

S&P Global Platts Insight

December 2018



S&P GLOBAL PLATTS
GLOBAL ENERGY AWARDS
Celebrating 20 years

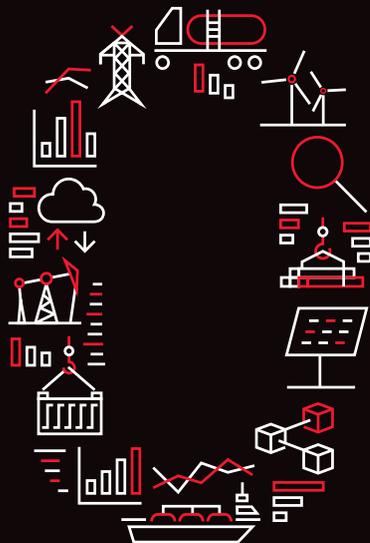
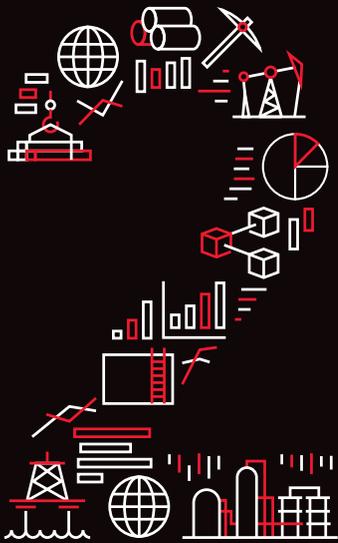
The five themes
to watch next year

US midterm
elections:
energy impact

How blockchain
could disrupt
commodities

Disruptors,
dealmakers and
new developments

Looking ahead to



What do the midterms mean for energy?

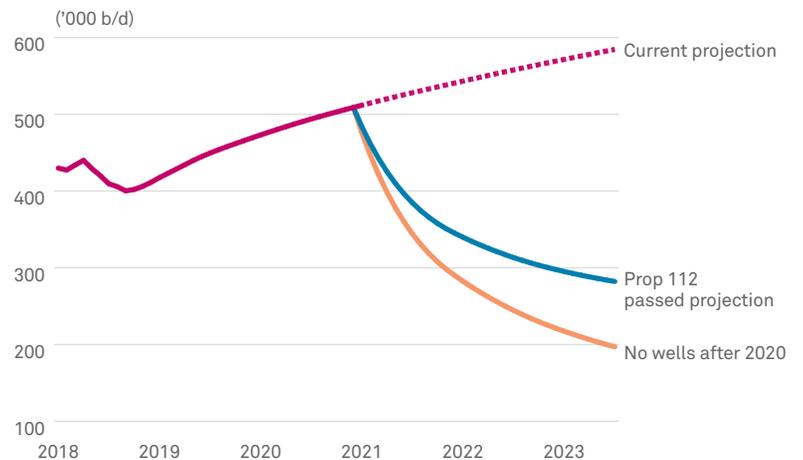
From ballot measures to statehouses, what do the results of November's US midterm elections mean for oil, gas and power markets? Kate Winston and Maya Weber report

On November 6, US voters shied away from key statewide environmental initiatives that would have imposed near-term costs on oil, gas and traditional utility interests. But they backed candidates, including nine new Democratic governors, with aggressive renewable energy and environmental goals. Advocates may now look to states fully under Democratic control, such as Nevada, New Mexico and Colorado, to take quick action on clean energy, since divided government at the federal level lowers prospects for this in Washington.

The defeated

Several green ballot initiatives offered critical test cases, and their defeat could discourage other states from pursuing similar measures. Washington's carbon fee and Colorado's drilling setback were seen as bookending what is politically possible at the moment.

Proposition 112 estimated impact to DJ Basin oil production



Source: S&P Global Platts Analytics

Washington Initiative 1631 would have been the first carbon fee in the US. If passed, it would have set a carbon fee of \$15/mt starting in 2020 and boosted costs for oil refineries, gas-fired power plants and other large users of fossil fuels.

Colorado Proposition 112 would have increased oil and gas drilling setbacks on non-federal land from 500 feet to 2,500 feet. The measure, strongly opposed by the oil and gas sector, could have reduced oil production in some basins by more than 50% by 2023.

If the Colorado measure had passed in a state that leans heavily on industry revenue, it could have been copied elsewhere. The failure of the Washington measure in a state with low carbon intensity suggests it could be a heavy lift elsewhere.

“We viewed both states as litmus tests for potential policy contagion,” ClearView Energy Partners said in a post-election note. “In Colorado, where proceeds from a fast-growing oil and gas industry fund schools and local governments, voter support for a de facto drilling ban could have pointed towards emulation by other, less-revenue-reliant producer states,” the note said.

Carbon tax

Scott Segal of Bracewell said Washington state has a balance of urban and rural voters, and of conservative and liberal voters. As a result, there were two well-funded sides battling over a fairly aggressive carbon tax. “It in many respects was a test case for the politics of the carbon tax on what I would call neutral ground,” he said in a post-election webinar.

But Tom Steyer, founder of the nonprofit NextGen Climate Action, pushed back against the narrative that the failure of the Washington initiative means a carbon fee would be politically infeasible at the national level. “I don’t think that for a second because obviously the largest, most populous state in the United States is California and we have a comprehensive plan,” Steyer said at a post-election event.

Environmental advocates blamed the defeat of some initiatives on industry spending. Advocates spent \$15 million backing the Washington initiative while opponents spent about \$30 million to defeat it. Proponents of the Colorado initiative spent \$1 million and opponents spent \$30 million.

Industry groups countered that some initiatives failed when put to the test by voters. “Where energy bans were on the ballots, many of them failed when it was put to a vote of the people,” said Benjamin Marter, communications director for the American Petroleum Institute.

Elsewhere, Alaska voters also shot down Ballot Measure 1, which would have strengthened permitting regulations for any activity that could affect salmon habitats. Oil and gas producers said the rules could delay projects and increase costs, potentially prohibiting developments on the state’s North Slope and elsewhere.

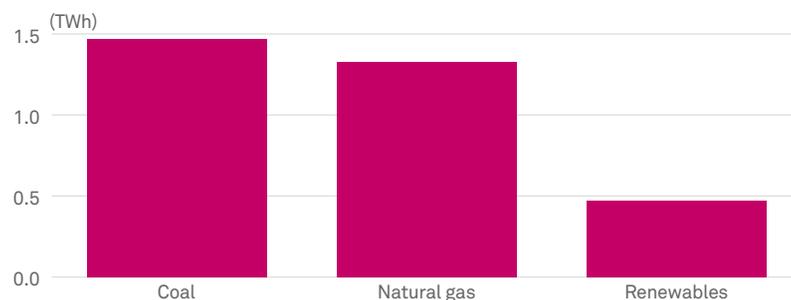
Renewable gains

While several high-profile ballot initiatives disappointed environmental groups, their policy goals gained ground in governors’ mansions. Seven switched to Democratic hands.

The League of Conservation Voters tallied nine new governors who committed to move their states toward 100% clean energy: Tony Evers of Wisconsin, Gretchen Whitmer of Michigan, J.B. Pritzker of Illinois, Janet Mills of Maine, Jared Polis of Colorado, Kate Brown of Oregon, Gavin Newsom of California, Steve Sisolak of Nevada and Ned Lamont of Connecticut.

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New Mexico electricity generation by source, July 2018

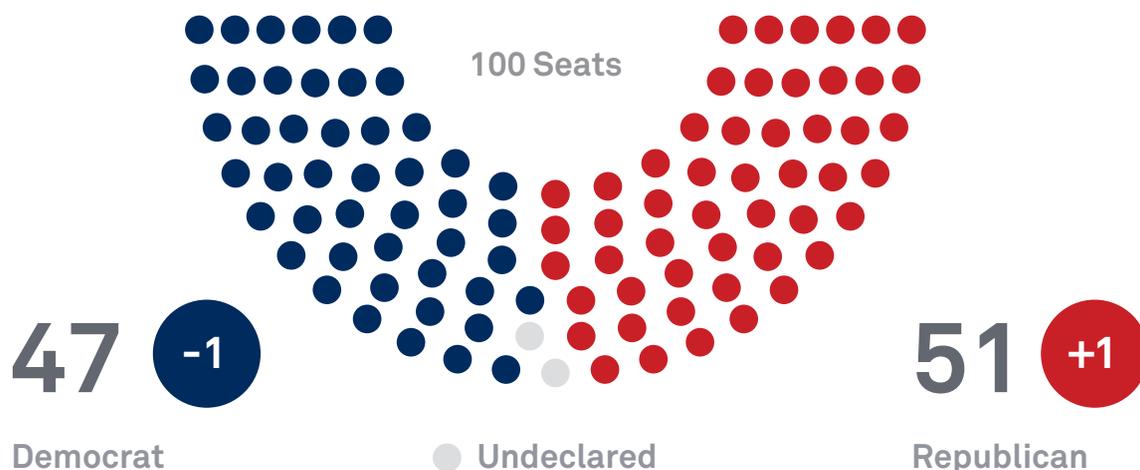


Source: Energy Information Administration

Midterms 2018: Fractious election yields mixed results for energy

Control of Congress

Senate Results



Energy ballot measures

ALASKA

BALLOT MEASURE 1 63%

Oil and gas producers in Alaska will not face more onerous permitting requirements for development. The measure was intended to protect salmon habitats.

COLORADO

PROPOSITION 112 55%

The oil and gas drilling setback requirement will remain 500 feet, not be extended to 2,500 feet, with this so-called "de facto drilling ban" defeated.

NEVADA

QUESTION 3 67%

Nevada will continue to be served by vertically integrated electric utilities rather than transitioning to a competitive, market-based structure.

ARIZONA

PROPOSITION 127 69%

Arizona utilities will not have to supply half of their power from renewable sources by 2030. The 15% by 2025 renewables mandate remains in place.

FLORIDA

AMENDMENT 9 69%

With a single amendment, Florida banned both oil and gas drilling in state waters and indoor vaping. There is currently no hydrocarbon production.

QUESTION 6 59%

Nevada electricity suppliers will be mandated to supply 50% of their electricity from renewables by 2030, requiring the build-out of new solar capacity.

CALIFORNIA

PROPOSITION 6 56%

Motorists will continue to pay the 12-cent/gallon gasoline tax and 20-cent/gallon diesel tax this measure would have repealed. The proceeds will help fund mass transit and infrastructure projects.

MISSOURI

PROPOSITION D 54%

Motorists will not pay 2.5 cents/gallon more gasoline tax each of the next four years with the tax rising to 27 cents/gallon in 2022.

WASHINGTON

INITIATIVE 1631 56%

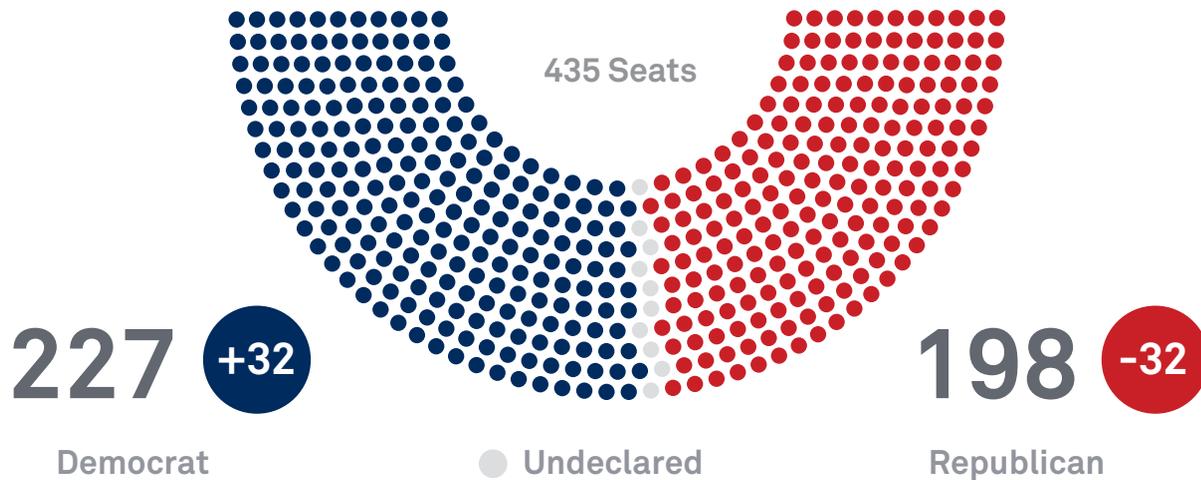
This first of its kind in the US carbon emissions fee would have increased operating costs for oil refineries, natural gas-fired power plants and other carbon emitters.

Note: Election results as of November 13 at 2pm EST
Source: RealClearPolitics, State Reports, S&P Global Platts

After the dust settled on an unusually contentious US midterm election November 6, Democrats had taken control of the House of Representatives, Republicans had held their control of the Senate, and voters had their say on a plethora of races and ballot measures with significant implications for oil, natural gas and power markets. In California and Missouri, gasoline tax increases were rejected, while Colorado voters rebuffed new limits on oil and gas drilling and Washington voters denied a carbon tax. The election brought mixed results for renewable energy-related initiatives and gubernatorial candidates who backed ambitious clean energy goals.



House Results



Key State Races

GOVERNOR RACES

COLORADO

52.3% to 44%

Jared Polis (D) defeats Walker Stapleton (R)

Polis's election brings promise of 100% renewables by 2040 and more stringent controls on development of public lands.

GOVERNOR JARED POLIS

MICHIGAN

52.8% to 44.3%

Gretchen Whitmer (D) defeats Bill Schuette (R)

Whitmer has vowed to shut down Enbridge's aging 540,000 b/d Line 5 pipeline, which transports crude oil and NGLs from Canada's oil sands.

GOVERNOR GRETCHEN WHITMER

NEW MEXICO

56.9% to 43.1%

Michelle Lujan Grisham (D) defeats Steve Pearce (R)

Lujan Grisham is more likely to implement drilling restrictions including methane emissions regulation in the No. 3 top oil-producing state.

GOVERNOR MICHELLE LUJAN GRISHAM

NEW YORK

59% to 36.8%

Andrew Cuomo (D) defeats Marc Molinaro (R)

Cuomo will continue to make natural gas pipeline permitting more challenging, and the state's now left-leaning Senate could bring life to more aggressive renewables targets.

GOVERNOR ANDREW CUOMO

US SENATOR RACE

TEXAS

50.9% to 48.3%

Ted Cruz (R) defeats Beto O'Rourke (D)

Cruz is expected to continue his defense of the oil and gas industry in the US Senate, including opposition of the Renewable Fuel Standard. Texas' production has surged over 40% in the last year.

SENATOR TED CRUZ

"The strong Republican showing in the Senate suggests that a green agenda will face headwinds at the federal level for a while to come, even as Democratic pickups of state-houses suggest that more states will become active in this space."

— Roman Kramarchuk, S&P Global Platts Analytics

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Michelle Lujan Grisham in New Mexico, another Democratic governor pickup, is expected to tighten venting and flaring requirements for oil and gas production, in addition to backing 50% renewables by 2030 and 80% by 2040.

Governor-elect support for clean energy goals overlaps with six states in which Democrats moved from divided control to holding the governorship and both chambers of the state legislature: Colorado, Illinois, Maine, New Mexico, New York and Nevada. The combination increases the likelihood of measures advancing.

That makes a difference in places like Colorado, where Senate Democratic control combined with the election of a governor who has backed 100% renewable energy by 2040 and favors tighter regulation of the oil and gas industry.

The New York state Senate flip to Democratic hands also could give life to more ambitious renewables goals than embraced by Democratic Governor Andrew Cuomo. The push for a higher concentration of renewables “will be baked into the nationwide platform approaching 2020 and beyond” in the Democratic Party, said Rob Rains of Washington Analysis.

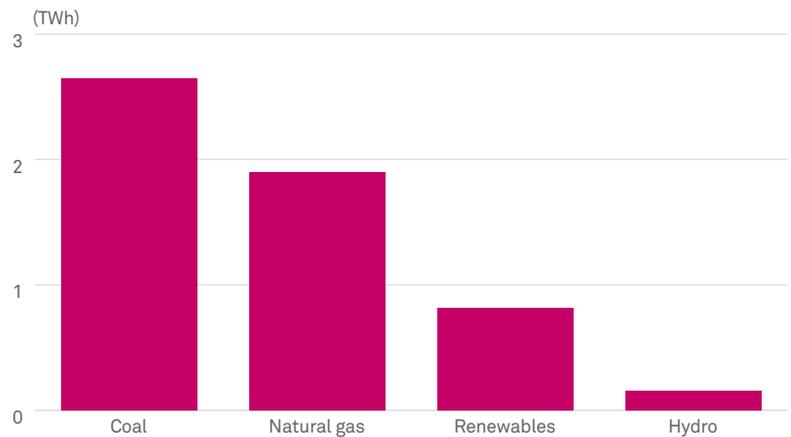
Dan Lashof, director of the World Resources Institute–United States, said after the election he sees Colorado, Nevada and New Mexico as poised for quick action on renewable standards. Wisconsin experienced the biggest ideological shift, Lashof said, with Democrat Tony Evers unseating Republican Governor Scott Walker, while Michigan and Illinois governors-elect could strengthen the existing goals on renewables.

With no action on climate legislation at the federal level, many environmental groups are focusing on state-level and sector-specific progress, Michael Brune, executive director of the Sierra Club said. “The commitments on 100% clean energy coming from these governors, we feel will be deeply transformative.”

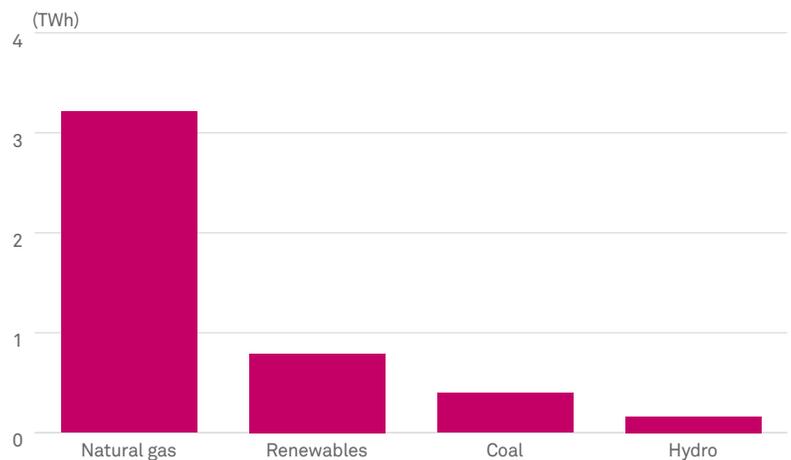
Going in a different direction, Ohio elected Republican Attorney General Mike DeWine, improving prospects for efforts to relax renewable mandates.

Results were mixed for ballot initiatives to raise renewable energy targets. Arizonans rejected a ballot

Colorado electricity generation by source, July 2018



Nevada electricity generation by source, July 2018



Source: Energy Information Administration

initiative to require electric utilities to get 50% of their power from renewables by 2030. Arizona Public Service fought the measure, saying it could force the 3.9 GW Palo Verde nuclear plant to retire early.

A Nevada initiative to increase the state’s renewable portfolio standard to 50% by 2030 won easily with 60% of the vote, despite the state’s utility remaining neutral on the issue. While the initiative needs to pass again in 2020 to go into effect, environmental groups hope the state legislature will pass a law making that mandate binding even sooner. Prospects are improved by the election to governor of Sisolak, who ran as a clean energy advocate combating climate change. ■