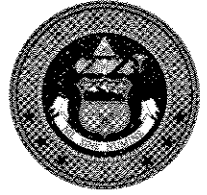


STATE OF COLORADO

OFFICE OF THE GOVERNOR

136 State Capitol Building
Denver, Colorado 80203
(303) 866 - 2471
(303) 866 - 2003 fax



Bill Ritter, Jr.
Governor

May 13, 2009

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

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

Hon. Charles B. Rangel
Chairman
Committee on ways and Means
U.S. House of Representatives
2354 Rayburn House Office Building
Washington, D.C. 20515

Hon. Dave Camp
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
341 Cannon House Office Building
Washington, D.C. 20515

Dear Senators Baucus and Grassley and Congressmen Rangel and Camp:

As you work to reconcile the instructions from the Budget Resolution with current tax law and policy, I urge you to carefully consider how a repeal of the current deduction for Intangible Drilling Costs could affect the supply of natural gas at a time when other factors are working to increase demand for this clean-burning fuel.

Natural gas currently accounts for twenty-two percent of all energy consumed in the United States and the vast majority of natural gas consumed in this country is produced in the United States and Canada. In the residential sector alone, natural gas is used in sixty-one percent of all homes. At the same time, electric utilities increasingly are relying on natural gas as a fuel to generate electrical energy. For example, in the year 2007 nearly eleven gigawatts of natural-gas fired net peaking capacity came on line. Perhaps even more important, the adoption by Congress of legislation to establish a national policy on climate change – something I strongly support – likely will induce many electric utilities to increase their reliance on natural gas.

Until recently, the supply picture for natural gas was highly positive. A combination of low capital costs, higher prices, and recent remarkable advances in drilling technology yielded significant additions to the nation's gas reserves. But today, the picture looks very different. Access to capital has been significantly constrained. Natural gas prices, especially for producers in states like Colorado, are low. And while many energy companies continue to perfect drilling technologies that enable them to produce

Hon. Max Baucus et al

5/13/2009

Page 2

large quantities of gas from formations previously thought to be inaccessible and to reduce their environmental footprint at the same time, these technologies are expensive to deploy.

The current economic climate is driving significant cutbacks in drilling activity across the nation. That, in turn, poses a significant challenge for the nation's ability to find and replace natural gas reserves and maintain supply at a reasonable price to consumers.

Given these constraints on the exploration for and production of natural gas, I am concerned that repeal or significant limitation of the existing deduction for intangible drilling costs would create an additional disincentive for new exploration and development. I acknowledge that it is somewhat difficult to precisely predict how such a change in tax policy would affect drilling activity, but it is likely that the industry's loss of the ability to deduct these costs will lengthen the payback period for investments and reduce return on investment. That will translate into reduced drilling activity and reduced replacement of reserves.

Our own preliminary analysis of how a policy change on IDC deductions would affect independent producers in Colorado gives us cause for concern. We estimate that in the next year, these companies would make approximately \$4 billion in capital investments (a figure that itself reflects a significant retrenchment in activity), and the vast bulk of those investments would be in drilling and completion of new wells. The FY 2010 budget proposal details indicate that intangible drilling and development costs would be capitalized as depreciable or depletable property in accordance with the generally applicable rules. Under this proposal, the Colorado-based industry would stand to lose a minimum of \$1 billion in tax benefits. That, in turn, will likely reduce cash flow available to domestic producers by 30-50% and will adversely affect the companies' rates of return, which will likely affect these companies' decisions whether to invest capital in new drilling activity.

I am further concerned by this potential development because we are likely to see an increase in demand for gas as our economy recovers and even further increased demand for gas as the rules of the road become clearer on climate policy. When these factors are taken into account, I am concerned that such a change in tax policy that adversely affects investment decisions could lead to reduced supplies and higher costs for consumers.

For all of these reasons, I encourage you to examine carefully the implication of making this tax policy change at this time. While I am and will continue to be a strong advocate for investments in energy efficiency and renewable energy resources, along with a transmission system designed to take advantage of these resources, and while my administration has adopted new regulations to ensure that oil and gas development occurs in a balanced and thoughtful way, it is also clear to me that we need to ensure that the physical and economic infrastructure is in place to provide adequate supplies of natural gas at a reasonable price.

Sincerely,

A handwritten signature in black ink that reads "Bill Ritter, Jr." in a cursive, slightly slanted script.

Bill Ritter, Jr.
Governor