

President Obama's Proposed Budget Will Destroy the Small, Independent Crude Oil Operator & Make the US Even More Dependent on Foreign Oil

I am a small, domestic, crude oil operator/owner and am worried that if President Obama's budgetary plans become law, small independent operators of stripper oil wells (which produce an average of 1-2 barrels/day), like me, would not survive. That is because most, if not all, important oil & gas tax incentives for the entire industry would be eliminated in 2011, by the President's budget.

Why should Americans care?

Most Americans know the **US imports 60% of its oil needs** and the 40% remaining production comes from domestic oil producers. What they do not realize is half of that 40% domestic production comes from stripper oil wells, 80% of which are owned and operated by small, independent, crude oil operator businesses like mine. If these small businesses disappear because certain oil & gas tax incentives are eliminated, our country will face a deepening national security crisis as it will suddenly be **80%** dependent on foreign oil imports to meet our daily energy needs.

Big Oil & Independent Crude Oil Operators Are Different

The Administration and Congress need to understand the financial differences between large, integrated oil companies and small, independent oil operator businesses to make the right decisions for our country's national security, energy needs, and financial well-being. **Policymaking for oil should not be a "one size fits all" proposition, as the budget calls for.**

Independent Crude Oil Operators are Small Business Owners

I have been a small, domestic oil operator/owner for 28 years. Our family-owned, independent, oil business was established in 1957 in the Illinois Basin (IL, IN, & KY) and currently operate 90 wells. We have survived three depression cycles in the domestic oil industry, beginning in 1986 when we produced close to 250 stripper wells. Today, we find ourselves once again struggling to survive because **low crude oil prices are squeezing our stripper well profits.** We are managing lay-offs, and trying to keep the rest of our employees in jobs in a rural community.

The only source of our profit is at the wellhead after paying the monthly operating expenses to get the oil out of the ground and into a tank plus Spill Prevention Control Commission (SPCC) & Illinois Department of Natural Resources (IDNR) regulatory expenses. Many stripper wells can take up to three months to fill a tank before the well's oil can be sold to the refinery.

The refinery sets the price for our oil. Today in the Illinois Basin, only three oil buyers/two refineries remain because of mergers/acquisitions over the years, seriously limiting price competition for our sweet crude oil.

Illinois Basin refineries/buyers currently discount our sweet crude oil price by \$8.25 per barrel below West Texas Intermediate (WTI) pricing. There is talk that this discount (“the spread”) will increase in the future, squeezing marginal stripper well profits even more.

These financial differences make our daily operations very different from the integrated large international oil companies that earn revenue from several sources and regularly announce huge quarterly and annual profits. **Federal budget and tax policy needs to account for those differences.**

Oil Depletion Allowance Critical to Stripper Oil Well Producers

President Obama’s plan for decreasing our dependence on 60% imported oil is a worthy cause by developing alternative energy sources in our country. However, **I do not believe the President wants to lose the current 40% domestic oil production our country depends on every day to meet our energy needs.** However, if the oil depletion allowance and intangible drilling costs were eliminated as tax incentives for the independent crude oil producer along with Big Oil, as the President’s budget proposes, Americans would see our imported oil dramatically increase by 20% to meet current energy needs. That would happen because **all stripper well production would be lost. That loss will happen much faster than alternative energy sources can take up the slack.**

This prediction is not a “sky is falling” fear-factor because it’s happened before. America lost 75% of our domestic oil production and technical labor in 1986 because the federal government chose not to support our domestic oil industry and save the stripper oil wells when prices fell to \$9-\$10/barrel. We began to import 40% crude oil then which has increased to 60% now. **Many small independent oil production businesses did not survive that serious legislative mistake in 1986.**

Our CPA advised me that if we lose the oil depletion allowance, our existing production would see **an immediate 5% tax increase on gross revenue even if marginal stripper oil wells made no profit for the year because of low oil prices.** This would be the final devastating blow to all stripper oil well operator businesses.

It is critical that our hard- earned stripper well profits retain the 15% depletion allowance tax incentive to offset well rework gambles we take every day in the oil patch, trying to maintain and increase oil production on our existing wells, while incurring expenses with no guarantee the ‘fix’ will work.

Intangible Drilling Cost Write-Offs Vital to Small Crude Oil Producers

Costs for drilling and completing new vertical wells in the Illinois Basin range between \$150,000 and \$200,000. **Only one in ten drilling ventures is successful in producing new oil reserves**, creating a high risk to invested capital.

We do not have deep pockets like integrated international oil companies to self-finance high- risk capital drilling for new reserves over the long term. We need the 100% tax write offs of intangible drilling costs in the same year they are incurred to replace our modest, high- risk capital budgets.

Jobs, Jobs, Jobs

I do not believe President Obama is interested in putting Mom & Pop small businesses out of business. We create local jobs in our communities and need to continue to produce those important stripper oil well barrels for our country's energy and security needs and to support our struggling economy. **No more jobs can be lost. No more barrels can be lost.**

Americans will continue to use manufactured products in our daily lives, which include ingredients from the oil refining process (jet fuel, heating oil, etc.). Our military needs fuel to keep us safe. We also need to avoid becoming 100% dependent on imported oil as Japan and France are today.

What we need

President Obama and Congress can protect the viability of America's domestic stripper oil well operators by retaining depletion allowance and intangible drilling tax incentives for these small businesses.

Any future tax changes for the domestic oil industry must address the structural and financial differences between the integrated international major oil company and the small independent crude oil operator, like ours, to ensure our survival.

America needs us and other small businesses to support our national security, create jobs, help stabilize our economy, and reduce imported oil dependence by protecting our current level of 40% domestically- produced oil.

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I personally give Nick Snow, Washington Editor for Oil & Gas Journal permission to publish my attached article entitled “President Obama’s Proposed Budget Will Destroy the Small, Independent Crude Oil Operator & make the US Even More Dependent on Foreign Oil” (written 3/5/09).

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