

4/8/2010

IPAA Participates in EPA's Initial Hearing on HF Study

Staff Contact: Lee Fuller

Yesterday, Lee Fuller, vice president of government relations at the Independent Petroleum Association of America, spoke before an Environmental Protection Agency (EPA) panel that is creating recommendations on a new hydraulic fracturing study that was approved by Congress last year. Fuller, who also spoke on behalf of the industry's Energy In Depth coalition, was one of select few to provide oral comments to the EPA's Scientific Advisory Board.

An emerging concern of the advisory board is whether to recommend a broader scope of the study to include additional issues like air emissions, water demand and surface issues. IPAA is arguing that the intent of Congress is clear – the scope of the study should be limited to hydraulic fracturing and its impact on underground drinking water supplies, not other E&P processes or matters.

In written comments provided prior to the meeting, IPAA/ EID addressed this concern: "The Scoping Materials document raises a broad array of issues for possible research. In our view, however, it goes well beyond relationships between hydraulic fracturing and drinking water. As the Scoping Materials note, Congress requests "... the Agency to carry out a study on the relationship between hydraulic fracturing and drinking water...." The Scoping Materials expansion of this mandate bring into play consideration of a Life Cycle Assessment, air emissions issues, community health and environmental justice issues and many others that would distract the study from its Congressional intent."

During the hearing, Fuller noted that many of the potential study issues raised in the EPA's draft scoping documents are practices that would occur in any oil and gas operation whether fracking was being conducted or not. "Water removal is something we do whether we're fracking or not," Fuller said. "Constructing drilling sites happens whether we're fracking or not; managing drilling fluids happens whether we're fracking or not; the occurrence of water with gas happens whether we're fracking or not."

IPAA Weighs In on EIA Natural Gas Supply Report

Staff Contact: Jeff Eshelman

Two weeks ago, IPAA sent a letter to the U.S. Energy Information Administration (EIA) delineating some of the key issues that producers had raised about the accuracy and timeliness of monthly natural gas

report methodology. These data issues could have a major material impact on the depiction of current market conditions – such as overstating production and the gap between supply and demand.

Last week, the EIA took steps to improve its methodology.

The changes to the EIA-914 natural gas production program include:

- Monthly Sample – moving forward, the sample will be updated every month using more recent information.
- Estimation – estimation of production of non-sampled companies will use data that is 6 to 18 months old (rather than the previous practice that used data that was 2 to 7 years old).
- Timing – calibration will be updated monthly rather than annually.

The primary concerns as detailed by producing members in IPAA's letter concerned the following issues:

- 1) Reconciliation of the 'Balancing Item' in the EIA's Natural Gas Monthly which had been growing over the past year suggesting a growing imbalance between supply and demand.
- 2) Provision of monthly values of actual consumption obtained through an annual census (EIA-176) which would provide the EIA with the ability to accurately 'true-up' their monthly consumption estimates generated from their previous sampling rather than make pro rata adjustments.
- 3) Increasing divergence between the Monthly Natural Gas Gross Production Report (EIA-914) and internal EIA calibration sources which could lead to overestimation of U.S. supply growth.
- 4) Delayed revisions to monthly data and impact on balancing item – as 2007 data was being belatedly revised in March 2010.

The EIA noted: "These changes are intended to allow the EIA-914 to reflect major changes in the industry that might affect production of non-sampled companies (such as the growth of shale gas production) in a much more timely way." In April 2010, reporting February production, the EIA will introduce the new methodology.

IPAA applauds the initiatives taken by EIA Chairman Newell and his staff to fix a process that is so critical to its membership. The association feels this data is essential for producers in making their long-term planning decisions and appreciate the member feedback in regard to how the process can be improved.

IPAA would like to thank former IPAA Chairman Buddy Kleemeier of Kaiser-Francis Oil Company and Mark Papa, chairman and CEO of EOG Resources, for their guidance and involvement with IPAA on this key issue.

More Natural Gas Urged in Kerry-Graham-Lieberman Climate Bill

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Staff Contact: Jeff Eshelman

On Wednesday, a trio of natural gas groups wrote U.S. Senators John Kerry (D-MA), Lindsey Graham (R-SC) and Joe Lieberman (I-CT), asking the senators to incorporate more natural gas in their upcoming climate change legislation because it is “one of the pillars upon which the solution to America’s energy and environmental challenges are built.”

Signing onto the letter were Barry Russell, IPAA president and CEO, R. Skip Horvath, president and CEO of the Natural Gas Supply Association (NGSA), and Don Santa, president of the Interstate Natural Gas Association of America (INGAA).

“Natural gas should be a linchpin to any climate strategy. Emerging shale gas plays and other domestic sources can produce more than enough natural gas to meet America’s needs for 100 years or more,” said Russell.

The senators were encouraged to “not overlook” how America’s abundant natural gas can help the nation quickly and cost-effectively meet its carbon reduction targets. Specifically, the natural gas associations asked Senators Kerry, Graham and Lieberman to include a natural gas option if their legislation includes a Clean Energy Standard. The natural gas groups further requested balanced treatment for carbon capture and sequestration (CCS) research for natural gas in addition to coal CCS.

“It would be a huge mistake if natural gas loses out in the bill simply because our product doesn’t need the subsidies and other incentives being granted to other energy resources,” said INGAA’s Santa.

“We seek a level playing field,” said Horvath on behalf of NGSA. “If the legislation isn’t crafted properly, natural gas could get squeezed out between congressional mandates for more expensive renewables and subsidies for higher-emitting fuels. That won’t be good for the environment or consumers.”

White House to Brief IPAA, Others on Financial Reform While Work on Derivatives Reform Continues during Congressional Recess

Staff Contact: Susan Ginsberg

The White House will host a call-in briefing with senior administration officials to review financial regulatory reform and consumer financial protection. IPAA will participate in the call-in to determine whether Administration insistence on mandatory clearing has softened in response to the strong support for an end user exemption.

While the Senate Banking Committee financial reform bill did not provide adequate certainty for end users to continue to rely on the over-the-counter (OTC) market, the Senate Agriculture Committee appears to have made progress on a bipartisan bill that would allow OTC access by end users, with increased reporting. IPAA expects the discussion draft to be released early the week of April 12, with markup following as early as the following week. It remains uncertain as to how the Senate will meld the derivatives portions of the Banking and Agriculture bills.

IPAA continues to meet with Republican and Democratic senators to voice support for an end user exemption.

IPAA Member, ConocoPhillips Chairman and CEO James Mulva Touts Benefits of Natural Gas to US Energy Association

Staff Contact: Susan Ginsberg

Yesterday, ConocoPhillips Chairman and CEO James Mulva addressed the annual meeting of the United States Energy Association (USEA) at the National Press Club. Mr. Mulva listed two significant obstacles to natural gas achieving a more significant role in domestic energy policy.

Mulva said first, the industry must overcome the opposition of hydrocarbon deniers. He noted the positive impact of storage on decreasing short-term price volatility. Mulva also characterized natural gas as more than a bridge to renewables. "It is part of the long-term energy solution." Second, he said, the government lacks a long-term vision, with Mulva citing the need for increased access to offshore federal lands. He went on to criticize the mandated use of renewable energy for electric utilities, urging instead a clean energy standard that would incorporate natural gas.

Mulva also expressed encouragement at the efforts of Sens. Kerry, Graham and Lieberman to craft a climate change and energy policy.

IPAA Leadership on The Road

Staff Contact: Brendan Bradley

IPAA staff and leadership are active on the road this month, spreading IPAA's core messages and updating members and industry insiders across the country on the latest developments in Washington. Typical of IPAA's busy road schedule, both **IPAA Chairman Bruce Vincent** and **Dan Naatz, vice**

president of federal resources and political affairs spoke yesterday at the 16th annual Executive Oil Conference in Midland, Texas.

During his address, Vincent discussed the association's current list of top concerns- drastic tax hikes through budget proposals that would eliminate incentives like intangible drilling costs, the threat of new regulations, particularly on hydraulic fracturing, and new regulations in the financial markets that limit access to producers' resources or capital.

"Increased taxes means less investment and less investment means less domestic production, which means fewer jobs, less revenue and weakened national security," Vincent said. "Energy tax legislation should not pit one form of energy against another. Let the markets decide. The nation will need all forms of energy in the future -- oil and gas, coal, solar, wind, renewables, as well as efficiency."

Naatz also spoke on the current political environment and acknowledged the importance of the deficit as lawmakers look for ways in which to increase revenue. "In D.C., everyone is 'Big Oil' when they're looking for revenue," said Naatz. "But I do feel confident people understand how important these deductions are to the industry."

Vincent is also schedule to speak this month to the Schlumberger Oil & Gas Invitational on April 8, in Barton Creek, Texas and then addressing the Texas Alliance's Annual Meeting on April 21. **IPAA Director of PAC and Government Relations Cortney Hazen** will also be speaking on the road this month, delivering a "Washington Update" to the Denver Association of Petroleum Landmen on April 21, in Denver Colorado.

IPAA staff and leadership will also be on hand next week in New York, led by **IPAA President and CEO Barry Russell**, as the association will once again ring in the NASDAQ opening bell to mark the industry's presence at IPAA's OGIS New York, April 12-14.

IPAA Wildcatter Fund Candidate Profile - Rep. Dave Camp (R-MI)

Staff Contact: Cortney Hazen

Rep. Dave Camp is the 10-term Representative from the 4th District of Michigan. Born and raised in Midland, MI, Camp holds a B.A. from Albion College and a J.D. from the University of San Diego Law School. Prior to his time in Congress, Camp was the Michigan Attorney General and a staffer to Rep. Bill Schuette. He has been in the U.S. House since 1990.

As the Ranking Member of the House Ways and Means Committee, Camp has been a vocal advocate of the domestic oil and gas tax incentives that affect independent producers. Camp's position on the tax writing committee has allowed him to defend these incentives that have fallen under scrutiny from the Obama Administration.

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.

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

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

Rig Count

Staff Contact: Fred Lawrence

	<u>4/1/10</u>	<u>3/26/10</u>	<u>Year Ago</u>
Land	1399	1376	992
Inland Waters	15	15	7
Offshore	51	53	44
U.S. Total	1465	1444	1043
Gulf of Mexico	50	51	43
Oil	502	489	224
Gas	949	941	808
Miscellaneous	14	14	11

Source: Baker Hughes