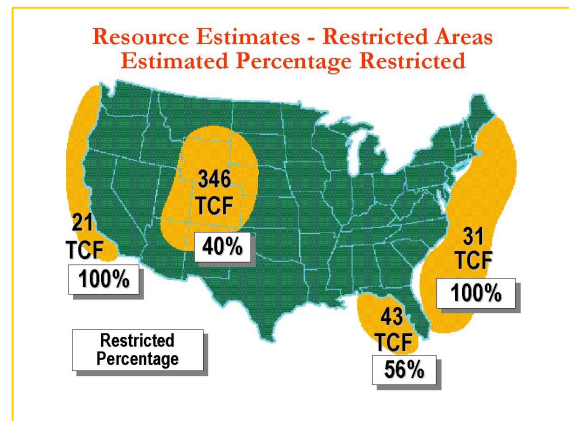


NATIONAL ENERGY POLICY Realistic, Balanced Solutions To Real Problems Suggested Talking Points*

A Rational Approach

- America has serious energy problems and President George W. Bush has a comprehensive National Energy Policy to address them, including increasing supplies of traditional fossil fuels, developing alternative sources of energy, and improving energy conservation and efficiency.
- The President's energy policy is a rational approach to energy planning that calls for contributions from all components of the energy supply mix — oil, natural gas, coal, nuclear, hydropower, renewable fuels, and conservation.
- There is no simple solution to our energy situation. It will take time for any realistic energy policy to achieve results. Yet, we have the technology and the resources to meet our energy needs for the foreseeable future, while ensuring a clean environment.
- One of the strengths of the President's energy plan is that it requires all federal agencies to consider the energy impact of new regulations, as well as institute a streamlining process for issuing permits for energy-related projects. IPAA has long championed these initiatives.
- The President's energy plan calls on federal agencies to examine impediments to access to encourage natural gas exploration and production.

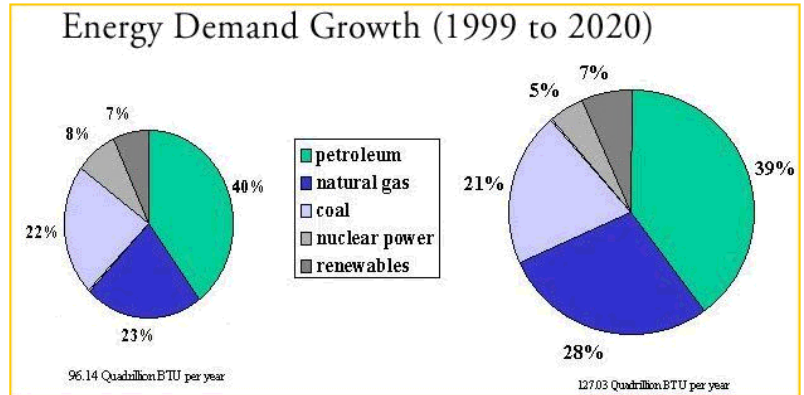


Ensuring America's Energy Supplies

- Energy is vital to every sector of the US economy. As our economy grows, the demand for energy rises.
- While conservation and renewable energy will play a part in solving national energy problems, oil and clean burning natural gas — sources that account for 65 percent of domestic energy use — will continue to play the dominant role well into the 21st century.
- The popular call for OPEC to “open the spigots” fails to recognize that the low oil prices of 1998-1999 reduced worldwide production capacity. Capital investment was slashed from the upstream industry everywhere; no one was immune.
- The collateral damage from low oil prices to the natural gas industry slowed exploration and development and, therefore, is affecting natural gas supply today because of lost investment in new exploration and production, and will until the industry recovers.
- Unlike oil, domestic natural gas supply is dependent on North American resources, with 80 to 85 percent coming from the US. Much of the most accessible natural gas lies under federally controlled lands.

*Information and data contained in the “Suggested Talking Points” was gathered from several sources including: IPAA, The Alliance for Energy and Economic Growth, the Energy Information Administration, and the National Energy Policy Development Group.

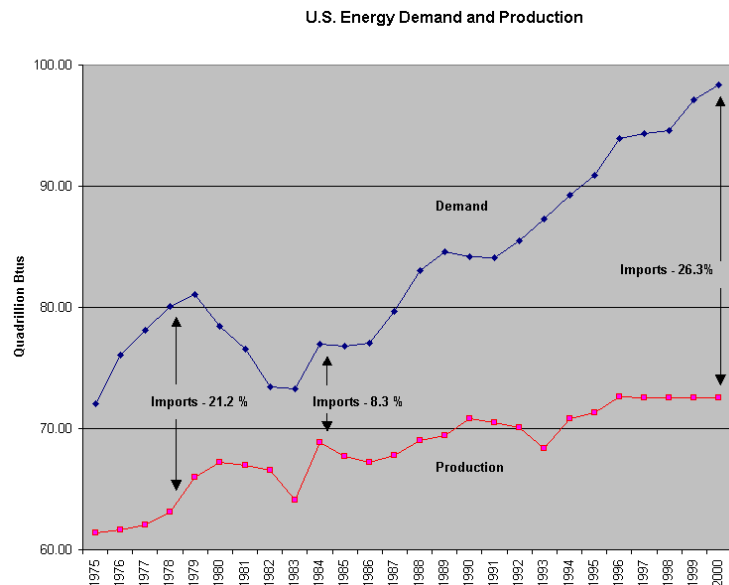
- The most recent forecasts by the Energy Information Administration (EIA) show that the demand for energy of all forms is likely to increase significantly over the next 20 years. By 2020, total energy consumption is expected to increase by 32 percent, petroleum by 33 percent, natural gas by more than 50 percent, coal by 22 percent, electricity by 45 percent, and renewable energy — including hydropower — by 26 percent.



- All oil and natural gas wells deplete over time. A decade ago the national average depletion rate was 16 percent. By 1999, this rate had increased to 23 percent. In other words, one fourth of US production was lost that year. To just replace this lost production, domestic producers must aggressively develop new properties. To meet future demand growth, even greater efforts must be made.
- US natural gas consumption has increased by roughly 13 percent over the past decade. The National Petroleum Council's 1999 *National Gas* study concludes that the number of domestic wells drilled annually needs to double by 2015 in order to meet future natural gas demand.
- US production of crude oil has declined from its peak of 9.6 million barrels per day in 1970. Much of this decline has occurred over the past 15 years. While domestic production had dropped to 8.7 million barrels per day in 1986, energy policies failed to recognize the importance of domestic oil production and respond to the consequences of shifts in international markets. By 1997, production had been reduced by another 2.2 million barrels per day — about 25 percent — to 6.5 million barrels per day. The toll of the 1998-1999 oil price drop has resulted in another 10 percent reduction to current production rates of approximately 5.8 million barrels per day.

- Since 1970, US consumption has increased from 14.7 million barrels per day to about 20 million barrels per day, or some 300 billion gallons per year. The number of operable US refineries declined from 315 in 1981 to 155 in 2000. And, there has not been a new major oil refinery built in the US in 25 years. According to EIA, net petroleum imports are projected to increase to 64 percent of US demand in 2020.

- As this chart indicates, US dependency on imported energy continues to increase. The imbalance between supply and demand raises the question of how energy supplies can be increased and infrastructure systems improved to meet current and future demand needs.

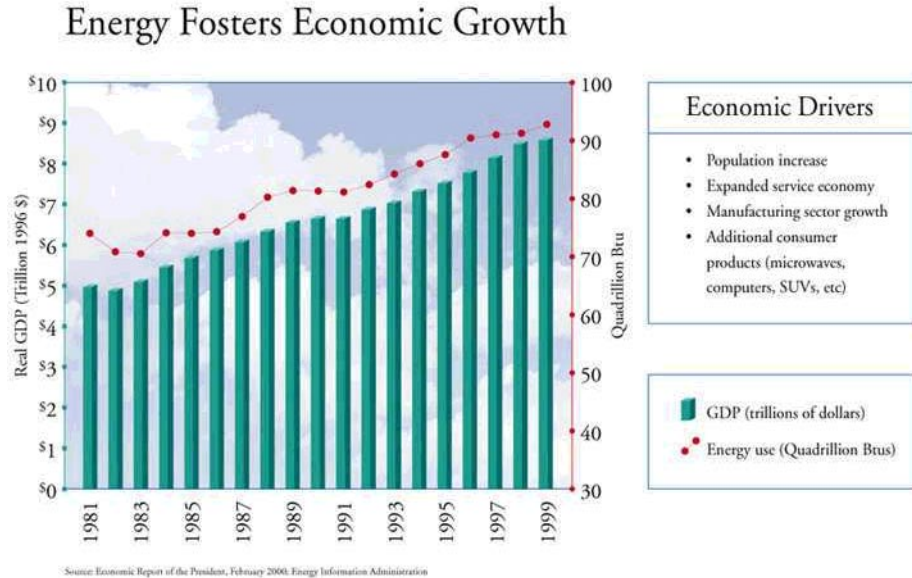


Energy Advances Economic Growth

- **“The fact of the matter is: our economy is run on energy.”**
— Bruce Josten, Executive Vice President, US Chamber of Commerce

- Energy fuels homes, offices, small businesses, and industries; powers computers and the Internet; and runs transportation.

- US prosperity is closely tied to the availability of stable supplies of energy. In fact, economic growth and energy growth follow cyclical trends, as the chart indicates.

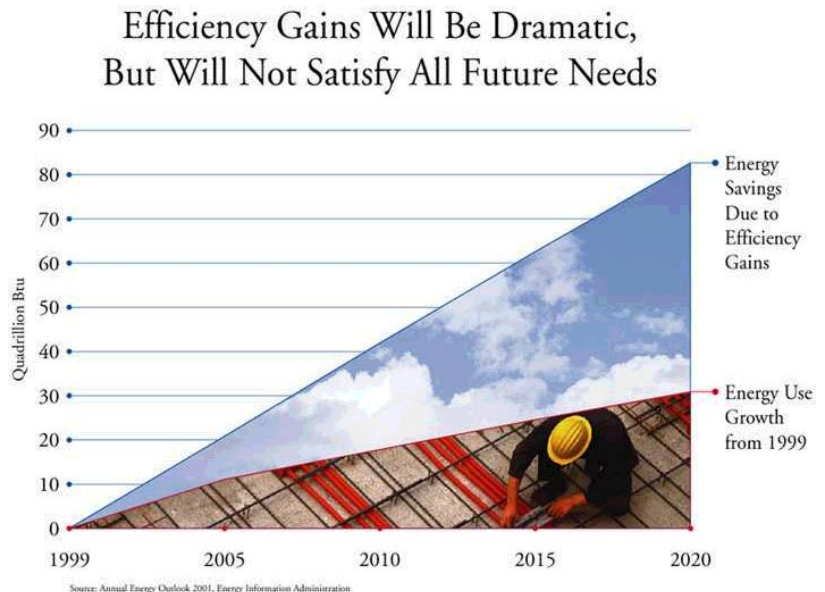


- Most of the new power plants built in this country are being fueled by natural gas. And, we need 38,000 miles of new natural gas pipelines just to deliver the gas that Americans need now.

- Failure to invest in our energy infrastructure has hurt our economy. In 1990, there were 405,000 US jobs exploring for and producing oil and natural gas. In 1999, there were only 293,000 jobs, a 27 percent decline. The producing industry alone lost 65,000 skilled workers in 1998-1999. It will take time to develop the infrastructure again to deploy new drilling rigs and provide the skilled services that are necessary to rejuvenate the oil and natural gas industry.
- Supply and demand imbalances — shortfalls in production and bottlenecks in delivery infrastructure — are more evident and threaten our continued economic prosperity.

Energy Efficiency Gains

- Energy efficiency improvements have had a major impact in meeting national energy needs since the 1970s, relative to new supply. While new technology applications will lead to additional energy efficiency improvements, these will not be enough to satisfy all future needs. As this graph illustrates, more than half of the nation’s incremental energy requirements through 2020 will be met through energy efficiency gains. However, the US will still need an additional 30 quadrillion Btu to support economic growth through 2020.



Common Sense And Cooperation

- Increasing domestic oil and natural gas supply is the sound environmental choice. The President is right not to accept “the false choice between environmental protection and energy production.” WE CAN HAVE BOTH.
- The producing industry is proud of its record of using advanced technologies to locate and produce oil and natural gas. It is wrong to suggest that energy production poses unmanageable environmental risks.
- Domestic producers can provide adequate supplies at realistic prices *and* meet environmental requirements. They are doing it every day — in the Rockies, in Alaska, in Appalachia, and in our offshore coastal waters.
- There is no single solution to our energy problems, just as there is no single culprit responsible for the creation of them. The President’s National Energy Policy will lead us to common sense solutions for our complex energy problems.

Profile Of Independents

- America’s more than 5,000 independent oil and natural gas producers and service companies operate in 33 states and in the coastal waters offshore.
- Independents derive their income primarily from the sale of oil and natural gas that they discover and produce in their operations. This is commonly called the “upstream segment” of the industry.
- Independent producers drill 85 percent of the wells in the US and produce 65 percent of the nation’s natural gas and 40 percent of the domestic crude oil.
- Independent producers range in size from large publicly traded companies to small “Mom & Pop” family businesses that drill only a few wells each year.
- Most independents have fewer than 20 employees. Yet, collectively, they are the key to future US energy exploration and production.
- For many smaller and mid-sized independents, their biggest problems are lack of capital for exploration and production, and a shortage of rigs and skilled workers. We have recovered only about 60 percent of the jobs lost in the 1998-1999 oil price crisis. And, a new study by FAC/Equities indicates that we will need to increase domestic drilling rigs for natural gas from the current level of 1,000 to a level somewhere between 1,500 and 2,000 in order to meet demand growth.
- The principal distinction between independent producers and integrated petroleum companies is that most independents operate solely in the exploration and production segment of the industry. Their income is derived almost exclusively from their own production. Only a few independents refine oil or process natural gas into products or sell their production on a retail basis.
- **“The price of energy can mean success or failure for many small businesses.”**
— Karen Kerrigan, Founder, Small Business Survival Committee