

5/28/2010

President Obama Calls for a Limited Halt to Offshore Production- IPAA's Vincent in Washington for Congressional Meetings

Staff Contact: Brendan Bradley

During a press conference Thursday afternoon, following a 30 day review by an independent commission in response to the Deepwater Horizon incident, President Obama called for a halt to oil and gas production activities at the 33 exploratory deep-water rigs currently in the Gulf of Mexico in addition to a suspension of new deepwater drilling permits. The moratorium will last for as long as six months, and is one of several new restrictions on offshore oil and gas production announced today.

IPAA Chairman Bruce Vincent, who was in Washington this week meeting with several members of Congress, responded to the President's statement on Friday.

"The entire industry is dedicated to working together to protect the health and safety of our people, as well as the environment in which we operate as we work to contain the damage from this incident," said Vincent. "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."

"We support President Obama's independent commission investigating the tragic Deepwater Horizon incident," Vincent continued. "It is important that a thoughtful, thorough and timely investigation and analysis of the incident is conducted to understand what caused the accident and to ensure that the proper, improved safety measures are identified and put into practice to prevent incidents in the future."

President Obama also announced that his administration will delay plans for Shell Oil Co. to conduct exploratory operations off the coast of Alaska in the Chukchi and Beaufort seas and that all lease sales off the coast of Alaska, the western Gulf of Mexico and the coast of Virginia, previously scheduled for this August, will be canceled. With the focus of the new measures falling on future operations, production rigs currently operating in deep water may continue to do so.

Vincent's statement in response ended with the following:

"We understand that many Americans are rightfully concerned about the environmental risks and the safety of offshore drilling. We share those concerns and understand that energy development must minimize risk to the environment and maximize safety. Independent producers are committed to working with the administration and Congress to identify the most effective solutions to move forward with responsible development offshore. However, we are greatly concerned by the administration's latest

announcement to extend the drilling ban in many areas of the Gulf of Mexico (GOM) due to the job impacts to this region of our country and to the nation's energy security.

"The administration should not make hasty decisions and advocate legislative and regulatory initiatives that could result in severe limitations to offshore drilling in America – consequences that can further harm the Gulf Coast economy. Controlling the well and protecting the environment are the main priorities today. We believe the federal government, as it considers new regulations and new offshore exploration policies, should first allow the facts in this incident to be investigated.

"We must continue to recognize the critical importance of energy development in the United States. We hope that Congress will create forward-looking, balanced energy policies that recognize the role the oil and natural gas industry will continue to play to create jobs and revenue, to stabilize energy prices for American consumers, to address future supply in America, to reduce our reliance on resources from foreign, unstable regimes and to strengthen our national security.

"America's independent producers hold 90 percent of the leases in the GOM and have been operating responsibly in the GOM for decades. Independents produce about 30 percent of the GOM oil and more than 60 percent of the GOM natural gas. GOM production represents a significant amount of energy supply for consumers all across America, and it remains an essential component of America's energy supply. Equally important, America's independent producers are and should continue to be a key element of GOM development. Independents' years of responsible production in the GOM demonstrate that they can safely develop these resources.

"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, 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.

"IPAA is now working with Congress to facilitate these goals."

Congress Continues its Response to the Deepwater Horizon Incident

Staff Contact: Joel Noyes

With Congressional activity this week focusing on response to the Deepwater Horizon incident, hearings and legislation relating to crisis in the Gulf of Mexico and the future of offshore oil and gas production continued full force ahead of the pending Memorial Day Recess.

Seven Congressional hearings, between the House and Senate, were dedicated to the oil spill crisis in the Gulf of Mexico this week. Witnesses from both the federal government and the oil and gas industry gave testimony and nearly all, on both sides, were subjected blunt and at times confrontational questioning from members of Congress. With patience on Capitol Hill seemingly growing thin, numerous hearings are expected to continue once Congress returns to Washington in the second week of June.

IPAA remains fully and steadily engaged with all of the ongoing Congressional response to the Deepwater Horizon incident and its government relations staff continues to work with members of Congress in both houses, Republican and Democrat in protecting vital industry interests while also working to ensure that all of the facts concerning the Gulf incident are collected before permanent or damaging measures are taken. IPAA Chairman Bruce Vincent was also in Washington this week, meeting with several members of Congress.

IPAA will continue to keep its membership update on the latest developments concerning industry related testimony and legislation, particularly as it monitors and works through the House Tax Extenders package which would raise the Oil Spill Liability Trust Fund tax per barrel from 8 cents to 34 cents, increases the per incident liability cap from \$1 billion to \$5 billion, and increase the natural resources liability cap from \$500 million to \$2.5 Billion. IPAA is also closely monitoring pending amendments to legislation in the Senate would raise the economic liability cap from \$75 million to \$10 Billion or remove any limit on liability under the Oil Pollution Act.

Senate Approves Finance Bill, Reform Legislation now Faces Conference Vote

Staff Contact: Susan Ginsberg

Last week, the U.S. Senate approved a financial reform bill that includes one of IPAA's highest legislative priorities – an end-user exemption that ensures access for independent producers to over-the-counter markets without having to idle cash resources in collateral accounts and daily margin calls.

After three weeks of debate, the Senate approved the bill by a vote of 59-39. The legislation now moves to a House-Senate conference. House Financial Services Committee chairman Barney Frank (D-Mass.) indicated that the bill will be signed into law by July 4.

In conference, the reform bill must get a simple majority vote from conferees before being sent back to the House and Senate. While only a majority vote is needed, the Senate will be looking for 60 votes to avoid a filibuster. IPAA remains confident that independent producers will be treated as commercial end users in either the House or Senate version.

DeGette Offers, then Withdraws, Fracking Amendment

Staff Contact: Lee Fuller

On Wednesday, during an Energy & Commerce Committee session, Rep. Diana DeGette (D, CO) offered an amendment to the Safe Drinking Water Act (SDWA) that would have created a federal mandate for disclosure of hydraulic fracturing fluid. Following consultation with Committee Chairman Henry Waxman (D, CA), DeGette withdrew the amendment.

Ahead of DeGette's proposal, which she has offered in different forms of the past year, IPAA Vice President of Government Relations sent a letter to the Energy and Commerce panel's Democratic and Republican leaders in his capacity as executive director of the industry coalition Energy In Depth.

"The fact is, hydraulic fracturing has been ably and aggressively regulated by the states almost since the moment of its invention, with regulators compiling an impressive record of enforcement and oversight during that time," said Fuller.

IPAA and Energy In Depth have maintained that the committee should wait for the results of an ongoing, mandated EPA study on the effects of fracturing on water supplies before taking further action.

"States would have to sacrifice other functions to generate the information," wrote Fuller. "Of course, if they choose not to do that, states would have to give up their regulatory responsibilities under [the Safe Drinking Water Act] and turn those functions over to EPA. Not only would this burden EPA -- since it is not staffed with the capabilities to undertake daily regulatory responsibilities -- but it would also lead to duplicative regulations."

IPAA Educating the Future Leaders of the Oil and Gas Industry

Staff Contact: Nicole Daigle

Did you know that the average age of someone employed in the oil and gas industry is about 50 years old and that more than half of them will retire within the next five to 10 years? Well, it's true. So where will the future leaders of the oil and natural gas industry come from? We certainly hope that many will come from the Independent Petroleum Association of America's petroleum academies that are located in Houston and Fort Worth, Texas.

Independent Petroleum Association of America

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The IPAA Academy for Petroleum Exploration and Production Technology was created as a math and science based program that focuses on the energy industry. The academies are unique because not only do they focus on engineering and geosciences, but also teach effective leadership skills, community service, team building, public speaking, and debate – all key qualifications for a future career in the oil and gas industry. They also offer industry related field trips at each academy; student mentoring is provided by young professionals in energy; students participate in senior internships, as well as math/science student competitions.

“What was eye-opening for me: these students were not aware of the math, science and technology of this industry,” said Doris Richardson, director of the education center at the Independent Petroleum Association of America. “We’re educating the next generation of leaders in the oil and gas industry.”

The IPAA academies are advancing America because it ensures that the core skill sets of math, science and engineering are being taught in America’s schools.

In an article in the Fort Worth Business Press, Jack Henson, assistant principal at Southwestern High School, where one of the academies is located, described the Fort Worth Independent School District-IPAA partnership as a “win-win” situation that provides students with “marketable skills right out of high school” and prepares them for college.

IPAA hopes that these classes will get students more engaged and become more knowledgeable in the vast careers that the oil and natural gas industry have to offer them. The Milby High School Academy of Petroleum Exploration and Production Technology, Lamar High School Global Energy Management Program and Westside Engineering and Geosciences Academy are located in Houston, and the Southwest Academy of Petroleum Engineering and Technology is located in the Fort Worth area. [Click here to view the entire feature article.](#)

IPAA Wildcatter Fund Candidate Profile - Sen. Richard Burr (R-NC)

Staff Contact: Cortney Hazen

Sen. Richard Burr is the first-term Senator from North Carolina. A Charlottesville, VA, native, Burr obtained a B.A. from Wake Forest University. Before his time in Congress, Burr was the national sales manager for Carswell Distributing Company. He served in the U.S. House of Representatives from 1992 until his Senate victory in 2004.

Burr is a member of the Senate Energy & Natural Resources Committee where he is an advocate of the domestic oil and gas industry. He also ranks as the top Republican on the Senate Veterans’ Affairs Committee.

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.

Independent Petroleum Association of America

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Rig Count

Staff Contact: Fred Lawrence

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

Source: Baker Hughes