March 18, 2009

The Honorable Barack Obama
President of the United States
1600 Pennsylvania Ave, NW
Washington, DC 20500
Fax # 202-456-2461

Dear President Obama:

American energy for America. We must produces as much as possible in America for the American consumer.

The Texas Alliance of Energy Producers represents more than 3,200 individuals and companies involved in the exploration and production of crude oil and natural gas primarily in Texas. Six-out-of-10 has 10 or less employees and 95% have less than 100 employees. They are small, independent oil and gas companies that are the backbone of the industry.

Independent oil and gas producers drill more than 90% of the wells in the U.S. and produce most of the oil and natural gas. In Texas, independents drill 96% of the wells and produce about 90% of the crude oil and natural gas. Independents typically have 10 or less employees. However, they range in size from large (over 1,000 employees), publicly-held companies to the small mom-and-pop that literally are run out of the family kitchen.

The proposed tax provisions would be bad for all independents. The larger companies would be more affected by the proposed excise tax on Gulf of Mexico production, the manufacturing credit, geological and geophysical amortization and repeal of expensing of intangible drilling costs (IDCs).

The smaller companies are hardest hit by the repeal of percentage depletion, expensing if IDCs, removal of the passive loss exemption for working interest owners and geological and geophysical costs.

If the provisions are enacted, only 498 to 732 rigs will be running one year after the tax proposals take place. The rig count today is 1,170. The lowest U.S. rig count in history occurred in March 1999 with 488 rigs working and when crude oil was $12 per barrel and natural gas was $2.19 per thousand cubic feet.

What does all this mean? Crude oil and natural gas are depleting resources. One of the oldest sayings in the oil and gas business is: “The day you produce your first barrel of oil or gas is the day you start going out of business.” Because oil and gas are depleting resources, independents must continue to drill for new reserves or they will eventually produce themselves out of business.

We estimate that crude oil production will decline from 1.8 billion barrels of oil in 2007 to 1.4 billion barrels in 2012, or 22% decline. Between 2009 and 2012 an estimated 735 million barrels of oil will be plugged unnecessarily in the U.S.

The decline rate for natural gas will be even more dramatic. After increasing production by 6% in 2008, we estimate that because of the lack of drilling, production will decrease 5% in 2009 to 24,743,000 million cubic feet, 8% in 2010 to 22,783.000 million cubic feet, 12% in 2011 to 20,049,000 million cubic feet, and 15% in 2012 to 17,027,000 million cubic feet.

Where will the crude oil and natural gas come from to meet demand? Obviously, OPEC will be a key provider of crude oil. The U.S. imports more than 60% currently and import levels will surpass 70% soon if the tax provisions are enacted into law.

Natural gas has been hailed as the cleanest fossil fuel, and could be a leader in reducing carbon emission in the future as an electric generation fuel and transportation fuel. However, if supplies of natural gas decline 30%, there is little chance that there will be enough supplies to even cover electric demand much less expand to transportation.

In summary, key points to remember about the impact of oil and gas tax provision of the proposed 2010 budget are:

- They primarily impact small, independent producers **NOT** "Big Oil."
- Independents drill 90% of the wells in the U.S.
- The drilling rig count will decline dramatically, because independents will have difficulty raising drilling capital.
- Production of crude oil and natural gas will decline along with the rig count
- Oil and natural gas imports will increase.
- As supplies decrease, more pressure will be exerted on rising prices.

We are enclosing a one page summary pointing out the importance of these tax provisions to independent crude oil and natural gas producers. Thank you for visiting with us, and I hope you will share the severity of these issues with the Congressman.

In closing, we would like to reiterate that America needs America's energy, that the tax provision in the budget plan primarily impact independent producers not Big Oil, and that natural gas must play an important role in our future.

Sincerely,
Mark Metzler
Chairman of the Board