

**5/20/2010****IPAA Responds to Harmful Legislation Amending the Oil Pollution Act of 1990****Staff Contact: Lee Fuller**

*In response to pending legislation to amend the Oil Pollution Act of 1990 (OPA 90) that would have "profound, negative consequences for independent producers," by raising offshore liability limits to unrealistic levels, IPAA Chairman Bruce Vincent released the following statement Tuesday morning:*

"On behalf of America's domestic oil and natural gas producers, let me first say that our thoughts go out to the families and communities affected by the tragedy in the Gulf of Mexico.

"The entire industry is dedicated to working together to protect the environment and to contain the damage. Many of our member companies have offered supplies and services; others are directly helping with the clean-up efforts. This is certainly a time when actions speak louder than words.

"There are many emotions, understandably, involved right now. Controlling the well and protecting the environment are the main priorities today. And we are urging the federal government, as they consider new regulations and new offshore exploration policies, to first allow the facts in this incident to be investigated.

"IPAA believes in the following principles:

1. Any company operating offshore or onshore should be fully responsible (financial and otherwise) for all clean-up efforts.
2. There must be a fund to ensure that those affected by such incidents (i.e., fishermen, tourism, local businesses, etc.) will be able to fairly recoup lost costs without being caught in fierce litigation with large corporations.
3. The oil industry, collectively, should contribute to this fund and ensure its long-term viability.

"These principles are already a part of federal law in the Oil Pollution Act of 1990 (OPA 90) and the Oil Spill Liability Trust Fund (OSLTF). Certainly, some changes need to be made to update out-of-date OSLTF limits with additional industry funding.

“Unfortunately, some in Congress are quickly moving forward with legislation that will have profound, negative consequences for independent producers. They are proposing changes that would increase offshore liability limits to unrealistic levels under the OPA 90 -- \$10 billion, \$20 billion, no liability limits.

“Make no mistake, independent producers that operate in the offshore are not ‘mom-and-pop’ operations; they are well funded organizations that have been responsible operators in the offshore for more than four decades. However, these liability legislative proposals will empower multinational and foreign oil companies while creating an impossible financial challenge to other American companies who compete with these corporations in the offshore. It will result in thousands of lost American jobs and increased reliance on foreign oil. The proposals do not achieve any of our national security, domestic energy or economic priorities, namely to provide for more American-produced energy, jobs and fewer oil imports.

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

- o Currently, OPA 90 imposes liability on offshore producers for removal costs and \$75 million in damages.
- o Independents must rely on insurance to assure that they can meet the OPA 90 requirements. Insurance is not available at the \$10 billion level.
- o Insurance is currently near its worldwide capacity for this industry.
- o Without insurance, independents would have to leave the GOM and other US offshore areas, independent production could be shut down and new drilling would come to a virtual halt. Thirty percent of GOM oil and 60 percent of GOM natural gas production could be lost.
- o 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. IPAA supports the expansion of this industry-wide fund to ensure that future costs and claims are covered.”

## **MMS to Undergo "Fundamental Restructuring"**

**Staff Contact: Brendan Bradley**

Yesterday, Secretary of the Interior Ken Salazar signed a Secretarial Order that will lead to the fundamental restructuring of the Minerals Management Service and the division of its three conflicting missions into separate entities with independent missions.

**Independent Petroleum Association of America**

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“The Minerals Management Service has three distinct and conflicting missions that – for the benefit of effective enforcement, energy development, and revenue collection - must be divided,” said Salazar. “The reorganization I am ordering today is the next step in our reform agenda and will enable us to carry out these three separate and equally-important missions with greater effectiveness and transparency. These reforms will strengthen oversight of offshore energy operations, improve the structure for revenue and royalty collections on behalf of the American people, and help our country build the clean energy future we need.”

The reorganization of the MMS, which Secretary Salazar will carry out in consultation with Congress and which is the latest in a series of agency reform actions Salazar has taken since January 2009, will establish the:

- **Bureau of Ocean Energy Management:** A new bureau under the supervision of the Assistant Secretary for Land and Minerals Management will be responsible for the sustainable development of the Outer Continental Shelf’s conventional and renewable energy resources, including resource evaluation, planning, and other activities related to leasing.
- **Bureau of Safety and Environmental Enforcement:** A bureau under the supervision of the Assistant Secretary for Land and Minerals Management that will be responsible for ensuring comprehensive oversight, safety, and environmental protection in all offshore energy activities.
- **Office of Natural Resources Revenue:** An office under the supervision of the Assistant Secretary for Policy, Management, and Budget that will be responsible for the royalty and revenue management function including the collection and distribution of revenue, auditing and compliance, and asset management.

“The employees of the MMS deserve an organizational structure that fits the missions they are asked to carry out,” added Salazar. “With this restructuring, we will bring greater clarity to the roles and responsibilities of the Department while strengthening oversight of the companies that develop energy in our nation’s waters.”

The changes Salazar announced today are the latest in a series of reforms to MMS that began in January 2009. Those reforms include: the establishment of new ethics standards; termination of the controversial royalty-in-kind program; balancing of the agency’s mandate to include offshore wind and renewable energy production; implementing recommendations of the Inspector General and independent reviewers; directing an independent Marine Board review of MMS’s inspection program for offshore facilities; cancelling proposed offshore lease sales in Bristol Bay and the Arctic Ocean; and establishing a clear, orderly, and science-based process for determining which areas on the Outer Continental Shelf may be appropriate for oil and gas development.

Secretary of the Interior James Watt created the Minerals Management Service by Secretarial Order on January 19, 1982, consolidating minerals revenue management from the U.S. Geological Survey, the

Bureau of Land Management and the Bureau of Indian Affairs. Since then, MMS has been managing the collection of revenues generated from programs including: oil and gas, coal, metals, potash, and renewables. Since 1982, MMS has collected over \$210 billion in revenues and distributed them to States, Tribes, counties, and the federal treasury. MMS collects approximately \$13 billion annually and approximately 95 percent of the revenue that the Department of the Interior collects as a whole.

MMS is also the federal agency that manages the nation's natural gas, oil and other mineral resources on the Outer Continental Shelf. MMS develops and implements plans for leasing conventional and renewable energy resources in the Outer Continental Shelf. It is also responsible for overseeing offshore energy operations and ensuring compliance with relevant laws and regulations.

## **BLM Reforms Finalized**

**Staff Contact: Dan Naatz**

On Monday, Interior Secretary Ken Salazar finalized several reforms to the Bureau of Land Management's onshore oil and gas leasing program. IPAA vigorously opposed the reforms and when they were announced in January, IPAA President and CEO Barry Russell wrote to Salazar calling the measures "duplicative and unnecessary."

Salazar's office has maintained that the reforms, which create new regulations, will "improve environmental protection of important natural resources" while "aiding in the orderly leasing and balanced development of the nation's energy supply."

"The Bureau of Land Management reforms we are finalizing today establish a more orderly, open and environmentally sound process for developing oil and gas resources on public lands," Salazar said yesterday in a statement concerning the department's onshore oil and gas leasing program. "The BP oil spill is a stark reminder of how we must continue to push ahead with the reforms we have been working on and which we know are needed."

In January, Russell and IPAA also responded to the announcement in a written statement:

"The new regulations announced today by Sec. Salazar are not consistent with an American energy policy that provides more jobs and revenues and strengthens national security," said Russell. "They will further restrict access to oil and natural gas resources on onshore federal lands, which an overwhelming majority of Americans want and deserve."

"We believe that energy production and environmental responsibility are not mutually exclusive. If any country is best suited for responsible energy development, it is America. Independent producers employ the best technology available to help us find, develop and deliver affordable energy while dramatically reducing our footprint. And it is America's independent producers who stand ready to deliver this reliable, affordable homegrown energy to Americans who are demanding it."

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## **Extension of Filing Deadline and Reporting Changes to FERC Form 552 Expected**

**Staff Contact: Susan Ginsberg**

The Federal Energy Regulatory Commission (FERC) is expected to issue an order with revisions to the Form 552 filing requirements at the June 17 open meeting. Informally, FERC staff indicated that (1) the filing deadline will be pushed from July 1 to September 1 for 2009 data, and (2) cashouts will no longer be reported. We do not know how FERC will clarify its policy on reporting of unprocessed gas.

Form 552 is the annual transaction report required of all purchasers and sellers of reportable natural gas volumes above the de minimis level of 2.2 million MMBtu in the reporting calendar year. The first reports, for 2008 transactions, were filed on July 1, 2009. IPAA and other market participants had urged FERC staff at a March 25, 2010 technical conference to remove the requirement to report cashout volumes, as the volumes were insignificant yet required substantial time to compile. IPAA also argued at the technical conference and in subsequent written comments that reportable volumes not include unprocessed natural gas.

## **IPAA Wildcatter Fund Candidate Profile - Rep. Steve Austria (R-OH)**

**Staff Contact: Cortney Hazen**

Rep. Steve Austria is the first-term Representative from Ohio's 7th Congressional District. Born and raised in Cincinnati, OH, Austria holds a bachelor degree from Marquette University. Prior to his time in Congress, Austria was a financial advisor. He also served in the Ohio State House of Representatives and Senate. He was elected to the U.S. House of Representatives in 2008, where he serves as President of the current Congressional class of Republicans.

Austria serves on the Budget Committee, which allows him the opportunity to defend current tax structures for independent producers of oil and natural gas.

## **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,

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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](mailto: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](http://www.ipaa.org/meetings) for more information.

## Rig Count

*Staff Contact: Fred Lawrence*



America's Oil & Gas Producers

# Washington Report

	<u>5/14/10</u>	<u>5/7/10</u>	<u>Year Ago</u>
<b>Land</b>	1445	1430	855
<b>Inland Waters</b>	12	12	7
<b>Offshore</b>	49	50	56
<b>U.S. Total</b>	1506	1492	918
<b>Gulf of Mexico</b>	48	49	55
<b>Oil</b>	544	528	181
<b>Gas</b>	951	953	728
<b>Miscellaneous</b>	11	11	9

Source: Baker Hughes

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