

3/26/2010

IPAA Responds to EPA's Announcement to Commence Hydraulic Fracturing Study

Staff Contact: Brendan Bradley

Last Thursday, the Environmental Protection Agency (EPA) announced that it will begin a new, comprehensive study on hydraulic fracturing, the critical and heavily regulated 60-year old technology used to stimulate energy production in 9 out of 10 wells throughout the United States. On April 7th and 8th, the EPA Science Advisory Board will hold public meetings to discuss the study's framework. IPAA and the industry coalition, Energy In Depth will provide oral, as well as written comments.

Following the announcement, Lee Fuller, IPAA vice president of government relations and executive director of Energy In Depth, released this statement:

"We are hopeful and it is our expectation that this study - if based on objective, scientific analysis - will serve as an opportunity to highlight the host of steps taken at every wellsite that make certain groundwater is properly protected. The energy industry, as well as state regulatory agencies, are eager to work with EPA throughout this fact-based examination. Further, efforts underway in Congress to give EPA outright authority to regulate fracturing - which could hamper domestic energy production and job growth - should come to a standstill until this study is completed.

"Adding another study to the impressive list of those that have already been conducted and completed is a welcome exercise. Hydraulic fracturing is one of the U.S. oil and gas industry's crowning achievements, enabling us to produce energy supplies at enormous depths with surgical precision and unrivaled environmental safety records. And, simply put, new innovations are making these technologies better and better by the day - a fact widely recognized by the agencies that regulate hydraulic fracturing in energy-producing states.

"Fracturing has a long and clear record of safely leveraging otherwise unreachable homegrown, clean-burning, job-creating energy reserves. Today, the responsible development of America's shale gas resources represents a crucial turning point for our nation's long-term energy security. Hydraulic fracturing is the tool that can safely make this possible, and can continue to help lead us on a path toward stronger energy independence and economic competitiveness."

The EPA is proposing the process begin with (1) defining research questions and identifying data gaps; (2) conducting a robust process for stakeholder input and research prioritization; (3) with this input,

developing a detailed study design that will undergo external peer-review, leading to (4) implementing the planned research studies.

Moving forward, IPAA will keep its membership up to date on the latest developments of the EPA study as it continues to promote an objective, scientific analysis that includes participation not only from industry experts, but also state regulatory agencies.

Oil and Gas Industry Called on to Report Greenhouse Gas Emissions

Staff Contact: Lee Fuller

On Tuesday, the U.S. Environmental Protection Agency (EPA) announced their proposal to require the oil and gas industry to report on greenhouse gas emissions. This reporting would be included in the “first-ever national mandatory greenhouse gas (GHG) reporting system,” which the EPA claims “will provide a better understanding of where GHGs are coming from and will help EPA and businesses develop effective policies and programs to reduce emissions.”

Last fall, the EPA finalized a rule that requires 31 industries to report their GHG emissions. The industries originally included in the rule represent 85 percent of total U.S. greenhouse gas emissions.

Adding the oil and natural gas industry to those required to report would likely affect oil companies of all sizes across the nation. As proposed, the EPA would require oil and gas companies to begin collecting emissions data on January 1, 2011 and to submit the first annual report by March 31, 2012.

The proposals will be open for public comment for 60 days after publication in the Federal Register and the EPA will hold public hearings on the proposals on April 19, 2010 in Arlington, Va. and April 20, 2010 in Washington, D.C. IPAA will be developing additional information on the scope of the proposed regulation and will file comments.

Senate Banking Committee Passes Financial Reform, But it's Just the Beginning of Senate Action on Derivatives

Staff Contact: Susan Ginsberg

The Senate Banking Committee approved Chairman Chris Dodd's financial reform bill, with a 13-10 vote strictly along party lines. The vote took 6 minutes, as Republicans chose to not offer any amendments. The Dodd bill contained provisions that would allow the Commodity Futures Trading Commission (CFTC)

and SEC to grant certain exemptions from clearing. IPAA supports the approach taken by the House, in which the CFTC would be required to exempt end users from clearing. The bipartisan negotiations between Sens. Jack Reed (D-RI) and Judd Gregg (R-NH) still could present a compromise on derivatives reform. Gregg had indicated that language would not be ready for the committee vote.

IPAA continues to note that action by the Senate Agriculture Committee will be key in derivatives reform, as commodity regulation is under its jurisdiction. Chair Blanche Lincoln (D-AR) continues to state support for a clearing exemption for end users, stating in a Wednesday speech that she is "very sympathetic" to nonfinancial end users and the potential financial burden of clearing. Sen. Lincoln indicated the Agriculture Committee bipartisan draft bill will be released following the Senate's Easter recess. While the bill could move to the Senate floor this summer, Sen. Lincoln has cautioned that action on the bill may not be completed until the end of the year. Dodd, however, will be pushing for full Senate consideration by the Memorial Day recess.

IPAA continues to meet with members and their staff, particularly those members on the Senate Banking and Agriculture Committees, to press the need for an end user exemption from clearing.

IPAA Speaks to FERC on Need for Clarification in Form 552; Requests Membership Input for April 16 Comments

Staff Contact: Susan Ginsberg

IPAA's Natural Gas Committee Chairman Richard Smith of Noble Energy addressed staff of the Federal Energy Regulatory Commission (FERC) on the need for clarification so that producers can accurately and consistently complete the Form 552 Annual Transaction Report. Smith spoke on a March 25 panel with Mary Nelson of Devon Energy, and representatives of Chaparral LLC, ExxonMobil, and DCP Midstream. After completing the report for the first time for 2008 transactions, filed July 1, 2009, panel members noted that FERC must ensure that all respondents understand the extent to which unprocessed gas is excluded, and the meaning of "could have contributed to the formation of daily or monthly gas price indices."

Smith and the other panelists explained to FERC staff the distinctions between processed and treated gas, and the ambiguity of the term "pipeline quality gas." They outlined the procedures for compiling the data requested regarding sales and purchases of natural gas. A second panel consisting of producers and industrial consumers urged FERC to remove the request to report purchases and sales of gas to cash out pipeline imbalances. All the panelists noted the time-consuming nature of tracking these small purchases that, in most cases, amounted to less than 1 percent of the reporting entity's sales or purchases.

FERC staff appeared very interested in addressing concerns regarding confusing terms and burdensome aspects of completing the report. While some of these concerns may be resolved, it could entail having to go back over data already accumulated for the 2009 report, which is due July 1, 2010, and revising data for the first part of 2010.

Comments on the reporting of unprocessed gas and cashouts are due April 16. FERC staff specifically requested suggestions on term definitions and suggested regulatory language. Staff also asked trade associations to compile aggregated data on the amount of time and burden entailed in reporting sales and purchases of gas to cash out imbalances for Form 552. IPAA asks for your input on your experiences with completing Form 552.

IPAA Joins the Natural Gas Council in Appeal to Grow the Senate Natural Gas Caucus

Staff Contact: Jeff Eshelman

IPAA and its fellow members of the Natural Gas Council (NGC), representing all sectors of the natural gas industry sent a letter to Capitol Hill this week urging members of the U.S. Senate to joining the recently formed Senate Natural Gas Caucus.

"Your decision to join the caucus will send a clear signal to your constituents about the importance you place on creating jobs, reducing our dependency on foreign energy sources and reducing our carbon footprint," read the letter.

Sens. Mary Landrieu (D-LA) and Saxby Chambliss (R-GA) formed the bi-partisan caucus last fall.

"As you undoubtedly know, natural gas is tremendously abundant in the United States and is a source of energy that added nearly \$400 billion to the U.S. economy in 2008," the letter continued. "The development, production, delivery and use of natural gas provides direct and indirect employment to millions of Americans, many of whom live in your state."

"Your decision to join the caucus will add attention to the fact that clean natural gas is a key component in the backbone of America's manufacturing future – and American jobs. Natural gas is used to make steel, glass, chemicals, textiles, automobiles, fertilizer and more. Elements from natural gas are used to make solar panels, compact fluorescent light bulbs and energy-efficient vinyl windows. The carbon fiber wings of the newest jetliners are also made with natural gas molecules, enabling the newest aircraft to use 20 percent less fuel and pollute less."

IPAA Wildcatter Fund Candidate Profile - Sen. John Thune (R-SD)

Independent Petroleum Association of America

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Staff Contact: Cortney Hazen

Sen. John Thune (R-S.D.) is the first-term Senator from South Dakota. Born in Pierre, SD, Thune holds a B.S. from Biola University and a M.B.A. from the University of South Dakota. Prior to his time in Congress, Thune was a President Reagan political appointee and a Congressional Aide for Sen. Jim Abdnor. He was also the director of the State Railroad Division. He served in the U.S. House of Representatives from 1995-2002 and has been in the Senate since 2004.

Thune has been considered a "rising star" in the Republican Party since his defeat of Senate Majority Leader Tom Daschle. Thune has been a vocal critic of the Obama Administration's support of cap and trade and the EPA regulating greenhouse gases. He has also championed an expansion of domestic oil and gas development.

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:

- 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

OGIS New York

April 12, 2010 - April 14, 2010

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

Sheraton NY Hotel & Towers

New York, NY

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

Rig Count

Staff Contact: Fred Lawrence

	<u>3/19/10</u>	<u>3/12/10</u>	<u>Year Ago</u>
Land	1362	1341	1036
Inland Waters	14	15	6
Offshore	51	51	43
U.S. Total	1427	1407	1085
Gulf of Mexico	49	49	43
Oil	474	466	215
Gas	939	927	857
Miscellaneous	14	14	13

Source: Baker Hughes