

Oil magnate Harold Hamm's career has been boosted by skillful lobbying and a flexible ideology

How Romney energy czar fuels business with politics

BY DAVID SHEPPARD, JOSHUA SCHNEYER AND ALEXANDER COHEN

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POWER COUPLE: Hamm, left, helped Mitt Romney craft an energy policy that focuses almost entirely on drilling. **REUTERS/PHOTOGRAPHER**

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It's a cornerstone policy plank in Mitt Romney's bid for the White House: build the Keystone XL Pipeline. The controversial \$7.6 billion conduit would pump a river of crude from Canada down to Texas refineries.

President Barack Obama has postponed until next year a decision on whether to approve the line, as environmentalists decry its route across ecologically sensitive areas. Romney says it will create hundreds of thousands of jobs and promote energy independence. In April, he told fellow Republican Party leaders: "I will build that pipeline if I have to do it myself."

The environmentalists fighting Keystone XL have had allies, and for a time, one of the most effective was the man who's now Romney's chief energy adviser: Oklahoma oilman Harold Hamm.

In 2009, the 66-year-old founder and chief executive of Continental Resources <CLR.N> formed a lobby group of fellow Oklahoma oilmen and reached out to state governors, landowners and environmentalists along the proposed route. Hamm feared Keystone XL would flood his firm's backyard with cheap Canadian oil.

"We basically stopped Keystone at the border," Hamm said in an interview with Reuters, explaining how the alliance was able to stymie permits for the line. "We didn't want all that oil dumped in Oklahoma."

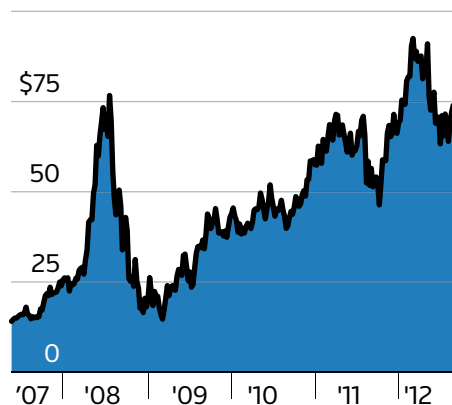
A year later, in 2010, Hamm turned around and backed the line after his lobbying succeeded in persuading the operator, TransCanada Corp., to add a \$140 million extension, or spur. That addition would pick up Hamm's crude and that of other nearby U.S. producers and carry it to the refining hub along the Gulf of Mexico coast.

"When that changed, we felt like we had to support it," Hamm said.

The spur line could allow Continental to net an extra \$20 per barrel for the crude it ships down the line. That adds up to as much as \$200 million a year for Continen-

Gusher of wealth

Continental Resources share price is **up 447%** since its IPO in 2007



Source: Thomson Reuters

tal, after transportation costs, according to Reuters calculations that were vetted by industry analysts.

The pipeline battle displayed the tactical acumen that helped the Oklahoman rise from sharecropper's son to one of America's wealthiest people, ranked No. 35 by Forbes magazine with an estimated net worth of \$9.7 billion. (That puts him one ahead of both Rupert Murdoch and Mark Zuckerberg, who are tied in 36th place with pipeline mogul Richard Kinder.)

Indeed, an examination of his activities over the past two decades shows how Hamm, driven less by ideology than by opportunity, has used politics to fuel his business.

The Oklahoma tycoon was an unusual choice as energy adviser. Past presidential candidates have rarely, if ever, relied so openly on an oil magnate to draw up their energy agenda.

Obama took a jab at the link at the Democratic convention last month, saying: "Unlike my opponent, I will not let oil companies write this country's energy plan."

Hamm says his policies and support of Romney pose no conflict of interest; they stem from a principled belief in pursuing the best energy policy for the United States.

"It's not about money," said Hamm, who holds a stake of nearly 70 percent in Continental. He has signed up for Warren Buffett and Bill Gates' Giving Pledge initiative, indicating an intention to give away most of his wealth. Hamm, who has Type II diabetes, has given millions to research into the disease.

According to friend and adviser Michael "Mickey" Thompson, Hamm has shifted his political party affiliation over the years. Public records in Oklahoma show that for at least four years, between 2000 and 2004, Hamm was a registered Democrat. He changed his voter registration to Republican in August 2004.

Hamm has sometimes fallen out with Republican politicians in Oklahoma, Thompson said, over their backing of the interests of Big Oil firms, which clashed with smaller independent oil producers like Continental.

Hamm also has bucked Republican orthodoxies. The party tends to oppose trade restrictions and government efforts to regulate businesses and markets. Hamm once successfully lobbied for state-ordered production cuts to raise prices in Oklahoma's natural gas fields - a step that helped send prices higher around the country. At other times he has sought import tariffs against foreign oil suppliers.

While most of Hamm's giving goes to Republicans, he has backed Democrats. Rep. Dan Boren of Oklahoma is the top Democratic recipient, \$8,000 since 2008. Boren's father, former Oklahoma governor and U.S. senator David Boren, is on Continental's board of directors. Hamm has given to Democratic senators Ben Nelson (Nebraska), Mark Udall (Colorado) and Mary Landrieu (Louisiana).

The oilman nonetheless has emerged as a major Republican donor, and is in violation of certain contribution limits.

In the 2011-2012 election cycle, he has given \$985,000 to Restore Our Future, the main so-called Super PAC sup-

porting Romney. There's no cap on Super PAC giving. But Hamm's other donations to federal candidates, parties and normal political action committees, totaling \$164,700, put him well over the limit of \$117,000 in an election period for an individual.

The vice president for government and regulatory affairs at Continental, Mike Cantrell, attributed the violation to a book-keeping error – half the donations should have been in Hamm's wife's name, which would have kept him under the limit. The excessive donations didn't involve Romney.

Hamm is also a lobbying power. He is chairman of the Domestic Energy Producers Alliance, past president of the National Stripper Well Association and board member of the Oklahoma Independent Petroleum Association.

Those groups have spent more than \$1.1 million to lobby Congress, the executive branch and government agencies since 2008 on issues faced by Continental, including potential regulations to curb greenhouse-gas emissions, restrictions on the drilling technique known as hydraulic fracturing and increased reporting requirements for energy-futures derivatives contracts. The groups also gave \$687,000 in campaign contributions in the same period, with \$475,500 going to Republicans.

The Romney-Hamm plan focuses on drilling for fossil fuels. That agenda, laid out in a 21-page white paper, proposes giving the individual states control over the permitting of oil and gas drilling on federal government lands; opening vast new offshore areas for drilling; re-writing environmental regulations; and ending government aid for renewable energy sources.

The measures, it says, could boost U.S. oil output by millions of barrels a day and end dependence on Middle Eastern oil by 2020. The agenda doesn't mention climate change or include steps for reducing U.S. oil consumption.

The platform represents a break with

the recent Republican past. In their presidential runs, GOP candidates George W. Bush and John McCain appointed energy advisers who emphasized conservation to achieve American energy independence.

"The policy of let's 'drill, frack and mine, baby!' our way to energy independence won't work," said James Woolsey, a former chief of the Central Intelligence Agency who was McCain's energy adviser in 2008 and is now a venture capitalist focused on renewable energy. "America cannot effectively seal itself off from the global oil marketplace, even if we could produce enough crude."

Others say Hamm might be right. Pavel Molchanov, energy analyst at Raymond James & Associates, said U.S. oil imports could fall to "essentially zero" by 2020.

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"Surging U.S. oil supply has changed the game," Molchanov wrote in a research paper with J. Marshall Adkins in April.

The 13th son of sharecroppers from Lexington, Oklahoma, Hamm started his career at age 20, scrubbing scum out of oil barrels. A few years later, he drilled a 75-barrel-a-day gusher in his home state, helping pay for university classes in geology.

Hamm's biggest breakthrough came last decade, when he helped discover North Dakota's Bakken field, the largest new U.S. oil prospect since the 1960s. He pioneered the application of "fracking" to tight rock formations beneath the prairies. Today, the Bakken pumps more than 600,000 barrels a day, roughly 10 percent of American output, and Continental's production makes up a tenth of the region's total. With Continental in control of almost 1 million acres in the formation, stretching from North Dako-

ta to Montana, and expanding across 10 states, Hamm owns the rights to more U.S. oil than any other American.

"I've become, along with some others, synonymous with the new renaissance in energy," Hamm said.

One of his first forays into politics came in 1992, after deregulation helped boost natural gas production in Oklahoma, lowering prices and putting his operations at risk.

Hamm formed a local lobby to influence local policy makers. His Natural Gas Industry Task Force convinced Oklahoma's Corporation Commission and the governor to impose a statewide output ceiling on natural gas, said Thompson, his long-time lobbying partner. That helped prompt a doubling in natural gas prices across the United States that year.

"He was not very popular with some people, but Harold didn't care," said Thompson. "He's not afraid to do what he thinks is right for his company or the state of Oklahoma."

Amid a sharp drop in world oil prices in 1999, Hamm formed Save Domestic Oil Inc. It petitioned the Department of Commerce to impose import tariffs on crude from top foreign suppliers Saudi Arabia, Mexico, Venezuela and Iraq, which it accused of dumping. The complaint was rejected, but not before threatening a diplomatic standoff with members of the Organization of Petroleum Exporting Countries and worrying U.S. oil majors, some of which operated in countries targeted by Hamm.

"Harold had the backbone to call OPEC on it, though that was not necessarily popular among the multinationals," said Denise Bode, former president of the Independent Petroleum Association of America, who now runs the American Wind Energy Association. "Don't let the old country boy demeanor fool you. He is smart, strategic and incredibly focused."

The Domestic Energy Producers Alliance was born in January 2009 around Hamm's kitchen table in Oklahoma City,

says Thompson. At first it consisted of a handful of confidants, including Cantrell. The central aim: block Keystone XL.

The line would carry 830,000 barrels a day of oil, largely extracted from the gooey tar sands of Alberta Province, down to Texas. Backers included oil majors such as Royal Dutch Shell and ExxonMobil, who have stakes in Alberta projects.

But the line had natural foes. Environmentalists abhor tar-sands oil, saying it produces more greenhouse gas than regular crude. And the line would cross a sensitive aquifer. The new supply also threatened regional U.S. producers. Pipeline bottlenecks at the transport hub of Cushing, Oklahoma, had created a glut, depressing prices in the Midwest, where Continental sells its oil.

"The crude that was going to come from Canada scared us half to death," said Thompson.

Hamm allied with the Democratic governor of Montana, Brian Schweitzer, and the Republican governor of North Dakota at the time, John Hoeven, to press Keystone operator TransCanada to build a spur for crude produced by Continental and others in their states. Continental says DEPA was backed by five other industry groups in the Midwest.

"I made it real clear to TransCanada," says Schweitzer, whose state has seen an economic uptick thanks to Hamm's drilling. "Either you announce an on-ramp or you won't come through, you won't get the permit."

DEPA also wooed environmentalists. In April 2009, at a hearing before the Public Utilities Commission of South Dakota to discuss TransCanada's permit for Keystone XL, Cantrell warned of the highly pressurized pipeline's potential to cause dangerous spills.

"There's going to be a tremendous cost to citizens of this country with a pipeline coming through at 1,550 pounds psi," or pounds per square inch of pressure, Cantrell said, according to a hearing transcript. "I've been in this business my whole life, and that's not a three barrel spill if you have an accident at 1,550 psi. I don't care how fast

you get to it."

DEPA also offered help to landowners in the line's path. Harlan Hentges, an attorney in Edmond, Oklahoma, runs the Center for Energy Matters, a group opposing Keystone. He says DEPA offered to pay legal fees, provide research and send attorneys to help landowners fight TransCanada's attempt to use eminent domain for Keystone – a provision allowing for forced acquisition of private lands for a project deemed a public benefit.

Hentges says Thompson told him that DEPA opposed Keystone but had a "fallback position" – trying to get TransCanada to build a spur carrying domestic oil. Hentges passed.

"It was clear that if their business interests changed, so would their political interests," said Hentges. "Once they got what they wanted, they were going to step aside. I was surprised just how fast they kept that promise."

Hamm's resistance to Keystone ended in 2010, after TransCanada agreed to build a \$140 million spur line to the isolated Bakken fields. That addition would take 100,000 barrels per day of U.S. crude starting in 2014. Continental signed a deal to ship 35,000 barrels a day on the line.

In another victory, Hamm says his lobby group received a written confirmation from TransCanada it would build the southern leg of the pipeline first, a step since approved by the Obama administration while the northern leg awaits permission. The southern leg should help drain a glut of crude in the Midwest and help Continental earn more on its oil.

The State Department says it will determine whether to issue the international permit next year.

Asked about the pressure from Hamm, TransCanada spokesman Shawn Howard said in an email: "Bakken crude represents an opportunity for incremental growth and we are pleased that we will be able to bring this growing source of oil production to U.S. refiners and consumers when Keystone XL is approved."

The Romney energy plan

Central to Harold Hamm's energy policy is a bold idea: A technology-led production boom could end U.S. reliance on Middle Eastern oil by 2020 and boost U.S. output by some 5 million barrels a day.

Some experts agree such gains are feasible. Innovations in drilling techniques have already unlocked an estimated 100 years of natural gas supply and made the country the world's top producer. Since 2008, output of U.S. oil and so-called gas liquids has surged 1.1 million barrels a day. Coupled with a drop in demand, U.S. reliance on oil imports should fall to 48 percent this year, from 65 percent in 2005, says energy consultancy Raymond James. (So far, the bonanza has made little dent in the U.S. trade deficit, since oil prices are still strong.)

Drawing on Hamm's advice, Romney's "Abundance in America" policy calls for U.S. energy independence by 2020. It involves cutting regulations, letting state governments award exploration permits on federal lands, opening new shale and offshore territory for drilling, and keeping tax benefits for oil producers. Shifting permits to states could slash the waiting period for new wells, Hamm says. North Dakota takes 10 days to permit a new well, he says, compared to 10 months for a federal permit.

Romney's plan makes little mention of reducing fossil fuel usage. U.S. gasoline prices, around \$4 a gallon, are near a record high. Hamm says consumers will still conserve fuel for economic reasons. The paper lacks any mention of climate change, which Hamm says may not be attributable to man-made causes.

Obama, for his part, has touted recent gains in domestic oil and gas production. He is campaigning on an "all of the above" energy policy. It calls for more drilling, but also higher efficiency standards for vehicles, and government support for renewables like wind and solar.

- Joshua Schneyer and David Sheppard

Hamm says his engagement in broader policy heated up last year. During a brief meeting at a dinner for Giving Pledge participants at the White House, Hamm says, Obama dismissed his ideas for accelerating energy independence by scrapping regulations and letting firms like his rapidly expand drilling. Obama, Hamm says, is ignoring a technology-driven revolution in the oil patch.

"Nobody out here would believe he has done anything for the oil industry," Hamm says. The administration "wasn't aware of the energy renaissance that has been going on."

White House spokesman Clark Stevens wouldn't comment on the meeting. "The facts speak for themselves," he said in an email. "Since the President took office oil and gas production at home has increased each year.... As part of the President's all-of-the-above approach to energy, the administration is focused on continuing to expand production, safely and responsibly."

Hamm says he took his pitch to Romney last year, telling the candidate that fracking and horizontal drilling were making it possible to break U.S. reliance on Middle Eastern oil in a matter of years. "He grasped that thought process really quick," Hamm says.

The Oklahoman signed on as energy adviser in March. In May, he hosted a fundraiser that raised over \$2 million for the candidate. Later that month, he contributed \$985,000 to a pro-Romney Super PAC. Last month, the Romney campaign released its 21-page energy agenda, drawing heavily from Hamm.

"Governor Romney is fortunate to be able to draw on the talents of many different policy advisers, but he alone makes decisions regarding his policies," Romney campaign spokeswoman Andrea Saul said in an email.

Today, Hamm warns the drilling boom will sputter if tax relief for the oil industry ends. Obama supports ending the breaks, estimated at \$4

Keystone pipelines

The 1,700-mile Keystone XL pipeline would link Alberta to southern U.S.



Sources: TransCanada, Government of Alberta.

billion a year. Last week, Hamm told the House Energy and Commerce Committee that already-high U.S. taxes are a drag on his operations. "Continental's effective tax rate is 38 percent!" he said.

Continental's annual report shows the company made a \$258.4 million provision for income taxes last year, equal to 37.6 percent of pre-tax earnings. But the cash it paid in federal income taxes was far lower, around \$13 million.

The company tells investors it can defer up to 95 percent of its income-tax payments. At the end of 2011, Continental had deferred tax liabilities of more than \$850 million.

These tax provisions, some decades old, allow independent oil firms to expense drilling projects up front instead of depreciating the assets over years, and to write down oil reserves in the ground by 15 percent a year.

Hamm says drillers need the breaks in part so that they aren't afraid to risk billions on new prospects where first wells often fail. Last decade, Hamm drilled 17 dry holes in North Dakota before hitting paydirt. Oil companies also get tax breaks on gushers. Continental's filings show the firm drilled 563 wells last year, with less than 2 percent coming up dry.

Washington-based liberal advocacy group Citizens for Tax Justice calculated Continental's effective tax rate at 2.2 percent over the past five years. "Continental can defer its taxes almost indefinitely," said the group's director, Robert McIntyre. "As long as they keep drilling they might never have to pay."

Not so, says Continental: It eventually will pay the deferred taxes when its cash inflows exceed its capital expenditures. "Simply put, Mr. Hamm's estimate of the current tax rate is accurate," said spokeswoman

HAMM'S WAY HOW ROMNEY ENERGY CZAR FUELS BUSINESS WITH POLITICS

Kristin Miskovsky.

Hamm has succeeded in turning the Keystone plan to his advantage. But he nonetheless expresses concern about the eventual impact on his business if it's built.

"I think that overall, having our best trade partner in the world deliver oil to America over the long-term is good for our country," Hamm said. "Will it be par-

ticularly good for Continental? No. You put your country first."

Additional reporting Matthew Robinson in New York, Patrick Rucker and Timothy Gardner in Washington.

FOR MORE INFORMATION

David Sheppard

d.sheppard@thomsonreuters.com

Joshua Schneyer

joshua.schneyer@thomsonreuters.com

Alexander Cohen

alexander.cohen@thomsonreuters.com

Michael Williams, Global Enterprise Editor

michael.j.williams@thomsonreuters.com



IN LIMBO: The northern leg of the Keystone XL Pipeline is awaiting final U.S. approval. **REUTERS/ TRANSCANADA CORPORATION/HANDOUT**