



CRUDE AWAKENING



Bulletin of the Independent Petroleum Association of America

ipaa

IPAA's Crude Awakening bulletin was developed to separate fact from fiction on oil and natural gas issues; enhance understanding of domestic oil and natural gas exploration and production; and provide a link to the 7,000 independent oil and natural gas producers in the United States who provide the energy that has shaped the modern economy and fueled the economic growth upon which we depend.

Energy Policy: We Must Not Lose This Opportunity

This bulletin provides a summary of testimony by IPAA Chairman Jerry Jordan, president of Jordan Energy, Inc. of Columbus, Ohio, at a June 15, 2000 hearing on the "National Energy Security Act of 2000" (S. 2557) before the Senate Energy and Natural Resources Committee. Jordan testified on behalf of IPAA, the National Stripper Well Association, and 34 cooperating state and regional oil and gas associations representing thousands of independent oil and natural gas producers in the United States. Independents drill 85 percent of the wells drilled in the United States, produce 40 percent of the oil and two-thirds of the natural gas.



IPAA Chairman Jerry Jordan

Mr. Chairman, members of the committee, we are pleased to support the provisions of S. 2557. The bill includes provisions to enhance domestic production by improving access to government controlled lands, opening key national resources, like the Arctic National Wildlife Refuge, and adopting important tax reforms to encourage and maintain domestic exploration and production. At the same time, it offers improvements for other domestic energy sources. S.2557 is an important and essential first step.

During this year, the independent producers have consistently advocated action to address two key areas: (1) access to the resource base and (2) access to capital. This bill does both.

S. 2557 includes a number of provisions to improve permitting on government controlled lands and calls for the creation of an inventory of oil and gas reserves. We believe those provisions are valuable short-term actions that can improve access and add to the debate over which areas are most important for energy production.



Senate Energy and Natural Resources Committee Chairman Frank Murkowski (R-AK)

The bill also includes several tax reforms that work together to encourage exploration for new resources, to retain capital for reinvestment from existing production, and to create a safety net for marginal wells, those wells that are the nation's true, strategic petroleum reserve.

We are at a rare juncture. Both Congress and the administration are moving in the same direction regarding some of these tax provisions. There is agreement on expensing of geologic and geophysical costs and delay rentals. S. 2557 has incorporated both the provisions of Senator Hutchison's bill, S. 2265, and the provisions from last year's tax reform legislation. These are proposals that have been widely discussed and largely supported. We must not lose this opportunity.

The next question is whether S. 2557 will, by itself, be adequate to reduce oil imports below 50 percent. In all candor, while I believe its provisions are essential first steps, more must be done.

First, we must reexamine the moratoriums that have been placed on offshore development. Every scientifically sound assessment of offshore natural gas and oil exploration has concluded that it is an environmentally sound process, yet we are being constrained in many areas, and those areas seem to be expanding rather than contracting based on events that took place decades ago. It is particularly ironic that we face constraints in the eastern Gulf of Mexico and in the Atlantic where it is expected that production will be overwhelmingly natural gas.

IPAA ENERGY POLICY RECOMMENDATIONS

- **Reexamine the policy restrictions that have been placed on offshore development.**
- **Define the future royalty structures that should be applied to the shelf, deep, and ultra deep areas of the Gulf of Mexico.**
- **Consider the combined effects of our regulatory processes on the mosaic of requirements that collectively prevent access to explore and produce petroleum and natural gas in an environmentally sound manner.**
- **Immediately open up exploratory access to government controlled lands and waters anywhere we safely can.**
- **Modify the U.S. Tax Code to enhance the industry's access to much needed capital.**
- **Immediately adopt tax reforms recommended by the industry, the president, and congressional leaders; namely, the provisions included in S. 2557.**
- **Consider focused tax reforms like a drilling tax credit that would be based on new drilling efforts that would assist in getting new reserves developed.**
- **Modify the current enhanced oil tax credit, which is now based on technologies that are 20 years old.**

Second, this year, the current Deepwater Royalty Relief Act mandates on royalty structure expire. Industry and the administration are working hard to develop the information necessary to define the future royalty structures that should be applied to the shelf, deep, and ultra deep areas of the Gulf of Mexico. How the royalty program is defined can well determine whether capital will be invested in the United States or in other countries, and, therefore, whether we will enhance domestic natural gas and petroleum production or not.

Third, we need to consider the combined effects of our regulatory processes, particularly at the federal level. IPAA believes that we can explore and produce oil and natural gas in an environmentally sound manner. But today, particularly on government controlled lands, we face a mosaic of requirements that collectively prevent access to explore and produce these key resources. They arise from different agencies, under different laws, under different objectives, but the effect is to essentially prohibit development on many of these properties.

This is an area where Congress and the executive branch need to work together to streamline and coordinate the regulatory process. At the same time, we must not arbitrarily place additional resources off limits without understanding the implications of those actions.

Fourth, and finally, the industry will require far more capital in the future if we are to meet the joint objectives of increasing natural gas supply by 40 percent over the next decade and reducing domestic dependency on foreign oil to 50 percent. The U.S. Tax Code is a key factor in determining how much capital will be available to domestic

producers. While S. 2557 takes key steps forward, these steps cannot guarantee that domestic production will rebound and increase.

There are a number of other tax reforms that could build on this start allowing more capital to be retained and developed. We should consider focused tax reforms like a drilling tax credit that would be based on new drilling efforts. This type of approach would assist in getting new reserves developed. We should also look at approaches like the current Section 29 tax credit that is targeted toward developing unconventional fuels. These types of provisions have worked in the past to spur exploration and production, and they can work again.

We need to make certain also that the alternative minimum tax does not turn around and negate all the positive steps we might take. We should also modify the current enhanced oil recovery tax credit, which is now based on technologies that are 20 years old. Many of these provisions have been introduced in one form or another in the past years. Several of them were in a bill introduced by Senator Domenici of this committee.

In conclusion, to try to reduce our dependence on foreign oil and to avoid natural gas supply problems, which are clearly foreseeable if we don't change our policies, we should take both short- and long-term steps. One, immediately open up exploratory access to government controlled lands and waters anywhere we safely can. Two, immediately adopt tax reforms recommended by the industry, the president, and congressional leaders; namely, the provisions included in S. 2557.

In the longer term, we must avoid actions that further prohibit the development of our natural resources. We must also remove unreasonable impediments that are already there and develop reforms to current policy to encourage capital to flow into the oil and natural gas exploration industry. Thank you for this opportunity to present our views.