

To: Jackson, Ryan[jackson.ryan@epa.gov]
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Energy and Climate Report

Afternoon Briefing - Your Preview of Today's News

The following news provides a snapshot of what Bloomberg BNA is working on today. Read the full version of all the stories in the final issue, published each night.

Trump Administration Illegally Delayed Methane Rule: Court

Posted October 05, 2017, 12:45 P.M. ET

By Jennifer A. Dlouhy (Bloomberg News) and Alan Kovski (Bloomberg BNA)

A federal court ruled the Trump administration illegally froze Obama-era requirements aimed at reducing the amount of natural gas from federal land wasted through venting, flaring, and leaking.

The Interior Department postponement of the effective date of the regulations “is not entitled to deference,” the court said.

In delaying the requirements, Interior’s Bureau of Land Management relied on the Section 705 “administrative stay” provision of the Administrative Procedure Act, which allows agencies to postpone the effectiveness of rules that are the subject of litigation.

The U.S. District Court for the Northern District of California agreed with plaintiffs, including California, New Mexico, and environmental groups, that postponing implementation of the rule after it already had gone into effect ran afoul of the plain language of Section 705 (California v. U.S. Bureau of Land Mgmt., N.D. Cal., No. 3:17-cv-3804, 10/4/17).

Interior tried to convince the court to allow the delay of regulations because they would soon be rescinded or revised. But Judge Elizabeth Laporte wrote that new rules to postpone the regulations and revise the regulations would take a number of months to complete and would not necessarily survive legal challenge.

The Trump administration used a similar rationale for a delay of changes to federal royalty estimates for oil, gas, and coal only to have its delay overruled by a court in August.

“No one is above the law. As a result of this Rule’s implementation, oil and gas operators on federal and Indian lands will be compelled to prevent the waste of natural gas. Natural gas emissions threaten the health of nearby residents and contribute to climate change,” California Attorney General Xavier Becerra, who filed the suit, said in a statement.

New Regulations Envisioned

The latest ruling came hours after Interior proposed a rule that would postpone some of the Obama

administration's venting, flaring, and leaking regulations until Jan. 17, 2019, while Interior considers new regulations that might be issued through one or more additional rulemakings governing oil and gas production.

That proposed extension is going through the full notice-and-comment rulemaking process.

The contested regulations were issued in 2016 to reduce methane and other gas emissions through technical requirements—such as leak detection and repair—and the imposition of royalties on lost gas to discourage the losses. Royalties already were levied on some lost gas, and the 2016 rules toughened those regulations.

The Trump administration and industry officials described the regulations as clumsy and expensive requirements likely to reduce royalties by deterring oil and gas work.

“The rule is expected to have real and harmful impacts on onshore energy development and could impact state and local jobs and revenue,” Acting Assistant Secretary for Lands and Minerals Management Katharine MacGregor said in May. “Small independent oil and gas producers in states like North Dakota, Colorado and New Mexico, which account for a substantial portion of our nation's energy wealth, could be hit the hardest.”

Defenders of the 2016 regulations said they would reduce waste and help protect human health and the environment. Methane, the primary constituent of natural gas, is a potent greenhouse gas.

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Federal Regulators Criticize Energy Rule for Distorting Markets

Posted October 05, 2017, 03:27 P.M. ET

By [Rebecca Kern](#)

Two of the three members of the Federal Energy Regulatory Commission have publicly criticized an Energy Department proposal that aims to subsidize nuclear and coal plants in the wholesale markets, suggesting it could “destroy” the markets.

“We will not destroy the marketplace,” Robert Powelson, a Republican member of the Federal Energy Regulatory Commission, said in a speech at the Organization of PJM States' annual meeting in Arlington, Va., on Oct. 4. Powelson's office confirmed the statement.

Democratic FERC Commissioner Cheryl LaFleur, supported Powelson's comment, saying in an Oct. 4 [tweet](#), “Great message!”

Powelson and LaFleur's comments are the first public reactions from FERC members related to the Energy Department proposal's negative impacts on the wholesale energy markets that the commission is being tasked with overseeing. FERC Chairman Neil Chatterjee (R) has not yet publicly weighed in on the proposal.

The Sept. 28 Energy Department [proposal](#) directed FERC to address market challenges facing coal and nuclear plants. The proposal would allow generators with a 90-day supply of fuel on site—which would include coal and nuclear facilities—to recover their operating costs at “a fair rate of return.”

“FERC does not do politics. We don’t do energy politics,” Powelson said at the meeting, which was first reported by SNL.

When it comes to politics, some congressional Republicans have weighed in against the DOE proposal too.

“I really trust the free market. If a power source will survive the market, that’s what the people should get,” Rep. Pete Olson (R-Texas) told Bloomberg BNA Oct. 5. “This is sort of picking winners and losers, saying, ‘I’m going to pick coal and nuclear.’ That’s not what’s good for the consumer.”

FERC has set an expedited public comment deadline of Oct. 23 on the proposal. The independent agency published a [list of questions](#) on Oct. 4 related to the need, eligibility, implementation, and rates in the proposal for public comment.

The Energy Department gave FERC 60 days to act—a time period that will not begin until a notice is published by the Energy Department in the Federal Register.

Wind in Land of Oil Prompts Surprise Boost in Renewable Spending

Posted October 05, 2017, 12:33 P.M. ET

By Reed Landberg and Anna Hirtenstein

Seven giant wind-power projects, including one in the oil-rich U.S. state of Oklahoma, prompted a surprise investment increase for renewable energy in the third quarter.

Funding for the clean energy industry surged 40 percent from a year ago to \$66.9 billion in the three months through September, according to a report by Bloomberg New Energy Finance. Investment rose 2 percent for the first nine months of the year and is on track to finish “close to or a little ahead of” the \$287.5 billion recorded in 2016, BNEF said.

The figures marked the fourth consecutive quarterly increase for the industry, where plunging costs for developing wind and solar farms has led to more capacity being built for less money. American Electric Power Co. backed Invenergy LLC’s \$4.5 billion Wind Catcher project in Oklahoma, which the utility says will save customers \$7 billion over more than two decades by delivering electricity cheaper than existing sources.

“Wind Catcher is an example of a regulated utility in a wind-rich area of the U.S. taking advantage of federal tax credits to build a project that will produce electricity at below the cost of its existing coal and gas generating plants,” Amy Grace, head of research in North America for BNEF, said in a statement released Oct. 5.

Investment this year is unlikely to match the record \$348.5 billion reached in 2015, BNEF said, and a lull continued in some categories of funding that once were among the richest backers of the industry.

Venture capital and private equity provided \$662 million in the third quarter, down 79 percent from a year ago and the weakest reading since the start of the modern renewables boom in 2005. Investment from initial public offerings also fell 63 percent to \$1.4 billion, the least since early 2016.

“The weak third quarter figure for public markets investment ironically came despite a strong

performance from clean energy stocks,” said Abraham Louw, a BNEF researcher who tracks the data. He noted a 22 percent advance so far this year in the WilderHill New Energy Global Innovation Index, which tracks 97 companies in the industry.

Asset finance—which encompass bankers writing project-finance loans, self-funding energy companies, leasing and bonds used to refinance deals—gave renewables their biggest boost. Funding for utility-scale projects jumped 72 percent from a year ago to \$54.3 billion in the third quarter, BNEF said.

In addition to the Oklahoma wind farm, six others received funding of at least \$600 million, including projects in Mexico, Britain, Germany, China and Australia.

A breakdown by nation showed advances in the biggest economies. China’s overall investment in renewables and clean energy rose 35 percent to \$23.8 billion. The U.S. advanced 45 percent to \$14.8 billion, Europe 43 percent to \$11.6 billion and Brazil 32 percent to \$1.7 billion.

Investment fell 32 percent in Japan to \$2.2 billion and 49 percent in India to \$1.1 billion.

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U.S. Trade Dispute Scaring Companies From Buying Solar Power

Posted October 05, 2017, 8:40 A.M. ET

By [Brian Eckhouse](#)

A trade dispute over solar imports has stalled clean-energy projects across the U.S.

With the looming prospect of tariffs driving up the price of panels, utilities and businesses are holding off on signing deals to buy solar power. It may be months before they get more clarity.

In the meantime, “projects are on hold,” Yumin Liu, president of Canadian Solar Inc.’s Recurrent Energy development unit, said in an interview at Infocast’s Solar Connect conference in San Diego. Recurrent has multiple projects that were initially scheduled to begin commercial operations next year. Now it’s not clear if that will happen on time.

“It’s uncertain,” Liu said. “Many companies are in the same boat.”

Trade Dispute

The trade case dates to an April complaint from Suniva Inc., a bankrupt solar manufacturer based in Georgia. The U.S. International Trade Commission ruled last month that the U.S. industry has been harmed by a flood of cheap imports, and President Donald Trump will get to decide whether to impose tariffs.

With solar development slowing, some corporate buyers may turn instead to wind farms. Such contracts with businesses have been a significant driver of growth for both types of clean energy in the U.S.

“Solar developers anticipating to grow by signing contracts with corporations and utilities are currently in a standstill,” Nathan Serota, a New York-based analyst at BNEF, said in an Oct. 4 phone

interview. “Wind developers don’t have that problem.”

While corporate sales of wind usually exceed solar power, the gap was starting to narrow. That trend is now reversing. While wind deals exceeded solar by about 40 percent last year, this year through mid-September businesses have signed contracts to buy almost three times as much wind power as solar, according to Bloomberg New Energy Finance.

There’s another reason solar may slow this year. On Sept. 29, the U.S. Energy Department proposed a rule that would boost nuclear and coal power—potentially at the expense of renewables.

“The market just got a one-two punch,” said Andrew Redinger, a managing director at KeyCorp, “Even if neither happens, the uncertainty during the interim will lead to stoppage. People don’t like uncertainty.”

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Oil Drillers May See Big U.S. Tax Cut—If Deductions Survive

Posted October 05, 2017, 01:46 P.M. ET

By Alex Nussbaum

U.S. oil explorers could see a multibillion-dollar benefit from a move to slash the U.S. corporate tax rate but some of the industry’s biggest tax breaks could also be under fire.

The tax overhaul outlined last week by Republican leaders and President Donald Trump still faces challenges and could be stalled by a busy political calendar in Washington, Bloomberg Intelligence analysts James Blatchford and Andrew Silverman wrote in a report released Oct. 5.

Still, the total tax bill for U.S. oil and gas companies could “shrink dramatically” if Congress enacts a law cutting the corporate rate to 20 percent from 35 percent, they wrote. A proposal to allow immediate deduction of capital investments is likely to help companies like Exxon Mobil Corp. and Chevron Corp., although there’s also talk of limiting explorers’ ability to deduct interest costs.

The tax blueprint released by six administration officials and Congressional leaders on Sept. 27 promised to cut the corporate rate almost in half but also signaled other breaks could be squeezed to partially offset the hit to tax revenues. The nine-page framework provided few specific on which deductions may be targeted.

U.S. energy producers paid the second-highest effective tax rate of any business sector in 2014, at 37 percent, according to BI research. An earlier Trump proposal to reduce the corporate rate even deeper to 15 percent would have saved \$13 billion that year for a group of 56 oil and natural-gas companies tracked by Bloomberg, according to a BI analysis in April.

Tax negotiators are also weighing “serious proposals” to repeal two of the industry’s biggest tax benefits, said Stephen D. Marcus, a tax attorney with Baker Botts LLP in Dallas who works with explorers. One provision allows companies to deduct so-called intangible drilling costs; another, known as “percentage depletion,” lets them reduce taxable income to reflect the depreciation of reserves, Marcus said in an email.

Eliminating those two provisions would force energy companies to pay about \$25 billion in additional

taxes between 2016 and 2026, Congress's Joint Committee on Taxation estimated last year.

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TransCanada Ends Pipeline Project, Sees \$801 Million Charge

Posted October 05, 2017, 11:10 A.M. ET

By Meenal Vamburkar

TransCanada Corp. has scrapped its Energy East Pipeline and Eastern Mainline projects, oil and natural gas conduits that have faced regulatory hurdles in Canada and stiff opposition from environmental groups.

As a result of the decision, TransCanada expects an estimated C\$1 billion (\$801 million) after-tax, non-cash charge to be recorded in the fourth quarter, the company said in a statement Oct. 5. Because regulators failed to reach a decision on the projects, TransCanada expects “no recoveries of costs from third parties.” The Energy East link to Canada’s Atlantic Coast carried a C\$15.7 billion price tag.

Energy producers in Alberta had hoped the projects would help them diversify their markets, with most of the existing pipeline network linking the energy-rich province to the U.S. Midwest and Gulf Coast. Last month, TransCanada sought a 30-day suspension of the project applications for more time to review environmental assessment factors.

“TransCanada was forced to make the difficult decision to abandon its project, following years of hard work and millions of dollars in investment,” the Canadian Energy Pipeline Association, an industry group, said in a statement. “The loss of this major project means the loss of thousands of jobs and billions of dollars for Canada, and will significantly impact our country’s ability to access markets for our oil and gas.”

The decision comes as TransCanada seeks again to complete its controversial Keystone XL pipeline, which the Obama administration rejected in 2015. The \$8 billion project, which would carry heavy crude from Alberta to Nebraska, is awaiting state approval in Nebraska after a hearing in August. A final decision on whether to build the line is pending.

Atlantic Access

In January, the National Energy Board voided previous decisions on the Energy East application, forcing the company to start the hearing process anew shortly after competing pipeline projects have been approved. The change came after the regulator’s previous hearing panel stepped down amid accusations of bias.

TransCanada applied to build Energy East three years ago, seeking to open access for Western Canadian oil producers to the Atlantic Ocean for exports to Europe. It faced intense opposition in Quebec, where the province’s premier said the line posed a significant risk to its freshwater resources.

Energy East would carry about 1.1 million barrels of oil a day from Alberta and Saskatchewan to eastern Canadian refineries and a marine terminal in New Brunswick. The Eastern Mainline project would add new gas pipeline and compression facilities to an existing system in Southern Ontario, where most of the country’s home and industrial gas consumers are located.

“We are not at all surprised by the decision,” given that TransCanada had sought to delay the project applications, said Robert Kwan, an analyst at RBC Dominion Securities Inc., in a research note. The decision won’t affect the company’s dividend because its growth forecast didn’t include those projects, he said.

—With assistance from Josh Wingrove.

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Energy East Death Pins Oil Sands Hopes on Two Troubled Pipelines

Posted October 05, 2017, 02:47 P.M. ET

By Kevin Orland and Robert Tuttle

TransCanada Corp.’s cancellation of the Energy East pipeline leaves Canadian oil producers more dependent than ever on the Keystone XL and Trans Mountain proposals, two projects facing ardent opposition in their own right.

Energy East would have given oil producers in Alberta and Saskatchewan, who are heavily dependent on buyers in the U.S., another market for their crude by carrying about 1.1 million barrels a day to refineries and a marine-shipping terminal in eastern Canada. TransCanada cancelled that project on Thursday amid regulatory hurdles and weaker oil prices.

With Energy East scrapped, Western Canada’s producers are now counting on Kinder Morgan Inc.’s project to carry crude to the Pacific Coast, and TransCanada’s Keystone XL to connect with U.S. Gulf Coast refineries. Both face significant hurdles: Keystone XL needs approval in Nebraska, and Trans Mountain is hampered by a legal challenge in British Columbia.

With that avenue closed off, Western Canada’s oil industry is now counting on Trans Mountain project to help carry crude to the Pacific Coast, where it would be shipped to markets in Asia, as well as TransCanada’s long-delayed Keystone XL pipeline, which would move more Alberta oil to refineries along the U.S. Gulf Coast. However, both of those lines face significant hurdles: Keystone XL still needs approval in Nebraska, and Trans Mountain is now the subject of a legal challenge in British Columbia.

“It definitely puts the leverage on the pipes that are on the docket to get through,” said Carl Evans, an oil analyst at Genscape Inc. in Boulder, Colorado. Keystone XL and Trans Mountain must be built “or you are looking at an industrywide problem in a very short amount of time.”

Stranded Crude

Pipelines in Western Canada, which holds the world’s third-largest crude reserves largely in Alberta’s oil sands, can carry about 3.3 million barrels of crude a day, according to the Canadian Association of Petroleum Producers, or CAPP. Meanwhile, the area is expected to produce 3.92 million barrels a day this year and 4.2 million next year as a number of large oil-sands projects come online. The pipeline pinch already had producers shipping more of their crude by rail, which can cost as much as three times more to get oil from Alberta to the U.S. Gulf Coast.

Should Keystone XL and Trans Mountain fail to be built, oil producers could end up shipping more

than 300,000 barrels a day via rail for at least five years, and some producers could shut in operations, Evans said.

Evans said it's probable that Trans Mountain will be built and that Enbridge Inc. will be able to proceed with the replacement and expansion of its Line 3, which carries Western Canadian crude to Wisconsin.

Minnesota Approval

While that project still needs approval in Minnesota, the company has repeatedly expressed confidence that it will receive the necessary permits and has already begun construction on the Canadian portion of the line. Trans Mountain and Line 3 would provide a buffer of about 600,000 barrels a day by 2021, Evans said. Suncor Inc., Canada's largest oil producer by market value, supported Energy East and is disappointed in the decision not to move forward with the project, spokeswoman Sneh Seetal said. The pipeline would have provided new markets for Western Canadian crude and enhanced supply for the company's refinery in Montreal, she said.

"That said, we do have a position in all other pipeline projects, and no single pipeline will impact our ability to grow," Seetal said.

Cenovus Energy Inc., an oil-sands producer that had contracted to ship 200,000 barrels a day on Energy East, said the cancellation will reduce options for Canada's oil producers to reach global markets. The nation's regulators must ensure that decisions on infrastructure projects can be made in a timely manner so as not to put domestic producers at a competitive disadvantage, the company said in a statement.

Indian Market

Energy East would have provided Canadian oil producers with access to buyers in India, one of the fastest-growing markets for petroleum, because shipping there is faster from Canada's Atlantic Coast than from its Pacific Coast, said Tim McMillan, chief executive officer of CAPP. Instead, the cancellation makes the domestic industry more reliant on the U.S. to act as its broker in getting crude to world markets, he said.

"They control the market; they control the Canadian flows," he said "By not having our own access to the East Coast, it strengthens their hand."

Alberta Premier Rachel Notley also decried Energy East's demise, calling it "an unfortunate outcome for Canadians" and saying that it would have reduced the nation's imports of foreign oil. The National Energy Board must let the industry know how future project reviews will be conducted so investors can have confidence in the industry, she said.

"This decision highlights the importance of diversifying market access and the subsequent national priority that must be placed on the Trans Mountain expansion project," Notley said in a statement.

—With assistance from Meenal Vamburkar.

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Utilities Rebuke Theresa May's Plan to Cap Power Tariffs

Posted October 05, 2017, 11:31 A.M. ET

By Mathew Carr and Alex Morales

Britain's utilities hit back at Prime Minister Theresa May's vow to cap energy costs, saying the measures would unsettle the industry at a time when government is seeking investment to replace aging power plants.

Centrica Plc, which plunged to a 14-year low on Oct. 4 when the plan was announced, said a limit on charges would also reduce competition among electricity and natural gas suppliers. Scottish Power Ltd. said consumers should be told to shop around for the best deals on offer.

"Price caps are the wrong solution," Centrica Chief Executive Officer Iain Conn said in an emailed response to questions. "Where they have been tried, they have been bad for customers. They limit choice, reduce competition, and prices tend to cluster around the cap."

He amplified his concerns in an interview with the British Broadcasting Corp.'s "Today" program Thursday on Radio 4, saying the proposal "creates exaggerated uncertainty" for utilities.

Centrica's remarks highlight a threat to May's effort to both hold down electricity costs and keep investment flowing into power generation, as more than a dozen coal and nuclear plants finish their service life. The government has estimated the industry may need 100 billion pounds (\$132 billion) within the next decade to ensure stable supplies. It's also trying to respond to the concerns of voters worried about rising electricity bills.

The government's move, as soon as this winter, will probably spur big reactions by utilities.

Once in place, the cap may mean utilities scale back on discounts they offer in the market because funding them will become more difficult with standard variable tariffs, said Lakis Athanasiou, a utilities analyst at Agency Partners LLP in London. About two-thirds of customers at the biggest six utilities are on standard variable tariffs.

In the meantime, utilities might embark on a price war to boost market share so they have lots of customers on their books when the discounting ends, Athanasiou said by phone. The deeply discounted tariffs are "severely loss making when taking full costs into account," he said.

Shares Tumble

Shares slumped on Oct. 5 for each of the U.K.'s Big Six utilities-- Centrica, SSE Plc, Innogy SE, EON SE, Iberdrola SA and Electricite de France.

Earnings may fall at least 10 percent at three of six, according to a note from RBC Europe Ltd. The operating profit margin for the group as whole may slide to a wafer-thin 0.3 percent from 2.6 percent, RBC analysts John Musk and Olly Jeffery wrote in a note to clients.

The government's current focus is on the SVTs, which ministers say penalizes passive customers who don't bother to change suppliers. EON last month offered to end the practice of putting people onto those tariffs.

Industry View

Scottish Power Ltd., the Iberdrola unit working in the U.K., said it's the government's responsibility to end the tariff system.

"Just as you insure your car and home every year and go to the market for the best deal, so every energy customer should engage regularly with the market," said Neil Clitheroe, chief executive officer of Scottish Power retail and generation unit.

Further details of the Conservative plan, including how long the cap will last, may emerge when the government pushes a draft bill as early as next week.

"While we are in favor of free markets, we will always take action to fix them when they're broken," May told the Conservative Party conference in Manchester on Oct. 5.

The utilities said the latest maneuvering may backfire by reducing competition and discouraging consumers from switching to better deals.

Britain's energy market is changing rapidly. Three years ago, the Big Six had 99 percent of the market, and less than 4 million people changing suppliers each year, according to the trade association EnergyUK. Since then, dozens of new companies emerged and almost a third of customers started routinely switching, cutting the Big Six's market share to 80 percent.

U.K. homes don't have it bad compared with those across the English Channel. Domestic power prices were 4.9 percent below the EU average last year, according to Eurostat data.

Any intervention should be "simple to administer, time-limited, and maintain the principles of a competitive energy market to best serve customers' interests," SSE, which is based in Perth, Scotland, said by email.

—With assistance from Jessica Shankleman.

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U.K. Seeks Brexit Boost for Renewables, but Onshore Wind Taboo

Posted October 05, 2017, 9:45 A.M. ET

By Jessica Shankleman and Alex Morales

Britain wants a slice of the \$30 trillion needed to clean up the world's energy supply—so long as those funds don't go into wind farms in the countryside.

Seeking investment to expand the economy as the U.K. leaves the European Union, the Conservative government is determined to expand the clean energy business while also satisfying its most loyal voters, many of whom see wind farms as an eyesore.

Speaking at the ruling party's annual conference in Manchester, ministers and officials said they were focused on building up other technologies, especially gigantic wind farms placed offshore and carbon capture and storage. There were few signs that onshore wind farms will benefit, even though they're among the cheapest ways to generate low-carbon electricity.

"There was a big debate in recent years about the impact of onshore wind on views and

communities,” Greg Clark, the Cabinet secretary in charge of business and energy policy, said in an interview. “Obviously, the greater efficiency that we’re seeing in offshore wind comes from much bigger towers and blades that are deployable offshore.”

A white paper detailing the plan, setting out how the U.K. “will earn a living in future” once Brexit is complete, is due to be published later this year,” Clark said. It’ll look at how the U.K. replaces aging power plants and ensures supply for industry and electric cars, something the government has previously estimated may require 100 billion pounds (\$132 billion) in investment.

Claire Perry, climate change minister in Clark’s department, noted the government is working on both a “Clean Growth Plan” and an “Industrial Strategy” that will affect the energy business. Those probably will include support for carbon capture and storage technology, which is struggling to attract funding despite being seen by the United Nations as a crucial way of cleaning up emissions.

She said about \$30 trillion of public and private capital needs to be spent between now and 2035 to help the energy industry shift to low-carbon supplies and meet the goals in the 2015 Paris Agreement on climate change. Britain wants a slice of those funds.

Clean energy could become “as big as coal was,” according to Richard Harrington, a junior minister in Clark’s business department.

“We really believe that the core of our industrial strategy is our energy policy,” Harrington told delegates.

In a contrast with Clark’s views, Harrington said there’s “no reason” that onshore wind couldn’t compete with other renewable technologies in auctions for government support, “provided that it goes through a reasonable local planning system.”

In an interview, Clark wouldn’t be drawn on whether he’d host a technology neutral auction for capacity that would allow more onshore wind. Instead, he’s commissioned a review by University of Oxford Professor Dieter Helm to identify ways to bring down electricity prices. That’s due to report back in the coming weeks.

Wind power investors like Richard Nourse, managing partner at Greencoat Capital LLP, urged the government to open energy auctions to all kinds of zero carbon energy, including onshore wind farms. Currently, these projects are banned from receiving new subsidies thanks to a Conservative manifesto pledge against the technology.

Offshore wind energy remains Britain’s energy success story, bolstered last month by a auction that prompted developers like Dong Energy A/S to offer electricity from sea-based turbines at 57.50 pounds a megawatt-hour. That’s well below the cost of nuclear power and competitive with onshore wind farms.

“We made a manifesto commitment that we would pursue offshore rather than seeking to drive a big expansion onshore, and nothing that I’ve seen that persuades me that was the wrong judgment,” Clark said.

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U.K. Power Grid Trials Real-Time Data to Deal with Renewables

Posted October 05, 2017, 9:18 A.M. ET

By [Mathew Carr](#)

National Grid Plc for the first time measured the stability of the U.K.'s power network in real time, allowing it to more confidently manage the system as intermittent renewable energy generation jumps.

The London-based network operator used a new tool to measure the network's resilience continuously, allowing control-room operators to react more quickly to changes in generation levels. That allows for cost savings and lower customer bills, said Marc Borrett, chief executive officer of [Reactive Technologies Ltd.](#), which provided the technology, without specifying how much could be saved.

Speedier data on how much various types of power stations are generating helps overcome stability problems created as renewables replace fossil-fuel plants, London-based Reactive said. Large coal and natural gas power stations give the network more resilience, known as [inertia](#), because they have heavy spinning shafts and turbines, while solar and wind plants reduce grid stability as they are dependent on weather conditions.

Reactive's tool, which provides data from a national to a postcode level, "will give grid operators a unique and really important insight into how they can manage a grid and take on more and more renewable generation over time in a safe way," Borrett said by phone.

Clean-energy sources including wind, solar and nuclear met a record 52 percent of U.K. power demand in the three months through Sept. 22, compared with 35 percent four years ago, according to National Grid. The rapid pace of the change has made the power system more costly to manage, but previously inertia wasn't measurable, only estimated, Borrett said.

National Grid is reviewing options on a possible contract with Reactive, said Gemma Stokes, the network manager's spokeswoman, declining to be specific.

"We're in advanced discussions with a good handful of system operators around the world," Borrett said.

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Dutch Regulator Tasks Banks and Insurers on Climate-Change Risk

Posted October 05, 2017, 10:58 A.M. ET

By [Alessandro Speciale](#) and [Eric Roston](#)

Banks, insurers, and other financial institutions must do more to take into account the risks posed by climate change to their business, a Dutch Central Bank study said.

As global warming increases the risk of extreme weather events, regulators are giving more attention to its economic and market implications, with estimates showing that a single high-impact storm could cause damages of as much as 60 billion euros (\$71 billion), according to the report published on Oct. 5. The Netherlands, which is largely below sea level, runs an inordinate risk of being affected by such events.

“Dutch insurers will have to deal with an increasing claims-burden as a result of climate-related damage,” the central bank said in the report. “This in turn may lead to shock-induced price rises in premiums. Furthermore, climate change is making it more difficult to estimate the likelihood of extreme weather.”

Bank of England Governor Mark Carney, chair of the G20’s Financial Stability Board, is spearheading an initiative to standardize financial-sector guidelines on how to disclose risks arising from climate change. Carney in late 2015 appointed former New York City Mayor Michael Bloomberg to lead the Task Force on Climate-Related Financial Disclosures, which issued its final recommendations in June. (Bloomberg is the founder and majority owner of Bloomberg LP, the parent company of Bloomberg News.)

Historical data used to assess Northern Europe’s future climate may become less effective as climate change accelerates, in turn rendering inaccurate current insurer pricing policies. In some extreme cases, insurance companies may be offering policies on things that, given the effects of climate change, should no longer be insured.

To counter such eventualities, the central bank said it intends to put in place climate stress tests and “embed climate-related risks more firmly in our supervisory approach and address them in our interviews with supervised institutions.”

The study also points out risks that may arise from the transition to a low-carbon economy. A majority of financial institutions have yet to include “all relevant energy label data in their risk management systems,” and this may undermine market acceptance and the “value of office buildings that do not meet this requirement.”

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How Energy-Rich Australia Ended Up With World’s Priciest Power

Posted October 05, 2017, 02:42 P.M. ET

By Perry Williams

A bungled transition from coal to clean energy has left resource-rich Australia with an unwanted crown: the highest power prices in the world.

New Yorkers pay half as much as Sydneysiders to keep the lights on, despite Australia boasting among the world’s largest coal and natural gas reserves, as well as ideal conditions for clean power generation. A decade of political dithering and climate policy missteps have set its patchwork power system adrift, ratcheting up manufacturing costs and hurting consumers with a doubling in electricity prices since last year and rising risks of blackouts.

“It is not a bit of a mess, it is a major mess,” said Sanjeev Gupta, 46, the British billionaire owner of Liberty House Group, who saw firsthand the effects of policy neglect after buying an ailing steel-making business in blackout-beleaguered South Australia in July.

Natural gas was meant to bridge the electricity supply gap left by the shutdown of decaying coal-fired stations and the gradual shift to solar and wind energy. But rising exports of the fuel to higher-paying overseas buyers created a local shortage.

With no long-term solution in sight, Prime Minister Malcolm Turnbull threatened gas producers with export restrictions unless they plugged the domestic shortfall. The government is also trying to convince power generators to patch up old and dilapidated coal-run stations, prolonging dependence on a fossil fuel the rest of the developed world is spurning.

“It takes a while to cause a train-wreck this bad,” said Tony Wood, energy program director at the Grattan Institute, a Melbourne-based think tank. “And it also takes a while for a government to think about how they get out of it.”

The nation’s largest power generators are urging Australia to ditch coal and join the renewables revolution. Turnbull, whose harbor-side mansion is powered by solar panels, is reluctant to remove the fossil fuel from the energy mix lest it boosts power costs further.

The Liddell power station, perched on a lake in the coal-rich Hunter Valley, has come to symbolize Australia’s struggle with an industry linked to greenhouse-gas emissions and climate change. The facility, located 240 kilometers (150 miles) north of Sydney, was the most powerful electricity generating station in the country when it was commissioned in the early 1970s.

Its four coal-fired generation units supply the Tomago aluminum smelter, Australia’s largest single consumer of energy, and enough to power more than 1 million homes. Nowadays, it’s plagued by failures from rusty, leaky equipment that put Liddell on a “sliding scale to oblivion,” according to its managers.

The Turnbull government wants to extend its life. But keeping it running beyond its scheduled closure in 2022 would cost as much as A\$900 million (\$708 million), and lender Australia & New Zealand Banking Group Ltd. said it’s unlikely to finance any refurbishment because it probably wouldn’t meet the bank’s environmental standards. Owner AGL Energy Ltd. instead wants to re-purpose the site, potentially for gas-fired or battery-stored energy.

“It beggars belief that something like Liddell is the backbone of our power supply,” said Barry Millar, acting general manager for technical services with plant operator AGL Macquarie. “In the U.K., something of this age would be well and truly gone.”

For EnergyAustralia, a power generator owned by Hong-Kong’s CLP Holdings, the failure to anticipate electricity demand and supply stems from the absence of a clear climate policy.

“When you’ve got an environment where the economics will fluctuate from ‘this looks like a reasonable project’ to ‘this is absolutely terrible and don’t go anywhere near it’ over the space of two years, that is un-investable,” said Mark Collette, EnergyAustralia’s energy executive, in a phone interview.

Squabbling over climate policy has been a key contributor to political turmoil in Australia, which has changed prime ministers five times in the past decade.

Labor’s Kevin Rudd was elected in 2007 promising a carbon-trading scheme, but he shelved the plan amid resistance in the Senate. His successor Julia Gillard introduced a price on carbon, which was scrapped after Tony Abbott led the Liberal-National coalition to victory in 2013. Though replaced by Turnbull in 2015, Abbott’s sustained support for coal has emerged as a divisive voice within government ranks.

With the government unable to agree on a clean-energy target and electricity prices surging, energy-intensive industry is demanding investment certainty. Melbourne-based BHP Billiton Ltd., the world's largest mining company, said it may curtail investments in its home country, while rival Rio Tinto Group said price spikes are putting projects at risk.

As well, a third of large industrial users of gas will either cut production or shutter their operations entirely due to the spiraling price of the fuel, according to the Australian Competition and Consumer Commission, the country's antitrust watchdog.

"There are clear sectors of our economy for whom this is a nasty outcome," said the Grattan Institute's Wood. "I think we will see some energy intensive manufacturing close down."

Wood, a former executive at Sydney-based producer and retailer Origin Energy Ltd., doesn't see energy prices falling anytime soon, even as the country tries to ramp up renewable power sources.

Almost 90 percent of the A\$88 billion forecast to be spent adding power capacity in Australia through 2040 will go toward clean energy, according to Bloomberg New Energy Finance. It estimates less than 2 percent will be spent on coal, and even then only to refurbish existing plants, with the rest invested in gas.

So far, the move to clean energy has done little to lower the world-topping electricity prices in South Australia, where solar and wind account for about 40 percent of its power generation, the most of any mainland state. A series of blackouts there the past year prompted billionaire Tesla Inc. co-founder Elon Musk to propose building what he said would be the world's biggest battery system in Jamestown, about 210 kilometers north of the state's capital, Adelaide.

Across the Spencer Gulf to the west in Whyalla, Liberty House Group's Gupta is planning to install a variety of alternative energy sources -- including solar electricity, hydropower and storage batteries -- to overcome uncertainty around power supply and prices for his newly acquired steel assets.

"We have every energy resource you could want -- whether its old school or new school -- here in Australia," Gupta said. "Yet, we have the most expensive power in the world."

—With assistance from Jason Scott, Hannah Dormido and Leonard Quong (Bloomberg New Energy Finance).

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