



The New Politics of Oil and Natural Gas: A Look at the Legislative Climate

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IPAA's Top Legislative Priorities

- The Democratic-Controlled Congress
- Energy and Tax Legislation
- Global Climate Change
- 2008 Elections

The Democratic-Controlled Congress

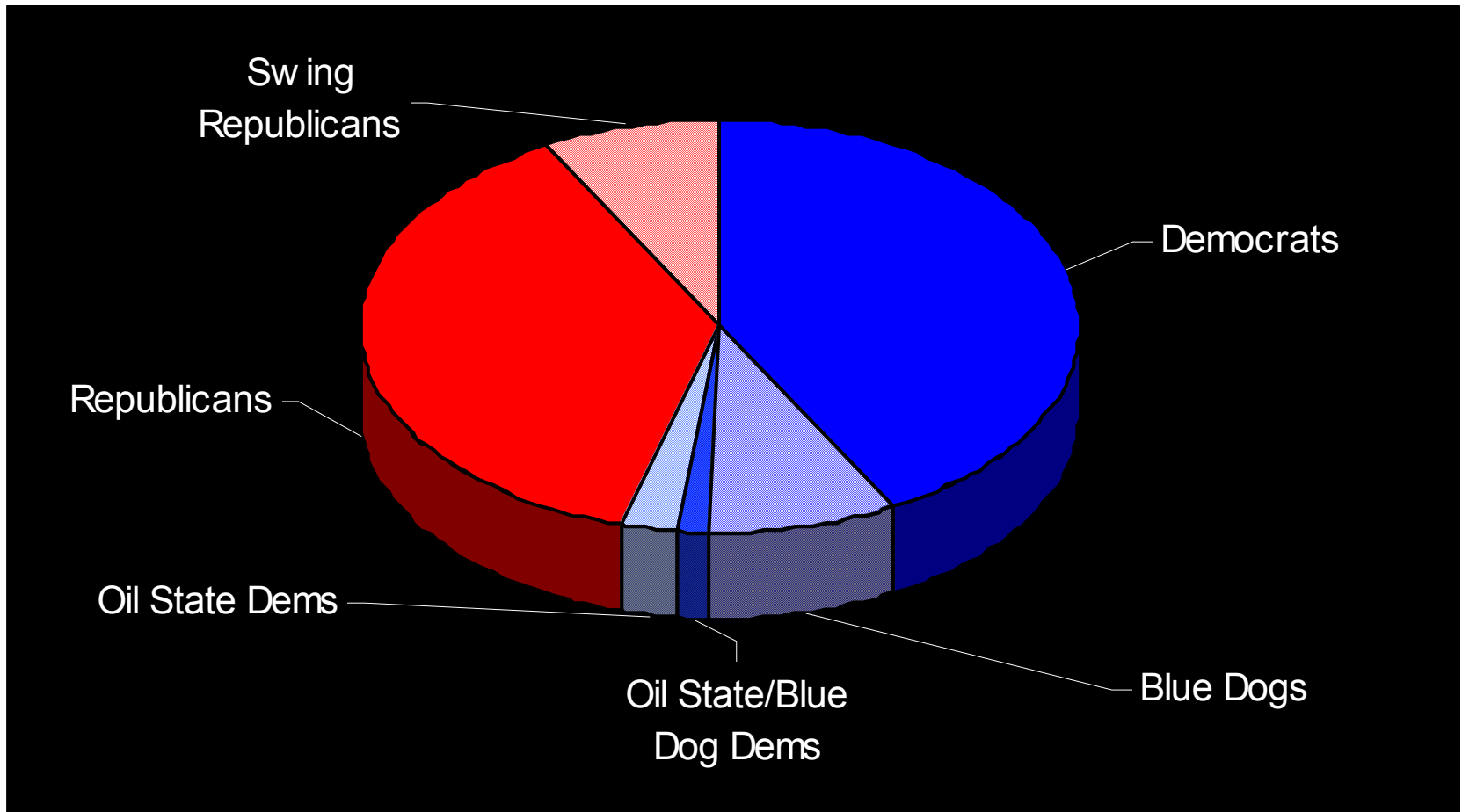


“By rolling back \$14 billion in [domestic production] subsidies ... we will reduce our dependence on foreign oil.”

-House Speaker Nancy Pelosi

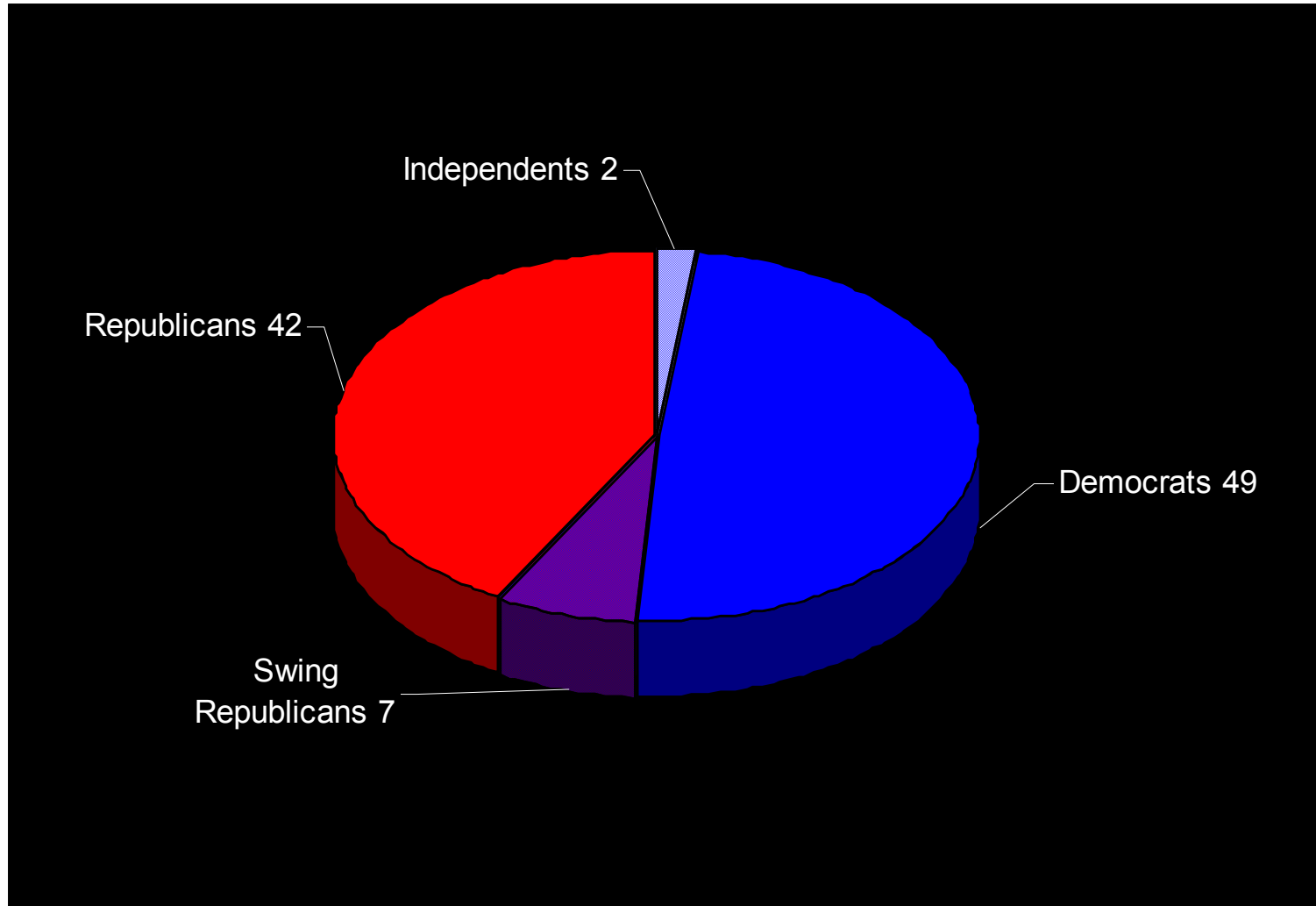
In the House:

231 Democrats, 198 Republicans, 6 Vacancies



In the Senate:

49 Democrats, 2 Independents, 49 Republicans



Factors Affecting Energy and Tax Legislation

- Energy prices remain high – Congress unwilling to accept market forces as explanation
- Industry earnings are high
- 1998-99 deepwater royalty contract issues feeding anti-industry voices
- Liberal Democrats believe that Republicans passed energy and tax legislation inappropriately favoring oil industry
- Environmental groups – closely tied to liberal Democrats – seeking repeal of federal land access legislation

The Energy Independence and Security Act (H.R. 6)

- **Signed into law by President Bush on December 19, 2007**
 - Increase fuel economy standards (CAFÉ) and increase the mandate for the use of renewable fuels;
 - Establishes new efficiency requirements for household appliances and government buildings
 - Aims to phase out the incandescent light bulb within the next decade
- **IPAA was able to convince members of Congress to make changes to the Energy Bill in positive ways for independent producers:**
 - Adverse provisions affecting access to onshore federal resources were deleted.
 - Deep water royalty contract provisions were removed.
 - In the tax title, the Section 199 manufacturers' tax deduction was significantly modified. Repeal of the provision would apply only to the largest integrated companies. For independent producers the current 6 percent deduction would be retained, but the increase in the deduction to 9 percent in 2010 would be repealed.

The Fight Is Not Over...

- **H.R. 5351, the Renewable Energy and Energy Conservation Tax Act of 2008**
 - Passed by the House last Wednesday, February 27th
 - Nearly identical to House-passed tax piece of H.R. 6 in December
 - Repeals the current Section 199 manufacturers' tax deduction for the five largest integrated oil companies, and freezes the deduction at six percent for the rest of the oil and natural gas industry. Without the freeze, the deduction would otherwise increase to nine percent in 2010. A second provision of the bill alters the treatment of foreign oil and natural gas income related to foreign refining operations.
 - Bill sent to the Senate, unclear how/when it will be considered

Still Not Over.....

Congressman Rahall (D-WV) believes the House gave away too much in the final version of H.R. 6, dropping provisions his committee had approved that would bring more barriers to exploration and production.

Global Climate Change

- Major program remains unlikely this Congress
 - Bush Administration opposition
 - Campaign issue
 - Democratic base more divided than leadership anticipated
 - Environmentalists want major reduction in GHG in shortest time period possible
 - Auto and coal labor interests pushing back

Global Climate Change

IPAA'S KEY POINTS

1. **Clean burning natural gas should be an important part of any proposal.**
2. **Do no harm to American oil production.**
3. **Any proposal should be global.**



IPAA Advocacy Efforts

- Meetings with Key Democrats, including House Speaker **Pelosi's** Staff
- Providing Materials to Hundreds of **Reporters and Opinion Leaders**
- **Grassroots** Network sending Hundreds of Letters to Capitol Hill
- **Testifying** before key Committees



*October 16, 2007
IPAA Vice President Lee Fuller
testifies before the
House Small Business Committee*

IPAA Advocacy Efforts

- **Community Voices Corps...** members in hundreds of local newspapers/TV/radio
- **IPAA placing...** op-ed articles in dozens of newspapers nationwide
- **IPAA educating...** working with API on national education program

San Francisco Chronicle

NORTHERN CALIFORNIA'S LARGEST NEWSPAPER

LETTERS TO THE EDITOR

Friday, August 10, 2007

HOUSE'S WRONG MOVE

Editor - Regarding "House passes energy bill," (Aug. 6): Congressional leaders claim they are looking out for the well-being of Americans and our energy future, however, they moved forward in passing energy legislation that will result in less American oil and gas production, more foreign dependency, higher prices for Americans and lost jobs.

While America's independent oil and gas industry supports and encourages the growth of all energy sources, the House ignores the fact that by 2030, oil and natural gas will account for more than 60 percent of America's energy mix. It is imperative that Congress allow access to affordable, reliable American sources of oil and natural gas, as well as encourage investment in renewable, alternative-energy sources and improved conservation and efficiency efforts.

Responsibility now lies with the Senate, the conference committee and the White House to overcome the House's failure to protect America's energy security and remove the obstacles that discourage the development of American energy.

BARRY RUSSELL, president

Independent Petroleum Association of America

Washington

IPAA Advocacy Efforts

Our Communications Department is fielding dozens of phone calls from news organizations every day.

IPAA is a great news media resource reaching millions of Americans...



THE WALL STREET JOURNAL.



ROLL CALL

The New York Times



Los Angeles Times



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America's Oil & Gas Producers



IT'S 2007, NOT 1977

Congress is playing '70s-style energy politics. What about America's energy future?

The 1970s was a bad decade for babies, hairstyles and, especially, energy policy.

So why are some in Congress playing '70s-style energy politics, putting the kind of gasoline price controls and energy act bills that led to gasoline shortages, long lines at the pump and increased taxes?

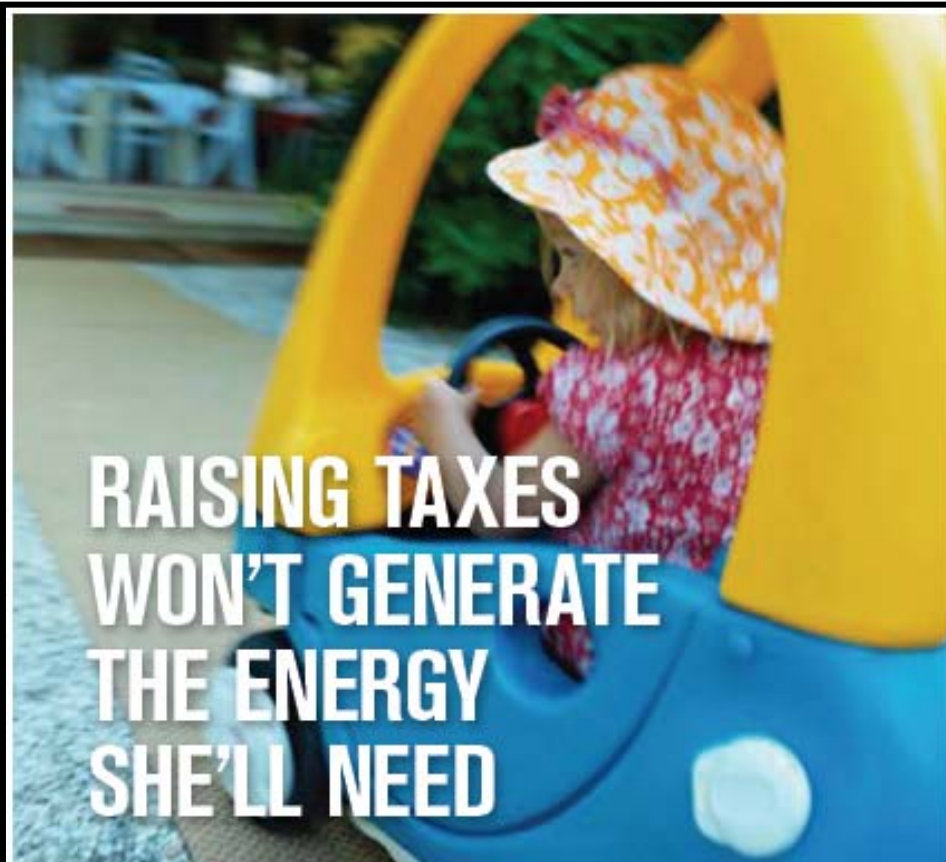
These schemes will increase the cost of energy for American consumers and businesses. They'll control access to America's plentiful

domestic energy resources and restrict advanced energy research.

The U.S. Department of Energy predicts Americans will need 28 percent more energy by 2030. It's time for energy policies that ensure future generations have the energy they'll need at home and on the job.

Tell Congress you oppose new energy taxes and price controls. Because it's time for real energy policies, not old-fashioned energy politics.

the **people** OF AMERICA
 800.455.6864 www.aml.org



RAISING TAXES WON'T GENERATE THE ENERGY SHE'LL NEED

Most Americans agree energy security is a top national priority, because they want to ensure their families' quality of life now and into the future. So why do some in Congress want to raise taxes on the development of oil and natural gas resources?

History shows that changing the rules by raising energy taxes has serious consequences. After Congress levied a "windfall profits" tax in the 1980s, its own non-partisan Congressional Research Service determined this tax diverted \$79 billion from domestic energy investment and reduced U.S. oil production by as much as 1.26 billion barrels.

The U.S. Department of Energy estimates America will need 25 percent more oil and natural gas by 2030. And to make sure future generations will have it, we need stable tax policies that encourage the development of critical energy resources. Benefiting Americans today – and especially tomorrow.

To learn more, visit www.epi.org

America's Oil & Natural Gas Industry

Grassroots Efforts

- **Formation of IPAA Grassroots Task Force**
- **How can I make a difference? You can!**
- **Efforts in DC and on the ground at home**
- **Keys to a successful grassroots program:**
 - Active participation and commitment to be involved
 - Small actions can have a big effect
 - Know your elected officials

What's Next?

- **The dynamics of the 110th Congress are still emerging**
 - Liberal House leadership is coping with centrist Democrats who produced the majority
 - Swing House Republicans have diminished influence of oil state and Blue Dog Democrats
 - Blue Dog Democrats have not embraced a clear energy policy
 - Senate experience is too limited
- **Industry must continue to develop its relationships with the key voting blocks**

In the Future...the 2008 Elections

- **Democratic leadership in both Houses pursuing largely liberal agendas while trying to position for 2008 Congressional and Presidential elections**
- **Republicans – facing Presidential unpopularity and significant challenges to regain majorities in Congress – trying to thwart Democratic initiatives**
 - 21 Republican Senate seats up in 2008; 7 Republican senators will be over 70 in 2008 compared to 3 Democrats
 - Many lost House seats are swing districts; some senior Republicans not seeking reelection in potentially vulnerable areas

2008 Presidential Positions

HILLARY CLINTON:

“The other day the oil companies reported the highest profits in the history of the world. I want to take those profits and I want to put them into a strategic energy fund that will begin to find alternative smart energy, alternatives and technologies that will begin to actually move us toward the direction of independence!”

Source: Speech at Democratic National Committee winter meeting Feb 2, 2007

BARACK OBAMA:

“We cannot drill our way out of the problem. Instead of subsidizing the oil industry, we should end every single tax break the industry currently receives....”

Source: The Audacity of Hope, by Barack Obama, p.167-169 Oct 1, 2006

2008 Presidential Positions

JOHN MCCAIN:

- **Q: Should the oil industry be required to use some of their profits to help solve our energy problems?**

A: I would hope that they would use those profits to further the cause of alternate energy, nuclear power, a lot of other ways that we have to employ in order to eliminate our dependence on foreign oil.

- **Q: Do you support drilling/exploration off the coasts of Florida and California?**

A: I wouldn't drill off the coast of Florida unless the people of Florida wanted to. And I wouldn't drill off the coast of California unless the people of California wanted to, and I wouldn't drill in the Grand Canyon unless the people in Arizona wanted to.

- **Q: But you wouldn't require the oil industry to use its profits to help pursue alternative energy?**

A: I would not require them to. But I think that public pressure and a lot of other things, including a national security requirement that we reduce and eliminate our dependence on foreign oil.

Source: 2007 Republican debate in Dearborn, Michigan Oct 9, 2007

IPAA Takes Action: *Political Action Committee*



- Largest Oil and Gas Trade Association PAC
- 7th Largest Oil and Gas Industry PAC
- Supported 92 Congressional Races in 2006
- Increased Contributions by 150% in last cycle.

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America's Oil & Gas Producers