

6/25/2010**Senate Defeats Sanders Tax Amendment****Staff Contact: Brendan Bradley**

Last week, the US Senate voted down an amendment by Sen. Bernie Sanders (I-VT) that would have repealed key oil and natural gas tax provisions. Defeated by a vote of 35 to 61, the Sanders amendment would have eliminated expensing of intangible drilling and development costs (IDC), repealed percentage depletion for oil and natural gas, and would have repealed the Section 199 manufacturers' tax deduction for oil and natural gas. Sanders titled his proposal: "To amend the Internal Revenue Code of 1986 to eliminate big oil and gas company tax loopholes...."

IPAA worked vigorously ahead of the Senate vote on the amendment, contacting every Senate office to inform them how the legislation took serious and devastating aim at independent producers. IPAA followed up with an Action Alert to its members to write their senators and many of the state cooperating associations triggered their membership on the issue as well and numerous companies directly contacted senators. These combined efforts produced a strong showing against the Sanders effort.

The vote count breakdown indicates the strength of opposition. All voting Republicans opposed the amendment. Additionally, twenty-one Democrats and one Independent-Democrat opposed the amendment.

IPAA has noted that last week's vote on the Sander's amendment is only one part of a larger and longer debate on federal oil and natural gas tax policy. However, the Senate's action and the industry's response was an important test at a time when emotions are running high about US oil production. IPAA will be continuing its efforts to educate Congress on tax policy and to oppose bad proposals when they arise.

Judge's Ruling Lifts Offshore Moratorium, Obama Administration to Seek Appeal**Staff Contact: Brendan Bradley**

On Tuesday, a federal judge in New Orleans ruled to lift President Obama's six-month offshore domestic oil and natural gas exploration moratorium. Following the ruling, IPAA Chairman Bruce Vincent issued a

statement on behalf of IPAA.

“Today’s ruling is important for America’s independent oil and natural gas producers, for our nation’s energy security, and for the Gulf Coast’s struggling economy,” said Vincent. “This misguided, hastily implemented moratorium fundamentally failed to recognize how critical America’s oil and natural gas industry is to the livelihoods of so many Gulf families.”

The ruling, made by Judge Martin Feldman, was immediately criticized by the Obama administration, saying it will now seek to appeal the ruling and request a stay of the injunction, pending a ruling on the appeal.

With the immediate future of offshore production still subject to ongoing debate, IPAA will continue to work towards keeping the moratorium lifted and will keep its membership up to date on the issue as it develops.

Bromwich Takes Over as Head of New Offshore Bureau

Staff Contact: Brendan Bradley

Michael R. Bromwich, the director of the newly established Bureau of Ocean Energy Management, Regulation and Enforcement (Bureau of Ocean Energy or “BOE”) announced this week that he will establish an investigations and review unit that will help to expedite his oversight, enforcement and re-organization mandates.

The new Bureau, established by Secretarial Order, has replaced the former Minerals Management Service which was responsible for overseeing oil and gas development on the U.S. Outer Continental Shelf and is designed to strengthen oversight and policing of offshore oil and gas development.

IPAA is closely monitoring the establishment of the new Bureau and is working to clarify the full extent of how changes to the federal structure will impact future production.

“The new unit will provide us the capacity to investigate allegations of misconduct, to provide unified and coordinated monitoring of compliance with laws and regulations, and to respond swiftly to emerging and urgent issues on a Bureau-wide level and in the industry,” said Bromwich, formerly the Department of Justice Inspector General as he spoke specifically of the new investigations and review unit.

“In light of the response to the Deepwater Horizon disaster, the impending reorganization of Interior’s offshore oil and gas management and enforcement missions and the new Bureau’s mandate to implement broad reforms, it is critical that we have an internal compliance and investigations team that can act quickly and report directly to me,” Bromwich said.

According to Interior, the unit would have the following functions and capabilities.

Investigation of allegations of misconduct. A key component to reforming the Bureau is establishing the ability to promptly respond to allegations or evidence of misconduct by Bureau employees as well as by members of industry. This will empower the Bureau to deal with some of its internal problems swiftly and effectively.

This capacity is intended, and will be designed, as a complement to the work of the Interior Department Inspector General's office. The unit will coordinate with the IG's office on matters it investigates, will pursue investigations with the IG's consent and knowledge, and will advise the IG of the status and results of its investigations. The new team also will be responsible for overseeing and coordinating the Bureau's internal auditing, regulatory oversight and enforcement systems.

Response to high priority issues. The compliance and monitoring unit will provide the Bureau with the ability to respond quickly to emerging issues and major events. The unit will be responsible for swiftly responding to and assessing significant incidents, including spills, accidents, and other matters. The unit will have a role in immediately coordinating and managing the Bureau's response to significant events.

Implementing the re-organization. The planned re-organization will be a major undertaking, conducted under a strict timetable that will involve, among other things, maintaining clear lines of communication among Bureau personnel and outside consultants responsible for implementing the re-organization; coordinating the collection and transfer of significant volumes of data and information; and process management. The team will support project managers in providing centralized planning, coordination, and oversight capacity in connection with the implementation of the re-organization.

IPAA's 80th Annual Midyear Meeting a Great Success

Staff Contact: Nicole Daigle

Last week more than 400 IPAA members, along with spouses and family members, from all across the country gathered at the beautiful Broadmoor in Colorado Springs for the annual IPAA Midyear Meeting. Throughout the meeting, members learned about the latest comprehensive insights and strategies from industry leaders and expert practitioners.

On Thursday, IPAA Committees met throughout the afternoon, culminating with a full Board Meeting. That evening, Roustabout members were wowed by the International Juggling Champions, Barry Friedman and Daniel Holzman, of The Raspyni Brothers who have performed multiple times on the "Tonight Show with Johnny Carson and Jay Leno."

Friday's General Session began with a look at how the political landscape for the oil and natural gas industry has changed dramatically in light of the recent Deepwater Horizon incident in the Gulf of Mexico, as well as how the industry has been targeted by a barrage of energy proposals by the Obama Administration and Democratic Congress over the past two years. IPAA Chairman Bruce Vincent delivered the presentation and remarks, and IPAA President & CEO Barry Russell served as moderator for the session, "The Changing Climate of America's Energy Policy In the Wake of the Deepwater Horizon." IPAA Vice President of Federal Resources & Political Affairs Dan Naatz and Director of Government Relations and Industry Affairs Joel Noyes joined them on stage following the presentation to answer questions about the current political climate in Washington, as well as the latest efforts of IPAA's staff on behalf of independent producers.

IPAA Vice Chairman Gigi Lazenby then served as moderator for the CEO Roundtable, which included a discussion from participants on the current state of the industry in this economy and macro supply and demand issues. Panelists included: James Volker, CEO of Whiting Petroleum; Chuck Davidson, chairman and CEO of Noble Energy; and Randy Foutch, chairman and CEO of Laredo Petroleum.

Friday's Membership Luncheon featured Political Commentator and Former White House Press Secretary Dana Perino, with Lazenby serving as moderator.

The afternoon "Global Financial Crisis and U.S. Regulatory Reform" session was moderated by Dena Wiggins, partner at Ballard Spahr Andrews & Ingersoll, LP. The session featured Peter Wallison, who holds the Arthur F. Burns Chair in Financial Policy Studies and is co-director of AEI's program on financial markets deregulation. He spoke about natural gas liquids, specifically "The Shale Revolution: Pipeline Flows, Pricing Shifts and High BTU Plays."

That afternoon, a "View from the Street" session provided attendees with expert analysis on the outlook for the natural gas and oil sector and a discussion on the macro environment for the oil and gas industry. Tim Murray, managing director of Guggenheim Partners and chairman of the IPAA Capital Markets Committee, moderated the session, which included speakers David Heikkinen, managing director and head of E&P research of Tudor Pickering, and Michael Zenker, managing director of Barclays Capital.

Finally, the evening finished with the Blues, Brews & BBQ Reception and Dinner where members enjoyed the music of a local bluegrass band, sampled a wide selection of Colorado microbrew beers and ate some of the best barbeque in town before saying goodbye to their fellow members and friends.

Overall, this year's meeting was a huge success with both attendees and guest speakers. We'd like to give a special thanks to all of you who were able to join us this year. We hope that you enjoyed yourself and look forward to seeing you this fall for IPAA's Annual Meeting at the Ritz-Carlton, Dove Mountain in Tucson, Arizona.

FERC Grants Clarification of FERC Annual Transaction Report

Staff Contact: Susan Ginsberg

The Federal Energy Regulatory Commission (FERC) issued on June 17 an order on clarification of Form 552, the Annual Transaction Report, to be submitted by buyers and sellers of natural gas above a de minimis amount of 2.2 million MMBTu annually. In response to requests from IPAA and other industry associations, FERC will exempt from reporting cash-out and imbalance transactions, given the burden imposed relative to the market information obtained. FERC also clarified the definition of exempt unprocessed natural gas transactions to include those involving gas that is both unprocessed (for separation and recovery of natural gas liquids) and still upstream of a processing facility.

Other changes would (1) exempt from reporting any unexercised options to take gas under a take-or-release contract and (2) strike the form's references to blanket sales certificates. IPAA had sought an extension of FERC's safe harbor for any inadvertent errors. FERC declined to institute any additional safe-harbor period, but reiterated that any enforcement efforts would focus on instances of intentional submission of false, incomplete, or misleading information to FERC, on failure to report in the first instance, or on failure to exercise due diligence in compiling and reporting data.

For 2010 data, Form 552 data will be due May 1, 2011. However, to accommodate the changes in reporting criteria, FERC earlier had granted an extension of time until September 1, 2010 for calendar year 2009 data. IPAA is reviewing the clarification order and will determine whether to seek any additional clarifications.

IPAA Wildcatter Fund Candidate Profile - Rep. Pete Olson (R-TX)

Staff Contact: Cortney Hazen

Rep. Pete Olson is the first-term Representative from Texas' 22nd District. Olson holds a BA from Rice University and a JD from the University Of Texas School Of Law. Before his time in elected office, Olson was a Naval Liaison Officer in the U.S. Senate. Olson also served on the legislative staffs of Sens. Phil Gramm (R-TX) and John Cornyn (R-TX). He was elected to the U.S. House of Representatives in 2008.

Olson is on the Science & Technology, Transportation & Infrastructure, and Homeland Security Committees. He has been a supporter of the oil and gas industry and recently introduced a bill that would lift the Obama Administration's moratoria on deepwater drilling.

Passive Loss Exception for Working Interests – Information Needed

Independent Petroleum Association of America

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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.

Rig Count

Staff Contact: Fred Lawrence

	<u>6/18/10</u>	<u>6/11/10</u>	<u>Year Ago</u>
Land	1509	1494	847
Inland Waters	13	12	6
Offshore	17	21	46
U.S. Total	1539	1527	899
Gulf of Mexico	17	20	45
Oil	574	561	196
Gas	953	954	692
Miscellaneous	12	12	11

Source: Baker Hughes