Dems’ Spending Plan Could Hit US Gas Upstream and Down

Senate Democrats announced some key climate policy tenets of a $3.5 trillion spending plan last week, including a fee on methane emissions from gas production and a clean energy standard (CES) that could hurt gas demand.

Democratic leadership Jul. 14 unveiled the precursor to crafting a bill advancing Democratic climate and social spending targets through a partisan process known as budget reconciliation (NGW Jul.5'21). So far on the list are a fee on methane leaks throughout the gas value chain; a fee known as a carbon border adjustment levied on products coming from countries that do not have strict regulations; and a CES that would likely seek to require utilities to increase their deployment of zero-carbon electricity by 2030.

Now begin negotiations to keep all 50 Senate Democrats on board, with other gas-related questions, such as whether lawmakers will eliminate favorable tax provisions for oil and gas drillers, still unclear.

US Sen. Joe Manchin, a key swing vote and chair of the Senate energy committee -- among the panels that might be charged with drafting the legislative language -- has already voiced concerns about Democrats pursuing any provisions seen as eliminating fossil fuels. "If you’re sticking your head in the sand, and saying that fossil [fuel] has to be eliminated in America, and they want to get rid of it, and thinking that’s going to clean up the global climate, it won’t clean it up all. If anything, it would be worse,” Manchin told CNN.

Methane Fee

For the methane fee, Democrats are eyeing legislation US Sens. Sheldon Whitehouse (D-Rhode Island), Brian Schatz (D-Hawaii) and Cory Booker (D-New Jersey) introduced in March for structuring the fee mechanism.

That bill would direct the US Treasury Department to estimate a fee, which would start at $1,800 per ton beginning in 2023 and increase each year on every company for methane emissions generated. The tax amount for each company would be determined based on a government estimate of each company’s emissions, derived from how much oil or gas the company produces.

Because the only way for a company to theoretically lower its tax bill would be to produce less gas or oil, the bill has also an alternative process for a company to determine its own methane contribution and only pay for those emissions.

The $1,800/ton figure is based on the White House’s social cost of carbon formula for quantifying future harms from greenhouse gases, used by federal agencies in justifying the costs of policies.

In a recent post on Forbes, Mark Agerton, assistant professor of resource economics at the University of California Davis, Ben Gilbert with the Colorado School of Mines’ Payne Institute, and Jim Krane with the Rice University’s Baker Institute for Public Policy, lay out the case for a methane tax of $1,500/ton.
Agerton says that figure, which works out to about $29 per thousand cubic feet of methane, is based on the social cost of carbon formula for this year, hence the slightly lower figure than in the Democratic bill.

“We don’t expect many firms to actually pony up $29 for each Mcf of methane they emit. Methane, or natural gas, currently sells for just $3/Mcf,” the Forbes piece says. “Producers facing a tax 10 times greater than the market value of that gas would take action,” replacing leaky valves, avoiding venting from well completions, and ensuring flares stay lit.

But there is a striking difference between the $1,500-$1,800/ton figure and legislative proposals for pricing carbon, which have ranged from $15-$59 per metric ton in recent years. The estimated social costs of methane are higher because its short-term warming potential is believed to be roughly higher than that of carbon.

One energy lobbyist described the bill as “intended to be a punitive effort” that would “suppress gas production.” Moreover, that source adds, how Treasury calculates the estimates is likely to become a sticking point because methane monitoring is complicated, especially when it comes to pinpointing specific operations’ profiles.

The estimates could pose complications, given that the numbers are likely to be modeled rather than actual measurements -- given industry ammunition to push back.

“Where this gets tricky is 'do we have really good measures of methane at every good point source?’” said University of Michigan’s Barry Rabe, who has extensively studied emissions pricing. Rabe pointed out that academic studies suggest a “downward bias” on industry estimates, and that policymakers could be aiming to lean on companies and state regulators to produce more reliable measurements.

That has been a long, protracted fight. The last several years have seen some advances in bridging the gap between estimates of emissions from specific wells, valves, and other sources -- often at odds with “top-down” estimates from overflight data from satellites, says Gilbert in the Forbes piece.

Gilbert added that with various federal agencies working with Treasury, “I don’t think constructing a valid methane estimate using the best available methods and data should be a meaningful barrier to setting good emissions policy.”

**Clean Energy Standard**

US Sen. Tina Smith (D-Minnesota), who previously introduced legislation to establish a clean energy standard, tweeted that such a standard will be part of the package, calling it “the cornerstone of the progressive, practical transformation to a clean energy future we urgently need.”

Smith said she wants to see a requirement that utilities produce 80% of their power through renewables by 2030, according to published reports, and told the Hill she does not believe that natural gas absent carbon capture technology should receive partial credit under a CES.

Clean electricity standards require utilities to add zero-carbon sources but do not punish them for emissions from existing sources -- such as gas-fired plants -- like a carbon tax would.

Smith introduced a bill in 2019 that would mandate utilities to increase deployment of clean energy, which she said would reduce emissions by nearly 80% by 2035 from 2005 levels. A similar Democratic bill in the US House of Representatives targets an 80% reduction in electricity sector emissions by 2030 from 2005 levels, a path reportedly endorsed by some utility companies.

But getting a CES through the partisan reconciliation process is not automatic. Some in Washington have argued it could be difficult to get around the Senate rules mandating that everything passed through reconciliation be “material” to the budget.
Proponents of a CES have argued that it would establish a fee for utilities that fail to meet certain targets -- arguably making a CES budget-related since it would raise revenues -- and thus allowing the reconciliation process to be used. Others have noted that a CES would include significant regulatory underpinnings, giving opponents ammunition to argue that such items are not material to the budget.

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