



ELECTRIC UTILITIES, OIL & GAS

Energy Week Ahead: Iran Deadline Monday, Thanksgiving Regs, Condensate Watch

Congress is in recess for Thanksgiving, but the Washington policy cycle continues: Monday, November 24th is the official deadline for P5+1 negotiators to reach a deal on Iran's nuclear program.

Despite assurances to the contrary by Secretary Kerry, we think an extension of the talks is emerging as the most likely scenario. Most factors point towards a gradual degradation of sanctions, a process that could kick-off on Monday or at the conclusion of the extension, but oil market impact seems months away.

With the holiday upon us, it is likely we could see the release of a highly anticipated oil and gas sector methane regulation strategy document from EPA. New methane emissions standards could be costly. Also possible as press aides perform their pre-holiday ritual of "taking out the trash:" methane regulations, or action on long stalled classification letters for lightly crude oil condensate exports. The EIA's study on the economics of condensate splitters, which has been on our watch list for the month of November, could come out this week.

Discussion

Congress is in recess for Thanksgiving, but the Washington policy cycle continues: Monday, November 24th is the official deadline for P5+1 negotiators to reach a deal on Iran's nuclear program.

We think an announcement of an extension of the talks is the most likely scenario to play out this week. Actually, the negotiators may have a ready-made extension built in to the process, as Monday's deadline is self-imposed, and the extension agreed to last summer remains in force until January 1st.

We think an extension is more likely than cessation of talks because of the high costs of failure facing negotiators and Iran, the Administration's need for Iranian cooperation against ISIS and the Taliban,

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James Lucier

james.lucier@capalphadc.com
202-548-0072

Tristan Berne

tristan.berne@capalphadc.com
202-548-0085

Alan McCormick

alan.mccormick@capalphadc.com
202-548-2549

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and presidential legacy considerations.

Most factors point towards a gradual degradation of sanctions, a process that could kick-off on Monday or at conclusion of the extension. We present more comprehensive views on Iran in our note published Friday, [here](#).

Beware Holiday Regulation Releases: Methane Strategy Doc, Ozone NAAQS, Condensate

The Thanksgiving holiday coincides with announced or implied release schedules for pending regulatory proposals, including a long-awaited methane emissions regulatory strategy document and a proposed rule that could lower the National Ambient Air Quality Standard for ground-level ozone (smog).

On methane, per the Obama Administration's Climate Action Plan and a follow-on Methane Strategy policy document released by the White House, EPA is set to release a detailed plan outlining what kind of regulatory actions the agency could take to curb fugitive methane emissions from the oil and gas sector.

EPA could directly regulate methane emissions via New Source Performance Standards and Existing Source Performance Standards rules under Section 111 of the Clean Air Act. For existing sources of methane emissions, the regulatory process would mirror the State Implementation Plan process for mitigating carbon emissions from electric generating units, with states submitting plans in the next few years implementing standards designed to meet emissions goals outlined by EPA. New methane emissions standards could be costly the oil and gas sector, which must keep costs lean to stay in business.

As we noted [here](#), at last week's November FERC meeting, the Commission approved a proposed policy statement that would allow pipeline operators to recover costs of improvements made to facilities on account of safety or environmental regulations. FERC's proposal, along with recent remarks from EPA officials suggesting a Thanksgiving release, suggest release of the strategy document is imminent.

On the NAAQS proposal, EPA has a December 1 deadline set by order of the Northern California District federal court; EPA Assistant Administrator Janet McCabe, head of the agency's Office of Air and Radiation responsible for the rule, has suggested that EPA will make the deadline. EPA scientists want to reduce the standard to as low as 60 ppb, near the naturally occurring background level for ozone, down from the current 75 ppb standard. Revised standards could send most of the the country into NAAQS "non-attainment" status, subjecting American businesses to onerous EPA pre-construction and operating permit programs. Per terms of the court order, a final rule could follow as early as October 1, 2015. The new standards would be implemented by states via implementation plans modifying permit programs and other emissions regulations released in years following the final rule.

A tighter ozone NAAQS standard presents real risk to many sectors of the economy: chemicals, oil and gas, electric utilities and virtually every manufacturing process results in emissions of NOx or volatile organic compounds (VOCs), which are precursors to ozone. While EPA can consider potential costs of regulations when considering state implementation plans, the agency is prohibited from doing so when designing NAAQS, making a lower standard more likely.

Meanwhile, on condensate: The Commerce Department Bureau of Industry and Security has been deferring action on 20-25 export classification letters for companies that wish to export lightly processed condensate from the Eagle Ford in a manner similar to that already approved for Pioneer and Enterprise Products. Our view on crude oil



exports in general is that the administration is in a deep freeze and not likely to move on anything until it has to. Pioneer CEO Scott Sheffield has suggested that BIS might act on the stalled classification letters in the immediate post-election season, which is where we are now. We tend to think that the Administration will wait at least until the end of the lame duck session. But we note that BHP-Billiton disclosed its plans to self-classify and export 650,000 barrels of lightly processed condensate just before the close of polls on Election Day, November 5, the timing of which is a private sector variant of the low-visibility, taking-out-the-trash style media strategy we have come to expect from the government. We are not convinced there will be condensate news this week, but we conclude it is prudent to look for it. Perhaps also the EIA's study on the economics of condensate splitters, still officially scheduled for November, could come out this week

Additional Resources

[The Capital Alpha Energy Calendar](#)

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