

Millions Lost in Montana: How Federal Oil & Gas Leasing Terms Cost Taxpayers

1.4 MILLION ACRES

of federal land currently leased for oil and gas development



MORE THAN 50%

of federal land was leased **noncompetitively**, sometimes for pennies per acre

3 OUT OF 4

acres leased noncompetitively are **not producing**, meaning they provide **no return** to taxpayers while **preventing other uses** like recreation and conservation

\$117 MILLION

in lost royalty revenue, 2016-2025



\$159 MILLION

in potential reclamation liabilities under old, outdated bonding requirements

While Montana is not among the nation's largest producers of oil and gas from federal lands, it still has 1.4 million acres currently leased and millions of dollars' worth of oil and gas produced every year. As a result, federal policies governing the development of these public resources still have a significant impact in Montana.

Outdated leasing terms – including below-market royalty rates, the noncompetitive leasing process, and inadequate bonding requirements – create real costs for federal and state taxpayers. More than half of currently leased public land is nonproducing, generating little return while blocking other alternative land uses like recreation or other resource production. Much of this land was issued noncompetitively – a process that allows companies to bypass competitive bidding and instead acquire leases for a minor administrative fee. Noncompetitive leases are less likely to ever enter production and generate less revenue than competitively issued leases.

On producing leases, operators on federal land in Montana extracted and sold \$187 million in publicly owned oil and gas produced over the last decade. But, because federal royalty rates remained below market for most of the last decade, taxpayers received less than they would have under market-based leasing terms. If federal leases in Montana 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 \$117 million higher.



“Kevin Sunburst oil fields Montana” by [Jason Woodhead](#),
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Oil and Gas Production in Montana

At the end of Fiscal Year (FY) 2025, 1.4 million acres of federal land in Montana were leased for oil and gas development.¹ Less than half of this land, 624,000 acres, was actively generating oil or gas.

From FY2016 through FY2025, Montana produced about 28.3 million barrels of federal oil and 104 billion cubic feet of federal gas.² Oil production on federal lands remained relatively stable over the last decade while gas production declined by about 35 percent, from 12.8 billion cubic feet in FY2016 to 8.2 billion cubic feet in FY2025.

This production should have generated greater revenues for federal and Montana 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 the subsurface mineral estate and is charged with managing the development of mineral resources. Yet, despite the massive value of taxpayer-owned resources extracted from federal lands by oil and gas developers every year, taxpayers continue to receive pennies on the dollar due to outdated and below-market leasing terms that reward the oil and gas industry and shortchange taxpayers.

Initially, DOI generally grants leases through a competitive auction process, with the resulting revenue known as “bonus bid” revenue. Following this, the federal government imposes rent on leaseholders for holding the land before production commences. Once leases begin to produce oil and gas, leaseholders are charged a fixed percentage of the production’s value, known as a royalty. Lands made available but not leased at competitive auction are then available to be leased noncompetitively, as soon as the next day, for a minimum administrative fee of \$75.

In 2022, Congress made several long overdue updates to oil and gas leasing rates for the next decade, the first time since the 1980s. Under these commonsense updates, until August 2032, rental rates are raised to \$3/acre for the first two years, \$5/acre for years three to eight, and then no less than \$15/acre for years nine and ten; and the minimum bid is raised to \$10/acre. After August 2032, these rates will become the statutory minimum. While Congress also enacted other updates—including raising the onshore royalty rate to a 16.67 percent minimum, eliminating the practice of noncompetitive leasing, and creating a new expression of interest fee for entities nominating federal land for competitive lease sales—these were rescinded in 2025.

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

The BLM accepts two types of bond coverage: bonds for an operator's wells on an individual lease (minimum \$150,000) and bonds for all wells owned by an operator in one state (minimum \$500,000). Higher bond values may be required if the operator has a history of violations, if BLM anticipates unusually high reclamation costs, or if there are other risk factors.

DOI is responsible for overseeing taxpayer owned mineral resources and ensuring taxpayers receive a fair return from their development. Yet for decades, outdated leasing terms have shortchanged taxpayers. 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 rates risk failing to both protect taxpayers and ensure a fair return from the sale of taxpayer-owned resources. Taxpayers have already lost billions of dollars as a result and, without permanent market-rate leasing terms and improved oversight, taxpayers could lose billions more and be saddled with growing long-term liabilities.



[“#TravelTuesday with My Public Lands”](#)
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The Opportunity Cost of Nonproducing Leases

Montana's federal leasing footprint is large relative to its production. Over the last decade, FY2016 to FY2025, BLM offered nearly half a million acres of public land for oil and gas development at public auctions, yet only 42 percent of that was leased – the second lowest rate in the country behind Nevada.³ Even less entered production. At the end of FY2025, 1.4 million acres remained under lease, but only 46 percent of that acreage was actually producing.⁴

This problem has been persistent for decades. Despite offering thousands of acres of public land every year for oil and gas development, BLM routinely leases less than half of what has been made available, and often at rock-bottom prices. Over the last decade, FY2016 through FY2025, BLM leased 201,635 acres at competitive auction at an average bid of \$218 per acre—less than half of the nationwide average of \$479 per acre.⁵ Continuing to lease areas with low development potential ties up public lands while delivering little return to taxpayers and potentially limiting other uses of public land, including recreation and the development of other energy and mineral resources.

Noncompetitive Leasing Shortchanges Taxpayers

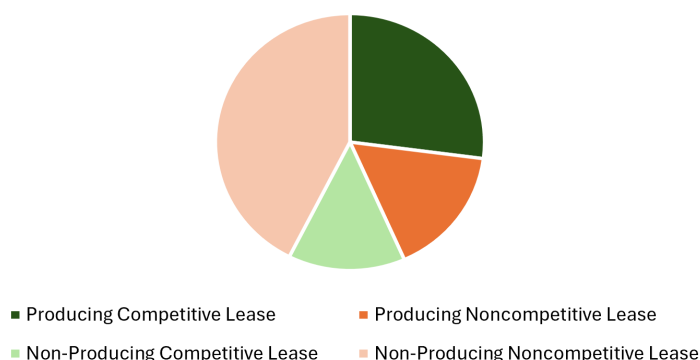
Not all leasing follows the competitive model. The noncompetitive leasing process, a loophole in federal policy, allows oil and gas companies to acquire leases that go unsold at auctions for pennies per acre. Currently, more federal land in Montana has been leased noncompetitively than through competitive auction.

Under the noncompetitive leasing process, parcels that receive no bids at auction are re-listed the very next day and awarded to the first applicant willing to pay an administrative fee—a minimum of \$75 regardless of acreage, set by BLM—and the first year’s rent. No bonus bid is required. This process, repealed by Congress in 2022, was reinstated in 2025 and enables companies to bypass market competition entirely.

In Montana, 740 leases – containing 845,616 acres – were issued noncompetitively, accounting for 59 percent of all currently leased land in the state.⁶ Noncompetitive leasing consistently failed to deliver a fair value for taxpayers. In Montana, only 233 leases issued noncompetitively are currently producing. Noncompetitive leases account for 75 percent of all nonproducing acreage currently leased in the state.

According to BLM, only 1 percent of noncompetitive leases issued nationwide between 2003 and 2019 began producing within their primary lease term.⁷ Nonproducing leases block other uses of federal land that could yield far greater value for taxpayers, including recreation, conservation, and the development of other mineral or energy resources. Noncompetitive leasing also costs taxpayers millions through the lack of bonus bids and reduced royalty revenue from the lack of oil and gas production. Between FY2003 and FY2009, the Government Accountability Office found that noncompetitively leased land generated 5 times less revenue than competitively leased land.⁸

Status of Currently Leased Federal Land in Montana



Royalty Rates and What They Mean for Montana

For nearly a century, the federal onshore royalty rate was fixed at 12.5 percent.⁹ 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. Over the last decade, 2016-2025, the Office of Natural Resources Revenue collected \$187.6 million in royalties on oil and gas produced from federal lands in Montana.¹⁰ Because that revenue is split with producing states, every percentage point in the royalty rate affects how much funding reaches local communities.

The federal government’s 12.5 percent royalty rate, first established in 1920, is far below the 16.67 percent to 25 percent often charged on state lands. If an 18.75 percent royalty rate had been applied instead, that total would have risen to roughly \$304.5 million. That means taxpayers lost about \$117 million in additional royalty revenue over the decade. Because roughly half of those revenues are shared with producing states, Montana’s share of that lost revenue was approximately \$58 million.

An 18.75 percent rate is not unusual. Texas and New Mexico, two top oil and gas-producing states, charge royalties of up to 25 percent on state lands. Other states, including Colorado, North Dakota, Oklahoma, and Pennsylvania, commonly issue leases on state land with royalty rates at or above 18.75 percent. It also matches the rate charged on oil and gas production in federal offshore waters.

Federal leasing over the last decade has made this plain. Companies continued to invest, drill, 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 (\$978.18 and \$2,148.62 per acre, respectively) than they had been in previous decade (\$379.32 per acre 2013-2022).¹¹ The evidence suggests the higher royalty rate did not discourage development. What changed was the public's share of the value generated from taxpayer owned resources.



[“#mypubliclandsroadtrip 2016: Places to Drop a Line, Blackfoot River”](#) by [Bureau of Land Management](#), [CC BY 2.0](#), Flickr

Bonding and the Risk to State and Federal Taxpayers

Montana 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, historic 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.¹²

In 2023, DOI reported there were 1,500 bonds covering approximately 110,000 existing wells nationwide.¹³ 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.¹⁴ Combined, each existing well had an average bond coverage of \$3,873, covering just 5 percent of estimated reclamation costs. Weak bonding requirements do not eliminate cleanup costs. They simply increase the likelihood those costs will ultimately be borne by taxpayers.



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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 2,365 oil and gas wells producing on federal lands in Montana at the end of FY2025.¹⁵ 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 \$9.2 million in financial assurances for wells that may cost roughly \$168 million to reclaim, leaving taxpayers exposed to approximately \$159 million in potential future liabilities.¹⁶ Without strong bonding requirements, federal taxpayers and 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.

Conclusion

Oil and gas resources developed on federal lands belong to the American people, and leasing terms should ensure those resources are not sold for less than they are worth.

When Congress reduces royalty rates, restores outdated leasing terms, allows noncompetitive leasing, or weakens bonding reforms, those decisions shape how much value the public receives from leased lands and how much risk taxpayers may ultimately bear.

Curbing speculation, updating royalty rates, maintaining strong bonding requirements, and strengthening oversight are common sense reforms that would improve the federal leasing system. Together, they would help ensure taxpayers receive a fair return when public resources are developed and are not left paying the cleanup bill when operators walk away.



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Endnotes

- 1 Bureau of Land Management (BLM), “Fiscal Year 2025 Statistics,” accessed May 2026. <https://www.blm.gov/programs/energy-and-minerals/oil-and-gas/oil-and-gas-statistics>
- 2 Office of Natural Resources Revenue (ONRR), Query Data, accessed May 2026. <https://onrr.gov/>
- 3 Taxpayers for Common Sense (TCS) analysis of competitive onshore oil and gas lease sale results.
- 4 BLM, “Fiscal Year 2025 Statistics,” accessed May 2026. <https://www.blm.gov/programs/energy-and-minerals/oil-and-gas/oil-and-gas-statistics>
- 5 TCS analysis of competitive onshore oil and gas lease sale results.
- 6 TCS analysis of BLM data available through the LR2000 and MLRS.
TCS analysis of BLM data available through the LR2000 and MLRS.
- 7 BLM, “Oil and Gas Leasing,” June 24, 2026. <https://www.federalregister.gov/documents/2026/06/24/2026-12734/oil-and-gas-leasing>
- 8 Government Accountability Office (GAO), “Oil and Gas: Onshore Competitive and Noncompetitive Lease Revenues,” November 2020, Page 11. <https://www.gao.gov/assets/gao-21-138.pdf>
- 9 Nearly all leases were issued at the statutory minimum royalty rate of 12.5 percent.
- 10 ONRR, Query Data, accessed May 2026. <https://onrr.gov/>
- 11 TCS analysis of competitive onshore oil and gas lease sale results.
- 12 GAO, “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>
- 13 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>
- 14 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.
- 15 BLM, “Fiscal Year 2025 Statistics,” accessed May 2026. <https://www.blm.gov/programs/energy-and-minerals/oil-and-gas/oil-and-gas-statistics>
- 16 TCS calculation multiplies the number of producing wells in the state by the estimated cost of reclamation (\$71,000) less the average bond value per well held by DOI in 2023 (\$3,873.39).