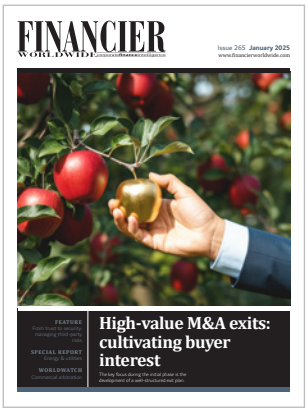




SPECIAL REPORT Q&A **REPRINT** January 2025

# US energy sector

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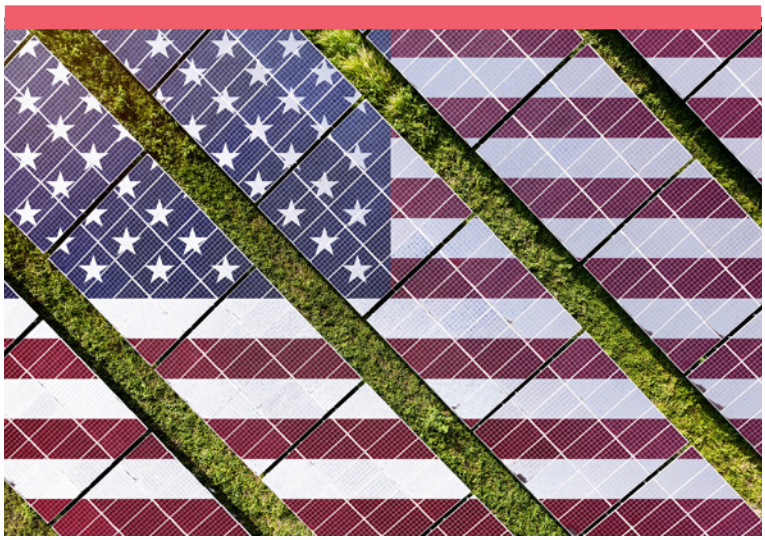

## THE PANELLISTS

**BARRY CANNADAY**
Partner
Dentons
T: +1 (214) 259 1855
E: barry.cannaday@dentons.com

Barry Cannaday represents energy sector clients in connection with matters relating to downstream and midstream oil & gas exploration, production, processing, gathering, transportation and marketing. He represents energy clients, both onshore and offshore, in connection with oil & gas leasing, oil & gas contracting, operations, regulatory compliance, joint ventures, financings, acquisitions, divestitures and restructuring. He also represents chemical companies in negotiating and drafting operation serviceagreements, feedstock supply agreements, processing agreements and utility supply agreements.

**ANDREW MINA**
Partner
Dentons
T: +1 (202) 496 7286
E: andrew.mina@dentons.com

Andrew Mina represents electric and natural gas utilities, renewable project developers and large financial institutions before the Federal Energy Regulatory Commission (FERC), state public utility commissions and appellate courts. He regularly counsels independent generators, traditional electric utilities, transmission providers, renewable project investors and developers, and other industry participants on regulatory issues, including those related to interconnection, transmission, market rules, resource development, compliance, jurisdiction and utility ratemaking.

**JENNIFER MORRISSEY**
Counsel
Dentons
T: +1 (202) 408 9112
E: jennifer.morrissey@dentons.com

Jennifer Morrissey divides her practice between traditional regulatory and transactional matters relating to energy, resources and infrastructure, and federal litigation and appellate work related to energy and resources. Her clients include asset managers, private equity firms and investors, banks and financial institutions, trade associations and ad hoc coalitions, foreign corporations, municipal entities and rural electric cooperatives, natural gas producers, public utilities, cogeneration facilities, project developers, state utility regulators, federal hydropower customers and large industrials.

**DENA SHOLK**
Law Clerk
Dentons
T: +1 (202) 496 7657
E: dena.sholk@dentons.com

Dena Sholk is a law clerk in Dentons' Energy practice. Previously, she worked in energy research and consulting at IHS Markit (now S&P Global), where she opened the IHS Markit office in Astana, Kazakhstan. She holds a BSFS and MA from Georgetown University. She is a third-year student at The George Washington University Law School.

**LINDA WILLARD**
Counsel
Dentons
T: +1 (202) 496 7293
E: linda.willard@dentons.com

Linda Willard concentrates on energy, environmental and infrastructure policy. She represents clients before Congress, the executive branch and other government entities. Her experience as a government affairs lawyer and public policy adviser spans the public and private sectors. She has served as a counsel to the US Senate Committee on Environment and Public Works, as a lawyer in the energy and environment practice of a global law firm, and as counsel and senior policy adviser in a DC-based lobbying firm.

**FW: Could you outline some of the major trends in the US energy sector over the last 12-18 months? How would you characterise energy security and supply issues, and their effect on energy prices, for example?**

**Willard:** With respect to US energy policy, lawmakers will continue to promote an 'all of the above' approach to energy that includes, in the power sector, natural gas, solar, wind, nuclear, hydropower, nuclear and geothermal. To that end, Congress will continue to try to pass meaningful reform for the permitting of energy projects to deploy renewable as well as traditional oil & gas projects. With a new presidential administration, we anticipate President Trump will end the current US pause on liquified natural gas exports as well as exit the Paris Agreement on climate during his first days in office.

**Sholk:** Despite ongoing geopolitical turbulence, macroeconomic uncertainty, and increasing frequency of weather-related disruptions to production and transmission infrastructure, the US energy industry has proved fairly resilient. The data speaks for itself. US oil and natural gas production was effectively flat in 2024 relative to 2023. West Texas Intermediate was $72 per barrel of crude oil (bbl) in January 2024 and peaked at $85/bbl in the summer months, before contracting to $72.6/bbl on election day 2024. Natural gas prices have also remained stable,

averaging $2.11 per million British thermal units during that time period. Meanwhile, according to the US Energy Information Administration's October 2024 Short-Term Energy Outlook, US electricity demand in the residential and commercial & industrial sectors is on track to grow by 3 percent and 2 percent, respectively, in 2024.

**Cannaday:** The major trends in the energy sector over the last 12-18 months relate to efforts to decarbonise and invest in green projects. There are two aspects to energy security – cyber security and access to critical minerals required for decarbonisation – lithium, cobalt, nickel and copper. Shortages of critical minerals are expected within the next decade, which will result in increased costs to generate certain sectors of green energy.

**Mina:** The US electricity industry is at an important crossroads in terms of developing and implementing policies that enable enhanced resource adequacy, reduced generator interconnection timelines and new transmission development. With the recent growth of artificial intelligence (AI) and the data centres that serve them, market participants are evaluating how to meet the country's surging load growth with existing and new resources, while maintaining sufficient reliability for the grid at large and ensuring just and reasonable costs for all.

**Morrissey:** Trends in the global markets continue to have a significant impact on the US energy sector. Climate and extreme weather events, supply chain issues, geopolitical instability, domestic political polarisation, and cyber security risks remain key concerns for energy industry companies and regulatory policymakers. Anticipated increases in demand driven by electrification of transportation, buildings and industrial processes, reshoring of industry, and data centres to power AI are simultaneously spurring investment in power infrastructure and in technologies to aid with decarbonisation efforts while highlighting the need, at least in the short to medium term, for a broad portfolio of energy resources. Meanwhile, continued pressures regarding social equity, transparency and inflation also remain drivers. Now, more than ever, companies must be resilient and flexible.

**FW: How are energy companies responding to growing pressure to address environmental, social and governance (ESG) issues across their operations?**

**Willard:** Most energy companies address environmental, social and governance (ESG) across their operations, but since late 2023, there has been a backslide with respect to ESG. With the new presidential administration, the US Securities and Exchange Commission (SEC) rule requiring disclosure of greenhouse gas emissions will likely be repealed. Notably, the Republican-led House Judiciary Committee earlier this year launched an investigation into potential collusion between large corporations like BlackRock and State Street Advisors to impose ESG. We anticipate with a Republican majority in both the Congress and the executive branch in the US, there will continue to be scepticism from conservative US lawmakers with respect to ESG.

**Sholk:** A review of the portfolios of the major companies indicates that ESG goals, at least to some extent, drive investment, although fiscal incentives remain paramount. That said, it is not an either/or proposition and realising clean energy projects will take time. Energy companies must invest in alternative energy, new technologies and conventional hydrocarbon-based energy projects, across the value chain, to meet current and future energy demand. Many of the global energy companies are also investing in research and development (R&D) and are pioneering new technologies related to hydrogen carbon capture and storage (CCS), and new ways to fabricate refined products ranging from sustainable aviation fuel to renewable natural gas.

**Cannaday:** The larger, public energy companies are reacting favourably by investing in decarbonisation projects such

as CCS, direct air technology and biofuels projects. Energy efficiency is also becoming a priority for energy companies. R&D in areas such as converting natural gas to hydrogen and CO2 is also being conducted by utilities and major companies.

**Mina:** In the energy sector, as load continues to grow at a rapid pace, many corporations are evaluating how to best meet load growth with clean, renewable resources. However, often, such resources are intermittent in nature and may not always be well-equipped to supply power to large loads dependent on 24/7 electricity. Corporations have used carbon offsets to mitigate carbon impacts associated with serving large loads from non-renewable resources.

**Morrissey:** In the US, the conversation has shifted to discussion of 'responsible' or 'sustainable' investment. With the change in administration, we expect to see widespread rolling back of ESG policies, from the SEC's new disclosure rules to federal agency decisions on everything from environmental policy to employment conditions. At the state level, we have witnessed a dramatic split between red states raising challenges to administrative decisions by the Biden administration to blue states seeking to fill expanding gaps. More and more, energy companies are forced to navigate a sea of uncertainty as rules and policies change, while also facing a variety of conflicting pressures from diverse stakeholders. In any event, companies now view ESG diligence in their activities as essential because of the insights it provides into both potential liabilities and value.

*With the incoming Trump presidential administration, there will likely be a repeal or pulling back of external US environmental regulations under the Clean Air Act on CO2 emissions.*

LINDA WILLARD
DENTONS

**FW: What affect are CO2 emissions reduction targets having on energy companies in the US?**

**Willard:** Many US energy companies, particularly larger ones, have set their own CO2 emissions reduction targets. We have not yet seen companies pushing back their targets, but with the incoming Trump presidential administration, there will likely be a repeal or pulling back of external US environmental regulations under the Clean Air Act on CO2 emissions. The absence of federal external controls and realities of unprecedented energy demand could force companies to extend their targets in the coming years.

**Sholk:** CO2 emissions reductions targets, coupled with fiscal incentives, are prompting companies to invest in CO2 storage projects, with some focusing on long-term storage in offshore areas, and others emphasising an integrated project approach with existing industrial assets and power plants. In the US, the expansion in CO2 storage projects has led to an avalanche of permit applications for Class VI CO2 injection wells, nearly two thirds of which were in California and Texas. A protracted period of Environmental Protection Agency (EPA) Class VI permit

reviews would invariably delay CCS activity. Meanwhile, an added layer of complication is that some states have introduced their own regulations governing CCS wells.

**Cannaday:** Although it is generally accepted that CO2 reductions are necessary and desirable, what is driving most efforts by companies investing in CO2 reduction projects is the Inflation Reduction Act (IRA). Government incentives are, and will remain, necessary to achieve CO2 reduction goals. Further, as an additional incentive, energy companies investing in 'green energy' projects benefit from the favourable public perception they receive from such investments.

**Mina:** Renewable power purchase agreements (PPAs) continue to be a strong driver of electricity supply and procurement in the US, consistent with federal and state clean energy goals. Companies often enter into PPAs, virtual PPAs, and other electric supply arrangements that provide for 100 percent renewable or clean power supply. For example, some large load developers have turned to nuclear generators to meet their electric supply demand, by co-locating and directly interconnecting the load to nuclear facilities, although a recent FERC order has called the viability of such co-located load arrangements into question.

**Morrissey:** The incoming administration is expected to break from CO2 reduction goals, including withdrawal from the Paris Agreement and rolling back environmental standards. However, companies will still need to be mindful of state regulations, international targets in some cases, and their own corporate targets developed in response to shareholder and customer demands. It remains to be seen what looming massive increase in demand will do to emissions reduction targets. A large percentage of new demand is from data centres built by companies with aggressive net-zero targets that may be incompatible, in the near term, with their requirement for reliable, inflexible 24/7 power supply. Reshoring of industry and electrification are also driving demand, not all of which can be met at present with clean energy resources without rapid investment.

**FW: Have there been any recent, notable energy policies or regulations introduced to encourage progress toward green objectives? What is the outlook for traditional forms of energy generation?**

**Willard:** In 2024, the US EPA finalised two seminal regulations targeting greenhouse gas emissions from existing coal and new natural gas plants and CO2 and other emissions from cars and trucks. Both rules have provoked strong industry opposition and multiple lawsuits, and the Trump administration has pledged to repeal them. In addition, the IRA, which includes $390bn in tax credits and incentives for

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> DENA SHOLK
> DENTONS

clean energy, continues to be implemented. The core tax credits of the IRA stand a better chance of persisting in the new administration than the EPA regulations, however the new Republican Congress in 2025 could try to scale back some of the IRA funding to pay for the extension of the 2017 corporate and other tax credits, which expire in the coming year.

*More and more, energy companies are forced to navigate a sea of uncertainty as rules and policies change, while also facing a variety of conflicting pressures from diverse stakeholders.*

JENNIFER MORRISSEY
DENTONS

**Sholk:** The largest uncertainty facing US natural gas production, particularly small, independent producers, is the rollout of new EPA rules on methane and volatile organic compound emissions for existing oil & gas infrastructure. These rules, largely implemented pursuant to the IRA and the EPA's authority under the Clean Air Act, encourage progress toward achieving green objectives, although compliance is an expensive proposition for small, independent producers. In October 2024, the US Supreme Court denied requests to halt implementation of the EPA's methane rule, leaving the smaller, independent operators that spearheaded the US shale revolution and are responsible for 91 percent of wells to either shut in or severely curtail output, increasing risk to US energy security.

**Cannaday:** The IRA is perhaps the most impactful piece of legislation passed in the history of the energy and climate sector. However, notwithstanding the progress which will be made toward the green objective, traditional forms of energy generation will be required for generations to come. Hard to decarbonise commercial transportation and industrial activity will continue to require petroleum products for the foreseeable future.

**Mina:** The FERC has recently implemented new rules, policies, and pro forma tariff revisions aimed at reducing or eliminating barriers to entry for distributed energy resources, reducing the backlog of new generation projects in interconnection queues across the US, and incentivising the development of new transmission facilities across the US to ease congestion and supply constraints, and offer alternative pathways to bringing electricity to new markets.

**Morrissey:** The Biden administration directed an unprecedented amount of money and tax incentives toward investment in energy sector projects aimed at decarbonisation and new energy resources. The fate of many of these laws is uncertain. EPA methane and clean air rules are likely to be rolled back, and certain renewable energy tax credits may be allowed to lapse, although other programmes under the IRA may survive. There has been tremendous growth in new businesses and technologies, including in regions of the country that were hard hit by the shift away from fossil fuels. In the next few years, an emphasis on fossil fuels, especially natural gas, may in fact provide the transition period that is needed to get new, clean technologies to scale.

**FW: As the world continues its energy transition, what trends and opportunities are you seeing in clean energy? How would you characterise technological innovations, project development and investment activity in this space?**

**Willard:** There is a great deal of excitement for clean energy in the US and there is a recognition that an 'all of the above' approach that includes both clean energy and traditional baseload power like natural gas is essential to meeting the unprecedented level of demand. Although funding for clean energy start-ups in 2024 fell significantly, the deployment of clean energy funding from the IRA has been successful, particularly in the area of advanced manufacturing. Much of the IRA funding has been in Republican states, which has led to more widespread political support for clean energy than there has been in the past.

**Sholk:** A major challenge will be managing the expectations of policymakers and the public surrounding project execution timelines, as the energy transition will take time. Regulators should keep a pragmatic perspective as new technologies are piloted at commercial scale and be prepared for the occasional technical 'hiccup'. Transparency, communication and patience will be essential as both regulators and industry learn as they go and make adjustments to reconcile policy goals with commercial realities. Greater clarity as to the US tax credit rules and streamlined infrastructure development – including planning, permitting and construction – would help propel the sector.

**Cannaday:** Research and improvements in CCS, both from commercial activities and direct air capture, each incentivised by the IRA, are expected to be significant. R&D in converting natural gas into hydrogen and CO2 can play an important role. Battery storage, paired with renewables, will likely also play an important role.

**Mina:** Regulators are developing new policies and market rules aimed at reducing renewable project development timelines, easing transmission and interconnection constraints, and ensuring sufficient electric supply needed to meet rapid load growth. Further, new large loads are seeking out alternative supply and procurement structures to support the rapid influx of electric demand. For example, some new large loads are being interconnected directly with nuclear facilities behind-the-meter, to ensure sufficient electric capacity is available to those loads and avoiding development delays.

**Morrissey:** We are witnessing innovation and investment opportunities across all sectors, but one of the most important opportunities in the clean energy transition is energy efficiency. Increased demand and lag time to bring on new supplies or to scale new technologies means that it is essential for companies to identify ways to do more with the

*Lack of electric supply needed to meet new large load growth has presented challenges to generators and loads across the US.*

ANDREW MINA
DENTONS

infrastructure that is already in place. This will entail innovation, but also significant efforts to educate regulators and customers. Meanwhile, companies need to be patient as delays persist. Permitting, siting, transmission development and long interconnection queues will cause some power-side investment to shift to distributed energy resources, and even with financing opportunities from federal legislation, promising technologies will continue to face pricing and commercial obstacles. Investment in fossil fuel technologies will also be needed in a renewed 'all of the above' approach.

*Energy efficiency will be critical for the oil & gas sector if targets for CO2 emissions are to be achieved.*

BARRY CANNADAY
DENTONS

**FW: What do you consider to be the main risks and challenges for energy companies as they assess their operational strategies?**

**Willard:** The biggest risk, particularly for electric utilities, is delivering reliable, affordable and clean energy in the face of unprecedented demand and increasingly extreme weather. From a federal regulatory perspective, the changes in environmental regulations that come with changes in presidential administrations have created uncertainty for energy companies in their planning. This market uncertainty is being felt by utilities, automakers and large industrial companies.

**Sholk:** Longer term, a main challenge facing the industry centres on realising a more diversified portfolio of investments in an increasingly complex regulatory framework at the state and federal levels. One major challenge surrounds permitting. There is significant uncertainty regarding the timing and issuance of permits. Even if issued, there is the constant risk of protracted litigation, which prolongs project timelines and compromises cost structures as projects are realised at a different point in time on the 'cost curve'. Creating a more unified and streamlined process would allow for more cost effective and timelier project implementation.

**Cannaday:** Cyber security will continue to be important for all energy sectors, especially refining, pipeline transportation and shipping. As the green sector of the economy grows, the demand for skilled talent to service the green sector will likely outstrip the available talent. With the proliferation of data centres and AI development, energy demand will likely place great stress on energy producers and energy infrastructure.

**Mina:** Regulatory risk continues to impact new energy and load projects, given that regulators are constantly evaluating market rules and dynamics to ensure sufficient resource adequacy, reliability and capacity availability. Further, the impacts of new large loads on the grid at large continues to be an important risk to be considered as part of any new development project. For example, lack of electric supply needed to meet new large load growth has presented challenges to generators and loads across the US.

**Morrissey:** Regulatory and policy uncertainty will continue to pose significant risks for the US energy sector. The US Supreme Court dealt a serious blow to regulatory certainty in 2024 with a series of decisions that altered the ability of companies to rely on federal agency decision making, shifting decisional power to the courts and increasing litigation delays and other regulatory risk. Other significant risks include the availability of reliable power sources in a period of massive demand, labour force challenges with wide-scale retirements of the baby-boomer generation and loss of institutional knowledge, and the impact of acute social demands and cost increases. High energy prices will be attractive to investors but will invite regulatory scrutiny.

**FW: Over the months and years ahead, what major developments do you expect to see in the US energy sector? What issues are set to shape market activity?**

**Willard:** In the US, we expect to continue to see a renaissance in nuclear energy as well as more solar and wind projects, in addition to a slight increase in natural gas to sustain baseload and meet unprecedented demand levels. Because of the long lead time in permitting and building traditional energy projects, we also will likely see more distributed energy resources and other creative approaches. Policymakers will continue to be under pressure to streamline permitting for energy projects, both renewable and traditional fossil projects.

**Sholk:** Upstream investment in US natural gas remains strong. At current prices, it appears this trend will largely continue. However, the proliferation of new methane and VOC emissions rules could lead to more industry consolidation, and potentially challenge upstream economics until such systems are developed at scale. We will likely see companies advance with new projects underpinned by IRA, CHIPS Act and Bipartisan Infrastructure Act credits. It is also likely that we will see more gas-fired power generation coming online to meet the needs of major data centres as well as residential users.

**Cannaday:** The global population is expected to increase from 8 billion to nearly 10 billion by 2050. As a result, worldwide energy demand will increase, and oil & natural gas will continue to make up in excess of 50 percent of the world's energy mix in 2050. Green initiatives will ultimately help reduce CO2 emissions, but energy efficiency will be critical for the oil & gas sector if targets for CO2 emissions are to be achieved.

**Mina:** Regulators in the US will have to confront surging electric demand growth in an environment in which there is already strained resource adequacy and reliability. Implementing new policies that ensure there is sufficient generation and capacity for all market participants that do not disincentivise project development, such as by imposing unnecessary costs on developers, will be critical to ensuring that all loads are served in a just and reasonable manner. Additionally, given the upcoming change in administration, it remains to be seen how aggressively the US will pursue clean energy development, including potentially adopting reforms that bolster the US fossil industry.

**Morrissey:** The US energy sector over the next several years will be marked by tremendous demand, innovation and disruption. Demand strains power supplies and outpaces interconnection queues and timeframes for building new resources by several years. New technologies will unlock new resources, but in the interim, increased use of traditional resources such as natural gas and nuclear, along with wind, solar, efficiency measures and existing storage technologies will help bridge the transition until promising clean, cost-effective solutions can be brought to scale. Regardless of who is leading the government, our energy infrastructure is ageing, inadequate and must be modernised, which means opportunities for investors. Risks are great, but so is the need. ■

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