



Highlights of [GAO-07-682T](#), a testimony before the Committee on Natural Resources, United States House of Representatives

## Why GAO Did This Study

The Department of the Interior's Minerals Management Service (MMS) is charged with collecting and administering royalties paid by companies developing fossil and renewable energy resources on federal lands and within federal waters. To promote development of oil and natural gas, fossil resources vital to meeting the nation's energy needs, the federal government at times has provided "royalty relief" waiving or reducing the royalties that companies must pay. In these cases, relief is typically applicable only if prices remain below certain threshold levels. Oil and gas royalties can be taken at MMS's discretion either "in value" as cash or "in kind" as a share of the product itself. Additionally, MMS also collects royalties on the development of geothermal energy resources—a renewable source of heat and electricity—on federal lands.

This statement provides (1) an update of our work regarding the fiscal impacts of royalty relief for leases issued under the Deep Water Royalty Relief Act of 1995; (2) a description of our recent work on the administration of the royalties in kind program, as well as ongoing work on related issues; and (3) information on the challenges to collecting geothermal royalties identified in our recent work.

To address these issues we relied on recent GAO reports on oil, gas, and geothermal royalty collection systems. We are also reviewing key MMS estimates and data.

[www.gao.gov/cgi-bin/getrpt?GAO-07-682T](http://www.gao.gov/cgi-bin/getrpt?GAO-07-682T).

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](mailto:gaffiganm@gao.gov).

## ROYALTIES COLLECTION

### Ongoing Problems with Interior's Efforts to Ensure a Fair Return for Taxpayers Require Attention

#### What GAO Found

The absence of price thresholds in oil and gas leases issued by MMS in 1998 and 1999 has already cost the government about \$1 billion and the agency has recently estimated that future foregone royalties would be \$6.4 billion to \$9.8 billion over the lives of the leases. Precise estimates of the actual foregone royalties, however, are not possible at this time because future projections are sensitive to price and production levels, both of which are subject to change. MMS is currently negotiating with oil and gas companies to apply price thresholds to future production from these leases, with mixed results—only 6 of the 45 companies involved have agreed to terms. Moreover, a pending legal challenge to Interior's authority to include price thresholds on any leases issued under the Deep Water Royalty Relief Act could, if successful, cost the government billions more in refunded and foregone revenue.

In our most recent review of the royalty in kind (RIK) program, conducted in 2004, we found that MMS was unable to determine whether the revenues received from its sales of oil taken in kind were equivalent to receiving royalties in value, largely because it had not developed systems to rapidly and efficiently collect this information. We made recommendations that the agency has implemented that have improved the administration of the program as it existed at the time of our report. However, the continued expansion of the program raises a new question about the adequacy of the agency's overall management practices and internal controls to meet the increasing demands placed on the RIK program. Accordingly, we are undertaking follow-on reviews assessing, among other things, the agency's ability to quantify and compare administrative costs and revenues of the RIK and royalties in value programs and the extent to which the revenues collected under the RIK program are equal to or greater than what would have been received had they been taken in value.

In a 2006 report on geothermal royalties, we found that missing and erroneous historical data, as well as insufficient data on electricity sales, meant that MMS is unable to accurately determine whether it was collecting royalties as directed by statute. The Energy Policy Act of 2005 included provisions that significantly changed how geothermal royalties are calculated but also directed Interior to maintain the same level of royalties over the next ten years that would have been collected prior to the Act's passage. We found that making this determination requires historical data on sales of electricity produced from geothermal resources as well as accurate royalty data. However, MMS did not have sufficient historical gross revenue data with which to establish a baseline for past royalties paid as a percentage of electricity revenues. Further, about 40 percent of MMS's royalty data was either missing or erroneous for the projects we reviewed. We recommended that MMS correct these deficiencies and the agency agreed. We are continuing to monitor the agency's efforts.