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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.

Russia Sanctions Bill Stalled by GOP Over Energy Provisions

Posted July 13, 2017, 02:49 P.M. ET

By [Anna Edgerton](#), [Terrence Dopp](#) and [Jennifer A. Dlouhy](#)

House Republicans are throwing up new roadblocks to a Russia and Iran sanctions bill over concerns from the energy industry that a provision could block U.S. companies from lucrative foreign oil deals.

A section of the legislation would prevent U.S. companies from doing business anywhere in the world with Russian interests, causing consternation in the capital-intensive energy industry where foreign partnerships are common. That prompted Republicans to push for a fix to the version passed by the Senate before the bill moves forward in the House.

“You’re empowering Russia more based upon the way they wrote it, that you can give Russia greater energy power over Europe and everywhere else,” House Majority Leader Kevin McCarthy (R-Calif.), said in an interview July 12. “So yes, we do need to change that.”

Republicans previously said the measure was stalled over complaints from Democrats that changes to the bill would weaken lawmakers’ authority to block the Trump administration from lifting sanctions on Russia. The delay gave time for companies to scale up their lobbying on the energy provision, even as lawmakers from both parties are pushing hard for new constraints on President Donald Trump’s ability to ease penalties on the Russian government.

This new fight comes amid controversy over the release of emails related to Donald Trump Jr. accepting a meeting last year with a Russian lawyer who he was told had information from the Russian government that could prove damaging to Democratic presidential candidate Hillary Clinton.

House leadership is considering whether the sanctions bill can be put to a vote as is, with the promise that the energy provisions could be changed administratively, or if the matter needs to be addressed before a vote, according to a GOP aide who was briefed on the issue. House leaders don’t want to give the impression they’re watering down the bill, the aide said.

98-2 Vote

The sanctions measure, S. 722, passed the Senate last month in an overwhelming 98-2 vote, in an effort to punish Iran and get tough on Russia for its efforts to interfere in the U.S. election.

As the measure stalled in the House, several House Republicans said they have been hearing from energy companies with complaints about a provision that would allow the president to penalize someone who invests in or helps build Russian energy export pipelines.

Rep. Bill Flores (R-Texas), said he has been approached by “five or six of the majors” based in his state. The energy companies have told him they worry the bill as it stands is overly broad.

“You could restrict the sanctions of those activities within the borders of Russia, that might be a quick fix and also the national security carve out as well,” Flores said when asked how the sanctions bill might be changed to address those concerns. “Most of us are fine with having sanctions on U.S. interests operating inside Russia, with Russian companies, but then going outside of Russia is too broad.”

House Rules Chairman Pete Sessions said the Senate passed the bill before lawmakers understood its potential consequences and that whoever wrote the energy provisions wasn’t familiar with the industry.

“I appreciate my friends in the Senate but this was rushed through,” the Texas Republican said in an interview late July 12.

Broader Opposition

The possibility of the pipeline curbs sent a jolt through the traditional oil industry, as well as a broader group of related companies, including equipment providers, tubular piping manufacturers and oilfield services companies, that worry they wouldn’t be able to supply projects in which sanctioned Russian companies are involved.

Current sanctions already block oil and gas companies from doing deals in Russia. But the Senate-passed bill would extend the reach of those prohibitions, barring U.S. companies from partnering with sanctioned Russian firms to develop energy projects anywhere around the world.

Richard Sawaya, who studies the impact of sanctions for the Washington-based National Foreign Trade Council, estimated the provision may mean U.S. oil and gas firms could be shut out of as much as \$100 billion worth of projects over 10 years. Also at risk may be high-earning jobs and lost investment income, he said. His group advocates against unilateral U.S. sanctions in most cases.

‘Loses Sight’

“In any place where Russian companies have a position—U.S. companies couldn’t be there,” Sawaya said. “It loses sight of the shape of the forest.”

Democrats complain that Republicans are stalling, pointing to remarks from White House legislative affairs director Marc Short that the administration is opposed to the bill’s provisions that would allow Congress to block some sanctions-related decisions by the president.

Three House Democrats, Minority leader Nancy Pelosi, Minority Whip Steny Hoyer of Maryland and Rep. Eliot Engel of New York, ranking member of the Foreign Affairs Committee, introduced their own measure, which is identical to the Senate version, in an effort to circumvent GOP procedural

objections. Republican leaders said that certain revenue-related provisions in the bill meant that it had to originate in the House.

Global Disadvantage

The fight over the energy provision, however, threatens to delay the bill further. The oil industry is warning of potentially widespread consequences—some unintended—that could put U.S. companies at a disadvantage globally, even when they aren't actively collaborating with sanctioned Russian firms.

“This has far-reaching impacts to a variety of companies and industries,” said Jack Gerard, president of the American Petroleum Institute. “It has the potential to penalize U.S. interests and advantage Russia.”

That broader approach could imperil at least one of Exxon Mobil Corp.'s major exploration projects, a joint venture with Rosneft that's producing oil and gas in waters off Russia's eastern shore. Oil fields there are estimated to contain 2.3 billion barrels of oil and 17.1 trillion cubic feet of natural gas. The project, called Sakhalin 1, doesn't fall under current U.S. sanctions that bar U.S. companies from producing oil in Russian deep-water, Arctic or shale areas.

If the legislation passes without changes, Exxon Mobil would likely have to obtain a special waiver from the U.S. government to maintain production at the site, slated to stretch until 2050.

Neighboring Wells

Industry officials warn that the Senate-passed bill could also jeopardize oil and gas projects far from Russia that have only tangential ties to the country. For instance, they say it could preclude U.S. oil companies from proceeding with offshore projects where sanctioned Russian companies hold neighboring leases because there may be pooled collaboration on pipelines and other infrastructure to support the developments.

“We will continue to comply with all applicable laws, including trade controls and sanctions regulations,” said Royal Dutch Shell spokesman Curtis Smith. “We believe that this bill, if endorsed, would be contrary to the objective of providing international markets with reliable access to energy at competitive prices.”

The fear is that Russian companies may invest in leases located next to U.S. energy projects as a way to help edge out their American competitors.

Oil industry lobbyists are circulating alternative language on Capitol Hill aimed at addressing these concerns and others. Most of the changes aim to narrow the legislation's reach. They are also seeking a 180-day ramp-up period to ensure companies have adequate time to comply, a narrowed definition of affected pipelines to zero in on oil export pipelines and to change the timeline for prohibitions on dealings in new debt to avoid a jolt to oil and gas trading.

The Senate-passed legislation would also place new penalties on Iran over its ballistic missile program. The bill directs the president to impose sanctions on any entity that knowingly contributes to Iran's ballistic missile program or other programs to develop vehicles to deliver weapons of mass destruction. Those who are sanctioned would have their assets within U.S. jurisdiction frozen and would be barred from entering the country.

—With assistance from Catherine Traywick and Billy House.

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Trump Administration Conditionally Approves Eni's Arctic Oil Drilling Plan

Posted July 13, 2017, 12:13 P.M. ET

By Jennifer A. Dlouhy

The Trump administration has conditionally approved Eni SpA's plan to drill up to four oil exploration wells in Arctic waters, with the activity launched from a gravel island in the Beaufort Sea.

The government's [letter of approval](#) lays out 13 conditions that Rome-based energy company must first meet, including securing drilling permits from the U.S. Bureau of Safety and Environmental Enforcement and other state and federal authorizations. The safety bureau also must approve Eni's spill response plan.

According to the Bureau of Ocean Energy Management, a site-specific monitoring program is not necessary for the first year of operations, but Eni may have to monitor for bowhead whales during its second year of operations.

Environmentalists pounced on the White House decision, saying it gives short shrift to potential damage from an oil spill in the remote Arctic.

"An oil spill here would do incredible damage, and it'd be impossible to clean up. The Trump administration clearly cares only about appeasing oil companies, no matter its legal obligations or the threats to polar bears or our planet," Kristen Monsell, an attorney with the Center for Biological Diversity, said in an emailed statement.

Eni's leases are set to expire Dec. 3, but a recent Interior Department rule effectively allows extensions of offshore leases for one year from most recent drilling. The company is expected to begin in December and continue throughout the winter months.

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U.S., China Immersed in Talks on LNG Export, Energy Issues

Posted July 13, 2017, 9:17 A.M. ET

By John Butcher

U.S. Secretary of Energy Rick Perry advanced the prospect of expanding American liquefied natural gas exports to China during a July 13 meeting with Executive Vice Premier Zhang Gaoli in Beijing.

LNG exports were among a range of energy issues the pair discussed, during a meeting in Zhongnanhai, the headquarters of China's Communist Party, according to a release by the U.S. embassy in Beijing.

LNG exports to countries that do not have a free trade agreement with the U.S. are restricted, but President Donald Trump last month agreed to lift barriers on those to China as part of a range of trade deals between the two countries. That could offer huge export potential for U.S. LNG suppliers

to China, which is the world's largest growth market for gas, according to energy research firm Wood Mackenzie, and may prompt new investment in industry.

It also could benefit China, which seeks alternatives to coal as it tackles a serious problem with air pollution.

Perry's talks with Zhang will be welcome news for U.S. LNG suppliers such as Cheniere Energy, which has been in negotiations with China about increasing exports there.

The Trump administration also hopes it will help them make good on election promises to rebalance trade and deliver jobs. In a statement, released June 5, to kick off his visit to China, Perry said, "By unleashing our domestic energy sector, we are creating, and will continue to create, well-paying, middle-class jobs and economic prosperity, protecting our environment, promoting innovation, and strengthening energy security for America and our allies."

Manchin Aims to Tack Appalachian Ethane Hub on Energy Bill

Posted July 13, 2017, 02:20 P.M. ET

By [Brian Dabbs](#)

West Virginia Sen. Joe Manchin (D) is ready to take a stab at creating an ethane storage hub in Appalachia that could break ground for more ethane use nationwide, while boosting manufacturing in the region.

Manchin told Bloomberg BNA July 12 he is aiming to propose an amendment on the Senate energy package to qualify a storage facility as a "critical infrastructure project," which would expedite Federal Energy Regulatory Commission licensing.

The facility's supporters, including the American Chemistry Council, argue it will pave the way for more nationwide use of ethane, a liquid derived from natural gas production that is used in consumer products and chemicals.

Manchin, along with Sen. Shelley Moore Capito (R-W.Va.), introduced the measure as a stand-alone [bill](#) (S. 1337) in June.

"That just gives it so much certainty to move forward. It gives it a pathway," Manchin, who described the energy bill as a "perfect vehicle," told Bloomberg BNA.

The energy [bill](#) (S. 1460) already contains a provision to compel the Energy Department to study the benefits of a ethane storage facility in the Marcellus, Utica, and Rogersville shale regions, which span from New York to Tennessee, but a spokeswoman for Manchin said the licensing is now the bigger priority.

Both Sens. Lisa Murkowski (R-Alaska) and Maria Cantwell (D-Wash.) are pledging an open amendment process for the energy bill, but timing is so far unclear.

Booming Wind, Solar to Erode Gas Demand in Americas, IEA Says

Posted July 13, 2017, 8:03 A.M. ET

By [Patrick Martin](#)

A surge in power from wind, solar and other renewable sources will begin chipping away at natural gas demand growth in the Americas over the next five years, according to the International Energy Agency.

The region's gas consumption will climb just 0.9 percent per year from 2016 through 2022, compared with 2.2 percent annually over the previous six-year period, the agency said in a report released July 13. Rising gas prices and a slowdown in coal plant retirements will also limit demand for the fuel, the IEA said.

A boom in cheaper energy from wind farms and solar arrays is creating competition for gas-fired generators, pummeling electricity prices. While gas has grabbed a bigger share of the power market in the Americas as coal-fired plants shut, the demand surge won't last, according to the IEA.

"There will be weak growth in electricity demand," the agency said in the report. "The level of gas consumed in the power sector is expected to be at broadly the same level throughout the forecast period."

Though U.S. gas futures averaged about \$2.55 per million British thermal units last year, the IEA predicts prices will be "significantly higher" through 2022, rising above \$3. That'll make gas-fired electricity generation more expensive than power from coal—especially coal supplies from the Powder River Basin in the western U.S., the agency said.

Industrial consumers may represent a bright spot for gas demand, however. Consumption in the sector may rise 1.7 percent a year as new chemical plants using gas as a feedstock are built on the U.S. Gulf Coast, the IEA said.

Meanwhile, gas output from U.S. shale basins will continue to flood the global market, the IEA said. The U.S. will boost production more than any other country over the next five years, accounting for almost 40 percent of global supply growth and more than one-fifth of the world's output by 2022.

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