

United States Senate

WASHINGTON, DC 20510

July 29, 2009

Hon. Max Baucus
Chairman
Committee on Finance
United States Senate
219 Dirksen Office Building
Washington, D.C. 20510-6200

Hon. Chuck Grassley
Ranking Member
Committee on Finance
United States Senate
219 Dirksen Office Building
Washington, D.C. 20510-6200

Dear Chairman Baucus and Ranking Member Grassley:

We are writing to express our concern about recent tax proposals that may have unintended consequences for independent natural gas and oil producers in Colorado. If implemented, repealing some of these tax credits, particularly the deduction for Intangible Drilling Costs (IDC), 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.

We see natural gas as a bridge to our energy future that can also help reduce our country's dependence on foreign oil. Electricity production from natural gas provides a clean energy source and the technology is already being used by utilities across the country. While we are strong supporters of renewable energy sources, we are concerned that renewable energy alone will not be enough to fulfill our country's energy needs, especially in the short-term. That is why we must continue to encourage an "all of the above" solution – which includes natural gas – as we move to a clean energy economy and address global warming concerns.

Natural gas is also critical to our national security. Currently, natural gas accounts for twenty-two percent of the energy consumption in this country, and approximately 98% of U.S. natural gas consumption originates right here in North America, principally from the United States and Canada. Recent discoveries of new domestic natural gas reserves, most notably in new gas shale plays as recently documented by the Energy Information Administration, emphasize that this resource can continue to be a vital energy source for our country. Consequently, without certain tax credits, new needed domestic supplies of this low-carbon alternative may not be brought on-line as soon as they would have otherwise.

We are particularly concerned about repealing the deduction for IDC. While larger, integrated producers can utilize the IDC deduction provision, it is far more valuable for independent and smaller producers, who take the risk in exploring for and developing the large majority of our domestic natural gas reserves. It allows these producers to expense business costs that many other industries are also able to expense and allows these producers to remain competitive in the global economy. The independent producers are key drivers in local economies throughout the West and in providing natural gas to communities across the United States.

Similar to the IDC provision, the percentage depletion incentivizes oil and gas production for independent producers. This credit helps companies recover their capital investments 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. Repealing this tax credit could have severe and unintended consequences on this population. Therefore, we urge you to carefully consider the implications of repealing the percentage depletion tax credit.

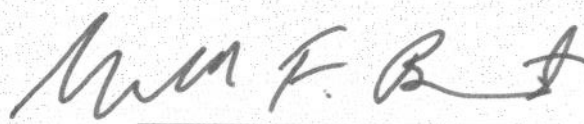
In conclusion, as our economy continues to recover and we develop a clean energy economy, it is imperative that we closely review any proposal affecting these clean energy sources and our small businesses. Revoking the IDC deduction in particular could lead to lost jobs, reduced production, and increased consumer costs. For these reasons, we respectfully oppose to this tax proposal and hope that you and your committee members will carefully review the affects when developing tax legislation this Congress.

Thank you for your consideration.

Sincerely,



Senator Mark Udall



Senator Michael Bennet