

Presentation by

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U.S. House of Representatives

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Distinguished members, it is a pleasure for me to present to you my analysis of President Obama's proposed 2010 budget which calls for the repeal or change of several key tax provisions for small, independent, oil and natural gas producers in the United States.

I'm here as President of Felderhoff Production Company, an independent oil and natural producer based in Gainesville, Texas and as Chairman of the Texas Alliance of Energy Producers, an organization representing over 3200 members, most of which are small producers like myself with 10 employees or less. It should be noted that despite our Company size, independent producers drilled 96% of the wells in Texas in 2008.

The Obama budget changes provisions that have been in place for these small energy companies for decades. Previous Congresses passed the tax provisions so independents could compete with major oil companies and to stimulate capital investments in our very risky business. Obama's tax provision should raise an estimated \$31 billion from independents over the next 10 years by:

- repealing percentage depletion and expensing of intangible drilling costs (IDCs), and removing the passive loss exception for working interest owners;
- removing the tax credits for marginal wells, enhanced recovery and the manufacturing tax credit
- increasing the amortization of geological and geophysical costs from two to seven years.

If these provisions are enacted, the drilling rig count would likely drop to between 500 and 800 active rigs within a 12 month period. The current rig count is about 1,170. A decline in the rig count means that the industry will not be replacing reserves and the independent sector of the industry will begin to slowly go out of business. This decrease in domestic production will occur much faster than our nation's ability to replace oil and gas with renewable energy sources. As a consequence, expensive imported energy will be required to replace the energy we could produce here.

The job loss will be staggering. We estimated that our industry will lose about 300,000 jobs across the United States in the drilling and production sector of the business. Lower product prices are adversely affecting independent producers and removing the tax deductions that are so critical would be a death blow. I stress that the Companies being impacted by these budget provisions aren't the Exxons or the major oil companies of the energy industry, they are small businesses that derive their income from drilling for and producing energy in the United States. They provide hundreds of thousands of quality jobs and drill the vast majority of the new wells in The United States. Most recently, the spike in domestic natural gas production was achieved almost entirely because of the success by independents exploiting new resource plays. We are the Exploration and Production business in this country. Profits made by independents are taxed here and free cashflow is used to drill more wells here.

In closing, I would like to thank you for allowing me to make this presentation, and to alert you to the damage that will be caused by the proposed budget provisions. It is my hope that we can find a way to preserve an industry employing Americans here at home rather than increase reliance on foreign energy sources. I would be delighted to answer any questions you may have for me.