

GOVERNMENTAL AFFAIRS REPORT

Highlights At-A-Glance

FEDERAL – Legislative

S. 4596 - Transparency and Honesty in Energy Regulations Act of 2022. On August 1, official bill text was made available for S. 4596, known as the "Transparency and Honesty in Energy Regulations Act of 2022." Sponsored by Sen. James Lankford (R-OK) and Sen. John Hoeven (R-ND), the bill would "prohibit the Secretary of Energy, the Administrator of the Environmental Protection Agency, the Secretary of the Interior, the Secretary of Transportation, the Chair of the Council on Environmental Quality, and the Federal Energy Regulatory Commission from considering, in taking any action, the social cost of carbon, the social cost of methane, the social cost of nitrous oxide, or the social cost of any other greenhouse gas, unless compliant with Office of Management and Budget guidance." According to Sen. Lankford, "The social cost of carbon has a big impact on every Oklahoma family and their pocketbook since it is used to justify many parts of Democrats' illegitimate, progressive climate-change scheme that increases the cost of gasoline, electricity, and other goods. The Supreme Court recently determined in <u>West Virginia v. EPA</u> that the EPA may not cap greenhouse gas emissions because Congress did not provide the agency with that authority. In the same way, the social cost of carbon metric is clearly outside the scope of EPA's regulatory authority, and our bill ensures they stop using it." Read more.

S. 4571 – Federal Onshore Leasing. On July 28, official bill text was made available for <u>S. 4571</u>. Sponsored by Sen. Mike Lee (R-UT), the bill's purpose is to "reaffirm that the President of the United States lacks the authority to stop oil and gas leasing on Federal public land." According to Sen. Lee, "President Biden and his administration have used court challenges, so-called reviews, and other tactics

to delay or prevent legally required sales of oil and gas leases on federal land and in federally controlled waters. This delay, along with other Biden Administration policies, has constrained the available domestic supply of energy and placed energy suppliers in Utah and elsewhere in difficult economic circumstances. The American people cannot endure President Biden's clear-as-mud policies any longer. I've introduced legislation to reaffirm that under the Mineral Leasing Act, the President absolutely does not have the authority to hold the country's domestic energy production hostage. We can end this crusade today and get to work securing American energy independence for generations to come." Read more.

S.J. Res. 55 - Disapproval of NEPA Regulations. (Update to 4/25/22 Report) On August 4, Senate Joint Resolution, S.J. 55, passed the Senate by a narrow 50-47 vote in favor. The vote used a special process under the Congressional Review Act (CRA), which is used to undo regulations issued by the federal government - in this case, environmental rules put forth by the Biden administration. The reason this resolution was able to advance to a vote in the Democrat-led Senate is because the CRA operates under different rules than a typical vote. A petition signed by just 30 senators can discharge a CRA resolution for Senate consideration and they are not subject to a filibuster. The resolution still faces an uphill battle, both in the House of Representatives and the White House, since CRA resolutions also require the president's signature, and President Biden is unlikely to sign a resolution undoing the actions of his own administration. For background, S.J. 55, is a joint resolution of disapproval to nullify the Biden administration's "National Environmental Policy Act (NEPA) Implementing Regulations Revisions" that went into effect on May 20, 2022. The Biden

administration rulemaking turns back some of the changes to the nation's permitting laws put in place under the Trump administration and that requires agencies to consider climate change impacts of a proposed project. Sponsored by Sen. Dan Sullivan (R-AK) and supported by all 49 Senate Republicans, the resolution would nullify the recent NEPA revisions. On August 2, 40 organizations threw their support behind reverting back to more industry friendly NEPA rules under the Trump administration. One of the groups, the Western Energy Alliance (WEA), "believes that conducting NEPA analysis to identify environmental impacts and work to mitigate them is a good thing, but when obstructionist groups use NEPA to tie up projects for years in analysis, red tape, and litigation it's no longer about protecting the environment but about saying 'no' to any energy projects, pipelines, roads, and other infrastructure," said Kathleen Sgamma, WEA President. "At a time of runaway inflation and high energy prices, Sen. Sullivan's CRA resolution could help move projects along to increase production of American energy and bring down prices for consumers." Read more. The Independent Petroleum Association of America (IPAA) also publicly applauded Sen. Sullivan "for introducing S.J. Res 55 and his efforts to overturn the Biden Administration's new NEPA rules," saying, "Since its enactment, requirements for the application of NEPA have grown considerably and place a heavy burden on independent oil and natural gas producers. IPAA supports efforts to modernize NEPA and reduce needless delays that hinder American oil and natural gas projects and badly needed infrastructure initiatives across the nation." According to Sen. Sullivan, the "NEPA rules, authored by the White House Council on Environmental Quality (CEQ), undermine important provisions in the Infrastructure Investment and Jobs Act intended to streamline key elements of our broken federal permitting process, which Senator Sullivan played a leading role in writing. Additionally, the Biden administration's NEPA rules are a substantial roll-back of the Trump administration's 2020 NEPA regulations, which were the first major modernization of federal environmental reviews since 1978." Read more.

Inflation Reduction Act of 2022. As of the publishing of this report, AAPL Governmental Affairs continues to closely monitor developments on the U.S. Senate's budget reconciliation deal, known as the "Inflation Reduction Act of 2022." The final bill is still in flux as of this report and its provisions are reportedly being finalized but no final bill has yet been released except a framework in a 700+ page draft. Read more. The bill is expected to contain numerous climate change provisions, possible tax/fee increases - including certain fees imposed on the oil and gas industry - as well as requirements that federal onshore and offshore lease sales be held in exchange for renewables development, the latter of which was required by Sen. Joe Manchin (D-WV) in order to gain his necessary support. There are also reported side deals to approve at least one pipeline and perhaps others. Portions of this bill have been supported by many in the traditional energy industry as a compromise, while other stakeholders oppose its proposals. AAPL will also be able to make our position known as the process progresses, and we will keep members posted through multiple communication channels once the Senate releases the bill to the public and an analysis is completed. Any bill quickly pushed through the Senate would have to be considered by the House of Representatives, which would have to be called back from its August recess to move on it before September. The federal government's fiscal year ends on September 30, so it appears the Democrat-led Congress is attempting to push the bill through before that date and also avoid any difficulties in moving legislation closer to the midterm elections. Read more.

FEDERAL - Regulatory

BLM Grand Staircase-Escalante National Monument.

On July 29, the Bureau of Land Management (BLM) published a Notice of Intent To Prepare a Resource Management Plan for the Grand Staircase-Escalante National Monument in Utah and an Associated Environmental Impact Statement (87 Fed Reg. 45796) that "intends to revise a Resource Management Plan (RMP) with an associated Environmental Impact Statement (EIS) for the Grand Staircase-Escalante National Monument (GSENM) and by this notice is

announcing the beginning of the scoping period to solicit public comments and identify issues, is providing the planning criteria for public review, and is issuing a call for nominations for areas of critical environmental concern (ACECs). The RMP revision would replace the existing 2020 GSENM RMP and 2020 Kanab-Escalante Planning Area RMP." According to the BLM, "This RMP will provide a management framework, including goals, objectives, and management direction, to guide Monument management. Purposes and needs serve to frame issue identification, alternatives development, and effects analyses." The public comment period is open through September 27, 2022. Read more.

FEDERAL - Judicial

BLM Oil and Gas Leasing and Development Planning - California. On July 31, the Bureau of Land Management (BLM), state of California, and various environmental groups entered into a settlement agreement resolving litigation dating back to 2015. In Center for Biological Diversity v. U.S. Bureau of Land Management (Case No. 2:20-cv-00371-DSF), the litigants originally filed a complaint for declaratory and injunctive relief challenging the 2014 BLM Resource Management Plan (RMP) and 2012 BLM Final Environmental Impact Statement (EIS) for the Bakersfield Field Office, which identified approximately 400,000 acres of public lands and 1.2 million acres of federal mineral estate available for oil and gas leasing, alleging that the 2012 EIS failed to disclose and adequately analyze the environmental impacts of approving the 2014 RMP, including impacts from hydraulic fracturing in violation of the National Environmental Policy Act. The terms of the "settlement include a moratorium on new oil and gas leasing [in the area] while the BLM conducts a more thorough review. The agency specifically agreed to conduct a new supplemental environmental impact statement before holding any new lease sales. The California officials will also reserve the right to dispute or challenge the replacement statement." The settlement effectuates a reversal of a Trump-era decision that would have opened central California to new oil and gas drilling on public lands and will prohibit the federal government from leasing any of the land for drilling

until the new environmental review is completed. Read more.

Bankruptcy Petitions; Unpaid Oil and Gas Royalties - Texas. On April 7, the U.S. Bankruptcy Court for the Southern District of Texas addressed a dispute regarding unpaid oil and gas royalties subject to a bankruptcy petition. In In re Lilis Energy, Inc. (Case No. 20-33274), the court explained that after "filing for bankruptcy, Lilis Energy failed to pay pre-petition mineral interest royalties due to Tilden Capital Minerals, LLC. Now, Tilden seeks recovery of those unpaid royalties. However, Lilis's Plan of Reorganization treats claims for unpaid royalties as general unsecured claims. According to the Trustee of Lilis's Liquidating Trust, a general unsecured claim is all Tilden is entitled to at this stage. Tilden relies on Texas law to argue that the unpaid royalties held by Lilis were never Lilis's property but were instead held in trust for Tilden's benefit. Hence, Tilden maintains that Lilis could not use the unpaid royalties to satisfy Lilis's other creditors because the royalties were never part of Lilis's estate. Through a request for relief from the Confirmation Order, Tilden contends that Lilis must either pay the unpaid royalties still in Lilis's possession or be held accountable for the wrongful conversion of Tilden's property." Here, the court held that "Lilis's Plan plainly addressed Tilden's claim for unpaid royalties. Tilden failed to object to the Plan's treatment of unpaid royalty claims and failed to appeal the Plan's confirmation." Thus, "Tilden is now bound by the Plan's treatment of unpaid royalty claims" and Tilden's request for relief from the Confirmation

STATE - Legislative

Order was denied. Read more.

Mineral Rights – Missouri. (*Update to 3/14/22 Report*) HB 2862 died in session adjourned May 30, 2022. Sponsored by Rep. Bruce Sassmann (R), the bill would have provided "that mineral rights revert to the landowner if unused for twenty years." Read more.

Independent Contractor Status – Missouri. (*Update to 2/14/22 Report*) SB 863 died in session adjourned May 30, 2022. Sponsored by Sen. Bob Onder (R),

the bill would have provided for the recognition of independent contractor status based upon provided criteria. Read more.

STATE – Regulatory

Air Quality Permitting; Air Dispersion Modeling Guidelines - New Mexico. On July 26, the New Mexico Environment Department (NMED) Air Quality Bureau announced a new ePermitting Portal available for submittals for two types of permitting actions: Notices of Intent (oil and gas facilities only); and Applications for General Construction Permits for Oil and Gas Facilities (GCP-O&G). Read more. On the same day, the NMED Air Quality Bureau announced the release of its latest NM Air Dispersion Modeling Guidelines. "The main changes to the Guidelines include the following: Background concentrations have been updated; SO₂ modeling requirements for Permian Basin sources now recommend modeling of surrounding sources; PM2.5 secondary formation estimation now includes local MERPs [Modeled Emission Rates for Precursors] values; Meteorological data recommendations have been updated; Additional references for existing content have been added; and ambiguous language has been clarified, where possible." Read more. According to the NMED, "Air quality modeling is a mathematical simulation that shows how air pollutants move and interact in the atmosphere and affect air quality. The Environment Department conducts and provides guidance to the regulated community on air modeling to check compliance with air quality standards." Read more.

Oil and Gas Ozone Regulations – New Mexico. (Update to 7/11/22 and 9/7/21 Reports) On August 5, the New Mexico Environment Department (NMED) new emissions rule went into effect. Throughout this year and last, AAPL has provided members with multiple opportunities to submit public comment and participate in the rulemaking process. In fact, it was reported that the rule was "developed with input from more than 520 stakeholders representing industry, environmental groups and the public." According to NMED, the "new rule will reduce emissions of ozone precursor pollutants – volatile organic compounds and

oxides of nitrogen – by approximately 260 million pounds annually and will have the co-benefit of reducing methane emissions by more than 851 million pounds annually [and] compliance requirements for new and existing oil and gas operations in New Mexico counties with high ozone levels will take effect. These areas are Chaves, Doña Ana, Eddy, Lea, Rio Arriba, Sandoval, San Juan and Valencia counties." Read more. For background, on July 6, 2022, the NMED announced that Part 20,2,50 NMAC Oil and Gas Sector - Ozone Precursor Pollutants was filed with the New Mexico State Records administrator pursuant to Section 14-4-3 of the New Mexico State Rules Act. Read more. The final rule was published in Issue 14 of the NM Register on July 26, 2022, with an effective date of August 5, 2022. Previously, the New Mexico Environmental Improvement Board held a public hearing on September 20, 2021 on the proposed rulemaking and a redline of the amended portions of the regulation was available here. The adopted regulations target emissions of ozone precursor pollutants from the oil and natural gas sector. Read more.

Bank Boycott of Fossil Fuel Industry - West Virginia. (Update to 6/27/22 Report) West Virginia has followed through with its plan to deem financial institutions ineligible for state banking contracts on the grounds that they boycott fossil fuel companies. On July 28, the West Virginia Treasurer, Riley Moore, released the restricted financial institution list that includes BlackRock, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Wells Fargo. Read more. "As the blacklist goes into effect, all five firms will no longer be eligible for state contracts and any existing contracts will be void. The news means the firms will lose access to \$18 billion in annual inflows and outflows." For background, on June 13, State Treasurer Moore announced he sent notices to six major financial institutions informing them of a possible boycott "on doing business with West Virginia government entities. This move by the West Virginia state government implements a state law passed earlier this year that enables 'the [West Virginia] Treasurer's Office to create a Restricted Financial Institution List consisting of financial institutions that

have publicly stated they will refuse, terminate, or limit doing business with coal, oil, or natural gas companies without a reasonable business purpose. Notably, this law would then preclude these financial institutions from being 'eligib[le] for contracts for state banking services." According to the Treasurer's Office, "Notices were issued on Friday, June 10. The financial institutions that have been sent notices will officially be placed on the list in 45 days, unless they respond with information demonstrating they are not engaged in a boycott of fossil fuel companies. The institutions have 30 days from the time they receive the initial notice to submit a response to the Treasurer's Office." Read more.

STATE – Judicial

Regional Greenhouse Gas Initiative Adoption -Pennsylvania. (Update to 5/9/22 Report) On July 25, a Pennsylvania court reinstated an earlier preliminary injunction against Gov. Tom Wolf's (D) planned entry into the Regional Greenhouse Gas Initiative (RGGI) a cap-and-trade emissions program for power plants encompassing 12 Northeastern states - aimed at addressing greenhouse gas emissions. The judge's order in Ziadeh v. Pennsylvania Legislative Reference Bureau (Case No. 41 M.D. 2022) "stops the state from implementing, administering, or enforcing a final rulemaking that would put Pennsylvania" into the RGGI. The court's previous July 8 order was temporarily on hold pending appeals from Pennsylvania's Department of Environmental Protection and Environmental Quality Board. According to Bloomberg Government, "That ruling was then automatically stayed, which happens in Pennsylvania whenever an injunction is issued against a state governmental entity and the state appeals to the Supreme Court." In the current order, the judge found that RGGI's opponents "successfully raised substantial questions about whether the rulemaking constitutes an impermissible tax." Court hearings on this case will begin in September. For background, in May, Gov. Wolf announced Pennsylvania has entered the RGGI. Read more. Republican lawmakers fought the adoption of RGGI arguing it will imperil safe and reliable energy sources used to power Pennsylvania. "Joining RGGI is a bad idea because it will increase electricity prices, even though higher energy prices are already contributing to inflation," said Michelle Bloodworth, the president of America's Power, a trade group representing coal interests. "It will cause the premature retirement of coal-fired power plants at the same time electricity grid operators are concerned that more coal retirements could cause electric reliability problems; and it will have no effect on climate change because other countries, especially China, continue to build more coal-fired power plants and increase their use of coal." Read more.

Leasing; Regulatory Taking - Texas. On August 1, the Texas Court of Appeals, Fifth District, affirmed a jury's verdict finding the city of Dallas liable for a regulatory taking by failing to approve special use permits necessary to drill gas wells inside the city in City of Dallas v. Trinity East Energy, LLC (Case No. 05-20-00550-CV). The city must pay more than \$33 million in restitution to a gas driller to whom it leased land. The background of the case began when the city leased some of its property in northwest Dallas to Trinity East Energy LLC for \$19 million in 2008. The lease covered 2,000 acres and identified one drill site location and three other tracts as proposed drill site locations. Then-city manager Mary Suhm said, in a letter to Trinity, she was "reasonably confident" that the company would be granted the special use permits needed to drill gas from the wells, but warned she could make no "guarantee." Years of protests by citizens concerned about the health and environmental effects of drilling followed. In August 2013, the city council declined to approve the permits. Shortly after, the city passed an ordinance banning urban drilling. Trinity's leases by then had expired, and the mineral interests reverted back to the city. Here, the court ruled that without the permits Trinity was impeded from drilling at the leased sites, and coupled with the city's denial of a permit for another well close by, it was impossible for the company to drill in the area, and this supported the regulatory taking claim. Read more.

Deeds; Mineral Interests – Texas. On May 12, in *Hayne v. DOH Oil Company* (Case No. 11-20-00158-

CV), the Texas Court of Appeals, Eleventh District, addressed a dispute over certain sheriff's deeds and an action to guiet title. Arising out of a dispute over property in Martin County following a foreclosure to satisfy delinquent property taxes, "the disputed property was sold by sheriff's deeds in 2008 and 2009. Over a decade later, Mary Haynes (Appellant) sued to try title, alleging that the sheriff's deeds are void for an inadequate property description. In the alternative, she also sued to quiet title, alleging that, in relevant part, the sheriff's deeds only conveyed royalty interests and not her entire mineral estate." DOH Oil Company and other defendants filed motions for traditional summary judgment, "asserting that Appellant's claims were procedurally barred under the Texas Tax Code's statute of limitations." Some of the defendants "also asserted that the sheriff's deeds, in relevant part, conveyed more than just royalty interests" as well as an additional assertion from one of the defendants "that Appellant's claims were barred by the Tax Code's requirement that Appellant deposit funds into the trial court's registry, or file an affidavit of inability to do so, before bringing a claim challenging a tax sale." The trial court granted the defendants' motions for summary judgment and later signed a final judgment incorporating its previous rulings and rendering judgment "that Appellant take nothing on her claims." Here, the appellate court affirmed the trial court's ruling. Read more.

Leasing; Drainage - Texas. On May 6, in Rosetta Resources Operating, LP v. Martin (Case No. 20-0898), the Texas Supreme Court addressed a dispute over lease interpretation as it related to drainage. As stated by the court, "the parties dispute the meaning and application of an express covenant to protect against drainage. The covenant appears in a unique and mistake-ridden lease addendum, which expressly limits the location of wells that may trigger the lessee's obligation to protect against drainage but does not directly address the location of wells that may cause drainage. The lessor plaintiffs argue that the covenant's language allows for separate triggering and draining wells, and that the lessee breached the covenant by failing to protect against drainage from a non-triggering well. The lessee defendant responds

that it is only obligated to protect against drainage from the limited class of triggering wells." Here, the court held that "the addendum is ambiguous because both interpretations of this poorly drafted covenant are reasonable." The court also found that "the court of appeals improperly reversed the trial court's takenothing summary judgment on the lessors' tort and statutory claims, which they did not challenge on appeal. We therefore reverse the court of appeals' judgment, reinstate the trial court's summary judgment in part as to the lessors' tort and statutory claims, and remand for further proceedings on their claim for breach of the lease." Read more.

INDUSTRY NEWS FLASH

- ► Oil and gas industry supports Gulf of Mexico offshore wind development plan. According to July 26 reporting by the Washington Post, the oil and gas industry "sees an opportunity for workers with experience on offshore drilling rigs to transfer their skills to offshore wind farms, according to interviews with industry officials." This comes as President Biden recently announced plans for offshore wind development in the Gulf of Mexico opening up nearly 700,000 acres. "We're all for wind energy in the Gulf," said Mike Moncla, president of the Louisiana Oil and Gas Association, representing more than 1,110 independent producers and service companies. "Putting in platforms and using crew boats — those things are definitely transferrable from offshore drilling platforms to offshore wind turbines." Read more.
- ▶ OPEC+ agrees to small boost in oil output.

 Last Wednesday, OPEC+ members agreed to a small increase in oil production quotas for September at 100,000 barrels per day. This, however, falls short of the increases the Biden administration has been seeking especially during the president's trip to Saudi Arabia last month. Read more.
- ► Texas adds record number of upstream oil and gas jobs. As reported on July 26, by *The Center*

Square, "Texas added the greatest number of jobs in the oil and natural gas industry in June in recorded state history. More than 6,100 jobs were added in the upstream oil and natural gas sector from May to June, the highest monthly increase in recorded state history." And the industry is expected to experience even more growth, says the Texas Independent Producers and Royalty Owners Association, "pointing to a U.S. Energy Information Administration forecast for the Permian Basin in West Texas and southeastern New Mexico." Read more.

LEGISLATIVE SESSION OVERVIEW

States in Session



Session Notes: The **U.S.** House of Representatives is in August recess. The **U.S.** Senate is in session.

The following states will adjourn their 2022 legislative sessions on the dates provided: **Michigan** (August 17), **New Jersey** (September 6), the **Pennsylvania** House (September 12), the **Ohio** House (September 14), the **Pennsylvania** Senate (September 19) and the **Ohio** Senate (September 21).

North Carolina was scheduled to adjourn on July 1, however, the <u>adjournment resolution</u> calls for the regular session to reconvene for mini sessions over the coming months. The legislature reconvened on July 26 and again on July 28. The next three-day session is scheduled for August 23.

Indiana Republican Gov. Eric Holcomb convened the legislature into a special session on July 25. The

session will address an abortion ban as well as the state's budget surplus, reports <u>WTHR</u>. Legislators adopted a <u>concurrent resolution</u> allowing themselves to recess or adjourn the special session for more than three consecutive days. According to state code, the special session must end by August 14.

West Virginia Republican Gov. Jim Justice called the legislature into a special session on July 25. In addition to Governor Justice's <u>proposal</u> to reduce the state's personal income tax, the special session was <u>amended</u> to "clarify and modernize" the state's abortion-related laws.

Arkansas Republican Gov. Asa Hutchinson scheduled a special session for the week of August 8 to "reduce the rate of our tax collection," as stated in the governor's <u>press release</u>. The special session comes in response to the record state surplus and will include tax relief as well as other issues items that will be announced at a future date.

Signing Deadlines (by date): Alaska Republican Gov. Mike Dunleavy has 20 days from presentment, Sundays excluded, to act on legislation or it becomes law without signature. North Carolina Democratic Gov. Roy Cooper has 10 days from presentment to act on legislation or it becomes law without signature.

The following states are currently holding 2022 interim committee hearings: Alabama, Alaska, Arizona, Arkansas, Colorado, Connecticut, Delaware, Georgia, Idaho, Illinois House and Senate, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Missouri House and Senate, Minnesota, Mississippi House and Senate, Montana, Nevada, New Hampshire House and Senate, New Mexico, North Dakota, Oregon, Rhode Island, South Carolina House and Senate, South Dakota, Tennessee, Texas House and Senate, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and Wyoming. ■

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