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## Government Affairs Update

By Roy Littlefield

At a Washington Post event in D.C., SSDA-AT discussed with experts and elected officials potential funding solutions. Lawmakers weigh different approaches to financing infrastructure improvements and evaluate their potential for job growth.

At the event, Representative Blake Farenthold (TX-27-R) and Senator Sheldon Whitehouse (RI-D) discussed the challenges in Congress with passing a transportation bill mainly because of the disagreements over funding and the lack of desire to pass tax increases.

Jennifer Cohan, Delaware Secretary of Transportation, Ray LaHood, Co-chair, Building America's Future, Anthony Williams, Chief Executive, Federal City Council, and Karen Tumulty, National Political Correspondent, The Washington Post discussed a roadmap for repair looking at what works and what doesn't when it comes to fixing infrastructure.

Cheryl LaFleur, Acting Chairman, Federal Energy Regulatory Commission, Kurt Nagle, President and Chief Executive, American Association of Port Authorities, Costa Samaras, Assistant Professor, Carnegie Mellon University took the discussion further in discussing how to better move people, goods, energy and information across the U.S.

SSDA-AT remains involved in all talks involving transportation funding as we aim to protect the tire industry from unnecessary tax increases.

As an association based in Maryland outside of Washington, D.C. we try to maintain strong relations with the Maryland delegation. At a recent business leader's dinner, SSDA-AT had the opportunity to interact with Maryland elected officials.

Those included, Congressman Andy Harris (MD-1-R), Dutch Ruppersberger (MD-2-D), John Sarbanes (MD-3-D), Anthony Brown (MD-4-D), Steny Hoyer (MD-5-D), John Delaney (MD-6-D), Elijah Cummings (MD-7-D), Jamie Raskin (MD-8-D) and Senators Ben Cardin (MD-D) and Chris Van Hollen (MD-D).

Topics of discussion included the economy, job creation, foreign policy, trade, and most importantly transportation. Congressman Delaney previously spoke at a SSDA-AT lobby day about transportation funding.

We will continue to build strong relations with the delegation and involve them in our future government affairs efforts.



## EPA Hit Hardest as Trump Budget Targets Regulation

President Donald Trump's administration proposed a 31 percent cut to the Environmental Protection Agency's budget, as the White House seeks to eliminate climate change programs and trim initiatives to protect air and water quality.

The White House's proposed 2018 EPA budget, with the biggest proposed cut for any federal agency, comes as Trump seeks to clear away regulations he claims are hobbling U.S. oil drillers, coal miners and farmers. The proposed cuts are a starting point in negotiations with Congress, and could be tempered.

The proposal would eliminate 3,200 EPA employees, or 19 percent of the current workforce. It would also effectively erase former President Barack Obama's initiatives to combat climate change by cutting funding for the agency's signature Clean Power Plan aimed at reducing carbon dioxide emissions.

"Consistent with the President's America First Energy Plan, the budget reorients the EPA's air program to protect the air we breathe without unduly burdening the American economy," a summary of the agency's proposed budget said.

Scott Pruitt, the EPA administrator, disputes that human actions are the lead cause of climate change and in his former position as attorney general of oil-producing Oklahoma, he sued the agency more than a dozen times. Pruitt believes Congress should determine whether carbon dioxide is a pollutant that needs regulation. With both chambers currently led by Republicans, and influential committees headed by lawmakers from oil-

producing states, that is unlikely anytime soon.

The budget would also eliminate some \$100 million in spending on research and international programs on combating climate change.

Trump also doubts the science of climate change and has said the country can reduce green regulations drastically without compromising air and water quality.

Mick Mulvaney, Trump's budget director, told reporters the EPA's core functions and beyond "could be satisfied by this budget" and the agency would have flexibility in how to implement cuts. But he was direct in describing Trump's vision. "The president wants a smaller EPA," he said.

But the EPA had already faced sharp cuts under Obama. Janet McCabe, a former EPA air official, said the proposed budget would not only harm the ability of the agency to respond to emergencies, it would hurt day-to-day efforts on keeping air and water clean to protect human health.

### TURN BACK THE CLOCK

The proposed cuts would extend well beyond climate change. It would cut some \$427 million to regional pollution cleanup programs, including in the Great Lakes and Chesapeake Bay. Funding for the Superfund program to clean up the nation's most contaminated sites would drop by \$330 million to \$762 million.

The budget summary said the rationale is to give local and state governments - often fac-

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## EPA Hit Hardest as Trump Budget Targets Regulation

*Continued from page 2*

ing severe budget constraints themselves - responsibility for such clean-up efforts.

Trump's proposal would also cut the budget for the EPA's enforcement division, which fines companies for pollution, by 31 percent. It would axe dozens of other programs including the popular Energy Star appliance efficiency program aimed at reducing U.S. energy consumption.

Environmentalists blasted the plan, saying it would return America back to 1977 when smoggy skies and polluted rivers pushed lawmakers to strengthen federal clean air and clean water laws. "Turning back the clock to 1977 will not 'Make America Great Again'. It will 'Make America Gag Again,'" said Conrad Schneider, the advocacy director at Clean Air Task Force.

One area that would see a small boost is for State Revolving Funds, low-interest loans for investments in water and sanitation infrastructure. The budget would add \$4 million to the funds, bringing its budget up to \$100 million.

While the budget was a dark cloud for many EPA employees, there was at least a bit of hope that some opportunities existed at the other side of the country.

At the EPA's headquarters in Washington, representatives of the state of California where energy commissions and a clean air agency are hiring, handed recruitment fliers to employees on their way to work. "Fight Climate Change, Work for California," the fliers said.



## Oil majors are doubling down on US shale

Big oil companies such as Chevron, ExxonMobil and Royal Dutch Shell are leaving huge projects behind in favor of fast-growing US shale with plans to invest a combined \$10 billion in US shale fields in 2017, up from close to zero a few years ago. This shift will likely raise US production further, keeping oil prices down, and transform US shale with projects such as the Bongo 76-43 in the

Permian Basin, where Shell plans to break with tradition and drill five wells in a single pad for the first time.

**U.S. Crude Production**



Source: U.S. Department of Energy

Bloomberg

## Two bills seek to limit drilling near schools and provide public notice

Two bills proposed this month by Democratic lawmakers in the Texas Legislature are trying to give municipalities more control over oil and gas development in their communities by limiting oil and gas drilling around schools and requiring public meetings for permit approval.

One bill, Senate Bill 1868 would require public hearings for oil and gas companies that want to drilling within 1,500 feet of a school or daycare. Earthworks, a national environmental non-profit that supports the bill, estimates that there are around 1,000 schools in Texas that have oil and gas wells within 1,500 feet. The bill was proposed Sen. Judith Zaffirini, D-Laredo. The Railroad Commission of Texas, which regulates the oil and gas industry, does not require any kind of public notice with it approves drill permits, but does require public notifications for injection wells.

The second bill, House Bill 3403, would grant municipalities the right to decide whether or not oil and gas companies can drill within 1,500 feet of a school. The bill was proposed by Rep. Terry Canales, D-Edinburg.

For environmental advocates, both bills are attempt to regain ground lost during the 2015 legislative session. when House Bill 40 effectively stripped municipalities of the right to deny oil and gas drilling permits within city limits.

“It’s just common sense that cities should be able to put a tighter rein on oil and gas facilities that are most likely to pollute and disrupt our kids’ schools,” said Earthworks’ Gulf region organizer Sharon Wilson, in a statement.



## U.S. lawmakers press Trump to deny calls to overhaul biofuels program

More than 20 U.S. senators pressed President Donald Trump on Thursday to reject requests from oil refiners to overhaul the U.S. biofuels program, weighing in on a debate that has roiled markets from soybeans to gasoline in recent weeks.

Oil refiners have requested that the U.S. government change the program to push the burden of meeting annual biofuels use requirements downstream, a move that has been met with criticism and backlash from ethanol producers, fuel retailers and others.

The change would be "unwarranted and indefensible," said the bipartisan group of senators that included Charles Grassley from Iowa and Amy Klobuchar from Minnesota in a letter to Trump.

The White House said last week it was considering the changes, whose supporters include billionaire investor and special advisor on regulations Carl Icahn. Icahn is a majority stakeholder in oil refiner CVR Energy Inc.

The news shook the market for biofuels compliance credits and whipsawed some grain prices as traders fretted over how to position ahead of any changes.

The U.S. Environmental Protection Agency under former President Barack Obama in November proposed denying the requests from refiners, but opened the issue up for public comment.

"This type of change would not only wholly undermine the intent of the program, but would also result in a massive, costly, time-consuming shift in compliance," the letter dated March 16 said.

The U.S. Renewable Fuel Standard, signed into law by former President George W. Bush, was designed to boost use of biofuels like ethanol and biodiesel in gasoline and diesel in a bid to curb greenhouse gas emissions, boost rural economies and reduce dependence on foreign oil.

The program has been stymied by regulatory delays and become a battleground between the oil and corn industries in Washington.



## Opening Arctic for Drilling Is Trump Priority, Key Senator Says

Senator Lisa Murkowski said President Donald Trump is interested in opening up new coastal waters for oil and gas drilling and reversing Obama-era policies that restrict energy development in Alaska.

Both Trump and Interior Secretary Ryan Zinke are weighing ways to expand opportunities to drill in Arctic waters though the changes could take years to accomplish administratively, Murkowski said in an interview on the sidelines of the CERAWEEK conference in Houston.

“It’s fair to say we are looking at how we might be able to -- how the administration might be able to -- allow for opportunities within this important area, offshore Alaska,” Murkowski said.

Murkowski, who heads the Senate Energy and Natural Resources Committee, joined her fellow Republican senator from Alaska, Dan Sullivan, in a meeting with Trump and Zinke earlier this week to discuss the issue. Trump “clearly understood the impact of taking off-line” oil and gas development in the Chukchi and Beaufort seas north of Alaska, Murkowski said.

### Wildlife Refuge Drilling

Among her targets: making it easier to develop parcels in the National Petroleum Reserve-Alaska, a 23-million-acre (9.3 million hectare) region set aside 94 years ago because of its oil and gas potential, and allowing the activity in part of the Arctic National Wildlife Refuge (ANWR).

Any decision to open up ANWR would fall to Congress, where Murkowski and Sullivan are pushing legislation that would al-

low oil and gas development in as much as 2,000 acres of the refuge.

The president can set some changes into motion immediately by directing the Interior Department to rewrite a plan for selling offshore oil and gas leases over the next five years and add auctions of tracts in the Arctic and Atlantic oceans that the Obama administration left out. But wedging those sales back into the plan would require environmental analysis and public comment periods -- perhaps consuming a year for the Arctic and even longer for parcels along the U.S. East Coast.

The Trump administration also is weighing how to undo an executive order that President Barack Obama used to withdraw almost all U.S. Arctic waters and underwater canyons in the Atlantic Ocean from future oil and gas leasing. Environmentalists say it would be unprecedented for any president to rescind such a designation, and the reversal would almost certainly be challenged in court.

### ‘Legal Scrutiny’

“You would have opponents lining up, so it must be done in a way that can survive legal challenge,” Murkowski said. Although an executive order reversing Obama’s decision would be the cleanest option, she said such action isn’t imminent because Zinke still needs to assemble a legal team to help craft an approach capable of withstanding legal scrutiny.



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## Opening Arctic for Drilling Is Trump Priority, Key Senator Says

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“What that requires is a good solid legal team that is walking you through the steps of the process, and right now the secretary is without a team,” Murkowski said. “I know for a fact that has been a level of frustration for Secretary Zinke. He is itching to go and is very frustrated by the fact that he doesn’t have his folks in place.”

Trump has repeatedly pledged to expand U.S. energy development and remove “obstacles” holding back exploration of America’s “vast untapped domestic energy reserves.”

### Obscure 1953 Provision

Most federal decisions over offshore oil and gas development happen in five-year increments, through the government’s schedule for selling leases. But Obama aimed to set permanent policy in 2016 when he invoked an obscure provision in a 1953 law to withdraw U.S. waters from future oil and gas leasing. The provision previously had mostly been used to permanently protect coral reefs, walrus feeding grounds, and marine sanctuaries.

Any move by Trump to undo Obama’s protections is sure to draw a legal challenge, but it could take years before a lawsuit is ready to be filed, and there is scant legal precedent on the matter.

Presidents have modified decisions from predecessors to indefinitely withdraw areas from drilling, but have never rescinded them altogether. The statute doesn’t include a provision for reversal. And a legal opinion from the U.S. attorney general in 1938 on similar designations under a different law said they “do not imply a power to undo.”

Whether the oil industry really wants the territory is an open question.

### Shell Gives Up

While the U.S. Arctic is estimated to hold 27 billion barrels of oil and 132 trillion cubic feet of natural gas, energy companies have struggled to tap those resources in harsh conditions at the top of the globe. Exploration costs are high in remote Arctic waters, where work is confined to just a few months each year and there is sparse infrastructure to support the activity.

Oil major Royal Dutch Shell Plc spent more than seven years and roughly \$8 billion trying to find a large stash of crude in the Chukchi Sea, which lies between Alaska and Siberia, but it ended the quest in 2015 after a test well yielded disappointing results.

Industry leaders say Arctic crude is needed to meet the world’s energy needs and help keep oil flowing through the 40-year-old Trans-Alaska Pipeline System. The activity also may support the development of infrastructure that could help buttress U.S. security as climate change and melting sea ice opens up new shipping routes in the Arctic Ocean.

Still, there are signs that Alaska’s oil prospects may be looking up. The Spanish oil company Repsol SA on Thursday announced a 1.2 billion-barrel discovery on Alaska’s North Slope, the biggest U.S. on-shore oil find in three decades. That follows a 2016 announcement by closely held Caelus Energy Corp. claiming to have found at least 2 billion barrels of recoverable oil far beneath Smith Bay, in northwestern Alaska.

## President Trump's FY 2018 "Skinny Budget"

The Trump Administration today released its "skinny budget," which details its plans for defense and non-defense discretionary spending for Fiscal Year (FY) 2018 while proposing some adjustments for the current fiscal year. However, unlike prior skinny budgets from first-year presidents, President Trump's budget does not include any proposed changes to mandatory spending or revenue, nor proposals and cost estimates in the years beyond 2018. By focusing only on discretionary spending, this budget effectively ignores 70 percent of spending and 90 percent of its growth over the next decade.

For FY 2018, the budget calls for a \$54 billion increase in defense spending - a full repeal of the cap reductions often referred to as "sequester." To offset these costs, the budget reduces non-defense discretionary spending by about one-tenth. Relative to today's level, the budget would cut the State Department by 29 percent (\$11 billion), the Environmental Protection Agency by 31 percent (\$3 billion), the Health and Human Services Department by 16 percent (\$13 billion), and the Education Department by 14 percent (\$9 billion). Most other domestic agencies would also see substantial cuts; 19 smaller agencies would be eliminated entirely. The Veterans Affairs and Homeland Security Departments would see their funding boosted a combined \$7 billion - by 6 and 7 percent, respectively.

The Trump Administration deserves credit for proposing to fully pay for its proposed FY 2018 defense hikes with specific offsets. It is unfortunate that the budget fails to apply this principle to proposed supplemental spending for this year.

We are also disappointed that the budget does not include a multi-year plan to enact and pay for the President's agenda and address our rising debt. While a president's first budget is often "skinny," past presidents' first budgets (including skinny ones) have included significant mandatory and revenue proposals along with a 5- or 10-year projection of how those proposals will affect the nation's bottom line.

We are heartened by Office of Management and Budget (OMB) Director Mick Mulvaney's nod to meeting "another of the President's core commitments: addressing our Nation's priorities without sending future generations an even bigger credit card bill. This 2018 Budget Blueprint will not add to the deficit." Unfortunately, the proposed supple-

mental spending for FY 2017 does add to the deficit. However, we hope the full budget will meet that minimum standard.

Still, the OMB Director also notes "Our \$20 trillion national debt is a crisis, not just for the Nation, but for every citizen." Given our near-record debt levels, and our unsustainable debt trajectory, we encourage President Trump to follow up promptly with a more comprehensive budget that makes clear how his agenda fits together and what it would mean for spending, revenue, deficits, and the national debt. That budget should put the debt on a clear downward path relative to the economy.

### FY 2018 Defense Hikes Are Paid For With Non-Defense Cuts

In FY 2018, spending levels set by the Bipartisan Budget Act will expire, and the "sequester" on discretionary spending will fully return. As a result, overall caps on non-exempt discretionary spending will be set at \$1.065 trillion, compared to \$1.070 trillion in FY 2017 and \$1.156 trillion in FY 2018 if the sequester were eliminated.

President Trump's budget would reverse the sequester on defense, increasing the FY 2018 cap from \$549 billion (\$551 billion in FY 2017) to \$603 billion. To pay for this increase, President Trump would keep the overall cap at sequester levels - \$1.065 trillion - and thus reduce non-defense spending by \$54 billion, from \$516 billion (\$519 billion in FY 2017) to \$462 billion.

Relative to FY 2017, these changes represent a 9 percent increase in defense spending and an 11 percent reduction in non-defense spending. Relative to current law sequester caps for 2018, they represent a 10 percent defense increase and a 10 percent non-defense cut.

### Non-Defense Reductions Would Affect Most Agencies

The \$54 billion of cuts to non-defense discretionary spending - \$57 billion relative to FY 2017 spending levels - comes from a wide variety of sources. Many of them are areas the Administration argues are ineffective, duplicative, wasteful, or better performed outside the federal government.

## President Trump's FY 2018 "Skinny Budget"

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More than half of the proposed cuts in the budget come from three agencies – the Departments of State, Health and Human Services (HHS), and Education.

Of these three, the State Department would face the largest percentage cut – 29 percent, or \$11 billion. Much of these cuts would come from reductions in foreign aid; the budget specifically proposes cuts in funding for United Nations peacekeeping missions and to the Food for Peace program, which sends food to conflict-ridden areas.

HHS spending would be cut by 16 percent from current levels, or nearly \$13 billion. About half of these cuts come from reducing discretionary funding given to the National Institutes of Health. Other large cuts come from ending the Low Income Home Energy Assistance Program and the Community Services Block Grants.

The Education Department would face a \$9 billion (13.5 percent) cut, despite \$1.4 billion of new spending on school choice initiatives to encourage charter schools and pilot school voucher programs. Reductions in education spending would come mainly from eliminating certain secondary and post-secondary education grant programs, funding for after-school and summer programs, and over 20 additional programs that the Administration deems unnecessary.

Other agencies would generate smaller savings for the budget but face large cuts relative to their current spending. The \$2.6 billion cut to the Environmental Protection Agency, for example, represents a 32 percent reduction from current levels. This includes reductions to the Superfund (a \$330 million, or 30 percent, cut), which funds the cleanup of sites with hazardous materials; grants to fund state activities that go beyond federal requirements; research; and enforcement. Funding would also be eliminated for regional initiatives such as the Chesapeake Bay and Great Lakes as well as for the Energy Star appliance program.

The budget also eliminates whole programs in many cases. Within the Housing and Urban Development Department, for example, the budget would save \$3 billion by eliminating Community Development Block Grants. These grants provide communities with funds to aid low-income households, rehabilitate housing, improve infrastructure, or repay bonds issued by local governments.

Nineteen small agencies are defunded entirely, including the Corporation for Public Broadcasting, the National Endowment for the Arts, the National Endowment for the Humanities, the U.S. Trade and Development Agency, and several commissions, councils, and boards.

Two non-defense departments would see their funding increased under this budget. The Veterans Affairs Department would see a \$4 billion (6 percent) boost in funding, particularly for veterans' health care. The Homeland Security Department would also see a net \$3 billion (7 percent) increase, with an increase in funding for the border wall and immigration enforcement and cybersecurity, partially offset by reductions in Transportation Security Administration screening programs and emergency preparedness grants.

### Increases in FY 2017 Spending Are Only Partially Offset

In addition to the changes in FY 2018 discretionary spending, the budget also includes supplemental appropriations for FY 2017; however, unlike the FY 2018 changes, this funding is not fully offset. The budget includes \$25 billion for defense spending, \$5 billion for Overseas Contingency Operations, and \$3 billion for the border wall and implementation of the immigration executive orders, offset by an \$18 billion reduction in non-defense funding. Though the specifics of the spending increases are provided, the details on the non-defense cuts are not.

On net, these changes would increase FY 2017 discretionary spending by \$15 billion and increase deficits by a similar amount. The supplemental appropriations should be offset with equivalent spending cuts, or they should be reduced to the amount of cuts the Administration is willing to make. Since these appropriations are not emergencies, there is no reason to avoid fully offsetting their cost.

### Conclusion

It is encouraging that President Trump proposes to pay for most new spending in this budget with detailed proposals to cut spending elsewhere. We are disappointed the budget does not apply this principle in full to proposed supplemental spending, and we hope going forward the President will be as insistent on offsets as he is on spending increases.

## U.S. crude oil stocks rise, production up again: EIA

U.S. crude oil stocks rose last week even as refineries boosted output, while inventories of gasoline and distillates fell, the U.S. Energy Information Administration said.

Crude inventories rose by 1.5 million barrels in the last week, compared with analysts' expectations for an increase of 3.1 million barrels.

Oil prices edged lower on the news, erasing gains to trade flat.

U.S. crude production rose again to 9.03 million barrels per day (bpd) for the week to Feb. 24, according to the EIA. Overall crude stocks in the United States hit another record, rising to 520.2 million barrels.

"The EIA stats don't offer much in the way of surprises this week. The increase in refinery utilization signals that we have likely passed the peak of refinery maintenance for this season.

Gasoline demand doesn't decline, but this is cold comfort for the gasoline bulls hoping for a rally," said David Thompson, executive vice-president at Powerhouse, an energy-specialized commodities broker in Washington.

Refinery crude runs rose by 393,000 bpd, EIA data showed. Refinery utilization rates rose by 1.7 percentage points,

a sharp increase even as refiners are in the midst of routine maintenance season.

U.S. crude imports rose last week by 793,000 bpd. Exports, meanwhile, fell sharply to 721,000 bpd, compared with 1.21 million the week prior; this number is considered a volatile one because of potential shipping delays and other factors.

Gasoline stocks fell by 546,000 barrels, compared with analysts' expectations in a Reuters poll for a drop of 1.8 million barrels. The price of reformulated blendstock gasoline was down 1.7 percent to \$1.7005 a gallon, compared with \$1.7173 prior to the report.

Distillate stockpiles, which include diesel and heating oil, fell by 925,000 barrels, versus expectations for a 611,000 barrels drop, the EIA data showed.

"We've still got this dichotomy in terms of demand where distillate demand is really strong year on year on a four-week moving average, whereas gasoline demand remains in check," said Matt Smith, director of commodity research at energy data provider ClipperData.

Crude stocks at the Cushing, Oklahoma, delivery hub rose by 495,000 barrels, EIA said.



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## Trump to Repeal Obama Fracking Rule

The Trump administration is planning to repeal former President Barack Obama's landmark 2015 rule setting standards for hydraulic fracturing on federal land.

Justice Department lawyers revealed the decision in a filing with the Denver-based Court of Appeals for the Tenth Circuit, where the federal government under had been fighting against the oil and natural gas industry and conservative states to get the rule reinstated.

It is the latest in a series of high-profile Obama environmental rules the Trump administration is repealing or working to change.

Earlier Wednesday, President Trump asked the Environmental Protection Agency to consider weakening greenhouse gas emissions standards for cars.

Trump has ordered the EPA to consider repealing Obama's Clean Water Rule, and will soon seek to undo the Clean Power Plan, the coal leasing moratorium for federal land and other climate and environmental regulations.

Attorneys said the Interior Department and Bureau of Land Management (BLM) have been reviewing rules as part of a White House directive on reducing unnecessary and burdensome regulations.

"As part of this process, the department has begun reviewing the 2015 final rule ... for consistency with the policies and priorities of the new administration," lawyers wrote. "This initial review has revealed that the 2015 final rule does not reflect those policies and priorities."

Attorneys said that Interior would formally propose to repeal the rule within 90 days. That will start a process, likely to take a year or more, of undoing a rule that was a high priority for Obama and took many years to write.

Greens slammed the Trump administration's decision.

"This disturbing decision highlights Trump's desire to leave our beautiful public lands utterly unprotected from oil industry exploitation," Michael Saul, an attorney with the Center for Biological Diversity, said in a statement. "Backing away from these modest rules is doubly dangerous given the administration's reckless plans to ramp up fracking and drilling on public lands across America."

The move comes as little surprise. The rule was a top target of the oil and natural gas industry as well as Republicans – all key allies to Trump.

The rule set standards in three areas for federal-land fracking: integrity of well casing, storage of waste fluids and public disclosure of the chemicals used.

It was written in part to respond to suspicion and anger from the public regarding the controversial oil and gas extraction technique, which has grown exponentially and been behind the boom in domestic energy production and resulting low prices.

Wyoming federal Judge Scott Skavdahl, an Obama nominee, blocked the rule last year. He accepted arguments from industry and a handful of states that the BLM is prohibited by federal law from regulating fracking.

The Obama administration appealed to the Tenth Circuit. Oral arguments were scheduled for later this month in the appeals court before a three-judge panel, but the Trump administration asked that they be canceled pending the regulatory repeal.

Environmental groups that joined the litigation to defend the rule could ask the court to keep the case active, but the court is not obligated to comply.



## Refiners see backyard battles ahead

As federal regulations appear to be easing under the new administration the US refining industry is finding new challenges on the state and local level.

President Donald Trump's election in November upended years of federal policy refiners viewed as a common, hostile foe. Executives at the American Fuel and Petrochemical Manufacturers' annual conference this year said the US government no longer poses an existential threat to their businesses, and they are optimistic about a new national regulatory regime.

Refiners instead see intensifying niche opposition at the state and local levels. That's where company interests split, industry communication has been poor and opponents are now better organized and better financed.

"It is going to get fought city-by-city, county-by-county and state-by-state," Phillips 66 chief executive Greg Garland said today in a breakfast address at the conference in San Antonio. "We have got to think about this differently, on how we engage."

Phillips 66 sees signs of this new battle front across the country. Activists drew months of headlines in their fight against the Dakota Access Pipeline in which the company is a joint venture partner. County regulators in California were persuaded to deny rail infrastructure the company needs to improve crude supply to its 120,000 b/d San Francisco refining complex. And opponents shouted down supporters in hearings on the 163-mile second phase of the Bayou Bridge pipeline moving crude from Lake Charles to St James in Louisiana.

Phillips 66 was not alone in facing more local friction. Opposition to the 155,000 b/d refinery

in Torrance, California, carried over from ExxonMobil to new owner PBF Energy last year. Local regulators have considered requiring changes to a process unit that would require hundreds of millions of dollars of spending.

And US independent refiner Tesoro still waits — more than three years into the process — for a determination from Washington regulators on its 360,000 b/d Vancouver Energy rail transloading project. City officials have also objected to a modernization project at Tesoro's Los Angeles complex that air regulators had hailed as an improvement for emissions.

Real optimism has emerged for federal regulations that protect the environment without driving out liquid fuels, chief executive Greg Goff said on the conference sidelines. But that movement did not trickle down through the states.

"I just do not see that much change there," Goff said.

Federal regulatory change still holds massive sway over industry's strategic and capital decisions. The administration's ultimate approach to fuel efficiency standards for automakers could determine whether and when new engines will demand more octane, for example, a finding that will shift both high-octane ethanol blending and petroleum-based octane unit strategies. Marathon Petroleum earlier this year said it was slowing consideration of a planned octane-boosting alkylation project in part because of the federal review of fuel efficiency standards.



## Trump Tax Cut May Save Oil Explorers \$10 Billion, Boost Drilling

The Trump administration's plan to slash corporate tax rates could free up more than \$10 billion a year for U.S. oil explorers, opening new opportunities to boost drilling at a time of uncertainty in the marketplace.



Crude prices in New York have fallen 10 percent since the end of 2016 as added drilling in America's shale fields offset an OPEC-led drive

to raise prices by cutting production. The U.S. push has spurred concern that another price rout could be just around the corner, following a two-year decline that saw prices fall as low as \$26.05 a barrel in February 2016.

Republicans led by President Donald Trump have said they want to cut the top corporate rate to 15 or 20 percent, from 35 percent now. That could mean more than \$10 billion in savings for oil producers that are one of the country's most-heavily taxed industries, according to Bloomberg Intelligence research. The final number will hinge on whether drillers surrender other tax breaks in exchange, said Vincent Piazza, a senior analyst at BI.

"In theory," explorers would divert tax savings to more domestic drilling, Piazza said in a telephone interview "But nothing is ever one-for-one."

West Texas Intermediate crude fell 0.2 percent on Monday to \$48.47 after it hit a high of \$55.24 on Jan. 3.

The number of rigs drilling U.S. fields for crude almost doubled to 617 since the end of May, when the full impact of the oil-market collapse shrank the fleet to a 6 1/2-year low, according

to Baker Hughes Inc. The oil rig count has advanced in 18 of the past 19 weeks as explorers coped with reduced cash flows by finding cheaper ways to pump each barrel from the ground. U.S. drillers lifted crude production more than 3 percent since the end of 2016 to 9.088 million barrels a day as of March 3, according to the Energy Department in Washington.

### 'Stiff Challenges'

It's not clear when a tax cut plan might be finalized by the U.S. Congress and signed into law by the president. "A reform bill faces stiff challenges, and would likely come with tradeoffs such as fewer tax breaks," the Bloomberg Intelligence report said.

Still, the discussion comes as the future of the global industry is under debate. At CERAWeek by IHS Markit, the largest annual gathering of industry leaders, some top executives warned against overindulgence by U.S. drillers. Harold Hamm, the billionaire shale oilman, said the U.S. industry could "kill" the oil market if it embarks into another spending binge.

U.S. production "could go pretty high," Hamm, the chairman and CEO of Continental Resources Inc., said at the meeting. "But it's going to have to be done in a measured way, or else we kill the market."

Saudi Arabia's oil minister, Khalid Al-Falih, told the conference that global oil stockpiles haven't drained as quickly as expected, opening the door for an extension to OPEC production cuts that were originally due to expire at mid year. Without such an extension, the price of oil could drop to \$40 a barrel, said Scott Sheffield, chairman of Irving-based Pioneer Natural Resources Co.

## Trump's new pipelines are going to get a 'dog fight' in some parts of the United States

Pipeline companies can look forward to four years under a president who trumpets fossil fuels and wants billions spent on infrastructure projects. But even with Donald Trump in office, those hopeful companies will find themselves in a "dog fight" in some areas, experts say.

Firms looking to lay pipe in the South and Great Plains will face few hurdles, but efforts to transport natural gas to the Northeast will have to clear a higher bar. Meanwhile, opposition to pipelines is percolating among environmentalists and regular citizens intent on keeping them out of their neighborhoods.

That movement drew vitality from a months-long campaign by Native Americans to block Energy Transfer Partners from completing its Dakota Access pipeline in North Dakota. Thousands joined the Standing Rock Sioux at camps to oppose the project, and others took action through regional protests and divestment campaigns.

That fight had roots in a more than century-old treaty dispute, making it something of an outlier, but the movement it sparked should not be ignored, said Jay Hatfield, a portfolio manager for InfraCap's AMZA exchange-traded fund, which tracks pipeline companies.



"It would be remiss to not recognize that there's an increasingly radical element of the environmental movement that believes that the ideal solution to the global problem is civic unrest," he said.



Before the Dakota Access standoff, TransCanada's Keystone XL pipeline became a symbol of President Barack Obama's environmental stance. His administration blocked the project, arguing that transporting heavy Canadian crude into the United States undercut American leadership on tackling climate change.

To be sure, the energy industry laid a tremendous amount of pipe during the Obama years. In the first six years he was in office U.S. oil pipeline mileage expanded by 26 percent.

Still, Obama's actions on the two projects came amid a raft of new rules on oil, gas and coal production, feeding the perception of an anti-fossil fuel president.

Following Trump's approval of both projects, pipeline companies are more optimistic but still

## Trump's new pipelines are going to get a 'dog fight' in some parts of the United States

*Continued from page 14*

concerned after coming out of a "really tough regulatory period" for the energy industry, said Libby Toudouze, portfolio manager at Cushing Asset Management.

"It's going to slowly, I think, continue to get better. It was a hurdle and now it's a speed bump," she said.

Pipeline boom ... and bust?

The portfolio managers expect the Obama-era pipeline boom to continue in western Texas and basins in central and southern Oklahoma. Drillers will need more capacity there as activity in the low-cast basins ramps up amid a sustained but tepid recovery in oil prices.

Pipelines in that part of the country also tend to run through less densely populated areas, meaning they encounter less resistance from landowners and others. There is also plentiful infrastructure already in place, so new projects tend to be relatively small connections to existing pipelines.

"If you want to find an easier place to build a pipeline in the world, it would be hard to find one better than Texas," Hatfield said. Oklahoma is second on the list, he added.

Pipeline builders won't get such a warm reception in another part of the country: the Northeast.

New England, and Boston in particular, are vulnerable to winter price shocks because they remain under-served by natural gas pipelines. Located near the natural gas-rich Marcellus shale in Pennsylvania, these densely populated areas have long been hotbeds of opposition to pipelines.

"It's going to be a dogfight in the Northeast, for sure," Hatfield said.

Pennsylvanians opposed to Williams Companies' Atlantic Sunrise natural gas pipeline have taken a page from Standing Rock activists, erecting structures in the project's path and threatening civil disobedience.

Last year, the New York State Department of Environmental Conservation blocked another Williams project, the \$875 million Constitution pipeline.



Trump's election could affect such disputes. Three of the five seats on the Federal En-

ergy Regulatory Commission are currently vacant, giving him an opportunity to stack it with Republicans who represent the energy industry. The independent agency can override state decisions on interstate pipelines in some cases — though FERC has historically avoided partisan fights.

Another wildcard

Trump has created uncertainty for the industry by saying he will require pipeline makers to use only U.S. steel and American-made pipes in their projects — most recently in a high-profile address to a joint session of Congress on Tuesday night. But it's not clear that the U.S. steel industry can supply that much raw material, at least not anytime soon.

## Marathon Oil to buy Permian Basin acreage for \$700 million

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Marathon Oil Corp. says it will pay \$700 million for 21,000 net acres in the Northern Delaware Basin in New Mexico, its second deal in the region in less than two weeks.

The Houston driller said Tuesday the all-cash transaction brings its footprint in the Permian Basin to more than 90,000 net acres. The land deal with private Fort Worth driller Black Mountain Oil & Gas and others is expected to close in the second quarter.

Oil wells on the property currently pump about 400 barrels of oil equivalent a day, but Marathon estimates the land has some 550 million barrels of oil equivalent in total resource potential, the amount of oil and gas the company believes it can extract profitably.

The company said the acreage has at least six different target layers of oil-soaked rock and 5,000 feet of so-called stacked pay, the area drillers target to harvest oil and gas.

Last month, Marathon had announced it would spend \$1.1 billion in cash to snap up more than 70,000 net acres in the Permian Basin, as it sold off Canadian oil sands assets for \$2.5 billion to Royal Dutch Shell and Canadian Natural Resources.

“We expect to pursue additional trades and grassroots leasing,” Marathon CEO Lee Tillman said in a written statement.



## Trump seeks input from U.S. energy companies on Paris climate pact

President Donald Trump's administration has been contacting U.S. energy companies to ask them about their views on the U.N. global climate accord, according to two sources with knowledge of the effort, a sign Trump is reconsidering his 2016 campaign pledge to back out of the deal.

The accord, agreed by nearly 200 countries in Paris in 2015, would limit planetary warming in part by slashing carbon dioxide and other emissions from the burning of fossil fuels. As part of the deal, the United States committed to reducing its emissions by between 26 and 28 percent below 2005 levels by 2025.

Trump has called climate change a hoax and vowed during his campaign for the White House to "cancel the Paris Climate Agreement" within 100 days, claiming it would be too costly for the U.S. economy.

Officials for Exxon Mobil, ConocoPhillips, Chevron, Peabody Energy Corp and others did not immediately comment when asked about whether they had been contacted by the White House about the Paris accord.

But several, including Exxon Mobil and ConocoPhillips, have expressed public support for the pact. The World Coal Association, which represents Peabody and other miners, has also said it supports the deal.

### OIL COMPANY SUPPORT

Exxon Mobil Chief Executive Darren Woods recently called the pledges that came out of the Paris agreement an "effective framework" for dealing with emissions, and pointed to Exxon's own work to cut its carbon emissions.

In comments on Exxon's website, Woods wrote: "I believe, and my company believes, that climate risks warrant action and it's going to take all of us – business, governments and consumers – to make meaningful progress."

Rex Tillerson, Exxon's former CEO and now U.S. Secretary of State, also supported remaining a part of the climate change discussion during his confirmation hearing. He said he did not see climate change as an imminent national security threat but said the U.S. would be "better served by being at that table" and remaining a party to climate change negotiations.

Conoco CEO Ryan Lance similarly said he favored the U.S. remaining in the Paris agreement, during CERAWEEK comments last week, in part because it could create opportunities for its natural gas operations and its investments in carbon-capture and storage.

Benjamin Sporton, the president of the World Coal Association, had a similar stance: "With a number of well-developed carbon capture and storage projects, the United States is already a global leader in cleaner coal technology. Given the role given to low emissions coal technology in the Paris Agreement by many developing economies, there are clear benefits to remaining within the agreement."

J. Robinson West, former chairman of Magellan Petroleum Corp., and now a managing director at Boston Consulting Group, said President Trump's anti-Paris accord sentiments probably reflected his dealings with the CEOs of smaller companies that operate only in the U.S.

"The independents are anti-climate change ... all this stuff costs them money. The global companies operate all over the world. They have to operate at one standard - the highest standard - wherever they operate," he said.

Global oil companies have spent heavily on environmental initiatives in recent years. Exxon Mobil, for example, logged \$4.9 billion in environmental spending in 2016, about 2.24 percent of total revenue, according to its annual report with the Securities and Exchanges Commission. ConocoPhillips spent \$627 million, or 2.57 percent of revenue.



## Pipeline Update

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Executive orders paving the way for building the Keystone XL pipeline and completing the Dakota Access pipeline are a good start. Updating infrastructure to meet U.S. energy needs and accommodate current production trends could spur up to \$1.15 trillion in new private capital investment over the next 10 years, support 1.15 million new jobs and add \$120 billion on average to national GDP.

## RPM Act

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As the Recognizing the Protection of Motorsports (RPM) Act builds momentum in Washington, D.C., it's up to the race community and industry to continue the energy and rally customers, employees, followers and friends to take action and tell Congress to save our racecars. After you send your letter at [www.sema.org/rpm](http://www.sema.org/rpm), here are two easy ways your business can help continue the RPM Act's progress. (The following materials and additional assets can also be found at [www.sema.org/rpmtools](http://www.sema.org/rpmtools)):

1. Promote the RPM Act on your website and at your business.

Consider adding custom RPM Act graphics and GIFs to your website's homepage and promotional materials. You can also print these materials to display in your store or garage.

If adding the image to your website, be sure to link each image to [www.votervoice.net/SEMA/campaigns/45394/respond](http://www.votervoice.net/SEMA/campaigns/45394/respond). That way, visitors to your site will be sent to the letter-writing campaign directly. The form is short and only takes a minute to fill out.

2. Spread the word on social media.

Your company can easily share the following Facebook, Instagram and Twitter posts on your own social-media platforms. Encourage your followers to write Congress and share these posts with their friends and contacts.



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