

11/17/2009

Senate Schedules Financial Reform, Pushes Climate Legislation to Spring 2010

Staff Contact: Ryan Ullman

The Senate Democratic leadership announced this week that it plans on scheduling floor debate on major climate and energy legislation for the spring of 2010. This is a departure from their previous goal of having a climate bill ready in time for the Copenhagen Climate Conference to be held in December.

Senate Majority Leader Harry Reid (D-NV) met with other members of his caucus for about an hour yesterday and emerged from the meeting to announce the Senate would attempt to pass legislation addressing financial reform before undertaking floor action on energy and climate legislation.

Speaking to reporters, Senator John Kerry (D-MA), one of the lead sponsors of S. 1733 the Clean Energy Jobs and American Power Act, endorsed the maneuver saying, "I think it'd be good if we do that first, because it helps to establish the rules of the marketplace."

This delay follows reporting of S. 1733 from the Environment and Public Works Committee earlier this month.

Vincent Asserts IPAA Position in First Week as Chairman

Staff Contact: Nicole Daigle

Last Wednesday, IPAA Chairman Bruce Vincent renewed the association's vow to fight full throttle against attempts by the federal government to impose additional regulatory hurdles and tax increases on the industry.

Speaking before the monthly luncheon hosted by IPAA and the Texas Independent Producers and Royalty Owners Association, Vincent covered a long list of looming and potential threats to the oil and gas industry in Washington. He described how IPAA is meeting these challenges with success and how the association is prepared to continue its aggressive advocacy campaigns on all fronts in the weeks and months ahead and into the next Congress.

“We’re working with Congress to help them understand that under the current regulatory environment, techniques such as hydraulic fracturing have been effectively regulated by the states for 60 years,” Vincent said. “Congress must understand that environmental regulations should be cost-effective and should be based on managing risk and not false accusations by opposition groups.”

He also offered caution in approaching climate change legislation, referring to the Waxman-Markey bill passed by the House as “just bad policy.”

Explaining the ways in which IPAA’s government relations and communications efforts are working directly in Washington to both fight bad policy initiatives and educate lawmakers to the importance of oil and natural gas in the nation’s energy mix, Vincent also gave attendees a rundown on the ways in which IPAA members and industry advocates can become involved through IPAA’s signature programs including Energy In Depth, Relationships in Government (RIG), and Community Voices.

“Most importantly, we cannot be silent with this Congress,” said Vincent. “We must keep the pressure on – constantly. IPAA continues to educate the policymakers, the media and the public on the issues. Every day, we’re monitoring newspapers nationwide and responding to misguided articles, and we strongly encourage you to do the same.”

Fall Supply and Demand Committee Meeting Recap

Staff Contact: Fred Lawrence

The Supply & Demand Committee met last Thursday in Houston to hear from speakers on fuel choice and power generation demand. The attendees heard from Brandon Blossman, vice president of Midstream Research at Tudor Pickering & Holt, and Hind Farag, manager of North American Power Research at Wood Mackenzie. Both speakers discussed their power outlooks and some key takeaways regarding marginal growth for renewables (i.e. wind in Texas) and natural gas in the evolving power generation sphere.

Mr. Blossman discussed the Texas wind scenario (representing around 10 percent of capacity and five percent of electricity produced in the state with wind generation growth of 46 percent/year over the last five years) and the difficulties associated in applying this model elsewhere based on a variety of factors. Texas enjoyed an optimum environment for the build out of wind: 1) resource availability, 2) a favorable business environment, 3) an existing generation portfolio and 4) renewable portfolio standards. However, aside from the subsidies (such as the Production Tax Credit of \$21/MWh for the first ten years or the Investment Tax Credit of 30 percent of capital costs), the wind in Texas is typically at night (off-peak demand), is far from the load centers and its output is capped by transmission constraints. Subsidies make wind a clear winner in Texas, but Blossman notes that wind does not replace other generation but rather reduces run times of other, existing ‘dispatchable’ generation (generation where output can be increased/decreased depending on demand). Grid reliability will still favor fossil fuels and

transmission/regulatory issues make it difficult to compare intrastate situation with interstate realities. Based on these factors, Blossman sees a range of 5-10 percent of U.S. generation from renewables from 2020. He sees natural gas electric power demand in Texas growing from 3.2 Bcf/d to 3.3 Bcf/d if no incremental wind generation is built but would fall to 2.7 Bcf/d with an extra 10,000 mw capacity by 2013 (with wind displacing gas-fired generation 75 percent of the time). For the U.S. in total, natural gas demand of the electric power sector would grow from 18-28 Bcf/d by 2020 without incremental wind generation but a 15 percent renewable standard by 2020 (Waxman-Markey) would bring about growth of only 18-21 Bcf/d.

Hind Farag discussed the outlook of coal and nuclear in the evolving power generation matrix pointing to a potential significant upside for natural gas demand. Many uncertainties remain unanswered such as long-term growth displacement issues, emissions policies (SOx and NOx and Greenhouse Gases), retirement of coal plants in addition to tax and regulatory frameworks (climate change policy). Farag noted that there have been zero net additions of coal and nuclear since 2000 (with only 2.3 percent of new generators since 2000 coal-fired-6.7gw and 21 percent of retirements-41 gw coal-fired). Growth has favored natural gas and wind during this timeframe and over the past year, the faster decline of natural gas prices compared to coal has led to a 13 percent decline in 2009 against a five percent reduction in total energy requirements. This will probably revert next year but generally a combination of lower long-term natural gas prices, strict EPA emissions rules and any GhG policy will favor the market for natural gas vis-à-vis coal and nuclear. Despite some refurbishment creep and higher utilization rates over the past decade, permitting and financial hurdles will limit future capacity growth of nuclear energy – with the construction cost recovery of nuclear almost six times that of combined cycle natural gas. By comparison the cost of coal is about three times that of natural gas combined cycle. Costs for nuclear generation and conventional coal units approach or exceed solar and biomass costs according to Wood Mackenzie. Farag noted that while baseload generation grows by about 15 percent by 2031, its total generation share drops from 63 to 53 percent. Based on these factors, future load growth will be increasingly met by gas-fired and renewable generation. Renewables will have to deal with intermittency issues, dependence on financial incentives and dispatchability issues. By 2031, Farag sees a 47 percent reduction in coal-fired generation accompanied by a 27 percent gain in gas-fired generation.

At the Houston Chapter of the U.S. Association for Energy Economics, the outgoing committee chairman, David Pursell of Tudor Pickering & Holt, spoke on the "Natural Gas Rig Market – Supply & Pricing Outlook for 2010 and Beyond." Pursell sees a fairly robust market for natural gas in 2010 but a dimming outlook for 2011 and beyond based on ample supply, aggressive base declines (around 33 percent decline rate) and limited demand growth. Pursell sees fewer rigs in fewer locations as the shales (32 separate producing regions and six major shale plays) attract increasing focus and the 'haves' become distinguished from the 'have nots.' Since 2001, shale production has grown from around 1 bcf/d to 7-8 bcf/d (around 12 percent of production and about 1 percent of the rig fleet growing to 35 percent of production and 41 percent of rigs in 2013). The rig rate will settle around 1,500 – 1,650 compared to the 2,350 peak achieved in 2008. Areas such as the Haynesville and the Marcellus will see the largest growth over the next four years with other areas growing more modestly (Fayetteville, Woodford, Eagle Ford, and Barnett). In terms of factors affecting natural gas price, Pursell noted the historic inaccuracy of

the forward curve and base storage numbers. It would appear a new economy for natural gas has evolved based on the maturing shale dynamics and many of the traditional rules are being rewritten.

IPAA Board Appointments Approved

Staff Contact: *Therese McCafferty*

At the recent Board of Directors meeting, the Board unanimously approved the appointments made by IPAA Chairman Bruce Vincent for the 2009-2011 term:

• **At-Large:**

- o David Bole, Quantum Energy Partners, LP
- o Jim Bowzer, Marathon Oil Co.
- o Nicholas Deluliis, CNX Gas Corp.
- o Chuck Meloy, Anadarko Petroleum Corp.
- o Steven Mueller, Southwestern Energy Co.
- o John Richels, Devon Energy Corp.
- o Scott Sheffield, Pioneer Natural Resources Co.
- o Brent Smolik, El Paso Corp.
- o Mike Watford, Ultra Petroleum Corp.
- o Jeff Wojahn, Encana Oil & Gas (USA) Inc.

• **Committee Chairmen:**

- o Capital Markets – Tim Murray, Guggenheim Partners, LLC
- o Communications – Kelly Miller, Eagle Investments, Inc.
- o Crude Oil Policy – Allan Frizzell, Enrich Oil Corp.
- o Environment & Safety – Nina Hutton, XTO Energy, Inc.
- o International – Tara Lewis, Rosetta Energy Partners
- o Land & Royalty – Bob Nance, Nance Resources, Inc.
- o Law – Jon Airey, Vorys, Sater, Seymour, & Pease LLP
- o Membership & Business Development – Teri Williams, Meagher Oil & Gas Properties, Inc.
- o Natural Gas – Richard Smith, Noble Energy, Inc.
- o Offshore - Chuck Davidson, Noble Energy, Inc.
- o Supply & Demand – Bob Fryklund, IHS
- o Tax – Terry Jacobs, Penneco Oil Company, Inc.
- o Wildcatters Fund – Mike Linn, Linn Energy, LLC

- **Executive Committee**, along with Bruce Vincent, Gigi Lazenby, Diemer True, and Buddy Kleemeier:
- o Jim Bowzer, Marathon Oil Company

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- o Bill Daugherty, NGAS Resources, Inc.
- o Tom Dunn, T & F Exploration, LP
- o Mark Houser, EV Energy Partners, L.P.
- o Craig Howard, Howard Energy Corp.
- o Ken Whitehurst, Palmer Petroleum, Inc.

• **Finance Committee**, along with Bruce Vincent, Gigi Lazenby, Buddy Kleemeier, and Committee Chairman Diemer True:

- o Byron Dunn, Tubular Synergy Group, LP
- o Sid Jansma, Wolverine Gas & Oil Corp.
- o Tim Murray, Guggenheim Partners, LLC
- o John Walker, EnerVest, Ltd.

Latest “Oil and Gas Producing Industry in Your State” Now Available

Staff Contact: Fred Lawrence

IPAA is pleased to release the latest data on American oil and natural gas production in a new edition of the popular “Oil and Gas Producing Industry in Your State.” Based on 2007 data, the “2008-2009” report is a result of continued collaboration between IPAA and IHS.

It is now available online here: <http://www.ipaa.org/reports/docs/2008-2009IPAAOPI.pdf>.

This edition has been expanded to include top producing county data and production rankings for oil and natural gas by congressional district, in addition to ten-year charts on key trends.

The latest report also includes numbers on unconventional oil and natural gas production, permit and operator data, horizontal drilling figures and marginal production by state and features an extended industry and educational resource section at the beginning of the publication.

IPAA’s “Oil and Gas Producing Industry in Your State” remains the definitive source of upstream state-by-state data. If you would like to receive a hard copy of the report, please contact Fred Lawrence at flawrence@ipaa.org.

Passive Loss Exception for Working Interests – Information Needed

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Staff Contact: Ryan Ullman

The Obama Administration has proposed to repeal the passive loss exception for working interests in oil and natural gas properties. IPAA is opposing this repeal. In presenting arguments to Congress, members ask about the importance of the issue to operators in their states. IPAA would like to develop a list of companies that value the provision and their states of operation.

In this tax provision, Congress permitted taxpayers to deduct losses from oil and natural gas investments if the investments are made in the form of a working interest. That is, it is an interest that carries with it the obligation to share in the costs to develop the resources on the property. To qualify, the taxpayer must hold the working interest through an entity that does not limit liability with respect to the interest. Thus, a taxpayer who holds a working interest in this prescribed fashion and puts up capital to fund the drilling of oil and natural gas wells is entitled to deduct their share of tax losses resulting from the drilling expenditures. If the passive loss exception is repealed, working interest owners who are not the actual operator of a property- e.g., all other investors - would have to treat the property as a passive investment.

Please contact Ryan Ullman, rullman@ipaa.org, to provide information.

Upcoming Events Schedule

Staff Contact: Nikki McDermott

Make Plans to Attend IPAA's Upcoming Meetings/Events

OGIS Florida

January 19-20, 2010

2010 OGIS Florida presenter registration is now open.

(Please note the earlier date)

Visit here for more information:

<http://www.ipaa.org/meetings/index.php?mid=154>

General Liability, Workers Comp, Commercial Auto, Umbrella Liability

Staff Contact: Therese McCafferty

General Agency Services, Inc. (GAS) has designed an insurance program for independent producers, operators, and service contractors that's underwritten by professionals specializing in the oil and gas industry. It allows you to keep your existing agent, if you wish. **IPAA fully endorses this program and encourages membership participation.**

Coverages are written through an A+ XV A.M. Best Rated carrier (ACE USA) and offer **General Liability, Workers Compensation, Commercial Auto, and Umbrella Liability.**

Target Classes:

- Drilling contractors
- Equipment rental
- Independent producers
- Non-operators (working interest)
- Pipeline contractors
- Pipeline operators
- Roustabouts
- Supply or equipment dealers
- Well-service and work-over contractors
- Wireline services

We welcome the opportunity to notify General Agency Services that you're interested in hearing from them. Simply send an e-mail to Therese McCafferty tmccafferty@ipaa.org and type "Insurance Information Request" in the subject field. Include your type of business, state(s) of operation, and name of agent.

Rig Count

Staff Contact: Fred Lawrence

	<u>11/13/09</u>	<u>11/06/09</u>	<u>Year Ago</u>
Land	1051	1029	1856



America's Oil & Gas Producers

Washington Report

Inland Waters	13	13	21
Offshore	37	36	64
U.S. Total	1101	1078	1941
Gulf of Mexico	35	35	61
Oil	361	332	429
Gas	728	734	1498
Miscellaneous	12	12	11

Source: Baker Hughes

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