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OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

January 17, 2007
(House)

STATEMENT OF ADMINISTRATION POLICY
H.R. 6 - Creating Long-term Energy Alternatives for the Nation (CLEAN) Act
(Rep. Rahall (D) WV and 194 cosponsors)

The Administration will continue to work with Congress in efforts to improve the Nation's energy security. Over the past six years, the Administration has worked to address the Nation's energy needs and reduce our dependence on foreign oil while safeguarding the environment and maintaining reasonable energy prices.

Since 2001, the Administration has invested nearly \$12 billion to develop cleaner, cheaper, and more reliable domestic energy sources. The President's Advanced Energy Initiative promotes the development of biofuels, such as cellulosic ethanol, advanced hybrid and plug-in hybrid-electric vehicle technologies, hydrogen and fuel cell technologies, wind and solar energy, clean coal, and advanced nuclear technologies.

The Administration has urged Congress to repeal unnecessary oil and gas incentives contained in the 2005 Energy Policy Act (EPAc) to generate additional savings to the Federal government and the American taxpayer. In this regard, the Administration has opposed tax incentives allowing a subset of firms in the oil and gas industry an accelerated write-off of certain geological and geophysical expenditures. The Administration therefore supports Section 103. The Administration has similarly opposed mandatory royalty relief and prohibitions on drilling-related user fees. The Administration therefore supports Section 205(a). The Administration urges Congress to repeal other unnecessary oil and gas incentives contained in EPAc, such as Federal funding for oil and gas research and development activities. The industry has the incentives and resources to accomplish such activities without additional Federal subsidies, which are unwarranted in today's price environment.

The Administration supports the goal of Section 202, allowing for voluntary lease amendments to incorporate specified price thresholds, and has already reached voluntary agreements with several companies in this regard.

The Administration supports Section 203, concerning Federal authority to vary the suspension of royalties. The Administration maintains that the Secretary of the Interior has the authority, pursuant to the Outer Continental Shelf Lands Act, to vary the suspension of royalties based on the price of production from a lease subject to the Deepwater Royalty Relief Act of 1995.

Objectionable Provisions

The Administration strongly opposes Section 102, which would raise taxes on one part of the manufacturing sector, firms in the oil and gas industries. Industries should be taxed on a level

playing field, and that field should be leveled by lowering rates, not by raising them. While it is appropriate to eliminate unneeded tax incentives targeted specifically at the oil and gas industries, it is inappropriate to single out this industry from all others for punitive tax treatment. Broad-based tax increases on any industry make that industry less competitive with overseas counterparts.

The Administration also strongly opposes Section 204, which would force certain oil and gas companies to renegotiate Clinton-era 1998/1999 deepwater royalty relief leases or face either a “conservation fee” or being barred from future oil and gas leasing in the Gulf of Mexico.

This Administration is committed to collecting a fair share of royalty payments from energy companies that develop domestic assets owned by the people. Accordingly, the Administration recently announced an increase in the royalty rate from 12.5 percent to 16.7 percent for any new deepwater leases offered in the Gulf of Mexico.

This Administration is committed to including price thresholds in its leases; it has always done so and is committed to continuing to do so in the future in order to ensure that the benefits of Federal oil and gas assets owned by the American taxpayers are collected on their behalf. Investigations continue into why the Clinton Administration did not include price thresholds in its 1998 and 1999 leases and therefore did not require the collection of royalties on behalf of American taxpayers.

Section 204 could result in the unforeseen consequence of significantly delaying future lease sales while the provision is litigated and, even if a challenge is ultimately held to be unfounded, a court might enjoin sales resulting in significant revenue decreases to the Treasury and disruption of energy supplies to our Nation. While opposed to statutorily forced renegotiations of contracts, the Administration is investigating options to address the problem and supports voluntary amendments to the Clinton-era 1998/99 offshore leases. The Administration continues to seek voluntary agreement by the affected companies whereby they would accept a price threshold as included in other leases.

The Administration opposes Section 205(b), which seeks to repeal Section 346 of EPA Act. The Administration believes that the Secretary of the Interior should have the same kind of discretion to modify royalties to promote increased production resources for offshore Alaska resources as provided for Gulf of Mexico resources.

Section 301 would allow the House to consider subsequent legislation that would increase energy-related spending, up to the total amount of revenue increases contained in this bill. The Administration strongly opposes the tax and spend philosophy embodied in this provision because new spending should be offset with spending restraint elsewhere, not with tax increases. In addition, this provision is unnecessary because the 109th Congress proposed substantial funding increases for the Administration’s Advanced Energy Initiative within the \$873 billion topline for FY 2007 appropriations. In a previous Statement of Administration Policy, the Administration made clear that if the President were presented with a bill that caused total FY 2007 appropriations to exceed the \$873 billion topline, that the President would veto that bill.

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