

**BARGER ENGINEERING, INC.**

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Family & Friends,  
Royalty & Working Interest Owners  
Barger Engineering, Inc. Operated Properties

Re: President Obama's Proposed Fiscal  
Year 2010 Budget

On February 26, 2009, President Obama unveiled his proposed Fiscal Year 2010 Budget. The proposed tax increases will lead directly to higher energy prices and more dependence on foreign oil and natural gas. It is in everyone's interest to make sure these tax increases do not become law. Contact your Representative and both of your Senators and tell them you want a strong domestic oil and gas industry.

Family & Friends

The proposals change the way oil producers are taxed. In the early twentieth century, politicians understood that a healthy oil and natural gas industry was important to our economy. This was in a time when we exported oil. Now, when nearly two-thirds of our oil is imported, our domestic oil and natural gas industry is even more vital.

To reduce the decline in our production, we must keep drilling. Higher taxes will mean less drilling. The proposed 13% excise tax on production in the Gulf of Mexico will reduce deep water drilling to a small fraction of what it will be otherwise. Last year, the public's outcry over bans on offshore drilling outside of the Gulf of Mexico pushed the government to repeal the ban (sort of). They have now reinstated the original ban and the proposed excise tax will create a virtual ban in the deep waters of the Gulf.

Most of the tax treatments we receive are not "tax breaks". They are part of the tax code because they make sense. We are allowed these treatments because of the nature of our unusual and risky business.

The proposed Carbon Cap and Trade program means higher prices for electricity, gasoline, diesel fuel, propane, and natural gas. For many existing producing properties, electricity is the largest monthly expense. More of America's oil production will be associated with the production of ever larger volumes of water, which requires more and more electricity. Higher electric bills will result in prematurely abandoned wells.

The website <http://www.congress.org> makes it very easy for you to contact your elected officials. Congressional staffers actually prefer email.

If you want more detail, read on and go to the Independent Producers Association of America's (IPAA) website, <http://www.ipaa.org>.

### Royalty Owners

The proposed budget's most direct assault on you is the elimination of Percentage Depletion. This has been in the tax code since 1926. Its elimination will mean 17.6% increase in taxes on your oil income. Indirectly, the increased taxes on operators and increased energy costs will mean the premature abandonment of the wells on your property. This will mean less income for you and your heirs.

### Working Interest Owners

IPAA does a much better job than I to explain the new tax treatment but here's a summary of the changes I believe will affect us most.

**Percentage Depletion** elimination will affect us even more dramatically than the Royalty Interest Owners. Marginally profitable wells will no longer be worth the environmental and mechanical risk. We will have less to invest in additional drilling and development.

**Intangible Drilling Costs** will no longer be allowed to be expensed and will have to be depreciated. Expensing Intangible Drilling Costs has been part of the tax code since 1913. Many of you invested in the oil business only because you knew if you failed to make a well you could write off the entire investment. Capital from new investors will not make it to our industry. It will also greatly reduce drilling by current oil and gas investors and operators.

The **Passive Loss Exception** for Working Interest in Oil and Gas Properties will be eliminated. Meaning you will not be able to write off Oil and Gas losses against other income. This will further reduce capital from new investors. Few people whose primary business is not Oil and Gas production will want to take the risk of drilling.

Thank you.

Sincerely,

Matthew S. Stone, PE  
Vice President  
Barger Engineering, Inc.

MSS/s