Rockies Regional Competitiveness
IPAMS Member Survey Results
April 2010

IPAMS recently conducted a survey of its member companies to quantify some of the impact of government policies on jobs and investment in natural gas and oil in the West compared to other regions. Thirty-six companies responded, ranging from small to large independents.

Key Findings

- **74% of respondents** said their company downsized 2010 capital investment plans in the Rocky Mountain region.
- **$1.1 billion** of capital investment has been downsized or shifted from the Rockies to Arkansas, Kansas, Louisiana, Pennsylvania, Texas, Canada, and other regions.
- Respondents said that in the absence of federal constraints, they would be investing an additional **$2.8 Billion** in the Rockies.
- **73% of respondents** have shifted investment from federal to private lands within the Rockies, with over **$708 million** redirected in 2010. This reduces the return to the American taxpayer for energy resources owned by all Americans, and causes situations of drainage of federal minerals from adjacent state and private lands.
- **72% of respondents** stated that dissatisfaction with the federal permitting process is the central aspect driving investment out of the region.
- **90% of respondents** stated that their company will continue to divert investment from the Rockies until there are changes in the regulatory process.
- Using conservative estimates of 150 direct and indirect jobs per rig, the **$3.9 billion of investment that has been prevented in the West equates to 16,200 jobs that have not been created**.
- Respondents generally said that leasing and permitting uncertainty and delays caused by protracted NEPA review most affected their decisions.

Investment

Respondents reported $1.1 billion of capital investment has been downsized or shifted from the Rockies to Arkansas, Kansas, Louisiana, Pennsylvania, Texas, Canada, and other regions. In the absence of federal constraints, they would be investing an additional $2.8 Billion in the Rockies. In addition, 90% of respondents stated that their company will continually divert investment from the Rockies until there are changes in the regulatory process. One company reported an increase in overall capital investment since 2006, but a shift from 62% of their investment in the Rockies to just 34%.

Respondents offered specific changes that would convince their company to renew investment in the Rockies: increased regulatory certainty, reduced permitting times; more efficient NEPA processing, issuance of legally-purchased leases, and the appropriate application of multiple use mandates on public lands.

> *"More certainty that we will obtain access to the Federal lands we nominate for lease. The rules need to stop continually changing."*
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> *"Timely completion of EAs & EIS, timely issuances of leases and APDs, and reasonable Conditions of Approval."*
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> *"Reduced Colorado rules uncertainty."*
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> *"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."*
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> *"If federal APDs could be guaranteed to be approved with the 45 days mandated in Onshore Order No. 1, we would move back onto federal lands in the Rockies."*

<u>Attitudes on Government Policies</u>

Respondents identified burdensome and costly federal onshore leasing and development processes and unfavorable state regulation as the causes of delays to development projects and divestment from the Rockies.

<u>Permitting Delays</u>

72% of respondents stated that the federal permitting process is the primary reason that investment is leaving the region. Operators reported years-long processing times and increasing permitting costs.

> *"BLM leasing and permitting is too unpredictable to risk stranding capital that can be placed in other areas."*
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> *"Federal employees/leases are not subject to any type of timeline accountability even though Onshore Order No. 1 has mandatory timelines and therefore do not have a vested interest in assisting operators that have made a large financial investment in drilling and infrastructure to achieve a reasonable rate of return on investment."*
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> *"The Federal APD (Application for Permit to Drill) process is way too expensive."*
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> *"Improvement in federal and Bureau of Indian Affairs (BIA) permit approval rates is necessary to avoid reduced investment in 2011 and beyond."*
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> *"Our average permit time now in excess of two years. Permit costs are greater than $30,000 per well with fees, surveys, and document preparation."*

> *"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."*

<u>Project Environmental Analysis Delays</u>
54% of respondents cited federal government refusal to allow project-level environmental analysis to proceed as a reason for diverting investment. Analysis under the National Environmental Protection Act (NEPA), which must be completed for each project plan submitted by companies before energy resources can be developed, often takes seven years or more. Companies have paid millions of dollars to prepare NEPA documents, only to have the projects delayed indefinitely for unspecified bureaucratic reasons or additional analysis.

> *"As of this July, we will be six years into an EIS (Environmental Impact Statement) in Utah. EPA, air quality modeling and wilderness characteristics are currently holding us up."*

> *"Delays in APD's, the tying of APDs to 'connected' NEPA reviews and significant delays in NEPA reviews have all caused us to slow our investments and will likely result in a decrease in future projects on federal lands."*

<u>Leasing Delays</u>
Delays associated with lease issuance, the arbitrary cancellation of leases, and delays leasing nominated parcels were noted as central factors driving uncertainty in investment on public lands.

> *"BLM leasing delays on nominated parcels and obtaining unissued leases on competitively bid parcels (some with delays over fourteen months) have added a great deal of commercial uncertainty and we have been forced to concentrate on fee land leasing over federal lands to provide some certainty on our investments. We have over $1.3 million held by the BLM for over a year with no leases issued. This is a significant amount of our leasing capital expenditure."*

> *"Our leases unissued exceed $4 million and it has been over four years the federal government has had that money."*

> *"DOI cancellation for 'review' of newly purchased leases and extended delays in issuing leases that were purchased will cause us to defer $5 million of drilling investment in Utah."*

> *"Several projects are on hold awaiting nominated tracts to be offered."*

> *"We would be pursuing a prospect idea we have in the Powder River Basin of Wyoming. Currently we have been unable to acquire leases on the idea we have."*

<u>State and Local Regulations</u>
32% of respondents indicated that recently revised state oil and gas regulations in Colorado have caused them to divert investment from the state. New state oil and gas rules in New Mexico are causing regulatory uncertainty in the West. County-level involvement in oil and gas activity, including permitting and fee assessment, is causing additional concern.

"We decided to forego all operations in New Mexico because of slow BLM permitting times and state regulations."

"The new Colorado state oil and gas regulations have made us shift our focus to other states."

"County involvement in permits is slowing the process by various meetings and duplicative requirements."

Preference for State/Fee Lands

73% of respondents have shifted investment from federal to fee lands within the Rockies, with over $708 million redirected in 2010. IPAMS has several members which, although based in Denver, do not operate in the Rockies because of the difficulty of operating on federal lands.

"State agencies require much of the same information as federal agencies but approve permits much faster."

"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 to begin to drill."

"Our rig schedules are modified to drill on fee lands when there are delays in permitting wells on Federal lands."

Most and Least Favorable States

For the states, regions, or countries where companies are shifting investment, respondents identified aspects of the business climate that their company finds most favorable. Respondents generally noted the regulatory certainty, tax incentives, and greatly reduced permitting times in these areas.

"In Oklahoma and Texas minerals are primarily held by the state or fee owners. There is much more regulatory certainty on these lands. Permits can be issued in a matter of a few weeks versus months or years on federal lands."

"In Texas, permitting is quick (one week), and you don't have NEPA issues."

"Believe it or not, it is easier to work in California as you know exactly the process. With success in California, there is a good chance we would move more investment to those projects."

Respondents also identified states they consider to have the most and least favorable business climate. Companies generally stated that Texas, North Dakota, Oklahoma, and Kansas tend to have the most favorable business climate while Colorado, Utah, and Montana have the least favorable.