February 28, 2018

Prepared Comments of Ryan Alexander, president of Taxpayer for Common Sense, to the Royalty Policy Committee at its second meeting in Houston, Texas

Good afternoon. Thank you for the opportunity to offer comments today. My name is Ryan Alexander and I am president of Taxpayers for Common Sense (TCS), a non-partisan budget watchdog organization based in Washington D.C. My organization's mission is to achieve a government that spends taxpayer dollars responsibly and operates within its means.

For more than two decades, TCS has worked to ensure that taxpayers receive a fair return on the natural resources extracted from federally owned lands and waters. Royalties and fees collected from resource development are a valuable source of income for the federal government and should be collected, managed, and accounted for in a fair and accurate manner. As the resource owners, taxpayers have the right to fair market compensation for the assets extracted from our lands and waters, as would any private landowner.

For decades, royalty and leasing policies have cost taxpayers billions of dollars in lost revenue. Poorly managed federal energy and mineral programs at the Department of the Interior have led to years of reduced and royalty-free disposition of oil and gas, and undervalued coal. The RPC has the opportunity to recommend important reforms to the revenue collection and resource valuation processes.

But the recently released subcommittee meeting notes and recommendations have raised several areas of concern. In general, it is apparent that some of the subcommittees' materials exclusively reflect the perspective of industry stakeholders, rather than a consensus from the wide range of interests affected by natural resource policy. For example, several pages in the Fair Return and Value Subcommittee's materials exactly mirror a single company's comments to ONRR's 2016 Valuation rulemaking. Proposals from the subcommittee's other working groups regarding index pricing, allowable deductions for transportation costs, and coal valuation methodology also seem to largely represent a single perspective. Of course industry can and should advocate for their own interests and the interests of their shareholders. But the RPC and the DOI have a fiduciary duty to taxpayers and must make efforts to include broader perspectives in its recommendations and policy changes.

In addition to noting this general trend, we have specific concerns with the recommendations released by the Planning, Analysis, and Competitiveness Subcommittee.

Offshore oil and gas royalty rate

The recommendation from the Planning, Analysis, and Competitiveness Subcommittee to reduce the royalty rate for oil and gas leases on the Outer Continental Shelf to 12.5 percent is particularly troubling. If agreed to, this rate decrease would reverse more than a decade of policy first set by Secretary Dirk Kempthorne in 2007. The subcommittee states the recommendation is intended to create parity with shallow water royalty rates, but the reduction in the shallow water rate introduced in July of last year, broke with more than 30 years of precedent. Parity alone should not justify a royalty rate decrease,

especially when it is likely to dramatically reduce revenue for taxpayers for decades to come without any guarantee of increased industry interest in OCS leases or production from them.

In short, the recommendation would move federal resource management policy in the wrong direction. The royalty rate for onshore federal oil and gas leases should be *increased* to match the offshore rate, rather than the other way around. Right now, the onshore federal royalty rate is lower than the rates imposed by the seven states in which 80 to 90 percent of all federal oil and gas is produced. Increasing the onshore rate would increase revenue to taxpayers by $200 million over the first 10 years, according to the Congressional Budget Office, and by much more in subsequent decades.

Increased Leasing

Another recommendation from the PAC subcommittee calls for increased acreage for leasing. Promoting the development of federal natural resources could lead to increased revenue from bonus bids, rents, and royalties. However, expanding access to federal lands and waters for resource development without rectifying critical flaws in the systems and agencies managing that development would not serve the public interest. In fact, expanding access in the absence of a demonstrated shortage, in conjunction with royalty rate reductions and generous lease term modifications, will cost taxpayers valuable revenue.

At the beginning of February, more than 70 percent of active leases, and acres under active lease, in federal waters were not producing oil or gas and not earning taxpayers any royalties. There is no demonstrated shortage of available acreage for offshore oil and gas development, and in this environment, increased leasing does not equal increased revenue.

Further, the repeal of the 2016 valuation rule issued by the Office of Natural Resources Revenue will decrease royalty collection from offshore oil and gas at current rates. Lowering royalty rates would only further erode taxpayers' return from offshore oil and gas development. In short, increasing the offshore acreage available for oil and gas leasing under current conditions would, and could only, benefit oil and gas companies at taxpayers' expense.

Reduced Royalty Rates

The PAC subcommittee also states that royalty rates for "costly" fields should be addressed. But if a lease is uneconomic using current technology and under current prices, then federal taxpayers cannot afford to step in and make it profitable.

Taking Increased Royalty Revenues off the table

Taxpayers for Common Sense is also concerned that significant rule changes at the Department of Interior are happening before review of the Royalty Policy Committee.

In the summer of 2016, the Office of Natural Resource Revenue finalized a new rule to update how the production of oil, gas, and coal on federal land would be measured and valued for royalty purposes. Taxpayers would have received an increase of $78 million in additional royalty revenues annually. The rule was first postponed and finally repealed by the Department of Interior, effective September 6, 2017. Though the charge of this committee squarely overlaps with the ONRR rule, the rule was fully repealed before the Royalty Policy Committee convened its first meeting.

Similarly, the Bureau of Land Management's Methane Waste Rule offered a much needed update to policies that date back to 1979. The rule updated reporting standards and embraced modern technologies like fracking that allow for the economic capture of natural gas that has been wasted for decades through leaks, venting, and flaring during energy production on federal lands. Provisions of the rule, if allowed to take effect, could have netted taxpayers tens of millions of dollars annually. The rule went into effect in January of 2017. Despite Congress rejecting an attempt to throw out the rule that May, the rule was postponed and suspended by the administration. And last week, the BLM proposed a new rule, which largely reverts backs to the outdated guidance that allowed taxpayers to lose billions. All of this without advisement of the Royalty Policy Committee.

These actions will cost taxpayers valuable royalty revenue. Going forward the RPC, as an independent entity, should examine all actions Interior undertakes that impact federal royalty collections and leave the harmful recommendations from these early subcommittee meetings on the table. There's still time to provide fair value for the American taxpayer and make recommendations that federal taxpayers can stand behind.