

## Department of the Interior Oil & Natural Gas Fees

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Rather than embracing policies to increase employment, stimulate the economy, and increase production of American energy, the Obama Administration continues to propose policies that increase uncertainty and put at risk jobs and economic development tied to the production of oil and natural gas in the West. The President's FY 2012 budget includes almost \$60 billion in tax increases and new fees on the oil and natural gas industry, which will disproportionately impact independents, who account for 82% of America's natural gas and 68% of oil production. The increased costs would remove capital from the development and production of American energy and result in further job losses.

- Industry already more than pays for the administration of the federal onshore natural gas and oil program – including leasing, permitting, inspections, and environmental enforcement - **by returning \$40.12 for every dollar spent**. Few other government programs garner such a high direct return.
- The Bureau of Land Management (BLM) claims **\$103 billion worth of economic activity** is created from energy and minerals development on public lands, 80% of which is from oil and natural gas development alone.<sup>1</sup>
- Despite the fact that the oil and natural gas industry is the second largest source of revenue for the US Treasury after the federal income tax, the Obama Administration is proposing further punitive tax increases, and rulemaking for an increased royalty rate.
- Operating on federal lands is already much more time-consuming and costly compared to operating on private lands. The sum total of all the negative proposals from the Department of the Interior (DOI) and the increases in fees and taxes will be a decrease in production on federal lands, a reduction of jobs that result from the productive use of public lands, and a decrease in the production of energy owned by all Americans.

### Details

#### Inspection Fees

The President's budget directs BLM to collect inspection fees, despite the fact that royalty, rents and bonus payments already cover all inspections and administration of the entire onshore program more than forty times over. The fee would be assessed as follows:

- \$300 for each lease with no wells but with surface use, disturbance or reclamation
- \$600 for each lease with one to ten active or inactive wells
- \$1,500 for each lease with eleven to fifty active or inactive wells
- \$3,000 for each lease with more than fifty active or inactive wells

#### Non-producing Acreage Fee

- The President's budget includes a proposal to assess a \$4 fee on non-producing federal acreage on federal lands. The fee does not take into account all the preparatory work done on a lease before it goes into production, such as geophysical exploration, environmental analyses, permitting, wildlife and cultural resource surveying, and numerous other regulatory activities necessary before a well is drilled. All the regulations and analysis that the government requires on federal leases often take more than seven years to complete. In addition, the government routinely holds up projects for bureaucratic reasons, and legal challenges from environmental groups further delay projects.

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<sup>1</sup> [The BLM, A Sound Investment for America](#), BLM/WO-G1/011/033+1800, February 2011. 80% of the \$59.1 billion in direct economic benefits from energy development is from oil and gas. We extrapolate that 80% to the direct, indirect, and induced figure of \$103 billion, which is not broken down by sector in BLM's publication, or \$82.4 billion.

- It is inequitable to charge companies a non-producing fee when, in many cases, the government is the entity holding up diligent development of federal leases. The fee will significantly increase the cost of developing on federal lands, making less capital available for producing American energy and creating jobs. The situation has become even worse with the additional delays imposed on companies by DOI. A DOI IG report already addressed how punitive fees on non-producing acreage would de-incentivize industry.<sup>2</sup>

#### Royalty Rate Increase

- The Interior Department's FY2012 budget calls for rule making to increase the onshore royalty rate for natural gas and oil, with Interior Secretary Salazar considering the same 18.75% offshore rate. Currently set at 12.5%, the onshore rate provides an excellent return to taxpayers, as onshore producers return \$40.12 for every dollar spent by the government administering the program. Paradoxically, although the offshore rate is higher, it returned just \$30.08 for each dollar spent by the government in 2010.
- Comparison of the onshore rate to the offshore royalty rate is misleading. The reserves found on onshore federal lands are significantly different from the conventional reserves offshore, such as in the Gulf of Mexico. Unconventional reserves on public lands in the West are less productive and more expensive to develop, and the 12.5% onshore royalty rate reflects that difference. Producers assume 100% of the risk and expense for developing these unconventional resources with no guarantee of any return on investment whatsoever, while providing a huge rate of return to the taxpayer.
- Administration officials often compare the federal onshore rate to states such as Texas which have a higher royalty rate in some instances. The comparison does not take into account the fact that these states have a regulatory and permitting environment that encourages production. For example, permitting is done within an average of nineteen days in Texas, versus several months, and frequently over a year for federal permits. Environmental analyses that take several years and cost hundreds of thousands if not millions of dollars on federal lands are not required by these states. Increasing the royalty rate for federal lands, which are already extremely expensive to develop, could become prohibitively expensive with a higher royalty rate.

#### Permit Fee

- Congress increased the Application for Permit to Drill (APD) fee for FY2010 from \$4,000 to \$6,500 in order to offset a lower funding appropriation for the BLM Natural Gas and Oil Management Program. This 62% tax increase was arbitrary, given that companies already more than pay for the administrative processing of APDs.
- BLM collects the APD fee regardless of whether or not the permit is issued. The money goes into the general treasury, and is not applied to more efficient processing or to on-the-ground environmental protection at the field office where it is collected. The fee is akin to the IRS charging individual taxpayers a large fee for filing their income tax returns.
- The fee is especially egregious given BLM's slow APD processing times. While obtaining an approved APD on a federal lease has always been a long, time-consuming and expensive process, recent additional bureaucratic delays have resulted in particularly slow permitting times. Many permits take over a year to process, despite a specific 30 day deadline mandated by Congress in the Energy Policy Act of 2005. The long delays in obtaining permits, combined with the fee, further increase the expense of developing American energy on public lands.

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<sup>2</sup> *Oil and Gas Production on Federal Leases: No Simple Answer*, U.S. Department of the Interior, Office of Inspector General, Royalty Initiatives Group, February 27, 2009.