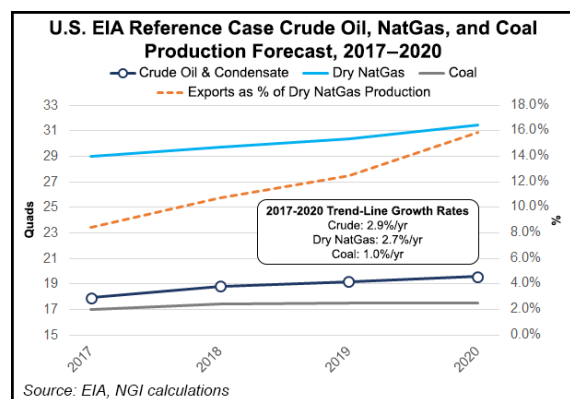




Trump's Team Viewed as Pro-Business, Fossil-Friendly and Ready to Gut Obama Legacy

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Donald Trump may face a fight in Congress during the confirmation process for some of his Cabinet picks, with bipartisan concerns about ExxonMobil Corp. CEO [Rex Tillerson](#), his unorthodox choice to become secretary of state.

However, the global wheeler dealer, who has expanded the reach of the world's biggest Big Oil company, may prove more adept at the "art of the deal" than Trump ever could have imagined, while

the overall regulatory regime of the incoming administration becomes more business friendly.

That's the thinking of Tudor, Pickering, Holt & Co.'s (TPH) Dave Pursell, head of macro research. He discussed the incoming administration during a wide-ranging interview with *NGI*. Until now, the real estate tycoon has proffered few detailed policies, with many drawing their insight based on the company he plans to keep in his cabinet and as advisers.

"Trump is a bit of an empty vessel," Pursell said. "He doesn't have a policy for 'X, Y and Z.' So, who he surrounds himself with is probably more important than any president in my lifetime. It's why there's so much focus on everybody who gets on the elevator at Trump Tower."

All things considered, Trump's energy team is "predominantly fossil-friendly, pro-business and ideologically aligned with a deregulatory agenda," said ClearView Energy Partners LLC Managing Director Christi Tezak. "To the extent that Trump's selection of executives and military leaders reflects presidential willingness to decentralize decisionmaking, the Trump administration may also prove well positioned to swiftly initiate rollbacks and revisions of President Obama's energy and environmental policy legacy."

Tillerson 'Intriguing' Pick

The choice to run State was a surprise, one that Pursell is feeling more comfortable about all the time.

"When Tillerson's name was mentioned, my first reaction was 'wow, that's actually pretty interesting. Way better than Romney.' Romney was governor of Massachusetts. Tillerson's been negotiating

in *competitive* negotiations with the kind of countries that aren't on many people's bucket lists of places to go visit.

"And he's not just negotiating with a country," because ExxonMobil also has to be competitive in its dealmaking, "because it's not just Exxon. It's BP and Shell and Total and Statoil and Chevron. So you've got to be competitive. The only thing Tillerson has is a balance sheet and the ability to execute, and, quite frankly, Exxon's integrity -- that they do what they say they're going to do. Once you negotiate with a country, you have to follow through with what you said," or there aren't any more deals.

The career ExxonMobil executive would be able to "negotiate with the full force of the United States, and by that I mean the United States dollar, the United States economy, the United States military...He's going to be a very effective negotiator."

The real question becomes, what is the policy? Tillerson won't set policy. Trump sets the policy and Tillerson would implement it.

"I think he's an intriguing selection," Pursell said. "And it's hugely controversial because he's Big Oil and he's Exxon, buddies with Russia's Vladimir Putin."

The brouhaha over Tillerson's relationship with Putin, which goes back years, is overblown, said the TPH executive. "Look, you're not going to have a big contract in Russia if you haven't thrown back a couple vodkas with Putin. I've worked in Russia. That's the way it is. That doesn't make him a bad guy."

Besides, Tillerson "is smarter than everybody on Capitol Hill," Pursell said. "There's no question. And he's going to intimidate those guys because he's smarter than they are." Few people can "hold a candle to this guy."

At ExxonMobil's annual meetings, Tillerson has had to contend with some shareholders who express their anger about how the company is run. Often, more than one shareholder will shout questions and concerns at the CEO, whether it's about the threat of climate change or a perceived lack of transparency by the company. Tillerson has never taken the bait, instead attempting to reassure the critics. That calm but forceful demeanor should come in handy as the top U.S. diplomat, Pursell said.

In any situation, whether with the president-elect's Cabinet or with world leaders, Tillerson will be the "adult in the room," Pursell said. He likely won't react imprudently or aggressively, but be methodical about what he wants to say and what he intends to do.

Tillerson actually could be the "best bet on climate" of anyone within the Trump administration, according to Obama official Jonathan Pershing, U.S. Special Envoy for Climate Change. He discussed the pick recently at the University of California, Berkeley.

"I myself would not have picked an oil exec as my head of the State Department, but having said that, he may be a person who can generate something real," Pershing said. Although Pershing has never worked as an oil industry executive, "I spent five years working on oil and gas in Alaska. So you can get good people doing climate change out of the oil industry."

Tillerson's nomination could indicate more backing by the incoming administration for diplomatic engagement overseas than the "isolationist overtones of his campaign initially suggested," Tezak said. "Our description of international supermajors may seem flippant, but the geographic dispersion of large-scale hydrocarbon resources requires integrated oil company executives to negotiate significant and long-term capital commitments with sovereigns in far-flung capitals."

Diplomacy thus is a "core competency, not just for risk management reasons, but also because oil company executives must variously compete with and partner with investor-owned and state-controlled enterprises from all over the world," she said. Most oil company executives, including Tillerson, "tend to favor, rather than shun, multilateral institutions that contribute to geopolitical stability and facilitate trade."

Based on his views to date, Tillerson might not push any climate change views, but if he makes it through the confirmation process, "his institutionalist pragmatism could potentially soften Trump's campaign-era rhetoric" regarding, among other things, the United Nations Paris agreement.

Looser Regulatory Grip Forecast

Campaign promises to loosen the regulatory grip on industry are likely to be kept, after heavier oversight by the Department of Interior and Environmental Protection Agency (EPA) since President Obama took office eight years ago.

"As an analyst, what do I care about?" Pursell asked. "Do they take some of the teeth out of the EPA? Everybody worries about the Secretary of Energy," which is to be run by former Texas Gov. [Rick Perry](#). "But actually, the Secretary of the Interior and head of the EPA matter way more," Pursell said.

For example, the EPA during Obama's tenure has used the Endangered Species Act (ESA) "as an impediment to development. Using the ESA creates an extra-high hurdle for all environmental impact statements. So, we might see a more common sense regulatory approach." EPA foe [Scott Pruitt](#), Oklahoma attorney general, was picked to run the agency.

ClearView's Tezak expects Pruitt as "more likely to change the pace, rather than the direction, of federal environmental policy, which tends to be a one-way ratchet." ClearView's team regards EPA as a "limiting," i.e. restrictive agency rather than business-friendly.

"From what we understand, most of the EPA's 15,000 employees signed up for its mission of protecting public health and welfare; we suspect that very few of them joined the EPA with the goal of facilitating drilling and mining," Tezak said. "For this reason, some career staff who are nearing

retirement age may head for the exits. We don't expect junior staff to follow suit just yet, although we would anticipate more significant turnover if Trump were to win a second term in 2020."

The current EPA regime, has "felt like, at least to some, that the EPA was blocking everything, and in that case you're guilty until proven innocent as developer," Pursell said. "Our sense is there's a lot that the EPA can do, the way they manage the current laws on the books. With Trump's election, in our view, that's a positive for pipeline developments, for oil and gas development potentially."

The Interior pick, Rep. [Ryan Zinke](#) (R-MT), has voiced opposition to some energy regulations, criticizing the final rule by the Bureau of Land Management (BLM) -- which he would oversee -- to reduce natural gas venting and flaring.

"Could BLM expedite permits or at least not slow play permits on federal land?," Pursell asked. "We think that's more of a Rocky Mountain, Powder River Basin issue. The answer there is probably 'yes.'"

Pipeline Permitting to Improve?

Tweaking regulations to improve natural gas supply may not move the needle from a macro standpoint. But expediting pipeline permits in the Permian Basin and Oklahoma's stacked reservoirs, would be "the real development areas that we care about," Pursell said. "Pipelines inevitably will be needed to get that oil and gas to market. Is that going to be easier or harder? I think it is going to be easier to do that" under a Trump administration.

Trump's appointments to the Federal Energy Regulatory Commission may alter the path of pipeline and liquefied natural gas (LNG) facility approvals, Tezak said. Approvals "could speed up a bit," while the Commission's "generally enabling approach to natural gas pipeline permitting" is unlikely to change. However, "increasingly aggressive environmental opposition requires FERC to prepare increasingly detailed (and more time-consuming) environmental reviews. FERC may choose to tighten up its current permissive approach to late interventions by green-leaning groups and move more quickly between the conclusion of its environmental reviews and its final orders."

As far as LNG permitting, an Energy Department under Perry could adopt a "just say yes" process that could delay or eliminate the Obama administration's protocols.

With Zinke running Interior, the agenda could include a rewriting of the Bureau of Ocean Energy Management's Five Year Program for offshore oil and gas leasing; the resumption of regular oil, gas and coal lease sales by the Bureau of Land Management; oversight of wildlife protections under the ESA and lifting Obama's moratorium on western coal leasing.

"You could have a regulatory framework that doesn't have as much teeth in it," Pursell said. "Fewer or less onerous regulations could streamline that process. The protesters are not going away. They've found a way to win, if 'win' means they sit in their commune and have no energy and they

grow hemp and make clothes out of it and smoke what's not turned into clothes," Pursell said jokingly. "But if going back to 1812 is victory, then, that's what they're doing..."

The protesters "have been emboldened. So the question is, 'can the administration take some of the edges off the playbook or remove a couple of plays out of the Environmental Protection Agency's playbook?'"

Trump also campaigned to rewrite the corporate tax code. His pre-election economic plans also included a special one-off tax holiday that would allow U.S. corporations to repatriate funds held overseas with a 10% payment, versus the current 35% rate.

"That may be less important because the oil and gas companies never actually make cash flow," Pursell said. "But some of them do. If you repatriate the cash, are there stipulations that it has to be redeployed?" If that were the case, that would mean "more plants and capital" and potentially more mergers and acquisitions.

"One of the stipulations around that repatriation of cash, I suspect, is there will be some incentives not to leave it on balance sheets. We'll see how that goes."

No Coal in Stockings

At least one campaign promise, to bring back coal mining jobs, isn't going to fly, Pursell said. It's unlikely that more coal-fired power plants will be built, even though Trump promised to put laid off coal miners back to work.

"Nobody's going to build a coal plant," the TPH executive said. "My tag line is, 'the invisible hand of the market is greener than EPA. Cheap natural gas prices have taken more coal-fired power plants out of the market than the EPA and Greenpeace combined. Cheap gas makes power cheap. It makes no sense to really lean into it and build a whole new batch of coal-fired power plants in a world where they probably can't compete competitively."

Pursell expects that comment will prompt telephone calls from people who run coal-fired power plants. But he stands by the statement.

"Could there be a few coal-fired power plants built here and there? Maybe. But it's not going to be like the wave of combined-cycle gas plants that were built 15 years ago. We would argue those plants are still woefully underutilized. You don't need a whole lot of new plants unless you've got grid congestion issues or whatever. But gas continues to take shares of coal and alternatives as well."

Energy attorneys at LeClairRyan are skeptical about Trump's plans to expand oil and natural gas drilling, while putting coal miners back to work. James P. Guy II, head of the firm's energy industry team, discussed the election's implications with Gwen E. Richard, Roy M. Palk and John A. McKinsey.

"While the Obama administration's anti-coal strategies burdened coal production and consumption, the coup de grace was delivered by plentiful, low-priced gas," Guy and his team said. "The long planning horizon for the development of electric generation infrastructure makes generators cautious. Even a four-year guarantee of coal-friendly policies, with the possibility of a four-year extension, may not be enough incentive for multibillion-dollar investments in power stations that are built to operate for 40 years or more."

The incoming president's 100-day action plan "is a healthy mix of gimme, doable and stretch goals," Guy said. Renewable energy subsidies and valuations likely will decline at the federal level, while coal may "return to growth mode, especially in the western region of the U.S., where extraction costs are less and supply is more plentiful, with a chance of new coal power plant construction."

Oil and gas pipeline projects "will thrive," with one of the first beneficiaries possibly full approval of the controversial Keystone XL pipeline to carry heavy oil from Canada to the Gulf Coast. "Transmission line and other infrastructure investment may benefit significantly as it is one of the few points of agreement across the aisle in Washington."

Supply and Demand Trump Election

Overall, Pursell is feeling positive about the state of the energy industry going forward. And it has nothing at all to do with Trump.

"I'm optimistic, and it's independent of who's in the Oval Office," he said. "At the end of the day, a friend of mine in Canada said, 'you guys in America, it doesn't matter who's in the Oval Office. You are bigger than whoever occupies it for four years.; I kind of agree with that. I'm optimistic because supply and demand fundamentals are tightening," and the Organization of the Petroleum Exporting Countries are "going to execute, and prices are going to go higher next year.

"Do less regulations match my libertarian sensibilities? Yeah, it makes me feel better. But it's a secondary reason to be optimistic. It's supply and demand fundamentals."

One worry is what Trump's team does about trade, which could be a big negative if he were to attempt to renegotiate or pull out of global agreements.

"What oil and gas guys worry about is the economy," Pursell said. "If Trump does something on trade that is massively negative, then that hurts global demand. We're just not going to know until he gets settled in. I don't know how to assess that. Quite frankly, I don't think that we know what his policies are going to be. The trade part of this is probably the most troubling. Because if you go too far, then you have trade wars and that could create economic paralysis."