THE AMERICAN OIL & GAS REPORTER®
AUGUST 2014
The "Better Business" Publication Serving the Exploration / Drilling / Production Industry

Hydraulic Fracturing

Page 78

Tim Scheck
Chairman KIOGA
"We work together. I always believed in KIOGA. As chairman, I have found out how true that really is."
Page 155

W. Perry Pearce
Chairman PAW
"PAW continues to serve as a highly effective advocate for our industry."
Page 163

Steve Stanfield
President EKOGA
"Strong prices should be around for a while, so we hope increased development will be, too."
Page 169

Colorado Industry Girds For Political Battle

By Dan Larson
Special Correspondent

COLORADO SPRINGS, CO.–Members of the Western Energy Alliance gathered in Colorado Springs, June 23-25, for their 2014 annual convention to discuss new directions for ongoing activities and aggressive campaigns to confront old adversaries.

Returning to the Broadmoor Hotel & Resort for the first time in more than a decade, the Alliance finds itself as the driving force behind a number of initiatives, both political and regulatory. And that is right where it wants to be, said President Tim Wigley.

"Given the attention that is focused on the Rocky Mountains, we have to be in a position to deliver that political one-two punch," Wigley told association members.

According to the Alliance, 225 people from member companies were on hand to listen to a speaker line-up that offered proof of the aggressive tone being voiced by the association. Among them was Paul Phillips, president of Pac/West Communications, the firm behind Coloradans for Responsible Energy Development (CRED).

In other presentations:

- Former U.S. Department of the Interior Deputy Assistant Secretary Julie Macdonald, now with the Center for Environmental Science, Accuracy & Reliability, provided insights into the increase in activities related to the Endangered Species Act.
- Jay Natoli, leader of the digital and social media team at Gallatin Public Affairs, discussed how companies were using social media to improve communications both externally and internally.
- Jim Davis, a former FBI agent and chief of public safety for the state of Colorado, and currently the founder and chief executive officer of Denver-based Ascent Risk Solutions, gave a personal account of what it was like to be on the team of federal agents that was the first to interrogate Saddam Hussein, following his capture early in the Iraq War.

Western Energy Alliance President Tim Wigley (left) presents outgoing Chairman Brad Miller, general manager for Anadarko Petroleum Corp. in Denver, with a farewell gift from the association during the Alliance's annual meeting, held June 23-25 in Colorado Springs, Co.

Politics Of The Policy

Wigley welcomed Alliance members in his opening speech with a review of the association's milestones from the previous year and context for the surge in pro-development advertising and social media in Colorado over the past seven months. "The industry went 0-for-5 on local initiatives in the last election," Wigley observed. "We have to turn that around."

In addition to multimillion dollar campaigns to inform the public on the benefits of safe, responsible oil and gas development, Wigley said one of his goals this year as Alliance president was to have ample funding for the association's political action committee for the federal election cycle in 2016. "We are right at $200,000 now, so we are going to exceed our goal a couple years in advance," he advised.

A financially relevant PAC is vital if the Alliance is to have any hope of accessing elected officials, Wigley maintained. "Frankly, elected officials at all levels . . . care more about the politics of the policy," he described. "We are asking them to take stands, make rulings and cast votes, some of which are controversial and even scary to any elected official. They have to know that first, we have their back, and second, we have the polling to give them the cover they need. We have to show them they are not going to lose by supporting oil and gas development.

"We now are getting calls from candidates all over the country," he added. "They know who we are. They know we have a large PAC and I think that gives us greater influence."

One of the Alliance's goals for 2014, Wigley continued, is to flip the U.S. Senate from majority Democratic to Republican. "If you look at what is happening nationwide, it's possible," he suggested. "Our PAC gives us the ability to participate in races that are outside the West."

Information Campaign

Wigley reported another Alliance accomplishment this past year was its role in forming CRED.

Organized as a nonprofit 501(c)6 education league, he said CRED had moved to the forefront in the ongoing, often rancorous public debate about oil and gas development in Colorado. Wigley mentioned that CRED's emphasis of the word "fracking" in ads, promotional materials and social media was intended to desensitize people to a word often used by opposition groups to demonize the oil and gas industry.

"It's not just a public relations campaign and it's not branding," Wigley explained. "We had to run it strategically, as if it was a political campaign–not in a partisan sense, but in a strategic sense. So we found some people from outside the industry (who had) done it before and had great success on natural resource issues."

Wigley said the CRED campaign was having a positive impact on the public discussion. "The numbers are moving in our direction," he reported, saying the public's overall impression of the oil and gas industry "is now at 73 percent favorable. People know who we are.

"You have to remember that we are dealing with a public in Colorado that had a 90 percent awareness of 'fracking,'" Wigley emphasized. "You can hardly find any issue with 90 percent awareness, and unfortunately, most thought it was bad. The good news is that we are having an impact."

Beginning in July, Wigley said the CRED campaign was scheduled to shift messaging from education and information to something more hard-hitting. "Soon you will be seeing a different type of commercial," he advised Alliance members. "I have never run a campaign without throwing a punch. You are going to start seeing some punches thrown and I think you will like it."

Outgoing Alliance Chairman Brad Miller, general manager for Anadarko Petroleum Corp. in Denver, offered his thanks to Wigley and the Alliance staff. "They do an amazing job," he praised. "We are the pre-eminent voice for public lands in the West. Congress and the agencies listen to us. The Western Energy Alliance makes a huge impact.

"In the past year, our engagement in public policy and the political environment in the biggest battleground, right here in Colorado, has moved the voting public from opposition to hydraulic fracturing to where today, the public supports it," Miller assessed. "That is because the industry has stood and fought back, and the opposition is on its heels. They are shocked."

But that doesn't mean the opposition has given up, Miller quickly noted. "We still have a big battle in front of us," he stressed. "We don't have a fracturing ban on the ballot in Colorado; we have a fracturing ban disguised as a setback rule and local control. Those are a big deal and we have to stay engaged."

Brett Moore (left) and Michelle Lyng with the Rocky Mountain Chapter of the National Association of Royalty Owners answer audience questions during the Western Energy Alliance's annual meeting, after Moore reviewed anti-development ballot initiatives being proposed in Colorado.

Colorado Initiatives

A presentation by representatives of the Rockies Chapter of the National Association of Royalty Owners reviewed the steadily narrowing list of ballot initiatives proposed for the November election in Colorado. By late June, at least nine initiatives remained viable, although that number was expected to decrease by the Aug. 4 deadline for filing the required number of signatures.

According to Brett Moore, government relations director for NARO-Rockies, the association has stated its opposition to proposed compromise legislation backed by Governor John Hickenlooper. That legislation would have provided some controls to local government during new well development, but would have prevented bans or moratoria. The governor had said he would be willing to call a special session of the legislature to pass a bill in an effort to head off an expensive and contentious campaign leading up to the election.

(**Editor's Note:** The governor officially abandoned his effort to call a special session to pass compromise legislation at a July 16 news conference, by which time it appeared two statewide anti-fracturing initiatives would be put before voters in November. See story page 200.)

Political campaign consultant Paul Phillips–founder of the CRED program–said ballot initiatives could be broken down to a basic equation. "If X is 100 percent and Y is 51 percent, then what combination of Rs, Us and Ds do you need to get to Y and win the vote?" he posed. "X is all the voters in Colorado; it could be 3.3 million this year. The Rs are Republicans at 32 percent, the Ds are Democrats at 32 percent, and the unaffiliated are 36 percent.

"It's amazing to me how people in the industry can say we can win if we get 80 percent of the Republicans," Phillips remarked. "If you think 80 percent of 32 percent is 51 percent, you need to go back to school. The challenge is to figure out what combination of Rs, Ds and Us will get us to 51 percent. And you don't have to be nice about it."

Education Campaign

In the summer of 2013, when he first discussed the potential bans on fracturing that were looming, Phillips said he was surprised by the pessimistic tone of many in the industry. "The oil and gas industry wasn't messaging," he recalled. "There was a complete and total failure to recognize the opposition. In fact, if the industry didn't do anything, it would have failed. I give credit to the Western Energy Alliance, since as a regional organization, it was at least talking about advocacy."

Phillips said that when Pac/West showed its polling data to personnel at Anadarko Petroleum and Noble Energy, "They said we need to get ready for a campaign and we, as Coloradans, have to lead it. I told them they didn't need a political campaign, they needed an education campaign about what was going on in the industry and how many people it employed."

To get to the 51 percent of votes the industry needs to prevail on the ballot initiatives, Phillips said the campaign had to move the "informed-on-fracturing" voters up to 93.5 percent, "and by a 3.5-to-1.0 margin, we have to be the ones providing the information. People don't read studies, they listen to sound bites. We have just seven seconds to get them to read our mail. If we don't, we have failed."

Since last August, Phillips said the campaign had moved the level of fracturing-aware people to 90 percent and it was now at 2-to-1 positive. "We have flipped it around completely," he declared.

"We still have a battle ahead of us," Phillips allowed. "The number one fundraising tool of the environmental industry today is anti-fracturing. That is where it is making its money."

He said education was the key. "If you let people know Colorado has the most rigorous regulatory and enforcement process in the country, their comfort level for the industry goes through the roof," he illustrated. "It's that simple. You do that and you win."

Phillips noted that the Protect Colorado campaign, which was separate from CRED, planned to spend up to $10 million in television and radio advertising in September. The CRED program has allowed Pac/West to develop a deep understanding of voting blocs and which ones can be moved, he said. Since the beginning of the year, Phillips said CRED had dominated the top 250 media outlets with advertising and built a coalition of 2,500 members from key local associations. This provides the platform for how the campaign builds toward the November election. ❐

The oil and gas industry must deliver its own message on fracturing to overcome the negative picture being painted by anti-development groups, political campaign consultant Paul Phillips, president of Pac/West Communications and the driving force behind Coloradans for Responsible Energy Development, tells the Western Energy Alliance.

Social Media Key Component In Ballot Initiatives Campaign

COLORADO SPRINGS, CO.–Facing well-funded and sophisticated campaigns to ban hydraulic fracturing and halt oil and gas development in Colorado, the Western Energy Alliance is preparing to fight back.

A couple key components to success, speakers at the Alliance's annual meeting, held June 23-25 in Colorado Springs, are reaching the right voters with the right message in the right place, and defining both the industry and its opponents in the public's mind.

Jay Natoli, director of digital and social media at Gallatin Public Affairs of Portland, Or., told the meeting how "developing passion among an audience can become very powerful, very quickly."

Creating a strategy for industry communications about oil and gas development, Natoli said, involves targeting the large segment of the public in the middle of the political spectrum. Then, "a selection of channels that helps focus on that moderate message and shows others of similar views, makes a connection and drives emotions."

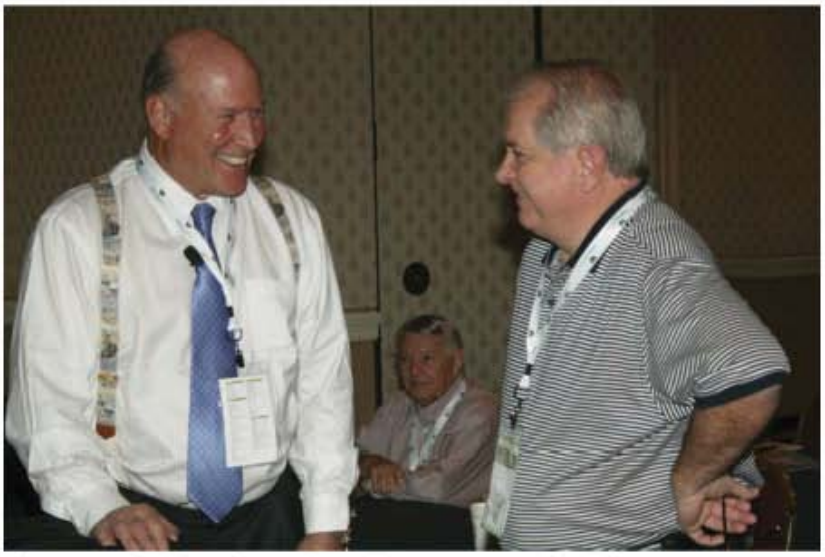
Natoli suggested a diminished role for traditional news media as important factors in developing communication strategies. "People now pay less attention to what is in the newspaper than they do on their own research. They are not going to just read the newspaper editorial and make their decisions the day before the election. They are looking for information on their own, and if they are hearing only from the opposition, that could be very persuasive. They have to hear both sides," he counseled.

"Social media also means having more of a customer service mindset," Natoli described. "We have to answer people's questions when they have them, and not rely on a sheet of talking points, like we did in the past."

Natoli said he often heard from companies that opposition groups had been using digital communications successfully for so long that challenging them would be futile. "We have the same tools they do," he countered. "We can build the same types of websites and social media, and we can communicate our message the same way they do. We have to organize, energize and mobilize just like they do."

Kathleen Sgamma, vice president of government and public affairs for the Alliance, reported that this summer, the association was launching an effort to reach the approximately 260,000 employees of oil and gas companies in the West. However, only 2,900 employees are included the association's database. The Alliance is testing a program with three member companies that have volunteered to provide it with access to their employee lists. She said the Alliance planned to test a variety of e-mail messages for effectiveness in asking workers to join the association

Public education campaigns must have a social media presence to reach an audience that is paying less attention to traditional media outlets, insists Jay Natoli, director of digital and social media at Gallatin Public Affairs.



Rick Berman (left), president of Washington-based public affairs agency Berman & Company, visits with new Western Energy Alliance Chairman Jack Ekstrom prior to his presentation at the Alliance's annual meeting in Colorado Springs, Co.

on social media.

With only 800 followers on Facebook, Sgamma said the Alliance "clearly is not tapping into a large enough social network. This project will help us build our network of industry employees."

Targeting The Opposition

Berman & Company is a Washington-based public affairs agency that operates several nonprofit advocacy groups, including a website called Big Green Radicals that challenges the actions and motives of environmental activist organizations.

President Rick Berman discussed how his firm used research to develop campaigns that targeted opposition groups, rather than promoting a favorable message. This can be very effective when it comes to strategies for educating voters and winning public opinion, he held.

He said there were three primary categories of what he characterized as "left-wing groups that want to remake the world in their own image." They are labor, food and beverage, and energy and the environment.

Berman cited a series of public opinion polls from the Gallup organization that placed oil and gas near the bottom of a list of industries the public viewed favorably. "When you start with negative public opinion, it can be difficult to get people on your side," he reflected.

However, he explained that public judgment, which he defined as when someone was willing to vote across party lines based on facts, was more powerful than public opinion. "To get people on your side for public judgment, you cannot be on defense. You have to go on offense and start the conversation," Berman stated.

In order to move public judgment, he said a campaign had to first reframe the issue, often using analogies that made one's position easy to relate to, and that made viewers think, "I never thought of it that way." The second step, he detailed, is to reposition the opposition with facts about who really is behind the group. The third is to take away the opposition's moral authority.

Berman said his firm's website, Big Green Radicals, intended to diminish the misguided public sympathy for radical environmental groups that were contributing to the various campaigns to ban fracturing in Colorado. "We start with in-depth research," Berman told the Alliance. "On the website, we dig into every group that supports fracturing bans. We list their money, we list their funders, we list their radical positions. We even have a section on every single activist and his background. We make it clear that these groups ought not have any credibility with the public, with the media, or with legislators."

Berman remarked that when anti-industry activists lost an election, they never admitted losing; instead they simply contended they hadn't yet won. "We have to think of this as an endless war," he told the Alliance. "You have to budget for it. The external environment is changing around us. The opposition is serious. It has money, it has agendas, and it has no natural enemies. That can be very difficult to overcome."

Big Green Radicals plans to run an advertising campaign in Colorado online, in print, and on radio and television, starting in September. Berman said the ads would support the organization's efforts to diminish the unwarranted credibility of opposition groups. ❐

Alliance Working To Preserve Industry's Public Lands Access

COLORADO SPRINGS, CO.–Public lands access has been a core issue for the Western Energy Alliance since the organization was formed four decades ago, and with a federal administration intent on slowing oil and gas development, the association has had plenty of challenges to address.

Kathleen Sgamma, vice president of government and public affairs for the Alliance, discussed the association's public lands activities during the opening membership and board meeting at the Alliance's annual meeting, June 23-25 in Colorado Springs.

For example, she said the organization engaged the Bureau of Land Management directly on federal leasing issues in Wyoming, Utah, Montana, New Mexico and Colorado.

The Alliance also played a key role in lengthy negotiations with a variety of groups that took part in the Department of Interior's Indian Oil Royalty Valuation Committee, which concluded its work last September, Sgamma reported. "Once we reached a consensus with the tribes and allottees, we hammered out a regulation with the Department of Interior that (was opened for) comment this summer. We see it as a success for all parties," she stated.

The Alliance continues to work closely with BLM to improve its processes for applications for permits to drill. "We are working with it to develop an automated system that can tell you where your APD is in the process and how long it will take to process," Sgamma imparted.

"As you know, we can't trust (BLM's) numbers," she observed. "BLM says it takes 192 days to process a permit; many of you tell me it takes two and three years to get a permit. We have found BLM doesn't track permits in a consistent way, so we are hoping a new, automated system will help."

Sgamma said it was very important that the Alliance remain active in the mineral leasing process across the West. "We are trying to comment on as many lease sales and environmental assessments as possible to show (BLM) that there is support for leasing."

She added that opposition groups counted on few comments being filed from industry or its supporters at the various stages of the leasing process as proof there was little interest in leasing.

The Alliance also is assisting a member company in Colorado that is challenging BLM on its change of policy to now disclose the names of those who nominate parcels for leasing. "Names always have been withheld as commercial information, so this change is a bad precedent," Sgamma commented.

Checking The List

As an indication of the breadth of its engagement, Sgamma observed that the Alliance continued to file comments on federal resource management plans that would include new protections for the greater sage grouse, and on BLM's proposed venting and flaring rules. Additional comments have been filed with the U.S. Fish & Wildlife Service on its proposed revisions to critical habitat designations. "Since the beginning of the year, we have commented on 18 public land proposals, each requiring technical research and lots of time," she revealed.

Sgamma mentioned the Alliance had joined the American Petroleum Institute and other industry trades in a lawsuit against USFWS for listing the lesser prairie chicken as a threatened species.

To highlight the potential impact of the government's action, Sgamma posed a question to the audience. "Did you know," she said, "that since 1980, the range of the lesser prairie chicken has increased 159 percent, to 10 million acres? That alone should tell USFWS the species is thriving and listing is not needed."

Sgamma referred to another ominous precedent as a retroactive National Environmental Policy Act review. She said BLM had reopened several leases in the White River area of Colorado that were issued in 2005. "Because of a technicality, BLM is going back to the leases and instead of correcting the technicality, it is doing more analysis. It has said it is considering changing the terms of the leases or even cancelling them. If that isn't a violation of valid, existing lease rights, I don't know what is," Sgamma expressed.

Ratchet Back Access

During the final two years of the Obama administration, Sgamma said, the Alliance leadership expects federal agencies to continue efforts to reduce and limit access to public lands.

"We have to force them to pay attention," she countered. "There are going to be monument designations. There are going to be more rules for everything from USFWS on critical habitat to BLM rules on fracturing, flaring and venting. They are going to make it harder for us to operate on public lands.

"We have to do something hard-hitting," Sgamma stressed. "We have to energize people in rural communities to want to take back control of their public lands."

Sgamma called the potential listing of the sage grouse as threatened or endangered just such an opportunity. She said the Alliance was developing a series of videos, radio spots and online media aimed at informing rural communities of the significant impact listing the sage grouse would have, adding the campaign was due to roll out in August and run through October.

In the meantime, the Alliance is building a coalition of businesses, local governments and other interests across the West to raise funds for a scientific challenge under the federal Data Quality Act in the event the government does decide to list the sage grouse.

"We don't have any illusions that we can stop DOI in its tracks," Sgamma acknowledged. "But we will build a record on the sage grouse so that when it comes time to sue, we will be well positioned to challenge the listing."

A concurrent effort by the Alliance through its office in Washington involves pushing for a delay in the expected listing decision by USFWS from September 2015 to 2016 or even 2017.

"This is an important decision for everyone, even if you don't have operations on public lands," Sgamma remarked. "A listing would kill a lot of development across the West."

Kathleen Sgamma (left), vice president of government and public affairs for the Western Energy Alliance, presents the association's Environmental and Regulatory Affairs Award to Fernando Blackgoat, HSE coordinator at XTO Energy. Sgamma described Blackgoat as a guiding force in developing industrywide positions on public lands issues ranging from wilderness designations to National Environmental Policy Act compliance and land-use planning, to endangered species, saying, "Fernando has been in the trenches for years, and he readily shares that experience with those who are trying to learn and continue that work into the future."

Coming In September

Enabling technologies to extend lateral reaches in unconventional resource plays, and multistage fracturing systems to improve reservoir access in extended-reach geometries.

APD Fees

Sgamma reported the Alliance was working with U.S. Senator Tom Udall, D-N.M., on a bill that would provide additional funding to process APDs. "The idea is for some of the fee you pay when filing an APD to stay in the office where the APD originates," she detailed.

The bill would increase the APD filing fee by $3,000, to $9,500, but that is less than what BLM sought in its budget proposal. Sgamma pointed out that the bureau had sought through a rule making to double the APD filing fee by adding what it called an inspection fee. "(Senator Udall's legislation) has a slight increase in the APD fee, but we get 10 years before (BLM) can throw in any inspection fees through rule making," she said. "And, there would be direct funding of APD processing in field offices."

The bill has bipartisan support in the Senate, Sgamma indicated, and a reasonable chance of passing the House.

Sgamma reiterated the importance of developing the political muscle to "flip the U.S. Senate." Over the next two years, she predicted, the Obama administration will continue policies intended to reduce access to public lands in the West, so having both houses of Congress controlled by Republicans will provide some checks to the administration's agenda.

On other issues, Sgamma reviewed, the Alliance is involved actively with industry efforts opposing proposed methane regulations, and is participating in new air quality studies in Utah. She said the Alliance remained concerned with the Environmental Protection Agency's attempts to use of the "social cost of carbon" as a means to control a variety of activities. There also are proposals by EPA and the Army Corps of Engineers to change the definition of "waters of the United States," as well as critical habitat rules, and the continuing delay in granting a presidential permit to build the Keystone XL pipeline.

Expanding Footprint

Susan Fakharzadeh, vice president of business development for the Alliance, provided an update on the association's relocation to a larger office space at 1775 Sherman St. in downtown Denver. "We have had a lot of members visit our new offices," she said. "We encourage all members to utilize this space for casual meetings and phone calls."

Although several offices are empty now, Fakharzadeh noted, "We will be filling those spaces with more staff as we continue to execute our five-year plan."

Outgoing Western Energy Alliance Chairman Brad Miller (left) pauses with incoming Chairman Jack Ekstrom during the association's annual meeting, June 23-25 in Colorado Springs, Co. Miller is general manager for Anadarko Petroleum Corp. in Denver, and Ekstrom serves as vice president of corporate and government relations for Whiting Petroleum Corp. in Denver.

The Alliance has discontinued distributing a daily electronic newsletter, she said, and has gone back to "old-school direct e-mails."

Among other activities highlighted was the "Case for Colorado" event, in which teams of college students presented arguments supporting energy development across the state to a "shark tank" panel composed of industry, academic and commercial representatives.

"We were able to present the winning team from Colorado State University with a $25,000 scholarship," Fakharzadeh reported. "This was a great way for us to support the next generation of Colorado leadership."

The Alliance also hosted a winter wine tasting and auction event in January that raised $24,000. This summer, the Alliance scheduled a "cigars and scotch" reception, the annual golf tournament, and a hall of fame dinner in September. ❐

WYOMING. FROM PAGE 188