TAXPAYERS for COMMON SENSE

Analysis

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Federal Oil & Gas Leasing Reforms Protect American Taxpayers

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For decades, American taxpayers have lost out due to an unfair oil and gas leasing system. Outdated leasing processes and below-market fees failed to provide a fair return to taxpayers, instead burdening us with growing financial liabilities.

Recent reforms have modernized the federal leasing system, securing a fair return for taxpayers. The Bureau of Land Management's (BLM) recent rule, "Fluid Mineral Leases and Leasing Process," includes crucial fiscal leasing reforms passed by Congress and updates to bonding requirements that have not changed since the 1960s. **Let's not turn back the clock on these fiscally responsible updates.**

Updated Policies Protect Taxpayers from Costly Cleanup Liabilities

Oil and gas resources on public lands belong to all Americans. Developing these resources is a privilege that comes with responsibilities. Companies permitted to extract publicly owned assets for private profits must clean up after themselves. Ensuring oil and gas companies set aside enough money to cover cleanup costs before production starts protects taxpayers from future liabilities and shields communities from potential public health and environmental impacts.

Under the old leasing system, inadequate bonding policies allowed operators to pass reclamation costs —costs of cleaning up after extraction— to taxpayers. Taxpayers currently face up to **$6.15**

billion in potential reclamation costs from under-bonded wells on federal land.[1] These costs are particularly egregious in high-producing states. For example, the estimated reclamation cost of the 31,186 producible wells on federal lands in New Mexico at the end of FY2022 far exceeded the bond coverage held by the BLM, leaving a potential shortfall of $1.05 billion in costs that may fall to federal taxpayers.[2]

The BLM's new bonding requirements will gradually reduce this deficit, holding operators, not taxpayers, responsible for reclamation. This complements state-level reforms, as many states, including Colorado and Wyoming, have recently strengthened their bonding requirements in response to the orphan well crisis.

Recent Reforms Help Get a Fair Return for Taxpayers

The federal government, which manages oil and gas resources on federal lands, must ensure taxpayers receive a fair return from the development of these valuable resources. The BLM's recent rule implements a congressionally mandated increase in the onshore royalty rate —the first increase in over a century—generating billions of dollars in revenue for American taxpayers.

Before these reforms, federal onshore leasing rates lagged behind those charged on state and private lands. For decades, the federal government imposed a royalty rate of just 12.5 percent while states like Texas charged a royalty rate of 20-25 percent and New Mexico imposed rates of 18.75-20 percent. [3] States such as Colorado, Montana, North Dakota, Oklahoma, Pennsylvania, Utah, and Wyoming had also set their royalty rates significantly higher than the old federal rate, ranging from 16.67 percent to 20 percent.

The BLM's new rule will raise billions of dollars in additional revenue for taxpayers. Had oil and gas operators on federal lands been charged the new federal royalty rate of 16.7 percent over the last decade, taxpayers would have received an **additional $10.3 billion** from FY2013-2022.[4] This increased revenue, shared between state and federal taxpayers, would have also greatly benefited state coffers.

New Reforms Direct Leasing to Areas that Make Sense

For too long, noncompetitive leasing, low minimum bids, and below-market rates had allowed large swaths of federal land to be locked into nonproducing leases for minimal returns. Entities acquiring these speculative leases profited —potentially from reselling leasing rights or inflating acreage

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[1] At an average reclamation cost of $71,000/well, 89,350 wells across federal land carry an estimated $6.34 billion in reclamation costs. Less the $189.6 billion held in bonds by DOI (using $2,122 average bond value per well held by BLM in 2019, per the Government Accountability Office), uncovered reclamation costs of $6.15 billion may fall to federal taxpayers.

[2] Taxpayers for Common Sense, "New Mexico's Boom That Cost Billions II: How Federal Oil & Gas Policies Continue to Fail Taxpayers," May 2023. https://www.taxpayer.net/energy-natural-resources/new-mexicos-boom-that-cost-billions-ii/

[3] Taxpayers for Common Sense, "Royally Losing II: Below Market Royalty Rates Cost Taxpayers Billions of Dollars in new revenue as Oil and gas Companies Cash In on High Prices," May 2022. https://www.taxpayer.net/energy-natural-resources/royally-losing-ii/

[4] Lost royalty revenue estimates are calculated by TCS using ONRR data. This calculation assumes all federal oil and gas leases in production during this period were subject to a 12.5% royalty rate. Source: U.S. Department of the Interior Office of Natural Resource Revenue, "Natural Resource Revenue Data", accessed March 2024

figures to attract investors— while taxpayers lost out on potential revenue and other beneficial uses.

For example, in Nevada, more than 95 percent of federal land leased for oil and gas development sat idle at the end of FY2022, with little hope for future development; only 0.3 percent of all federal oil and gas leases issued in that state since 1953 ever entered production.[5] In Montana, nearly half of all federal land leased for oil and gas development since 2000 was leased noncompetitively, with only 0.1 percent of these noncompetitive acres entering production.[6]

Offering federal land with low oil and gas development potential in lease sales is not beneficial for taxpayers; it leads to non-producing leases and precludes other uses. The new BLM rule disincentivizes speculative leasing and directs leasing to appropriate locations, increasing the likelihood of development and allowing lands with low potential to be better utilized for other needs. It incorporates preference criteria to direct leasing toward appropriate locations, and away from sensitive environmental, historic, and cultural resources. Maximizing the use of public land — whether for energy development, recreation, conservation, or other uses— benefits taxpayers.

Improving Leasing Is Good for Taxpayers and Consumers

Recent leasing reforms will better protect taxpayers from future reclamation costs and generate more revenue in the long run without negatively affecting the oil and gas industry or gas prices.

Updating bonding minimums aligns with state and private policies.
Requiring operators to provide adequate bonds to cover reclamation costs will not overly burden the industry. In states like Wyoming, increases in state bonding requirements in 2015 had no negative impact on production; Wyoming saw a peak in production on state land in 2018 with hundreds of new wells drilled by many oil and gas companies, including smaller "mom and pop" operations, despite increased bonding requirements.[7]

Oil and gas leasing reforms do not impact gas prices, which are set on the global market.
The price of gasoline is determined by countless domestic and international factors, notably the global price of oil and consumer demand. Federal oil and gas production makes up only a smaller portion—roughly 11.3 percent of oil and 8.3 percent of natural gas produced in the U.S., so any negligible effect on federal production will be further diminished in the U.S. and global market.[8] Furthermore, reforms like increased federal royalty rates and fees would only affect new leases, which often take years to develop. Current production will remain under old leasing terms.

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[5] Taxpayers for Common Sense, "Gaming the System II: Oil & Gas Leasing in Nevada is Trouble for Taxpayers," July 2023. https://www.taxpayer.net/energy-natural-resources/gaming-the-system-ii/
[6] Taxpayers for Common Sense, "Mounting Losses II: Federal Oil and Gas Leasing Costs Montana Millions," February 2024. https://www.taxpayer.net/energy-natural-resources/mounting-losses-ii/
[7] Accountable US, "Oil & Gas Bonding Reform Is A Common-Sense Solution to A Significant Problem: Just Look At Wyoming," September 2023. https://accountable.us/wp-content/uploads/2023/09/20230918-Wyoming-Bonding-Case-Study-FINAL.docx.pdf
[8] Federal production percentages are calculated by TCS using EIA and ONRR data.

Increasing the federal onshore royalty rate will provide more revenue for state and federal taxpayers and keep leasing competitive.

History shows that the market can absorb royalty rate increases without significantly affecting production. In states like Colorado and Texas, increases in state royalty rates had no negative impact on production on state lands. The United States, firmly established as the world's largest producer of oil and gas since 2018, will not see its energy dominance influenced by updates to the federal oil and gas leasing system.[9]

Don't Turn Back the Clock on Taxpayer-Friendly Reforms to Oil and Gas Leasing

The oil and gas industry has modernized over the last century, and so should our policies. The BLM's recent rule ensures a fair return for taxpayers and protects us from the high costs of abandoned well cleanup by codifying important reforms passed by Congress in 2022 and enacting other, long-needed updates. Efforts to undo updates to decades old leasing and bond reforms are shortsighted and will only reward industry bad actors and subsidize the extremely profitable oil and gas industry at taxpayers' expense.

[9] Taxpayers for Common Sense, "Oil & Gas Reform Won't Raise Prices at the Pump," October 2021. https://www.taxpayer.net/energy-natural-resources/oil-gas-reform-wont-raise-prices-at-the-pump/