

Illinois Oil & Gas Industry Strategic Analysis

PREPARED BY:

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Illinois Oil & Gas Association
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Introduction

Special points of interest:

- *Oil and gas industry critical part of Southern Illinois economy.*
- *Fundamental challenges face policymakers and industry.*
- *Oil and gas producers need policies that enhance access to capital.*
- *Opportunities arise from addressing critical issues.*

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After many decades of productive stewardship, oil and natural gas resources continue to play an important part of the livelihoods of Illinoisans. The Illinois oil and gas industry has over \$3 billion annual economic impact. In 2025, the Illinois oil and gas industry generated nearly \$500 million in output, put tens of thousands of people across Illinois to work, and pumped hundreds of millions of dollars into the state's economy. The industry supports 16,000 direct jobs, \$750 million in family income, and

\$420 million in state/local tax revenue. The industry is an important element of the Illinois economy today and will be a critical part of the economy going forward.

The U.S. is the leading oil producing nation in the world - accounting for more than 20% of the world's total oil production in 2025. Thirty-two U.S. states produce oil and natural gas. Illinois ranks as the 16th largest oil producing state. Over 1,100 licensed oil/gas operators produced nearly 9 million barrels of oil in the Illinois Basin in 2025.



Illinois Oil & Natural Gas Energy for the Future!

Oil and natural gas are an integral part of our society making our high standard of living possible. Today, an estimated 6,000 products are produced from petroleum. The Illinois oil and gas industry helps the Illinois economy and makes significant positive contributions to our way of life!

Challenges Face Policymakers and the Illinois Oil & Gas Industry

The latest (2025) world energy outlooks from the EIA and others project total global energy demand expanding by 23% by 2050. All forms of energy will be needed to support energy demand growth. Renewable energy sources will see the largest growth leading to a share of over 13.5% of the energy mix by 2050. Oil and natural gas are expected to retain the largest share accounting for roughly 53% of the energy mix in 2050.

Lawmakers should avoid energy policies driven by a zero-sum game philosophy for energy that says we must have less fossil fuels so we can have more of something else. All too often, proposals to establish some kind of green standard really have much more to do with raising revenue than helping the environment. Rational, data-driven, common-sense energy policy is what our state and

nation needs. We should abandon the stale mindset of last century's thinking that increased oil and gas production and achieving climate goals are not compatible.

The American people want, expect, and deserve elected leaders who will place what's best for our state and nation's economy and energy future above partisan ideology and political posturing. We need real energy solutions!

Illinois Oil & Gas Industry Taxation Analysis

The Illinois oil and gas industry contributed over \$420 million to the State of Illinois in state and local taxes in 2025. We are happy to pay our fair share but also believe we are a highly taxed industry.

Oil production in Illinois increased by 1.67% in 2024 but fell by 6.6% in 2025. Oil production in Illinois has decreased by a CADR of 1.87% since 2022.

Oil and the U.S. dollar move inversely. A weaker dollar makes crude oil cheaper abroad and boosts demand, a relationship reinforced in 2025. Strong global oil production growth outpaced consumption in 2025 putting downward pressure on oil prices. Oil prices declined in 2025 but were tampered by the dollar's depreciation which provided a tailwind to oil prices.

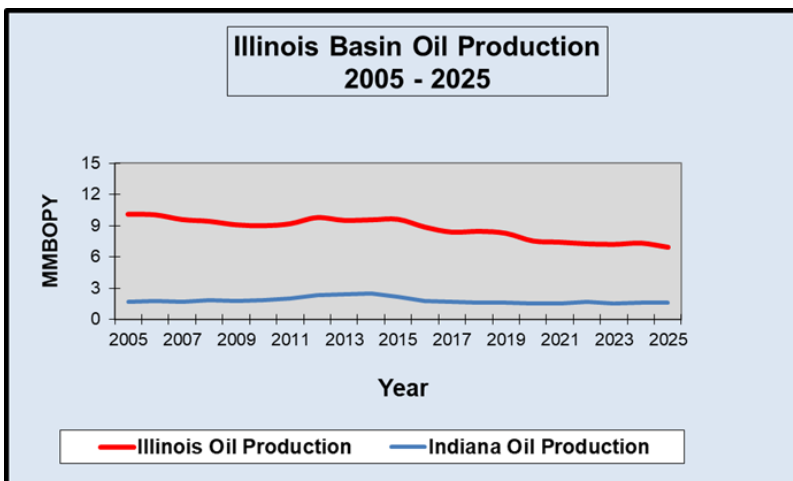
The relative tax burden on the Illinois oil and gas industry can be illustrated in three ways: marginal tax rate, discounted cash flow analysis, and average effective tax rate.

Marginal Tax Rate

The marginal tax rate for the Illinois oil and gas industry is a measure of the taxes paid on an increase/decrease in the marginal price of oil and natural gas expressed as a percentage of revenues. The marginal tax rate includes the combined effect of state/local/federal taxes on primary production. Illinois' marginal tax rate on primary oil and gas production was 12.3% in 2025,

Discounted Cash Flow Analysis

The discounted cash flow analysis evaluates the impact of taxes on the economics of specific investments. For oil and gas, the analysis is helpful in gauging the effect of taxes on new exploration and production investments. Discounted cash flow analyses on several Illinois exploration and development projects using current economic characteristics indicate the impact of Illinois state/local alone is to generally reduce rates of returns by 25%-35%.



Average Effective Tax Rate

The average effective tax rate focuses on the total taxes paid in relation to total taxable value. The Illinois oil and gas industry's 2025 effective tax rate was 16%. Different state tax systems greatly impact the average tax rate for the oil and gas industry.

Oil Prices

The crude oil market is a global oligopolistic market. Illinois oil and gas producers are price takers, not price makers, in this oligopolistic market.

Crude oil prices received by Illinois oil producers are a result of several factors. The New York Mercantile Exchange (NYMEX) price is set daily by an open auction. The price is based on global supply/demand factors. West Texas Intermediate (WTI) is the benchmark price for crude oil produced in the U.S. A barrel of WTI crude oil generates more products, like gasoline, than other crude oils. Illinois crude oil is a lesser quality oil generating less products per barrel than WTI and, as a result, is priced about \$6-7/bbl. less than WTI.

The U.S. Energy Information Administration (EIA) forecasts that growing global oil production and lower demand in early 2026 will accelerate the accumulation of oil inventories, resulting in further price declines in 2026. EIA forecasts WTI price will drop to an average of \$51-52/bbl. in 2026.

While the U.S. and Illinois economies continue to recover, significant concerns exist including high inflation, U.S. monetary policy, volatility in energy markets, U.S. trade and foreign policies, demand, and more. U.S. GDP grew by 2% in 2025. The S&P Global macroeconomic model projects U.S. real GDP will grow 2.2% in 2026. Illinois GDP growth in 2025 is a step behind the national average at settled in at about 1%. Illinois is facing some structural issues that creates long-term headwinds like taxes and regulations and will likely face budget deficits starting in 2026.

Taxation Analysis (continued)

Impact of Oil Price on the Economy

When oil prices are too low, companies cut capex, - funds used by companies to maintain or increase the scope of their operations. This kind of spending is very good for an economy. It builds infrastructure, creates jobs, and is an investment in the future. Companies make these investments because they believe they will get a good return on those investments. Unfortunately, when oil prices are low those investments become unprofitable and capex gets cut.

The ripple effects are everywhere. If you think about the role of oil in your life, it is not only the primary source of many of our fuels, but is also critical to our lubricants, chemicals, pharmaceutical, plastics, and more. If you think about the law, accounting, and engineering firms that serve the industry, the pipe, drilling equipment, and other manufactured goods that it requires, and the large payrolls and their effects on consumer spending, you begin to get a picture of the enormity of the oil and gas industry.

Considering the economic impact of the oil and gas industry, persistent and sustained low oil prices is detrimental for the economy as a whole. Clearly, lower oil prices do not compensate for the loss of capex in the U.S. and Illinois economies.

Impact of Oil Price on Tax Collections

Oil prices declined by 25% in 2025. Global oil production outpaced consumption putting downward pressure on oil prices. The decline was tampered by the dollar's depreciation. In 2025, Illinois crude oil prices ranged from \$68.25/bbl. To \$51.26/bbl. In 2023 and 2024, Illinois crude oil prices averaged \$70.61/bbl. and \$68.79/bbl. Re-

spectively. In 2025, Illinois crude oil prices averaged \$53.53/bbl. History has shown that significant and sustained drops in oil prices significantly reduces oil and gas tax collections.

What are Illinois Oil & Gas Companies Doing?

The Illinois oil and gas industry displayed a lot of discipline in 2025 after learning some tough lessons from experiences with market volatilities in the past. Operators are high-grading and drilling only the best prospects. In many

When calculated on a reserve addition per barrel basis, these expenditures represent the cost of finding a barrel of oil.

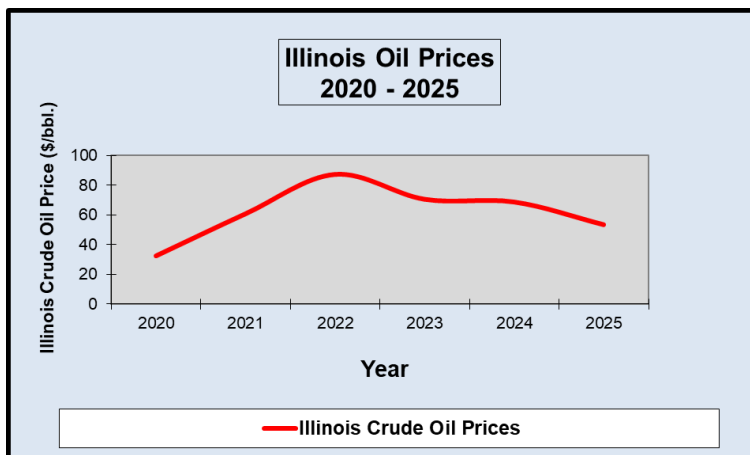
Empirical evidence shows costs in Illinois Basin operations in 2025 were 25% - 30% below their 2019 levels and 16% - 20% lower than the average of the past five years. The unit concept does not, however, factor in the market value of oil and gas produced from these wells, which is important for calculating net present value of profit or loss. More efficient operations and services contributed to cost savings. Efficiency gains achieved by Illinois oil and gas producers over the years have proven to be very important for reducing break-even prices. Illinois operators in general adhere to cash flow neutrality.

The Illinois oil and gas industry has learned many things through the years. We know that patience, persistence, insight, and innovation payoff. We move forward together in 2026 to focus on value reconstruction and prepare for

brighter days ahead.

Conclusions

Tax analyses indicate that Illinois taxes on oil and gas production are high relative to other states, and are especially high considering the characteristics of the Illinois resource relative to many other states. Illinois oil and gas producers are taxed five times on each barrel of oil produced (property tax on equipment, property tax on reserves, state income tax, federal income tax, and sales tax). Illinois oil and gas producers pay considerably higher taxes as a percentage of revenue than most other oil and natural gas producing states.



cases, improved productivity is less about new/improved technology and more about better application of existing technology.

Illinois producers worked in 2025 to optimize operating cost structures to achieve more efficiency gains and become more specialized regarding their core producing assets. Illinois producers are focusing on the most resilient short-cycle projects and concentrating on their core competencies and small producer advantages.

Expenditures for exploration & development constitute most of a company's upstream capital investment.

Taxation Analysis (continued)

Policy Recommendations

Illinois oil and gas producers need policies that enhance access to capital to develop and main-

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tain production. These small businesses do not have the substantial additional resources possessed by many major integrated and/or public traded companies. Independent oil and gas producers generate capital through their production, not by tapping equity markets or other corporate measures. Consequently, tax reforms that allow oil and gas producers to retain more of their revenues to reinvest directly translates into new resources and economic development for Illinois. Historically, independent oil and gas producers

reinvest more than 100% of their cash flow into new projects. Every new oil and gas project is like a new small business start-up.

U.S. Independent Oil & Gas Industry

The upstream oil and natural gas industry in the U.S. supports 3.6 million U.S. jobs and adds nearly \$563 billion (about 2% of U.S. GDP) to the U.S. economy. In 2024, the upstream oil and natural gas industry paid \$149 billion in federal and state taxes. The entire U.S. oil and natural gas industry (both upstream and downstream sectors) supports 10.8 million jobs and contributes 7.6% of total U.S. GDP.

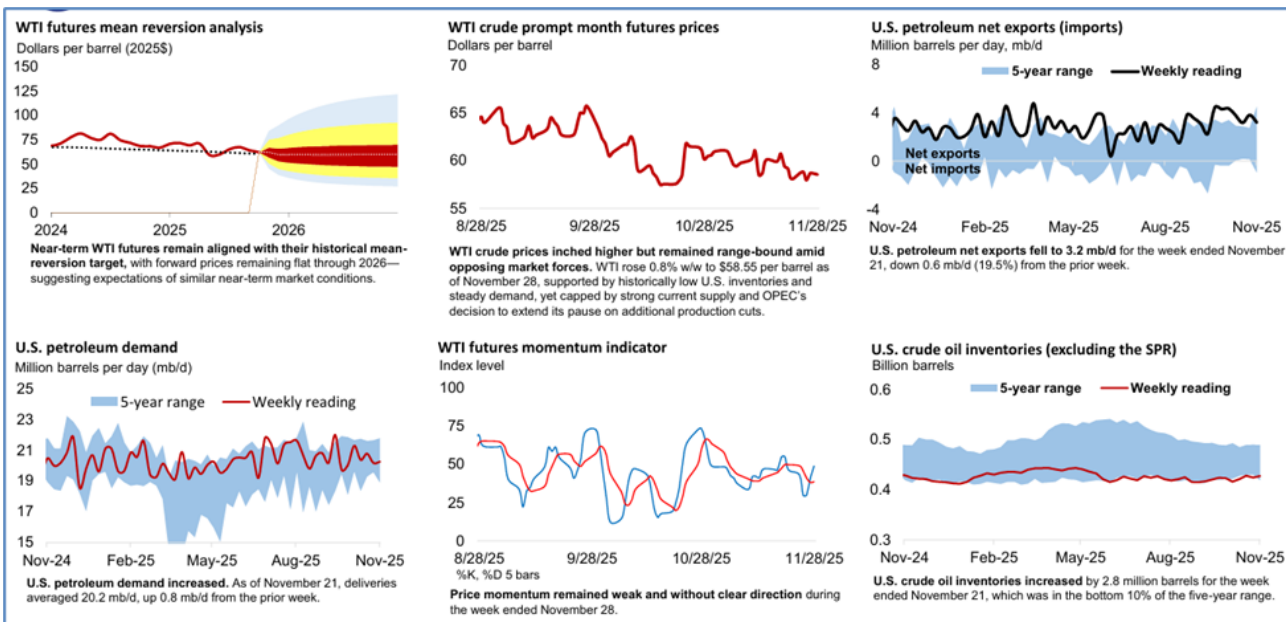
In 2024, independent oil and gas operators—companies who are not fully integrated across the supply chain—produced 80% of U.S. oil and 90% of U.S. natural gas. Independent operators produce 85% of U.S. oil, 90% of U.S. natural gas,

operate 95% of U.S. wells, drill 90% of new wells, and account for 90% of capital and operating expenditures.

U.S. Oil Market Indicators: Balanced Market Expectations

Global economic growth is modest but persistent. The International Monetary Fund (IMF) projects GDP growth of 2.7% in 2025 and 2.6% in 2026, lifted by trade and financial easing, though risks remain from debt, inflation, and policy divergence. A weak U.S. dollar continues to support crude oil prices despite mixed fundamentals.

The U.S. Energy Information Administration (EIA) projects record world oil use: 103.2 mb/d in 2024, 104.0 mb/d in 2025. And 105.1 mb/d in 2026. Oil supply remains robust with non-OPEC growth steadying the outlook. Brent crude oil prices averaged \$69/bbl in 2025. EIA projects Brent crude oil prices will fall to \$55 in 2026.



Illinois Energy Outlook & Key Energy Issues

Small independent producers in the U.S. are those small companies that produce marginal wells - wells that make less than 15 bopd or 90 mcfpd. Nationally, small independent producers drill 90% of new wells. Nationally, small independent producers' employees paid \$30.7 billion in income taxes (federal and state), sales tax, and excise tax last year. The entire direct/indirect/induced economics of small independent producers generated \$131 billion of federal and state taxes last year, a figure that will increase to \$189 billion by 2027. Every \$1 million of capital expenditures (capex) for independents result in \$1.1 million of total taxes generated along with the creation of 39 total jobs. Every \$1 million of capex for independents result in \$2.4 million of direct and \$5.1 million of overall contribution to GDP.

The average Illinois oil well produces about 2 barrels of oil per day. Marginal wells account for nearly 80% of the total wells in the U.S. and are responsible for about 20% of total oil and gas production domestically. Every \$1 million generated by marginal well production generates \$2 million in economic activity elsewhere in the economy.

Studies show that losing marginal well production would cost the U.S. economy \$184.5 billion, 178,000 jobs, and \$115 billion in earned labor income per year. The livelihood of the Oil and gas industry small business sector and that of nearly 10 million royalty owners nationwide is based on marginal well production.

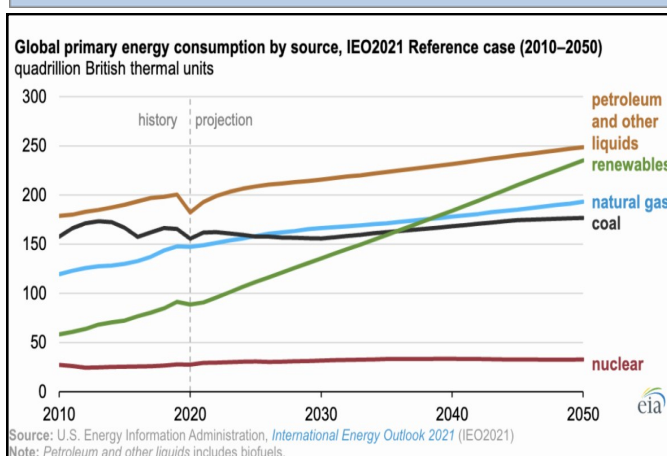
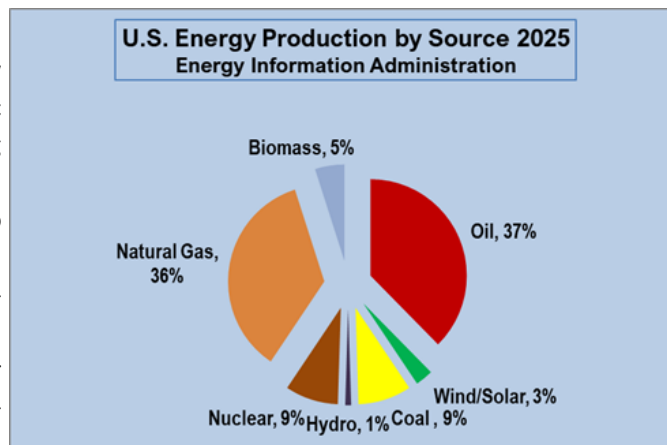
The studies show the economic cost of losing marginal well production to the U.S. and Illinois economy is large and grows over time. The direct and indirect costs to other industries are larger than the direct costs to oil and gas producers.

The U.S. oil and gas industry generates an economic stimulus of nearly \$1.7 trillion each

year supporting more than 10.8 million jobs nationwide. In Illinois, the oil and gas industry provides \$3.04 billion annual economic impact.

Oil and gas will continue to serve as the principal component of our economy for many years to come. The Energy Information Administration (EIA) reports that oil and gas supplied 74% of our nation's energy in 2025. By 2050, EIA estimates that fossil fuels will supply 69% of U.S. energy needs with oil and gas accounting for roughly 50% of U.S. energy needs.

By 2050, world energy demand is projected to increase by 24%, and 53% of that demand will



be supplied by oil and natural gas. Oil and natural gas are expected to remain the primary energy sources through 2050 with oil's share of total world energy demand in 2050 only declining from 30.6% today to 29.8% in 2050. Coal is expected to see global market share shrink. Solar/wind are expected to grow briskly reaching nearly 13% of the global energy mix by 2050. Most wind and solar installations are not cost-effective on the open market, necessitating subsidies. As long as subsidies exist, taxpayers have to support industries that are not economically viable on their own. Funding underperforming assets often comes at the cost of starving productive assets.

Energy Issues (continued)

As the U.S. continues to grapple with high inflation, market volatility, trade and foreign policies, and more., American families continue to see costs of important goods and services rise.

**AMERICA LEADS
THE WORLD IN
ENVIRONMENTAL
QUALITY**

This means a family budget that needs to account for keeping the lights on, the family fed, keeping the family healthy, and providing for their children's future has only seen price relief from lowered energy costs while critical needs in other areas have risen dramatically. We understand the need to provide reliable, affordable energy to consumers to ensure economic stability. We have also heard the concerns of Americans related to ensuring we protect the environment and mitigate environmental impact as we produce energy in the U.S.

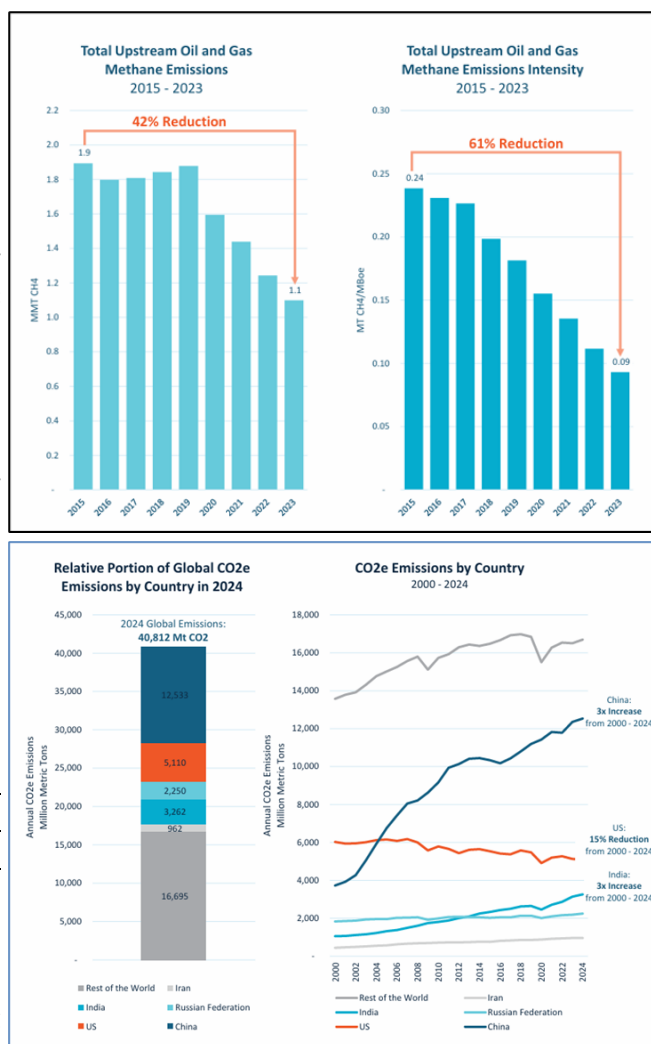
Emissions - Over the last 50 years, the six major pollutants regulated by the EPA have fallen 77% while the U.S. economy grew 285% and its population grew by 60%.

From 2005 to 2022, U.S. carbon emissions decreased by 18%. Additionally, according to EPA, American oil and natural gas producers have reduced methane emissions by 42% from 2015-2023 while increasing oil and natural gas production by 50% over that same time frame.

The latest Energy Information Administration (EIA) data (2021) show natural gas is responsible for 2.8 billion metric tons of CO₂ emission reductions since 2005. That represents 61% of overall power sector reductions during that time frame and 57% more than reductions attributable to renewable energy sources. **America is a world leader in clean air and water.**

Environmental policies needed going forward include the following:

- Assuring adequate access to capital by having sound tax and banking practices rather than using tax and financial policies to cripple American oil and natural gas production
- Assuring a predictable and cost effective regulatory system that recognizes the diversity of oil and natural gas production, including large versus small wells and large versus small businesses.



- Recognize in energy and economic policy that oil and natural gas will be essential energy sources for the foreseeable future, that American oil and natural gas production is more environmentally sound than most foreign sources, that reliance of foreign sources of energy will undermine the American economy and any agenda to improve its environment, and that oil and natural gas provide a more realistic option than overreliance on perceived clean energy sources.

Energy Issues (continued)

- Technology within industry often moves faster than the regulatory systems within government. Providing regulatory agencies with tools to allow for more rapid deployment of new technologies which are more accurate and cost-effective is an important policy change to consider.

The truth about climate and energy policy is that people don't want high energy costs, and their governments must respond - in China, in Europe, or in America the ramifications of high energy costs are politically dangerous whether they go to the ballot box or have revolutions.

The Illinois oil and gas industry has over \$3 billion annual economic impact with the upstream sector supporting 16,000 direct jobs, over \$750 million in family income, and over \$420 million in state and local taxes.

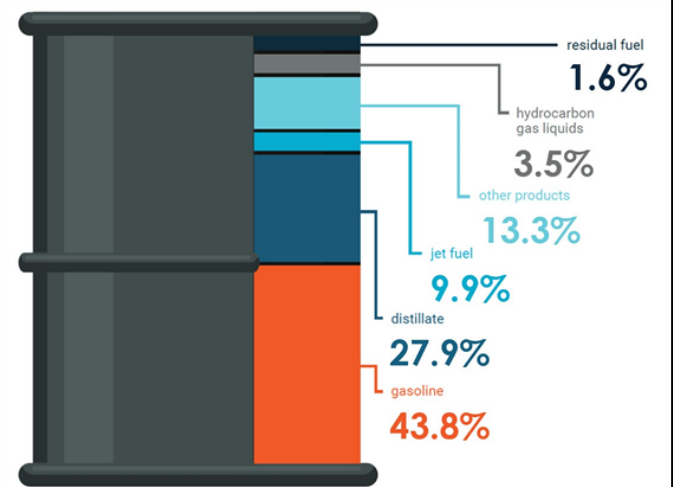
The Illinois Department of Natural Resources (IDNR) reports an

average of 435 drilling permits are issued each year in Illinois. The industry produced nearly 8.5 million barrels of oil in the Illinois Basin in 2025.

Over 75 different companies could be involved in the exploration and development of one Illinois oil well. A 2023 analysis indicated 100 people are employed by varying businesses in the drilling and completion of one oil well in White County, Illinois.

Labor market and service/supply costs challenges continue to plague producers. Like many industries, labor is a critical issue for the Illinois oil and gas industry. In addition, input costs, inflation, and other factors have significantly increased supply and service costs.

Petroleum Products made from a Barrel of Crude Oil



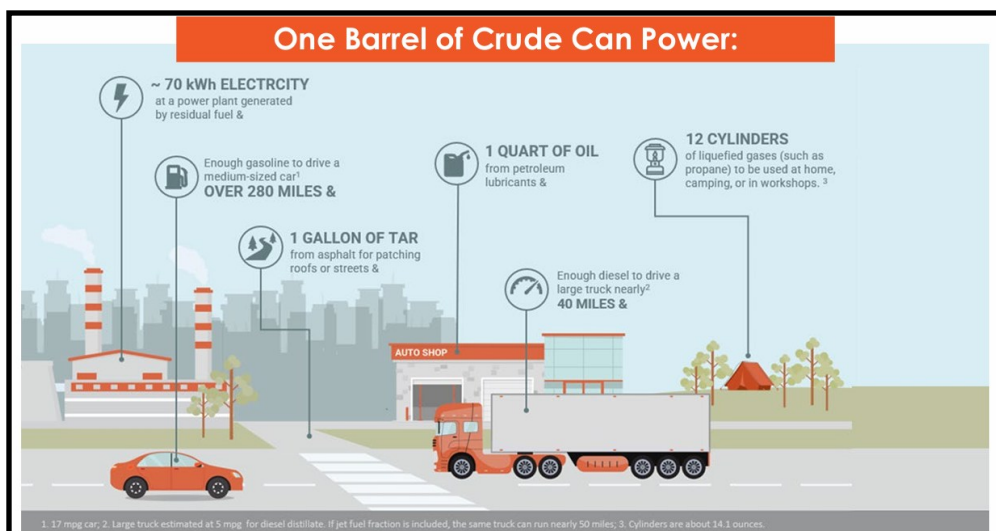
Oil and gas activity in Kansas during 2023 was robust. The industry saw 33-49 drilling rigs running each month.

How is One Barrel of Crude Oil Used?

According to the EIA, 80% of the petroleum used in the U.S. is used for the production of gasoline, heating oil/diesel fuel, and jet fuel. The remaining is used for things like:

- Asphalt and road oil;
- Lubricants;
- Petrochemical feedstocks;
- Waxes;
- And many others

Petrochemicals derived from oil and natural gas make the manufacturing of over 6,000 everyday products and high-tech devices possible.



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The challenges facing the oil and gas industry have grown both in number and complexity. IOGA continues to leverage our core competencies, namely intellectual capital, volunteerism, and leadership. These competencies set IOGA apart from other oil and gas advocacy groups and makes us the lead state and national advocate for the Illinois oil and gas industry. Because of the efforts of IOGA members, voters and policymakers in Illinois are learning that the oil and gas industry is working for them, the economy, and the environment.

Illinois Oil & Gas Association

Founded in 1946, the Illinois Oil & Gas Association (IOGA) is a nonprofit member organization representing oil and gas producers in Illinois, as well as allied service/supply companies.

As one of the nation's premier statewide oil and gas associations, IOGA proudly advocates for increased development of natural resources and works to protect the ability to explore and produce oil and natural gas.

Through rigorous engagement at the state and feder-

al level, IOGA works to create a more stable and predictable political and regulatory environment for our members. IOGA is committed to being a positive, credible, and proactive voice for industry, promoting respectful dialogue and education to advance oil and gas interests at the state and federal level.

IOGA's vision is simple - to promote the development of Illinois' oil and natural gas resources for the betterment of society. We believe in seeking common ground, through common sense solutions, to the chal-

lenges facing the Illinois oil and gas industry. Our non-partisan approach provides a uniquely powerful voice for our members at the state and national level.

Today, IOGA is over 700 members strong - making IOGA the lead state and national advocate for the Illinois oil and gas industry. For more information, please visit www.ioga.com.