Senator Landrieu and Committee members, thank you for the opportunity to testify at today's hearing regarding how independent oil and gas producers contribute to our energy economy, and in particular, how current tax policy encourages domestic energy production which in turn impacts small business. I am Jennifer Stewart and I am the Vice President Tax of Southwestern Energy Company, an independent energy company primarily engaged in natural gas and crude oil exploration, development and production. I am also here in my capacity as the Chair of the Tax Committee of the American Exploration and Production Council, which represents 32 of the nation's leading independent natural gas and oil exploration companies.

I trust you will agree with me that the domestic oil and natural gas industry has been one of the few business sectors instrumental in providing new jobs and spurring growth in all sectors of our economy. The contributions of the industry during the recent recession demonstrate that current tax policy has proven ties towards developing a stronger economy.

How? One of the most significant economic drivers supporting investment by our industry is access to cash. Cash flow from operations drives the next investment and helps mitigate some of the industry's real risk – especially in the exploration and production stage – where upfront investment is extremely large, usually in the billions. The key component in the cash flow model is the ability to recover these large investment costs quickly for tax purposes. The current tax code has a number of provisions reflecting this policy.

For example, independent energy companies are currently permitted to deduct their business expenses as they are incurred. These expenses are primarily wages, fuel, transportation, repairs, and other costs necessary to construct a well pad, drill a well, and complete a well. To limit the ability of these companies to deduct these expenses as they are incurred is to limit cash flow from operations, which limits capital investment, which then limits or even eliminates jobs. For example, a recent study conducted by Wood Mackenzie found that eliminating the immediate deductibility of these business expenses would have a dramatic and negative impact on our nation's economy, resulting in an almost immediate reduction in domestic capital investment of $33 billion and a loss of 190,000 jobs within a year.

To get closer to home, a 2012 study conducted by University of Arkansas concluded that for every direct job created by the oil and natural gas industry, an additional two jobs are created in the energy services sector and in the industries that support them. I can illustrate further using 2012 data of my company, Southwestern Energy. Based on the University's study, every well drilled creates about 20 direct and indirect jobs. If the current expensing of our ordinary and necessary business expenses was no longer permitted, we estimated that 243 wells would have been eliminated from our drilling program. That would have translated into 4,900 jobs lost – 1,700 direct jobs and 3,200 indirect jobs. The negative impact to <u>any</u> local economy of the loss of almost 5,000 jobs cannot be overstated.

What are these jobs? They are high paying - based on the University of Arkansas study, the average annual pay in Arkansas in the oil and natural gas industry is $75,000, twice the average pay of all industries in the state. Then there are the indirect jobs that follow the supply chain, of which most are generated by small businesses. Think of the contractor that hauls gravel to the well pad construction site. Someone has to sell him diesel, sell him tires, repair his trucks, provide his insurance, cleans his office, and prepare and sell him food when he stops for lunch.

Some of you may ask - why am I testifying today? Southwestern Energy and most of the AXPC membership are not small businesses. To answer that, permit me to provide one last statistic. In the years 2012 and through this year to date, my company, Southwestern Energy, contracted with 3,532 small businesses from all over the United States, and paid a total 2.7 billion, that's billion**,** dollars to those small businesses over this brief time. And we are just one energy company out of hundreds across the United States.

Last, I will share a remarkable conversation that I learned of recently – this presents the perspective of one small business in the energy sector that in few words speaks volumes. He started his business in 1985 with one bulldozer. In 2005 he approached Southwestern Energy to do construction work for us, was granted a contract to do so, and in that same year he went from 10 employees to 100 employees. Before his work with the oil and gas industry, he was digging ponds for farmers and struggled to make ends meet. In his words (I quote): "my company has grown, we have a stoplight, a Sonic, and a Subway, and these wouldn't be here if it wasn't for the gas companies."

In close, our nation needs a strong domestic energy industry and I am confident that a change in tax policy would only weaken the industry at a time when we can ill afford it. The American energy renaissance was created as a result of the development of domestic resources. Anti-growth tax policies will only weaken our domestic energy industry, and inflict harm on small business by limiting economic growth and the advantages that come with ample supplies of secure domestic energy. Thank you.