The Committee on Ways and Means
U.S. House of Representatives

ENERGY TAX REFORM WORKING GROUP
United States Steel Corporation Comments
April 12, 2013

United States Steel Corporation

United States Steel Corporation ("U. S. Steel") is an integrated steel producer of flat-rolled and tubular products with major production operations in North America and Europe. An integrated producer uses iron ore and coke as primary raw materials for steel production. U. S. Steel has annual raw steel production capability of 29.3 million net tons (tons) (24.3 million tons in North America and 5.0 million tons in Europe). According to World Steel Association's latest published statistics, we were the thirteenth largest steel producer in the world in 2011. U. S. Steel is also engaged in other business activities consisting primarily of transportation services (railroad and barge operations) and real estate operations.

The Committee on Ways and Means
U.S. House of Representatives

ENERGY TAX REFORM WORKING GROUP
United States Steel Corporation Comments
April 12, 2013

- Intangible drilling costs for domestic oil and gas wells should continue to remain deductible in order to encourage exploration and development of domestic oil and gas resources that will aid our nation's efforts to secure the energy independence it has long sought, reducing our trade deficit and increasing investment and employment.
- Domestic oil and gas exploration and production spurred by the deduction of intangible drilling costs creates jobs in other segments of the U.S. economy, including the manufacture of drilling equipment and tubular products by American manufacturers such as U. S. Steel.
- The recent increase in the production of domestic natural gas, resulting in part from the ability of producers to deduct intangible drilling costs, has reduced the cost of natural gas to domestic manufacturers, making domestic manufacturers, including those in the steel industry, more competitive with foreign manufacturers.

Detailed Discussion

Manufacturing is critical to the success of the overall U.S. economy. Every $1 sales increase for the steel industry increases the output in the total U.S. economy by $2.66.[1] Each job in the U.S. steel industry supports seven jobs in the U.S. economy.[2] Steel is an energy-intensive industry, where energy costs play an important role in determining competitive advantage.

U. S. Steel is the largest integrated producer of energy tubular products in North America. We offer an array of products and services that are developed, tested, and produced in the United States, and we are proud that we are part of a growing movement to foster energy independence in North America.

The deduction for intangible drilling costs -- an ordinary and necessary business expense -- has been available to oil and gas companies since the federal income tax started in 1913 with the addition of the 16th Amendment to the Constitution. The deduction is limited to domestic oil and gas properties. The intangible drilling deduction helps encourage the

[1] Considine, Timothy J., *Economic Impacts of the American Steel Industry*. Commissioned by the American Iron and Steel Institute (AISI) (2012).
[2] *Ibid*.

exploration, development and production of oil and gas resources within the United States, which helps make our country more energy independent.

The exploration and development of oil and gas resources is a risky business involving significant costs. The decision to explore and develop oil or gas at a particular location depends in large part on anticipated costs and revenues. A change in development costs or selling price of a few dollars per barrel or a few cents per mcf can significantly impact the decision whether to explore and develop an oil or gas property. The ability to deduct intangible drilling costs helps reduce the costs of exploring and developing oil and gas properties, making it more likely that oil and gas properties will be explored and developed.

The recent development of the Marcellus Shale deposit in Pennsylvania and neighboring states, as well as oil and gas shale development in North Dakota, Texas and other parts of the United States, is due in part to the fact that the companies taking the risks to explore and develop these properties can take a current deduction for intangible drilling costs. The development of oil and gas properties has spurred demand for equipment and supplies needed to drill and equip wells and to transport the oil and gas to market. Those supplies include steel pipe and tubing produced by U. S. Steel and other steel companies throughout the country. U. S. Steel is investing in our plants and equipment in the United States to meet our customers' needs, and other steel companies are doing the same, resulting in the creation of manufacturing jobs that generally pay family-sustaining wages and provide good benefits.

Putting additional limitations on the ability of domestic oil and gas companies to deduct intangible drilling costs will increase the cost of exploring and developing oil and gas properties, which potentially makes certain properties less economically feasible to develop. The result will be a decrease in domestic oil and gas that would otherwise be produced, thus continuing our nation's reliance on foreign energy supplies. The decrease in exploration and development will also hurt American manufacturers like U. S. Steel that supply the domestic oil and gas industry. The result will be a loss in domestic manufacturing jobs tied to the oil and gas industry.

Putting additional limitations on the ability of domestic oil and gas companies to deduct intangible drilling costs will also increase costs for U.S. manufacturers that use large amounts of energy in their business. The increased development of domestic energy resources, including shale resources, has resulted in increased supplies of competitively priced energy, particularly natural gas, which has helped reduce energy costs for U.S. manufacturers which further increases competitiveness with foreign manufacturers. At U. S. Steel, we are continually looking at ways to increase our use of readily available and competitively priced natural gas in our steelmaking process in order to reduce our use of more expensive raw materials such as coal and coke. The substitution of cleaner natural gas for coal and coke is also better for our environment. If intangible drilling costs are no longer deductible, there could be a decrease in new gas properties that are explored and developed, resulting in reduced production of natural gas and an increase in natural gas prices. Intangible drilling costs should continue to remain deductible in order to maintain the high level of domestic oil and gas exploration and development activity, which helps keep gas supplies up and prices down, all of which create a more competitive environment for manufacturers operating in the United States.