gas to the CPV Valley Energy Center, a natural-gas electric generation facility under construction in Wawayanda, N.Y., by Competitive Power Ventures Inc.

Brazil’s Norte Energia Ordered to Stop Construction of Dam

Posted September 15, 2017, 03:28 P.M. ET

By [Michael Kepp](#)

Norte Energia must stop construction of the mammoth Belo Monte Dam until it meets licensing conditions for resettling Amazonians affected by construction of the hydroelectric plant, a federal appeals court ruled.

The government-led consortium of developers failed to comply with licensing conditions for resettling 20,000 families in the nearby city of Altamira, who were displaced by the flooding caused by the dam’s upper reservoir, the First Regional Federal Court in Brasilia ruled Sept. 13.

Norte Energia plans to appeal the decision and claims construction can continue.

According to federal prosecutor Felicio Pontes, 3,000 of 6,000 houses that Norte Energia that has built so far do not comply with stipulated licensing conditions, including resettling families less than two kilometers away from their original homes, providing homes based on family size, and building houses with brick.

The ruling from the First Regional Federal Court in Brasilia supported a 2015 lawsuit that Pontes filed in the eastern Amazon state of Para, where the dam is located, asking to suspend the dam’s construction license.

The consortium has installed only six of 18 turbines, which account for only one-third of the dam’s 11,223-megawatt installed capacity. Turbine installation was expected to be completed by the end of 2019.

The court ruling prevents Norte Energia from installing the rest of its turbines until its construction license conditions have been met, Pontes told Bloomberg BNA.

Norte Energia, which plans to appeal the decision, said in a Sept. 13 statement that because “our

operating license replaces our construction license . . . construction work can continue at Belo Monte.”

Norte Energia received its construction license in 2011 and its operating license in 2016 from IBAMA, the licensing arm of the Environment Ministry. But Pontes said due to the two regional court decisions, Norte Energia can neither generate electricity at Belo Monte nor finish installing its turbines, effectively shutting down all dam operations.

The \$18.5 billion, 11,233 megawatt Amazon dam would rank third in installed capacity worldwide behind China’s 22,000 megawatt Three Gorges Dam and the binational 14,600 megawatt Itaipu Dam on Brazil’s border with Paraguay.

Yale’s Carbon-Neutral Goals May Be Costly, Leave Students Cold

Posted September 15, 2017, 03:43 P.M. ET

By [Victoria Graham](#)

Cranking up the A.C. or turning on the heat at Yale University could have costly consequences, so students may want to consider wearing an extra layer of clothing to class.

Many campus buildings will be limiting their temperatures to 68 degrees in the winter to meet the university’s goal to be carbon-neutral by 2050. Failure to cut their carbon emissions could cost some departments money.

Yale is the first university in the world to implement a campuswide carbon control program that carries financial implications.

In an effort to fulfill its mission, the university formally launched its program July 1 to monitor and record the carbon emissions for more than 250 campus buildings. Those that record carbon emissions that are greater than the Yale’s historic average will have to pay into a university carbon charge pool. Buildings that come in below the average could see extra money from that pool deposited into their operating budgets.

The New Haven, Conn., university set a \$40-a-ton-of-carbon price based on the federal government’s estimate of the social cost of the pollutant. This estimates the cost, in dollars, a year in long-term damage done by each ton of carbon dioxide emissions, Casey Pickett, director of Yale’s Carbon Charge Project, told Bloomberg BNA in an email.

Susan Wells, director of finance and administration at Yale School of Forestry and Environmental Studies, told Bloomberg BNA in a phone interview of the potential financial impact for the school.

“It could be a \$34,000 charge if we do very poorly and a \$34,000 rebate or credit if we do really, really well in comparison to Yale’s other units,” she said. Of the school’s \$50 million annual budget, roughly \$300,000 goes for operating expenses.

Each Its Own

Departments at Yale, ranging from the law school to athletics, are participating in the carbon charge program. Each manages its own operations and operating budget and is responsible for everything from energy bills to facility wear and tear. Now they will be factoring in their anticipated carbon

emissions when reviewing their finances.

Campus buildings enrolled in the program will receive monthly statements of their carbon dioxide emissions. These will be compared to carbon emissions of Yale's campus as a whole. Departments will be charged for each building it's responsible for if the levels of carbon dioxide emitted is greater than that of the university's.

Not all university buildings are participating in the program's initial rollout due to building size and structure complexities.

"We are not engaging buildings of less than 5,000 square feet this year due to cost/benefit of implementation. And we're not engaging buildings with overly complicated ownership structures because our lack of operation control and, frankly, to whom to send an energy report each presents challenges," said Pickett, who is hopeful to expand to additional buildings in the coming years.

Twice a year, departments will be assessed for their carbon emissions and pay into a pool if their levels are higher than the campus at large. That could amount to thousands of dollars coming from their operating budgets.

If a school receives funding back from the carbon charge pool, the funds can be used at the department's own discretion.

Wells is not optimistic that the School of Forestry and Environmental Sciences will receive a rebate, but if it does she expects it will put the money toward renovating windows in two buildings or give it to the environmental stewardship committee, which works to reduce the school's environmental footprint.

Perry Highlights Need for Oil Reserve in Rebuke of Trump's Plan

Posted September 15, 2017, 11:27 A.M. ET

By [Christopher Flavelle](#)

Hurricanes Harvey and Irma demonstrate the importance of keeping the U.S. Strategic Petroleum Reserve, Energy Secretary Rick Perry said, in a not-so-subtle rebuke to President Donald Trump.

"This is a good example of why we need an SPR," Perry said at a press conference Sept. 15. The reserve, run by the federal government, is a stockpile that can hold more than 700 million barrels of crude. Trump's budget proposal this year called for selling half the reserve, saying it was no longer useful in a time of U.S. oil surpluses.

Perry made his disagreement with the president's position clear. "I didn't write that budget," he said at the press conference, held with other federal officials to discuss the state of government assistance to Florida after Hurricane Irma.

After Harvey left refiners in Texas and Louisiana unable to secure crude, Perry's department agreed to deliver 5.3 million barrels from the reserve to them. It was the first such delivery in five years.

"The president brought me in not to agree with him on everything," Perry, the former governor of Texas, said. "He brought me in because of my experience of running the 12th-largest economy in the world for 14 years."

It's appropriate for the government to look at whether the reserve can be run in a "more efficient way," and whether the reserve holds the right amount of oil, Perry said.

"These two storms may change everyone's opinion about," the importance of the SPR, he said. "Our job is to make sure the United States never gets surprised."

—With assistance from Catherine Traywick.

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In a Twist, Texas Wind Power Can Actually Help Gas Generators

Posted September 15, 2017, 03:41 P.M. ET

By [Ryan Collins](#) and [Emma Ockerman](#)

A surge of wind power in Texas has made predicting electricity supply more difficult, boosting opportunities for natural gas generators that have been battered by the rise of renewables.

Fluctuating renewable supplies can leave grid operators short of power and create price spikes, a phenomenon that's set to worsen as additional wind and solar hit Texas' grid, William Nelson, an analyst at Bloomberg New Energy Finance, said in a report. That could force grid operators to search for last minute more often, and that's where gas plants that can start up quickly step in.

It's a twist for Texas wind developers, which now account for about a fifth of the state's power mix. While the renewable surge has eaten into the profits of gas generators in recent years, it's now presenting the competition with an opportunity.

The volatility is "a silver lining on a sinking boat," said Nelson. "It sends a clear signal that flexibility is king."

Until the cost of storing wind and solar power in batteries comes down, renewables aren't much help to grid managers when the sun doesn't shine and the wind doesn't blow. Even small factors like ice build up on a turbine's blade can affect output, Dan Woodfin, senior director of system operations for the Electric Reliability Council of Texas, said.

The reliability council is planning a second forecasting service to make "on the fly adjustments," and is working toward producing wind forecasts that update on five-minute intervals, Woodfin said.

In the meantime, more volatility means higher profits for gas generators, which can ramp power output up or down regardless of the weather, Nelson said.

Texas wind farms typically slightly underestimate their daily output, Nelson said. That's because if they under-produce in a given hour, they could be charged as much as \$9,000 per megawatt hour to backfill the production.

West Texas turbines are 94 percent accurate when predicting day-ahead hourly output, Nelson said. Still, the margin of error can lead to price spikes when demand surges that gas generators can take advantage of.

“Renewables seem to have been a bit of a problem for the margins in the area,” Paul Patterson, analyst at Glenrock Associates LLC, said by phone Sept. 15. “You have a new disruptive technology being deployed.”

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Forget Oil, Water Is New Ticket for Pipeline Growth in Texas

Posted September 15, 2017, 8:14 A.M. ET

By *David Wethe* and *Ryan Collins*

The torrent of dirty water coming out of almost every American oil well is the next big bet for a former fund manager for billionaire Paul Allen.

Getting rid of wastewater from onshore wells has become an increasingly costly problem for oil producers as U.S. crude output surged in recent years, especially in the new shale fields from Texas to North Dakota. Drillers typically get about seven barrels of water for every one of oil, and some struggle to deal with the overflow that is mostly sent by truck to disposal sites miles away.

David Capobianco, a former managing director for Allen’s Vulcan Capital, is trying to change that by building pipelines to get wastewater out. His newly formed WaterBridge Resources LLC aims to be a water-management company for oilfields. The firm is considering a public share listing within a year to 18 months, taking advantage of a U.S. shale boom that the government expects will boost crude production close to 10 million barrels a day next year.

“Next to profitability and safety, water may well be the next most important topic for an oil company,” said Laura Capper, chief executive officer at EnergyMakers Advisory Group, an industry consultancy in Houston. “It has risen to the forefront over the last five years unlike anything I’ve ever seen.”

To get a sense of just how much water is involved, consider the forecasts for rising oil output in the Permian Basin, the busiest field in Texas and a big beneficiary of increased investment in shale reserves. It currently pumps 2.4 million barrels of oil a day, but production could grow to a peak of as much as 10 million. At the current rate of disposal in the area, that would mean 30 million to 50 million barrels of dirty water every day, enough to fill the Empire State Building eight times a day.

Disposal Cost

Disposal can be expensive, especially with oil prices around \$50 a barrel, half the price in 2014. West Texas Intermediate, the U.S. benchmark, was trading down 15 cents at \$49.74 a barrel as of 1:19 p.m. Singapore time on Friday.

Most drillers hire oilfield-service companies to get rid of the wastewater. Trucks dump the water into holes dug deep underground that lead to porous formations, thousands of feet below the drinking-water table. In Texas, the service costs about \$1.50 to \$2.50 a barrel. Capobianco, in an interview, said he can reduce that to roughly \$1, once his pipelines are in place.

“We are at a tipping point,” where water is set to join oil and natural gas as a key commodity for the industry’s pipeline companies, said Capobianco, who is also a former board member for the general partner of Plains All American Pipeline LP. “Water is at a very nascent stage. The market hasn’t caught up with the ultimate reality that water will trade the same as any other hydrocarbon.”

If Capobianco takes WaterBridge public, the company would be the first devoted entirely to oilfield-water pipelines to be traded on any major U.S. exchange, according to EnergyMakers.

Explorers are starting to face the fact that their water production is becoming too big to truck away.

But only recently have integrated water-solution systems become economically viable for the industry, as activity picked up this year in the Permian's Delaware formation in West Texas, according to Colton Bean, associate of midstream research at Tudor Pickering Holt & Co. in Houston.

One big reason: Roads in the rural basin already are jam-packed with trucks shipping in fresh water, sand and equipment to well heads, and taking oil and dirty water away. "There is not a well-developed road network, so ideally as many trucks you can get off the road the better," Bean said.

Capobianco is chief executive officer for the Houston-based private equity firm Five Point Capital Partners, which funded WaterBridge Resources with \$200 million at the start of 2016. Last month, WaterBridge acquired EnWater Solutions LLC for an undisclosed amount, its first acquisition of a water-pipeline company in the Permian Basin. It will be announcing another deal in the next two to four weeks, Capobianco said.

Capper said she's counted roughly 25 companies similar to Capobianco's that are in various stages of development for water pipelines. "It's a market that is developing for very good reason," she said. "It'll be here for the long run."

Wastewater isn't the only goal. After Capobianco builds out a bigger network of disposal pipelines, the next major step will be an integrated system of management that cleans and recycles it for use in future production, he said. In fracking—a technique that helped fuel the U.S. oil boom—water, sand, and chemicals are forced into the ground to loosen oil trapped in layers of shale rock.

The industry's water use isn't without controversy. In Oklahoma, where as many as 20 barrels of water are produced for every barrel of oil, heavy injections of wastewater underground have been blamed for all the earthquakes in the state. Using pipelines might help address that problem, by providing access to areas better suited for disposal.

"We're a whole lot better about producing oil and gas than we used to be," Capper said. "And when you produce more oil and gas, you get more water with it."

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Brazil Court Orders Shutdown of Vale Amazon Nickel Operation

Posted September 15, 2017, 12:43 P.M. ET

By R.T. Watson

Vale SA was ordered by a Brazilian court to halt activities at the Onca Puma ferronickel operation to investigate whether indigenous groups in the Amazon region were being harmed by the mine, the Public Prosecutor's Office said.

In a statement on its website, the prosecutor said the mine in southeastern Para state will remain

shut as long as it's in breach of environmental-license obligations related to the Xikrin and Kayapo indigenous groups.

Vale owes about 50 million reais (\$16 million) in compensation to community members after losing an appeal of a previous court order, prosecutors said.

Rio de Janeiro-based Vale confirmed it has stopped activities at the Onca Puma mine, and plans to appeal the decision, according to a statement Sept. 14 from its press office.

Onca Puma was one of the low-performing assets identified by Vale Chief Executive Officer Fabio Schvartsman for review in 2017. While nickel prices have gained 12 percent this year, they are still down about 60 percent from a peak in early 2011.

The effect of mining in the Amazon on indigenous people has been a hot button issue in recent weeks.

Brazil's government spurred an international outcry with its recent announcement it planned to open an area about the size of Denmark inside the Amazon to future mining exploration. President Michel Temer took to Twitter to defend the measure before a court suspended the decision. The government is currently working on an appeal, according to the press department for the country's mining ministry.

Earlier this week, Brazilian authorities confirmed they are investigating the deaths of people who belong to an isolated indigenous tribe in the western reaches of Amazonas state. Illegal wildcat gold miners are alleged to have killed about 10 people, according to media reports. Police and prosecutors are investigating the veracity of the claims while stating that so far no material proof has been found.

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EU Carbon-Permit Cull Can't Be Rushed, German Official Says

Posted September 15, 2017, 11:15 A.M. ET

By [Brian Parkin](#) and [Mathew Carr](#)

A European Union decision on canceling carbon permits in order to reduce a glut needs careful consideration and is unlikely to happen before German elections later this month.

Withdrawing the emission rights in 2023 instead of 2024 would send a "very important signal to the market," German Deputy Environment Minister Jochen Flasbarth said in an interview in Berlin. "The decision needs to be weighed very carefully."

EU carbon allowances rose to a 20-month high this week as negotiators made progress in talks about a market overhaul, including the timing of when to get rid of excess permits. Efforts to reform the cap-and-trade system have repeatedly failed to increase the penalty for polluting, with emission prices slumping by two-thirds in the past 10 years.

The bloc plans to take some carbon allowances out of circulation and put them in a reserve from about 2019. A sticking point of the plan is when to begin canceling permits removed from the market.

“I don’t think it really matters if they’re canceled in 2023 or 2024” because allowances in the reserve aren’t likely to come out again before 2030, said Jahn Olsen, an analyst Bloomberg New Energy Finance in London. What’s more important is when lawmakers seal the political deal to fix the market, he said.

As ministers and members of the European Parliament debate proposals to control the glut, supply is ballooning. Total auction sales this year will amount to a record 951 million metric tons, a third more than last year when the bloc was withholding supply as part of three-year effort to revive the market.

Flasbarth was confident that an effective agreement on market reform can be reached before a United Nations climate conference in November, but there may be delays linked to the complexity of the negotiations and the German election on Sept. 24.

Germany can’t make binding commitments until a new government is formed after the election, he said. He didn’t say which year he preferred cancellations to start.

More lawmaker talks on the carbon market’s proposed fix are set for Oct. 12.

Other measures to deal with the oversupply, including price floors and corridors, are off the table for now, Flasbarth said.

—With assistance from Ewa Krukowska.

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