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Hastings: Royalty Reform Will Be a Burden on Producers

By Rep. Doc Hastings

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The future of American energy development is at a crossroads. While we all recognize the need to have an affordable and stable energy supply, agreeing on the best path toward achieving this goal is not simple.

Do we take the path toward a comprehensive strategy that promotes clean, renewable sources, such as wind, solar, hydropower and nuclear, while also producing American-made oil and natural gas? Or do we enact a high-priced gourmet energy plan that’s unrealistically skewed toward only a few forms of American energy, locks up our natural resources and increases our reliance on foreign oil?

Based on recent actions by the Obama administration and Democratic Members of Congress, we are unfortunately moving away from energy independence and toward policies that make American energy more expensive and less available.

After only five months, the administration has established a clear record of opposing American-made energy. Despite rhetoric supporting the need for increased oil and natural gas development, the administration’s actions tell a much different story. From delaying plans to produce oil and natural gas on the Outer Continental Shelf to withdrawing oil shale leases, the administration has repeatedly said “no” to American energy, jobs and innovation.

Congressional Democrats’ energy proposals are just as concerning. In addition to the Waxman-Markey national energy tax, House Natural Resources Committee Democrats recently circulated a draft bill that would increase energy costs for families and businesses

and drive American jobs overseas.

Two specific provisions in this bill raise serious concerns — increasing royalty rates by 50 percent and reducing lease times by 50 percent. In other words, this bill would make it much more expensive for companies to produce energy but give them half the time in which to do it. This approach will actually discourage American energy development.

Specifically, the Democrats' draft bill would increase royalty rates from 12.5 percent to 18.5 percent. While they claim this will help the American people get their fair share from Big Oil, the reality is that increasing rates will only discourage companies from producing American-made energy. In fact, a Department of the Interior inspector general report from February 2009 states that “increasing lease fees would not necessarily enhance production and could, in fact, reduce industry interest in federal leases.”

The bill would also reduce onshore oil and gas lease terms from 10 years to five years. This ignores reality by pretending that oil and gas exploration is easy. The process of leasing, evaluating, drilling and developing an oil or natural gas field typically takes five to 10 years — and this is assuming there are no regulatory delays or lawsuits by environmental groups. Requiring companies to do their work quicker will not automatically lead to increased oil and gas supplies. Instead, it will make it more difficult for companies to expand American energy production.

There is a better way forward. Republicans have introduced the American Energy Act, which is an all-of-the-above plan to reduce energy costs, create jobs and revive our economy. This bill proves it's possible to both protect our environment and responsibly develop our country's natural resources.

For example, the Republican plan would take a portion of the revenue raised from new offshore drilling and create a Renewable and Alternative Energy Trust Fund to provide funding for projects such as biomass, hydroelectric, clean coal, solar, wind and geothermal.

It also promotes carbon-free energy by expanding the use of clean, renewable sources such as hydropower and nuclear. Specifically, this plan calls for the construction of more than 100 new nuclear power plants over the next 20 years.

This all-of-the-above approach is the reason my district in Central Washington state has one of the lowest carbon footprints in the country. My district is home to the only nuclear power plant in the Pacific Northwest and to the Grand Coulee Dam, which provides vast amounts of clean, renewable hydropower. We rank in the top 15 in the nation for wind energy production and are also home to biomass and solar power projects.

Producing American energy is about more than just lowering prices at the pump. It's about creating new jobs when unemployment is at a 25-year high. It's about investing millions of dollars into our economy when we face a nearly \$2 trillion deficit this year alone. It's about making America more secure when we are becoming increasingly dependent on foreign energy. And it's about protecting our environment rather than relying on energy from

foreign countries with weaker environmental standards than the United States.

We have a choice. Let's hope the administration and Congress choose the path of energy independence and finally start saying "yes" to developing America's vast energy resources.

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