Oil and Gas Royalties

Royalty Relief Will Likely Cost the Government Billions, but the Final Costs Have Yet to Be Determined

What GAO Found

While precise estimates remain elusive at this time, our work to date shows that royalty relief under the Outer Continental Shelf Deep Water Royalty Relief Act of 1995 will likely cost billions of dollars in forgone royalty revenue—at least $1 billion of which has already been lost. In October 2004, MMS estimated that forgone royalties on deep water leases issued under the act from 1996 through 2000 could be as high as $80 billion. However, there is much uncertainty in these estimates. This uncertainty stems from ongoing legal challenges and other factors that make it unclear how many leases will ultimately receive royalty relief and the inherent complexity in forecasting future royalties. We are currently assessing MMS’s estimate in light of changing oil and gas prices, revised estimates of future oil and gas production, and other factors.

Additional royalty relief that can further impact future royalty revenues is currently provided under the Secretary of the Interior’s discretionary authority and the Energy Policy Act of 2005. Discretionary programs include royalty relief for certain deep water leases issued after 2000, certain deep gas wells drilled in shallow waters, and wells nearing the end of their productive lives. The Energy Policy Act of 2005 mandates relief for leases issued in the Gulf of Mexico during the five years following the act’s passage, provides relief for some gas wells that would not have previously qualified for royalty relief, and addresses relief in certain areas of Alaska.

Royalty Relief Zones in the Gulf of Mexico

Source: Minerals Management Service, the Department of the Interior.