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North American Energy

A Case for Regional Regulatory Harmonization

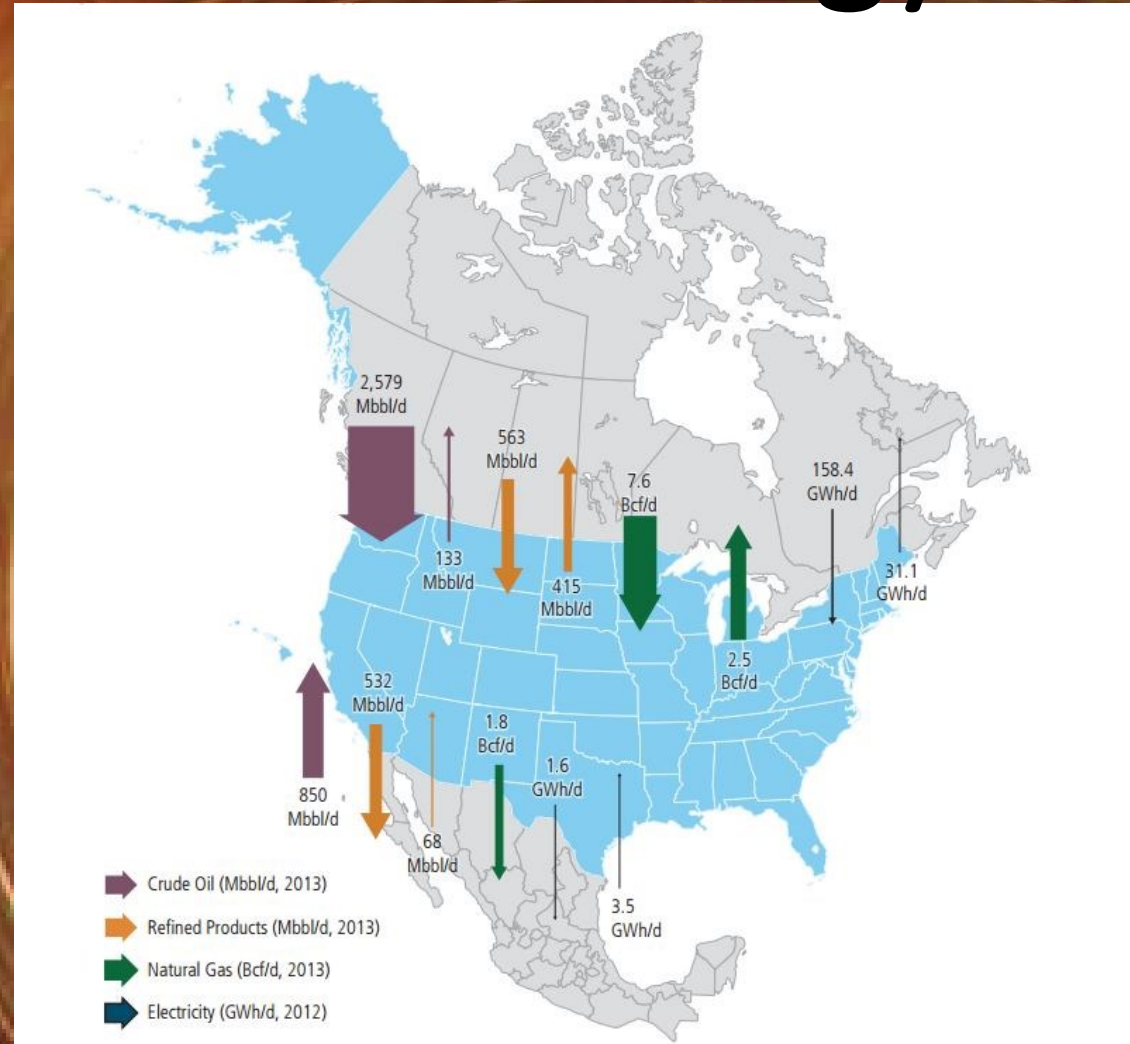
Overview

- North American Energy Integration
- Trending Toward Regulatory Harmonization
- The Trump Effect

North American Energy Integration

- The U.S. has a robust energy trade with Canada and Mexico beginning in 1901 with the first international electricity interconnection near Niagara Falls.
- U.S. has largely been the recipient of energy resources until recent developments in energy production, processing, and consumption

North American Energy Integration



North American Energy Integration

- NAFTA did not apply to Mexico for energy commodities due to constitutional provisions at the time
 - Largely promoted Canadian-U.S. energy market integration at the expense of the Mexican market
- December 2013 – Mexico amends constitution and reforms energy sector.
 - Reforms intended to enhance energy security, promote infrastructure development, open access to producers and users, and provide for competitive gas pricing

North American Energy Integration

- Dec 2014 – Energy Ministers meet for the first time since 2007
- Agree to trilateral cooperation with:
 - North American energy public data and mapping
 - Responsible and sustainable best practices for the development of unconventional oil and gas
 - Modern and resilient energy infrastructure for North America in all aspects – policies, regulations, workforce, innovation, etc

North American Energy Integration

- US Department of Energy
 - Quadrennial Energy Review (QER) 2015 – highlighted benefits to integration, noting “it expands the size of energy markets, creates economies of scale, lowers capital costs, and reduces energy costs to consumers and improves electricity reliability.” DOE 2015
 - A number of recommendations were made:
 - Develop legal, regulatory, and policy roadmaps for harmonizing regulations across borders
 - Identify gaps, best practices, and regulatory inconsistencies
 - Increase coordination of planning, data-sharing, modeling, and forecasting

Defining Regulatory Harmonization

- The process by which policy, decision-making, and technical guidelines are developed to be uniform across participating authorities
- Respects the lines of sovereignty while opening the door to common market participation
- confluence of regional policies, decision-making, and enforcement

Advantages to Regulatory Harmonization

Opportunities to build on past collaboration involving regulatory and industry counterparts

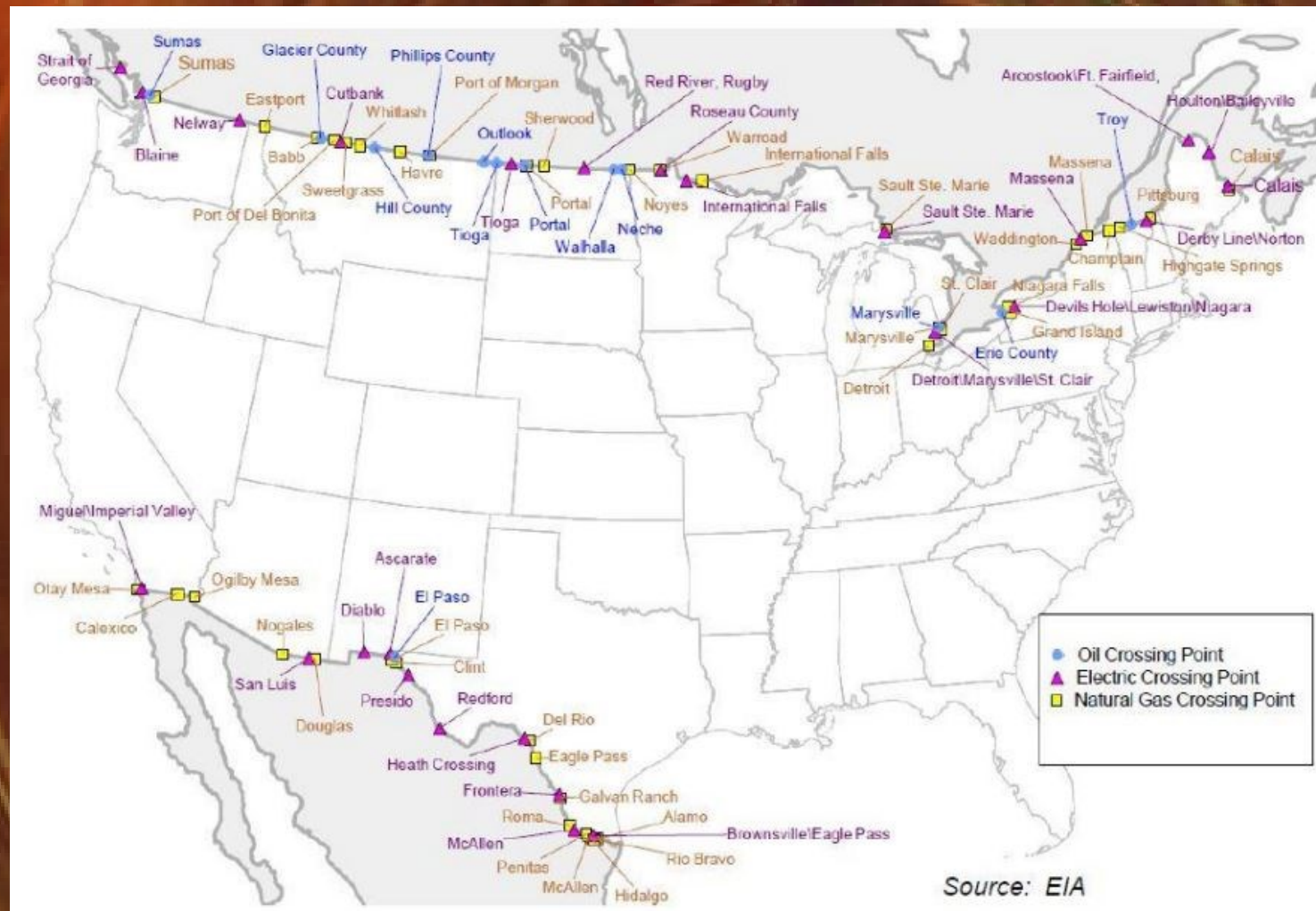
- Promote regulatory harmonization across different resources, types of infrastructure, modes of transport, market structures, energy security and environmental protection

Advantages to Regulatory Harmonization

Benefits of Regulatory Harmonization:

- To Regulated Parties:
 - Eliminates duplicative requirements
 - Generates time and cost savings
- To Consumers:
 - Lower energy costs
 - Safer commodity transport and delivery
- To Regulators:
 - Enables joint approaches to common risks

The Trump Effect



The Trump Effect

- What is the possible effect to oil and gas infrastructure development if international trade agreements are ratified?
 - Per Morgan Stanley: at risk are today's 3.5 bcf/d of US gas exports to Mexico but also incremental 3.2 bcf/d added by 2020.
 - Threat to legal framework for oil and gas exportation creating greater price uncertainty and raises cost of capital to build pipelines