



GOVERNMENTAL AFFAIRS WEEKLY REPORT

Weekly Highlights At-A-Glance

FEDERAL - Regulatory

BLM Funding. On February 10, the Bureau of Land Management (BLM) announced President Trump has proposed an appropriation of \$1.2 billion for the BLM in Fiscal Year 2021, "providing the funds needed to strike the right balance of conservation and sustainable use of America's BLM-managed public lands and resources." This represents a nearly \$22 million increase over last year's budget. "We are responding to the demand in the marketplace and reality is there just a lot more interest in our historical programs, in oil, gas and coal," said Scott Cameron, the Interior Department's principal Deputy Assistant Secretary for policy, management and budget. Read more.

BLM Oil and Gas Lease Sale – Wyoming. On February 11, the BLM Wyoming office announced a proposal to offer 135 parcels totaling about 169,751 acres for oil and gas leasing in June 2020. The announcement opens a 30-day public comment period on the proposed lease sale, which will close March 12, 2020. Read more.

BLM Oil and Gas Lease Sale – Nevada. On February 10, the BLM announced it is holding a multi-day competitive oil and gas lease sale beginning on March 24, 2020. The agency will offer 45 parcels for lease totaling approximately 73,591 acres in Lander and Nye Counties in Nevada. Read more.

NEPA Rulemaking. (*Update to 1/13/20 Weekly Report*) The Trump administration recently published a notice of proposed rulemaking to overhaul National Environmental Policy Act (NEPA) regulations relaxing the review standards for federal agencies, like the Bureau of Land Management, in order to approve infrastructure,

construction, and oil and gas development projects without considering climate change. The *Update* to the Regulations Implementing the Procedural Provisions of the National Environmental Policy Act (85 Fed. Reg. 1684) "would modernize and clarify the regulations to facilitate more efficient, effective, and timely NEPA reviews by Federal agencies in connection with proposals for agency action." The move has been widely praised by the pipeline, construction, and oil and gas industries as well as legislators in energy producing states. To submit comments, visit the federal comment page here. The comment period is open through March 10, 2020. To view the full docket, Read more.

FEDERAL - Judicial

Overriding Royalties; Top Leases – Eighth Circuit. On February 6, in Pitchblack Oil, LLC v. Hess Bakken Investments II, LLC (Case No. 18-1734), the U.S. Court of Appeals for the Eighth Circuit on appeal from the North Dakota district court addressed a dispute over whether overriding royalty interests (ORRIs) in a number of oil and gas leases burdened various top leases. The district court granted summary judgment in favor of Hess explaining that none of the top leases were extensions or renewals of the subject leases, and thus the ORRIs did not burden the top leases. Here, the Eighth Circuit agreed and affirmed the decision. The Court held that "[b]ased on these material differences, it is apparent that the district court correctly concluded that the Top Leases were not extensions or renewals of the Subject Leases. Because the Top Leases were new leases, the extension or renewal clause did not attach the overriding royalty interests to the Top Leases. Therefore, the Top Leases were not burdened by the overriding royalty interests." Read more.

Independent Contractors - Fifth Circuit. On January 10, in <u>Hobbs v. Petroplex Pipe and</u> Construction, Inc. (Case No. 19-50350), the U.S. Court of Appeals for the Fifth Circuit, on appeal from the U.S. District Court for the Western District of Texas, addressed whether certain oilfield contractors were employees or independent contractors as it related to overtime pay under the Fair Labor Standards Act. Plaintiffs were former pipe welders for Petroplex and they claimed they worked more than forty hours per week for the company without overtime pay. Although not a case involving landmen, the case is instructive on how federal courts in oil and gas jurisdictions are applying employee misclassification tests. According to law firm Jackson Walker, this case "demonstrates that the form of a superficial classification combined with shards of indicia of 'independence' will not prevail over the substance of a relationship that should actually be classified as that of 'employeremployee." Further, "the Hobbs decision demonstrates two realities for energy industry employers: First, the Fifth Circuit will not support an independent contractor classification based upon superficial labeling or efforts to camouflage the true nature of a relationship by myopic focus based upon the skill of the worker involved; and Second, employers will be obliged to ensure that they can satisfy proof of independent contractor status in a majority, if not all, of the enumerated factors thoroughly reviewed by the Court in this case." Read more.

STATE - Legislative

Energy Production – Arizona. On February 12, HCR 2022 was introduced by Rep. Gail Griffin (R). This House Concurrent Resolution, although not a bill with the force of law, resolves to condemn federal legislation restricting land use and obstructing domestic energy production. Read more.

Local Control; Oil and Gas Applications – Colorado. (*Update to 2/10/20 Weekly Report*) On March 2, the House Energy & Environment Committee will hold a public hearing on HB20-1126. Current law allows the

director of the oil and gas conservation commission to delay the final determination regarding an oil and gas permit application pursuant to specified objective criteria. The bill, sponsored by Rep. Lori Saine (R), repeals this authority and specifies that if a local government that has so-called "House Bill 1041 authority" (C.R.S. 24-65.1-102) approves an oil and gas application, the commission or director shall approve the application for a permit to drill. The hearing will be held in Room HCR-0107 at 1:30 pm at the State Capitol. For more information on attending, call 303-866-2604. Read more.

Preemption of Local Occupational Licensing – Florida. On February 13, HB 3 was ordered to its final reading in the House. The bill, sponsored by House Majority Whip Michael Grant (R), would preempt local governments in the state from imposing their own occupational and licensing requirements. According to Grant, the bill "will provide uniformity across the state and help new workers find employment by eliminating constraints currently required like passing competency exams and geographic limitations." Read more.

Licensing Recognition – Indiana. On February 11, HB 1008 received its first reading in the Senate after passing the House last month. The bill, sponsored by Rep. Martin Carbaugh (R), allows for professional licenses from other states to be honored in Indiana if certain specified circumstances are met. Read more.

Employee Misclassification – Maryland. On February 7, HB 1448 was introduced in the House. The bill, sponsored by Del. Terri Hill (D), requires the Commissioner of Labor and Industry, in consultation with the Office of the Attorney General, to develop certain guidelines relating to the meaning, classification and treatment of employees and independent contractors, including providing steps that an employer may take to ensure compliance. The bill also amends current property tax law to include an acknowledgment certification from business entities regarding the classification and treatment of employees and independent contractors. Read more.

Notarial Acts – Mississippi. On February 13, SB 2394 was introduced by Sen. Tyler McCaughn (R). The bill would amend existing notary law regarding electronic signatures and affidavits, among other technical changes. Read more.

Severed Estates – Mississippi. On February 5, HB 586 was introduced by Rep. Randy Boyd (R). The bill provides that mineral estates separated from the surface estate shall revert to the surface owner after 20 years of nonproduction and defines "production" for purposes of the bill. Read more.

Real Estate Licensure – Nebraska. On February 12, an amended version of LB 929 was filed. The bill, sponsored by Sen. Brett Lindstrom (no party affiliation in Nebraska), would allow for an exemption from real estate licensure for those who only provide a list or lists of potential purchases to a broker or salesperson on who makes calls or facilitates the initial contact between a potential client or customer and a broker or salesperson. The unlicensed person is not permitted to discuss with a potential client or customer the services to be offered by the broker or salesperson. The unlicensed person does not have authority to obligate a potential client or customer to work with a particular broker or salesperson or a particular broker's or salesperson's place of business. The unlicensed person shall not perform any activity of a broker or salesperson. The amended version adds a new section (36) regarding providing notifications. Read more.

Well Pollution/Damage Mitigation – Oklahoma. On February 15, SB 1435 was introduced by Sen. Lonnie Paxton (R). The bill requires the operator of a producing well to take reasonable preventative action to prevent the producing well from causing pollution and to prevent or mitigate potential damage to the producing well during hydraulic fracturing operations upon receiving notice of hydraulic fracturing operations occurring in the area. The measure outlines what shall constitute evidence of taking reasonable preventative action. Companion House bill, HB 3609, was introduced by Rep. Terry O'Donnell (R) on February 3. Read more.

Waste – Oklahoma. On February 13, SB 1334 was introduced by Sen. Lonnie Paxton (R). The bill would amend current law to hold that when onsite waste disposal occurs on private land in accordance with relevant statutes, "the Commission shall require that notice identifying the exact location of the onsite waste disposal, using its legal description, be filed with the county clerk in the county where the onsite disposal occurs. The notice required by this subsection shall not apply to any onsite waste disposal location in use prior to the effective date of this act." Read more.

Takings – Oklahoma. On February 9, SB 1241 was introduced by Sen. Micheal Bergstrom (R). The bill "designates ordinances, resolutions, rules, regulations, or other forms of official policy adopted by a municipality that substantially interfere with the use and enjoyment of the mineral estate, development of minerals, and reducing the fair market value of a mineral estate as a taking of property rights as described in the Oklahoma Constitution." Read more.

Production Proceeds – Oklahoma. On February 8, SB 1232 was introduced by Sen. Julie Daniels (D). The bill amends existing law to lengthen the timeframe in which the first payment of proceeds from oil and gas sales is to be made from 6 months to 12 months and modifies the way interest is calculated on those payments when not paid on time. The measure also states that persons remitting payment shall be entitled to a signed division order containing certain items outlined in the measure. Read more.

Well Unitization – Oklahoma. On February 10, SB 1894 was referred to committee. The bill, introduced by Sen. Julie Daniels (R), would allow the expansion of a unit by additional governmental sections. Current law under the Horizontal Well Unitization for Targeted Reservoirs section authorizes the Oklahoma Corporation Commission to grant permission to a well operator to expand the well only up to a maximum of 4 governmental sections. Read more.

Professional Privilege Tax – Tennessee. On February 10, SB 2669 was referred to committee. The bill, sponsored by Sen. Dolores Gresham (R), would eliminate the existing professional privilege tax on attorneys and other non-landman related occupations and instead impose an annual professional registration fee of \$400 on nonresidents engaged in certain professions in the state. The House companion bill, HB 2676, was referred to committee on February 12. Read more.

Registration of Instruments – Tennessee. On February 5, SB 2376 was introduced by Sen. Shane Reeves (R). The bill amends existing law to require "either a licensed attorney or the custodian of the original version of an electronic document, instead of the custodian of the electronic version, to certify the electronic document for registration by a county register." The House companion bill, HB 2370 was introduced by Rep. Dave Wright (R) on February 4. Read more.

Mineral Lease Payments – Utah. (Update to 2/10/20 Weekly Report) On February 13, SB 15, sponsored by Sen. Daniel Thatcher (R), passed both houses of the legislature and is awaiting transmittal to the governor. The bill would repeal the sunset date in Sec. 63I-1-211 as it applies to Sec. 11.14.308 for provisions that allow a local district to secure certain bonds with mineral lease payments. Read more.

Employee Misclassification – Virginia. On February 13, SB 662 was referred to the House of Delegates after passing the Senate. The bill, introduced by Sen. Jennifer Boysko (D), prohibits an employer from discharging, disciplining, threatening, discriminating against, or penalizing an employee or independent contractor because the employee or independent contractor reported or plans to report that an employer or any officer or agent has failed to properly classify an individual as an employee and failed to pay required benefits or other contributions. The measure also prohibits such actions against an employee or independent contractor who is requested or subpoenaed by an appropriate

authority to participate in an investigation, hearing, or inquiry by an appropriate authority or in a court action. These prohibitions apply only if an employee or independent contractor acts in good faith and upon a reasonable belief that the information is accurate. The measure authorizes the Commissioner of Labor and Industry to institute proceedings against an employer who has taken such prohibited retaliatory action. Available remedies include reinstatement of the employee and recovery of lost wages. An employer that violates these provisions is subject to a civil penalty equal to the employee's lost wages. Read more.

Employee Misclassification – Virginia. (Update to 2/10/20 Weekly Report) On February 11, SB 894 passed the Senate. (The House version, HB 984, passed the House of Delegates on February 5.) No further information has been reported as to which version the legislature moves forward. The Democrat sponsored bills authorize an individual who has not been properly classified as an employee to bring a civil action for damages against his employer for failing to properly classify the employee if the employer had knowledge of the individual's misclassification. The court may award damages in the amount of any wages, salary, employment benefits, including expenses incurred by the employee that would otherwise have been covered by insurance, or other compensation lost to the individual, a reasonable attorney fee, and the costs incurred by the employee in bringing the action. The measure provides that an individual who performs services for a person for remuneration shall be presumed to be an employee unless it is shown that the individual is an independent contractor as determined under the Internal Revenue Service guidelines. Read more.

Correcting Recorded Instruments – West Virginia. On February 12, HB 4576, introduced by Del. John Shott (R), passed the House of Delegates and has been referred to the Senate. "The purpose of this bill is to establish a procedure for correcting obvious errors in deeds, deeds of trust, and mortgages, and establishing a format for the corrective affidavit and

notice of an intent to correct an obvious description error." Read more.

Notaries Public – West Virginia. On February 7, HB 4748 was introduced by Del. Gary Howell (R). "The purpose of this bill is increase the fees that private nongovernment notary publics may charge for notarial acts, and clarifies that notary publics may advertise for services so long as a clear disclaimer that the notary is not permitted to provide legal services including document drafting, document review, or legal advice as a non-attorney is provided either at the place of the notarial act or in the actual advertisement." Read more.

Leasing – West Virginia. (Update to 1/27/20 Weekly Report) On February 14, SB 554, sponsored by Sen. Randy Smith (R), passed the Senate and was transmitted to the House of Delegates. "The purpose of this bill is to provide a requirement for a lessee to execute and deliver to the lessor, within a specified time and without cost, a recordable release for terminated, expired, or cancelled oil or natural gas leases; provide for a procedure by which a lessor may serve notice to a lessee, if a lessee fails to timely provide the release; require a lessee to timely notify the lessor in writing of a dispute; provide for a recordable affidavit of termination, expiration, or cancellation with specified contents; provide that with proper notification in the absence of a dispute, a recorded affidavit creates a rebuttable presumption of termination and cancellation for the oil or natural gas lease." Read more.

Unknown/Unlocatable Owners – West Virginia. (Update to 1/20/20 Weekly Report) On February 13, HB 4088, sponsored by Del. William Anderson (R), passed the House of Delegates and was transmitted to the Senate. "The purpose of this bill is to provide that proceeds from certain oil and gas wells that are due to persons whose name or address are unknown are to be kept in a special fund and if unclaimed within seven years the proceeds shall be transferred to the Oil and Gas Reclamation Fund. The bill provides that if there is a surface disturbance those named surface owners of a leased interest subject to

pooling for a horizontal well are the only surface owners insofar as the well permit is concerned. The bill provides that if another surface owner should become known his or her name shall be added as a surface owner on the permit. The bill provides that if proceeds from other mineral tracts in a unit or pool of a horizontal well are not claimed by an unknown, missing or abandoned owner within seven years the proceeds shall be transferred to the Oil and Gas Reclamation Fund. The bill provides that certain provisions take effect beginning when funds have been unclaimed for seven years after the special Commissioner's lease regardless of when the lease was signed." Read more.

Expedited Permitting – West Virginia. (Update to 2/10/20 Weekly Report) On February 11, HB 4091 was transmitted to Gov. Jim Justice (R) after passing the legislature. The governor must sign or veto legislation within 5 days of transmittal (excluding Sunday). The purpose of the bill, introduced by Del. William Anderson (R), "is to allow for expedited oil and gas well permitting and expedited oil and gas well permit modifications upon the payment of applicable expedited fees, the designation of the proceeds of such expedited fees, and the daily pro rata refund of the expedited fees if the permit is not approved between the 45th and 60th days after the submission of a permit application, and daily pro rata refund of one-half of the modification fees between the 10th and 20th days after the submission of a permit modification application; all generally related to horizontal well oil and gas permitting." Read more.

Preemption of Local Occupational Licensing – West Virginia. On January 13, HB 4145 was referred to the House Government Organization Committee. The bill, introduced by Del. Geoff Foster (R), would prohibit the regulation and licensing of occupations by local government. Read more.

Occupational Licensing – Wisconsin. On February 11, <u>SB 541</u> was cleared for a Senate floor vote after passing out of committee. The bill, sponsored by Sen. Chris Kapenga (R), would require that before the legislature could take up any

proposals for new state occupational licensing requirements, the measures would first have to be evaluated on whether licensure is necessary to protect the public as well as what the cost and benefit would be. The companion Assembly bill, <u>AB 605</u>, was introduced by Rep. Rob Hutton (R) on November 15, 2019. Read more.

Underground Disposal Wells – Wyoming. On February 11, SF 45 was introduced by the joint Minerals, Business & Economic Development Interim Committee (R). The bill amends current law regarding regulation of underground disposal wells to remove the term "noncommercial" from regulations governing Wyoming Oil and Gas Conservation Commission authority over underground disposal injection wells. Read more.

State Mineral Royalties – Wyoming. On February 7, House Joint Resolution HJ0001 was introduced by Rep. Tim Hallinan (R). The Joint Resolution proposes to amend the Wyoming Constitution to provide that for six years two-thirds of state mineral royalties earned from the lease of state school lands may be appropriated by the legislature for the support of public schools and provides a ballot statement. Such a constitutional amendment resolution, if passed by the legislature, would be put to the ballot in November for Wyoming voters to decide. Read more.

STATE - Regulatory

Oil and Gas Production – North Dakota. On February 11, the Department of Mineral Resources Director Lynn Helms testified before an Assembly Government Finance Committee hearing in which he told lawmakers North Dakota's oil production may peak within five years as companies finish drilling the most prolific portions of the state's oil patch. Helms, the state's top oil regulator, said about 20% of drilling activity is now outside of the "core" areas of the western North Dakota's oil producing region. "The end of (core area-drilling) is on the horizon; we can see it from here," Helms told the legislature's committee. Read more.

STATE - Judicial

Partnership Agreements – Texas. On January 31, the Texas Supreme Court rendered its highly anticipated decision in *Energy Transfer Partners, L.P.* v. Enterprise Production Partners, LP (Case No. 17-0862). The case involved a dispute over whether the parties created a partnership to market and pursue a pipeline project to transport crude oil from Oklahoma to the Gulf Coast. Although this decision focuses on a pipeline agreement, the case is instructive on the application of Texas partnership law. The Court found that no partnership had been formed because the preliminary agreements between the parties specified conditions to forming such a relationship which had not been satisfied. The Court held that Texas law permits parties to conclusively agree that no partnership will exist unless certain conditions are satisfied. According to law firm, McGuire Woods, "the significant but concise opinion provides legal and business certainty for companies looking to explore business opportunities on a nonbinding and preliminary basis, including in the capital-intense oil and gas industry. The case rejects the theory of 'partnership by ambush' and reinforces Texas' strong public policy favoring freedom to contract including for conditions precedent to further contract formation." Read more.

Wills; Mineral Estates – Texas. On January 24, the Texas Supreme Court addressed a family dispute over mineral ownership and ConocoPhillips' claim to an oil and gas lease covering those minerals. In ConocoPhillips Co. v. Ramirez (Case No. 17-0822), the Court stated the issue to be decided in this case was whether a devise of "all . . . right, title and interest in and to Ranch 'Las Piedras'" refers only to a surface estate by that name as understood by the testatrix and beneficiaries at the time a relevant will was made or also includes the mineral estate. In reversing the appellate court judgment, the Court concluded that only the surface estate was devised in part based on the prior history of the family's use of the term "Ranch Las Piedras" in partition deeds as including only the surface estate. The evidence of a life estate and the conditions surrounding it, which

only affected the surface, also weighed on the Court's decision. Read more.

Working Interests; Contract Interpretation – Texas. On January 22, the Texas Eleventh Court of Appeals (Midland) in *Great Western Drilling, Ltd. v. Pathfinder Oil & Gas, Inc.* (Case No. 11-14-00206-CV) addressed Pathfinder's claim that Great Western breached an agreement to convey 25% of the working interest in certain mineral leases. Pathfinder disputed that there was an agreement. Here, the Court found that a letter between the parties was a binding agreement. The Court also addressed certain stipulations regarding shares of historical net revenue and upheld a finding that Pathfinder was entitled to an accounting. Read more.

Deeds; Reservations; Executive Rights – Texas. On January 22, the Texas Fourth Court of Appeals, (San Antonio), addressed a case arising from a dispute over the interpretation of a warranty deed and its application to an oil and gas lease. In Geary v. Two Bow Limited Partnership (Case No. 04-18-00610-CV), the Court found the deed established that the Grantors did not convey ownership of the executive rights in their retained one-half mineral interest. But, by including the Provisional Authority clause, the Grantors gave the Grantee conditional permission to exercise the Grantors' executive rights. Further, the Court found the Provisional Authority did not pass through subsequent conveyances as "part and parcel" of the subject property. The Court also addressed various issues of breach of contract, breach of fiduciary duty by failure to lease and breach of fiduciary duty by failure to inform. Read more.

Drilling and Spacing Applications; Regulatory – Wyoming. On January 17, in *Exaro Energy III, LLC v. Wyoming Oil and Gas Conservation Commission*(Case No. 2020 WY 8), the Wyoming Supreme Court reversed the judgment of the Wyoming Oil and Gas Conservation Commission approving only one out of two applications filed by Exaro seeking the approval of adjacent drilling and spacing units (DSUs) in the Jonah Field, holding that the Commission's denial

of Exaro's other application was arbitrary and capricious. At a contested case hearing, the parties agreed that the evidence presented would apply to both applications. At the hearing's conclusion, the Commission found as to both applications that Exaro had met its burden of proof and provided evidence satisfying the statutory requirements for the establishment of a DSU. However, the Commission approved one application and denied the other. Here, the Court reversed in part, holding (1) substantial evidence supported the Commission's finding that Exaro's evidence satisfied the statutory requirements for establishment of a DSU in both applications; and (2) the Commission's decision to grant only one of the applications was arbitrary and capricious. Read more.

INDUSTRY NEWS FLASH

- ▶ Oil from federal sources breaks record. On February 11, the U.S. Interior Department reported oil production from U.S. managed lands and waters topped a record 1 billion barrels last year as the Trump administration eased rules on the industry. The production figure was up 122 million barrels, or more than 13 percent, from 2018. It includes oil from onshore and offshore parcels and Native American-owned lands managed by the U.S. Interior Department during fiscal year 2019, which ended September 30, 2019. Read more.
- ▶ Drilling more popular with those living the closest. According to new research, those who live closest to oil and gas wells are more likely to support continued drilling, according to a new report reviewing Coloradans' view of the industry. The researchers from Resources for the Future and the Colorado School of Mines overlay Coloradans' vote for Proposition 112 that would have sharply limited drilling in the state (it ultimately failed with 56% voting against) with proximity to oil and gas operations. They found proximity to oil and gas development is associated with increased industry support. In fact, fewer than 4% of the Colorado precincts that backed the proposition to curb drilling had any oil and gas wells. Read more.

LEGISLATIVE SESSION OVERVIEW

Session Notes: Alaska, Alabama, Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Hampshire, New Jersey, New Mexico, New York, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Utah, Vermont, Virginia, Washington, West Virginia and Wyoming are in regular session. The District of Columbia Council, Puerto Rico and U.S. Congress are also in regular session.

The following states are expected to convene their 2020 sessions on the dates provided: **Louisiana** (March 9) and **Arkansas** (April 8).

The following states are expected to adjourn their 2020 sessions on the dates provided: **New Mexico** (February 20) and **Oregon**, **Virginia** and **West Virginia** (March 7).

Signing Deadlines: No state in regular legislative session currently has an impending signing deadline as of February 17, 2020.

Interim Committee Hearings: The following states are currently holding 2020 interim committee hearings: <u>Louisiana</u>, <u>Montana</u>, <u>Nevada</u>, <u>North</u> <u>Dakota</u>, <u>Texas House</u> and <u>Wyoming</u>.

Bill Pre-Files: The following states are currently posting 2020 bill drafts, pre-files and interim studies: Louisiana, Montana, Nevada, North Dakota and the Texas House. ■

CONTENT DISCLAIMER: Information and/or website links provided by sources in this report may be among the many resources available to you. This report does not endorse nor advocate for any particular attorney or law firm, or other private entity, unless expressly stated. Any legal and/or tax information contained herein is neither legal nor tax advice. Links are provided for reference only and any cited outside source is derived solely from material published by its author for public use. Any copyrighted material remains the property of its respective owner and no use or distribution authorization is granted herein.