



July 17, 2017

Sent via email to taxreform2017@finance.senate.gov

The Honorable Bill Cassidy, MD
Co-Chairman
Energy Income Tax Working Group
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Dean Heller
Co-Chairman
Energy Income Tax Working Group
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

RE: Comments and Information Pertaining to Energy Income Tax Reform

Dear Senator Cassidy and Senator Heller:

The American Exploration & Production Council (“AXPC”) is pleased to submit, on behalf of its members, comments and information in respect of the recent request by the Senate Finance Committee (the “Committee”) for submissions from interested stakeholders in connection with the Committee’s consideration of options for reforming the nation’s tax code, particularly as such options pertain to provisions applicable to independent crude oil and natural gas exploration and production companies.

AXPC is a national trade association representing 33 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 crude 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, from unconventional sources, both offshore and onshore.

The aggregate capital budget our members project for 2017 is in excess of \$42 billion, a 59% increase from 2016. Our members routinely invest more than 120% of their cash flow in domestic drilling projects, employing over 46,000 individuals in the business of 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. According to the United States Energy Information Administration (“USEIA”), both of these trends have continued. In addition, the USEIA recently predicted that exports of liquefied natural gas (“LNG”) for the United States will quadruple in 2017. These developments have enormous geopolitical and national security implications, all to the benefit of our nation. Moreover, these trends and the economic development that accompanies 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, which would in turn significantly reduce the number of wells drilled and substantially increase the price of energy in an economy that is still struggling to rebound.

As an example, should, as some members of Congress have proposed, our member companies suddenly be unable to currently deduct the ordinary and necessary business expenses incurred in connection with their exploration and development activities, AXPC member companies would, in the first year alone, have in excess of \$10,000,000,000 less capital to invest, which would result in over 1,600 fewer wells being drilled just by the 33 AXPC member companies. (This is based on the projected 2017 capital spending levels for our members.) Surely, reducing the supply of domestic energy in these uncertain times is not a result Congress believes to be positive for our country’s economy and national security.

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 the Energy Income Tax Working Group, the Committee, and their respective staffs as you engage in this critical undertaking.

Attached you will find a white paper describing Intangible Drilling Costs (“IDCs”) and the hugely negative impact a significant reduction in their current deductibility would have on the discovery and development of domestic energy resources. As you will see from the attached information, the importance of being able to continue 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 in the supply of affordable domestic energy and in overall economic activity that has resulted from abundant availability of reasonably priced, domestic energy supplies. This says nothing of the increasingly critical national security and energy independence implications of our being able to fully develop and rely upon our own resources. This particular provision of current law, or its functional equivalent, e.g. 100% expensing of capital expenditures, 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 Energy Income Tax Working Group, the Committee and their respective staffs. 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 by email at bthompson@axpc.us or by phone at 202-347-7529.

Sincerely,

A handwritten signature in black ink, appearing to read "V. Bruce Thompson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

V. Bruce Thompson
President

cc: The Honorable Orrin G. Hatch, Chairman Senate Finance Committee
The Honorable Ron Wyden, Ranking Member Senate Finance Committee