

President Trump's Executive Action Revives Controversial Keystone XL Project

New Infrastructure Priorities Will Boost both Fossil Fuels and Renewables despite Lingering Uncertainty

January 31, 2017

JANUARY 24 MEMORANDA AND EXECUTIVE ORDER BY TRUMP

On January 24, 2017, President Donald Trump issued **memoranda to advance the controversial Keystone XL and Dakota Access pipelines** and an **Executive Order to expedite environmental review for priority infrastructure**. In addition, President Trump issued a memorandum directing the use of **U.S.-made equipment and material** for all new, expanded, or retrofitted pipelines in the U.S. Expedited approval process for infrastructure projects implies that several oil and gas projects that were delayed or rejected during the previous administration will likely be revisited. Grid modernization and transmission expansion will support large-scale wind which is particularly dependent on transmission infrastructure to connect with load centers.

1

Memorandum on Keystone XL

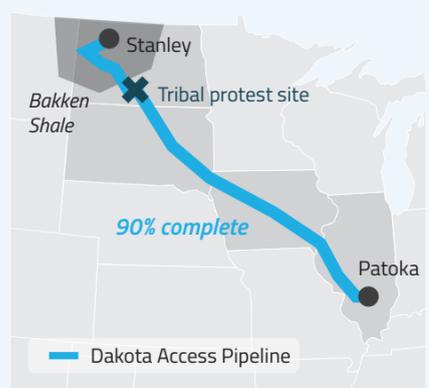


- Invited TransCanada to reapply for presidential permit**
- TransCanada reapplied on January 26**
- State Department must decide within 60 days**
- The 1,179-mile pipeline connecting Canada to U.S. Gulf Coast refineries was **rejected by former President Barack Obama in 2015** as it would not serve the national interest. Environmentalists have raised concerns over damage to water supplies, relatively high carbon intensity of oil sands, and energy-intensive refining procedures.

Although the pace of Trump's executive actions signal the Administration's determination to address its priorities, it raises questions on how the concerned agencies will implement them, with regard to the extent to which necessary reviews will be conducted. For example, it is unclear on how the permit process will bear on **TransCanada's \$15 billion claim against the U.S. under the North American Free Trade Agreement**. In addition, there are questions on the extent of using **domestically manufactured materials**. In 2012, TransCanada said that 75 percent of the pipe used for the project in the U.S. would come from North American mills, including half made by U.S. workers.

2

Memorandum on Dakota Access



- Directed federal agencies to expedite remaining approvals**
- Directed the Army Department to consider whether to resume construction pending an environmental impact statement**
- EIS is under way and open for public comment until 2/20**
- On December 4, 2016, the Department of the Army **denied the approval of easements for the proposed pipeline based on the need to explore alternative routes** that would be accomplished through an EIS with public input and analysis. The current proposed route would cross Lake Oahe, an Army Corps of Engineers project on the Missouri River. **The Standing Rock Sioux Tribe, which has strongly protested the DAPL route** due to the threat posed to their water supply, said that the executive action disregards their treaty rights. Observing that the memorandum calls for actions to the extent permitted by law, the Tribe noted that the Army Corps of Engineers currently lacks statutory authority to issue the easement as it has committed to the EIS process.

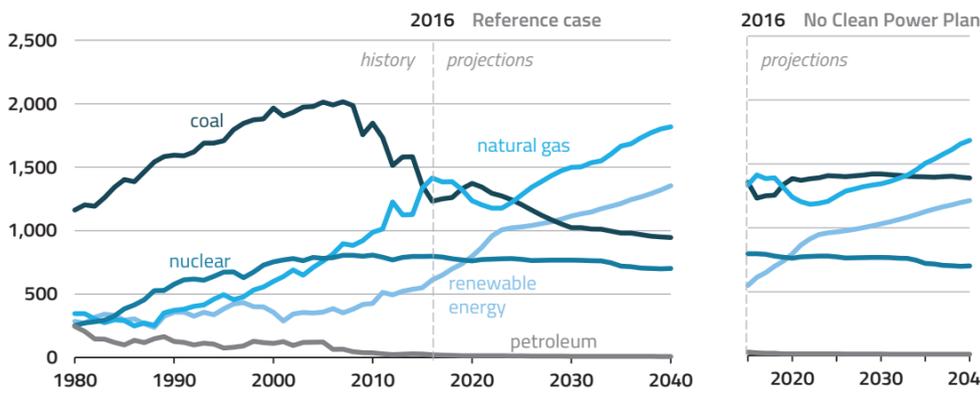
According to the memorandum, the Army Corps of Engineers may continue the process for a new EIS or halt the process as unnecessary to advance the project under existing EIS and permits; **allowing the project should have a strong legal basis in anticipation of litigation.**

4

Renewables in the Months Ahead

The perceived skepticism on renewable energy belies market realities given the continued growth in renewable energy alongside natural gas in recent years. The Energy Information Administration's 2017 Annual Energy Outlook projects that **natural gas and renewables will be the primary sources of new electricity generation in the absence of the CPP**. EIA projects that future generation mix will be sensitive to natural gas prices and growth in electricity demand. State level policies and federal tax incentives have shaped the growth of the renewable energy industry. In December 2015, **renewable energy tax credits were extended for five years in a bipartisan decision, which will likely protect them**. Although the future of the tax credits beyond 2020 remains uncertain, the looming deadlines will continue to boost renewable growth for timely commencement of projects to benefit from the incentive.

U.S. net electricity generation from select fuels, TWh



Source: EIA

BOTTOM LINE

Coal: Policy vs Markets

Coal will face fewer regulatory and environmental restrictions under the Trump administration, which will likely keep the existing coal fleet operating for longer. The Trump Administration will presumably ease the process for leasing on federal lands, a move that could spark legal challenges. Meanwhile, coal is facing a setback in its major market, the electricity sector, due to competition from low-carbon and low-cost natural gas as well as renewables, primarily wind power. Coal-fired generation has experienced a steady decline since 2009 due to stiff competition from lower-cost natural gas. In April 2015, natural gas-fired generation surpassed coal and the generation share of both the fuels remained almost equal in 2015, with each providing approximately one-third of total generation.

States Seeking Reliability

States and grid operators have already taken efforts to address reliability in the changing power sector faced with renewable and DER proliferation and growing natural gas generation. For example, New York and Illinois have facilitated financial support for nuclear plants based on their zero-carbon attributes. California, Vermont, New York, and Oregon have strong renewable energy standards, with Hawaii targeting 100 percent renewables by 2045. In yet another example of proactive state approaches, California has expedited energy storage deployment to address natural gas shortages after a massive 2015 leak in the Aliso Canyon storage facility. Regional grid operators are exploring ways to integrate increasing levels of intermittent renewable generation, which is moving towards grid parity.

States in the Spotlight

Moving forward, uncertainties in the power sector due to Trump Administration decisions will shift more action to states. Efforts are already underway to address grid reliability as natural gas and renewable generation are expected to continue their growth. While oil producers are expected to benefit from the controversial pipeline routes, procedural and legal hurdles will serve to address issues beyond climate change, including project siting, eminent domain, water-supply protections, and market conditions.

Infrastructure

President Trump issued an Executive Order to expedite environmental review and approvals for **high priority infrastructure grid projects, including electric grid improvements and pipeline upgrades**. It provides a 30-day period for the Chairman of the White House Council of Environmental Quality, upon requests from state governors and executive agencies, to decide whether an infrastructure project qualifies as high priority. **The action intends to address delays and inadequacies in review and permitting processes that have been holding back critically important projects to modernize the nation's infrastructure. Projects to be revisited include:**

- Jordan Cove LNG
- Atlantic Sunrise project
- Gateway Pacific coal terminal
- PennEast Pipeline
- Atlantic Coast Pipeline

Projects to be prioritized:

- Plains and Eastern transmission project
- Hydroelectric plants operated by U.S. Army Corps of Engineers
- Chokecherry and Sierra Madre wind project
- Champlain Hudson Power Express hydro
- TransWest Express transmission line



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