

Energy Policy in the Trump Administration

By Benjamin Schlesinger

As of mid-February 2017, the new Trump Administration seems pre-occupied with a number of pressing issues apart from energy policy, thus it's still too early to pin down what this will be.

Nevertheless, lack of hard data has rarely stopped others from forging ahead with analysis of this kind, so why wimp out? Trump's is the thirteenth U.S. presidential administration I've lived under, so I've seen a lot of change. In fact, none of the past six transitions I've endured from one party to another was pretty – they were each disruptive, rancorous, and involved too much hubris on the part of the incomings, and too much clucking disappointment on the part of the outgoing. So we'll try and lend some perspective.

President Trump aimed his 2016 campaign toward people who felt displaced by changes in industrial employment and demographic patterns. This includes especially those who've lost jobs to foreign competition or renewable energy, baffled by complex regulations with which they didn't identify, and anxious about the country slipping behind China and other aggressive players.

In the energy space, the Trump campaign promised major push-back against opposition to growth in energy infrastructure, especially the failure to invest in pipelines, and more specifically, against the accelerating decline of coal. Attention to global climate change and greenhouse gas emissions, it was felt, had been overlaid at the expense of U.S. workers.

It's now almost a two months into the new Trump Administration, and energy (fortunately) is not dominating the news. Still, some key elements of their energy policy are becoming clear, including new pieces and some holdovers.

CABINET APPOINTMENTS – NO ENERGY WILD-CARDS

The new Administration's appointments at the leadership level that relate to energy policy suggest a direction that is likely to remain relatively stable. Among these Rex Tillerson and Rick Perry stand out.

- Secretary of State Rex Tillerson, former CEO of ExxonMobil, clearly knows the oil and gas industry, and provides an experienced voice on energy. His Senate testimony was the first by a new Administration official to recognize frankly that global climate change is real, and is an issue that the U.S. must continue to



deal with in the future. As a global energy giant, Tillerson's ExxonMobil reflects and internalizes the world's recognition of the problem at both the industrial and political levels. U.S. energy-intensive firms like ExxonMobil, Chevron, ConocoPhillips, GM, Ford, GE, and so many others realize they cannot turn on a dime over one U.S. president or another, but instead operate in a global marketplace that demands conservative assumptions that remain in place going forward, and standardization of products as well. This is not inertia so much as it is practical business sense; in the real world, change comes through technological innovation that alters the old price relationships, not so much from one country or another's regulation of the day. Tillerson's accession to fourth place in the presidential line of succession should, therefore, be reassuring from an energy policy perspective.

- Secretary of Energy Rick Perry spent an unprecedented 16 years as Governor of Texas, the largest energy producing state in the nation, and one who's financial fortunes depend in part on a vibrant producing sector. Texas, the leading U.S. producer of oil, of natural gas, and of wind power – the latter evolved under then-Governor Perry. Again, while not a figure in the international stage, Perry doesn't have to be in his **new**

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position. He is likely to be a reassuring presence in the new Administration regarding energy policy and programs.

- EPA Administrator Scott Pruitt former Oklahoma Attorney General, is broadly criticized for spending his days suing the very agency he is supposed to lead, but this really misses the point. The tenor of Pruitt's lawsuits has focused substantially on the state-federal relationship, and the need to involve states more carefully in rulemaking. Thus, rather than blindly opposing the CPP and other regulations, Pruitt's focus might wind up making them more broadly acceptable. Although the rules may change, the likelihood is that they will enjoy the hitherto missing element of buy-in within many regions. EPA subsidies of wind and solar may be threatened in the new Administration, these may come too late to make much difference because costs of electricity production from both sources have fallen so greatly. This is especially true for solar energy which, when coupled with lower cost battery technologies, threatens to upset existing electricity and natural gas markets, with or without subsidies. All that said, however, we are concerned about Pruitt's statements that CO₂ doesn't cause climate change. Such statements cause confusion, thus risk doing the energy space more harm than good.

In summary, there is little in the new Administration's emerging energy team to suggest that quantum policy changes are in the works, but there will continue to be conflicting statements that cause concern and confusion. In all, the tilt toward domestic energy production is likely to persist, including the "all of the above" philosophy that President Obama championed.

PIPELINES – BUILD THEM

As expected, President Trump has exercised presidential power to move forward with two infamously stalled oil pipelines, Keystone XL and Dakota Access.

- TransCanada accepted the new president's invitation to refile before the State Department for permission to expand the Keystone XL pipeline to carry crude from Alberta's oil sands to markets in the U.S. Gulf Coast region. With hundreds, if not thousands of displaced Petroleos de Venezuela (PDVSA) graduates working in Fort McMurray, Canada's oil sands crude is tailored to fit the very Gulf Coast refineries that have long processed Venezuelan crude. This can only reduce prices to U.S. consumers, and ensure continued employment as well. We would expect Secretary of State Rex Tillerson to write an informed, substantive recommendation that will facilitate presidential approval.



- Construction of ETP's Dakota Access Pipeline was nearly complete when the Corp of Engineers halted work at the Missouri River crossing in response to protests. Protests to the contrary, President Trump ordered the Corps to permit construction and the pipeline is expected to begin flowing oil in March 2017.

Importantly, the Keystone and Dakota pipelines shared a common feature that enabled the new president to approve them singlehandedly – neither project was before the FERC for decision. For this reason, the President did not have to use any special powers, since overriding the FERC was not at issue – both approvals were entirely within the President's purview.

But the FERC is an independent agency, thus it is unclear what an enthusiastic president or even Congress can do to override its powers in any quick time frame. Stalled northeast gas pipelines like Kinder

Morgan's Northeast Direct (NED) and Spectra's Algonquin Northeast (ANE) Access are entirely another matter from Keystone and Dakota Access – both require FERC approval and neither has received its FERC certificate. Worse yet, both NED and ANE have fallen victim of a serious energy market failure afflicting the U.S. northeast. The nature of this failure lies in the inability of the region's electricity generation sector to sponsor new pipeline capacity. The problem is compounded by some aggressive opponents in the region in hopes that stalled gas pipelines will prevent gas market growth altogether and thus expedite force accelerated renewable energy.

In summary, we can expect the new Administration to encourage construction of pipelines and other energy infrastructure, but timing may not be as quick as it was for the Keystone and Dakota Access pipelines.

COAL – ROAD KILL ON THE ENERGY HIGHWAY

Working with Congress, the new Trump Administration may be in a position defer or cancel altogether the Obama Administration’s Clean Power Plan (CPP) and other climate and environmental regulations that encumber coal markets. But can they? In large measure, coal is declining in the U.S. not so much because of regulation, but because of deregulation – i.e., deregulation of natural gas and electricity markets.

Deregulation began with lifting of federal gas field price controls, and continued with FERC’s determined support of gas pipeline open access transportation rules. Around the same time, Congress enabled and FERC encouraged development of an independent power generation sector in the U.S. Together, these policies unlocked energy markets in the 1980s and 1990s, leading to a massive splurge in construction of new, high-efficiency gas-fired power plants – over 350 of them in the past two decades, according to EIA. More recently, the great U.S. shale revolution greatly reduced gas prices and future price expectations, adding further impetus to the rush toward gas-fired power generation. The net result has been a decrease in carbon emissions (see Figure 1).

Only the states’ push to wind and solar, whose costs have fallen dramatically with increasing production, have challenged natural gas’s rising dominance of new electricity generation additions – indeed, the two, gas and renewables, appear to go hand-in-hand in enabling production of low-cost dispatchable energy.

Because of this process, and this gas-renewables team, coal is being run over in the U.S., a kind of energy road kill. All the CPP offered to do was accelerate the process a bit – successive studies by EIA and others project gas and renewable power generation will grow with or without the CPP for the next decade or two. Outside the U.S., coal is suffering even where natural gas carries a high price tag. For reasons discussed above, global concern over climate change caused by greenhouse gas emissions is very real, and coal is the prime culprit.

OUTLOOK – TECH AND MARKET FORCES RULE

Technology is continuing to evolve rapidly, and will continue to drive upsets to energy markets. Just as the shale revolution has rocked U.S. and global markets, so too might the potentially vast impact of the solar-battery combination. Costs of PV and Li-Ion storage are plummeting toward a tipping point – competitiveness with oil and natural gas. Overnight capital costs of PV alone have fallen below those of coal-fired generation, but solar is temporal (the sun sets every evening), thus poses no serious threat so far. But in the post-subsidies world, battery costs are falling just as quickly as solar and natural gas costs did, thus the increasingly efficient solar-battery combinations are likely to appear first in southern arid regions, then potentially elsewhere as well.

Energy policy at all levels will be challenged by these emerging technologies – whether at the federal level, in the states, in utilities, and in private business decisions. The new Trump Administration has not really positioned itself to stand in the way.

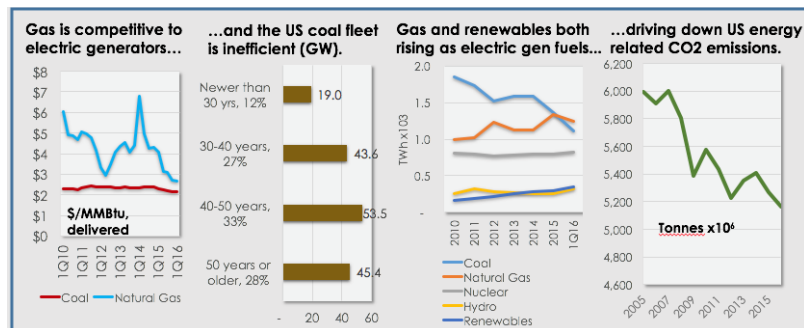


Figure 1 Gas out-competes coal, reducing carbon emissions
Sources: BSA 2016, EIA, Statistics Canada.