

5/14/2010

Oil Pollution Act Legislation Introduced

Staff Contact: Dan Naatz

Last week, Senator Robert Menendez (D-NJ) offered legislation (S 3305) that would increase offshore liability limits under the Oil Pollution Act of 1990 (OPA 90). While independents have operated responsibly in the Gulf of Mexico (GOM) for decades and now hold 90 percent of leases, producing about 30 percent of GOM oil and producing more than 60 percent of GOM natural gas, this legislation would severely and unjustly impact the independents' ability to produce in the GOM.

IPAA is now working with Congress to clarify the major points below:

- Currently, OPA 90 imposes liability on offshore producers for removal costs and \$75 million in damages. S 3305 would raise this limit to \$ 10 billion.
- Independents must rely on insurance to assure that they can meet the OPA 90 requirements. Insurance is not available at the S 3305 level.
- Insurance is currently near its worldwide capacity for this industry.
- Without insurance, independents would have to leave the GOM and other US offshore areas, independent production would largely be shut down and new drilling would come to a virtual halt.
- These consequences are not justified based on the performance of independents in the offshore.

IPAA is also working to remind Congress that a significant aspect of OPA 90 was the creation of a trust fund filled by crude oil taxes that is intended to be used by injured parties to compensate them for economic damages instead of requiring lengthy litigation. This fund is designed to subrogate the claim and the government seeks recovery of the expenditure.

On Tuesday, President Obama sent a legislative package to Congress that his administration claims is intended to strengthen the federal government's response to the Deepwater Horizon incident, provide assistance more quickly to those affected by the oil spill, and update the federal spill liability system.

As the federal government continues to consider new regulations and offshore exploration policies in the wake of the Deepwater Horizon incident, IPAA will continue to work with lawmakers in an effort to ensure that all the facts in this incident are investigated and understood before significant and lasting action is taken.

Congress Launches Investigations, Legislation to Address Offshore Issues

Staff Contact: Brendan Bradley

The oil and gas industry was called before Congress this week and featured in multiple hearings on Capitol Hill in regards to the Deepwater Horizon incident. The Senate Energy & Natural Resources Committee and the Senate Environment and Public Works Committee both heard testimony on Tuesday. The House Energy & Commerce Committee then received similar testimony Wednesday morning.

BP America President and Chairman Lamar McKay, Transocean Limited President and CEO Steven Newman, and Tim Probert, chief health, safety and environmental officer for Halliburton were among those who testified.

IPAA government relations staff was on hand for all of the hearings and have been working closely with Congress, industry allies, and all other relevant parties in the wake of the Deepwater Horizon incident and will continue to work to ensure that all of the facts regarding this incident are understood and investigated before significant action is taken in Washington that would impact the future of American oil and natural gas production both in the offshore and on land.

And there is much at stake and on tap in the days ahead.

There are currently four hearings scheduled for next week in response to the Deepwater Horizon incident, with the Senate Homeland Security Committee, Senate Energy & Natural Resources Committee, Senate Committee on Commerce, Science, and Transportation, and House Natural Resources Committee all calling the industry back before Congress.

Legislation also continues to pile up as between the House and Senate more than 15 separate bills have now materialized relating directly in response to the incident.

In the days and weeks ahead, IPAA will continue to monitor all progress and development on these and other pieces of significant legislation and will keep its membership informed as a more clear legislative and political picture begins to form in the wake of the Deepwater Horizon incident.

MMS to Split in Wake of Horizon Incident

Staff Contact: Brendan Bradley

Interior Secretary Ken Salazar announced on Tuesday that the Obama administration plans to implement a stronger environmental review process on offshore oil and gas production as well as divide the US

Minerals Management Service (MMS), the primary regulatory agency for the offshore oil and gas industry.

The MMS split is designed to separate the responsibilities of leasing oversight from the agencies other primary role as an enforcer of environmental and safety regulations. The administration will also seek to extend the length of environmental reviews for offshore oil and gas production from 30 days to 90.

For the time being, the Interior Department has now frozen all applications for permission to drill in offshore areas pending a federal investigation of the recent Deepwater Horizon incident and Salazar has called for "immediate inspections" of all deepwater operations in the Gulf of Mexico.

Energy and Climate Bill Unveiled

Staff Contact: Lee Fuller

On Wednesday, Senators John Kerry (D-MA) and Joe Lieberman (I-CT) unveiled their energy and climate bill after more than a year of negotiation, speculation and compromise. The legislation has faced major hurdles and even in the past few weeks, one of the original sponsors, Lindsey Graham (R-SC) pulled his name off of the bill

The legislation, the "American Power Act," would require companies responsible for more than 50 percent of energy-related greenhouse gas emissions to pay for and gradually reduce those emissions. The bill includes provisions defining future offshore oil and gas production.

Barry Russell, IPAA president and CEO, responded to the bill's release in the following statement:

"Developing commonsense, long-term policies aimed to promoting a cleaner environment and stabilizing energy prices for American families, seniors and businesses is a goal that we share with Senators Kerry and Lieberman. While the formal introduction of this energy-climate legislation has been long-awaited, it is still very early in the overall legislative process. We are hopeful and committed to working with leaders in Congress to ensure that policies moving forward leverage our homegrown resources into jobs, revenue and energy security for America.

"At this time, IPAA continues to comb through the details of the 1,000 page bill. As this process moves forward, we are eager to work with Congress to craft balanced, forward-looking energy policies that recognize and understand the critical importance that America's oil and natural gas will continue to play in securing our nation's future."

IPAA is still reviewing the legislation as proposed and will keep its membership up to date concerning its progress.

Debate Continues on Financial Reform

Staff Contact: Susan Ginsberg

An exemption for commercial end users remains in the financial reform bill, now in its third week of Senate debate. While Majority Leader Reid has been pushing to quickly complete action, his latest statement is that he wants the Senate to complete the bill prior to the Memorial Day recess.

Democrats are likely to hold firm against Republican-sponsored amendments. On May 12, a Republican substitute to the derivatives title was rejected by a vote of 39-59. The substitute would have expanded the end user exemptions from those contained in the Agriculture Committee bill. For IPAA members, the Agriculture Committee's end user exemption appears to address independent producers' needs to use the OTC market and remain exempt from clearing and collateral requirements.

IPAA Wildcatter Fund Candidate Profile - Rep. Jeb Hensarling (R-TX)

Staff Contact: Cortney Hazen

Rep. Jeb Hensarling is the four-term Representative from the 5th District of Texas. Born and raised in Stephenville, TX, Hensarling holds a B.A. from Texas A&M University and a J.D. from the University of Texas. Prior to his time in Congress, he was a staffer for Sen. Phil Gramm and the president of an energy company and vice-president of Maverick Capital. He has been a member of the House of Representatives since 2003.

Hensarling has been an advocate for the oil and gas industry during his time in Congress. His position on the Budget Committee allows him to fight any tax changes that would damage independent producers. He also played a role in the derivatives debate as a member of the Financial Services.

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 London

June 10, 2010

The Credit Suisse Building
London, England

IPAA Midyear Meeting

June 16-18, 2010

The Broadmoor
Colorado Spring, CO

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

Rig Count

Independent Petroleum Association of America

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America's Oil & Gas Producers

Washington Report

Staff Contact: Fred Lawrence

	<u>5/7/10</u>	<u>4/30/10</u>	<u>Year Ago</u>
Land	1430	1417	868
Inland Waters	12	14	7
Offshore	50	52	53
U.S. Total	1492	1483	928
Gulf of Mexico	49	51	52
Oil	528	513	190
Gas	953	958	730
Miscellaneous	11	12	8

Source: Baker Hughes

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