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U.S. House of Representatives

Committee on Natural Resources

Washington, DC 20515

February 1, 2018

The Honorable Gene Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington DC

Dear Mr. Dodaro,

The Department of the Interior's Bureau of Land Management (BLM) is responsible for overseeing onshore oil and gas activities on federal lands. As part of its responsibilities, BLM holds lease sales at its state offices—typically located in the western part of the U.S.—several times a year. In fiscal year 2017, BLM issued leases for 949 parcels totaling over 792,000 acres for which it received approximately $360 million in bonus bids, rentals, and fees.

How BLM identifies areas to lease and what, if any, value it assigns to those leases may significantly affect the revenue the government receives from oil and gas companies. Prior to 1987, BLM had in place a process for issuing both competitive leases, which were obtained through a bidding process, and non-competitive leases, which were obtained for a fee. BLM also had in place a process to determine the minimum acceptable bid for a lease. At the time, companies were required to provide BLM with oil and gas exploration data, which BLM used to develop a minimum acceptable bid. Under the prior system, leases were only issued competitively in areas within a "known geological structure" or producing oil field. Under that process, only about 7 percent of all land was leased competitively, while 93 percent was leased non-competitively.

In the late 1980s, Congress passed the Federal Oil and Gas Leasing Reform Act of 1987 (Reform Act), which revised BLM's process for issuing leases. The revised process opened up many more acres to lease and eliminated BLM's ability to establish separate minimum acceptable bids for different parcels. According to Interior, a major reason leading to the enactment of the revised leasing process was that much of the land leased non-competitively under the old process was subsequently found to have significant quantities of oil and gas. As such, BLM was possibly forgoing bonus bid revenue—or money companies pay for the lease—for not correctly identifying the economic value of the leases obtained non-competitively. One of the challenges of the prior leasing process, according to Interior, was the difficulty BLM had in placing an accurate value on properties not yet drilled or in production. The Reform Act established a national minimum acceptable bid of $2 per acre for all competitive leases.

In contrast to BLM's current leasing process, other resource owners have adopted other leasing processes that may enhance government revenues. For example, Interior's Bureau of Ocean Energy Management (BOEM)—responsible for overseeing leasing offshore on the Outer Continental Shelf—uses seismic data collected by companies to determine what it considers to be a fair bid for each lease block. In instances where the company bid does not meet BOEM's minimum acceptable bid amount, the lease is not issued, and the block is offered in future lease sales. According to BOEM, this has resulted in increased bonus bids for those blocks. Moreover, several states have put in place onshore oil and gas leasing programs that take into consideration the likelihood of economically recoverable oil and gas. For example, one state is known to have linked the royalty rate to the likelihood of finding oil and gas. Both BOEM's process for establishing a minimum acceptable bid and states' processes for linking certain lease terms to the likelihood of finding oil and gas may be increasing taxpayer returns.

Therefore, to help our committee, and Congress more generally, assess the effects of the 1987 Reform Act on BLM's onshore leasing program, we request that GAO report on the following:

1) How did the 1987 Reform act affect competition for federal oil and gas leases, total acres leased, and value of bonus bids?
2) To what extent has the 1987 Reform act improved or limited BLM's ability to assess the value of a tract of land?
3) What have been the results of other federal and state agencies' efforts to structure leases that explicitly reflect the likelihood of the discovery of economic oil and gas resources on the leased land?

Thank you for your attention to this request. If you have any questions or need further information, please contact Steve Feldgus at (202) 226-9971 or steve.feldgus@mail.house.gov.

Sincerely,

Raúl M. Grijalva

Raúl M. Grijalva
Ranking Member
House Committee on Natural Resources

Alan Lowenthal

Alan Lowenthal
Ranking Member
House Subcommittee on Energy and Mineral Resources