Federal Energy Royalty Rates

What they are and why they matter

Federal energy royalty rates were established by several statutes, including the Mineral Leasing Act of 1920, to ensure that the government and the American people are properly compensated for the development and use of the non-renewable energy resources—oil, gas, and coal—extracted from public lands.

Unfortunately, royalty rate policies have not kept pace with changes in technologies, markets, and the public's expectations for the use of public lands.

Interior Secretary Ryan Zinke recently created a Royalty Policy Committee to review these outdated policies. The Wilderness Society is eager to see this committee act swiftly and appropriately to update antique, below-market rates that force taxpayers to effectively subsidize the extraction of their natural resources by private companies.

> **Our take:** To ensure that our public lands are fully valued and that taxpayers receive a fair rate from energy companies, the Interior Department's Royalty Policy Committee should recommend swift action to update rates and other policies impacting royalties.

The Problem

A royalty is the percentage of revenue paid to the federal government by energy companies from the sale of oil, gas, or coal extracted from the nation's public lands.

The current royalty rate officially charged for oil, gas, and coal drilled or mined from U.S. public lands is 12.5 percent. Remarkably, for oil and gas, this rate has not changed since the 1920s; for coal, it's been in effect since the 1970s.

Compare this to the rates western states charge for oil and gas extracted from their lands—typically between 16.67 percent and 18.75 percent. And until recently the federal government itself charged a royalty rate of 18.75 percent for offshore oil and gas.

What's more, coal companies rarely pay the full 12.5 percent due to subsidies, loopholes, and deductions. According to recent studies, the effective royalty rate is actually under 5 percent. That means that each year, energy-rich states in the Rocky Mountain West are being shortchanged between $490 million and $730 million in gross revenues due to out-of-date federal royalty rates.

These bargain-basement rates subsidize climate change-causing fossil fuel development, while undermining or precluding the many uses of public lands besides energy that benefit the American public, such as wildlife habitat, conservation, and recreation.

> **Our take:** Energy development isn't appropriate for all of our public lands, regardless of whether we want to be "energy-dominant." But where it occurs, we must charge oil, gas, and coal companies a fair market rate.

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The Solution

The 12.5 percent rate currently charged for oil, gas, and coal sourced from public lands is only the base rate established by federal laws—it's supposed to be a starting point, not a permanent sweetheart deal.

Raising this rate to correspond to the rates charged by states would ensure that the American people receive the revenue they deserve for their land and resources; that state budgets and local community coffers can fund public activities and programs; and that everyone has clean air to breathe, clean water to drink, and wild places to recreate.

In addition, ensuring that the American public receives fair market value from our public lands is not limited to the royalty rate we charge. For example, improving bonding practices will also increase revenue for taxpayers, and minimizing speculative leasing will free up lands for other uses.

Our take: The royalty rate for fossil fuels extracted from public lands should be raised to 18.75 percent to match the rate that many states have set.

More Resources

Administrative Procedure Act Petition: Submitted by TWS and partners in Wyoming and Montana, this petition requests the Interior Department update its oil and gas program to comply with several federal laws. (Sept. 2017)

"A Fair Share: The Case for Updating Oil and Gas Royalties on Our Public Lands": Center for Western Priorities Report on federal oil and gas royalty rates. (June 2016)

"Outdated and Undervalued": TWS report on federal oil, gas, and coal royalty rates. (Nov. 2015)

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