General Session
IPAA Chairman Bruce Vincent
IPAA President & CEO Barry Russell

JUNE 20-21, 2011
THE RITZ-CARLTON, AMELIA ISLAND
AMELIA ISLAND, FL
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

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• 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**

### 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.

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

Over 300,000 independent oil and gas companies play a major role in the development of America’s oil and natural gas industry, capturing a 20% slice of the country’s oil and natural gas wells. They are critical partners and allies to take on major infrastructure programs and are poised to maintain their lead in the oil and gas sector.

The independent business ecosystem creates job creation on three levels. First, the direct jobs created within the operations, retail, gathering, supply, and services provide the most jobs within their supply network. Next, the related and indirect job creation occurs where the direct value is created and then alleles in the overall economy, by having any alleles and so on. The two levels add up to the total number of direct and related and indirect to create.

In 2010, workers whose jobs were due to the independent received $38.7 billion in compensation and $13.6 billion in personal (federal and state and local) taxes. Adding in corporate and withholding taxes of $8.2 billion brings the total to $67.7 billion in taxes paid.

### Key Dimensions of the Economic Impact of Onshore Independents’ Upstream Operations

#### Employment Impact

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct</th>
<th>Indirect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2,594,800</td>
<td>959,442</td>
<td>3,554,242</td>
</tr>
<tr>
<td>2015</td>
<td>3,834,381</td>
<td>1,219,043</td>
<td>5,053,424</td>
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<tr>
<td>2020</td>
<td>3,553,860</td>
<td>1,082,527</td>
<td>4,636,387</td>
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</table>

#### Contribution to U.S. GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct</th>
<th>Indirect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$95.4B</td>
<td>$27.4B</td>
<td>$122.8B</td>
</tr>
<tr>
<td>2015</td>
<td>$98.5B</td>
<td>$27.5B</td>
<td>$126.0B</td>
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<tr>
<td>2020</td>
<td>$103.7B</td>
<td>$27.6B</td>
<td>$131.3B</td>
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</table>

### In IPAA’s Opinion

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

The U.S. Treasury believes increasing taxes on American jobs and future energy production will reduce future development. The increased taxes would cost 28,000 to 30,000 American jobs, $22.5 billion in tax revenue, and $22.5 billion in price hikes. The increased taxes would cause the price of gas to increase by 24 cents. The increased taxes would cost $22.5 billion in additional federal revenue.

The small, independent operations are critical partners and allies in taking on the major projects and infrastructure programs. The independent business ecosystem not only provides the majority of the jobs within the oil and gas sector but also provides the majority of the energy production.

### Onshore Independents’ Contribution to GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>$46.6T</td>
<td>$47.2T</td>
<td>$48.2T</td>
</tr>
<tr>
<td>Taxes</td>
<td>$31.4T</td>
<td>$31.4T</td>
<td>$31.4T</td>
</tr>
<tr>
<td>Sale of Goods &amp; Services</td>
<td>$6.8T</td>
<td>$6.8T</td>
<td>$6.8T</td>
</tr>
<tr>
<td>Total Sales</td>
<td>$45.7T</td>
<td>$47.0T</td>
<td>$48.0T</td>
</tr>
<tr>
<td>GDP</td>
<td>$46.6T</td>
<td>$47.2T</td>
<td>$48.2T</td>
</tr>
</tbody>
</table>
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
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
IPAA: Leading the Fight

Environmental Regulatory Challenges for Upstream Operators
The Initiative In Practice

Our Panelists and Moderator

- Neal Ertel
  President & CEO
  RegScan, Inc.

- Matt Armstrong
  Environmental Strategist
  Bracewell & Giuliani LLP

- Barry Russell
  President & CEO
  Independent Petroleum Assoc of America

- John E. Turley
  Managing Partner
  Vironmont, LP

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