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**Sent:** Wed 7/12/2017 8:07:56 PM
**Subject:** July 12 -- 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.**

### Ozone Standards Delay Illegal, Advocates Argue in New Lawsuit

*Posted July 12, 2017, 03:53 P.M. ET*

*By Andrew Childers*

Postponing the EPA's new ozone pollution limits for a year is illegal, a dozen environmental and public health groups said in a lawsuit filed today.

The Environmental Protection Agency announced in June its plans to delay decisions on which regions of the country fail to meet the national ozone standards, set at 70 parts per billion in 2015. Areas that exceed the standards could be required to impose a variety of pollution control requirements, including potential restrictions on vehicles and industrial facilities, to come back into compliance. It might also slow the ability of companies to secure permits to open or expand industrial facilities in certain regions.

The EPA had said that it lacks the data necessary to make the determinations. The Clean Air Act allows that sort of delay, but the environmental and health groups have said that provision only applies to individual areas and cannot be extended nationwide.

The advocacy organizations that filed the lawsuit include the American Lung Association and the Sierra Club. The Sierra Club has received funding from Bloomberg Philanthropies, the charitable organization founded by Michael Bloomberg, founder of Bloomberg L.P. Bloomberg BNA is an affiliate of Bloomberg L.P.

### Senate Panel Votes to Reauthorize Diesel Grant Program

*Posted July 12, 2017, 11:32 A.M. ET*

*By Catherine Douglas Moran*

The Senate Environment and Public Works Committee approved bipartisan legislation to reauthorize a popular federal clean air program that targets emissions from older diesel engines.

The committee July 12 voted to favorably report to the Senate a bill (S. 1447) to reauthorize the Diesel Emissions Reduction Act, commonly known as the DERA program, through fiscal year 2022 at its current funding level of $50 million.

The program provides grants and rebates to states and localities to switch away from diesel engines and upgrade or replace older diesel engine vehicles such as heavy-duty trucks, school buses and equipment at ports and airports.

"It's a very important federal program to incentivize the latest clean technology to generate emission reduction across the country," Ezra Finkin, policy director for Diesel Technology Forum, told Bloomberg BNA. That organization represents companies that manufacture diesel vehicles and equipment, including Ford Motor Co., Caterpillar Inc., and Deere & Co.

The Senate Environment and Public Works Committee ranking member, Sen. Tom Carper (D-Del.), introduced the bill with the support of Sen. James Inhofe (R-Okla.), Sen. John Barrasso (R-Wyo.), and Sen. Sheldon Whitehouse (D-R.I.).

Carper said at the hearing that he is one of the strongest supporters of the program, which he called "one of the most effective EPA programs, resulting in enormous environmental and public health benefits, while creating jobs here at home."

Congress provided almost $670 million to the program between fiscal year 2008 and FY 2016, including $300 million from the American Recovery and Reinvestment Act of 2009, a one-time stimulus package. The EPA has awarded 690 grants since the program started in 2008, according to an April agency press release announcing plans to fund at least $11 million in additional programs.

The Obama administration repeatedly proposed cuts to the DERA program in annual budget requests, a trend that continued in President Donald Trump's first budget proposal. The White House proposed to fund DERA at $10 million for fiscal year 2018, down from the current $50 million.

**House Energy Funding Bill Advances With Renewables Cuts Intact**

*Posted July 12, 2017, 03:01 P.M. ET*

*By Rebecca Kern*

The House Appropriations Committee approved a $37.56 billion energy and water appropriations bill to fund the Energy Department, Army Corps of Engineers, and other related independent agencies, including the Nuclear Regulatory Commission.

The bill, approved by voice vote July 12, would cut funding for those agencies by $203 million in fiscal year 2018 compared to current funding. The funding level sought by House appropriators is still $3.25 billion above what President Donald Trump sought in his first budget request.

The Energy Department would receive $29.9 billion under the House bill, which is $857.6 million below the fiscal 2017 enacted level, and $2 billion above Trump's request. That includes a nearly $1 billion cut to DOE's Office of Energy Efficiency and Renewable Energy, which invests in energy efficiency research and reducing the cost of wind, solar, and other renewable technologies.

The bill would eliminate funding for the Advanced Research Projects Agency-Energy (ARPA-E), which provides early stage investment in innovative energy technologies. It was proposed to be eliminated in Trump's budget, which requested just $20 million to wind down remaining projects, compared to $306 million provided in the fiscal 2017 omnibus bill.

Rep. Mike Simpson (R-Idaho), chairman of the committee's Energy and Water Subcommittee, said that while he supports ARPA-E, he noted that the bill is the start of the appropriations process and that funding may be returned.

"The department should not take action to shut down ARPA-E unless Congress directs them to do so by law," Simpson said at the markup. "I like ARPA-E, but our nation's defense and infrastructure are the top priorities and tough choices had to be made. I generally support ARPA-E, and I would like to see this continue."

Two Democratic amendments were offered and failed during the markup. One amendment proposed removing language that would allow the EPA to speed up the rollback of the Obama-era Clean Water Rule, and another recommended returning funding to the Office of Energy Efficiency and Renewable Energy.

**Nuclear Regulatory Commission Nominees Clear Senate Panel**

*Posted July 12, 2017, 10:17 A.M. ET*

*By Rebecca Kern*

Two nominees for the Nuclear Regulatory Commission cleared the Senate Environment and Public Works Committee June 29.

Annie Caputo and David Wright, the two Republican nominees, advanced to the full Senate for a confirmation vote. Caputo's nomination was approved 15-6, while Wright cleared the committee on a 11-10 vote. Caputo is a longtime energy policy adviser for the committee, and Wright is a former chairman of the South Carolina Public Service Commission. In June, the Senate confirmed current NRC Chairman Kristine Svincki for a third five-year term.

Caputo has more than a decade of experience working as a staffer on both Senate and House energy committees. She has worked as a policy adviser on the Senate Environment and Public Works Committee since January 2015 and was a staffer from 2007 to 2012, specializing in nuclear energy issues. From 2012 to 2015, she worked as a staffer on the House Energy and Commerce Committee.

A former congressional affairs manager at Exelon Corp., Caputo has a chemical engineering degree from Michigan Technological University and a degree in nuclear engineering from the University of Wisconsin-Madison.

Wright has been the owner of Wright Directions LLC, a strategic consulting and communications business based in South Carolina, since 2013. He served on the South Carolina Public Service Commission from 2004 to 2013.

From 2011–2012, he was president of National Association of Regulatory Utility Commissioners, which represents state public service commissioners. He also was national chairman of the Nuclear Waste Strategy Coalition from 2006 to 2013, a group of state utility regulators, local governments, and tribes on nuclear waste policy issues. He has a political science degree from Clemson University.

The NRC licenses and regulates the country's nuclear reactors. Its five commissioners serve staggered five-year terms, with three seats belonging to the political party in power in the White House. It currently has three commissioners: Svinicki; Stephen Burns (I), the previous chairman in the Obama administration; and Jeff Baran (D).

—With assistance from Catherine Douglas Moran

**Bill to Boost Carbon Capture Tax Credit Resurfaces in Senate**

*Posted July 12, 2017, 03:24 P.M. ET*

*By Brian Dabbs*

A bipartisan bill to extend a carbon capture and sequestration tax credit resurfaced in the Senate July 12.

The legislation would boost credits for carbon sequestered tonnage and allow power plants to claim the credit for 12 years following installation of the equipment.

Sen. Heidi Heitkamp (D-N.D.), the lead sponsor, touted the bill as a potential boon to the coal industry.

"The bill recognizes that coal—which provides one-third of electricity in the U.S.—will continue to be part of the nation's and world's energy mix for the foreseeable future, which can be done while making the resource cleaner," she said in a statement.

Sen. John Barrasso (R-Wyo.) and Sen. Sheldon Whitehouse (D-R.I.), unlikely allies on environmental policy, also sponsored the legislation.

**Markup on Ethanol Boost Likely Before August Recess**

*Posted July 12, 2017, 02:58 P.M. ET*

*By Brian Dabbs*

A committee vote on legislation to boost ethanol sales is likely to take place before the August recess, a spokeswoman for Sen. Chuck Grassley (R-Iowa), the chief ethanol proponent in the Senate, told Bloomberg BNA.

The announcement July 11 of an extended work period before the break opens the door to unforeseen legislative developments, and ethanol backers on Capitol Hill are pushing to gain support for the bill.

The legislation (S. 517), which would allow sales of transportation fuel containing 15 percent ethanol (E15) in the summer months, could provide a windfall for POET LLC, Archer Daniels Midland Co. and other ethanol producers.

Still, Sen. John Barrasso (R-Wy.), chairman of the Environment and Public Works Committee, said a markup will be held but stopped short of confirming a time frame.

**"I don't know about the timing on it, but I promised them one, and there will be one," Barrasso, who opposes the bill, told Bloomberg BNA July 12. "We just found out yesterday**

**that we're going to be here an additional two weeks, so we're trying to figure out hearings, markups, how we want to spend our time."**

**Senate Majority Leader Mitch McConnell (R-Ky.) now vows to hold the Senate in session through the week of Aug. 7, a two-week cut to the previously planned schedule.**

**Barrasso and Senate leadership promised ethanol supporters a vote on the E15 bill in exchange for "yes" votes on a measure to roll back an Interior Department regulation on methane venting and flaring. That rollback attempt—a use of the Congressional Review Act—ultimately failed in May after unexpected opposition from Sen. John McCain (R-Ariz.).**

### Committee Support Unclear

**While the bill may be poised for a markup, committee support is still unclear. "We are working to get the votes in committee," the spokeswoman for Grassley, who doesn't sit on the committee, said.**

**Sen. Deb Fischer (R-Neb.), the bill sponsor and a committee member, is reaching out to Sen. Tom Carper (D-Del.), to court his support, she told Bloomberg BNA. Several Republicans, including Barrasso, Sen. James Inhofe (Okla.), and Sen. John Boozman (Ark.), oppose the bill.**

**Ethanol backer Sen. Joni Ernst (R-Iowa) said she is "cautiously optimistic" about the prospects of the markup. Fischer declined to comment.**

## Australia Drive for Stricter Fuel Efficiency Angers Automakers

***Posted July 12, 2017, 10:00 A.M. ET***

***By Murray Griffin***

**The Australian government is considering a fuel efficiency standard for new light vehicles that has angered the association representing companies including Toyota, Volkswagen and Ford, but pleased climate advocacy groups.**

**The Liberal-National Party Coalition government led by Prime Minister Malcolm Turnbull has proposed, in a paper sent July 10 by the federal Department of Infrastructure and Regional Development to key interest groups, a new light vehicle fleet average of 105 grams of carbon dioxide per kilometer, which would be fully phased in by 2025. The department has not yet posted the paper on its website nor has it confirmed it will implement the proposal.**

**Australia is currently one of the few developed countries that lacks light vehicle efficiency standards. Under the proposal, companies would report sales and efficiency levels starting in 2020. In 2022, 65 percent of vehicle sales would have to comply with the standard, rising to 100 percent by 2025.**

**To provide some flexibility, the companies would be allowed to average fleet emissions over three years. Compliance would be determined by giving companies a credit for each vehicle that is at or under the standard, and issuing a debit for each one that is above it. Companies would be in compliance if they had at least as many credits as debits at the end of each calendar year.**

### Credits for Ultra-Low Emission Vehicles

**To encourage ultra-low emission vehicles such as electric cars, extra credits would accrue.**

For example, a vehicle producing zero carbon per kilometer would accrue three credits, while the sale of a car producing between one and 30 grams per kilometer would earn two credits.

The standard would adopt the new Worldwide Harmonized Light Vehicles Test Procedure—which is expected to be adopted by the end of 2019—as the basis for measuring vehicle efficiency.

The Australian Chamber of Automotive Industries—which represents car makers including the Australian operations of BMW, Ford, Honda, Hyundai, Mercedes-Benz, Toyota and Volkswagen—criticized the proposal.

"We are hugely disappointed," Tony McDonald, the chamber's acting chief executive, told Bloomberg BNA July 12 by phone. McDonald said the government shouldn't specify a carbon standard until it has strengthened fuel quality standards, adding that the government should also take into account "Australian consumers' predisposition to purchase heavier vehicles."

These matters influence "what you can do to achieve a CO2 outcome," he said.

The chamber is advocating options for the efficiency standard that would result in the new vehicle fleet still being above 105 grams carbon dioxide per kilometer in 2030.

However, think-tank ClimateWorks Australia welcomed the proposal. ClimateWorks implementation manager Scott Ferraro July 12 told Bloomberg BNA by phone the proposal followed extensive consultation.

Ferraro said a draft regulatory impact statement issued last December by the government had considered several possible standards and found that the 105 grams option would deliver net benefits of A$13.9 billion ($10.63 billion) by 2040, due mainly to fuel savings. He also disputed that the standard could only be implemented in conjunction with improved fuel quality standards.

This argument had been debunked by the International Council on Clean Transportation in its submission to the federal government's consultation process on the proposed standard, he said.

The council's comments said that Australia could meet the 105 grams standard "based on the current fuel quality we've got," Ferraro said.

According to the council's submission, the present fuel quality in Australia "is not a hindrance to lowering CO2 emissions from new light vehicles."

"While gasoline sulfur content in Australia should be brought down to 10 parts per million over time in view of reducing noxious emissions, lack of availability of ultra-low sulfur or extra high-octane gasoline should not become an excuse for delaying action on light vehicle CO2 standards," the council said.

**Billion-Barrel Mexican Find Could Spur Rush on Next Oil Auctions**

***Posted July 12, 2017, 03:49 P.M. ET***

***By Adam Williams, Amy Stillman and Giacomo Tognini***

A billion-barrel crude discovery in Mexico could be just the lure the country badly needs to boost investment from oil majors as it lacks the wherewithal to reverse years of sagging output.

At a time when global oil prices were cratering—and drillers were nervously cutting exploration funds—Mexico's earliest auctions drew spotty interest. Since then, however, European drillers led by Italy's Eni SpA have increasingly become involved. The find in Mexico's shallow waters could drive added interest—and higher bids—in future auctions as the government seeks to boost production that's fallen by a third in the past decade.

On July 12, Premier Oil Plc, Sierra Oil & Gas and Talos Energy LLC announced the first Mexican find by explorers other than state-owned Pemex in 80 years, a reservoir with an estimated 1.4 billion to 2 billion barrels. With new auctions set for the end of the year, the discovery promises to rev up interest in Mexico's energy riches moving forward, said Pablo Medina, an analyst at the consulting firm Wood Mackenzie Ltd.

"Future bids will likely be more aggressive," Medina said in a telephone interview. "This obviously increases the attention people will pay. The area contiguous to this block is going to go up in value, no question."

About a fifth of Mexico's public budget relies on oil revenue, with production near the lowest level in more than 30 years. That drop in production, combined with lower oil prices, forced the government to cut spending, causing growth in the $1.1 trillion economy to decelerate to the slowest pace since 2013.

## Mexico's Gain

The Mexican government will receive a 68.99 percent profit share from every barrel produced in the block, and as much as 80 percent when considering taxes and fees over the life of the project, Sierra said in a statement. "It is of great importance for Mexico," Mexico Oil Commissioner Juan Carlos Zepeda wrote in an emailed statement.

President Enrique Pena Nieto embarked on an ambitious reform of the energy sector in 2013, aiming to revive flagging output at a time when oil prices were in the triple digits. The reforms, which didn't kick in until after oil prices had fallen, involved amending the constitution to allow foreign investors into the country's oil industry for the first time since it was nationalized in 1938.

The first auctions came in 2015, with outside investors invited to bid on fields that were previously only accessible to Pemex. Eni SpA was one of the first oil majors to win a bid in Mexico and has stood out in the race by winning four contracts.

Since then, some of the world's largest oil companies, including Exxon Mobil Corp., Chevron Corp., and BP Plc, signed contracts in the country. European majors Repsol SA, Royal Dutch Shell Plc, and Total SA also won leases earlier this year in shallow-water fields.

## Less Risk

The find has "de-risked a little bit some of these shallow water opportunities" in Mexico, said Jeremy Martin, director of the energy program at the Institute of the Americas, speaking over the phone from La Jolla, California. "There are a host of companies on the U.S. side of the Gulf that may now consider participating in upcoming auctions because this is a way of showing them that the process works, and can lead to a discovery."

The next auctions, in deep water and for shale blocks, will likely come at the end of this year

**or the start of 2018.**

**The shallow field holding the billion-dollar find is located 37 miles (60 kilometers) offshore from the Mexican port of Dos Bocas in 546 feet (166 meters) of water and contains light oil, Premier Oil said in a statement. The discovery comes just two years after the three explorers jointly won the exploration license.**

**In a July 12 interview, Premier CEO Tony Durrant listed the potential of the site at 1 billion to 1.5 billion barrels. Sierra said the primary target reservoir contains 1.4 billion to 2 billion barrels, and could extend into a neighboring block.**

**Mexico "took a really difficult decision for them politically after 40 years of 100 percent Pemex-ownership," Durrant said. The opening up of the country's industry "caught them at absolutely the worst time because of the collapse in oil prices. But to be fair to them, they persevered and they have now got very strong industry interest."**