

I P A M S

Federal Onshore Policies and their Effects in the Rockies

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Independent Petroleum Association of Mountain States



www.ipams.org

Independent Petroleum Association of Mountain States (IPAMS)

- Founded in 1974.
- 13 state regional trade association representing more than 400 companies involved in all aspects of environmentally responsible exploration and production of natural gas and oil
- Working to make the Intermountain West a business-friendly environment for independent natural gas and oil producers



Everybody Loves Natural Gas

“What I think we need to do is increase our domestic energy production... I’m in favor of finding environmentally sound ways to tap our oil and our natural gas.”

President Barack Obama

Recently discovered natural gas reserves dubbed a “global warming game changer.”

John Podesta, Obama Transition Team and CEO, Center for American Progress

“We must get serious about using cleaner burning natural gas and renewable energy...”

U.S. Senate Majority Leader Harry Reid (D-NV)

“Greenpeace appreciates that natural gas, used in appropriately scaled cogeneration plants, is a necessary transition fuel, and will drive cost-effective decentralization of U.S. energy infrastructure.”

Greenpeace International

But Don't Try to Drill

"Oil and gas production is a dirty process; many of the steps involved can be sources of dangerous pollution that can have serious impacts on the region's air, water, and land -- and on people's health. Despite the number of dangerous materials involved in oil and gas production ...the oil and gas industry enjoys numerous exemptions from provisions of federal laws intended to protect human health and the environment."

Amy Mall, Natural Resources Defense Council

"The old way of oil and gas leasing was 'lease before you look,' and the result was the destruction of millions of acres of prime wildlife habitat across the American West and heavy impacts to treasured landscapes."

Erik Molvar, Biodiversity Conservation Alliance

"Currently I'm most concerned with oil and gas development in the West... I'm glad to see that WildEarth Guardians is willing to do battle with the 'corporate forces of evil.'"

Charles Romaniello, Sinapu (now WildEarth Guardians)

"We need clean energy solutions, not more dirty energy development. More oil and gas drilling means more air pollution, more impacts to wildlife and clean water, and more threats to public health. It's time to put clean energy in the driver's seat and dirty energy in the back where it belongs."

Jeremy Nichols, Climate and Energy Program Director, WildEarth Guardians

What Does IPAMS Do?

- Defense – Protect Supply
 - Public lands access
 - Regulatory
 - Federal legislation
- Offense – Grow Demand
 - Power generation
 - Natural gas vehicles
 - Outreach/education



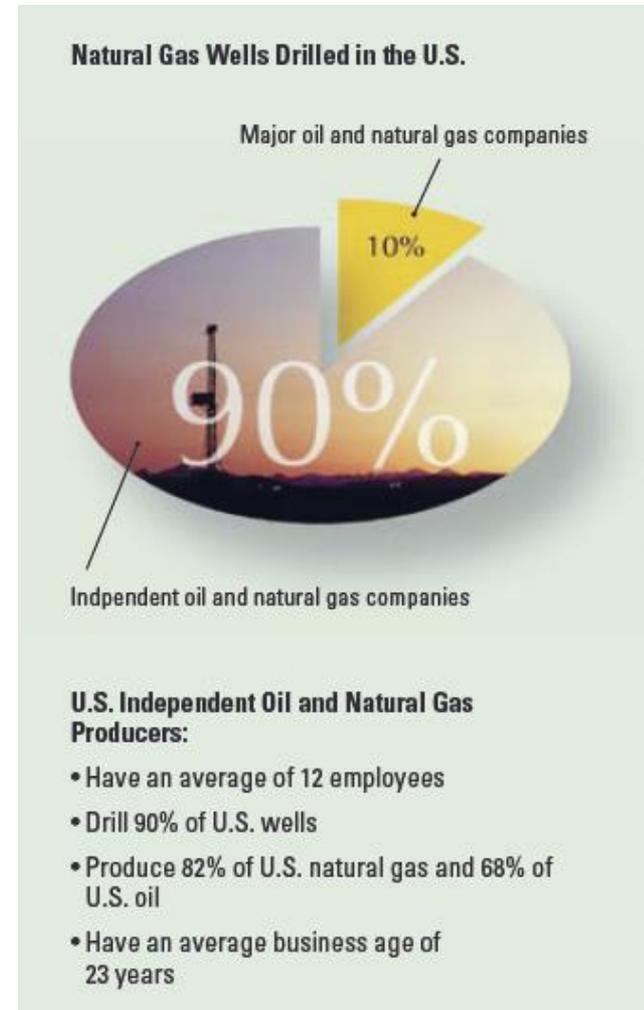
Blocking



The Parts of Our
Story That
Constantly Need
Repeating

Independent Businesses Lead the Way

Need to constantly
repeat the story of small
business



Source: Independent Petroleum Association of America (IPAA)

Natural Gas: It's a natural fit for our nation's most pressing challenges

- Affordable, clean, domestic & over 100 years of supply
- The expanded use of natural gas is the most obvious and cost-effective way, immediately and over the long term, to reduce greenhouse gas emissions
- Exploration and development creates important jobs, revenue and energy security benefits

Significance of the Rockies

- Region contains 1/4 of Lower 48 gas reserves
- 27% of domestic production is from the region
- Over 50% of the region is federally owned
- 34% of oil and 54% of natural gas are produced on federal lands



Source: EIA, BLM and Western state oil and gas commission data

Economic Contribution – Exploration & Production

State	Employment *	Government Revenue (in millions)	Economic Impact (in billions)
Wyoming	73,000	\$2,472	\$18.6
New Mexico	30,000	\$1,784	\$8.8
Colorado	71,000	\$630	\$22.9
North Dakota	39,000	\$327	\$3.9
Montana	12,000	\$373	\$8.6
Utah	11,000	\$326	N/A
Total	236,000	\$5,912	Over \$62.8

Source: Colorado School of Mines, Colorado Energy Research Institute, *Oil and Gas Economic Impact Analysis 2007*; Booz Allen Hamilton, *Wyoming Oil and Gas Impact Analysis*, 2008; University of Utah Bureau of Economic and Business Research, *Structure and Economic Impact of Utah's E&P Industry*, 2007; New Mexico State University, *Economic Impact of New Mexico's Oil and Gas Industry*, 2008; Montana State University, Center for Applied Economic Research, *Economic and Fiscal Impacts of Montana's Petroleum & Natural Gas Industry*, 2006; North Dakota State Univ., Dept. of Agribusiness & Applied Economics, *Petroleum Industry's Economic Contribution to North Dakota in 2007*.

Regional Potential Resource Assessment

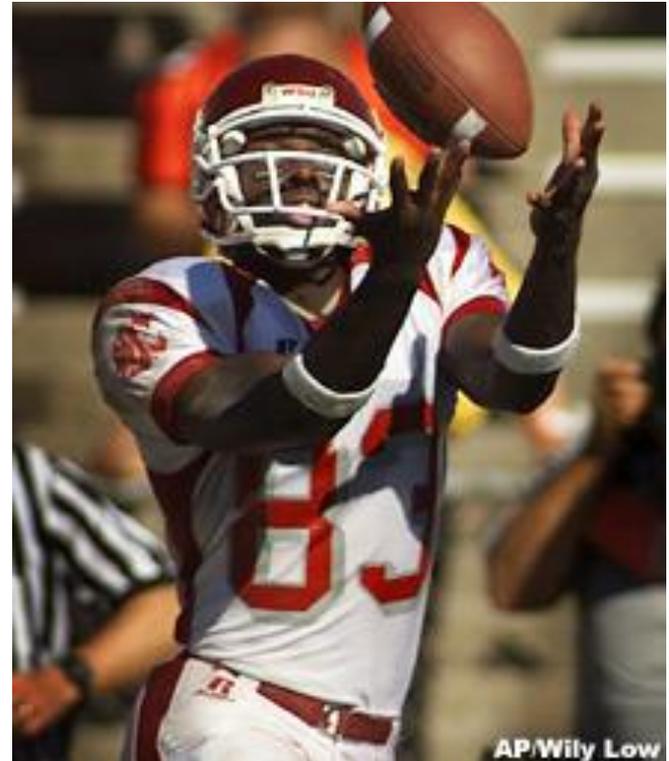
PGC Area	Traditional Resources (Mean, Tcf)	Coalbed Gas Resources (M.L., Tcf)	Total Pot. Resources (Tcf)	Region's Proportion of Total L48
Gulf Coast	455.2	3.4	458.5	28.1%
Rocky Mountain	374.4	51.9	426.3	26.1%
Atlantic	353.5	17.3	370.8	22.7%
Mid-Continent	274.9	7.5	282.4	17.3%
Pacific	51.3	2.6	53.8	3.3%
North Central	24.0	16.6	40.6	2.5%
Total Lower 48*	1,484.9	99.2	1,632.5	
Alaska	193.8	57.0	250.8	
Total U.S. (means)*	1,673.4	163.0	1,836.4	

Source: Potential Gas Committee (2009)

* Separately aggregated total, not arithmetically additive.

Offense

- Efforts to Increase Demand
- Outreach to Public Utilities Commissions
- Natural gas vehicles
- Natural gas electricity generation

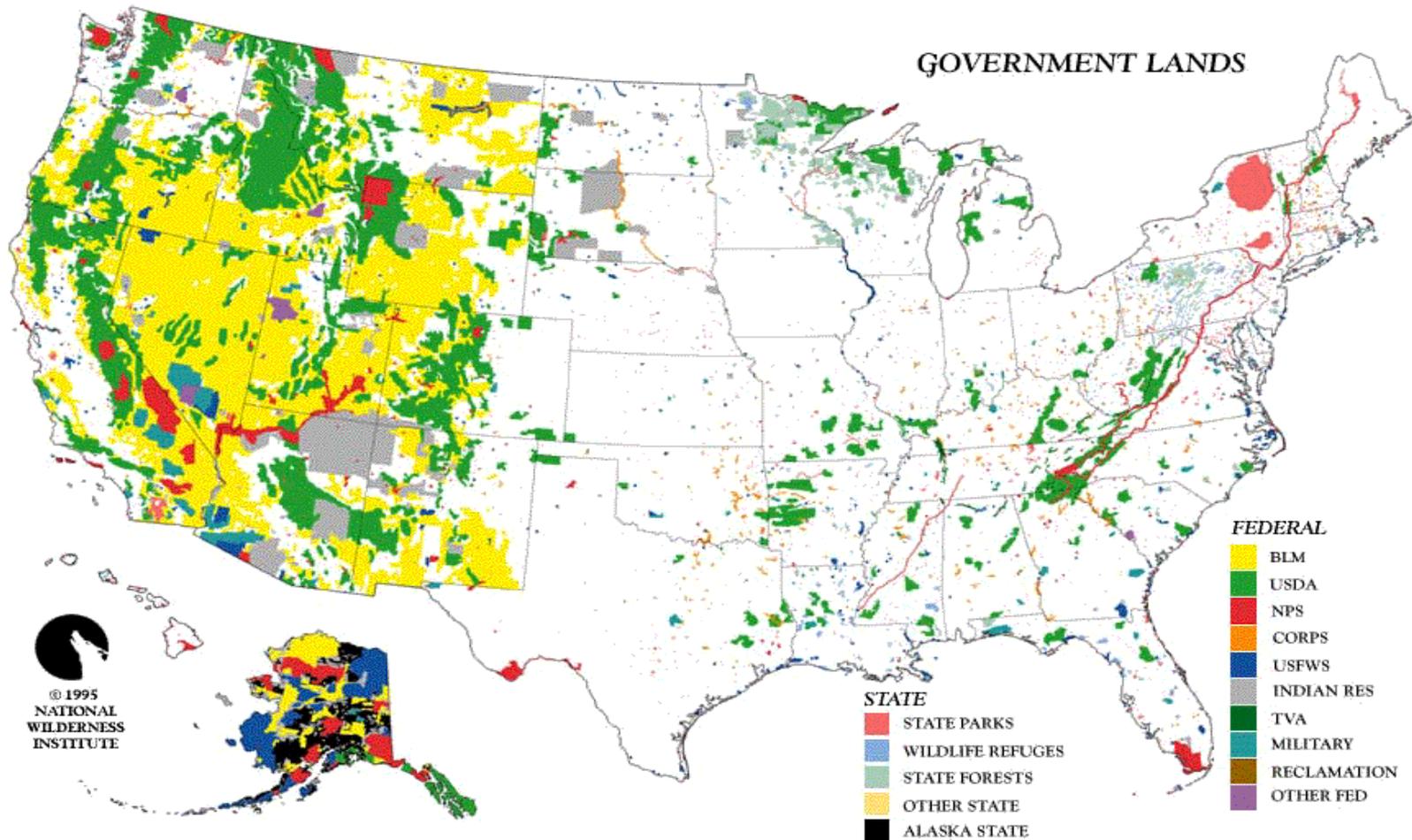


Defense

- Policies targeting the natural gas and oil industry are detrimental to consumers, jobs, the economy, and energy security.
 - Increasing royalties, taxes and fees
 - Additional regulation
 - Reduced federal lands access
- Public lands policies disproportionately impact the West



Public Lands



Misperceptions Leading to Policy Choices

“The difference is that in the prior administration the oil and gas industry essentially were the kings of the world. Whatever they wanted to happen essentially happened. The department was essentially a handmaiden of the industry.”

Interior Secretary Ken Salazar

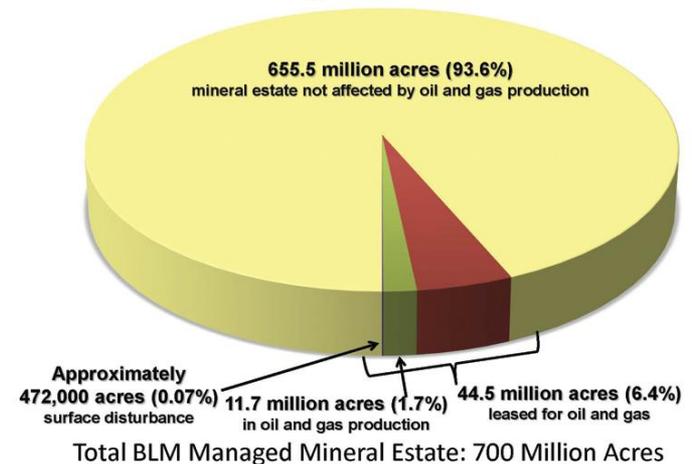
January 6, 2010

- Producers are hoarding acreage
- There was unfettered access during the Bush Administration
- Oil and gas development is subject to minimal regulation
- These misperceptions are driving Interior policy changes

Placing Public Lands Off Limits Means Increased Dependence on Foreign Energy

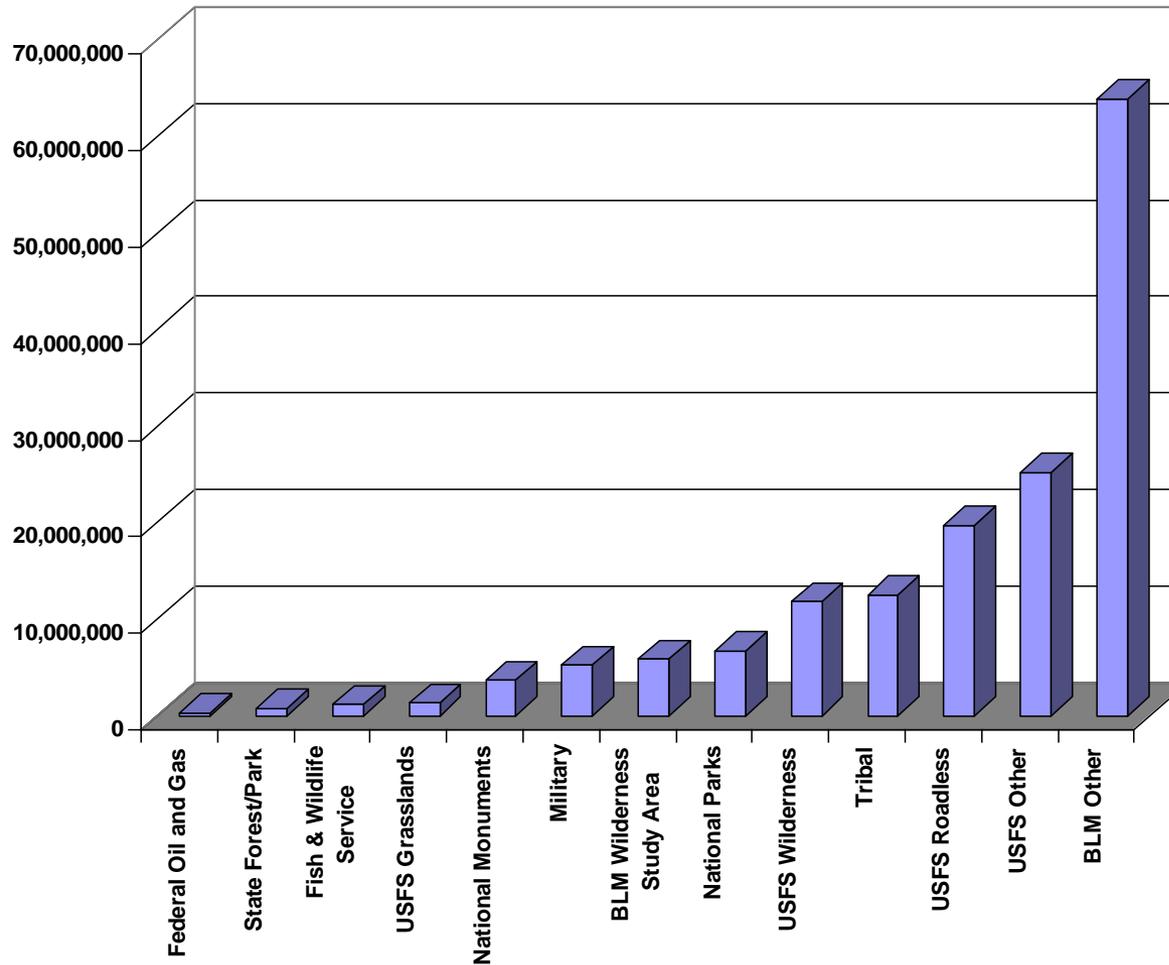
- Small and temporary impact
- Process on federal lands can take over ten years
- Oil and natural gas production is found on less than 0.07 percent of public lands

Oil and Gas Production Activities on BLM-Managed Mineral Estate



Source: Bureau of Land Management (BLM)

Comparative Land Use



Reality Check

- BLM Resource Management planning during the Bush Administration compared to the Clinton Administration
 - Increased No Surface Occupancy lands by 1.3 million acres
 - Increased land unavailable to leasing by 830,000 acres
 - Analyzed a new category of wilderness designation
 - Increased leasing stipulations
 - First RMPs with phased development
 - Designated 750,000 acres of Areas of Critical Environmental Concern (ACEC)
 - Increased visual resource management restrictions
- More restrictions, constraints and lands unavailable to productive economic development

Utah RMP Example

	Previous Plans	2008 Plans
Open standard terms & conditions	5.16 million	3.64 million
Open, moderate constraints	3.02 million	4.01 million
Open, NSO	0.46 million	0.89 million
Closed to leasing	1.86 million	2.15 million
OHV Areas Open	3.9 million	0.019 million

In acres

“Additionally, the Interior Department should revisit BLM's 2008 lands use plans for eastern Utah. These plans designated an excessive 20,000 miles of off-road-vehicle trails and opened 80 percent of BLM lands to oil and gas leasing.”

Heidi McIntosh, Southern Utah Wilderness Alliance

Minimal Regulation?

- National Environmental Policy Act
- National Historic Preservation Act
- Clean Air Act
- Clean Water Act
- Safe Drinking Water Act
- Endangered Species Act
- Resource Conservation and Recovery Act
- Endangered Species Act
- Occupational Health and Safety Act
- Comprehensive Environmental Response Compensation and Liability Act (CERCLA)
- Emergency Planning and Community Right-to-Know Act (EPCRA)
- Plus state and local laws.

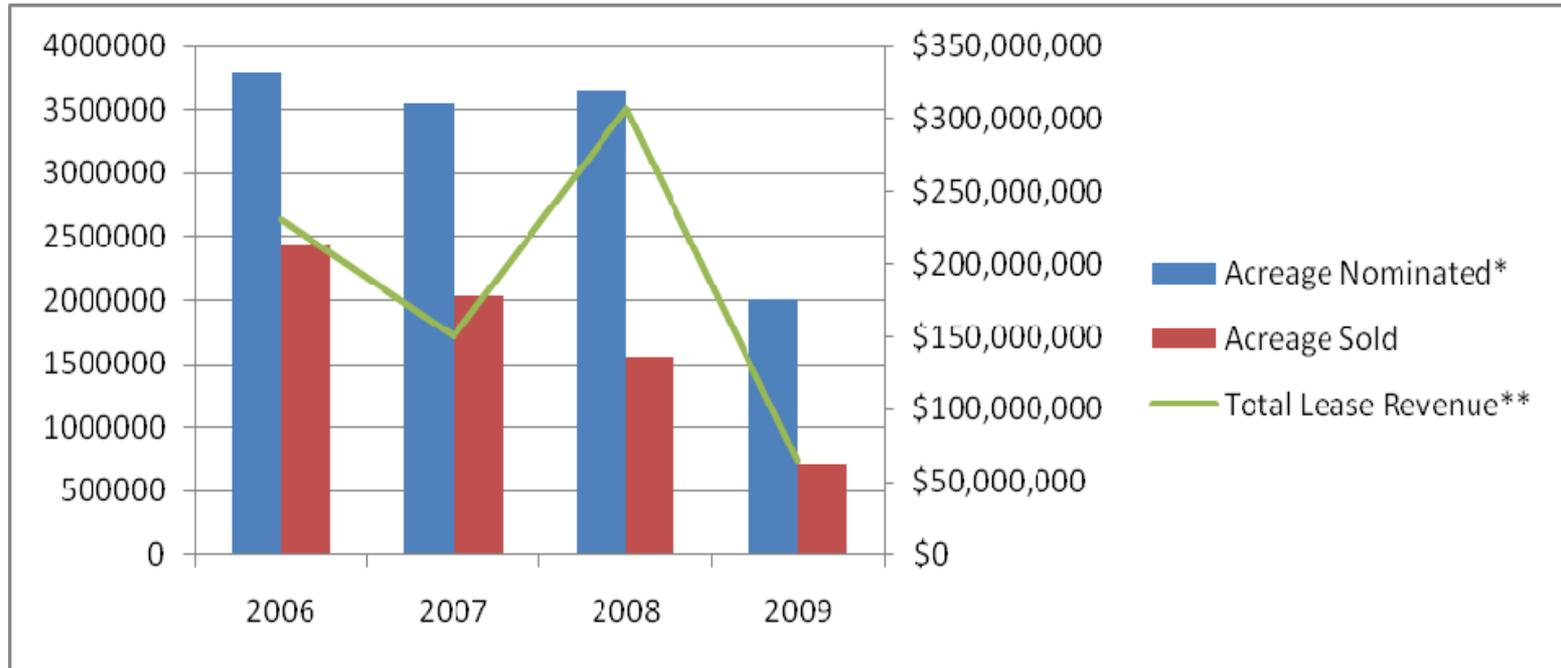
Interior Policies

- Land managers may also...
 - Impose timing limitations
 - Employ surface use restrictions, including no surface occupancy
 - Require cultural and wildlife surveys
 - Direct the placement of well pads, roads, pipelines, and power lines
 - Request off-site mitigation to offset habitat loss
- **Even before Interior's new policies take effect**

Current State of the Onshore Program

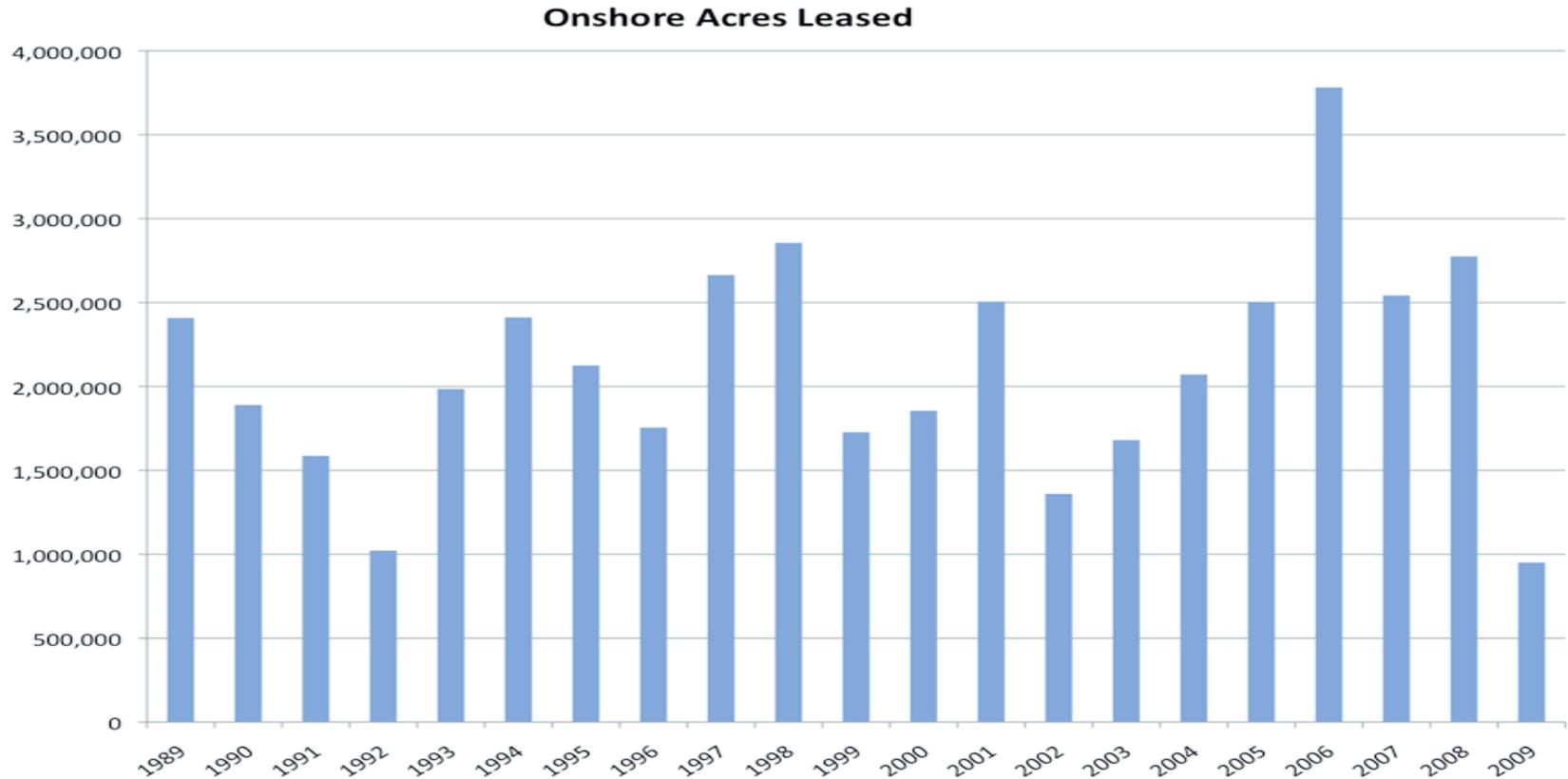
- Leasing
 - Constrained sales
 - \$100 million in unissued leases
 - Lease deferrals for illegitimate reasons
 - Postponed sales in Montana
- Project Environmental Analysis
 - Indeterminate delays
 - Even small projects taking years
- Permitting
 - Field offices slowing down permitting
 - Failure to use categorical exclusions
- Policies combine to put the West at a competitive disadvantage

Lease Comparison to Prior Years



- Obama Administration issued 1,934 fewer leases and 1,146,949 fewer acres in the Intermountain West, 32% and 46% reductions respectively, compared to the first year of the Clinton Administration
- \$931 million in lease revenue, compared to \$10 billion in 2008

Comparison of Leased Acreage

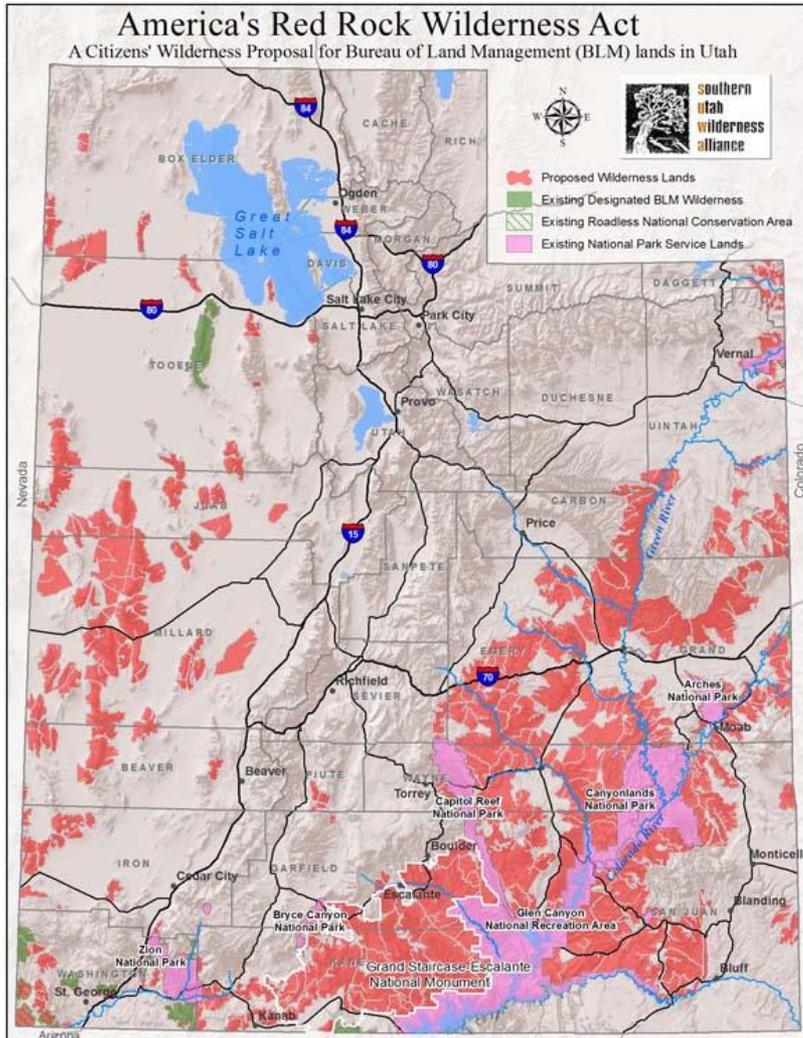


Source: Bureau of Land Management (BLM), Public Land Statistics.
Note: 2009 data equals total acreage leased minus Utah lease acreage deferred or rescinded (77,055 acres).

Lease Sale Irregularities

- \$100 million in unissued leases
 - \$52 million in Wyoming from 2008
 - \$41 million in Utah dating back to 2003
- Arbitrary leasing decisions
 - 77 leases withdrawn in Utah
 - Deferrals while RMPs are updated
 - Wilderness area and national park buffers
 - Pending wilderness legislation

HR 1925 Red Rocks Wilderness Act



- The Red Rocks Wilderness Act would lock up 9.4 million acres - 17% of Utah's land
- 12 million acres (22%) are already off limits through designation as wilderness, national parks & monuments, roadless, etc.
- 39% of public lands closed to development hurts rural economies and jobs
- Despite its failure to pass for two decades, DOI is restricting access to Red Rocks Wilderness Act lands

Montana Lease Sales

- Montana 2008 Leases
 - Enviro’s lawsuit on the basis of global warming
 - Settled March 2010 – requires corrective NEPA
 - As a result of IPAMS’ intervention, granted “contributing status”
 - Pushing for NEPA done by the end of September
- Same groups protested April 2010 Montana/Dakotas sale
 - BLM decided to postpone all sales until the corrective NEPA is done
 - Appears to be the will to make it happen before the end of the year



OGAP is the only program in the United States with the sole mission of working with tribal, urban and rural communities to protect their homes and the environment from the devastating impacts of oil and gas development.

Permitting and Project Approvals

- Permitting
 - 33% decrease in permits in 2009 across the West, but not for lack of trying
 - APDs regularly taking over two years.
- Project environmental analyses on hold
- Failure to use categorical exclusions
 - Recent BLM settlement with SUWA
 - Requires unlawful policies to be implemented

Case Study: Stewart Petroleum

- 1 employee, 2 contractors
- 9 well project environmental assessment held over 4 years
- Denied development in Uintah County, Utah
 - \$16 million investment
 - 120 jobs
 - \$5.6 million in gov't revenue over two years





Project Delays

- Dec '06 Environmental Assessment (EA) begins
- Sept '07 Tumbleweed I EA complete, 1 well drilled directionally
- Oct '07 Southern Utah Wilderness Alliance files legal challenge. Claims BLM failed to analyze directional drilling. Work is halted.
- Nov '07–Sept '09 EA rework, despite CEQ guidelines specifying that EAs should take two to three months.
- Sept '09 Tumbleweed II EA released for public comment
- Apr '10 EA still not released

Case Study 2

- 19 employee company
- Withdrawn leases and \$2.25 million worth of unissued leases
- Denied development in Utah and Wyoming
 - \$15-20 million investment
 - 150 jobs
 - Lost federal royalty as minerals are drained from adjacent fee and state acreage



So why doesn't industry develop on already leased acreage??

- According to Secretary Salazar, of the 43.6 million acres of federal land that have been leased for development, “only” 12 million are in production
- 27% producing acreage figure doesn't account for leases in various stages of development or bureaucratic and legal delays
- Free market versus command-and-control system
- Actual impact is about 472,000 acres, or 0.07% of federal acreage available for leasing

Federal Onshore Program Policy Changes

- January 6, 2010, Interior Secretary Ken Salazar announced changes
- May 17, 2010 Implementing guidance finally released
- Leasing
 - Master Leasing Plan -Site-specific analysis at the leasing stage
 - Interdisciplinary Consistency Review Teams
 - Adds at least three years to the leasing process
- Removal of Categorical Exclusions as a useful tool
 - Requires ‘extraordinary circumstances’ review
 - Violation of federal law



Bipartisan Criticism

“It is impossible to stand by silently while these job-killing proposals further hinder our efforts toward energy independence and have devastating effects on families and small businesses across the nation.

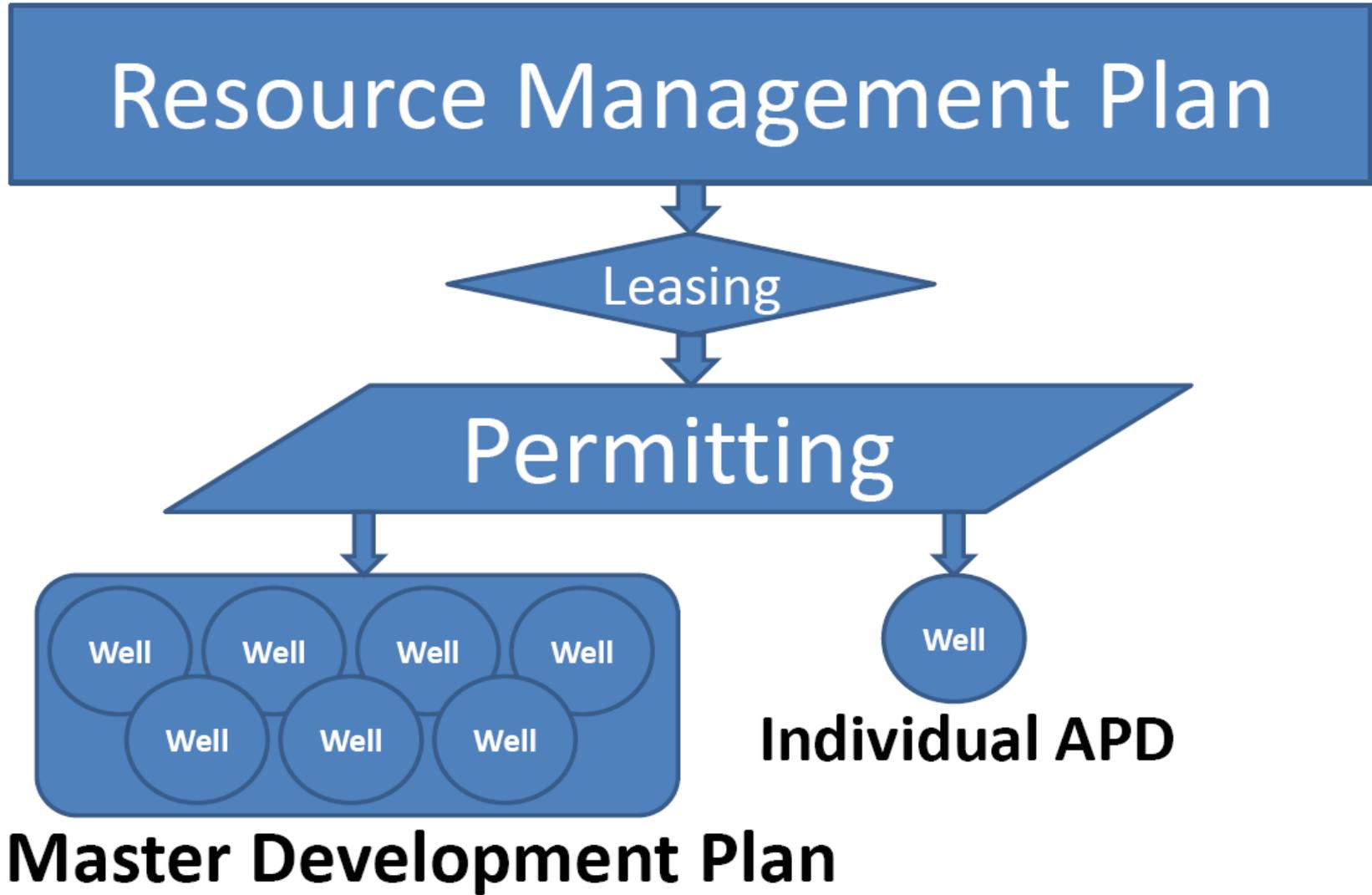
Moreover, the revenue you are impeding from oil and gas leasing is the largest contributor to the national treasury after income tax. To stifle the growth of this industry in the midst of record-setting national deficit and unemployment levels is not only outrageous but irresponsible.

Congressman Dan Boren (D-OK)

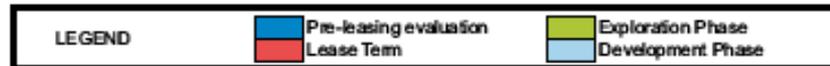
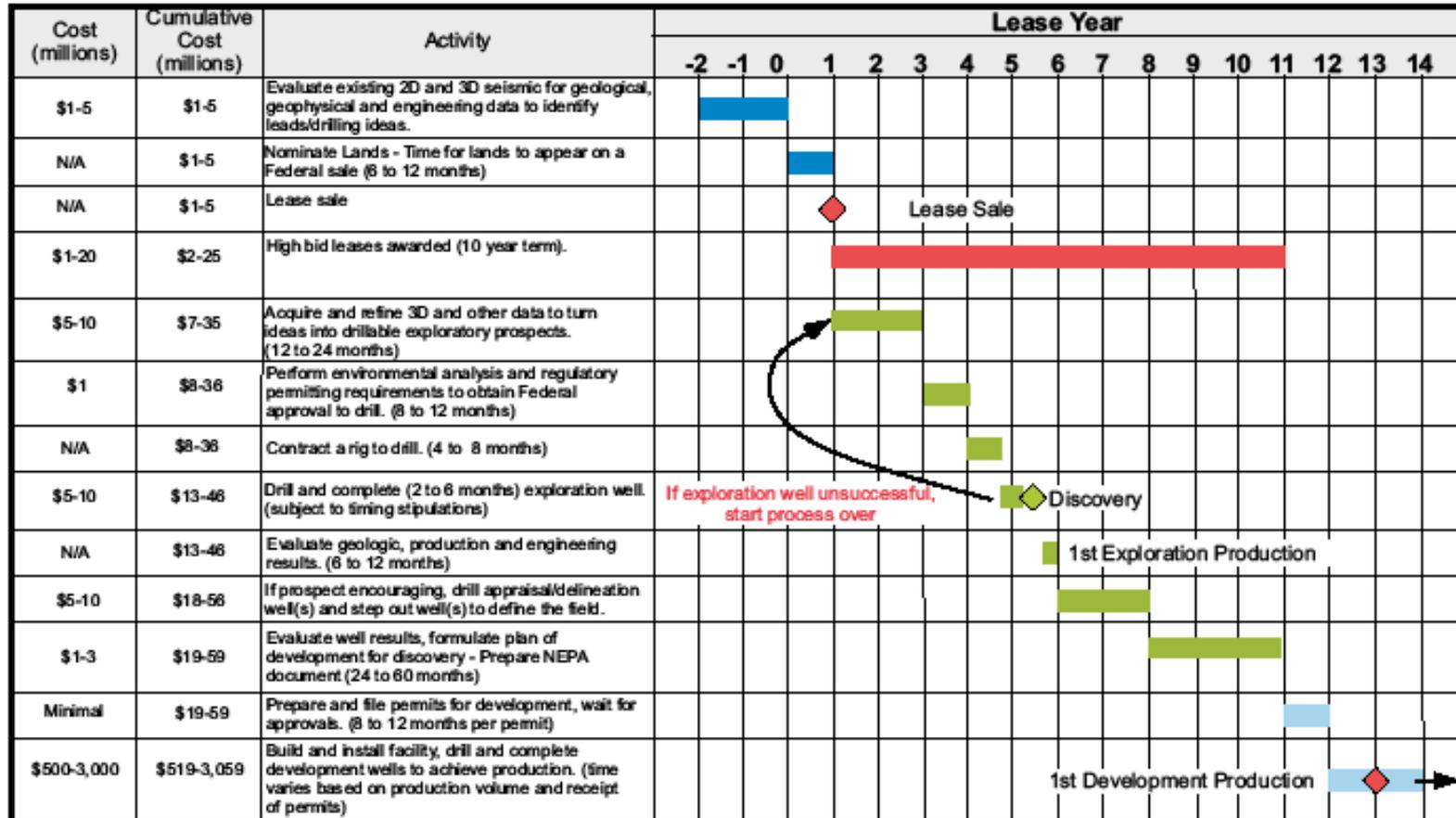
“With specific regard to the proposed changes, it seems as though the Department contemplates adding up to three additional layers of analysis into the existing leasing process. Functionally, it seems that we are putting on two additional belts and two additional pairs of suspenders without even knowing if we are going to wear pants.”

Governor Dave Freudenthal (D-WY)

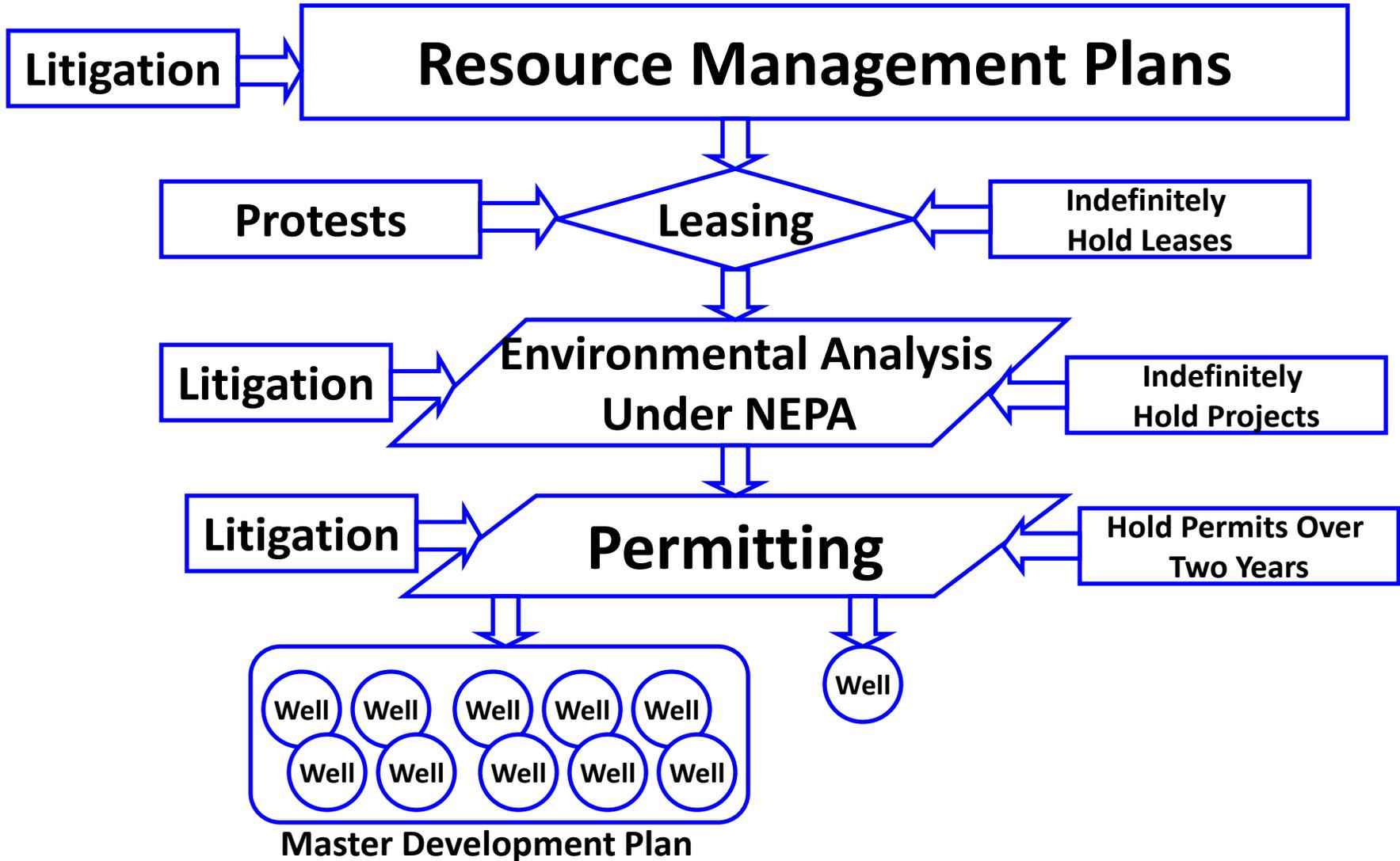
Existing Process (According to DOI)



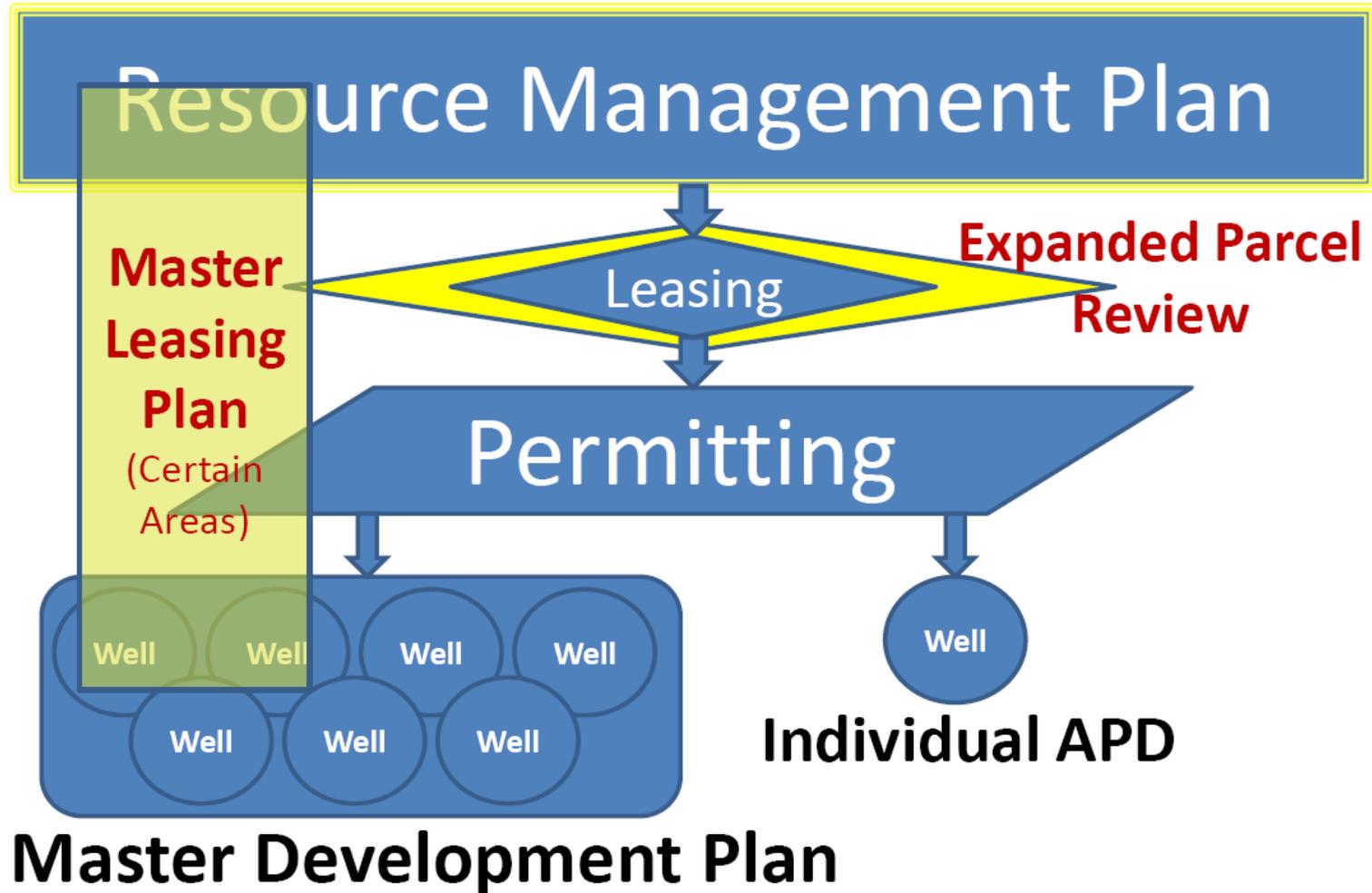
Actual Existing Process



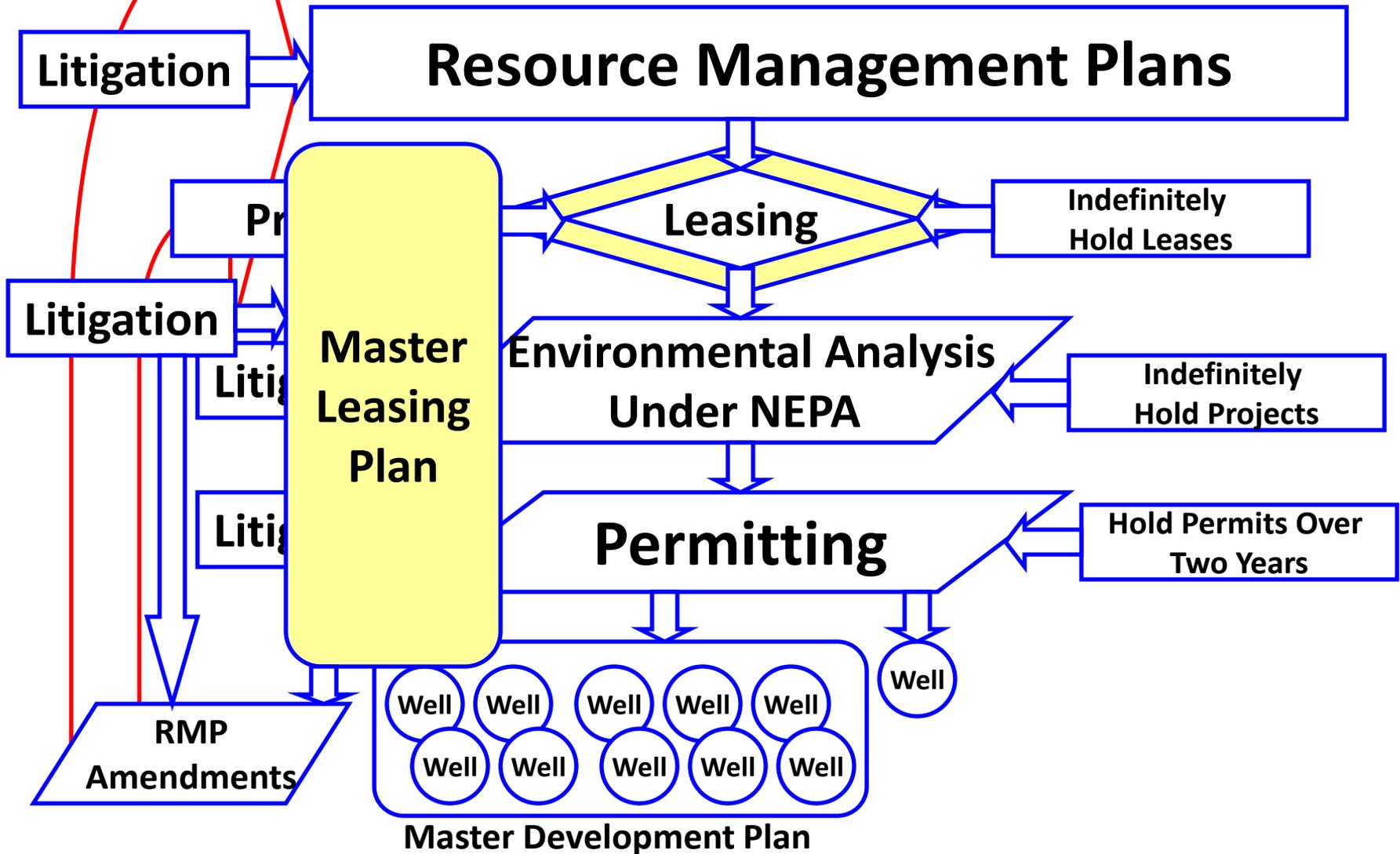
Actual Existing Process



Leasing Reform Process



Actual New Process



Interdisciplinary Team Review
Site Visits
NEPA

Lease Parcel
Review



Proposed Fee and Royalty Rate Increases

- Cost increases
 - Annual inspection fees
 - Non-producing acreage fee
 - Permanent \$6,500 APD fee
 - Rule making to raise the royalty rate
- Operating on public lands is already much more costly than on state or private lands
- **Industry returns \$46 for every dollar spent on the onshore O&G program - \$123 if you include other taxes**

So how much of the downturn in activity is policy and how much is it the economy, stupid?

- IPAMS conducted a member survey to try to shed light on that question
- 36 member companies responded, but even that small sample reveals some large economic impact from factors other than the economy

IPAMS Member Survey

74% of respondents downsized 2010 capital investment plans in the Rockies

BLM leasing and permitting is too unpredictable to risk stranding capital that can be placed in other areas.

IPAMS Member Survey

\$1.1 billion of capital investment shifted out of the Rockies to other areas of the country and Canada

At a time of depressed natural gas prices, it should be a good time for investment in the pricing cycle (buy low, hopefully sell high). We would be considering both buying undeveloped leasehold and existing production but forego these investments because of delays in obtaining APDs and increased costs and regulatory hassles.

IPAMS Member Survey

\$2.8 Billion not invested in the Rockies because of federal constraints

BLM leasing and permitting is too unpredictable to risk stranding capital that can be placed in other areas.

IPAMS Member Survey

\$708 million shifted from federal to private lands, thereby reducing return to American taxpayers on energy resources they own

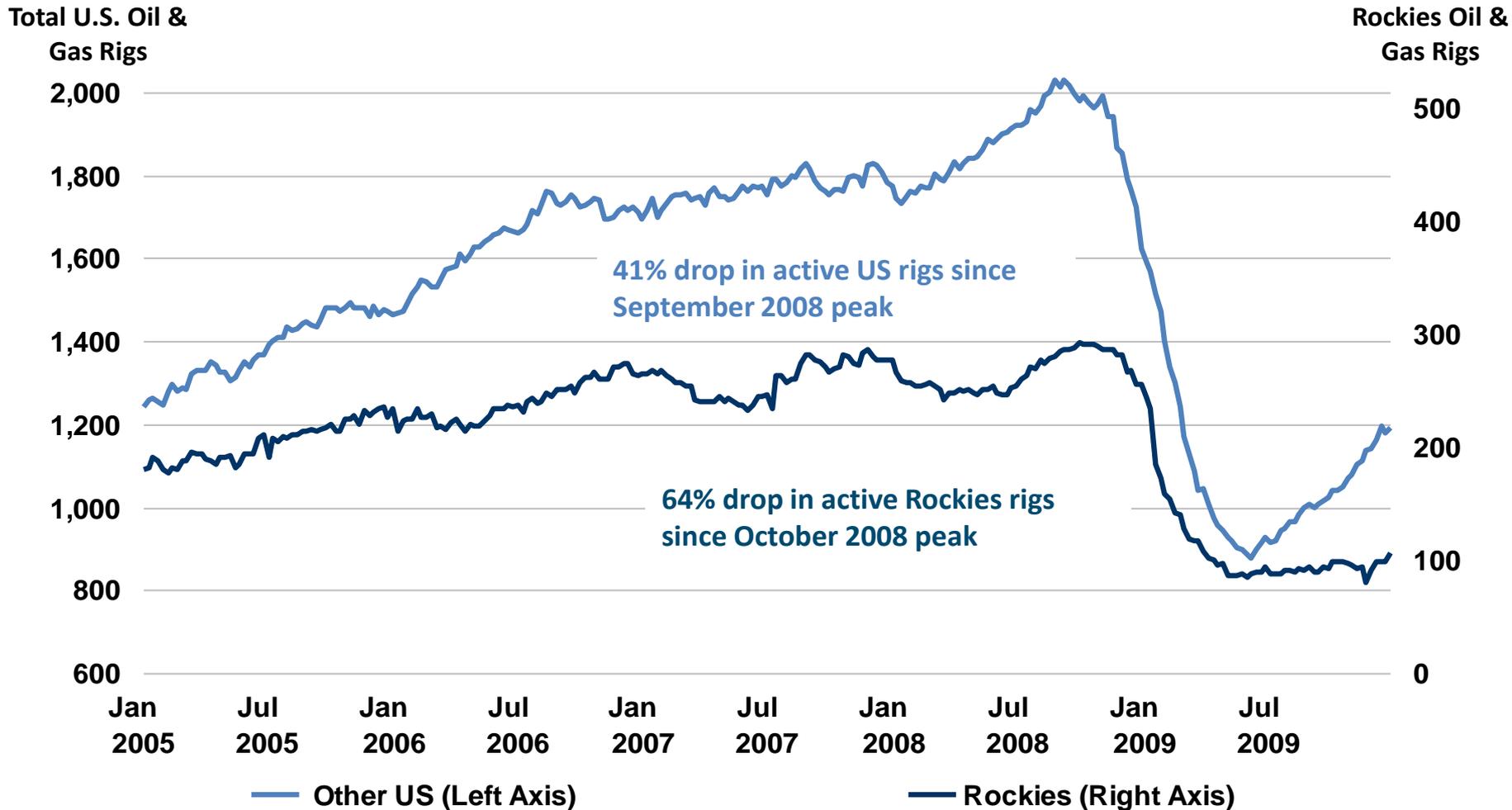
Timing kills industry. Because all leases have a finite timeline, we prefer fee/state leases because we can be certain we can get a timely lease, APD, and the lease will not be revoked or suspended after we have invested significant funds.

IPAMS Member Survey

90% of respondents will continue to divert investment until the regulatory environment changes.

Capital is available to be deployed for a short period of time. Unless there are certainties that capital can be invested with a reasonable rate of return, the Rockies will become less and less attractive for investment. Timely access to federal minerals, reasonable environmental requirements and an administration willing to work together to explore and exploit federal mineral resources is key to renewing our investment in the Rockies.

Lower 48 Weekly Rig Counts



Local Support is Crucial

- Decisions that impact the development and production of our natural resources significantly impact local communities
- 90 county mayors and commissioners across the West sent a petition to Salazar on the impact of his policies
- Support from the Western Congressional Caucuses



Local Testimony

"Fifty percent of the jobs and about sixty percent of the wages in Uintah County are tied to natural gas and oil production. However, federal government public lands policies are creating great uncertainty and companies are looking in other areas for more certainty."

Mike McKee,
Commissioner, Uintah County, UT



"If you want to work, there is definitely a job to be found, and they're good jobs. Every business in town has had a boost. It's helped our citizens and our town is growing...it benefits everyone."

Mike Hynek,
Mayor, Stanley, ND

Conclusions

- Natural gas is a clean energy source that offers meaningful solutions to pressing national challenges
- Producers in the Rockies can continue to provide American energy, but need certainty in regulatory policies and access to federal lands
- Federal policies are preventing significant investment in the Rockies, negatively impacting rural economies and jobs

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