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Obama Energy Budget Punishes American Energy Production

*Could Shut Down Thousands of American Oil and Gas Wells,
Increase Imports, Lost Revenue*

Statement from Independent Petroleum Association of America President and CEO Barry Russell

(IPAA represents the companies that drill 90 percent of the nation's oil and natural gas wells and produce 68 percent of American oil and 82 percent of American natural gas supplies):

President Obama delivered a devastating blow to the American oil and natural gas industry today by proposing an astonishing \$30 billion tax increase (as part of his FY 2010 budget) on American energy producers, most of whom are small businesses.

Ninety percent of the oil and natural gas wells developed in the United States are done by small, independent businesses – not so-called “Big Oil” – so tax increases hurt these companies most.

Hurting American oil and natural gas production runs counter to the Obama Administration's interests. America's clean-burning, abundant natural gas will be essential to any clean energy agenda for the Administration. And America's natural gas and oil are critical to decrease our reliance on foreign oil. These proposals make no sense during this economy when increased, American energy could result in new jobs and more tax and royalty revenues. Coupled with his administration's delay in implementing the new five year plan for offshore exploration, this is not welcome news to the majority of Americans who favor increased American oil and natural gas production, especially from the offshore.

Royalties collected from the American oil and natural gas industry already account for the U.S. Treasury's second-largest income stream. Less American

oil and natural gas production would immediately result in less income for the federal and state governments.

This budget hurts our ability to be competitive with other nations in the growing world energy marketplace.

The budget proposal includes:

- Repeal Expensing of Intangible Drilling Costs – expensing of the some of the normal costs of business (i.e., fuel, repairs, hauling supplies). This attracts capital for high risk, cost-intensive businesses.
- Repeal of Percentage Depletion – as an oil or natural gas well is developed over time, it depletes the natural resource. This tax incentive allows for the “depreciation” of these wells many of which are small, barely economic wells. Without this provision, many could be shut down.
- Repeal Marginal Well Tax Credit – a credit that serves as a safety net for those wells that only produce small amounts of oil and gas. Most of these wells are barely economic to keep operating, but collectively they supply almost 20 percent of the nation’s oil and 12 percent of its gas.
- Repeal Enhanced Oil Recovery Credit – a credit that allows industry to get more energy from wells that are “tired” and depleted, instead of drilling new wells.
- Increases Geological and Geophysical Amortization Costs – allowed for some expensing of the high costs of doing seismic and other high-tech studies/surveys. Such surveys are important to locate reserves and reduce the number of dry holes and unnecessary wells (a.k.a. the industry’s footprint).
- Excise tax on Gulf of Mexico Production – where the nation produces much of its oil and natural gas resources and where much of our future energy supplies are located.
- Repeal of Manufacturing Tax Deduction – a provision given to every other American manufacturer. Allows for independent oil and natural gas produces to put more money into new energy projects.

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