



# SSDA News

Service Station Dealers of America and Allied Trades

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## Government Affairs Update

By Roy Littlefield



In April, SSDA-AT attended a Family Business coalition meeting to discuss the Death Tax Repeal Act of 2017 and other tax reform initiatives. It appears repealing the estate tax will be part of comprehensive tax reform and part of a larger package. Congress is expected to begin focusing most of its time on tax reform. SSDA-AT spoke with Congresswoman Kristi Noem (R-SD) who is the lead sponsor of the Death Tax Repeal Act of 2017 and she believes that the prospects for passage are strong and there is interest in Congress to move quickly on this issue. Her bill currently has 59 co-sponsors. SSDA-AT will continue efforts on Capitol Hill to gain support for repealing the estate tax once and for all.

Last month, the Small Business Legislative Council (we are in the leadership), testified at the House Small Business Committee hearing entitled "Cafeteria Plans: A Menu of Non-Options for Small Business Owners." The purpose of the hearings was to spotlight how owners of pass-through entities are NOT able to participate in these advantageous employee benefit plans. Currently the law discriminates against sole proprietors, partners, and any Sub-S stockholder with more than 2% of stock, as well as that person's family members, and a member of an LLC that has chosen to be treated for tax purposes as a partnership, by not allowing them to participate in cafeteria plans. Cafeteria plans allow employees to select among a choice of employee benefits including flexible spending accounts (FSAs), dependent care, contributions to HSAs, group term life insurance, vision and dental insurance, and supplemental health insurance programs (like those offered by Aflac). In the testimony, we requested a halt to this blatant discrimination which also hurts the employees

of these businesses since it is a hard sell to convince owners to adopt a plan that will generate some administrative expense and burden when they are excluded from the benefits of the plan. Additionally, we asked for an increase to the absurdly low dollar limits on FSAs and the dependent care benefit (currently \$2,500 and 5,000 respectively). Finally, we asked for long term care insurance to be included as a permissible benefit.

SSDA-AT joined more than 150 other organizations and associations on letters to Senate Homeland Security and Government Affairs Chair James Lankford and House Small Business Committee Chair Steve Chabot in support of the Small Business Regulatory Flexibility Improvements Act. The bill would amend the Regulatory Flexibility Act to help better ensure that small business interests and impacts are considered in the rulemaking process.

In April, SSDA-AT attended a Save LIFO coalition meeting. As tax reform discussions begin to heat up, so do the possibilities of repealing LIFO. With the border adjustability proposal facing backlash, there is a possibility it could be off the table, with all other areas of revenue back on the table, including reforming or eliminating the LIFO system. It is expected that repealing LIFO could bring the federal government \$70-105 billion on a one time hit.

In April, we attended a Highway Users board meeting, where Roy Littlefield serves as Treasurer. In the meeting, we discussed the options for funding if Trump were to put forth a robust infrastructure plan. If he wants to propose a \$1 trillion bill, all funding options are back on the table including many aimed at the tire industry. We will continue to be active players in transportation funding discussions.

## New U.S. Pipelines to Drive Natural Gas Boom as Exports Surge

U.S. energy firms are scrambling to finish a slew of pipelines that will unleash rich reserves of shale gas in Pennsylvania, West Virginia and Ohio as the nation prepares to become one of the world's top natural gas exporters.

The pipelines are expected to boost output from shale fields in the three states by giving producers access to new domestic and international markets.

Those states could supply about a third of all U.S. natural gas once the pipeline expansion is complete, up from about 25 percent now, according to projections from the U.S. Energy Information Administration (EIA).

The network will bring cheaper fuel supplies for power generation and industry being built in the eastern half of Canada and the United States, especially along the U.S. Gulf Coast. It would also transport the huge volumes needed to feed facilities that chill the gas to liquid so it can be shipped internationally.

The construction addresses a lack of pipeline capacity that has stunted development of two of the largest shale fields in the United States, the Marcellus and Utica formations.

The lines should allow output to increase from both fields by about 50 percent in the next two years, according to the EIA. Gas from the Marcellus and Utica is among the cheapest in the country.

Among the largest projects under construction are Energy Transfer Partners LP's (ETP) Rover; TransCanada Corp's Leach XPress; and Williams Cos Inc's Atlantic Sunrise. Those lines will move gas out of these

shale basins to markets in Canada, the U.S. Midwest and Southeast, including expected connections to Gulf Coast export terminals.

The completion of the lines will be a welcome boon for the firms and their investors after a tough couple of years. A slump in international energy prices led to reduced demand for new oil and gas pipeline capacity from producers.

ETP and other firms were also hit by a growing protest movement of environmentalists, Native American rights groups and U.S. military veterans, which delayed big ticket projects such as the Dakota Access Pipeline.

Contractors building ETP's \$4.2 billion Rover gas pipeline from Pennsylvania to Ontario will hire up to 15,000 workers during construction of the line, expected to be completed by late 2017, according to ETP spokesperson.

### CHANGING FORTUNES

Just over a decade ago - before technological innovation unleashed huge oil and gas supplies trapped in shale rock - U.S. gas production from conventional fields was in decline and the nation was expected to become one of the world's biggest importers of natural gas.

High prices for fuel encouraged petrochemical and chemical industries to move abroad.

Now, amid the shale revolution, the nation is producing 50 percent more gas, making it the world's biggest producer as energy firms

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## New U.S. Pipelines to Drive Natural Gas Boom as Exports Surge

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opened up new energy frontiers across the United States.

Prices for gas have averaged less than \$3 per million British thermal units over the past two years, a third of the price in 2005, and are expected to remain mostly below that level through at least 2023, based on current futures trading on the New York Mercantile Exchange.

That cheap and ample supply motivated industrial firms to spend billions to build and expand manufacturing facilities mostly along the U.S. Gulf Coast but also in the Midwest, such as chemical companies that use gas to make plastics.

Royal Dutch Shell PLC last year agreed to build a multibillion-dollar petrochemical complex near Pittsburgh to be close to the source of the Marcellus and Utica gas. It will employ about 6,000 workers to build the facility and is expected to create about 600 permanent jobs when completed.

Abundant supply has also sparked interest from many countries in buying U.S. LNG exports.

The United States is expected to become a net exporter of gas this year or next for the first time since 1957 on the back of those rising LNG exports as well as pipeline flows to Mexico.

**UNLOCKING PENNSYLVANIA RESERVES**

At the center of activity in both the Marcellus and Utica is Pennsylvania, which accounts for about 20 percent of U.S. gas production, making it bigger than any state other than Texas.

Pennsylvania's output rocketed from 0.5 billion cubic feet per day (bcfd) in 2006 to 14.5 bcf in 2016, according to the EIA and the Pennsylvania Department of Environmental Protection.



One billion cubic feet is enough to fuel about 5 million homes - or every house in Pennsylvania.

Still, the state has the potential to pump a lot more gas as more pipelines provide producers with avenues to new markets.

At least five pipelines capable of transporting over seven bcf from the Marcellus and Utica are scheduled to open in 2017, with five more due for completion in 2018, capable of moving another five bcf.

Pipeline capacity from Pennsylvania, Ohio and West Virginia was around 23 bcf in 2016, according to the EIA and Thomson Reuters data. If all pipes under construction are completed, that would rise to more than 35 bcf.

The pipeline construction and gas production expansion mean billions of dollars in new investments in Pennsylvania and hiring that will extend well beyond the energy sector, said Ryan Unger, CEO of the Team Pennsylvania Foundation, a nonprofit foundation focused on public-private partnerships.

## Alaska senators push bill to allow Arctic drilling

Alaska's two Republican senators have introduced a bill that would repeal Obama administration restrictions on off-shore drilling and allow for oil production in the Arctic Ocean.

The bill, from Sens. Lisa Murkowski and Dan Sullivan, would undo Obama's December decision to withdraw sections of the Outer Continental Shelf from the U.S.'s offshore drilling program.

It would also require, as part of federal five-year drilling plans, a minimum of three drilling lease sales in each of the Beaufort, Chukchi and Cook Inlet planning areas off the northern coast of Alaska.

"After years of regulatory restrictions and burdens imposed by the Obama administration, this bill charts a much better course for responsible energy production in our Beaufort and Chukchi seas that actually reflects the views of the vast majority of Alaskans," Murkowski,

the chair of the Energy and Natural Resources Committee, said in a statement.

"These areas contain prolific resources that can be safely developed to create jobs, reduce our deficits, keep energy affordable and strengthen national security."

Obama in December formally removed waters in the Chukchi Sea and most of its Beaufort Sea from the federal drilling program, one month after he finalized a five-year drilling plan that didn't include Arctic lease sales.

Environmentalists praised the decision has a major victory in their fight against Arctic drilling. But the fossil fuel industry and its congressional supporters vowed to fight the decision.

The White House is crafting an executive action to kick off the process of rewriting that leasing plan, officials said this week. That process could take years to finalize.

## Drillers in Biggest U.S. Gas Play Get More Bang for Their Buck

Natural gas drillers in America's biggest shale play are getting more bang for their buck than ever before.

Thanks to new pipelines and technological advances, producers in the Northeast can now tailor their output to the rise and fall of gas prices. Production from the region's Marcellus and Utica basins appears to lag price moves at key regional hub Dominion South by three days, according to Bloomberg New Energy Finance research. In 2015, no correlation was seen between the hub and output.

Six months after Northeast gas prices plunged to a record low as pipeline bottlenecks left supplies trapped in the region, new links like Spectra Energy Corp.'s Algonquin Incremental Market project are allowing drillers including Antero Resources Corp. and Range Resources Corp. to send their production to different markets in response to regional

price moves. Meanwhile, remote-controlled well heads make it possible for explorers to fine-tune output. The developments may help producers prevent another supply glut.

Responsiveness to prices is "just one more lever that the market can pull to make sure things balance," Het Shah, an analyst at Bloomberg New Energy Finance, said by phone. In a matter of weeks, producers "were able to swing from dropping overall production in that area by 1.5 billion cubic feet to bringing it all back online."

Producers have perfected the art of choking wells, or restricting initial output, Shah said. Computer control of wells has allowed producers to remotely expand or cut production, a practice that used to be done manually by adjusting a well's diameter.

## US Energy Sector Wary of Trump Steel Directive

President Donald Trump's attempts to impose a "Buy American" policy for oil and gas pipelines is worrying energy companies that say it could delay the very infrastructure the administration is trying to support.

US midstream company Energy Transfer Partners says the policy would "severely delay project schedules" and reduce pipeline quality. Magnolia LNG, which is considering building a \$4.5bn gas export facility in Louisiana, says it has created uncertainty that could slow final investments. And an energy industry coalition is warning of long construction delays and project cancellations.

The groups outlined those concerns late last week to the US Commerce Department, as the agency crafts a plan for achieving Trump's pipeline sourcing goal ahead of a 23 July deadline. Trump in an executive order directed the agency to write a plan requiring new pipelines to use US-produced steel to the maximum extent permitted by law.

The directive, by Trump's own admission, was hastily pulled together as he was signing a separate order that expedited federal approval of the 830,000 b/d Keystone XL and 470,000 b/d Dakota Access crude pipelines.

"I was signing the order and I said where did they buy the steel? I did not like the answer. I said who fabricated this deal? I did not like the answer," Trump recalled in a 4 April speech to union officials. "I said, 'From now on we are going to put a clause, got to be made in America.'"

Trump has made the expansion of domestic energy production a top priority, mostly recent-

ly by targeting climate regulations. This has at times clashed with a separate Trump goal of supporting domestic manufacturing. His administration exempted Keystone XL and Dakota Access from the steel sourcing requirement, although Trump has claimed otherwise in speeches.

The American Petroleum Institute, the Interstate Natural Gas Association of America, the Association of Oil Pipelines and two other trade groups in the energy coalition are urging the administration to be cautious in its roll-out of the executive order. US pipeline and steel manufacturers have limited production capacity and do not even make certain grades of pipeline, they said.

"If [production] hurdles are not overcome, government action to increase domestic steel and pipe production could have the unintended result of reducing or significantly delaying new pipeline projects and limiting US pipeline job growth," the trade groups told Commerce on 7 April.



The EU, Canada and Australia filed separate comments the same day that argue any plan from Commerce would need to comply with trade agreements that prohibit non-discriminatory treatment of domestic and imported projects. Canadian steel producers and Korean trade groups also raised similar concerns.

US steel producers were more receptive to the executive order. ArcelorMittal's US division said it supported the president's efforts to boost the amount of US steel in infrastructure.

## China Surpasses Canada as Top Buyer of U.S. Crude

China became the biggest buyer of U.S. crude oil in February, surpassing Canada, at a time when OPEC is cutting back output.

China imported 8.08 million barrels of U.S. light crude, nearly quadrupling its January purchases, according to data released by the U.S. Census Bureau Tuesday. That helped boost U.S. exports to a record 31.2 million barrels during the month. Canada, the U.S.'s largest trade partner, imported 6.84 million, down 20 percent from a month earlier.

The surge in U.S. shipments to Asia, a market long dominated by Saudi Arabia and other Middle East producers, comes as the Organization of Petroleum Exporting Countries trims output in an effort to end a glut that battered the economies of global ener-

gy exporters. Saudi Arabia reduced its pricing for some of its April crude sales to Asia as supplies from the U.S. became more competitive.

“The U.S. is a larger exporter of crude than many OPEC countries,” John Auers, executive vice president at energy consultant Turner Mason & Co. in Dallas, said by phone. “That China is buying more means that the U.S. has become a larger player in the global crude export market.”

Ships hauling U.S. crude to Asia included the supertanker Alex, which headed for Ningbo in eastern China after loading 2 million barrels of West Texas Intermediate crude in the Gulf of Mexico in late February, a person familiar with the matter said last month.

### U.S. Oil Reaches the World

The U.S. has exported 239 million barrels of crude oil since a ban on exports was lifted in December 2015.

Top twenty importers of U.S. crude, Jan. 2016–Feb. 2017, in millions of barrels.



Source: U.S. Census Bureau

Bloomberg

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## China Surpasses Canada as Top Buyer of U.S. Crude

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U.S. crude exports in February jumped 35 percent from a month earlier, according to the U.S. Energy Information Administration. While shipments are expected stay above 2016 levels, the boost was likely aided by seasonal maintenance at U.S. Gulf refineries, according to Auers. Also, the production cuts made by OPEC countries made Dubai, an Asian benchmark, more expensive compared to the U.S. counterpart.

WTI on Tuesday was \$1.05 a barrel below Dubai, a lower-quality grade, based on front-month swaps data from broker PVM Oil Associates Ltd. It's averaged a 50-cent discount this year, compared with a \$2.43 premium in 2016.

The shipments from the U.S. to China appear to be ongoing. Sinopec bought 1 million barrels of U.S. Mars Blend crude for loading in April, a person familiar with the matter said.

"A very strong WTI-Dubai spread enabled opening in arbitrage opportunities to Asia at a time when there were lots of turnarounds going on in the U.S. Gulf in February," Dominic Haywood, a London-based analyst for Energy Aspects Ltd. said in a phone interview.

U.S. crude inventories have remained stubbornly high despite lower output from OPEC, climbing to 534 million barrels in the latest government data, the highest level going back to 1982. In March, crude prices slumped the most since July amid concerns about global stockpiles.

Singapore imported 2.03 million barrels from the U.S., while countries including Curacao, Italy, Japan, South Korea and the Netherlands bought in excess of 1 million barrels each, government data show. Shipments included condensate derived from natural gas.



## GOP Lays Out Regulatory Reform Wish List



Republicans have plenty of ideas for reforming the regulatory process.

President Trump has vowed to lighten Washington's regulatory load. Now, GOP lawmakers want to pass legislation to ensure any changes in this administration become permanent.

Those include proposals that would require federal agencies to issue only the "least costly" regulations and a measure to eliminate outdated and duplicative rules.

House Republicans are moving forward with an aggressive package of bills on regulatory reforms.

But with only a 52-48 edge in the Senate, some of those may not make it through the upper chamber where Democrats have filibuster power.

Some upper chamber Republicans, like Sen. James Lankford (Okla.), believe a more modest set of reforms could win over eight Democrats.

Republicans, though, have ambitious hopes. Here's a look at the GOP's wish list on regulatory reform.

### Curbing Costly Regs

The Regulatory Accountability Act would require federal agencies to issue the "least costly" rules to address problems.

If a cost-benefit analysis shows the regulation is too expensive, the agency would be forced to choose a "reasonable alternative." The analysis could be challenged in court to "ensure that agencies do not rely on irrational assumptions," according to a release from Sen. Rob Portman (R-Ohio),

who plans to introduce the bill in the upper chamber once Congress returns from the Easter recess.

Supporters of the Regulatory Accountability Act say it would keep federal agencies on a tight leash and prevent the sort of regulatory overreach that Republicans complained about during the Obama administration.

But critics say it would lead to toothless regulations.

The House version of the bill, sponsored by Judiciary Chairman Bob Goodlatte (R-Va.), passed in January.

But it's unclear whether Portman will be able to attract enough support from moderate Democrats to overcome a Senate filibuster.

It's one of the GOP's top regulatory priorities and many believe it is more likely to win bipartisan support than other items on their wish list.

"You have the House blistering the Senate with all these bazookas, but the only one that's serious is the Regulatory Accountability Act," said Rena Steinzor, a law professor at the University of Maryland and member of the left-leaning Center for Progressive Reform, who opposes the measure.

### Easing regs on small businesses

The GOP's Small Business Regulatory Flexibility Improvements Act would require federal agencies to consider the impact their rules have on small businesses. Agencies would conduct a "regulatory flexibility" analysis to determine how many small businesses would be affected by rules.

Those that are determined to have a big impact on small businesses would also be subjected to further periodic review.

Proponents say the bill would help small businesses cut through Washington red tape. But critics say it's intended to "help big companies under the guise of helping small businesses."

"We need something that is targeted at real small businesses, like mom-and-pop shops," said Amit Narang, regulatory policy advocate at the left-leaning Public Citizen.

## GOP Lays Out Regulatory Reform Wish List

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The House passed the Small Business Regulatory Flexibility Improvements Act in January. Sen. James Lankford (R-Okla.) has hopes some Senate Democrats will sign on to the Senate version, but so far none have.

### Reviewing Existing Regs

The Searching for and Cutting Regulations that are Unnecessarily Burdensome (SCRUB) Act would establish a commission to review existing regulations. Congress would then vote on whether to repeal outdated and duplicative rules.

President Trump said he plans to cut 75 percent of federal regulations. But the commission's goals are different, aimed at reducing by 15 percent the economic cost of outdated rules.

The House passed the SCRUB Act in January, but it is unlikely to garner enough support from Democrats to pass the Senate.

### Making Congress a regulatory gatekeeper

One of the most controversial reform measures from Republicans would require federal agencies to seek congressional approval before issuing major regulations: The Regulations from the Executive in Need of Scrutiny (REINS) Act.

Critics say it would allow Republicans to kill regulations much more easily, even if they just control one branch of Congress.

Currently, Republicans have the Congressional Review Act, which lets Congress strike down some regulations on the books. But it's only effective when the same party controls both chambers and the White House.

The House passed the REINS Act in January, but even Republicans admit it's a long shot in the Senate.

### Stretching Out the Regulatory Process

Another bill, the All Economic Regulations are Transparent Act (ALERT) Act, aims to shed more light on the rulemaking process.

With limited exceptions, federal agencies would be prohibited from issuing new rules until they have been posted online for six months for public review.

Each month, federal agencies would send a report to the White House's Office of Information and Regulatory Affairs (OIRA), detailing the rules they plan to issue in the coming year. The report would include a summary of each regulation, the estimated costs, and when they expect to issue the rule. OIRA would then post this information online.

Under the ALERT Act, these rules could not take effect until this information has been posted online for six months.

Republicans say it will bring more transparency to the regulatory process, but critics fear it will slow down much-needed protections.

The House passed the bill in January, but it faces a challenging path in the Senate.

The Early Participation in Regulations Act would add additional steps to the rulemaking process.

Currently, federal agencies issue a proposed rule and review public comments, before finalizing the regulation.

Under the Early Participation in Regulations Act, agencies would be required to also issue what's known as an "advanced notice of proposed rulemaking."

This step is currently optional, but the bill would require advanced notice at least 90 days prior to the proposed rule.

Republicans say it will give the public more time to comment, but critics argue it will only prolong the rulemaking process.

Lankford has found one Democratic co-sponsor in Sen. Heidi Heitkamp (N.D.).



## LIFO

### SSDA-AT POSITION PAPER

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SSDA-AT continues to actively lobby Congressional members to save LIFO. We are very active in the LIFO coalition and have been conducting visits on the Hill to express to members the importance of keeping this accounting system alive for tax purposes. LIFO repeal continues to be looked at as an option in tax reform discussions and it is important that we let our elected officials know how important this issue is for many businesses in the tire industry.

Repeal of LIFO would hurt SSDA-AT members and other American businesses. It would significantly hinder the competitiveness of U.S. businesses in the worldwide marketplace by placing a significantly increased tax liability on those companies that use LIFO.

The majority of the businesses using the LIFO inventory method are organized in the form of pass-through entities, such as partnerships or S corporations. The real owners of these entities are taxed at individual tax rates. Any reduction in corporate income tax rates that might accompany a repeal of LIFO would not provide any offsetting relief for pass-through entities. Should this proposal be enacted, the consequences for LIFO taxpayers would be more devastating than any other change to the tax rules.

The “new revenue” that is touted by supporters of LIFO repeal comes in the way of retroactive taxes. Businesses using LIFO would have to pay retroactive income taxes on deferrals they took while using LIFO in the past. Unlike ANY other tax expenditures that have been discussed for elimination, repealing LIFO is the only proposal that would require a business owner to pay taxes retroactively.

Any proposed tax rate reductions would not compensate LIFO taxpayers for the damaging effects to their businesses. Taking LIFO reserves and turning them into taxable income, even spaced out over time, would wreak havoc on cash flows, capital reserves, expansion opportunities and job creation for American businesses using this method of accounting.

Saving LIFO remains a top priority for SSDA-AT.



The logo features the word "SAVE" in a teal, sans-serif font. The letter "A" is replaced by a red triangle pointing downwards. Below "SAVE" is the word "LIFO" in the same teal, sans-serif font.

## Dakota Access Pipeline to Start Interstate Service on May 14

The controversial Dakota Access Pipeline will begin interstate crude oil delivery on May 14, according to a filing with the U.S. Federal Energy Regulatory Commission.



Energy Transfer Partners LP on Thursday filed what is known as a tariff, which lays out details about the line and the oil to be delivered.

The 1,172-mile (1,885-km) Dakota Access line runs from western North Dakota to Patoka, Illinois. The \$3.8 billion project became a focus of international attention, drawing protesters from around the world, after a Native American tribe sued to block completion of the final link of the pipeline through a remote part of North Dakota.

The Standing Rock Sioux tribe said the pipeline would desecrate a sacred burial

ground and that any oil leak would poison the tribe's water supply.

Thousands of protesters demonstrated in North Dakota and Washington, D.C., many staying to support the tribe in a makeshift camp near the pipeline's construction site last fall. Many opponents also said reliance on the pipeline and the petroleum it was intended to carry would exacerbate climate change.

The outgoing administration of Democratic President Barack Obama said it would reconsider the permits issued for the pipeline's route near tribal lands, delaying the project by several months.

But that move was quickly reversed after the inauguration of Republican President Donald Trump in January.

Among Trump's first acts in office was to sign an executive order that reversed a decision by the Obama administration to delay approval of the pipeline.

The tribe also lost several lawsuits aimed at stopping the pipeline.



## Russia Could Soon Control a U.S. Oil Company

In a crazy twist of international events, Russia's state-owned oil company Rosneft might end up owning Citgo, a US energy company based in Houston, Texas.

This isn't a direct takeover. Instead, it hinges on the ability of Venezuela's state-run oil company to pay back its Russian loan. The Venezuelan company owns Citgo, which was used as collateral for the loan.

Both Republican and Democratic lawmakers are highly alarmed. In hotly worded letters to the Trump Administration in recent days, members of Congress and senators warned that it could be a big problem for US national security if Russia gets a hold of Citgo.

"We are extremely concerned that Rosneft's control of a major US energy supplier could pose a grave threat to American energy security, impact the flow and price of gasoline for American consumers, and expose critical US infrastructure to national security threats," a bipartisan group of senators led by Republican Marco Rubio of Florida and Democrat Bob Menendez of New Jersey wrote Monday in a letter to US Treasury Secretary Steve Mnuchin.

All of this comes as tension is high between US and Russia over the conflict in Syria, cyber crime and Russia meddling in US elections, among other disputes. Rosneft is also currently on the US sanctions list for "violating international law and fueling conflict in Ukraine."

How Russia's Rosneft got to this point

This entire situation stems from the fact that Venezuela has been desperate for cash lately. Venezuela's state-run oil company, Petroleos de Venezuela (PDVSA), has owned Citgo since the 1980s. In exchange for a loan from Rosneft in

December, Venezuela's oil company put up a large stake (49.9%) in Citgo as collateral.

If PDVSA can't pay its bills on time, Rosneft will almost certainly get control of Citgo. All Rosneft would need to do is buy a few more of PDVSA's bonds to get over the 50% ownership threshold.

"The Russians have a lot to gain through the PDVSA-Rosneft-Citgo asset transfer to the detriment of US interests," wrote Republican Congressman Jeff Duncan and Democratic Congressman Albio Sires in a letter to Mnuchin on Thursday. "We urge your immediate attention and review of this matter."

Mnuchin is chair of the Committee on Foreign Investment in the United States, which determines whether foreign ownership of US companies or assets is a good idea.

While Venezuela or PDVSA won't run out of money immediately, there is a reasonable chance they will by the end of 2017. That could mean PDVSA won't be able to pay back the Russian loan.

It won't happen this week, says Francisco Monaldi, a fellow in Latin American Energy Policy at Rice University's Baker Institute. "But they may default with their next big payment in October or November."

Russia has a history of playing politics with its oil and gas supplies. It has cut off natural gas to Ukraine several times when it's unhappy with what's going on there. It's one of the key reasons Europe has been trying to wean itself off Russian gas because of national security concerns.



## New York Blocks Another Major Gas Pipeline

The proposed 500mn cf/d (14mn m<sup>3</sup>/d) Northern Access project is the latest natural gas pipeline that regulators in New York have blocked by denying its developers a required water permit.



The New York Department of Environmental Conservation (DEC) on 8 April denied the permit after finding the proposed pipeline failed to avoid adverse impacts to wetlands, streams and fish. The agency raised concerns with

a construction technique that would block the flow of streams when digging trenches for pipelines, rather than a costly method that drills underneath streams.

National Fuel Gas, which is developing the 97-mile pipeline, said water quality effects would be "temporary and minor" and argued the state was trying to set a standard that could not be met by any infrastructure projects that crosses streams or wetlands. The pipeline, planned to come on line in 2018, would transport gas from Pennsylvania to New York, the northeast US and Canada.

New York governor Andrew Cuomo's (D) administration has halted other natural gas pipelines amid pressure from activists and landowners concerned about climate change and environmental damage during pipeline construction. The state's water permit denials have blocked projects already approved by the US Federal Energy Regulatory Commission and are likely to continue under President Donald Trump.

The New York DEC last year used a water permit to block the 628mn cf/d Constitution natural

gas pipeline, which would transport shale gas produced in Pennsylvania to New York and New England. Williams, Cabot Oil & Gas, Piedmont Natural Gas and WGL Holding have challenged the permit denial in court, but even a victory might not force the state to approve a water permit.

And the Millennium Pipeline is suing the New York DEC over allegedly delaying its decision on a water permit needed to build a 126mn cf/d expansion called the Valley Lateral project that was supposed to start construction last year.

One exception is Dominion Energy's New Market expansion project, which will add compression equipment to increase natural gas deliveries by 108mn cf/d into the Iroquois Gas Transmission system and to the Schenectady and Albany area.

New York DEC issued a needed air emissions permit for the project last year. Construction of the \$159mn project started on 28 March and it is expected to be complete by the end of 2017.



## Trump Signs Executive Order Unwinding Obama Climate Policies

President Trump, flanked by company executives and miners, signed a long-promised executive order last week to nullify President Barack Obama's climate change efforts and revive the coal industry, effectively ceding American leadership in the international campaign to curb the dangerous heating of the planet.

Mr. Trump made clear that the United States had no intention of meeting the commitments that his predecessor had made to curb planet-warming carbon dioxide pollution, turning denials of climate change into national policy. At a ceremony, Mr. Trump directed the Environmental Protection Agency to start the complex and lengthy legal process of withdrawing and rewriting the Obama-era Clean Power Plan, which would have closed hundreds of coal-fired power plants, frozen construction of new plants and replaced them with vast new wind and solar farms. "C'mon, fellas. You know what this is? You know what this says?" Mr. Trump said to the miners. "You're going back to work."

Throughout the presidential campaign, Mr. Trump vowed to roll back Mr. Obama's major climate change policies, a set of ambitious E.P.A. regulations to curb greenhouse pollution from coal-fired power plants. He made clear that American leadership in the global campaign against climate change would take a back seat to his commitment to energy industry jobs.

With his order to move forward with the rollback, climate diplomats around the world maneuvered to fill the vacuum left by the exit of the globe's second-biggest climate polluter.

"There are countless countries ready to step up and deliver on their climate promises and take advantages of Mr. Trump's short-termism to reap the benefits of the transition to the low-carbon economy," said Laurence Tubiana, the chief French negotiator of the 2015 Paris agreement, the landmark accord that committed nearly every country to take action to reduce planet-warming emissions.

Over all, the goal of the Paris deal is to keep the planet from warming more than 3.6 degrees, the point at which scientists say the earth will be irrevocably locked into a future of severe droughts, floods, rising sea levels and food shortages.

Mr. Obama pledged that the United States would cut its emissions about 26 percent from 2005 levels by 2025. Car-

rying out the Clean Power Plan was essential to meeting that target.

"This is not the time for any country to change course on the very serious and very real threat of climate change," said Erik Solheim, executive director of the United Nations Environment Program. "The science tells us that we need bolder, more ambitious commitments."

Mr. Trump has not yet decided whether to formally withdraw from the Paris agreement. But by rolling back the policies needed to meet American commitments, the United States essentially announced that it would not comply, whether the nation remains a signatory or not, experts said. "One of the greatest concerns is what other key countries, including China, India and Brazil, will do when the U.S. reneges on the Paris agreement," said Robert Stavins, a professor of environmental economics at Harvard, mentioning some of the world's other largest carbon dioxide polluters.

"The worst-case scenario is that the Paris agreement will unravel," Mr. Stavins said. "That would be a great tragedy."

Diplomats from some of the world's other major economies say they intend to continue carrying out their climate change agreements, with or without the United States. But the Trump administration's moves are likely to embolden opponents of climate action around the world.

At the heart of the Paris accord was a breakthrough 2014 agreement between Mr. Obama and China's president, Xi Jinping, in which the leaders of the world's two largest



# Trump Signs Executive Order Unwinding Obama Climate Policies

*Continued from page 14*

polluting countries agreed to enact policies to cut their emissions. At the time, Mr. Obama offered the Clean Power Plan as evidence that the United States would meet its target.

Their hard-won deal was seen as the catalyst to bring other countries to the table to forge the Paris pact. If Mr. Trump reneges on his predecessor's commitment, it could further fray a relationship that has become more tenuous since his election.

"Getting to that point was not easy," said Kelly Sims Gallagher, an expert on Chinese environmental policy at Tufts University who helped broker the Obama-Xi climate talks. "This undoes many years of work building up trust that the U.S. will honor the commitments it makes at the presidential level."

Mr. Trump is tentatively scheduled to meet with Mr. Xi next week at Mar-a-Lago, his Florida estate.

Mr. Xi has signaled that he is prepared to move forward with his Paris pledge that China's emissions will drop by or before 2030. Speaking at the Davos economic summit meeting in January, Mr. Xi said, "All signatories should stick to it instead of walking away from it, as this is a responsibility we must assume for future generations."

But experts say that without action from the United States, China's efforts to curb emissions may slow. "It may empower business and political interests within China that still opposed climate action," said Alex L. Wang, a legal scholar of Chinese environmental policies at the University of California, Los Angeles.

The same dynamic could play out in India, the world's third-largest carbon dioxide polluter. Prime Minister Narendra Modi worked closely with Mr. Obama on climate change policies, but he did so against internal domestic pressures to prioritize economic development — including the provision of cheap coal-fired electricity to India's rural poor.



Mr. Trump spoke with Mr. Modi by telephone on Tuesday, but aides declined to say if they discussed climate change.

Harsh V. Pant, a research fellow at the Observer Research Foundation, a think tank in New Delhi, said Mr. Trump's order

would give the Indian government political space to delay some of its climate commitments.

"It will slow down a little bit," he said.

Still, it remains to be seen whether Mr. Trump's orders will fully vanquish Mr. Obama's climate change legacy. Legal experts say it could take years for the E.P.A. administrator to carry out the process of withdrawing and revising the climate change regulations, and the process will be hit by legal challenges at every turn. A coalition of states, including New York and California, has already vowed to fight Mr. Trump.

Attorney General Eric T. Schneiderman of New York said he was preparing to challenge any effort to do away with regulations on greenhouse gas emissions. Such a move, he argued, violated the Clean Air Act, as well as established case law.

"If they want to go back into the rule-making process, we believe they are compelled under law to come up with something close to the Clean Power Plan," he said.

"They probably don't want to hear this again," he said, "but if they want to repeal, they have to replace."



## Maryland Governor Signs Fracking Ban into Law

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Maryland Gov. Larry Hogan signed a bill to ban the hydraulic fracturing drilling process known as fracking in Maryland, the first state where a legislature has voted to bar the practice that actually has natural gas reserves.

The Republican governor signed the measure into law about a week after the bill was passed by the Democrat-controlled legislature. Fracking for oil and gas isn't being conducted in Maryland now, but a moratorium was set to end in October, which is when the ban technically takes effect.

Supporters of the ban said it was the first in the nation approved by a legislature in a state that has natural gas underground. Neighboring West Virginia and Pennsylvania allow fracking.

New York has banned fracking by executive order, and Vermont's legislature has passed a ban in a symbolic gesture, because the state doesn't have any oil or natural gas reserves to drill for.

Fracking opponents cited health and environmental concerns. The technique forces pressurized water and chemicals underground to break up rock and release the gas. Critics say the process and disposal of tainted wastewater pose risks of air pollution, earthquakes and property devaluation.

Supporters of fracking contended it could have created jobs in the western part of the state that sits atop the Marcellus Shale, which runs underground from New York to Tennessee. A 2014 Towson University study found fracking could create 3,600 jobs over 10 years in economically distressed Garrett and Allegany counties in far western Maryland.



## Letter to the Editor



### AMERICAN PETROLEUM INSTITUTE

Dear SSDA-AT,

There's a real debate in the energy space. It's a debate over two visions for our energy future.

On the one hand, we have today's energy reality in which the United States leads the world in production and refining of oil and natural gas, and U.S. consumers enjoy almost unprecedented energy security. Drivers saved over \$550 at the pump in 2015, while lower costs for utility bills, products and other energy-related expenses boosted household budgets by \$1337. U.S. industrial electricity costs are 30-50 percent lower than those of our foreign competitors, giving manufacturers a major competitive advantage.

While 80 percent of American voters support increased U.S. oil and natural gas production, a vocal minority are working to obstruct energy development and infrastructure projects, reducing our energy options under a false belief that oil and natural gas production and use are incompatible with environmental progress.

Today, API is releasing a new study that vividly illustrates the reality behind anti-energy rhetoric. Using the EIA's Annual Energy Outlook for 2016, the study explores what would happen if we halted new oil and natural gas leases, banned hydraulic fracturing, prohibited new or expanded coal mines, and stopped building energy infrastructure, including pipelines and import/export facilities. This is what "keep it in the ground" means.

Freezing the American energy revolution in its tracks means the average American household could see its costs jump \$4,550 in 2040 due to increased costs for transportation fuel, electricity, home heating, and goods and services. Electricity prices alone could increase an average 56 percent.

Domestic oil and natural gas production is projected to experience a steep decline, adding costs of \$40 per barrel for crude oil and \$21 per million BTUs for natural gas – taking us back to energy dependency. The U.S. economy could lose a projected 5.9 million jobs. Major energy-producing states would see the worst job losses, while the broader economy could be harmed by increased costs for production and transportation of goods.

It's a stark contrast to today's world, in which U.S. energy leadership is generating major economic benefits for American families and businesses. Shale energy supported 2.1 million jobs in 2012, and that number is projected to increase to 3.9 million jobs by 2025, including 500,000 manufacturing jobs.

Extreme activists would not only erase, but reverse, all those gains, taking the United States back to an era of energy dependence – all based on the false idea that we must choose between energy security and environmental progress. In reality, we lead the world both in reduction of carbon emissions and in production and refining of oil and natural gas. Carbon emissions from power generation have plunged to nearly 30-year lows primarily because of greater availability of clean-burning natural gas.

Even under the most optimistic scenarios for renewable energy growth, oil and natural gas will supply 60 percent of U.S. energy needs in 2040. What's more, projections show worldwide energy consumption will increase by 38.6 percent by 2040 and that 67 percent of that will be met by fossil fuels.

The overwhelming majority of American voters choose 21st century energy abundance over 20th century energy scarcity. With forward-thinking energy policies, we can ensure the U.S. energy renaissance continues to provide benefits for American consumers, workers and the environment.

Sincerely,

A handwritten signature in black ink that reads "Jack".

**Jack Gerard**  
President and CEO  
API



## US Rig Count Increases 15 to 839; Texas up 7

The number of rigs exploring for oil and natural gas in the U.S. increased by 15 this week to 839.

A year ago, 443 rigs were active.

Houston oilfield services company Baker Hughes Inc. said Friday that 672 rigs sought oil and 165 explored for natural gas this week. Two were listed as miscellaneous.



Texas increased by seven rigs, Oklahoma gained four, Wyoming rose by two and Louisiana, New Mexico and West Virginia each gained one.

Alaska lost one rig.

Arkansas, California, Colorado, Kansas, North Dakota, Ohio, Pennsylvania and Utah were all unchanged.

The U.S. rig count peaked at 4,530 in 1981. It bottomed out last May at 404.

## Is oil and gas finally embracing digital?

According to the consultants who whisper in the ears of oil and gas executives, the energy industry is on the brink, finally, of embracing the digital world.

“Digital” has been a buzzword in the energy sector for years. But oil and gas operators have been slow to adopt, focused more on drilling than digital.

Now, it’s the companies themselves approaching oilfield service firms and tech giants and asking for more computing power, more connectivity.

“The way I see it, we are going through the oil-and-gas version of Jerry Maguire’s ‘Show me the money!’” said Vivek Chidambaram, managing director of energy strategy at the Dublin-based consulting firm Accenture. “We have companies saying, ‘I have a problem. Show me what you can do — and then we’ll talk about service plans, etc.’”

The price of digital connectivity has dropped drastically, said Nate Clark, a partner and global digital lead at consulting firm PricewaterhouseCoopers, and quality has improved.

CEOs, Clark said, are becoming champions for digital.

“Culturally, people are expecting things to be sensed now, even embracing it, wanting it,” Clark said. “Five to seven years ago, people thought these were new-fangled toys.”



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