

CONGRESSIONAL TESTIMONY

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The Impacts and Future of North American Energy Trade

Oral Testimony

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ORAL TESTIMONY OF ALAN KRUPNICK, PhD
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BEFORE THE ENERGY SUBCOMMITTEE OF THE
HOUSE COMMITTEE ON ENERGY AND COMMERCE

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Mr. Chairman, Ranking Member, and other members of this subcommittee, thank you for inviting me to speak today about energy trade with our Mexican and Canadian neighbors. I come before you as an economist, senior fellow, and leader of a North American energy initiative at Resources for the Future. RFF's mission is to improve environmental, energy, and natural resource decisions through impartial economic research and policy engagement. RFF is non-advocacy and does not take positions on issues; the opinions I express today are my own. Today I am here to advocate for greater harmonization and integration of energy markets and economic and environmental policies across the three North American countries.

Canada, Mexico, and the United States have some of the most significant fossil energy resources in the world, both individually and, even more so, collectively. Thanks to more open markets in Mexico and technological advances in all three countries, recoverable resources in North America are growing. With appropriate policies and agreements with our neighbors, North America can be the world's energy powerhouse. Free trade in energy and electricity promises greater economic prosperity, a cleaner environment and greater energy security.

The three countries have been moving towards harmonization in these sectors for several years now. On the economic front, the Mexican energy reforms opened up oil and gas leasing and exploitation to US companies. The reform also expanded markets for US pipelines, generation technology, and natural gas.

Mexico continues to greatly increase natural gas imports from the US to replace oil-fired generation. This development will reduce electricity generation costs, lower air pollution emissions from power plants, and increase energy security for Mexico. And US producers have access to a large market for their natural gas. If, however, NAFTA negotiations go badly, or if political interference in this trade occurs, we could see increased costs and delays in exporting gas. We might even run the risk of Mexico eventually turning away from the US as a supplier, which would be bad for both American producers and Mexican consumers.

The electricity sector likewise can benefit from increased integration. We have found that cross-border interconnections and capacity planning occur less frequently than they should to maximize electricity reliability in all three countries.

On the environmental front, during the Obama administration, the US became party to several international and tripartite agreements to improve energy efficiency, reduce methane emissions, and work towards major CO₂ reductions. But these gains are being reversed by the Trump administration, even as Canada and Mexico continue to solidify their policies to reduce GHGs. Canada has implemented a national carbon price for provinces that do not already have a price or trading system, and Mexico, along with its limited carbon tax is in the process of implementing a pilot cap and trade program and has considered joining California, Ontario, and Quebec's trading program.

So, what can be done in general and specifically by Congress to realize the benefits greater harmonization can bring? First, be vocal in supporting free energy trade and investment protections already in NAFTA. And be wary of unintended consequences of NAFTA failing. Second, remember that as the US continues to roll back climate regulations, such as its methane rules, its neighbors may grow increasingly concerned about competitiveness issues. Mexico and Canada may likewise become hesitant in efforts to align environmental policies in the future, limiting opportunities that might improve environmental outcomes at lower costs to the private sector and consumers here in the US

Third, Congress can support past and future efforts to align economic, environmental and safety regulations for offshore drilling in the Gulf of Mexico. There is already an agreement to build upon and DOI has worked closely with Mexican regulators to share best practices and align offshore safety regulations. Such work should continue so that we can ensure successful and responsible offshore drilling.

Fourth, Congress can help promote, along with our neighbor's counterparts, the vision of renewable capacity growth in areas that capture their locational advantages (e.g., solar in Mexico, hydro in Canada) for selling into an integrated North American grid.

And lastly, Congress can work to further improve the US infrastructure siting and permitting process – a key factor in the potential for increased North American energy and electricity coordination. Pipelines and transmission lines are needed to execute this vision of a North American energy and electricity system. Streamlining and strengthening this process can occur while improving environmental and social outcomes, for example, by using cost-benefit analyses

in permitting decisions. And, as our two neighbors are likewise facing similar challenges in this area, we should aim to share best practices.

Ultimately, the fates of the Mexican, Canadian, and US energy sectors are intertwined. This interdependence actually benefits the three countries and increases our joint energy security. Congress can play an important role in seeing this vision become a reality.