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Morning Energy

Delivered daily by 10 a.m., Morning Energy examines the latest news in energy and environmental politics and policy.

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Russian energy spared sanctions

By **MATTHEW CHOI** | 02/25/2022 10:00 AM EST

Presented by



With help from Kelsey Tamborrino, Marie French, Catherine Morehouse, Josh Siegel and Ben Lefebvre

Editor's Note: *Morning Energy is a free version of POLITICO Pro Energy's morning newsletter, which is delivered to our subscribers each morning at 6 a.m. The POLITICO Pro platform combines the news you need with tools you can use to take action on the day's biggest stories. Act on the news with POLITICO Pro.*

QUICK FIX

— **The new sanctions on Russia again largely skirt its energy sector**, but that isn't calming nerves in energy markets.

— **Sen. Jim Inhofe (R-Okla.), former top Republican on Senate EPW and long-time climate action opponent**, is expected to retire at the end of this Congress.

— **The areas where the White House aims to direct environmental justice spending are largely communities of color**, though its formal guidelines avoid mentioning race.

WELCOME TO FRIDAY. I'm your host, Matthew Choi. NuScale Power's Bob Temple gets the trivia for knowing St. Victor of Marseilles is the patron saint of Tallinn, Estonia. For today: Where did Sally Rooney go to college? Send your tips and trivia answers to mchoi@politico.com. Find me on Twitter [@matthewchoi2018](https://twitter.com/matthewchoi2018).

Check out the POLITICO Energy podcast — all the energy and environmental politics and policy news you need to start your day, in just five minutes. Listen and subscribe for free at politico.com/energy-podcast. On today's episode: Fear enters the oil markets.

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DRIVING THE DAY

FRESH SANCTIONS STILL SKIRT ENERGY: The new “profound sanctions” announced by President Joe Biden on Thursday target Russia's critical financial institutions including top lender Sberbank and the state-owned VTB, the country's elites and their families, business debt and equity, and 24 Belarusians.

But they don't hammer down on the country's primary economic engine: its energy sector. There were some provisions aimed at state-owned gas company Gazprom's short-term

loans on top of the punitive measures announced earlier this week on the Nord Stream 2 pipeline. State-owned oil company Rosneft was left off the list all together.

The package falls short of what the Ukrainian government hoped for, according to a document obtained by POLITICO's Alex Ward, Betsy Woodruff Swan and Ben Lefebvre. Kyiv pushed the U.S. to cut Russia from the global SWIFT financial messaging system, embargo Russian oil and gas, sanction its most important banks and ban flights from Russian carriers.

But a senior administration official also told POLITICO that sanctioning Russia's energy sector right out the gate "could actually benefit Putin and pad his pockets. Given high oil and gas prices, cutting off Russian oil and gas will drive prices up to Putin's benefit. And as we have said repeatedly on the record, on background [and] off the record, our sanctions are designed to harm Russia's economy, not ours." Still, the official said nothing was off the table and sanctions could escalate if Kyiv falls to the Russians.

And even without a direct target on the energy sector, the package already has had a chilling effect. Fears of getting tangled up in future sanctions are discouraging tankers and banks from getting involved in Russian crude, POLITICO's Ben Lefebvre reports. Crude prices surged after the hostilities started, with U.S. futures surpassing \$100 a barrel before settling back near \$93.

Biden urged the oil and gas industry not to take advantage of the situation and "spike" consumer gas prices, and he signaled that the administration was looking at another crude release from the SPR, as part of his pledge earlier this week to use "every tool" at his disposal to protect Americans from rising retail gasoline prices.

But that's not convincing Republicans like Sen. Bill Cassidy (R-La.). "What a bald faced lie," he said. "He is doing everything to not [help reduce prices]. Any way possible, his administration is trying to inhibit the development, transfer, export and processing of oil and natural gas."

A message from The American Beverage Association:



ON THE HILL

INHOFE BOWS OUT: Sen. Jim Inhofe (R-Okla.) plans to announce his retirement sometime next week, reports POLITICO's Burgess Everett, leaving four years before the end of his term. The 87-year-old senator has long been an ardent oil and gas supporter, and for years he was perhaps the biggest opponent to action on climate change in Congress. He also frequently traveled to UN climate conferences to challenge the global efforts.

His 2015 stunt of bringing a snowball to the Senate floor as evidence that climate change was a hoax drew headlines, but also sharp derision for failing to understand the science that shows how greenhouse gasses are altering the planet. He is expected to continue serving through the end of the current Congress.

FEINSTEIN, TOOMEY CALL ON EPW TO TAKE UP ETHANOL BILL: Bipartisan Sens. Dianne Feinstein (D-Calif.) and Pat Toomey (R-Pa.) pressed the leadership of the

Environment and Public Works Committee on Thursday to consider legislation, S. 2385, to end the corn ethanol mandate in the Renewable Fuel Standard. They write that the mandate was originally included in the program to reduce emissions, support farmers, and cut U.S. dependence on energy imports, but “numerous studies ... continue to show that requiring ethanol blending is counterproductive to achieving those goals.” The pair specifically point to a recent peer-reviewed study that found the carbon intensity of corn ethanol is likely at least 24 percent higher than that of gasoline.

AROUND THE AGENCIES

BREAKING DOWN JUSTICE40 COMMUNITIES: The White House’s criteria for disadvantaged communities under the Justice40 initiative would largely prioritize communities of color, even though its formal eligibility criteria does not take race into consideration, according to a recent report from the Rhodium Group. The initiative, designed to prioritize disadvantaged communities for environmental benefits, takes into account factors ranging from proximity to traffic to education levels when determining eligible communities. It omits race in a bid to survive potential legal challenges that would likely target any race-based measures.

Rhodium group found that 64 percent of the communities eligible for Justice40 benefits were either Latino, Black or Indigenous. A total of half of all Latino, Black and Indigenous Americans live in census tracts cited in the new screening tool that shows them as eligible for Justice40 benefits. Read the report here.

CIRCUIT COURT FINDS FERC ERRED IN KILLINGLY DECISION: The federal appeals court in D.C. challenged FERC’s decision to terminate a contract for the Killingly gas-fired power plant in Connecticut over concerns it would not be completed on deadline. The appeals court found FERC failed to provide a “reasoned explanation” of its decision and “irreparably harmed” the facility. The judges’ decision doesn’t directly order FERC to do anything, but it does indicate that if the commission were to be challenged over the contract cancellation, it would likely lose.

The timing of the decision on a Thursday created murmurs that Judge Ketanji Brown Jackson could soon be named to the Supreme Court, POLITICO’s Catherine Morehouse reports. Jackson was among the three judges that issued the opinion, and she’s a frontrunner to replace Justice Stephen Breyer. The court usually releases decisions on Tuesday and Fridays, and court watchers noted that Justice Brett Kavanaugh, who also served on the court, got his nomination after just such an off-cycle release.

UPDATE: Biden is set to name Jackson to the court. Here's Alex Guillén's take on how she's ruled on energy and environmental issues.

APPEALS COURT WON'T REVIVE TRUMP 401 RULE: The U.S. Court of Appeals for the 9th Circuit has declined to revive a Trump-era rule that limited states' ability to use Section 401 of the Clean Water Act to block energy infrastructure projects. A district court judge in October vacated the rule and sent it back to EPA for revision, an order appealed by various red states and oil, gas and hydropower industry groups. In a short order on Thursday, a three-judge panel from the 9th Circuit ruled that the states and industry groups seeking to reinstate the rule “do not demonstrate a sufficient likelihood of irreparable harm to warrant the requested relief.”

AGING NUKES REQUIRE CLOSER LOOK: The Nuclear Regulatory Commission on Thursday reversed itself on a previous order that gave Florida Power and Light permission to operate its Turkey Point nuclear plant for another 20 years. Instead, it will now require utilities to undergo an additional environmental review process before securing that license extension.

The FPL decision had been the first to allow a nuclear plant to extend its operating life to up to 80 years, and it led to other facilities in Pennsylvania and Virginia securing similar permits. The new decision means the fate of those license renewals as well as pending applications for power plants in South Carolina and Wisconsin are also up in the air -- and subject to further environmental analysis by the agency.

Environmentalists who challenged the initial NRC decision contended that future analyses must consider the risks of climate change, especially given the precarious position of many nuclear plants near major bodies of water, potentially leaving the facilities subject to flooding. “Increased flooding risk caused by climate change poses serious risks to the safe operation of Turkey Point -- and greater risks in the decades ahead. But the NRC has failed to address it up until now,” said Caroline Reiser, an attorney at the Natural Resources Defense Council, in a statement. “With this decision, the NRC has restored the level of accountability we sought through our lawsuit.” POLITICO's Bruce Ritchie has more.

SPEAKING OF THE NRC: Three former chairs of the Nuclear Regulatory Commission offered their thoughts Thursday on the challenges ahead as the agency considers a new generation of technologies, including small modular reactors. While advanced reactors present a great deal of opportunity, former NRC Chair Richard Meserve, now senior of counsel at Covington & Burling LLP, said the agency will need to confront new safety challenges and make adjustments to its traditional approach.

“The real problem for the vendors is that they need guidance early on to be able to sort out what exactly the NRC is going to require,” he said during an event hosted by the American Nuclear Society, adding the agency is making progress on some issues, but it’s “got a lot to do to get itself behind the curve.”

Dale Klein, a former chair who is now associate vice chancellor for research at the University of Texas System, said the new technologies are different from the light-water reactors with which the agency is most familiar. “The best thing they need to do is to start early, communicate often and then allow the NRC to have the staff that can review these so that the burden is not placed on these small companies that are designing these reactors,” he said. “It can be done, but it's going to take a lot of communication and funding so that the NRC can staff up in advance to meet these new designs.”

Former Chair Stephen Burns, a senior visiting fellow at Third Way, also addressed the recent denial of Oklo’s application for an advanced small nuclear reactor. “The NRC does have to take a stand, where it believes it has not got the information that is needed to support moving forward on a particular application. But it also has an obligation to communicate that well, to outline where it expects things to go,” he said.

BEYOND THE BELTWAY

BIG BIGHT OF THE APPLE: The auction for federal offshore wind leases off the coast of New York and New Jersey heads into its third day, with the total bids so far topping \$3.2 billion and 12 bidders still active. The massive total far outstrips the previous record for an offshore lease auction in the U.S. and is more expensive than the most recent similar European auctions.

While the 2018 Massachusetts leases went for about \$1,000 per acre, the New York leases are going for an average of \$6,600 per acre. One industry-funded analysis had estimated revenues for the U.S. Treasury from lease sales in several regions could generate \$1.7 billion in 2022 — a figure that is set to be surpassed by this single auction of six lease areas. The aggressive bidding reflects the state commitments from New York and New Jersey to procure thousands of megawatts of additional projects to hit their clean energy goals.

THE GRID

— “Brazil mudslides: Climate change turns favelas into disasters waiting to happen,” via The Washington Post.

- "Chernobyl no-go zone targeted as Russia invades Ukraine," via the AP.
- "Could Russian sanctions hobble U.S. clean energy push?" via E&E News.
- "Nord Stream 2's lobbyists dump the account after Russia invasion," via POLITICO.
- "Gas-powered lawn equipment sales would be banned in parts of Colorado under Democrats' latest climate bill," via The Colorado Sun.

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- **Designing 100% recyclable plastic bottles and caps** – we're making our bottles from PET that's strong, lightweight and easy to recycle.
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