

# Push To Over-Regulate Energy Industry Will Take Toll On Texas, The Economy

By **RICHARD L. BURLESON**

**T**he Obama Administration's continuing assault on oil and gas companies demonstrates once again that good politics can make for bad policy. Because the fact is, the President and his allies are pushing the industry toward a slippery slope of over-regulation that could stall energy independence, further weaken the economy, and cost Texas millions.

The issue of hydraulic fracturing – a technique to enhance domestic energy production – is a perfect example.

In this process, a solution made up primarily of sand and water is injected into a well to create fractures in the oil- or natural gas-bearing rock. These fractures allow for the increased flow of oil or gas out of the formation, thus maximizing production.

"Fracing," as it's called, is a proven technology. It has been in use since 1947; accounts for 30 percent of domestic recoverable oil and natural gas; and has facilitated the extraction of more than 600 trillion cubic feet of gas and 7 billion barrels of oil. The process has been used on roughly 90 percent of all wells in operation today.

An additional benefit of fracing is this: It has particular application in unconventional formations. These include shale deposits, which the U.S. Energy Information Administration (EIA) says are the fastest-growing source of natural gas and which are expected to comprise 18 percent of domestic production by 2030. The Marcellus Shale play alone – located in Pennsylvania, Ohio, West Virginia, and New York – may be large enough to supply all U.S. natural gas demand for 15 years.

So the process is time-tested. It allows for greater development of natural gas, a clean domestic fuel source. And it has an essential role in maximizing output from sources that can contribute significantly to energy

independence. Yet Congress seems determined to undermine its potential.

In early June, legislation was introduced that would require disclosure of the small amounts of chemicals used in the fracing liquids (roughly one half of one percent of the solution) and move regulation of the technique from the states to the federal government. The reason? "Polluting our water sources," says one cosponsor, U.S. Rep. Jared Polis, D-Colo. Predictably, fracing opponents have joined the chorus.

That may play well in the current climate, where targeting oil and gas companies is in fashion. But it ignores one simple fact: Hydraulic fracturing is safe, and there is no credible evidence to suggest otherwise.

The U.S. Environmental Protection Agency, Ground Water Protection Council, and Interstate Oil and Gas Compact Commission have all found that the technology does not threaten public health or the environment. In an interview with Bloomberg News, Jason Gammel of Macquarie Securities noted there have been over 1 million wells fractured without "a single incident of pollution of the water table." Industry analysts TPH Energy Research said, "Fracing has been well studied/documented, and no evidence has been found that links it to contaminating sources of drinking water."

Beyond that, the criticism doesn't reflect an understanding of how the process works. Fracing liquids are injected thousands of feet below the water table, and rock generally acts as a barrier to prevent any migration. So it would be awfully tough for the fluids to gravitate upward, through rock, into groundwater.

Environmental politics aside, a recent study by the economic and financial analysts IHS Global Insight concludes, "The effects of any policy...will generally be negative, particularly for natural gas, with the potential for higher prices, more imports and negative economic impacts from reduced domestic drilling." It states that restricting the liquids used in fracing would:

- Increase imports of foreign oil and gas by 30 percent by 2018 (IHS has also estimated U.S. production of oil and gas would drop 20.5 percent if the current legislative proposals pass);
- Reduce the real gross domestic product by \$172 billion in 2014;
- Lead to a loss of 1.4 million jobs in 2015;
- Increase the federal budget deficit by \$66 billion in 2014; and
- Widen the trade deficit in goods and services by \$95 billion in 2014.

IHS Global Insight also found that if fracing were eliminated completely – which is not impossible, given where this administration appears to be heading – Texas could lose up to 364,000 jobs by 2015. No other state would be impacted that severely.

This debate over fracing mirrors a larger concern, however: Placing a broader regulatory burden on oil and gas companies has the potential to not only cripple U.S. energy production but also to cost Texas millions -- despite the President's statement to *The Chronicle* last month that our state will gain if his energy policies are enacted.

According to the public awareness group Energy In Depth, if Congress and the Administration revise federal

laws and regulations to target the energy industry, it will cause the shutdown of more than 204,000 U.S. oil wells and 150,000 natural gas wells. That, in turn, will result in the loss of 183,000 barrels of oil and 670 million cubic feet of natural gas per day.

And because Texas is the epicenter of domestic exploration and production activity, the impact of this overregulation would be especially acute here.

We would lose production of 34,524 barrels of oil and 36 billion cubic feet of natural gas per day. That translates to a loss of almost \$243-million in royalties and over \$89-million in state severance taxes. Given the important role of the energy sector in Texas – and Houston in particular – we can also be expected to suffer a disproportionate burden of the \$10 billion in compliance costs that will accrue in the first year alone.

In analyzing the dangers of restricting hydraulic fracturing, TPH Energy Research concluded that “‘fossil fuels’ are currently dirty words in Washington, and religion rules over logic.” For the good of the country, for Texas, for the economy, and for energy independence, we can only hope that easy politics gives way to hard decisions. Then, and only then, will reason find its way back into the energy debate.

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