



*State of Oklahoma
Commission on Marginally Producing Oil and Gas Wells*

May 22nd, 2009

In an effort to continue our educational programs, the Oklahoma Marginal Well Commission has recently completed a survey of marginal well operators, entitled “Breakeven Analysis”. The results of the survey clearly demonstrate that with current oil and gas prices, the marginal well producers are struggling to make profits, and natural gas operators are losing money. One of the Marginal Well Commission’s main goals is to prevent wells from being shut in or plugged.

With the current tax policy proposed by President Obama’s administration, the burden on the independent oil and gas operator, and the current market price of oil and gas, the industry is facing very difficult times that will halt drilling activity, end most maintenance work and ensure layoffs of thousands. The aforementioned budget proposes \$31.5 billion in new taxes on the independent producer. These new tax increases include repeals of the expensing of intangible drilling costs, of percentage depletion, of the marginal well tax credit, of the enhanced oil recovery credit, and of the manufacturing tax deduction.

These policies would ensure that more Oklahoma marginal wells will be shut in or plugged. The Oklahoma oil and gas industry employs more than 76,000 workers, provides more than 322,000 direct and indirect jobs in the state of Oklahoma, and generates more than \$2 billion in taxes to the state of Oklahoma. The independent oil and gas operators contribute 68% of American oil production and 82% of the overall American natural gas production. In the state of Oklahoma, 68% of all oil production comes from marginal wells and \$1.08 billion in gross production tax comes from marginal wells.

*James M. Revard
Executive Director*

*Brad Henry
Governor*



*State of Oklahoma
Commission on Marginally Producing Oil and Gas Wells*

The survey further supports the importance of the tax credits currently allowed. If President Obama's proposal passes, it will greatly impact the state's economy while crippling the Oklahoma oil and gas industry. We hope that this study demonstrates that the marginal well operator is already working with very slim profit margins and any new tax burden will signal the end of these hard working American businesses.

The Oklahoma Marginal Well Commission thanks all the individuals who work in this industry to supply Oklahoma and our entire nation with energy. We will continue our efforts to educate the public of the importance of the independent oil and gas producer.

Kind regards,

James M. Revard

Breakeven Analysis

MidContinent Oil & Gas Price

Marginal Well Commission

Prepared by

Spears & Associates, Inc.

5110 South Yale, Suite 410

Tulsa, Oklahoma 74135

918.496.3434

Primary author:

Richard Spears

rspears@spearsresearch.com

www.spearsresearch.com

28April 2009

Breakeven Oil Price

~\$45 average breakeven price

Spears and Oklahoma's Marginal Well Commission asked ~100 E&P companies active in Texas, Oklahoma, Kansas and Arkansas about their breakeven price of oil. The sample included producers with 5 wells and producers with thousands of wells.

We let each company define "breakeven", but the intent was to discover the price of oil that producers needed to SUSTAIN their current business, but not necessarily to EXPAND their business through additional drilling.

The chart to the right plots the responses by oil price range. For example, one operator said that his breakeven price of oil is \$11-15 per barrel while two operators reported that breakeven is \$76-80 per barrel.

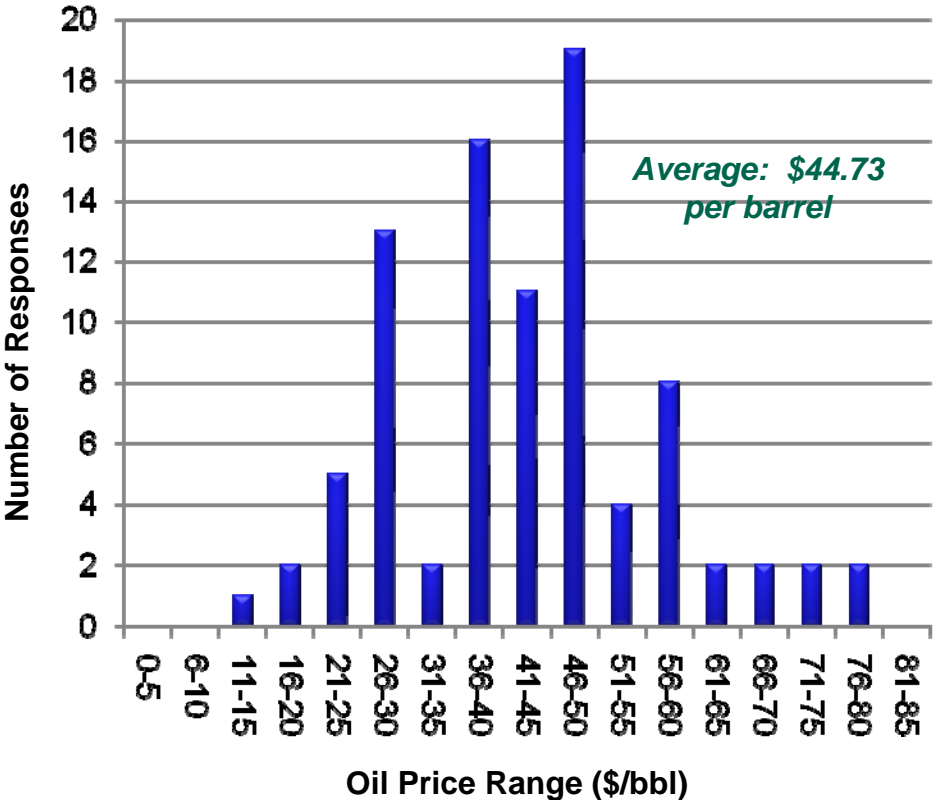
We believe this to be a normal distribution.

Average breakeven oil price is \$44.73 per barrel.

Current Cushing WTI Spot Market oil price is ~\$48, which suggests that well over half of these oil producers are losing money.

Worth noting: Breakeven economics did not correlate at all with the number of wells being operated.

Breakeven Price of Oil
Survey of 100 MidContinent Oil Producers



Breakeven Natural Gas Price

\$4.66 average breakeven price

Along with our survey of oil producers, Spears and Oklahoma’s Marginal Well Commission asked ~100 E&P companies active in Texas, Oklahoma, Kansas and Arkansas about their breakeven price of natural gas. The sample included producers with 5 wells and producers with thousands of wells.

We let each company define “breakeven”, but the intent was to discover the price of natural gas that producers needed to SUSTAIN their current business, but not necessarily to EXPAND their business through additional drilling.

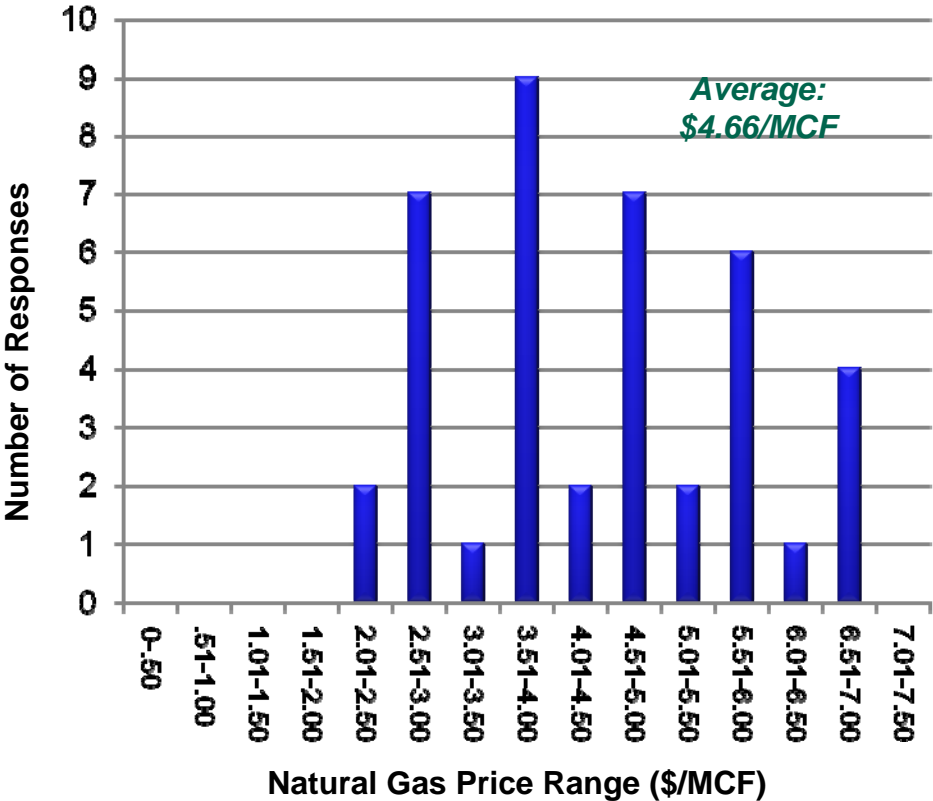
The chart to the right plots the responses by gas price range. For example, two operators said that breakeven price of gas is \$2.01-2.50 per MCF while four operators reported that breakeven is \$6.51-7.00.

Average breakeven natural gas price is \$4.66 per MCF.

Current Henry Hub Spot Market oil price is \$3.18, which suggests that **most of these gas producers are losing money.**

Breakeven Price of Natural Gas

Survey of 100 MidContinent Gas Producers



Spears & Associates, Inc.

Copyright 2009, Spears and Associates, Inc. All rights reserved.

This communication is confidential and is provided to clients of Spears and Associates, Inc. for their lawful use. This communication may not be disclosed, copied or disseminated, in whole or in part, without the prior written permission of Spears and Associates, Inc. The report and its contents are the property of Spears and Associates Inc. and are protected by applicable copyright, trade secret or other intellectual property laws.

Disclaimer:

This communication is based on information that Spears and Associates, Inc. believes is reliable. However, Spears and Associates, Inc. does not represent or warrant its accuracy, completeness, or any other aspect of this information. The viewpoints and opinions expressed in this report represent the views of Spears and Associates, Inc. as of the date of this report. These viewpoints and opinions may be subject to change without notice. This message should not be considered as a recommendation to buy or sell any securities. In no event shall Spears and Associates, Inc. be liable for incidental or consequential damages associated with reliance on any statement or opinion contained in this report.

Important Disclosures:

The following analysts were involved in creating or supervising the content of this report: Richard Spears, John Spears, and Kurt Minnich. These analysts certify that the views and opinions expressed in this report accurately reflect their personal views. None of these analysts (or members of their household) has a long or short position in any publicly traded oilfield equipment or service stock. These analysts have not and will not receive direct or indirect compensation in return for expressing specific viewpoints in this report.

Spears and Associates, Inc. provides market research services to the petroleum industry, but does not provide investment banking services. From time to time Spears and Associates, Inc. will provide market research consulting services to some of the oilfield service companies mentioned in this report for which the firm is compensated.