Congress of the United States
Washington, DC 20515

March 13, 2015

The Honorable John A. Boehner
Speaker
U.S. House of Representatives
H-232, The Capitol
Washington, D.C. 20515

The Honorable Nancy Pelosi
Minority Leader
U.S. House of Representatives
H-204, The Capitol
Washington, D.C. 20515

The Honorable Paul Ryan
Chairman
Ways and Means Committee
U.S. House of Representatives
1102 Longworth House Office Building
Washington D.C. 20515

The Honorable Sander M. Levin
Ranking Member
Ways and Means Committee
U.S. House of Representatives
1106 Longworth House Office Building
Washington D.C. 20515

Dear Speaker Boehner, Leader Pelosi, Chairman Ryan, and Ranking Member Levin,

As Congress considers comprehensive tax reform, we write in support of retaining expensing of Intangible Drilling Costs (IDCs), percentage depletion, and the classification of working interest owner as an active investor for independent oil and gas producers. When legislation moves forward we strongly encourage leadership to preserve these important provisions for America's energy producers.

The American energy renaissance is fueled by independent domestic producers. Domestic independent producers drilled 96 percent of the new wells in the U.S. in 2014, produced 56 percent of American oil, and more than 85 percent of American natural gas. Much of this development is made possible by the existing tax treatment of capital formation and recovery provisions, which allows producers to attract the necessary capital to drill new oil and gas wells. Congress should not put additional barriers in the path of our domestic producers, particularly when the U.S. economy remains in the midst of a difficult recovery.

Expensing IDCs, which are only available for wells drilled in the United States, permits producers to deduct costs in the year they are incurred. This provision is only fully available to domestic independent producers; it is available to the big five major integrated companies on a much more limited basis and not at all to wells drilled in foreign countries.

With the high development cost of oil and natural gas, significant access to capital is required to continue production. If the ability to expense IDCs in the year they are incurred is removed, independent producers would face a significant decline in available capital, leading to reductions in drilling and production.

Cc: Majority Leader Kevin McCarthy, Majority Whip Steve Scalise, Minority Whip Steny Hoyer

Percentage depletion is only available to domestic independents and royalty owners and is not available to integrated companies. A recent study by the energy consulting firm IHS Global Insight confirmed the impact that eliminating percentage depletion would have on the U.S. economy. According to the IHS, ending percentage depletion would result in 37,000 fewer wells being drilled in the period from 2015 to 2025, reducing oil production by 644 million barrels and natural gas production by 2.8 trillion cubic feet. An average of more than 178,000 jobs – direct, indirect and induced – could be eliminated each year.

Working interest owners are investors who share the costs and risks in drilling and production and are allowed to be classified as active investors under current law. Working interest owners face operating risks, losses, and expenses throughout the life of the well, incurring a large portion of those expenses early in production. Without this classification, percentage depletion and expensing of IDCs would be deferred until the well becomes profitable or the investors sell their interests.

Domestic energy resources are vital to America's economic growth and national security. As our country faces continuing economic and security challenges, Congress should not discourage domestic energy production with adverse changes to the tax code that eliminate or modify the expensing of Intangible Drilling Costs (IDCs), percentage depletion, and the classification of a working interest owner as an active investor for independent oil and gas producers.

Thank you for your consideration.

Lamar Smith

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Henry Cuellar

John Carter

Will Hurd

Will Hurd

Mac Thornberry

Kay Granger

John Culberson

Blake Farenthold

Andy Harris

Mike Conaway

Rubén Hinojosa

Tom Cole

Louie Gohmert

Jim Bridenstine

Steve Pearce

John Ratcliffe

Randy Weber