Chairman Alan S. Lowenthal

Energy and Mineral Resources Subcommittee Oversight Hearing:

Interior's Royalty Cuts: Thoughtful Policy or Industry Giveaway?

October 6, 2020

The Subcommittee on Energy and Mineral Resources will come to order.

The Subcommittee is meeting today to hear testimony on the recent royalty cuts offered by the Trump administration to oil and gas companies operating on America's public lands.

Under Committee Rule 4(f), any oral opening statements at hearings are limited to the Chairman and the Ranking Minority Member or their designees.

I ask unanimous consent that all other Members' opening statements be made part of the hearing record if they are submitted to the Subcommittee Clerk by 5:00 pm today; [*pause]* hearing no objection, so ordered.

Without objection, the Chair may also declare a recess subject to the call of the Chair. *[pause]* Hearing no objection, so ordered.

As described in the notice, statements, documents, or motions must be submitted to the electronic repository at HNRCdocs@mail.house.gov.

Additionally, please note that, as with in-person meetings, Members are responsible for their own microphones. As with our in-person meetings, Members can be muted by staff only to avoid inadvertent background noise.

Finally, Members or witnesses experiencing technical problems should inform committee staff immediately.

Today's hearing is about fiscal responsibility and the importance of a federal government that operates in the public's best interest.

Whether that's the taxes the IRS collects or the spending Congress authorizes.

But this also applies to America's natural resources.

As stewards of our public lands, Secretary Bernhardt and William Perry Pendley are responsible for managing these resources for America's best interests.

But they don't. They manage them for the benefit of extractive industries.

During the early days of the pandemic, the price of oil fell significantly as demand shrank because of measures taken to reduce the spread of the coronavirus.

In situations like these, BLM is allowed to reduce the oil and gas royalty rate below 12.5 percent to prevent companies from abandoning uneconomic wells.

The logic is that during a temporary price drop, it's in the taxpayer's long-term interest to receive a smaller royalty payment if it means a well keeps producing rather than be shut down, potentially for good.

But for royalty relief to benefit the public, a lower royalty rate must take an uneconomic well and make it profitable. Otherwise it's just a giveaway.

So, this spring, when BLM started cutting royalties for oil and gas companies operating across the west, they claimed to be doing it to protect taxpayers.

But it turns out Interior wasn't telling the truth.

The Trump administration acted for the benefit of the fossil fuel companies that regularly exploit America's public lands, not in the interest of taxpayers.

At the request of Chair Grijalva, the GAO conducted a review of BLM's actions and investigated whether they followed royalty relief regulations and procedures.

According to GAO, it was a hot mess.

BLM didn't require companies to prove their wells needed the royalty reduction in order to keep operating.

Poor communication from agency leadership and a requirement that applications be approved or denied within five days led to rushed analyses.

And cuts in royalties were wildly haphazard and inconsistent across states, so companies in Wyoming had a much better chance of getting a royalty cut than companies in New Mexico.

Why would BLM let this happen?

Probably because protecting taxpayers was never the actual goal.

In total, of the close to 600 approved applications, rates were cut from 12.5 percent to an average of less than 1 percent, costing taxpayers at least 4.5 million dollars in forgone royalties, and potentially much more.
One undeserving company already owed the government $4 million in unpaid royalties, yet they got a royalty cut as well.

Only under a Trump administration would we give public dollars to a fossil fuel company delinquent on its taxes.

GAO's findings paint a clear picture of an Interior Department that has given up the pretense of protecting the public interest.

And this is just the tip of the iceberg.

Interior has spent the past few years issuing legally questionable rules and policies designed to let them keep making it cheaper to drill on public lands.

They lowered the royalty rate on offshore leases in shallow water and are trying to lower them further for existing leases.

Just over a month ago they proposed a new rule that will let them unilaterally lower royalty rates for miners.

And last week they published a proposal that would save oil and gas companies another four hundred and forty (440) million dollars in royalties over the next 10 years.

Unfortunately, just like President Trump, Secretary Bernhard and Mr. Pendley don't believe they're accountable to the public either.

So, naturally, they refused to testify today.

They say they will only testify when the Chairman is in the room. They say that even though the last time we did that, Chairman Grijalva contracted COVID from another Member.

It's an impressive double-whammy of irresponsibility: Refusing to take a deadly pandemic seriously and then using that as an excuse to refuse to answer questions from Members of Congress.

Our lands and the public deserve much better than the current Interior leadership.

With that, I look forward to the testimony from our witnesses, and I now recognize Ranking Member Gosar for his opening statement.