



CRUDE AWAKENING



Bulletin of the Independent Petroleum Association of America

ipaa

IPAA's Crude Awakening bulletin was developed to separate fact from fiction on oil and natural gas issues; enhance understanding of domestic oil and natural gas exploration and production; and provide a link to the 7,000 independent oil and natural gas producers in the United States who provide the energy that has shaped the modern economy and fueled the economic growth upon which we depend.

Land Access: Development *Can* Be Accomplished in an Environmentally Sound Manner

This bulletin provides a summary of testimony by IPAA Chairman Jerry Jordan, president of Jordan Energy, Inc. of Columbus, Ohio, at a hearing before the House Resources Committee on April 12, 2000. Jordan testified on behalf of IPAA, the National Stripper Well Association and 32 IPAA cooperating associations. These organizations represent independent oil and natural gas producers—the segment of the industry that is most damaged by the lack of a domestic energy policy that recognizes the importance of our own national resources.

Mr. Chairman, today, we have an economy that is based on energy—from transportation to manufacturing to the Internet. More specifically, it is an economy based on petroleum—crude oil and natural gas. And, like it or not, despite all the efforts to change the mix of energy sources, petroleum remains the predominant source and will continue to do so for the foreseeable future.

Domestically, we import about 56 percent of our crude oil demand. Natural gas—on the other hand—is largely a domestic resource; our imports are mainly from other North American countries. In the future, domestic oil and natural gas production will be more and more dependent on a healthy domestic independent exploration and production industry.

Our current energy situation is not stable. We all need to understand how vulnerable the US economy is to policy decisions by foreign governments. The world is not awash in oil that can be supplied by opening the spigots. We must continue to work with foreign producer nations to move toward energy policies that produce the stability we need to maintain and enhance our domestic production.

We also must develop better policies to enhance and maintain domestic oil and natural gas exploration and production—we need both. To do this at the federal level, we must direct our efforts where they can have the greatest effect: (1) access to domestic natural resources from government controlled lands and waters, and (2) access to capital.



IPAA Chairman Jerry Jordan

Access to the Resource Base

Recent successful laws that have addressed access issues are the Deepwater Royalty Relief Act, The Royalty Fairness and Simplification Act, and moratoriums on rules for illegally assessing new oil royalties. The legislative requirements of the Deepwater Royalty Relief Act are expiring. IPAA believes it is critical to continue to provide a royalty structure that encourages offshore development. We believe it is equally critical to recognize that a larger aspect of access to natural resources involves opening access to that which is not now available and halting the trend of further embargoes of western lands. The Clinton Administration avoids dealing with the clear need to open government controlled lands to exploration and production. At the same time, it creates wilderness areas without any understanding of the vital resources that are being foreclosed. The Administration hides behind an environmental sensitivity argument that is proven wrong by its own Department of Energy. It focuses on arguments against opening the Arctic National Wildlife Refuge to exploration. It avoids dealing with important access issues offshore

IPAA Land Access Recommendations

- ☞ Congress should compel the development of an inventory to determine where the most likely resources lie—an action advocated by House Resources Committee.
- ☞ We need to know how many laws, regulations, conflicting management plans, and whatever else is in play. This perspective is essential to provide a real sense of how these actions can result in effectively foreclosing any development.
- ☞ We must have reasonable access to the resource base. Development *can* be accomplished in an environmentally sound manner.

and in the Rockies. With increasing regularity, President Clinton employs the Antiquities Act of 1906 to declare areas as national monuments, placing countless lands completely off limits. Now, the Administration is proposing

to expand roadless areas in national forests that will preclude future oil and natural gas development. Even in areas where development is allowed regulatory structures like the habitat management plans shown below preclude new development.

A Mosaic of Seasonal Restrictions (Source: IPAMS)

Wildlife Restrictions	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Big Game Winter Range	████████████████████										████████████████████	
Sage Grouse Lek			████████████████████									
Sage Grouse Nesting					████████████████████							
Mountain Plover Breeding			████████████████████									
Mountain Plover Nesting						████████████████████						
Raptor Nesting			████████████████████									
! Borrowing Owl						████████████████████						
Archeology Weather Restriction	████████████████████											
Section 7 Prairie Dog Avoidance			████████████████████									
Typical 8000 ft. Well	████████████████████		████████████████████		████████████████████		████████████████████		████████████████████		████████████████████	
Typical Deep Horizontal Well	████████████████████				████████████████████				████████████████████			

Taken together these actions effectively prevent access to essential natural resources – particularly the natural gas that is needed to meet the projected 30 percent increase in demand over the next decade. These issues must be addressed.

Access to Capital

The federal government also needs to look at actions it can take to improve capital flow to independent oil and natural gas producers. The most likely area of action is federal tax reform. There are a number of short-term reforms that have been identified.

The Congress also should look at other tax reforms that can help bring capital to the domestic petroleum industry, such as modification of the Alternative Minimum Tax, and incentives to encourage domestic development.

We are at a rare juncture with both Congress and the Administration moving in the same direction regarding tax reforms for domestic oil and natural gas exploration and production. Equally important, the House Resources Committee’s jurisdiction is at the heart of developing policies that address the complicated mosaic of regulations that prevent access to the nation’s resources under government controlled lands. If we are to provide our country with the domestic energy it deserves, we need to create national policies that allow environmentally sound development of these resources. It will take effort and it will take courage, still, now is the time to act.

IPAA CAPITAL ACCESS RECOMMENDATIONS

President Clinton has released documents indicating that he intends to propose legislation to allow expensing of geological and geophysical (G&G) costs and of delay rental payments. These are sound first steps, but IPAA also believes four key elements should be enacted immediately to extend the life of domestic marginal wells:

- ~~///~~ Provide a 5-year net operating loss carry back;
- ~~///~~ Eliminate the net income limitation on percentage depletion for marginal wells;
- ~~///~~ Eliminate the 65 percent net taxable income limit on percentage depletion; and,
- ~~///~~ Create a counter-cyclical marginal wells tax credit.