Reports & Data

Taxpayers are losing millions on natural gas extracted from federal land

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The Bureau of Land Management (BLM) within the Department of the Interior (DOI) manages both leasing on federal lands and leasing of federal minerals underlying nonfederal lands. This report looks at two things: 1. the cost to taxpayers of uncollected royalties on natural gas extracted from federal lands as a result of existing waste prevention rules, and 2. the lack of incentives to avoid emissions of methane into the atmosphere, which create additional liabilities for federal taxpayers. This will be the first in a series of reports looking at the existing system for charging, verifying, and collecting federal royalties for publicly owned natural gas.

Findings in Brief

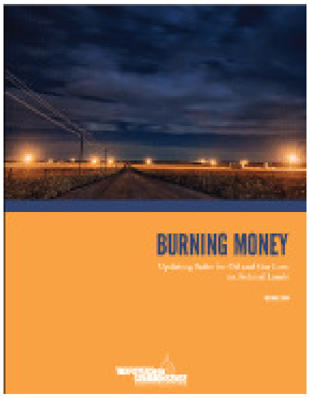
According to Taxpayers for Common Sense (TCS) analysis of data from the Office of Natural Resource Revenue (ONRR) within the Department of the Interior:

Federal taxpayers lost in excess of $380 million from 2006 through 2013 on gas extracted from onshore federal leases as a result of existing royalty relief for "beneficial purposes" and "unavoidably lost" gas. Most of this loss – 82 percent – was associated with gas used by drilling operators for beneficial purposes, which allows oil and gas companies to consume publicly owned natural gas for certain defined purposes at no cost.

The amount of gas drilling operators reported for beneficial purposes and unavoidably lost gas (approved for venting or flaring) from 2006 through 2013 – 665.7 billion cubic feet (bcf)– is roughly equal to the average amount of gas consumed by all households in the State of New York in a year

In many states, operators on federal leases reported annual amounts of gas used for beneficial purposes and lost gas equal to 10 percent or more of the total annual volume of gas sold in the state.

The total volume of beneficial purpose and unavoidably lost gas on federal leases – both nominally and relative to the total volume of gas sold annually – is steadily increasing.



Recommendations

ONRR data show that the existing rules have cost taxpayers significant revenue and contributed to the release of environmentally damaging methane into the atmosphere. As a result, **DOI** should:

Collect a royalty on any gas leaked in excess of a reasonable amount, defined as the amount of gas leaked with use of best existing technology (e.g. no-bleed controllers);

Provide greater transparency in approval process for royalty-free venting and flaring;

Harmonize reporting from drilling operators and federal lessees;

Establish better public disclosure of production and disposition data reported by drilling operators.

Because of the high cost to taxpayers of allowing drilling operators to freely consume publicly owned gas on well sites, **Congress should amend the Mineral Leasing Act to remove language providing for royalty-free consumption of federal gas by drilling companies**.

The data used in the report was provided to Taxpayers for Common Sense by ONRR in August, 2014 and is available for download here.

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