TAXPAYERS for COMMON SENSE

Analysis

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Modernized Oil & Gas Leasing: Fair Market Rates Earn Taxpayers Valuable Revenue

Strategic oversight of federal lands and resources is vital to protecting taxpayer-owned assets and ensuring fiscal accountability. For decades, outdated federal oil and gas leasing policies left taxpayers footing the bill—both from lease terms that undervalued federal resources and weak bonding requirements that shifted cleanup liabilities from oil and gas operators to taxpayers. The recent modernization of the federal onshore oil and gas leasing program has raised meaningful revenue and helps shield taxpayers from costly liabilities.

- **Updated Fiscal Rates Raise Revenue for Taxpayers**
  Updated royalty rates and other fiscal leasing terms will yield **$2.3 billion in additional revenue through 2031** and **$10.4 billion between 2032 and 2042**[1] as production increases on leases issued under new terms.[2]

- **Current Bonding Policies Protect Taxpayers from Costly Cleanup**
  Before recent updates, underfunded bonds on federal land left the public exposed to as much as **$6.15 billion in potential reclamation costs**.[3] New requirements are estimated to save federal taxpayers **$1.3 to $3.8 million annually** in avoided plugging and reclamation expenses.

- **The End of Noncompetitive Leasing Curtails Speculation**
  Noncompetitive leases almost never end up producing oil and gas. In Montana, for example, only **0.1%** of acreage leased noncompetitively since 2000 has been developed.[4] Instead, noncompetitive leases are often used by speculators to get access to extensive acreage, generating minimal revenue for taxpayers—**noncompetitive leases return 5 times less than competitive leases**[5]—and keeping federal land from other beneficial uses like recreation and other energy development.

- **Today's Leasing Terms Raise Revenue Without Hindering Industry Interest**
  Parcels of federal land auctioned for oil and gas development under updated leasing terms have received competitively high bids. A federal oil and gas lease sale in New Mexico this February sold all acres offered at an average bid **five times greater** than the previous 15-year-average.[6] And the average bid for a March auction in Wyoming, which also sold all acres offered, was **the highest recorded in over a decade**.[7]

Onshore Oil and Gas Leasing System

The United States contains vast onshore mineral estates owned by American taxpayers. The Bureau of Land Management (BLM), under the Department of the Interior (DOI), manages the development of taxpayer-owned oil and gas resources within the federal onshore mineral estate. To facilitate this development, the BLM auctions leases to private entities. Revenue from the onshore leasing system is split between the federal government and the state where development occurs.

The BLM manages these assets to ensure taxpayers are compensated fairly and shielded from cleanup costs through the following key mechanisms:

- Bonus Bids – Upfront payments companies offer at competitive auctions to secure drilling rights. Bids bring in the most immediate revenue from a lease sale and demonstrate how competitive a sale is.
- Rent – Annual fees paid by leaseholders until production begins, assessed as a per-acre fee.
- Royalties – A share of the value of extracted oil and gas. Royalties make up the majority of revenue from the onshore leasing system.
- Bonds – Financial assurances that are required before drilling begins to cover at least part of the costs of reclamation, restoring the land to a condition “equal to or closely approximating” its original state when drilling ends.

Recent updates have modernized leasing practices rooted in policies over a century old—finally securing a fair return for taxpayers from the development of federally owned resources and reducing the risk of long-term liabilities.

For decades, the federal leasing system failed to provide taxpayers with a fair return, allowing billions of dollars in potential revenue to slip away while exposing the public to growing cleanup costs. Key updates—including increased royalty rates, an end to noncompetitive leasing, and strengthened bonding requirements—represent long-overdue course corrections, ensuring better stewardship of our public lands and a more accurate valuation of America’s natural resources.

Source: Jeff Whyte Photography

Updated Fiscal Rates Raise Revenue for Taxpayers

The federal government must ensure a fair return for the public from oil and gas development on taxpayer-owned lands. The recent increase in the onshore royalty rate from 12.5% to 16.7% —the first increase in over a century—along with other updated leasing fees, will generate billions in new revenue.

For too long, the federal rates lagged far behind what states charged. Texas levies a royalty of 20–25%, New Mexico 18.75–20%, and states like Colorado, Montana, North Dakota, Oklahoma, Pennsylvania, Utah, and Wyoming set rates between 16.7% and 20%.[8] Had the new federal royalty rate been in place from FY2013 to FY2022, taxpayers would have seen an additional $10.3 billion in revenue.[9]

According to BLM estimates, the onshore leasing provisions passed in 2022 are expected to generate **$12.7 billion** for federal and state taxpayers between 2023 and 2042.[10] Because the updated rates apply only to new leases, revenue impacts will grow over time—starting with $2.3 billion from 2023 to 2031 and increasing to $10.4 billion between 2032 and 2042, as more new leases enter production.

Current Bonding Policies Protect Taxpayers from Costly Cleanup

Oil and gas resources on public lands belong to all Americans. Developing these resources is a privilege—not a right— and comes with clear responsibilities. Companies that extract publicly owned assets for private profit must also pay to clean up after themselves. Ensuring that oil and gas companies set aside sufficient funds for cleanup before drilling begins protects taxpayers from future liabilities and shields communities from potential public health and safety risks such as groundwater contamination and the potential for sinkholes.[11]

Under the old leasing system, inadequate bonding policies allowed operators to walk away from their obligations, leaving taxpayers to cover the bill. Before recent updates, underfunded bonds on federal land left the public exposed to as much as **$6.15 billion in potential reclamation costs**.[12] In high-producing states, the gap was especially stark. In New Mexico alone, the estimated cleanup costs for 31,186 producible wells on federal land at the end of FY2022 may have exceeded bond value by up to $1.05 billion—a shortfall that federal taxpayers will have to shoulder if operators fail to reclaim their wells.[13]

Requiring operators to post bonds that actually reflect cleanup costs isn't an undue burden on the industry. According to the BLM, the average increase in bonding expenses under the updated policies amounts to just 1% of the value of annual production per lease.[14] Experience at the state level reinforces this point: when Wyoming increased its bonding requirements in 2015 the industry didn't flinch.[15] In fact, oil production on state land hit a record high in 2018, with hundreds of new wells drilled—including by small, independent "mom and pop" operations. In other words, responsible bonding doesn't stop business—it just stops oil and gas companies from passing the buck to taxpayers.

The new federal bonding requirements, finalized in 2024, will gradually close this coverage gap and shift responsibility back where it belongs: on companies profiting from development. The BLM

estimates these updates will save federal taxpayers **$1.3 to $3.8 million annually** in avoided plugging and reclamation expenses.[16]

The End of Noncompetitive Leasing Curtails Speculation

Noncompetitive leasing, alongside rock-bottom minimum bids and below-market rates, allowed vast swaths of federal land to be tied up in nonproducing leases that delivered little to no return for taxpayers. Speculators acquired these leases not to produce oil or gas but to profit—whether by flipping leasing rights or inflating acreage figures to attract investors. According to the Government Accountability Office, per acre leased, **noncompetitive leases return just one-fifth of the revenues that competitive leases do**.[17] In Montana, for example, nearly half the federal acreage leased since 2000 was awarded noncompetitively, and only 0.1% of that acreage was ever developed, resulting in minimal returns for taxpayers.[18]

The new expression of interest (EOI) fee, a $5 per acre fee for entities to nominate (request) certain lands be included in a lease sale, also helps curb speculative leasing and shifts the administrative costs of implementing lease sales off taxpayers and onto industry. The BLM wastes taxpayer dollars when it is forced to evaluate nominations that never lead to leases; the agency reports spending between $17,000 and $178,000 per auction evaluating nominated land.[19] In one particularly egregious example, 28 million acres of land in Nevada—almost half of the size of the entire state—were nominated for an oil and gas lease sale in 2014, but very few of those acres were eventually leased. [20]

Eliminating the noncompetitive loophole and requiring competitive lease sales raises revenue for taxpayers and reduces speculative leasing, shrinking the footprint of idle acreage held by oil and gas companies and keeping federal land with low oil and gas development potential open for more productive uses like hunting, recreation, conservation, or development of other energy and mineral resources—maximizing taxpayer benefits.

Source: U.S. Forest Service

The latest federal onshore lease sales show that smart leasing reforms can generate more revenue for taxpayers without diminishing industry interest. In 2024, federal onshore oil and gas lease sales brought in the highest average bid per acre in more than 15 years—$2,149 per acre—generating $165 million in revenue for federal and state taxpayers.[21] This was partially driven by the competitiveness of recent lease sales—nearly 60% of acres offered at auction were leased, more than double the previous 15-year average of 24% (2009-2023).

Lease sales this year have echoed these successes. For example, an oil and gas lease sale in New Mexico on February 20th sold all acres offered at an average bid more than five times greater than the state's average bid per acre in sales held between 2010 and 2020.[22] Several weeks later, on March 4th, a Wyoming federal oil and gas lease sale received the highest average bid per acre for a single sale in the state in over a decade.[23] These numbers prove that leasing smarter—not more—pays off.

Don't Turn Back the Clock on Important Taxpayer Updates to Federal Leasing

American taxpayers own our nation's federal lands and must be provided a fair return for the resources within it. The oil and gas industry has evolved over the past century and so should the policies that manage it. Recent updates bring leasing practices into the 21st century—generating more revenue, protecting taxpayers from future cleanup costs, and prioritizing strategic land use that will benefit all Americans for years to come. Undoing these long-overdue changes would be an unnecessary handout to the oil and gas industry, subsidizing some of the most profitable companies in the world while shifting risk back onto taxpayers.

Source: CL Baker

[1] Bureau of Land Management (BLM), "Fluid Minerals Leasing Final Regulatory Impact Analysis 1004-AE80 4.9.24," April 23, 2024, pg. 78. https://www.regulations.gov/document/BLM-2023-0005-130198

[2] Onshore oil and gas leases take several years to begin production, meaning revenue from oil and gas production—in the form of royalty payments, which account for 89% of estimated revenue per the BLM—are unlikely to accrue in the 10 years following a lease sale. For example, in 2013, only 6% of royalty income from federal onshore oil and gas leasing came from parcels that were leased in the previous 10 years. In contrast, 50% of royalty revenue came from parcels that were leased more than 50 years earlier. As the recent increase in the royalty rate only applies to new leases, the most significant returns for federal taxpayers will likely accrue outside the immediate 10-year budget window. Source: Congressional Budget Office, "Options for Increasing Federal Income From Crude Oil and Natural Gas on Federal Lands," April 2016. https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51421-oil_and_gas_options-OneCol-3.pdf

[3] Potential reclamation liability estimate is calculated by Taxpayers for Common Sense (TCS) using BLM data. This calculation assumes that at an average reclamation cost of $71,000/well, the 89,350 wells across federal land at the end of FY2022 carried an estimated $6.34 billion in reclamation costs. Less the $189.6 billion held in bonds by DOI (calculated 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 have fallen to federal taxpayers. For more details, see: TCS, "Protecting Taxpayers from Picking Up the Tab for Oil and Gas Well Cleanup," June 27, 2024. https://www.taxpayer.net/energy-natural-resources/protecting-taxpayers-from-picking-up-the-tab-for-oil-and-gas-well-cleanup/

[4] TCS, "Mounting Losses II: Federal Oil and Gas Leasing Costs Montana Millions," February 2024. https://www.taxpayer.net/energy-natural-resources/mounting-losses-ii/

[5] In an analysis of 100,300 competitive and noncompetitive onshore leases, the Government Accountability Office found that competitive leases generated $259.87 per acre ($14.8 billion total across 55.0 million acres leased) and noncompetitive leases generated $52.80 per acre ($1.8 billion total across 34.1 million acres leased) for fiscal years 2003 through 2019. Source: U.S. Government Accountability Office (GAO), "Oil and Gas: Onshore Competitive and Noncompetitive Lease Revenues," November 2020, Page 11. https://www.gao.gov/assets/gao21-138-highlights.pdf

[6] TCS, "1,300 Acres Leased for Oil and Gas Development in New Mexico," February 20, 2025. https://www.taxpayer.net/energy-natural-resources/1300-acres-leased-for-oil-and-gas-development-in-new-mexico/

[7] TCS, "Wyoming Federal Oil and Gas Lease Sale Sees Highest Bids in Over a Decade," March 4, 2025. https://www.taxpayer.net/energy-natural-resources/wyoming-federal-oil-and-gas-lease-sale-sees-highest-bids-in-over-a-decade/

[8] TCS, "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/

[9] 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 and assumes that production would have remained the same if a 16.7% royalty rate had been applied. Source: U.S. Department of the Interior Office of Natural Resource Revenue, "Natural Resource Revenue Data", accessed March 2024. https://revenuedata.doi.gov/

[10] BLM, "Fluid Minerals Leasing Final Regulatory Impact Analysis 1004-AE80 4.9.24," April 23, 2024, pg. 78. https://www.regulations.gov/document/BLM-2023-0005-130198

[11] BLM, "Tackling the Legacy of Orphaned Wells: The Federal Orphaned Well Program in Action," December 6, 2024. https://www.blm.gov/blog/2024-12-06/tackling-legacy-orphaned-wells-federal-orphaned-well-program-action

[12] See endnote 3.

[13] TCS, "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/

[14] BLM, "Fluid Minerals Leasing Final Regulatory Impact Analysis 1004-AE80 4.9.24," April 23, 2024, pg. ES-4. https://www.regulations.gov/document/BLM-2023-0005-130198

[15] 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

[16] BLM, "Fluid Minerals Leasing Final Regulatory Impact Analysis 1004-AE80 4.9.24," April 23, 2024, pg. 46. https://www.regulations.gov/document/BLM-2023-0005-130198

[17] See endnote 5.

[18] TCS, "Mounting Losses II: Federal Oil and Gas Leasing Costs Montana Millions," February 2024. https://www.taxpayer.net/energy-natural-resources/mounting-losses-ii/

[19] GAO, "Oil and Gas Leasing: BLM Should Update and Review Its Fees," November 2021, https://www.gao.gov/assets/720/717469.pdf

[20] Ibid.

[21] TCS, "Federal Onshore Oil & Gas Leasing: 2024 Year in Review," February 12, 2025. https://www.taxpayer.net/energy-natural-resources/federal-onshore-oil-gas-leasing-2024-year-in-review/

[22] TCS, "1,300 Acres Leased for Oil and Gas Development in New Mexico," February 20, 2025. https://www.taxpayer.net/energy-natural-resources/1300-acres-leased-for-oil-and-gas-development-in-new-mexico/

[23] TCS, "Wyoming Federal Oil and Gas Lease Sale Sees Highest Bids in Over a Decade," March 4, 2025. https://www.taxpayer.net/energy-natural-resources/wyoming-federal-oil-and-gas-lease-sale-sees-highest-bids-in-over-a-decade/