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US Pipeline Politics – Infrastructure in a Treacherous Regulatory Landscape

By Ben McPherson

Oil and gas market prediction, already a difficult art since the shale revolution, is facing a new set of uncertainties. While the administration of President Donald Trump is expected to be good for the fossil fuel industry, it has also brought upheaval. Key questions surround the US pipeline industry, and how they are resolved will have a significant impact on huge new shale developments, the US gas market, and percolate out into the global scene.

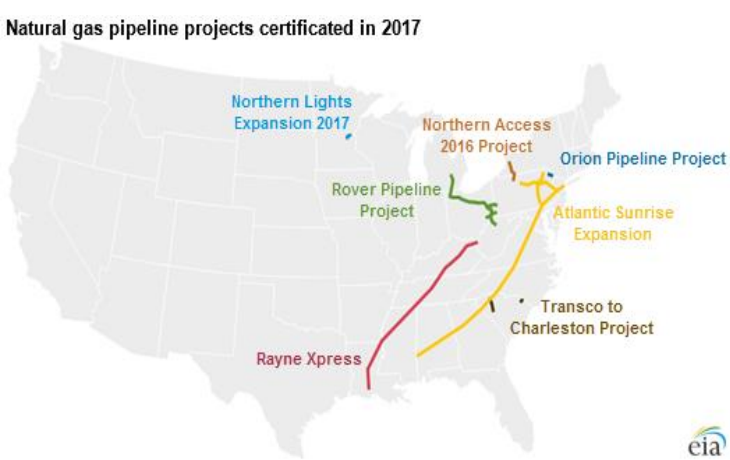
For much of 2016, energy watchers could not have missed the Dakota Access Pipeline protests, which often dominated US news. The line runs from the Bakken oil fields in western North Dakota to southern Illinois, and became the focus of a worldwide protest movement due to the potential of waterway spills and the impact on Native American burial grounds. While protestors had victories throughout 2016, with the project being significantly delayed, the surprise election of Trump quickly led to an Executive Order from the new administration that pushed the project through.

Now, finally, the pipeline is to begin interstate crude oil delivery on May 14, and is already having an impact. In one prominent example, the large east coast refiner, Philadelphia Energy Solutions Inc. (PES), is almost entirely stopping the significant quantities of Bakken crude they have received by rail for the past few years. With Dakota Access in operation, it will be more economical for Bakken supplies to flow south and onward to refineries on the Gulf Coast. Before this development, PES had been taking the rough equivalent of 75,000 barrels a day by rail, and up to three times as much between 2013 and 2015.

Dakota Access and the subsequent domino effects are a prime example of the energy repercussions of the US election, and similar changes are now playing out in projects across the country. In the northeast, the success of environmental 'keep it in the ground' movements have raised fears of infrastructure bottlenecks, especially when residents in cities like Boston and New York City already pay some of the highest prices in the country. A recent report from the U.S. Chamber's Institute for 21st Century Energy is explicit, examining the economic impacts of no new pipeline development and finding that it would keep regional prices high and cost over 78,000 jobs and $7.6 billion in GDP by 2020.

At the same time, development in nearby fields—the Marcellus Shale and Utica Shale in Ohio, West Virginia and Pennsylvania—is booming. US gas production actually fell in 2016, from 79 billion cubic feet (bcf) per day in 2015 to 77 bcf/day in 2016, but the decline was largely in Texas and more mature fields. In West Virginia production rose by 100 million cubic feet per day, and Ohio and Pennsylvania's production each grew by 1.2 bcf/day. Overall, Utica and Marcellus account for 85% of US shale growth since 2012, and the latter two states now account for 24% of US gas production. The US Federal Energy Regulatory Commission (FERC), the governing body for pipelines, announced in mid-April that 43% of new 2016 pipeline capacity went to serving these fields, but much more is needed, particularly directed towards the northeast.

With all that in mind, close attention is being paid to the FERC approval process. As part of the government transition, in January Trump named Cheryl LaFleur acting commissioner of the energy regulatory board. Shortly after, the previous head, Norman Bay, announced his retirement from the commission, leaving just LaFleur and Colette Honorable as two members of a five-member board that requires three for a quorum. On April 28th, Colette Honorable announced that she would not pursue another term after hers expires in June, raising the possibility of a single-member board. Despite energy infrastructure being a seemingly critical priority, the White House has not named new nominees to fill these vacant posts, and, once announced, they will need to go through the confirmation process. There are only rumors of three potential picks: Mitch McConnell's former adviser, Neil Chatterjee, Jones Day lawyer Kevin McIntyre, and Pennsylvania Public Utility Commissioner Robert Powelson.



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Happily, for industry proponents, three major projects were approved before the transition, one just before the buzzer. The $3 billion Atlantic Sunrise natural gas pipeline expansion, from Williams Cos., was approved just before Norman Bay's resignation and the loss of quorum. The 200-mile line runs from Pennsylvania shale country south, towards Baltimore. The company hopes to have new gas flowing in time for the 2017-2018 winter season, and also hopes to bolster their stock, which took a beating in 2016 due to regulatory delays.

The Rover Pipeline, from Energy Transfer Partners, owners of the Dakota Access Pipeline, was also approved in February. Construction began in April, with the planned 713-mile line running from shale country near the Pennsylvania/Ohio/West Virginia border up to Michigan and Canada. Two weeks after construction started, the project is already in the news for spilling drilling mud—50,000 gallons in one incident, and an estimated 2 million gallons spilled in another. Drilling mud like this is typically water and clay (bentonite) based and non-toxic, but spills still impact water quality, require cleanup, and are a public-relations black eye coming from the same company that owns Dakota Access. This project is scheduled for service by mid-2017.

Finally, the other major initiative that was approved in January is TransCanada's Leach XPress and Rayne Xpress, a linked connectivity and compressor station project that will enhance existing routes leading from the Marcellus and Utica fields to Louisiana. The two combined are a planned $1.8 billion investment, with a November 1st, 2017 in-service date.

While promising new markets, opportunities for gas field development, and work for the pipeline industry, none of the approved projects addresses the hungry markets of the northeast. More than fifty other projects are in various stages of the FERC process or have submitted filings, and final approval on all of these is frozen as FERC waits on commissioners to be nominated by the White House.

The primary commentary President Trump gives on the matter is repeated calls to build American pipelines with American steel, a tie-in with his often protectionist rhetoric. Instead of emboldening energy companies, this proposal quickly raised red flags. Numerous oil and gas trade groups have issued warnings, arguing that such a proposal will raise prices and hurt jobs. Energy Transfer Partners, of the Dakota Access and Rover pipelines, stated that sourcing material for just three of their planned projects would exhaust the entire domestic supply. When analysts took a closer look at the idea, they found that there are about 40 to 50 mills worldwide that make appropriate strings of pipe, about half located in the US. However, of those, only eight are capable of making pipes of 30 inches' diameter or more, only three can do so while meeting certain thickness standards, and zero American mills currently make pipe to the largest and most advanced specifications. Steel makers are quick to claim that they could rise to meet the challenge, but such industrial retooling and development would cause massive disruptions for the next few years of pipeline projects.

In sum, the US gas market, and therefore the pipeline industry, is looking rosy, with demand rising, storage excess decreasing, and prices up more than 50% over the last year. The northeast, in particular, is gas-hungry and has ample room for infrastructure and market development, and companies in the Marcellus Shale and Utica Shales are eager to capitalize. Unfortunately, vacancies at FERC have put an unusual freeze on timetables, and no one can predict when this administration will fill the voids.