



## **OIL AND GAS: \$1.1B lost in Rockies as drillers abandon federal leases -- survey (04/29/2010)**

**Scott Streater, E&E reporter**

Oil and natural gas industry officials say they are now avoiding drilling on federal land in the mineral-rich Rocky Mountain region due to tougher regulations and continued congressional efforts to preserve more public land across the West.

A new industry [survey](#) of oil and gas firms, released this month by the Independent Petroleum Association of Mountain States, suggests the Obama administration has held up environmental reviews and permits on federal drilling leases in Colorado, Wyoming and Utah and even pulled previously approved drilling projects in Montana, North Dakota and South Dakota to study drilling's potential impacts on climate change.

These federal actions have placed the Rocky Mountain region at a competitive disadvantage, the survey says, and prompted a shift away from the region toward lesser-known oil and gas plays in the East, Midwest and South.

"Companies are moving elsewhere," said Kathleen Sgamma, IPAMS's director of government affairs in Denver, adding that as investment flows to other regions, so too do high-paying jobs and the other economic benefits that come with industrial development.

As evidence, the report -- titled the "Rockies Regional Competitiveness IPAMS Member Survey" -- cites an estimated \$1.1 billion in redirected capital investment away from the Rocky Mountain region to states like Texas, Arkansas, Louisiana and Pennsylvania, where the Bureau of Land Management, Forest Service and other federal agencies have less control over drilling activities.

Without the additional regulatory burden placed on industry by the Obama administration, oil and gas firms "would be investing an additional \$2.8 billion in the Rockies" today, according to the survey.

Moreover, nearly three of four energy companies responding to the survey said they had downsized plans to operate in the Rockies because of "permitting problems," and nine of 10 said they would continue to scale back in the region "until the regulatory environment changes."

What new drilling is occurring in the region is on privately owned tracts. The survey indicated that firms shifted an estimated \$703 million in investment from public to private lands. That means less federal revenues from leasing fees paid by drillers on federal land.

"All of these policies together combine to put the West at a competitive disadvantage in terms of natural gas and oil compared to other regions of the country," Sgamma said. "Federal policies are having a significant impact here on Western economies and on Western jobs."

## 'No bias,' says BLM

But federal land managers and environmentalists say they have seen little evidence that industry is buckling under regulatory pressure, and they attribute any slowdown in drilling to the ongoing economic downturn.

"The BLM has no bias against traditional energy resources," said Matt Spangler, a BLM spokesman, in a written response to questions from *Land Letter*. "Oil and gas leasing is an important element of our multiple-use mandate, and a valuable and viable use of the public lands."

But there is little doubt the region's once-robust oil and gas sector is shrinking at the same time the Obama administration is issuing sweeping reforms to federal oil and gas leasing policies on federal land. Interior Secretary Ken Salazar announced in January that the department would require more detailed environmental reviews, more public input and less use of "categorical exclusions" that effectively streamlined the permitting process for energy firms ([Land Letter](#), Jan. 7).

Leasing statistics reflect the downturn as well. BLM issued 2,072 drilling leases in fiscal 2009 -- nearly 350 fewer than the 2,416 leases in the last year of the Bush administration, and far less than the Bush administration high of 3,985 leases issued in fiscal 2006. Industry officials -- often in pointed language -- have made clear their contention that the decline is the result of hostility toward domestic energy production from traditional sources.

Yet Spangler insisted the leasing trend reflects economic conditions more than any policy shift in the first 15 months of the Obama administration. "The recent downturn in Western natural gas drilling is market-based," he said. "The federal regulatory environment has not changed over the past two years."

Environmentalists agree. They point to a recent Wilderness Society [report](#) challenging industry claims that a reduction in federal oil and gas leasing reflects Interior Department hostility to fossil energy development. Rather, the report claims, discoveries of vast natural gas deposits under non-federal lands have increased supply and driven down the price of gas,



A new industry survey suggests oil and gas development sites like this one could be disappearing across the Rocky Mountain West as energy firms shift focus to new regions where the federal government has less control over resources. Photo courtesy of DOE.

prompting industry to pull back on leasing federal parcels ([Greenwire](#), Feb. 23).

"It's a plain and simple fact that the economic downturn, with the lower prices for the oil and gas industry, has resulted in them scaling back activity across the western United States, including in Utah," said Steve Bloch, an attorney with the Southern Utah Wilderness Alliance in Salt Lake City. "That has nothing to do with Interior Secretary Salazar's policies and everything to do with economics."

But Bloch acknowledged that industry representatives might be frustrated by the Obama administration's elevation of environmental values as part of standard reviews of energy and other projects on federal lands. The Bush administration, by contrast, made clear that energy development should be a high priority on public lands, and its policies frequently drew fire from environmentalists.

"Energy development obviously remains a priority for the Interior Department, but it's not the only priority," Bloch said. "Wildlife and wilderness are now on equal footing with energy development. And that's the sort of balanced management that we had been looking for."

### **A case study**

For oil and gas companies, however, "balanced management" often means increased regulatory uncertainty, protracted litigation battles and untenable delays of projects.

They point to examples like that of Stewart Petroleum Corp., which in 2006 spent \$9 million to secure a federal lease and drill an exploratory well on BLM land about 50 miles southwest of Vernal, Utah, in Uintah County.

Daryl Stewart, the company's owner, said last week during a Web-based Western Business Roundtable event that the exploratory well revealed a potential 60 billion-cubic-foot reservoir of natural gas -- "the largest natural gas discovery I have ever been involved with and that I have ever drilled as operator," he said.

Stewart said he planned to drill eight more exploratory wells to try to confirm the size of the natural gas reservoir, with production slated for within a year.

But in October 2007, the Southern Utah Wilderness Alliance challenged BLM's environmental analysis (EA) of the project, arguing that the agency should have required greater environmental safeguards before allowing Stewart to set up production wells.

"That's when all the fun and games began for my life trying to build my company out in Utah," Stewart said.

Stewart said his firm, working with lawyers and environmental consultants, worked closely with BLM to resolve many of the issues raised in the challenge, resulting in a new EA released last September for public comment. Stewart said the revised EA was backed by "numerous, numerous support letters from all people from all walks of life."

But SUWA was not convinced, arguing in comments to BLM that the new analysis was not substantially different from the first one, and that the project could be done in a more environmentally sound way by using directional drilling techniques.

Eight months later, the EA has yet to receive final approval, and Stewart said the Uintah County project is all but dead.

"The obstacles, ... the hurdles we've had to jump over, the hoops we've had to jump through have been mind-boggling and nonsensical," he said. "This has caused me as a small business to basically shut down my operations in Utah."

Bloch, the SUWA lawyer, made no apology for the Stewart project's fate. He said the company's Utah drilling proposal was subject to the same level of scrutiny as any other drilling project involving public lands identified as having federal wilderness characteristics. And he notes Stewart's regulatory problems began in the final years of the Bush administration.

"It's a privilege for companies to operate on public lands in the West, and there is a higher cost of doing business here because energy resources are just one resource that the federal government manages," Bloch said. "That doesn't sound like much of a sob story to me."

## **Utah's clashing values**

Indeed, few states illustrate the clash between environmental protection values and oil and gas development better than Utah, where two-thirds of the state is federally owned.

Congress is currently considering a bill that would designate 9.4 million acres in Utah as "America's Red Rock Wilderness," including portions of Grand Staircase-Escalante National Monument and areas adjacent to Capitol Reef National Park, Canyonlands National Park and the Glen Canyon National Recreation Area ([Land Letter](#), Oct. 1, 2009).

Wilderness areas are strictly off-limits to energy developers, and Utah's elected leaders have strongly opposed expanding wilderness in the state at the expense of other priorities, including oil and gas development. Some Utah officials say BLM is already treating non-wilderness portions of the Red Rocks region as if they were protected lands.

Uintah County Commissioner Mark Raymond said the increased federal regulation of oil and gas parcels has direct implications for his county, where 60 percent of all wages are tied to the sector. "And those jobs are nice jobs, high-paying jobs," Raymond said.

That is why he and other state leaders are pushing back in unprecedented ways against the federal government.

Last month, Utah Gov. Gary Herbert (R) signed a bill authorizing the state to use eminent domain authority to take federal land away from BLM and other agencies, including parcels designated as national monuments and landmarks ([Land Letter](#), April 1).

The Utah legislation authorizes the state attorney general to identify federal holdings where the state can make its strongest case for eminent domain authority. A potential first target could be Grand Staircase-Escalante National Monument in southern Utah, established by President Clinton in 1996 over the objection of many Utah leaders, including its Republican congressional delegation in Washington.

State Rep. Chris Herrod (R), who sponsored the House version of the eminent domain bill, said the Grand Staircase-Escalante monument sits atop massive coal reserves worth an estimated \$1 trillion. He wants to see some of that resource opened up for development.

Other potential sites include BLM-owned parcels that were leased for oil and gas development by the George W. Bush administration but later rescinded by the Obama administration. The Interior Department's decision to cancel eight of 77 leases on those parcels and send 52 others back for additional agency review will cost Utah an estimated \$139 million in future tax revenue, according to state officials.

"Industry is just very reluctant to invest in our area and they are moving out of the area," said Raymond, the Uintah County commissioner. "So we're very concerned about what these impacts are having to us in Uintah County and in the Intermountain West. We're very concerned about what is happening."

[Click here](#) to read the results of the IPAMS survey.

[Click here](#) to read the Wilderness Society report.

*Streater writes from Colorado Springs, Colo.*