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OIL DEPLETION ALLOWANCE

On May 22, 1975, a petition was sent from the Los Angeles Basin Geological Society to Washington, D.C., in an attempt to express concern over the removal of the oil and gas depletion allowance. Following are two replies to this petition:

August 25, 1975

Dear Petitioners:

Thank you for your communication expressing your position on the oil depletion allowance.

The President and the Federal Energy Administration have supported the continuation of the oil depletion allowance, which exempted the first 22 percent of the gross income of the oil industry from Federal taxation, as an incentive to increased domestic petroleum exploration and production. We believed that the elimination of the allowance would be counterproductive to our goal of reducing our dependence on foreign sources of oil.

However, the Congress has now enacted legislation that includes a provision eliminating the depletion allowance for the major producers. The allowance will phase out gradually over several years for moderate producers, but will be retained for the small producer with the percentage being reduced to 15 percent by 1984. Since this measure was included in an omnibus tax relief bill that was considered vital economic legislation, the President has reluctantly signed it into law.

The Federal Energy Administration is now studying the impact that this measure will have on the petroleum industry, and has under consideration a number of policy options that could offset its most serious negative consequences. We remain committed to the maintenance of a healthy oil industry, and we encourage the expansion of domestic production of energy supplies.

We appreciate your interest in this matter.

DAVID A. MACKIN
Director of Public Inquiries
Office of Communications
and Public Affairs

November 19, 1975

Dear Friends,

Thank you for your message regarding the percentage oil depletion allowance for the petroleum industry.

As our world oil and gas supplies have grown scarce, their prices have skyrocketed. Since October of 1973, world crude oil prices have increased from less than \$2.50 a barrel to around \$12 a barrel. Even the U.S. government controlled price of \$5.25 a barrel for "old" crude oil — or that which is being produced at fairly constant rates from existing domestic oil fields — is double the average market price of just two years ago.

I believe that these tremendous price increases provide adequate incentive for most oil producers to find and produce new supplies of crude oil, and given this price incentive, it was imperative to reform some of the tax benefit provisions which had been designed to encourage adequate crude oil production during periods of much lower market prices. To fail to make such reform would have unjustifiably enriched the major oil companies at the expense of the American consumer. Thus Congress, in enacting the Tax Reduction Act of 1975, rewrote some of the special tax provisions covering the oil industry.

I played a very active role in formulating this legislation which, among other things, eliminates the depletion allowance for major oil companies. I strongly supported this measure because I believe the allowance has outlived its purpose as a tax incentive. In addition, the bill retains a permanent allowance for independent producers which will phase down from a 22% allowance on the first 2,000 barrels of oil produced per day in 1975 to a 15% allowance on the first 1,000 barrels of oil produced per day in 1984. Further,



the bill ends a glaring inequity by limiting tax credits on overseas investments by U.S. oil companies. At a time when we are seeking to become energy self-sufficient, it makes no sense to use our tax system to encourage foreign oil production. If we allow tax incentives to the oil industry, their purpose should be to promote greater domestic production.

Toward this end, I worked very hard to preserve a percentage depletion allowance for independent producers. The 10,000 independent producers currently operating in the United States drilled more than 85% of all the exploratory wells in this country last year. But these independents have a tough time competing with the giant, multi-national oil corporations. To stay in the high-risk business of oil exploration, a company has to have access to large quantities of investment capital. By preserving the depletion allowance for independents, we are making a portion of this investment capital available to them. This competitive edge should, in turn, help to stimulate domestic competition within the industry — competition that has been declining for a long time.

Overall, I believe that Congress has been successful in striking a fair balance: to tax oil corporations equitably — yet assure that their operations remain profitable, competitive, and enterprising. In any case, I will be carefully monitoring the impact of this new law and you can be certain that I will support corrective action should any new problems arise.

I very much appreciate you taking the time to share your interest in this matter with me.

Sincerely,

ALAN CRANSTON

CORE REPOSITORY

With the opening of a well core repository at Cal State Bakersfield by early 1976, California will cease being the only major oil-producing state in the U.S. without a well sample facility.

From more than 100,000 holes put down in the search for oil and gas in California, many cores (samples of earth) have been taken to provide information necessary for further drilling. It is to preserve an adequate sampling of cores, which probably provide more information on the state's subsurface composition than any other source, Cal State Bakersfield is establishing the repository.

Cores, sidewall samples and drill cuttings will be housed in a prefabricated steel storage building and use of the repository will be available to all interested persons on a fee basis, with qualified students having free access. Construction of the building, approved by the Board of Trustees of The California State University and Colleges, is being funded by a grant of \$42,900 from Western Oil & Gas Association.

Initially, samples will be available for examination only at the repository, but later, arrangements for loans of the material may be made. Plans call for the addition of binocular and petrographic microscopes, ultra violet lamps, rock saws and other tools.

Prime purpose of the collection is to assemble a representative subsurface stratigraphic record of California which will be of great instructional and research value not only for resident students and faculty, but for earth scientists from other areas as well.

Establishing a core repository in Bakersfield represents the culmination of many years' effort expended by the oil industry, various state agencies, professional societies and individuals with the principal problems having been location and financing.

Central location to the state's oil fields, availability of land and the natural compatibility of the program with Kern County's close relationship to the petroleum industry, were prime reasons the Bakersfield site was chosen for the repository.

Proposed annual budget for the Cal State Bakersfield facility includes \$19,300 for salaries of a curator and student assistant, office space, equipment and utilities; and \$1,700 for petrographic and binocular microscopes. An initial advisory committee worked out the budget figures for the

first three years at \$21,000 per year with four organizations agreeing to supply the needed funds.

Funding organizations are the U.S. Geological Survey, \$12,000; California Division of Oil & Gas, \$5,000; California Division of Mines & Geology, \$2,000; and State Lands Division, \$2,000.

Advisory committee members include: James R. Weddle, California Division of Oil & Gas, chairman; Fred Green, American Institute of Professional Geologists, vice chairman; John R. Coash, Dean of Natural Sciences and Mathematics, Cal State Bakersfield, executive secretary; and Victor R. Church, consultant.

Others are Ralph D. Carter, U.S. Geological Survey; Daniel P. Detwiler, Cal State Bakersfield; George H. Feister, Western Oil & Gas Association; Donn Gorseline, University of California; D. E. Ritzius, American Association of Petroleum Geologists; E. C. Sprotte, California Division of Mines & Geology; and Bill Yerington, California State Lands Division.

Observers include C. K. Fisher, USGS; Albert G. Hluza, California Division of Oil & Gas; and Ken Secor, Dean of Administration, Cal State Bakersfield.

JUDY CLAUSEN

AAPG PACIFIC SECTION EXECUTIVE COMMITTEE MEETING October 17, 1975

Summary of Actions

1. Motion passed to accept the minutes of August 27, 1975 Executive Committee Meeting as submitted.

2. Motion passed to exclude the Northwest Geological Society as a Cooperating Society of Pacific Section AAPG.

3. The Coast Geological Society will host the 1976 Spring Picnic.

4. The membership of the San Diego Association of Geologists will be polled to determine if they are interested in becoming a Cooperating Society of Pacific Section AAPG.

5. Motion passed to accept the Treasurer's Report with the reservation that the premium and terms of the Pacific Section's liability insurance be investigated.

6. Motion passed to accept the Finance Committee's proposed 1975-76 Fiscal Budget with reservation for the liability insurance adjustment.

7. Dues are delinquent after October 1st. The PACIFIC PETROLEUM GEOLOGIST NEWSLETTER will not be distributed to non-paying members after November 15th.

8. S.B. 345 was passed by the Legis-

lature and will become effective July 1, 1976 requiring the release of certain oil and gas, geothermal, etc. information. S.B. 756 was passed by the Legislature authorizing an appointed Board to direct the activities of the California State Division of Mines and Geology.

9. \$2,750 has been contributed by the oil companies to assist in publishing the Southern California Borderlands Volume.

10. The Directory Committee Chairman is Ms. Lynn Tennyson, Earth Science Department, Occidental College.

11. Bud Reid, President-Elect is the Chairman of the newly-formed Pacific Section Public Affairs Committee.

12. Motion passed to accept the basic Program Format for the 1976 San Francisco Convention, April 21-24, 1976 as submitted - Robert Blaisdell, General Chairman. Theme is: "Tomorrow's Oil from Today's Provinces."

13. The 1977 Bakersfield Convention will be held at the Convention Center, May 4-6, 1977 - Stan Eschner, General Chairman.

14. Alaska is being considered as one of the prospective sites for the 1978 Convention.

15. The next Executive Committee Meeting will be held at 10:00 a.m., Tuesday, December 9, 1975 at the Quality Inn Airport, Los Angeles, California.

EARTHQUAKE ENGINEERS OPEN MEMBERSHIP

The Earthquake Engineering Research Institute, a national professional association devoted to finding better ways to protect people and property from the effects of earthquakes, is now accepting applications for membership. In past years, membership in the Institute was possible by nomination only.

Members of EERI receive a Newsletter containing news and announcements of meetings and publications. Guest Editorials on topics of special concern appear regularly in the Newsletter. The Institute also sponsors meetings, conferences and seminars on all aspects of Earthquake Engineering. By participation on EERI committees, by personal contact with other members and through EERI liaison with other organizations, EERI members have an opportunity to participate in charting the future course of Earthquake Engineering practice and research.

The Institute was founded as a
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