

7/8/2010

Industry to Remain Under Fire Following Congressional Break*Staff Contact: Lee Fuller*

With the American oil and gas industry under fire from both Congress and the Administration, IPAA and its allies are preparing for a challenging fight in the coming weeks as Congress returns next Monday. Much is at stake for the industry and as outlined below, IPAA is prepared to meet each challenge head on.

House Committee Targets Independent Producers' Stormwater Discharge Standard. The House Transportation and Infrastructure Committee approved an amendment that targets onshore oil and natural gas production – and independents in particular – by changing the regulation of storm water discharges during construction activities. This change would reverse the Congressional decision in 2005 that placed storm water regulation related to oil and natural gas production operation and construction under a single standard – the discharge of contaminated storm water. The amendment – offered by Rep. Michael Arcuri (D-NY) – surfaced the afternoon prior to the markup. Like most other production issues, the arguments were inaccurate and outdated. Rep. Harry Teague (D-NM) led an effort to oppose the Arcuri amendment pointing out that the industry is regulated under the law and that the consequences of reversing the 2005 action would lead to the loss of significant US production. The Department of Energy estimated that as much as 500,000 barrels/day of oil production (approximately 10 percent of current US production) and as much as 6 bcf/day of natural gas production (approximately 10 percent of current US production) could be lost over the next 20 years. IPAA is now working on educating the House leadership on the negative impact of this amendment.

Repeal of Tax Incentives Defeated. A week earlier, the US Senate voted down an amendment by Sen. Bernie Sanders (I-VT) that would have repealed key oil and natural gas tax provisions. The Sanders amendment would have eliminated expensing of intangible drilling and development costs (IDC), repealed percentage depletion for oil and natural gas, and would have repealed the Section 199 manufacturers' tax deduction for oil and natural gas. 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 efforts produced a strong showing against the Sanders effort and all voting Republicans opposed the amendment. Additionally, twenty-one Democrats and one Independent-Democrat opposed the amendment. The effort to repeal industry tax provisions 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. Nevertheless, new tax proposals will likely surface during debate in July on oil spill legislation

Unlimited Liability for Offshore Producers. Last week, committees in both chambers of Congress passed unlimited liability provisions for producers in the offshore. The Senate Environment and Public Works Committee approved Sen. Barbara Boxer's (D-CA) amendment that removed the \$75 million cap on strict liability under the Oil Pollution Act of 1990 and made it unlimited. Unfortunately, despite all of our efforts to educate members of the Committee, the amendment was approved with unanimous Democratic support and the support of Sen. David Vitter (R-LA). We expect that Senate Majority Leader Harry Reid will now incorporate the unlimited liability cap language into a broader "Oil Spill Bill" that the Senate will take up in July. The House Transportation & Infrastructure Committee also marked-up legislation which increases the requirement for evidence of financial responsibility from \$150 million under current law to \$1.5 billion. The legislation also removes the \$75 million cap on strict liability under OPA and makes it unlimited. These changes could drive independent producers from the Gulf of Mexico putting at risk 30 percent of its oil production and 60 percent of its natural gas production.

Creating New Federal Agency Priorities. Last 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 while diminishing the role of energy production.

Industry Launches Offshore Task Force. IPAA, along with API and NOIA, have formed two new task forces to address oil spill preparedness and response. The task forces will review the ongoing spill response actions both on the surface and subsea and will make recommendations on how to improve future response and containment efforts. The task forces will seek input from top academics and researchers, state and federal agencies and fellow trade associations, among others. Findings and recommendations of the task forces will be shared with Congress, the Presidential Investigative Commission, the industry and the public at large.

New Requirements for All Federal Lands. Last Wednesday, the House Natural Resources Committee held a 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.

Hydraulic Fracturing Threats Continue. IPAA and our allies – especially through the Energy in Depth coalition – have successfully fought attempts to create new federal oversight of hydraulic fracturing. However, in wake of the Gulf oil spill, new proposals to create federal regulation are being considered by members of Congress. Last year, Congress called on the Environmental Protection Agency to initiate a study on hydraulic fracturing and drinking water. IPAA has been at the forefront in making sure this study is fair – and we are telling congressional leaders to not act on any legislation until this study is complete. IPAA was one of the first groups to testify before the EPA's study advisory board and we are now helping coordinate state and regional participation in four field hearings that the EPA will conduct on

the study during July. However, state and federal efforts to require chemical disclosure of fracturing fluids continue to be a recurring challenge.

Counter-Attacking Media Misconceptions. Our communications team has been working with news media nationwide to provide reporters with the truths and realities about our industry – particularly the jobs, revenues and American energy that we provide. One success has been our ability to set the record straight against the new documentary “GasLand” that premiered last week on HBO. In a minute-by-minute rebuttal, IPAA and the Energy in Depth coalition were able to make sure that reporters had the facts about the inaccuracies and deceptions portrayed in the film. Our efforts were mentioned by major news media – from ABC News, CNN, the New York Times, The Daily Show with Jon Stewart and hundreds of other news media nationwide. We will not allow the media to misstate the significance of our industry.

Financial Reform Legislation on Fast-Track. Last week, the House of Representatives approved the financial reform conference report. Ambiguities regarding end-user clearing that arose with the deletion of a key section remain an issue that will require close scrutiny. Rep. Collin Peterson (D-MN), chairman of the House Agriculture Committee, spoke on the floor during 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. 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. The Senate is not expected to vote on the bill until after the Fourth of July break. Senate bill managers Senators Chris Dodd (D-CT) and Blanche Lincoln (D-AR) sent a letter to House managers Representatives Barney Frank (D-MA) and Collin Peterson (D-MN), 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.

IPAA Weighs In on Gulf Litigation

Staff Contact: Jeff Eshelman

In response to a federal court ruling that struck down the Obama Administration's offshore moratoria for deepwater drilling in the Gulf of Mexico, the Administration has now begun the process of appealing the ruling, and, in the interim, asking the court to keep the moratoria in place until the appeals process is complete.

IPAA has now filed a friend of the court – or "amicus curiae" – brief in this case arguing that keeping the moratoria in place throughout the appeals process will have a devastating impact on jobs and the economy without any proven environmental or safety benefit.

In the brief, IPAA argues: "Even if the Moratorium is lifted at the end of six months, drilling activities will not immediately return to pre-Moratorium levels. The ability of IPAA's members to develop their deepwater leases will be delayed beyond the end of the Moratorium, likely by an average of an additional year, as lessees will need to reschedule drilling contractors and their rigs, supply vessels, helicopter service providers, drilling mud vendors, casing running vendors, rental tool companies, drilling bit companies, directional drilling companies, cementing companies, survey companies, anchor handling companies, marine tug companies, and other services provided by companies like the plaintiffs-appellees now before the Court."

IPAA would like to thank Poe Leggette and his team of attorneys at Fulbright and Jaworski for writing this brief and handling our legal actions against the moratoria. IPAA will continue to keep its membership updated as the case proceeds.

Rally For Economic Survival Scheduled for July 21

Staff Contact: Jeff Eshelman

The Louisiana Oil and Gas Association and a number of citizens and business groups have joined together in opposition to the moratorium and have planned the Rally for Economic Survival on Wednesday, July 21st, 11am-1pm at the Lafayette Cajundome. The event will feature local, state and national speakers who share the same concern that the moratorium will create a seismic economic ripple effect that will negatively impact every citizen of the United States. The Rally is free and open to the public to attend.

IPAA is asking its membership to help pack the Cajundome in order to send a message to the Obama administration. No tickets are necessary to attend, just show up ready to voice your concerns. If you or your company wants to support the effort, please contact CeCe Richter or Gifford Briggs at the Louisiana Oil and Gas Association. For additional information on the Rally for Economic Survival, please visit its website at - www.rallyforeconomicsurvival.com. Rally for Economic Survival Contact Information:

CeCe Richter
Phone: 225-388-9525
Cell: 225-324-2953
Email: cece@loga.la

Gifford Briggs
Phone: 225-388-9525
Cell: 225-892-7688
Email: gifford@loga.la

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

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 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



America's Oil & Gas Producers

Washington Report

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 - Rep. Dave Camp (R-MI)

Staff Contact: Cortney Hazen

Rep. Dave Camp is the ten-term Representative for Michigan's Fourth District. Born and raised in Midland, MI, Camp has a B.A. from Albion College and a J.D. from the University Of San Diego School Of Law. Prior to his time in Congress, Camp was the Michigan Attorney General and a staffer for Rep. Bill Schuette in Washington, D.C. He was elected to the U.S. House of Representatives in 1990.

As the Ranking Republican for the House Ways and Means Committee, Camp plays a crucial role for the independent oil and gas producer. He continues to fight for the preservation of tax structures (like IDC and Percentage Depletions) that independents rely on for their business plan. His knowledge of these taxes proves integral in the debate.

Make Plans to Attend IPAA's Upcoming Meetings/Events

Staff Contact: Nikki McDermott

Summer NAPE®

August 18-20, 2010

George R. Brown Convention Center
Houston, Texas

OGIS San Francisco

October 12-14, 2010

The Palace Hotel
San Francisco, California

Please visit www.ipaa.org/meetings for more information.

Independent Petroleum Association of America

1201 15th Street NW, Suite 300 • Washington, DC 20005 • Phone: (202) 857-4722 • Fax: (202) 857-4799 • www.IPAA.org

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>7/2/10</u> | <u>6/25/10</u> | <u>Year Ago</u> |
|-----------------------|---------------|----------------|-----------------|
| Land | 1529 | 1522 | 878 |
| Inland Waters | 12 | 13 | 8 |
| Offshore | 16 | 17 | 42 |
| U.S. Total | 1557 | 1552 | 928 |
| Gulf of Mexico | 16 | 17 | 42 |
| Oil | 587 | 583 | 229 |
| Gas | 960 | 958 | 688 |
| Miscellaneous | 10 | 11 | 11 |

Source: Baker Hughes

ipaa

America's Oil & Gas Producers

Washington Report

Independent Petroleum Association of America

1201 15th Street NW, Suite 300 • Washington, DC 20005 • Phone: (202) 857-4722 • Fax: (202) 857-4799 • www.IPAA.org