

Statement
Of
Bruce Vincent
On Behalf Of The
Independent Petroleum Association of America
Before
Natural Gas Caucus
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Thank you for the opportunity to speak with you today. I am Bruce Vincent, the current vice-chair and incoming chair of the Independent Petroleum Association of America (IPAA). Independents produce over 80 percent of America's natural gas. So, let me put the independent producers' role in American natural gas in a straightforward perspective.

Who are independents and how can the federal government help – or hinder – their efforts to produce American natural gas. IPAA represents the roughly 6,000 independent producers in the United States. These companies range in size from small mom-and-pop operations to large, publicly traded corporations. They develop 90 percent of America's natural gas and oil wells and, in addition to natural gas, produce over 65 percent of America's oil. They operate principally as explorers and producers of their commodities – selling natural gas and oil to others who transport, process and distribute final products.

Because independents' revenues come from selling natural gas, federal government actions that reduce these revenues will reduce development of American resources. Over the past several years, independents reinvested over 150 percent of their American cash flow back into American projects. The current drop in natural gas commodity prices has reduced American drilling activity to half of last year's high levels. Credit market restrictions bringing less access to capital are also hampering development. But, potential Congressional action and new Administration proposals could create further damage.

Congress is now considering legislation to revise the trading of commodities. As “end users” in the commodity markets, independent producers hedge their production volumes for two, three or more years to provide predictable cash flow and therefore predictable investment in new production. Much of this year's drilling activity is being done because of higher revenues resulting from hedges from earlier years when natural gas prices were higher. The structure of

new commodity legislation could inhibit or effectively preclude independents from using this important cash management tool.

Similarly, the Obama Administration proposed tax code changes targeted at American natural gas production that would dramatically reduce independents ability to develop new production and maintain existing wells. These changes would affect historic tax policies – provisions like intangible drilling and development costs that have been part of the tax code since its initial year of 1913 or percentage depletion that was added in 1926. The overall consequences of these proposals on independents include a reduction in new drilling by 25 to 40 percent affecting new wells – when half of today’s US natural gas comes from wells drilled in the last four years – and the loss of 20 percent of American oil production and 12 percent of American natural gas production. These consequences run counter to America’s need for clean fuels, less dependence on foreign energy sources and greater energy security.

At the same time, natural gas from shale formations truly changes the role natural gas can play in America’s future energy picture. You have heard and will hear how these resources can provide over 100 years of natural gas at today’s demand levels – offering the possibility of new roles for natural gas with the realization that it can meet those needs. Shale gas development hinges on technologies that alter the nature of production.

First, drilling techniques now allow wells to be bored a mile or two miles into the earth where the shale formations lie and then turn the well bore horizontally to follow the shale formation for another half mile or mile. They create the ability to control and reduce the cost of this development and limit its environmental footprint. Without horizontal drilling thousands of additional wells would be needed.

Second, sophisticated hydraulic fracturing frees the natural gas for production. Without it, none of the expectations of shale gas would be realistic. Unfortunately, we confront an aggressive and well orchestrated effort to mischaracterize and demonize hydraulic fracturing technology. This technology has been in use for over 60 years, more than a million times, about 35,000 times each year now. Throughout that history, no pattern of failure that harms the environment occurred. Clearly, the movement of thousands of gallons of water and tons of sand under high pressure can pose a risk. But, throughout the 60 years of experience with fracturing, state well construction and drilling regulations have effectively protected drinking water supplies from fracturing's environmental risks. This regulatory structure is designed to prevent the movement of materials in the well bore to the environment. Primarily, the regulations require sensitive environmental areas such as ground water to be protected from the well bore through additional pipe – called casing – that is cemented both above and below the protected zone. This protection has worked effectively for well over a half century. Additionally, the well pressure is monitored to assess whether the structure could be failing. If failures occur, the producer is responsible for correcting the damage and restoring the damaged area.

Why then, do we see fracturing drawing the attention it does today? Those who seek to inhibit or prevent the development of natural gas recognize the linchpin role that fracturing plays in shale gas production. Because new shale development will occur in areas that have less familiarity with natural gas production, these opponents have resorted to baseless allegations of environmental harm – frankly – to frighten local communities. They have taken damage incidents proven to be unrelated to fracturing and repeatedly spread them throughout the country alleging they are caused by fracturing. They regularly demean the effectiveness of the state regulators despite a history of success – turning to a federal solution where none is warranted and

would freeze the development of shale gas if it were imposed. They focus on intellectual property rights to force disclosure of the proprietary chemicals used in fracturing. This strategy seeks to impose unnecessary and costly monitoring and reporting requirements on independent producers when no history of problems exists.

Clearly, protecting the environment during the development and production of natural gas must be a top producer priority. Operating under the scrutiny that today's media generates, we recognize the importance of managing environmental risks. Sometimes, we fail, but we continue to seek improvement. For example, industry now has under development materials designed to provide producers with better guidance on managing the surface areas of our sites, on hydraulic fracturing techniques and on well casing and cementing procedures. We will be sharing these materials with state regulators to enhance transparency in the regulatory process. We work with state regulators to improve the efficiency of the process. We don't always agree, but we seek to find common ground –regulatory programs that are environmentally protective and cost effective.

Natural gas – particularly shale gas – can and will play a pivotal role in America's future energy supply. Independent producers are the key to its development. If the nation's tax, financial, resource access and environmental regulatory policies encourage development, natural gas can live up to its expectations, and our country will be the better for it. We hope the Natural Gas Caucus will be the "natural gas vehicle" to move policies in this direction, and we want to work with you to achieve those common objectives.