

*Brad Henry*  
*Governor*

May 5, 2009

The Honorable Barack Obama  
President of the United States  
The White House  
1600 Pennsylvania Avenue, N.W.  
Washington, D.C. 20500

Dear Mr. President:

I am writing about an objective that we both agree is critical to the future of our country: energy independence. I commend you for launching a comprehensive initiative to enhance clean-burning domestic energies and reduce dependence on foreign oil. I strongly support and applaud your efforts on this front.

As the governor of an energy state and chairman of the Interstate Oil and Gas Compact Commission, I feel it is important to highlight an issue of grave concern regarding the Administration's 2010 budget proposal. I share the concerns of many energy industry experts who believe the proposals to repeal the intangible drilling cost credit (IDC) and the depletion allowance will trigger unintended consequences that threaten our domestic industry and economy as we work to achieve energy independence and economic recovery.

The elimination of IDC and the depletion allowance, both of which have been codified in the Internal Revenue Code since 1913 and 1926, respectively, will hit America's small independent natural gas and oil producers the hardest and significantly curtail domestic production. Independents drilled 90 percent of the natural gas and oil wells in the United States last year, accounting for 82 percent of the natural gas production and 68 percent of the oil production. In recent years, independents have reinvested more than 100 percent of their cash flow toward new production and new drilling.

As currently written, the proposed budget would severely undermine their efforts. Already, declining commodity prices since August have reduced domestic natural gas and oil drilling by approximately 50 percent. **If vital tax provisions like IDC and the depletion allowance are repealed, independent natural gas and oil producers will be forced to immediately slash their drilling budgets an additional 20 to 30 percent.** Energy analysts believe such a reduction in domestic drilling would significantly slow the drive toward energy independence and hinder our economic recovery efforts, especially in states like Oklahoma.

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As you have rightly noted on multiple occasions, we must boost domestic oil and gas production as we transition to renewable energy. Indeed, oil and natural gas will supply important domestic energy needs as we commercialize critical renewable technologies and boost energy efficiency. The fact that natural gas is clean-burning, domestic and provides critical back-up generation for renewable power makes it a critical fixture of our long-term diversified energy portfolio. Simply stated, the U.S. will not increase its energy independence without relying on domestic oil and natural gas as bridge fuels to our future.

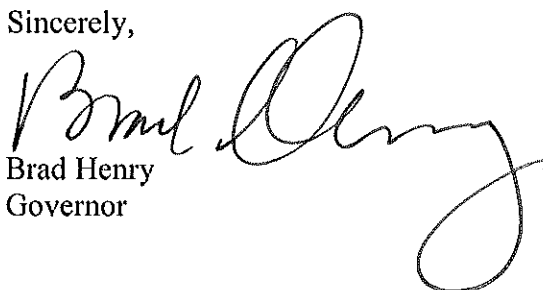
Oklahomans are contributing to America's energy security. We will continue to invest in visionary alternative energy research and technologies and support increased efficiency and demand-reduction initiatives. Nevertheless, it is imperative that state and national policies continue to support the domestic natural gas and oil industry. In an energy state like Oklahoma, the domestic oil and gas industry is a critical player in the state's economy, from the capital it injects in local markets to the revenues it produces to fund critical services such as education and health care. We cannot afford a weakened industry, particularly during these difficult economic times.

In short, it is my belief, based on years of first-hand experience, that repealing important oil and natural gas tax provisions will do far more harm than good, reducing domestic production and related economic activity while increasing energy costs for consumers.

As a chief executive, I know you must make many difficult decisions in assembling a budget proposal during these very trying times. I respectfully ask that you review and reconsider the energy proposals in question.

I am very proud of all that you have accomplished in your first one hundred days in office, and I greatly appreciate your efforts to achieve energy independence. I stand ready to work with you in any way I can. Thank you and, of course, please do not hesitate to contact me should you have questions or need additional information or assistance.

Sincerely,

  
Brad Henry  
Governor