

State of the Union

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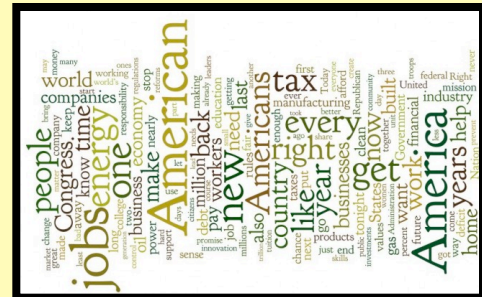
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Nice Speech, Political Division Remains - State of Union Address

On January 24, President Obama presented his fourth [State of the Union address](#). As predicted, the President focused on military

actions, the economy, tax reform, and the Congress' inability to cross party lines and work together. On energy policy, he hedged his bet by calling for increased domestic oil production, including shale gas, while questioning the technologies (hydraulic fracturing and horizontal drilling) that makes additional production possible. The following provides a highlight of the initiatives promoted by President Obama:



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Job Creation

- Eliminating tax incentives to ship jobs offshore
- Eliminating tax deductions that companies receive for moving production overseas and creating a tax credit to cover moving expenses for companies that choose to close overseas production and bring jobs back to the U.S.
- Reducing tax rates for manufacturers and doubling the tax deduction for high-tech manufacturers
- Creating a new tax credit to finance new factories, equipment or production
- Increasing trade enforcement by creating a new trade enforcement unit and enhancing trade inspection

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Infrastructure

- Fix existing roads and direct funding to the best projects and continue to invest in high-speed rail; this would be funded by savings from drawing down the Afghanistan and Iraq wars
- Executive order to speed the construction of infrastructure projects
 - ⇒ Following the State of the Union, U.S. Transportation Secretary Ray LaHood announced the proposed changes in the way transit projects compete for federal funds. The proposed changes are described in a Notice of Proposed Rulemaking to streamline the evaluation and rating of New Starts and Small Starts projects, published in two separate notices in the Federal Register are the [Notice of Proposed Rulemaking](#), and [Notice of Availability](#).

Job Creation/Education

- Create a new initiative to train and place two million Americans in good jobs through partnerships between business and community colleges
- Reform job training and unemployment insurance
- Start a new competitive program that will challenge states and districts to work with their teachers and unions to comprehensively reform the teaching profession
- Permanently extend tuition breaks that provide up to \$10,000 for four years of college
- Create a new Veterans job corps program

Energy

- Stated that the country needs a “strategy that develops every available source of American energy” that is “cleaner, cheaper, and full of new jobs”, he said: “We have a supply of natural gas that can last America nearly 100 years and my administration will take every possible action to safely develop this energy.”
- Create new rules to require disclosure of the chemicals used in fracking operations on public lands
- Open more than 75 percent of our potential offshore oil and gas resources
- The Department of the Navy will make the largest purchase of renewable energy (one gigawatt)
- The President directed the Department of Interior to permit 10 gigawatts of renewables projects by the end of the year

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In the speech, President Obama recognized the importance of energy related research: “And by the way, it was public research dollars, over the course of 30 years, that helped develop the technologies to extract all this natural gas out of shale rock -- reminding us that government support is critical in helping businesses get new energy ideas off the ground.”

Taxes

- Implement the “Buffett Rule”: calling for measures to ensure everyone making over a million dollars a year pays a minimum effective tax rate of at least 30%
- Eliminate subsidies for millionaires (housing, health care, retirement and child care subsidies)
- Extend the payroll tax cut
- Allow homeowners to refinance their mortgages and lower them by \$3000 a year; the President is planning to pay for this with some of the Administration’s proposed bank fees
- Direct the Attorney General to establish a Financial Crimes Unit of investigators to work with U.S. Attorneys to go after large-scale financial fraud

Administration Delays Release of FY 2013 Budget

Earlier this week, the Administration announced that it would be pushing back the release of President’s 2013 fiscal year budget by one week, until February 13. They stated that the action was “determined based on the need to finalize decisions and technical details of the document.” As directed by the White House, the Office of Management and Budget directed all federal departments and agencies to submit budget requests that are five percent below FY2011 discretionary levels and to identify additional reductions that would lower the requests to 10 percent below FY2011 discretionary levels

Surface Transportation Reauthorization Ready to Roll?

The House Committee on Transportation and Infrastructure announced that it plans to mark up its version of surface-transportation reauthorization legislation on February 2, the Committee on Natural Resource will mark up the energy section on February 1 and the Committee on Ways and Means will mark up the funding section on February 3. The goal is to bring a complete bill to the floor the week of February 13th. In the Senate, the Committees on Finance and Banking,

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Housing/Urban Affairs will mark up the revenue and transit components of the two-year, \$109 billion legislation next week.

Congress adjourned for the year without passing a long-term reauthorization of highway, transit and rail programs. Without agreement on new revenue to fund surface transportation, lawmakers left the programs functioning under yet another short-term authorization that will expire on March 31, 2012. The Senate Committee on Environment and Public Works approved a two-year, \$85.3 billion bill in November. The Congressional Budget Office is slated to release its updated annual fiscal analysis on January 31, which is expected to show that the Highway Trust Fund is depleting faster than currently assumed.

While the President called for Congress to act on the reauthorization this year, his Secretary of Transportation Ray LaHood sent a negative message during a speech at the Transportation Research Board annual meeting. LaHood stated that he “doesn’t think Congress will approve a surface transportation bill this year,” explaining that the House and Senate might not be able to bridge the gap on two critical issues: length and pay-fors.

House Republican leadership announced in December 2011 that they plan to link energy production to infrastructure in legislation they plan to call “The American Energy Infrastructure Jobs Act.” The bill is expected to include the following transportation components:

- **Fund High-Priority Projects.** The bill would remove federal requirements that currently force states to spend highway money on non-highway activities, helping to ensure that our nation’s highways and bridges are repaired and properly maintained and that federal dollars are spent on our most critical infrastructure needs.
- **Speed Up Bureaucratic Approvals.** The bill would speed up bureaucratic approvals and streamline the project delivery process – the real hurdles delaying improvements to highways, bridges, and other projects – with reforms like concurrent review that will cut the project review and permitting process in half.
- **Eliminate Needless Programs.** The bill would eliminate and consolidate nearly 70 surface transportation programs that are either duplicative or not in the federal interest.
- **Embrace More Private-Sector Involvement.** The bill would reform financing programs to increase private sector involvement in infrastructure.

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- **Enhance Safety Programs.** The bill would strengthen safety programs and gives states more flexibility to develop innovative safety initiatives that save lives.
- **Include No Earmarks.** Like every bill passed through the House since the American people entrusted Republicans with a majority, this one will have no earmarks in it.

The energy component of the bill is expected to include a number of House Republican priorities:

- **The *Energy Security and Transportation Jobs Act***, introduced by Rep. Steve Stivers (R-OH), which would lift President Obama's drilling ban on new offshore areas by requiring the administration to lease offshore areas estimated to contain the most oil and natural gas resources.
- **The *Protecting Investment in Oil Shale the Next Generation of Environmental, Energy, and Resource Security Act* (PIONEERS Act)**, introduced by Rep. Doug Lamborn (R-CO) which would set clear rules for the development of U.S. oil shale resources and promote shale technology research and development.
- **The *Alaskan Energy for American Jobs Act***, introduced by Chairman Doc Hastings (R-WA) and Rep. Don Young (R-AK), which would open less than three percent of ANWR's 19 million acres in the North Slope, an area that was specifically set aside by Congress and President Jimmy Carter, for oil and natural gas development.

First Congressional Hill to Climb: Payroll Tax/Unemployment Insurance/Doc Fix

At the twelfth hour, Congress agreed in December to a two-month extension of three payroll tax, unemployment insurance, and the Medicare payment fix provisions. This week, a joint conference committee held its first meeting to resolve differences needed to come to agreement on a final bill prior to the end of February, when the current two-month extension expires. The major issue of how to pay for the cost of the legislation, remains the same from the last debate. House and Senate Republicans insisted the legislation be fully offset with spending cuts, while Senate Democrats, and the President argued it should be financed by a combination of tax and revenue increases.

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Impacts of Hydraulic Fracturing Examined

As noted in the State of the Union address, shale gas extraction continues to garner the attention of Congress and the Administration as illustrated below:

- Senator Lautenberg (D-NJ) has requested that the United States Geological Survey (USGS) investigate whether hydraulic fracturing and the related waste disposal process create seismic risks. Reports on earthquakes near hydraulic fracturing sites in Ohio, Arkansas, Oklahoma and Colorado prompted Senator Lautenberg (D-NJ) to send a [letter](#) to USGS to examine the following policies: An assessment of the science related to earthquakes caused by disposal of fracking waste fluids; an evaluation of the current risk faced by communities where fracking activity is taking place; and Lautenberg requested that USGS provide its findings to states and communities to better assess the potential dangers associated with hydraulic fracturing.
- Senate Republicans led by Senators Murkowski (R-AK), Inhofe (R-OK), Hoeven (R-ND) and Landrieu (D-LA), in late December 2011, expressed concern in a [letter](#) to the U.S. Environmental Agency Administrator Lisa Jackson urging caution when moving forward with regulations for hydraulic fracturing. Specifically, the Senators questioned “the EPA’s intention to regulate hydraulic fracturing under the Safe Drinking Water Act (SDWA) when diesel fuel is used,” which might cause states to lose their primacy for UIC permitting programs. The Senators also called for EPA collaboration with the states on related proposed guidelines to ensure maximum clarity and compliance among all stakeholders.
- The U.S. Department Interior is expected to propose a rule in by mid February requiring the disclosure of fluids used in hydraulic fracturing activities on public lands. In addition, the Office of Management and Budget is currently reviewing a proposal from the Environmental Protection Agency that would adopt an expansive definition of “diesel” when diesel fluids are used in hydraulic fracturing operations.

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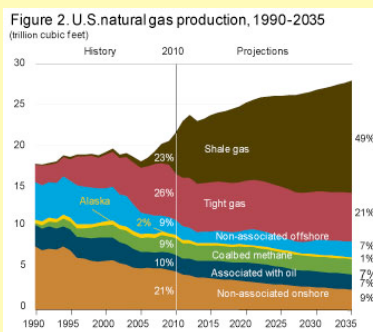


House Considers Dynamic Scoring Approach

On January 24, the House Committee on Budget considered The Pro-Growth Budgeting Act ([H.R. 3582](#)), introduced by Rep. Tom Price (R-GA). A report on the bill is scheduled to be filed on January 30. The legislation would require the Congressional Budget Office (CBO) to the use so-called dynamic scoring more aggressively in its analysis of legislation, including estimates of the revenue increases or decreases that result from changes in gross domestic product. Chairman Paul Ryan (R-WI) explained that the bill “would put greater emphasis on how Washington’s policies impact our economy, requiring CBO to analyze the longer-term economic impact of major pieces of legislation.”

Rep. Price stated that, “the Pro-Growth Budgeting Act requires the Congressional Budget Office to provide members with a more dynamic assessment of how proposed legislation would impact economic considerations like GDP, jobs, and business investment.” According to bill proponents this dynamic score supplement will account for additional factors when estimating the total costs of new federal government policies, factors not taken into consideration in the more-simplified “static” score that CBO currently provides. This will provide a clearer picture of the actual effects of various proposals and help curtail the inherent bias towards big-government policies found in the CBO’s current methods.

Recent Reports and Studies



Energy Report Shows Vast Increase in Natural Gas Production

“U.S. dependence on imported liquids declines rapidly in the AEO2012 Reference case, primarily as a result of growth in domestic oil production by more than 1 million barrels per day from 2010 to 2020, an increase in biofuels use of more than 1 million barrels per day crude oil equivalent by 2024, and slower growth in consumption of transportation fuels”

[Report Number: DOE/EIA-0383ER\(2012\)](#)

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- ⇒ **Congressional Research Service** released a report on regulating chemical facilities for security purposes: [Chemical Facility Security: Issues and Options for the 112th Congress](#)
- ⇒ **Department of Energy:** Advanced Research Projects Agency-Energy Could Benefit from Information on Applicants' Prior Funding. GAO-12-112, January 13. <http://www.gao.gov/products/GAO-12-112>
- ⇒ **New Report on Natural Gas Exports:** The Energy Security Initiative at Brookings Institute has released an [interim report](#) examining the feasibility of large-scale U.S. natural gas exports.
- ⇒ **Traffic Congestion: Road Pricing Can Help Reduce Congestion, but Equity Concerns May Grow.** <http://www.gao.gov/products/GAO-12-119>
- ⇒ **The Department of Transportation's Bureau of Transportation Statistics** released [State Transportation Facts and Figures](#), an interactive web transportation mapping application that allows customers to find state-by-state transportation data, comparisons and rankings.
- ⇒ **Water Project Feasibility Studies** - The U.S. Bureau of Reclamation has reissued for public comment the draft directive and standard for feasibility studies to formulate, evaluate and select project plans for implementation. <http://www.usbr.gov/recman>. A summary of the draft update can be found at: <http://on.doi.gov/qUPZPo>.

Hearings

Senate

Date: January 31, Time: 10:00 am
Committee: Energy and Natural Resources
Hearing: US and Global Energy Outlook

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House

Date: February 1, Time: 10:00 am

Committee: Science, Space & Technology

Hearing: Fractured Science - Examining EPA's Approach to Ground Water Research: The Pavillion Analysis

Date: February 1, Time: 10:00 am

Committee: Natural Resources

Hearing: Full committee markup of the energy portion of the "American Energy & Infrastructure Jobs Act."

Date: February 3, Time: 10:00 am

Committee: Science, Space & Technology

Hearing: Fostering Quality Science at EPA: Perspectives on Common Sense Reform Day II

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