

2/18/2010

NARUC Meeting Draws Comment on Fracking from EPA Official, Report on Economic/Production Impacts of Federal Moratoria

Staff Contact: Brendan Bradley

During the National Association of Regulatory Utility Commissioners (NARUC) meeting held in Washington, D.C. this week, the director of the Environmental Protection Agency's (EPA) Drinking Water Protection Division made a significant comment on hydraulic fracturing and the current state regulatory process.

"I have no information that states aren't doing a good job already," said Steve Heare, director of EPA's Drinking Water Protection Division. According to a report from Dow Jones, Heare also said that despite claims by environmental organizations, he hadn't seen any documented cases that the hydro-fracking process was contaminating water supplies.

Last year, IPAA and other trade groups and companies created the Energy In Depth coalition to address environmental issues, and we've successfully communicated about the safety and importance of hydraulic fracturing to regulators, educators, members of Congress and the news media. IPAA will continue to fight the threats against natural gas and oil development – including the legislative attempt to create new federal regulations of hydraulic fracturing.

Also developing from the NARUC meeting was the release of a detailed report on the economic and production impacts of continued federal onshore and offshore moratoria through 2030. IPAA is a sponsor of the study.

According to NARUC, the study "results determined that maintaining traditional energy exploration and production moratoria on federal lands would result in an alternative domestic energy future that, '...increases the cost and restricts the availability of domestic oil products and natural gas...' in all economic sectors and regions of the country."

Some of the key findings, under the scenario of a continued federal moratoria, include:

- American production of crude oil: Projected to decrease – relative to a scenario in which we decide to produce our offshore energy resources --by 9.9 billion barrels, an average annual decrease of nearly 15 percent;
- Imports of oil from OPEC: Projected to increase by 4.1 billion barrels, an average annual increase of nearly 19 percent, resulting in increased cumulative payments to OPEC of \$607 billion;

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- American production of natural gas: Projected to decrease by 46 Tcf – an average annual decrease of nearly 9 percent;
- Employment (energy intensive industries): Projected to decrease by nearly 13 million jobs;
- Housing Starts: Projected to decrease by nearly 200,000;
- Annual average natural gas prices increase by 17 percent;
- Annual average electricity prices increase by 5 percent;
- Real disposable income: Projected to decrease cumulatively by \$2.34 trillion;
- Energy costs to consumers: Projected to increase by \$2.35 trillion – an annual average increased cost of 5 percent;
- Gross Domestic Product (GDP): Projected to decrease by \$2.36 trillion;
- Real Consumption: Projected to decrease by \$1.44 Trillion.

2010 E&P Forum and Prospect Preview a Success at NAPE®

Staff Contact: Fred Lawrence

With the NAPE® once again reporting high numbers in attendance and booth participation last week at the George R. Brown Convention Center in Houston, the E&P Forum and Prospect Preview that took place a day before the expo's start set its own record turnout with over 600 attendees.

The morning workshop E&P Forum, sponsored and hosted by IHS, "Explorers on the Prowl – What's Hot and What's Not" featured presentations on: Regional Exploration: Highlights & Opportunities - Global Exploration Hot Spots (IHS); Africa Worth Another Look (Anadarko); Shaping the Future of E&P in South America (Pluspetrol); Middle East & South Caspian: Exploration Trends & Opportunities (I H S) and 2) Shaping Portfolios & Strategies to Opportunities: International Shale Gas Opportunities – Statoil's Approach (Statoil); European Exploration Renaissance (JKX); and The Search for Foreign Unconventional Gas & Oil Opportunities from an Independent's Perspective (Falcon Oil & Gas).

Traditionally an "international" event, this year's Prospect Preview was expanded to include domestic prospects as well for a truly global flavor, and in total over 60 presentations were shown across four rooms (Americas Ex-US; Europe/Middle East/Africa; Australia/Asia; and U.S.). Presentations will be made available on the IHS website: <http://energy.ihs.com/Resource-Center/Presentations/>.

Pipeline Case Raises Natural Gas Quality Issues

Staff Contact: Susan Ginsberg

IPAA filed a motion to intervene in a natural gas pipeline case filed by Wyoming Interstate Company, Ltd. (WIC) before the Federal Energy Regulatory Commission (FERC). WIC proposed in late January to

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curtail receipts into its system when a downstream pipeline will not accept the gas because of carbon dioxide or thermal content.

Shippers raised concerns that WIC's proposal could reduce gas receipts based on the most restrictive gas quality standards of any downstream pipeline, regardless of the ultimate destination of a producer's gas. FERC addressed gas quality issues on a generic basis in 2006. Since then, FERC has acted in individual cases where pipelines have proposed to narrow the specifications for gas entering their systems. IPAA will continue to follow these cases to maximize acceptance of gas supplies without compromising pipeline integrity.

Industry Safety Survey- Responses Needed

Staff Contact: Ryan Ullman

IPAA, along with other industry trade associations, is collecting data on the use and efficacy of fire resistant clothing in the upstream oil and natural gas industries. This survey comes in response to an increase in citations by the Occupational Safety and Health Administration (OSHA) regarding the use of fire resistant clothing in the field and OSHA's subsequent indication of their intent to move forward with a rule. As a result industry is working vigorously to collect data to determine if such a rule is necessary and if a rule would serve the purpose of increasing worker safety. Please take a moment to fill out a short online survey, available online here: <http://www.surveymonkey.com/s/3M5PZ73>. The responses will be of tremendous value in efforts to respond to this issue.

The survey will continue through February 26th and will only use consolidated data. No company names will be used to identify individual sources of information. Contact information is optional, however, to receive a copy of the consolidated data contact information will be added in the survey where requested.

Please visit this site: <http://www.surveymonkey.com/s/3M5PZ73>, to take the survey.

IPAA Wildcatter Fund Candidate Profile - John Shimkus

Staff Contact: Cortney Hazen

Rep. John Shimkus is the seven-term U.S. Representative from the 19th District of Illinois. Born and raised in Collinsville, Illinois, Shimkus holds a B.S. from West Point Military Academy and a M.B.A. from Southern Illinois University. Prior to his time in Congress, Shimkus served in the U.S. Army and was a teacher at Metro-East Lutheran High School. His political career includes a stint as Madison County treasurer. He has been in Congress since 1996.

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As Ranking Member of the House Energy and Commerce Subcommittee on Energy and the Environment, Shimkus has been a champion for the domestic oil and natural gas industry and a vocal opponent of climate change legislation. He has been a consistent voice for the independent producer and has earned a 100 percent voting record by the IPAA Wildcatter Fund for his efforts in the 111th Congress.

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.

General Liability, Workers Comp, Commercial Auto, Umbrella Liability

Staff Contact: Therese McCafferty

General Agency Services, Inc. (GAS) has designed an insurance program for independent producers, operators, and service contractors that's underwritten by professionals specializing in the oil and gas industry. It allows you to keep your existing agent, if you wish. **IPAA fully endorses this program and encourages membership participation.**



America's Oil & Gas Producers

Washington Report

Coverages are written through an A+ XV A.M. Best Rated carrier (ACE USA) and offer **General Liability, Workers Compensation, Commercial Auto, and Umbrella Liability.**

Target Classes:

- Drilling contractors
- Equipment rental
- Independent producers
- Non-operators (working interest)
- Pipeline contractors
- Pipeline operators
- Roustabouts
- Supply or equipment dealers
- Well-service and work-over contractors
- Wireline services

We welcome the opportunity to notify General Agency Services that you're interested in hearing from them. Simply send an e-mail to Therese McCafferty tmccafferty@ipaa.org and type "Insurance Information Request" in the subject field. Include your type of business, state(s) of operation, and name of agent.

Make Plans to Attend IPAA's Upcoming Meetings/Events

[REGISTER TODAY](#)
TO ATTEND IPAA's
PRIVATE CAPITAL CONFERENCE

Thursday, February 25, 2010
The Houstonian Hotel
Houston, TX

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Washington Report

Sponsor and Attend
IPAA's 16th Annual
Texas Wildcatters' Open

Thursday, March 25, 2010
Cypresswood Golf Club
Spring, Texas

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

Rig Count

Staff Contact: Fred Lawrence

| | <u>2/12/10</u> | <u>2/5/10</u> | <u>Year Ago</u> |
|-----------------------|----------------|---------------|-----------------|
| Land | 1288 | 1280 | 1275 |
| Inland Waters | 13 | 11 | 6 |
| Offshore | 45 | 44 | 58 |
| U.S. Total | 1346 | 1335 | 1339 |
| Gulf of Mexico | 43 | 42 | 57 |
| Oil | 443 | 445 | 273 |
| Gas | 891 | 878 | 1054 |
| Miscellaneous | 12 | 12 | 12 |

Source: Baker Hughes

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