



Issue 1, 2018

● [Appalachia Underground NGL Storage Facility Clears Big Hurdle](#)

"The Appalachia Storage & Trading Hub initiative got approval for the first of two application phases for a \$1.9 billion U.S. Department of Energy loan, the West Virginia-based Appalachia Development Group said, in a statement."

Why this is important: The Appalachian Storage & Trading Hub Initiative has been promoting an underground storage facility for natural gas liquids that would provide abundant feed stock for the Appalachian chemical industry. This week, the Initiative received approval for the first of two application phases for a \$1.9 billion U.S. Department of Energy loan. The Appalachian Development Group, which is leading this project, anticipates obtaining another \$1.4 billion from other financing sources that will place the project on firm footing. This natural gas liquids storage project is crucial to the economic health of the Appalachian Basin with its potential to create thousands of jobs in value-added chemical manufacturing. --- [William M. Herlihy](#)

● [America's Deep Freeze Aids Coal, Sends Power Surging](#)

"Plants are using the most fuel oil in three years to produce the electricity that's powering heaters across New England. In the Pennsylvania, Jersey, Maryland energy market, which stretches across the eastern United States from Illinois to Washington, D.C., coal has once again surged past natural gas to become the biggest fuel for power generation. Oil demand there jumped by more than 400 percent."

Why this is important: The extreme cold weather affecting the U.S. has resulted in strong increases in coal burn while spot natural gas prices in New England tripled last Friday. In extreme cold weather, coal plants are a strong base load source of electrical generation, and this article shows the value of maintaining coal and nuclear generation along with gas power plants. --- [Mark E. Heath](#)

● [Court Rules Against Pennsylvania Drillers in Royalty Dispute](#)

"The Office of Attorney General's lawsuit seeks to recover for thousands of Pennsylvania landowners the money wrongfully deducted from fracking royalty checks by Chesapeake Energy and Anadarko Petroleum - in violation of the Unfair Trade Practices and Consumer Protection Law."

Why this is important: Oil and gas drillers pay royalties to the owners of the oil and gas that they take out of the ground. Once it's out of the ground, though, there has been a fight in several states over who is responsible for paying for well maintenance, refining the gas and oil, and transporting it to customers. These post-production costs can be a significant percentage of the royalty check, when gas and oil are selling at low prices. This was a legal battle in West Virginia, and it is being fought in Pennsylvania, too. Look for legislation addressing this in all of the Marcellus states. --- [David L. Yaussy](#)

● [Chinese Oil Import Capacity from Russia Doubled](#)

"China could double the amount of crude oil it receives from Russia with the start of commercial operations of a pipeline, state media reported."

Why this is important: The second commercial service line for Russian oil to China became operational as of January 1, 2018. The countries intend to deepen their energy cooperation with this initiative and more broadly support China's President Xi Jinping's goals of integrating the Chinese economy with Europe. China is the second largest economy in the world behind the U.S. China's November 2017 oil consumption was 9 million barrels per day. Russia also intends to develop a 2,500 mile natural gas pipeline network to China in 2018. --- [John C. \(Max\) Wilkinson](#)

● [NYMEX Gas Continues to Rise at \\$2.990/MMBtu as Frigid Weather Lingers](#)

"Withdrawals from underground natural gas storage facilities are expected to climb into the 200-Bcf range over the next three or four weeks as the cold weather supports rising demand."

Why this is important: The extremely cold temperatures throughout most of the United States are resulting in a price spike for natural gas to the \$3 per MMBtu range, which is an increase of more than 30¢ in the last week. Cold weather routinely results in at least short-term natural gas price increases as residential demand rises dramatically, causing gas suppliers to withdraw natural gas from storage fields at higher than anticipated volumes. The higher storage withdrawal volumes contribute to the commodity price increase. Extreme weather-related price increases can help support longer-term price increases in the futures market. However, whether increased prices are sustainable will be determined by the temperatures during the rest of the winter and how quickly gas producers are able to increase production in response to the higher prices. The bottom line is the weather-driven price increase is good for gas producers, but not so much for residential consumers. --- [Mark D. Clark](#)

● [Atlantic Coast Pipeline Wants to Start Cutting Down Trees](#)

"Though it still lacks several key approvals, the Dominion Energy-led Atlantic Coast Pipeline project has asked federal regulators to allow workers to begin cutting down trees along some portions of the 600-mile route in West Virginia, Virginia and North Carolina."

Why this is important: In October 2017, the Federal Energy Regulatory Commission ("FERC") authorized construction and operation of the Atlantic Coast Pipeline ("ACP"), and the ACP now awaits final water crossing permits from Virginia and North Carolina. Dominion recently requested permission from FERC to begin felling trees along the upland pipeline path in West Virginia, Virginia and North Carolina. In support of the request, Dominion noted all of the various state and federal agencies with jurisdiction over the project. However, the NC DEQ indicated they do not regulate tree felling in upland areas. Dominion further noted tree felling is preferred during the winter months to protect migratory birds or bats or other sensitive species. While FERC has not yet provided authorization, Dominion continues the incremental push to begin ACP construction. --- [Matthew P. Heiskell](#)

● [BP Warns of Huge Hit from U.S. Tax Reforms](#)

"British energy giant BP expects a one-off charge of 1.2 billion euros (\$1.5 billion) to eat into their fourth-quarter 2017 figures, the company announced."

Why this is important: Prepare to see a lot of corporate announcements as the financial impact of the Tax Cuts and Jobs Act of 2017 ("TCJA of 2017") becomes incorporated into the books and records of large public companies. These companies for years have booked large deferred tax amounts, mostly positive to cash flow in future years and mostly as deferred tax assets, as they had to account for the differences in book and tax income. They did this when the federal corporate rate was 35 percent. Now, with a drop in the federal corporate tax rate to 21 percent, while most of the deferred tax assets stay in place, those companies (which will be most companies) that had deferred tax assets (as opposed to deferred tax liabilities) now find those deferred tax assets are less valuable with a top 21 percent federal tax rate rather than a top 35 percent federal tax rate. So under accounting conventions, they must mark the value of those deferred tax assets down - thus triggering a non-cash write-down to book income. This BP announcement will be one of many you hear about in the energy space, as well as in other industries. However, this is only a non-cash book to tax adjustment, as the TCJA of 2017 was a very positive development for most large public companies with the dramatic drop in the top federal corporate tax rate. --- [John F. Allevato](#)

● [New Report Finds Shale Development Benefiting Local Communities More Than Ever](#)

"In a new report, researchers from environmental think tank Resources for the Future found that despite the recent downturn in commodity prices, about 82 percent of local governments across five U.S. shale regions still positively benefited from oil and gas activities."

Why this is important: States benefit from increased severance tax revenues when there is a spike in the price of coal or natural gas. This report demonstrates that even when the price of natural gas is low, shale development still provides a critical financial benefit to local communities by creating jobs, increasing investment spending and wages, and decreasing the area's overall unemployment rate. --- [Nicholas S. Preservati](#)

● [States Sue EPA Over Cross-Border Smog Pollution](#)

"The states, led by New York, had asked the Environmental Protection Agency in 2013 to add eight states and part of another to an area known as the Ozone Transport Region. The designation requires those states to take actions to mitigate ozone pollution that blows to downwind states."

Why this is important: Northeastern states have trouble meeting safe ozone levels, and the easy means of reducing those levels have all been tried. As compliance costs balloon, those Northeastern states start to look to their upwind, Midwestern neighbors for reductions in ozone precursors that are blowing into the Northeast. EPA has modeled most of those upwind states, and found, for the most part, they aren't contributing significantly to the Northeast's problems. The Northeast disagrees, and those states are suing to force EPA to change its mind and impose restrictions on the upwind states. --- [David L. Yaussy](#)

● [Russia's Grip On European Gas Markets Is Tightening](#)

"Despite years of effort from the EU, Russia's grip over natural gas supplies in Europe is tightening, not waning."

Why this is important: Even though the tension between the EU and Russia has existed for years, the European market has found itself increasingly reliant on Russian natural gas. Russian imports to Europe are up 25 percent despite EU rhetoric to diversify supply. U.S. LNG imports have offered some competitive relief to European customers. But despite U.S. LNG competition, Russia has not lost market share. The Russian natural gas shipment for 2018 is estimated to be 180 million cubic meters. --- [John C. \(Max\) Wilkinson](#)

● [Coal to the Rescue as Record Cold Grips the East](#)

"Coal-fired power plants are king again as sub-zero temperatures sent demand for heating and electricity soaring on the East Coast in the largest energy market in the nation."

Why this is important: The deep cold snap gripping the Eastern and Central U.S. has resulted in dramatic increases in coal burn for electrical generation. In the PJM market last Friday, coal generation was 20,000 MW more than natural gas and 10,000 MW more than nuclear plants. The final breakdown was 45,842 MW coal, 35,514 MW nuclear, 25,927 MW gas and 3,086 MW for renewables. These increases also will factor in the Trump administration's proposals to provide market-based financial incentives to maintain coal and nuclear generation plants. --- [Mark E. Heath](#)

● [EIA Energy Statistics](#)

Here is a round-up of the latest statistics concerning the energy industry.

[COAL](#)

[Coal Markets](#)

[Weekly Coal Production](#)

Consumption by End-Use Sector

NATURAL GAS

Wholesale Electricity & Natural Gas Market Data

Natural Gas Futures

Monthly Oil & Natural Gas Production

Natural Gas Monthly

PETROLEUM

The Week in Petroleum

Petroleum Marketing Monthly

Retail Gas Prices

U.S. Gas Prices Increased in 2017

MISCELLANEOUS

Energy Commodity Prices Increased in Second Half of 2017

Monthly Biodiesel Production Report

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