

Testimony of Moffat County Commissioner Charles G. Grobe
In front of
Small Business Subcommittee on Ag, Energy and Trade
June 20, 2013

Thank you Chairman Tipton, Ranking Member Murphy, and other members of the subcommittee for holding this important hearing. My name is Chuck Grobe, and I am a county commissioner from Moffat County, Colorado. When combined, the coal, uranium, vanadium, oil shale, shale-oil and natural gas in our region has the potential to power our nation for generations as technologies continue to unlock and enhance their energy potential. I will be sharing with you the benefits of oil and natural gas production related to job creation in Northwest Colorado.

Moffat County is the second largest county in Colorado with just over 3 million acres of land, 60% of which is federally managed. Our public and private lands host a variety of uses that sustain our economy and culture. The top ten taxpayers of Moffat County are all energy related, and 20% of our tax base is supplied from the oil and gas sector. The Yampa River runs through the middle of our county and hosts endangered fish along with sport fish. The Sagebrush Steppe in our county hosts some of our state's largest cattle ranches, various oil and gas operations, coal mines, a power plant, and Colorado's largest Greater Sage Grouse populations. In the past and future, coal has and will play an important role in the economic well-being of Moffat County. The Mancos and Niobrara formations exist throughout Colorado (and other states) and hold the promise of great prosperity for Western Colorado. In fact, recently, the most prolific Niobrara well in Colorado was drilled in neighboring Garfield County and is the highest producing shale well in Colorado to date. Our citizens have a history of generations being employed by the agriculture, energy, and recreation sectors all receiving various nationally recognized awards for land and animal conservation. Most importantly, our community has decades of on-the-ground examples of collaborative efforts that bring various interest groups to the table to reach agreement on the most controversial public lands issues.

Vermillion Basin:

One of these issues is that of the Vermillion Basin. The Vermillion Basin is a 77,000 acre cold desert shrub land that hosts a 200 billion cubic feet natural gas resource as well as equally valued scenery and wildlife. Over a decade ago, and very early in the Bureau of Land Management's land planning process, the Moffat County Commissioners acknowledged the environmental values of Vermillion Basin as well as its natural gas potential. Moffat County proposed to protect those environmental values while encouraging the local economy through natural gas development, having only the absolute highest reclamation standards known to

work in the high desert ecosystems of the Vermillion Basin. Moffat County then led the consensus building process between all affected governments and agencies, known as Cooperating Agencies, to agree to protect 99% of Vermillion Basin while only utilizing 1% of the surface at any given time. For several years, the local Bureau of Land Management office backed this plan. Entirely due to political reasons, the locally supported plan of protecting 99% of Vermillion Basin's surface was overturned by Washington politics, and Vermillion Basin is currently inaccessible to natural gas development. The economic losses of not developing Vermillion Basin translate to:

- \$700 million of natural gas resource that would be extracted (sold at \$3.50/mcf)
- \$25.6 million to Moffat County Taxing Districts (Moffat County School District, Colorado Northwestern Community College, Craig Rural Fire Protection District, City of Craig, Town of Dinosaur, Colorado River Water Conservancy District, and Moffat County)
- \$7.7 million in bonus payments split between the State and Federal government and partially returned to counties and cities within Moffat County (leased at \$100/acre Moffat County average 2008-2010)
- \$87 million in federal royalties partially returned to cities and counties within Moffat County
- \$43.75 million of the State of Colorado's share of royalty
- \$77 million of ad valorem (i.e. production) and severance tax payments

With the uncertainty of conducting business where situations such as the Vermillion Basin example carry the day, where political will rather than facts dictate the outcome, small businesses across our region cannot afford to risk the finances to start or grow business that do not have regulatory certainty and businesses cannot provide reliable employment.

Excessive local, state, and national regulations on the oil and gas industry cause volatility to our economies:

Despite the good news of jobs and new revenues on the horizon, the promise of prosperity for rural Western Colorado is obstructed by a very dark cloud. Regulatory uncertainty, unnecessary federal regulations, frivolous lawsuits, and the lack of political courage by the current administration to allow development of these new oil and gas sources, puts our jobs potential in jeopardy. Quite often political will, rather than facts, dictate whether or not to develop particular energy projects. Unfortunately, this misguided approach has had numerous consequences for small businesses and our economies across the region. Regulatory uncertainty for the oil and gas industry has a negative impact on small businesses. Wages in the

oil and gas industry are 51% higher than most other industries in the state. These are good paying jobs. Oil and gas employees stay at our local hotels, eat in our restaurants, and shop on main street. Many companies have chosen to focus their efforts in states with pro-development policies. As a result, Colorado has lost important revenues and jobs.

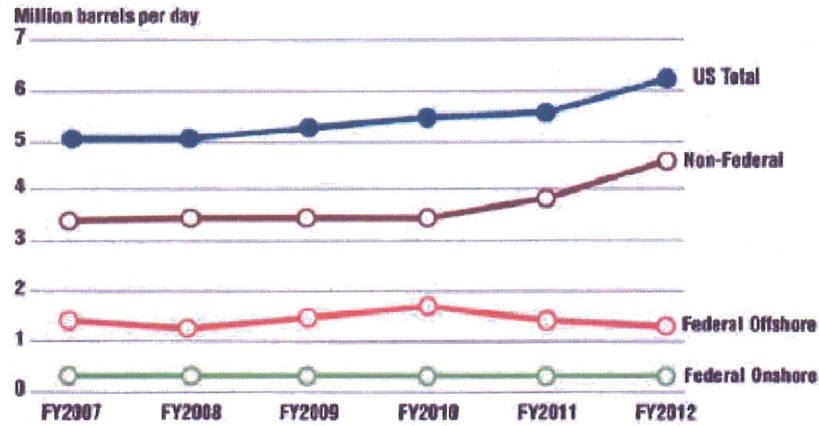
To demonstrate how companies desire to avoid regulation, in Northwest Colorado, the Niobrara Shale-oil project has been heavily explored for the last couple years. The Niobrara oil resource straddles Routt and Moffat County equally. The USGS identifies the Niobrara oil resource as similar acreage in each county, similar depth in each county, and generally regards the geophysical opportunity for extraction equal in each county. Each of these counties has long standing, tremendously different philosophical perspectives on drilling. Moffat County generally has a blue-collar work force that make a living in the energy industry and their elected officials have traditionally represented such. Routt County is more of a resort area and is regarded by the state Oil and Gas Commission as one of the most regulatory restrictive counties in the state on oil and gas development. Last year, 20 wells were drilled in Moffat County exploring the Niobrara oil resource. Given the equal geologic opportunity to explore the Niobrara oil resource, one would expect a similar number of wells in Routt County. However, solely due to public desire and a long history of elected officials representing that public desire in the form of regulation, only one (1) well was drilled last year in Routt County.

This same trend experienced locally was translated to the state level in 2008 when, due to additional regulatory burdens placed on the state by the Colorado General Assembly, significantly more stringent rules were placed on oil and gas operators through a new rulemaking process of the Colorado Oil and Gas Commission. The new rules gave Colorado national recognition as one of the most highly regulated states in the nation for oil and gas development. While the State will broadly acknowledge a general increase in applications to drill and the oil and gas associations will publically acknowledge industry continues to drill in Colorado; this is not because of the additional rules, but in-spite of the rules.

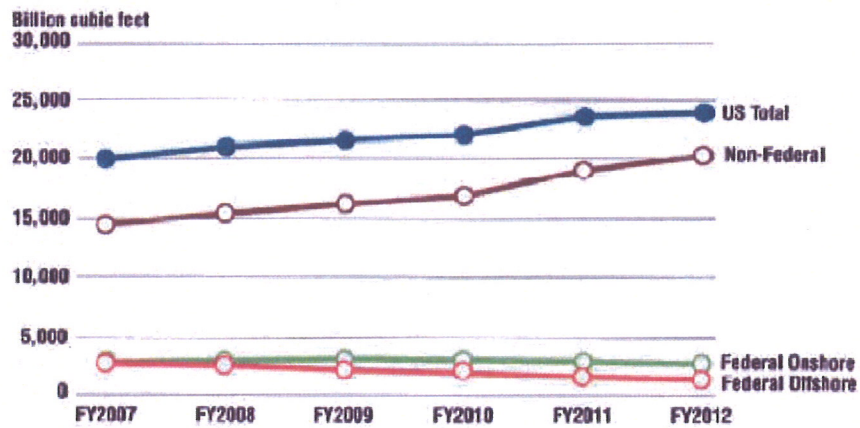
Just as in both the county and state examples above, Congress must struggle with national rules, such as the Bureau of Land Management's hydraulic fracturing rules. Trends of increased regulation in the oil and gas industry have manifested locally through creative avoidance of federal lands. For example, it is common in my county for Federal Exploratory Units, known as federal units, to now follow unusual aliquot descriptions to avoid as much federal surface and minimize the inclusion of federal minerals simply to decrease the federal regulatory footprint. In fact, the same 2010 University of Colorado study mentioned above reveals the fact that oil and gas companies focus activity three fold greater on private lands than they conduct activity on federal lands. This trend is alarming considering the cost of leasing private lands in Colorado is 8.5 times greater than federal lands. Despite the added costs of moving onto private lands to

avoid regulatory burdens, the trend is growing. The Niobrara shale oils in Moffat County are almost entirely being explored on private or State Trust Lands surface. The trend of oil and gas companies increasing operations on private lands is not only local and statewide, but national. See graphs below.

U.S. Oil and Lease Condensate Production
Federal and Non-Federal Areas, FY2007-2012



U.S. Natural Gas Production
Federal and Non-Federal Areas, FY2007-2012



Source: *U.S. Crude Oil & Natural Gas Production in Federal and Non-Federal Areas*. Marc Humphries, Congressional Research Service, March 7, 2013.

Balancing wildlife interests with energy development:

The above mentioned December 2011 Colorado University School of Business study revealed statistics that provided insights about the importance of the oil and gas industry for our nation, Colorado and small businesses. "The OIL & GAS industry in Colorado directly employs over 40,000 people and supports over 107,000 jobs in the state and provides \$6.5 billion in total labor income and \$31 billion in economic output annually."

Some important figures from the above referenced study are:

- \$130 million to school and education funds solely from State Land Board leasing/royalties (oil and gas, 2012)
- The oil and gas industry pays over 90% of our state's severance tax.

For Moffat County:

- 629 producing wells owned by 41 different operators
- 44 horizontal wells were permitted in 2012 with 16 currently producing. This is a significant increase from years past. If this trend continues, there will be more significant oil production on significantly less acreage. In turn, this will mean significantly higher property tax revenues with less surface disturbance.
- Oil production in Moffat County has increased 25% from 2011 to 2012 which will be reflected in 2013 when 2012 taxes are collected.

The tax revenues provided from the industry provide critical resources for education and other important programs. Protesters who oppose development fail to make this connection and do not consider that many of the other programs they support receive revenues and royalties from the oil and gas industry.

Colorado is filled with beautiful scenery and abundant wildlife. Current technology allows for a balanced approach that respects the environment but still allows us to make best use of our natural resources. Being home to the largest Greater Sage Grouse populations in Colorado, Moffat County has long led planning efforts to assure the thriving of grouse populations while simultaneously protecting a vibrant local energy economy. Known as the "Elk Capital of the World," we constantly struggle between balancing timing stipulations recommended by the Colorado wildlife management agency and finding a window within the year for industry to operate. Finding the balance where both wildlife and oil and gas can thrive seems to employ as many wildlife biologists as rig hands!

Summary

In addition to my years of experience working for a local power generation plant and experience as a local elected official at both the city and county levels, I have spent several hours discussing these issues with local business owners around my community. The need for stability within local businesses is evident. I have found that the uncertainty of the oil and gas industry, because of additional regulations, has a ripple down effect on local businesses. A local specialty industrial parts supply house has chosen to focus on supplying products to the local power plant and coal mines instead of the volatile oil and gas industry. While the entrepreneurial spirit still exists, a consistent theme of being beat down by state and federal regulations causes companies to look for new markets. For example, a welding and fabrication shop has diversified and begun servicing oil fields in other states. The higher wages cause local business to desire to stay in the oil and gas industry. However, additional regulation is mounting on their backs and gradually growing regulatory burdens drag them down. High paying jobs and the entrepreneurial spirit is still driving extracting oil and gas resources from Moffat County, yet limited access to federal lands is driving exploration to the private land. Wilderness Study Areas, wildlife stipulations, and additional state regulatory burdens provide resistance to recovery from a nation-wide recession.