

U.S. House of Representatives
Committee on Natural Resources
Washington, DC 20515

May 20, 2020

The Honorable Gene Dodaro
Comptroller General of the United States
Government Accountability Office
441 G St. NW
Washington, DC 20548

Dear Mr. Dodaro:

In April 2020, the Department of the Interior announced that in response to the COVID-19 pandemic it would expedite the processing of applications from companies operating on public lands and waters for oil and gas royalty rate reductions. On April 21, 2020, the Bureau of Land Management (BLM) issued interim guidance (later finalized) promising companies that applications for royalty cuts would be reviewed and evaluated within five business days, but that regulatory requirements under 43 C.F.R. 3103.4–1 would still need to be met.¹

The BLM has refused to provide the Natural Resources Committee with data on the number or identity of applicants, or whether those applications were approved, but a search of BLM's LR2000 database on May 18, 2020, showed that at least 75 applications from 12 companies were approved by May 5, 2020, with 20 applications approved in three business days or less. Press reports indicate this data is incomplete, and that BLM has received "more than 1,000 applications" for royalty rate reductions.²

I am concerned that in its haste to approve huge numbers of royalty cuts, BLM may not be fully following the requirements in the regulations, which require BLM to make a determination that a royalty reduction is "necessary to promote development or that the leases cannot be successfully operated" under the royalty rate in the lease.³ (emphasis added) Between April 16 and April 30, when all of the known applications were submitted, the spot price for West Texas Intermediate crude oil was never higher than \$20, meaning that applicants needed to show that a change in price of \$2.50 per barrel (the 12.5 percent royalty on a \$20 barrel of oil, neglecting deductions) was sufficient to be the difference between successful and unsuccessful operation of the wells on the lease.

¹ <https://www.blm.gov/programs/energy-and-minerals/oil-and-gas/covid-royalty-rate-reduction-guidance>

² H. Richards, *BLM flooded with royalty relief requests* — sources, E&E Publishing, March 20, 2020.

³ 43 C.F.R. 3103.4–1(a)

Given the potentially significant impacts to federal and state budgets from the tremendous number of royalty rate reductions BLM is approving, I request that the Government Accountability Office (GAO) answer the following:

1. Is BLM fully meeting the requirements of 43 C.F.R. 3103.4-1 in its review and approval of royalty rate reduction applications received since April 16, 2020?
2. Are applicants properly demonstrating that royalty rate cuts are necessary in order for production to continue on their leases?
3. Is BLM properly making sure that applications and approvals are posted on LR2000 in a timely manner?
4. What will the fiscal impacts be of the royalty rate reductions that BLM is approving?
5. Who at BLM is reviewing the applications for royalty rate reductions, and is there any impact on other BLM functions from the increased workload required to review and process those applications?

Because this matter is time sensitive, I would appreciate an expedited initial report with such data as GAO can rapidly acquire and analyze, even if not all of the above questions can be answered in a short timeframe.

Thank you for your prompt attention to this matter. Please contact the Committee staff at (202) 225-6065 if you have any questions regarding this request.

Sincerely,



Raúl M. Grijalva

Chair

House Committee on Natural Resources