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Oil and Gas Speculation on Federal Lands

Federal taxpayers deserve to have the federal land they own managed responsibly and strategically. However, the current leasing system favors oil and gas companies and speculators over the taxpayer interest. Millions of acres are leased for pennies on the dollar without ever producing oil and gas or generating returns to the public.

At the end of 2019, 13 million acres, or more than half of federal land under lease, were sitting idle and unavailable for other use. The current system that permits land to be locked up by speculative practices contradicts the multiple-use principle that should guide the Bureau of Land Management (BLM) under federal law. BLM policies, most notably outdated rental rates, low minimum bids, and the noncompetitive process, make it cheap to obtain rights to federal lands, which encourages unreasonable speculation in oil and gas leasing.

To address this problem, the *End Speculative Oil and Gas Leasing Act of 2021* introduced by Senator Cortez Masto (D-NV) would prohibit the Department of the Interior from offering leases on federal lands for oil and gas development in areas with low or no production potential. This would help conserve federal resources and prevent federal land from being tied up from other uses. The bill would require the Department of the Interior to determine where leasing makes the most sense on federal land, rather than letting oil and gas companies or speculators choose where they want to lease. Factoring in the production potential of land during the leasing process makes common sense.

Characteristics of Speculation

In our report *Locked Out: The Cost of Speculation on Oil and Gas Leases on Federal Land*, we identified four characteristics of federal oil and gas leases that indicate they might be unreasonably speculative, given the likelihood these leases will be terminated without ever reaching production. The four characteristics are: parcels leased for less than $10/acre; parcels leased by companies that are not exploration and production companies; parcels leased noncompetitively; and leases isolated from producing leases or infrastructure.

Using these characteristics, we found that from July 2007 to July 2017, speculative leases comprised more than 3.1 million acres of federal land that is closed to other uses. By acreage, these leases represented roughly 28 percent of all nonproducing acreage on BLM oil and gas leases in the selected states.

Acreage of Leases with Speculative Characteristics by State

	Colorado	Montana	New Mexico	Nevada	Utah	Wyoming	Total
Bid of $10 or Less per Acre	200,945	95,799	39,602	267,917	164,169	777,553	**1,545,986**
Speculative Company	119,046	44,319	31,281	N/A	150,512	585,352	**930,508**
Non-Competitive	61,060	38,515	1,760	501,242	55,575	124,759	**782,912**
Isolated	112,510	96,279	75,476	659,833	42,768	330,001	**1,316,868**
Total with One Characteristic or More	361,515	186,292	109,564	831,333	284,880	1344,621	**3,118,205**

Data Source: Bureau of Land Management's Land & Mineral Legacy Rehost 2000 system (LR2000), all federal oil and gas leases issued, July 2007 - July 2017.

Non-competitive leasing, along with low bids and rental rates have led to private entities, or speculators, leasing lands and seeking to profit by reselling leasing rights to a production company. Oil and gas companies might acquire parcels, either directly or through speculators, without ever developing them to inflate their undeveloped acreage numbers reported to investors. It is a cheap way to aggrandize a company's production prospects, even when the leased lands have little to no potential for development.

Nevada was found to have the highest percentage of nonproducing leases with at least one speculative characteristic – 70 percent. In our report, *Gaming the System: How Federal Land Management in Nevada Fails Taxpayers*, we found that at the end of 2018, 97.3 percent of all acres in authorized leases in Nevada lay idle and only 1 of the 2400 noncompetitive oil and gas leases issued since 1999 ever entered production. Since 2016, 82 percent of all acres in Nevada leased at auction received the minimum bid of $2 per acre.

Policy Recommendations

The *End Speculative Oil and Gas Leasing Act of 2021* would help end the locking up of federal lands from other uses by requiring lands to have a high potential for oil and gas development before being leased. Other policy options to fix the problem and address the broken federal oil and gas program include: increasing oil and gas lease rental rates, increasing minimum bid and reforming noncompetitive leasing process.