

American Energy Independence within a Decade:
The Importance of Maintaining Tax Provisions Critical to
U.S. Independent Oil and Natural Gas Producers

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My name is Harold Hamm and I'm Founder, Chairman and Chief Executive Officer of Continental Resources. Founded in 1967 and based in Oklahoma City, Continental is a Top 10 petroleum liquids producer in the United States and the largest leaseholder in the nation's premier oil play, the Bakken Play of North Dakota and Montana.

Only in America can the thirteenth child of a sharecropper turn a one-man, one-pump-truck operation into one of the nation's largest oil companies.

And I'm here today to talk to you about the American dream of energy independence and what it will take to get there within the next decade.

There is good reason that when the tax code was reformed in 1986, a bipartisan majority recognized the importance of leaving the tax provisions of the American independent oil and gas industry intact. This decision played a significant role in the technology-driven oil and gas renaissance we are currently experiencing.

Just seven years ago, America was importing 60 percent of its oil. But with technological advances in horizontal drilling over the last 15 years, we now import less than 45 percent of our oil, and we count natural gas reserves in centuries. However, the development of horizontal drilling took trial and error. Without the current capital provisions in place, we would not have been able to fail over and over again, which is what it took to advance the technology needed to produce the Bakken and numerous other resource plays across America. And this technology that allows us to drill two miles down, turn right, go another two miles and hit a target the size of a lapel pin is the technology that has unlocked the resources that make energy independence a reality.

This paradigm shift in American oil and gas exploration brings with it high-paying jobs, increased tax revenues, and economic growth, while lessening our dependence on foreign oil. But it depends on substantial amounts of capital. The tax provisions that let us keep our own money to reinvest in drilling are crucial to keep this energy revival going.

More than 18,000 independent producers drill 95 percent of U.S. oil and natural gas wells and account for 67 percent of U.S. production. The average company size is 11 employees. They typically invest more than 100 percent of their revenue in finding new domestic energy sources and often times raise another 30 to 40 percent in additional capital.

Independent oil and natural gas producers are in the exploration and production segment of the industry, with no marketing operations and very limited refining operations. We have no opinion on the viability of tax provisions for multinational integrated oil and gas companies like Section 199 and Foreign Tax credits. These are not the tax provisions providing the capital that is fueling America's march to energy independence.

In order to achieve American energy independence, we must maintain tax provisions critical to independent oil and gas producers, including Intangible Drilling Costs (IDCs) and Percentage Depletion.

IDCs permit companies to deduct the entire cost of drilling a well during the first year rather than spreading it out over a period of years. This is only available on wells drilled in the United States. It is not available to major integrated oil and gas companies on any wells drilled outside the United States.

IDCs have been available since 1913 and are consistent with how other businesses are allowed to treat similar costs to help manage risk. Examples include R&D for the technology industry and development costs for the coal mining industry. Most importantly, IDCs mean jobs because they provide the capital to drill the next well. The negative economic impact of a repeal would be substantial, placing thousands of jobs at risk—58,000 direct, indirect and induced U.S. jobs this year alone and 165,000 direct, indirect and induced U.S. jobs by 2020.

Percentage Depletion is a 15 percent deduction utilized by independent producers and royalty owners. It's limited to the first 1,000 barrels a day of production. Congress eliminated Percentage Depletion for major integrated companies more than 30 years ago.

Percentage Depletion has been available to independent producers since 1954 as an incentive to stimulate continued investment in a high-risk industry. It provides the capital and outside investment small producers need to drill the more marginal wells, which make up 20 percent of U.S. production.

Eliminating IDCs and Percentage Depletion would result in:

- The loss of thousands of industry jobs, which pay double the national average for manufacturing jobs.
- A 30 percent decrease in drilling activity.
- Increased energy costs for the consumer, resulting in decreased overall GDP.

Good things flow from American oil, and we are blessed with a huge supply that is ready to be tapped. The result would be more high-paying jobs, more tax revenues, and stronger economic growth.

For example, a new rig in North Dakota doesn't just benefit the economy there, it ripples out across the country—creating steel industry jobs in the Midwest, pipe-fitting jobs in the East, and trucking jobs across the United States. Every new barrel of American-produced oil creates benefits that flow across the country.

In addition, America now leads the world in natural gas production. We have over 100 years of reserves, and the low cost of natural gas is bringing manufacturing back to America, creating thousands of jobs.

The benefits of American oil and gas include:

- The oil and gas industry helps support 9.2 million high-paying jobs in the energy sector.
- With the right government policies in place, the oil and gas industry is poised to create an additional 1.4 million jobs by 2030.

- The oil and gas industry keeps dollars, jobs and tax revenues in America and not overseas.
- America's dependence on imported oil fell below 50 percent last year for the first time since 1997.
- Recent estimates have America sitting on oil and natural gas reserves the size of Saudi Arabia's.
- America is endowed with 163 billion barrels of recoverable oil—enough to replace Persian Gulf imports for the next 50 years.
- The oil and gas industry sends \$100 million every day to the federal government and millions more to state governments.

There are unintended consequences of tax code changes to an industry that holds the key to job creation, balance of trade and national security. Most concerning is the fact that eliminating tax provisions for independent oil and gas producers would slow down, if not stop, America's march to energy independence.

Sources:

- ***American Petroleum Institute, Evaluation of Proposed Tax Changes on the US Oil & Gas Industry 2010***
- ***Oklahoma Independent Petroleum Association, 2009 Fall Conference, Elizabeth K. Brown***
- ***Independent Petroleum Association of America***
- ***2009 Bureau of Labor Statistics Data***
- ***2009-2010 Energy Information Administration Data***
- ***Standard & Poor's Compustat North American Database***
- **The often-mentioned goal of U.S. energy independence could become reality by the end of the decade, according to analysts with Raymond James. As early as 2020, net U.S. crude imports will "reach essentially zero" thanks to booming oil production in Texas and North Dakota, growth in biofuel output and rapidly falling demand. ([Raymond James](#))**
- **The cumulative impact of new production, reduced consumption, and associated activity may increase real GDP by 2 to 3%, creating from 2.7 million to as high as 3.6 million net new jobs by 2020. Furthermore, the current account deficit could shrink by 2.4% of GDP, a 60% reduction in the current deficit, by 2020. This may also cause the dollar to appreciate in real terms by +1.6 to +5.4% by 2020 ([Citi GPS](#))**

- **These estimates suggest that the energy sector in the next few decades could drive an extraordinary and timely revitalization and reindustrialization of the US economy, creating jobs and bringing prosperity to millions of Americans, just as the national economy struggles to recover from the worst economic downturn since the Great Depression. ([Citi GPS](#))**