American Exploration & Production Council

November 14, 2011

The Honorable Jeb Hensarling
129 Cannon HOB
Washington, DC 20515

The Honorable Fred Upton
2183 Rayburn HOB
Washington, DC 20515

The Honorable Dave Camp
341 Cannon HOB
Washington, DC 20515

The Honorable Patty Murray
448 Russell SOB
Washington, DC 20510

The Honorable Max Baucus
511 Hart SOB
Washington, DC 20510

The Honorable John Kerry
218 Russell SOB
Washington, DC 20510

The Honorable James Clyburn
2135 Rayburn HOB
Washington, DC 20515

The Honorable Xavier Bacerra
1226 Longworth HOB
Washington, DC 20515

The Honorable Chris Van Hollen
1707 Longworth HOB
Washington, DC 20515

The Honorable Jon Kyl
730 Hart SOB
Washington, DC 20510

The Honorable Rob Portman
338 Russell SOB
Washington, DC 20510

The Honorable Pat Toomey
502 Hart SOB
Washington, DC 20510

Dear Members:

We are writing to you as members of the Joint Select Committee on Deficit Reduction on behalf of the 31 members of the American Exploration & Production Council ("AXPC") to express strong opposition to any proposal that would dramatically increase taxes on domestic independent oil and natural gas producers.

AXPC is composed of our nation's larger independent producers, drilling the majority of domestic oil and natural gas wells. Our aggregate capital budgets for 2011 are estimated at more than $50 billion. We routinely reinvest more than 100% of our cash flow in domestic drilling projects. Our companies have been responsible for developing new technologies that have resulted in creating thousands of new jobs, unlocking vast quantities of domestic energy---both natural gas and oil, increasing domestic production of oil and natural gas for the first time in decades, and helping state and local economies where we operate remain healthy and growing - even during the current tough economic climate.

Although we understand that you are considering a number of oil and gas tax provisions, we want to emphasize that by far the most important provision to larger independent producers is the ability to expense Intangible Drilling Costs (IDC's). IDC tax treatment has been part of the tax code for almost a century and is designed to attract capital to the high risk business of natural gas and oil exploration and production. In its simplest terms, the expensing of IDC's is similar to any other business deduction by providing for the immediate deduction of expenditures with no salvage value. This allows producers to recover capital more quickly to fund reinvestment in new drilling projects to further enhance our domestic energy supply and security.

If IDC expensing is repealed, our members' drilling budgets will necessarily be materially decreased with the magnitude of such reduction being dependent upon each individual company's particular tax situation. A survey of our members indicates that such a draconian tax increase would result in at least 3,500 fewer domestic wells being drilled in the coming months, which translates into a dramatic reduction in jobs, less domestic security and most certainly increased price volatility and overall higher energy prices for consumers.

We are likewise aware of discussions of "comprehensive tax reform" as a potential source of additional revenues. Broad changes in tax policy enacted quickly are fraught with unintended consequences. We would urge you and your colleagues to thoughtfully and deliberately consider the longer term implications of possible changes in tax policy rather than trying to craft a short term solution to our many fiscal issues.

Like you, AXPC leaders are concerned about the economic future and vitality of our country. We are absolutely supportive of policies that will create growth, increase private sector jobs and reduce our nation's trade deficit. If our ability to recover the capital spent on items without salvage value in the year of the expenditure is repealed, let us assure you the impact will be just the opposite – fewer industry jobs, less production of clean domestic energy, higher energy prices and less economic activity in the dozens of states where we operate. Not to mention the decrease in tax revenues to federal and state coffers and the negative impact on our efforts to achieve energy independence.

Again, we encourage you to resist the temptation to dramatically increase taxes on domestic independent oil and gas producers. Should you have questions or like to visit, please do not hesitate to contact us at 202-652-2359 or bthompson@axpc.us.

Thank you for your consideration.

Lee K. Boothby
Chairman, American Exploration & Production Council
Chairman, President & CEO, Newfield Exploration Company.

V. Bruce
V. Bruce Thompson
President
American Exploration & Production Council

Thank you also on behalf of the following AXPC member companies:

Anadarko Petroleum Corporation
Apache Corporation
Bill Barrett Corporation
BHP Billiton Petroleum
Cabot Oil & Gas Corporation
Chesapeake Energy Corporation
Concho Resources, Inc.
Continental Resources, Inc.
Devon Energy Corporation
EP Energy Corporation
Encana Oil & Gas (USA) Inc.
Energen Corporation
EOG Resources, Inc.
Forest Oil Corporation
HighMount Exploration & Production LLC
Linn Energy, LLC
Newfield Exploration Company
Noble Energy, Inc.
Occidental Oil and Gas Corporation
Pioneer Natural Resources Company
Plains Exploration & Production Co.
QEP Resources, Inc.
SandRidge Energy, Inc
Seneca Resources Corporation
Southwestern Energy Company
SM Energy Company
Talisman Energy, Inc.
Ultra Petroleum Corporation
Whiting Petroleum Corporation
Williams Companies, Inc.
XTO Energy, Inc.