

Friends of the Earth

Taxpayers for
Common Sense

U.S. Public Interest
Research Group
Education Fund

Defenders
of Wildlife

National
Audubon
Society

National
Wildlife
Federation

Natural Resources
Defense Council

Republicans for
Environmental
Protection

Safe Energy
Communication
Council

Sierra Club

The organizations listed above
do not necessarily endorse
or have expertise on every
recommendation in this report.

Running On Empty

How Environmentally
Harmful Energy Subsidies
Siphon Billions from Taxpayers

A Green
Scissors
Report
2002



“The [Green Scissors] report reflects what many in the House of Representatives have long supported: finding ways to reduce pressure on spending caps and re-allocate money for debt reduction, tax cuts or higher priority spending.”

Letter sent by Representatives Christopher Shays (R-Conn.), David Wu (D-Ore.), Paul Ryan (R-Wis.), Joseph Hoeffel (D-Pa.), Rob Simmons (R-Conn.) and Earl Blumenauer (D-Ore.) on the release of the Green Scissors 2001 report to the House of Representatives June 20, 2001

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The Green Scissors Campaign

Born out of the partisan budget fights that echoed through the 104th, 105th and 106th Congresses, the Green Scissors Campaign unites the goals of environmental protection and fiscal responsibility. These goals cross political and ideological boundaries, and are supported by a bipartisan coalition of politicians.

Since 1994, the Green Scissors Campaign, led by Friends of the Earth, Taxpayers for Common Sense and the U.S. Public Interest Research Group, has committed itself to ending government programs that subsidize the destruction of our natural resources. During this time, the Green Scissors Campaign has cut or eliminated more than \$26 billion in fiscal and environmentally harmful programs.



Overview

In the midst of a very grim budget picture, Congress is preparing to dole out huge new subsidies to the energy industries. Congress and the administration are ready to squander perhaps the greatest fiscal accomplishment of the preceding administration and Congress — a balanced budget.

After four years of budget surplus, it is now projected that this year there could be a \$100 billion budget deficit. Created by both parties, the new budget deficit imposes a significant financial burden on our nation. This report takes aim at cutting wasteful energy subsidies which would only increase these budgetary pressures. Instead of blaming each other for the current fiscal situation, Republicans and Democrats must work together to reduce wasteful spending and restore fiscal discipline to Washington the budget process. *Running on Empty: How Environmentally Harmful Energy Subsidies Siphon Billion from Taxpayers* identifies nearly \$62 billion in proposed and existing subsidies that, if eliminated, would protect the environment and protect the budget.

Budget in Crisis

The budget crisis may have begun during the summer of 2001, when the Congressional Budget Office reported a less-than-expected surplus due to a slowing economy. With the beginning of the fall, any surplus was doubtful. The tragic events of September 11 spurred a series of bailouts and emergency spending packages surpassing \$100 billion. Congress also grappled with additional money for the insurance industry, as well as an economic stimulus package.

According to Mitch Daniels, Director of the White House Office of Management and Budget, the federal government began running in the red this past fall, with budget deficits projected for at least the next two years. During a speech to the National Press Club, Director Daniels stated, "... it is regrettably my conclusion that we are unlikely to return to balance in the federal accounts before possibly fiscal '05. That is within the next two years. Things will have to break right for us to do that."

Energy's Free Ride

Since the 1920s, the federal government has subsidized the production of oil, gas and coal based energy in the United States. Through the utilization of the tax code, the federal government sub-

sidizes the exploration and development of new oil, gas and coal deposits. If the initial goal for these tax breaks was to render production of these resources profitable, then the government has succeeded many times over. Six of the top 50 companies on the Fortune 500 list are petroleum related companies.

In the 1940s the federal government began subsidizing the commercial nuclear power industry. Taxpayer subsidized research and development programs, as well as the passage of the Price-Anderson Act, led to the government backed rise of commercial nuclear power. There are currently 103 operational nuclear power plants scattered across the country, each of which requires government subsidies to remain financial viable.

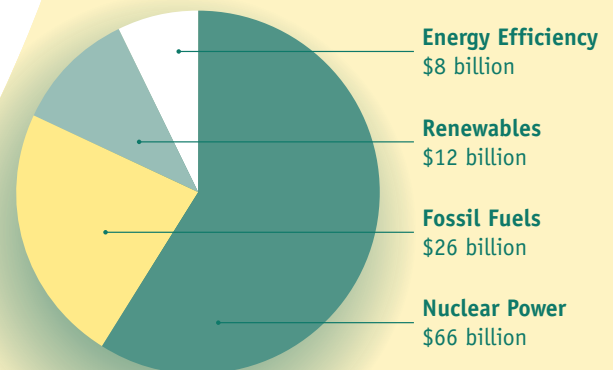
The success of federal programs in encouraging the development of oil, gas, coal and nuclear power has come at a tremendous cost to taxpayers and the environment. Scarce federal resources subsidize the nation's most profitable and most dirty energy sources. Taxpayers contribute between \$4 billion and \$30 billion annually to the energy sector.¹ Between 1948 and 1998, the federal government spent \$111.5 billion on energy research and development programs. Of this amount, 60 percent, or \$66 billion, was dedicat-

¹ Reports done by the Department of Energy (DOE) and the Alliance to Save Energy varied widely in their assessment of domestic energy subsidies. In 1989, the DOE estimated subsidies between \$4.9 and \$14.1 billion. In 1992, the Alliance to Save Energy estimated subsidies between \$21 and \$36 billion.

"If we are going to take a tax dollar from a citizen in Indiana or any other state and spend it on that program, at some point there must be a reckoning, there must be an accounting. And if the performance isn't there, we ought to be looking for a better place to make the investment."

Office of Management and Budget Director Mitch Daniels making comments at the National Press Club, November 28, 2001

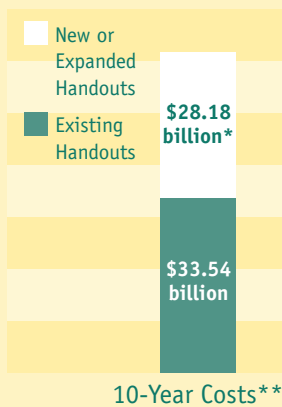
Department of Energy Research and Development Spending Fiscal Years 1948-98



Constant 1999 dollars
Congressional Research Service

Ten Year Comparison of Existing and Proposed Handouts in H.R. 4

Existing and Proposed

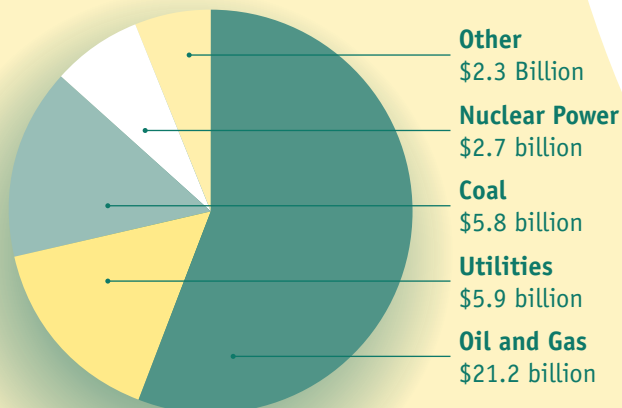


* Proposals in H.R. 4 which affected existing programs were excluded from this chart to avoid double scoring.

** Assumes that the existing tax breaks set to expire will be extending to entire 10 years that H.R. 4 is in effect.

Handouts in H.R. 4 to Polluting Energy

Total \$38 billion



ed to nuclear energy research, and 23 percent, or \$26 billion, was directed to fossil fuel research.

Every year, the United States burns more than 900 million tons of coal—releasing 51 tons of mercury and nearly 2 billion tons of carbon dioxide into our air and water.

Petroleum production spills 31,000 gallons of oil into U.S. waterways a day, and nuclear power is creating a mountain of deadly waste for which there is no safe disposal option.

A New Administration, An Old Energy Strategy

In his second week in office, President George W. Bush established the National Energy Policy Development (NEPD) Group, directing it to “develop a national energy policy designed to help the private sector, and, as necessary and appropriate, state and local governments, promote dependable, affordable, and environmentally sound production and distribution of energy for the future.” As part of this initiative, the NEPD released its report entitled “Reliable, Affordable and Environmentally Sound Energy for America’s Future.”

Unfortunately, the plan that the NEPD Group produced is neither “affordable” nor “environmentally sound.” The administration’s energy plan threatens the environment in the United States and around the world. At the same time, it proposed new spending subsidies and tax breaks for the coal and nuclear industries. The resurgence of both nuclear power research and development and clean coal technology represent a step back in energy policy.

Congress Acts

In August of 2001, the House of Representatives passed H.R. 4, the Securing America’s Future Energy (SAFE) Act — closely following the Bush

Administration’s lead. H.R. 4 would give polluting energy companies an unprecedented \$38 billion in many new or expanded taxpayer handouts. Of this total, \$29.7 billion will directly benefit the oil, gas, coal and nuclear power industry. The remaining \$8.2 billion went to utilities and automobile manufacturers that indirectly subsidize dirty energy. This report does not discuss these subsidies.

While H.R. 4 is a true giveaway to traditional energy interests, the current version of the Senate energy bill (S. 1766) also proposes billions of dollars for polluting industries. At presstime, the total amount of these handouts was under consideration.

Adding It All Up

Current energy proposals all represent huge windfalls for the conventional energy industries: oil, gas, coal and nuclear power. While the fossil fuel and nuclear energy industries already receive more than \$33 billion in subsidies that Congress passed decades ago, the subsidies in H.R. 4 would add substantially to this total.

If H.R. 4 were enacted, fossil fuel and nuclear power companies would receive more than \$28 billion in new and expanded subsidies over the next 10 years. Providing Congress extends the current tax breaks and spending subsidies, fossil fuel and nuclear power companies would receive nearly \$62 billion in total. These figures do not include tax provisions proposed in the Senate energy package. As this report went to print final details in the Senate bill were still being developed.

How were the savings estimated?

In general, the savings figures in this report represent the total cost of a project to federal taxpayers over the life of the project. Where such information is not available, the savings figure provided is an estimate of the ten-year savings to taxpayers. This cost was identified by multiplying the current appropriations by a factor of 10, or in the case of tax provisions, extending the Joint Committee on Taxation’s estimates to 10 years. In a few limited instances, where necessary, a distinct and appropriate time period is used. Finally, because of the many variables involved in arriving at a final figure, these numbers are generally intended to be illustrative rather than definitive. The savings given are conservative estimates, and phase-in periods are usually not accounted for unless Congressional Budget Office estimates are used.

A “\$N/A” is used for recommendations for which no reliable savings estimate is available.

Energy Summary

The oil, gas, coal and nuclear power industries are poised to reap tremendous financial gains over the next ten years should H.R. 4 be enacted into law. In total, the federal government would hand out \$61.7 billion over the next ten years, in proposed and existing tax breaks and spending subsidies to polluting energy companies.

The oil and gas industry is by far the biggest winner in both current and proposed spending and tax policies. If H.R. 4 were enacted, subsidies would skyrocket: in total the oil and gas industry would receive more than \$46 billion in taxpayer handouts over the next ten years. In the Senate's energy package, spending subsidies for oil and gas would total hundreds of millions, if not billions.

The coal and commercial nuclear power industries would also see gains, collecting \$8.7 billion and \$6.6 billion over ten years, respectively.

With no surprise, the largest amount of money from the federal budget to energy companies comes from the federal tax code. Nearly 75 percent of the proposed and existing subsidies are written into the U.S. tax code. Unlike spending that goes through the appropriations process and is subject to annual congressional debate, tax breaks have very little oversight. Once they are passed into law, they are rarely revoked or repealed, and if companies claim the tax break, the federal government must pay it out.

While the Senate legislation introduced by Senators Bingaman (D-NM) and Daschle (D-SD) also contains substantial subsidies to the oil, gas, coal and nuclear industries, thus far, it

does not provide them to the same extent as in H.R. 4. The Senate legislation (S. 1766) does include environmentally beneficial renewable energy provisions that environmentalists believe take us in the right direction. However, the Senate bill also contains a partial reauthorization of the Price-Anderson Act, a ten-year clean coal technology authorization, as well as some oil and gas. At the time this report went to print, the tax provisions proposed for inclusion in the Senate energy bill had not yet been developed.

Some of the worst subsidies by energy source are:

Oil and Gas

Non-conventional Fuel Credit **\$11.8 billion**
 Current cost **\$9.0 billion**
 Expansion cost **\$2.8 billion**

Proposed Ultra Deep Water Research and Development Fund and Loan Program **\$3.9 billion**

Coal

Proposed Advanced Clean Coal Investment and Production Tax Credits **\$3.3 billion**

Proposed Clean Coal Power Initiative **\$2 billion**

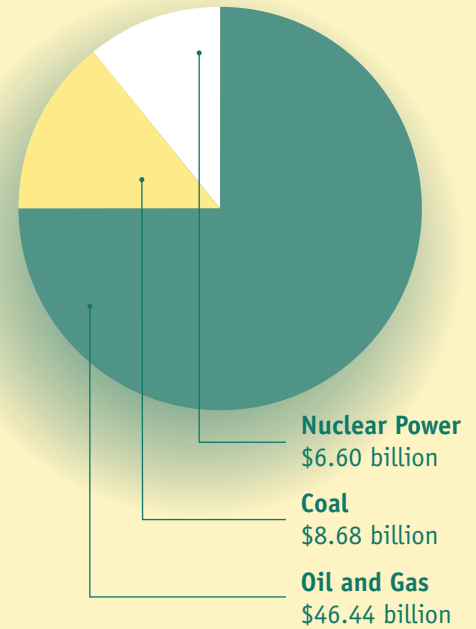
Nuclear Power

Price Anderson Act Reauthorization **\$N/A**

Proposed Modification of Nuclear Decommissioning Costs **\$1.9 billion**

Comparison of Handouts by Polluting Energy Sector

(Ten year estimates for existing tax and spending subsidies plus H.R. 4 subsidies.)



* Proposals in H.R. 4 which affected existing programs were excluded from this chart to avoid double scoring.

New and Existing Energy Handouts by Sector

	Existing	Proposed H.R. 4	Total*
Oil & Gas	\$26.2 billion	\$21.2 billion	\$46.4 billion
Coal	\$3.4 billion	\$5.8 billion	\$8.7 billion
Nuclear	\$4 billion	\$2.7 billion	\$6.6 billion

* Proposals in H.R. 4 which affected existing programs were excluded from the total to avoid double scoring.

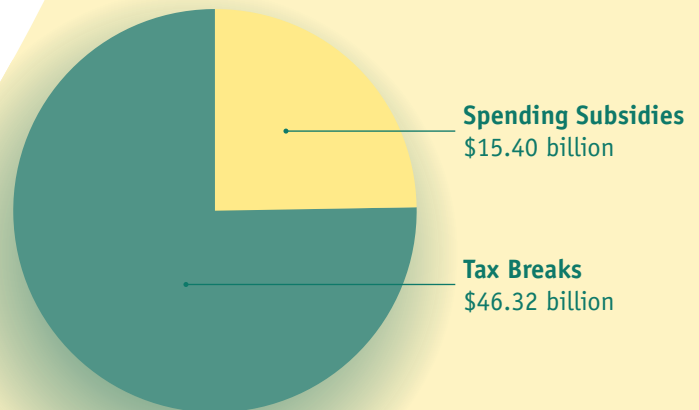
Comparison between House and Senate Energy Bill

	House H.R. 4	Senate Energy Bill
Oil & Gas Spending	\$7.1 billion	?\$ billion
Oil & Gas Tax Breaks	\$14 billion	?\$ billion
Coal Spending	\$2.5 billion	\$2+ billion
Coal Tax Breaks	\$3.3 billion	?\$ billion
Nuclear Spending	\$0.73 billion	\$1.3 billion
Nuclear Tax Breaks	\$1.93 billion	?\$ billion
Total Spending	\$10.3 billion	?\$ billion
Total Tax Breaks	\$19.3 billion	?\$ billion

? Details unavailable information

Comparison of Tax vs. Spending Subsidies

(Ten year estimates for existing tax and spending subsidies plus H.R. 4 subsidies.)



* Proposals in H.R. 4 which affected existing programs were excluded from this chart to avoid double scoring.

Oil and Gas

New and Expanded Oil and Gas Handouts in H.R. 4

Tax Breaks

10-year Costs

(millions of dollars)

Repeal certain excise taxes on railroad diesel fuel and inland waterway fuel	\$992
Gas Distribution Pipelines treated as 10-year property	\$3,500
Petroleum refining property treated as 7-year property	\$1,320
Expensing capital costs and credit for small refiners compliance with Sulfur regulations	\$96
Modify definition of small refiner for exception to oil depletion deduction	\$151
Temporary suspension of 65% taxable income and extension of suspension of taxable income limit for marginal production	\$1,110
Deduction for delay rental payments	\$1,166
Expense geological and geophysical expenditures	\$958
Net operating loss 5 year carry back for oil and gas properties	\$1,104
Extension and modification of non-conventional fuel credit (Section 29)	\$2,826
Allow certain business energy credits against the alternative minimum tax	\$502
Temporary repeal of alternative minimum tax credit preference for intangible drilling costs (IDCs)	\$28
Allow enhanced oil recovery credit against the alternative minimum tax	\$115
Extension of certain benefits for energy-related businesses on Indian Reservations	\$175
New or Expanded Tax Breaks	\$14,043

continued on page 6

Overview

The modern oil era began at Oil Creek in northwest Pennsylvania on August 27, 1859. After centuries of gathering oil from natural vents or oil seeps, Edwin Drake successfully drilled a shallow oil well. This was followed by the rapid industrialization and accompanying subsidization of the oil industry.

In 1916, the federal government created the first-ever tax breaks for oil and gas production. These tax breaks, still on the books today, allow companies to deduct from their taxable income so-called dry hole costs, as well as costs associated with wages, fuel, repairs, hauling, supplies and site preparation. In 1926, the federal government also gave oil and gas companies the ability to utilize the percentage depletion allowance. This tax break allows companies to deduct from their taxes the diminishing value of their oil wells, due to the extraction of oil.

After nearly 90 years, subsidies to the oil and gas industry are flourishing. Currently, the federal government lavishes the oil and gas industry with subsidies such as tax breaks, royalty relief, and federally funded research and development programs. Over the next 10 years, the federal government will give more than \$26 billion (current tax and spending subsidies) to the oil and gas industry. Unfortunately, even these subsidies are not enough to satisfy the oil and gas industry's voracious appetite for taxpayer dollars. Ironically, the oil and gas industry already enjoys a relatively low tax rate.

In H.R. 4 the oil and gas industry stands to gain an additional \$20.3 billion in new and expanded taxpayer handouts over the next ten years. A majority of the giveaways are tax provisions that expand or create new tax loop-

holes worth more than \$14 billion. If passed into law, the oil and gas industry would receive more than \$43.7 billion in total subsidies over the next 10 years.

These tax breaks and spending subsidies are unnecessary and unjustified.

In 2000 and the first half of 2001, the domestic oil and gas industry experienced record profits. In fact, in 2000, ExxonMobil reported profits of \$17.7 billion, and in the first quarter of 2001 saw \$5 billion in profits. Even the so-called "independent" oil and gas companies, such as Unocal and Anadarko, saw huge profits in 2000, of \$760 million and \$807 million, respectively. While profits for many industries have indeed decreased since September 2001, bearing the brunt of market fluctuations is simply a cost of doing business. Existing tax breaks and spending subsidies, not to mention proposed new programs and expansions, will simply pad these companies' bottom lines at taxpayer expense.

Environmentally, the oil and gas industry is a dirty business. From the point of extraction to combustion, oil destroys pristine wild lands, pollutes the air and damages delicate marine ecosystems. The United States currently uses approximately 231 billion gallons of crude oil each year and spills 31,000 gallons of oil into U.S. waterways every day. Between 1973 and 1993, there were over 200,000 oil spills in US waters, releasing over 230 million gallons of oil. Incredibly, that amounts to an average of 28 "incidents" per day (Union of Concerned Scientists).

Some of the most egregious oil and gas subsidies in H.R. 4, both proposed and existing, are as follows:

Tax Breaks

New or Expanded Tax Breaks

Deduction and delay rental payments \$1.2 billion

H.R. 4 expands this tax break to allow oil and gas producers to deduct "delay rental payments" currently rather than as capitalized costs. In general, oil and gas producers typically contract for mineral production in exchange for royalty payments. If mineral production is delayed, these contracts provide for "delay rental payments" as a condition of their extension. This capitalization also applies to payments – these have been called delay rental payments made by a producer to a landowner for postponing drilling and production.

Election to expense geological and geophysical expenditures \$958 million

Geological and geophysical expenditures are considered capital costs that increase the value of the land, and are therefore depreciated over the useful life of the land. These are costs associated with the surveying of oil and gas prospects and assessing or determining the quantity and nature of the deposit. Currently these costs are not expensable but rather must be capitalized over the income-earning life of the property. The proposal in H.R. 4 would allow geological and geophysical costs incurred in connection with oil and gas exploration in the United States to be deducted currently. In the current tax code, costs associated with inventory and property held for resale are capitalized rather than currently deducted.

Enhanced Oil Recovery Existing Tax Break \$2.8 billion Proposed AMT Expansion \$115 million

Oil companies can qualify for a 15 percent income tax credit for the costs of recovering domestic oil as long as they use qualified “enhanced oil recovery” methods. Qualifying methods involve injecting fluids, gases, and other chemicals into the oil reservoir, or using heat to extract oil that is too viscous to be extracted by conventional techniques. Costs covered by the tax credit include the costs of equipment, labor, supplies, repairs, and injectants. In addition, oil companies can expense, or immediately write off, so-called tertiary injectants used in enhanced oil recovery. Unlike other businesses, which have to deduct these costs over the lifetime of the investment, oil companies can deduct tertiary injectant expenditures within the year of the cost.

Expensing allows companies to write off the costs of machinery and equipment faster than they actually wear out. The result is that the beneficiaries of this tax break have lower tax bills and maintain higher profit margins while the Treasury loses revenue.

In H.R. 4, the House of Representatives proposed eliminating a cap on how much companies can receive from this credit. Within the Alternative Minimum Tax (AMT), which many oil and gas companies pay, there is a limit on the amount of enhanced oil recovery tax credit a company can claim. H.R. 4 has proposed repealing this limitation at least from 2002 through 2005. This would cost taxpayers \$149 million in the first five years and \$115 million over ten years. The cost goes down over ten years if the tax break phases out after 2005.

Five-year net operating loss carryback for losses attributable to operating mineral interests of oil and gas producers \$1.1 billion

At the present time, when companies experience a net operating loss (NOL), which is the amount by which business deductions exceed business gross income, they can be carried back two years or carried forward 20 years to offset taxable income in such years. A carryback of a NOL results in the refund of federal income tax for the carryback year, and a carryforward results in reduced tax liability in those years. H.R. 4 proposes a special five-year carryback, as opposed to the current two-year carryback, for certain eligible oil and gas losses.

Intangible Drilling Costs Existing Taxbreak \$9.2 billion Proposed Expansion \$28 million

Provisions in the tax code allow integrated oil and gas companies such as ExxonMobil and ChevronTexaco to immediately deduct 70 percent of their intangible drilling costs (IDCs). The other 30 percent must be deducted over five years. IDCs are generally defined as the cost of wages, fuel, repairs, hauling, supplies and site preparations associated with drilling. Under normal tax rules that apply to other businesses, such “capital” costs are investments in property like buildings or oil wells. Because these properties last longer than one year, their costs should be written off over time as the property wears out, or as the oil is depleted. Instead, immediate deduction, or expensing, allows companies to write off costs of machinery and equipment faster than they actually wear out, or faster than the oil is depleted. The result is that tax bills in the earlier more profitable life of the investment are

“To give you some idea of the magnitude of tax preferences for this industry [oil industry], Mr. Chairman, for the year 1996, when oil prices were \$18.46 per barrel, 75 percent of corporate firms engaged in oil and gas production paid no Federal corporate income tax at all. Thus, it appears unlikely that tax incentives will significantly address the problems of this industry when the problem is historically low prices.”

Statement of Hon. Donald C. Lubick,
Assistant Secretary for Tax Policy,
U.S. Department of Treasury
February 25, 1999, before the Ways
and Means Committee. Serial 106-17

New or Expanded Spending Subsidies

Oil Shale Research	\$10
Ultra Deep-Water Fund Loan	\$900
Ultra Deep-Water Fund Lease	\$3,067
Authorization for Oil and Fuel Cell R&D*	\$880
Off-Shore Royalty Relief	
Reimbursement for NEPA	\$370
Marginal Well Production Incentives-Royalty Relief	\$491
Royalty in Kind	\$1,400
Subtotal Spending Subsidies	\$7,118
Total New and Expanded Handouts	\$21,161

Existing Taxpayer Handouts to Oil

Tax Breaks

10-year Costs (millions of dollars)

Enhanced Oil Recovery	\$2,800
Intangible Drilling Costs	\$9,200
Non-conventional Fuel Production Credit	\$9,000
Passive Loss	\$200
Percentage Depletion Allowance for Fossil Fuels	\$4,400
Subtotal Tax Breaks	\$25,600

Spending Subsidies

Petroleum Research and Development	\$560
Subtotal Spending Subsidies	\$560
Existing Giveaways	\$26,160

* This is an existing subsidy. The amount for the expansion was excluded from final 10-year cost figures and accompanying charts.

lower. Thus, oil and gas companies save by returning less to taxpayers and the Treasury. There should be a repeal of the tax provisions permitting oil and gas producers to immediately deduct “intangible” drilling costs and amend the provision so the costs are deducted over time.

H.R. 4 proposes to expand the benefits companies can squeeze out of intangible drilling costs by coupling this tax break with a tax exemption. Companies that immediately expense their IDCs receive a considerable financial benefit compared to the long-term capitalization of the costs. Under the current tax code the financial benefit is an item of tax preference for the Alternative Minimum Tax (AMT). The AMT was created to assure that large profitable corporations would pay at least a reasonable amount of federal tax despite the plethora of tax breaks, credits and loopholes available to companies. In H.R. 4, the House proposed repealing the AMT preference for intangible drilling costs. This would result in a reduction of the taxpayer’s alternative minimum taxable income by more than 40 percent and eliminate any tax on IDCs, turning a wasteful tax credit into a full blown giveaway. Removing this exemption from H.R. 4 would save \$28 million over ten years.

Non-conventional Fuel Production Credit

Current Tax Break \$9 billion Proposed Expansion \$2.8 billion

In 1979, Congress established the production tax credit in section 29 of the Internal Revenue Code, for oil and gas companies producing fuels from non-conventional sources. Section 29 applies to fuels such as oil produced from shale or tar sands; synthetic fuels produced from coal; gas produced from pressurized brine; Devonian shale; tight formations, biomass; and coalbed methane. The main utilization of the

tax credit has been in connection with the production of coalbed methane. Currently, companies get a credit of more than \$6.00 per barrel of liquid fuels and more than \$1.00 per thousand cubic feet for gaseous fuels. H.R. 4 would expand and extend these tax credits costing taxpayers an additional \$1.5 billion over the next five years and \$2.8 billion over the next ten years.

Existing Tax Breaks

Passive Loss \$200 million

Taxpayers with substantial sources of income from salaries or investments can eliminate or sharply reduce their taxable income by investing in “passive loss” tax shelters. The 1986 Tax Reform Act eliminated these tax shelters for virtually all other investments except those directed toward the oil and gas industry.

Percentage Depletion Allowance for Oil and Gas \$4.4 billion

In the existing tax code, certain oil, gas, coal and uranium producers receive a huge subsidy through the percentage depletion allowance. Companies participating in these activities can deduct or “write-off” capital investments. This “write-off” reflects the declining value of the mine or well. Companies that mine fuel minerals or drill for fossil fuels can deduct 10 percent for coal mining, 15 percent for oil and gas and 22 percent for uranium mining. Deductions for independent oil and gas companies can amount to 100 percent of the net income for a drilling operation. Coal and uranium mines can deduct up to 50 percent of their taxable income. In both instances, total deductions can frequently exceed the original investment costs of buying and preparing the land for resource extraction.

Spending Subsidies

New or Expanded Spending Subsidies Oil and Gas Royalties in Kind (RIK) \$1.4 billion

A section in H.R. 4 would authorize oil and gas companies to pay royalties to the federal government in the form of oil and gas, or “in kind”. There are numerous problems with instituting this kind of policy, however. The program is likely to cost taxpayers hundreds of millions of dollars per year, and the costs of administering such a program would more than likely outweigh any benefits. Feasibility studies by the Minerals Management Service (MMS) of the RIK program demonstrate the federal government may lose money with the program. In

fact, the current RIK pilot programs have actually lost money. The two RIK pilot programs that the Department of the Interior has completed have failed, both losing significant revenues when compared to traditional royalty payment programs. In general, it does not make sense for the federal government to be in the business of marketing oil and gas.

Royalty Relief \$491 million

When oil and gas companies drill on federal land or outer continental shelf waters, they pay a royalty to the federal government for use of that land and extraction of public resources. These proceeds go to federal programs such as the Land and Water Conservation Fund and state level public school education, as well as the general treasury. Provisions in H.R. 4 would grant royalty relief for two types of drilling activities— marginal well production on federal lands and outer-continental shelf drilling. The marginal well royalty relief provisions in H.R. 4 would cost taxpayers \$491 million. The final cost estimates for the outer-continental shelf provision has not been officially released, but preliminary estimates done by the Department of the Interior’s Mineral Management Service estimate the relief at more than \$7 billion.

Ultra-Deep Water Research and Development \$3.9 billion

H.R. 4 establishes a new research and development program for ultra-deep water drilling. Considered the last frontier in petroleum development, ultra-deep water drilling occurs at depths between 500 and 1500 meters. The industry claims to need a \$3 to \$5 billion government funded research and development program to make ultra-deep water exploration and development economically feasible. Many oil companies are already exploring deep-water oil deposits without government subsidies. These companies do not taxpayer dollars for these kinds of activities. This program would cost taxpayers more than \$3.9 billion dollars over eight years.

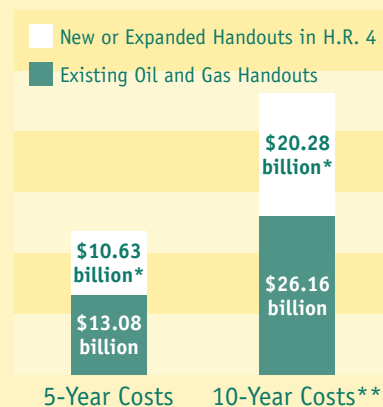
Existing Spending Subsidies

Petroleum Research and Development Program \$560 million

The Department of Energy’s (DOE) Oil Technology Research and Development Program focuses on the exploration and production of crude oil in the United States. The beneficiaries of the oil technology program include BP, ChevronTexaco, ExxonMobil and Marathon. Among the program’s goals is the promotion and enhancement of oil drilling in the Alaskan arctic. This program uses millions of taxpayer dollars annually to subsidize research, which benefits oil corporations that pollute the environment and threaten public health.

Funding in fiscal year 2002 for Oil Technology R&D is \$56 million. H.R. 4 authorizes \$10 million to revive the DOE’s oil shale research program – aimed at extracting oil from shale rock. The oil shale program was killed by an earlier Congress for being tremendously inefficient, expensive and threatening massive water pollution. The multi-billion dollar industries that benefit from these programs can afford to conduct their own R&D and do not need additional funding from federal taxpayers.

Oil and Gas Handouts



* Proposals in H.R. 4 which affected existing programs were excluded from this chart to avoid double scoring.

** Assumes that the existing tax breaks set to expire will be extending to entire 10 years that H.R. 4 is in effect.

Coal

New or Expanded Coal Handouts in H.R. 4

Tax Breaks 10-year Costs (in millions)

Advanced Clean Coal Investment and Production Tax Credits	\$3,307
Subtotal Tax Breaks	\$3,307

Spending Subsidies

Coal Research and Development Program*	\$537
Clean Coal Power Initiative	\$2,000
Subtotal Spending Subsidies	\$2,537

New or Expanded Coal Handouts	\$5,844
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Existing Coal Handouts

Tax Breaks 10-year Costs (millions of dollars)

Capital Gains Treatment of Royalties on Coal	\$840
Mining Reclamation Deduction	\$400
Subtotal Tax Breaks	\$1,240

Spending Subsidies

Coal Research and Development Program	\$1,880
Clean Coal Technology Program	\$253
Subtotal Spending Subsidies	\$2,133

Total Existing Coal Handouts	\$3,373
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* This is an existing subsidy. The amount for the expansion was excluded from final 10-year cost figures and accompanying charts.

Overview

The mining and burning of coal in the United States pre-dates the founding of the republic. The first recorded mining of coal occurred in 1748 and consisted of 50 tons. Since then coal has become the cheapest and most plentiful conventional energy source in the United States. Nearly 1 billion tons of coal is mined in the U.S. annually.

The government began subsidizing coal mining and production in 1932, with the expansion of the percentage depletion allowance to include coal mining. This entitled coal mining companies to deduct from their income the value of coal removed from a mine. Since that time, coal has received billions of dollars in research and development from the federal taxpayer.

However, H.R. 4 would increase both spending subsidies and tax breaks to the coal industry which will already receive \$3.37 billion in existing handouts over the next ten years. President Bush's National Energy Policy Development (NEPD) Group, the body responsible for drafting the administration's energy plan, claims that it "recognizes the importance of looking to technology to help us meet the goals of increasing electricity generation while protecting our environment" and recommends that the President direct the Department of Energy to continue to develop so-called "clean coal" technology by:

- Investing \$2 billion over 10 years to fund research into clean coal technologies.
- Supporting a permanent extension of the existing R&D tax credit.

The House's energy package would continue to dole out taxpayer money to the coal industry. H.R. 4 authorizes more than \$5.8 billion in new handouts over the next ten years, including the first ever clean coal investment

and production tax credits. Similar advanced "clean coal" tax credits offered in the Senate by Senator Frank Murkowski (R-AK) would cost taxpayers more than \$30 billion over the next ten years.

These new subsidies would come on the heels of existing spending programs that have proven wasteful and that have not achieved the desired results. After taxpayers have spent billions on the wasteful and mismanaged Clean Coal Technology Program, proposals in the House and Senate would have the federal government throw billions more into similar programs. The federal government should not put more money into a program that has already proven ineffective.

Further, the coal industry itself should be paying for this research and development, not federal taxpayers. These are activities that should be conducted with private sector funding, and should be considered a cost of doing business.

Coal pollutes the environment at all points in its life cycle, from mining to combustion. Unregulated disposal practices from coal mining contaminate drinking water and nearby land. Toxins such as arsenic, mercury, chromium and cadmium are released into unlined ponds and landfills, leach into groundwater and ultimately contaminate drinking water. Coal mining, especially mountain top removal mining, devastates local ecosystems. Fifteen to twenty-five percent of the mountains in southern West Virginia have been leveled with mountain top removal, burying 1,000 miles of streams in waste and eliminating 30,000 acres of hardwood forest. One mine can strip up to ten square miles and dump enough waste to fill twelve valleys, each up to 1,000 feet wide and one mile long.

The burning of fossil fuels such as coal has profound implications for the environment. The Clean Coal Technology Program does not address carbon dioxide emissions, the primary cause of global warming. The United States is the biggest producer of greenhouse gases, accounting for a quarter of the world's output. The effects of the warming of the earth's surface are potentially catastrophic.

Some of the most egregious coal handouts are:

Tax Breaks New or Expanded

Advanced Clean Coal Investment and Production Credits \$3.3 billion

Congress and the administration are planning to give coal power plants the first-ever tax credit for investment and production utilizing clean coal

technologies. Currently, the law does not provide an investment credit for coal-burning power plants. Nor does present law provide a production credit for electricity generated at facilities that burn coal. The proposal would provide a 10 percent tax credit for investments in clean coal technology facilities. Companies could claim the production credit for the 10 year period commencing when the facility is operational.

Existing Tax Breaks

Capital Gains Treatment of Royalties on Coal \$840 million

The Internal Revenue Code contains a provision enacted in 1952, allowing coal-mining companies to treat income from royalties as capital gains. This provision permits individuals who lease mining rights and receive royalty payments to treat these payments as capital gains rather than ordinary income. Treating the income as capital gains allows the companies to capture reduced tax rates instead of the higher tax rates normally applied to income. The federal government granted special capital gains treatment for coal in 1952.

Mining Reclamation Deduction \$400 million

A provision in the U.S. tax code allows mining companies to deduct reclamation and closing costs as soon as they begin to mine, even though the eventual closing and reclamation of the mine site will not occur for some time. Without this provision, general tax rules would require the companies to wait until the mine site is closed, restored, and the costs associated with these activities are paid before being able to deduct these costs.

Spending Subsidies

New or Expanded Spending Subsidies

Clean Coal Technology Programs

Existing Program \$253 million (remaining in life of project)

Proposed Program \$2 billion

Since 1984, Congress has allocated nearly \$1.8 billion in federal subsidies to the coal industry through the “Clean Coal” Technology Program (CCTP). H.R. 4 authorizes an additional \$2 billion in subsidies to finance the President’s Clean Coal Power Initiative (CCPI). Both programs subsidize private industry in its effort to develop cleaner burning coal technologies by providing matching federal funds of up to 50 percent. After more than 15 years of subsidized private sector research, the original funding appropriation for the Clean Coal Technology Program is nearly exhausted and the

program is winding down.

In an attempt to resuscitate the program, the House and the administration have proposed spending \$2 billion for the Clean Coal Power Initiative. The Senate energy bill follows suit with its own \$2 billion Clean Coal Power Plant Improvement Initiative.

“Clean Coal” projects waste millions of taxpayer dollars each year on research that is either duplicative or should be conducted with private sector funding. The corporations which stand to benefit the most from the various “clean coal” subsidies and tax breaks recorded more than \$711.7 billion in revenue for fiscal year 2000. Moreover, these programs encourage the use of the most polluting fossil fuel.

Existing Spending Subsidies

Coal Research & Development \$1.88 billion

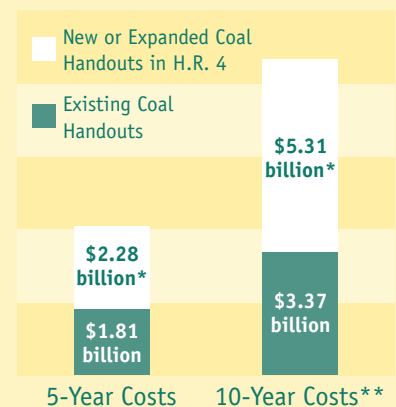
Fossil fuels such as coal have historically formed the basis for financially robust industries and yet, at the same time, have received substantial public funding through the Department of Energy’s (DOE) research and development programs. The DOE supports research into technology programs for producing, refining, and burning coal products. Both the coal industry and the utility industry already spend a great deal of money to develop new technologies, so taxpayer funding is unnecessary and duplicative. Many aspects of the program are also redundant with work done under the separate Clean Coal Technology Program or proposed under the Clean Coal Power Initiative.

Funding in fiscal year 2002 for coal R&D is \$188 million, not including funding for fuel cells. H.R. 4 contains authorization for \$537 million in subsidies for coal R&D over a three-year period and the Senate energy bill includes an indeterminate level of subsidies.

“There is nothing new being developed under the Clean Coal Technology Program except for ways to squander taxpayers’ money.”

Representative Paul Ryan (R-Wis.),
Congressional Record, June 15, 2000

Coal Handouts



* Proposals in H.R. 4 which affected existing programs were excluded from this chart to avoid double scoring.

** Assumes that the existing tax breaks set to expire will be extending to entire 10 years that H.R. 4 is in effect.

Nuclear Power

New or Expanded Nuclear Handouts in H.R. 4

Tax Breaks

10-year Costs

(Millions of Dollars)

Modification of Nuclear Decommissioning Costs	\$1,933
Subtotal Tax Breaks	\$1,933

Spending Subsidies

Uranium Mining	\$30
Uranium Conversion	\$0.80
Reprocessing	\$10
Nuclear Energy Research Initiative*	\$60
Nuclear Energy Plant Optimization*	\$15
Nuclear Energy Technology	\$20
Other Nuclear Spending	\$597
Subtotal Spending Subsidies	\$733
New or Expanded Nuclear Handouts	\$2,666

Existing Nuclear Handouts

Tax Breaks

10-year Costs

(Millions of Dollars)

Percentage Depletion Allowance for Uranium	\$200
Subtotal Tax Breaks	\$200

Spending Subsidies

Accelerator Transmutation of Nuclear Waste and Pyroprocessing	\$760
Mixed Oxide Power Reactors	\$2,000
Nuclear Energy Research Initiative	\$320
Nuclear Energy Plant Optimization	\$70
Nuclear Waste Fund Fee Adjustment	\$N/A
Radioactive Recycling	\$286
Price Anderson Act	\$N/A
Yucca Mountain High-Level Nuclear Waste Repository	\$375
Subtotal Spending Subsidies	\$3,811
Total Existing Handouts	\$4,011

* This is an existing subsidy. The amount for the expansion was excluded from final 10-year cost figures and accompanying charts.

Overview

Since the first splitting of the atom during World War II, the development of commercial nuclear power has fed off of American taxpayers. Without federal research subsidies and government-backed nuclear disaster insurance, nuclear power would not exist today.

Originally touted as being “too cheap to meter,” nuclear power plants have been a costly investment for the American public.

Nuclear power also benefits from unprecedented insurance protections in the event of a nuclear accident. The federally legislated Price-Anderson Act caps the liability of the nuclear power industry at under \$10 billion. Studies conducted by the government’s Sandia National Laboratory projected worst case scenarios that cost more than \$300 billion—more than 30 times greater than the liability limits under the Price-Anderson Act.

After nearly 50 years, nuclear power is still an uneconomical energy source. No nuclear power plants have been ordered since 1978, and more than 100 reactors have been canceled, including all ordered after 1973.

The grim economic and safety realities were forcing the nuclear power industry to go the way of the dinosaurs. However, the Bush Administration, led by Vice President Cheney and the NEPD Group, has advocated for the rebirth of nuclear power. At the rollout of the administration’s energy report Vice President Cheney maintained, “America should also expand a clean and unlimited source of energy, nuclear power.” Unfortunately, nuclear power is neither cheap nor clean.

Environmentally, the use of nuclear power has created a legacy of radioactive waste. Since the 1940’s, the commercial nuclear power industry has created more than 41,000 metric tons of high-

ly irradiated nuclear waste. Currently, there is no safe disposal option for this deadly waste. Furthermore, nuclear waste, such as plutonium, is extremely dangerous. Just 1/100,000th of an ounce of plutonium can cause lung cancer when inhaled.

Some of the most egregious nuclear energy provisions proposed are:

Tax Breaks

New or Expanded Tax Breaks

Nuclear Decommissioning Tax Credit \$1.9 billion

Beneficiaries of nuclear power plants should pay the full life-cycle costs of the construction, operation, waste disposal and decommissioning of nuclear power plants.

Current law provides preferential tax breaks to rate-regulated utilities in order to reduce the decommissioning costs that the utilities would otherwise be entitled to pass on to their ratepayers. These utilities make tax-deductible contributions into “qualified funds” established to decommission nuclear power plants. Investment income from these funds is taxed at the reduced rate of 20 percent. These funds must be used exclusively for the payment of decommissioning costs, taxes on fund income, payment of management costs and making investments. In addition to the qualified funds, utilities may have set aside nonqualified funds for decommissioning. Contributions to these funds are not tax-deductible and the income on the nonqualified funds is taxed at the utility’s marginal rate.

However, these tax benefits do not apply if the plant is sold from a regulated, or “public,” utility to a non-regulated, or “merchant,” entity. Such entities may include a corporate entity outside the state’s jurisdiction or one that is partly foreign-owned. These new owners are working to change the tax code so that they would continue to receive this tax break even though they, not the public utility commissions, set the rates.

Merchant companies buy the former rate-regulated plants with the expectation of competing in an unregulated market. Therefore, ratepayer protections do not and should not apply to the owners of merchant plants.

This provision would inappropriately shift the costs of decommissioning from the nuclear industry and plant owners to taxpayers. It would give the nuclear power industry a billion-dollar tax break.

Spending Subsidies and Federal Protections New or Expanded Spending Subsidies

Uranium Mining Subsidies for the Uranium Mining Industry \$30 million

Uranium mining in America has been on the decline for decades. Uranium extraction is conducted at “in situ” leach mining sites. At an “in situ” site, the mine operator drills a series of wells into the ore body and injects millions of gallons of a powerful acid or alkaline solution directly into the groundwater; stripping the uranium from the host rock and mixing it with the water. From within the midst of a circle of injection wells, a production well sucks most of the uranium bearing water to the surface and pipes it into a processing plant where the uranium is recovered and the waste is dumped. The new uranium-mining program proposes to test and develop novel “in situ” leach mining technologies.

Only three companies are currently involved in this type of mining, and they have left behind a legacy of polluted groundwater and violated environmental permits. This subsidy could help prop up one financially troubled company sufficiently to allow it to proceed with a proposed mine that could devastate a currently pristine aquifer serving a community of 15,000 Navajo.

Existing Spending Subsidies

Nuclear Energy Research Initiative and Nuclear Energy Plant Optimization \$390 million

Until recently, nuclear power has been in decline due to significant economic and environmental problems associated with commercial nuclear power plants. In fact, in 1998 Congress eliminated commercial direct nuclear research and development funding. This victory for taxpayers and the environment was short-lived, however. In fiscal year 1999, the Department of Energy (DOE) created the Nuclear Energy Research Initiative (NERI) program in order to “address and overcome the principal technical obstacles to the expanded use of nuclear energy” and to create a domestic and overseas market for nuclear power. At the same time, the DOE created the Nuclear Energy Plant Optimization (NEPO) program in a bid to improve the economic competitiveness of existing nuclear power plants. H.R. 4 authorizes \$60 million for the NERI program and \$15 million for the NEPO program in fiscal year 2002.

H.R. 4 also includes a \$20 million subsidy for Nuclear Energy Technologies in fiscal year 2002.

The subsidy authorized is to study “Generation IV” nuclear energy systems, which already comprises a component of the NERI program. H.R. 4 calls for a report by December 31, 2002 from the Secretary of Energy which contains an assessment of available technologies; a recommendation of three concepts for further development; and a plan leading to the selection and conceptual design of a Generation IV system by September 30, 2004. However, the final product need not be deployed until 2030.

Reauthorization of the Price-Anderson Act \$N/A

The Price-Anderson Act, originally enacted by Congress in 1957, limits the liability of the nuclear industry in the event of a nuclear accident in the United States. The Act covers large power reactors as well as small research and test reactors, fuel reprocessing plants and enrichment facilities. It covers incidents that occur through operation of nuclear plants as well as transportation and storage of nuclear fuel and radioactive wastes.

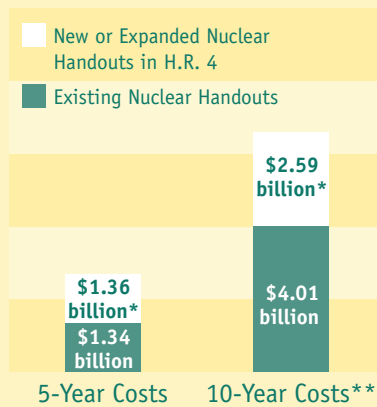
Price-Anderson sets up two tiers of insurance. Each utility is required to maintain the maximum amount of coverage available from the private insurance industry - currently \$200 million per reactor. If claims in the aftermath of an accident exceed that amount, all nuclear licensees must pay up to \$83.9 million for each reactor they operate. As of August 1998, Price-Anderson capped insurance coverage for any nuclear accident at \$9.43 billion.

The House of Representatives recently passed a bill to reauthorize the Price-Anderson Act. The bill, H.R. 2983, would extend Price-Anderson coverage to a new breed of nuclear power reactors called pebble-bed modular reactors.

“In the final analysis, the nuclear industry is purely a creature of government. The [Bush] administration needs to practice the free-market rhetoric that it preaches and put away its nuclear pompoms.”

Jerry Taylor, director of natural resources studies at the CATO Institute op-ed published in the Washington Post (May 18th, 2001)

Nuclear Handouts



* Proposals in H.R. 4 which affected existing programs were excluded from this chart to avoid double scoring.

** Assumes that the existing tax breaks set to expire will be extending to entire 10 years that H.R. 4 is in effect.

Accelerator Transmutation of Nuclear Waste and Pyroprocessing \$760 million

The DOE's national labs have embarked upon an expensive and complex nuclear research project, which proponents claim would reduce the toxicity of commercial irradiated nuclear fuel. Accelerator Transmutation of Nuclear Waste (ATW) combines particle accelerators, a new type of nuclear reactor that contains liquid lead, and a nuclear fuel reprocessing technology known as "pyroprocessing." Pyroprocessing is a vestige of the nuclear breeder reactor program killed by Congress in 1994. The DOE labs continue to lavish funds toward reprocessing spent nuclear fuel in the U.S., despite the fact that reprocessing increases the amount and complexity of nuclear waste. The technology also poses nuclear proliferation risks because it separates out weapons-grade nuclear materials from waste.

This technology will be enormously expensive and will not eliminate nuclear waste. Implementation of the ATW project could cost an estimated \$65 billion in capital costs. This unproven technology, fraught with uncertain risks and liabilities, would waste taxpayer dollars. The operating and decommissioning costs are \$215 billion, according to DOE.

MOX Power Reactors \$2 billion (life of program)

The federal government is pursuing a plan to dispose of up to 50 metric tons of surplus weapons-grade plutonium by mixing it with uranium to make mixed oxide ("MOX") fuel for commercial power plants. The alternative mode of disposal is to convert the plutonium into a non-weapons compatible ceramic form, which could be surrounded by highly radioactive glass to protect it from theft. This process, called "immobilization", would involve fewer steps,

less expense and pose diminished environmental and security risk.

The immobilization-only approach to dispose of all 50 tons of plutonium would cost about \$5 billion. This would save about \$2 billion over the life of the project compared to the MOX-only option, estimated at \$7 billion.

Nuclear Waste Fund Fee Adjustment \$N/A

To offset the cost of long-term high-level radioactive waste management, nuclear utilities pay into the Nuclear Waste Fund. Since 1983, nuclear power plants have paid fees at the rate of one-tenth of one cent (one mill) per kilowatt-hour of electricity generated. However, this rate of contribution will not cover the costs originally anticipated, much less new and unforeseen costs. By indexing the Nuclear Waste Fund Fee to inflation, taxpayers could save millions and perhaps billions of dollars and make the market price of nuclear power more accountable to future costs.

The Nuclear Waste Fund was established in 1983 by the Nuclear Waste Policy Act to finance the long-term management of commercial high-level nuclear waste. To date, more than \$6.3 billion dollars from the Nuclear Waste Fund have been spent by the Department of Energy on the ill-conceived Yucca Mountain repository proposal. Estimated costs for this program increased by 26 percent - to \$56 billion - between 1998 and 2001 alone, while the Nuclear Waste Fund fee assessments remained unchanged.

Yucca Mountain High-Level Nuclear Waste Repository \$375 Fiscal Year 2002

Multiple technical, environmental and cost barriers, as well as Department of Energy mismanagement, plague the proposed Yucca Mountain High-Level Nuclear Waste Repository. New findings suggest that Yucca Mountain, the only site under study for a permanent high-level nuclear waste repository, will be unable to keep nuclear waste isolated from the surrounding environment. Moreover, the large-scale transportation of nuclear waste to the proposed repository will threaten the health and safety of more than 50 million Americans in up to 45 states. According to a DOE report released in May 2001, the projected cost of the project has soared to \$56 billion, a 26 percent increase from the previous estimate in 1998. After nearly \$8 billion in federal spending, the repository project still faces an uncertain future with an acceptable strategy for nuclear waste disposition not yet identified. The program will cost taxpayers \$375 million in fiscal year 2002.

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Running on Empty: How Environmentally Harmful Energy Subsidies Siphon Billions from Taxpayers details the massive existing and proposed financial give aways to the oil, gas, coal and nuclear power industry. In 2001, President Bush and the Congress began a national debate on energy policy. The House of Representatives has used this debate as an excuse to propose more subsidies for dirty energy. In total, these proposals along with existing handouts could cost taxpayers nearly \$62 billion over the next ten years, as well as encourage environmental destruction. *Running on Empty* is a product of the Green Scissors Campaign, a coalition of taxpayer, consumer and environmental organizations dedicated to cutting wasteful and environmentally harmful federal spending.

