

GAO Highlights

Highlights of [GAO-14-50](#), a report to the Chairman, Committee on Energy and Natural Resources, U.S. Senate

Why GAO Did This Study

In fiscal year 2012, companies received over \$66 billion from the sale of oil and gas produced from federal lands and waters, and they paid \$10 billion to the federal government for developing these resources according to the Department of the Interior. The federal government seeks a fair return on its share of revenue from leasing and production activities on federal lands and waters through the federal oil and gas fiscal system. Under the fiscal system, companies pay royalties, rents, and other payments—payments generally specified in lease terms—and taxes on profits from the sale of oil and gas produced from federal leases. In May 2007, GAO found, based on several studies, that the government received one of the lowest percentages of value of oil and gas produced in the world. In September 2008, GAO found that Interior had not evaluated the federal oil and gas fiscal system for over 25 years and recommended that a periodic assessment was needed.

GAO was asked to review Interior's collection of oil and gas revenues. This report examines steps Interior has taken to ensure the public receives a fair return on oil and gas resources since 2007. GAO reviewed applicable law and regulations; examined prior GAO studies, Interior policies and documents; and interviewed officials.

What GAO Recommends

GAO recommendations include that Interior establish documented procedures for (1) periodically assessing the fiscal system and (2) determining whether and how to change new offshore lease terms. Interior concurred with GAO's recommendations.

View [GAO-14-50](#). For more information, contact Frank Rusco at (202) 512-3841 or ruscof@gao.gov.

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OIL AND GAS RESOURCES

Actions Needed for Interior to Better Ensure a Fair Return

What GAO Found

Interior has taken some steps intended to help ensure a fair return on federal oil and gas resources but does not have documented procedures for periodically conducting assessments of the fiscal system. Specifically, Interior has taken the following steps:

- *Changed offshore lease terms and considered but has not changed onshore lease terms.* Interior changed certain offshore lease terms—including raising royalty rates twice in response to changing market conditions. For onshore resources, which are subject to many of the same market conditions, Interior has considered but not made changes to royalty rates. Interior officials are currently unable to make timely adjustments to onshore royalty rates. Current regulations generally provide for a fixed onshore royalty rate that limits Interior's flexibility to make timely adjustments.
- *Contracted for studies of various aspects of the fiscal system.* Interior contracted for three studies examining its fiscal system including a study done in 2011, in response to GAO's September 2008 report that compared the U.S. government's oil and gas fiscal system to other resource owners. Interior officials said the reports provided some useful information such as how fiscal terms in the United States compared to other resource owners.
- *Interior is examining potential regulatory changes that could simplify royalty payments.* Interior is examining potential regulatory changes that could simplify royalty payments. GAO found in the past that complex valuation regulations can result in inaccurate royalty payments made by industry, and this could increase costs to ensure accurate royalty payments because of the need for potentially detailed and time-consuming audits of records. In May 2011, Interior published the Advance Notice Of Proposed Rulemaking for a proposed rule currently undergoing internal review. According to officials, the proposed rule is expected to be published in 2014, and officials explained that it took several years due to factors including the complexity of oil and gas valuation.

Interior does not have documented procedures in place for determining when to conduct periodic assessments of the fiscal system. Although Interior recently contracted for such an assessment, it was the first in well over 25 years. Without documented procedures, Interior will not have reasonable assurance that it will consistently conduct such assessments in the future and, without periodically conducting such assessments, Interior cannot know whether there is a proper balance between the attractiveness of federal leases for investment and appropriate returns for federal oil and gas resources, limiting Interior's ability to ensure a fair return. Further, Interior does not have documented procedures for determining whether and how to make changes to new offshore lease terms. Without documented procedures for determining whether and how to make changes to new offshore lease terms, Interior's rationale is not transparent and may result in inconsistent decisions. Such inconsistencies would undermine Interior's credibility and ability to better ensure a fair return on federal oil and gas resources.