

## Energy Policy Affects Consumers Too

LITTLE ROCK, AR.—While he said he appreciated the opportunity to address the Arkansas Independent Producers & Royalty Owners Association convention, held Sept. 30 in Little Rock, Tommy Foltz admitted he was more accustomed to addressing crowds much less informed about energy production.

"This is one of the few energy crowds I have spoken to," Foltz admitted. "The Consumer Energy Alliance is happy to be here, but we really are trying to preach beyond the choir. We want to motivate the choir, but we want to educate beyond the industry."

The executive director of CEA's south region, Foltz explained his group's purpose, and offered a closer look at how it envisioned the initiatives ahead.

Another speaker at the AIPRO conference who provided an overview of oil and gas federal policy initiatives was Brent Golleher, manager of government relations and political affairs for the Independent Petroleum Association of America. Golleher's analysis included a prediction that the Obama administration's ambition to remake the country's energy economy likely would take a back seat to the president's healthcare ambitions.

"It becomes a question of whether there are too many issues going on with too little time and too little political capital left to address every one before Congress breaks for Christmas," he illustrated. "In that same vein though, it is important to remember that the United Nations Copenhagen summit is coming in December and President Obama wants to go there with tangible evidence that the United States is serious about curbing greenhouse gas emissions."

### Point And Click Democracy

Foltz described CEA as a nonprofit,

nonpartisan alliance of energy providers and energy consumers that supported an "all of the above" approach to U.S. energy production to foster reasonable and stable energy prices that benefited consumers, producers and the economy. To that end, he said the group's grass-roots advocacy campaign had a network of more than 260,000 advocates that CEA encouraged to log onto its Web site and participate in what Foltz called "point-and-click democracy" that made policymakers aware of constituents' stance on energy issues.

While such an approach generates impressive numbers, such as the 11,000 hits he said the site averaged each day, he acknowledged that some faulted it for lacking the educational depth of person-to-person lobbying. "It takes both," Foltz held. "When you go into the voting booth, you never write an essay about why you support a particular candidate. You go in and flip the lever. Through its electronic infrastructure, CEA is providing the voting booth and the lever."

He cited as an example of CEA's work, the coalition's delivery of 150,000 comments favoring offshore drilling to the Minerals Management Service regarding its draft five-year plan for the Outer Continental Shelf. He said that output represented the most generated by any advocacy group. He added, "We also delivered more comments than the Natural Resources Defense Council in the oil shale campaign in Colorado, and we delivered the second-most positive comments in 2007 for the MMS draft five-year plan."

CEA's core message, Foltz said, is that the country should "make use of its domestic resources instead of taking a swipe at energy companies—which ulti-

mately is taking a swipe at energy consumers. We have a political dynamic in Washington that is anti-energy production and pro-environment. It does not need to be that stark, but unfortunately, that is how the battle lines have been drawn."

He suggested that U.S. energy policy too often made the perfect the enemy of the good. "We have 86 billion barrels of technically recoverable oil on our country's Outer Continental Shelf," Foltz detailed. "If the OCS was its own country, it would be the eighth-largest holder of oil and natural gas reserves in the world. And yet, except for the Western Gulf of Mexico, we really do not access any of that because it is not as much as Saudi Arabia . . . or we should not do it because it is going to take seven-eight years to produce only 1 million barrels a day. Well, 1 million barrels a day would help a lot."

### Double Downside

Foltz said CEA strove to eliminate public policy threats to energy production while it also looked to capitalize on pro-energy policies. One threat he offered as an example was HR 3534, the Consolidated Land, Energy and Aquatic Resources (CLEAR) Act of 2009, introduced by House Natural Resources Chairman Nick Rahall, D-W.V.

"The Rahall bill is designed to raise revenue for the federal government to pay for various programs many in Washington want to see enacted," Foltz held. "It really will serve to take money out of the government instead of bringing money in."

He said that was because Rahall's legislation would discourage U.S. oil and gas production because of provisions to:

- Increase royalty rates on federal

lands from 12.5 percent to 18.75 percent;

- Create new fees on nonproducing leases;
- Double interest penalties on royalty underpayments while eliminating interest on overpayments; and
- Reduce lease terms on federal lands from 10 to five years.

“Keep in mind that Rahall is the chairman of the House Natural Resources Committee,” Foltz observed. “He is in a position to move this legislation if he really wants to.”

Legislation that increases producers’ costs ultimately raises consumers’ energy bills, he declared. “We are going to draw down supplies, prices will spike, and consumers get hurt,” he warned.

Foltz reported that CEA took no position for or against legislation to create a cap-and-trade system for greenhouse gases. However, he noted that provisions in the Waxman-Markey climate change bill appeared to endanger domestic refineries, such as the one run by Lion Oil in El Dorado, Ar. “That obviously is not good for consumers,” he commented. “Not only will the United States import more crude oil, it will import more finished products.”

Another way efforts to limit GHGs could lead to economic downsides without any environmental benefit is through low-carbon fuel standards, Foltz cautioned. “It is an effort to eliminate heavy oil from being refined into gasoline and diesel,” he described. “It basically will force refiners to import crude with lower carbon intensity . . . but 21 percent of U.S. imports come from heavy Canadian or Mexican crude. We would eliminate from our market the friendliest, most secure trading partners, as well as a lot of crude oil that is produced in the United States, including 80 percent of the crude oil produced in Arkansas.”

Depending on its requirements, Foltz said a LCFS easily could prove a shell game that failed to reduce GHG emissions but hurt energy security. “South Arkansas oil producers still will produce oil . . . but it will go to Galveston and be on an oceangoing vessel that will ship it somewhere without a LCFS,” he described. “Those ships will pass other ships coming from Nigeria, the Middle East or another place with light sweet crude that will be refined into gasoline and sold in Arkansas.”

### Presidential Strategy

When IPAA’s Golleher opened his



**Low-carbon fuel standards would cut U.S. crude oil supplies from its North American neighbors and possibly force Arkansas to ship its own heavy crude overseas, warns Tommy Foltz, head of the Consumer Energy Alliance’s south region.**

presentation, he recalled how Barack Obama’s presidential campaign had promised changes in Washington and noted that the new administration had chosen a strategy different than that of his predecessors. “One major difference in this presidency thus far is the dizzying speed at which the president hit the ground running,” Golleher described. “He has touched on energy, climate change, federal healthcare reform, financial overhauls, economic stimuli, not to mention the international front, where we are engaged in two wars and all kinds of diplomatic efforts.”

That scattershot tactic departed from the approach taken by other recent presidents, he continued. “President Bush focused on one thing at the beginning of his first term and that was tax cuts,” Golleher recounted. “President Clinton did the same thing by focusing his first term on attempting to overhaul healthcare. What Obama is doing does not track with that approach.”

Nevertheless, he said the administration did not value all initiatives identically. “Let there be no doubt, the number one goal for the president is healthcare,” Golleher related. “He is all-in for that.”

Golleher went on to highlight the interesting dynamic in play between the president and the Democrat-controlled Congress in which Obama had chosen to let lawmakers craft the policies for which

he was pushing. “If he takes the reins, it possibly could alienate the senators who think it is their jurisdiction,” he illustrated. “If he takes a back seat to members of Congress, he lets them take all of the public blows and voter discontent. That is going to upset them, too.”

Complicating that picture is the fact that Obama will not face re-election in 2010, but much of Congress will, Golleher pointed out. As the elections draw near, he said, so will their influence. “The 2010 elections will loom over every vote in the Senate and House,” he forecast. “Come 2010, Congress may decide it is time to go into campaign mode and play it safe.”

### Pivotal Delegation

Golleher equated initiatives to increase the industry’s federal tax burden, regulate hydraulic fracturing under the Safe Drinking Water Act and restrict producers’ ability to hedge production as a three-headed hydra of anti-oil-and-gas public policy. “These would cripple producers,” he warned.

Regarding IPAA’s efforts to defend the tax deductions for independent oil and gas producers in the federal tax code, Golleher said, Congress seems less sure than the president about abolishing the industry’s percentage depletion allowance or eliminate its ability to write off intangible drilling costs.

“We are not seeing a lot of congressional appetite for it,” he reported. “When we go into these offices to talk about IDCs and percentage depletion, we mention that they have been around for at least 80 years (and are not) a midnight insertion from two years ago. Then we see the light go on as they realize how taking away these incentives decreases budgets and will decrease the number of wells and production.”

IPAA also appeared to have made progress concerning policy proposals that could limit independent producers’ hedging options to regulated exchanges, he continued. “Commodity Futures Trading Commission Chairman Gary Gensler said at a House Agriculture Committee hearing that he had been bombarded by independents in the previous couple of weeks, explaining the need for the over-the-counter market,” Golleher described.

As for the matter of defending and explaining hydraulic fracturing from misleading attacks, he said IPAA had taken the lead. “Hydraulic fracturing is a 60-

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year-old technique that has zero documented cases of groundwater contamination,” Golleher declared. “It is effectively regulated at the state level, which is better for attending to individual geographic needs and concerns.”

He recounted how IPAA had helped to create the Energy in Depth coalition, which had played a part in stalling legislation by Representative Diana DeGette, D-Co. That would have required hydraulic fracturing to be federally regulated as underground injection under the SDWA. “Energyindepth.org is part resource library, part explanation, and part rapid response,” Golleher described. “It really has made a mark.”

As he concluded his comments, Golleher noted that Arkansas truly had become a pivotal state. Democrats hold a decided edge in the state’s congressional delegation, he pointed out, but they also are more conservative than the party leadership.

“Arkansas truly has a unique place in this debate,” he suggested. “The Arkansas delegation is ahead of the curve. Its members seem to have an understanding about things that maybe elected officials from California do not. This places the dele-



Pausing during a break at AIPRO’s first annual convention are, from left, AIPRO President Danny Ferguson, AIPRO Executive Vice President J. Kelly Robbins, and Independent Petroleum Association of America Director of Government Relations and Political Affairs Brent Golleher. In his remarks, Golleher noted that Arkansas’ political delegation could exert considerable influence over the course of legislation in Washington.

gation in a politically powerful situation that offers a real opportunity to be loud voices of support for oil and natural gas

producers. It affords them a real opportunity to be pivotal players in forming energy legislation.” □