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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.

Former Energy Commissioner Honorable Joins Reed Smith Law Firm

Posted July 10, 2017, 12:00 P.M. ET

By [Rebecca Kern](#)

Colette Honorable, who left the Federal Energy Regulatory Commission last month, has joined the global law firm Reed Smith to help start up a FERC-focused regulatory team, the firm announced today.

Honorable served as a Democratic FERC commissioner appointed by President Barack Obama from January 2015 until her term expired on June 30. FERC is now down to one lone commissioner—Acting Chairman Cheryl LaFleur— after being without a voting quorum of three commissioners since February. Two Republican FERC nominees Neil Chatterjee and Robert Powelson were favorably reported out of the Senate committee in June and currently await a Senate floor vote.

Honorable will be co-leading Reed Smith's FERC regulatory team with Regina Speed-Bost, a legal adviser to former FERC commissioner William Massey. Speed-Bost most recently was chair of Schiff Hardin's Energy Group in Washington. The firm also hired Debra Ann Palmer, a colleague of Speed-Bost and a former partner Schiff Hardin, who also has FERC and state regulatory experience.

While Reed Smith has employed FERC attorneys in the past, this will be the firm's first FERC-focused regulatory offering, Honorable told Bloomberg BNA in an interview. Reed Smith represents natural gas, renewable, oil and power companies as well utilities with 140 attorneys in its energy practices. The firm has 1,700 attorneys in its 27 global offices.

Wall Street Sours on \$9 Billion Mechanism for Green Projects

Posted July 10, 2017, 10:05 A.M. ET

By [Brian Eckhouse](#)

Wall Street investors have gone cold on one of the main mechanisms banks invented to fund the green-energy revolution.

The business structure, known as the yieldco, feeds dividends from operating solar and wind farms to investors. Yieldcos first emerged in 2013, when the largest U.S. independent power producer, NRG Energy Inc., launched NRG Yield Inc. The parent formed the yieldco to hold operating wind and solar farms that it had built or acquired. Revenue from those assets funded dividends.

Yieldcos raised \$7.9 billion in public equity in 2014 and 2015 but only \$1 billion since then, according to Bloomberg New Energy Finance.

The shift is further fallout from the collapse of yieldco promoter SunEdison Inc. and has changed the way clean-energy developers finance themselves. In years past, they started yieldcos to buy projects once they were operating, recycling the capital into new installations. Now, they're turning to a large and deepening pool of buyers—insurance companies and pension funds—to provide funding and sometimes take control of income-producing assets.

“The idea of a you-have-to-have-a-virtuous circle—that idea that you're hooked at the hip between the public markets and growth—is dead,” Mike Garland, chief executive officer of the San Francisco-based yieldco Pattern Energy Group Inc., said in an interview. “The market is saying, ‘Come to us last, not first.’ When we started, it was ‘Come to us first.’”

Pattern Energy and NRG Yield are projected to pay 12-month dividend yields of 6.4 percent and 6.5 percent respectively, according to data compiled by Bloomberg. That's about three times higher than the average 2.1 percent yield of 500 companies on the Standard & Poor's index.

The yieldco structure became a major growth engine for renewables, spawning at least eight yieldcos in North America and similar entities in the U.K. and continental Europe. Investors liked the story: support the growth of clean-energy while also reaping dividends that flow from electricity sales guaranteed by long-term contracts. And because the yieldcos promised to buy more and more projects, the dividends would only grow.

Fading Appeal

But headwinds—most prominently the run-up to SunEdison's bankruptcy in April 2016—stopped at least three other would-be yieldcos from forming and have forced others to eschew public markets for private fundraising. SunEdison had relied on its two yieldcos to finance its dizzying multi-continent buying-binge, thrusting them into turmoil and introducing doubt that the companies would be able to grow fast enough to pay rising dividends. The company's struggles contributed to a broad renewables slump that made it more difficult to raise funds from the public equity markets.

As the business case for yieldcos has lost favor, a new group of buyer has emerged: pension funds and insurance companies hungry for wind and solar farms' steady revenues. And the green bond market has boomed. Issues of bonds linked to environmental projects is set to surpass \$100 billion this year more than 10 times the scale of the market in 2012, according to BNEF.

“The yieldco market got very heated,” Barry Gold, the New York-based head of Orix Infrastructure & Renewable Energy, said in an interview. “But we all know how things work in the financial markets: if a door closes, someone opens a window somewhere.”

Several yieldco owners see the writing on the wall. SunEdison, Abengoa SA and First Solar Inc. are trying to distance themselves from the units they created. Mark Widmar, First Solar's chief executive officer, described the company's 8Point3 Energy Partners LP yieldco as “a dormant vehicle basically.”

Pattern, meanwhile, is continuing as an owner of clean-energy projects—the original intent of yieldcos—but is now pushing into development. It recently bought a stake in an affiliated private company that feeds its projects, and it recruited Canada-based Public Sector Pension Investment Board to buy almost 10 percent of its stock.

“We’re short renewables in the U.S.—and we want more,” Patrick Samson, a Montreal-based managing director at PSP Investments, said in an interview. “My pensions need long-term cash flows.”

Institutional investors are indeed emerging as a heavy of renewables mergers and acquisitions:

- Alberta Investment Management Corp. in February agreed to buy one of the largest U.S. private solar companies, sPower, alongside AES Corp.
- John Hancock Life Insurance Co. in March said it will buy a 49-percent stake in a clean-energy portfolio owned by Exelon Corp.
- Activist investor Paul Singer may pressured NRG to sell its yieldco, potentially to capture institutional interest in wind and solar farms.

“Why not just sell to a pension fund?” said Jigar Shah, chief executive officer of clean-energy investor Generate Capital Inc. and a former SunEdison CEO. “There are literally hundreds of them that want these assets.”

Wind and solar farms typically have utility contracts that ensure consistent revenue streams, which neatly dovetail with the long-dated liabilities that insurers and pension fund managers accrue. For endowments, solar and wind investments help satisfy their heightened sustainable targets.

“The concept of pooling operational renewable-energy assets and selling to private investors will outlive the yieldco,” said Daniel Shurey, a New York-based analyst at BNEF, said by email. “The term ‘yieldco’ is going extinct.”

—With assistance from Will Wade.

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Shell Plans to Spend \$1 Billion a Year on Clean Energy by 2020

Posted July 10, 2017, 9:30 A.M. ET

By [Rakteem Katakey](#)

Royal Dutch Shell Plc plans to spend as much as \$1 billion a year on its New Energies division as the transition toward renewable power and electric cars accelerates.

“In some parts of the world we are beginning to see battery electric cars starting to gain consumer acceptance” while wind and solar costs are falling fast, Shell CEO Ben Van Beurden said in a speech in Istanbul July 10. “All of this is good news for the world and must accelerate,” while still offering opportunities for producers of fossil fuels.

Shell sees opportunities in hydrogen fuel-cells, liquefied natural gas and next-generation biofuels for air travel, shipping and heavy freight—areas of transport for which batteries aren’t adequate. The

intermittent nature of wind and solar energy means power plants fired by natural gas will have a long-term role, Van Beurden said.

Van Beurden was addressing the World Petroleum Congress—a gathering of ministers and CEOs from some of the largest oil producers—at a time when the accelerating shift to clean energy is raising questions about their long-term business models. While Russian Energy Minister Alexander Novak and Saudi Arabian Oil Co. boss Amin Nasser said oil and gas will be dominant for decades to come, Van Beurden highlighted the potential for some of the fastest-growing nations to leapfrog straight to a cleaner energy mix.

“When you consider the areas of the world where energy demand is still to expand, like Asia and sub-Saharan Africa, there is a huge opportunity,” Van Beurden said. “These are areas that are not, on the whole, locked into a coal-driven system. There is the potential for them to shift more directly onto a less energy-intensive pathway to development.”

There is often too much focus on energy-transition policies in Europe and North America instead of the fast-growing developing world, Van Beurden said. “What happens in England is important, but what happens in Ethiopia is at least as important. From Denmark to the DRC, from the U.S. to Uganda, to India, to China, there is a lot of work to do.”

These countries will still require fossil fuels to develop industries such as steel, cement and chemicals because they need a heat intensity that cannot come from electricity alone, he said.

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France’s Utility May Have to Shut 17 Nuclear Reactors

Posted July 10, 2017, 9:27 A.M. ET

By Francois de Beaupuy

Electricite de France SA, the state-controlled operator of 58 nuclear reactors, may have to shut as many as 17 to fulfill government plans to reduce the share of atomic power in France’s electricity output to 50 percent by 2025, Ecology Minister Nicolas Hulot said.

The exact number of shutdowns required isn’t clear because “we haven’t developed everything in our climate plan,” Hulot said July 10 on RTL radio. Given the 50 percent target, “everyone can understand that we’ll close a number of reactors to achieve that goal, and not just one.”

Shutting 17 reactors by 2025 would be a huge challenge for France and EDF, as nuclear power accounted for 72 percent of the country’s electricity output in 2016. While the government has pledged to boost renewables, it’s not yet evident how they would make up for the shutdown of almost a third of EDF’s reactors. France also would face calls from the company to compensate it for potential loss of revenue and the cost of dismantling earlier than planned.

In January, EDF reached a compromise with the government in which the utility would receive 490 million euros (\$559 million) and possible subsequent payments if the two reactors of the Fessenheim nuclear plant are taken offline.

—With assistance from Marie Mawad.

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