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THIS WEEK IN HYDRAULIC FRACTURING

Federal

Senate Hearings on LNG Exports. Senator Ron Wyden’s (D-OR) first hearing as Chairman of the Senate Energy and Natural Resources Committee did not produce any clear consensus on future legislation related to liquefied natural gas (LNG) exports. Senator Wyden stated at the end of the hearing that there may not be a role for new legislation after hearing testimony from gas developers in favor of LNG exports and manufacturers who were seeking to limit exports. Witnesses from environmental groups also opposed LNG exports, consistent with their opposition to shale gas development using hydraulic fracturing. Senator Lisa Murkowski (R-AK) reiterated that the U.S. Department of Energy’s macro-economic study of LNG export scenarios showed a net benefit to the U.S. economy but committed to work together with Senator Wyden in further examination of what legislation may be required, if any.

BLM Must Reveal Companies that Nominate Lands for Leasing. A federal court in Colorado ordered the U.S. Bureau of Land Management (BLM) to release the names of the companies that nominated federal land to be leased for oil and gas development. BLM had previously found that the companies’ names were confidential business information, arguing that releasing the names would provide competitors with an unfair advantage when the lands are offered for lease. The court, however, found that in a public, competitive lease sale, the more information available to bidders and the general public, the better. Citizens for a Healthy Community had sued in June 2012 when BLM did not reveal the company names in response to a Freedom of Information Act request. Industry group Western Energy Alliance predicted a decline in the number of companies that would bid on lease sales. The court’s order gives BLM 30 days to release the names.

Colorado Lease Draws Big Interest even without North Fork Valley. Even after withdrawing approximately 20,000 acres of federal land in the North Fork Valley, and over 30,000 acres in other areas, BLM’s offer of 66,000 acres of federal land for oil and gas leasing saw some of the highest prices per acre in recent history. Prices hit $300 per acre for some parcels and the final sale yielded $2.1 million for 107 parcels. BLM deferred a decision to offer over an additional 80 parcels for leasing after protests were filed by area residents and environmental groups. These included parcels in North Fork Valley, an area which includes organic farmers and wineries.

Lesser Prairie Chicken Listing Decision Could Impact N.M. Shale Development. Local residents attended a U.S. Fish & Wildlife Service (FWS) public meeting in New Mexico, with many opposing a proposal to list the lesser prairie chicken as threatened under the Endangered Species Act. Part of the Permian Basin shale play, a rich and active oil and gas field, underlies New Mexico. Citing the importance of oil and gas development to New Mexico’s budget, concerns were raised that the listing decision would have dire impacts on the state’s economy. Reports estimate that oil and gas development is responsible for some 18% of the state’s annual revenue.

China National Offshore Oil Corp. Gets U.S. Approval for Nexen Acquisition. The China National Offshore Oil Corporation (CNOOC) received approval from the U.S. Committee on Foreign Investment to purchase Canadian oil company Nexen for $15.1 billion. U.S. approval was required due to Nexen’s Gulf of Mexico assets. The Committee on Foreign Investment previously rejected CNOOC’s bid to take over Unocal Corporation in 2005 under intense political pressure. CNOOC received approval from the Canadian government in December 2012, albeit after a long delay and with reservations about future acquisitions by state-owned oil companies. The company will establish its new North American headquarters in Calgary.
Senate Bill Would Regulate Hydraulic Fracturing under the Safe Drinking Water Act. A Senate bill to impose a $20 per ton carbon fee on energy production includes a rider that would eliminate the existing limitation on EPA regulating hydraulic fracturing under the Safe Drinking Water Act. It would also add a requirement to publicly disclose chemicals used in the hydraulic fracturing fluid. Senator Barbara Boxer (D-CA), a co-sponsor of the bill, anticipates a summer floor vote on the bill but is not optimistic that it would pass this year.

States

Decision on Hydraulic Fracturing in New York Delayed. New York will apparently miss its upcoming deadline to act on proposed regulations related to high volume hydraulic fracturing. The State first needs to complete a supplemental environmental impact statement, which is on hold until the state’s Department of Health completes its review of the alleged health effects associated with hydraulic fracturing. The Department of Health reported that it needs more time to complete its study. Environmental groups welcomed the delay, claiming that it would prevent environmental harms from hydraulic fracturing. An industry group, the Joint Landowners Coalition, is reportedly planning to file suit against the State alleging that the continuing moratorium constitutes an unconstitutional taking of private property.

Texas Proposes Streamlined Oil and Gas Air Permitting. The Texas Commission on Environmental Quality announced it will propose a new air permit-by-rule for oil and gas wells. The permit-by-rule would require the use of best management practices and maintenance plans to minimize emissions during startup, shutdown, and malfunction events from oil and gas production and handling facilities and would eliminate the need for individualized air permits.

New Jersey Ban on Hydraulic Fracturing Passes Out of Committee. A new bill that would prohibit hydraulic fracturing in New Jersey passed out of committee and will head to the Assembly for a vote. Proponents claim that hydraulic fracturing has proven to be environmentally catastrophic in neighboring Pennsylvania. The legislature passed a similar ban in 2011 that was vetoed by Governor Christie. There are no known shale plays in New Jersey.

Colorado Approves New Setback Rules. The Colorado Oil & Gas Conservation Commission issued final rules increasing setbacks for oil and gas wells. The setbacks vary by the character of nearby buildings, with schools, nursing homes, hospitals, and apartment buildings requiring a greater distance than other occupied buildings. Prior setback rules allowed for drilling as close as 150 feet in rural areas; the setbacks now range from 500 to 1,000 feet. Industry representatives and some local officials criticized the new setback distances as being arbitrarily selected without being informed by any health and safety data. Environmental groups also criticized the setbacks as ineffective, asserting that at least 2,000 feet is needed between drilling and any structure.

Federal Court Rules that Pennsylvania Regulators Cannot Amend Pipeline Permit. A U.S. District Court in Pennsylvania ruled that the Natural Gas Act prohibits a state environmental review board from modifying natural gas pipeline permits. Environmental groups appealed three state permits issued to Tennessee Pipeline to the Pennsylvania Environmental Hearing Board (EHB); Tennessee Pipeline responded with a federal suit arguing that the EHB lacked jurisdiction to hear the appeal. The court agreed, finding the Natural Gas Act requires a federal circuit court to hear an appeal of a state permit carried out under the Clean Water Act. The court rejected the groups’ claim that the EHB is merely the last step in the permitting process, holding instead that the EHB was an adjudicative body with the potential to conduct duplicative proceedings and reach a result inconsistent with the federal appellate court.

North Dakota Senate Defeats Bill to Prohibit Flaring in Bakken. The North Dakota Senate defeated a bill that would stop developers in the Bakken Shale play from flaring off gas during operations. The widespread practice largely results from low gas prices and a lack of infrastructure to capture the waste gas. Oil and gas companies stated that they are collectively investing approximately $4 billion to capture and transport the gas to market.

Hydraulic Fracturing under Review in California. A California State Senate committee held hearings in relation to two bills that would govern chemical disclosure and advance notice of hydraulic fracturing operations. Environmental NGOs testified seeking more oversight of hydraulic fracturing operations, claiming that the practice’s safety has not been examined by the state. Hydraulic fracturing opponents further argued that allowing development of the Monterey Shale play’s estimated 15.5 billion barrels of oil would offset the State’s efforts to reduce greenhouse gas (GHG) emissions. A witness for the Western States Petroleum Association argued that hydraulic fracturing is extensively regulated already and that companies have turned over large amounts of information to the state. A witness from the California Air Resources Board revealed that the agency is already drafting regulations to limit GHG emissions from oil and gas operations, stating that sufficient authority over hydraulic fracturing already exists.
Pennsylvania Oil & Gas Permits Issued More Quickly under New Rules. The Pennsylvania Department of Environmental Protection (PADEP) announced that it issued new gas well permits on time for 98% of applications and reduced its application backlog by 39% under new rules requiring faster processing by PADEP. A spokesman for environmental group PennFuture, which opposes hydraulic fracturing, responded by claiming that the Department is sacrificing stringent review of environmental protections for speed.

Bill to Use Acid Mine Water in Hydraulic Fracturing Fluid Clears PA Senate Committee. A bill that would limit liability for mine owners and operators where acid mine water is used in fracturing fluid unanimously passed the Pennsylvania Senate’s environmental and energy committee. The bill’s goal is to reduce stream and river contamination from acid mine drainage while easing the demand for fresh water for gas development in the Marcellus Shale.

Business

Tenaris Announces New Pipe Plant in Texas. Italy’s Tenaris announced that it will open a seamless-pipe mill in Matagorda County, Texas in order to support oil drilling in the Gulf of Mexico and the Southwest shale development industry. The $1.5 billion mill will produce approximately 600,000 tons of steel casing and pipeline-quality pipe for hydrocarbon transportation. It is scheduled to begin production in 2016.

GE Transportation Pushing LNG as Locomotive Fuel. The President of GE Transportation stated that the company is working with customers to develop LNG-powered locomotives. The announcement may have been a response to the recent deal between competitor Electro-Motive Diesel and Westport Innovations to develop and test a natural gas engine in Canada. A Canadian National Railway spokesman cautioned that industry-wide standards would be required for LNG locomotives due to infrastructure and interoperability complications. The Association of American Railroads is working on industry-wide standards for LNG tender cars that would store sub-zero LNG to fuel locomotives. Cost is another potential obstacle. Although natural gas is approximately $1.50 less than a gallon of diesel-equivalent, conversion costs could possibly approach $1 million per locomotive.

E.ON Coming to America for Natural Gas Trading. Germany’s largest utility E.ON is opening its first U.S. office for trading power and gas derivatives, citing American natural gas boom. Henry Hub gas prices are approximately one-third of European gas. The company is also looking to invest in LNG capacity and gas pipelines. The announcement came recently after its rival, RWE, A.G., announced its own intentions to start trading in U.S. power and gas.

Moody’s Shows Downside of Low Cost Gas for Power Generators. Ratings firm Moody’s gave the unregulated power sector a negative investment rating, finding that low gas prices have led to a surplus in capacity alongside reduced demand growth. Among deregulated markets, Texas is the only state adding generation capacity. Companies have closed a number of coal plants across the country, in part due to demand and lower cost of gas-fired generation.

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