

Subtitle J--Ultra-Deepwater and Unconventional Natural Gas and Other Petroleum Resources

SEC. 999A. PROGRAM AUTHORITY.

(a) *In General.*--The Secretary shall carry out a program under this subtitle of research, development, demonstration, and commercial application of technologies for ultra-deepwater and unconventional natural gas and other petroleum resource exploration and production, including addressing the technology challenges for small producers, safe operations, and environmental mitigation (including reduction of greenhouse gas emissions and sequestration of carbon).

(b) *Program Elements.*--The program under this subtitle shall address the following areas, including improving safety and minimizing environmental impacts of activities within each area:

(1) Ultra-deepwater architecture and technology, including drilling to formations in the Outer Continental Shelf to depths greater than 15,000 feet.

(2) Unconventional natural gas and other petroleum resource exploration and production technology.

(3) The technology challenges of small producers.

(4) Complementary research performed by the National Energy Technology Laboratory for the Department.

(c) *Limitation on Location of Field Activities.*--Field activities under the program under this subtitle shall be carried out only--

(1) in--

(A) areas in the territorial waters of the United States not under any Outer Continental Shelf moratorium as of September 30, 2002;

(B) areas onshore in the United States on public land administered by the Secretary of the Interior available for oil and gas leasing, where consistent with applicable law and land use plans; and

(C) areas onshore in the United States on State or private land, subject to applicable law; and

(2) with the approval of the appropriate Federal or State land management agency or private land owner.

(d) *Activities at the National Energy Technology Laboratory.*--The Secretary, through the National Energy Technology Laboratory, shall carry out a program of research and other activities complementary to and supportive of the research programs under subsection (b).

(e) *Consultation With Secretary of the Interior.*--In carrying out this subtitle, the Secretary shall consult regularly with the Secretary of the Interior.

SEC. 999B. ULTRA-DEEPWATER AND UNCONVENTIONAL ONSHORE NATURAL GAS AND OTHER PETROLEUM RESEARCH AND DEVELOPMENT PROGRAM.

(a) *In General.*--The Secretary shall carry out the activities under section 999A, to maximize the value of natural gas and other petroleum resources of the United States, by increasing the supply of such resources, through reducing the cost and increasing the efficiency of exploration for and production of such resources, while improving safety and minimizing environmental impacts.

(b) *Role of the Secretary.*--The Secretary shall have ultimate responsibility for, and oversight of, all aspects of the program under this section.

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(c) *Role of the Program Consortium.*--

(1) IN GENERAL.--The Secretary shall contract with a corporation that is structured as a consortium to administer the programmatic activities outlined in this chapter. The program consortium shall--

(A) administer the program pursuant to subsection (f)(3), utilizing program administration funds only ;

(B) issue research project solicitations upon approval of the Secretary or the Secretary's designee;

(C) make project awards to research performers upon approval of the Secretary or the Secretary's designee;

(D) disburse research funds to research performers awarded under subsection (f) as directed by the Secretary in accordance with the annual plan under subsection (e); and

(E) carry out other activities assigned to the program consortium by this section.

(2) **LIMITATION.**--The Secretary may not assign any activities to the program consortium except as specifically authorized under this section.

(3) **CONFLICT OF INTEREST.**--

(A) **PROCEDURES.**--The Secretary shall establish procedures--

(i) to ensure that each board member, officer, or employee of the program consortium who is in a decisionmaking capacity under subsection (f)(3) shall disclose to the Secretary any financial interests in, or financial relationships with, applicants for or recipients of awards under this section, including those of his or her spouse or minor child, unless such relationships or interests would be considered to be remote or inconsequential; and

(ii) to require any board member, officer, or employee with a financial relationship or interest disclosed under clause (i) to recuse himself or herself from any oversight under subsection (f)(4) with respect to such applicant or recipient.

(B) **FAILURE TO COMPLY.**--The Secretary may disqualify an application or revoke an award under this section if a board member, officer, or employee has failed to comply with procedures required under subparagraph (A)(ii).

(d) *Selection of the Program Consortium.*--

(1) **IN GENERAL.**--The Secretary shall select the program consortium through an open, competitive process.

(2) **MEMBERS.**--The program consortium may include corporations, trade associations, institutions of higher education, National Laboratories, or other research institutions. After submitting a proposal under paragraph (4), the program consortium may not add members without the consent of the Secretary.

(3) **REQUIREMENT OF SECTION 501(c)(3) STATUS.**--The Secretary shall not select a consortium under this section unless such consortium is an organization described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from tax under such section 501(a) of such Code.

(4) SCHEDULE.--Not later than 90 days after the date of enactment of this Act, the Secretary shall solicit proposals from eligible consortia to perform the duties in subsection (c)(1), which shall be submitted not later than 180 days after the date of enactment of this Act. The Secretary shall select the program consortium not later than 270 days after such date of enactment.

(5) **APPLICATION.**--Applicants shall submit a proposal including such information as the Secretary may require. At a minimum, each proposal shall--

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(A) list all members of the consortium;

(B) fully describe the structure of the consortium, including any provisions relating to intellectual property; and

(C) describe how the applicant would carry out the activities of the program consortium under this section.

(6) **ELIGIBILITY.**--To be eligible to be selected as the program consortium, an applicant must be an entity whose members have collectively demonstrated capabilities and experience in planning and managing research, development, demonstration, and commercial application programs for ultra-deepwater and unconventional natural gas or other petroleum exploration or production.

(7) **FOCUS AREAS FOR AWARDS.**--

(A) **ULTRA-DEEPWATER RESOURCES.**--Awards from allocations under section 999H(d)(1) shall focus on the development and demonstration of individual exploration and production technologies as well as integrated systems technologies including new architectures for production in ultra-deepwater.

(B) **UNCONVENTIONAL RESOURCES.**--Awards from allocations under section 999H(d)(2) shall focus on areas including advanced coalbed methane, deep drilling, natural gas production from tight sands, natural gas production from gas shales, stranded gas, innovative exploration and production techniques, enhanced recovery techniques, and environmental mitigation of unconventional natural gas and other petroleum resources exploration and production.

(C) **SMALL PRODUCERS.**--Awards from allocations under section 999H(d)(3) shall be made to consortia consisting of small producers or organized primarily for the benefit of small producers, and shall focus on areas including complex geology involving rapid changes in the type and quality of the oil and gas reservoirs across the reservoir; low reservoir pressure; unconventional natural gas reservoirs in coalbeds, deep reservoirs, tight sands, or shales; and unconventional oil reservoirs in tar sands and oil shales.

(e) Annual Plan.--

(1) IN GENERAL.--The program under this section shall be carried out pursuant to an annual plan prepared by the Secretary in accordance with paragraph (2).

(2) **DEVELOPMENT.--**

(A) SOLICITATION OF RECOMMENDATIONS.--Before drafting an annual plan under this subsection, the Secretary shall solicit specific written recommendations from the program consortium for each element to be addressed in the plan, including those described in paragraph (4). The program consortium shall submit its recommendations in the form of a draft annual plan.

(B) SUBMISSION OF RECOMMENDATIONS; OTHER COMMENT.--The Secretary shall submit the recommendations of the program consortium under subparagraph (A) to the Ultra-Deepwater Advisory Committee established under section 999D(a) and to the Unconventional Resources Technology Advisory Committee established under section 999D(b), and such Advisory Committees shall provide to the Secretary written comments by a date determined by the Secretary. The Secretary may also solicit comments from any other experts.

(C) **CONSULTATION.**--The Secretary shall consult regularly with the program consortium throughout the preparation of the annual plan.

(3) PUBLICATION.--The Secretary shall transmit to Congress and publish in the Federal Register the annual plan, along with any written comments received under paragraph (2)(A) and (B).

(4) **CONTENTS.**--The annual plan shall describe the ongoing and prospective activities of the program under this section and shall include--

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(A) a list of any solicitations for awards to carry out research, development, demonstration, or commercial application activities, including the topics for such work, who would be eligible to apply, selection criteria, and the duration of awards; and

(B) a description of the activities expected of the program consortium to carry out subsection (f)(3).

(5) ESTIMATES OF INCREASED ROYALTY RECEIPTS.--The Secretary, in consultation with the Secretary of the Interior, shall provide an annual report to Congress with the President's budget on the estimated cumulative increase in Federal royalty receipts (if any) resulting from the implementation of this subtitle. The initial report under this paragraph shall be submitted in the first President's budget following the completion of the first annual plan required under this subsection.

(f) **Awards.--**

(1) **IN GENERAL.**--Upon approval of the Secretary the program consortium shall make awards to research performers to carry out research, development, demonstration, and commercial application activities under the program under this section. The program consortium shall not be eligible to receive such awards, but provided that conflict of interest procedures in section 999B(c)(3) are followed, entities who are members of the program consortium are not precluded from receiving research awards as either individual research performers or as research performers who are members of a research collaboration.

(2) **PROPOSALS.**--Upon approval of the Secretary the program consortium shall solicit proposals for awards under this subsection in such manner and at such time as the Secretary may prescribe, in consultation with the program consortium.

(3) **OVERSIGHT.**--

(A) **IN GENERAL.**--The program consortium shall oversee the implementation of awards under this subsection, consistent with the annual plan under subsection (e), including disbursing funds and monitoring activities carried out under such awards for compliance with the terms and conditions of the awards.

(B) **EFFECT.**--Nothing in subparagraph (A) shall limit the authority or responsibility of the Secretary to oversee awards, or limit the authority of the Secretary to review or revoke awards.

(g) *Administrative Costs.*--

(1) **IN GENERAL.**--To compensate the program consortium for carrying out its activities under this section, the Secretary shall provide to the program consortium funds sufficient to administer the program. This compensation may include a management fee consistent with Department of Energy contracting practices and procedures.

(2) **ADVANCE.**--The Secretary shall advance funds to the program consortium upon selection of the consortium, which shall be deducted from amounts to be provided under paragraph (1).

(h) *Audit.*--The Secretary shall retain an independent auditor, which shall include a review by the General Accountability Office, to determine the extent to which funds provided to the program consortium, and funds provided under awards made under subsection (f), have been expended in a manner consistent with the purposes and requirements of this subtitle. The auditor shall transmit a report (including any review by the General Accountability Office) annually to the Secretary, who shall transmit the report to Congress, along with a plan to remedy any deficiencies cited in the report.

(i) *Activities by the United States Geological Survey.*--The Secretary of the Interior, through the United States Geological Survey, shall, where appropriate, carry out programs of long-term research to complement the programs under this section.

(j) Program Review and Oversight.--The National Energy Technology Laboratory, on behalf of the Secretary, shall (1) issue a competitive solicitation for the program consortium, (2) evaluate, select, and award

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a contract or other agreement to a qualified program consortium, and (3) have primary review and oversight responsibility for the program consortium, including review and approval of research awards proposed to be made by the program consortium, to ensure that its activities are consistent with the purposes and requirements described in this subtitle. Up to 5 percent of program funds allocated under paragraphs (1) through (3) of section 999H(d) may be used for this purpose, including program direction and the establishment of a site office if determined to be necessary to carry out the purposes of this subsection.

SEC. 999C. ADDITIONAL REQUIREMENTS FOR AWARDS.

(a) *Demonstration Projects.*--An application for an award under this subtitle for a demonstration project shall describe with specificity the intended commercial use of the technology to be demonstrated.

(b) *Flexibility in Locating Demonstration Projects.*--Subject to the limitation in section 999A(c), a demonstration project under this subtitle relating to an ultra-deepwater technology or an ultra-deepwater architecture may be conducted in deepwater depths.

(c) *Intellectual Property Agreements.*--If an award under this subtitle is made to a consortium (other than the program consortium), the consortium shall provide to the Secretary a signed contract agreed to by all members of the consortium describing the rights of each member to intellectual property used or developed under the award.

(d) *Technology Transfer.*--2.5 percent of the amount of each award made under this subtitle shall be designated for technology transfer and outreach activities under this subtitle.

(e) *Cost Sharing Reduction for Independent Producers.*--In applying the cost sharing requirements under section 988 to an award under this subtitle the Secretary may reduce or eliminate the non-Federal requirement if the Secretary determines that the reduction is necessary and appropriate considering the technological risks involved in the project.

(f) *Information Sharing.*--All results of the research administered by the program consortium shall be made available to the public consistent with Department policy and practice on information sharing and intellectual property agreements.

SEC. 999D. ADVISORY COMMITTEES.

(a) Ultra-Deepwater Advisory Committee.--

(1) ESTABLISHMENT.--Not later than 270 days after the date of enactment of this Act, the Secretary shall establish an advisory committee to be known as the Ultra-Deepwater Advisory Committee.

(2) **MEMBERSHIP.**--The Advisory Committee under this subsection shall be composed of members appointed by the Secretary, including--

(A) individuals with extensive research experience or operational knowledge of offshore natural gas and other petroleum exploration and production;

(B) individuals broadly representative of the affected interests in ultra-deepwater natural gas and other petroleum production, including interests in environmental protection and safe operations;

(C) no individuals who are Federal employees; and

(D) no individuals who are board members, officers, or employees of the program consortium.

(3) **DUTIES.**--The Advisory Committee under this subsection shall--

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(A) advise the Secretary on the development and implementation of programs under this subtitle related to ultra-deepwater natural gas and other petroleum resources; and

(B) carry out section 999B(e)(2)(B).

(4) **COMPENSATION.**--A member of the Advisory Committee under this subsection shall serve without compensation but shall receive travel expenses in accordance with applicable provisions under subchapter I of chapter 57 of title 5, United States Code.

(b) Unconventional Resources Technology Advisory Committee.--

(1) ESTABLISHMENT.--Not later than 270 days after the date of enactment of this Act, the Secretary shall establish an advisory committee to be known as the Unconventional Resources Technology Advisory Committee.

(2) **MEMBERSHIP.**--The Secretary shall endeavor to have a balanced representation of members on the Advisory Committee to reflect the breadth of geographic areas of potential gas supply. The Advisory Committee under this subsection shall be composed of members appointed by the Secretary, including--

(A) a majority of members who are employees or representatives of independent producers of natural gas and other petroleum, including small producers;

(B) individuals with extensive research experience or operational knowledge of unconventional natural gas and other petroleum resource exploration and production;

(C) individuals broadly representative of the affected interests in unconventional natural gas and other petroleum resource exploration and production, including interests in environmental protection and safe operations;

(D) individuals with expertise in the various geographic areas of potential supply of unconventional onshore natural gas and other petroleum in the United States;

(E) no individuals who are Federal employees; and

(F) no individuals who are board members, officers, or employees of the program consortium.

(3) **DUTIES.**--The Advisory Committee under this subsection shall--

(A) advise the Secretary on the development and implementation of activities under this subtitle related to unconventional natural gas and other petroleum resources; and

(B) carry out section 999B(e)(2)(B).

(4) **COMPENSATION.**--A member of the Advisory Committee under this subsection shall serve without compensation but shall receive travel expenses in accordance with applicable provisions under subchapter I of chapter 57 of title 5, United States Code.

(c) *Prohibition.*--No advisory committee established under this section shall make recommendations on funding awards to particular consortia or other entities, or for specific projects.

SEC. 999E. LIMITS ON PARTICIPATION.

An entity shall be eligible to receive an award under this subtitle only if the Secretary finds--

(1) that the entity's participation in the program under this subtitle would be in the economic interest of the United States; and

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(2) that either--

(A) the entity is a United States-owned entity organized under the laws of the United States; or

(B) the entity is organized under the laws of the United States and has a parent entity organized under the laws of a country that affords--

(i) to United States-owned entities opportunities, comparable to those afforded to any other entity, to participate in any cooperative research venture similar to those authorized under this subtitle;

(ii) to United States-owned entities local investment opportunities comparable to those afforded to any other entity; and

(iii) adequate and effective protection for the intellectual property rights of United States-owned entities.

SEC. 999F. SUNSET.

The authority provided by this subtitle shall terminate on September 30, 2014.

SEC. 999G. DEFINITIONS.

In this subtitle:

(1) **DEEPWATER.**--The term "deepwater" means a water depth that is greater than 200 but less than 1,500 meters.

(2) **INDEPENDENT PRODUCER OF OIL OR GAS.**--

(A) **IN GENERAL.**--The term "independent producer of oil or gas" means any person that produces oil or gas other than a person to whom subsection (c) of section 613A of the Internal Revenue Code of 1986 does not apply by reason of paragraph (2) (relating to certain retailers) or paragraph (4) (relating to certain refiners) of section 613A(d) of such Code.

(B) **RULES FOR APPLYING PARAGRAPHS (2) AND (4) OF SECTION 613A(d).**--For purposes of subparagraph (A), paragraphs (2) and (4) of section 613A(d) of the Internal Revenue Code of 1986 shall be applied by substituting "calendar year" for "taxable year" each place it appears in such paragraphs.

(3) **PROGRAM ADMINISTRATION FUNDS.**--The term "program administration funds" means funds used by the program consortium to administer the program under this subtitle, but not to exceed 10 percent of the total funds allocated under paragraphs (1) through (3) of section 999H(d).

(4) **PROGRAM CONSORTIUM.**--The term "program consortium" means the consortium selected under section 999B(d).

(5) **PROGRAM RESEARCH FUNDS.**--The term "program research funds" means funds awarded to research performers by the program consortium consistent with the annual plan.

(6) **REMOTE OR INCONSEQUENTIAL.**--The term "remote or inconsequential" has the meaning given that term in regulations issued by the Office of Government Ethics under section 208(b)(2) of title 18, United States Code.

(7) **SMALL PRODUCER.**--The term "small producer" means an entity organized under the laws of the United States with production levels of less than 1,000 barrels per day of oil equivalent.

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(8) **ULTRA-DEEPWATER.**--The term "ultra-deepwater" means a water depth that is equal to or greater than 1,500 meters.

(9) **ULTRA-DEEPWATER ARCHITECTURE.**--The term "ultra-deepwater architecture" means the integration of technologies for the exploration for, or production of, natural gas or other petroleum resources located at ultra-deepwater depths.

(10) **ULTRA-DEEPWATER TECHNOLOGY.**--The term "ultra-deepwater technology" means a discrete technology that is specially suited to address 1 or more challenges associated with the exploration for, or production of, natural gas or other petroleum resources located at ultra-deepwater depths.

(11) **UNCONVENTIONAL NATURAL GAS AND OTHER PETROLEUM RESOURCE.**--The term "unconventional natural gas and other petroleum resource" means natural gas and other petroleum resource located onshore in an economically inaccessible geological formation, including resources of small producers.

SEC. 999H. FUNDING.

(a) *Oil and Gas Lease Income.*--For each of fiscal years 2007 through 2017, from any Federal royalties, rents, and bonuses derived from Federal onshore and offshore oil and gas leases issued under the Outer Continental Shelf Lands Act (43 U.S.C. 1331 et seq.) and the Mineral Leasing Act (30 U.S.C. 181 et seq.) which are deposited in the Treasury, and after distribution of any such funds as described in subsection (c), \$50,000,000 shall be deposited into the Ultra-Deepwater and Unconventional Natural Gas and Other Petroleum Research Fund (in this section referred to as the "Fund"). For purposes of this section, the term "royalties" excludes proceeds from the sale of royalty production taken in kind and royalty production that is transferred under section 27(a)(3) of the Outer Continental Shelf Lands Act (43 U.S.C. 1353(a)(3)).

(b) *Obligational Authority.*--Monies in the Fund shall be available to the Secretary for obligation under this part without fiscal year limitation, to remain available until expended.

(c) *Prior Distributions.*--The distributions described in subsection (a) are those required by law--

(1) to States and to the Reclamation Fund under the Mineral Leasing Act (30 U.S.C. 191(a)); and

(2) to other funds receiving monies from Federal oil and gas leasing programs, including--

(A) any recipients pursuant to section 8(g) of the Outer Continental Shelf Lands Act (43 U.S.C. 1337(g));

(B) the Land and Water Conservation Fund, pursuant to section 2(c) of the Land and Water Conservation Fund Act of 1965 (16 U.S.C. 4601-5(c));

(C) the Historic Preservation Fund, pursuant to section 108 of the National Historic Preservation Act (16 U.S.C. 470h); and

(D) the coastal impact assistance program established under section 31 of the Outer Continental Shelf Lands Act (as amended by section 384).

(d) *Allocation.*--Amounts obligated from the Fund under subsection (a)(1) in each fiscal year shall be allocated as follows:

(1) 35 percent shall be for activities under section 999A(b)(1).

(2) 32.5 percent shall be for activities under section 999A(b)(2).

(3) 7.5 percent shall be for activities under section 999A(b)(3).

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(4) 25 percent shall be for complementary research under section 999A(b)(4) and other activities under section 999A(b) to include program direction funds, overall program oversight, contract management, and the establishment and operation of a technical committee to ensure that in-house research activities funded under section 999A(b)(4) are technically complementary to, and not duplicative of, research conducted under paragraphs (1), (2), and (3) of section 999A(b).

(e) *Authorization of Appropriations.*--In addition to other amounts that are made available to carry out this section, there is authorized to be appropriated to carry out this section \$100,000,000 for each of fiscal years 2007 through 2016.

(f) *Fund.*--There is hereby established in the Treasury of the United States a separate fund to be known as the ``Ultra-Deepwater and Unconventional Natural Gas and Other Petroleum Research Fund".