



September 9, 2008

The Honorable Harry Reid
Majority Leader
United States Senate
S-221, The Capitol
Washington, DC 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
S-230, The Capitol
Washington, DC 20510

Dear Leaders Reid and McConnell:

I write today in my capacity as president of the Institute for Energy Research (IER), a not-for-profit organization that conducts intensive research and analysis on the functions, operations, and government regulation of global energy markets, to express my concerns about the so-called Gang of Sixteen's New Energy Reform Act (New Era) of 2008, led by Senators Kent Conrad (D-ND) and Saxby Chambliss (R-GA).

While we applaud efforts to reach political “compromise” on the energy issues facing our country, this plan will only create a false sense of energy security. The American public has been loud and clear in their support for more drilling and more domestic energy production. And when they discover that this initiative does virtually nothing to decrease our reliance on imports from unstable nations like Venezuela and Nigeria, they will want answers. This hollow plan is a tremendous missed opportunity that actually puts *more* of our oil off limits, while raising taxes and increasing government subsidies. The American people will come to realize that this pass-the-buck plan does not guarantee that any new oil is produced, or that any new exploration can even be conducted for that matter.

The political logjam over solving America's energy woes comes down to two competing views: some policymakers want to remove federal restrictions that prevent onshore and offshore energy production, while others believe large tax expenditures and R&D subsidies are necessary to encourage the nation's transition away from fossil fuels altogether. The charm of the New Era plan is its apparent compromise: it relaxes some restrictions on offshore drilling but supplements this concession with new and generous expenditures for alternative fuels and alternatively-fueled

vehicles. Unfortunately, this act of political theater does nothing to reach the full potential of America's energy resources.

The appearance of a compromise in the 'New Era' plan is very misleading, as it would deliver for consumers and the economy much more in terms of new tax burdens than it would new energy supplies. The New Era plan offers only tepid and *potential* increases in offshore production in exchange for a \$30 billion tax hike on producers, which will surely be passed on to consumers. The net effect will very likely result in an overall reduction in U.S. oil production and even higher energy prices. Furthermore, the New Era Plan contains \$84 billion in spending measures designed to "encourage" the development of *potential* energy sources and technologies that are both uneconomical and impractical today. If these sources *were* commercially viable, they wouldn't need billions of dollars in new or additional government subsidies in the first place.

The New Era plan also falls short with respect to expanding access to the energy-rich outer continental shelf (OCS). Energy exploration and production is currently outlawed on 85 percent of the OCS surrounding the lower 48 states. And while the New Era plan does extend access to a limited area in the Gulf of Mexico, it enables only four coastal states the right to explore and produce *if and only if* their state legislatures agree to do so. Even then, these four states – Virginia, North Carolina, South Carolina, and Georgia – would still be prevented from exploring within a 50 mile buffer zone off their coasts. Some of the most lucrative known deposits are located within this zone, such as the Gulf of Mexico's Destin Dome. What is most troubling about the New Era position on drilling, however, is that it appears to replace the current moratorium – which must be annually renewed by Congress – with a permanent ban.

In total, if the 'New Era' plan were to become law, energy exploration and production would still be banned, permanently, on roughly 78 percent of the entire OCS surrounding the lower 48 states. Taxpayers own the OCS lands and the energy resources that lie beneath them, and we at IER believe their government owes them more than a 7 percent solution to skyrocketing energy prices.

Moreover, the bill painfully misses the mark on the principal reason behind our current energy supply shortage. The federal government owns roughly 2.4 billion acres of lands – an area larger than the land mass of the United States and larger than all other nations on earth, except for Russia and Canada. Of these lands, which belong to the American public, only about 4% have been leased for energy production. This circumstance is mainly due to 40 years of land use management laws that have *de facto* or *de jure* limited access to our own resources. That's why those who repeat *ad infinitum* that "the U.S. only has 3% of the world's proven oil reserves" are not telling the whole story. America's current reserves stand (artificially) at a mere 3 percent of the world's total only because government policies have effectively prevented and/or hamstrung energy exploration on roughly 96 percent of the taxpayer-owned lands here at home.

In short, the federal government has placed an embargo on our national energy supplies and consumers are paying unnecessarily high energy prices as a result. The New Era plan does little to rectify this, and depending on the final language of the bill, may even make it worse.

Because energy production on federal lands nets the U.S. Treasury tens of billions of dollars in the form of corporate income taxes, bonus bids, royalties and land rents, IER also believes that consumers should not have to bear the costs associated with this or any other legislative solution. The New Era Plan quite simply takes taxpayer money in order to achieve inefficient outcomes. Consider the \$20 billion earmarked for converting 85 percent of the nation's cars to run on non-petroleum fuels within 20 years. With 250 million vehicles on the road, a conversion rate of less than \$100 per vehicle makes this particular proposal little more than a symbolic gesture.

The economy is teetering on the brink of recession and energy prices are still at near record high levels. In this difficult time for American families, the last thing the country needs is \$84 billion in new taxes and spending that will be dispersed to inefficient, but politically popular, sources of energy production. By penalizing consumers with higher prices and more imported energy, and subsidizing alternative technologies that currently cannot survive in the open market, the New Era plan will harm consumers while squandering scarce funds in exchange for very little new energy.

In contrast, a much more economically sensible plan – simply letting the current OCS ban expire at the end of this fiscal year – would provide far greater access to both onshore and offshore energy resources, lower energy prices and bring in billions of dollars in extra revenue for the U.S. Treasury. That's a win-win-win scenario for America.

The Gang of Sixteen's New Era plan is yet another act of political expedience at a time when the American public is demanding real energy solutions.

Sincerely,



President
Institute for Energy Research (IER)

CC: Senator Richard J. Durbin (D-IL)
Senator Jon Kyl (R-AZ)
Senator Byron Dorgan (D-ND)
Senator Kay Bailey Hutchison (R-TX)
Senator Robert Byrd (D-WV)
Senator Lamar Alexander (R-TN)
Senator Kent Conrad (D-ND)
Senator Saxby Chambliss (R-GA)
Senator John Thune (R-SD)
Senator Lindsey Graham (R-SC)
Senator Blanche Lincoln (D-AR)
Senator Mary Landrieu (D-LA)

Senator Johnny Isakson (R-GA)
Senator Bob Corker (R-TN)
Senator Mark Pryor
Senator Ben Nelson
Senator Norm Coleman
Senator John Sununu
Senator John Warner
Senator Tim Johnson
Senator Tom Carper
Senator Ken Salazar