

New Illinois Governor Quiet On Energy

By Dan Larson
Special Correspondent

MT. VERNON, IL.—The anticipated flood of new legislation aimed at stifling Illinois' oil and gas industry in the aftermath of the 2018 election turned out to be surprisingly modest, say leaders of the Illinois Oil & Gas Association.

As it prepares for its 74th annual convention, IOGA's leadership cites its standing policies of assured but reactive lobbying, active participation in the regulatory process, ongoing educational efforts and support for pro-business legislators as factors in its success at preventing any of the obstructive bills that appear every session from advancing in the Capitol.

"We continue to play good defense like most oil and gas associations in other states," says IOGA President Bryan Hood. "We also are playing more offense with our new political action committee and our ongoing outreach to new legislators from north of I-80."

Hood, president of Shakespeare Oil Company in Salem, Ill., says this year's annual meeting is scheduled for March 3-5 at the Old National Events Plaza in Evansville, Ind. It will feature presentations highlighting legislative and regulatory issues plus an expanded landman's program covering surface issues that will include insights on securing leases with less than 100 percent mineral interest coverage.

"The landman's group, the Tri-State Association of Professional Landmen, has been working with its national affiliate, the American Association of Professional Landmen, to develop a two-hour program that provides credit hours for those attending," says Hood.

Following Democratic Governor J.B. Pritzker's 2018 victory over incumbent Republican Bruce Rauner by a 54.5%-38.8% margin and continued Democratic control of both legislative chambers, the association is on alert for a revival of efforts by opposition groups to connect high-volume hydraulic fracturing, among other issues, with oil and gas production in Illinois, IOGA Past President Craig Hedin says.

"With Democratic control of state government, I am surprised they have not

taken a stronger position against our industry or fossil fuels in general," he muses. "For most of the year, the governor was pretty quiet on energy, favoring renewables instead of going after oil and gas. It may be because of all the new people that he has brought into the administration."

Hood says the association takes care to work with legislators and staff members so they understand at least the basics of oil development and production. The association hosted field tours for legislators and staff during the year.

"New legislators hear nothing but neg-

ative news about our industry," notes Sam Barbee, IOGA's executive vice president. "We want to bring them to us rather than just walking the hallways of the capitol. We are seeing early signs that this approach is very effective in getting out the facts about our industry."

Anti-Industry Bills

The Illinois 2020 legislative session began Jan. 28. Hedin predicts bills aimed at choking Illinois' oil and gas industry are likely while legislators are at the statehouse. Fortunately, he observes, most of the expected anti-oil-and-gas

IOGA Annual Meeting – Evansville, In.

Tuesday, March 3

8 a.m.-5 p.m. Pre-Convention Workshop: "Enhancing Your Illinois Basin Data and Interpretation Skill Set"

Joan Crockett, Crockett Geological Consulting Services, Scott Elrick, Illinois State Geological Survey, "ILSTRAT: Online Resource of Illinois Stratigraphy for Geologic Assessment and Permitting"

Melony Barrett, GIS Specialist, "Getting the Most Out Of ILOIL: Becoming a More Powerful, Informed User With Queries, Layers, etc."

Robert Stewart, Stewart Producers, "Waterflood Design, Unitization, Implementation and Results: Why Some Floods are Successful and Others Fail"

Jim Brooker, Brookston Resources, "Analog to Digital: Digitized Spontaneous Potential Logs: Tools for Reservoir Interpretation"

Scott Frailey, ISGS, "Analysis of Step Rate Tests for Estimating Maximum Injection Pressure"

Dawn Monroe, Dawn Monroe Training

Noon-3 p.m. Exhibitor Large Equipment Load In

3-6 p.m. IOGA Exhibitor Check In and Setup

Wednesday, March 4

7:30 a.m. Registration Open

7:30 a.m. Exhibit Hall Open

Coffee and Doughnuts

9 a.m. Committee Meetings

Programs Committee

Finance Committee

Industry & Public Relations Committee

Membership Committee

IPRB/IOGA Joint Committee

10 a.m. IOGA Annual Membership, Board of Directors and PAC Meetings

Featured Speakers: Seth Whitehead, IPRB Report, Dan Reitz, Legislative Report, Hannes Leetaru, ISGS Report, Dan Brennan, Office of Oil and Gas Resource Management Report

11:30 a.m. Buffet Luncheon

1 p.m. Session I

Brad Aman, Continental Resources Inc. "Illinois Basin and Williston Basin: An Evolution in Completion and Stimulation Techniques and How it Helped Change the World"

2 p.m. Session II

Breakout A, Shawn Bennett, U.S. Department of Energy

Breakout B, Dawn Monroe, Dawn Monroe Training, "Excelapalooza Tips & Tricks"

3 p.m. Break

3:30 p.m. Session III

Melony Barrett, ISGS, ILOIL; Scott Elrick, ISGS, ILSTRAT

4:30 p.m. Awards Banquet Cocktail Reception

6-10 p.m. Awards Banquet & Oil Field Services Auction

Thursday, March 5

8 a.m. Exhibit Hall Open

Breakfast Buffet

9:30 a.m. Vendor Giveaway Drawings

10 a.m. IOGA Legislative & Legal Session

Featured Speakers: Matthew B. Flanigan, Black, Ballard, McDonald P.C.; Matthew L. McArthy, McCarthy Law Office LLC; Craig Hedin, Gessell's Pump Sales & Service Inc.

11 a.m. Departure

bills are likely to resemble those introduced last year.

"We are hearing that the environmental groups may take another shot at a high-volume hydraulic fracturing bill and the 'right of review' bill from last year," Hedin says.

Introduced in 2019 by Representative Jennifer Gong-Gershowitz, D-Glenview, HB 2839 would have allowed a judicial review for anyone "suffering legal wrong or adversely affected or aggrieved because of a final administrative decision." The bill would have allowed judicial review for permitting decisions by the state's agricultural, environmental protection, natural resources, public health or transportation departments. Hedin warns the definition of what makes up an adverse impact or grievance in the bill's language is very broad and easily applied.

In the 2019 session, HB 2839 did not make it out of committee. The odds are against it doing much better this year, but if it does, the consequences will be severe, Hedin warns. "If that were to pass, it would be an absolute killer; we would never get another drilling bit into the ground," he concludes.

Over the past few sessions, Hood says the association's message has been simple:

"We follow the rules, we don't cause problems, we contribute to the state's welfare, and we just want to be left alone."

The association took a positive step last year to help strengthen IOGA's position in the Capitol, Hedin says. By forming its own political action committee, IOGA allows its members to "provide funds to support the best candidates for federal, state and local offices with respect to industry issues," he reports.

The newly appointed IOGA-PAC directors will hold their inaugural meeting at the annual convention to approve by-laws and elect officers. Hedin adds the PAC already has received sizeable contributions but has not yet distributed funds to any candidates.

Hedin says directors are elected annually from IOGA members who have made contributions during the preceding calendar year. The initial IOGA-PAC Board of Directors includes Steve Lampley, Chris Mitchell, Kevin Reimer, Matthew McCarthy and Brad Richards.

Gradual Decline

Oil and gas production in the prolific Illinois Basin dates back to 1900 and peaked in the years before World War II.

Currently, Illinois ranks 16th among

oil-producing states. The U.S. Energy Information Administration says Illinois produced 23,000 barrels a day in 2019, a decline of 3,000 b/d since 2013. Annual natural gas production in 2019 was 2.418 billion cubic feet, placing Illinois 25th among states.

Even with its gradual oil and gas production declines, the state's steady, reliable output remains an important source of revenue, Hood observes. As a result, Illinois continues to enjoy the benefits of a viable oil and gas industry. A 2019 Illinois Petroleum Resources Board study showed the industry generated \$3.04 billion in annual economic impact, 4,000 direct jobs plus another 10,000 industry-related jobs, \$330.0 million in state tax revenue and \$57.4 million in ad valorem taxes.

Highlighting the benefits of production remains an IOGA priority, Hood says.

"Ad valorem taxes are where we see the most visible impact," he assesses. "That revenue goes directly to local government and schools. In fact, the research shows that half the ad valorem tax collected goes to fund K-12 education."

The association remains vigilant for any new efforts to impose a state severance tax on oil production, Hood notes. There was a levy of such a tax in the passage of

high-volume hydraulic fracturing legislation five years ago, but the tax was not applicable to the conventional industry.

“Those discussions have quieted down lately. Since business income taxes are still pretty high, oil and gas does generate important tax revenue for the state even with the industry’s modest production,” he says.

Progressive Tax

In its first budget under Governor Pritzker, the state projects fiscal 2020 revenues at \$40.3 billion against \$40.1 billion in expenses, for a surplus of \$151 million. This represents a turnaround from an early budget estimate showing a \$2.76 billion budget deficit, according to an October report from the Illinois Office of Management and Budget.

Money from the state’s three largest tax revenue sources—personal income, corporate income and sales—are estimated at \$30.8 billion, a net increase of nearly \$727.0 million over FY 2019.

Hedin points out that the state projection includes new revenue the governor says will be generated with passage of a tax increase referendum slated for the November 2020 ballot.

According to the Illinois Policy Institute, the state’s high income-tax level is the reason personal income growth in Illinois has lagged the rest of the country. Since the recession a decade ago, national average annual income growth was 2.1 percent adjusted for inflation. In Illinois, it says, income growth averaged 1.1 percent, second lowest in the nation after Mississippi.

Hedin notes that ballot referendums are rare in Illinois and one proposal would amend the state’s constitution to move Illinois from a flat income tax to a progressive tax policy. If approved, personal income would be taxed at between 4.75 percent and 7.99 percent starting next year.

Violations And Resolutions

Finalizing a state issue under consideration since April 2018, the Department of Natural Resource’s Office of Oil and Gas Resource Management announced at its Sept. 12 meeting it would no longer send Form OG-21, a notice of violation, to an operator before it was filed with the department for a director’s review. A director’s decision then will be issued to the operator, who can accept it or file an appeal.

The policy revision, plus a more flexible approach to fines, is expected to reduce the backlog of NOV’s in the director’s office, the board says.

In a confirmation of support for the industry across the Illinois Basin, 17 southern Illinois counties where the oil and gas industry provides jobs and revenue, passed resolutions supporting operators, Hood recalls.

In one example, the Hamilton County Board approved Resolution No. 2019-28 on Nov. 19. It states that the oil and gas industry “provides revenue to the county through sales and real estate taxes, em-

ployment for its citizens and patronage of its businesses” and the county “will continue to support the development of oil and gas resources.”

Meeting with county board members, IOGA helped introduce similar resolutions approved in 17 counties representing 90 percent of the basin’s production, Hood says. “Working closely with local governments is one of our most important strategies,” he notes. □