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The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
U.S. Capitol Building Room H-232
Washington, DC 20515-6501

The Honorable John Boehner
Republican Leader
U.S. House of Representatives
H-204 The Capitol
Washington, DC 20515

Dear Speaker Pelosi and Republican Leader Boehner:

NPRA applauds Congress for initiating a serious dialogue about expanding domestic energy production. Bipartisan legislation like HR 6709, introduced by Congressmen Abercrombie and Peterson, would open access to energy exploration in the Outer Continental Shelf (OCS) and represents a significant step in the right direction. Unfortunately, recent statements indicate Congress may soon consider legislation that would only open limited portions of the Outer Continental Shelf for domestic production and tie that policy to measures which could ultimately counteract the very supply increases our nation is hoping to achieve. Such contradictory policies have the likely potential to threaten American energy supplies and security.

NPRA has nearly 500 companies that include virtually all U.S. refiners and petrochemical producers who supply Americans with products and services used daily in their homes and businesses. Our members have to buy oil and gas from the market and - along with consumers – have been the first to feel the brunt of high energy prices. The U.S. Energy Information Administration (EIA) reports that the global price of crude oil makes up 76 percent of the retail cost of a gallon of gasoline.[1] In 2002, U.S. refineries spent $131 billion acquiring crude oil. This year they are on pace to spend $504 billion.[2] That translates to a **384% increase** in the amount refiners pay for crude oil. In fact, earnings reports for the last few financial quarters show that many refiners experienced substantial decreases in refining margins due in large part to these increased costs coupled with fierce industry competition, with many even posting significant losses. While Congress – spurred by overwhelming public opinion – has finally indicated the need to open up more domestic resources to oil and gas exploration, such proposals should not be tied to several contradictory and counter-productive policies, such as:

<u>Section 199 Repeal</u>

The Section 199 tax deduction promotes necessary investment in America's energy infrastructure and encourages refining capacity expansions, as well as domestic oil and gas production – protecting American jobs in the process. Making our energy resources even more expensive and therefore less competitive in a global marketplace by repealing Sec. 199 could impact the 1.9 million Americans directly employed in the oil and natural gas industry.

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[1] U.S. Energy Information Administration, "Gasoline and Diesel Fuel Update": http://tonto.eia.doe.gov/oog/info/gdu/gasdiesel.asp
[2] "Pricey Oil's Ugly Spillover" by Michael Mandel. Business Week, May 28, 2008

Any measure increasing taxes on American oil, natural gas or refining companies through legislation intended to increase production would, in fact, be counterproductive. Consider what the Congressional Research Service (CRS) has said, for example, about windfall profits taxes on the domestic oil and gas community:

> In the long run however, all taxes distort resource allocation and even a corporate profit tax (either of the pure type or the surtax on the existing rates) would reduce the rate of return and reduce the flow of capital into the industry, ***adversely affecting domestic production and increasing imports***. [emphasis added] [3]

<u>"Use-It-Or-Lose-It"/1998-1999 Gulf of Mexico Lease Revisions</u>

So called "use-it-or-lose-it" legislation would be duplicative and restrict domestic production on existing lands. Companies already holding federal leases are required to relinquish them to the government and forfeit all investments, including any payments made to acquire and rent the lease, if they fail to produce within a specified time period. Writing Congress to express concern about "use-it-or-lose it" bills, The American Association for Petroleum Geologists – which is supported entirely by member dues and does not receive industry funding – stated:

> Policies that increase exploration costs, decrease the available time to properly evaluate leases, and restrict access to federal lands and the Outer Continental Shelf do not provide the American people with short-term relief from high prices and undermine the goal of increasing stable long-term supplies.[4]

Recent statements also suggest upcoming energy legislation would penalize scores of oil and gas companies now producing in the Gulf of Mexico for entering into legal contracts with the Department of the Interior. Unilaterally changing existing contracts would establish a dangerous precedent regarding confidence in the government to honor its contractual obligations. This could open the door for foreign state-owned companies to gain a foothold on U.S. OCS energy production and cost American jobs.

<u>Strategic Petroleum Reserve</u>

It is our understanding that other proposals reported to be part of a Fall 2008 energy "package" call for releasing oil from the Strategic Petroleum Reserve (SPR). We urge prudence and caution in advancing such proposals. A law passed earlier this year suspended shipments into the SPR. Less oil in the SPR means less oil available in the event of another major hurricane like Katrina or foreign conflicts that could possibly threaten oil supplies. One need only to look at the current situation between Russia and Georgia to fully appreciate the potential for global energy supply disruptions. If such events do create supply shortages, Americans will be left with less energy in an emergency situation if there is less in the SPR.

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[3] Salvatore Lazzari, "The Crude Oil Windfall Profit Tax of the 1980s: Implications for Current Energy Policy," Congressional Research Service, March 9, 2006

[4] Letter to Congress from the American Association of Petroleum Geologists, June 23, 2008, p. 3

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We hope you give full consideration to these adverse factors as legislation develops. Congress should not only open the entire OCS to energy exploration and production with no strings attached, but should also look to open up portions of the Arctic National Wildlife Refuge (ANWR) legally singled out in 1980 for future oil and gas exploration (P.L. 96-487). The question of domestic energy production is particularly important considering the fact that nationally owned foreign oil companies control over 80 percent of global oil production, with public, investor- owned companies in control of only about 13 percent. As always, we stand by ready to work with you on crafting a realistic energy policy that will increase domestic production and benefit consumers with a reliable and affordable supply of fuels and other petroleum-based products essential to Americans' daily lives.

Sincerely,

Charles T. Drevna
President