

2/4/2010

Obama Administration Targets Oil and Gas Industry in Budget Proposal, Again

Staff Contact: Lee Fuller

On Monday, the Obama administration released its latest federal budget proposal for the Fiscal Year 2011 which includes \$36.5 billion in tax increases on oil and natural gas production over a 10- year period. The tax hikes on oil and natural gas production are comprised of most of the same provisions as those proposed by the administration last year.

The administration is set to once again focus its fiscal support on alternative energy sources and called it “counterproductive to spend taxpayer dollars on incentives that run counter to this national priority.” The budget aims to “eliminate tax preferences and funding for programs that provide inefficient fossil fuel subsidies, impede investment in clean energy sources and undermine efforts to deal with the threat of climate change.”

The budget also would eliminate expensing of intangible drilling and development costs (IDC), repeal of percentage depletion for oil and natural gas wells, repeal of the passive loss exception for working interests in oil and natural gas wells, extension of the amortization period for geological and geophysical costs, repeal of the countercyclical marginal well tax credit, repeal of the enhanced oil recovery tax credit, repeal of the deduction for tertiary injectants, and elimination of the domestic manufacturing tax deduction for oil and natural gas companies.

In addition to the opposition voiced by IPAA and its allies, both Democrats and Republicans have also voiced their displeasure at the return of such a drastic tax increase on American energy production.

“In the wake of the difficult economic times for so many Americans, I see the budget that’s before us today that would put in place a new cap-and-trade system ... and change the longstanding tax policies that encourage domestic oil and gas production,” Senator Blanche Lincoln (D-AK), said during a Senate Finance Committee hearing on the budget. “I think this would undoubtedly result in an immediate increase in energy prices for consumers and for businesses at a time when they can’t afford it.”

“Investing in green jobs is important, but it cannot be done at the expense of other energy jobs,” said House Natural Resources Committee Ranking Member Doc Hastings (WA-04) on Monday. “Responsibly developing our domestic oil and natural gas resources will not only generate millions in additional government revenue, but will provide funding to invest in clean, renewable energy. Yet those

benefits will never be realized if this budget is implemented and the Administration continues its assault on American energy production.”

During the past year, IPAA’s work with Congress produced strong opposition to these proposals that so adversely affect independent producers. However, the pressures to reduce the federal deficit are driving Congress to impose rigorous “Pay As You Go (PAYGO)” requirements on spending and taxing bills. PAYGO will trigger offsetting tax increases for tax incentives for alternative and renewable energy that recently have come from increased taxes on oil and natural gas. Consequently, IPAA will continue to work with Congress to maintain the aggressive and strong opposition to these Administration tax hikes.

Meanwhile, the Interior Department is poised to hit the industry with millions of dollars in new fees and increased royalty rates for exploration on federal lands under the agency’s own proposed budget. The oil and natural gas industry would face \$1 billion more in royalties on oil and gas produced onshore over the next 10 years in what is being called an action of “royalty reform.”

IPAA Responds to President’s Attempt to Raise Taxes on Independent Producers, Points to Consequence of “Fewer Jobs, Less Revenue” and Greater Foreign Dependence

Staff Contact: Nicole Daigle

IPAA responded to the Obama administration's budget proposal on Monday with a statement from IPAA President and CEO Barry Russell. The statement, along with reaction from IPAA Vice President of Government Relations Lee Fuller was picked up in media coverage across the country including *E&E News PM*, the *Houston Chronicle*, *Wall Street Journal*, *The Oklahoman*, the *Dallas Morning News*, *Gas Daily*, and the *Midland Reporter-Telegram*. The following is Russell's statement in full:

“In repudiating the president’s attempt last year to impose prohibitive tax policies on those who find and produce energy in America, Congress rightly recognized the important role that small, independent energy producers can play in fueling the short-term recovery and long-term revitalization of our struggling economy. One year later, that role is even more critical and apparent than it was back then. Unfortunately, in his search for ‘easy’ revenue, the president appears once again to be endorsing a series of tax changes that will result in fewer American jobs, less government revenue, and a tightening of our already dangerous dependence on foreign, unstable energy.

“Contrary to the justifications you’ll read in today’s budget plan, here are the facts: Virtually no industry in the United States pays more in taxes, royalties and revenues than America’s energy producers, and very few industries have the potential to create as many high-wage jobs in our current economic climate as quickly and effectively as we do. And while efforts to impede that work may produce short-sighted budget

relief in the near-term, it will result in far less revenue, investment and activity in American resource development in the long-term – precisely the things that we should be promoting moving forward.

“These punitive taxes would reduce investment in new U.S. production by 20 to 40 percent. And, at the same time, it could drive down U.S. oil production by 20 percent and natural gas production by 12 percent; potentially killing thousands of jobs. The good news now, as it was last year, is that the president’s latest budget request is just that: a request. And just like last year, IPAA will continue to take its case directly to those in Congress – both Democrats and Republicans – who recognize the value that small, independent American energy producers can deliver if given the opportunity to do it.”

NOTE: According to the budgetary document released by the White House on Monday, the president will call on Congress to impose nearly \$40 billion in new and additional taxes on the U.S. energy sector. Among the most onerous of those provisions is the White House attempt to eliminate long existent tax provisions like intangible drilling cost and percentage depletion deductions that would harm the small, independent producers of natural gas and oil.

IPAA, Member Companies Sign on to Senate Letter for Derivatives Reform

Staff Contact: Susan Ginsberg

The Coalition for Derivatives End-Users sent a letter on February 3 to all members of the Senate, urging that any financial reform legislation explicitly exempt business end-users from central clearing, bilateral margining, and exchange trading requirements. IPAA, along with a dozen of our member companies and state cooperating associations, signed on to the letter, which has the support of 175 companies and associations.

The Senate Banking Committee is still working on language for a bipartisan bill, with Chairman Chris Dodd (D-CT) hoping to mark up a bill in early March. The Senate Agriculture Committee is drafting its own derivatives reform bill. IPAA is working with other energy derivatives end users in taking our concerns to Senate offices. A group of chief risk officers from electric utilities and generators, cooperatives, and natural gas producers will meet with a number of Senate offices later in February.

Financial reform remains a priority for Senate action, and IPAA has found Senate staffers receptive to our arguments. However, the Obama Administration, through Commodity Futures Trading Commission Chairman Gary Gensler, continues to push for broad, mandatory clearing.

IPAA Seeks Clarification from FERC on New Enforcement Policy

Staff Contact: Susan Ginsberg

In a joint letter submitted today to the Federal Energy Regulatory Commission (FERC), IPAA requested clarification of the December 2009 order to identify in a public notice the subject of an investigation. In a December order, FERC initiated a new policy to issue a "Notice of Violation" that would describe the type of behavior under scrutiny, as well as the identity of the company under investigation. IPAA joined with the American Forest & Paper Institute, Natural Gas Supply Association, and the Process Gas Consumers in seeking clarification.

While the Associations strongly support FERC's efforts to publicize the actions companies should avoid, we disagree that it is necessary to identify the company early in the investigation process. "[A]ny benefit to such disclosure is outweighed by the significant adverse consequences to the subject. In addition to the significant reputational harm..., public disclosure could also significantly hurt the subject's credit ratings and could damage ongoing business negotiations between the subject and third parties."

Several other parties had sought rehearing of the December order. IPAA will be watching closely for whether FERC will provide clarification, as well as how and when FERC will issue preliminary notices of violation.

NAPE® Reminder

Staff Contact: Fred Lawrence

2010 Winter NAPE® – the world's largest prospect and property expo – will be held in Houston on February 10-12. On-site registration (\$325) begins February 10 at 8am and you will then have an opportunity to attend E&P Forum and Prospect Preview to your registration.

Please use the following link to view and print the e-book information brochure:
<http://ipaperus.ipaperus.com/RubiconDesign/NAPEexpo2010/>. To register online and to secure housing:
www.napeexpo.com

For housing questions, please call 888-347-6458.

The E&P Forum, hosted by IHS, has been expanded to include BOTH international and domestic prospects. IHS will provide a morning workshop entitled "Explorers on the Prowl – What's Hot and What's Not." In the afternoon prospect exhibitors will present a brief overview of the opportunities they will display in their booths and attendees will have the opportunity to choose between international and domestic tracks. The cost is \$125 per person. You must register to attend the NAPE® Expo in order to register for the E&P Forum.

For additional information, please contact Fred Lawrence at flawrence@ipaa.org.

Passive Loss Exception for Working Interests – Information Needed

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.

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:

Independent Petroleum Association of America

1201 15th Street NW, Suite 300 • Washington, DC 20005 • Phone: (202) 857-4722 • Fax: (202) 857-4799 • www.IPAA.org

- 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.

Make Plans to Attend IPAA's Upcoming Meetings/Events

**[REGISTER TODAY](#)
TO ATTEND IPAA's
PRIVATE CAPITAL CONFERENCE**

Thursday, February 25, 2010
The Houstonian Hotel
Houston, TX

**[Sponsor and Attend](#)
IPAA's 16th Annual
Texas Wildcatters' Open**

Thursday, March 25, 2010
Cypresswood Golf Club
Spring, Texas



America's Oil & Gas Producers

Washington Report

Please visit www.ipaa.org/meetings for more information.

Rig Count

Staff Contact: Fred Lawrence

	<u>1/29/10</u>	<u>1/22/10</u>	<u>Year Ago</u>
Land	1261	1226	1404
Inland Waters	14	14	8
Offshore	42	42	60
U.S. Total	1317	1282	1472
Gulf of Mexico	41	41	59
Oil	444	437	309
Gas	861	833	1150
Miscellaneous	12	12	13

Source: Baker Hughes

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