

4/15/2010

IPAA Active as Committee Hearing Turns Focus to Industry Tax Issues

Staff Contact: Joel Noyes

The House Ways & Means Committee conducted a hearing on Wednesday, April 14th, on “Energy Tax Incentives Driving the Green Job Economy.” While bearing an innocent title, the hearing was reminiscent of the old fable about a wolf in sheep’s clothing. Initial reports had indicated that the hearing would not focus on President Obama’s budget proposal that aims to increase taxes on independent oil and natural gas producers to their highest historical levels. Unfortunately, those reports were incorrect.

Thanks to the work of IPAA’s Government Relations team, members of the Committee were prepared to speak on behalf of independents and the critical need for keeping the current tax provisions in place. During the hearing, the independents’ message was echoed repeatedly through members of the Committee and panel witnesses. IPAA also filed written comments to the hearing detailing the importance of the current tax structure to the production of American natural gas and oil.

This particular hearing served as a kind of pre-emptive action – there is currently no legislation crafted or being considered in the House that contains the tax increases. However, the Ways & Means Committee does intend to have legislation prepared that would contain a package of tax subsidy extensions, as well as some energy tax breaks, for inclusion in possible additional economic stimulus legislation. To pass a bill of this kind, it must comply with the current House pay-as-you-go (PAYGO) rules; therefore, it will need provisions to pay for it. And, it is here that oil and natural gas producers find themselves in the familiar position of legislators.

It was evident during the first panel of witnesses – which included Assistant Secretary of the Treasury for Tax Policy Michael Mundaca, and Senior Advisor to the Secretary of Energy Matt Rogers – that the administration intended to focus on the oil and gas tax provisions. The administration’s message was the repeated anecdotes of “over-investment” and “over-production” of fossil fuels, supplying little support for their own claims.

Some members of the Committee were not easily convinced of the administration’s arguments, however. The Committee’s highest ranking Republican, Congressman Dave Camp (R, MI), was quick to point out the critical role that these oil and gas tax provisions play for America’s independent producers and America’s energy supply. He was not alone in his advocacy, as Congressmen Devin Nunes (R, CA), Patrick Tiberi (R, OH) and Charles Boustany (R, LA) all echoed his sentiments.

On the other side of the aisle, Congressman Earl Pomeroy (D, ND) showed his support for the industry as he spoke of the role independent producers play in the Bakken shale, and their importance to his state. Congressman Lloyd Doggett (D, TX) displayed a show of support for the industry by complimenting work done by independents to produce much-needed natural gas.

Subsequent witness panels for the hearing included friendlier faces for the industry- T. Boone Pickens of BP Capital, and Karen Harbert of the U.S. Chamber of Commerce's Institute for 21st Century Energy, to name a few. Both Pickens and Harbert articulated the need for continued and increased American production of our resources, and flatly refuted any notion that removing the tax provisions for oil and natural gas producers would have little to no effect.

This hearing was likely only the first significant effort to move forward on legislation that will target the oil and gas industry as a pay-for in 2010. Election year politics nearly guarantees that this trend will continue and likely ramp up in the coming weeks and months. It is critical for IPAA members to stay involved, and to reach out to their elected officials to tell them to oppose the budget proposal laid out by President Obama.

16th Annual OGIS New York a Success

Staff Contact: Nicole Daigle

This week, IPAA held its 16th annual Oil and Gas Investment Symposium (OGIS) New York in New York City. This year proved to be another very successful event thanks to the 90 publicly traded independent producers and service and supply companies that presented their company portfolios to more than 1,500 investors, buy/sell-side analysts and bankers in attendance.

IPAA Chairman Bruce Vincent was also very engaged with the media while attending OGIS New York. He met with several national publications, including *Reuters*, *Bloomberg*, and the *New York Daily News*. Perhaps the highlight of the event was Vincent's appearance on Jim Cramer's "Mad Money" on CNBC. Vincent and Cramer discussed the important benefits of natural gas as we move to a cleaner environment and reduce our dependence on foreign sources of energy. They specifically discussed the natural gas production boom in the shale plays all across the United States.

In recognition of OGIS New York, Vincent rang the NASDAQ stock market closing bell on Monday afternoon. For the third consecutive year, IPAA members and staff paid a visit to the NASDAQ MarketSite in New York City's Times Square.

Vincent also addressed attendees at the conference luncheon and discussed the critical policy issues facing America's independent oil and natural gas producers in Washington today, including energy taxes,

new environmental regulations, particularly hydraulic fracturing and climate change, regulation of the commodity markets and proposals to increase costs to production and limit access.

"Policymakers must understand the critical role oil and natural gas will play to power the American economy by creating jobs and revenue, strengthening national security, creating a cleaner environment and greatly reducing our dependence on foreign sources of energy," said Vincent.

"America's energy industry has never been better mobilized than we are today. We have made great strides over the past year and have successfully kept harmful energy policies off of the table. It is important now more than ever that we continue to work together and continue our aggressive outreach efforts to ensure that we continue to have access - to Capitol Hill, in the capital markets, and to the vast energy resources in America."

Interior to Seek Higher Rates on Federal Leasing

Staff Contact: Dan Naatz

On Monday, the U.S. Department of the Interior announced that it would begin reviewing the royalty rates paid by oil and gas producers for development on federal lands and in federal waters. The department's study intends to find out whether the federal government should be receiving more money from the nation's oil and gas production when compared to other producing countries, as indicated in a previous study from the Government Accountability Office.

"The more that royalty rates are increased, the more difficult it is going to be to produce American energy," said Dan Naatz, IPAA vice president for federal resources and political affairs in an interview with *The Hill* on Monday. IPAA also maintains that raising the royalty rates would also contradict any federal efforts to increase U.S. energy security.

"The results of this study will enable the Department to ensure that its leasing policies are providing the public a fair return on federally-owned oil and gas resources, while balancing other objectives, including production and environmental stewardship," read the Interior's announcement of the study.

The Bureau of Land Management and the Minerals Management Service have been tasked to work together and contract the study which, once awarded is expected to take nine months to complete.

IPAA Wildcatter Fund Candidate Profile - Rep. Charles Boustany (R-LA)

Independent Petroleum Association of America

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Rep. Charles Boustany is the three-term Representative from the 7th District of Louisiana. Born and raised in Lafayette, LA, Boustany holds a B.A. from the University of Louisiana at Lafayette and an M.D. from Louisiana State University School of Medicine. Prior to his time in Congress, Boustany was a heart surgeon in private practice. He has been in the U.S. House of Representatives since 2004.

Boustany has been a consistent voice for the oil and natural gas industry. As a member of the tax-writing Ways and Means Committee, Boustany has been a vocal advocate for the tax initiatives that are crucial to the independent producer.

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

IPAA Offshore Committee Meeting

May 7, 2010
The Petroleum Club of Houston
Houston, TX

IPAA-TIPRO Luncheon

May 12, 2010
The Petroleum Club of Houston
Houston, TX

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

Rig Count

Staff Contact: Fred Lawrence

	<u>4/9/10</u>	<u>4/1/10</u>	<u>Year Ago</u>
Land	1407	1399	951
Inland Waters	15	15	6
Offshore	54	51	48
U.S. Total	1476	1465	1005
Gulf of Mexico	53	50	47
Oil	505	502	204
Gas	959	949	790
Miscellaneous	12	14	11

Source: Baker Hughes

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America's Oil & Gas Producers

Washington Report

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