Onshore Oil and Natural Gas Production on Federal Lands

Federal lands can be leased for energy generation, including solar, wind, oil, and natural gas.

Congress and Administration should support an “all-of-the-above” energy policy to encourage responsible production of American oil and natural gas, including on Bureau of Land Management (BLM) lands, to keep energy prices low here at home and support our allies abroad. Unfortunately, current policies are going in the opposite direction.

Biden Administration Onshore Leasing Policy
Since coming to office, the Biden Administration has not held a single onshore lease sale, despite being statutorily required to do so at least quarterly by the Mineral Leasing Act. At this point in President Obama’s presidency, over 44 onshore leases sales had been held.

The Biden Administration just announced that it would resume federal lease sales in June, roughly a year after it instituted a “pause” of the federal oil and gas leasing program – an aggressive action taken against the domestic energy industry. In its June 2022 Lease Announcement, BLM:

1. Eliminated 80 percent of the federal acreage originally nominated for competitive leasing;

2. Increased the federal royalty rate for new competitive oil and gas leases to 18.75 percent; the first ever increase from the Mineral Leasing Act’s minimum royalty rate of 12.75 percent; and

3. Environmental assessments accompanying the June lease sale notices containing more robust greenhouse gas emissions and climate change impact analyses than most prior lease sales. And, in estimating the economic cost of the direct and indirect GHG emissions associated with lease development, BLM applied the Office of Management and Budget’s 2021 interim social cost of greenhouse gas estimates.

The agency also deferred thousands of acres with little explanation or justification, even though many of those parcels abut existing leases and are in areas with present oil and gas production that would otherwise imply opportunity. Since the Biden Administration has yet to hold an onshore lease sale, development on existing leases may be constrained as operators wait on the ability to bid on new leases to round out development units. Additionally, environmental reviews need to be completed before development on federal leases is allowed – which often takes years.

A historic royalty rate increase, coupled the with acreage reduction and the omnipresent risk of litigation, will further challenges operators from developing federal mineral resources. Amidst the global backdrop of high energy prices and skyrocketing inflation, the Biden Administration and Congress should instead find ways to support federal lands production. While production from these lands represents a smaller share than that from private lands, deliberately threatening future supply from federal lands, particularly in today’s tightening market for oil and gas, will do nothing to ease prices on consumers or help sustain our nation’s role as an energy superpower.

Setting the Record Straight on “Use it or Lose it”
The vast majority of approved leases are actively producing oil and natural gas. There are roughly 37,500 total oil and gas leases in effect, 75 percent of which are currently producing. This is the highest percentage of producing leases in the history of onshore federal lands development and reflects a remarkable rate of efficiency in light of existing and likely upcoming challenges to developing federal minerals.
For some leases, operators may determine there are not sufficient recoverable resources to move forward with development; the United States, however, still benefits from bonus and rental revenue from those leases. Many remaining leases are either wrapped up in BLM litigation or are going through a complex regulatory approval process – one the Administration could speed up.

**Setting the Record Straight on Permits**

Permits are separate from leases. Due to the uncertainty of operating on federal lands, companies must build up a sufficient inventory of permits before commencement of drilling. BLM APDs (applications for permit to drill) are not the only federal approvals required. Energy producers often need rights of way (ROW) approvals for gathering lines and the infrastructure needed to transport the oil and gas. Without this infrastructure, development cannot move forward. There are currently about 4,600 permits that await federal approval. The Biden administration could expedite approval of these permits and enable companies to move forward with development.

**Oil and Gas Production on Federal Lands is Critical to Our Economy**

BLM reports that in fiscal year 2019, the diverse activities authorized on BLM-managed lands generated billions in economic output across the country and supported 318,000 jobs from onshore oil and natural gas production.

All oil and gas royalty, rental payment, and bonus bid revenue is shared amongst the U.S. Treasury and the states and communities where the production takes place. Last year, onshore federal lands production yielded over $6.17 billion in revenues with $1.92 billion going to state and local governments.

**Other key factors related to onshore federal oil and natural gas development:**

- **Fair Returns:** In 2019 alone, oil and gas contributed more than $8.5 billion to the federal government through bonuses, rents, and royalties. Ensuring a fair return to the taxpayer for their minerals means DOI must take care not to price these opportunities out of the market.

- **Emissions:** According to a 2018 USGS study, the extraction of oil and natural gas from federal lands accounts for just 0.6 percent of total U.S. greenhouse gas emissions, an intensity that is proportionally much less than the sizable production and economic value these activities provide. A recent study found that stopping leasing and development on federal lands and waters would result in an increase in coal use by 15 percent and a 5 percent rise in carbon dioxide emissions from the power sector by 2030.

- **Lease Terms:** In past years, DOI has explained that its lease terms were designed with “diligence in mind” after considering the timelines necessary to comply with federal regulations for development. Shorter lease terms would likely have the effect of dissuading investment, if timelines are unrealistic against the realities of these challenges that exist for federal lands development.

- **Financial Assurance and Well Decommissioning:** Federal and state regulations require each company to provide financial assurance to cover the cost of decommissioning wells and reclaiming the surface in as the event a company files for bankruptcy. Bonding levels are typically tiered layers at local, state, and nationwide, together considering the relative risk of a decommissioning liability falling to the regulator.