Trump Administration Energy Policy Characterized by Deregulation, Uncertainty and Time Constraints

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The U.S. energy industry craves deregulation almost as much as it craves regulatory certainty, which puts it at a crossroads with the Trump administration. Large energy projects like developing oil fields, building new high-voltage transmission, or constructing new power generation facilities are long-term, capital intensive ventures. The companies that build these projects – along with their shareholders – want as much certainty as possible that regulatory goal posts will not move throughout the course of their investment because this disrupts financial strategy and the models upon which final investment decisions were taken. At the same time, however, energy companies often grumble about onerous regulatory regimes that handcuff their ability to maximize profits. For this reason, the energy industry - oil & gas sector in particular – is excited about the energy regulation roll back currently underway. But the lack of clarity regarding long-term energy policy goals and impacts leaves energy business leaders cautiously optimistic about the regulatory changes to emerge over the next four years.

In addition to regulatory uncertainty in a broad sense, there is apprehension about unintended consequences associated with certain policy adjustments. For example, Chevron CEO John Watson cautiously discussed his views of the border tax adjustment issue during the oil major's Q4 2016 earnings call. "President Trump has indicated that the border adjustment concept is complex and I would agree with that. I think we need to take a close look at perhaps the consequences of that, both some that could be positive and the unintended consequences in terms of impact on consumers, exchange rates and knock on effects on the global economy," said Watson. "I have no doubt the administration will do a good job at doing that and will settle on the right kind of tax reform at the end of the day. But I think we need to have a little patience for the different ideas that are being put out there and hopefully we will get to the right outcome," he added.

Similarly, cautious optimism was on display when Rayan Lance, ConocoPhillips' Chairman and CEO, responded to a question during their Q4 2016 earnings call regarding how the new administration's energy policies might impact the company's operations. "Well, I think it is a little early to tell. We certainly hope that the administration at least in terms of what they've talked about is going to give us a little bit of regulatory relief, which we think is good. There are some things that the last administration were proclamating [sic] that were a bit worrisome on how it might slow the business down, both on the regulatory side and on the infrastructure side. We've seen President Trump make his decisions on DAPL [Dakota Access Pipeline] and on Keystone, so hopefully some of that infrastructure will get moving that's needed to be there."

But when specifically addressing the border tax, Lance went on to say, "I think a lot of uncertainty on the border adjustment tax and its potential impact on how crude and other products move across the border, whether it's south to Mexico or some of the crude that moves down from Canada into the U.S. I think there is a little bit to be seen yet what that means. Does it get exempted or how are the details of that going to unfold. We are watching it closely, but I think it's a little bit too early to tell on that last piece."

And while the Trump administration has quickly moved to roll back several of the previous administration's energy policies – including existing source methane emissions regulations; federal land methane emissions; DAPL and Keystone XL construction; parts of Dodd-Frank and more – these constitute low-hanging fruit procedurally. It is easier to throw out rules that were enacted toward the end of Obama's term but never finalized than it is to erase regulations already signed into law. Lengthy public comment periods of up to a year are required in many cases. And simply removing an existing law is not adequate because it must be replaced with a new piece of legislation that achieves similar intent, which raises the bar for the White House and Congress.

Writing and passing legislation is an arduous, time-consuming process and there are only so many days on the legislative calendar which means energy policy battles will need to be carefully chosen. We also know repealing Obama Care and tackling tax reform are high on President Trump's agenda, which further limits the amount of time and focus that can be directed toward energy policy over the next four years.