Statement for the Record for the House Committee on Ways and Means
Subcommittee on Tax Policy
Hearing on Member proposals for improvements to the U.S. tax system
Thursday, May 12, 2016, 10:00 A.M.

National Stripper Well Association Chairwoman Darlene Wallace

Chairman Boustany, Ranking Member Neal and members of the Committee, the National Stripper Well Association is the only national trade association which represents producers and operators of marginally economic crude oil and natural gas wells in the United States. Today, we are submitting this statement in support of Rep. Lynn Jenkins and her legislation, HR 4672, to eliminate the net income limitation on percentage depletion.

Our membership and America's stripper wells make up approximately 80% of all domestic wells, producing almost 17% of U.S. oil and natural gas making a significant contribution to the nation's economic security and our local communities.

Worldwide it should be noted that the United States is the only country with significant production of stripper wells, and one of the few countries in the world with private mineral rights that makes it possible. Nationwide, approximately 400,000 jobs are directly or indirectly dependent upon marginal or stripper oil and gas wells. In fact, U.S. stripper wells collectively produce 1.2 million barrels per day and NSWA is the only national association that represents solely the interests of the marginal well producers and operators before Congress, the Administration and the Federal bureaucracies.

Established in 1934, NSWA has been at the forefront of the battles in Congress to promote domestic industry, to decontrol the price of stripper oil, helped lead the fight to eliminate the windfall profit tax on stripper well producers and recapture precious ground lost in the seemingly never-ending battle over percentage depletion.

Today, small and marginal oil and gas producers are facing one of the toughest times in industry history. In today's globally competitive oil and gas marketplace, small stripper well operators and marginal producers are competing against multinational foreign competition and booming domestic production. However, while this low-price, high-competition environment appears good for consumers, it has tremendous potential to shut down the smallest operations.

That is why the owners and operators of America's smallest, most economically-vulnerable oil and gas production are calling on Congress to restore the tax provision providing for the suspension of the net income limitation on percentage depletion for oil and natural gas produced from marginal properties. This important relief is critical to preserving the production of oil and natural gas from marginal oil and natural gas properties. There are many reasons this effort is critical today.:

- Removing the net income limitation on property basis will allow operators to utilize the tax provisions the same way they operate their facilities, by sharing costs across a variety of different wells with different production expenses.

- Allowing operators to utilize more of their percentage depletion allowance from high-cost wells will keep more of those wells open and in production. Once shut-in and abandoned, stripper wells likely never operate again. This limitation puts at risk thousands of the more than 600,000 marginal oil and natural gas wells in the United States, which collectively produce approximately 1.2 million barrels per day of oil production and nearly 5.8 billion cubic feet of natural gas per day.

- Percentage depletion was established to ensure the maximum conservation of resources from production facilities that already exist. By restricting the use of percentage depletion, Congress retreats from this conservation goal, leading to shut-in wells and lost production.

According to a 2015 economic impact report commissioned by the National Stripper Well Association, and conducted by global research firm IHS, loss or change of the percentage depletion allowance will cause marginal wells to be abandoned, causing direct, indirect and induced job loss of more than 292,000 individuals. In the oil and gas industry, the direct effect of abandonments is $5.3 billion in lost worker earnings and 83,000 potential jobs lost, according to a report produced by the National Stripper Well Association.

Now as producers are struggling in this tough economic environment in the oil and gas sector, we are asking Congress to restore the suspension of the net income limitation on percentage depletion for oil and natural gas produced from marginal properties. This important relief is critical to preserving the production of oil and natural gas from the most marginal oil and natural gas prospects.

In 2013, Congress allowed the exemption from net income limitation on percentage depletion to lapse, and the time has come for Congress to reinstate and make permanent this important allowance. Before this Committee today you will hear about legislation, HR 4672, introduced by Rep. Lynn Jenkins (R-KS) that would accomplish this goal. We hope the Committee will strongly consider this legislation and help make the tax code work for small businesses and protecting jobs and energy production by America's small oil and gas producers. Attached with this statement is a letter signed by 14 national and state oil and gas associations in support of legislation restoring the net income exemption.

Thank you for your time and consideration.

Darlene Wallace

Chairwoman, National Stripper Well Association

Attachment 1: *Support letter*

March 1, 2016

Representative Lynn Jenkins
1526 Longworth House Office Building
Washington, DC 20515

Dear Representative Jenkins:

We strongly support your introduction of legislation to remove the net income limitation on percentage depletion for oil and natural gas produced from marginal properties. This important relief is critical to preserving the production of oil and natural gas from the most marginal oil and natural gas prospects. We appreciate your sponsorship of this legislation and plan to work to urge other Representatives to support your efforts for this important legislation that will protect jobs, strengthen America's energy security, and enhance the climate for small businesses in America.

In 2013, Congress allowed the suspension of the net income limitation on percentage depletion to lapse, and the time has come for Congress to make permanent this important concept. In today's globally competitive oil and natural gas marketplace, small stripper well operators and marginal producers are competing against multinational foreign competition as well as new booming American production. However, while this low price, high competition environment appears good for consumers, it has tremendous potential to shut down the smallest, most marginal operations. These are exactly the kind of operations the percentage depletion allowance was established to encourage by ensuring that American producers have the capacity to safeguard the full and responsible conservation of our natural resources.

Without this exemption, the deductible allowance for oil and natural gas production is limited to a property's net income. In a low-price competitive environment that can mean if a property suffers losses or the net income is less than the 15 percent of gross revenue, the ability to use percentage depletion is unreasonably limited. This limitation puts at risk thousands of the more than 600,000 marginal oil and natural gas wells in the United States, which collectively produce approximately 1.2 million barrels per day of oil production and nearly 5.8 billion cubic feet of natural gas per day. Across America, these independent owners and operators are the small business sector of the American oil and natural gas industry, and it is vital we keep them in operation.

However, according to the Department of Energy, between 1994 and 2003, the United States lost 110 million barrels of crude oil production because of the plugging and abandoning of marginal wells. In addition, marginal wells are economic multipliers for communities as well as local, state and federal budgets. For every $1 million directly generated by stripper well production, more than $2 million in economic activity is generated elsewhere. Each additional $1 million of stripper well production employs 10 workers directly and indirectly, with some producers employing as many as 15 workers. If all marginal wells were abandoned, 292,374 individuals would lose their jobs. In the oil and gas industry alone, the effect of abandonments is $5.3 billion in lost worker earnings and 83,000 potential jobs lost, according to an economic impact report produced by the National Stripper Well Association.

Small independent producers and businesses use the percentage depletion allowance for capital to invest in current wells, as well as exploration to drill more. Percentage depletion plays a significant role in keeping America's marginal wells producing and is a vital accounting mechanism for the country's small independent petroleum companies, investors, and royalty owners alike.

Sincerely,

Mike Cantrell, Chairman
National Stripper Well Association

Barry Russell, President and CEO
Independent Petroleum Association of America

Edward Cross, President
Kansas Independent Oil & Gas Association

Albert L. Modiano,
US Oil & Gas Association

Jerry R. Simmons, Executive Director
National Association of Royalty Owners

Pete Regan, Executive Director
Domestic Energy Producers Alliance

Mac McDermott, President,
Northern Montana Oil & Gas Association

D. Alex Mills, President & Chief of Staff
Texas Alliance of Energy Producers

Shawn Bennett, Exec. Vice President
Ohio Oil and Gas Association

Rock Zierman, Chief Executive Officer
California Independent Petroleum Association

Ed Longanecker, President
Texas Independent Producers & Royalty Owners Association

Mike Terry, President
Oklahoma Independent Petroleum Association

CC: Chairman Kevin Brady, House Ways and Means Committee
Ranking Member Sander Levin, House Ways and Means Committee