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## Oil & Gas Royalty Relief Costs Taxpayers

Oil and gas companies that drill offshore or on public lands are required to pay royalties on the value of the resources they extract. It's the mechanism that ensures taxpayers receive a fair return when private companies develop publicly owned resources. However, because of outdated energy policy and persistent mismanagement of how royalties are assessed and collected, companies often pay little or nothing to the owners of the publicly owned oil and gas—the U.S. taxpayers.

### The Federal Oil and Gas Leasing System

Millions of barrels of oil and billions of cubic feet of natural gas come from federal lands and waters every day. To facilitate this development, the federal government auctions leases to private entities. In return for the right to drill and profit, producers pay bonus bids at competitive auctions, rent for using federal real estate, royalties on the market value of the oil and gas they extract, and other fees to cover the government's management costs.

The federal leasing system generates significant revenue for taxpayers. From FY2015-2024, the Office of Natural Resources Revenue reported collecting \$94.2 billion from the oil, gas, and natural gas liquids produced on federal lands and waters, representing 88% of all natural resource revenue.<sup>1</sup> Royalties make up the bulk of that revenue. All new federal leases carry a statutory royalty of 12.5% for onshore production and minimum 12.5% and maximum 16.67% for offshore.<sup>2</sup>

*Oil and Gas in Converse County, Wyoming | David Korzilius, BLM*



The federal government has the authority to provide discretionary royalty relief depending on economic circumstances, and, in some cases, is required to provide automatic royalty relief.<sup>3</sup> Unfortunately for taxpayers, this has resulted in billions of dollars in revenue left on the table every year and kept taxpayers from getting a fair return on the development of taxpayer-owned oil and gas.

### Offshore Royalty Relief - Discretionary

The Outer Continental Shelf Lands Act authorizes the Department of the Interior (DOI) to reduce or waive royalties to “promote increased production on the lease area.” This authority, initially limited to the Gulf of Mexico, was extended to specific areas of Alaska under the Energy Policy Act of 2005. The most common forms of discretionary offshore relief are end-of-life and special-case programs, which are available regardless of well depth when certain conditions are met.

### Onshore Royalty Relief - Discretionary

Under the Mineral Leasing Act, the Bureau of Land Management (BLM) may reduce the royalty rates or exempt specific volumes of production if doing so is “necessary to promote development of the lease.”<sup>4</sup> BLM regulations also allow royalty reductions to “encourage the greatest ultimate recovery of oil or gas and in the interest of conservation.”<sup>5</sup> Although the agency must determine that the royalty reduction is necessary to promote

### COVID-19 Royalty Relief

BLM has granted discretionary onshore royalty relief “extensively to lessees in the recent past.” During the COVID-19 pandemic, BLM gave companies the opportunity to apply for a reduction in the royalty rates for certain oil and gas leases on federal lands. The Government Accountability Office (GAO) estimates that forgone revenues from royalty relief applications approved in May and June 2020—containing 581 leases, with royalty rates reduced to an average of less than 1 percent for a 60 day window—totaled about \$4.5 million. Furthermore, the GAO reported that BLM failed to establish in advance if royalty relief was needed to keep wells operating, meaning taxpayers may have subsidized production that likely would have occurred anyway.<sup>6</sup>

In contrast, applications for federal offshore royalty relief under temporary COVID guidance were rare—less than 200 “pre-applications” were submitted and only one company reportedly received a grant of royalty relief.<sup>7</sup>

development of the lease or that the lease cannot be viably operated under the existing royalty terms, specific guidelines for making that determination are minimal.<sup>6</sup>

Leasees in the National Petroleum Reserve, Alaska (NPR-A)—a 23-million-acre area on Alaska's North Slope designated initially as an emergency oil supply for the U.S. Navy—are also eligible for royalty relief. The Energy Policy Act of 2005 amended the Naval Petroleum Reserves Product Act to allow BLM to “waive, suspend, or reduce the rental fees or minimum royalty, or reduce the royalty on an entire leasehold” to “promote development” or if the leases cannot be “successfully operated” under given leasing terms.

### Offshore Royalty Relief - Automatic

The Deep Water Royalty Relief Act of 1995 (DWRRA) granted automatic royalty relief for initial production from deepwater leases sold between November 1995 and November 2000 in the Gulf of Mexico. Royalty relief was initially implemented on a field basis, meaning that the production threshold applied to development from multiple leases across a field. However, a legal challenge by the oil and gas industry in 2004 changed implementation to a per-lease basis, which the DOI estimated would cost taxpayers an additional \$10 billion in forgone future royalty revenues.

The DWRRA also allowed, but did not require, the Secretary of the Interior to provide relief for leases issued after 2000.<sup>9</sup> The Energy Policy Act of 2005 again mandated automatic royalty relief, setting new suspension volumes at specified depths in deepwater areas of the Gulf of Mexico.<sup>10</sup>

<b>Royalty Suspension Volumes for Automatic Relief (barrels of oil equivalent, in millions)</b>		
<b>Depth (meters)</b>	<b>1995-2000</b>	<b>2005-2010</b>
200-400	17.5	–
400-800	52.5	5
800-1,600	87.5	9
1,600-2,000	87.5	12
> 2,000	87.5	16

The Energy Policy Act of 2005 also extended a previous shallow-water, deep-gas incentive that had started in 2001 and was formalized in March 2004. Section 344 created an automatic royalty suspension for gas produced from certain wells in waters less than 400 meters deep (the original policy was for waters less than 200 meters deep).<sup>11</sup>



Most automatic royalty relief is subject to a price threshold that phases out royalty relief when oil or natural gas prices exceed a certain level. For leases sold from 1996 to 2000, the price thresholds were \$28/barrel for oil and \$3.50/MMBtu for gas (adjusted for inflation), well above the average prices at the time. It was only exceeded for the first time in 2000. For leases sold from 2005-2010, the price threshold was much higher—\$39/barrel for oil and \$6.50/MMBtu for gas (adjusted for inflation).<sup>12,13</sup> However, a reported clerical error exempted 1,031 leases issued in 1998 and 1999 from any price threshold.<sup>14</sup> The exemption exists to this day, despite Congressional and Administrative attempts to resolve it.<sup>15</sup> In 2007, the GAO estimated that the absence of price thresholds in leases issued in 1998 and 1999 would cost taxpayers between \$6.4 billion and \$9.8 billion over the leases' lifetimes.<sup>16</sup>

## Taxpayer Costs

For more than a decade, oil and gas companies have benefited from a flawed royalty collection system while raking in record profits.

By not collecting royalties from some of these leases, taxpayers have lost billions of dollars in revenue.<sup>17</sup> A 2023 report from the DOI Office of Inspector General found that application of royalty relief and other authorized deductions significantly lowered the effective royalty rate—the rate that is actually being charged—to an average of 12-10% onshore and 9% offshore, with some operators achieving 0.18% or even negative effective royalty rates.<sup>18</sup> Decreasing the royalty rate on production that would have otherwise occurred is entirely contrary to the taxpayer's interest.

Taxpayers are legally entitled to a fair return for publicly owned oil and gas, and it's time we received adequate compensation for our resources. Policymakers must repeal unnecessary royalty relief provisions and update other policies to ensure taxpayers receive sufficient compensation for resources extracted from federal lands and waters.

*Oil and Gas Program in California | John Ciccarelli, BLM*



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<sup>1</sup> Taxpayers for Common Sense analysis of revenue data provided by the Office of Natural Resources Revenue (ONRR). Source: ONRR, “Revenue Data,” accessed July 2, 2025. <https://revenuedata.doi.gov/query-data/?dataType=Revenue>.

<sup>2</sup> The One Big Beautiful Bill Act, passed July 4, 2025, lowered the royalty rate for new onshore leases to 12.5% from 16.67% and for new offshore leases to between 12.5% and 16.67%, down from a minimum of 16.67% and a maximum of 18.75%.

<sup>3</sup> Congressional Research Service (CRS), “Offshore Royalty Relief: Status During the COVID-19 Pandemic,” IN11380, Mar 7, 2020. [https://www.congress.gov/crs\\_external\\_products/IN/PDF/IN11380/IN11380.2.pdf](https://www.congress.gov/crs_external_products/IN/PDF/IN11380/IN11380.2.pdf)

<sup>4</sup> 30 U.S.C. § 209

<sup>5</sup> 43 C.F.R. § 3103.4-1

<sup>6</sup> Frank Rusco, “Federal Oil And Gas Revenue: Actions Needed to Improve BLM’s Royalty Relief Policy,” Government Accountability Office (GAO), October 6, 2020. <https://www.gao.gov/assets/gao-21-169t.pdf>

<sup>7</sup> Ibid.

<sup>8</sup> Baker McKenzie, “An Overview of Onshore and Offshore Federal Royalty Relief,” November 24, 2020. <https://www.lexology.com/library/detail.aspx?g=63687b9d-0ca7-40f2-b9f6-74624bcac984>

<sup>9</sup> Walter Cruickshank, “Statement Of Walter Cruickshank Deputy Director, Minerals Management Service United States Department Of The Interior Before The Committee On Government Reform Subcommittee On Energy And Resources United States House Of Representatives,” Department of the Interior (DOI), March 1, 2006. <https://www.doi.gov/ocl/royalty-issues>

<sup>10</sup> Marc Humpheries, “Royalty Relief for U.S. Deepwater Oil and Gas Leases,” CRS, February 4, 2009/ [https://www.everycrsreport.com/files/20090404\\_RS22567\\_04f3ee999349560e0ad3c3625bd49ddc8414a70a.pdf](https://www.everycrsreport.com/files/20090404_RS22567_04f3ee999349560e0ad3c3625bd49ddc8414a70a.pdf)

<sup>11</sup> Mark E. Gaffigan, “Oil And Gas Royalties: Royalty Relief Will Likely Cost the Government Billions, but the Final Costs Have Yet to Be Determined,” GAO, January 18, 2007. <https://www.energy.senate.gov/services/files/EFBDE8E7-AE65-4AB0-9DAF-D41F2BDF9C99>

<sup>12</sup> Secretary was given discretion to “place limitations on royalty relief granted under this section based on market price.”

<sup>13</sup> Mark E. Gaffigan, “Oil And Gas Royalties: Royalty Relief Will Likely Cost the Government Billions, but the Final Costs Have Yet to Be Determined,” GAO, January 18, 2007. <https://www.energy.senate.gov/services/files/EFBDE8E7-AE65-4AB0-9DAF-D41F2BDF9C99>

<sup>14</sup> DOI Office of Inspector General, “Investigative Report: On the Lack of Price Thresholds in Gulf of Mexico Oil and Gas Leases,” <https://www.doiig.gov/sites/default/files/2021-migration/MMS-ROI-REDACTED.pdf>

<sup>15</sup> For example, proposed amendments to the Energy Policy Act of 2005, H.R. 6899 (introduced in 2007), S.701 (2207), H.R. 6899 (introduced in 2008), and other proposed bills would have prohibited operators with leases without price thresholds from acquiring new leases. DOI also attempted negotiations with several operators to apply price thresholds to future production from 1998 and 1999 leases.

<sup>16</sup> GAO, “Oil and Gas Royalties: Royalty Relief Will Cost the Government Billions of Dollars but Uncertainty Over Future Energy Prices and Production Levels Make Precise Estimates Impossible at this Time,” April 12, 2007 <https://www.gao.gov/assets/gao-07-590r.pdf>

<sup>17</sup> Frank Rusco, “Federal Oil And Gas Revenue: Actions Needed to Improve BLM’s Royalty Relief Policy,” GAO, October 6, 2020. <https://www.gao.gov/assets/gao-21-169t.pdf>

<sup>18</sup> DOI Office of Inspector General, “The U.S. Department of the Interior Does Not Analyze Effective Royalty Rates,” June 2023. [https://www.doiig.gov/sites/default/files/2021-migration/Final%20Inspection%20Report\\_EffectiveRoyaltyRates\\_Public.pdf](https://www.doiig.gov/sites/default/files/2021-migration/Final%20Inspection%20Report_EffectiveRoyaltyRates_Public.pdf)