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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.

World's Biggest Wind Turbine Maker Sets Sights on New Markets

Posted June 23, 2017, 8:08 A.M. ET

By [Christian Wienberg](#)

The chief executive officer of Vestas Wind Systems A/S says the world's biggest wind turbine maker wants to expand in the Middle East and the Asia Pacific region as it taps into growing demand for renewable energy in new markets.

Vestas intends to be a "pioneer in new markets," CEO Anders Runevad said in a phone interview June 22.

"There are markets in the Middle East which we hope will open up, and in Asia Pacific there are markets opening up now or that we have high hopes for when they open up," he said. "These markets have growing energy needs." Vestas this week even introduced a new turbine that will be able to operate during the kinds of typhoons and tropical storms that can hit the Philippines and Japan.

The comments follow an announcement earlier this week that Vestas expects to start operating in Russia, where the Danish company is planning facilities after winning contracts to supply turbines to Fortum.

"Russia has a lot of potential," Runevad said. "We have always been good at pioneering wind in new markets and have been good when we come in early." He estimates the country "can become a good mid-sized market."

The company is moving into new regions as the political landscape grows less certain. Investors sold Vestas shares earlier this month after President Donald Trump announced he was pulling the U.S. out of the Paris climate accord. Vestas has since said the move won't prompt it to alter its North American strategy as the all-important production tax credit, which provides an incentive for renewable energy producers, stays in place for the foreseeable future.

"The U.S. will continue to be the second-biggest market globally for the foreseeable future," Runevad said. "You could argue that looking very long ahead, India could challenge."

"In China there's an increase in electricity demand," he said. "It continues to be the biggest market

not only for wind, but also for other forms of energy. We're definitely getting traction and we definitely improve our position."

Runevad said Vestas wants to be the biggest foreign wind company in China, but acknowledged it probably won't be able to dominate that market in the same way it does other regions.

To chase growth, the company also is focusing heavily on generating revenue from servicing turbines, which Vestas expects to continue to outgrow the market for new turbines.

"That's why we've put a lot of focus on the service segment," Runevad said.

Over the past two years, Vestas has bought German service provider Availon for 88 million euros (\$98 million) and UpWind in the U.S. for \$60 million.

"The two acquisitions we've done were the biggest independent service providers that existed in the market," Runevad said. "If we can find something similar that has a reasonable scale, we are definitely interested in looking at that."

"Integration is going well, we're a bit ahead of our internal plan," he said. "We feel now the integration is well in place. It's definitely part of the strategy if we can find bolt-on strategies in that space."

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Mexico Shelves Oil Plans in Birthplace of Zapatistas Amid Outcry

Posted June 23, 2017, 9:50 A.M. ET

By [Adam Williams](#)

Indigenous outcry against Mexico's oil development plans in the birthplace of the Zapatista movement has claimed its first victory.

Two exploration areas in the southern Chiapas state were excluded from a July 12 bidding round, with the National Hydrocarbons Commission citing the government's need to prolong dialog with native groups. The decision is the first time indigenous opposition has prevented oil prospects from being auctioned since Mexico ended a state monopoly in 2014.

The Zoque and Tzotziles groups have escalated protests in the state known for the Zapatista rebel movement and resistance to the passage of the North American Free-Trade Agreement. That included the burning of a City Hall in the town of Tecpatan. In marches against oil developments, they often chant "Viva Zapata," in a reference to Emiliano Zapata Salazar, a peasant leader who inspired the movement.

"This is a triumph for the Zoque community because it not only means the auction was stopped, but also demonstrates the importance of defending the natural riches of the territory that belongs to the people," Juan Guerrero, a representative of the Movement of Indigenous Communities in Resistance, wrote in an emailed message. "It is also a victory for the indigenous communities that oppose the energy reform and serves as an example for other groups across Mexico."

More Dialog

In a June 21 statement, the Energy Ministry said additional time was needed to continue dialog with the indigenous communities in northern Chiapas in order to obtain the consent needed to carry out the oil exploration activities. The ministry added that the areas, with the consent of the communities, could be included in future hydrocarbons auctions.

At least 12 exploratory wells were planned to be drilled in the two Chiapas blocks, which span an area of around 845 square kilometers (326 square miles), according to the National Hydrocarbons Commission.

Mexico, which has signed dozens of onshore and offshore development contracts in the past two years with oil producers such as Exxon Mobil Corp., Chevron Corp. and BP Plc, is planning a December auction to lease onshore shale fields in the Veracruz state, also home to several indigenous communities.

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Tembo Power Proposes New Hydro Solution for Congo Copper Mines

Posted June 23, 2017, 9:27 A.M. ET

By Tom Wilson

Africa-focused energy company Tembo Power Ltd. is proposing a new approach to address the electricity shortfall in the Democratic Republic of Congo.

The Mauritius-registered company will develop five small hydropower sites, linking them together to provide 100 megawatts to the country's power-hungry copper industry, Chief Executive Officer Raphael Khalifa said.

"This is I think the only way to unlock the small hydropower potential in Africa," Khalifa said in an interview June 22 in Lubumbashi in southeastern Congo. The close proximity of each hydro site and the willingness of the Congolese government to award rights on all five sites to one company have made it possible, he said.

Congo, Africa's biggest copper producer, has installed power-generating capacity of 2,442 megawatts, but only about half of that is operational after years of mismanagement and under-investment.

State-owned power utility SNEL estimates that demand from copper miners outstrips supply by 750 megawatts, a shortfall that has been one of the biggest constraints on output growth in the past three years. Congo produced a record 1.03 million metric tons in 2014, but output has been little changed since then, falling to 995,805 tons in 2015 before climbing back to 1.02 million tons last year.

Critical Mass

Combining small hydropower sites in a single project provides a critical mass of electricity required to sign power-purchase agreements with the mining industry and helps with bankability, Khalifa said.

Tembo will seek to raise \$300 million for the project from lenders by the end of 2018 and is already in early talks with mining companies about potential off-take agreements when power comes online in 2021, Khalifa said.

The hydropower sites are in Lualaba province, about 50 miles north of Freeport-McMoRan Inc.'s Tenke Fungurume copper-cobalt mine, acquired last year by China Molybdenum Co. Other mining companies with large copper projects in the province include Glencore Plc and Eurasian Resources Group.

Tembo also has hydropower projects in Kenya, Burundi and Tanzania.

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U.K. Told Nuke Plant Subsidies May Spiral Past \$38 Billion

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By [Jessica Shankleman](#)

Britain's first new nuclear plant in a generation may cost consumers 30 billion pounds (\$38 billion) or more in higher electricity costs, five times more than ministers had expected, the government's auditor warned.

The National Audit Office urged the government to come up with a "Plan B" for electricity supplies in case of a collapse of the the Hinkley Point C project, to be built by Electricite de France SA and China General Nuclear Power Group. An investigation by the audit office said ministers failed to consider cheaper options for delivering the plant.

The report adds to concerns that Hinkley is becoming increasingly expensive, both for the government of Prime Minister Theresa May, who approved it, and for consumers who will ultimately have to pay for it. May locked in future prices for the plant's electricity that are above both the current wholesale cost of power and renewable energy technologies.

"The department has committed electricity consumers and taxpayers to a high cost and risky deal in a changing energy marketplace," Amyas Morse, head of the National Audit Office, said in a June 23 statement. "Time will tell whether the deal represents value for money. We cannot say the department has maximized the chances that it will be."

Under a contract the prime minister signed in September, EDF will invest about 18 billion pounds to build the plant with China General. In order to receive a guaranteed return on investment, May fixed the power price the plant will earn at 92.50 pounds a megawatt-hour. The government will pay the difference between the market value of the electricity sold and EDF's contracted rate.

Cheaper Power

Wholesale power prices have slid in the U.K. to about 40 pounds a megawatt hour from 50 pounds when the contract was initially agreed with EDF in 2013. This change in the market outlook would mean consumers shouldering bigger subsidy payments to support the project -- an estimated 30 billion pounds instead of the 6 billion pounds expected at the time, the watchdog said.

The report also highlighted a series of concerns over whether EDF will ultimately complete the

decade-long project:

EDF's financial position has weakened since 2013, marked by persistent negative cash flow, higher spending than expected, and earnings below the forecasts.

The unproven design for the new reactors at Hinkley Point mean EDF may need to seek further financial support from the government if the project runs into trouble.

Rapidly falling renewable energy costs mean that wind and solar power can now be purchased more cheaply than officials had predicted five years ago, making Hinkley look less attractive.

"It is EDF Energy and CGN who will take the risk and responsibility of delivering " the project, the French utility said in an emailed statement. "The project is having a major impact on the U.K.'s industrial capacity, jobs and skills. Relaunching the U.K. nuclear new build industry at Hinkley Point C will enable costs for future projects, in particular Sizewell C, to be lower."

Ministers Faulted

The NAO faulted ministers for not considering means of funding that could have made the project cheaper. A public-private partnership of the kind that delivered the Channel Tunnel railway, or an "engineer, procure and construct" model similar to what was used to buy F-35 Joint Strike Fighter aircraft could have significantly cut costs, it said.

"They didn't even do this kind of consideration of what these alternative approaches mean," Simon Bittlestone, one of the report's main authors, said in a phone interview.

Ministers agreed to pay a premium for Hinkley's power to speed up work on the project and to signal that further nuclear investments would be welcome. Atomic power offers energy without greenhouse gases associated with damage to the climate, and the government wants to maintain its fleet of reactors as most of its older plants close within the next decade.

A spokeswoman for the U.K. Department for Business, Energy and Industrial Strategy, said: "This was an important strategic decision to ensure that nuclear is part of a diverse energy mix. Consumers won't pay a penny until Hinkley is built."

The report also criticizes officials for:

- Negotiating bilaterally with EDF instead of running a competition that could have reduced the contract's costs.
- Paying LeighFisher Inc. 1.2 million pounds to advise on costs even though the firm admitted it had a conflict of interest through work its parent company did with EDF on Hinkley Point.
- Prioritizing diplomatic relations with France over value for money.

No new nuclear plants have progressed since Hinkley's approval. The financial woes of Toshiba Corp. casts doubt on one potential development at Moorside in Northwest England.

Caroline Lucas, a lawmaker for the Green Party, which opposes nuclear power, said the government should seek to undo the contract and invest more in renewable energy instead.

"Not only are consumers and taxpayers going to be ripped off by this absurd project, but it will also

divert resources away from building the clean energy infrastructure,” Lucas said in a statement.

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