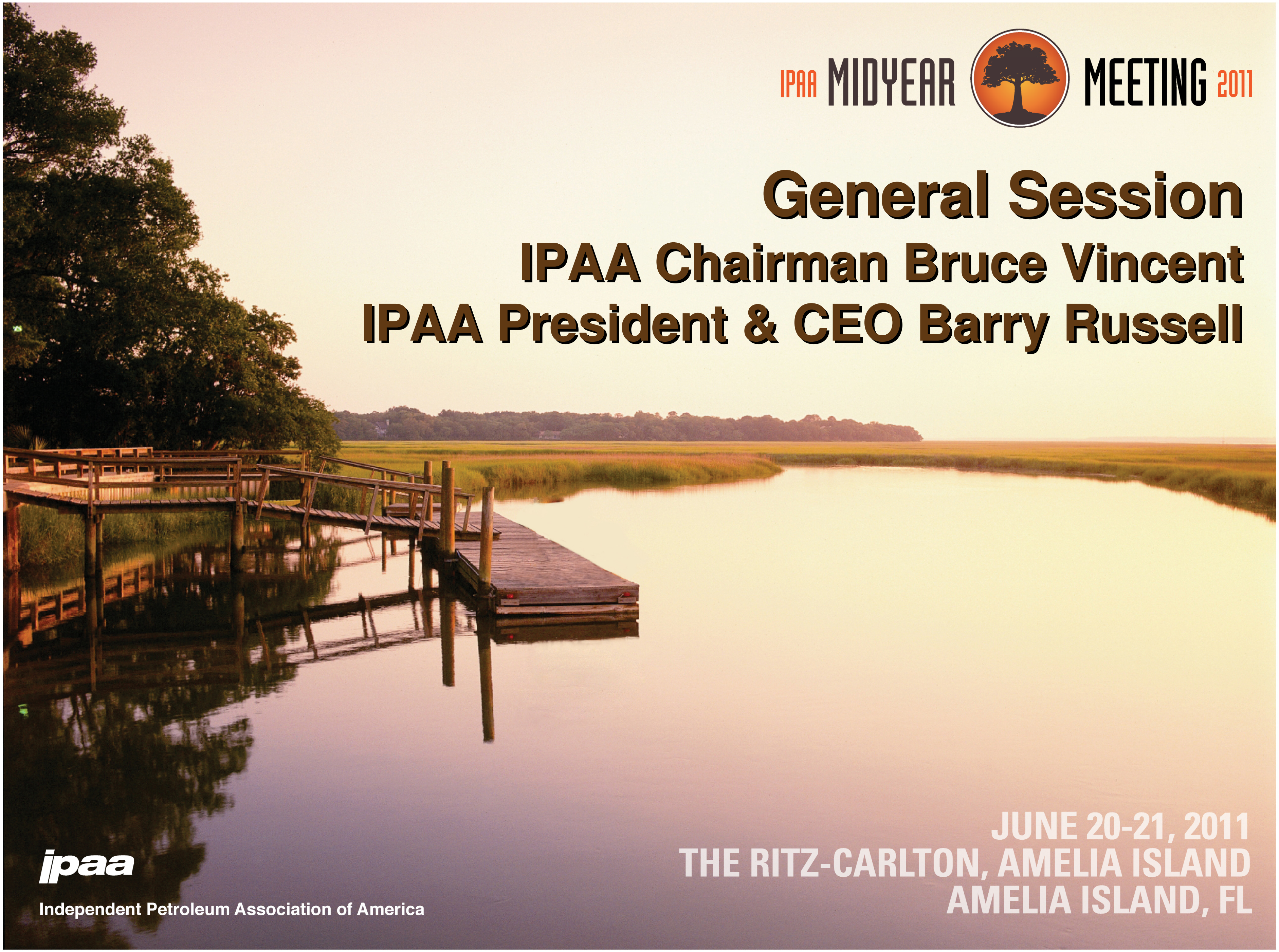
IPAA MIDYEAR MEETING 2011

General Session

IPAA Chairman Bruce Vincent
IPAA President & CEO Barry Russell



JUNE 20-21, 2011
THE RITZ-CARLTON, AMELIA ISLAND
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ipaa
Independent Petroleum Association of America

New Realities of Energy Policy

- Everything is on the table. . . .and always will be
- Extreme polarization
- Green everything
- Globalization of political environment and energy markets
- New communities

Battle for Public Opinion

Operations in new areas pose new concerns

- Community education about oil and gas production is essential
  - Continuous process
- Partnerships with local and state regulators
  - Many communities are not prepared to manage a significant increase in oil and gas development efficiently

Battle for Public Opinion

- False rumors about the industry must be dispelled
  - Early and often
- New reality of asset base requires being a member of the community
  - Visible civic presence & long term commitment to communities
  - Employ local workers
  - Field offices

New Realities – Energy Policy

- **2011 Policy Issues**
- Why It's Important
- IPAA: Leading the Fight

Key Policy Issues in 2011

- Energy taxes
- Hydraulic fracturing
- Offshore policy
- Regulatory challenges

Energy Taxes

- Renewed calls for billions in tax increases on oil, gas producers
- For independent producers, primary targets are drilling costs and percentage depletion
- Not subsidies
- Deficit reduction issue could trigger debate on restructuring the entire tax code

Hydraulic Fracturing

- Federal regulation / EPA study
- Anti-development groups now targeting wastewater discharge procedures
- Increasingly targeted by the media
- Energy In Depth Coalition www.EnergyInDepth.org
- GWPC / IOGCC Frac Fluid Registry Site launched in April www.FracFocus.org

Offshore Policy

- 16 permits issued for wells in the deepwater Gulf of Mexico since March
- Streamline permit process
- Liability cap legislation
- Getting industry back to work

Regulatory Challenges

Federal enforcement initiatives:

- Climate change
- Stormwater permitting
- Offshore and onshore permitting
- “Wild Lands” program
- Financial reform

New Realities – Energy Policy

- 2011 Policy Issues
- **Why It's Important**
- IPAA: Leading the Fight

Telling Our Story. . . .
A New Paradigm Shift in U.S. Energy Supply

- Technological advancements
- New economies
- American treasure
- Increased revenues
- Job creation
- Reduced dependence
- Improved balance of trade
- National security

New Realities – Energy Policy

- 2011 Policy Issues
- Why It's Important
- **IPAA: Leading the Fight**

IPAA: Leading the Fight

- I H S Global Insight study on the economic benefits of onshore independent oil, gas producers
- Increasing staff in Washington
- Raising visibility in local, state and national media

IPAA: Leading the Fight

IPAA MIDYEAR MEETING 2011

ipaa® Independent Petroleum Association of America — America's Oil & Gas Producers

IHS GLOBAL INSIGHT

Onshore Independent Oil and Natural Gas Producers Are Vital to the U.S. Economy

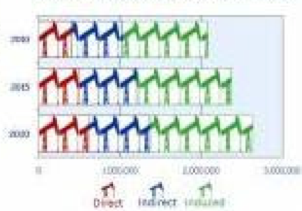
*Onshore independents supported **2.1 million jobs in 2010**, a figure that will rise to **2.6 million jobs by 2020.**[1]*

***One out of every 62 jobs** in the U.S. is attributable to the independents' upstream activities*

Onshore independent oil and natural gas producers play a major role in the development of America's oil and natural gas industry. Operating in 32 states, America's 18,000 onshore independents drill close to 94% of the country's oil and natural gas wells. Their entrepreneurial spirit and willingness to take on risk spawns innovation – like opening up shale plays – while creating jobs and contributing to U.S. GDP.

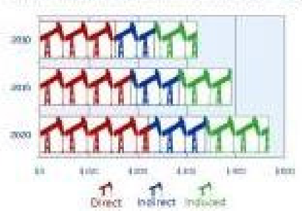
The independents' business ecosystem fosters job creation on three levels. First are the direct jobs created within their operations. Next, purchasing supplies and business services creates jobs within their supplier networks. Finally, the direct and indirect workers spend their wages in the general economy, buy housing, pay taxes and so on. This helps keep a range of others employed, from mom-and-pop shop owners to doctors to teachers.

Onshore Independents Create Lots of Jobs



In 2010, workers whose jobs were due to the independents received $148.7 billion in compensation and paid $30.7 billion in personal federal, state and local taxes. Adding in corporate and severance taxes of $37.0 billion brings the total to $67.7 billion in taxes paid.

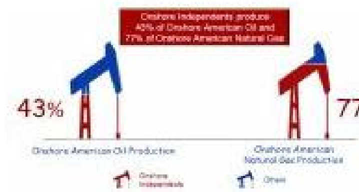
Onshore Independents' Contribution to GDP ($B)



The broadest gauge of the health of the U.S. economy, Gross Domestic Product measures the value created within the economy. The onshore independents' upstream business ecosystem contributed $320.6 billion (2.2%) of U.S. GDP in 2010 and will rise to $466.7 billion (2.4%) of U.S. GDP by 2020. This leads to the payment of $37.0 billion (2010) and $54.0 billion (2020) of corporate and severance taxes as well as federal royalty, bonus and rent payments of $1.4 billion and $2.4 billion, respectively.

If the Onshore Independents' business ecosystem were a state, it would rank #15, based on $320.6 billion of value creation in 2010.

[1] The figures cited in this document are drawn from ***The Economic Contribution of the Onshore Independent Oil and Natural Gas Producers to the U.S. Economy***, a report conducted by IHS Global Insight on behalf of IPAA.



Key Dimensions of the Economic Impact of Onshore Independents' Upstream Operations[2]

Employment Impact*

	Direct	Indirect	Induced	Total
2010	398,508	626,443	1,051,778	2,077,729
2015	504,381	699,501	1,161,946	2,365,828
2020	609,832	769,439	1,265,672	2,634,943

* average annual workers

Contribution to U.S. GDP*

	Direct	Indirect	Induced	Total
2010	$154.5	$79.1	$87.0	$320.6
2015	$185.6	$97.5	$107.3	$390.4
2020	$220.7	$116.9	$129.1	$466.7

* billions of nominal dollars

Taxes, Royalties, Bonuses and Rent Paid*

	2010	2015	2020	Total 2010-20
Federal Taxes	$36.3	$44.5	$53.4	$489.5
Personal Taxes	[illegible]	[illegible]	[illegible]	[illegible]
Corporate Taxes	[illegible]	[illegible]	[illegible]	[illegible]
State and Local Taxes	$31.4	$38.4	$46.1	$422.4
Personal Taxes	[illegible]	[illegible]	[illegible]	[illegible]
Corporate Taxes	[illegible]	[illegible]	[illegible]	[illegible]
Severance Taxes	[illegible]	[illegible]	[illegible]	[illegible]
Total Taxes	$67.7	$82.9	$99.5	$911.9
Federal Royalty Payments	$1.4	$1.6	$2.4	[illegible]
Bonus and Rent Payments				[illegible]
Grand Total	$69.1	$84.7	$101.9	$933.3

*Notes: Figures are in billions of nominal dollars. [illegible]

In IPAA's Opinion

Increased taxes = less money invested = fewer new jobs = less taxes collected.

The U.S. Treasury believes increasing taxes on American oil and natural gas production will increase federal revenues. But, these tax increase proposals could result in a 25-35 percent reduction in capital expenditures (investment in new energy projects). This loss of production directly impacts the federal government's second largest source of revenue – taxes and royalties paid by the oil and natural gas industry. The industry pays federal taxes at a rate of 41 percent compared to 26.5 percent for the other S&P industrial companies. The reduction in capital expenditures and production would also result in no new jobs and less American energy.

[2] Figures generated by IHS Global Insight using the IMPLAN model.

To obtain a copy of the IHS Global Insight report, *The Economic Contribution of the Onshore Independent Oil and Natural Gas Producers to the U.S. Economy*, please contact:

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Strong U.S. Oil, Gas Industry = *Strong American Economy*

- 18,000 independent producers located in more than 30 states
- Independents drill 95% of the wells in the U.S.
- Produce 85% of American natural gas
- Produce 54% of American oil

*Source: I H S Global Insight

Strong U.S. Oil, Gas Industry =
Strong American Economy

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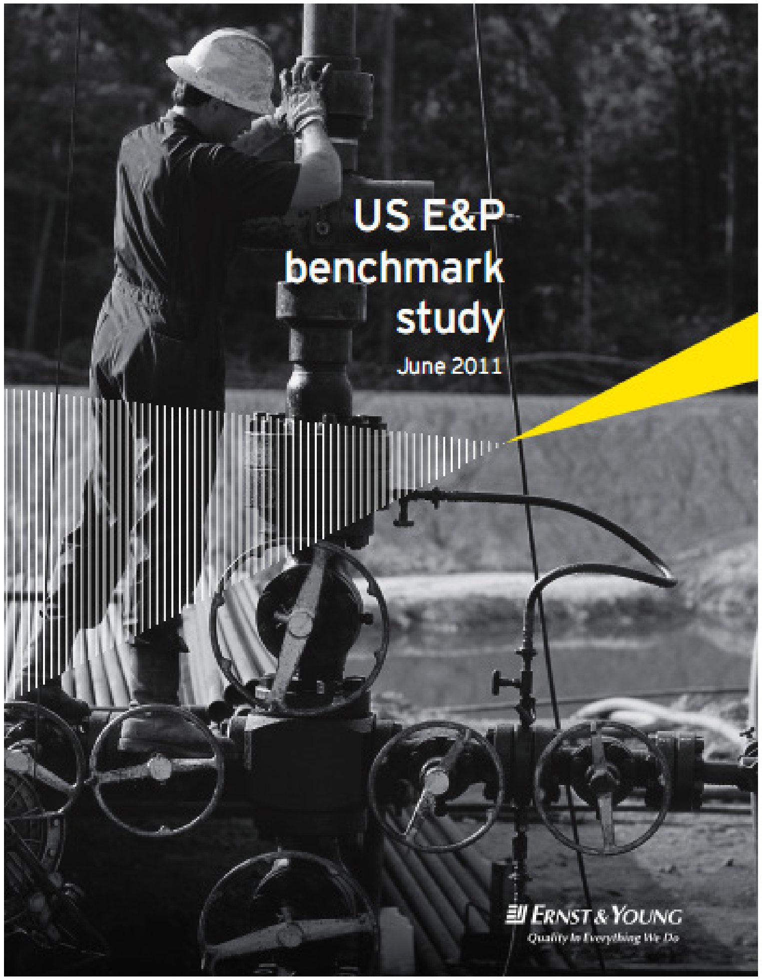

E&Y says spending by independent producers doubled in 2010 to $177.9 billion from $72.8 billion in 2009. And, the reinvestment of cash flow hit a five-year record to 170%.

IPAA: Leading the Fight

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IPAA: Leading the Fight

Environmental Regulatory Challenges for Upstream Operators

The Initiative In Practice

Our Panelists and Moderator

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IPAA: Leading the Fight

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THE ENERGY YOU NEED. THE FACTS YOU DEMAND.

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