

7/1/2010

IPAA Responds as Industry Faces "Onslaught" of Legislative Activity

Staff Contact: Dan Naatz

On Wednesday, the Senate Environment and Public Works Committee approved an amendment by Senator Barbara Boxer (D-CA) that removed the \$75 million cap on strict liability under the Oil Pollution Act of 1990 (OPA 90) and made it unlimited. Despite IPAA efforts to educate members of the Committee, the amendment was approved with unanimous Democratic support and the support of Republican Senator David Vitter from Louisiana. IPAA expects that Senate Majority Leader Harry Reid (D-NV) will now incorporate the unlimited liability cap language into a broader "Oil Spill Bill" that the Senate will take up in July.

"The unintended consequences of this shortsighted legislation will lock-up the majority of new, American offshore oil supplies because producers, as well as insurance companies, will not be able to provide for infinite liability costs," said IPAA Chairman Bruce Vincent in a statement released Wednesday. "This is unreasonable from an economic and business standpoint and will have a devastating impact on job losses and possible increased reliance on foreign oil. It will be most harmful to America's smaller, independent oil and natural gas producers, who are responsible for producing nearly a third of the Gulf's oil and more than 60 percent of the natural gas."

Vincent's statement was covered in the *Wall Street Journal*.

On Thursday, the House Transportation & Infrastructure Committee then marked-up legislation which increases the requirement for evidence of financial responsibility from \$150 million under current law to \$1.5 billion under OPA 90. This legislation also removes the \$75 million cap on strict liability under OPA and makes it unlimited.

And beyond liability issues, the industry faced no shortage of action on Capitol Hill this week as Democrat leadership pressed on legislation related to the Deepwater Horizon incident and oil spill in preparation for the July Fourth Recess. In Wednesday's *Roll Call*, IPAA Vice President of Federal Relations Dan Naatz referred to the activity as "an onslaught."

On Wednesday, the Senate Energy & Natural Resources Committee approved the "Outer Continental Shelf Reform Act of 2010." This legislation significantly alters the way the Dept. of the Interior will manage the OCS. The legislation places more emphasis on safety and environmental protection and additional consideration of other uses of the OCS.

Wednesday also saw a House Natural Resources Committee legislative hearing on H.R. 3534 the "Consolidated Land, Energy and Aquatic Resources Act." This legislation revises both offshore and onshore policy governing energy production on federal lands and makes sweeping changes that will impact independent producers operating in these areas. Chairman Nick Rahall (D-WV) said the Committee plans to mark-up the legislation on July 14th.

IPAA will continue to monitor all activity on Capitol Hill and keep its membership up to date as it works actively with lawmakers to prevent any harmful legislative action in the coming days.

House Passes Financial Reform Conference Report; Dodd, Lincoln Send Strong Letter Confirming End User Exemption

Staff Contact: Susan Ginsberg

The House of Representatives approved the financial reform conference report by a largely party-line vote of 237-192 on June 30. The conference committee made changes to the bill the prior evening to eliminate the \$19 billion tax on big banks, with the intention of capturing the votes of several Republicans who had voted for the bill in the Senate but had expressed opposition to the bank tax.

Ambiguities regarding end-user clearing that arose with the deletion of Section 731 remain an issue that will require close scrutiny. Rep. Collin Peterson (D-MN), chairman of the House Agriculture Committee, spoke on the floor during yesterday's debate that the conference report prevents commercial end users from having to clear and post collateral and margins. He termed the end user community's concerns as a "misinterpretation" of the legislation. Peterson specifically mentioned oil and natural gas producers as entities with legitimate hedging needs who had not contributed to systemic risk.

The Senate is not expected to vote on the bill until after the Fourth of July break. Senate bill managers Dodd and Lincoln sent a letter to House managers Frank and Peterson, clarifying the intent to exempt end users from clearing and margin requirements. While the letter and colloquy do not carry the weight of legislation, they can be used as support during the rulemaking process that will ensue, assuming Senate passage.

At the beginning of financial reform, it was clear, should legislation be enacted, that the resulting rulemaking process would be key to how the legislation would impact independent producers and other end users. While IPAA and end users fought for clearer legislation that would minimize CFTC discretionary jurisdiction, end users still have an exemption, but we must work diligently to assure that it is reflected in future regulations.

EPA Announces Hydraulic Fracturing Study Meetings – TX, CO, PA, NY

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Staff Contact: Jeff Eshelman

The Environmental Protection Agency has announced four public informational meetings to seek stakeholder input into developing its proposed plan to study the relationship between hydraulic fracturing and drinking water.

IPAA is encouraging its members to attend and participate at these events. Cooperating associations and allied industry groups plan to have a strong showing, but it is expected that anti-industry groups will be mobilizing at all of these meetings.

Stakeholders are requested to pre-register for the meetings at least 72 hours before each meeting at the following website: <http://hfmeeting.cadmusweb.com>. Stakeholders may also register using the toll-free number 1-866-477-3635.

<u>DATE</u>	<u>LOCATION</u>	<u>TIME</u>
July 8, 2010	Hilton Fort Worth 815 Main Street Fort Worth, TX 76102	6:00 – 10:00 pm *
July 13, 2010	Marriott Tech Center 4900 South Syracuse Street Denver, CO 80237	6:00 – 10:00 pm *
July 22, 2010	Hilton Garden Inn, Pittsburgh/Southpointe 1000 Corporate Drive Canonsburg, PA 15317	6:00 – 10:00 pm *
August 12, 2010	Binghamton University, Anderson Center for the Performing Arts Osterhout Concert Theater Binghamton, NY 13902	8:00 am – 12:00 pm * 1:00 – 5:00 pm * 6:00 – 10:00 pm *

*local time

How to Provide EPA with Comments on the Hydraulic Fracturing Study

Persons wishing to contribute comments to EPA regarding the proposed Hydraulic Fracturing Research Study may (1) present oral comments at the informational meetings; (2) submit written comments at the informational meeting; (3) submit electronic comments to EPA at hydraulic.fracturing@epa.gov; or (4) send written comments to EPA at the following address: Jill Dean, 1200 Pennsylvania Ave. NW, Mailcode 4606M, Washington, DC 20460.

IPAA Wildcatter Fund Candidate Profile - Gov. John Hoeven (R-ND)

Staff Contact: Cortney Hazen

Gov. John Hoeven (R-ND) is the Republican candidate in the North Dakota U.S. Senate race. A Bismarck native, Hoeven earned a bachelor's degree from Dartmouth College and a master's degree in business administration from Northwestern University. Before his time in politics, Hoeven served as executive vice president of First Western Bank. From 1993-2000, he served as president and CEO of Bank of North Dakota. He has served as Governor since 2000.

As governor, Hoeven is a strong supporter of the oil and gas industry. He began an energy program in North Dakota called EmPower ND that has proved successful by proving incentives and certainty to energy companies in the state. He has also been very involved in the successful story of the Bakken Shale development and is a vocal advocate of state-led regulation over the process of hydraulic fracturing, as opposed to a national standard.

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.

Rig Count

Staff Contact: Fred Lawrence

	<u>6/25/10</u>	<u>6/18/10</u>	<u>Year Ago</u>
Land	1522	1509	867
Inland Waters	13	13	7
Offshore	17	17	43
U.S. Total	1552	1539	917
Gulf of Mexico	17	17	43
Oil	583	574	219
Gas	958	953	687
Miscellaneous	11	12	11

Source: Baker Hughes