

National and State Information

The following reports on national and state issues were prepared by SIPES Vice President of National Energy Dennis Gleason and SIPES President Marc Maddox. The national report was presented to the SIPES Board of Directors at the board meeting on October 5, 2011. The views and opinions expressed are those of the authors. Some of the information presented is in the public domain and is available from a variety of sources; other references were selected by the authors, and are noted on their reports.

■ NATIONAL ENERGY

When I assumed this position at the close of the 48th Convention in Jackson Hole, I had a grand vision that I would compose some position papers regarding strategic mineral resources for the next *Quarterly* newsletters. However, reality, as it often does, interrupted this vision and caused me to be compelled to report on several issues that are impacting the energy sector of our economy and each of our individual livelihoods.

The first item or issue that I would like to comment about is the Department of Energy often referred to as the DOE. This is a Cabinet level organization of the Executive Branch of our Government. What comes to mind when we think of the DOE? What service does the organization perform? What is its history or genealogy? Most people think of a

government agency that is organized to identify and aid in the development of our country's energy resources. It may surprise many SIPES members that this is not the case.

What became the DOE actually began in 1939 with the creation of the Manhattan Project. Yes! - that project. Its purpose was to develop nuclear technology and weaponize it. General Groves ran it with an iron fist and allowed nothing to get in his way of achieving the goal of proving that a nuclear weapon could be created and then manufactured. This agency was in existence in this structure until 1947, at which time it was reorganized into the Atomic Energy Commission, best remembered as the AEC. The purpose of the AEC was to develop and implement policy regarding the civilian use of nuclear energy. During this time nuclear power plants were built and there was much research conducted to find civilian applications for nuclear technology. Nuclear technology was regarded as a source of almost infinite energy and many companies and communities embraced it wholeheartedly. This agency operated from 1947 until 1973. In 1973 a global event occurred that changed how the federal government looked at oil and gas; it was the Yom Kippur War fought between Israel and several Arab states. This conflict resulted in a jolt to oil prices that we are still dealing with today, as depicted on the graph of historic oil prices expressed in 2008 dollars (shown on Page 3).

In 1974 the AEC was divided into two agencies, the Nuclear Regulatory Commission (NRC) and the Energy Research and Development Administration (ERDA). The NRC assumed the role of regulatory oversight of all nuclear power plants and continued in that role until 1979 when the Three Mile Island accident occurred. ERDA was charged with conducting and promoting research for nuclear energy. Domestic energy was not a primary focus of this agency and the federal government remained at least interested in developing nuclear power until 1977. In 1977, another oil crisis occurred, and once again our domestic dependence on imported oil was put on full display. This, along with a hostile attitude by the Carter administration toward the oil industry, resulted in the creation of the Department of Energy. Its stated purpose is to manage policies regarding energy and safety in handling nuclear material, nuclear weapons, energy conservation, radioactive waste and domestic energy (a euphemism for oil and gas). In reality, price controls were instituted and punitive legislation was passed that targeted the oil industry with a windfall profits tax. This was the first time domestic energy was targeted formally as a resource for oversight by the federal government. Prior to this, the states monitored and regulated this resource.

I realize that the stated reason for the existence of this and its predecessor organizations sounds like the federal government wants to be our friend; the reality of the government's actions suggest another reason entirely. I would

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2011-12 Board Meeting Dates

February 1-2, 2012 Austin, TX

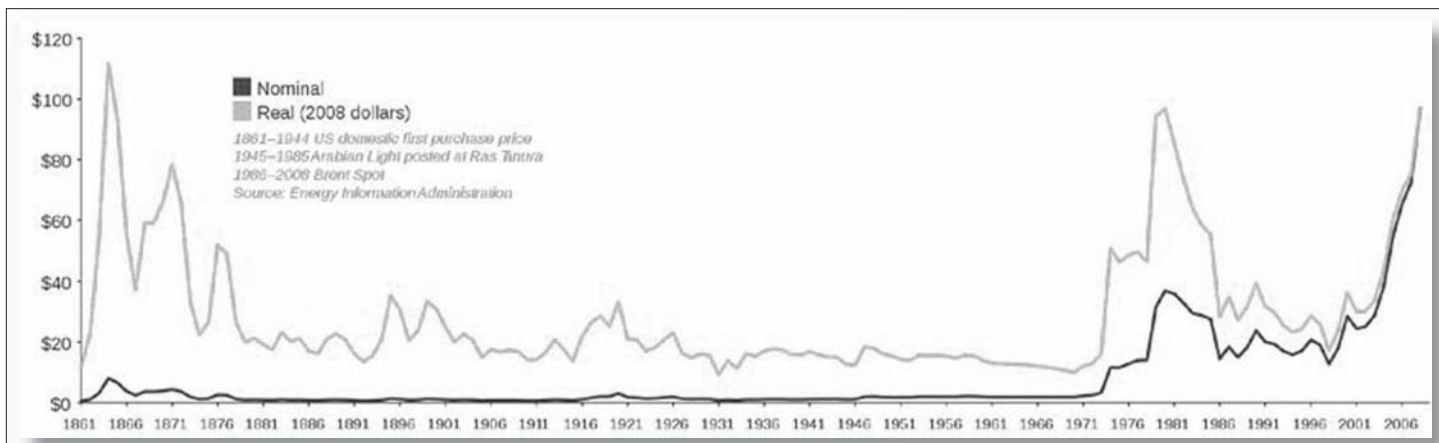
2012 Annual Meeting Dates

June 18-21, 2012.....Bar Harbor, ME

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Send your comments, letters, address changes and advertising inquiries to the SIPES Headquarters in Dallas, Texas.



Source: Energy Information Administration

Table 1. Estimated Levelized Cost of New Generation Resources, 2016.

| Plant Type | Capacity Factor (%) | U.S. Average Levelized Costs (2009 \$/megawatthour) for Plants Entering Service in 2016 | | | | |
|---------------------------------|---------------------|---|-----------|-------------------------------|-------------------------|-----------------------------|
| | | Levelized Capital Cost | Fixed O&M | Variable O&M (including fuel) | Transmission Investment | Total System Levelized Cost |
| Conventional Coal | 85 | 65.3 | 3.9 | 24.3 | 1.2 | 94.8 |
| Advanced Coal | 85 | 74.6 | 7.9 | 25.7 | 1.2 | 109.4 |
| Advanced Coal with CCS | 85 | 92.7 | 9.2 | 33.1 | 1.2 | 136.2 |
| Natural Gas-fired | | | | | | |
| Conventional Combined Cycle | 87 | 17.5 | 1.9 | 45.6 | 1.2 | 66.1 |
| Advanced Combined Cycle | 87 | 17.9 | 1.9 | 42.1 | 1.2 | 63.1 |
| Advanced CC with CCS | 87 | 34.6 | 3.9 | 49.6 | 1.2 | 89.3 |
| Conventional Combustion Turbine | 30 | 45.8 | 3.7 | 71.5 | 3.5 | 124.5 |
| Advanced Combustion Turbine | 30 | 31.6 | 5.5 | 62.9 | 3.5 | 103.5 |
| Advanced Nuclear | 90 | 90.1 | 11.1 | 11.7 | 1.0 | 113.9 |
| Wind | 34 | 83.9 | 9.6 | 0.0 | 3.5 | 97.0 |
| Wind - Offshore | 34 | 209.3 | 28.1 | 0.0 | 5.9 | 243.2 |
| Solar PV ¹ | 25 | 194.6 | 12.1 | 0.0 | 4.0 | 210.7 |
| Solar Thermal | 18 | 259.4 | 46.6 | 0.0 | 5.8 | 311.8 |
| Geothermal | 92 | 79.3 | 11.9 | 9.5 | 1.0 | 101.7 |
| Biomass | 83 | 55.3 | 13.7 | 42.3 | 1.3 | 112.5 |
| Hydro | 52 | 74.5 | 3.8 | 6.3 | 1.9 | 86.4 |

¹ Costs are expressed in terms of net AC power available to the grid for the installed capacity.

Source: Energy Information Administration, Annual Energy Outlook 2011, December 2010, DOE/EIA-0383(2010)

propose that the real purpose of this agency is the systematic seizure of energy resources in the domestic arena by our government.

Consider the following: --

The most recent emerging exploration resource play has been the Marcellus Shale located primarily in the states of New York, Pennsylvania and West Virginia. Recently, the state attorney general of New York, subpoenaed Range

Resources, Goodrich Petroleum and Cabot Oil and Gas to turn over all work papers and documents used in connection with their reserves estimates of Marcellus Shale prospects. Chesapeake Energy was also asked to respond to similar questions. As I understand the issue, the three companies issued subpoenas have been alleged to have overstated their Marcellus Shale reserves. The New York State Pension has invested over \$45 million in these four

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companies. The state attorney general is investigating whether or not the state pension may be holding paper that might be devalued. This could be the tip of the iceberg for similar confrontations with unfriendly state and local governments.

In another piece of litigation, Bloomberg reports on a Pennsylvania court action that is challenging the ownership of gas rights in the Marcellus Shale. For more than a century, Pennsylvania has required landowners to consider oil and gas rights separate from mineral rights when transferring ownership of resources beneath the surface of their property. The superior court has ruled that this law is currently ambiguous and it has been turned back to the lower court for resolution. This litigation puts the ownership of all oil and gas resources in question, including those under production. What is at stake is oil and gas production which has increased from 0.6 BCFPD to 2.8 BCFPD since drilling in the Marcellus began, and the creation of 200,000 jobs in Pennsylvania which has pushed the unemployment rate in Pennsylvania below the national average.

While the DOE may not be directly involved, as far as we can tell, the overall tone from Washington can and does have an influence on public perception and opinion.

Consider another current event: --

The Gulf of Mexico has certainly seen its share of DOE interventions over the past couple of years. Certainly some of these have been justifiable, however, what has happened with ExxonMobil seems somewhat arbitrary and punitive. ExxonMobil recently announced the discovery of two huge oil fields and one gas field in the Gulf of Mexico. Located in Keathley Canyon, these major discoveries are located 250 miles southwest of New Orleans in 7,000 feet of water. ExxonMobil estimated reserves of 700 million BO. Some estimates indicate the reserves could approach 1 billion BO. I don't know anything about the technical documentation behind these estimates, but my gut tells me if ExxonMobil is willing to step out and announce a definitive estimate as they have, then the range of possibilities for the ultimate reserve might be much more significant. To put this in perspective, this discovery could be the equivalent of up to 4% of ExxonMobil's net reserves. Shortly after this announcement, the Obama administration made an issue of unused and expired leases and has invalidated Exxon's position. It is probably fortunate that the current administration chose ExxonMobil as its "whipping boy" in this matter. ExxonMobil has filed suit and is quite possibly the only corporation that is willing to stand up and fight the federal government in court. Keep an eye on this because the implications of this are far reaching to all of us.

And yet another current event: --

The Obama administration has made no secret of its support for so called "Green Energy." Do they really know

what the real cost of "Green Energy" is? A recent report by the Energy Information Administration showed that 1 megawatt of electricity costs about \$65 if generated by natural gas. That same report showed the same 1 megawatt of electricity would cost about \$310 if generated by solar panels. The summary table is shown on Page 3.

So tell me.... What is the government's rationale for loan guarantees to Solyndra and other similar ventures? Since 2009, DOE has provided loan guarantees of nearly \$9.6 billion, some of them against the recommendations of career government employees with knowledge of the details of the companies' financial health. It has been reported that another company, Nevada Geothermal Power, is on the verge of going under and defaulting on its loans. Several other companies are in the wings.

These are but a few of the issues that confront our nation and our industry today. One could argue that these are the penance the nation is paying for a government that has refused to develop a cohesive energy strategy over the past fifty years. All administrations and congresses have done little more than pay lip service to developing an energy policy. As a result the electorate is suspicious of our profession, industry and motives. We must do all we can to educate the public and bring clear light upon the issues facing our country today.

■ STATE LEGISLATIVE NEWS

Report on the Texas Board of Professional Geoscientists Special Board Meeting held November 7, 2011 at 1:00 p.m., Room 100, 333 Guadalupe Street, Austin, Texas

The following is a summary of the special meeting held earlier this month in Austin to address the public outcry over the TBPG proposed rule changes.

Chairman Ron Kitchens called the meeting to order at 1:00 p.m. Roll was taken, and eight of nine TBPG board members were present. The member not present was Greg Ulmer. I did not make an exact count, but would estimate that there were twenty-five to thirty members of the public in attendance.

Mr. Kitchens proceeded with introductory remarks stating the reason that the meeting had been called. He then went into an explanation of events leading up to board's decision to publish the *Petition for Adoption of Rules* in the *Texas Register* on September 30th. These included reference to the oil and gas advisory workgroup, and the board's belief that the best way to garner public comment was to make a "straw man rule proposal." This took the form of the *Petition for Adoption of Rules*. The overall impression was that the members of the oil and gas community on the advisory committee were used for cover in an attempt to parse the meaning of words in the **Texas Professional Geoscientist Act**, with the intent of expanding the board's authority to cover oil and gas activities. At least three members of that advisory group were SIPES members Dave

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Rensink, Robert Pledger and Phil Martin. All three resigned in protest from the committee over this issue.

After thirteen minutes of remarks, Chairman Kitchens made a motion to withdraw proposed rule changes 851.10, 851.33 and 851.34. The motion was seconded, and Executive Director Charles Horton then took the floor to summarize public response to the rule changes. He stated that 375 responses had been received during the comment period, which was extended to October 31, 2011. Of these responses, 312 came via email and sixty-three were received via USPS and fax. Another fourteen position papers were received and twenty letters came from professional organizations and state legislators. Additionally, two petitions were received with a combined 107 signatures. The petitions were submitted by the BEG and the Corpus Christi Geological Society. Of the comments received, four were supportive of the rule changes, and all others were in opposition. Forty-eight responses were received after the end of the comment period.

After Mr. Horton's presentation, Chairman Kitchens opened the floor to comments from the board and public. Three non-board members stepped forward to speak. These were Bruce Darling, representing environmental and hydrology geoscientists; Phillip Bennett, associate dean of the Jackson School of Geosciences, representing academia; and, Bill Stephens, with the Texas Alliance of Energy Producers. All spoke in opposition, presenting a united front among geoscientists from all disciplines.

No board members chose to comment, and the vote proceeded. At approximately 1:25 p.m., all eight board members in attendance voted "yes" to withdraw proposed rules 851.10, 851.33 and 851.34.

The meeting then proceeded to Agenda Item D: consideration and possible action on posting of a Board initiated Advisory Opinion concerning the re-affirmation of the exemption of exploration and development of oil, gas, or other energy resources described in Section 1002.252 of the Texas Geoscience Practice Act.

The actual wording of the draft opinion was then read, as follows: "It is the opinion of the Board that those who engage in the work performed in the exploration for and development of oil, gas, or other energy resources, base metals, or precious or non-precious minerals, including sand, gravel, or aggregate, are not required to be licensed under the Texas Geosciences Practice Act." A motion was made to vote for the Advisory Opinion to be published. At 1:34 p.m., all eight board members in attendance voted "yes" to publish the Advisory Opinion in the *Texas Register* as an affirmation of the oil and gas exemption.

Chairman Kitchens then formally dissolved the Industry Advisory oil and gas workgroup, and the floor was opened to public comments. The following individuals took the

podium to express their thoughts and opinions to the board.

Pete Rose spoke eloquently to the genesis of the TGPA, the fractious nature of the recent activities of the board, and the fact that a lot of fence mending will be required to get things back on track. Mr. Rose specifically stated that the board could show its sincerity by accepting the resignation of those members most involved in the proposal of the rule changes. Dave Rensink spoke in equally passionate terms opposing the board's actions. Others who stepped to the podium were: Susan Hvorek, BEG; Richard Howell, Certified Geoscientist #27; Matthew Cowan, former president of the Houston Geological Society; and, John Mikels, Geos Consulting, Austin, Texas. I spoke as well, but only briefly, as those above had already done an excellent job of voicing the concerns of the professional community. The meeting adjourned at approximately 2:00 p.m.

"It is inspiring to think that SIPES members had a significant role in checking the expansion of the geoscientist certification program in Texas."

Of all the speakers who took the podium on at this meeting, Bruce Darling, Pete Rose, Dave Rensink and Phillip Bennett stood out for their eloquence, knowledge of the history and intent of the TGPA, and passionate words expressing their opposition to the Board's actions.

To emphasize the point once again, representatives of the environmental, hydrologic, academic and oil and gas community of geoscientists were united in opposition to the rule changes proposed by the TBPG.

The challenge before us, and the TBPG, is how to restore the credibility of the certification program in Texas, and how to put safeguards in place to prevent a repeat of this train wreck five or ten years from now. The certification program has been working well for the years it has been in existence. Members of the environmental and hydrology geosciences community believe that they require state certification to maintain their ability to work in their professions. The temptation is to dismantle the entire program, and the challenge is to restore it to its original function. Much work remains to be done.

It is inspiring to think that SIPES members had a significant role in checking the expansion of the geoscientist certification program in Texas. Thanks to all of you who took time from your busy schedules to express your opinions to the TBPG on this matter.

It has come to light that many SIPES members are not receiving the email newsletter (SIPES enews). If you know of someone who is not getting the enews (and who presumably would like to be getting it), have them email sipes@sipes.org with a current email contact so that our files can be updated.

Marc Maddox