

110TH CONGRESS
1ST SESSION

S. 115

To suspend royalty relief, to repeal certain provisions of the Energy Policy Act of 2005, and to amend the Internal Revenue Code of 1986 to repeal certain tax incentives for the oil and gas industry.

IN THE SENATE OF THE UNITED STATES

JANUARY 4, 2007

Mr. OBAMA introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To suspend royalty relief, to repeal certain provisions of the Energy Policy Act of 2005, and to amend the Internal Revenue Code of 1986 to repeal certain tax incentives for the oil and gas industry.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Oil Subsidy Elimination for New Strategies on Energy
6 Act” or the “Oil SENSE Act”.

7 (b) TABLE OF CONTENTS.—The table of contents for
8 this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Findings.

TITLE I—TERMINATION OF CERTAIN PROVISIONS OF THE
ENERGY POLICY ACT OF 2005

- Sec. 101. Termination of certain provisions of the Energy Policy Act of 2005.

TITLE II—SUSPENSION OF ROYALTY RELIEF

- Sec. 201. Suspension of royalty relief.
- Sec. 202. Renegotiation of existing leases.

TITLE III—REPEAL OF CERTAIN ENERGY TAX INCENTIVES

- Sec. 301. Repeal of tax subsidies enacted by the Energy Policy Act of 2005 for oil and gas.

1 SEC. 2. FINDINGS.

2 Congress finds that—

3 (1) record highs in oil and natural gas prices
4 have resulted in record profits for oil and natural
5 gas producers and refiners;

6 (2) oil prices are projected to remain high for
7 the foreseeable future;

8 (3) the Department of the Interior estimates
9 that as much as \$66,000,000,000 worth of oil and
10 natural gas taken from the deep waters of the Gulf
11 of Mexico over the next 5 years will be exempt from
12 Government royalty payments, which could amount
13 to the Government losing an estimated
14 \$7,000,000,000 to \$9,500,000,000 based on antici-
15 pated production and current price projections for
16 oil and gas, according to an analysis in the 5-year
17 budget plan of the Department of the Interior;

1 (4) the chief executive officers of the top 5 oil
2 companies stated at a November 9, 2005, joint hear-
3 ing of the Committee on Energy and Natural Re-
4 source of the Senate and the Committee on Environ-
5 ment and Public Works of the Senate that their
6 companies did not need the Federal tax incentives
7 provided in the Energy Policy Act of 2005 (42
8 U.S.C. 15801 et seq.);

9 (5) the Statement of Administration Policy of
10 June 14, 2005, on the energy bill that would become
11 the Energy Policy Act of 2005 states, “The Presi-
12 dent believes that additional taxpayer subsidies for
13 oil-and-gas exploration are unwarranted in today’s
14 price environment, and urges the Senate to eliminate
15 the Federal oil-and-gas subsidies and other explo-
16 ration incentives contained in the bill.”; and

17 (6) incentives for the energy industry should be
18 focused on the development of renewable energy re-
19 sources in the United States that will also promote,
20 jobs, investment, innovation, and economic develop-
21 ment in rural, agriculture-dependent areas.

1 **TITLE I—TERMINATION OF CER-**
2 **TAIN PROVISIONS OF THE EN-**
3 **ERGY POLICY ACT OF 2005**

4 **SEC. 101. TERMINATION OF CERTAIN PROVISIONS OF THE**
5 **ENERGY POLICY ACT OF 2005.**

6 (a) IN GENERAL.—The following provisions of the
7 Energy Policy Act of 2005 are repealed as of the date
8 of enactment of this Act:

9 (1) Section 343 (42 U.S.C. 15903) (relating to
10 marginal property production incentives).

11 (2) Section 344 (42 U.S.C. 15904) (relating to
12 incentives for natural gas production from deep wells
13 in the shallow waters of the Gulf of Mexico).

14 (3) Section 345 (42 U.S.C. 15905) (relating to
15 royalty relief for deep water production).

16 (4) Section 346 (Public Law 109-58; 119 Stat.
17 794) (relating to Alaska offshore royalty suspen-
18 sion).

19 (5) Section 357 (42 U.S.C. 15912) (relating to
20 comprehensive inventory of OCS oil and natural gas
21 resources).

22 (6) Section 362 (42 U.S.C. 15921) (relating to
23 management of Federal oil and gas leasing pro-
24 grams).

1 (7) Subtitle J of title IX (42 U.S.C. 16371 et
2 seq.) (relating to ultra-deepwater and unconventional
3 natural gas and other petroleum resources).

4 (b) TERMINATION OF ALASKA OFFSHORE ROYALTY
5 SUSPENSION.—

6 (1) IN GENERAL.—Section 8(a)(3)(B) of the
7 Outer Continental Shelf Lands Act (43 U.S.C.
8 1337(a)(3)(B)) is amended by striking “and in the
9 Planning Areas offshore Alaska”.

10 (2) EFFECTIVE DATE.—The amendment made
11 by this subsection shall take effect as of the date of
12 enactment of this Act.

13 **TITLE II—SUSPENSION OF**
14 **ROYALTY RELIEF**

15 **SEC. 201. SUSPENSION OF ROYALTY RELIEF.**

16 (a) IN GENERAL.—Subject to subsection (c), the Sec-
17 retary of the Interior (referred to in this title as the “Sec-
18 retary”) shall suspend the application of any provision of
19 Federal law under which a person would otherwise be pro-
20 vided relief from a requirement to pay a royalty for the
21 production of oil or natural gas from Federal land (includ-
22 ing submerged land) occurring after the date of enactment
23 of this Act during any period in which—

24 (1) for the production of oil, the average price
25 of crude oil in the United States during the 4-week

1 period immediately preceding the suspension is
2 greater than \$34.71 per barrel; and

3 (2) for the production of natural gas, the aver-
4 age wellhead price of natural gas in the United
5 States during the 4-week period immediately pre-
6 ceding the suspension is greater than \$4.34 per
7 1,000 cubic feet.

8 (b) DETERMINATION OF AVERAGE PRICES.—For
9 purposes of subsection (a), the Secretary shall determine
10 average prices, taking into consideration the most recent
11 data reported by the Energy Information Administration.

12 (c) REQUIRED ADJUSTMENT.—For fiscal year 2008
13 and each subsequent fiscal year, each dollar amount speci-
14 fied in subsection (a) shall be adjusted to reflect changes
15 for the 1-year period ending the preceding November 30
16 in the Consumer Price Index for All Urban Consumers
17 published by the Bureau of Labor Statistics of the Depart-
18 ment of Labor.

19 **SEC. 202. RENEGOTIATION OF EXISTING LEASES.**

20 (a) REQUIREMENT.—The Secretary shall renegotiate
21 each lease authorizing production of oil or natural gas on
22 Federal land (including submerged land) issued by the
23 Secretary before the date of enactment of this Act as the
24 Secretary determines to be necessary to modify the terms
25 of the lease to ensure that a suspension of a requirement

1 to pay royalties under the lease does not apply to produc-
 2 tion described in section 201(a).

3 (b) FAILURE TO RENEGOTIATE AND MODIFY.—Be-
 4 ginning on the date that is 1 year after the date of enact-
 5 ment of this Act, a lessee under a lease described in sub-
 6 section (a) shall not be eligible—

7 (1) to enter into a new lease described in that
 8 subsection; or

9 (2) to obtain by sale or other transfer any lease
 10 issued before that date, unless the lessee—

11 (A) renegotiates the lease; and

12 (B) enters into an agreement with the Sec-
 13 retary to modify the terms of the lease in ac-
 14 cordance with subsection (a).

15 **TITLE III—REPEAL OF CERTAIN** 16 **ENERGY TAX INCENTIVES**

17 **SEC. 301. REPEAL OF CERTAIN PROVISIONS OF THE EN-** 18 **ERGY POLICY ACT OF 2005 PROVIDING TAX** 19 **SUBSIDIES FOR THE OIL AND GAS INDUSTRY.**

20 (a) REPEAL OF ELECTION TO EXPENSE CERTAIN
 21 REFINERIES.—

22 (1) IN GENERAL.—Subparagraph (B) of section
 23 179C(c)(1) of the Internal Revenue Code of 1986
 24 (relating to qualified refinery property) is amended
 25 by striking “January 1, 2012” and inserting “the

1 date of the enactment of the Oil Subsidy Elimination for New Strategies on Energy Act”.

3 (2) EFFECTIVE DATE.—The amendment made
4 by paragraph (1) shall apply to property placed in
5 service after the date of the enactment of this Act.

6 (b) REPEAL OF TREATMENT OF NATURAL GAS DIS-
7 TRIBUTION LINES AS 15-YEAR PROPERTY.—

8 (1) IN GENERAL.—Clause (viii) of section
9 168(e)(3)(E) of such Code (relating to 15-year prop-
10 erty) is amended by striking “January 1, 2011” and
11 inserting “the Oil Subsidy Elimination for New
12 Strategies on Energy Act”.

13 (2) EFFECTIVE DATE.—The amendment made
14 by paragraph (1) shall apply to property placed in
15 service after the date of the enactment of this Act.

16 (c) REPEAL OF TREATMENT OF NATURAL GAS
17 GATHERING LINES AS 7-YEAR PROPERTY.—

18 (1) IN GENERAL.—Clause (iv) of section
19 168(e)(3)(C) of such Code (relating to 7-year prop-
20 erty) is amended by inserting “and which is placed
21 in service before the date of the enactment of the Oil
22 Subsidy Elimination for New Strategies on Energy
23 Act” after “April 11, 2005,”.

1 (2) EFFECTIVE DATE.—The amendment made
2 by paragraph (1) shall apply to property placed in
3 service after the date of the enactment of this Act.

4 (d) REPEAL OF NEW RULE FOR DETERMINING
5 SMALL REFINER EXCEPTION TO OIL DEPLETION DEDUC-
6 TION.—

7 (1) IN GENERAL.—Paragraph (4) of section
8 613A(d) of such Code (relating to certain refiners
9 excluded) is amended to read as follows:

10 “(4) CERTAIN REFINERS EXCLUDED.—If the
11 taxpayer or a related person engages in the refining
12 of crude oil, subsection (c) shall not apply to such
13 taxpayer if on any day during the taxable year the
14 refinery runs of the taxpayer and such person exceed
15 50,000 barrels.”.

16 (2) EFFECTIVE DATE.—The amendment made
17 by paragraph (1) shall apply to taxable years begin-
18 ning after the date of the enactment of this Act.

19 (e) REPEAL OF AMORTIZATION OF GEOLOGICAL AND
20 GEOPHYSICAL EXPENDITURES.—

21 (1) IN GENERAL.—Section 167 of such Code
22 (relating to depreciation) is amended by striking
23 subsection (h) and redesignating subsection (i) as
24 subsection (h).

1 (2) CONFORMING AMENDMENT.—Section
2 263A(c)(3) of such Code is amended by striking
3 “167(h),”.

4 (3) EFFECTIVE DATE.—The amendments made
5 by this subsection shall apply to amounts paid or in-
6 curred after the date of the enactment of this Act.

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