



The System for Leasing Federal Land for Oil and Gas Development is Failing Taxpayers

Dear Senator:

The federal oil and gas leasing program must be reformed. The status quo is costing taxpayers *billions* of dollars. Every new lease signed under existing terms is a loss, which is why we can't wait anymore **to fix federal oil and gas leasing**.

Congress must make [common sense reforms](#). The century-old royalty rate has not kept pace with state rates, and decades-old minimum bids and rental rates were last updated under President Reagan.

For every dollar of revenue a producer makes on a barrel of oil, taxpayers get just [12.5 cents](#). That rate of return, or royalty rate, is dramatically lower than what most states charge – Texas charges up to 25 percent, or double the federal rate, with no negative impacts to production. It's also well below what we get from a barrel of oil from the Gulf of Mexico – 18.75 percent. If we had been collecting the offshore rate on every barrel of oil and cubic foot of gas from federal lands, taxpayers would have received up to **\$12.9 billion more** over the last decade (FY2012-2021).

On top of these outdated royalty rates, the federal government has refused to raise rental rates for leases on federal land for more than 30 years. Because of inflation, taxpayers are getting less than half what we should, meaning we lost roughly \$330 million over the last decade. For the first year's rent, producers have to pay just [\\$1.50 an acre](#).

Like rental rates, the minimum companies can bid at auctions for federal oil and gas leases has not been updated since 1987. It's still just \$2/acre, and bidders take full advantage of this below-market valuation. Of the 544,000 acres sold at auction in 2020, roughly 200,000 received the minimum bid. In some states, like [Nevada](#), the vast majority of acres are sold for the minimum bid. Federal and state taxpayers would receive millions of dollars more per year if the minimum bid was updated and indexed to keep pace with inflation.

Finally, taxpayers receive [no bid at all](#) for some leases because companies can sidestep the competitive bidding process altogether. In 1987, Congress mandated that every oil and gas lease be offered in a competitive auction where companies bid for it. But there is a loophole: if there are no bids at auction for a lease, a company (or land speculator) can submit a noncompetitive offer *the very next day*. There is no minimum bid requirement for a noncompetitive offer.

All of these provisions can and should be reformed now, before taxpayers lose more revenue from an outdated leasing system. The price of oil is set on the world market and demand drives development. Bringing royalty, rent, and auctions in the oil and gas sector into the 21st century would raise important revenue for taxpayers without affecting the [price of oil](#) or the [profitability of oil and gas companies](#). It is time to do what is right for taxpayers and make these reforms a reality.

Sincerely,

Steve Ellis
President