July 17, 2017

Delta County Courthouse
C/O Delta County Commissioners
Delta, CO

Re: Importance of Natural Gas Production to Agriculture and Delta County

Dear Honorable Delta County Board of Commissioners,

On Monday, July 17th the Citizens for a Healthy Community (“the Activists”) will attempt to drive a wedge between agriculture, recreation and energy production. They are presenting to you an inaccurate and ill-conceived report that ignores economic contributions to Delta County from natural gas production on federal lands. The report omits much of the economic benefits afforded to your community through energy production.

The so-called economic report infers natural gas production has negative economic consequences for Delta County. If policy decisions are made from the documents’ conclusions, then the narrow interests of a few select activists will be advanced at the expense of Delta County's remaining 30,000 residents who reside in, according to the U.S. Census, one of Colorado's most economically disadvantaged regions.

The history of energy production in America is inseparable from agriculture. And the future of agriculture is intricately linked to production of energy. Natural gas from Colorado’s federal lands beneficially touches nearly every aspect of agriculture and civic life in Colorado. The nexus between farming and ranching and recreation is in fact so strong that the sectors are not just interrelated -but interdependent. This letter refutes the Activists’ report and highlights that Delta County can and should support all viable economic sectors.

As the Activists present their opposition to natural gas production on federal lands we ask you to reject the one-way-or-the-other world view they espouse. The Activist’s report offers Delta County residents a false choice. They infer through false report conclusions that North Fork residents must choose between energy and agriculture and or energy and recreation. Our organization’s competing vision is for a Western Colorado where all interests work together towards a diverse economy that harmonizes all viable economic sectors. This vision means a better life and high standard of living for all. Not just an affluent few.
The Activists’ Report Ignores Economic Benefits Derived from Agricultural Water Projects Funded by Natural Gas Royalties

Royalty money from natural gas production on federal lands pays for important agriculture water projects for farmers and ranchers in Delta County. When natural gas is produced on federal lands, forty-nine percent (49%) of the royalty is returned to Colorado. This money is distributed by state government to numerous important agencies and programs. One such agency is the Colorado Water Conservation Board. The Water Conservation Board is critical to Delta County’s agricultural future and receives 10% of Colorado’s energy royalties from natural gas production on federal lands. Delta County farmers and ranchers benefit economically from these water projects. The water project construction funds are provided to private, county-specific irrigation districts and ditch companies. In this way, natural gas produced from federal lands is responsible for the reliable delivery of irrigation and municipal water to some of the very people who oppose natural gas production occurring anywhere near them.

Natural Gas Royalties from federal lands funded over 34 water projects in Delta County:

- WSRF North Fork River Improvement Association Paonia-Feldman Diversion Reconstruction;
- Lone Cabin Ditch Company and Reservoir Company Lone Cabin Dam Rehabilitation Project;
- WSRF North Fork Lateral Ditch Water - North Farmers Ditch Slope Repair & Stabilization;
- WSRF Stewart Mesa Water Company Improvement Project;
- Construction Fund Beaver Reservoir Rehabilitation;
- Beaver Reservoir Company, Beaver Reservoir Rehabilitation;
- WSRF West Reservoir and Ditch Company No.1 Outlet Pipe Replacement;
- WSRF Leroux Creek Water Users Association;
- Safety and Serviceability Needs Inventory for Reservoirs in the Leroux Creek Drainage Basin;
- Construction Fund Carl Smith Reservoir Dam Rehabilitation, Leroux Creek Water Users Association;
- Upper Surface Creek Water Users, Construction Fund Spaulding Peak Diversion Structure and Raw Water Pipeline;
- Spaulding Peak Diversion Structure and Raw Water Pipeline Installation;
- WSRF Orchard City, City Water Reservoir Project;
- Construction Fund. Fish Hatchery Rehabilitation;
- Fish Hatchery Rehabilitation, Four Seasons Trout Farm;
- Construction Fund, Young Creek Reservoir Rehabilitation;
- Young Creek Reservoir Rehabilitation, Young Creek Reservoir Company;

Below reveals a location map of said projects:

As evidenced by the map, natural gas royalties received by the Colorado Water Conservation Board offer farmers and ranchers and towns low interest loans for water construction and engineering projects to enhance the agriculture economy of the North Fork Valley. Additionally, energy dollars from the Water Conservation Board pay for studies via the Non-reimbursable Project Fund. These water studies allow local irrigation entities, and the Colorado Basin Roundtables, to understand future water needs, climate trends and or the need for future storage or conservation projects.

Natural gas production on federal lands links energy and agriculture in a measurable and intimate way. Finding alternative funding for these agriculture water projects in the North Fork Valley is a difficult proposition given state and local budget constraints.

**Natural Gas Royalties from Federal Lands Fund Delta County Schools**

The activist’s paper promotes policies counter to the interests of Delta County Schools.

From Colorado's total share of federal natural gas royalties, 48.3% is deposited into the State Public School Fund.

These natural gas monies are then transferred into the State Equalization Fund. The Equalization fund ensures wealthy counties like Pitkin, who can fund much of their education needs from local property tax, receive less state funds per pupil than economically challenged regions. Natural gas royalties from federal lands contributed to Delta County’s total of $24 million dollars received for schools by Colorado in 2016. By contrast, Pitkin County received just over $3 million. Natural gas royalties from federal lands, through the State Equalization formula, assist economically distressed communities in receiving equal funding for schools. *The activist’s document fails to mention this critical fact in their erroneous valuation of natural gas production from Delta County’s federal lands.*
Delta County Schools Receive Direct Royalty Distribution from Federal Lands Drilling

Aside from acquiring a portion of Colorado’s share of natural gas royalties via the State Public School Fund, Delta County Schools receive Direct Distribution funded by a combination of Federal Mineral Royalties and State Severance Tax. None of these cash flows are mentioned in the activists’ document.

Additionally, all of Delta County’s municipalities receive direct distribution of federal mineral dollars and energy assistance grants. The Town of Paonia, Orchard City, Cedaredge, Hotchkiss and Delta all receive direct distribution from natural gas produced in the North Fork Valley and throughout Colorado.

The “Report” Avoids Mention of Natural Gas’ Funding of Low Income Energy Assistance Distributions to Delta County

The grant-based funding mechanisms of environmental organizations result in their work products and grant obligations being ideologically driven. This ideological approach to energy policy naturally minimizes the socioeconomic value of energy production in their report. For example, their regressive conclusions ignore the role natural gas severance royalties play in helping fund Colorado’s Low-Income Energy Assistance Program.

A portion of Colorado’s natural gas royalties are deposited directly into the Low-Income Energy Assistance Fund. In Delta County, as of November 1, 2016, 1,110 residents received assistance from the Low-Income Energy Assistance Program. Natural gas production on state, private and federal lands assisted Delta County’s most economically vulnerable citizens in keeping their homes warm. While the Low-Income Energy Assistance Program isn’t important to the Activists in their assessment of the value of natural gas production, the program is assuredly important to those who rely on the assistance for sustenance. When assessing economic and socio-economic contributions from energy production, the Activists simply cherry-picked data to serve as a strawman for ideological aims. We believe a better approach is to take a more holistic and comprehensive look at the myriad of social benefits from natural gas production on federal lands.

Worst of all, and most regressive, is the organization’s larger aims to stop oil and gas drilling generally, and the affect such policies have on the assistance program and the 1000+ Delta County residents who rely on the funds for home heating. Eliminating drilling reduces severance and federal mineral royalties and thereby reduces funds available to vulnerable residents for energy assistance.

Colorado and Delta County Conservation Efforts Aided by Natural Gas Production.

In addition to direct distribution, natural gas severance royalties flow to Delta County via the Colorado Department of Natural Resources. This economic contribution flows back to the community via the Species Conservation Trust Fund; Agriculture Value Added Trust Fund; the Aquatic Nuisance Mitigation Fund; the Inter-Basin Compact Committee Fund, State Forestry Grants, the Colorado Wildfire Risk Reduction Grant Fund; and, the Invasive Species Management Fund.

An example: The Colorado Agricultural Value-Added Development Board uses severance royalties from natural gas production to encourage and promote agricultural business projects.
The board has authority to make grants, loans, loan guarantees and equity investments to any person for agricultural projects and research that adds value to Colorado agricultural products and aid the economy of rural Colorado communities. Delta County farmers and ranchers have received economic benefit from this program.

**Natural Gas Royalties Protect Paonia Reservoir**

Paonia Reservoir receives natural gas royalties to inspect watercraft for non-native invasive species via Colorado Parks & Wildlife-managed waterways programs. Program funding has been secured through 2018 to inspect and decontaminate boats at risk of carrying non-native species.

The program is funded through an annual $4 million Tier 2 transfer of the state's severance taxes collected on production of natural gas in the North Fork Valley and Colorado. While North Fork Activists may not love natural gas, they certainly appreciate the economic contributions that Paonia Reservoir makes to the economy when natural gas royalties work to keep the reservoir free from invasive species.

**Natural Gas Royalties Assist Delta County Landowners with Wildfire Mitigation**

Natural gas royalties fund Colorado State Forestry Grants that assist Delta County landowners in forest health as well as wildfire protection mitigation. A list of grants provided to Delta County landowners is available via the Colorado State Forestry Website database. This benefit afforded to Delta County residents was omitted from the activists’ report.

**Natural Gas Royalties Support Delta County Tamarisk and Russian Olive Control**

In 2015, the legislature in Colorado approved using natural gas severance royalties for enhancing water quality and volumes in Western Colorado by reducing invasive species including Tamarisk and Russian Olive infestations. A number of these grants have assisted Delta County and should be considered among the numerous economic enhancement revenue streams generated from natural gas production in the North Fork Valley and beyond.

**Energy Assistance Grant Fund**

Of the vast natural gas royalties generated from federal lands, roughly 20% of monies returned to Colorado go into the Energy Grant Fund. Many of the projects in Delta County cherished by members of the activist group are funded by the very natural gas production they oppose.

Since 2008, Delta County has received over $14,000,000 in energy grants which funded a litany of projects not referenced in the activists’ report as economic contributors.
The activist group failed to account for economic diversity, community enhancement and economic development benefits these energy funded projects provide the state and community.

A complete list of projects is available via the Colorado Department of Local Affairs Local Government Support Division.

**Delta County Activists Intentionally Limit Economic “Analysis” to two Revenue Flows.**

In the art of disparagement, omission is a critical tool. The CHC report does not suffer from a lack of strategic omission.

After diminishing the value of severance and property tax collections, the report fails to inform readers that Delta County’s special taxing districts also receive revenue from natural gas production; and, also receive property tax on equipment, pipelines and business personal property of energy companies, vendors and contractors.

The report also omits economic contributions from sales tax, use tax, federal mineral lease rent payments, federal mineral royalty payments, federal mineral lease bonus payments, property tax on pipeline and gathering systems, private royalty payments and, the low cost of goods and services that natural gas provides the agriculture sector. These benefits come in the form of affordable fertilizers, propane, home and facility heating, crop transportation fuels and mechanized farming techniques. The agriculture sector in Delta County uses propylene, ethylene, butane, propane and gasoline in many, if not most, practices (directly or indirectly). Nearly all
implements and processes in the agricultural sector utilize these natural gas bi-products -many of which are produced in Delta, Mesa, Garfield and Rio Blanco Counties -the Piceance Basin.

The Activists’ Efforts to Stop Natural Gas Drilling in the North Fork Valley Destroy Private Property Value

Many private fee minerals are intertwined with minerals owned by tax payers. Private and Federal minerals are often co-produced via units and pooling or by way of proportional interest in a well. All mineral interests in a well are needed to create projects that have the scale and continuity to be economic. In the case of Gunnison Energy’s proposed project (as an example) the activists’ elimination of federal mineral development would render the private minerals effectively worthless. Concurrently, the organization, based on their ideological disposition, would likely oppose reimbursing the private mineral owners for said losses associated with banning natural gas production in the North Fork Valley. Mineral owners in the North Fork Valley have paid property tax on minerals for generations. The complete and total economic loss of value for fee minerals isn’t considered in the activist’s economic report. The current proposal from Gunnison Energy is a well located on fee minerals. The participating area of the well is roughly 1/3 federal and 2/3 private minerals. The next couple of proposed wells will follow this rough percentage. The Activists are attempting to destroy the fee mineral value for the owners of the property rights without a proposal for compensating the takings.

Activists Offer Fallacious Claims about Outdoor Recreation, Farming & Energy being Mutually Exclusive

In Colorado, natural gas royalty grants have funded the Steamboat Springs Downhill Olympic Training Facility, the Ouray Hot Springs Pool, Telluride’s Colorado Avenue and the Avalon Theatre in Grand Junction. Natural gas royalties helped fund the Carbondale Community Center, the Gunnison Ice Rink, the rebuild of Palisade’s Main Street and thousands of other projects within communities who focus on recreation. In fact, across the county line from Delta, the proposed Palisade Plunge Mountain Bike Trail and the Colorado Parks and Wildlife Shooting Facility near Cameo received the largest portion of their funding from a combination of severance and federal mineral royalty funds. Hundreds of energy funded projects from Durango to Delta and to the Wyoming border contribute to outdoor recreation and economic diversification. These projects are funded year-in-year-out from natural gas royalties derived from production of minerals on private, state and federal lands.

A total list of Delta County specific projects from 2008-2017 is available via the Colorado Department of Local Affairs.

In fact, natural gas production is already co-existing in Delta County with little conflict to date. Gunnison Energy, LLC and SG Interests have actively developed oil and gas in the North Fork Valley for the past two decades. Combined the companies have drilled 64 wells in the Upper North Fork. The Activists’ study points out the success of residents in and around Paonia in developing and growing the local agriculture and arts economy over the past 20 years; all the while oil and gas development has occurred to the north. This obvious antidotal evidence of the compatibility of oil and gas development co-existing with agritourism, organic gardening and recreation to the south is lost in the Activists’ study.
Lazy Conflation of Issues Makes False Cause and Effect Relationship with National Park Visitation: Not Remotely Relevant to Modest Natural Gas Production in the North Fork Valley

While largely not germane to the North Fork Valley, the egregious nature of the Activists’ use of national park visitation statistics warrants brief response. The activist’s report intentionally misleads readers juxtaposing a one-time 2016 increase in nationwide park visitation to a Western Values Project (a shrew and well-funded national anti-drilling front group) that shrewdly attempts to attribute declining visitation at five relatively remote national parks over a twenty-three-year time to oil and gas activity which was not even statistically correlated to the visitation.

In fact, a well-known 2014 study by T.H. Stevens (a professor of resource economics at the University of Massachusetts-Amherst) illustrated that overall visitation to the 58 major nature-based national parks – the “crown jewels” such as Yellowstone, Yosemite, and the Grand Canyon, actually peaked in 1997 at 69.4 million and declined nearly 7% to 64.6 million visits in 2010 and per capita visitation declined by 19%.\(^1\) The conclusion of the study indicated that travel costs represented by fuel price and park access fees grew more rapidly than consumer incomes between 1997 and 2010. Thus the 2016 increase in NPS visitation cited by CHC is most likely attributable to the massive reduction in fuel costs that has taken place in the U.S. in recent years thanks to the increase in domestic oil and gas production.

Despite these flagrant omissions and misrepresentations, Delta County indeed derives economic value from natural gas production on Federal lands despite various fluctuations of visitors to Yellowstone National Park.

**Economic Benefit to Delta County from Natural Gas Produced on Federal Lands does not Stop at the Local or State Level**

According the Bureau of Land Management, natural gas and oil royalties make up nearly 80% of all revenue generated in Colorado by the agency. In fact, these monies amount to $8 billion dollars and the BLM’s multi-state total of oil and natural gas royalties represents the second largest contribution to the United States Treasury, second only to the IRS.

These massive annual royalties assist in funding directly the Department of Transportation, the Department of Education, the Department of Defense, the Department of Health and Human Services, the Department of Veterans Affairs and countless other federal agencies and programs that support Delta County through state and local pass through programs; and, via direct access to relevant federal programs within each agency.

Examples of programs making economic contribution to Delta County that likely receive contribution from Federal Mineral Royalties:

- Payment In lieu of Taxes (PILT)
- United States Department of Agriculture Insurance, loans and other program grants
- U.S. Department of Justice Law Enforcement Grants

\(^1\)
-Department of Education Block Grant Pass Though

-U.S. Department of Interior Funds for outdoor recreation, habitat restoration and water storage enhancement projects

Activists’ Report Fails Even a Basic Understanding of Severance Tax Policy in Colorado

Delta County Obtains Economic Value from Severance Tax Far Beyond Direct Distribution

Aside from direct distribution, Delta County benefits from the state share of severance tax spending as well. Colorado spends 25% of severance tax in the perpetual fund, much of which goes to fund small community water and waste water treatment facilities. Delta County’s communities have benefited from this revenue stream. Additionally, Colorado’s Department of Natural Resources (an agency critical to the policy objectives of Colorado Conservationists) is funded by natural gas state royalties (severance).

Colorado's Farmers and Ranchers Disagree with the Activists’ Report

The Colorado Farm Bureau and its members, time and time again, affirm that energy production and agriculture can, do and must coexist. In fact, in most of Colorado, working together is the norm. Just a stone’s throw from Delta County ranchers and farmers and energy producers thrive in the Plateau Valley of Mesa County. La Plata County has proven a model in Colorado where energy production, tourism and recreation all thrive together. In fact, healthy and diverse economies in the state often have a combination of energy, agriculture and recreation (tourism).
Upon review of the Activists’ document, the Colorado Farm Bureau is compiling a letter to the commissioners and will provide additional information about the misrepresentations in the report, from their perspective.

The board of directors and staff of the Activist’s organization are from Minnesota, New York, Wisconsin and Maryland, respectively. Their legal counsel resides in New Mexico. This fact isn’t a bad thing. In fact, geographic diversity is positive for any community. However, the fact may also explain the organization’s apparent lack of tolerance for historical uses in the area -uses and jobs valued by the majority of Delta County’s 30,000 residents. According to Guidestar.org, an organization that tracks what foundations fund various environmental groups, funding for the Activists often comes from foundations with interests beyond the North Fork Valley. These foundations have little knowledge or care for the historical land uses in Delta County. The sanctimony, insensitivity and disdain espoused by the organizations’ literature for these extractive uses (including natural gas, coal, timber and gravel) presuppose that new uses and historical uses can’t coexist. **This is wrong.** And we hope the Delta County Commission agrees.

While the Activist’s “report” focuses on local economic considerations, the background of the people involved in the report is important for context. Legal counsel has extensive ties to national organizations with foundational missions to stop oil and gas operations all together. The acting director also has aligned the local organization with lawsuits and initiatives that target natural gas production, generally. This information should inform the context in which the local report is assimilated by the board of commissioners moving forward.

The West Slope Colorado Oil & Gas Association produces natural gas for the benefit of society. This mission is validated by the quality of life energy products afford our nation and world. From providing energy and electricity to emerging nations to providing high quality of life to the developed world, we are proud of our technology and economic and societal contributions in Delta County, Colorado, the United States, and World.

Thank you for consideration of concerns regarding the Citizens for Healthy Community’s submittal on the economic value of natural gas production in Delta County.

Sincerely,

David Ludlam  
Executive Director  
West Slope Colorado Oil & Gas Association

CC: Associated Governments of Northwest Colorado  
   Club 20  
   Delta County Chamber of Commerce  
   Delta County Manager  
   City of Delta  
   Town of Hotchkiss  
   Town of Paonia  
   Cedaredge  
   Orchard City