



January 16, 2014

Sent via email to Tax_Reform@Finance.Senate.gov

The Honorable Max Baucus
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Orrin G. Hatch
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

RE: Comments on Proposed Reforms to Cost Recovery Provisions

Dear Chairman Baucus and Ranking Member Hatch:

The American Exploration & Production Council (“AXPC”) is pleased, on behalf of its members, to submit comments and information in respect of the Discussion Draft on Cost Recovery and Accounting issued by the Senate Committee on Finance (the “Committee”) on November 21, 2013 (the Discussion Draft”).

AXPC is a national trade association representing 32 of America’s largest and most active independent oil and natural gas exploration and production companies. Our members are “independent” in that their operations are limited to the exploration for and production of natural gas and oil. Moreover, our members operate autonomously, unlike their fully integrated counterparts, which operate in additional segments of the energy business, such as downstream refining and marketing. AXPC members are leaders in developing and applying the innovative and advanced technologies necessary to explore for and produce oil and natural gas, both offshore and onshore, from unconventional sources.

The aggregate capital budget for our members in 2012 was in excess of \$81 billion. Our members routinely invest in excess of 130% of their cash flow in domestic drilling projects, creating thousands of new jobs (our members employ over 70,000 individuals), unlocking vast quantities of domestic energy and increasing domestic production of oil and natural gas for the first time in decades. For example, late in 2013 it was announced that the United States became the world’s largest combined producer of oil and natural gas and that, for the first time in almost 20 years, our nation is producing more oil than it imports. These developments have enormous geopolitical and national security implications, all to the benefit of our nation. Moreover, these trends and the job growth and economic development that accompany them are extremely positive for our nation’s economy. They should be encouraged and allowed to continue rather than disrupted by

ill-advised policies that would dramatically increase taxes on the industry, significantly reduce the number of wells drilled and substantially increase the price of energy in an economy that is struggling to rebound.

For example, if, as is proposed in the Discussion Draft, our member companies were made to capitalize the ordinary and necessary business expenses incurred in drilling and completing a well that have no salvage value and to then amortize these expenses over 60 months, the 32 AXPC member companies would, in the first year alone, have almost \$18,000,000,000 less in capital to invest, which would result in almost 4,000 fewer wells being drilled just by these 32 companies. (This is based on the 2012 capital spending levels for our members, which is the most recent data available.) On an industry-wide level, a recent study conducted by Wood Mackenzie found that eliminating the immediate deductibility of these ordinary and necessary business expenses would cost 190,000 jobs in the first year and would reduce investment spending by oil and gas producers by \$407 billion over the next 10 years. Surely, these are not a results Congress believes are positive for our country.

We welcome the efforts of the Committee to learn about and better understand the tax issues that are of concern to our members and to the oil and gas industry at large. AXPC stands ready to be a resource for both the Committee and its staff as you engage in this critical undertaking.

Attached please find a narrative describing Intangible Drilling Costs (“IDCs”) and the hugely negative impact a significant reduction in their deductibility would have on the discovery and development of domestic energy resources. As you will see from the discussion of this issue, the importance of continuing to currently deduct these ordinary and necessary business expenses cannot be overstated. The ability of independent exploration and production companies to currently deduct their ordinary and necessary business expenses incurred in the course of discovering and producing our nation’s energy resources means the continued growth of job creation and overall economic activity, as well as the availability of reasonably priced, abundant, domestic energy supplies, not to mention the national security and energy independence implications of our being able to fully develop our own resources. This particular provision of current tax law is by far the most important tax provision for larger independent exploration and production companies.

We trust this information will be helpful to you and to the Committee and its staff. Additional information is available on our website at www.axpc.us. Should you have questions or require additional information, please feel free to contact me at bthompson@axpc.us.

Sincerely,



V. Bruce Thompson
President