April 15, 2015

Sent via email to Business@finance.senate.gov

The Honorable John Thune
Co-Chairman
Business Income Tax Working Group
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Benjamin J. Cardin, MD
Co-Chairman
Business Income Tax Working Group
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

RE: Comments and Information Pertaining to Business Income Tax Reform

Dear Senator Thune and Senator Cardin:

The American Exploration & Production Council ("AXPC") is pleased, on behalf of its members, to submit comments and information in respect of the March 11, 2015 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.

AXPC is a national trade association representing 30 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, from unconventional sources, both offshore and onshore.

The aggregate capital budget for our members in 2014 was in excess of $86 billion. Our members routinely invest in excess of 130% of their cash flow in domestic drilling projects, employing over 68,000 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, both of these trends continued in

2014. 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 the Administration and some members of Congress have proposed, our member companies suddenly be unable to 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 $19,000,000,000 less capital to invest, which would result in almost 3,700 fewer wells being drilled just by these companies. (This is based on the 2014 capital spending levels for our members, which is the most recent data available.) Surely, reducing the supply of domestic energy in these uncertain times is not a result Congress believes to be 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 the Business 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 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 Business 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 202-742-4541.

Sincerely,



V. Bruce Thompson
President

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