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Econ E [Energy Tax Working Group] - Agenda Meeting Collection Points/Tax Base and Rates March 10, 1993

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THE WHITE HOUSE

WASHINGTON

March 9, 1993

FAX MEMORANDUM FOR ECONe - ENERGY TAX WORKING GROUP
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FROM: HEATHER ROSS

SUBJECT: Agenda for ECONe Meeting, March 10, 1993, 8:30 a.m.

Attached is the agenda for tomorrow's meeting of the Energy Tax Working Group.

Attachment

Energy Tax Working Group
March 10, 1993
8:30 a.m.
OEOB, Room 324

I. Collection Points

- Location, rationale, and administrability

  oil
  gas
  coal
  fossil electricity
  nuclear
  hydro

- Any remaining related issues: pass through, tax compounding, international disparity, . . .

II. Tax Base

- Treatment of fuel used as fuel in energy sector

  fuel generation
  fuel transport

- NGL streams - tax as oil or gas; where

- Nuclear tax base: establish/update heat rate

- Hydro tax base: recognize superior efficiency to fossil fuels? at what rate?

- Exemptions - full list
  - how to administer

- Treatment of fuels in international commerce - bunker fuel, jet fuel, . . .

III. Tax Rates

- New rate(s) to reach revenue target

IV. Any Other Outstanding Issues?

- Administrability
- International matters/GATT ability
- Regionality
- Regressivity
- Competitiveness
- Macro effects

MEMORANDUM

DATE: March 10, 1993
TO: Katie McGinty
FROM: Marc Chupka
RE: Energy Tax Issues

Three outstanding issues from the 8:30 mtg were taken up by the NEC Principals in the 2:30 mtg:

1) Home heating oil:

According to Director Panetta, Senator Mitchell told him that the President told Mitchell that the Administration will fix it.

Apparently the one-year slippage on the final rate is not sufficient for Senator Mitchell -- he may be expecting a longer grace period and more gradual ramp-up.

** No decision made. This issue will be brought to the President. **

2) Enhanced oil recovery:

On-site fuel used to lift crude will not be taxed (since it is used prior to the point of taxation). However, purchased natural gas used in steam injection EOR (primarily Kern County CA) will be taxed, since it is like any use of natural gas from a pipeline (i.e. it is used after the point of taxation). ISSUE: Will the tax on natural gas used in EOR operations shut in these wells, given their already slender profit margins?

Taxing this natural gas has the virtue of consistency in so far as we grant no credits for end uses beyond the point in the chain of commerce where the tax is levied. However, Kern County wells could be lost, which would erode or eliminate the import reductions as those barrels will be replaced by imports. EPA and Treasury want the tax -- EPA b/c they see EOR as having environmental impacts, Treasury because they want the money. DOE wants to exempt -- and point out that if these wells go, so goes the money.

If not taxed, we help this segment of the oil industry. But, we also open up the floodgates for similar exemptions -- electricity and diesel used in coal mining operations, for example. (My view -- EOR has some environmental advantages over new exploration, which EPA may not be taking into account.)

** No decision made. This issue will be brought to the President. **

700,000 barrels/day

80 million

Rep Fulbert
Keith
Laughlin

3) Ethanol

Agriculture made the environmental and farm income pitch for exempting ethanol. Browner questioned the overall environmental benefits. Options:

Tax at oil rate
Tax at gas & coal rate
Exempt

The group as a whole thought that the tax at the full petroleum rate was a good place to start, since it does not disadvantage ethanol relative to its rival petroleum. However, agreed that the Hill will take away (therefore we should tax at the higher rate and maybe settle for the gas rate). A side issue: we should tax methanol (an alternative fuel derived from natural gas at the same rate as ethanol. Giving ethanol yet another artificial advantage over methanol will be hard to justify to some. But if both are traded away, then we get real revenue losses -- ethanol and methanol together would be about $100 million per year by 1997 if taxed at the petroleum rate.

** No decision made. This issue will be brought to the President. **

4) Linkage: tentative initial positions on all three issues -- heating oil, EOR, and ethanol -- are hardline from the standpoint of consistency and fairness. Therefore, unless instructed by the President to do otherwise, the current heating oil exemption schedule is kept, purchased fuels for EOR are taxed, and ethanol is taxed at the high rate. There are good policy reasons to start here, and probably good political reasons to be flexible in future negotiations.

Katie: Greg tells me that Al wants to exempt ethanol up front as a political gesture to the farmers. I didn't realize thats where his thinking was, but will make sure that his opinion is heard (Greg didn't bring it up during the principals meeting).

— M