HEADWATERS ECONOMICS

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Colorado's Fossil Fuel Industry Performing in Line with Regional Trends But Strength in Oil Prices Driving Shift in Drilling Activity

New Study Also Reviews Energy Tax Policy, Showing that, Compared to Wyoming, Colorado's Low Tax Rates Mean It Will Collect $700,000 Less Tax Revenue for Each New Well Drilled

Denver, CO – June 20, 2012 **–** A new report released today finds that Colorado's oil and natural gas industry is performing in line with regional and national trends, and that the state has recovered a significant share of pre-recession drilling activity. The report also shows that the strength of crude oil prices relative to natural gas prices is a relative disadvantage for Colorado as today's energy markets favor states with proven unconventional oil fields such as North Dakota.

The report by Montana-based Headwaters Economics, *The Status of Colorado's Oil and Gas Industry*, analyzes Colorado's oil and natural gas industry including drilling activity, production volume and value, and the role of energy production in the state's economy.

Key findings include:

- The strength of crude oil prices relative to natural gas prices has driven a dramatic shift in drilling activity from natural gas to oil across the region and within Colorado.
- Colorado's relative advantage in dry natural gas is a disadvantage in today's energy markets that favor states with proven unconventional oil fields, including North Dakota. Despite the challenges Colorado's energy industry faces, it has recovered a significant share of pre-recession drilling activity.
- Recent volatility in the oil and natural gas industry's employment, personal income, and share of the state's gross domestic product have mirrored regional volatility in drilling activity and commodity prices.
- During the most recent recession, the oil and natural gas industry lost jobs at a faster rate than all industries except construction in Colorado, and today makes up less than one percent of total employment statewide.
- Colorado's economy has strong advantages in the renewable energy sector. Diversifying the energy economy should be an important part the state's long-term energy policy.
- A more effective energy tax policy could help Colorado realize more benefits from energy development and help mitigate its impacts. Compared to Wyoming, Colorado collects $700,000 less tax revenue on each new well drilled. Tax incentives expose the state to revenue volatility and undermine efforts to address impacts in local areas.
- Rig counts in Colorado in June, 2012 are back to levels experienced during the natural gas run up in 2005 and 2006.

The full report, further analysis, and accompanying graphics are at http://headwaterseconomics.org/energy/western/colorado-oil-and-gas/.

"The main driver of industry activity is price," said the report's author Mark Haggerty. "Relatively high oil prices compared to natural gas is driving a major shift in drilling activity from natural gas to oil in the state and across the region. As the energy sector continues its volatility, one of the challenges facing Colorado is how to lessen the impacts on communities while strengthening and diversifying the state's economy."

The purpose of the report is to educate decision makers and the public about the current health of Colorado's oil and gas industry, what factors are affecting the energy sector, and how the state can better benefit from its fossil fuel industry.

About Headwaters Economics

Headwaters Economics is an independent, nonprofit research group that assists the public and elected officials in making informed choices about land management and community development decisions in the West, http://headwaterseconomics.org/.

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