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Highlights

Highlights of GAO-09-506T, a testimony before The Subcommittee of Energy and Mineral Resources; Committee on Natural Resources; House of Representatives

OIL AND GAS LEASING

Federal Oil and Gas Resource Management and Revenue Collection in Need of Comprehensive Reassessment

Why GAO Did This Study

In fiscal 2008, the Department of the Interior (Interior) collected over $22 billion in royalties and other fees related to oil and gas. Interior's Bureau of Land Management (BLM) and Minerals Management Service (MMS) manage federal onshore and offshore oil and gas leases, respectively. Acquiring a federal lease gives the lessee the rights to explore for and develop the oil and gas resources under the lease, including drilling wells and building pipelines that may lead to oil and gas production.

This statement focuses on findings from a number of recent GAO reports on federal oil and gas management. GAO has made numerous recommendations to Interior, which the agency generally agreed with and is taking steps to address. However, two important issues remain unresolved. Specifically, GAO made one recommendation and one matter for Congressional consideration that together call for a comprehensive re-evaluation of how Interior manages federal oil and gas resources. Interior has not undertaken such a comprehensive review and until this is done, the public cannot have reasonable assurance that federal oil and gas resources are being appropriately managed for the public good.

View GAO-09-506T or key components.

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What GAO Found

In recent years, GAO has conducted numerous evaluations of federal oil and gas management and found many material weaknesses. Key among the findings in these reports are:

- Interior does less to encourage development of federal oil and gas leases than some state and private landowners. For example, the eight states GAO reviewed used more tools to encourage development on their oil and gas leases, using increasing rental rates as well as shorter lease terms and escalating royalty rates. Some states also do more than Interior to structure leases to reflect the likelihood of oil and gas production, which may encourage faster development.

- The annual number of federal oil and gas leases issued and the pace of development have generally increased in recent years. Several factors influence industry's decisions to acquire and develop federal oil and gas leases, including oil and gas prices; the availability and cost of equipment; the geology of the land underlying the lease; and regulatory issues, such as limitations on when drilling can occur.

- Development and production activity in a sample of leases issued from 1987 through 1996 varied considerably. Development occurred on about 26 percent of offshore and 6 percent of onshore leases issued, but production was less frequent, with about 12 percent of offshore leases and 5 percent of onshore leases ultimately achieving production. Shorter leases were generally developed more quickly than longer leases, but not as frequently.

- MMS and BLM employ different practices for deciding which federal properties to lease and when, and could do more to encourage faster development of certain federal oil and gas leases that are relatively more likely to have significant oil and gas resources..

- BLM has encountered persistent problems in hiring and retaining sufficient and adequately trained staff to keep up with workload as a result of rapid increases in oil and gas operations on federal lands.

- The federal government receives one of the lowest shares of revenue for oil and gas resources compared with other countries and Interior has not systematically re-examined how the federal government is compensated for extraction of oil and gas for over 25 years.

In recent reports, GAO has made a number of recommendations to improve the accuracy of oil and gas royalty measurement and collections and to improve the overall management of federal oil and gas resources.