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Congress of the United States
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April 25, 2022

The Honorable Joseph DeCarolis
Administrator
U.S. Energy Information Administration
1000 Independence Avenue, S.W.
Washington, DC 20585

Dear Administrator DeCarolis:

Federal tax preferences for fossil fuel companies currently cost the federal government billions of dollars in lost revenue annually, and with oil prices at near historic highs—and oil companies reporting historic profits—it begs the question: what are we getting for our money? Therefore, in order to best allocate taxpayer resources, I respectfully request data on the projected impact of federal fossil fuel tax preferences on oil production and oil prices.

According to the Treasury Department's FY22 Revenue Proposals, tax incentives for domestic fossil fuel production will cost the federal government around $35 billion over the next 10 years.[1] Additionally, oil and gas companies also benefit from large tax subsidies on foreign investment, including an exemption on income earned from foreign oil and gas extraction and a 50% deduction on foreign oil related income. Together, the Treasury estimates that these tax incentives for international fossil fuel production will cost the U.S. government $84.8 billion in lost revenue over the next 10 years.[2] Finally, barring oil & gas companies from using the Last-In, First-Out (LIFO) accounting method could save the government another $7 billion per year. Although not exclusively used by the oil industry, the LIFO method disproportionately benefits oil companies, and in 2015, the Treasury estimated that eliminating this method would save the government $76 billion in lost tax revenue over 10 years.[3] Altogether, these tax incentives for fossil fuel companies cost the government an average of $12 to $19 billion per year.

However, despite this immense federal subsidy, recent modelling by researchers at the Stockholm Environment Institute and Earth Track has found that the impact of these subsidies on oil production and oil prices is limited, even more so when oil prices are high, as they are now, and new oil wells have a high

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[1] Department of the Treasury. 2021. General Explanations of the Administration's Fiscal Year 2022 Revenue Proposals. https://home.treasury.gov/system/files/131/General-Explanations-FY2022.pdf
[2] Ibid.
[3] Department of the Treasury. 2015. General Explanations of the Administration's Fiscal Year 2016 Revenue Proposals. https://home.treasury.gov/system/files/131/General-Explanations-FY2016.pdf. For the benefits of LIFO for oil companies, see Lirely, R., D. Coffee, R. Roig, and S. Swanger. 2010. LIFO Accounting and Liquidity Measurements in the Energy Industry. *Oil, Gas, and Energy Quarterly* 3: 393-406.

expected rate of return.[4] Similarly, earlier research by former Deputy Assistant Treasury Secretary for Environment and Energy, Gilbert Metcalf, suggests that ending subsidies for fossil fuel companies would have a minimal effect on oil production and global oil prices.[5] With oil now trading at around $100/barrel, instead of lowering retail gas prices, federal fossil fuel tax subsidies are going almost entirely toward oil producers' profits.

As the nation's premier source of rigorous, impartial energy data and analysis, I respectfully request that the Energy Information Administration provide my office with an updated analysis of the impact of federal fossil fuel subsidies on current oil production and oil prices, taking into account the current price of oil. Given the enormous toll that current fossil fuel prices are taking on my constituents, this requested analysis is time sensitive. Therefore, I request this analysis by May 16, 2022. My staff and I look forward to your timely response.

Sincerely,

Raja Krishnamoorthi
Member of Congress

[4] Achakulwisut, P., P. Erickson, and D. Koplow. 2021. Effect of subsidies and regulatory exemptions on 2020–2030 oil and gas production and profits in the United States. *Environmental Research Letters* 16: 084023
[5] Metcalf, G. 2017. The Impact of Removing Tax Preferences for US Oil and Natural Gas Production: Measuring Tax Subsidies by an Equivalent Price Impact Approach. *Journal of the Association of Environmental and Resource Economists* 5(1): 1-37.