

May 6, 2008

Ladies and Gentlemen:

Reliable and affordable energy is critical to our state's ability to maintain strong economic growth. Texas has long been a leader in the energy industry and today has nearly one-quarter of the nation's oil reserves and about one-third of natural gas reserves. Texas also leads the nation with more than a quarter of all U.S. refining capacity. The energy industry plays a leading role in the Texas economy, employing nearly 375,000 people who earned more than \$35 billion in total wages in 2006.

Fossil fuels — oil, gas and coal — continue to meet most energy needs for Texas, the U.S. and the world. Nearly all our vehicles remain powered by oil products, and about 87 percent of Texas' electricity is generated from the fossil fuels — coal and natural gas, with nuclear energy providing about 10 percent.

The use of renewable resources is on the rise, and Texas leads the nation in renewable energy potential. Texas has the resources and technical expertise to take advantage of increased use of a wide variety of renewable energy sources, including solar, wind, geothermal, biofuels and hydrogen.

The Energy Report, available at www.window.state.tx.us/specialrpt/energy/, is intended to serve as a reference tool for anyone seeking to understand the current Texas energy environment as they consider the potential impact of new policies. Texas remains at the forefront of the nation's energy industry. As such, the direction Texas takes in energy policy will help mark the path for the nation. Texas — and the rest of the world, for that matter — almost certainly will meet future energy demands using a wide variety of resources, and our state is well positioned to benefit from the increasing diversification of the nation's energy portfolio.

The Energy Report Executive Summary includes an overview of the energy industry in Texas, brief reviews of 17 fuel sources, an overview of energy uses and a summary of government financial subsidies for energy.

We recognize that energy prices are volatile and have increased significantly in recent months. Our report uses the most recent data available, which allows us to compare prices, production and consumption across different fuel sources. We have provided extensive source references so readers can check for updated data, while using this report as the basis for a basic understanding of the Texas energy landscape.

Sincerely,

Susan Combs



