May 24, 2021

The Honorable Ron Wyden
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Mike Crapo
Ranking Member
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Richard Neal
Chairman
House Committee on Ways and Means
1102 Longworth House Office Building

The Honorable Kevin Brady
Ranking Member
House Committee on Ways and Means
1139 Longworth House Office Building

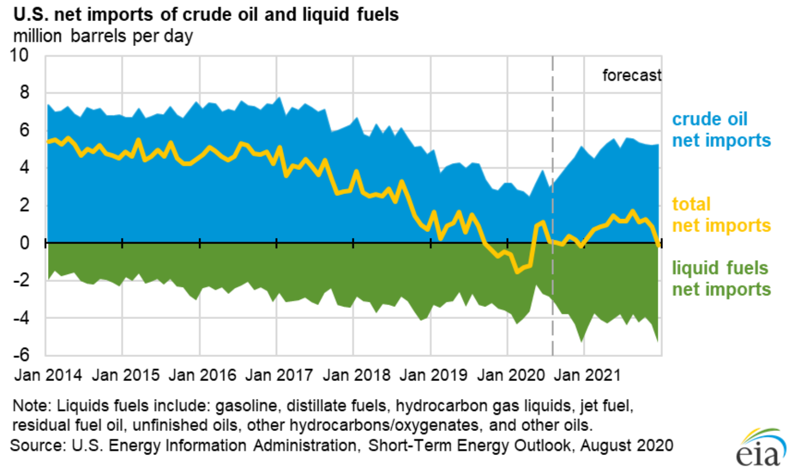
Dear Chairmen Wyden and Neal and Ranking Members Crapo and Brady,

I write on behalf of the National Ocean Industries Association, or NOIA. An almost 50 year old organization, NOIA represents all segments of the offshore energy industry. This includes traditional fossil fuels such as oil and gas, primarily in the Gulf of Mexico, as well as important new sources of energy like offshore wind. Further, our members include not just energy developers but also the businesses - large and small - who do the work of building, supplying, and maintaining these projects. In short, our members are responsible for hundreds of thousands of jobs and vital energy needed to power this country both now and in the future. <u>However, recently proposed, dramatic changes to the tax code, if enacted, will disproportionately harm our member companies who play a vital role in producing American energy.</u>

The Importance of Domestic Offshore Oil and Gas:

In general, the story of the U.S. offshore oil and gas has been one of innovation, safety, environmental protection, and stability. This production in the Gulf has formed the backbone of the domestic oil and gas production for decades. The offshore region has served as a foundation of U.S. energy security, providing more than a million barrels of oil per day since 1997 and reaching record volume of two million barrels per day in August of 2019. Overall domestic production has climbed dramatically in recent years, helped by the offshore but pushed significantly by onshore energy production to the point that America has at times become a net oil and fuels *exporter.*[1] This is a remarkable sea-change for the American economy, balance of trade, national security, and countless other benefits to communities across the country. In fact, if the U.S. Gulf of Mexico represented a country, it would be the 8th largest oil producing nation in the world.

[1] https://www.eia.gov/outlooks/steo/report/us_oil.php



At the same time, the Gulf of Mexico provides enormous economic benefits. As seen in the first attachment, NOIA commissioned a study by the Energy and Industrial Advisory Partners which looked at the job creation and economic contributions of the Gulf. The below chart shows the billions of dollars in economic activity driven by the Gulf in 2019 alone. Importantly, in this one year alonethe Gulf of Mexico oil and gas industry contributed some $5.4 billion in 2019 of government revenue and an enormous 345,000 jobs supported.

Figures according to 2020 study performed by Energy and Industrial Advisory Partners

While most of these jobs are along the Gulf Coast, every state has jobs and businesses that are associated with of the Gulf of Mexico oil and gas industry, be it in the physical supply chain, technology development or other aspects of the work needed to foster this high-tech industry. These jobs are high-paying and accessible, providing opportunities for economic mobility that many people would not otherwise have[2].

As noted above, the industry generated $5.4 billion in government revenue in 2019. Historically, the offshore oil and gas industry has been an important generator of revenues for the Federal government, as well as state and local governments. Between 2000 and 2018, this industry

[2] https://www.api.org/-/media/Files/Policy/Jobs/Women-and-Minorities-in-oil-natural-gas-industry.pdf

generated more than $120 billion in high bids, royalties and rents for the government[3]. Some of these revenues flow back to key conservation programs, such as the Land & Water Conservation Fund (which is funded almost entirely by offshore oil and gas revenues) and, beginning in 2021, the recent Great American Outdoors Acts. In fact, just in March of this year the Department disbursed nearly $250 million for coastal conservation and other programs, commenting that "Today's action represents the second largest disbursement since the Dept first began disbursing GOMESA revenues to states and their CPS in 2009."[4] These are critical revenues for vital programs.

The Importance of Oil and Gas Tax Treatment

Of course, we are aware of the ongoing discussion around the tax treatment of oil and gas operations, and proposals to alter the status quo.[5] We do appreciate interest in helping find a tax policy that tackles the challenge of climate change—a reality we acknowledge and stand ready to help address. However, we do feel that broad penalization of the oil and gas industry through repeal of provisions that afford deductions—not subsidies—related to Intangible Drilling Costs (IDCs and deductions around percentage depletion miss the mark.

Intangible Drilling Costs: For roughly a century, American energy companies have been able to expense the costs of items that cannot be salvaged but are still needed to explore for energy—things like drilling site preparations and fuel. This provision is critically important to the industry, and in particular, independent companies, because it provides the option for these companies to expense these types of costs in the year the funds are expended, providing accelerated access to cash flow that can be invested in new job-creating operations. These provisions have already been revised to limit the amount of deductions that can be taken by integrated oil and gas "major" companies as their expense deduction must be reduced by 30%. Intangible Drilling costs can be as much as 80% of the cost of a well, and the industry has long-relied on the IDC provision to help provide certainty and allow capital to be deployed for not only exploration and development but also decommissioning operations.

Percentage Depletion: Depletion deductions for energy have also been a part of the tax code for as long as almost any American has been alive. The Percentage Depletion provision is available for *all* industries extracting natural resources, even those like clay and gold. Congress has long felt that allowing taxpayers to take deductions as a resource is exhausted and sold will help spur continued production from wells as they age and ensure that resources—and critically resources

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3 https://revenuedata.doi.gov/explore/?dataType=Revenue&location=NF&mapLevel=State&offshoreRegions=true&period=Fiscal%20Year&year=2019

4 https://www.doi.gov/news/interior-disburses-nearly-249-million-gulf-states-coastal-conservation-restoration-and

5 https://www.finance.senate.gov/chairmans-news/-wyden-colleagues-introduce-legislation-to-overhaul-energy-tax-code-create-jobs-combat-climate-crisis

that are owned by the public on federal lands and waters—are responsibly produced and brought to market. It is also critically limited in who can utilize the provision (only independent companies) and on the level of production to which it can be applied (up to 1,000 barrels of oil per day). In other words, this is not a bonanza for the largest energy companies in the world—it is an updated version of a century-old tool to encourage the costly and difficult work of producing energy in America.

Again, we stand ready to work with your Committees to ensure that America's economy is vibrant and competitive on the world stage. We will also continue to provide reliable energy while continuously rising to the challenge of climate change.

Very respectfully,

Erik Milito
President
National Ocean Industries Association