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Subcommittee on Energy and Mineral Resources
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Interior's Royalty Cuts: Thoughtful Policy or Industry Giveaway?

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Chairman Lowenthal, Ranking Member Gosar, and Committee Members, thank you for the opportunity to testify today. When Congress has provided over one trillion dollars in emergency relief for virtually every industry in response to the pandemic, I'm not sure why the royalty relief granted to oil and natural gas companies, which is several orders of magnitude less, merits particular focus, but I'm happy to be here today to help shed some light on that rounding error.

Western Energy Alliance represents 300 companies engaged in all aspects of environmentally responsible exploration and production of oil and natural gas in the West. Alliance members are independents, the majority of which are small businesses with an average of fourteen employees. Because the West is predominated by federal lands, lacking any major oil and natural gas production areas that do not contain federal mineral estate, we are the leading trade association that handles public lands issues for the upstream industry.

I'd like to start by looking back to March and April of this year. The World Health Organization declared a pandemic, and governments all over the world shut down their societies. Normal life ceased to function. Citizens were in effect placed under house arrest to contain the virus. Businesses were shuttered, travel virtually ceased, daily routines were disrupted, and freedom of movement was curtailed except for essential and emergency services. Many businesses were prevented from generating the revenue that enables them to pay employees. Millions were forced into unemployment, threatening their ability to feed and shelter their families.

Correctly, the government recognized that the government decrees that took away people's livelihoods posed not only an immediate danger to people, but also a long-term threat to prosperity. Congress and the President rightly recognized that aid to businesses and industries was necessary to ensure the country could eventually recover and life could return to normal after the pandemic subsided.

Nearly every industry and business has been negatively affected by the lockdowns, except those providing so-called essential services and companies such as Zoom and Amazon that are suited to serving an at-home population. The CARES Act provides $669 billion in loans to small businesses, and $500 billion to corporations.

With all that direct assistance to virtually every industry, why is this committee singling out royalty relief given to the oil and natural gas industry? Tax relief, or royalty relief in this case, is certainly preferable to a direct hand-out to companies. One reduces the amount submitted by a company to the American taxpayer. The other is a direct transfer of taxpayers' money to the company. Certainly royalty relief was a more efficient way to offer relief than directly paying companies.

Furthermore, the temporary royalty relief offered was a miniscule loss to the Treasury in comparison to the COVID relief for the economy overall, and in comparison to the $4.17 billion in royalty and leasing revenue generated by companies on federal lands last year. The royalty relief was requested and granted almost exclusively to small companies who were hit hard by the double crisis of COVID and a global price war between Saudi Arabia and Russia. The temporary relief enabled them to make it through the crisis period, serving the same purpose as relief to other businesses while not being a direct transfer. So why the implication that it is somehow a nefarious “giveaway” when it’s not even a direct transfer?

To compound the economic devastation, recall that oil prices plummeted precipitously, which meant that literally it was not possible to find a buyer willing to take a barrel of oil, and producers physically could not find storage. Some producers responded by shutting in production, and used BLM’s companion lease suspension policy to do so. But there are complications with shutting in wells. Doing so can damage the pressure system in the field to the point that the well does not return to the same production volume when brought back online. Less production leads to lower royalty returns over the long-term life of the well. Further, putting a well back into operation can be very expensive, usually costing several hundreds of thousands of dollars. For a small operator of low-producing wells, that can be cost prohibitive. When wells cannot be brought back into production, that means no future royalties at all.

At extremely low prices, particularly acute back in March, April and May but persisting through today, the cost of operating a well and paying all tax and royalty obligations can exceed the revenue generated from the well. Temporary royalty relief can enable a well to maintain solvency into the future. In exchange for royalty payments for years into the future, royalty relief was granted for only a few months and only by request. This reasonable, financially prudent solution for both the taxpayer and the company was recognized by the Governor of Wyoming, who sent a letter (attached) to the Interior Secretary asking for temporary royalty relief in light of the extreme nature of the COVID crisis.

Congress gave the Interior Secretary the power to adjust royalty rates decades ago in the Mineral Leasing Act. In fact, the temporary royalty relief guidance issued by the Bureau of Land Management was more of a restatement of existing regulation and not really a true emergency policy. If anything, the Interior Secretary did not really flex the broad discretion to administer federal leases granted to him by Congress. The measured response from the Interior Secretary did not fully exercise the emergency powers he has in response to the extraordinary global emergency situation the country was in.

Meanwhile, oil and natural gas have been and continue to be crucial for responding to and solving the pandemic. From keeping supply chains running during the lockdowns to providing the raw materials to manufacture PPE, disinfectants, vaccines, and pharmaceuticals, oil and natural gas has been an integral part of the response. The economy cannot recover without the energy we provide. We are proud to be an integral part of the solution. We should not be singled out for exclusion.