



Senator Feinstein Calls for End to Royalty ‘Holiday’; Seeks to Recoup Billions of Dollars in Lost Revenue

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Washington, DC – U.S. Senator Dianne Feinstein (D-Calif) today stressed the importance of ending the royalty “holiday” that energy companies drilling in federal waters have enjoyed for more than seven years.

Earlier this week, the U.S. Interior Department’s Inspector General Earl Devaney confirmed that oil and gas companies have avoided paying the government billions of dollars in royalties due to an administrative error on drilling contracts signed in 1998 and 1999. It has also been reported that the Bush administration may be continuing to draw up new contracts which allow companies to avoid royalty payments.

“The Inspector General confirmed this week that the treasury has lost billions of dollars due to an administrative error that allowed oil and gas companies to drill in federal waters for free despite their record profits,” Senator Feinstein said.

“At current high prices, companies don’t need these additional incentives to drill. Instead, we need to provide incentives for oil and gas companies to renegotiate their leases and end these unnecessary federal handouts. Taxpayers should no longer be forced to bear the burden of \$10 billion in lost revenue because of this clerical omission.”

Senators Feinstein and Judd Gregg (R-N.H.) are sponsors of an amendment to the FY 2007 Interior Appropriations Bill that would help the federal government recoup billions of dollars in lost oil lease royalties. The amendment requires that companies interested in bidding on new oil or natural gas drilling leases on the Outer Continental Shelf must agree to renegotiate their existing contracts on which they are paying no royalty payments as a result of the government error.

Specifically, the amendment would bar the Secretary of the Interior from using any funds to issue new oil or natural gas production leases for drilling on the Outer Continental Shelf to any person who holds an OCS oil and gas production lease but does not pay royalties on oil produced from the lease, based on price thresholds as determined by the Secretary of Interior.

Essentially, the amendment provides energy companies with a choice:

- They can keep their existing leases royalty-free if they so choose, but be barred from bidding on new contracts, or

- They can agree to renegotiate these leases in good faith and be able to participate in the bidding for new leases.

The amendment is similar to one that widely passed the House of Representatives by a vote of 252-165. The House measure was introduced by Representative Maurice Hinchey (D-N.Y.) and amended by Jack Kingston (R-Ga.).

Background

In 1995, Congress passed the Deep Water Royalty Relief Act, which granted a royalty “holiday” to oil and gas companies drilling in deep waters for leases sold between 1996 and 2000. The measure reduced the amount of royalties that companies had to pay for drilling in American waters in the Gulf of Mexico. At the time, gas prices were fairly low, and the move was seen by many as an incentive to get petroleum companies to drill for oil and natural gas and keep energy production inside the United States.

In 1998 and 1999, the federal government issued a series of leases to oil and gas companies that did not include price thresholds. According to the Interior Department, there are 576 active oil and natural gas leases that the Department of Interior signed during this period. It is estimated that this omission will cost taxpayers as much as \$10 billion over the next 25 years.

On November 9, 2005, the CEOs of the five largest energy companies testified before a joint Senate Committee hearing. In response to the question posed by Senator Wyden, “Is the President wrong when he says we don’t need incentives for oil and gas exploration?” every single one of the CEOs said “No.”

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