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IPAA Responds to Obama's Offshore Announcement

Staff Contact: Brendan Bradley

Yesterday, President Obama announced his administration's new policy for energy production in the U.S. Outer Continental Shelf, pledging to open new areas for "responsible" oil and natural gas development. The new offshore strategy would allow for development in areas including part of the eastern Gulf of Mexico, more than 125 miles off the Florida coast. The administration has also opened frontier areas in the Arctic Ocean and Atlantic Ocean for increased exploration.

Obama described his approach to offshore as part of a broader strategy that will still feature his administration's strong support for alternative energy and resource development. The President insisted his plan is designed to improve U.S. energy security while focusing on greater energy efficiency, and addressing climate change and environmental issues.

IPAA responded to Obama's announcement with a statement from IPAA President and CEO Barry Russell, calling the announcement a "welcomed first step to addressing the nation's future energy needs."

"It is also important to remember that offshore energy development will not happen overnight," said Russell. "The Minerals Management Service (MMS) 5-year plan is the basis for the entire American offshore leasing program. It is an extremely long and thorough process involving extensive public comment and consultation with interested parties. The process includes solicitation of public comments; development of a draft proposed program; development of a proposed leasing program; development of a final leasing program; and approval by the Secretary of the Interior. Given the lengthy process, it is imperative that the administration and Congress put their plans in motion today. Otherwise, the U.S. will continue to further its dependence on foreign resources and send more American dollars overseas."

Russell's statement was included in coverage in publications across the country including *Gas Daily*, *Red Orbit*, *American Chronicle*, *The Oklahoman*, *Bradenton Herald*, the *Miami Herald*, *Greenwire*, *The Hill's E2 Wire: Energy & Environment* blog, *Business Week*, the *Houston Chronicle*, *Penn Energy*, *Oil and Gas Financial Journal*, and *Oil and Gas Journal*.

As a part of the new offshore plan, the Department of the Interior (DOI) is now preparing to hold lease sales for areas off Virginia's coast and in Alaska's Cook Inlet. Interior Secretary Ken Salazar, who introduced the president before his announcement at Andrews Air Force Base, told reporters afterward that the DOI and MMS will "move forward in the process... for a lease sale. We will do all the

environmental analysis which needs to be considered, and look at other questions such as conflicts with military needs, shipping lanes and other uses of the sea. Our expectation is that we'll be in a position to make that decision the latter part of 2011 or the early part of 2012."

The administration will also commit to exploration as a part of its new approach with seismic evaluation of the South and Mid-Atlantic OCS intended to discover what oil and gas resources are really there.

"We know very little about the Atlantic because the information there is 30 years old," said Salazar. "We will embark on a seismic program to gather the information to make the right decisions."

With significant hurdles including reviews, research and permitting issues still to be addressed and cleared before leasing and production are possible in the areas now to be made available, and with major areas of potential oil and gas still off limits in the offshore and on U.S. federal lands, Russell clarified the position from which America's independent producers stand ready to continue their contribution to the nation's energy solutions and the need for swift action from the federal government.

"Independent oil and gas operators - who produce 9 out of 10 wells nationwide - are eager to work with the administration as this process continues to move forward," said Russell. "Bold action and sound national energy policies that promote domestic oil and gas production, especially offshore, will help drive down our dangerous dependence on unstable regions of the world to fuel our economy and keep prices stable for struggling families, seniors and small businesses during these difficult economic times."

IPAA Wildcatter Fund Candidate Profile - Rep. Chet Edwards (D-TX)

Staff Contact: Cortney Hazen

Rep. Chet Edwards (D-TX) is the 10-term Representative from the 17th District of Texas. Born in Corpus Christi Texas, Edwards holds a B.A. from Texas A&M University and an M.B.A. from Harvard Business School. Prior to his time in Congress, Edwards was a legislative aide to Rep. Olin Teague (D-TX) and president of Edwards Communication Inc. His political career includes a stint in the Texas State Senate. He has been a representative in the U.S. House since 1991.

As a member of the House Budget Committee, Edwards plays a pivotal role in defending oil and gas tax initiatives to the Obama administration. As a democrat from a producing state, he has been a vocal advocate of independent oil and natural gas producers to the House leadership.

Passive Loss Exception for Working Interests – Information Needed

Independent Petroleum Association of America

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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.

Make Plans to Attend IPAA's Upcoming Meetings/Events

OGIS New York

April 12, 2010 - April 14, 2010

Sheraton NY Hotel & Towers

New York, NY



America's Oil & Gas Producers

Washington Report

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

Rig Count

Staff Contact: Fred Lawrence

	<u>3/26/10</u>	<u>3/19/10</u>	<u>Year Ago</u>
Land	1376	1362	991
Inland Waters	15	14	7
Offshore	53	51	41
U.S. Total	1444	1427	1039
Gulf of Mexico	51	49	40
Oil	489	474	217
Gas	941	939	810
Miscellaneous	14	14	12

Source: Baker Hughes

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