

Gas Daily

Wednesday August 5, 2009

Colorado senators break with Obama on E&P taxes

Saying it would disproportionately harm independent producers, Colorado's two Democratic US senators have gone on record opposing a White House plan to repeal two tax breaks currently enjoyed by the oil and gas industry.

In a letter late last week to Max Baucus, chairman of the Senate Finance Committee, and Charles Grassley, the committee's ranking Republican, Senators Mark Udall and Michael Bennet argued against repealing the deduction for intangible drillings costs and the percentage depletion credit for production.

In its proposed fiscal 2010 budget, the Obama administration proposed eliminating those tax breaks and six others geared to the upstream oil and gas industry, saying it would raise about \$26 billion for the US treasury over the next 10 years.

However, Udall and Bennet said repealing the tax credits, particularly the IDC deduction, "will have adverse effects on small businesses and could spur long-term job losses as well as limit our ability to transition to a clean-energy economy."

The senators said elimination of the IDC deduction would especially be damaging to independent producers, "who take the risk in exploring for and developing the large majority of our domestic natural gas reserves."

They said independents would also be hard hit by removal of the percentage depletion credit, which helps small E&P companies recover their capital investment in a mineral reserve. "It is also an important tax credit for royalty owners, many of whom are retirees who live in rural areas and on fixed incomes," Udall and Bennet wrote.

The Finance Committee is expected to consider the administration's budget proposals this fall as it formulates new tax legislation.

Representatives of the E&P industry applauded the two senators' stance. Marc Smith, executive director of the Independent Petroleum Association of Mountain States, praised their "independent thinking and leadership" on the issue of the IDC.

"They clearly understand that tax increases would make it more expensive to produce the natural gas we need to increase energy security, make renewable energy sources viable, and address climate change," Smith said.

Without the IDC deduction, the amount of capital earmarked for US gas production would drop by 30% to 50%, Smith asserted. "These tax increases will render many natural gas projects in the Rocky Mountain region uneconomic at today's prices and will have the perverse effect of destroying thousands of green jobs that already exist in the natural gas industry," he added.

"We're very pleased that they've come out so strongly against removing these tax treatments," Lee Fuller, vice president of government relations of the Independent Petroleum Association of America, said Tuesday. "Both of those provisions are very important to independent producers."

Fuller said the IDC measure has been part of the US tax code since 1913 to encourage investment in domestic resources.

"If we were to lose that provision, it would probably reduce drilling budgets by 20% to 45% by independent producers," Fuller said, adding that about half of the gas produced today comes from wells drilled in the past four years.

"So if you were to lose that kind of investment, it would have an impact on production fairly quickly," he said.

The percentage depletion credit, which has been in the tax code since 1926, is "very much a provision that affects smaller producers," Fuller said. "If it were to be repealed, it would put America's marginal well production at significant risk."

He added that marginal wells account for about 12% of US gas production and between 19% and 20% of US oil output. — *Jim Magill*