

To: Jackson, Ryan[jackson.ryan@epa.gov]
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Subject: [SPAM] May 25 -- Daily Environment Report - Afternoon Briefing



Daily Environment Report

Afternoon Briefing - Your Preview of Today's News

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White House Reviewing Plan to Pause Methane Rule

Posted May 25, 2017, 10:11 A.M. ET

By [David Schultz](#)

The White House is reviewing an EPA plan to pause implementation of an Obama administration rule designed to limit methane emissions from oil and gas wells, according to the Office of Management and Budget [website](#).

EPA Administrator Scott Pruitt [announced](#) last month that he wanted to pause the standards before June, when a new set of compliance deadlines on the oil and gas industry would take effect. The regulation, one of the centerpieces of the Obama administration's climate policy, requires operators of new or modified wells to significantly boost their monitoring for leaking methane, a potent greenhouse gas.

The Trump administration has moved to halt implementation of many Obama-era environmental regulations, including regulations on methane emissions from landfills.

High Cost of Smart Water Meters Slows Adoption by Utilities

Posted May 25, 2017, 11:30 A.M. ET

By [Amena H. Saiyid](#)

In a world of smart phones, smart cars, and smart appliances, drinking water utilities are striving to keep pace, installing smart meters that send real-time data about usage, leakage, and water quality.

The migration has been slow, however, mainly because of their high cost, according to the head of DC Water, the utility serving the nation's capital.

The cost of installing a smart meter is a "heavy lift no matter what the size of the utility," George Hawkins, DC Water's chief executive officer and general manager, told Bloomberg BNA.

On average, a regular analog meter would cost \$25. The average cost of installing a smart meter at each house in the nation's capital is coming out to be \$180, according to DC Water, which distributes drinking water and collects and treats wastewater for more than 672,000 residents and 17.8 million annual visitors in the District of Columbia.

Only about 20 percent of U.S. drinking water utilities have adopted the new technology, while about 60 percent of the country's electric utilities use digitized smart meters, according to a recent [report](#) by the Energy & Utilities practice at business consultants West Monroe Partners.

Cost as Barrier

The report found that two thirds of the 700 surveyed water utilities cite cost as a barrier to implementing smart meter technologies, especially among small- to mid-sized utilities. A smart meter can cost as much as seven times as much as the regular, analog, spinning meter.

A "smart," or advanced, meter is a vital part of water infrastructure that can provide a remote and constant two-way data link between utilities, meters and consumers. It does so by measuring water consumption or pressure or leaks and transmit that data digitally at regular intervals to the the utility control room. It is usually installed on the utility's service line between a homeowner's property line and the public domain.

DC water had to take some of their employees away from their regular jobs to help with installing and configuring the utility's network to integrate smart metering.

"We can afford to take people offline and spread our costs, but not all utilities can afford to do that," Hawkins said.

A smart meter incorporates transmitters and fixed "nodes" around the city that collect data and relay it to the utility, Hawkins said. The metering system uses software to receive and analyze the data, and staff has to be trained to interpret the data for day-to-day decisions, he said.

Fragmented Nature of Industry

Other factors inhibiting adoption of smart meters is the fragmented nature of the drinking water utility industry compared to the consolidated electric utility sector, Peter Mulvaney, senior manager for West Monroe's Energy and Utilities who specializes in delivering water management services, told Bloomberg BNA.

Mulvaney said 50,000 water utilities provide water service compared to the 3,000 electric utilities that distribute power.

"Fragmentation makes market penetration very difficult because each utility is responsible for making the investment," Mulvaney said, making the case for regional water utilities that would be able to pool resources and data.

Hawkins agrees with Mulvaney. He said the region's utilities could benefit from pooling data they receive from their customers in an attempt to make operations better.

Cautious Industry

Water utilities are risk-averse and tend to err on the conservative side because they can't afford to cause a public health crisis by delivering water that is unsafe, according to Mulvaney.

"Water utilities are late to the game" compared to electric utilities, Mulvaney said.

West Monroe found that most water utilities, including DC Water, are using smart meters to detect leakage in addition to providing billing services based on water consumption. Smart meters also are being used to detect pressure variations, which can indicate a problem in the pipes.

DC Water is among the nation's water utilities that have been quick to adopt technologies that will improve its capability to respond remotely and immediately to problems with water treatment and delivery, Hawkins said.

In March, the utility announced plans to replace the city's 89,000 meters over the 18 months with a new version of meters that detect leakage if the consumption rate rises suddenly, utility spokesman Vincent Morris told Bloomberg BNA.

Improved Efficiency

Morris said the new meters, which will be accompanied by a small transponder, will yield multiple benefits for the utility and the consumer. The new meters will transmit the information to six data nodes that the utility has installed around the city that in turn will relay it to the control room at the utility.

"We can remotely respond to any data of leakage by turning off the water delivery," Hawkins said.

Related to smart meters is another device that the utility is planning to test on its sewer systems. This technology, which Xylem Inc. has developed, would allow the utility to shut down the pumps if it detects a problem.

Mulvaney sees smart meters as the way to make delivery and treatment of water more efficient and reliable.

"If we only use these meters for billing purposes then its use is very limited, but we can use this infrastructure to provide us with a picture of the watershed," Mulvaney said. "We not only find out about the movement of water through the ground, but also through the pipes."

The Bees Are Back in Town, Sort of

Posted May 25, 2017, 9:22 A.M. ET

By Tiffany Stecker

Beekeepers across the country lost one-third of their honeybee colonies over the past year, marking an improvement from a record high four years ago, but still a troubling trend for the sector.

The Bee Informed Partnership, a collaboration between government research agencies and universities, released its yearly honeybee colony loss survey May 25. Beekeepers lost about 33.2 percent of colonies between April 2016 and March 2017, a notable decrease from the 2012-2013 peak of 45 percent. It is the second-lowest rate of colony loss in seven years.

About 21.1 percent of colonies were lost over winter, an improvement of about 5.8 percentage points over the previous year and below the 10-year average. Summer losses were 18.1 percent, a decrease from 23.6 percent loss last year.

Despite Losses, Honey Volumes Are Up

While the lower loss numbers are welcome news, the fact that beekeepers lost one in three colonies last year is worrisome, Bee Informed Partnership Director Dennis vanEngelsdorp said.

“It’s gone from horrible to bad,” vanEngelsdorp, an entomology professor at the University of Maryland, told Bloomberg BNA. Beekeepers last year likely benefited from fewer Varroa mites—bugs that transmit diseases to bees—the result of amenable weather and the Environmental Protection Agency’s work to approve products to kill mites.

Public and private efforts to plant pollen-rich vegetation near commercial crops has also helped improve nutrition to bees, vanEngelsdorp said. Conversion of grasslands and prairie to cropland over the last several decades is one of the reasons why bee health has declined, scientists say. Use of pesticides and mite infestations are other factors.

Despite the high reported loss, honey production has fared well. The Agriculture Department’s National Agricultural Statistics Service reported in March that honey volumes are up 3 percent for commercial beekeepers owning five or more colonies, and 6 percent for beekeepers owning less than five colonies. The number of colonies also increased by about 4 percent for each group.

Now in its 11th year, the annual survey serves as a pulse for measuring the bee health as concern over pollinators remains high. Reports of an unusual phenomenon known as colony collapse disorder around 2006 triggered worries that honeybees—whose work carrying pollen between crops is valued between \$15 billion and \$20 billion—could die out.

USDA Survey Out Aug. 1

Beekeepers are struggling to stay in businesses with the high losses, Michele Colopy, program director for the Pollinator Stewardship Council, told Bloomberg BNA.

“Would you like to work in a sector where you lost 33 percent of your livelihood every year?” Colopy said. “I think the answer would be ‘Dear god, no!’”

Nearly 5,000 beekeepers responded to the survey, representing only about 13 percent of the country’s roughly 2.8 million managed honey producing colonies. USDA will release its own bee colony loss survey Aug. 1. Respondents will include more than 9,000 operations of both large and small-scale commercial beekeepers.

The two surveys are best read together for a more comprehensive understanding of honey bee health in the United States, Colopy said.

In 2015, the Obama administration laid out a sweeping plan across agencies to help pollinators, which include honeybees but also native insects, birds and bats. As part of the effort to boost pollinator health, the EPA is reviewing the approvals of neonicotinoid pesticides—insecticides that can become present in pollen and affect bees. The agency also finalized a policy in January that sets limits for pesticide spraying when honeybees are present.

Colony collapse disorder was described as a phenomenon in which worker bees flee their hives en masse. Entomologists have not seen indicators of “classic” colony collapse disorder for several years, vanEngelsdorp said. Now, beekeepers are more likely to find dead bees in their hive than an empty hive.

“We don’t see much CCD at all,” he said. “But we continue to see high levels of loss.”

Group of Exxon Investors to Back Climate Change Plan Board Opposes

Posted May 25, 2017, 02:02 P.M. ET

By Emily Chasan

Almost 90 Exxon Mobil Corp. investors plan to back a proposal that would pressure the company to bolster its disclosure of climate change risks and opportunities.

The shareholders include the New York state and city pension funds and the California Public Employees’ Retirement System, according to data compiled by investor advocacy group Ceres. Vanguard Group is considering voting for the proposal, Glenn Booraem, the firm’s investment stewardship officer, said in a May 25 email.

The proposal will be taken up at Exxon’s annual meeting on May 31 in Dallas.

Environmentally focused shareholders are stepping up efforts to pressure companies on climate issues.

A similar proposal at Exxon last year received about 38 percent support, the highest ever for a climate vote at the company. Comparable initiatives at Occidental Petroleum Corp. and PPL Corp. received majority support over management objections. BlackRock Inc., the world’s largest asset manager, supported the proposal at Occidental.

BlackRock hasn’t yet decided on its Exxon vote, Zach Oleksiuk, head of Americas for BlackRock Investment Stewardship, said in an email May 25.

Exxon opposes the proposal. Scott Silvestri, an Exxon spokesman, declined to comment further.

The shareholder move seeks to push Exxon to publish an annual assessment on how the 2 degree Celsius global warming reduction target set by the Paris Agreement will affect its portfolio long term.

Exxon is “really out of step with their peers around the world,” said Sue Reid, vice president of climate and energy at Ceres.

Proxy advisory firms Institutional Shareholder Services and Glass Lewis & Co. are recommending shareholders override management and support the proposal.

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SC Johnson to Expand Skin Allergen Disclosures in Products

Posted May 25, 2017, 8:00 A.M. ET

By Stephen Joyce

A leading U.S. manufacturer of household cleaning products announced it will voluntarily disclose the presence of 368 potential skin allergens in its goods, illustrating an ongoing industry trend.

SC Johnson & Son Inc., a privately held company based in Racine, Wis., previously had decided to disclose 26 possible allergenic substances as required by a 1999 European Union opinion, but its May 25 decision expands the company's disclosure regime to include hundreds of skin allergens present in its products. The disclosures will appear on a company website but not on any of its product labeling.

The announcement is part of an industry trend to enhance disclosure regimes despite no regulatory or statutory obligation to do so. No federal agency and only a few states have contemplated requiring such disclosures, but Kelly Semrau, SC Johnson's senior vice president of corporate affairs, and others said companies manufacturing personal-care and household-cleaning products will continue to expand disclosure regimes to build trust and brand loyalty with consumers.

Other companies, including Unilever NV, have announced their own disclosure targets. Some, such as Unilever subsidiary Seventh Generation Inc., that tout products as containing natural ingredients may feel increasing pressure to increase their disclosures voluntarily.

Earning Consumer Trust

SC Johnson will disclose the presence of potential natural and synthetic allergens in its products when their concentration levels are at or above 0.01 percent, the same standard required by the European Union opinion. While that concentration likely won't cause an allergic reaction in most rinse-off products, the company decided to adopt the standard as it tries to boost its transparency efforts, Semrau said.

"Ultimately, this is about earning the trust of all the people who buy our products," Fisk Johnson, SC Johnson chairman and chief executive officer, told Bloomberg BNA. "Transparency is something we've been working on for quite some time, and we think being transparent about the ingredients that go into our products, the allergens that are in them, I think helps earn the trust of people."

The company is planning to list the ingredients by individual product beginning in 2018, Semrau said.

Chemicals on the EU list of 26 allergens include benzyl alcohol, citronellol, farnesol, hydroxycitronellal, linalool, and oakmoss extract.

Government Action

Few state laws or regulations requiring the chemical disclosures in household consumer products have been enacted at the state level. In California, however, state Sen. Ricardo Lara (D) introduced a bill (SB-258) Feb. 8 that would require manufacturers of cleaning products produced or sold in California to disclose on its label each ingredient contained in the product. The state Senate Appropriations Committee is scheduled to hold a hearing on the legislation May 25.

New York Gov. Andrew Cuomo (D) April 25 proposed regulations requiring manufacturers of cleaning products sold in New York to disclose the ingredients of their products. Comments on the proposal's disclosure certification form are due June 14.

At the federal level, lawmakers considered adding chemical disclosure requirements to the Toxic Substances Control Act amendments of 2016 (Pub. L. No: 114-182), but ultimately they were not included in the final version.

Voluntary Push

The absence of state or federal mandates, however, will not slow down the push by companies to enhance their disclosure regimes, several people who follow the issue said.

“There is movement across different industries to increase transparency, not as much as cleaning products as we’ve seen in personal care perhaps,” Nneka Leiba, deputy director of research at the Environmental Working Group, told Bloomberg BNA.

Johnson said any resulting state or federal regulation probably won’t affect his company because it plans to continue pushing for voluntarily disclosures that will be well ahead of any regulatory or statutory development.

Leiba said the Environmental working Group’s “ultimate goal” is for the federal government to impose ingredient disclosure requirements on manufacturers, but until that happens some companies will likely continue to voluntarily disclose the ingredients..

Colorado May Shut Down Wells If Oil, Gas Companies Miss Deadlines

Posted May 25, 2017, 02:55 P.M. ET

By [Tripp Baltz](#)

The Colorado Oil and Gas Conservation Commission could order the shutdown of any oil and gas well if those wells’ operators fail to meet upcoming deadlines to check certain pipelines.

Commission director Matt Lepore warned producers that shutdowns could apply to wells connected to underground flowlines covered by a notice to operators sent after a fatal home explosion last month in Firestone, Colo., Todd Hartman, spokesman for the state Department of Natural Resources, told Bloomberg BNA May 25.

The notice directs operators to inspect flowlines by May 30 and pressure test them for leaks by June 30, Hartman said. Frederick-Firestone Fire Protection investigators identified odorless, colorless natural gas leaking from a severed 1-inch flowline that ran six feet from the destroyed home as the cause of the April 17 explosion and fire that killed two men and left a woman critically injured.

Inspect and Test

Following that determination, the commission, at the direction of Colorado Gov. John Hickenlooper (D), ordered oil and gas companies to inspect any existing flowlines and pipelines located within 1,000 feet of an occupied building including homes, schools, and hospitals, by May 30. The order requires operators to ensure integrity of such pipelines by pressure testing them by June 30.

The flowline implicated in the Firestone explosion was technically “abandoned”—a term which means it had previously been taken out of service—but had not been properly disconnected from the wellhead and capped as required by a commission rule (Rule 1103). The line was not in use in 2016, but natural gas began flowing through it again in January 2017.

Anadarko Petroleum Co. was the owner and operator of the flowline at the time of the incident. The previous owner was Noble Energy Inc. It remains unknown how the line was severed.

Anadarko officials didn't immediately respond to Bloomberg BNA's request for comment.

Capped and Sealed

Two additional requirements are included in the notice to operators. Companies are required by May 30 to inspect all existing flowlines and pipelines, regardless of their distance from an occupied building, that have been abandoned under Rule 1103.

Flowline or pipeline risers—the portion of a line that juts out from the ground—must be clearly marked using fluorescent paint, have all operating valves removed, be sealed, and be capped so they are cut off below the ground.

By June 30 operators must complete abandonment of any flowline or pipeline not actively operated regardless of distance from an occupied building and regardless of when it was taken out of service, the commission said.

Maryland Limits Pesticide Use in State-Owned Pollinator Habitats

Posted May 25, 2017, 01:33 P.M. ET

By Kathy Lundy Springuel

Three Maryland agencies required to prepare pollinator habitat plans for state lands will be limited in their use of certain pesticides under legislation Gov. Larry Hogan (R) signed May 25.

The restrictions are prompted by concerns that neonicotinoid pesticides contribute to the mortality of bees, birds, and butterflies, putting at risk that sector of the nation's food supply that relies on them for pollination.

Signed H.B. 830 prohibits the use of neonicotinoid pesticides and seeds or plants treated with a neonicotinoid pesticide on state lands designated as pollinator habitat areas.

For pesticides labeled as toxic to bees or other pollinators that are not neonicotinoid pesticides, the bill allows their use in pollinator habitat areas only if the state health secretary determines their use is necessary to respond to "a specific instance of threat to public health."

The new law applies to the Department of Natural Resources, Maryland Environmental Service and State Highway Administration, which are required under state law to establish pollinator habitat plans by July 1 and implement them by July 2018.

In 2016, Maryland became the first state to ban consumer use of neonicotinoid pesticides under S.B. 198/H.B. 211.

That ban, which takes effect Jan. 1, 2018, includes exceptions for certified applicators, farmers, and veterinarians.

GM Accused in Owner Lawsuit of Using VW-Like Defeat Devices

Posted May 25, 2017, 12:53 P.M. ET

By Kartikay Mehrotra and Ryan Beene

General Motors Co. was sued for allegedly putting defeat devices in its trucks to beat emissions tests, the sixth carmaker accused of diesel cheating since 2015, when Volkswagen AG admitted to installing software to bypass pollution rules.

Owners or lessees of more than 705,000 GM Duramax diesel trucks filed a class-action lawsuit May 25, claiming GM installed multiple such devices in two models of heavy-duty trucks from 2011 to 2016. The 190-page complaint is littered with 83 references to VW, and asserts that the environmental damage caused by each truck could surpass that of the German automaker's vehicles.

GM's cheating allowed its trucks to pass U.S. inspections, even while they spewed emissions two to five times the legal limit under regular driving conditions, according to the complaint filed in Detroit federal court.

GM spokesman Tony Cervone said the lawsuit is without merit.

The complaint underscores questions about the credibility of diesel technology. The allegations against VW have cost it \$24.5 billion in fines, penalties and potential buybacks across North America.

In the case of Fiat Chrysler Automobiles NV, drivers filed a class action alleging VW-like cheating on diesel emissions tests and shortly after, U.S. prosecutors and regulators were investigating as well. Daimler AG is the target of a German probe related to diesel emissions, and French carmakers Renault SA and PSA Group are both being investigated in their home country.

NOx Pollutants

"GM claimed its engineers had accomplished a remarkable reduction of diesel emissions," attorney Steve Berman, a managing partner at Hagens Berman, said in the complaint. Berman has also represented drivers and dealerships against VW and in Fiat Chrysler's ongoing litigation. "These GM trucks likely dumped as much excess poisonous emissions into our air as did the cheating Volkswagen passenger cars."

Excessive emissions from the GM vehicles exposed the general public to noxious levels of smog, according to the complaint. Diesel engines, while more fuel efficient, produce greater volumes of nitrogen oxide pollutants, or NOx. During on-road testing the diesel trucks polluted at levels beyond legal limits and higher than their gasoline counterparts, according to the complaint.

To meet environmental standards, the Chevrolet Silverado Duramax and GMC Sierra Duramax diesel trucks will probably require modifications that would reduce power, torque and fuel efficiency, according to the complaint.

Technology provider Robert Bosch GmbH, which was named as a co-defendant by consumers who sued VW, is also defendant in the GM case, described in the complaint as "an active and knowing participant in the scheme to evade" emissions standards.

A Bosch representative didn't immediately respond to a request for comment on the GM suit.

Representatives of the Justice Department and the Environmental Protection Agency didn't immediately respond to requests for comment.

—With assistance from David Welch, Tom Schoenberg, Jennifer A. Dlouhy and Gabrielle Coppola.

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Brazil Fines Port Operator for Ship-to-Ship Oil Spill

Posted May 25, 2017, 7:52 A.M. ET

By [Michael Kepp](#)

Acu Petroleo, an oil terminal operator in Rio de Janeiro's industrial port, faces 275,000 reais (\$84,200) in fines after spilling an undisclosed volume of oil May 5.

The oil spilled in the outer sea limit of the port area in Rio de Janeiro state during a transfer of oil involving two tankers, both of which were contracted by Shell Oil.

The fine was low because the spill was confined and Acu Petroleo was a first-time offender for this type of violation, according to a May 23 statement from INEA, the secretariat's enforcement arm.

China's Coal-Shrinking Goal Wins Believers as Gas Use Surges

Posted May 25, 2017, 8:19 A.M. ET

By [Dan Murtaugh](#), [Aibing Guo](#) and [Sarah Chen](#)

With factories and power plants across China burning half the world's coal, the government's latest targets for using more natural gas to ease the country's worsening air pollution seemed too ambitious.

Though gas remains a small and expensive component in China's fuel mix, demand is rising faster than expected for domestic and imported supplies. In April, consumption was 22 percent higher than the same month in 2016, and the total for the first four months of the year is up more than 12 percent, data from the National Development and Reform Commission show.

The results are encouraging analysts to upgrade their demand forecasts and may signal the government is on track to reach its goal of getting as much as 10 percent of its energy from gas by 2020. It's also bolstering the outlook for hundreds of billions of dollars in possible investments by companies as far away as Russia, Australia and the U.S. to build gas pipelines and export infrastructure to feed the growing Chinese market.

"China's targets are looking more and more achievable," said Laban Yu, head of Asia oil and gas equity research at Jefferies Group LLC in Hong Kong. "It has nothing to do with China's economy, or natural gas and coal prices. It's policy driven, and it's about whether the government is serious about doing what it says it will do."

Unlike the U.S., where cheap and ample supplies of gas led to a surge in use by power plants and

factories that now exceeds coal, China's domestic output costs more to produce and the country relies on long-distance imports, including liquefied natural gas carried by tankers. Government-set prices are among the highest in the world, leaving no incentive to switch unless pushed by regulation.

President Xi Jinping's government is leaning on gas as one tool for easing the air pollution that's choking cities from Beijing to Shanghai. Coal burning is the biggest culprit in the smog that's a frequent urban blur and poses risks to the health of the world's biggest population. China also is pushing hard to meet its commitments to reduce carbon emissions linked to climate change.

King Coal

Coal made up almost two-thirds of China's energy use in 2015, while gas came in at less than 6 percent. In the U.S., gas accounted for 29 percent last year, compared with 15 percent for coal. Wholesale gas in China last year averaged \$7.28 per million British thermal units, compared with \$2.46 in the U.S., according to an annual survey by the International Gas Union. The U.S. benchmark Henry Hub price was \$3.22 as of 9:47 a.m. in London.

In January, China's latest five-year plan called for using gas instead of coal in industrial boilers throughout four major urban areas: the greater Beijing region, northeast China, the Yangtze River Delta around Shanghai and the Pearl River Delta in Guangdong province. Provincial governments are supporting the efforts by subsidizing gas-supply connections and boiler replacements, according to Morgan Stanley.

Transportation is also seen as a growth driver through 2020, with more long-haul trucks running on liquefied natural gas, UBS Group AG analysts forecast. Major manufacturers sold about 1,900 LNG-fueled trucks in the first two months of 2017, a five-fold increase from the same period in 2016. Transportation accounts for about 10 percent of Chinese gas demand, Morgan Stanley analyst Andy Meng said in a March report.

The shift isn't without hurdles, especially if coal remains cheap. Gas got a boost when a reduction in domestic coal output led to an almost doubling of coal prices over 12 months, to about 700 yuan (\$102) a metric ton in November. But the appeal may wane if coal resumes a slump that began in late 2011. Prices have fallen below 600 yuan this month and may slip under 500 yuan by the end of June, according to Jefferies.

Cheaper Alternative

"As coal prices look destined to drop to around 500 yuan a ton this year, the conversion to natural gas will stop, and some price-sensitive industrial users may even think of switching back," said Tian Miao, a Beijing-based analyst at North Square Blue Oak Ltd.

China's gas demand must grow between 13 percent and 15 percent annually through the end of the decade to meet the upper end of the government's target, which equates to about 360 billion cubic meters, analysts at UBS and Sanford C. Bernstein estimate. Without more aggressive policies or lower prices, gas may end up a smaller part of the energy mix than forecast, according to North Square Blue Oak.

"High natural gas prices are the root problem," Tian said. "Barring extreme policy enforcement, the only way to consistently boost use is to lower prices to a level that's competitive with alternative fuels."

Even regulators signaled they may want to temper expectations. In January, they added a lower range for the five-year-plan target on gas use at 8.3 percent by 2020, to go along with the 10 percent goal published the previous month. Meanwhile, the share of coal is expected to fall to 58 percent.

The government recognizes it must make gas more a cost-effective alternative, UBS analysts including Ken Liu wrote in a February report. It cut prices twice in 2015 to make gas cheaper for wholesale buyers than competing propane and fuel oil. The total cost was still higher because of fees distributors charged for transporting gas, UBS said. The government is trying to fix that with plans to cap the rate of return on assets for urban gas distributors and pipeline companies.

In the second half of the year, the government is likely to cap distributors' profits, introduce coal taxes and gas subsidies, allow more joint ventures between state and private companies, and push to diversify gas supply sources, Nomura Holdings Inc. analysts including Jamie Wang said in a research note. Regulators haven't released details and timelines of any industry reforms yet.

"One of the big policy agendas is liberalization of the gas market," said Neil Beveridge, an analyst at Bernstein in Hong Kong. "That is really the ultimate direction in which the government wants to head in."

After the demand data for April was disclosed, Yu at Jefferies said his 10 percent growth forecast for this year is "now looking quite conservative." Morgan Stanley said the expansion may overtake the bank's estimate, which it already upgraded in March to 13 percent from 10 percent. Keeping pace with this year's consumption growth, domestic production reached a record and, along with imports, is running above seasonal levels.

"I was suspicious that the target may ever be met," Yu said. "But the reality is that this year the government is delivering."

—With assistance from Jing Yang, Aaron Clark and Elena Mazneva.

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