Steve Textoris
Acting Chief, Leasing Division
Bureau of Ocean Energy Management
381 Elden St.
Herndon, Virginia 20170

RE: Notice of Availability of the Proposed Notice of Sale (NOS) for Outer Continental Shelf (OCS) Oil and Gas Lease Sale 218 in the Western Planning Area (WPA) in the Gulf of Mexico (GOM)

October 18, 2011

Dear Mr. Textoris:

Taxpayers for Common Sense (TCS) is a national, non-partisan budget watchdog organization. Our mission is to achieve a government that spends taxpayer dollars responsibly and operates within its means.

Since 1995, TCS has actively worked to ensure that taxpayers receive a fair return on resources extracted from federal lands and waters. Royalties and fees collected from resource development represent a valuable source of income for the federal government and should be managed and accounted for in a fair and accurate manner. As the rightful owners, taxpayers have the right to fair market compensation for the resources extracted from our lands and waters, as would any private landowner.

Revenues from the collection of rents, royalties, and bonus bids represent one of the largest non-tax income sources for the federal government. Fair and accurate collection is necessary to ensure taxpayers are receiving what they are rightfully owed. In the recent past, the oil and gas royalty collection system has received serious scrutiny. The problems within the system led to a lack of accountability, transparency, and accuracy in charging, collecting, and auditing payments to the federal treasury.

Since the Deepwater Horizon oil spill, federal leasing in the Gulf has been put on hold. During this time, leasing practices came under serious scrutiny, the Minerals Management Service was dissolved, and the new Bureau of Ocean Energy Management, (BOEM) was created. As the federal offshore leasing process resumes, this new agency has the opportunity to create a more transparent and fair process that ensures taxpayers received sufficient royalties, rents, and bonus bids. Furthermore, leases must be managed in a way to protect taxpayers from future financial liabilities of oil and gas drilling. In an era of record profits and sky-high oil prices, the oil and gas industry has a responsibility to the taxpayer to pay what is rightfully owed.

In response to the Notice of Availability of the Proposed Notice of Sale (NOS) for Outer Continental Shelf (OCS) Oil and Gas Lease Sale 218 in the Western Planning Area (WPA) in the Gulf of Mexico (GOM), TCS submits the following comments.

With Lease Sale 218, the newly established BOEM has the opportunity to create a more transparent process that collects appropriate fees and royalties from leases operating offshore. This lease sale makes 20.6 million offshore acres, in Gulf of Mexico waters approximately 9 miles to more than 200 miles offshore, available for oil and gas exploration. Leases governing this expansive stretch of valuable federal waters must be managed, operated, and executed in a manner that protects these significant taxpayer resources. Lease Sale 218 raises three issues that TCS would like to address: minimum bids, lease terms, and royalty relief.

First, TCS supports the increase on minimum bids for any tracts deeper than 400 meters from $37.50 to $100 per acre. This increase is long overdue. The current minimum bid was established more than a decade ago when the price of oil was about $20 per barrel. Since its 1999 adoption, oil prices have increased by more than five times and so too should minimum bids. An increase to $100/acre is a reasonable first step to ensuring a fair bidding process for new leases. Raising the minimum bid will ensure that only tracts that make economic sense to develop are obtained by industry and help avoid companies holding idle leases for extended periods of time.

Second, continuing to use the lease terms adopted during the last Gulf sale in March 2010 is an important step in protecting the value of taxpayer resources. The adjusted lease terms provide a reasonable time for development of the leases in varying water depths and will help avoid speculative retention of leases. If a lessee cannot develop the lease within the specified period, it is appropriate that it be returned to the pool of unleased properties for consideration by other bidders.

Finally, over the years billions of dollars have been lost on valuable leases because of outdated, unnecessary royalty holidays provided by Congress. This is the first lease sale after the expiration of the 5-year requirement, in Section 345 of the Energy Policy Act of 2005, to apply deepwater royalty relief to all new Gulf leases. After August 8, 2010, the application of deepwater royalty relief is left it to the discretion of the Secretary. Noting high oil and gas prices, we are pleased BOEM plans to offer no royalty suspension for leases included in this sale.

Additionally, we were pleased that BOEMRE advised bidders that royalty relief provisions included in Section 344 of the Energy Policy Act of 2005 may also not apply for these leases pending Congressional action. Unfortunately, BOEMRE concluded that Congress must repeal section 344 before October 13, 2011 for the issued leases to exclude deep gas royalty relief. Since Congress has not taken such action by the noted date, we assume deep gas royalty relief will apply. This will cost taxpayers billions in lost revenue. BOEM should take every possible step to avoid this loss. We urge BOEM to provide in the Final Notice of Sale that deep gas royalty relief will not be provided in any lease if Congress repeals the provision before the sale date, December 14, 2011. In addition, we urge that the Final Notice of Sale include an additional lease stipulation providing that if section 344 is repealed by Congress during the term of the lease, then deep gas royalty relief will cease to apply to that lease from the date of repeal forward.

Thank you for considering these comments. We look forward to working with BOEM on this and future lease sales.

Sincerely,

Autumn Hanna
Senior Program Director

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