Wyoming County Commissioners Association

Natural Resource Update

March 13, 2015

GOVERNOR MEAD

— **Governor Mead signs legislation giving Wyoming authority over uranium permitting**

Governor Mead signed HB0027-NRC agreement state authorization - which begins the process to give the State of Wyoming regulatory authority over uranium mine permitting. The legislation takes effect immediately.

"This legislation is the first step in cutting the bureaucracy in the licensing process and gives the state the power to regulate uranium mining. It's good for Wyoming and our economy," said Governor Mead.

The bill allows the Governor, through the Department of Environmental Quality, to negotiate and enter into a final agreement with the Nuclear Regulatory Commission (NRC) for the State of Wyoming to assume regulation of source materials from uranium mining and milling. It would also cover the wastes associated with the recovery, mining and milling of such source materials. **Link**

CONGRESS

— **House Natural Resources Committee chairman discusses priorities, plans for climate, drilling action**

As the Obama administration takes action on drilling, fracking and Arctic exploration, how will the 114th Congress shape its policy priorities on natural resources? Rep. Rob Bishop (R-Utah), chairman of the House Natural Resources Committee, discusses his panel's policy objectives for this session and explains how he plans to frame the conversation on climate change in his committee. Bishop reacts to the Obama administration's action on federal land oil and gas drilling, Arctic National Wildlife Refuge protections, and fracking regulations. **View**

Natural Resource Update

March 13, 2015

U.S. FOREST SERVICE

— **Forest Service Chief lays out strategy, agency priorities in Senate testimony**

In testimony (link is external) before the Senate Committee on Energy and Natural Resources, U.S. Forest Service Chief Tom Tidwell cited five focus areas for the

President's proposed $4.9 billion Fiscal Year 2016 budget for the agency: restoring resilient landscapes, building thriving communities, managing wildland fires, promoting safety, and building diversity and inclusiveness.

"This budget will enable us to more effectively reduce fire risk, manage landscapes more holistically, and increase the resiliency of the Nation's forests and grasslands as well as the communities that border them," said Tidwell. **Read more**

OTHER NEWS:

— **The Nation: U.S. running out of room to store oil**

The United States has been producing and importing an average of 1 million more barrels of oil every day than it is consuming

NEW YORK — The U.S. has so much crude that it is running out of places to put it, and that could drive oil and gasoline prices even lower in the coming months.

For the past seven weeks, the United States has been producing and importing an average of 1 million more barrels of oil every day than it is consuming. That extra crude is flowing into storage tanks, especially at the country's main trading hub in Cushing, Oklahoma, pushing U.S. supplies to their highest point in at least 80 years, the Energy Department reported last week.

If this keeps up, storage tanks could approach their operational limits, known in the industry as "tank tops," by mid-April and send the price of crude — and probably gasoline, too — plummeting.

"The fact of the matter is we are running out of storage capacity in the U.S.," Ed Morse, head of commodities research at Citibank, said at a recent symposium at the Council on Foreign Relations in New York.

Morse has suggested oil could fall all the way to $20 a barrel from the current $50. At that rock-bottom price, oil companies, faced with mounting losses, would stop pumping oil until the glut eased. Gasoline prices would fall along with crude, though lower refinery production, because of seasonal factors and unexpected outages, could prevent a sharp decline.

The national average price of gasoline is $2.44 a gallon. That's $1.02 cheaper than last year at this time, but up 37 cents over the past month.

Other analysts agree that crude is poised to fall sharply — if not all the way to $20 — because it continues to flood into storage for a number of reasons:

— U.S. oil production continues to rise. Companies are cutting back on new drilling, but that won't reduce supplies until later this year.

— The new oil being produced is light, sweet crude, which is a type many U.S. refineries are not designed to process. Oil companies can't just get rid of it by sending it abroad, because crude exports are restricted by federal law.

— Foreign oil continues to flow into the U.S., both because of economic weakness in other countries and to feed refineries designed to process heavy, sour crude.

— This is the slowest time of year for gasoline demand, so refiners typically reduce or stop production to perform maintenance. As refiners process less crude, supplies build up.

— Oil investors are making money buying and storing oil because of the difference between the current price of oil and the price for delivery in far-off months. An investor can buy oil at $50 today and enter into a contract to sell it for $59 in December, locking in a profit even after paying for storage during those months.

The delivery point for most of the oil traded in the U.S. is Cushing, a city of about 8,000 people halfway between Oklahoma City and Tulsa at an intersection of several pipelines.

The city is dotted with tanks that can, in theory, hold 85 million barrels of oil, according to the Energy Department, though some of those tanks are used for blending or feeding pipelines, not for storing oil.

The market data provider Genscape, which flies helicopters equipped with infrared cameras and other technology over Cushing twice a week to measure storage levels, estimates Cushing is two-thirds full. **Link**

— **Wyoming: Oil companies wait to frack in hopes prices will rebound**

When it comes to fracking, patience increasingly is a virtue.

Oil companies are delaying frack jobs on already drilled wells, in a bid to conserve cash and weather a period of $50 oil.

EOG Resources recently announced it would delay fracking 285 wells. Chesapeake Energy said it will wait until 2016 to complete some 100 wells. And Devon Energy reported it was halving its number of frack crews in Texas to finish about 200 uncompleted wells there.

"Would you rather complete a 1,000 barrel a day well and get $50 a barrel or would you rather wait a couple months and get $70 a barrel," said James Williams, president of WTRG Economics in London, Arkansas. "That's basically what these guys are doing."

The trend has important implications for job prospects in the oil field. In Wyoming, about 75 percent of all oil patch jobs are in services. Well completions, as frack jobs are known within the industry, are among the most important.

The oil service giants Baker Hughes, Halliburton and Schlumberger all provide fracking services. All three have also announced significant cutbacks in their respective payrolls in recent months.

"It appears they're trying to hold their costs down at this point," said Mike Colling, a Converse County Commissioner and owner of an oil field service firm, IBC Construction. "Things have slowed down considerably."

IBC, which does not provide frack services, recently laid off about half of its 30 employees, Colling said.

After a well is drilled, a mixture of water, sand and chemicals is pumped underground to break open the rock and release the oil and gas inside. Many wells are fracked like this multiple times.

The practice is expensive and often accounts for a substantial portion of a well's cost. EOG executives estimated well completions make up roughly 70 percent of a well's expense. They projected the company will save between $250 million and $500 million by not fracking some 85 wells this year.

"We're deferring these completions because we do believe that prices will be better in the future and even a $10 increase in oil price gives us a significant additional return on our investment" EOG CEO William Thomas told financial analysts recently.

The exact impact of fracking deferrals on Wyoming's oil sector is difficult to discern. State regulators and industry observers said they had heard of companies delaying completions, but did not know specifics.

Chesapeake and Devon said much of their deferrals would be in Texas. Chesapeake's 2015 plans in the Powder River Basin call on employing one frack team. EOG did not specify where it planned to postpone fracking.

The deferrals owe themselves in part to the nature of today's shale oil plays. Production in shale plays typically is greatest in the first months of a well's life and then drops significantly, said Tom Drean, director of the Wyoming State Geological Survey.

Companies therefore have added incentive to wait for prices to rebound, he noted.

The rash of fracking postponements may compound a future drop in domestic production brought about by a corresponding decline in oil and gas rigs, said Williams, the economist.

Wyoming's rig count for the week of February 27 was 33, its lowest level in five years and down from 42 at the beginning of the month. The U.S. rig count lost 240 rigs over the month of February, declining from 1,837 to 1,597.

"The implication is we will have declining production and it will come sooner than rig counts indicate," Williams said. **Link**

Putting it in Perspective: Keystone isn't the only pipeline proposal out there

As XL languishes in political controversy, new pipeline projects gain ground in Canada and Alaska.

Last Wednesday, the U.S. Senate failed to override President Obama's veto of legislation approving the Keystone XL oil pipeline, leaving the controversial project's fate in the president's hands. Obama has said he will make a final decision once the State Department finishes its assessment of whether or not the pipeline is in the national interest.

While the impact that Keystone would have on the climate, the economy and the communities it passes through should not be underestimated, some experts think that the amount of public attention the pipeline has received over the past six plus years has been a distraction from other, equally important issues related to North America's energy boom.

Carl Weimer, director of Bellingham-based nonprofit Pipeline Safety Trust, thinks that the intense focus on Keystone has taken the wind out of conversations around safety issues at the 2.5 million miles of already-existing pipelines as well as for the new ones being proposed. "In the past, pipeline safety has been pretty bipartisan," Weimer says. But Keystone has polarized the discussion. "Either you're for oil or against it," he added.

Now, Weimer says, the rest of the safety discussions are being lumped into the Keystone debate, stalling the kind of progress that could have prevented accidents like the recent spill from an oil pipeline in the Yellowstone River. Plus, all the talk of pipelines being safer than oil trains misses the bigger point, Weimer says: Without stronger regulations requiring, for instance, better placement of valves and more robust leak detection methods, more pipelines won't necessarily mean safer oil transport.

In addition to hijacking the conversation about pipeline safety, Keystone has been a lightning rod for criticism from climate activists, who argue that building the pipeline will spur even greater production of dirty tar sands oil, which will add more carbon emissions to the atmosphere. Yet proponents argue that Canada will find other ways of transporting its oil, even if Keystone isn't built.

"The Alberta oil will find its way to market, which is why the whole Keystone thing is misguided," says Rick Rogers, the director of the Alaska Resource Development Council, a trade group that represents Alaskan industries.

Now, with the possibility looming that Obama will kill Keystone, and the few existing pipelines stretched to capacity (even with the slump in oil prices), the Canadians are desperate to get their most lucrative resource to market. "Our province needs pipelines in every direction," Alberta Premier Jim Prentice recently told Bloomberg. "We are pushing on tidewater access in every conceivable venue."

Meanwhile, a growing number of pipeline projects—many of them rivaling Keystone in size—have been proposed and in some cases, are already under construction in the U.S. and Canada. Most are geared towards Alberta's tar sands (the largest industrial project in the world), but oil from shale-boom hotspots like North Dakota and Colorado is also being targeted for new projects—many of which have slipped under the public radar.

Here are some of the pipeline projects you may not have heard about, while you've been reading up on Keystone:

Energy East: The $12 billion dollar pipeline by TransCanada (the same company behind Keystone XL) would carry about 1.1 billion barrels of tar sands crude each day 2,800 miles from Alberta to Canada's east coast. About two-thirds of the pipeline already exists, meaning a major part of the project will be converting that existing line, which carries natural gas, into a crude oil pipeline. The project is currently under review by Canadian regulators with a decision expected in 2016.

Line 9 Reversal and Expansion: Last year, regulators in Canada approved a plan to expand and reverse an existing pipeline called Line 9 belonging to Enbridge, a Canadian energy company, so that it flows west to east, transporting 300,000 barrels of tar sands oil per day to refineries in Ontario and Quebec.

Alberta Clipper Expansion: Enbridge is in the process of adding new pumping stations to increase the capacity of the existing Alberta Clipper pipeline, which runs from Hardistry, Alberta to the oil storage hub in Superior, Wisconsin. Ultimately, the company plans to bolster the pipeline's capacity even further, to roughly 800,000 barrels per day.

Northern Gateway: The $8 billion dollar project consists of two pipelines that would run 1,178 km from the Alberta tar sands to a marine terminal in Kitimat, British Columbia. One would carry 525,000 barrels of oil per day; the other would carry 193,000 barrels of condensate, needed for thinning out the sludge-like consistency of tar sands oil to make it more transportable. Last June, Canadian regulators approved the project, but Enbridge still needs to win the support of First Nations tribes—many of whom remain fiercely opposed.

Trans Mountain Expansion Project: Houston-based Kinder Morgan filed a proposal for an expansion of its Trans Mountain pipeline system in December 2013, seeking to build another pipeline to carry more tar sands oil from Edmonton, Alberta to the west coast of Canada, near Vancouver. If approved, capacity of the pipeline system would nearly triple, from 300,000 to 890,000 barrels per day. The review process is underway, with a decision expected in January 2016.

White Cliffs Expansion: Last March, commissioners in Colorado approved plans to boost capacity of an existing 527-mile pipeline from Platteville, Colorado to Cushing, Oklahoma by about 215,000 barrels per day.

Sandpiper: Enbridge's Sandpiper pipeline would carry 225,000 barrels oil per day from North Dakota's Bakken formation about 610 miles east to a storage hub in Superior, Wisconsin.

Flanagan South: Another Enbridge project, this new pipeline recently began carrying oil from Alberta's tar sands and the Bakken region 589 miles from Flanagan, Illinois to Cushing, Oklahoma, eventually making its way to refineries on the Texas Gulf Coast via another pipeline system. Flanagan South runs alongside the existing Spearhead Pipeline, bringing the combined capacity to nearly 600,000 barrels per day.

Line 3 Replacement: Enbridge plans to replace a major 1,000-mile pipeline from Edmonton, Alberta to Superior, Wisconsin. The $7 million update would replace the aging pipes with new steel and coating—and nearly double the capacity of the existing

pipeline for a daily total of 760,000 barrels of oil per day. Like its Alberta Clipper pipeline expansion, Enbridge is claiming it can complete the update without the State Department permit required for cross-border pipelines. Pending approval, work on the pipeline is slated to begin in the summer of 2016.

Alberta to Alaska Pipeline: Recently, Alberta officials met with their Alaskan counterparts in Washington, D.C., to request discussions about building a pipeline linking Alberta's tar sands with oil export terminals on the Alaskan coast.

Alberta to Alaska Railroad: Canadian company Generating for Seven Generations is proposing a 1,600 mile long railroad to transport oil from Fort McMurray, Alberta to Delta Junction, Alaska. There it would tap into the existing Trans-Alaska Pipeline, which currently ships oil from the state's dwindling North Slope oil fields to Valdez. The project is still awaiting a pre-feasibility study and once completed, the company hopes to raise $40 million for a complete study.

Sarah Tory is an editorial fellow at High Country News. **Link**