2013 Legislative Plan for Chesapeake Energy

Prepared by Colorado Legislative Services, LLC

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POLITICAL BACKGROUND

The Colorado political landscape is controlled by Democrats. As a moderate Democrat, Governor John Hickenlooper has enjoyed the luxury of having a divided House and Senate to kill the extreme agenda from either side. This year he will have his hands full governing with a Democrat Majority in both the House and Senate. His relationship to the oil & gas industry is strong and he has been a national leader speaking out against the anti-fracturing forces that have invaded Colorado. His administration has sued one Local Government over the issue and will likely join an industry lawsuit over a referendum that banned hydraulic fracturing in that same community. His appointments to the Colorado Oil and Gas Conservation Commission have been fair and they are holding the industry to high standards but do have the zeal to punish the industry as was the case under Governor Ritter.

The Senate numbers remain unchanged. The Democrats are still firmly in charge with a 20 - 15 margin. The Senate President is a moderate but the New Majority Leader is an anti-oil and gas populist. She has aspirations of being Attorney General and possibly Governor and is using the anti-fracturing sentiment to get her wider exposure to the media. The good news is that there are at least three democrats in the Senate that do not want to have a fight over hydraulic fracturing and we have a good chance to sway them on that and other oil and gas issues. On the Republican side, the Minority Leader is a good friend of industry. We have strong supporters in the caucus and they will be able to help spread a pro-industry message. In contrast, the House of Representatives has flipped back to being strongly Democratic with a 37-28 majority. There are 20 new legislators in the House. Many are trying to hold their commitments to the environmentalists to a minimum and wish to do more for the industry. The new Democratic Speaker is a moderate on oil and gas issues and wants to align his position with the Governor wherever possible. The Majority Leader hales from Boulder County, a hot bed of anti-oil and gas sentiment. She is trying to be a moderating influence but has strong proclivities to put local government in control of all oil and gas siting decisions. The new Minority Leader is also a good friend to industry and we also have strong supporters throughout the caucus.

LEGISLATIVE ISSUES

Colorado's 120 day legislative session, combined with a new Governor and change of control of the House of Representatives, means that there will likely be many bills affecting oil and gas development in Colorado.

Chesapeake's 2013 Priorities are:

- Work with the administration to advance NGV station development and vehicle conversion.

- Oppose hydraulic fracturing bans, unreasonable setback, and local control legislation.

- Protect the industry from unwarranted budget-related tax or fee increases.

- Respond/capitalize as needed on other bills that may be forthcoming as the legislature convenes in mid-January and starts its work.

NGV DEVELOPMENT

Chesapeake is providing the major leadership for reinvigorating natural gas vehicles in Colorado. COGA has developed an outline for where stations need to be developed. Chesapeake has developed a relationship with the major investor owned utility and has performed outreach to municipal and rural utilities. We are working with the administration to educate DNR and CDOT staff about NGV vehicle and station technologies. The Governor has gotten 22 other Governors nationally to push forward with fleet conversions as a signal to Detroit that if you build them there will be a market.

Strategies:

- The goal for Colorado will be to bring to fruition a funding source to match Chesapeake's financial commitment for station development.
- Work with the Colorado Energy Office and Department of Natural Resources and Department of Transportation to corral $10 million for station development grants from Federal Congestion Management and Air Quality (CMAQ) funds.
- Work with the Colorado Energy Office to support a repeal of the NGV sticker and replace it with a comparable excise tax like other fuels.
- Work with Petroleum Marketers Association to gain access and commitments to station sites.
- Continue to work with XCEL and other utilities to improve pipe line and LDC delivery of fuel to station sites.
- Support legislation that encourages state and local fleet conversions.

SETBACKS, HYDRAULIC FRACTURING BANS AND LOCAL CONTROL

This is an issue that will take center stage this session. Last session there was legislation that would have altered setback distances and one that would have given outright control of siting decisions to local governments. The issue is being driven by one county in particular, Boulder, but several other counties are interested in pushing this issue as well.

Strategies:

- Meet with legislators to describe operational issues associated with setbacks that are too restrictive.
- Support the Governor, Weld County, other local governments and businesses who do not want to see a change.
- Work with the agricultural industry associations and Home Builders to be part of a coalition to oppose anti-industry legislation.

BUDGET

Colorado for the first time in since 2008 is not facing a declining revenue picture. This is welcome relief. The growth is small and is clearly dependent on the national recovery and the European monetary crisis. The K-12 interest groups are pushing to increase revenue to make up for revenue "lost" during the recession. However, the Washington D.C. left "fiscal cliff" deal is projected to cost the State approximately $100 million of lost revenue because higher income earners and retirees are selling stocks to get the lower capital gains rate in 2012.

There will likely be pressure to eliminate tax credits and exemptions. Severance taxes currently receive about a $300-500 million credit that was the subject of a ballot initiative two years ago. The voters rejected the proposal by nearly 60%, and legislators have not wanted to go after it statutorily since. However, the Governor has from time to time mentioned to executives of the industry that he would entertain the notion of industry helping to solve fiscal issues associated with the state budget. There is a self-appointed School Finance interest group that has put out several suggestions for adding money to K-12 education. Elimination of the severance tax deduction is on their list for adding revenue to the school finance formula.

Strategies:

- Follow the COGA lead of preparing information about the amount of taxes in all forms that the industry pays to the state.
- Talk about the need to keep tax rates stable and grow the oil and gas economy to increase revenue.