

Oil and Gas Drilling on Federal Lands Costs Colorado

Broken Leasing Policies Continue to Fail Taxpayers

2 MILLION ACRES

of federal land in Colorado are currently leased for oil and gas development

\$937 MILLION

in lost royalty revenue for federal and state taxpayers from oil and gas development in Colorado, 2015–2024



\$518 MILLION

in potential cleanup costs from currently producing wells in Colorado could fall on taxpayers if outdated bonding rules return

Colorado is a significant producer of our nation's oil and gas on federal lands. But because federal royalty rates were set below market for most of the years from 2015 to 2024, taxpayers did not receive the full value generated from those publicly owned resources.

If federal leases in Colorado had carried an 18.75 percent royalty rate instead of the 12.5 and 16.67 percent rates that governed most of the last decade, royalty collections would have been \$937 million higher. Since roughly half of federal royalties are returned to producing states, nearly half a billion dollars of that additional revenue would have flowed directly to Colorado, funding that could otherwise support schools, hospitals, and other public infrastructure.

This is not a projection of future production. The oil was produced. The gas was sold. The only difference was how much of that value was returned to federal taxpayers and Coloradans instead of remaining with operators.

Colorado is the third largest federal gas-producing state in the country and among the largest producers of federal oil. Over the last decade, FY2016-2025, Colorado accounted for about 2.0 percent of federal oil production and 15.7 percent of federal natural gas production. That production generates real economic value. Federal oil and gas revenue is shared with the state, helping fund public priorities. When federal royalty rates are set too low, the loss is not just borne by the federal government; Colorado also loses revenue that would otherwise flow directly back to the state.

Oil and Gas Production in Colorado

At the end of Fiscal Year (FY) 2025, 2.0 million acres of federal land in Colorado were leased for oil and gas development. 1.5 million acres, or 73 percent of leased acreage, was actively generating oil or gas.



Photo by Jeffrey Beall, CC BY 4.0, via Wikimedia Commons

From FY2016 through FY2025, Colorado produced about 70.8 million barrels of federal oil and 5.64 trillion cubic feet of federal gas. Oil production on federal lands increased by about 54 percent over the decade, rising from 4.5 million barrels in FY2016 to 8.5 million barrels in FY2025. Gas production declined by about 32 percent over the same period, from 636 million mcf to 456 million mcf. Even with that decline, Colorado remains one of the largest producers of natural gas on federal lands.

This production should have generated even greater revenues for federal and Colorado taxpayers alike, since revenue from royalties and other leasing terms is shared with the state. However, outdated and below-market leasing terms not only limited much-needed revenue for taxpayers, but also allowed oil and gas operators to avoid fully covering the costs of reclaiming well sites after operations cease, potentially leaving taxpayers to cover cleanup costs.

The Federal Oil and Gas Leasing Program

Federal taxpayers own mineral resources across the United States, including a 700 million-acre onshore subsurface mineral estate. The Bureau of Land Management (BLM), within the Department of the Interior (DOI), oversees this mineral estate and is charged with managing the development of those resources. Yet, despite the massive value of taxpayer-owned resources extracted from federal lands every year, taxpayers continue to receive pennies on the dollar because of outdated and below-market leasing terms.

Initially, DOI grants leases to the highest bidder in a live auction, with the resulting revenue known as “bonus bid” revenue. The federal government then charges rent to leaseholders for holding the land before production commences. Once leases begin producing oil and gas, leaseholders pay a fixed percentage of the production’s value, known as a royalty.

In 2022, Congress enacted several long-overdue updates to federal oil and gas leasing rates for the first time since the 1980s. Under those updates, rental rates were raised to \$3 per acre for the first two years, \$5 per acre for years three through eight, and no less than \$15 per acre for years nine and ten until August 2032. The minimum bid was also raised to \$10 per acre. After August 2032, those rates become the statutory minimum. Congress also enacted other reforms, including raising the onshore royalty rate to a 16.67 percent minimum, eliminating noncompetitive leasing, and creating a new expression-of-interest fee for entities nominating federal land for competitive lease sales. Those provisions were rescinded in 2025.

After production ends, oil and gas producers operating on federal land are required to plug their wells and reclaim surrounding sites. To guarantee that cleanup of these potentially hazardous and environmentally harmful sites is paid for, producers must post a bond before drilling begins. If a company abandons its wells or goes bankrupt, the bond is forfeited and used to help cover reclamation costs.

The BLM accepts two types of bond coverage: bonds for an operator's wells on an individual lease, with a minimum of \$150,000, and bonds covering all wells owned by an operator within a state, with a minimum of \$500,000. Higher bond values may be required if an operator has a history of violations, if BLM anticipates unusually high reclamation costs, or if other risk factors are present. These updated requirements were implemented in June 2024 for new leases and are scheduled to phase in for existing leases over the next several years.

DOI is responsible for overseeing valuable taxpayer-owned mineral resources and ensuring taxpayers receive a fair return. Yet for decades taxpayers have been shortchanged. The federal onshore oil and gas leasing system must be brought into the 21st century. Recently reduced royalty rates, the return of noncompetitive leasing, and threats to revert to outdated bonding standards risk failing to protect taxpayers and failing to ensure a fair return from the sale of publicly owned resources. Taxpayers have already lost billions of dollars as a result. Without permanent market-rate leasing terms and stronger oversight, taxpayers could lose billions more while facing growing long-term liabilities.



Browns Canyon National Monument,
BLM Photo by Bob Wick, Public Domain, Flickr

Royalty Rates and What They Mean for Colorado

For nearly a century, the federal onshore royalty rate was fixed at 12.5 percent.¹ Nearly all leases were issued at that statutory minimum rate. In 2022, Congress temporarily raised the rate to 16.67 percent for new leases, but lowered it back to 12.5 percent in 2025, locking in a century-old rate for decades to come.

Royalty revenue makes up the overwhelming share of federal oil and gas receipts. From 2015 to 2024, the Office of Natural Resources Revenue (ONRR) collected \$1.6 billion in royalties on oil and gas produced from federal lands in Colorado.² Because that revenue is split with producing states, every percentage point in the royalty rate affects how much funding reaches Denver and local communities.

The federal government charges a 12.5 percent royalty rate, far below the 20 percent Colorado often charges on state lands. If an 18.75 percent royalty rate had been applied to the \$14.9 billion worth of oil and gas produced from federal lands in Colorado over the last decade, federal and state taxpayers would have received an additional \$937 million in revenue.³

An 18.75 percent royalty rate is not unusual. It matches what Colorado often charges on state lands. Texas and New Mexico, two top oil and gas-producing states, charge royalties of up to 25 percent on state lands. Development has not only continued under those terms, but boomed. The record shows that competitive royalty rates do not halt or slow production. They determine how much of the value extracted from public land returns to the public.

Federal leasing over the last decade has made this plain. Production on federal lands continued, regardless of the royalty rate. Companies invested, drilled, and bid in competitive lease sales under both the higher 16.67 percent royalty rate and the lower 12.5 percent rate. In fact, average bids across the country were higher in 2023 and 2024 under the higher rate (\$2,148.62 and \$1,084.87 per acre, respectively) than they had been in previous decade (\$287.75 per acre 2013-2022). The pace of development did not change. The public's share of the profits did.

Leasing and production decisions are driven by resource potential and market conditions, not royalty rates. Over the last decade, oil production in Colorado has boomed while total land leased has actually decreased. The amount of producing federal lands in Colorado has held at around 1.5 million acres since 2016, even as total leased acreage declined from about 3 million acres to 2 million acres, a drop of roughly 33 percent. At the end of FY2025, more than seven in ten leased acres were producing, up from about five in ten in FY2016. Meanwhile, Colorado oil production on federal lands has almost doubled, peaking in 2022 and remaining steadily over 8 million barrels annually. In other words, oil production levels in Colorado are not dependent on the number of acres leased, as development is concentrated in areas with the most development potential.

Increased productivity and overall production make the impact of royalty rates even clearer—offering more land at discounted rates will not drive an increase in leasing or production. But lowering royalty rates will directly reduce how much taxpayers receive from that production.

Bonding and the Risk to State and Federal Taxpayers

Colorado also faces significant cleanup liabilities from orphaned and inactive wells. When oil and gas operators drill on federal land, they are required to post bonds intended to ensure wells are plugged and sites restored once production ends. In practice, federal bonding requirements have often been insufficient to cover the full costs of reclamation, leaving taxpayers exposed to cleanup costs.

Prior to recent reforms, federal bonding rules for onshore wells lagged far behind real-world reclamation costs. The Government Accountability Office reported that DOI held an average bond value of \$2,122 per well in 2018, covering just 3 percent of the estimated cost of plugging orphaned wells in Colorado.⁴

In 2023, DOI reported there were 1,500 bonds covering approximately 110,000 existing wells nationwide.⁵ Average coverage varied depending on bond type, with a high of \$5,864 per well on statewide bonds and a low of just \$671 per well on nationwide bonds.⁶ Combined, each existing well had an average bond coverage of \$3,873, covering just 5 percent of estimated reclamation costs.



Operational oil well pumping oil in Colorado
by tamas, Adobe Stock

Weak bonding requirements do not eliminate cleanup costs. They simply increase the chances those costs are eventually borne by taxpayers.

Fortunately for taxpayers, federal bonding requirements were updated in 2024 and average per-well bond coverage is expected to rise. But if those reforms are rolled back and outdated standards return, taxpayers could once again be exposed to billions in future reclamation liabilities from currently producing wells.

According to BLM, there were 7,722 oil and gas wells producing on federal lands in Colorado at the end of FY2025.⁷ If outdated bonding requirements returned and DOI once again held average bond coverage of just \$3,873 per well, the federal government would hold only about \$29 million in financial assurances for wells that may cost roughly \$548 million to reclaim, leaving taxpayers exposed to approximately \$518 million in potential future liabilities.⁸

For Coloradans, weak federal leasing terms create a double exposure. First, below market royalty rates reduce the revenue flowing back to the state from production. Second, insufficient bonding increases the likelihood that cleanup costs will fall on state and federal taxpayers. Communities that host drilling activity may ultimately face the long-term environmental and fiscal consequences when wells are left behind and the bills come due.

What Federal Decisions Mean for Colorado

Colorado shows that the problems with the federal oil and gas leasing system are not limited to either the largest or the smallest producing states. Oil and gas production on federal lands generates billions of dollars in value, but because federal royalty rates remain lower than those commonly used elsewhere, taxpayers lose hundreds of millions of dollars in potential revenue. At the same time, outdated bonding requirements leave taxpayers exposed to hundreds of millions in potential future cleanup costs.

Federal policy decisions, including royalty rates, bonding requirements, and oversight standards, directly affect how much revenue Colorado receives and how much financial risk taxpayers bear.

For Colorado, the stakes are immediate and measurable. The BLM manages 8.3 million acres of public land and 27 million acres of federal mineral estate in the state.⁹ Revenue from federal oil and gas production helps fund schools, infrastructure, and other public priorities. When that revenue falls short, the impact is felt in state and local budgets. And when cleanup costs are not fully covered by industry, the financial burden can shift directly onto taxpayers and communities.



Blanca Wetlands Recreation Area
BLM Photo by Bob Wick, Public Domain, Flickr



taxpayer.net



facebook.com/taxpayers



x.com/taxpayers



info@taxpayer.net

Endnotes

- 1 Nearly all leases were issued at the statutory minimum royalty rate of 12.5%.
- 2 Office of Natural Resources Revenue, Query Data, accessed May 2026. <https://onrr.gov/>
- 3 Taxpayers for Common Sense (TCS) calculation applies an 18.75% royalty rate to the reported sales value, less allowances, as reported by ONRR.
- 4 Government Accountability Office, "Oil and Gas: Bureau of Land Management Should Address Risks from Insufficient Bonds to Reclaim Wells," September 18, 2019. <https://www.gao.gov/products/gao-19-615>
- 5 Bureau of Land Management (BLM), "Fluid Mineral Leases and Leasing Process," July 24, 2023. <https://www.federalregister.gov/documents/2023/07/24/2023-14287/fluid-mineral-leases-and-leasing-process>
- 6 TCS calculation divides the average bond amount per bond type by the average number of wells per bond type, as reported in the BLM proposed "Fluid Mineral Leases and Leasing Process" rule.
- 7 BLM, Oil and Gas Statistics, Fiscal Year 2025 Statistics. <https://www.blm.gov/programs-energy-and-minerals-oil-and-gas-oil-and-gas-statistics>
- 8 TCS calculation multiplies the number of producing wells in the state (7,722) by the estimated cost of reclamation (\$71,000) less the average bond value per well held by DOI in 2023 (\$3,873.39).
- 9 BLM, "What we Manage in Colorado," accessed May 2026. <https://www.blm.gov/about/what-we-manage/colorado>