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Dept. of Interior Addresses Westly Lawsuit; Suspends Cuts on Oil Royalties

SACRAMENTO **–** State Controller Steve Westly today characterized the planned suspension of oil royalty rate cuts by the U.S. Department of Interior as a good first step, but called on the government to end the cuts once and for all.

“Every Californian knows first-hand that the price of oil has been skyrocketing,” Controller Westly said. “We made the federal government accountable for their discount policies, and pressured them to stop giving oil companies a break. The state can use the money from full royalties for schools and California kids.”

The Interior Department published its notice of intent in the Federal Register this morning, calling for the suspension to begin November 1, 2005. The department is also considering a suspension of royalty rate cuts on oil produced from stripper wells, or low producing wells.

The Interior Department is asking for public comment on the conditions for reinstating heavy oil rate relief by May 27, 2005. The department proposes reinstating relief when the oil price is below $24 a barrel for six consecutive months. It specifically asks for comments on whether relief should be reinstated earlier.

Controller Westly filed suit in February 2004 against the Interior Department in U.S. District Court in Washington, DC. The lawsuit alleged the government had not proven its case that the oil royalty discounts actually increased oil production.

The Interior Department argued the discount program is an incentive for companies, both large and small, to continue oil production on federal lands when oil prices are low. The department also argued the program would make the U.S. less dependent on foreign oil. According to a Washington Post analysis, during the 2003-2004 fiscal year, companies sold $1 billion in oil eligible for the discount program. They paid $56 million in royalties, compared to $129 million they would have otherwise paid the government.

“The discounted royalties are spilt between the federal and state governments, so all this time California has been losing an estimated $8 million every year – money we could have used during our own economic troubles,” Controller Westly said.

The federal government began the discounts for heavy oil in 1996, and for stripper oil in 1992.

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Federal Oil Discount 2-2-2

More Environmental Progress

In related news, Controller Westly announced support for two shareholder resolutions being considered at ChevronTexaco's annual shareholder meeting in San Ramon. The purpose of the first resolution, Resolution #7, is to voice shareholder concerns over oil drilling in protected or sensitive areas. This comes after President Bush signaled his intention to open the Artic National Wildlife Refuge (ANWR) to drilling, and closer to home, allow drilling off the California coast near Santa Barbara.

Westly is also supporting Resolution #8, which asks ChevronTexaco to report on new initiatives by management that address specific health and environmental concerns of communities affected by Texaco's oil extraction practices during its 20 years of operation in Ecuador. An oil consortium, in which Texaco participated, released more than 18.5 billion gallons of petroleum waste and wastewater into 627 unlined pits, rivers and streams. Westly called on the ChevronTexaco Board to undertake an independent review of the situation, saying, "fresh eyes on the situation may assist the company in moving forward on this potentially brand damaging situation."

The California State Lands Commission also adopted a resolution urging President Bush and Congress to continue its moratorium on offshore drilling along California's protected coastline.

Controller Westly, Lt. Gov. Cruz Bustamante and State Finance Director Tom Campbell signed the State Lands Commission resolution.

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