

## ***Obama Budget Threatens Major White County Resource***

If I were to ask you, the typical White County resident, how important the oil industry is to the economy of our county, most would probably answer at least “important” and many may answer “very important”. After all, one can barely travel within our county without seeing the silhouette of pumping units and tank batteries on the horizon. Our streets and highways are dotted with oil company offices, oilfield service providers and supply stores. Many residents have deep roots in the industry and for some it is the very reason your family settled in White County.

Now if I were to ask you to take a guess on which county produces the most oil in Illinois, what might you say? If you were to say White County, you would be correct. Yes, out of the approximate 9.42 million barrels of oil produced in Illinois during 2008, White County tops the list with a little over 1.1 million barrels or 11.8% of the total. This vital resource generated approximately \$103 million of direct value to the many operators and royalty owners of our County. The total economic benefit is huge when one considers the wages earned, supplies sold and taxes collected in the county as a result of this industry.

The Illinois oil industry is considered a “stripper or marginal well” business. This means that the average well produces fewer than 15 barrels of oil per day. As a matter of fact, considering the 2008 production and the estimated 16,000 active producing wells, Illinois wells average only 1.6 barrels per day. In the US as a whole, approximately 420,000 similar low volume wells account for roughly 20% of the total domestic production or 1.2 million barrels per day. White County has done its part to curb imported oil by essentially providing the equivalent of one day’s production. This may not sound like much but the point is to illustrate that the small, independent operator, like those right here in White County, are vital to our country’s overall energy structure.

President Obama, in his 2010 budget request, has proposed changes to the oil & gas tax code that will serve to devastate this vital industry in White County, the State of Illinois and across the US. More specifically, the president has proposed the elimination of the Percentage Depletion Allowance for oil & gas production. This item was established in 1926 because oil and gas reserves deplete or are used-up over time as you produce a well. Percentage Depletion allows one to write-off 15% of the sales for every marginal well because the asset we have is dwindling away a little bit each and every day. When the well eventually runs dry and has to be abandoned, there is no asset remaining that has value. The allowance provides incentive to continue drilling and looking for new oil to replace it. Every royalty owner receives this deduction as well as the operator.

The Second item proposed for elimination allows for the Expensing of Intangible Drilling Costs. This provision was also established many years ago, in 1913, for a reason. To successfully raise the capital to take the extreme risks associated with oil & gas exploration this mechanism was put in place as a way to write-off some of the investment against their income. These intangible items include labor, contract services, consumables, etc. The tangible items such as casing, tubing, pumping units, tanks, etc. are depreciated over time as the accounting rules allow. Without this provision people are less inclined to invest in this high-risk endeavor where typically a producer is found once from every seven wells drilled.

Neither one of these items have anything to do with “Big Oil” as they try to make you believe. The items are only available to companies that produce 1,000 barrels or less per day. It is however an attack aimed directly at small independents like many of your friends and neighbors. There are other issues related to the oil and gas industry that are targeted by the Obama budget but none of them strike any harder a blow to our local economy in White County more than Percentage Depletion and Expensing of Intangible Drilling Costs.

The proposed tax increases will lead directly to higher energy prices by reducing domestic exploration and more importantly deal a deadly blow to Independent Operators everywhere. Can you imagine the impact to White County if this major industry is allowed to fade? It is in the best interest of every citizen to do their part to see that these tax increases do not become law. Please contact your Representatives and Senators to let them know what this industry means to you and your fellow citizens.

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