Energy Intelligence

Energy Intelligence Premium Weekly

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Geopolitics: US Faces More Energy Gridlock

US energy policy will become even more gridlocked after Republicans clinched only a narrow majority in the US House of Representatives in midterm elections, with Democrats holding onto the Senate. Divisions will largely preserve the status quo, with the bulk of President Joe Biden's flagship climate measures holding fast. But his party may push harder on climate at the margins.

- **Clean energy spending looks largely safe.** Republican Party underperformance limits capacity for changes to the $369 billion Inflation Reduction Act (IRA), Biden's signature climate achievement. A Republican-controlled House will likely launch multiple investigations, but we see most impact limited to rhetoric given (1) lack of full congressional control, (2) strong IRA benefits for Republican districts, and (3) support from oil companies for technology incentives. We view the IRA's $80 billion-plus in new and expanded tax credits for hydrogen, carbon capture, renewables, clean fuels and other technologies as safe. Lawmakers will make more substantive efforts to delay other aspects, notably the methane tax on producers and 15% corporate minimum tax on book income.

- **Mixed messaging will continue for upstream oil and gas.** We see the Democrats' outperformance offering greater political cover on climate and reducing pressure for compromise on oil and gas. The Biden administration will continue to ask producers to ramp up output near term to address fuel prices, but not to lock in long-term production and infrastructure. We see this mixed message failing to encourage either supply relief or additional capex, but with neither party gaining enough momentum to shift the uneasy balance. IRA compromises lock the administration into three new oil and gas lease sales, but terms may grow less attractive. There will be limited political pressure for further sales. A new five-year leasing plan remains in limbo. Changes to the IRA's methane fee to target worst polluters may blunt the impact on production. But a post-IRA tightening of US methane and greenhouse regulations was stricter than expected.

- **State-level renewables policy could get a push.** Democrats picked up significant ground at the state level, winning all rungs of government in Michigan, Maryland, Massachusetts and Minnesota — developments likely to accelerate greenhouse gas reduction targets, renewable power standards and electric vehicle support. Wins by Democratic governors in New Mexico and Oregon will help preserve existing climate regulations there, including Oregon's limited cap-and-trade policy. In Republican states, however, attorneys general will continue anti-ESG policy campaigns, escalating pressure on BlackRock and other firms charged with "woke" activism.

- **Ukraine funding will get harder, but a major policy shift is unlikely for now.** Expectations of a Republican clean sweep had fueled speculation of a weakening of US military and economic aid for Ukraine, potentially shifting the conflict's trajectory. This now looks less likely in the next year: The White House this week moved to stabilize aid with a $37.7 billion package through September 2023, aiming for passage while Democrats still control the full Congress this year. But funding will remain controversial in parts of the Republican Party. While the mainstream will retain Republican leadership in both chambers, the narrow House majority may magnify this wing's influence, making additional Ukraine spending harder to approve with time — especially if the war morphs into an extended conflict, as in our base scenario.

- **Relations with Saudi Arabia are in a holding pattern.** When tensions flared last month over Opec-plus' 2 million b/d production cut, the Biden administration indicated that "consequences" would be discussed with Congress after the midterms. Washington and Riyadh then appeared to call a cease-fire. Key to watch is whether the administration in coming weeks decides to release more SPR oil than the 180 million bbl already approved. This could see Opec-plus rethink plans to review (and relax) the cut at its Dec. 4 meeting, which could provoke a renewed US reaction. Current signs are that both sides would prefer resolution. Discussions with Congress are likely to remain paused until after the Thanksgiving holiday. We are watching whether lawmakers attach "Nopec" antitrust legislation to the must-pass defense spending bill in Congress. A slowdown in arms sales remains an option. We expect relations between Biden and Saudi Crown Prince Mohammed bin Salman to remain cool.

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A divided government is very unlikely to enact major new climate or energy legislation... *click for full report*

No Red Wave for US Energy Politics
Oil producing states see no major surprises, but state-level clean energy policy could get interesting... *click for full report*

Small Leasing Policy Changes Could Have Big Impact
Policy revisions are in line with the Department of the Interior's stated objective of wholesale reform of the federal oil and gas leasing to cut down on so-called speculative offerings... *click for full report*

Biden Previews Heftier 'Social Cost' GHG Formula
The Biden administration is contemplating beefing up its "social cost of carbon" formula to calculate impacts of climate policies – including estimates significantly higher than last year's interim values... *click for full report*

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Energy and tax lobbyists are anticipating more scrutiny of the massive infusion of clean energy spending passed earlier this year in the Inflation Reduction Act (IRA)... *click for full report*

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