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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.

White House Denies Murray Coal Exemption, Despite Trump Promises

Posted August 22, 2017, 01:55 P.M. ET

By [Rebecca Kern](#) and [Stephen Lee](#)

The White House has denied requests to issue an emergency order to keep Murray Energy Corp. coal mines and FirstEnergy Corp. coal plants operating and the companies out of bankruptcy, despite President Donald Trump's promises to back the requests.

Murray Energy and FirstEnergy's executives met with Trump in late July and early August to ask the administration to provide an emergency order to keep the facilities open—an order the companies said is needed to help them avoid bankruptcy.

They claim their bankruptcies would endanger electric grid reliability, so the emergency order is warranted, according to Aug. 4 and Aug. 18 [letters](#) from Murray Energy to the White House and the Energy Department. The letters were obtained by the Associated Press and posted online. Murray Energy declined to comment to Bloomberg BNA.

Murray CEO Robert Murray said in the letter that FirstEnergy is “on the verge of bankruptcy” and if the company declares bankruptcy it would be forced to close the coal-fired power plants. FirstEnergy's bankruptcy would “force” Murray Energy into immediate bankruptcy, leading to 150,000 direct and indirect Murray Energy coal-mining job losses in West Virginia, Pennsylvania, Ohio, Kentucky, Illinois and Utah, according to the letters.

Jennifer Young, a spokeswoman for FirstEnergy, told Bloomberg BNA that the company still hasn't heard anything official from the Trump administration. FirstEnergy operates coal plants in Ohio, Pennsylvania, and West Virginia.

“We've spoken to federal officials on numerous occasions about the importance of baseload plants and the need for action to preserve those assets,” Young said. “For FirstEnergy Solutions, which is the competitive side of our business that owns the power plants, bankruptcy could be a possibility.”

The decision not to issue an emergency order appears in direct conflict with White House statements and action the Trump administration has taken in the past to support coal-mining jobs, including repealing the Clean Power Plan and removing the U.S. from the Paris Climate Agreement.

A White House spokeswoman told Bloomberg BNA Aug. 22 that they denied issuing an emergency order under the Federal Power Act because the companies' request "at this time is not an appropriate use of this authority."

Section 202(c) of the Federal Power Act allows the Energy Department secretary in a state of emergency to "require temporary connections of facilities, and generation, delivery, interchange, or transmission of electricity as the secretary determines will best meet the emergency and serve the public interest."

The Trump administration has used the emergency order under the Federal Power Act twice in the past seven months for a state-owned dam in Oklahoma and two Dominion Energy Virginia coal plants in Yorktown, Va. The Obama administration never used the emergency exemption. It was previously used during the 2000 California energy crisis and after Hurricane Katrina in 2005.

The Energy Department has yet to respond to Bloomberg BNA's request for comment.

Power Plant Emissions Should Be Part of Pipeline Review: Court

Posted August 22, 2017, 12:35 P.M. ET

By [Chris Marr](#)

Carbon emissions from gas-burning power plants should have been considered in federal regulators' review of a Florida natural gas pipeline, a federal appeals court ruled today.

A group of connected pipeline projects, including the 515-mile Sabal Trail, will need an updated environmental impact review by the Federal Energy Regulatory Commission following the U.S. Court of Appeals for the District of Columbia Circuit's decision. The Sabal Trail went into full commercial service in early July, carrying natural gas from an Alabama terminal through southern Georgia and to Florida power plants owned by NextEra Energy and Duke Energy. NextEra and Duke are also co-owners of the pipeline, along with Spectra Energy.

A three-judge panel agreed with the Sierra Club and two riverkeeper groups that argued FERC's original review of the project didn't adequately consider its climate change impacts. The Sierra Club has received funding from Bloomberg Philanthropies, the charitable organization founded by Michael Bloomberg, the majority owner of Bloomberg L.P., an affiliate of Bloomberg BNA.

The pipeline will let Florida power companies burn more natural gas instead of pursuing renewable energy alternatives, the plaintiffs said in their court filings.

"We conclude that at a minimum, FERC should have estimated the amount of power-plant carbon emissions that the pipelines will make possible," Judge Thomas B. Griffith wrote in today's opinion. The court remanded the case to FERC for preparation of a new environmental impact statement.

The opinion marks a departure from three recent rulings by the same court against the Sierra Club, in which the group contested federal approvals of liquefied natural gas facility projects. The judge noted a difference in those cases—that the LNG facilities' natural gas exports would be beyond FERC's regulatory authority and therefore beyond the scope of its consideration for environmental review.

"Here, FERC is not so limited," Griffith wrote. "Congress broadly instructed the agency to consider

‘the public convenience and necessity’ when evaluating applications to construct and operate interstate pipelines.”

Colorado Governor Orders Pipeline Rule Update After Fatal Accidents

Posted August 22, 2017, 02:29 P.M. ET

By Tripp Baltz

Colorado Gov. John Hickenlooper (D) Aug. 22 directed the state’s Oil and Gas Conservation Commission to upgrade its rules on inspection and pressure-testing of natural gas flow lines, one of a series of steps he has taken to improve safety following two deadly accidents. Hickenlooper announced in all seven steps the state will take involving the oil and gas industry. In April, two men were killed when a leaking flow line connected to a natural gas well owned by Anadarko Petroleum Co. caused a house to explode near Firestone, Colo. In May, a worker was killed and three others were seriously injured in an explosion caused by a buildup of combustible products in a trench being dug between oil storage tanks at an Anadarko site.

The direction to the OGCC involves rules for natural gas flow lines connecting wellheads to production facilities. The governor also called for an enhancement of the “8-1-1” system, where people can call to learn the location of underground pipelines before digging. Hickenlooper directed the commission to develop rules similar to those contained in a notice to oil and gas operators he ordered sent out following the Firestone explosion. The notice required companies to identify, inspect, and pressure-test all flowlines within 1,000 feet of homes and other occupied buildings. That process resulted in the testing of 120,000 flow lines at 23,000 different well sites across the state, he said.

Energy Transfer Suit Claims Greenpeace Incites Eco-Terrorism

Posted August 22, 2017, 03:11 P.M. ET

By [Andrew Harris](#) and [Tim Loh](#)

Energy Transfer Partners LP accused Greenpeace International, Earth First! and other groups of inciting terrorist acts and vandalism to generate publicity and raise money for their causes while hampering the ability of the Dakota Access pipeline majority owner to raise money for projects.

Energy Transfer is the second company to attack Greenpeace and its allies in court for engaging in what the firms claim is a racketeering scheme far beyond ordinary environmental advocacy ([Energy Transfer Equity, L.P. v. Greenpeace Int’l](#), D.N.D., No. 1:17-cv-173, 8/22/17).

Resolute Forest Products Inc. made similar allegations over Greenpeace’s campaign against logging in a May 2016 RICO lawsuit. Both companies are represented by Kasowitz Benson Torres LLP, a New York-based law firm whose managing partner Marc Kasowitz is President Donald Trump’s attorney.

Greenpeace said the lawsuit won’t stop its mission of “protecting the environment and standing in solidarity with vulnerable communities around the world.”

The construction of the Dakota Access Pipeline, running from western North Dakota to southern Illinois, sparked months of protests last year and clashes between environmentalists and police drew international attention. The pipeline went into service June 1 following the construction of a

final link under a part of Lake Oahe near the Standing Rock Indian Reservation.

Greenpeace led a corrupt environmentalist organization, Energy Transfer claimed in the lawsuit, an enterprise that “cynically planted radical, violent eco-terrorists on the ground amongst the protesters, and directly funded their operations and publicly urged their supporters to do the same.”

Negative publicity generated by the demonstrations caused Energy Transfer to lose “many hundreds of millions of dollars,” and damaged its ability to raise money from capital markets, according to the complaint, filed Aug. 22 in Bismark, N.D.

Energy Transfer is seeking unspecified monetary damages, which would be tripled under U.S. racketeering laws, as well as a court order barring the groups from further protests and an order for the groups to return money to donors.

“Under the ‘Greenpeace Model,’ raising money and the network’s profile is the primary objective, not saving the environment,” Energy Transfer said. “Issues are selected according to which ones will generate maximum publicity and donations, irrespective of the environmental merits.”

Greenpeace said it hasn’t yet received the lawsuit.

“We will comment in more detail at the appropriate time, but rest assured we will fully defend ourselves against legal attacks on our existence,” Greenpeace spokesman Travis Nichols said.

The environmentalists’ campaigns are based on fabricated evidence and witness accounts to deceive the public, Energy Transfer said.

The criminal enterprise, through Earth First! and Red Warrior Camp, funded and incited acts of terrorism in violation of the U.S. Patriot Act, Energy Transfer claimed. That included attempts and actual destruction of an energy facility and arson on government property, the company said.

Those acts, according to the lawsuit, including the burning of construction equipment and use of blowtorches to cut holes in parts of the pipeline. Had oil been flowing when the sabotage occurred, the pipeline might have exploded, endangering human lives and resulting in an environmental disaster, Energy Transfer said.

Among the other groups being sued by Energy Transfer is BankTrack, a Dutch not-for-profit group that raises money for non-governmental organizations.

The Dakota Access pipeline project spurred legal challenges from Native American tribes, principally the Standing Rock Sioux, objecting to the pipeline’s path across man-made Lake Oahe. Energy Transfer intervened in that action on the side of the U.S. Army Corps of Engineers.

In June, a Washington federal court judge, having rejected earlier entreaties to block the project, said the Corps hadn’t adequately considered the impacts of a potential spill from the line on fishing, hunting and “environmental justice, or the degree to which the pipeline’s effects are likely to be highly controversial,” and ordered it to reconsider those factors.

The Resolute Forest lawsuit is pending in federal court in San Francisco.

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Energy Transfer Told to Revise Rover Gas Line Drill Plans

Posted August 22, 2017, 01:23 P.M. ET

By [Catherine Traywick](#)

Energy Transfer Partners must submit revised horizontal directional drilling plans for the Rover natural gas pipeline along with other information before FERC will allow the company to resume drilling in certain areas, the agency said in an Aug. 22 [filing](#).

Energy Transfer will have to provide names, contact information, and qualifications for all drilling inspectors, specialists and engineers, the Federal Energy Regulatory Commission said in the filing. FERC said it also would require weekly horizontal directional drilling monitoring reports from the company.

The company submitted a revised drilling plan Aug. 4, incorporating recommendations for third-party review. FERC halted horizontal drilling on certain segments of the pipeline following a 50,000-barrel spill of diesel-tainted drilling fluid.

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Supplying Lithium Gets Trickier as Electric Revolution Looms

Posted August 22, 2017, 11:09 A.M. ET

By [Laura Millan Lombrana](#) and [Jonathan Gilbert](#)

Hidden within the salt flats high in the Andes mountains of South America are vast deposits of the lithium that Elon Musk may need for his electric-car revolution. But extracting the mineral from brine ponds created by Orocobre Ltd. has proved more difficult than expected.

Bad weather and pump glitches meant production at the Olaroz facility in northern Argentina was 21 percent below Orocobre's initial target in the year through June. While things are getting back on track, Chief Executive Officer Richard Seville says the company "either underestimated the complexity or overestimated our capability."

Producers everywhere have struggled to keep up with demand as electric cars went from almost no sales a decade ago to more than half a million vehicles last year. The battery in a Model S from Musk's Tesla Inc. uses about 45 kilograms (100 pounds) of lithium carbonate. More mines are planned, but difficulties at Olaroz—the first new South American lithium mine in two decades—are limiting funding for new ventures in Argentina, home to the world's third-largest reserves.

"The uncertainty on the supply side is driving prices up and making investors nervous," said [Daniela Desormeaux](#), CEO of Santiago-based lithium consulting firm SignumBOX. "We need a new project entering the market every year to satisfy growing demand. If that doesn't happen, the market will be tight."

Australia is the biggest lithium producer, though Chile and Argentina account for 67 percent of global reserves, according to the U.S. Geological Survey.

Extracting lithium from the salt flats that dot the arid northern regions of the South American

countries is a lot easier and cheaper than digging underground for metals like copper. Producers just pump the brine solution into evaporation ponds, harvesting the mineral once the moisture is gone.

Orocobre's experience in Argentina shows the process isn't without its challenges, especially for a newcomer.

The Brisbane, Australia-based company initially forecast production at 15,000 metric tons for the year through June. That was cut to 12,000-12,500 tons. And the final tally ended up at 11,862. Unusually cold and overcast weather slowed evaporation and restricted transport of supplies, while pumping glitches meant there wasn't always enough brine in the right places. Since then, Orocobre has invested in improving pumping from one pond to the next, just in time for the key evaporation period, Seville said in an interview last week.

The company's shares have retreated 30 percent this year after doubling in price last year.

"Lithium production isn't easy," [Juan Esteban Fuentes](#), CRU Group's head of South America, said in an interview in Santiago. "It requires high technical and chemical knowledge. Clearly there will be more disruptions, to the extent that there are miners entering the market that have never extracted lithium and do not have that technical knowledge."

Rising demand for lithium used in a new breed of lightweight, rechargeable batteries caught producers of the mineral off guard. Tesla's gigafactory in Nevada aims to manufacture about 500,000 car batteries a year by 2018. The soft, silver-white metal is also used in cell phones.

Prices of lithium carbonate, the primary base-chemical produced by the industry, more than doubled in the five years to 2016, according to UBS Group AG. The material advanced about 5 percent to average \$14,250 a ton in July from June, according to Benchmark Mineral.

With demand expected to keep rising as electric cars gain a bigger share of the global auto fleet, Argentina and Chile are attracting interest from mining companies because it costs about \$2,000 to \$3,800 a ton to extract lithium from brine, compared with \$4,000 to \$6,000 a ton in Australia, where lithium is mined from rock.

Still, most projects are expected to struggle to get off the ground.

Of the 39 lithium ventures tracked by CRU, only four have firm commitments, and all of those are in China, adding about 24,000 tons of annual supply. Another 10 projects representing 400,000 tons are rated "probable"—in Canada, Chile, China, Mexico, Argentina and Australia—but probably only about 30 percent will make it into production, CRU said.

Orocobre's teething problems are being closely watched by investors, who are becoming more reluctant to fund projects by new entrants in Argentina, said Gabriel Rubacha, head of South American operations at Lithium Americas Corp.

Lithium Americas is developing a project in Jujuy province with industry veteran Soc. Quimica & Minera de Chile SA, a [partnership](#) that was essential in securing the \$174 million needed to get started. "Most lithium projects in Argentina fail because they can't close financing," Rubacha said. "We are totally relying on SQM's expertise."

Santiago-based SQM is investing in Argentina after Chile's government moved to withdraw its

license to exploit one of the world's largest deposits. That withdrawal is subject to an arbitration process between the company and state development agency Corfo that may be concluded this year, according to Corfo.

Expansions by established producers including China's Tianqi Lithium Corp. and North Carolina's Albemarle Corp. probably will leave a small global surplus by year end, but supply disruptions could put the market back into deficit, CRU's Fuentes said. If annual demand for Tesla's Model 3 reaches 700,000 units, as Musk says could happen, the industry will need additional supplies from lithium newcomers.

While Chilean copper giant Codelco is looking to enter the lithium business via a partnership at its Maricunga tenements, the project will require deals with some of the salt flat's 40 land owners to make the operation large enough to be profitable.

Chile deems lithium to be "strategic," which means would-be producers need authorization from the Nuclear Energy Commission and operating conditions are set directly with the government on a case-by-case basis. Wealth Minerals Ltd. estimates it will take seven years to set up an operation in Chile.

"But we have a window of only 25 years to develop these projects because prices can fall again as soon as a replacement to lithium appears," Marcelo Awad, Wealth's Chile manager, said in an interview in Santiago.

—With assistance from Martin Ritchie.

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China's Top Wind Utility Lifts Profit With Policy Help

Posted August 22, 2017, 10:30 A.M. ET

By [Bloomberg News](#)

China Longyuan Power Group Corp., the nation's biggest developer and operator of wind farms, said government-led efforts to boost clean energy consumption supported higher first-half profit.

Net income in the six months ending June 30 rose 6 percent to 2.42 billion yuan (\$363 million), according to a statement to the Hong Kong stock exchange on Tuesday. In China, "the newly installed capacity for hydropower, wind power and solar power recorded year-on-year increase, while the newly installed capacity for coal power and nuclear power decreased year-on-year," according to the statement.

The result shows how policy support is aiding Chinese wind power. The government has called for grid operators to buy more clean energy while restricting new wind farms in regions where turbines have been turned off because of weak demand. Those measures reduced wasted power curtailed from grids struggling to absorb the influx of renewables.

Wind power output rose 0.5 percent in the first half, covering about 5 percent of China's total electricity generation, according to Longyuan. The company's wind generation rose 11 percent during the period, trailing a 14 percent rise in coal generation, it said last month. Output from other renewable energy sources fell 7 percent.

Idle Power

Guangdong, Ningxia and Guangxi accounted for the biggest increase in wind power production, according to Longyuan.

The amount of idled wind power in China dropped about 28 percent in the first half, according to data from the National Energy Administration, the agency charged with coordinating the nation's energy policy. A total of 23.5 billion kilowatt-hours of wind power was wasted in the first six months, down 9.1 billion kilowatt-hours from a year earlier, the NEA said last month.

"We see the remaining growth in power output as being due mainly to improved curtailment," Vincent Yu, a Shanghai-based analyst at SWS Research Co., wrote in a July 28 note.

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Brazil's Utility Giant Soars as Government Plans Privatization

Posted August 22, 2017, 10:46 A.M. ET

By Vanessa Dezem and Julia Leite

Brazil's troubled state-run utility Eletrobras jumped the most in almost two decades on a government proposal to privatize the company amid the country's deep fiscal crisis.

The government could raise as much as 20 billion reais (\$6.31 billion) by shedding its controlling 67 percent stake in Latin America's largest power company, according to Deputy Energy Minister Paulo Pedrosa. The government will remain as a shareholder and maintain power to veto management decisions, the ministry said in an emailed statement.

"The state is not able to contribute to Eletrobras," Pedrosa said. "The idea is to modernize the sector. We have the proposal sewn up with the federal government."

Voting shares surged as much as 35 percent in Sao Paulo trading, the biggest intraday jump since January 1999, as analysts from Santander to Safra said the unexpected proposal could unlock value for shareholders and make the company more efficient. However, details on the plan are still unknown and the outcome could be "tricky" to foresee, Safra analyst Kaique Vasconcellos wrote in a note to clients.

The finance ministry's executive secretary, Eduardo Guardia, told reporters Aug. 22 that the government had not yet defined a model for the sale. The country's nuclear power plants would not be sold, authorities said during the press conference.

Other state-run companies including Petrobras and Banco do Brasil also rose Aug. 22, leading the advance in Brazil's Ibovespa gauge along with Eletrobras.

Political Uncertainty

Despite investors' positive initial reaction, a successful sale will largely hinge on Congress approval of a new regulatory framework the government is drafting, a process that could take months. The proposal seeks to undo interventionist policies created under former leaders Luiz Inacio Lula da

Silva and Dilma Rousseff.

In addition, political uncertainty may continue to weigh on Brazil's business climate. Many investors have remained on the sidelines during the political turmoil that resulted in one president impeached, another charged with corruption and dozens of executives and politicians imprisoned over a massive scheme of kickbacks that originated at state-run oil company Petrobras. Widespread disillusionment with political parties has boosted the chances of an outsider winning next year's presidential race, opinion polls show.

Beleaguered President Michel Temer, who has battled corruption charges, has committed to a 2018 fiscal goal that hinges on Congress passing measures to generate 18 billion reais (\$5.7 billion) in much-needed revenue. The government is said to be mulling a portfolio of 58 privatizations which would be announced Aug. 23, newspaper O Globo reported without revealing how it obtained the information.

Brazil will aim for a budget gap before interest payments of 159 billion reais in both 2017 and 2018, Finance Minister Henrique Meirelles announced in a press conference Aug. 15. Previously, the government's deficit targets were 139 billion reais for this year and 129 billion reais for the next.

Change of Route

The company's net debt reached 23.4 billion reais (\$7.3 billion) in June, topping Fitch Ratings' rankings on debt raisers in Latin America, according to a report dated August 16. The company is also the region's third biggest cash bleeder, with an estimated \$987 million decline in free cash flow.

"Despite all the effort, the debts and burdens of the past have increased and require a change of route to not jeopardize the future of the company," the ministry said in the statement. "The way out is to seek resources in the capital market, attracting new investors and partners."

—With assistance from Eduardo Thomson.

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