GAO Highlights

Highlights of GAO-21-169T, a testimony before the Subcommittee on Energy and Mineral Resources, Committee on Natural Resources, House of Representatives

Why GAO Did This Study

BLM manages the federal government's onshore oil and gas program with the goals of facilitating safe and responsible energy development while providing a fair return for the American taxpayer.

In April 2020, oil and gas producers faced financial challenges from a drop in demand for oil during the COVID-19 pandemic. If oil and gas prices decline, it places financial stress on oil and gas companies, thereby increasing bankruptcies and the risk of wells being shut down.

BLM developed a temporary policy to provide oil and gas companies relief from royalties that they owe to the federal government when they sell oil and gas produced on federal lands.

This testimony discusses (1) BLM's development of the temporary policy for royalty relief and what is known about the policy's effects, and (2) BLM's implementation of this policy across relevant states. To do this work, GAO reviewed BLM documents; analyzed royalty data; and interviewed BLM officials from headquarters and the five BLM state offices with jurisdiction over states that account for 94 percent of royalties from oil and gas production on federal lands.

What GAO Recommends

GAO is making two recommendations. BLM should (1) evaluate the effects of its temporary royalty relief policy and use the results to inform its ongoing royalty relief program, and (2) update its guidance to provide consistent policies for royalty relief.

View GAO-21-169T. For more information, contact Frank Rusco at (202) 512-3841 or ruscof@gao.gov.

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FEDERAL OIL AND GAS REVENUE

Actions Needed to Improve BLM's Royalty Relief Policy

What GAO Found

In reaction to falling domestic oil prices due to the COVID-19 pandemic, the Bureau of Land Management (BLM) developed a temporary policy in spring 2020 for oil and gas royalty relief. The policy aimed to prevent oil and gas wells from being shut down in way that could lead to permanent losses of recoverable oil and gas. During March through June 2020, BLM gave companies the opportunity to apply for a reduction in the royalty rates for certain oil and gas leases on federal lands. BLM approved reductions from 12.5 percent of total revenue on oil and gas sold from those leases to an average of less than 1 percent for a period of 60 days. However, BLM did not establish in advance that royalty relief was needed to keep applicants' wells operating, according to BLM officials. BLM also did not assess the extent to which the temporary policy kept oil and gas companies from shutting down their wells or the amount of royalty revenues forgone by the federal government. By evaluating the extent to which the policy met BLM's objective of preventing unrecoverable loss of oil and gas resources–and likely costs, such as forgone revenues—BLM could better inform its decisions about granting royalty relief that provides a fair return to the government, should the agency decide to consider such relief in the future.

BLM officials told GAO that BLM state offices implementing the temporary policy for royalty relief made inconsistent decisions about approving applications for relief because the temporary policy did not supply sufficient detail to facilitate uniform decision-making. The officials added that their state offices did not have recent experience in processing applications for oil and gas royalty relief. Several of the officials had never received or processed royalty relief applications. In addition, GAO found that ongoing guidance for processing royalty relief decisions—within BLM's *Fees, Rentals and Royalties Handbook*, last revised in 1995—also does not contain sufficient instructions for approving royalty relief. For example, the handbook does not address whether to approve applications in cases where the lease would continue to be uneconomic, even after royalty relief. As a result, some companies that applied for royalty relief were treated differently, depending on how BLM officials in their state interpreted the policy and guidance.

In particular, officials from two state offices told GAO they denied royalty relief to applicants because the applicants could not prove that royalty relief would enable their leases to operate profitably. However, two other state offices approved royalty relief in such cases. The fifth state office denied both of the applications it received for other reasons. BLM's existing royalty relief guidance did not address this issue, and BLM's temporary policy did not supply sufficient detail to facilitate uniform decision-making in these situations. BLM's directives manual states that BLM should provide BLM employees with authoritative instructions and information to implement BLM programs and support activities. Until BLM updates the royalty relief guidance, BLM cannot ensure that future relief decisions will be made efficiently and equitably across the states and provide a fair return to the federal government.