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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.

Biofuel Subsidies Axed in New House Legislation

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

By [Brian Dabbs](#)

Biofuel subsidy programs at the Agriculture Department would be axed in a bill set for introduction in the House.

Rep. Andy Biggs (R-Ariz.), an environment subcommittee chairman on the House Science, Space and Technology Committee, plans to introduce the legislation July 26, saying the programs disregard market demand at the expense of taxpayers.

“By continuing to force technologies into the market that are not competitive or in demand, we are doing the American people a disservice,” Biggs told a July 25 hearing on advanced biofuels. “The federal government’s biofuel policies have had an unintended adverse effect on food costs. The price of corn, soybeans, and related retail food products have all increased.”

The programs, Bioenergy Program for Advanced Biofuels and Biomass Crop Assistance Program, aim to boost innovation. Advanced biofuels, which can supplant traditional fuels to provide energy, are made from a wide range of plants and plant waste.

Many lawmakers oppose traditional corn-based ethanol over concerns about corn supply and environmental impacts.

Appalachian States Look Past Coal, Ask Trump to Aid Natural Gas

Posted July 25, 2017, 8:55 A.M. ET

By [Ari Natter](#)

Having lost tens of thousands of coal mining jobs to the rise in natural gas, several states have decided if you can’t beat them, join them.

A bipartisan group of lawmakers hopes to persuade President Donald Trump to spare a loan program he wants to kill and use it to help a \$10 billion gas-storage project in the hard-hit Appalachian region of the eastern U.S. where coal had once dominated. Proponents say it would

help spur new chemical, refining and other manufacturing industries—and give out-of-work miners a new career path.

“We need a more diverse portfolio,” said Brian Anderson, director of West Virginia University’s Energy Institute, and a member of the project’s coordinating committee. “If you have one industry that dominates your economy and that industry sees a decline then it really runs huge ripples through your entire economy.” Coal and natural gas compete in the electricity markets and the proliferation of fracking in recent years led to cheaper gas that has displaced coal. Coal had once accounted for more than half of all U.S. electricity generation, but last year natural gas topped coal to become the largest source of power generation. The impact has been felt especially hard in the Appalachian region—which was once largely dependent on coal mining and steel production.

The Appalachian Storage Hub, estimated to cost as much as \$10 billion, could encompass underground caverns in Pennsylvania, Ohio or West Virginia, although the final site has yet to be selected. It would have the capacity to hold as much as 100 million barrels of ethane, methane and other products produced in conjunction with natural gas. It would also include a 3,000-mile pipeline network to link up the storage sites with petrochemical plants.

A report by the American Chemistry Council found the project could create more than 100,000 jobs and nearly \$36 billion in capital investment. The project would be similar, though smaller, to the Mont Belvieu natural gas liquids hub just outside Houston that has bolstered that area’s chemical industry.

Supporters of the project say a lack of pipelines and storage infrastructure has depressed the price of gas produced from the Marcellus shale under Pennsylvania, Ohio and West Virginia. Natural gas prices there are only two-thirds that of the main market rate set in Louisiana.

Southwestern Energy Co., a gas exploration company with operations in the Marcellus, is a top proponent of the storage hub.

Bipartisan Group

A group of lawmakers led by Democrat Joe Manchin and Republican Shelley Moore Capito sent Trump a letter last week asking that he set up a blue ribbon commission to back the construction effort.

The two West Virginia senators also introduced legislation that would allow the Appalachian storage hub to qualify for Energy Department loan guarantees. Trump has proposed killing that program, and a spending bill the House of Representatives is debating this week would do just that.

Even without federal help, there are initial signs that investment is coming to the region. A \$6 billion ethane cracker plant, which would make ethylene for plastics and other products, is being considered by PTT Global Chemical America for a site along the Ohio River where a former coal-fired power plant owned by FirstEnergy Corp. once stood. Royal Dutch Shell Plc also has a new chemical complex planned for western Pennsylvania.

Shell’s project follows the first wave of North American plants being built along the Gulf of Mexico coast by companies such as Dow Chemical Co. and Chevron Phillips Chemical Co. The factories all use shale gas to gain a cost advantage over producers in Europe and Asia that rely on oil and coal feedstocks.

“We certainly had our struggles in this region,” said Steven Hedrick, the president of the Mid-Atlantic

Technology, Research & Innovation Center in South Charleston, West Virginia. “This would be an opportunity for displaced miners to allow them to use the skills they’ve learned during a lifetime of engagement with coal.”

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Petronas Drops Plan to Build \$27 Billion Canada LNG Terminal

Posted July 25, 2017, 03:02 P.M. ET

By Natalie Obiko Pearson

Malaysia’s Petroliam Nasional Bhd abandoned its long-stalled plans to build a \$27 billion liquefied natural gas export terminal on Canada’s west coast, citing changes in market conditions.

“Prolonged depressed prices and shifts in the energy industry have led us to this decision,” Anuar Taib, chairman of the board of the Pacific Northwest LNG project, said in a statement.

Petronas, as the state-owned company is known, won Canadian federal government approval for the project in September following more than three years of regulatory reviews and strident opposition from environmentalists, scientists and indigenous communities. The project also faced economic headwinds, with 18 gas export proposals in the province in limbo amid a global glut and plunging prices.

The long-anticipated decision by Petronas delivers a major blow to plans pushed by the previous Liberal-led government of British Columbia to develop an LNG industry in the Pacific Coast province for export to Asia. It comes shortly after Premier John Horgan took office backed by his ally, Green Party Leader Andrew Weaver, who has mocked the LNG industry as “nonsense” and a “colossal failure.”

Petronas and its partners remain committed to developing their natural gas assets in Canada and “will continue to explore all options as part of its long-term investment strategy,” according to the statement.

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America’s Biggest Oil Port Looks to Be Hub for Shale Exports

Posted July 25, 2017, 8:14 A.M. ET

By Hailey Waller and Sheela Tobben

The biggest U.S. oil-import hub wants to grab a piece of surging North American crude exports.

Louisiana Offshore Oil Port, the only terminal along the U.S. Gulf Coast able to handle a fully laden supertanker, is gauging interest from shippers in sending crude overseas on the world’s biggest ships by early next year. The port would continue to take in foreign oil, LOOP LLC said in an emailed statement July 24.

Ports are competing to fill the needs of domestic oil producers looking for outlets for their growing supply. At the same time, the boom from U.S. shale fields and Canadian oil-sands mines has

reduced refiners' need for imported oil. LOOP's ability to handle tankers capable of carrying 2 million barrels in their holds would reduce shipping costs for companies looking to send crude to refiners in Asia.

"LOOP is the most obvious place for U.S. crude exports since as a deepwater port it makes it more manageable to load up a large ship such as a VLCC," Sandy Fielden, director of commodities and energy research at Morningstar Inc., said by phone from Austin, Texas. "It makes huge sense from a logistical perspective as it will allow for more efficient cargo shipments."

Currently, shippers have to load oil onto smaller tankers in ports such as Houston or Corpus Christi, Texas, that then transfer their cargoes onto Very Large Crude Carriers sitting offshore. That adds cost and time to the shipments. While Corpus Christi received its first VLCC at the end of May, the port's channel isn't deep enough for a ship that size to load a full cargo.

Nigerian and Saudi Arabian oil will continue being unloaded from massive supertankers at LOOP's marine terminal 17 miles offshore and pumped into storage caverns one-third of a mile under its Clovelly Hub in Louisiana, as it has for over 30 years. But LOOP is turning some of its operations around as exports surge after restrictions were lifted at the end of 2015.

"Today, customers are seeking the optionality to safely and efficiently load or offload, which is a natural request for a port," LOOP President Tom Shaw said in the statement. "This service offers our customers the scalability to fully load a VLCC."

LOOP will be competing with Corpus Christi, which in 2017 became the top oil-export hub for the U.S. Canadian producers are looking for more options for selling their crude to higher-priced markets around the world, lessening their dependence on U.S. refiners.

In recent years, shipping oil overseas has become more economical, thanks to low-cost drilling methods unlocking vast deposits in West Texas and other areas. U.S. production reached 9.6 million barrels a day in April 2015, according to the Energy Information Administration.

Rising Output

Daily U.S. output is hovering at more than 9 million barrels, much of which is lighter than what local refineries are configured to process. The excess is heading overseas, boosting American exports above those from OPEC members Qatar, Libya, Ecuador and Gabon. VLCC shipments to Asia are expected to jump 52-fold this year, shipping analysts at McQuilling Partners Inc. said in a note. That makes a port able to load the huge ships attractive to traders.

The additional capacity at LOOP could add another 300,000 barrels a day of U.S. exports, according to Fielden.

"Professional exporters will be drawn to this as they will want to export more regularly."

—With assistance from Laura Blewitt.

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House Poised to Add Russia Sanctions With Curbs on Trump's Power

Posted July 25, 2017, 9:18 A.M. ET

By Anna Edgerton

The U.S. House is poised to vote on a bill to strengthen sanctions against Russia and prevent President Donald Trump from unilaterally lifting penalties, after the measure was delayed by procedural concerns and objections from energy companies.

The measure, which was altered to ensure that oil companies can work on certain joint projects overseas, would also impose new sanctions on Iran and North Korea. House leaders expect bipartisan support for the bill in the vote July 25.

The White House has sent mixed messages about whether Trump would sign the legislation and has expressed concern over limiting the president's power to ease sanctions on his own. Trump supports sanctions against the three countries but wants to make sure the U.S. gets "good deals," White House spokeswoman Sarah Huckabee Sanders told reporters aboard Air Force One July 24.

Congressional Rebuke

The measure would then go back to the Senate, where members of both parties have spoken in favor of changes made to the legislation they passed last month, S. 722.

The Russia sanctions measure is a rare rebuke to Trump from congressional Republicans. They say they want to prevent the president from acting on his own to lift punishment from the previous administration for meddling in last year's U.S. election and for aggression in Ukraine. House and Senate committees and the Federal Bureau of Investigation are examining possible ties between the Trump campaign and Russia.

As a bitter fight over health care consumes much of Washington, the sanctions bill is one of the few major legislative efforts uniting members of the fractured Republican Party, along with their Democratic colleagues.

"A nearly united Congress is poised to send President Putin a clear message on behalf of the American people and our allies," said Ben Cardin of Maryland, the top Democrat on the Senate Foreign Relations Committee. "And we need President Trump to help us deliver that message."

Iran Sanctions

The original bill from the Senate Foreign Relations Committee included only sanctions on Iran, modeled on previous executive orders, designed to punish entities that support terrorism, sell weapons to Iran, or help that country's ballistic missile program. The bill would also authorize, but not require, sanctions on human-rights abusers.

The Russia sanctions were added in an amendment on the Senate floor. Sen. Lindsey Graham (R-S.C.) also introduced a provision to reaffirm U.S. commitment to Article 5 of the NATO agreement, which requires members to defend other nations in the alliance.

House leaders flagged procedural concerns with the Senate bill, saying the Constitution requires legislation raising revenue to originate in the lower chamber. In resolving this issue, Republicans also limited the minority party's power to introduce and fast-track a resolution to question administration action on Russia sanctions.

Meanwhile, energy companies stepped up their lobbying in opposition to a prohibition against working on international projects with even a small Russian stake. That rule was changed to apply only to ventures where sanctioned Russian entities have at least a 33 percent interest, which prevents Russian firms from buying into a fraction of a project to keep American competition away.

This new threshold allows ventures like the [Shah Deniz](#) project in Azerbaijan, where BP Plc is the main operator and Russia's Lukoil PJSC has a 10 percent stake in an ongoing expansion. The change also appears to give a green light to the Sakhalin 1 oil fields in Russia's far east, where Exxon Neftegas Limited, a subsidiary of Exxon Mobil Corp., is partnering with two Russian companies that have a combined interest of 20 percent.

Few Accomplishments

House Majority leader Kevin McCarthy of California also pushed for the inclusion of North Korea sanctions over its nuclear and ballistic-missile efforts. The House passed such sanctions 419 to 1 in May.

Minority leader Nancy Pelosi of California said in a statement over the weekend that while she supported that initiative, she was concerned that more major changes would result in further delays.

Timing of a new Senate vote is uncertain. The chamber is mired in debate over repealing and replacing Obamacare and plans to stay in Washington for the first two weeks of August. The House is set to begin its five-week recess at the end of this week.

Following through on the promise to be tough on Russia is one of the few accomplishments House members will have to show constituents during the summer break. Their health-care plan remains deeply unpopular, and GOP leaders are working through the main elements of their tax plan, including how to pay for it.

Trump continues to push back against the investigation of possible collusion between his campaign and Moscow. His son-in-law and senior adviser, Jared Kushner, was interviewed in private by the Senate Intelligence Committee July 24 and will appear July 25 before a House panel.

—With assistance from Toluse Olorunnipa, Jennifer A. Dlouhy and Catherine Traywick.

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