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Highlights

Highlights of GAO-07-369T, a testimony before the Committee on Energy and Natural Resources, United States Senate

OIL AND GAS ROYALTIES

Royalty Relief Will Likely Cost the Government Billions, but the Final Costs Have Yet to Be Determined

Why GAO Did This Study

Oil and gas production from federal lands and waters is vital to meeting the nation's energy needs. As such, oil and gas companies lease federal lands and waters and pay royalties to the federal government based on a percentage of the oil and gas that they produce. The Minerals Management Service (MMS), an agency in the Department of the Interior, is responsible for collecting royalties from these leases. In order to promote oil and gas production, the federal government at times and in specific cases has provided "royalty relief," waiving or reducing the royalties that companies must pay. However, as production from these leases grows and oil and gas prices have risen since a major 1995 royalty relief act, questions have emerged about the financial impacts of royalty relief.

Based on our work to date, GAO's statement addresses (1) the likely fiscal impacts of royalty relief on leases issued under the Outer Continental Shelf Deep Water Royalty Relief Act of 1995 and (2) other authority for granting royalty relief that could further impact future royalty revenue.

To address these issues our ongoing work has included, among other things, analyses of key production data maintained by MMS; and reviews of appropriate portions of the Outer Continental Shelf Deep Water Royalty Relief Act of 1995, the Energy Policy Act of 2005, and Interior's regulations on royalty relief.

www.gao.gov/cgi-bin/getrpt?GAO-07-369T.

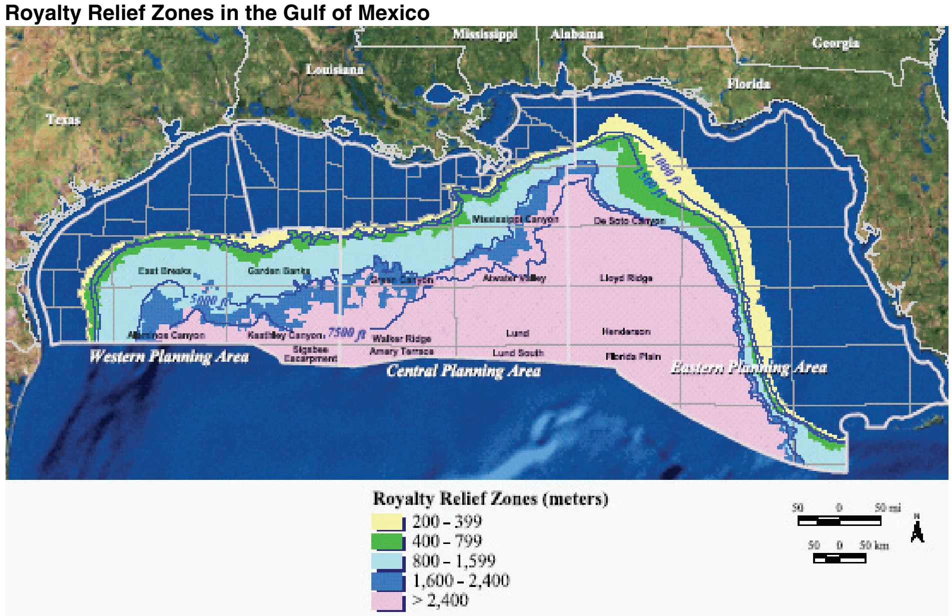
To view the full product, including the scope and methodology, click on the link above. For more information, contact Mark Gaffigan at 202-512-3841 or gaffiganm@gao.gov.

What GAO Found

While precise estimates remain elusive at this time, our work to date shows that royalty relief under the Outer Continental Shelf Deep Water Royalty Relief Act of 1995 will likely cost billions of dollars in forgone royalty revenue—at least $1 billion of which has already been lost. In October 2004, MMS estimated that forgone royalties on deep water leases issued under the act from 1996 through 2000 could be as high as $80 billion. However, there is much uncertainty in these estimates. This uncertainty stems from ongoing legal challenges and other factors that make it unclear how many leases will ultimately receive royalty relief and the inherent complexity in forecasting future royalties. We are currently assessing MMS's estimate in light of changing oil and gas prices, revised estimates of future oil and gas production, and other factors.

Additional royalty relief that can further impact future royalty revenues is currently provided under the Secretary of the Interior's discretionary authority and the Energy Policy Act of 2005. Discretionary programs include royalty relief for certain deep water leases issued after 2000, certain deep gas wells drilled in shallow waters, and wells nearing the end of their productive lives. The Energy Policy Act of 2005 mandates relief for leases issued in the Gulf of Mexico during the five years following the act's passage, provides relief for some gas wells that would not have previously qualified for royalty relief, and addresses relief in certain areas of Alaska.

Royalty Relief Zones in the Gulf of Mexico



Source: Minerals Management Service, the Department of the Interior.