Noble Energy, Inc.
Submission to the Committee on Ways and Means, Energy Tax Reform Working Group
April 15, 2013

The Honorable Kevin Brady and The Honorable Michael Thompson
Committee on Ways and Means
Energy Tax Reform Working Group
US House of Representatives
Washington, DC 20515

Dear Congressmen Brady and Thompson,

Thank you for the opportunity to provide written comments regarding federal tax reform and the importance of tax policy to sustaining the recent success in the energy sector across the United States.

Noble Energy is a Houston-based independent oil and natural gas exploration and production company with a market capitalization of approximately $20 billion. Last year we celebrated our 80th anniversary. We have roughly 2,500 employees and produce approximately 250,000 barrels of oil equivalent per day from our operations around the world. In 2012, our annual revenues totaled $4 billion.

At Noble Energy, we operate in five core areas. In the United States, we operate in the Marcellus Shale of West Virginia and Pennsylvania, the DJ Basin in Colorado, and the deepwater Gulf of Mexico. Our international operations include offshore Israel and Cyprus in the Eastern Mediterranean, where we have discovered approximately 37 trillion cubic feet of natural gas resources, which has the potential to provide both Israel and Cyprus with energy independence for decades to come; and offshore Equatorial Guinea and Cameroon in West Africa.

We are fortunate to have a portfolio that provides a solid source of cash flow to fund our ongoing operations, expansions and investments in several new venture areas. Domestically, we are exploring a new region in Nevada; internationally, we are exploring Nicaragua, the Falkland Islands, Sierra Leone in West Africa, and a deep oil prospect in the Eastern Mediterranean. In 2013 our capital spending program is expected be nearly $4 billion—nearly two thirds will be spent domestically. See Figure #1.

Noble Energy has worked hard to build strong positions in our key operating areas. Our current projections indicate we are on a path of sustained double-digit growth that will enable us to double production, and the size of the company, by 2017. One example is Noble Energy's success in Colorado where we have a 640,000-acre position in the Denver-Julesburg (DJ) Basin, located in northeast portion of the state. We drilled 85 wells in 2011, roughly 200 in 2012, and plan to drill 300 in 2013. Looking forward, we aim to drill 500 wells annually by 2015. Across the DJ Basin, we have identified 9,500 locations where we hope to drill horizontal wells for the next two decades. Our sustained growth is predicated on a stable and predictable investment climate. If these dynamics change materially, the results would be undesirable for the businesses and the governments that benefit from the revenues we generate.

The growth in the DJ Basin is similar to what is happening elsewhere in the United States--the Eagle Ford shale in Texas, the Bakken in North Dakota and the Marcellus shale in the northeast. We are experiencing an energy renaissance in this country and this growth has extraordinary impacts. As our company grows we employ more people, support more domestic businesses, and provide indirect employment in our local communities and at the companies with which we do business. Furthermore, we provide significant revenues to local, state and federal governments. Like many companies in our sector, we employ roughly six contractors for every Noble Energy employee.

Much has been said about the importance of expensing intangible drilling costs (IDC) for the oil and natural gas sector and independent producers, in particular. Simply stated, the current tax treatment of IDCs supports the current and future growth of domestic oil and natural gas production. It generates the cash flow that we reinvest in our operations. In fact, we reinvest well over 100 percent of our annual cash flow per year. Because we are solely focused on exploration and production, do not have other business segments from which to derive cash flow. Changes to current IDC rules could impact our domestic operations by reducing the cash flow available for reinvestment and could make future U.S. investments less attractive than international opportunities.

To underscore the points referenced above, it is important to note that independent oil and natural gas companies drill the vast majority of onshore and offshore wells—that is our core business. Independent producers have driven the growth in U.S. energy production since 2007. See Figure #2 and Figure #3.

The top independent producers are spending in excess of free cash flow to invest in U.S. energy development. The impact of IDC elimination would be disproportionate to independents. Investment budgets would be reduced materially, out of necessity. Credible industry analysts project that a change in IDC rules would reduce domestic investment budgets by a 20 to 25 percent. This would immediately impact jobs, production, government royalties and taxes. It would also increase producer breakeven prices, resulting in potentially significant increases in U.S. consumer energy costs.

Noble Energy is very prudently managed. To maintain our financial position, we would reduce our U.S. investment. Drilling and the external consequences would be the same. Figure #4 highlights the projected employment and production impacts of IDC elimination on Noble Energy's 2013 drilling program in the DJ Basin.

Much discussion has taken place in the context of tax reform about broadening the base, reducing tax rates, and eliminating existing provisions in the code. Noble Energy has a very clear view on this matter—the current treatment of IDCs is so integral to the investment capital structure of Noble Energy (and other top independent producers) that no credible rate reduction could be achieved that would offset the impact from a change in the IDC rules.

Any change in present law would immediately impact jobs, oil and natural gas production, royalties and taxes paid to governments. Such changes would also increase producer breakeven prices, resulting in additional costs to consumers and the U.S. economy that would far exceed the Federal revenue gained. See Figure #5.

Noble Energy appreciates the opportunity to provide these written comments and would be pleased to continue engaging with the Committee as it seeks to make well-informed decisions about the energy production and revenue needs of the Nation.

Sincerely,

Ken Fisher
Chief Financial Officer, Noble Energy, Inc.

Figure #1

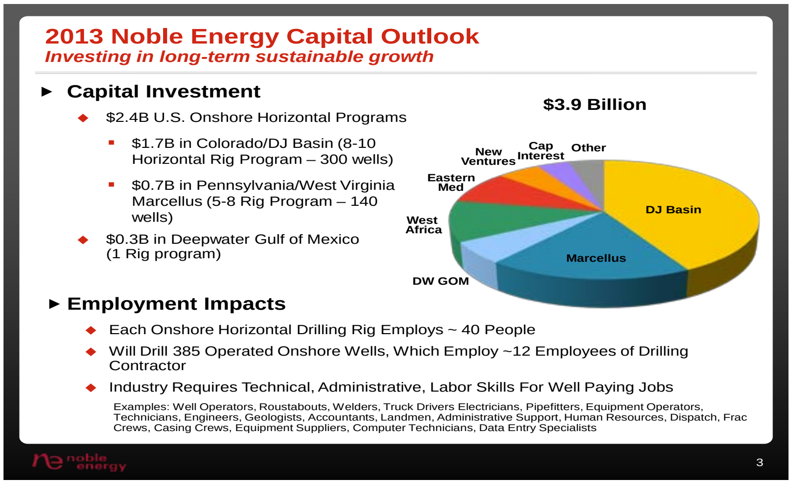

Figure #2

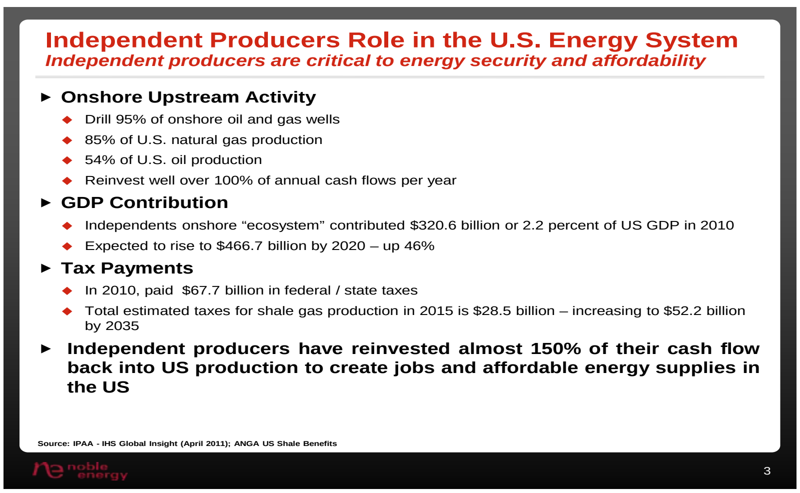

Figure #3

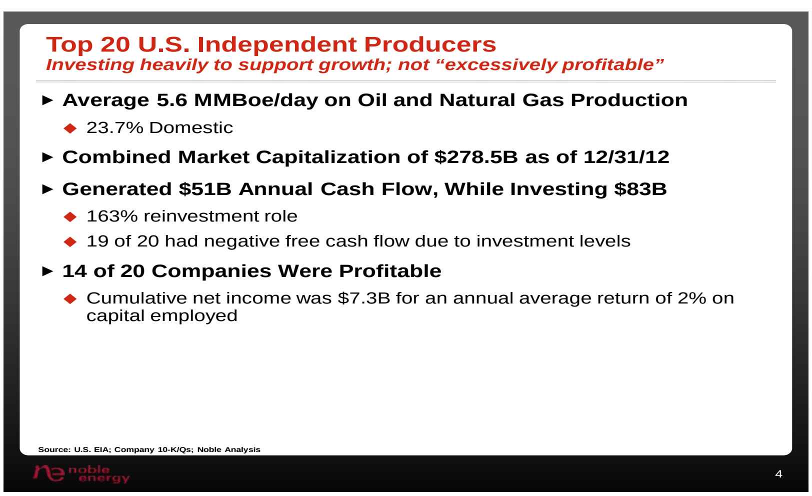

Figure #4

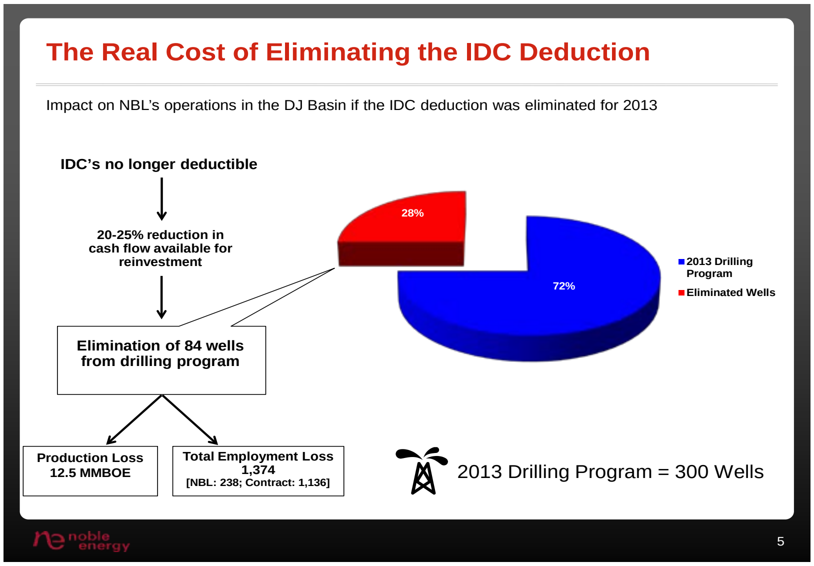

Figure #5