GRENADIER III
ENERGY PARTNERS LLC

April 30, 2025

Dear Senator Cornyn and Representatives Arrington, Van Duyne, and Moran:

As a private equity-backed oil and gas company that is headquartered in The Woodlands, TX, we write to urge you to preserve the current tax treatment of carried interest, a critical mechanism that supports energy investment, job creation, and the long-term growth of a resilient, domestically powered economy.

Grenadier Energy Partners III, LLC is an upstream oil and gas company that is a portfolio company of EnCap Investments, a private equity firm based in Houston, TX. Our strategy is to grow through asset acquisitions, exploitation, and low risk development drilling opportunities. Our focus is onshore oil and gas properties in the lower 48 states where we apply advanced technology to boost production and access hard-to-recover reserves. The company was started in 2007, here in The Woodlands, and we have proudly weathered the many ups and downs of our industry and our country's economy throughout the last couple of decades, alongside our partner, EnCap Investments.

The carried interest structure has been in place for over a century to reward long-term investment and responsible risk-taking across America and has been crucial in capital-intensive industries like oil and gas. We, along with many other smaller independent producers, rely on partnerships with private capital to fund drilling operations, adopt new technologies, and navigate commodity volatility. These partnerships are especially vital in states like Texas, where energy production is not only a core industry but a key driver of local jobs and innovation.

This model works and is a key component of the energy industry, because it allows companies like ours to partner with private equity firms to create jobs, produce energy, and contribute to our local communities and economies. The capital gains treatment of carried interest recognizes the risk being taken by private equity investment whether it's sweat equity, personal guarantees, or long-term, performance-based returns. It rewards those of us that are investing our own dollars alongside our private equity partners for taking personal risk over an extended period of time.

Eliminating or changing that treatment would impose a disproportionate tax burden on the partnerships that have proven essential to America's energy economy. It would make it harder for many new small businesses to secure the capital needed to succeed. It would also chill innovation and risk-taking at a time when energy security and affordability should be national priorities.

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The positive impact of these partnerships and the business model that supports them is clear. Consider that, prior to the "Shale Revolution" here, US oil production had been in a multi-decade decline – dropping from around 10 million bbls/day to roughly 5 million bbls/day from the 1970's to the 2000's. Now, thanks to the technologies developed and utilized over the past two decades to extract oil and gas from shales and other unconventional reservoirs, the US sits at over13 million bbls/day of production. That revolution and that innovation was driven by risk takers. It was fueled by small, private and private equity-backed companies, not large public companies. They were late entrants and not on the leading edge of expanding the unconventional resource base. American energy dominance cannot be achieved without the shale revolution happening and that revolution does not happen at the scale or speed that it did, without private equity involvement.

This issue was addressed in 2017 through meaningful reforms. Revisiting it now – especially in a way that could be applied retroactively – would be a step backward. It would not only penalize our industry – and a company like ours – but send a broader message that long-term investment and entrepreneurship are no longer valued. A retroactive application would punish management teams, like ours, that have worked for years and risked our own dollars and rely on the carried interest portion of our compensation to justify the sacrifices we have made. Making this change would do demonstrable damage to a constituency that does the very work that supports your principles for energy policy and supports this administration's goal of American energy dominance.

We urge you to oppose any effort to raise taxes on carried interest. Doing so would undermine the very partnerships that are powering America's energy future.

Sincerely,

Kyle Noyes
President and COO
Grenadier Energy Partners III, LLC

CC: Representative August Pfluger
Representative Dan Crenshaw
Senator Ted Cruz

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