August 2, 2007

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
Washington, DC 20510

The Honorable Steny Hoyer
Majority Leader
U.S. House of Representatives
Washington, DC 20510

The Honorable John Boehner
Republican Leader
U.S. House of Representatives
Washington, DC 20510

The Honorable John D. Dingell, Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20510

Dear House Leaders,

On behalf of the undersigned organizations representing hundreds of thousands of taxpayers, small businesses, shareholders, consumers and senior citizens, **we strongly urge you and your colleagues to reverse the increasingly dangerous direction that the 110th Congress is taking**

<u>with punitive energy policies that would punish the economy by raising taxes, raising energy prices and driving a death nail into domestic energy production.</u>

At a time when already high energy costs are impairing this country's economy, why would the House pass legislation that will ultimately increase financial hardships by strangling American energy supply?

America needs to develop alternative energy solutions, not pit one against another. H.R. 2776, The Renewable Energy and Energy Conservation Tax Act, intends to promote alternative energy, but its revenue offsets would drain other critical American energy investments, with no net increase in domestic energy production capability. As costs to find and develop American oil and natural gas resources increase by $10 billion annually, American oil and gas companies—both major and independent—continue to invest and re-invest their income back into the United States.

H.R. 2776 would stifle this investment, and the domestic energy it produces. Its provision to modify Section 199 of the tax code takes away capital that is only invested in America by America's oil and natural gas producers. Promoting the use of alternative energy by limiting access to new domestic energy sources of oil and natural gas AND imposing new taxes on the U.S. oil and gas industry will not help supply stable and affordable energy to satisfy the demands of American consumers.

Additionally, any legislation which rejects proposals to expand oil and gas drilling, and other energy development on federal lands, prevents progress towards America's independence from foreign oil. Only 35 percent of all oil and 39 percent of all natural gas produced in the United States comes from federal lands and waters. While other nations utilize their domestic oil and gas resources to boost their economies, the energy package presently before the House will severely impede American progress by restricting exploration in ANWR, the Gulf of Mexico and the Outer Continental Shelf.

Titles I and II of H.R. 2337 repeal and delay pro-production and exploration provisions, just as those changes are beginning to show positive results. Specifically, by delaying deadlines that have increased permit decisions and imposing unnecessary delays to domestic oil and natural gas development, this repeal will further drive American jobs overseas and hurt the U.S. economy.

Moreover, the new taxes targeted at the U.S. oil and gas industry will even further reduce our nation's energy security by discouraging new domestic energy production and discouraging new investment in refinery capacity. <u>The results of the perverse incentives will tilt the competitive playing field for global energy resources against the United States and toward our foreign competitors</u>.

Additionally, the repealing of Section 199 of the Internal Revenue Code as the current bill provides will drive American oil and gas companies overseas – taking American jobs with them. The modification of Section 199, the domestic manufacturing deduction, to exclude the gross receipts of all U.S. oil and gas companies will discourage new domestic energy investment by making costly energy projects even less competitive in international markets. Thus, the repeal of Section 199 will not only cost American jobs, but at the same time, increase our dependence on foreign oil and ultimately hurt the U.S. economy.

Further tax disincentive efforts focusing on Section 907 of the Internal Revenue Code are merely punitive measures against the foreign operations of U.S. based oil and gas companies in order to raise revenue. Specifically, modification to Section 907 adversely impacts the way foreign oil and gas extraction income (FOGEI) and foreign oil related income (FORI) are treated for tax purposes. **The current proposal increases the taxes these companies pay on their foreign earnings and potentially exposes them to double taxation which will negatively impact the ability of these**

companies to compete for the oil and natural gas reserves American energy consumers need.

We urge strong reconsideration of the aforementioned principles as they directly interfere with a free-market economy and will ultimately decrease domestic production and thus significantly increase the cost to American consumers. Energy legislation should not attempt to define the market by creating "winners" and "losers", but should institute sound, fiscally-responsible legislation that will decrease U.S. dependence on foreign oil and protect American jobs.

It is essential to oppose all legislation that directly interferes with free-market enterprise and the basic fundamentals of a market-driven economy. Command-and-control policies do nothing but increase regulations which halt growth, create artificial markets, and ultimately produce scarcity and higher prices. Any legislative solution must maintain the fundamental principles of America's free market economy in order to effectively preserve a stable economic system and efficiently provide energy sources for future generations.

Sincerely,

James L. Martin, President
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Chairman
American Conservative Union

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Americans for the Preservation of Liberty

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Continued Next Page

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cc: All Members of Congress