## **Written Testimony**

**Subcommittee on Energy and Mineral Resources** 

H.R. 2661, H.R. 3565, H.R. 2907

Wednesday, September 6, 2017

Paul Ulrich

Jonah Energy LLC, Director of Government and Regulatory Affairs

Chairman, Petroleum Association of Wyoming

## 1. Introduction

Mr. Chairman,

I, Paul Ulrich, provide the following written testimony for the above noted hearing. I am currently Director of Government and Regulatory Affairs for Jonah Energy LLC. Jonah Energy was created in the spring of 2014 with the acquisition of producing assets within the Jonah Field in Sublette County, Wyoming. We are one of the largest privately-held natural gas producers in the US. In 2017 we acquired much of the remainder of the Jonah Field and currently produce over 450 Mmcfe/day net from over 2,200 producing wells across over 145,000 net acres within Wyoming's Jonah and Pinedale fields and adjacent Normally Pressured Lance ("NPL") area. The Jonah Field is the 8<sup>th</sup> largest natural gas field in the United States. In addition to ongoing development of our Jonah Field assets, Jonah Energy is in the process of obtaining authorization to develop our acreage in the adjacent Normally Pressured Lance (NPL) area, which we believe holds the potential for substantial incremental oil and natural gas reserves.

I am also Chairman of the Petroleum Association of Wyoming and representing them at this hearing. We are 171 companies strong, representing about 90% of the natural gas production and 80% of the oil production in the state of Wyoming. In addition, a large portion of the service sector companies are members.

Twenty of Wyoming's 23 counties produce oil and/or natural gas. Our industry paid to the State of Wyoming \$1.5 Billion in taxes and royalties in 2016 (nearly \$2,562 per person) and directly employed more than 8,000 people with an annual payroll of \$682 Million. Wyoming is the 4th largest gas producing state in the lower 48, with sales of natural gas production totaling 1.628 trillion cubic feet (Tcf), and the 7th largest oil producing state, with production of 72.5 million barrels. The significance our industry plays in the economy of Wyoming and our nation cannot be understated. Wyoming is poised to continue to be a major player in our Country's energy future.

Federal lands in Wyoming contain world-class energy and mineral resources that are crucial to Wyoming's economy and the national interest. Overall, federal land surface ownership in Wyoming is over 30 million acres and 48.1% of Wyoming's total. The Bureau of Land Management alone administers more than 17.5 million acres of public lands and 40.7 million acres of federal mineral estate in Wyoming.

There is clearly the potential to significantly increase oil and gas production and reserves in the State of Wyoming.

## **The Current Landscape**

Production of oil and gas on federal lands compared to non-federal lands has continuously fallen for the past several years, and as a result, federal mineral royalties associated with federal land development has declined. In addition, jobs and other associated state and local tax revenues in states with predominant federal lands have also seen declines.

According to the Congressional Research Office U.S. crude oil and natural gas production in Federal and Nonfederal Areas June 22, 2016 Report:

- Nonfederal crude oil production has more than doubled daily production between FY2006 and FY2015.
- The federal share of total U.S. crude oil production fell from its peak at nearly 36% in FY2010 to 21% in FY2015.
- There are an estimated 9.6 billion barrels of proved oil reserves located on federal acreage, equal to about 26% of all U.S. crude oil reserves.

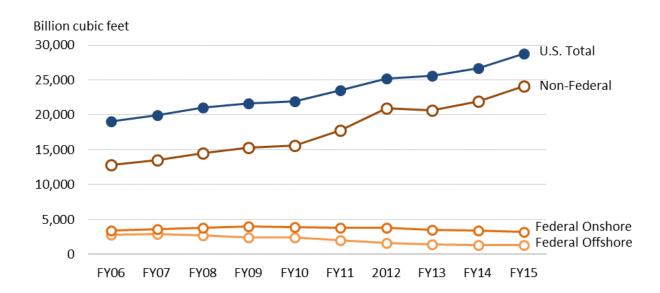


Natural gas production in the United States has dramatically increased each year since 2006. In contrast, production on federal lands declined each year from FY2007 through FY2014. Federal natural

gas production fluctuated around 30% of total U.S. production for much of the 1980s through the early 2000s, after which there began a steady decline through 2015.

Natural gas prices have remained low for the past several years, as the shale gas boom has resulted in rising supplies of natural gas. Overall, annual U.S. natural gas production rose by about 10 trillion cubic feet (tcf) since FY2006, while annual production on federal lands (onshore and offshore) fell by about 1.6 tcf (or nearly 26%) over the same time period. Natural gas production on nonfederal lands nearly doubled over the same time period. The big shale gas plays have been primarily on nonfederal lands and have attracted a significant portion of investment for natural gas development. The federal share of natural gas production fell from 32.8% in FY2006 to 16% in FY2015.

U.S. dry gas proved reserves are estimated at about 388.8 trillion cubic feet (tcf) by the Energy Information Administration (EIA), 9 of which the federal share is about 22% (69 tcf onshore, 16 tcf offshore).



According to the U.S. Energy EIA Annual Energy Outlook 2017:

Domestic energy consumption remains relatively flat between 2017 and 2040 but the fuel mix changes significantly. Natural gas consumption increases more than other fuel sources in terms of quantity of energy consumed, which is led by demand from the industrial and electric power sectors. Petroleum consumption remains relatively flat as increases in energy efficiency offset growth in the transportation and industrial activity measures.

Total energy production projections see continued growth. Total energy production increases by more than 20% from 2016 through 2040, led by increases in renewables, natural gas, and crude oil production. Natural gas production accounts for nearly 40% of U.S. energy production by 2040.

Crude oil production increases from current levels, but then levels off around 2025 as tight oil development moves into less productive areas.

The U.S. becomes a net energy exporter as natural gas exports increase and net petroleum imports decrease. The United States has been a net energy importer since 1953, but declining energy imports and growing energy exports make the U.S. a net energy exporter by 2026 in U.S. EIA's projection.

Natural gas trade, which has historically been mostly shipments by pipeline from Canada and to Mexico, is projected to be increasingly dominated by liquefied natural gas exports to more distant destinations.

In short, declines in federal land oil and gas production are expected to continue even as production of oil and gas overall increases. Extremely long permitting or project approval times, limited access to federal lands and market conditions are all causes. If the trend of production declines on federal lands is to be reversed, significant short term and long term efforts to make federal land development more competitive are required.

## **Existing and projected impacts to Wyoming**

On a BTU basis Wyoming supplies more energy to the rest of the nation and has more producing federal oil and natural gas leases than any other state.

While oil and natural gas production in the United States has increased dramatically over the last several years, the growth has occurred predominantly on private and state lands while federal lands have lagged far behind. States in the West with large amounts of public land are at a decided disadvantage compared to other parts of the country. Slow processing times and federal obstacles to production limit job creation and economic growth, particularly in rural communities.

As a glaring example several impactful oil and gas development projects in Wyoming are either realizing extremely long completion timelines or the project proponent has cancelled the project after significant delays. Decisions have been delayed for oil and gas projects due to extended review periods, additional analysis and modeling and other unanticipated, but controllable factors that delay timely completion of environmental documents.

Since 2009, the Bureau of Land Management (BLM) has issued one Record of Decision (ROD) for an oil and gas project Environmental Impact Statement (EIS) in Wyoming—and that project required over 10 years to complete. During the same time period, many ongoing oil and gas project EISs have experienced lengthy delays in the National Environmental Policy Act (NEPA) process, with several pending for four or five years without a draft EIS being released. In the past few years several large

scale oil and gas development projects in Wyoming have been cancelled by the operator after significant delays. The capital investment, jobs and tax revenues on those projects will likely never be realized by the state. Failure by the lead agency to efficiently complete the NEPA process and issue RODs for oil and gas projects has caused adverse impacts on economic and fiscal conditions for state and local economies, increased cost and workforce requirements for all entities involved and have other negative implications.

Project	Wells	Status
Moxa Arch Infill Project	5,161	Initiated in Oct 2005, canceled by operator in Oct
		2013 after 8 years
Hiawatha Regional Energy	4,207	Initiated in Sept 2006, pending after 10.25 years
Development Project		
Beaver Creek Coal Bed Natural	228 wells	Initiated in July 2008, cancelled by operator in 2013
Gas Development Project		after 5.3 years
LaBarge Platform Project	838	Initiated in April 2011, cancelled by operators in
		2015 after 5.6 years
Continental Divide-Creston EIS	8,950	Initiated in March 2006, final decision by the BLM in
		September 2016 after almost 10 years
Normally Pressured Lance	3,500	Initiated in April 2011, Decision pending after 5.7
Natural Gas Development		years
Project		
Moneta Divide Oil & Gas	3,100	Initiated in January 2013, decision pending after 3.9
Development Project		years

An April 2010 member survey by the Independent Petroleum Association of Mountain States (IPAMS) indicates that 54 percent of respondents cited federal government refusal to allow project-level environmental analysis to proceed as a reason for diverting investment away from projects on federal lands (IPAMS 2010). The several large oil and gas development projects that have been cancelled by operators in the past three years demonstrates the fluid nature of capital investment in light of no regulatory approval for investments in leases and the NEPA process. The costs of delaying NEPA decisions and extending timeframes for the approval of oil and gas projects not only affect federal and state governments but also affect local communities, energy industry job seekers and ultimately individual energy consumers.

Wyoming's tax structure, largely based on mineral production taxes, is subject to market volatility and timely access to federal minerals. Almost 75% of the State's tax revenue is generated by property taxes,

mineral severance taxes and sales and use taxes. The minerals industry pays the bulk of those three taxes. Between 2015 and 2016 Wyoming realized a 37% decrease (\$1.3 Billion) in revenue from the minerals industry.

Mineral severance taxes and federal mineral royalties in Wyoming totaled \$1.02 billion for FY 2016. This is the lowest combined total from the primary state minerals revenue streams since FY 2003.

Mineral production taxes fund approximately 65% of K-12 education operations. The FY 2017-18 biennial shortfall for K-12 funding is estimated at \$644 million and facing an estimated shortfall of \$360 and \$400 million for FY 2019-20 and 2021-22, respectively.

In FY2019-20 Wyoming could be facing a shortfall of \$720M for K-12 education. This does not include the school construction and maintenance shortfall anticipated to be \$186M. Reserves could be completely exhausted in FY 2019-20.

Wyoming State Government Revenue forecasts by the Consensus Revenue Estimate Group (CREG) provided their forecasts on oil and gas in an October 2016 report:

Wyoming oil production peaked at roughly 86.5 million barrels in CY 2015, or 14 percent higher than CY 2014 levels. CREG forecasts oil production will decline in CY 2016 by 14.5 million barrels, or 16.8 percent, another 5 million barrels, or approximately 7 percent, in CY 2017 and another 5 million barrels, or roughly 7 percent, in CY 2018.

Wyoming natural gas production, according to the Oil and Gas Conservation Commission, declined 5.5 percent in CY 2012, 8.8 percent in CY 2013, 2.4 percent in CY 2014, 0.1 percent in CY 2015 and is down 5.5 percent (annualized) in the first six months of CY 2016. Given these production trends and continued low rig count for Wyoming natural gas, CREG maintains the expectation of declining production through CY 2022. Specifically, the forecast assumes year over- year reductions of 6.8 percent in CY 2016 and 2 percent annual reductions for the balance of the forecast period. Consistent with the trends of recent years, declining production in many of Wyoming's primary natural gas basins and a significant reduction in coal bed methane production are not being offset by new production in a sustained fashion.

## **Landscape Summary**

Multiple factors such as market conditions, public land use policy, permit and NEPA delays and geology have led to a clear picture of oil and gas declines on federal land. Declines in production and severely limited permit and project approvals have led to significant economic loss for communities and states dependent upon development of federal minerals. Job losses also cannot be understated.

In addition, the federal government itself is realizing significant losses in federal mineral royalties due to inefficient federal mineral management and processes. Outlined below are recommendations for addressing these issues. If adopted, these recommendations can improve viability of federal land development, give operators and communities a higher level of assurance and help generate significant additional state and federal tax dollars and associated job growth.

## 2. Recommendations

#### Adopt H.R. 2661 to amend the Mineral Leasing Act

Efficiency of any oil and gas program with a federal nexus is critical to the growth of federal mineral development. States such as Wyoming are simply better equipped to manage mineral royalty programs and payments. Wyoming can more effectively process mineral royalty revenues and provide for a greater return for Wyoming citizens and the Federal Government for a fraction of the cost and time associated with the current system. This savings would also allow for more investment in development of federal land minerals.

Wyoming and our citizens deserve the full 50% of revenues as originally intended. Wyoming's leadership, industry, conservation community and citizens work together to develop our minerals and protect the environment. We lead the nation in innovative solutions to enhance development while reducing impacts to our air, water and wildlife. Wyoming supplies more energy to the rest of the nation than any other state and also provides the 1<sup>st</sup> National Park, National Forest, National Monument and world class wildlife resources.

By returning the 2% administration fee and allowing Wyoming to administer the program you are assured that mineral revenues are properly paid, collected and accounted for. You are also sending a strong message that states and the federal government are equal partners.

Wyoming and other states with significant federal lands have a long and proven track record of leading common sense efforts within their borders to ensure a fair and balanced return on mineral development to their citizens. This bill serves to strengthen the concept of state's rights and will provide more needed funding to states that generate such significant energy resources to our nation.

#### Enact a comprehensive long term national energy strategy

The key to sustainable, long term growth of federal minerals is a comprehensive long term energy strategy with focus on enhanced access, streamlined development approval and reasonable and protective environmental regulations.

We fully support the efforts of Rep. Scott Tipton and H.R. 2907, Planning for American Energy Act of 2017. Wyoming's energy industries have suffered significant negative impacts over the past decade due to over-regulation, delays in project permitting and market conditions. This had led to job losses, lost tax revenue and companies moving away from developing federal minerals. Lack of federal mineral development hurts not only Wyoming citizens but our nation. It weakens our ability to achieve energy independence, destabilizes local, state and national economies and impacts our ability to provide true national security.

Wyoming enacted a strategy in 2013 and it is working. Below are excerpts from Wyoming Governor Matt Mead's plan that are directly applicable at a federal level. The success of Wyoming's plan was, and is, collaboration among all stakeholders. Conservationists, energy developers and ranchers all working together for a common goal and the common good.

Wyoming's Energy Strategy, Leading the Charge: Wyoming's Action Plan for Energy, Environment and Economy. The strategy used a private sector business model, aligning operations within state government to work towards common goals. The goals were guided by a vision that "Wyoming will

achieve excellence in energy development, production and stewardship of its natural resources." The goals would be accomplished through action initiatives. State agencies were brought together to find the best means to complete the initiatives.

The strategy has been a successful one, and we have been able to track the progress made.

The development of Wyoming's mineral resources supports the workforce, promotes economic well-being, and provides the raw materials for products that Americans use every day. Just as development is important, so is our commitment to stewardship, reclamation and a clean environment. We ensure responsible production and reclamation. A sustainable natural ecosystem is always the goal, and the industry always strives to leave the land in a better state once the work is done.

Our employees don't just work here, they live here. Being good neighbors and stewards of the land is a core value.

Wyoming's energy industry is the largest contributor to the state's economy. In 2014, this sector generated almost \$16 billion dollars in total revenues. That same year, the oil and gas industries employed about 25,000 people and the mining industry another 6,500. The effects of these industries are felt across the state, directly and indirectly. Schools are built from revenues generated by coal production. Water pipelines, business parks and community centers are built from funds generated by the energy industry. These are but a few examples of energy's benefits.

#### **Continue efforts to strengthen State's Rights**

H.R. 3565, The Federal Lands Freedom Act, presents a concept that warrants significant discussion and consideration. Allowing states to create and establish their own regulatory process for exploration, development and production of oil and gas on federal lands within their borders has merit. In some cases, such as Wyoming, states already have a robust and efficient regulatory body that does regulate oil and gas development.

Wyoming has a very long and successful track record of regulating oil and gas operations through the Wyoming Oil and Gas Conservation Commission (WOGCC). The WOGCC has proven throughout the years that they can process applications cheaper, faster and more efficiently than the BLM. State permits routinely take between 30-60 days to process while BLM permits can range from 3 months to 2 years to complete. The WOGCC already regulates all oil and gas exploration and production activities of fee, state, and federal minerals in Wyoming.

In addition to permitting development the WOGCC has promulgated industry and nation leading environmental protection regulations.

Just since 2011 the WOGCC has promulgated rules for enhanced protections on hydraulic Fracturing operations, groundwater baseline sampling, analysis and monitoring, surface setbacks, bonding and venting and flaring.

In many cases, these rules where established years prior to BLM establishing or recommending similar rules.

The Wyoming Department of Environmental Quality has also established rules prior to BLM or EPA recommendations or rules that further limit emissions associated with oil and gas operations. In Wyoming, we manage our natural and mineral resources exceptionally well, providing for both environmental stewardship and energy production. Wyoming's statutory and regulatory framework

encourage the responsible production of oil and gas resources. Throughout the past twenty years, Wyoming has been recognized as a national leader in regulating air emissions from oil and gas production. In that time, Wyoming has issued over 29,000 air quality permitting actions.

In 1997, absent an EPA permitting program or guidance, Wyoming DEQ's Air Quality Division established its oil and gas minor source guidance and permitting program. This air emissions program is consistent with Wyoming's legislative directive aimed at preventing, reducing, and eliminating pollution and retaining primacy over Wyoming's air quality resources.

In 2011, in response to the growth in hydraulically fractured natural gas wells, the EPA looked to Wyoming and Colorado as it developed its oil and gas new source performance standards for production equipment – commonly referred to as Quad O. EPA's rule recognized that some state permitting programs already regulated those wells and the rule took advantage of existing state compliance mechanisms.

Wyoming's air quality and Wyoming's WOGCC regulations apply across the entire state – to private, state, and federal mineral development.

Wildlife protections are also a significant component of maintaining a balance of energy development and environmental stewardship.

The strongest example of Wyoming leading the nation in wildlife protection is the work of the Wyoming Sage Grouse Implementation Team. The team, consisting of members of conservation, industry, agriculture, legislators and state and federal agencies, have developed the blueprint for Greater Sage Grouse habitat protection. The work of the team directly resulted in a series of Governor's Executive Orders that protect most of the Sage Grouse and habitat throughout Wyoming. Providing for significant additional protections over roughly 24% of Wyoming. The "Core Area" Strategy that was developed was noted by the USFWS as the single largest protection measure that kept the Sage Grouse from being listed under the Endangered Species Act.

The Sage Grouse Strategy was built with boots on the ground, sound science and state led.

In sum, states have, and can, manage our public lands very effectively. Often more efficiently and with greater overall results for energy development and natural resource protection.

# Coordinate with the Administration and Agencies to reduce regulatory burdens and streamline development

Duplicative and unnecessary regulations have depressed federal mineral development for the past decade. Often federal rules are based on rules that select states have already promulgated and that are working in those states. A federal duplication adds no discernable benefit and typically only results in additional paperwork for operators, local field offices and states. At the very least, state primacy needs to be strongly considered when any agency begins rulemaking and deferment to states should be adopted when those states have an existing program.

Streamlining oil and gas development processes is critical to federal mineral growth. Significant delays in leasing timeframes, environmental review (NEPA) and applications to drill have crippled the ability of operators to economically develop on federal lands. Hard timeframes and accountability to the entire process should be strongly considered. As discussed above, new oil and gas development projects

requiring Environmental Impact Statement (EIS) level NEPA analysis in Wyoming over the past decade have been extremely difficult to gain federal approval. A streamlined process will provide the running room needed to not only hold federal mineral production even to facilitate significant potential for growth.

### 3. Conclusion

Affordable energy is the backbone of a strong economy. Low electric bills mean more money in family pockets. It makes a difference in quality of life from heat to groceries, from the light switch to the refrigerator. It is integral to our daily life. The oil and natural gas produced in Wyoming moves across the country, heating homes and running vehicles. Wyoming energy is domestic energy — created in America, used in America. It employs Americans in energy, manufacturing, retail and technology. Wyoming resources support our national strength and security in a fundamental way.

Global events and national policies have challenged the energy industry. Coal, in particular, has been a target of federal administrative actions. Oil and natural gas prices are low. These circumstances create hurdles for industries and decision makers. Wyoming has not rested in the face of these obstacles. The state and its industries continue their work to remain on the leading edge, keeping these important resources a key part of future national prosperity.

- Wyoming can more effectively process mineral royalty revenues and provide for a greater return for Wyoming citizens and the Federal Government for a fraction of the cost and time associated with the current system.
- The key to sustainable, long term growth of federal minerals is a comprehensive long term energy strategy with focus on enhanced access, streamlined development approval and reasonable and protective environmental regulations.
- Delegating primary authority to the states would ensure environmentally-responsible development is possible without the lengthy delays associated with the federal onshore process.

\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*