

## Nonconventional Fuels Tax Credit

The Nonconventional Fuels (Section 29) Tax Credit went into effect in 1980, following energy shortages and deep concern about American dependence on imported oil. Congress sought to encourage production of oil and natural gas from “nonconventional” sources, such as Devonian shale, tight formations, and coalbeds. These deposits are unusually expensive to produce.

The Gas Technology Institute (GTI) studied Section 29’s history and projected the impact of an extension of the credit on domestic supply. The GTI study concluded that:

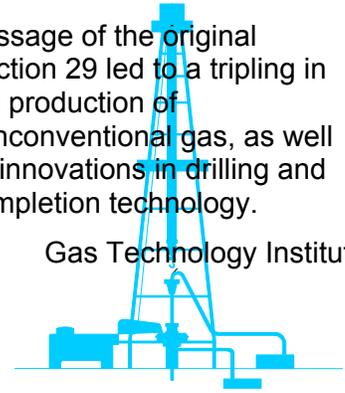
- Passage of the original Section 29 led to a tripling in the production of nonconventional gas, as well as innovations in drilling and completion technology.
- Production of nonconventional gas must again increase dramatically, if the U.S. is to meet growing demand. Extending Section 29 could increase U.S. gas supplies substantially, and that increase in supply would translate into lower gas prices, and billions of dollars in consumer savings.
- Nonconventional gas still costs more to produce. For example, getting new wells to flow may require expensive artificial fracturing, and the cost of well operations may double as the result of necessary de-watering, gas clean-up and added compression.
- Extending the credit will have a significant near-term impact on prices, since Section 29 gas can reach the market relatively quickly.

In February 2004, the Energy Information Administration (EIA) reported that the Section 29 tax credit for production of nonconventional fuels does indeed result in increased natural gas production and lower consumer prices. The report<sup>1</sup> responded to a Senate request for EIA to analyze certain tax provisions included within the conference agreement on the Energy Policy Act of 2003.

Using a sophisticated energy model, EIA projected the impact of the Energy Policy Act’s provision, Section 1345, to extend and modify Section 29. The report concluded that:

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Gas Technology Institute



<sup>1</sup> DOE, Energy Information Administration/Analysis of Five Selected Tax Provisions of the Conference Energy Bill of 2003, SR/OIAF/2004-01, February 2004.

- The bill's Section 29 provision would result in the drilling of 20% more nonconventional gas wells during the eligible period, and an increase in nonconventional reserve additions of 13%.<sup>2</sup>
- Total domestic natural gas production would increase, particularly through 2009, and even beyond that date.
- The increased Section 29 production would reduce natural gas imports.
- The bill's Section 29 provisions were estimated to reduce the wellhead natural gas price by almost \$0.15/mcf over the 2005-2010 period. Based on EIA projections of gas usage, that reduction in wellhead prices would result in \$10.6 billion in consumer savings from 2005 through 2009.

Not only would the Energy Policy Act's Section 29 provision have a dramatic impact in the form of direct consumer savings, the economic benefits will be magnified through reduced pressure on American manufacturers. A February 17, 2004, *Wall Street Journal* article stated that high natural gas prices "...are taking an increasing toll on a range of companies, forcing them to change how they operate and even to shift work to parts of the world where energy prices are lower." One way that Congress could help keep manufacturing jobs in the U.S. is to extend the Section 29 tax credit.

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<sup>2</sup> Gas Technology Institute estimate.