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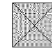

Energy and Climate Report

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.

U.S. Seen Having Long Way to Go to Market Energy Department Land

Posted September 28, 2017, 12:50 P.M. ET

By Emma Ockerman

The U.S. Department of Energy needs to develop a more accurate inventory of federal lands it manages to promote energy projects by private companies.

While other government agencies such as the Department of the Interior have looked at opportunities to promote renewable energy on public lands, the Energy Department appears to have lagged behind, according to a report released Sept. 28 by the National Academies of Sciences, Engineering, and Medicine.

It recommended the department carry out an up-to-date assessment of properties that can be leased or sold among its 164 sites, with a view to eventually getting companies on board to start developing energy projects. The agency is responsible for 2.4 million acres of land, according to its website—about 735,000 acres fewer than the state of Connecticut.

The report authors reviewed two studies from the National Renewable Energy Laboratory and Colorado School of Mines, intended to examine the potential for energy resource development, which it said were hampered by limited data and budgets.

Given the limited funding, the Colorado analysis of available fossil fuels was “fairly rudimentary,” said Paul DeCotis, chair of the committee behind the report and senior director of energy and utilities at West Monroe Partners.

The Colorado report found few opportunities for oil and natural gas development. Nevertheless, if the department were to open an office tasked with managing the leasing of its lands, it could engage developers on what would make them willing to snap up acreage.

“Really it’s a question now of perhaps better characterizing the sites and partnering with the private sector to draw private capital to develop the sites,” DeCotis said in an interview.

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Interior Expects Hot Bidding for Offshore Wind Energy Leases

Posted September 28, 2017, 03:48 P.M. ET

By Adrianne Appel

The Bureau of Ocean Energy Management is betting on heightened interest in offshore wind to drive up the price of the Atlantic ocean leases it will auction next year— parcels that just two years ago had no takers.

The Interior Department agency will auction two ocean parcels about 15 miles off the Massachusetts coast in late summer or fall of 2018, James Bennett, chief of renewable energy at BOEM, told Bloomberg BNA in a Sept. 28. The agency, which leases federal ocean areas for oil, gas and now, offshore wind, will announce details of the auction in the Federal Register by the end of the year, Bennett said.

"We've had two unsolicited bids" for the parcels already, Bennett said. That and the fact that a recent BOEM auction for an ocean parcel off Long Island, N.Y., netted a $42.5 million winning bid "indicates to us that interest in offshore wind has changed dramatically in just two years," Bennett said.

Perry to Talk Rare Earth Minerals at Pennsylvania Coal Mine

Posted September 28, 2017, 02:23 P.M. ET

By Stephen Lee

Energy Secretary Rick Perry is expected to make an announcement today about retrieving rare earth elements from coal during his visit to the Jeddo Coal Mine in Wilkes-Barre, Pa.

Rare earth elements can be found in coal and coal waste products. The minerals are used to make products such as cell phones, computers, wind turbines, and medical devices.

The Trump administration is getting behind research on extracting rare earth elements from coal to boost domestic demand for coal and reduce the need for foreign imports of the metals.

Merkel May Have Promised Too Much in Carbon Pollution Fight

Posted September 28, 2017, 9:21 A.M. ET

By Mathew Carr, Brian Parkin and Lars Paulsson

As German Chancellor Angela Merkel embarks on coalition talks to bed down her fourth term in office, a promise made shortly before her re-election may come back to haunt her.

At least that's the view of nine analysts and researchers from Berlin to London who all say her target of reducing carbon emissions in Europe's biggest economy by 40 percent in 2020 will probably fail. On Sept. 14, Merkel went as far as saying that she will find ways to meet the goal, no matter what. At the end of last year, those emissions were down 27 percent from 1990 levels.

"I think we all know that we're pretty far away from those, and I personally believe it will be extremely challenging to try to reach," said Klaus Schaefer, chief executive officer of Uniper SE, for

which fossil fuels accounted for 57 percent of profit in the first half.

Merkel's stoic approach to meet the non-binding 2020 goal would most likely come down to how tough the governing coalition is prepared to be on the nation's biggest polluters. Plants burning coal still produced about 40 percent of the nation's power last year.

But she's got a problem. Ploughing up acre after acre, sometimes moving whole villages, to get to the lignite Germany still very much relies on will put her on collision course with voters expecting her to deliver on the promise to cut emissions. At the same time, closing down sites would irk unions representing thousands of workers in some of the most impoverished parts of the country.

"It's up to the next government to make an exerted effort in the short window available to land on target," said Michael Schroeren, a spokesman for the German environment ministry in Berlin. "This could be achieved in the energy sector in connection with other sectors."

Climate Talks

Germany's work toward meeting its target may face also international scrutiny in November as climate envoys from around the world will descend on its old capital of Bonn for United Nations talks that will be presided over by Fiji.

The talks are meant to beef up the rules of the Paris agreement. So far, climate talks have have failed to make much headway in cutting emissions in the two years since the Paris deal was struck, with global emissions steady at record levels.

Berlin-based environmental think tank Agora Energiewende reckons Germany will miss its target by about 10 percentage points. Emissions reductions "won't be a near miss but a booming failure," Agora researchers wrote in a report.

As many as 135,000 people work in the traditional power sector and associated coal mining industry.

Closing down much of the country's coal power output would result in the loss of thousands of jobs, according to Jahn Olsen, an analyst in London at Bloomberg New Energy Finance. But there's no way the goal can be met by improving energy efficiency or encouraging electric car use at the pace required within four years, he said.

The country could theoretically meet the reduction level through buying international emissions credits or allowances, Olsen said. But that option would counter earlier statements by the nation that it intends to meet its target domestically, making it "politically unpalatable," he said.

Merkel's Christian Democratic Union-led bloc won the weekend ballot with its worst performance since 1949. Her party needs a three-way alliance with the pro-business Free Democratic Party and the Greens, which could take months of negotiating, Barclays Plc said Sept. 25 in a note.

The coalition negotiations between parties with such different positions mean Germany probably won't be able to put together a plan to hit the target, said Deepa Venkateswaran, an analyst in London at Sanford C. Bernstein & Co.

"The Greens want it and the FDP are against," she said. "They might agree to a long-term exit from coal, but it won't be as aggressive as the Greens want."

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China Gives Carmakers More Time in Biggest Electric-Vehicle Plan

Posted September 28, 2017, 8:36 A.M. ET

By Bloomberg News

China unveiled a comprehensive set of emission rules and delayed a credit-score program tied to the production of electric cars, giving automakers more time to prepare for the phasing out of fossil-fuel powered vehicles.

Under the so-called cap-and-trade policy, automakers must obtain a new-energy vehicle score—which is linked to the production of various types of zero- and low-emission vehicles—of at least 10 percent starting in 2019, rising to 12 percent in 2020, the Ministry of Industry and Information Technology said on its website. The rule applies to carmakers that manufacture or import more than 30,000 traditional vehicles annually and those who fail to comply must buy credits or face fines.

“This is the single most important piece of EV legislation globally,” said Colin McKerracher, a London-based analyst at Bloomberg New Energy Finance. “Overall, it provides further support for the EV industry in China. EV sales will continue growing quickly, despite the phase-down in direct subsidies.”

China previously proposed to start implementing the policy next year, a target that was viewed by automakers as overly ambitious. China, which has vowed to cap its carbon emission by 2030 and curb worsening air pollution, joins the U.K. and France in seeking a timetable for the elimination of vehicles using gasoline and diesel. The country needs to use alternative energy to power some 200 million vehicles that ply its roads and reduce dependence on oil imports.

The targets look achievable for the industry as a whole, McKerracher said. Considering the credit structure, 12 percent in 2020 would translate to about 4 percent to 5 percent of actual vehicle sales, he said.

“Political considerations must have weighed in on the decision to delay the commencement date by a year,” said Cao He, chairman of Quanlian Auto Investment Management Co. “Local automakers will likely benefit from this as they will have more buffer time to get ready on the technology front.”

Honda, BYD

Honda Motor Co., which plans to sell an electric vehicle in China next year and plans to expand that business going forward, will work to achieve the credit-score target, a company spokeswoman said. Toyota Motor Corp. refrained from commenting on a specific government policy.

“China is sending a clear signal to domestic automakers that had been dragging their feet on EVs that it’s time to get on board,” McKerracher said.

Earlier this month, China’s government said it’s working on a timetable to phase out fossil-fuel powered vehicles, helping lift shares of local automakers such as BYD Co., a carmaker that’s backed by Warren Buffett. Groups like BYD, Geely, Chery and others will have excess credits,

McKerracher said.

While global manufacturers from billionaire Elon Musk's Tesla Inc. to Nissan Motor Co. and General Motors Co. are racing to grab a slice of the electric-vehicle market in China, local manufacturers such as Geely Automobile Holdings Ltd. have also found considerable success in the market, thanks to generous government subsidies.

BYD topped the new energy vehicle makers in sales in the first seven months of this year, delivering 46,855 electric and plug-in hybrid vehicles, resulting in about 30,000 credit points in the first half, according to the company's calculation.

Beijing Electric Vehicle, the EV division of state-owned BAIC Motor, followed with 36,084 units. By comparison, GM has sold 738 cars that run on electricity since it launched the Velite 5 plug-in hybrid model at the Shanghai auto show this April.

As part of efforts to boost sales of electric vehicles, foreign automakers are setting up new joint ventures in China. Ford Motor Co. is exploring setting up a joint venture to produce electric vehicles in China with Anhui Zotye Automobile Co. while Volkswagen AG has partnered with Anhui Jianghuai Automobile Group Corp. to make electric cars.

—With assistance from Nao Sano and Kevin Buckland.

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Battery Boom Spurs One Bank's Pivot from Iron Ore to Lithium

Posted September 28, 2017, 9:14 A.M. ET

By Jasmine Ng

Westpac Banking Corp., Australia's second-largest lender, is targeting deals linked to China that finance renewable energy minerals such as lithium and cobalt as a decade of unprecedented iron ore mining expansion in its home market has largely run its course.

"The next growth area is related to renewables," Paul Gardner, global head of structured commodity finance, said in an interview in Singapore. "If you look to the future, and you look to the electric cars etc., a lot of the lithium where there's accessible sourcing is actually in Australia."

Westpac's planned shift represents a pivot away from old economy iron ore, used to make steel, toward a focus on materials that are attracting increased investor attention as the building blocks for electric vehicles and renewable energy. Rising Chinese demand for the lithium-ion batteries that are needed for new vehicles and energy storage is driving price gains as well as an asset boom in Australia, already the world's largest lithium supplier.

"Right now, what I've seen pick up is interest from Australian miners in China and in pre-payment products," Gardner said. "For a company like ours to join the dots and to put pre-payment type financing structures in place—so the mine gets its capital, and in return for its capital it has a long-term offtake agreement with the Chinese buyer—that would be perfect scenario for us."

Earlier this month, China put the automotive industry on notice by becoming the largest country to seek a phase-out of fossil-fuel powered vehicles, a move sure to accelerate the shift toward electric-

car development. That's helped to spur the race for raw materials used in the new technology, including cobalt.

Australia's government said in its latest resources quarterly that lithium, graphite and cobalt are being pulled "into a second commodity boom, with demand rising, prices spiking, and investment gathering steam." In lithium, "a host of companies in Western Australia are already targeting near-term concentrate production for sale to Chinese conversion facilities," it said.

Strategic Resource

Other countries are also seeking to beef up supplies. In Chile, a government commission is expected to offer guidance by the year-end for private companies that want to start lithium operations, according to Mining Minister Aurora Williams. Lithium is considered a strategic resource in the South American country, and no company has obtained a license in over two decades.

For now, Australia is more associated with iron ore, and the country is the largest exporter, with shipments running at a record pace. Still, resources companies have scaled back investments in increased capacity after a period of breakneck growth, with BHP Billiton Ltd. calling the end of an era of massive expansions in the steel-making raw material in 2014.

Iron has been in retreat, while lithium is soaring. The steel-making raw material is 19 percent lower in 2017, set for the fourth drop in the past five years. Lithium carbonate, the primary base-chemical produced by the industry, more than doubled in the five years to 2016, according to UBS Group AG.

"We've seen a lot of business around iron ore historically because it's abundant: dig a spade in the ground almost anywhere in the Pilbara, you're going to get iron ore," said Westpac's Gardner. "But those large developments in that space have now matured and we're at oversupply."

—With assistance from David Stringer and Laura Millan Lombrana.

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Modi's $2.5 Billion Power Plan May Stumble on Ailing Buyers

Posted September 28, 2017, 8:49 A.M. ET

By Rajesh Kumar Singh and Anindya Upadhyay

The success of Prime Minister Narendra Modi's ambitious plan to electrify all households in India by December 2018 faces a familiar hurdle: the money-losing state power retailers.

Modi earlier this week announced the government will spend 163.2 billion rupees ($2.5 billion) to provide electricity connections to every home in India by the end of next year, ahead of an earlier deadline of March 2019. The bulk of the cost for providing equipment such as power cables and electricity meters to every poor household will be borne by the federal government and partly by the states and the power retailer.

"The key is not the scheme but the political will to allow for commercial operations of discoms," CLSA analyst Bharat Parekh said in a report on Tuesday, referring to electricity distribution companies. "The key issue is that after electrifying the households, how much power will discoms supply and how will they recover the money."

Several power retailers are losing money on selling electricity below cost, and turning them around is in the hands of the state governments, which have traditionally used cheap power to shore up popular support and advance their political goals. Convincing states to allow profitable power tariffs will be Modi's biggest challenge in fulfilling the pledge that helped him rise to power in New Delhi in 2014. Modi is up for re-election in 2019.

"The onus now lies with the states," according to Debasish Mishra, a partner at Deloitte Touche Tohmatsu LLP in Mumbai. "The federal government is paying for connections, but the purpose will be defeated if the states fail to supply reliable power to people. And for that to happen operational autonomy of the distribution companies and timely payment of subsidies is a must."

Discom Losses

The announcement follows a 2015 proposal to reform power distribution, which sought to transfer three-quarters of utilities' debt to their respective state governments. The utilities were set targets to bring down losses. As a result, total losses of utilities that signed up for the plan dropped 21.5 percent from a year earlier to 403 billion rupees in the year ended March 31.

There's pressure on state governments to bring losses down even further. Starting this financial year, states will begin sharing a part of the losses their retailers make, according to the plan to turn around power distributors. In the year ending March, provincial governments will take over 5 percent of their retailers' losses in the previous year. The state's share of losses will rise each year, reaching up to 50 percent in the year ending March 2021.

Years of selling electricity below cost has eroded discoms' ability to invest in infrastructure, buy enough power from generators and repay bank debts. Power generation plants operate at just about half their capacity, unable to sell all the power they can produce. The power-for-all plan could "act as a major stimulus for the ailing power sector in India, with demand revival," Deutsche Bank analyst Abhishek Puri said in a Sept. 26 report.

"Our analysis suggests that power demand could potentially grow by 20 percent to 35 percent from current levels in two years, if the government is able to meet its target, as against the tepid 15% cumulative growth in the past five years," Puri said.

'Actual Supply'

The Sept. 25 announcement supplements an earlier program to invest 760 billion rupees in rural electrification. Modi's administration embarked on the plan in 2015, beginning with electrifying more than 18,000 un-electrified villages. About 3,000 villages still remain to be electrified, which means creating the infrastructure to take electricity to villages, making sure at least 10 percent of the households and public buildings there have power connections. Taking electricity to every home is the next phase of the plan.

Retailers have coped with losses by limiting power supplies to consumers in rural areas, who are heavily subsidized, and selling more expensive electricity to industrial consumers to help fund a part of the losses. Even if all rural households get power, making adequate returns on their investment will be a challenge for retailers given the low-usage pattern.

"This ambitious scheme needs to be followed up with equal emphasis on actual hours of supply, otherwise there'll be a danger of people not getting the true benefits of electrification, which can reduce their willingness to pay," said Ashwini Chitnis, a researcher at Prayas, a non-profit advocacy

group that focuses on energy, health and education. “Poor cost recovery can result in poor maintenance and thus huge investments in network infrastructure can go waste.”

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Chile Aims to Boost Lithium Output as Electric Cars Rise

Posted September 28, 2017, 12:15 P.M. ET

By Laura Millan Lombrana

The country holding the world’s largest reserves of lithium is drafting regulations that would allow companies to set up new mines amid soaring demand for the mineral used in electric-car batteries.

A Chilean government commission is expected to offer guidance by the end of the year for private companies that want to start lithium operations in the country, Mining Minister Aurora Williams said in an interview.

Lithium is considered a strategic resource in Chile, and no company has obtained a license in more than two decades. While global demand for lithium is expected to surge this year as carmakers such as Tesla Inc., Mitsubishi Corp. and others push to bring electric vehicles to the mass market, only two companies mine lithium in Chile.

“What Chile wants is to maintain and increase production so we can capture this space in the market,” Williams said. “We are working on a set of documents that effectively set up ways and procedures to mine lithium.”

Chile holds more than half of the world’s known reserves of the mineral, and CRU Group says the country has the lowest mining costs. Miners pump lithium-rich brine from beneath salt flats in the country’s north and leave it to dry in evaporation pools. Sociedad Quimica y Minera de Chile SA and Albemarle Corp. remain the only companies producing lithium in the nation.

The Chilean government will also unify environmental monitoring in Atacama, where both SQM and Albemarle are operating, to ensure that mining operations have no irreversible impact on the salt-flat’s delicate environment and on the communities living around it, Williams said.

Privately owned companies that want to start a lithium operation in Chile can either partner with a state-owned company or negotiate special contracts directly with the government. Chilean-owned Minera Salar Blanco spent months in talks with the government before withdrawing from the process.

‘No Rules’

“There are no rules, no one knows what the requirements are,” Minera Salar Chief Executive Officer Cristobal Garcia-Huidobro said in an interview in his office in Santiago. “When we realized the process wasn’t advancing. we decided to withdraw and wait for the government to write down the rules.”

The new framework won’t change lithium’s special status, and companies will still have to negotiate directly with the state, according to Sergio Hernandez, executive vice-president of the Chilean copper commission Cochilco, a member of the committee drafting the rules.

However, it will provide more clarity on financial guarantees for projects, investment requirements, compensation to communities or land owners, environmental rules, taxes, and royalties.

"The lithium royalty will probably be a bit higher than for copper," Hernandez said. "This makes sense because of the natural advantages of starting production of a resource that is fresh, low-cost and easy to extract."

New Players

The framework would be a sign that Chile is opening up to new players and that much more new, low-cost lithium production could enter the market over the medium term. Even a sign that the regulation is business-friendly would have an effect on prices, according to Marcelo Awad, a Wealth Minerals Ltd. manager in Chile.

The lithium market is in deficit, but it could go into a small surplus this year even as new projects experience delays during ramp up and as demand is expected to increase 14 percent, according to Bank of America Merrill Lynch. Established producers including China's Tianqi Lithium Corp. and Albemarle are expanding production in their current operations. But supply disruptions could easily put it back into deficit, according to CRU Group.

"Long-term lithium prices, used to evaluate projects globally, could drop 25 percent when the regulatory framework is out," said Awad, whose company has acquired mining concessions in salt flats across the country. "Chile has the world's largest reserves that can be mined at the lowest price, so the mere announcement should lower the long-term price."

Companies are using long-term estimates of $11,000 to $12,000 per metric ton of lithium carbonate, which would fall to $8,000 to $9,000 per ton when the regulations are put in place, Awad said. Lithium prices have more than doubled in the five years to 2016, according to UBS Group AG. The mineral averaged $14,250 a ton in July, according to Benchmark Minerals.

"It is important that companies wait for the definitions, but whatever the demands are, they will not diminish in any significant way Chile's geological and institutional advantages as a lithium producer," Hernandez said. "We will remain attractive."

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