

TO: NARO Members

FROM: Jeff Miller NARO President

DATE: May 13, 2009

SUBJECT: URGENT ACTION REQUIRED

It is now official. . . the President's budget will remove not only percentage depletion but basically all tax treatments for the domestic oil and gas industry if not stopped.

Several NARO members have just concluded two days of visits to over 20 members of Congress and their staffs. We were told the only way to get these tax repeals removed is for **YOU** to call, email, and/or write. If you have done this in the last few weeks, do it again and *again* and **again**. Tell your family and friends. Tell everyone you know. They do not need to be a NARO member or mineral/royalty owner. This will affect every energy consumer with higher prices, decreased domestic production and increased imports!

**YOU** are the only hope we have. **YOU** are the only hope you and your family have. *This is not an overstatement!* This budget has been presented to Congress; and without **YOU** letting them know how it will reduce your income and increase your taxes, they will vote for the budget and cripple "lil' oil."

For maximum impact, **try to make your calls or send your emails on May 20, 21 or 22** – just before the long Memorial Day weekend.

Stand up and be counted! Remember: "If not NARO, who? If not now, when?" Once enacted, these laws could follow our children, grandchildren and all future generations of descendants, forever.

NARO is only as strong and successful as the membership is active. We desperately need your help.

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**Sample Phone Script: Use your own words. Your personal story has power.**

"I am one of the millions of American royalty owners who will suffer economic hardships from the loss of percentage depletion for oil and gas income. I want (*Congressman \_\_\_\_\_ or Senator \_\_\_\_\_*) to remove repeal of percentage depletion and the other oil and gas industry tax incentives that are in President Obama's budget. This is a direct tax increase on me, even though my income falls well below \$250,000. It will also result in: less domestic oil and gas production; kill thousands of U.S jobs; lower local, state and federal production tax revenues; and raise energy costs for businesses, industries and individual consumers."

**Call the following offices: *It does not matter if you do not live in these states***

Senator Daniel Inouye (HI) 202-224-3934

Senator Byron Dorgan (ND) 202-224-2551

(over)

Senator Richard Durbin (IL)	202-224-2152
Senator Max Baucus (MT)	202-224-2651
Senator Evan Bayh (IN)	202-224-5623
Senator Mark Begich (AR)	202-224-3004
Senator Michael Bennet (CO)	202-224-5852
Senator Jeff Bingaman (NM)	202-224-5521
Senator Sherrod Brown (OH)	202-224-2315
Senator Robert Casey Jr (PA)	202-224-6324
Senator Kent Conrad (ND)	202-224-2043
Senator Russ Feingold (WI)	202-224-5323
Senator Kristen Gillibrand (NY)	202-224-4451
Senator Kay Hagan (NC)	202-224-6342
Senator Tim Johnson (SD)	202-224-5842
Senator Amy Klobuchar (MN)	202-224-3244
Senator Blanche Lincoln (AR)	202-224-4843
Senator Claire McCaskill (MO)	202-224-6154
Senator Patty Murray (WA)	202-224-2621
Senator Bill Nelson (NE)	202-224-6551
Senator Mark Pryor (AR)	202-224-2353
Senator John Rockefeller IV (WV)	202-224-6472
Senator Charles Schumer (NY)	202-224-6542
Senator Jon Tester (MT)	202-224-2644
Senator Tom Udall (NM)	202-224-6621
Senator Mark Udall (CO)	202-224-5941

#### HOUSE WAYS and MEANS Committee Democrats

Congressman <u>Charles B. Rangel</u> , NY	202-225-4365
Congressman <u>Fortney Pete Stark</u> , CA	202-225-5065
Congressman <u>Sander M. Levin</u> , MI	202-225-4961
Congressman <u>Jim McDermott</u> , WA	202-225-3106
Congressman <u>John Lewis</u> , GA	202-225-3801
Congressman <u>Richard E. Neal</u> , MA	202-225-5601
Congressman <u>John S. Tanner</u> , TN	202-225-4714
Congressman <u>Xavier Becerra</u> , CA	202-225-6235
Congressman <u>Earl Pomeroy</u> , ND	202-225-2611
Congressman <u>Mike Thompson</u> , CA	202-225-3311
Congressman <u>Earl Blumenauer</u> , OR	202-225-4811
Congressman <u>Ron Kind</u> , WI	202-225-5506
Congresswoman <u>Shelley Berkley</u> , NV	202-225-5965
Congressman <u>Joseph Crowley</u> , NY	202-225-3965
Congressman <u>Chris Van Hollen</u> , MD	202-225-5341
Congressman <u>Kendrick Meek</u> , FL	202-225-4506
Congresswoman <u>Allyson Y. Schwartz</u> , PA	202-225-6111
Congressman <u>Artur Davis</u> , AL	202-225-2665
Congressman <u>Danny K. Davis</u> , IL	202-225-5006
Congressman <u>Bob Etheridge</u> , NC	202-225-4531
Congresswoman <u>Linda T. Sanchez</u> , CA	202-225-6676
Congressman <u>Brian Higgins</u> , NY	202-225-3306
Congressman <u>John A. Yarmuth</u> , KY	202-225-5401

## Obama's Final 2010 Budget Seeks Repeal Of Oil And Gas Provisions

President Barack Obama wants to repeal percentage depletion, expensing of IDCs, the marginal well tax credit, the enhanced oil recovery tax credit, tertiary injectants deduction, the passive loss exception for working interests owners, change the amortization rate for independents to 7 years for geological and geophysical costs, deny oil and gas companies a foreign tax deduction available to other businesses under Section 199, and implement an excise tax on new Gulf of Mexico production.

The proposal will now go to the House Ways & Means Committee for review. **Charles Rangel** heads the tax-writing committee and three Texans sit on the committee: **Lloyd Doggett** (D-Austin), **Sam Johnson** (R-Plano) and **Kevin Brady** (R-The Woodlands).

Alliance consultant **Charlie Stenholm** is working members of the committee and other member of the Texas delegation to explain the importance of the tax provisions to independents, who drill 90% of the wells in the U.S.

Rumors persisted during the Easter break that the Administration and key members of the House had agreed to take percentage depletion and IDCs off the table. However, this Administration doesn't believe "to significantly subsidize the production and use of sources of energy that are dramatically going to add to our climate change imperative. We don't think that's good economic policy, and we think changing those incentives is good for the country," Treasury Secretary **Tim Geithner** said to the Senate Finance Committee on March 4.

If we are to defeat Obama's proposal, you must (1) write letters to your Congressman; (2) write letter to Doggett, Johnson and Brady; (3) write letter to Rangel. Important facts to include:

- These tax provisions impact independent producers, not Big Oil.
- Independents, who drill 90% of the wells in the U.S., are small companies usually with 20 or fewer employees.
- Independents, unlike major oil companies, use their personal money to drill risky wells.
- Repealing the percentage depletion and IDCs, which were passed by Congress almost 100 years ago, will increase foreign oil imports.
- Shortages of oil and natural gas supplies will put upward pressure on prices.
- Independents, not majors, drill most of the wells in the Gulf of Mexico.

Also, put a notice in all of the checks you mail out (royalty owners, service companies, etc.) that you want them to write a letter, too.

**NOW IS THE TIME TO PROTECT YOUR COMPANY, YOUR FAMILY, YOUR JOB! NOT TOMORROW; NOT NEXT WEEK. TODAY!**

Below is the last four digits of your Congressman's fax #. The first 7 are 202-225-xxxx.

Joe Barton-3052	Kevin Brady-5524	Michael Burgess-2919	John Carter-5886
Mike Conaway-1783	Henry Cuellar-1641	John Culberson-4381	Lloyd Doggett-3073
Chet Edwards-0350	Louie Gohmert-1230	Charles Gonzalez-1915	Kay Granger-5683
Gene Green-9903	Al Green-2947	Jeb Hensarling-226-4888	Ralph Hall-3332
Ruben Hinojosa-5688	Sam Johnson-1485	Kenny Marchant-0074	Michael McCall-5955
Pete Olson-5241	Ron Paul-226-6288	Ted Poe-5547	Silvestre Reyes-2016
Ciro Rodriguez-2237	Pete Sessions-5878	Lamar Smith- 8628	Mac Thornberry-3486
Solomon Ortiz-226-113	Randy Neugebauer-9615	Eddie Bernice Johnson-226-1477	Shiela Jackson Lee-3317

## Comparison Of Tax Provision For Majors And Independents

<b>Tax Provision</b>	<b>Major Integrated Company</b>	<b>Independent producer</b>
Expensing of intangible drilling costs	Not available. Majors raise their drilling capital internally. Stock holders provide funding. Most of their revenues comes from foreign operations.	<b>Able to expense drilling costs in the year incurred. Important to smaller companies that have to drill with personal money, because the quicker costs recouped the more wells they can drill.</b>
Percentage depletion	Has not been available to majors for more than 30 years.	<b>Helps small producers keep marginal wells (15 barrels or less per day) producing. Percentage depletion is limited to 15% of gross oil and gas income. Also limited to first 1,000 b/d. Limited to net income from marginal properties through 2009. Amount deducted for depletion cannot exceed 65% of taxpayers income before the deduction.</b>
Repeal of passive loss exception for working interests	Does not apply.	<b>Working interest owners are investors who share the costs in drilling and production. Current tax law allows WI owners to be classified as an active, rather than passive, investor if they do not have limited liability.</b>
Geological and geophysical costs	Majors must amortize costs over 7 years.	<b>Independents currently must amortize G &amp; G costs over 2 year period. The economic life of a property for independent is considerably less than 7 years, which is the new proposal.</b>
Marginal well tax credit	Never been in effect because prices have never reached the trigger point since enacted.	<b>Never been in effect because prices have never reached the trigger point since enacted.</b>
Enhanced Oil Recovery (EOR) tax credit	Available to majors, but has been rarely used.	<b>Available to independents, but not many have decided to apply for the credit because of bureaucratic red tape and the costs to implement.</b>
Manufacturing tax deduction	Designed to encourage creation of jobs in U.S. rather than taking employees overseas.	<b>This is a current benefit to independents but it is insignificant.</b>
Excise tax on Gulf of Mexico production.	Majors are still active in the Gulf of Mexico somewhat, but most are pulling out.	<b>Independents are drilling most of the new wells in the Gulf today. They would be hit hardest by a new tax.</b>

Key points to remember: Independents raise capital from U.S. sources – most of it personal – while majority of majors’ income comes from foreign sources.

Independents drill 90% of the wells in the U.S. and produce 88% of the natural gas and 65% of the oil. Proposed tax changes would drive most small independents out of business, because they would not be able to raise capital for risky wildcat ventures. Dry hole costs must be deductible. If not, no one will risk drilling dry holes looking for new production.

Source: Texas Alliance of Energy Producers, April 2009

Comparison/2009/fed/govt rel

# Negative Economic Impact 2010 Federal Budget Proposals On Oil And Gas Extraction Industry

	National	Texas
Drilling Rig Count (April 17, 2009)	975	384
Drilling Rig Count in 12 months if passed	480	190
Crude Oil Production (000,000 bbls 2007)	1,800	397
Crude Oil Plugged 2009 to 2012 (000,000)	735	161
Increase in imported oil (\$50/bbl)	\$36,750,000,000	
Loss in oil production tax (Texas:2008-2012)	\$919,000,000	
Natural gas production (trillion cubic feet 2007)	26.0	7.4
Natural gas plugged (tcf 2009-2012)	19.5	5.6
Loss in gas production tax (Texas: 2008-2012)	\$2,026,000,000	
Employment (Oil & gas extraction and service 2008)	221,200	
Employment (2012)	150,000	

In addition to losing 30% of its workforce and an estimated \$3 billion in production taxes, the state and local governments will lose significant tax payments in the form of property taxes, sales taxes and other taxes and fees. The total negative economic impact to the State of Texas alone would be about \$20 billion over the next four years.