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## **Daily Environment Report**

### **Afternoon Briefing - Your Preview of Today's News**

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#### **Lapsed Tax Credits Leave Renewables Twisting in the Wind**

*Posted August 14, 2017, 8:01 A.M. ET*

*By [Brian Dabbs](#)*

The Bergey Windpower Co. factory south of Oklahoma City can produce 1,500 small-scale turbines annually. But current output is only a fraction of that capacity.

So now the pioneer in the wind energy industry is bracing to pare down staff. The company's struggles are partially due to the low price of small solar modules, which are helping that industry take the renewable energy sector by storm at the expense of wind.

But a big drop in sales for Bergey is also due to tax policy.

Small wind turbine producers such as Bergey are facing dire times because Congress allowed a wind installation tax credit to lapse at the beginning of 2017, while renewing credits for solar. And the lapse isn't restricted to wind. Geothermal pumps and fuel cells industries also lost the credit, triggering huge sales hits that are putting the future of a wide range of companies and their employees at risk.

Legislative efforts to restore the credits are afoot, but Republican congressional leaders aren't homing in on them.

Now producers of these "orphan" technologies are competing with a solar industry that reaps a 30 percent incentive as a result of its tax credit. That means a \$30,000 solar panel installation will cost a homeowner \$21,000 in the end. A \$30,000 geothermal installation will cost the homeowner the full amount, as will a \$45,000 wind system.

#### **'They're Not Buying'**

So Mike Bergey, president of the Norman, Okla., company, is now peddling only a few residential turbines to deep-pocketed clients.

“Our bread and butter customers were a guy who drives a truck and his wife is a nurse—just straight middle class. They’re not buying,” he told Bloomberg BNA. “We saw a step change. We’d been on a slide, and then we hit a cliff.”

Karl Bergey, Mike’s father and a former University of Oklahoma professor who designed the Piper Cherokee aircraft, led the company to national prominence in the 1970s. Bergey Windpower took shape during the oil embargo crisis then, and also during the rise of the nuclear industry, which aimed to dominate alternative energy.

Bergey turbines boomed, but then dwindled in the 1980s after oil prices reached historic lows. Now solar modules—whose tax credits Congress extended in late 2015 in a package that omitted the orphan technologies—are posing a real threat to the Bergeys’ company, its staff, and the broader small-wind industry.

Bergey’s staff now numbers 28 employees, a decline from 50 in recent years.

“We’ll take short-term losses to try to retain skilled staff,” Mike Bergey said, while cautioning about the sustainability of that approach. “If they don’t fix this tax credit, we will have to make adjustments. We will have to start cutting more people.” Lloyd Ritter, a spokesman for the Distributed Wind Energy Association, said the loss of tax credits also cut sales for other small wind producers.

#### **Disparity with Solar**

Wind energy, solar and geothermal pumps reduce their owners’ need to purchase electricity from the grid, and also help reduce carbon emissions driving global warming.

The three technologies compete for market share, and natural conditions traditionally play a large role in customer choice. Windier areas generate more wind energy, and sunnier areas generate more solar energy. Subsurface geology and water, as well as the actual availability of land to put a borehole in place, are factors for geothermal pumps.

Geothermal pumps heat and cool buildings by sourcing subterranean temperatures, which are typically colder in the summer and warmer in the winter than temperatures at the surface.

“In some areas, you’re going to get a better return doing geothermal, and in other areas, you’re going to get a better return if the homeowner is putting in small wind,” J.P. Delmore, a lobbyist for the National Association of Home Builders, which supports the orphaned credits, told Bloomberg BNA. “But if you’re dealing with your client you say ‘Well, it makes sense for you to do geothermal, but solar would be cheaper,’ most are going to say ‘Let’s do solar.’”

The concern, he said, is that the other technologies won’t be purchased if there isn’t tax parity.

Solar credits for both residential and commercial installation are in effect through 2021. Those credits award residential and commercial owners who want to install solar modules with a 30 percent credit, a rate which begins to phase out in 2019. From 2022 on, commercial credits are authorized at 10 percent.

That means those in the market right now will pay nearly a third less for a solar product but the full price for all geothermal and fuel cells, as well as residential wind. Steve Smith, the president of EnerTech Inc.,—a geothermal pump producer and distributor with a 80,000-square-foot factory in

Mitchell, S.D.—said that disparity is taking a hatchet to his sales.

The company sold 42 percent fewer pumps from Jan. 1 to the end of July this year compared to the same time period last year, Smith told Bloomberg BNA. That translated to 19 job cuts this year at the Mitchell factory, leaving 33 employees—about a 37 percent reduction.

“These are real jobs here in America that are being robbed because they let solar have the tax credit and we have to compete against them,” Smith said. “It seems like the craziest penalty against American workers.”

Rep. Kristi Noem (R-S.D.), the state’s lone House member, supports plans to reinstate the credits. A spokesman for Sen. John Thune (R-S.D.) didn’t comment directly on the credits, and a spokeswoman for Mike Rounds (R-S.D.) didn’t respond for comment. But Smith said Rounds personally pledged support. The two hunted together at an event during Rounds’ tenure as governor.

### **Solar Sales Up, Firms Falter**

Residential solar installations continue to surge.

A banner year in 2016 led to the installation of more than 2.6 gigawatts capacity of residential solar, as well as more than 1.6 gigawatts capacity of commercial, according to Solar Energy Industries Association and GTM Research. The 2016 spike is due to an installation rush brought on by fears that the solar credit would expire as the credit for the other technologies ultimately did, SEIA spokesman Alex Hobson told Bloomberg BNA.

The installation rate is expected to fall slightly this year but still edge out pre-2016 levels by substantial margins. The first quarter of this year featured more than 560 megawatts capacity of residential and nearly 400 megawatts capacity of commercial. Solar prices also fell by nearly 20 percent during 2016, SEIA says.

But despite the solar installation growth, U.S. companies are faltering, and in some cases going belly up. SolarWorld AG and Suniva Inc.—both of which filed for bankruptcy earlier this year—are pushing the U.S. to slap tariffs on foreign imports of solar panels to staunch the domestic bleeding.

The Energy Information Association says the U.S. imported nearly 12.8 gigawatts capacity in 2016. The U.S. agency doesn’t break that number down by residential, commercial and utility services. Meanwhile, the U.S. installed roughly 14.8 gigawatts capacity in 2016—the majority of that for utilities.

Representatives from the other renewable sectors, such as Geothermal Exchange Organization President Douglas Dougherty, argue the current tax system benefits Chinese and other foreign producers of solar products over U.S. companies that produce renewable energy products that compete with solar.

Dougherty said Enertech, the South Dakota geothermal pump producer, is actually faring better than others. Residential sales across the industry are down 45 percent this year, Dougherty told Bloomberg BNA.

“You tell me what business suddenly loses 45 percent of their revenue and stays in business,” he said. “You’ve said goodbye to the geothermal heat pump industry.”

The tax disparity isn't, however, sowing discord between solar and the other renewable sectors, industry representatives said. SEIA supports the restoration of the credits for the other sectors, Hobson said.

### **Revival Proves Elusive**

A broad range of industry associations—in addition to the wind, geothermal and other technology-specific groups—also are asking Congress to reinstate the tax credits.

The American Farm Bureau Federation is pushing an extension of the commercial wind credit because farmers often use that technology. The National Association of Home Builders wants all the credits reinstated to provide home purchasers with as many options as possible to decrease energy costs. The National Rural Electric Cooperative Association, a collection of utilities, is aiming to incorporate more options into utility portfolios.

Those groups are lining up behind two bills: H.R. 1090 in the House and S. 1409, a similar Senate bill, that would put the credits back into effect.

Led by Rep. Tom Reed (R-N.Y.), the House bill has 104 co-sponsors, including many members of the tax-writing Ways and Means Committee. Bicameral negotiators are continuing to try to get reinstatement across the finish line.

"I'm eager to see the orphan energy tax credits extended in the very near future," Sen. Charles Schumer (D-N.Y.), the minority leader, told Bloomberg BNA in a statement. "I will make every effort to see these provisions extended in a must-pass vehicle when we come back from recess."

A spokesman for House Minority Leader Nancy Pelosi (D-Calif.) said a reinstatement would most likely be attached to a near-term omnibus appropriations package or tax reform. A spokesman, Drew Hammill, said that "virtually all Democrats" support reinstatement.

But similar plans have fell through in recent months as Reed and other lawmakers tried unsuccessfully to tack reinstatement of the credits onto fiscal year 2017 funding.

A spokesman for Senate Majority Leader Mitch McConnell (R-Ky.) declined to comment to Bloomberg BNA. Spokespeople for House Majority Leader Paul Ryan (R-Wis.) also didn't respond to requests for comment.

### **Conservative Opposition**

The revival of the credits certainly aren't cheered on by all parties.

Americans for Prosperity, Citizens Against Government Waste, and other free-market groups continue to urge opposition to the incentives, arguing against any subsidies or tax breaks for energy technologies.

"The carve-outs and the loopholes that try to pick winners and losers in the energy industry are ultimately counterproductive," Levi Russell, spokesman for Americans for Prosperity, told Bloomberg BNA. "We just don't think it's the role of the federal government to prop up industries."

Some lawmakers, such as Sen. James Lankford (R-Okla.), agree.

“Senator Lankford has a long and established history of opposing credits,” D.J. Jordan, Lankford’s spokesman, told Bloomberg BNA. Lankford has introduced legislation in the past to ax all renewable energy production tax credits.

As an Oklahoma senator, Lankford represents Bergey on Capitol Hill. Meanwhile, Rep. Tom Cole (R Okla.),—the House member whose district includes Norman, Oklahoma, where the company is located—signed onto the House legislation that would restore the tax incentives.

### **Energy Tax Package Takes Hits**

A strategy to bundle the orphan revivals into a larger energy tax package has some supporters in Congress. That approach would team the orphan credits up with early renewals of a nuclear production tax [credit](#) and a [credit](#) for carbon sequestration, which involves capturing carbon dioxide emissions from a power plant and storing them permanently underground.

Sens. Lindsey Graham (R-S.C.), Tom Carper (D-Del.), and Heidi Heitkamp (D-N.D.), among other senators, have expressed interest in that strategy, as have some House members. That coalition of lawmakers, however, took a hit in recent days. On the heels of an announcement that South Carolina utilities pulled the plug on construction of two nuclear reactors at the V.C. Summer plant, Graham abandoned his support for the nuclear credit.

The strategy is based on broadening the buy-in, and the absence of the South Carolina delegation in the coalition would be a loss. But broadening that buy-in too much may also torpedo support from the environmental community.

“We absolutely support the renewable energy industry and the important effect that it has on our economy,” Lukas Ross, a climate and energy campaign official at Friends of the Earth. “What we don’t support is bad faith deals that involve tiny, marginal support for wind energy and other renewables in exchange for shoveling cash into the troughs of nuke and clean coal boondoggles.”

### **Broad Tax Overhaul Murky**

Republican lawmakers often argue that a comprehensive overhaul to the tax code—which is now the foremost White House priority following the collapse of healthcare legislation—replaces the need for tax carve-outs akin to the orphaned energy credits.

But a number of analysts say a tax overhaul would be a particularly difficult legislative task. And some members of the renewable industry don’t see it as a lifeline.

“There’s this concept that tax reform will fix our problem. Tax reform does not fix our problem,” Smith, the president of Enertech, said. He added that a tax overhaul likely wouldn’t trash the next five years of solar credits. Republicans have said they don’t aim to reel back the energy incentives already in place.

### **Holding On**

Representatives for the orphaned technologies are quick to say their industries are on the brink. Industry members, however, are pledging perseverance.

Bergey says his company has been in business for 40 years and aims to stay in business for

another 40. The Oklahoma native also finds some levity in the doldrums.

“My wife is in healthcare, and the joke is ‘all bleeding eventually stops,’” he said.

## **EPA’s Pesticide Industry Fee Accounting Has ‘Weakness’: Audit**

*Posted August 14, 2017, 02:15 P.M. ET*

*By [Tiffany Stecker](#)*

The EPA can’t be certain how much money is in its pesticide registration coffers, and that concerns the agency’s watchdog.

The Environmental Protection Agency’s inspector general was unable to properly account for the amount of money—a combination of pesticide industry fees and congressional appropriations—that was collected in fiscal year 2016 because of a “material weakness” that caused the agency to lose track of spending from the fund.

By paying a large part of employees’ paychecks with congressional appropriations—which unlike industry fees, expire at the end of a fiscal year—the EPA “lost the audit trail” to show how much of the payroll expenses were paid for by taxpayers, the IG said in a [report](#) Aug. 14.

As a result, the inspector general was unable to complete its regular audit of the fund and couldn’t determine whether any adjustments were necessary relating to payroll.

Pesticide manufacturers pay fees to the Pesticides Reregistration and Expedited Processing Fund to help move along the process of reviewing insecticides, weedkillers, disinfectants, and other products for risk to health and the environment. Manufacturers currently contribute up to \$27.8 million in maintenance fees to uphold the registrations of their pesticides.

The industry is set to pay 12 percent more in registration fees if the Pesticide Registration Improvement Act is reauthorized this fall.

### **EPA Working to Fix Accounting**

The EPA is in the process of correcting the weaknesses, the report stated.

Pesticide manufacturer Bayer CropScience has been tracking the issues with the pesticide fund, according to Charlotte Sanson, the company’s U.S. head of regulatory affairs.

“We understand that EPA has updated their accounting systems to address this problem and have confidence that the agency has taken the necessary steps to ensure financial accountability,” Sanson told Bloomberg BNA in an email.

The IG released [two similar](#) reports in July that addressed fiscal year 2014 and 2015 funding, in which it found that the EPA is sitting on almost \$16 million in unobligated pesticide industry fees.

The trade association CropLife America, which represents pesticide manufacturers, told Bloomberg BNA that it is still reviewing the report.

### **Energy Department Sued Over Grid Reliability Study Records**

*Posted August 14, 2017, 01:45 P.M. ET*

*By [Rebecca Kern](#)*

The Sierra Club launched an early challenge to a highly anticipated grid reliability study, filing a lawsuit over the Energy Department's alleged failure to provide records of any communication between department officials and the power sector.

The [complaint](#), filed Aug. 14 in the U.S. District Court for the Northern District of California Oakland Division, claims the Energy Department violated the Freedom of Information Act when it failed to respond to a May 1 FOIA request. The Energy Department was asked to provide records of any communications between department officials working on the report and outside groups representing the fossil fuel industry or grid reliability experts.

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.

In April, Energy Secretary Rick Perry directed Brian McCormack, his chief of staff, to conduct a 60-day study that would "explore the critical issue central to protecting the long-term reliability of the electric grid." Perry has questioned the impact of renewable subsidies and taxes on baseload resources and whether adding more renewables would affect the grid's reliability.

The Energy Department said it would make the study public once it is completed, which was expected in July. The final version has not been released, but Bloomberg News obtained a copy of a [draft version](#) in July written by department staff, which found wind and solar power don't pose a significant threat to the reliability of the U.S. power grid.

### **First Solar to Profit If Trump Slaps Tariffs on Panel Imports**

*Posted August 14, 2017, 01:39 P.M. ET*

*By [Christopher Martin](#)*

First Solar Inc. is standing on the sidelines of a trade dispute that could give its products a significant leg up.

The U.S. International Trade Commission has scheduled a hearing Aug. 15 on a request by Suniva Inc. for the U.S. to impose tariffs on imported solar panels. The petition alleges that China—which accounts for more than 80 percent of global solar panel production—gives manufacturers unfair government support.

The commission is expected to make a decision next month, and a finding of harm could lead President Trump to impose duties as early as November.

The petition by Suniva, which filed for bankruptcy in April, has roiled the industry, which argues that it would drive up prices and result in the loss of an estimated 88,000 jobs, a third of the solar workforce. No U.S.-based solar manufacturers support it, according to the Washington-based Solar Energy Industries Association. Cheap panels have spurred a boom in U.S. rooftop installations, with small-scale solar generation [almost doubling](#) from 2014 to 2016, according to the Energy

Information Administration.

Tempe, Arizona-based First Solar, a member of SEIA, stands to gain the most from import duties of as much as 40 cents per watt, said Jeffrey Osborne, an analyst at Cowen & Co. "Because the complaint specifically goes after silicon panels, thin-film technologies like First Solar's will be considerably cheaper in comparison," Osborne said.

First Solar's chief executive officer said on July 27 that his company isn't participating in the dispute. A spokesman for the company referred to the CEO's comments when asked for a response.

"If there is a determination of injury, a modest type of remedy will not be harmful at all to the industry and I think it'll survive and more jobs will be created," CEO Mark Widmar said on a conference call. "Hopefully what it will do is enable more manufacturing in the U.S."

A group of 16 U.S. senators and 53 House members sent letters on Aug. 11 to the head of the ITC urging it to reject the petition.

Rooftop developers like Sunrun Inc. and Vivint Solar Inc., imposing an import duty could double the amount they pay for panels, cutting into their already razor-thin margins and ultimately slowing demand. Large developers are betting that a tariff will be imposed and have begun stockpiling inventory ahead of a decision, which has temporarily reversed the decline in prices, according to Joseph Osha, an analyst at JMP Securities LLC.

Module prices in the U.S. increased to about 43 cents a watt, up from about 33 cents before the trade case was filed, Osborne said. For now, that's helping improve margins for the world's biggest manufacturers, mainly in China, which include JA Solar Holdings Co., JinkoSolar Holding Co. and Trina Solar Ltd.

#### **'Significant Disruption'**

But once a tariff is imposed, Asian and European manufacturers will have a significant disadvantage in U.S. markets and their options to get around it are limited, Osborne said. They could build some cell and module manufacturing in the U.S., but there's little infrastructure to support their operations and the duties may only be in place while Trump is in the White House.

A tariff would also hurt San Jose, California-based SunPower Corp., the second-biggest U.S. panel maker, because the bulk of its polysilicon panels are assembled in Asia. SunPower faces a double whammy because it develops big solar farms that would cost more to build.

"It's a significant disruption," Tom Werner, SunPower's CEO, said in an interview.

A small tariff may not be as bad as the developers are making it out to be, said Osha.

"The solar installers are warning of dire consequences but another 10 cents on the panel price isn't going to be terrible," Osha said. "The market will adjust."

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#### **FS Bioenergia's Brazil Corn Ethanol Plant Seen as First of Many**

*Posted August 14, 2017, 11:40 A.M. ET*

By Michael Kepp

Brazil's first ethanol plant to exclusively use corn, in a country that makes nearly all of its ethanol from sugar cane, has begun industrial-scale operations and is expected to lead to as many 10 other such nearby plants during the next decade.

The 450-million-real (\$142-million), 240 million liter a year ethanol plant in Mato Grosso state had its formal opening Aug. 11. The plant's owner and operator is FS Bioenergia, a joint venture between Summit Energy, a U.S. private equity firm, and Fiagril, a Brazilian grains trader. Mato Grosso, located in western Brazil, is the center of the country's corn production.

FS Bioenergia will buy some of its corn from Fiagril. It has bought technology for the corn-based gasoline additive from the Kansas-based ICM Inc.

The plant "represents a new and alternative ethanol production pathway in Brazil," FS Bioenergia President Henrique Ubrig told Bloomberg BNA. "This alternative ethanol production pathway will lead to up to 10 corn-based ethanol plants being built in the state in the next five to 10 years."

As Mato Grosso farmers began planting a second corn harvest in recent years, they increasingly needed local buyers for excess corn from both harvests, Ubrig said. The surplus corn's price has become competitive with that of cane in the state.

Leopoldo Mendonca, secretary of economic development in Mato Grosso state, told Bloomberg BNA Aug. 11, that the state's two annual corn harvests allow corn-based ethanol plants to run 12 months a year, while cane-based ethanol plants can operate only eight months a year.

"This advantage [over cane-based ethanol plants], plus the competitive prices of corn and cane in the state, should lead to more corn-based ethanol plants being built here, Mendonca said.

Brazil has four "flex" plants that produce ethanol from both sugarcane and corn. Three are in Mato Grosso and one is in neighboring Goias state, Glauber Silveira, vice president of the Association of Soy & Corn Producers in Mato Grosso State, told Bloomberg BNA.

Brazil is starting to produce ethanol from corn at a time when U.S. corn-based ethanol exports to Brazil are skyrocketing. Ethanol imports to Brazil, nearly all coming from the U.S., grew fourfold in the first months of 2017, according to the Brazilian Sugarcane Industry Association, the country's main producers' group.

### **Can Some Nebraska Farmers Kill the Keystone XL Pipeline?**

*Posted August 14, 2017, 11:01 A.M. ET*

By Jillian Goodman

"When I first started this, it was about my house," said Shannon Graves, who owns a hardware store in Polk, Neb.—population roughly 300—and lives less than 100 yards from the proposed route of the Keystone XL pipeline. "I just wanted to protect my home."

That was six years ago. Now, Graves said, "what was once just my home is now my world that I'm standing to protect."

So last week she headed to Lincoln, the state capital, for hearings to determine whether the pipeline would serve Nebraskans' public interest, the final regulatory hurdle for the long-contentious project.

After years of protest by environmentalists, the Obama administration in 2015 rejected TransCanada's proposal for the 1,179-mile pipeline, which would deliver crude oil from the Alberta tar sands to the Gulf of Mexico. In January, President Donald Trump resurrected the project with a presidential memo and executive order.

On a national level, the pipeline has been opposed largely by environmentalists, but in Nebraska, it's been fought mainly by farmers and ranchers who fear it could erode their soil and hurt their land values. Last week, a number of them—now educated in the intricacies of property easements, eminent domain, and bitumen—testified before the state's Public Service Commission, hoping to persuade its members to reject it.

TransCanada maintains the pipeline project would be an economic boon to the state. "The public benefit for Nebraskans is quite significant," said spokesman Matthew John. "We're talking about 4,400 jobs, direct and indirect"—that is, jobs building the pipeline and jobs with other employers expected to benefit, such as local restaurants and stores—"and tens of millions of dollars in state property taxes that will be paid out throughout the life of the project. As well as the economic benefits that are generated from construction."

But Nebraskan opponents argue that the vast majority of the jobs TransCanada has said the pipeline would create are construction-related and therefore short-term; those jobs, along with such indirect benefits as greater spending in local establishments, would evaporate once the project is completed. And tax revenue, they say, would evaporate in not much longer: The taxable value of the pipeline itself will depreciate over 15 years and payments gradually dwindle to zero.

The pipeline's current proposed route would cross the farm that Art Tanderup, a retired teacher and perhaps the landowners' breakout star, owns with his wife, Helen. After the hearings finished, Tanderup said he felt he and the other landowners had gotten a chance to educate the PSC on life for Nebraska farmers. "You get big corporate people coming in—they don't know us, they don't know Nebraska," he said.

Keystone XL is meant to be an extension of an existing Keystone pipeline that runs north-south through the eastern portion of the state. TransCanada has argued that its proposed route for the XL—which would cut diagonally across the state, crossing the Ogallala Aquifer, the historic Ponca Trail of Tears, and a small portion of the fragile Sandhills region—is the safest and most environmentally friendly path. Other than an earlier route, nixed years ago under pressure by the governor and the federal government, it's also the most direct route from the Canadian tar sands to the existing pipeline junction in Steele City, Neb..

Although the landowners would prefer that the PSC reject the pipeline entirely, their lawyers argued that the more responsible route would be one that parallels the existing pipeline, creating an energy corridor that would avoid disturbing additional land. On the first day of the proceedings, under questioning by the landowners' lawyers, TransCanada's representatives acknowledged that collocating the two pipelines would mean crossing fewer miles of Nebraska farmland and that because they weren't locked into a route in South Dakota for the XL, they wouldn't need additional approval to do so.

After the hearings concluded Aug. 10 morning, a day and a half ahead of schedule, the landowners' lawyers said they were pleased with what they'd presented. "Our pitch is, look at the net benefit,"

attorney Brian Jorde said. "It can't be, 'Is this just the not-so-bad pipeline?' If it's not a net benefit to the state, we don't need it."

TransCanada's lawyers, James Powers and Patrick Pepper of the firm McGrath North, left shortly after the hearing without answering questions and didn't respond to a previous interview request.

PSC spokeswoman Deb Collins said in an email that commissioners could not comment given the ongoing legal proceeding. The commission has until Nov. 13 to decide.

Regardless of its decision, opponents said they still expect to wind up in court over the pipeline, perhaps in eminent-domain battles over efforts to build it on their land.

"We are exhausted," Graves said. She's been opposing the pipeline for six years now, others for even longer. But she added: "My daddy raised me to never give up. You just never give up. There's too much at stake to give up."

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### **Fast, Dirty Natural Gas Plants Get Boost from Electric Cars**

*Posted August 14, 2017, 8:46 A.M. ET*

*By [Kelly Gilblom](#), [Weixin Zha](#) and [Mathew Carr](#)*

Britain's goodbye to fossil-fuel cars by 2040 could boost the need for dirtier natural gas-powered stations.

The government's goal to replace gasoline and diesel cars with those powered by electricity could see the construction of so-called open-cycle gas stations, said Carsten Poppinga, senior vice president of trading and origination at Statkraft AS, the Norwegian utility that operates hydro power plants and wind farms across the U.K.

Such units can keep the grid from buckling from the strain of people charging cars in peak demand periods. The catch? While the plants can start generating power almost instantly, they don't recycle waste heat, making them emit more greenhouse gases per megawatt than the combined-cycle stations that comprise the largest share of the U.K.'s daily power output.

Britain may have no choice but to use the less environmentally friendly option, though. With little spare generation capacity, the nation is vulnerable to power shortages, particularly on cold, winter days when wind and solar energy may be in short supply.

"Fundamentally there isn't as much overcapacity on the British market as in Germany," Poppinga said by phone from Dusseldorf. "You could think about building open-cycle gas power plants to increase the flexibility in the system."

Open-cycle gas generators cost less to build but have higher emissions per megawatt-hour produced than combined-cycle gas turbines. OCGTs convert about 33 percent of their fuel into power, while CCGTs manage as much as 60 percent, according to the fossil-fuel industry environment group [IPIECA](#) in London. That's still less dirty than oil, diesel or coal-fired stations, which can emit double what a gas-fired station does.

Still, the flexibility of the plants will help more intermittent renewables enter the system, bolstering the shift toward cleaner energy, according to Drax Group Plc. The utility plans four open-cycle plants in the U.K. that it calls “rapid-response gas.”

Under U.K. environmental rules, the units can run a maximum of 2,250 hours, or about three months per year, a spokeswoman with the Selby, England-based company said. Drax doesn’t expect to operate its plants for that long.

RWE AG’s U.K. unit “has taken initial planning steps” to build a 300 megawatt open-cycle gas plant east of London in a town called Tilbury, Germany’s biggest power producer said in its first-half financial statement on Aug. 11. The area previously had coal-fired and biomass power plants, though it stopped generating power in 2013. RWE is seeking to redevelop the site and also plans a 2,500 megawatt CCGT.

The challenge for the U.K. is to have enough power plant capacity to cover demand peaks until electric-car users adjust their charging habits to when consumption and prices are low.

Britain will need to add 52 terawatt-hours of power capacity between now and 2040, or 16 percent of what’s available now, to meet extra demand thanks to electric vehicles, according to data from Barclays Plc and Bloomberg New Energy Finance. Some of the need for flexible power supply will be met by cables linking the U.K. to France, Norway and Belgium.

Fossil-fuel prices have rebounded in Europe as grids need the power from them to help balance supply and demand as renewable-electricity output advances. The front-month natural gas price has jumped 35 percent in the past year, while 2018 European coal is up 31 percent, according to ICE Futures Europe.

“Massive investment in flexible power generation, electricity storage and the grid itself will be necessary to keep the lights on,” Johannes Wetzel, a research analyst for cross-commodity analytics at Wood Mackenzie Ltd., said in an emailed note. The electric-vehicle rule will be “a challenge for power grid stability.”

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