EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

June 29, 2006
(House)

STATEMENT OF ADMINISTRATION POLICY

H.R. 4761 – Deep Ocean Energy Resources Act of 2006
(Rep. Jindal (R) Louisiana and 114 cosponsors)

The Administration welcomes the opportunity to work with Congress to increase domestic energy production, thereby addressing high energy prices and U.S. national security, and believes expanding access to oil and natural gas resources on the Outer Continental Shelf (OCS) is an important component of this effort. The Administration agrees with the goal of H.R. 4761 to expand access to OCS resources. However, the Administration strongly opposes revenue-sharing provisions that do not incentivize production and that would reduce Federal receipts relative to current law and have a long-term impact on the Federal deficit. The Administration's preliminary estimate is that the revenue-sharing provisions of H.R. 4761 would reduce Federal receipts by several hundred billion dollars over 60 years. The Administration supports House passage of H.R. 4761 to advance the legislative process, and will work with Congress to address the objectionable revenue provisions and other concerns, including those described below.

While the Administration understands that the bill may be modified on the floor to address the net ten-year deficit effect by a slower phase-in of revenue sharing, two significant concerns remain. Increased revenue sharing for existing leases creates no additional production incentive. Therefore, the Administration strongly opposes provisions to share revenue from existing leases, and to give States up to 64 percent of the revenue from drilling in Federal waters 3 to 12 miles from shore. To maximize the incentives for new production, and not misspend taxpayer dollars, the Administration recommends revenue sharing be focused on new leases in new areas only. The Administration strongly opposes the bill's revenue-sharing provisions because of their adverse long-term consequences on the Federal deficit.

H.R. 4761 would amend the Outer Continental Shelf Lands Act and significantly change the way in which the OCS oil and gas program is administered. As reported, the bill would divert a significant portion of current and future leasing revenues from the Treasury. The bill would also establish new mandatory spending programs, establish costly terms for future oil shale leasing activities, and create other costly changes in current Federal energy and mineral programs.

The Administration has a number of other serious concerns with the bill, as reported. These include:

- Section 5 establishes a procedure for granting "natural gas only" leases that may prove impractical to administer.

- Section 6 forces certain companies to renegotiate contracts or face a "conservation fee." The Federal government must be a reliable business partner and must honor its

contractual obligations, even when in retrospect the terms of those contracts appear unfavorable. The Administration strongly opposes this provision.

- Section 7 shares up to 64 percent of Federal OCS revenues from leases located within 12 miles of an adjacent State's coast. This is a significant and unnecessary change in the current sharing rate for OCS activities adjacent to State waters and could set a precedent for the diversion of other Federal royalty and fee revenues generated on other Federal lands, further diverting resources from the Federal Treasury.

- Section 16 prohibits any Federal agency from permitting the construction or operation of any facility or designating or maintaining a restricted transportation corridor or operating area on the OCS that the Secretary of the Interior determines is incompatible with oil and gas or natural gas leasing. Section 16 is overly broad and could constrain marine safety or marine commerce.

- Section 17 provides overly broad authority for lessees to request the Federal repurchase of a lease and to receive compensation for such repurchase. The bill thus shifts normal investment risks and costs from lessees to the government by allowing lessees to take advantage of the Federal permitting process to achieve unrelated objectives.

- Section 24 prohibits the imposition of new fees for both onshore and offshore mineral leases, even if such fees would facilitate the orderly processing of lease-related industry requests.

- Section 29 prescribes a process for establishing oil shale royalty rates prior to any demonstration that commercial production is feasible. Such provisions could lower future government revenues should oil shale eventually prove to be an economically viable resource. This section also provides to State and local governments 75 percent of all oil shale revenues for the first 20 years of production under each lease. This is inconsistent with the standard 50/50 revenue-sharing arrangement for Federal onshore minerals produced from lands within a given State's boundaries.

The bill provides coastal States, like Florida, the ability to ensure no drilling within 100 miles of their coast. The Administration supports including a significant role for State views in the determination of future energy decisions in adjacent Federal waters.

As previously stated, the Administration supports increasing access to oil and gas resources on the OCS and is willing to engage in constructive discussions on revenue-sharing options with the goal of increasing production in new areas. The Administration welcomes the opportunity to work with Congress on this legislation.

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