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Interior to Revise, Simplify Federal Oil and Natural Gas Royalty Regulations

Public input sought on streamlined, cost-saving method for calculating billions of dollars in annual royalties from oil and natural gas produced on public lands and waters

WASHINGTON, DC – Secretary of the Interior Ken Salazar today announced that the Department is evaluating the potential streamlining of regulations that govern the calculation of royalties owed to the United States from oil and natural gas produced offshore and on federal lands. Current regulations require complex, transaction-by-transaction evaluations of the negotiated price for the oil and gas produced on public lands, followed by an analysis of the costs associated with the transportation and gas processing.

Under today's notice, the Department of the Interior will explore the use of geographically-based market prices as the presumptive value of oil and gas produced in that region, thus removing the need to undertake a transaction-by-transaction, fact-specific evaluation of contract amounts, and transportation and gas processing costs. These changes could dramatically improve compliance and reduce administrative costs for industry and the government, as well as better ensure proper royalty valuation by creating a more transparent royalty calculation method.

"Regulations that were initially developed in the 1980's have not kept pace with the significant changes that have occurred in the oil and natural gas markets," Secretary Salazar said. "This effort – part of the President's call for more effective, less burdensome regulations – aims to provide cost savings to industry while ensuring the American taxpayer is properly compensated for the use of our Nation's resources."

During Fiscal Year 2010, the agency collected and disbursed more than $9.1 billion from energy related activities to states, American Indian Tribes and individual Indian mineral owners, and to various federal accounts, including the U.S. Treasury, the Land and Water Conservation Fund, and the Reclamation Fund. The proposed changes would be revenue neutral and would not alter existing royalty rates.

“We want input from industry, states and the general public,” added Salazar. “The ultimate goal of the new regulations is a simpler, smarter market-oriented process that is less burdensome to both industry and the government.”

The Office of Natural Resources Revenue (ONRR), the federal agency responsible for collecting and disbursing revenues from energy production that occurs on federal onshore and offshore lands, and American Indian lands, will schedule public meetings and consultations to ensure transparency in the process and seek agreement on the proposed regulations.

“Simplifying and making more transparent the process by which royalties are collected for oil and gas development potentially can help build confidence in the royalty collection process, while saving significant transaction and compliance costs incurred by both government and industry,” said David J. Hayes, Deputy Secretary of the Department of the Interior.

“A simplified regulatory approach can make it easier for industry to comply with the requirements, reduce industry costs, and help ONRR ensure that all oil and gas royalties due to the government are paid correctly and in a timely fashion,” Assistant Secretary for Policy Management and Budget Rhea Suh said.

The Advance Notice of Proposed Rulemaking will be published in the *Federal Register* within a week. Comments and suggestions will then be accepted for 60 days.

Once the initial comments have been reviewed, the Office of Natural Resources Revenue will schedule public workshops to gather additional input before drafting the proposed regulations. The proposed regulations will also be offered for public comment.

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