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IPAA Pushes Back on Obama's Ongoing Call to Raise Taxes on Energy Producers

Staff Contact: Brendan Bradley

This week, President Obama reinforced his pledge to levy billions of dollars in new taxes on American oil and natural gas producers. The president's Fiscal Year 2011 budget calls for new taxes on America's energy producers - taxes that would increase government revenue by almost \$40 billion. These taxes could ultimately force smaller, independent producers - who are responsible for drilling 90 percent of the nation's wells and on average employ only 12 workers - out of business, costing jobs and deepening our dependence on foreign sources of energy. Additionally, the Administration announced recently a deepwater exploration moratoria - a move that will also decrease American energy production, jobs and federal and state revenues.

In response to the president's remarks, Barry Russell - president and CEO of the Independent Petroleum Association of America (IPAA) - issued the following statement:

"The president's call yesterday for billions of dollars in new taxes on American oil and natural gas producers is not new, and is not good energy or economic policy. While many reports characterize this initiative as taxing Big Oil, it is not. Regrettably, this Administration continues to fail to recognize that this enormous tax burden would hit America's small, independent producers especially hard. The combination of increased taxes and halting offshore exploration seems like the worst option for the President to choose at this time. Our policies should encourage responsible, American energy production, not shutting down the industry altogether.

"Purposefully conflating the need to ensure that companies are responsible for funding environmental clean-ups in the case of a spill - which the House of Representatives has already acted upon by increasing the taxes directed to the federal Oil Spill Liability Trust Fund - as a reason to hike taxes on American independent producers is wholly inappropriate.

"Those responsible for the tragic incident in the Gulf will be held accountable. But we cannot afford to lose sight of the fact that billions of dollars in new taxes on America's independent producers will kill jobs at a time when they're most needed, and compromise our long-term energy security. These misguided and potentially devastating tax hikes and moratoria will only ensure that our nation's dependence on unstable regions of the world to fuel our economy will compound, and that the supplies of energy that the American people rely on will become far less stable."

Independent Petroleum Association of America

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Interior Announces Additional Safety Requirements for OCS Production Plans

Staff Contact: Dan Naatz

Bureau of Land Management Director Bob Abbey, who has also been called upon to serve as acting director of the Minerals Management Service (MMS), announced this week that, before drilling new oil and gas wells on the Outer Continental Shelf, operators will be required to submit additional information about potential risks and safety considerations in their plans for exploration or development. Exploration plans and development plans that have already been approved by MMS, including those that were approved using 'categorical exclusions' under the National Environmental Policy Act, will need to be resubmitted before any drilling of new wells.

As this issue proceeds at a rapid pace, IPAA will continue to work with the Department of the Interior to ensure the concerns of independent producers are addressed by the agency.

"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," said IPAA Chairman Bruce Vincent in a press statement last week.

"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."

"The moratorium on deepwater drilling that Secretary Salazar has ordered is a prudent step that will allow time for the Presidential Commission to complete its review of the BP Deepwater Horizon oil spill and for immediate safety and environmental reforms to be implemented," said MMS' Abbey. "Pulling back exploration plans and development plans and requiring them to be updated with new information is consistent with this cautious approach and will ensure that new safety standards and risk considerations are incorporated into those planning documents. In the long term, we also need Congress to approve the Administration's proposal to fix the law that requires MMS to review exploration plans within a 30-day mandatory deadline."

More from the Department of Interior press release announcing the additional safety requirements:

Director Abbey's directive, which will be communicated to operators and lessees through a Notice to Lessees (NTL), will establish separate requirements for deep water and shallow water exploration and development plans.

Deep Water Exploration Plans and Development Plans

A six month deep water drilling moratorium implemented by Secretary of the Interior Ken Salazar on Sunday, May 29, currently prohibits drilling of new oil and gas wells in water depths greater than 500 feet.

Director Abbey's announcement today makes clear that after the deep water drilling moratorium, any new drilling must be under an exploration plan or development plan that takes into account new safety and environmental requirements and the recommendations of the Presidential Commission on the BP Deepwater Horizon Oil Spill.

Shallow Water Exploration Plans and Development Plans

Oil and gas operations in waters less than 500 feet deep may move forward if they satisfy new safety and environmental requirements identified in Secretary Salazar's report to the President. Director Abbey's announcement today makes clear that any new drilling in shallow water must be under an exploration plan or development plan that includes information demonstrating compliance with the new safety standards.

Call for Congressional Action to Lift 30-Day Mandatory Deadline on Exploration Plan Reviews

Director Abbey will issue the exploration plan and development plan directive under his authority to ensure that operations on the Outer Continental Shelf are always conducted in a safe and workmanlike manner, to prevent injury or loss of life, and to prevent damage to any natural resource or the environment.

Director Abbey also reiterated, however, that Congress should approve the Administration's proposal to provide MMS more time to conduct reviews of exploration plans. Under current law, MMS is required to review exploration plans within 30 days. In the oil spill response legislation submitted to Congress on May 12, the Obama Administration is proposing to change the 30-day congressionally-mandated deadline to a 90-day timeline that can be further extended to complete additional environmental and safety reviews, as needed.

The Department of the Interior, together with the Council on Environmental Quality, is also conducting a review of MMS's use of categorical exclusions.

"The approach I am announcing today is not an ideal solution, but it is an interim strategy that MMS will employ until Congress fixes the law and until additional reform recommendations from CEQ and DOI are developed and implemented," said Abbey.

The Department of the Interior will be issuing a Notice to Lessees (NTL) describing the interim approach MMS will be taking on reviewing exploration and development plans.

FERC terminates Northern Natural Section 5 Proceeding

Staff Contact: Susan Ginsberg

The Federal Energy Regulatory Commission (FERC) terminated the Section 5 proceeding into the rates of Northern Natural Gas Company. Northern had indicated that it would file a substantial increase in rates on May 28, 2010 unless the Section 5 proceeding was terminated. Should FERC terminate the Section 5 proceeding, Northern agreed not to file for any increase in rates for another year. FERC issued the termination order on May 27, with a 2-1 vote. Chairman Wellinghoff dissented, with Commissioners Norris and Spitzer issuing concurring statements. Commissioner Moeller did not participate.

When FERC initiated the Section 5 cases involving Northern, Natural Gas Pipeline Company of America, and Great Lakes Gas Transmission in November 2009, shippers hailed the action as a victory for pipeline customers and a strong show by FERC of its authority to ensure just and reasonable rates. However, the Natural Gas Act (NGA) provides only for prospective refunds from the date of the FERC order. Therefore, pipeline companies with a pending Section 5 proceeding may file a new rate case, with higher rates that can take effect prior to any possible decrease achieved in the Section 5 proceeding. Commissioners Norris and Spitzer noted that, while they supported the order to terminate, the order should not be read as a lack of resolve or a retreat from the Commission's obligations under the Natural Gas Act. Commissioner Norris noted that the Northern case "provides a clear example of why Congress needs to remedy" the lack of immediate refund authority in the NGA. Chairman Wellinghoff's dissent has not yet been issued.

The Great Lakes case is in the settlement phase.

IPAA Wildcatter Fund Candidate Profile - Rep. Mike Coffman (R-CO)

Staff Contact: Cortney Hazen

Rep. Mike Coffman is the first-term Representative from the 6th District of Colorado. Coffman holds a BA from the University of Colorado. Before his time in politics, he served in the U.S. Army and the Marine Corps (along with the Reserves of both). Coffman also held offices in the Colorado House of Representatives and Senate before being elected Treasurer of the state. Most recently, he was Secretary of State. He has been in the U.S House since his election in 2008.

Coffman serves on both the Armed Services and Natural Resources Committees. His military background provides real-life experience to the Armed Services Committee. He also serves as an advocate for the oil and gas industry at the Natural Resources 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.

Rig Count

Staff Contact: Fred Lawrence

	<u>5/28/10</u>	<u>5/21/10</u>	<u>Year Ago</u>
Land	1475	1457	840
Inland Waters	12	12	4
Offshore	48	49	55
U.S. Total	1535	1518	899
Gulf of Mexico	46	48	54
Oil	555	538	187
Gas	967	969	703
Miscellaneous	13	11	9

Source: Baker Hughes