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Daily Environment Report

Afternoon Briefing - Your Preview of Today's News

Water Infrastructure Bill Draws Bipartisan House Panel Support

Posted July 27, 2017, 02:01 P.M. ET

By David Schultz

A Republican bill that would authorize double the funding for an EPA loan program to help localities repair and upgrade their drinking water infrastructure sailed through a House committee today with the backing of the panel's top Democrat.

"I think this will be a noncontroversial bill that we can all support," Rep. Frank Pallone (D-N.J.) said at today's markup.

The bill, introduced by Rep. Gregg Harper (R-Miss.) introduced July 25, would include, among other things, funding for removing lead from school drinking fountains, prevailing wage provisions for federally funded water infrastructure projects, and language that could potentially force out-of-compliance utilities to consolidate with their neighbors.

The House Energy & Commerce Committee approved the water bill, H.R. 3387, on a voice vote. It will now head to the House floor.

Pipelines Awaiting Approval Pile Up at Federal Energy Regulator

Posted July 27, 2017, 7:00 A.M. ET

By Rebecca Kern

The backlog of natural gas pipelines awaiting Federal Energy Regulatory Commission approval is piling up as the agency enters its sixth month without enough members to approve $14 billion worth of infrastructure projects, and gas suppliers and pipeline companies could face longer-term impacts.

The pipelines awaiting regulatory approval include the proposed $5.5 billion Atlantic Coast Pipeline, owned by Dominion Energy and other partners, and the $2.1 billion Nexus pipeline, a joint project from DTE Energy Co. and an Enbridge subsidiary.

“The situation is manageable for the time being, but just barely, because we are a few months away from major delays, which would be disruptive to the construction of pipelines and gas producers,” James Lucier, managing director of Capital Alpha Partners LLC, a policy research firm that follows energy investments, told Bloomberg BNA.

“If we don’t have a quorum by September, we definitely need to worry,” he said.

Pipeline companies are calling on the Senate to act quickly to confirm two Republican FERC nominees—Robert Powelson and Neil Chatterjee—who can return the agency to a quorum to address the pending pipelines. When fully staffed, the independent agency has five commissioners, but it is among the agencies with a long list of appointed officials that Congress has yet to confirm.

Down to One Commissioner

FERC has been without a voting quorum of three commissioners since February, and is now down to one commissioner—Acting Chairman Cheryl LaFleur. Without a quorum, it can’t issue certificates authorizing construction and operation of natural gas pipelines, approve liquefied natural gas terminals or vote on contested rate hearings.

If the quorum isn’t returned and the pipelines are delayed, down-the-line impacts are possible on construction jobs, and natural gas producers and shippers, pipelines companies say. This is the first time FERC has been without a voting quorum in its 40-year history. The latest pipeline awaiting a FERC vote is the proposed Atlantic Coast Pipeline, spanning 600 miles from West Virginia to North Carolina, which received a favorable final environmental impact statement (EIS) from FERC staff July 21. It joins other high-profile pipelines including the proposed Nexus pipeline, owned by DTE Energy and Spectra Energy Partners LP (acquired by Enbridge), which received its environmental impact statement—the last step before a FERC vote—in November 2016.

“Quick action by the U.S. Senate on the FERC nominees will have an immediate impact on the nation’s economy and Infrastructure,” Jerry Norcia, president and chief operating officer at DTE Energy, told Bloomberg BNA.

Recently environmental groups opposing fracking and the development of natural gas pipelines have increased their efforts to put pressure on FERC.

The Sierra Club said it has opposed the nominations of Chatterjee and Powelson.

“Unfortunately, Donald Trump’s nomination of Neil Chatterjee and Rob Powelson will continue FERC’s status quo of approving unneeded fracked gas pipelines that take private land for corporate gain and lock Americans into higher electricity rates while increasing our dependency on fossil fuels for decades to come,” Lena Moffitt, Sierra Club’s director of the Our Wild America campaign aimed at protecting public land, told Bloomberg BNA.

Also, the Natural Resources Defense Council is an intervenor in the natural gas certificate cases at FERC for the Atlantic Coast and Mountain Valley pipelines. John Moore, director of the NRDC’s Sustainable FERC Project, told Bloomberg BNA that his group believes these projects aren’t necessary because there isn’t enough demand for the fuel and other clean energy alternatives are available.

Senate Impasse

Chatterjee and Powelson were reported favorably out of a Senate committee in a 20-3 vote and are awaiting a Senate floor vote. Senators Ron Wyden (D-Ore.), Bernie Sanders (I-Vt.) and Mazie Hirano (D-Hawaii) were the three members who voted against them.

Two more nominees, Richard Glick (a Democrat) and Kevin McIntyre (a Republican)—have been named by President Donald Trump, but their nominations haven't been formally sent to the Senate to begin their hearing and confirmation process. Without agreements on vote timing between Senate Majority Leader Mitch McConnell (R-Ky.) and Senate Minority Leader Charles Schumer (D-N.Y.), FERC's quorum may not be restored until after Labor Day, Christi Tezak, managing director of research at ClearView Energy Partners LLC, told Bloomberg BNA. And the value of backlogged pipeline projects could reach $17 billion by October, she projected.

Sen. Lisa Murkowski (R-Alaska), chairman of the Senate Energy and Natural Resources Committee, which favorably reported out Powelson and Chatterjee, has said it is "critical to restore a working quorum at FERC as soon as possible." Sen. Maria Cantwell (D-Wash.), the committee's ranking member, also voted in favor of both nominees and has supported FERC returning to a quorum.

Impacts on Jobs, Suppliers, Consumers

The lack of FERC quorum "has implications that go pretty far beyond the pipeline companies," Don Santa, president of the Interstate Natural Gas Association of America, told Bloomberg BNA.

DTE Energy's Norcia said that if FERC approves the proposed Nexus pipeline, it would provide more than 7,000 construction jobs to Ohio and Michigan. Atlantic Coast Pipeline says it will employ more than 17,000 construction workers West Virginia, Virginia and North Carolina.

Smaller pipelines such as the $1 billion proposed Penn East pipeline, owned by a group of companies including Spectra Energy and NJR Pipeline Co., would run through New Jersey and Pennsylvania and provide up to 3,000 construction jobs.

Santa, whose trade group represents the major U.S. pipeline companies, said uncertainty of the FERC approval timeline could lead to potential construction delays.

In addition, pipeline companies could be subject to paying penalties to shippers if contracts aren't met due to delayed approval, and the companies' shareholders may not get the returns on their investments if there are delayed in-service dates.

Dena Wiggins, president and CEO of the Natural Gas Supply Association, which represents natural gas producers such as ExxonMobil Corp. and Chevron Corp., said the backlog directly impacts them.

"Natural gas producers have to have pipelines to get their gas to market and we've got an abundant supply, but we've got to have the pipelines," she told Bloomberg BNA.

If there are further delays, consumers may see higher prices.

"When you build new pipeline infrastructure, particularly if you relieve a bottleneck in the pipeline system, that lowers delivered gas prices," Santa said. He said this could lower heating and electricity bills.

'Not a Practice I'd Recommend'

"We are literally driving right up to the end of the cliff. And the good news is that as long as you stay on this side of the edge, you can still be fine. It's just not a practice I'd recommend," Capital Alpha's Lucier said.

One the first pipelines to come online, if approved after a FERC quorum is restored, would likely be the Nexus pipeline. The pipeline will likely be completed some time in 2018, Gerry Anderson, DTE Energy's president and CEO, said in the company's second quarter earnings call July 26.

Other pipelines still project a late 2018 start-date, including the $3.5 billion Mountain Valley pipeline primarily owned by EQT Midstream Partners that would span through Virginia and West Virginia; and Penn East.

TransCanda Corp.'s $2 billion Mountaineer Xpress in West Virginia could be added to the list of potentially delayed projects if FERC doesn't have a quorum until later this year. The company is projecting for the pipeline be operational in late 2018 as well.

The owners of the Atlantic Coast Pipeline—Dominion Energy, Duke Energy, Piedmont Natural Gas and Southern Co.—say that they are confident they will receive FERC approval by the fall, and for the pipeline to be operational by late 2019.

Russian Energy Sanctions Poised for Quick Senate Approval

Posted July 27, 2017, 11:46 A.M. ET

By Brian Dabbs

New restrictions on U.S. energy projects overseas are poised to reach the president's desk in the coming days as part of a broad sanctions package targeting Russia, as well as Iran and North Korea.

Senate Democrats all signed off on the bill (H.R. 3364), which would prohibit U.S. companies from participating in energy projects that have a 33 percent or more Russian stake, a spokesman for Senate Majority Leader Charles Schumer (D-N.Y.) told Bloomberg BNA July 27.

The oil and gas industry lobbied hard against the original Senate version, which would have prohibited U.S. company participation in energy projects with any Russia stake. Exxon Mobil Corp., Chevron Corp., and other U.S. companies participate in joint energy projects across the globe. Marty Durbin, American Petroleum Institute executive vice president and chief strategy officer, told Bloomberg BNA the new bill marks an improvement.

"There remain concerns with how this legislation could affect U.S. business interests in the future, but the amended bill more appropriately focuses sanctions on the intended target—Russia and its energy firms—rather than inadvertently benefiting Russia at the expense of U.S. companies," Durbin said in an email.

Unanimous Republican support would allow the bill to bypass Senate procedural obstacles. A spokesman for Majority Leader Mitch McConnell (R-Ky.) didn't immediately respond to Bloomberg BNA's request for comment.

U.S. sanctions already target a wide range of the Russian energy sector, but existing policy applies only to projects—such as extraction and pipelines—within the Russian Federation. The change to a 33 percent threshold sparked some opposition among senators.

Senate Foreign Relations Committee Chairman Bob Corker (R-Tenn.), however, signaled senators are now willing to shelve those concerns.

“I am glad to announce that we have reached an agreement that will allow us to send sanctions legislation to the president’s desk,” Corker said late July 26.

Volkswagen Gets Green Light for Emissions Fix to Diesel Cars

Posted July 27, 2017, 02:07 P.M. ET

By Carolyn Whetzel

Volkswagen can begin fixing an additional 326,00 diesel engine cars that included software to cheat on nitrogen oxides emissions tests after the EPA and California signed off on its buyback and repair plan July 27.

The plan covers model year 2009 through 2014 Jetta, Golf, Beetle and Audi A3 diesels, which were equipped with software that allowed the vehicles to pass emissions certification tests, but emit higher levels of pollution during routine driving. Owners of those vehicles will have the option of having the software updated to comply with emissions control requirements or selling their cars back to Volkswagen.

The company in January and May had received approval to fix other VW diesel models.

GOP Renews Fight for Edison’s Light Bulb as Industry Goes LED

Posted July 27, 2017, 12:48 P.M. ET

By Ari Natter

Congressional Republicans renewed their effort to save the traditional light bulb, passing a measure to block federal energy standards that have come to symbolize government overreach for many consumers but are largely embraced by manufacturers as the cost of the newer bulbs has plummeted.

The House passed an amendment to a spending bill late July 26 to block enforcement of Energy Department rules requiring manufacturers to phase out sales of incandescent light bulbs to cut power use. While the measure faces an uncertain future in the Senate, its sponsor called it an important victory for freedom.

“Congress should fight to preserve the free market,” Michael Burgess, a Texas Republican, said on the House floor before the vote. Burgess said he had heard from tens of thousands of people about how the regulations “will take away consumer choice when constituents are deciding which light bulbs they will use in their homes.“

Standards Have Curtailed Use

The measure takes aim at rules that were issued under a 2007 bipartisan energy legislation signed into law by Republican President George W. Bush. The standards, which were phased in starting in 2012, have curtailed the use of incandescent light bulbs.

If it becomes law, the measure could have some unintended consequences, critics warn. While it won't change light bulb standards which have been in effect for years, it could hamstring authorities from blocking import of incandescent bulbs from China or other nations that that don't meet the requirements, said Steven Nadel, executive director of the American Council for an Energy-Efficient Economy, a non-profit group that promotes energy conservation.

When Republicans attacked these standards, manufacturers said they would still voluntarily comply with them, and the LED share of the market has surged over the last three years as the cost of those bulbs dropped.

LED light bulbs, which made up just 1 percent of global market share in 2010, are estimated to make up 95 percent that market by 2025, according to research by Goldman Sachs. They accounted for more than a quarter of U.S. sales last year, it said. Other bulbs that have been used to meet the requirements include the ubiquitous curly compact florescent, or CFL, bulbs and halogen lights.

When a similar measure passed into law as a rider in government funding legislation in 2011, the National Electrical Manufactures Association, which represents companies such as Philips Lighting NV and General Electric Co. said light bulb makers planned to comply with them regardless. Tracy Cullen, a spokeswoman for the trade group, did not respond to an email and phone message seeking comment.

'Mind-Boggling'

"It's mind-boggling to me," Elizabeth Noll, legislative director of the Natural Resources Defense Council's energy and transportation program, said. "It just adds uncertainty to their products and the rules of the road they are complying with."

The requirements, which have been put in place over time starting with the 100-watt light bulb in 2012, will cut the nation's electricity costs by $12.5 billion dollars annually and avoid the equivalent of 30 new power plants, the environmental group estimates.

"It's a an ideological objection to government interference in the market place," said Kateri Callahan, president of the Alliance to Save Energy, a Washington-based nonprofit. "All the things that Dr. Burgess and other opponents to those standards said would happen—limited choice by consumer, high prices—none of that has borne out."

Growth-Starved Utilities Have Found a New Way of Making Money

Posted July 27, 2017, 8:54 A.M. ET

By Christopher Martin, Jim Polson and Mark Chediak

There's a new model emerging for growth-starved utilities looking to profit from America's solar and wind power boom.

American Electric Power Co. is using it for a $4.5 billion deal that'll land the U.S. utility owner a massive wind farm in Oklahoma and a high-voltage transmission line to deliver the power. NextEra Energy Inc.'s Florida unit is using it to build solar farms. And in April, the chief executive officer of Xcel Energy Inc. said he'd use it to help add 3.4 gigawatts of new wind energy over the next five years.

Here's how it works: Some utilities that for years contracted to buy electricity from wind and solar farm owners are now shifting away from these so-called power purchase agreements, or PPAs. They're instead seeking approval from state regulators to buy the assets outright and recover the costs from customers through rates. While the takeovers are being branded as a cheaper way of securing power, saving ratepayers millions in the end, they also guarantee profits for utilities.

"We keep wondering why utilities are always signing PPAs that pass the cost through to customers," said Amy Grace, an analyst at Bloomberg New Energy Finance. "If you put it in your rate base, you can get a guaranteed return on it. There's a big upside to ownership."

With the cost of building solar and wind farms sliding and electricity demand weakening, owning renewables is a more attractive proposition than ever for utilities.

"The price of wind has come down enough that it's going to be competitive with anything else you're probably going to propose to build out there," Kit Konolige, a New York-based utility analyst for Bloomberg Intelligence, said by phone July 26.

Biggest Hurdle

The catch, of course, is regulatory buy-in. AEP will need approval from Arkansas, Louisiana, Oklahoma, Texas and federal regulators to purchase the 2,000-megawatt Wind Catcher farm from developer Invenergy LLC, build a 350-mile (563-kilometer) transmission line and bake the costs into customer rates. The company expects to file these plans with regulators on July 31.

Benjamin Fowke, chief executive officer of Minneapolis-based Xcel Energy, said in April that the company would seek approval to add 3.4 gigawatts of new wind energy and bill customers for as much as 80 percent of that investment through rates. He said at the time that wind energy is now the cheapest new form of generation.

NextEra has already gotten Florida's go-ahead to recover the costs of the solar farms its Florida utility is building through customer rates.

Should AEP gain similar approvals, the utility will be embarking on its most expensive renewable energy project yet, underscoring a dramatic shift in America's power mix. Once the largest consumer of coal in the U.S., AEP is now shuttering money-losing plants burning the fuel and diversifying its resources along with the rest of the utility sector.

The Wind Catcher farm in Oklahoma is set to become the largest wind farm in the nation and the second-biggest in the world, according Invenergy.

AEP estimated that the low cost of the wind power will save customers $7 billion over 25 years. Construction on the farm began in 2016, and the plant is scheduled to go into service in mid-2020, Invenergy said by email.

Natural Gas Severance Tax Bill Passes in Pennsylvania Senate

Posted July 27, 2017, 01:03 P.M. ET

By Leslie A. Pappas

Natural gas drillers in Pennsylvania would pay a severance tax and consumers will pay higher taxes on natural gas under a proposal the Pennsylvania Senate narrowly approved today. House Bill 542, which passed the Senate 26-24, would levy a severance tax on the extraction of natural gas on top of the state's existing impact fee, which is levied on natural gas producers per well drilled. The bill would also impose a new gross receipts tax on natural gas that will be paid by consumers.

The new gas taxes are part of a revenue proposal that includes widespread tax increases, the Senate's solution to plugging a $2 billion hole in the state's fiscal 2017-18 budget. The Pennsylvania Legislature passed $32 billion spending package on June 30 without revenues to back it up, and since then, has been arguing about how to pay for it.

The bill now goes to the House.

If Petronas Can't Beat U.S. LNG Suppliers, It Could Join Them

Posted July 27, 2017, 7:57 A.M. ET

By Natalie Obiko Pearson, Ryan Collins and Kevin Orland

Malaysia's Petroliam Nasional Bhd has pulled the plug on its $27 billion plan to ship liquefied natural gas from Canada's west coast to Asia, losing out to U.S. suppliers who got to market first.

Well, if it can't beat them, it may still join them.

With its Pacific Northwest LNG project now dead, Petronas, as the state-owned company is known, needs to find a home for the gas produced by its Progress Energy Canada Ltd. unit in Canada's massive Montney formation—and exporting from the U.S. might be its best bet.

"Given the high quality of Petronas' liquid-rich shale assets in Canada, it wouldn't be surprising if Petronas tried to monetize some of them into LNG through a U.S. Gulf Coast facility," said David Austin, a Vancouver-based energy lawyer at Clark Wilson LLP who has advised clients working in the Montney, one of the continent's most prolific and cheapest sources of gas.

Petronas' decision to scrap the Pacific Northwest plant underscores how Canada's natural gas industry has struggled to compete with surging supplies from U.S. shale formations, which are already reaching buyers from Chile to China. As U.S. gas shipments to overseas buyers climb to a record and Canada's export projects remain stalled, Canadian drillers may have little choice but to send their output through Gulf Coast LNG terminals.

"That resource that we own is world class and highly competitive," Progress CEO Mark Fitzgerald said on a conference call Tuesday when asked about the possibility of exporting through the U.S. "We'll look at every option that we can to bring that to market."

Petronas' Progress wouldn't be the first Canadian producer to turn to the U.S. for help in exporting gas. Cheniere Energy Inc., which owns two LNG terminals on the Gulf Coast, signed its first Montney supply deal with Calgary-based Seven Generations Energy Ltd. earlier this year.

Cheniere is "absolutely" looking at other Canadian natural gas suppliers, Corey Grindal, senior vice president of gas supply, said in a June 26 interview in Houston. "We are in conversations with others."

Grindal also said Cheniere is in discussions about whether additional infrastructure needs to be built, potentially with a partner, "to get gas from the Montney down to one or both our terminals." Cheniere operates the Sabine Pass terminal in Louisiana and is building a second near Corpus Christi, Texas.

The Montney, a formation sometimes referred to as the "the Permian of the North" after the massive Texas oil and gas field, straddles the provinces of British Columbia and Alberta. The play holds about 449 trillion cubic feet of marketable natural gas, according to a 2013 estimate from Canada's National Energy Board. That's about half the total reserves of Qatar, the world's biggest exporter of liquefied natural gas.

Seeking Markets

But Canadian oil and gas producers face limited options in finding potential customers for their supply. Regulatory delays and environmental opposition have long stymied pipeline and LNG terminal projects seeking to ship out of Canadian ports to newer, more profitable markets.

Canada "has a tremendous resource, but market outlets are limited," Matthew Phillips, director at Guggenheim Securities LLC in Dallas said.

Petronas spent C$5.2 billion to buy Progress Energy in 2012 to take control of gas fields in the Montney intended to supply the LNG terminal. Progress, with partners China Petrochemical Corp., Japan Petroleum Exploration Co., Indian Oil Corp. and Brunei's state oil company, produce more than 750 million cubic feet equivalent of natural gas per day, according to the company's website.

"There's just a huge amount of it," said Samir Kayande, director at Calgary-based RS Energy Group. "What they need to do is figure out what the market for that gas is."

TransCanada Corp., which was building the North Montney Mainline to supply Montney gas to Petronas' LNG terminal, said earlier this year that the pipeline would be successful even without the facility.

The line "is needed whether or not LNG goes ahead," Shawn Howard, a spokesman for TransCanada, said in an email. "The Montney basin is one of the lowest-cost, most prolific North American shale plays, and production growth in this area requires additional infrastructure to connect supply to existing or new markets."

Canadian producers looking to boost gas exports to the U.S. will face stiff competition from producers in the Marcellus shale basin of Pennsylvania and West Virginia, Phillips said. A U.S. export valve is unlikely to resolve the basic conundrum facing stranded Canadian producers: better prices.

“It means we’re beholden to the U.S.,” said Andy Mah, chief executive officer of Calgary-based Advantage Oil & Gas Ltd. “Until we can start recognizing that we have something of value and make it happen, we’re going to be at their mercy.”

—With assistance from Robert Tuttle.

Germany Considering Fund to Pay for Reducing Diesel Emissions

Posted July 27, 2017, 12:49 P.M. ET

By Birgit Jennen, Rainer Buergin and Brian Parkin

Chancellor Angela Merkel’s government is considering setting up a fund to help pay for programs to cut diesel emissions as cities consider bans and allegations of cheating by German automakers cast doubts on the survival of the technology.

The “three-digit-million” euro fund would contribute to developing new mobility concepts for polluted cities, including Internet-based digital solutions, Transport Minister Alexander Dobrindt said in Berlin on July 27. Handelsblatt reported earlier that the program would likely be funded with 500 million euros ($585 million), split between car companies and the government, to cut diesel pollution and avoid driving bans.

Daimler AG’s Mercedes-Benz last week announced plans to voluntarily recall 3 million diesel vehicles in Europe to upgrade their technology, while Volkswagen AG’s Audi brand said it will service 850,000 cars. Volkswagen, which two years ago admitted to cheating on emissions in millions of vehicles, is also caught up in an unfolding scandal with Daimler and BMW AG over allegations that they colluded on technology for decades. BMW vehemently denies cheating on diesel technology. Industry executives and government officials set to meet Aug. 2 in Berlin to discuss their options.

“One pillar is the retrofitting of vehicles, in other words optimizing emissions; another pillar is the fund,” said Dobrindt, a member of the Bavarian sister party to Merkel’s Christian Democratic Union. “I honestly do not think it very effective today to speak about the funeral for the internal combustion engine.”

U.K. Ban

While the U.K. on July 26 announced plans to ban sales of diesel and gasoline cars by 2040—echoing a similar initiative in France—Germany has chosen not to follow suit. Diesels still make up about half of all autos sales in Europe and carmakers say they need the fuel, which generates about a fifth less greenhouse gases than gasoline, to meet Europe’s tightening emissions standards until the push to electric vehicles gathers more momentum.

“This is not about demonizing the diesel,” Ulrike Demmer, a Merkel spokeswoman, told reporters July 26. “A ban on diesel or petrol vehicles is currently not on the agenda of the federal government.”

German Environment Minister Barbara Hendricks on July 27 urged the government to go a step further and create a new unit—under her ministry—to more efficiently approve, categorize and scrutinize new vehicles. The relationship between the government and auto industry “has grown too close," argued Hendricks, a member of the Social Democrats, Merkel's junior coalition partner.

Cem Oezdemir, a co-leader of the opposition Green Party, said at a meeting with VW works council members in Wolfsburg, Germany, that carmakers have pretended to adhere to what are already favorable regulations while the government has looked the other way.

"The diesel scandal, possible cartel arrangements—we have suffered a massive loss of reputation for Made in Germany, but the automobile industry has unfortunately contributed to this," Oezdemir said. "But I also don't want to release the government from their responsibility, because it always takes two for this sort of misconduct."