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

Bruce Hinchey, President
Petroleum Association of Wyoming

Don Briggs, President
Louisiana Oil and Gas Association

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