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From: Bloomberg BNA
Sent: Fri 7/28/2017 7:51:55 PM
Subject: July 28 -- Energy and Climate Report - Afternoon Briefing



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.

States, Industry Seek Rehearing on Methane Lawsuit

Posted July 28, 2017, 11:59 A.M. ET

By Catherine Douglas Moran

A full federal appellate court should reconsider a decision that forced the EPA to implement methane emissions limits for the oil and gas industry that it plans to revise, states and industry groups said.

The U.S. Court of Appeals for the District of Columbia Circuit July 3 struck down the Environmental Protection Agency's plan to halt implementation of the methane regulator for 90 days, finding the delay an abuse of agency authority.

The industry groups and states, including the American Petroleum Institute and the Interstate Natural Gas Association of America, filed two petitions—one July 28 and the other July 27—that ask for the full court to rehear the case .

Trump May Have to Boost Biofuel as Court Deals Blow to Oil

Posted July 28, 2017, 01:37 P.M. ET

By Mario Parker, Andrew Harris and Ari Natter

The Trump administration may have to reconsider its proposal from earlier this month to curb biofuel use after a U.S. appeals court in Washington ruled that the Environmental Protection Agency doesn't have the authority to cut quotas while citing inadequate domestic supply.

Issued July 28, the unanimous ruling by a three-judge panel comes amid conflicting legal challenges to actions taken by the EPA. Some factions claim the agency set renewable fuel requirements too high, while others said they're too low. Shares of ethanol producers rose on the news while refinery stocks declined.

U.S. Circuit Judge Brett Kavanaugh wrote that EPA isn't allowed "to consider the volume of renewable fuel that is available to ultimate consumers or the demand-side constraints that affect the consumption of renewable fuel by consumers."

The ethanol industry hailed the court's move as a victory Ams. for Clean Energy v. EPA, D.C. Cir., 7/28/17.

Earlier this month, the Trump administration issued a proposal that for the first time would cut the amount of renewables that must be blended into the fuel supply under a 12-year-old law known as the Renewable Fuel Standard.

The court ruling is a blow to oil refiners, including billionaire Carl Icahn, who have argued that there are constraints to blending the fuels into petroleum. The American Petroleum Institute said in a statement it was "disappointed" with the court's decision, which the trade group said highlighted the need for congressional action to reform the renewable fuel standard—a move congressional analysts have said is unlikely to happen.

"We are still reviewing the decision, but the fact the court has affirmed our position that EPA abused its general waiver authority by including factors such as demand and infrastructure in a waiver intended to be based solely on available supply is a great victory for consumers and the RFS program," said Bob Dinneen, the chief executive officer of the Renewable Fuels Association, an ethanol industry trade group.

The EPA didn't immediately respond to a request for comment. In a July 5 statement, the agency, which administers the program, said that the proposal was "consistent with market realities focused on actual production and consumer demand while being cognizant of the challenges that exist in bringing advanced biofuels into the marketplace."

"This is pretty huge," said Gene Gebolys, CEO of biofuel producer World Energy Alternatives LLC. "This gives the Trump administration clear guidance on what the legislative branch intended when they passed the law and what the judicial branch meant when they upheld the law."

Green Plains Inc., one of the biggest U.S. ethanol producers, rose 1.3 percent to \$19.70 at 12:44 p.m. in New York. CVR Energy Inc., an independent oil refiner that counts Carl Icahn as its biggest investor, slumped 3.8 percent.

Renewable Identification Numbers (RINs), biofuel credits that track 2017 ethanol consumption quotas, rose 1.2 percent to 82 cents apiece, the highest in a week, data compiled by Bloomberg show.

EPA Argument

The court heard the argument on April 24. The case dealt with Obama-era EPA actions to cut quotas for ethanol and other biofuels for the years 2014, 2015 and 2016 below statutory levels, reducing totals set forth in 2007 legislation, with the regulator taking the position it had the power to do so under a provision allowing it to adapt to a production shortfall.

There was no shortfall, but the EPA argued that "production" could include the fact that the market couldn't absorb the additional fuel, government lawyer Samara Spence told the court.

The EPA "misunderstood its assignment under the mandate," former U.S. Solicitor General Seth Waxman countered, arguing on behalf of biofuels proponent Americans for Clean Energy, adding that the agency "screwed up."

"The salient point here is that EPA agrees there is more than adequate supply," Waxman said.

From the bench, Kavanaugh indicated he agreed.

"I understand the difficulty EPA is in here, but the statute doesn't seem to give EPA the authority to fix everything that is not working right," he told Spence, the government's attorney. "If this thing is totally screwed up, Congress should fix it."

Joining in the opinion were U.S. Circuit Judges Patricia Ann Millett and Janice Rogers Brown.

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Funding for Russia Pipeline to EU at Risk With U.S. Sanctions

Posted July 28, 2017, 9:01 A.M. ET

By [Elena Mazneva](#) and [Angeline Benoit](#)

The financing of Russia's \$11 billion natural gas pipeline through the Baltic Sea could be affected by sanctions that just passed the U.S. Senate, according to one of project's backers.

Engie SA's current legal view is that if the sanctions were implemented its backers could "stop and not continue to fund this project in order not to be subject to any sanction whatsoever," the French utility's Executive Vice President Pierre Chareyre said July 28 on a conference call.

The Kremlin-backed project, known as [Nord Stream 2](#), has been at the center of a disagreement between the U.S. and European Union in the past month. While the bill on extending U.S. sanctions against Russia, which passed the Senate July 27 but has yet to be signed by President Donald Trump, could affect any energy export pipeline in which a Russian company has a significant role, it also says that America would specifically "oppose" the pipeline led by Gazprom PJSC.

The 1,220 kilometer (758-mile) undersea link to Germany would cost 9.5 billion euros (\$11 billion). Engie, Royal Dutch Shell Plc together with Germany's BASF SE and Uniper SE, as well as Austria's OMV AG agreed in April to provide 10 percent of the funding each to see the link started by the end of 2019. The EU warned earlier this week that it could retaliate against the U.S. "within a matter of days" should its companies and their plans be targeted by the sanctions.

Uncertain Impact

OMV continues to monitor the situation "very carefully and will make an assessment when all of the facts are on the table," its press service said by email on Friday.

"In general, sanctions have not proven to be an instrument that achieves its given goal as we have seen in the last years," OMV said. "From a European standpoint, the additional quantities of natural gas from Russia are necessary."

If the sanctions bill is enacted, Shell would "have to go through the phase of rule making to understand exactly how that bill should be implemented," before understanding the full implications for Nord Stream 2, Chief Executive Officer Ben Van Beurden said on a conference call July 27.

As the project to some extent would compete with U.S. exports of liquefied natural gas to Europe, the Nord Stream 2 participants, including Russia and Germany, have said the measures sought to

bolster U.S. economic interests.

The U.S. bill says the president may impose sanctions against companies that invest in or supply a Russian export pipeline. This relates to construction, modernization or maintenance entailing a minimum of investment of \$1 million. Possible penalties included a ban on loans and investments from U.S. institutions, on banking and property transactions, and procurement deals with U.S. firms.

Nord Stream 2 has enough funding at least for this year, with more than 1 billion euros (\$1.17 billion) already received from EU partners, Gazprom Deputy CEO Alexander Medvedev said last month. While the company has repeatedly said it has enough money to complete the pipeline on its own if needed, in a recent Eurobond prospectus it noted that “difficulties,” delays or even failures are theoretically possible because of the curbs.

“Sanction law is not retroactive so only future funding transfer would trigger risks,” Engie’s Chareyre said. “We are not in that situation yet and advocacy is being pursued very actively by Engie, other companies and the EU.”

—With assistance from Anna Shiryayevskaya, Francois de Beaupuy and Rakteem Katakey.

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TransCanada Still Sees Producer Support for Keystone XL Line

Posted July 28, 2017, 02:48 P.M. ET

By [Kevin Orland](#)

TransCanada Corp. said it still expects commercial support for its controversial Keystone XL oil pipeline, tamping down speculation that it was having trouble finding customers for the long-delayed line.

Keystone XL, which was rejected by the Obama administration before being revived by President Donald Trump this year, would boost TransCanada’s dividend growth, the company said in a statement July 28. Media reports in recent weeks said that the company was having trouble signing up customers for the pipeline, conceived to help move crude from Alberta’s oil sands to refineries on the U.S. Gulf Coast.

TransCanada said earlier this year that it was working to sign new shippers following years of delays. Given the time it took to gain federal approval, TransCanada said it expected some shippers to reduce their volume commitments and that other new customers would be introduced. The company said July 27 that it’s soliciting additional commitments to ship oil on Keystone XL.

“We’ve had good support from our legacy shippers, which gives us a good base to launch this open season,” Paul Miller, TransCanada’s president of liquids pipelines, said on a conference call.

The open season closes on Sept. 28, with the results of the process expected to be final in late November, Miller said. The company should also receive its regulatory decisions from Nebraska around that time and will weigh both of those factors in determining whether to proceed with the line, he said. If TransCanada decides to move ahead on Keystone XL, it would need six to nine months to prepare for construction and about two years to build it, he said.

Dividend Growth

Success in advancing Keystone XL or other growth initiatives such as the Bruce Power life extension may “augment or extend the company’s dividend growth outlook,” Chief Executive Officer Russ Girling said in the statement. The company plans to increase its annual dividend at the upper end of an 8 percent to 10 percent range through 2020.

Keystone won votes of confidence from the chief executive officers of Canadian oil producers Cenovus Energy Inc. and Suncor Energy Inc. this week. The CEOs both said they support Keystone and that the Canadian energy industry needs more pipeline capacity. Suncor confirmed that it plans to ship its products on Keystone.

Alberta’s oil producers have long warned that a lack of pipeline space was hurting their prospects. That pipeline pinch may start to hit the industry later this year as Suncor’s massive Fort Hills oil-sands project starts to produce oil and Canadian Natural Resources Ltd. completes another phase of expansion at its Horizon mine.

Beyond Keystone

Looking beyond Keystone, TransCanada is spending C\$2 billion (\$1.6 billion) to expand its natural gas pipeline network in Western Canada. The upgrades to the Nova Gas system will include 171 miles (275 kilometers) of new pipeline, additional compression and new metering stations.

The company said July 28 that it was applying to the National Energy Board to expand capacity on its Canadian Mainline, which carries natural gas from producers in Alberta to markets in the nation’s east. The company would spend about C\$160 million (\$129 million) on the project, which is underpinned by 15-year contracts.

TransCanada’s second-quarter profit was 76 Canadian cents a share, excluding some items. The average estimate of analysts surveyed by Bloomberg was 68 cents.

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More Charging Stations Coming to California in Initial VW Deal

Posted July 28, 2017, 7:44 A.M. ET

By [Carolyn Whetzel](#)

Volkswagen subsidiary Electrify America will spend \$200 million over the next 30 months to build California’s electric vehicle infrastructure and boost use of zero-emission vehicles in the state.

The investment is the initial phase of the court-ordered \$800 million program VW must implement in the state after the automaker was found to have equipped 2009-2016 model year diesel-engine vehicles with illegal software to mask emissions during certification tests.

The California Air Resources Board approved the first of four investment plans Electrify America must submit over the next 10 years. It calls for 400 new charging stations in Fresno, Los Angeles, Sacramento, San Diego, San Jose, and San Francisco and fast charging systems along highways. Other elements of the [plan](#) and a [supplement](#) CARB requested in March, focus on giving low-income and disadvantaged communities access to zero-emission vehicles and public outreach.

Mexico's Ethanol Boost Fuels Cross-Border Environmental Debate

Posted July 28, 2017, 7:16 A.M. ET

By Emily Pickrell

Mexico's decision to nearly double the amount of ethanol permitted in gasoline is pitting two big winners—U.S. corn growers and ethanol producers—against some environmental activists and Mexico's own auto industry.

Last month Mexico's Energy Regulatory Commission (CRE) announced it was immediately boosting the maximum amount of ethanol that could be blended in Mexican gasoline supplies from 5.8 percent to 10 percent, and that the change would bring Mexico (outside of its three biggest cities) in line with U.S. gasoline standards.

The U.S. Grains Council—which represents ethanol producers such as Cargill, John Deere, Dow AgroSciences, and Kansas Ethanol—welcomed the decision, as did former commission president Francisco Salazar.

"I think that the CRE has made the right move," Salazar, the agency's president from 2005 to 2015, told Bloomberg BNA. "The standard on the other side of the border is a good one."

While the U.S. already supplies about half of Mexico's gasoline and is the primary producer of ethanol used in Mexico, the change, which took effect June 26, also could expand gasoline imports from the U.S. because retailers won't need to sell gasoline with different ethanol levels on either side of the border.

Cross-Border Cooperation

Despite feuding with Mexico over a border wall, President Donald Trump promised to support ethanol while campaigning for president, and he reiterated that position in a speech in Iowa last month. The ethanol industry is "under siege," but the Trump administration is saving it, the president told an Iowa crowd in June.

Earlier this month, Energy Minister Joaquin Coldwell and U.S. Energy Secretary Rick Perry agreed to work on standardizing energy regulations between the countries, as a way of moving toward a single North American energy region. The Trump administration has listed this integration as one of its objectives in renegotiating the North American Free Trade Agreement, and Mexican President Enrique Pena Nieto has identified it as a key priority.

"We are pleased to see this [ethanol] decision, which is the culmination of significant work by Mexican authorities and industry as they continue to diversify and improve their fuel supplies," Tom Sleight, the U.S. Grains Council's president and chief executive officer, told Bloomberg BNA in a statement.

U.S. Winners

U.S. corn growers had pushed hard for their southern neighbor to adopt the U.S. ethanol standards, according to George Baker, publisher of Mexico Energy Intelligence, a Houston-based research group.

“There was a big effort on the part of U.S. refineries to lobby Mexico,” Baker said. “It basically is an effort to prop up the Iowa corn industry by exporting gasoline.”

And U.S. companies are likely to become the big ethanol suppliers for Mexico, which currently produces about 66 million gallons per year of ethanol, according to the Grains Council. By contrast, the largest U.S. ethanol plants alone make as much as 300 million gallons per year of ethanol.

Whether the council’s efforts should be seen as lobbying or helping a neighbor develop its own market is a matter of perspective, said Mike Dwyer, the Grains Council’s chief economist and head of the global ethanol program. The mission of his program, he explained, is to provide regulators around the world with information on the benefits of ethanol and the science that supports its impact on the environment.

“We are working with the Mexican ethanol industry and helping them develop a resource,” Dwyer told Bloomberg BNA. “Mexico has the necessary feedstocks to produce ethanol; they have plenty of sugar and sorghum. What they don’t have is the knowledge, and that is what is the focus of our engagement—education.”

Environmental Dissent

Research on the health impacts of ethanol in gasoline are mixed. The addition of ethanol reduces two types of carcinogens, benzene and butadiene, according to a 2009 Stanford University [report](#), but may increase ozone, which has been linked to asthma and other lung ailments, depending on the characteristics of the atmosphere.

Ethanol in gasoline has not been permitted for sale in Mexico’s three most heavily populated cities—Mexico City, Guadalajara or Monterrey—because of their significant air quality issues. And this ban continues, at least for now.

Mexican environmental groups argue the decision to increase the percentage of ethanol in the rest of the country overlooks the potential environmental and health damage it could inflict, in part by increasing ozone in the atmosphere.

Ethanol advocates point to research—such as a January 2017 [report](#) from the U.S. Department of Agriculture—that ethanol gasoline produces fewer greenhouse gases and thus benefits climate change reduction goals.

But some environmental groups question the actual environmental benefits of ethanol, including as it relates to greenhouse gas emissions. They point to the fossil resources that are invariably required to grow these crops and then process them into an additive for fossil fuel, which they say can largely neutralize the carbon footprint benefit.

High-Altitude Cities

In Mexico, the environmental issues have focused mostly on air quality.

The concerns that ethanol gasoline would be especially problematic for high-altitude cities, such as Mexico City, have not been proven by the experience of other cities who once raised the same concerns, Dwyer said. He listed Denver and Bogota, Colombia, as examples.

“They have not had any reported problems of ozone going up,” Dwyer said. “The Mexicans will find the same thing that is found everywhere else on the planet—that ethanol is a great additive for improving air quality, for reducing GHG emissions in the transportation market and is a great low carbon source of octane.”

And while a 2014 Northwestern University [study](#) on air quality in Sao Paulo, Brazil, showed that ozone levels dropped when drivers switched from ethanol to gasoline in flexible-fuel vehicles, the study also noted that the impact of ethanol versus gasoline on air quality depends on the characteristics of the local atmosphere.

‘Waiting For the Data’

The Energy Regulatory Commission commissioned the Mexican Petroleum Institute to study the health implications of increasing ethanol to 10 percent in gasoline, and to conduct a cost-benefits analysis. But the study’s findings have yet to be released.

“Right now, we are waiting for the data,” said Anaid Velasco, an air quality analyst with the Mexican Center for Environmental Law. “We do not think that we have enough data to make that kind of decision.”

Carmakers Unhappy

The Mexican Auto Industry, or AMIA, which represents some of the most powerful international auto producers in Mexico, such as General Motors Co., Honda Motor Co., Audi and Volkswagen, has also expressed concern about the new rules.

AMIA contends that because Mexico’s auto emissions standards—especially for its older cars—are less stringent than those in the U.S., a larger portion of its fleet is potentially less capable of processing the higher percentage of ethanol in gasoline.

“The older vehicles in circulation lack the same emissions control capacity as the more recent vehicles,” wrote Osvaldo Belmont Reyes, the technical director of AMIA, in a June 22 letter to the Energy Regulatory Commission. “The resulting increase of particles would eliminate the same air quality improvements that the government is trying to achieve, with consequential health implications for the public.”

VW, GM and Audi told Bloomberg BNA they support the AMIA position.

But former CRE president Salazar said the idea in Mexico that ethanol is more harmful for air pollution is based on older research that used cars with no catalytic converters.

“Ethanol is used in areas with an altitude even higher than Mexico City and it is not a problem,” Salazar said. “Why would Mexico have a different standard when the U.S. standards have been approved by the EPA? It doesn’t really make sense to counter the tough environmental standards of the U.S.”

Wind Projects in Peril as Indian States Rethink Purchase Pacts

Posted July 28, 2017, 8:17 A.M. ET

By [Anindya Upadhyay](#)

Two Indian states at the forefront of adding renewables to their power mix are backtracking on agreements for at least one gigawatt of wind project and are seeking lower prices, potentially dealing a blow to Prime Minister Narendra Modi's green energy goals.

The southern states of Andhra Pradesh and Karnataka, which account for a quarter of the country's installed wind capacity, are renegotiating or scrapping purchase agreements with developers and want power at prices lower than what had been stipulated in contracts already signed, developers said.

"We have lost 75 megawatts of our project pipeline as Karnataka has canceled 400 megawatts of PPAs and there seems to be no other option than taking legal recourse for this," London-listed Mytrah Energy Ltd. Chief Executive Officer Vikram Kailas said in a phone interview.

The developments are a fallout of India's shift toward auctions to buy electricity from wind that brought tariffs to record lows, prompting states to renegotiate feed-in tariffs that guarantee a fixed price to producers for their power. This puts at risk the developers' financial health if price agreements are renegotiated and could threaten Modi's resolve to install 175 gigawatts of renewables by 2022.

Andhra Pradesh wants to pay a lower price for wind power projects than what was agreed to for 684 megawatts of capacity, people with knowledge of the matter said, asking not to be identified citing rules. Neighboring Karnataka scrapped power purchase agreements, or PPAs, signed earlier this year for 400 megawatts of wind projects, said P. Krishnamoorthy, general manager for power purchase at state electricity retailer Bangalore Electricity Supply Co Ltd.

Auction Impact

While Mytrah's projects are yet to be built, Bangalore-based [Atria Power](#) has lost investments of 1.9 billion rupees (\$30 million) to build a 24-megawatt project in Karnataka, a company official said. International Finance Corp.-backed Hero Future Energies Ltd. faces renegotiation of the tariff for its 70 megawatts of commissioned projects out of a planned 120 megawatts in Andhra Pradesh.

"Andhra Pradesh should honor what they have signed," Hero Future Energies Chief Executive Officer Sunil Jain said. "If all these PPAs are renegotiated, you could have bad debts of millions of dollars and what's worse is that you'll drive investors away."

The first wind auction held in February brought wind tariffs to the lowest level in the country. Various states are now seeking the same from developers and are even renegeing on previous pacts. By March, states stopped signing PPAs with projects either in development or commissioned and now the situation has escalated to reopening the pacts.

Southern Power Distribution Company of Andhra Pradesh Ltd., the state's power retailer, has decided to renegotiate the PPAs because the same developers building projects at record-low tariffs through auctions in one state shouldn't be selling clean energy at higher tariffs in another, people said. Negotiations are underway to resolve the impasse, they said.

An email seeking comment sent to H.Y. Dora chairman of Southern Power Distribution remained unanswered.

Wind Additions

According to ratings agency India Ratings and Research, there could be a substantial dip in wind capacity additions in the current financial year ending March 31. Installations could fall to 1 gigawatt to 1.5 gigawatts from an all time high of 5.4 gigawatts last financial year, the rating agency said in a recent note.

As of June, India had 32 gigawatts of wind capacity. The nation is aiming to raise that to 60 gigawatts by 2022 as part of the country's climate pledge.

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