



# GOVERNMENTAL AFFAIRS WEEKLY REPORT

# **Weekly Highlights At-A-Glance**

## **FEDERAL - Legislative**

H.R. 3225 - Restoring Community Input and Public Protection in Oil and Gas Leasing Act.

On September 30, H.R. 3225, known as the Restoring Community Input and Public Protection in Oil and Gas Leasing Act, was subject to a hearing in the House Natural Resources Committee and would amend the Mineral Leasing Act to make certain adjustments in leasing on federal lands for oil and gas drilling. Specifically, the bill first introduced in 2019 by Rep. Mike Levin (D-CA), would, according to the sponsoring memo, "Protect taxpayers and ends giveaways for oil and gas companies by eliminating noncompetitive oil and gas leasing, requiring companies to pay a fee to nominate lands for leasing, and raising the onshore oil and gas royalty rate, rental fee, and the minimum bid amount: Increase transparency by requiring companies that nominate lands for oil and gas leasing and bid on leases disclose their identities, and protects landowners by requiring the Secretary of the Interior to notify them and the broader public about oil and gas lease sales; Restore community input by eliminating actions taken by the Trump administration that cut public participation in oil and gas leasing decisions and shortened public comment periods; Safeguard environmental resources by enhancing reviews under the National Environmental Policy Act, and reinstate the use of master leasing plans to better protect lands where drilling interests conflict with other uses." Even if H.R. 3225 should pass the House, the bill has little to no chance of consideration in the Republican-led Senate. Read more.

#### **FEDERAL - Regulatory**

Office of Natural Resources Revenue Valuation

Reform Proposed Rule. (Update to 9/21/20 Weekly Report) On October 1, the Interior Department Office of Natural Resources Revenue (ONRR) published a proposed rule, ONRR 2020 Valuation Reform and Civil Penalty Rule (85 Fed. Reg. 62054), "to seek comment on measures to amend portions of ONRR's regulations for valuing oil and gas produced from Federal leases for royalty purposes, valuing coal produced from Federal and Indian leases, and assessing civil penalties for violations of certain statutes, regulations, leases, and orders associated with mineral leases." The proposed rule will amend those promulgated under the Obama administration to among other issues, "update ONRR's regulations to simplify certain processes, provide early clarity regarding royalties owed, and better explain ONRR's civil penalty practices." In short, the rulemaking will change how lease royalties for minerals such as oil and gas on federal lands are calculated and reduce the burden on industry and reverse Obama-era rulemaking. The comment period is open through November 30, 2020. Read more.

Office of Natural Resources Revenue Valuation Final Rule. On October 1, the Interior Department Office of Natural Resources Revenue (ONRR) published a notice of Final Rule, Consolidated Federal Oil and Gas and Federal and Indian Coal Valuation Reform (85 Fed. Reg. 62016), "re-issuing certain regulations associated with the valuation of Federal oil and gas and Federal and Indian coal to implement a March 29, 2019 Court order that vacated ONRR's 2017 repeal of those regulations. These republished regulations implement the court's order by recodifying the regulations that were in effect prior to the vacated rulemaking." The regulations govern royalty valuation and reporting practices for federal oil, gas, and coal. According to the ONRR, "This rule is effective on September 7, 2017 because a Court

vacated the rule that became effective on that date (82 FR 36934). The vacated rule repealed the original publication of this rule (81 FR 43338). The attempted postponement of the effectiveness of the original publication (82 FR 11823) was also vacated by Court order. The combined effect of the original publication, vacated postponement, and vacated repeal rule is that industry must comply with these regulations for production occurring from and after January 1, 2017." Read more.

Offshore Leasing - North Carolina; Virginia.

(Update to 9/21/20 Weekly Report) On September 25, President Trump by Presidential Memorandum extended his offshore oil drilling moratorium to include waters off North Carolina. "About a month ago, I signed an order prohibiting offshore drilling off the Florida, Georgia and South Carolina coasts — because I happen to like this state a lot, I said 'What about Virginia, what about North Carolina?' Somebody said, 'I don't know if they'll like it' and I said 'I know they'd like it,'" said Trump. "So I am extending the moratorium for North Carolina and Virginia. If you want oil rigs out there, just let me know, I'll take it off. I can understand that too." Trump has not yet issued a directive encompassing the Virginia territory. The memorandum will withdraw the North Carolina area from oil leasing from July 1, 2022 until June 30, 2032, which is supported by Republican North Carolina Senator Thom Tillis. Notably, the memorandum also bans offshore wind farms. This decision follows an earlier Presidential Memorandum issued September 8 which bans offshore oil development on Florida's Gulf Coast and expands it to the state's Atlantic coast as well as the coasts of Georgia and South Carolina until mid-2032. Read more.

Independent Contractors; U.S. Department of Labor – Washington, DC. On September 25, the U.S. Department of Labor published a notice of proposed rulemaking, Independent Contractor Status Under the Fair Labor Standards Act (85 Fed. Reg. 60600), which "is revising its interpretation of independent contractor status

under the Fair Labor Standards Act (FLSA or Act) in order to promote certainty for stakeholders, reduce litigation, and encourage innovation in the economy." The rule is expected to clarify how independent contractor status is determined and may allow employers greater protections in employee misclassification cases. "Once finalized, it will make it easier to identify employees covered by the Act, while respecting the decision other workers make to pursue the freedom and entrepreneurialism associated with being an independent contractor," said Secretary of Labor Eugene Scalia. The public comment period will be open through October 26, 2020. This proposed rulemaking is at an early stage in the federal process and it historically takes seven months to a year for a final rule to be issued by the Labor Department. Read more.

#### BLM Oil and Gas Lease Sale - New Mexico:

Oklahoma. On September 28, the Bureau of Land Management (BLM) announced its solicitation of public input on six parcels (535.72 acres) of federal minerals proposed for the April 14, 2021, competitive oil and gas lease sale. The public scoping period runs through October 19, 2020. "This scoping process is intended to solicit public input on relevant issues, potential impacts, and alternatives that the BLM should address in an environmental assessment to be prepared in compliance with the National Environmental Policy Act. The BLM will consider all substantive comments received during the public scoping period to ensure that the potential environmental consequences are analyzed in a manner that allows the BLM to make an informed decision about the proposed competitive lease sale. The proposed parcels were identified as available for possible oil and gas leasing under current BLM land-use plans." The available parcels in New Mexico include four in Lea County and one in Chaves County. There is also one parcel in Dewey County, Oklahoma. Read more.

#### Annual Inflation Adjustments for BLM Permits.

On September 28, the BLM announced that it is "adjusting for inflation the fee required by law to process oil and gas drilling permits on public

and Indian lands," which is effective October 1, 2020. These adjustments occur every fiscal year. "The adjustment reflects the percentage change in the Bureau of Labor Statistics' seasonally adjusted Consumer Price Index. That adjustment will increase the fee from \$10,230, to \$10,360." Read more.

#### FEDERAL - Judicial

Climate Change Suit – U.S. Supreme Court. (Update to 3/16/20 Weekly Report) On October 2, the <u>U.S. Supreme Court granted review</u> "to hear an appeal by energy companies including BP PLC, Chevron Corp, Exxon Mobil Corp and Royal Dutch Shell PLC contesting a lawsuit by the city of Baltimore seeking damages for the impact of global climate change." For background, in Baltimore v. BP P.L.C. et al (Case No. 19-1644), the U.S. Court of Appeals for the Fourth Circuit, on appeal from the United States District Court for the District of Maryland, affirmed that Baltimore's pending lawsuit seeking to hold multiple oil and gas companies liable for climate change harms belongs in state court. The lawsuit, which seeks monetary damages to help pay for climate impacts, was originally filed in Maryland state court last year but the oil and gas company defendants successfully moved the case to federal court. We will keep members updated as the cases progresses in the U.S. Supreme Court. Read more.

Bi-State Sage-Grouse – California. On September 29, environmental groups filed a lawsuit against the U.S. Fish and Wildlife Service "for failing to protect the imperiled bi-state sage grouse under the Endangered Species Act despite ongoing population declines." The suit, in *Desert Survivors v. U.S. Dept. of Interior* (Case No. 3:20-cv-6787), arises from the U.S. Fish and Wildlife Service decision not to designate the bird as threatened as originally proposed during the Obama administration. In 2018, a federal court required the agency to reevaluate the bird's designation. Among other claims, the litigants allege the agency failed to consider the "magnitude of the impact on the species that the

measures can be expected to achieve," and the "estimated length of time that it will take for a formalized conservation effort to produce a positive effect on the species." The Interior Department has yet to respond to the complaint. Read more.

**BLM Acting Director Ousted – Montana** (*Update* to 9/8/20 Weekly Report) On September 25, a Montana federal district court judge ousted William Perry Pendley as the top official at the Bureau of Land Management (BLM) noting that Pendley had effectively been serving as Acting BLM Director unlawfully for 424 days without Senate confirmation. "Pendley has served and continues to serve unlawfully as the Acting B.L.M. director," wrote the court. The judge in the case added that Pendley's authority, "did not follow any of the permissible paths set forth by the U.S. Constitution." In June, President Trump nominated Pendley to permanently lead the BLM, but his name was withdrawn in August. Certain decisions made by Pendley may reportedly be invalidated as a result of the court's finding, but to date none have been affected. For background, this ruling arises from a lawsuit filed by Montana Democratic Governor Steve Bullock in July seeking removal of Pendley as Acting BLM Director. In the suit, Bullock v. Bureau of Land Management (Case No. 4:20-cv-00062), the governor claimed Pendley's current appointment "directly contravenes the Federal Vacancies Reform Act, which prohibits acting officers from running agencies while their nominations are pending before the Senate." The suit had been deemed politically motivated as Bullock is currently running to unseat first-term Republican Montana Senator Steve Daines. In response to the latest ruling, BLM staff were notified that Interior Secretary David Bernhardt would be leading the BLM and Pendley would remain in his prior position. "I understand there may be some questions about the ruling on Friday regarding William Perry Pendley's leadership role at the Bureau of Land Management," Principal Deputy Assistant Secretary Land and Minerals Management Casey Hammond wrote in an email to BLM staff. "Secretary Bernhardt leads the bureau and relies on the BLM's management team to carry out the mission. Deputy Director for Programs and

Policy, William Perry Pendley, will continue to serve in his leadership role." Read more.

**Methane Regulations – California.** (Update to 7/27/20 Weekly Report) On September 14, in Extraction Oil & Gas. Inc. v. City and County of Broomfield (Case No. 1:20-cv-02779), Extraction filed suit against the city and county of Broomfield, claiming that government officials "are infringing on the company's existing operating rights in an attempt to shut down its operations." In the complaint filed in the U.S. District Court of Colorado, "Extraction claims the Broomfield City Council was bowing to the demands of local residents that oppose all oil and gas operations in the area by using its regulatory powers to target the company. Specifically, it claims a recently-passed municipal noise ordinance that caps nighttime noise at 40 decibels targets the company because it made clear in years of public outreach that it couldn't shut down its operations at night and remain economically viable." AAPL will continue to track this case as it progresses. Read more.

**Exploration Agreements; Covenants; Bankruptcy** Proceedings - North Dakota. On July 20, the U.S. Court of Appeals for the Eighth Circuit (North Dakota) affirmed the lower court's grant of summary judgment in Slawson Exploration Co., Inc. v. Nine Point Energy, LLC (Case No. 19-1945) in favor of Nine Point. According to the court, "Slawson and Nine Point's predecessor-in-interest signed an oil and gas exploration agreement committing the predecessor-in-interest to make a 10% payment towards the cost of developing wells in which the predecessor-in-interest elected to participate; when Nine Point filed bankruptcy, Slawson filed a proof of claim for the 10% payments and argued they were not dischargeable because the agreement was a covenant running with the land." The bankruptcy court reserved on the question and permitted Slawson to commence litigation to resolve that issue. Here, the court affirmed that "the obligation did not run with the land under North Dakota law, as the obligation to make the payment did not directly benefit the land; nor was the obligation enforceable

as an equitable servitude or a real property interest." Read more.

#### **STATE - Legislative**

Well Notifications: Oil Discharge - California. (Update to 9/21/20 Weekly Report) On September 24, AB 3214 was signed into law by Gov. Gavin Newsom (D). Prior to enactment, it was a felony to "among other things, knowingly engage in or cause the discharge or spill of oil into waters of the state, or knowingly fail to begin cleanup, abatement, or removal of spilled oil, as specified" and "makes this crime punishable by a fine of not less than \$5,000 or more than \$500,000 for each day or partial day a violation occurs." Additionally, prior law made "it a felony to, among other things, fail to notify the Office of Emergency Services regarding an oil spill or to knowingly fail to follow the material provisions of an applicable oil spill contingency plan [and made] this crime punishable by a fine of not less than \$2,500 or more than \$250,000 for each day or partial day a violation occurs for a first conviction, and by a fine of not less than \$5,000 or more than \$500,000 for each day or partial day a violation occurs for a 2nd conviction." This Act, sponsored by Asm. Monique Limón (D), will "double the minimum and maximum amounts of the fines described above." The Act also authorizes "the court to also impose upon a person convicted of, among other things, knowingly engaging in or causing the discharge or spill of oil into waters of the state, or knowingly failing to begin cleanup, abatement, or removal of spilled oil, as specified, a fine of up to \$1,000 per gallon spilled in excess of 1,000 gallons of oil." Since the bill provided no effective date, under California law the Act is effective January 1, 2021. Read more.

Severance Taxes; Stripper Wells – Louisiana. As part of the legislature's 30-day Special Session, on September 28, Rep. Phillip DeVillier (R) introduced HB 8. "Current law imposes a severance tax on the production from stripper wells (no more than 10 barrels of oil per producing day) of 3.125% of the value of the oil when severed. This tax is exempted

in any month when the average value is less than \$20 per barrel. Proposed law will exempt the tax on oil produced from stripper wells and stripper fields in any month when the average value is less than \$75 per barrel." The Department of Revenue "shall determine the oil value quarterly based on the average New York Mercantile Exchange Price in the prior three months. This exemption is available for nine years, from January 1, 2021 through December 31, 2029." The bill also requires all production reports be filed timely with the Department of Revenue "verifying the average daily production during each month." Read more.

State Natural Resources and Lands – Michigan. (*Update to 5/26/20 Weekly Report*) On September 23, HB 5777 passed the House. The bill, sponsored by Rep. Gary Howell (R), would amend existing law regarding the number of days required for certain procedures regarding surplus land transactions and changes some of the text regarding disposing of, leasing, acquiring, or developing lands more than 80 acres in size. Read more.

### **STATE - Regulatory**

Executive Order - California. On September 23, Gov. Gavin Newsom (D) signed an Executive Order that will "curb in-state energy production and take additional actions related to climate change," according to the California Independent Petroleum Association (CIPA). (See CIPA's response to the Executive Order.) Among other environmental goals which includes a ban on the sale of new gasoline-powered cars by 2035, the order states: "To support the transition away from fossil fuels consistent with the goals established in this Order and California's goal to achieve carbon neutrality by no later than 2045, the California Environmental Protection Agency and the California Natural Resources Agency, in consultation with other State, local and federal agencies, shall expedite regulatory processes to repurpose and transition upstream and downstream oil production facilities, while supporting community participation, labor standards, and protection of public health, safety

and the environment. The agencies shall report on progress and provide an action plan, including necessary changes in regulations, laws or resources, by July 15, 2021." The order also states, "The Department of Conservation's Geologic Energy Management Division and other relevant State agencies shall strictly enforce bonding requirements and other regulations to ensure oil extraction operators are responsible for the proper closure and remediation of their sites" and "The Department of Conservation's Geologic Energy Management Division shall: a) Propose a significantly strengthened, stringent, science-based health and safety draft rule that protects communities and workers from the impacts of oil extraction activities by December 31, 2020. b) Post on its website for public review and consultation a draft rule at least 60 days before submitting to the Office of Administrative Law." Read more.

#### Ventura County Oil & Gas Activities - California.

On September 15, the Ventura County Board of Supervisors adopted an updated General Plan, referred to as the "2040 General Plan," with policies and plans that "will negatively impact current and future oil and gas activities in unincorporated areas of the County," according to law firm Day Carter & Murphy LLP. The Board also announced a public hearing date of November 10, 2020, "to consider changes to permitting requirements for oil and gas activities under the County's Non-Coastal Zoning Ordinance. [The] Board adopted the 2040 General Plan to establish new County-wide policies and plans related to land uses including oil and gas activities." Written comments are due by November 9, 2020, at 3:30 p.m. (To submit comments and learn more about the upcoming hearing, click here.) The plan includes a policy "to reduce dependency on petroleum-based energy sources." Among the policy changes, the plan establishes a 1,500- foot setback from residential dwellings and a 2,500-foot setback from schools for new wells. "The Board also considered requiring a larger setback from residential dwellings. Instead of imposing a larger setback at this time, the 2040 General Plan now requires the County to study a 2,500-foot setback

by 2022 for a potential future General Plan amendment." Among other changes, the plan also "prohibits flaring or venting of natural gas on new wells, except for emergencies and testing purposes." Read more.

Air Quality Control Commission - Colorado. On September 24, the Colorado Air Quality Control Commission approved rulemaking "requiring high-frequency emissions monitoring at oil and gas sites during the early stages of drilling." According to Bloomberg Law, "Oil and gas industry representatives and environmentalists applauded the new rules (Regulation 7)," which the Commission unanimously approved. "We are grateful to Air Quality Control Commission staff for presenting largely feasible, practical improvements to Colorado's air regulations, and to the Commission for ultimately adopting them as proposed," said Lynn Granger, Executive Director of American Petroleum Institute – Colorado. The new rules will "require operators to monitor for gas leaks during preproduction, which starts with the drilling phase and ends with the return of flowback, as well as early production activities. Flowback is the liquid used in hydraulic fracturing that returns to the surface after being injected into tight shale formations deep underground. The rules will require monitoring for the first six months of drilling, the longest such requirement in the country. The new rules also require operators to report carbon dioxide and nitrous oxide emissions. They also set emissions standards for natural gas-fired engines at drilling sites at equal or greater to 1,000 horsepower. The monitoring rules will take effect May 1, 2021." Read more.

Railroad Commission; COVID-19 Regulatory
Extensions – Texas. On October 1, the Texas
Railroad Commission (RRC) announced the
extension of certain expirations and filing
requirements due to the COVID-19 pandemic. This
follows the April 3, 2020, RRC Notice to Operators
titled Extension of Certain Expirations and Filing
Requirements Administered by the Administrative
Compliance and Technical Permitting Sections

(NTO). The NTO extended deadlines for certain expirations and filing requirements until September 30, 2020. The RRC is now extending the same deadlines for certain expirations and filing requirements until December 31, 2020. Read more.

Railroad Commission; Plugging - Texas. On September 24, the Texas Railroad Commission (RRC) announced it "has exceeded its performance target of plugging abandoned oil and gas wells throughout the state." For the fiscal year ended on August 31, the RRC "plugged 1,477 orphan wells in Fiscal Year 2020, which exceeded the target of 1,400 set by the Legislature." This comes as a result of the RRC's focus on improving that program. "A few years ago, we took a hard look at improving our State Managed Plugging Program," said RRC Director of Field Operations Clay Woodul. "We streamlined our internal processes, which, along with improved employee retention, has contributed to the success of the program. Our commitment continues even through limitations brought on by the COVID-19 pandemic." Read more.

Railroad Commission; New Chairman – Texas.

On September 22, the Texas Railroad Commission (RRC) announced that Commissioner Christi

Craddick was unanimously elected RRC Chairman of the Railroad Commission during that day's

Commission conference. Craddick "was first elected statewide by the people of Texas in November 2012 to serve a six-year term as Texas Railroad Commissioner. A native of Midland, Christi is an attorney specializing in oil and gas, water, tax issues, electric deregulation and environmental policy."

Read more.

#### **INDUSTRY NEWS FLASH**

▶ Non-profit launches platform to assist oil and gas companies with emissions. "Boulder-based nonprofit Rocky Mountain Institute <u>launched its</u> Climate Action Engine last week to help oil and gas companies in [the] Permian Basin reduce greenhouse

gas emissions by providing real-time data and climate intelligence to inform and evaluate decision-making," according to the Permian Basin Petroleum Association. Read more.

- ▶ Permian only major region to grow production in October. "U.S. crude oil production from seven major shale formations is expected to decline by 68,000 barrels per day in October to 7.64 million b/d, according to the latest drilling productivity report" from U.S. Energy Information Administration (EIA). However, the EIA also reports that the Permian Basin in Texas and New Mexico "is expected to grow oil production by 23,000 b/d to 4.173 million b/d in October." Read more.
- ▶ Activity in the oil and gas sector declined modestly in third-quarter 2020, but contraction lessens. According to the latest Dallas Fed Energy Survey, activity in the oil and gas sector declined modestly in third-quarter 2020, according to oil and gas executives surveyed, which included 166 energy firms, 112 who were exploration and production firms and 54 were oilfield services firms. However, the declines seen throughout 2020 have lessened and activity is back on the rise. Read more.

#### **LEGISLATIVE SESSION OVERVIEW**

#### **States in Session**



Session Notes (by date): Massachusetts, Michigan, Mississippi, New Jersey, Ohio and the Pennsylvania House are in regular session. The District of Columbia and the U.S. Congress are also in session. The Pennsylvania Senate is in recess until October 5. The New Hampshire Senate, New York and Rhode Island legislatures are in recess subject to the call of the chair.

**Louisiana** convened a special session on September 28 to discuss approaches to in-person education and the survival of the economy during the COVID-19 pandemic, reports <u>KLFY 10</u>.

South Dakota Republican Gov. Kristi Noem has called for a special session to begin on October 5 to address COVID-19 related spending and policy. It is not yet confirmed that this special session will begin on this date, as there is currently a disagreement between Governor Noem's office and members of the legislature on who has authority over specific fund distribution, reports the <u>Argus Leader</u>.

Signing Deadlines (by date): North Carolina Democratic Gov. Roy Cooper had until October 2 to act on legislation or it becomes law on October 12. Missouri Republican Gov. Mike Parson has until October 31 to act on legislation from the most recent special session or it becomes law. New York Democratic Gov. Andrew Cuomo has until February 5, 2021 to act on legislation or it is pocket vetoed. **Delaware** Democratic Gov. John Carney has 30 days after the final adjournment, which typically occurs immediately prior to the beginning of the next session, to act or it is pocket vetoed. Idaho Republican Gov. Brad Little has 10 days from presentment, Sundays excepted, to act on legislation or it becomes law without signature. Maine Democratic Gov. Janet Mills must act on legislation presented within 10 days of adjournment or it becomes law unless returned within three days after the next meeting of the same legislature. South Carolina Republican Gov. Henry McMaster has until two days after the next meeting of the legislature to act on legislation or it becomes law. Vermont Republican Gov. Phil Scott has five days from presentment, Sundays excepted, to act on legislation or it is pocket vetoed. California Democratic Gov. Gavin Newsom had a signing deadline on September 30.

Interim Committee Hearings: The following states are currently holding 2020 interim committee hearings: Alabama, Alaska, Arizona, Arkansas, California Assembly and Senate, Colorado, Connecticut, Delaware, Georgia House and Senate, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Minnesota, Mississippi House and Senate, Missouri House and Senate, Montana, Nebraska, Nevada, New Mexico, New York Assembly and Senate, North Carolina, North Dakota, Oklahoma House and Senate, Oregon, Rhode Island, South Carolina House and Senate, Utah, Virginia, Washington, Wisconsin, West Virginia and Wyoming.

Bill Pre-Files: Alabama, Florida, Iowa, Kentucky, Montana, Nebraska, Nevada, New Hampshire, Oklahoma, Utah and Virginia are currently posting 2021 bill drafts, pre-files and interim studies. ■

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