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The Honorable Kevin Brady
Chairman, Energy Tax Reform Working Group
301 Cannon House Office Building
Washington, DC 20515

The Honorable Mike Thompson
Co-Chairman, Energy Tax Reform Working Group
231 Cannon House Office Building
Washington, DC 20515

Re: Comments to the House Ways and Means Committee Energy Tax Reform Working Group

Dear Representatives Brady and Thompson:

On behalf of Devon Energy Corporation I want to commend the House Ways & Means Committee and the Energy Tax Reform Group on its thoughtful approach in undertaking comprehensive tax reform. As one of North America's largest independent oil and natural gas exploration and production (E&P) companies, Devon appreciates the opportunity to provide comments on tax issues of importance to our industry and the country's economy.

As support for reform of the federal tax system grows, Devon believes that the following principles should guide reform efforts:

- Tax reform is an opportunity to simplify and improve the federal tax system. Overall, reform measures should both promote investment in the U.S. and increase our nation's global competitiveness.
- All industries should be placed on equal ground. Government should not choose winners and losers across or within industries.
- The corporate tax rate — the highest in the world — should be reduced to a competitive level.
- Congress should work to reduce the burden on all taxpayers wherever possible.
- Restrictive and lengthy depreciation and amortization periods should be reduced or eliminated.
- When a new tax system is adopted, fair and equitable transition rules should be implemented to assure taxpayer protection.
- Even prior to complete and comprehensive tax reform that would include a territorial approach to taxing international investment earnings, a logical first step would be an immediate adoption of a competitive tax rate for funds earned overseas and repatriated for investment in the United States.

As it relates to the oil and natural gas industry, current tax treatment for intangible drilling costs (IDCs) — as ordinary and necessary business expenses — is vitally important to the day-to-day operations of all oil and natural gas extraction. This is because of the cash flow model of our business that has led to striking advances toward energy independence: We routinely invest more than the cash we take in from our oil and gas operations in order to find, develop and produce energy our nation needs. As a result, and as will be explained further below, Devon strongly believes that any attempts to eliminate or reduce IDC deductions in the year the IDC is incurred should be opposed. As the government has recognized from the beginning of the income tax code, such costs do not "…necessarily enter into and form a part of the

capital invested." Hence, IDCs are properly treated as all other operating costs are treated as deductible business operating expenses in the year of the expenditure. Far from being "special" tax treatment, current expensing is the correct treatment of IDCs.

This tax treatment is also consistent with sound domestic energy policy as it promotes investment and innovation that is necessary to meet domestic energy demand. Any proposals to eliminate or reduce the IDC deduction would not only jeopardize the advances that are responsible for some of the country's biggest and latest oil and natural gas plays, but also lead to reduced domestic E&P investment, less domestic drilling and supply, reduced employment and higher prices for American consumers.

A recent survey of American Exploration and Production Council (AXPC) members — large independent E&P companies that are the most active in the U.S. drilling for oil and natural gas — estimates that the first year impact from the loss of the IDC deduction would force just the 32 AXPC member companies to drill 4,000 fewer wells.

Further, we are not unique in our investment approach. Large independent producers across the board routinely reinvest more than 100 percent of cash flow received from sales of oil and natural gas production. In Devon's case, the elimination of immediate expensing of IDCs would cause cash outlays for income taxes to increase by more than $1 billion in the first year alone. In order to balance its budget in light of such a change, Devon would need to cut approximately 25 percent of its entire U.S. exploration and production budget in 2013.

Devon appreciates the opportunity to comment on comprehensive tax reform, and tax issues of concern to the oil and natural gas industry. We look forward to working with you as Congress undertakes this important effort to promote investment in the United States and increase our nation's global competitiveness.

Respectfully,