

**Statement for the Record  
Of  
National Association of Royalty Owners (NARO)**

**Before the United States Senate  
Committee on Energy and Natural Resources**

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**Full Committee Hearing:  
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NARO opposes certain items in the Department of Energy's 2011 budget as described in the document entitled "Terminations, Reductions, and Savings: Budget of the U.S. Government Fiscal Year 2011," as currently produced by the Office of Management and Budget. The following testimony describes our concerns that said policies will be harmful to America's energy policy as a whole, and also to royalty owners.

While NARO shares several policy concerns with the rest of the energy community, this testimony seeks to focus the Committee's attention more acutely on *percentage* depletion for royalty owners, which is the only tax deduction many NARO members take on their mineral royalty income. As will be discussed, many of the royalty owners which NARO represents do not have the wealth, time, and resources that larger energy and mineral companies do. As a result, they have a more limited ability, compared to the rest of the energy community, to organize and inform legislators of their concerns.

1. Who does NARO represent?

We are the National Association of Royalty Owners (NARO) and represent the concerns of an estimated 8.5 million American private owners of oil and gas mineral and royalty interests. We live and vote in all 50 states, even though our producing minerals may be in Arkansas, New Mexico, North Dakota, Oklahoma, Pennsylvania, Texas, and Utah, Wyoming or any of the 33 producing states. NARO has been educating and advocating for mineral/royalty owners since our original incorporation 30 years ago in 1980.

The average NARO member is over 60 years old, widowed, and receives less than \$500 in monthly royalties as a supplement to their social security retirement income.

The majority (something over 70%) of the minerals in the U.S. are owned by individuals and leased to companies for development. Thanks to the efforts of one of our members, we recently took a snap shot of one "marginal" oil well (producing less than 15 barrels of oil per day) in

Grady County Oklahoma. This one little well has over 300 individuals in 46 states receiving royalty payments from its production.

We estimate the number of royalty owners in each state to be:

AK 13,600	AL 33,150	AR 255,000	AZ 144,500	CA 510,000
CO 654,500	CT 17,000	DC 17,000	DE 2,550	FL 161,500
GA 85,000	HI 8,330	IA 33,150	ID 35,700	IL 76,500
IN 27,200	KS 147,900	KY 11,050	LA 125,800	MA 30,600
MD 35,700	ME 5,525	MI 44,200	MN 47,600	MO 110,500
MS 39,100	MT 47,600	NC 67,150	ND 24,650	NE 19,550
NH 13,600	NJ 47,600	NM 161,500	NV 44,200	NY 127,500
OH 30,600	OK 1,691,500	OR 51,000	PA 119,000	RI 5,525
SC 22,100	SD 5,525	TN 59,500	TX 2,975,000	UT 39,100
VA 85,000	VT 2,550	WA 39,100	WI 39,100	WV 19,550
WY 30,600			Total nationwide: 8,440,755.	

Remember, these are estimated numbers of *royalty* owners. The total number of *mineral* owners is much greater, as vast areas are unproductive or have not yet been explored and developed.

## 2. A look back at the rationale for *percentage* depletion in U.S. history

In 1913, the 16<sup>th</sup> amendment to the constitution made the Federal income tax a permanent fixture of American life. That same year, mineral/royalty owners, in accordance with the newly minted tax code, began to account for the depreciation of their mineral properties which resulted from the depletion of limited mineral reserves. Congress enacted this tax deduction so that mineral/royalty owners could deduct a “reasonable allowance for depletion of ores and all other natural deposits...” which results from extraction. What follows is an explanation of the conception of *percentage* depletion, and illustrates the continued need for the *percentage* depletion allowance for mineral/royalty owners today.

What is depletion? Put simply, in the context of taxation, it represents the depleting value of a limited reservoir of a non-renewable resource such as Natural Gas, Copper, Oil, etc. Tax liability in America has often been dependent on the value of the property being taxed. As the object of taxation changes in value, the tax liability changes accordingly. This is commonly accepted by federal and state governments with regard to all manner of property, whether brick and mortar, automobile value, etc. As an automobile depreciates, the tax rate is lowered in subsequent years. As the minerals are extracted from a given property, the reserves are depleted, and the value of that mineral interest depreciates, as should the tax liability.

*Percentage* depletion replaced *discovery value* depletion, which had been adopted in 1918 as an incentive to find new oil supplies that were needed in World War I. Under *discovery value* depletion, tax on minerals such as oil and natural gas were assessed at the time the minerals were discovered, but that proved to be an inefficient and unsavory policy for mineral owners, producers, and governmental tax authorities alike. Among *Discovery value* depletion’s shortcomings; it resulted in lengthy, not to mention expensive, quarrels between taxpayers and tax administrators over the predicted quantity and value of the minerals, and the subsequent amount of depreciation that would occur from the depletion of reserves.

Even if the quantity and composition of minerals in the ground can be known with relative certainty, the markets for energy sources like natural gas and oil are volatile. This has been abundantly demonstrated with the dramatic price fluctuations of oil and natural gas in recent years. These turbulent markets make it difficult to predict the overall value of mineral reserves, especially beyond one year.

Beyond unpredictable markets, there were additional problems with *discovery* depletion. Even today, the science of interpreting seismic data and the drilling of exploration wells remain something of an art, albeit to a lesser extent than in previous decades. The accuracy of pre-extraction predictions on the quality and quantity of minerals can prove disappointing. However, the inability to know with certainty the total future value of oil or gas from a given mineral interest, and the quantity which is likely to be producible, results from more than just the imperfections of geological data analysis. The ‘producible’ quantity underground is unpredictable due to unknowable, yet inevitable changes in technology. The recent advances in horizontal drilling, and the impact it has had on hydraulic fracturing technology are a great example.

In the last decade, horizontal drilling innovations have allowed us to more cheaply use hydraulic fracturing in layers of shale rock where natural gas was previously unreachable due to the cost of recovery. Due to these technological improvements, hydraulic fracturing in shale has grown at an almost stunning pace. This has contributed to an increase of more than 50% in proven reserves of shale gas in just one year, from 2007 to 2008 (the most recent year yet reported by EIA). These innovations have freed up so much previously unrecoverable gas that the U.S. is now sitting on an estimated 100 years supply of clean burning natural gas at current consumption levels. The U.S. is currently in serious contemplation about ways to ensure that our energy policies are environmentally responsible for our children’s future. The rapid leap forward in shale drilling technology, and the resulting massively increased quantities of clean burning, locally abundant natural gas, are game changers for U.S. energy policy.

Because of the impossibility, both for taxpayer and tax administrator, of predicting the nature and timeline of technological advances, and the difficulty for both parties of defending variables like quantity of reserves, quality of reserves, and projected market value, congress eventually abandoned the practice of determining the *discovery value* of minerals for purposes of the depletion allowance. In 1926, congress simplified the process by allowing mineral/royalty owners the option to claim *percentage* depletion.

To figure percentage depletion, you multiply a certain percentage, specified for each mineral, by your gross income from the property during the tax year. This simplified procedure has proved essential to encourage the production of dozens of different minerals, both energy related and not. The percentage of income from a producing mineral property which one can claim as a deduction to account for depletion is currently 15% for oil and natural gas, and higher for certain other minerals. For example, the current rate for sulfur, uranium, asbestos, lead ore, zinc ore, nickel ore, and mica is currently 22%. These flat percentages save on compliance costs for both tax payer and administrators, because it prevents the potentially lengthy battle with each individual mineral owner over the value of depletion for their particular property.

### 3. Effects of the proposed eliminations on royalty owners

Under current policy, if the mineral owner feels that the depletion percentage specified by statute is unfair for their property's particular mineral profile, then they can still alternatively file for *cost* depletion. Large mineral interest owners such as energy companies are more likely to file for the *cost* depletion deduction. The reason for this is that they have already incurred the cost of a complex analysis of their mineral holdings as part of the process of exploration.

Larger mineral interest owning entities have incentive to be reluctant to share information with smaller or individual mineral owners from whom they may need to lease or re-lease mineral rights. They consider this information proprietary and necessary to compete in the marketplace. When compelled by statute to share information, they still have an incentive to under represent the value of the minerals to these smaller mineral owners because they want to pay them the smallest royalty that can be negotiated.

If small 'mom and pop' mineral owners have to rely exclusively on the energy companies to which they lease their minerals in order to obtain the estimated value of their minerals, then a common result would be an undervaluing of the minerals, resulting in an undervaluing of the cost of the depletion of their minerals. *Percentage* depletion acts as a hedge that protects these smaller royalty owners from the potential double disadvantage of receiving an undervalued royalty from an energy company and then having that loss compounded by a subsequent undervaluing of the cost of depletion

As previously mentioned, the average NARO member's royalty income is five hundred dollars per month, with many getting considerably less. While collectively the minerals they own are of vast value, the minerals owned by a single individual are often relatively small in amount. A geological & reservoir assessment can be very costly for these small royalty owners. Geologists and engineers bill on an hourly basis, plus expenses, and it is hard to estimate the time an adequate assessment can take. Royalty owners cannot afford to see their income eaten up by the cost of independent geological & reservoir assessments, attorney's fees, and accounting fees that can quickly accrue in the pursuit of claiming *cost* depletion.

Also, as previously mentioned, the average NARO member is over 60 years old, and widowed. Some are apprehensive about the process of negotiating leases with energy companies. *Percentage* depletion is one tool that encourages these mineral owners to more strongly consider leasing their minerals for development.

While *percentage* depletion is of primary concern for NARO members, we realize secondarily that ALL of the proposed tax law changes in the FY 2011 DOE budget that affect oil and gas industry decisions to drill -- such as no longer being able to expense intangible drilling costs -- affect owners of undeveloped minerals, by rendering their properties valueless. We additionally realize that elimination of credits for marginal wells and tertiary recovery would result in the plugging of thousands of older wells and a subsequent loss of vital supplemental income for countless retirees.

Several of our royalty owner accountants have looked at how the elimination of the *depletion* allowance will impact our elderly, low-income, royalty owners. We have found that in many instances, the elderly folks with incomes less than 50,000 dollars annually will now have their Social Security benefits become taxable because of the elimination of the depletion allowance. This will lay an undue burden on these folks, to not only pay additional tax because of

eliminating the depletion allowance, but they will be forced to pay additional tax on currently non-taxable Social Security benefits.

We do not believe that congress's intent is to put these additional tax burdens on our elderly royalty owners, many of whom already struggle to pay their current property tax, ad valorem tax, severance tax, state income tax, local tax, non-resident income tax, and federal income tax on their producing minerals. Regardless of intent, the proposed tax increases (via deduction eliminations) in the DOE budget WILL have that effect on many!

Royalty owners are teachers, farmers, ranchers, homemakers, accountants, firemen, plumbers, retirees, dentists, small business owners, factory workers, engineers, pet groomers, widows, roofers, lawyers, policemen, florists, carpenters, bricklayers, and members of Congress; we are ordinary citizens, not multi-national corporations. We consider our mineral estates as assets to be managed and protected with responsible stewardship. For the majority of us, our minerals are part of a family legacy acquired through the hard work and sacrifices of our forbearers. Royalty income pays to educate our children, care for aging parents, and supplement salaried and Social Security income. We spend our money in our communities, give to our local charities and save for the future. Our financial benefits come solely from the mineral interests we own – deep under American soil. When those resources have been exhausted, the royalty income ends.

#### 4. America's energy policy as a whole:

A large portion of US Energy Secretary Steven Chu's February 4<sup>th</sup> testimony to this Committee was dedicated to discussing the administration's plans to parse out research and development funding for various spheres of technology that the administration has deemed to be inadequately advanced. This funding is hoped to further advance said technologies enough to enable a transition to widespread reliance on them as alternative energy sources.

Though the dominate theme of his testimony was how investment can eventually improve alternative technologies, he did acknowledge, albeit sometimes indirectly, that we are not yet ready to abandon the energy sources that have become the workhorses of our economy. Let us first look at some of Secretary Chu's comments, and then at some important facts that demand serious attention during the process of formulating a comprehensive energy policy and departmental budget; facts which have seemingly not garnered the attention due to them.

##### A. Secretary Chu's Testimony

In Energy Secretary Chu's testimony, he listed several challenges to the "...ability of the United States to meet the growing demand for reliable electricity." He said that "...we will need breakthroughs and better technologies to meet our long-term goals." He expanded on the current limitations of these technologies during his discussion of DOE funded research groups called "Energy Innovation hubs."

He called for an additional EIH to be created to "...dramatically improve batteries and energy storage." The call for such dramatic improvements is a vicarious admission of the gap between, on the one hand, our current level of technological attainment and our current infrastructure, and on the other hand, the level of technology and infrastructure thought to be necessary to substantially replace fossil fuels.

Secretary Chu expressed hope that “Breakthroughs in digital network controls, transmission, distribution, and energy storage will make the power grid more efficient....” Those dramatic increases in efficiency and storage technology would be necessary in order to more heavily rely on energy sources like wind and solar without intermittently suffering significant energy shortages.

There is no doubt that these technologies will either improve eventually, or else other superior technologies not yet conceived will take their place. The problems are: First, on what timescale will these advances be made; second, what will be the specific quantitative and qualitative nature of these advances? Central planners and prognosticators throughout history have struggled to grasp at, and have often fumbled with, predicting the answers to questions like these.

Let us once again return to the example of hydraulic fracturing technology. Few, if any, could have predicted the pace of the current energy renaissance that has occurred in the last few years in regards to the recovery of clean burning natural gas. It has resulted from rapid strides in drilling technology. According to Secretary Chu:

“Due to research sponsored by DOE from 1978 to 1990 [which studied] methane, coal bed, and shale gas, that research was finally picked up by the oil and gas industries. In 1990, Schlumberger started investing in shale gas research. That has effectively doubled the gas reserves of the United States.”

It has been 32 years since DOE first researched shale gas, and 20 since Schlumberger began such research. Drilling for natural gas in shale has only become economically feasible within the last few years. The decades it took for shale hydraulic fracturing technologies to become economical should forewarn us not to be surprised at the untold decades to come before today’s alternative energy sources might become viable.

In formulating our energy policies and budget, we would be wise to heed the old idiom: don’t put the cart before the horse. We must have viable alternatives BEFORE we consider abandoning the energy workhorses of our economic security. Putting the “green” ‘cart’ before the energy ‘horse’ is precisely what our energy policy would do if we simply fund research for, as of yet, unreliable energy sources, and simultaneously pull the rug out from under our conventional domestic energy industry (i.e. removing virtually every incentive they have to produce, as is being proposed in the DOE budget eliminations).

B. Facing the facts as they are, not as some may wish them to be

Throughout this winter season (2009-2010), wind turbines in Britain have produced only 20% of their capacity due to lower than average wind resulting from a colder than average weather pattern. They currently rely on wind for only 5% of their total power, but have been planning to rely on it to meet a quarter of their power demand within the next ten years, due in part to pressure from the E. U. If they had been reliant on wind for 25% of their demand during this winter, then the wind generation deficit wouldn’t just be an eyebrow raising note of caution, it would be an outright crisis, with dramatic, real, and painful human costs.

Let's examine, frankly and forthrightly, the energy situation as it exists. Alternative energy sources (i.e. not petroleum, nuclear, natural gas, or coal) accounted for 7.301% of total U.S. energy consumption in 2008 (the most recent year reported by EIA). Let's temporarily remove hydroelectric from the discussion, since the U.S. is not building more hydroelectric dams. Let's remove geothermal as well, since most available sources are already being exploited. Biomass is limited due to the limited acreage upon which to grow the fuels, and also because of concerns about the impact of large scale biomass crop production on global food prices as subsidized demand for the fuels makes them compete with food crops. We are essentially left with wind power and solar power as the only alternative "green" energy sources that are substantially expandable.

Wind and solar/photovoltaic energy combined account for just 0.605% of our total energy consumption. Fossil fuels currently provide 83.436% of our energy consumption. Even if you remove the technological limitations and reliability issues from the equation (i.e. the wind intermittently not blowing or the sun not shining) you're still left with a sobering fact: to replace fossil fuels, our wind and solar/PV generating capacity would have to be 137.91 times what it is today.

From 2007 to 2008 according to EIA, U.S. wind generating capacity increased to provide an additional 0.173% of our energy needs. Solar capacity increased even more slowly, only providing an additional .01% beyond its previous levels. If we add the increases together, then at this combined increase of 0.183% share of total consumption per year, solar and wind combined could close the gap, and grow to replace fossil fuels in just over 455 years.

Of course, 455 years is a bit ridiculous, as it assumes the growth rate seen in the last year of EIA data will be constant, which it obviously won't. It also precludes increases in generating efficiency per installation, etc. There is no crystal ball that can tell us what will happen next year, let alone decades or centuries from now. But, for the sake of the argument, let's say that we keep pumping hundreds of millions, or billions of dollars in subsidies a year into research and development for wind and solar. Can that timeframe be cut in half? Even at 10% of that figure we're looking at half a century. While the 455 years figure is certainly an exaggeration because it factors in neither unquantifiable future changes in supply and demand, nor unforeseeable future technological advances, it is nonetheless a thought provoking figure based on real performance data.

The fact that solar energy generation has grown so slowly is quite disappointing considering the level of investment the government has been making. The federal government has been subsidizing solar energy for years, and the DOE's proposed FY 2011 budget plans to invest 302 million of taxpayer dollars into solar energy. Subsidizing the solar industry seems to have had some kind of effect on their bottom line, because shipping of solar cells was up 280% from 2007 to 2008 according to EIA. Unfortunately, for all the investment of taxpayer dollars into solar, and notwithstanding the increased shipments of solar cells, that very same time period showed only the aforementioned increase of .01% more of total U.S. power consumption being provided by solar/pv. This is partly because solar is currently a MUCH more expensive way to create electricity than clean burning natural gas. Thus far, this seems to strain credibility as a good return on investment, at least for the short and medium term.

## 5. The Need for Energy Independence

The American public, our national security interests, and our economy have long demanded, and still demand three results from the energy policy of our elected officials: an abundant, affordable, and uninterrupted energy supply. The more secure our energy supply is, the safer we feel, and in fact, the safer we are. Certain policy analyses recently expressed by administration officials leave some room to question whether those three things are fully understood by our leaders.

In Secretary Chu's testimony, he repeated the mantra of "reducing U.S. dependence on oil" four times. While the search for alternative sources may have its merits, the fact remains, as Secretary Chu himself pointed out in his address to the 2010 Washington Auto Show, that our "transportation fuels [are] almost totally dependent on petroleum." 95% of our transportation fuels are from petroleum. 28% of the total energy used in the U.S. is used for transportation.

Americans are going to purchase fuel for their vehicles somewhere, whether that supply is domestic or from abroad. Administration officials, including Secretary Chu and President Obama, have repeatedly talked about the need to break our addiction to foreign oil. An obvious step would be to maximize our domestic oil production.

In testimony submitted to the Senate Finance *Subcommittee on Energy, Natural Resources, and Infrastructure* on Sept. 10, 2009, Alan B. Krueger, Assistant Secretary for Economic Policy and Chief Economist, U.S. Treasury department, said that "The domestic price of oil is determined by global supply and demand because oil is an internationally traded commodity." He continued, saying "The relatively small U.S. share of global production means that any changes in domestic U.S. oil production will have a limited impact on the world supply of oil."

His focus on the "world" supply of oil myopically focuses on mathematical equations that in no way account for very real, legitimate national security concerns. The American people, and historically congress as well, have recognized the importance of maximizing the independence of an *American* supply. Although he painted a relatively rosy picture of the negative impact on domestic production that the proposed elimination of deductions will bring, he does concede that "on the supply side, a change in domestic producer costs could cause production to shift from domestic non-integrated producers to integrated domestic or foreign suppliers" of oil.

Assistant Secretary Krueger's basic conclusion, all things being equal, was that the "world" supply of oil and gas and therefore the supply available in the U.S. should only be negligibly affected by any decline in domestic production resulting from the elimination of percentage depletion and other deductions. It is understandable how a trained economist could arrive at this result. The first thing learned in any economics class is the Latin phrase: *Ceteris Paribus*, meaning "All other things being equal." Economists are trained to analyze hypothetical mathematical situations independently of harder to quantify human variables. If the "455 years" figure on the previous page seemed somehow suspect, then so too must Assistant Secretary Krueger's apparent trust in the stability of our supply of oil from the rest of the world. *Ceteris Paribus* may be a useful academic exercise that assists with the understanding of certain economic philosophies (via studying them in a vacuum); but in this situation, all things are regrettably not equal.

Of course the domestically produced supply does not seem as sizable when compared to the total world supply, but history is full of examples of supply chains, especially foreign supply chains,

being suddenly and unpredictably interrupted for extended periods of time. To think that similar interruptions could not occur again in the future would be naïve. In order to safeguard our ability to provide reliable and affordable energy, we must maximize our ability to produce energy domestically.

There seems to be a decent level of bipartisan agreement that we need to break our addiction on foreign oil, though there are disagreements on the most prudent way to do that. Other than maximizing our domestic oil production, and in light of the technological immaturity and expense of wind and solar, natural gas currently seems like the only viable alternative, and for several reasons.

The EPA has stated that “natural gas is the cleanest alternative transportation fuel commercially available today.” The group *NGV America* says that the U.S. presently has around 1100 natural gas vehicle fueling stations, with about 50% open to the public. Around 1.5 million miles of natural gas pipelines are already in place throughout the country. This preexisting infrastructure would make it easier to deliver supplies to newly constructed filling stations well beyond those currently available. Also, natural gas is significantly cheaper, costing between half to one third the cost of gasoline.

According to a report from the Edison Electric Foundation and the Brattle Group, building new combined-cycle natural gas plants to generate electricity is significantly cheaper in dollars per kilowatts of capacity added than building new plants for utilizing nuclear, solar, wind, or new coal-combustion (CSS). The report says building a new combined-cycle natural gas plant would cost \$1000/KW of capacity added. The most expensive type of new plant would be solar, costing \$6,600 for the same capacity increase.

98% of the natural gas the U.S. uses comes from the U.S. and Canada. As stated earlier, there is likely enough in the U.S. for up to 100 years. There is relatively low cost for converting a conventional gasoline engine to run on it. It also burns much cleaner than petroleum and “twice as clean as coal” when burned for electricity.

Secretary Chu’s testimony reports that DOE is “committed to being good stewards of the taxpayers’ money.” If that is true, then we sincerely urge the Committee, Secretary Chu, DOE, and the Administration at every level to support a budget that will support natural gas as an alternative energy source.

## 6. Conclusions

Secretary Chu did acknowledge in his testimony the continued need for conventional energy. He said that “The world will continue to rely on coal fired electrical generation to meet energy demand. It is imperative that the United States develop the technology to ensure that base-load electricity generation is as clean and reliable as possible.” Interestingly, in his 20 pages of testimony, secretary Chu failed to mention natural gas at all, other than to say:

“...we eliminated more than \$2.7 billion in tax subsidies for oil, coal and gas industries. This step is estimated to generate more than \$38.8 billion in revenue for the federal government over the next 10 years.”

In 1952, the President's Materials Policy Commission examined percentage depletion, and concluded that:

“...no alternative method of taxation has come to the Commission's attention or could be devised by the Commission which, in its judgment, promises to overcome these limitations and still achieve the desired results, particularly not without seriously dislocating well established capital values and other arrangements in the industries concerned, with highly adverse effects on supply. Taking the practical situation as it finds it, the Commission believes that any radical alteration of existing tax arrangements would be undesirable.”

The “limitations” they referred to are the imperfect allotments of the cost of depletion that can occur under percentage depletion. “Desired results,” in this case, refers to encouraging the production of American minerals in order to provide the energy to grow our economy and to provide a greater measure of independence and security.

We believe the U.S. would presently be better served by a DOE budget which invests in maximizing domestic oil and natural gas production. We believe this because natural gas is cheap, locally abundant in supply, clean burning, and efficient. As a transportation and electricity generating fuel, it can work in tandem with currently imperfect and experimental technologies like wind and solar. When the wind isn't blowing, the sun isn't shining, or yet to be invented experimental energy storage systems malfunction, natural gas can provide us the uninterrupted electricity we rely upon, cheaply, and cleanly. Investing in the natural gas industry will buy us the time we need for the market to truly perfect alternative energy systems that are presently unreliable.

We take exception to the provisions in the DOE budget which propose to raise the tax burden on what are currently America's only reliable energy sources by “38.8 Billion” dollars over the next decade, which will slow domestic development. Those provisions include raising the tax burdens on many of America's most vulnerable retired royalty owners. In our pursuit of an energy policy that encourages domestic production, we must not allow the smallest participants in America's energy production to go unprotected from abuse by the larger ones. The protection that *percentage* depletion provides to them must, itself, be protected.

The DOE budget will eliminate the *percentage* depletion deduction used by ‘the little guy,’ (AKA: small time royalty owners) while leaving the *cost* depletion deduction used by big energy companies untouched. *Percentage* depletion is an important incentive for domestic energy development, which helps supply the energy we need to drive our economy while making us less dependent on foreign sources of energy. It does this while simultaneously protecting small time royalty owners, who unlike ‘big energy’ corporations, can't afford to file *cost* depletion. The proposal to eliminate it should be removed from the DOE budget for fiscal year 2011.

We appreciate the opportunity to provide the Committee with our thoughts and concerns on these issues and welcome any questions about this testimony or the sources we may have utilized.