COMMITTEE ON RESOURCES DEMOCRATS

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CRUDEOPOLY: The Energy Bill's Giveaway Game To The Oil And Gas Industry

The Republican-led U.S. House of Representatives is poised to approve this year's version of the energy bill; a proposal which its supporters claim will set America on a path of energy independence. In reality, the legislation robs the American taxpayer while the oil and gas industry is allowed a "get out of royalties free card", relies on drilling to solve America's energy source dependence problem, and fails to protect the natural resources we intend to pass down to future generations.

Big Oil Companies Report Record Profits

- "Exxon Mobil, the world's largest publicly traded oil company, said fourth-quarter profit rose 27%, as higher prices for oil and natural gas erased a slight decline in production...Revenue rose 26% to $83.36 billion, from $65.95 billion a year ago." Wall Street Journal Online News Roundup 1/31/2005

- "Exxon Mobil said Monday it earned a record $8.42 billion in the fourth quarter and $25.33 billion for all of 2004." Associated Press 1/31/2005

- "Exxon Mobil just missed $300 billion in sales for the year." Associated Press, 1/31/2005

- "Exxon Mobil has earned $91 billion in the past five years, leaving it flush with $23.1 billion in cash -- more than twice the kitty of a year ago." Associated Press, 1/31/2005

- "Analysts struggled to find superlatives to describe Exxon Mobil's earnings, and they predicted another hugely profitable year in 2005. 'It's the best year and the best quarter ever, ever,' said Neil McMahon, an analyst with Bernstein & Co., who said he had been unable to find another U.S. corporation that earned as much in a 3-month period." Wall Street Journal, 2/3/2005

- "Now the question is what Exxon will do with its loot. The company has amassed a cash hoard of $23 billion." Wall Street Journal, 2/7/2005

- "Exxon wasn't the only energy company that outperformed analysts' estimates amid high crude-oil and natural-gas prices. ChevronTexaco

Corp. beat analysts' predictions by 16%, and ConocoPhillips surprised the Street by 12%." Wall Street Journal, 2/7/2005

- Royal Dutch/Shell Group announced the largest-ever U.K. corporate profit. . .The Anglo-Dutch oil major reported a net profit for last year of $18.536 billion, up 48% from $12.496 billion the previous year. . .Analysts expect Shell's arch-rival BP to post a $16.565 billion annual profit Tuesday. Wall Street Journal, 2/3/2005

Smaller Producers Are Also Thriving

- The Ultra Petroleum Corporation, a Western gas producer, touts its success on its website-- a 53% rate of return, a 2-year pay-out, and 38 more years of production – all from federal lands in Wyoming.

- "Ultra's well economics are robust ...A $4.1 million Lance/Mesaverde [in Wyoming] well generates a 53% rate of return ...and pays out in 1.9 years, and produces for an additional 38 plus years. At $4.00 gas the rate of return climbs to nearly 100%." (http://www.ultrapetroleum.com/index.htm)

- Chesepeake Energy Corporation, one of the largest independent natural gas producers in the country, reported an overall 33% increase in natural gas production in 2004. The company also claimed stock prices appreciated 75% in 2003, and that it was "#1 in shareholders' equity % increase, up 91%." The company described itself as "among the most active drillers of new wells in the U.S. with 443 operated wells drilled by our company" in 2004. (www.chkenergy.com)

- During its fourth quarter in 2004, Western Gas Resources reported that its net income "increased 68% to a record $35.1 million…" The company also reported that third quarter (2004) natural gas production increased 6% since the 2003's third quarter production rates. Also, production of natural gas from federal lands in the Upper Green River Basin increased 60% in the third quarter of 2004 compared to the same period in 2003, and the company recently reported that it had drilled 725 new wells in the Powder River Basin in 2004. (www.westerngas.com)

- Questar, an independent natural gas producer based in Salt Lake, reported "net income for the second quarter of 2004 increased by more than 100 percent over the same period in 2003, from $20.3 million in 2003 to $42.6 million in the second quarter of 2004. 2004 second-quarter results were driven by an 18% increase in nonregulated gas, oil, and natural-gas-liquids production, a 14% rise in realized natural gas prices, and an 18% increase in nonregulated gas-gathering volumes." According to Keith O. Rattie, "Both our Rockies and Midcontinent E&P business are generating strong growth with the drill bit." Mr. Rattie also reported that "We doubled Pinedale [Wyoming] production – despite winter-drilling restrictions…" (www.Questar.com)

- Reporting total revenue increases of around 70%, Devon Energy Corporation saw their profits grow rapidly between 2002 and 2003. Proven reserves of natural gas were reported to have increased from 5,836 Bcf to 7,316 Bcf between 2002 and 2003, a 25% increase, and the company has indicated that 366 new wells in the Rocky Mountain region alone were drilled in 2003. (www.devonenergy.com)

- Burlington Resources, a company whose federal and non-federal operations are extensive in the Rocky Mountain West, reported quadrupled production growth of natural gas from federal lands in the Wind River Basin of Wyoming since 1997. (www.br-inc.com)

BOTTOM LINE — The Oil and Gas Industry Does Not Need More Subsidies!

Senate Energy and Natural Resources Chairman Pete Domenici reportedly said he spoke recently with President Bush, who asked the Senator not to include subsidies for the oil and gas industries in the energy bill because of the high price situation. ("Domenici says no room for oil, gas subsidies in energy bill", Environment and Energy Daily, 3/11/2005)

The House Republican leadership's proposal would provide unnecessary subsidies, in the form of royalty holidays and reimbursements, to the oil and gas industry, sticking American taxpayers with the bill.

- CBO estimated in 2003 that the deepwater royalty holiday alone would reduce offsetting receipts by about $92 million over the 2004-2013 decade. Further, royalty losses would continue over the life of the leases, according to CBO. This year's package is even more generous to the oil and gas industry, as "royalty relief" has been enhanced for deep water leases in the Gulf of Mexico, applied to "marginal wells," and new provisions added for deep drilling on previously issued "shallow" water leases in the Gulf and for future leases in the Alaska OCS.

- CBO also found that other oil and gas leasing provisions in similar energy legislation reported by the Resources Committee in 2003 would have increased direct spending by $414 million over the next decade.

- Other costly provisions include a mandate to grant to oil and gas industry royalty credits for the costs for environmental (NEPA) analysis of proposed drilling projects. Last Congress, CBO estimated that these provisions would cost $165 million over the 2004-2013 period.