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Morning Energy

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Big oil's day on the Hill

By **MATTHEW CHOI** | 04/06/2022 10:00 AM EDT

Presented by AVANGRID

With help from Alex Guillén, Doug Palmer, Kelsey Tamborrino and Josh Siegel.

Editor's Note: *Morning Energy is a free version of POLITICO Pro Energy's morning newsletter, which is delivered to our subscribers each morning at 6 a.m. The POLITICO Pro platform combines the news you need with tools you can use to take action on the day's biggest stories. Act on the news with POLITICO Pro.*

QUICK FIX

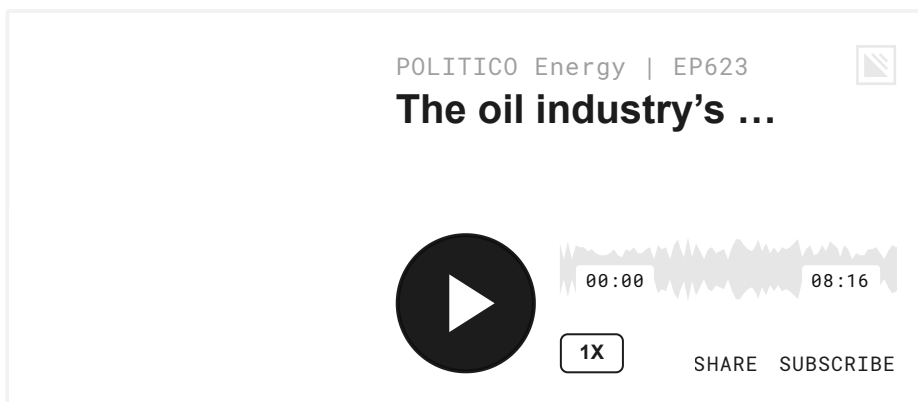
— **Big oil's top executives will testify before Congress this morning**, and Democrats and Republicans are set to face off on the causes of the country's high gasoline prices.

— **EPA Administrator Michael Regan will defend his agency's budget request** in the Senate, stressing the need to finance EJ and climate prioritize, as well as revitalize an agency gutted under Trump.

— **EPA is trying its hand at banning asbestos again**, this time with new Congressional regulatory authority.

HAPPY WEDNESDAY! I'm your host, Matthew Choi. Congrats to Exxon Mobil's Jennifer Linker for knowing Addis Ababa Bole International Airport is the busiest airport in East Africa. For today's trivia: How many stars are on the EU flag? Send your tips and trivia answers to mchoi@politico.com. Find me on Twitter [@matthewchoi2018](https://twitter.com/matthewchoi2018).

Check out the POLITICO Energy podcast — all the energy and environmental politics and policy news you need to start your day, in just five minutes. Listen and subscribe for free at politico.com/energy-podcast. On today's episode: The oil industry's defender.



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DRIVING THE DAY

BIG OIL IN THE BIG SEAT: The House Energy and Commerce Oversight Subcommittee gets some face time with the top dogs of the country's biggest oil producers today. In floor

speeches and committee hearings for weeks, Democrats have accused companies of prioritizing investor profits over consumer welfare, riding high crude oil prices from the post-vaccine economic recovery to collectively make more than \$76 billion in profit last year while drivers bear the brunt of high gasoline prices.

Republicans will attribute rising gasoline prices to the Biden administration's climate and energy policy, including the shutdown of the Keystone XL Pipeline and last year's pause on federal oil and gas leases. They'll also point to the influx of federal dollars' impact on the country's ballooning inflation reflected at the pump.

In the hot seat will be BP America's David Lawler, Chevron's Michael Wirth, Devon Energy's Richard Muncrief, Exxon Mobil's Darren Woods, Pioneer Natural Resources' Scott Sheffield and Shell USA's Gretchen Watkins, as well former Trump National Security Adviser H.R. McMaster, now a senior fellow at the Hoover Institution.

Expect lots of talk about how the price of crude is the biggest driver of gasoline prices, and how oil prices are set on the global market, not by the companies that drill the wells. Many of these oil companies are ramping up production in response to the surge in prices after Russia's invasion exacerbated an already tight market, but the increase has been slower than might otherwise be expected. Oil companies have complained they are hamstrung by equipment shortages and the tight labor market.

In a preview of arguments likely to resurface in today's hearing, Kathleen Sgamma, president of the Western Energy Alliance, told the Senate Commerce Committee on Tuesday that the administration's signals toward the fossil fuel industry have had a chilling effect on investors who fear their money could go into projects that will get stopped by future regulations — particularly for smaller domestic drilling operations. And an industry source who has been in contact with some of the oil firms ahead of today's hearing stressed that the companies will flatly reject that they are engaging in price gouging.

Exxon's Woods warned a year ago that oil prices were primed for a surge, telling CNBC at the time that decreased investment in 2020 due to the pandemic-driven demand plunge would erode the nation's production capacity and drive up consumer prices when demand returned. U.S. refinery capacity — which actually turns the crude into usable liquid fuels — dipped in 2020 as five refineries, with a combined capacity of 801,146 barrels per day, halted operations following the drop in demand.

Still, the companies enjoyed one of their most profitable years last year, including Exxon Mobil showing record quarterly profits from the surge of global crude

prices. Democratic leadership on the House Oversight Committee urged the oil producers to use their windfall profits to invest in renewable energy, and Democrats including Sens. Tammy Duckworth (Ill.), Elizabeth Warren (Mass.) and Tammy Baldwin (Wis.) are working on bills to ban price gouging during international crises.

All that aside, the biggest winner in these hearings so far has been the political theater. Lawmakers in the Senate Energy, EPW and Commerce committees have all held hearings on the topic in recent weeks, and some of the questioning is becoming like a broken record at this point. That presents a risk for Democrats who worry about how high gas prices will affect the results of the November election. But party moderate and committee member Scott Peters (D-Calif.) said the party should focus on finding solutions.

“Blame is what you do when you’re losing, and I don’t think we should start there,” he told POLITICO's Josh Siegel.

ON THE HILL

REGAN JUSTIFIES HIMSELF: EPA Administrator Michael Regan goes before the Senate Environment and Public Works Committee today to defend the administration’s \$11.9 billion budget request for the agency. Regan plans to stress the agency’s work on environmental justice, tackling climate change, updating infrastructure and restaffing the agency that suffered a personnel exodus during the Trump years.

“Over the last year, we’ve made important progress toward many of these goals,” Regan plans to say according to a draft of his testimony shared with ME. “But there is still much more work to do to ensure that all our children have safe, healthy places to live, learn, and play; to build a stronger, more sustainable economy; and to advance American innovation and ingenuity.”

The White House proposal requests a 25 percent increase over the fiscal 2022 omnibus package to put the agency budget at \$11.9 billion, a level that ME would be shocked if Congress grants this fiscal year.

IN CASE YOU MISSED IT: Rep. Fred Upton (R-Mich.) is calling it quits and won’t run for reelection this year. He was among the 13 House Republicans who voted for the bipartisan infrastructure package last year. Alex Daugherty has more for Pros.

AROUND THE AGENCIES

SAYONARA, ASBESTOS: EPA has once again proposed banning almost all remaining ongoing uses of asbestos, more than three decades after its prior attempt was slapped down by the courts. Things are a little different this time around, though; far fewer industries use the fibers, and EPA has new regulatory authority thanks to Congress's 2016 overhaul of the Toxic Substances Control Act. While anti-asbestos advocates were pleased with the proposal, they still called on Congress to put the nail in the coffin and pass a legislative ban, as well. Alex Guillén has more on EPA's landmark proposal.

The announcement is the latest push from EPA's Office of Chemical Safety and Pollution Prevention, led by Michal Freedhoff, a former Hill staffer who worked on the 2016 Toxic Substances Control Act reauthorization.

Industry unhappy: Raw asbestos has only one remaining use in the U.S., in the production process at about one-third of chlorine-producing plants. Facing a \$1.8 billion upfront capital cost to convert, chemical industry groups came out swinging against EPA's proposal.

The American Chemistry Council called on EPA to withdraw the proposed ban, arguing that its use in chlor-alkali manufacturing is safe for workers and that the ban risks restricting supplies of chlorine, which is used to treat drinking water and in a host of products and applications. In addition, Marty Durbin, president of the U.S. Chamber's Global Energy Institute, called on EPA for "a more realistic approach."

TAI URGES MEXICO TO STOP 'CONCERNING' ENERGY ACTIONS: U.S. Trade Representative Katherine Tai has urged the Mexican government to reverse course on a series of energy policy changes that she said appear to violate the USMCA and threaten "over \$10 billion in U.S. investment in Mexico, much in renewable energy installations."

"In the spirit of partnership, and continued serious desire to strengthen our joint competitiveness, I want to inform you that I will be considering all available options under the USMCA to address these concerns," Tai wrote in a Mar 31 letter to Mexican Economy Minister Tatiana Clouthier. "I therefore urge your Government to discontinue these concerning actions and ensure the rights of U.S. investors and exporters are protected."

The letter was first reported by the Mexican news organization Reforma and a copy was later obtained by POLITICO. It echoes statements Tai made last week in testimony on Capitol Hill, while providing a few more details. "Unfortunately, while we have tried to be constructive with the Mexican government in addressing these concerns, there has been no

change in policy in Mexico, and U.S. companies continue to face arbitrary treatment,” she wrote.

WELL THIS IS AWKWARD: The Biden administration is looking to increase Canadian oil imports to offset the loss of Russian energy — but they’re hung up on how to expand transit capacity without resurrecting the Keystone XL pipeline, The Wall Street Journal reports.

ME can only imagine the political cacophony if they did that. But analysts tell the Journal that expanding the pipeline network would offer a far more efficient transit option than costly rail and that current transit capacity is a major impediment to meeting U.S. demand.

“There’s not a limitation in terms of resource potential,” Kevin Birn, an analyst with S&P Global Commodity Insights, told The Journal. “There’s a limitation of capacity.”

Still, the Keystone XL pipeline was only 8 percent built by the time Biden pulled the plug last year, and it would not be able to come online in time to meet the immediate demands from the Ukraine crisis.

BEYOND THE BELTWAY

WIND COMPANY PAYS \$35 MILLION OVER EAGLE DEATHS: A subsidiary of NextEra Energy will pay over \$35 million to settle violations of the Migratory Bird Treaty Act at its wind farms in Wyoming and New Mexico. ESI Energy Inc. pled guilty to the three counts over golden eagles killed by blunt force trauma after striking wind blades, though at least 136 bald and golden eagles have been killed by a blade strike at 50 different ESI facilities since 2012, according to DOJ. The settlement includes a \$1.9 million fine, \$6.2 million in restitution and \$27 million on mitigation measures and payments for future eagle deaths.

ESI also has three years to apply for "take" permits for the 50 facilities, which will require operational changes to reduce risk to protected birds that many other wind farms have already taken. The Trump administration changed its longstanding MBTA policy to prohibit prosecution of companies conducting otherwise lawful activities — and in fact, the company avoided restitution for 13 eagles killed last year before the Biden administration repealed the rule.

RUSSIAN OIL IS STILL IN PLAY: The European Union isn't banning oil imports from Russia under its latest sanctions plan, focusing instead on the country's small coal imports into the bloc. The move indicates that an oil ban, which would be devastating for Russia, is likely not going to be in play any time soon, with German officials spurning the idea because of their current dependence on Russian fossil fuels.

One German official told POLITICO's Barbara Moens that it would take months for the country to get into a position to quit Russian oil, and that banning gas imports was simply impossible. Read more from Barbara.

PENNSYLVANIA RGGI SAGA: Pennsylvania had been close to joining the Northeastern carbon market after Republicans failed to block the proposal in the commonwealth's senate, POLITICO's Jordan Wolman reports, but the state will have to wait a bit longer after a court paused the process. Membership in the trading block was a major climate goal for Gov. Tom Wolf, and Pennsylvania would be the first big fossil energy-producing state to join.

UNITED CEO PRESSES FOR SAF CREDIT: United Airlines CEO Scott Kirby called on congressional leaders Tuesday to "take prompt action" to combat climate change by passing the proposed tax credit for sustainable aviation fuel. The House-passed budget reconciliation package included a refundable SAF tax credit that would begin at \$1.25 per gallon for blenders, which Kirby called "the most important action we can take in the near term" with respect to aviation. "Scaling SAF quickly is critical to reducing aviation's climate impact. However, the high costs of SAFs compared with fossil fuel is a major barrier to their production and use," he wrote.

A message from AVANGRID:



THE GRID

- “Cuba struggles to buy fuel as imports from Venezuela dwindle,” via Reuters.
- “Chevron Looks to Reduce Operating Expenses as It Steps Up Production,” via The Wall Street Journal.
- “Solar trade group finds widespread product cancellations and delays due to tariff probe,” via POLITICO.
- “Forecasters Face Loss of Data as Weather Balloon Flights Are Cut,” via The New York Times.

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