CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

January 12, 2007

Honorable Nick Rahall
Chairman
Committee on Natural Resources
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Based on a preliminary review of H.R. 6, the CLEAN Energy Act of 2007 as introduced on January 12, 2007, CBO estimates that enacting this legislation would reduce direct spending by $2.6 billion over the 2007-2012 period and by $6.3 billion over the 2007-2017 period. In addition, the Joint Committee on Taxation (JCT) estimates that the legislation would increase revenues by $2.9 billion over the 2007-2012 period and by $7.7 billion over the 2007-2017 period. The outlay savings and revenue increases from enacting H.R. 6 would total $5.5 billion and $14.0 billion, respectively, over those periods (see enclosed table).

Changes in Direct Spending

H.R. 6 would make several changes related to the development of federally owned resources, particularly oil and natural gas in submerged lands on the Outer Continental Shelf (OCS). Taken together, CBO estimates that implementing those provisions would increase offsetting receipts (a reduction in direct spending) by a total of $6.3 billion over the 2007-2017 period.

This legislation would impose a "conservation of resources fee" on oil or gas produced from certain OCS deepwater leases unless contractual agreements require royalties to be paid when market prices exceed specified thresholds. This provision would apply to production by firms that would not, under current law, voluntarily revise the terms of leases issued in 1998 and 1999 that provide royalty relief regardless of the market price of oil or gas. Based on

information from the Department of the Interior regarding future production from those leases and assuming that some firms would otherwise voluntarily renegotiate the terms of their leases, CBO estimates that this provision would increase offsetting receipts by a total of $4.35 billion over the 2007-2017 period.

The bill also would impose a conservation of resources fee on all nonproducing oil and gas leases in the Gulf of Mexico. CBO estimates that implementing this fee would increase offsetting receipts by $1.75 billion over the 2007-2017 period.

Finally, H.R. 6 would repeal provisions in the Energy Policy Act of 2005 (Public Law 109-58) that preclude the Bureau of Land Management from collecting certain fees; provide additional royalty relief for oil and gas produced from the OCS from ultra-deep wells, very deep waters, and Alaska; and authorize the Secretary of the Interior to modify the terms of oil and gas leases in the National Petroleum Reserve in Alaska. CBO estimates that repealing those provisions would increase offsetting receipts by a total of $210 million over the 2007-2017 period.

Changes in Revenues

H.R. 6 would change the availability of certain tax deductions for production activities involving oil and natural gas. Under the bill, income that derives from the sale, exchange, or other disposition of oil, natural gas, or any associated primary products would no longer qualify for the income tax deduction allowed for income attributable to domestic production activities. JCT estimates that disallowing those deductions would increase receipts by $7.6 billion over the 2007-2017 period. In addition, major integrated oil companies are currently allowed a five-year amortization period for geological and geophysical expenditures. This bill would increase that period to seven years. JCT estimates that the change would increase revenues by $104 million over the 2007-2017 period.

If you wish further details on this estimate, we would be pleased to provide them. The CBO staff contact is Kathleen Gramp.

Sincerely,

Donald B. Marron

Donald B. Marron
Acting Director

Enclosure

cc: Honorable Don Young
Ranking Member

Identical letter sent to the Honorable Charles B. Rangel.

Estimated Direct Spending and Revenue Effects of H.R. 6

	Millions of Dollars, by Fiscal Year												
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2007-2012	2007-2017
CHANGES IN DIRECT SPENDING (Outlays) [a]													
Changes in the Terms of Oil and Gas Leases													
Fee on deepwater OCS leases	0	-450	-250	-300	-350	-400	-450	-600	-550	-500	-500	-1,750	-4,350
Fee on nonproducing OCS leases	0	-250	-100	-150	-150	-150	-150	-200	-200	-200	-200	-800	-1,750
Other oil and gas provisions	0	-5	-10	-15	-20	-20	-20	-35	-40	-20	-25	-70	-210
Total Changes in Direct Spending	**0**	**-705**	**-360**	**-465**	**-520**	**-570**	**-620**	**-835**	**-790**	**-720**	**-725**	**-2,620**	**-6,310**
CHANGES IN REVENUES													
Section 199 deduction	0	212	489	598	719	773	831	893	960	1,032	1,107	2,791	7,614
Amortization of certain expenditures	1	5	11	17	22	23	15	5	1	1	1	80	104
Total Changes in Revenues	**1**	**217**	**500**	**615**	**741**	**796**	**846**	**898**	**961**	**1,033**	**1,108**	**2,871**	**7,718**
TOTAL CHANGES													
Changes in the Deficit or Surplus [b]	**-1**	**-922**	**-860**	**-1,080**	**-1,261**	**-1,366**	**-1,466**	**-1,733**	**-1,751**	**-1,753**	**-1,833**	**-5,491**	**-14,028**

Sources: Congressional Budget Office; Joint Committee on Taxation.

NOTES: Details may not sum to totals because of rounding.

OCS = Outer Continental Shelf.

a. Budget authority is equal to outlays for most programs that involve OCS receipts.

b. Negative numbers denote a reduction in the deficit or an increase in the surplus.