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Royal Ripoff

20 Oil Companies Exploiting Public Lands Allowed to Shortchange American Taxpayers by Up To $5.8 Billion Since 2013

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Oil and gas executives are ripping off consumers at the pump. They're shortchanging taxpayers as well.

For decades, the Interior Department has allowed oil and gas companies to pay an outdated rock-bottom rate of 12.5% of the value of oil and gas produced to drill on public lands. The federal onshore royalty rate is about half of what Texas charges to drill on state-owned land and has not changed in 100 years. By contrast, the federal government charges a rate of 18.75% for offshore drilling on federal waters. The Biden administration has announced it will use this 18.75% rate for new lease sales this month but has yet to propose a formal rulemaking to make the higher rate permanent.

Given the surge in oil prices over the past 12 months, the oil industry has been reporting huge profits and rewarding investors by hiking dividend payments and buying back stock. With the industry expected to report the highest profits on record this year, now is an ideal time for Congress and the Biden administration to get rid of longstanding giveaways to the oil and gas industry. Artificially low royalty rates have cost taxpayers up to $13.1 billion over the past decade, with lost potential revenue hitting a record high of $2.3 billion last year due to the dramatic increase in oil prices, according to a recent analysis by Taxpayers for Common Sense.[1]

To identify which companies have benefited the most from this blatant taxpayer rip-off, Public Citizen analyzed Interior Department data to calculate how much extra money the companies could have paid if a 18.75% rate were in place at the time leases were sold Public Citizen's analysis found that:

- From 2013 through 2021, 20 U.S. oil and gas companies doing the most drilling on public lands would have returned **up to $5.8 billion** to U.S. taxpayers under an 18.75% royalty rate. These companies represent about half of the $11.8 billion in

[1] Michael Maragos and Autumn Hanna of Taxpayers for Common Sense provided advice and guidance for this report.

total lost royalty revenue during this nine-year period, according to Taxpayers for Common Sense's statistics.

- The five companies that have taken the most advantage of the failure to charge fair royalty rates from 2013 to 2021 were: Oklahoma City-based Devon Energy, (up to $1.09 billion in avoided royalties), Houston-based EOG Resources (up to $896 million), Denver-based PureWest Energy, formerly known as Ultra Petroleum, (up to $493 million), Houston-based ConocoPhillips (up to $470 million) and Denver-based Ovinitiv (up to $329 million).

- In 2021, President Biden's first year in office, the 20 U.S. companies that did the most drilling on public lands would have returned **up to $1.3** billion in extra royalties under an 18.75% rate. That works out to more than half the amount that all onshore drillers paid in royalties last year.

- The five companies that have taken the most advantage of the failure to charge fair royalty rates last year were: EOG Resources (up to $304 million) Devon Energy (up to $263 million), Mewbourne Oil (up to $106 million), Hilcorp (up to $73 million) and PureWest Energy (up to $68 million).

Under federal law, companies make royalty payments to the federal government based on the sales price of oil or natural gas. For example, if a fossil fuel company sells $1 million of oil in any given month, it would owe the government $125,000 under a 12.5% rate and $180,750 under an 18.75% rate.

Public Citizen's analysis[2] calculates extra payments to the U.S. government if an 18.75% rate had been in place in the past for all onshore oil and gas leases. Initial leases between the federal government and oil companies typically last 10 years but can be extended much longer once the lease starts generating royalties and is still producing. The royalty rate on existing leases does not increase during that period, though companies can apply for a reduction in royalties, and the Trump administration was generous in granting such royalty relief. If the federal government does raise the royalty rate, it would only apply to new leases. As such, it would take many years for taxpayers to realize the impact of the royalty rate increase because the terms of existing leases would not change. If royalty rates had been hiked during the Obama administration, for instance, taxpayers would now be reaping the benefits.

[2] This analysis is based on data published by the federal Office of Natural Resources Revenue detailing federal royalty revenue by company. The raw ONRR corporate data goes back to 2013 and does not distinguish between companies with onshore and offshore operations. However, the analysis was able to arrive at an onshore-only figure by excluding corporate subsidiaries that paid more than $200,000 in inspection fees for offshore drilling operations in 2013-2021. Additionally, oil companies were also excluded if their websites indicated a large offshore drilling operation.

Oil Industry Profits Soar

Many of these same companies paying below-market royalty rates also have reported eye-popping profits in recent weeks and seen their share prices soar. Western oil producer Devon Energy, posted first-quarter profits of $989 million, more than four times as high as the same quarter a year earlier, expanded its plan to repurchase its own shares by 25% and boosted its dividend payout by 27%. The Oklahoma City-based company has faced a federal investigation over its royalty practices, agreeing in September 2021 to pay $6.15 million to settle Justice Department allegations that it underpaid royalties for natural gas extracted on federal lands in New Mexico and Wyoming.

Source: Devon Energy first quarter 2022 earnings presentation.

The companies, like many in the oil sector, say they are committed to avoiding overproduction, which could flood the market with supply and push down prices. They have reported huge profits in recent weeks. Occidental Petroleum Inc., reported $4.7 billion in profits in the first quarter, compared with a loss of $346 million in the same quarter a year earlier. Diamondback Energy tripled first-quarter profits compared with a year earlier to $779 million, and also boosted its dividend. Coterra Energy reported $608 million in profit in the first quarter, nearly five times as high as the company earned in the same quarter of 2021, and raised its dividend by 7%. Exxon Mobil Corp. doubled its profits to $5.5 billion and expanded its share buyback program from 10 billion to $30 billion.

Fossil Fuel Pushback

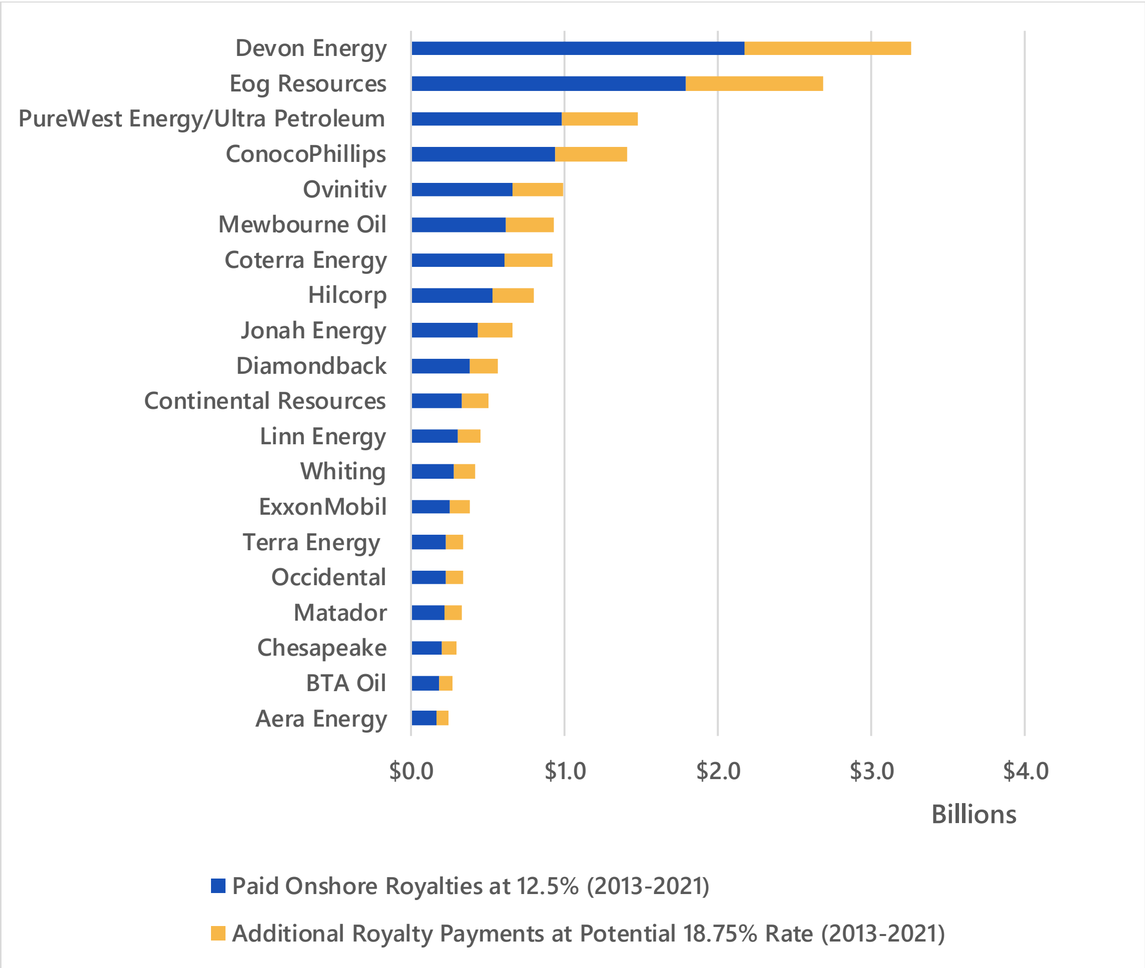
The American Petroleum Institute, the industry's largest trade group, has criticized the Biden administration's plans to increase royalty rates, claiming that doing so "may discourage investment, particularly when combined with other recent regulatory actions and uncertainties." Kathleen Sgamma, president of the Western Energy Alliance, which represents western oil and gas drillers, claimed that doing so "will have the effect of any other tax increase–you get less of what's taxed." Despite steadily rising production, Sgamma accused the Biden administration of deterring production, arguing that: "At a time when the administration should be increasing production, it continues to introduced new policies that further depress American production and keep gasoline prices high."

The domestic oil and gas industry is a major supporter of Capitol Hill Republicans who have consistently – and disingenuously – criticized the Biden administration's energy policies. A key example is Rep. Lauren Boebert (R.-Colo.), whose husband made nearly $940,000 over two years as a consultant to Houston-based energy firm Terra Energy Partners, which is a major Colorado energy producer, the Associated Press reported. A company official confirmed to the Colorado Sun that Boebert's husband, Jayson, "provided contract drilling services as an on-site drilling foreman to Terra since 2017."

A longstanding giveaway

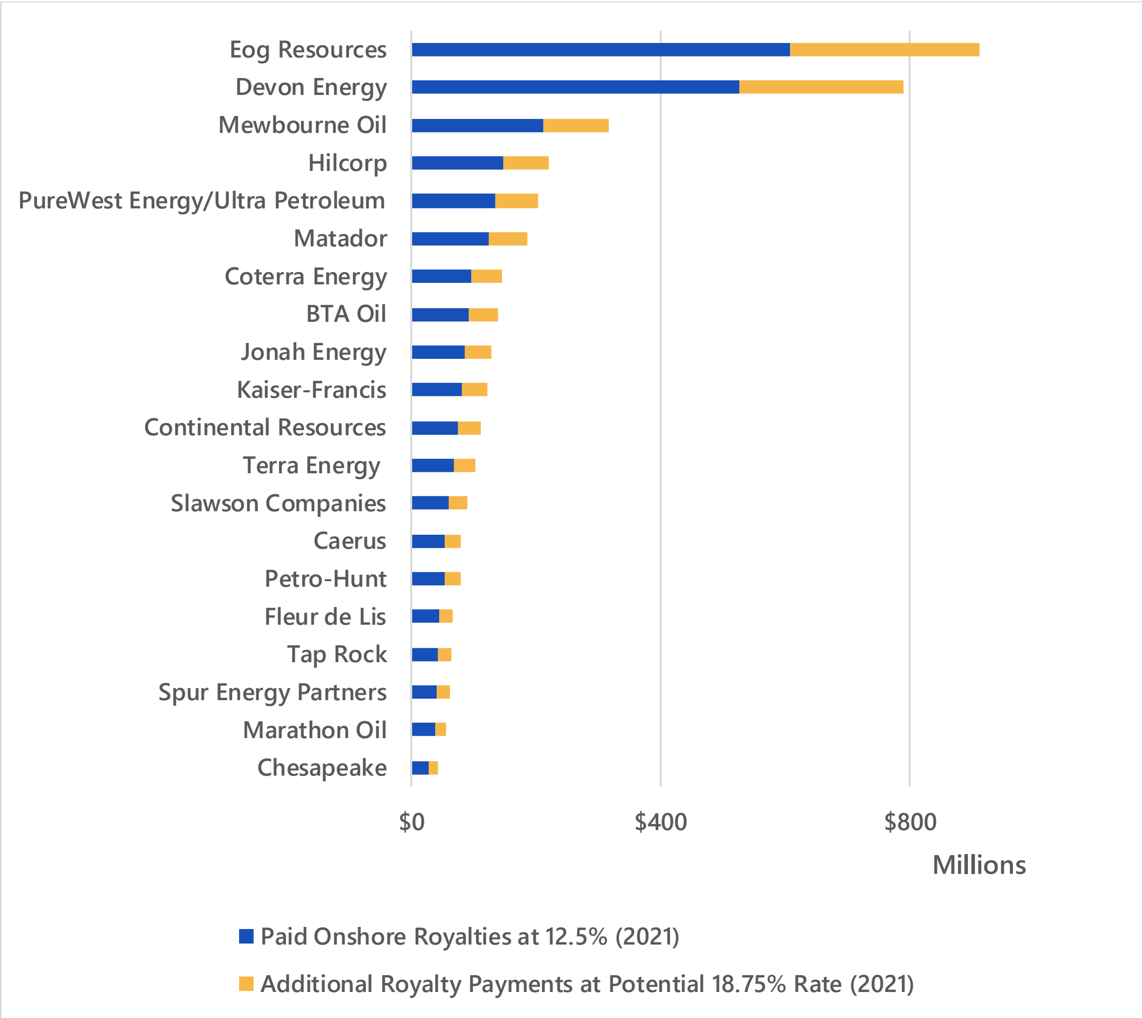
The minimum royalty rate of 12.5% was established in 1920 and is far below the rates imposed by major oil and gas producing states, including Texas (20-25%), Louisiana (20-25%), Pennsylvania (20%), Colorado (20%), New Mexico (18.75-20%), Montana (16.67%), and Wyoming (16.67%), according to Taxpayers for Common Sense's research. Federal offshore drillers pay an 18.75% royalty rate as well. Ending this giveaway has attracted bipartisan support. Last year, Sen. Chuck Grassley (R-Iowa) and Sen. Jacky Rosen (D-Nev.) co-sponsored legislation to increase the onshore royalty rate to 18.75%, as well as hiking several other oil industry fees for leasing on public lands. Grassley said in a statement, "Congress has not addressed this issue for over 100 years and since then, these oil companies have deprived the treasury and the American people of billions of dollars."

Figure 1: Royalties for 20 Large U.S. Onshore Oil Drillers, 2013-2021 ($Billions)



Source: Public Citizen analysis of Interior Department data

Figure 2: Royalties for 20 Large U.S. Onshore Oil Drillers, 2021 ($Millions)

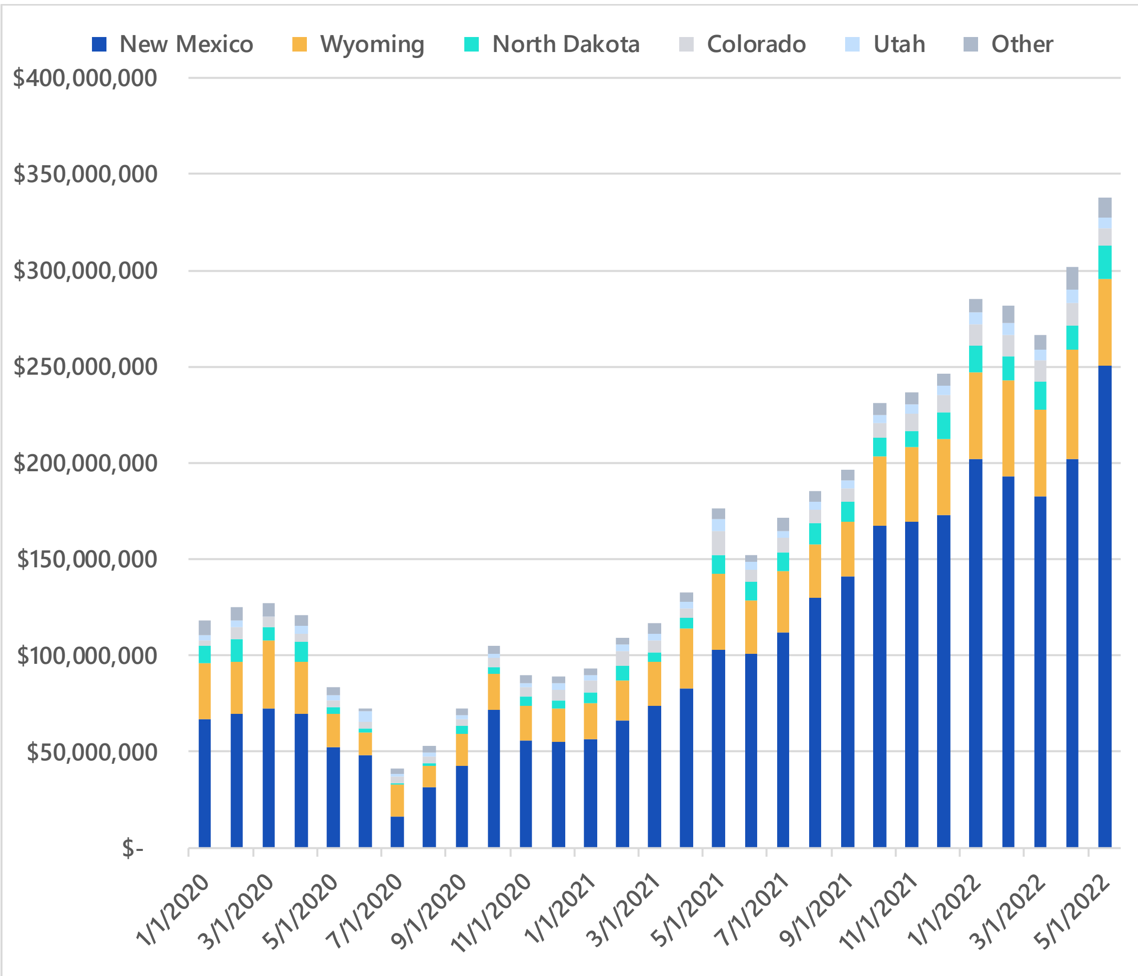


Source: Public Citizen analysis of Interior Department data

The federal government gets roughly half of royalties collected from oil and gas companies back to oil-producing states, a handful of which are highly dependent on oil and gas revenue for their state budgets. New Mexico gets more federal onshore oil and gas royalty revenue than any other state due to the drilling boom in the Permian Basin. It would have received up to $2.9 billion in additional revenue under an 18.75% royalty rate followed by Wyoming ($1.7 billion), North Dakota ($516 million), Colorado ($371 million), and Utah ($365 million), according to Taxpayers for Common Sense.

With energy prices soaring, revenue sent back to states has grown significantly. Monthly payments from the federal government to state governments for oil and gas leases grew to nearly $340 million in May 2022 from more than $118 million in January 2020, according to a Public Citizen analysis of Interior Department data. Disbursements to New Mexico grew to more than $250 million in May 2022 from about $67 million in January 2020. New Mexico has seen a boom in oil and gas production in the Permian Basin stretching across west Texas and eastern New Mexico. Raising the federal royalty rate could generate billions for New Mexico.

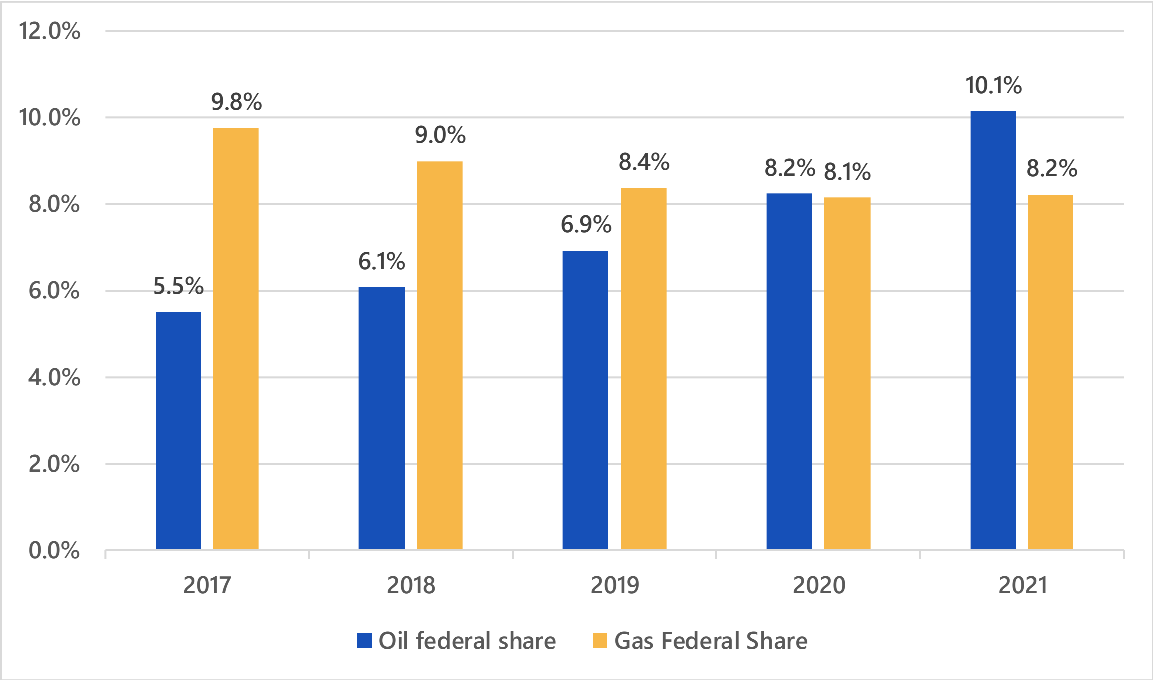
Figure 3: Monthly Royalty Disbursements to States from Public Lands Drilling, Jan 2020-May 2022



Source: Public Citizen analysis of Interior Department data

In recent years, the share of U.S. oil production coming from federal lands has risen, increasing to about 10.1% last year, while the share of U.S. natural gas production coming from federal lands has declined to 8.2%, according to federal data. The federal Bureau of Land Management manages nearly 36,000 leases on 25 million acres of land

Figure 4: Share of U.S. Oil and Gas Production from Public Lands (Fiscal Years)



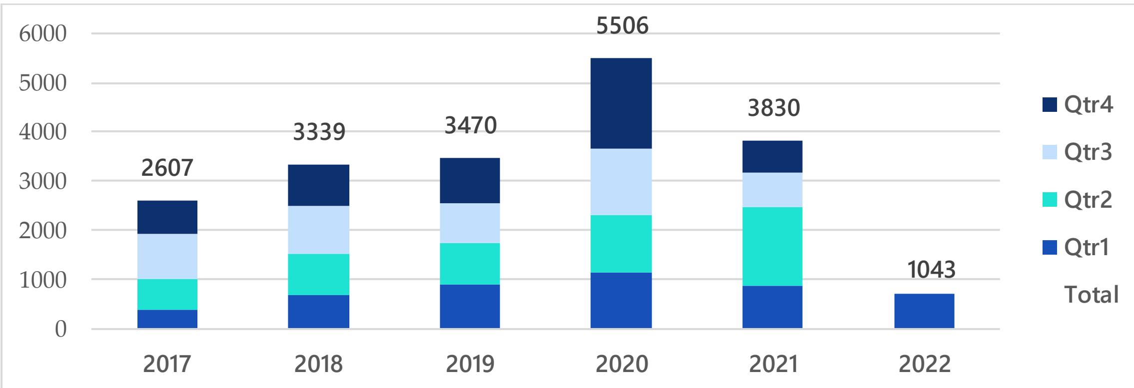
Source: Public Citizen analysis of U.S. Energy Information Administration, Interior Department data

Under former President Donald Trump, the federal government engaged in a massive giveaway of our public resources to oil, gas and mining interests. During this fire sale, the Bureau of Land Management sold leases on 5.6 million acres of public lands, locking in global warming emissions, an especially reckless move given that public lands and waters make up about a quarter of U.S. carbon emissions each year.

President Joe Biden has promised to make climate change one of his top priorities, and doing so necessitates a rapid reduction in the use of fossil fuels. During his campaign, at a March 2020 primary debate, Biden promised that his administration would make a dramatic impact. Biden said, "no more subsidies for the fossil fuel industry, no more drilling on federal lands, no more drilling, including offshore, no ability for the oil industry to continue to drill, period, ends."

Legal challenges from the oil and gas industry as well as a difficult political climate resulting from high gas prices have caused challenges for Biden's effort to move away from fossil fuels. Shortly after coming into office, Biden paused the sale of new federal oil leases, pledging to conduct a comprehensive review of the federal oil and gas program. The oil and gas industry and several Republican-led states sued to block the pause, and a federal judge last summer sided with the oil industry, issuing a ruling that ordered the Biden administration to resume lease sales. The administration published a report endorsing reforms to the federal oil and gas leasing program and supported similar changes in the Build Back Better legislation that stalled in Congress last year. However. the federal government continues to finalize public lands drilling permits at a steady clip, approving 3,830 onshore permit applications in 2021, according to Public Citizen's analysis of Bureau of Land Management data. That number was down from its peak in 2020 but still higher than the first three years of the Trump administration.

Figure 4: Approved Federal Onshore Drilling Permits Since 2017



Source: Public Citizen analysis of Bureau of Land Management data.

In February, the Biden administration said it would delay any decisions on leasing on federal lands after a federal judge blocked the agency from incorporating revised estimates of the economic harms caused by climate change. After an appeals court halted that ruling, the Biden administration announced it would resume onshore oil and gas lease sales but scale back acreage offered by roughly 80 percent and impose a royalty rate of 18.75%. The Bureau of Land Management now plans to offer up roughly 144,000 acres of public land in onshore oil and gas lease sales to be held in June.

Conclusion

The oil and gas industry benefits from myriad tax breaks, subsidies and exemptions and has taken advantage of U.S. taxpayers for far too long. The federal government's oil and gas leasing system has long been a giveaway that allows fossil fuel barons to line their pockets at the expense of public lands and waters and the climate.

With public outrage over high gasoline prices mounting, Congress and the Biden administration have an opportunity to ensure that oil and gas companies, at the very least, pay a fair price for the resources they extract from public lands and cover the cost of environmental cleanup. Onshore bonding rates for oil and gas development haven't been altered since 1951, allowing corporations to post inadequate financial assurances to cover cleanup costs, creating a massive problem of figuring out who will pay to clean up wells in the decades to come.

Both Congress and the Biden administration can act. The House of Representatives passed oil leasing and environmental cleanup reforms during the 2021 debate over Build Back Better legislation, and a key Senate committee approved similar changes. However, the Interior Department can on its own impose rules that permanently increase the federal onshore royalty rate to 18.75% to align with the rates imposed for offshore drilling. Those rules should also require oil and gas companies to clean up after themselves and increase bonding rates to a level that fully covers potential cleanup costs so that taxpayers aren't stuck with the bill.

Other fees should be raised, including outdated minimum bid and rental rates for oil and gas public land leases, which enable land speculators to cheaply obtain and retain leases on public lands for decades even if they do not intend to develop them. Oil and gas corporations already hold 13.9 million acres of unused public lands leases, and 9.3 million acres of unused offshore leases. As Rep. Raul Grijalva (D-N.M.), chairman of the House Natural Resources Committee, said in April, "If we're going to let the fossil fuel industry pocket more of our public lands for drilling, we should at least make sure they're paying a decent price to do it."

Appendix Table 1: Royalties for 20 Large U.S. Onshore Oil Drillers, 2013-2021

	Headquarters	Drilling Subsidiaries	Paid onshore royalty at 12.5%, 2013-2021	Additional With potential royalty at 18.75%, 2013-2021
Devon Energy[3]	Oklahoma City	Devon Energy Corp., WPX Energy Inc.	$2,173,512,731	$1,086,756,365
EOG Resources[4]	Houston	EOG Resources Inc., Yates Petroleum Corp. Yates Industries LLC, Myco Industries LLC	$1,792,058,044	$896,029,022
PureWest Energy/Ultra Petroleum[5]	Denver	Ultra Petroleum, Ultra Petroleum Corp., UP Energy LLC	$986,434,499	$493,217,249
ConocoPhillips[6]	Houston	Concho Resources Inc., Phillips 66 Co.	$939,568,476	$469,784,238
Ovinitiv[7]	Denver	Encana Corp., Newfield Exploration Co	$658,712,070	$329,356,035
Mewbourne Oil	Tyler, Texas	Mewbourne Holdings Inc., Mewbourne Oil Co.	$621,732,322	$310,866,161
Coterra Energy[8]	Houston	Cabot Oil & Gas Corp, Cimarex Energy Co., Cimarex Energy Inc., Coterra Energy	$613,631,737	$306,815,868
Hilcorp Energy	Houston	Hilcorp Energy Corp.	$534,109,170	$267,054,585
Jonah Energy	Denver	Jonah Energy LLC, Jonah Energy Parent LLC	$439,429,179	$219,714,589
Diamondback Energy[9]	Midland, Texas	Diamondback Energy Inc, QEP Resources Co,, QEP Resources Inc.	$379,687,642	$189,843,821
Continental Resources	Oklahoma City	Continental Resources Inc	$335,018,005	$167,509,003
Linn Energy[10]	Houston	Linn Energy LLC	$300,984,972	$150,492,486

[3] Merged with WPX Energy in 2021
[4] Former Enron division. Purchased Yates Petroleum for $2.5 billion in 2016
[5] Formerly Ultra Petroleum and UP Energy. Renamed PureWest Energy in 2021 after exiting bankruptcy in 2020. Purchased assets of Wyoming natural gas producer Pinedale Energy Partners in 2021
[6] Acquired Concho Resources in 2021. Figures exclude offshore drilling subsidiaries..
[7] Formerly known as Encana Corp. and based in Canada. Renamed Ovinitiv. Headquarters now in Denver.
[8] Formed with 2021 merger of Cimarex Energy and Cabot Oil & Gas
[9] Acquired QEP Resources in 2021
[10] Filed for bankruptcy in 2016 Split up into Roan Resources, Riviera Resources, Berry Petroleum. Roan Resources was then purchased in 2019 for $1 billion by Warburg Pincus-backed Citizen Energy.

	Headquarters	Drilling Subsidiaries	Paid onshore royalty at 12.5%, 2013-2021	Additional With potential royalty at 18.75%, 2013-2021
Whiting Petroleum[11]	Denver	Whiting Oil And Gas Corp, Whiting Petroleum Corp.	$278,981,068	$139,490,534
ExxonMobil[12]	Irving, Texas	Bopco Lp	$252,954,112	$126,477,056
Terra Energy Partners[13]	Houston	Terra Energy Partners, Terra Energy Partners LLC, Ursa Resources Group II LLC Ursa Operating Co LLC	$228,992,677	$114,496,338
Occidental Petroleum Corp.	Houston	Oxy Usa Inc	$225,326,194	$112,663,097
Matador Resources	Dallas	Matador Resources Co	$220,279,942	$110,139,971
Chesapeake Energy[14]	Oklahoma City	Chesapeake Energy Corp, Chesapeake Exploration LLC	$198,293,134	$99,146,567
Bta Oil Producers	Midland, Texas	Bta Oil Producers LLC	$183,092,832	$91,546,416
Aera Energy	Bakersfield, Calif.	Aera Energy LLC	$165,229,323	$82,614,662
Totals			**$11,528,028,129**	**$5,764,014,065**

[11]Filed for bankruptcy in 2020, emerged months later. Announced merger with Oasis Petroleum in March 2022

[12] Exxon Mobil in 2017 paid $5.6 billion for Permian Basin assets in New Mexico, including the operating company BOPCO. Data do not include other ExxonMobil subsidiaries.

[13]Bought assets of bankrupt Denver-based Ursa Operating for $60 million in 2020.

[14] Filed for bankruptcy in June 2020, emerged in February 2021.

Appendix Table 2: Royalties for 20 Large U.S. Onshore Oil Drillers, 2021

Company	Headquarters	Drilling Subsidiaries	Onshore Royalties Paid (2021)	Additional With 18.75% Royalty (2021)
Eog Resources	Houston	EOG Resources Inc.	$608,610,630	$304,305,315
Devon Energy	Oklahoma City	Devon Energy Corp.	$526,731,590	$263,365,795
Mewbourne Oil	Tyler, Texas	Mewbourne Holdings Inc.	$211,625,510	$105,812,755
Hilcorp Energy	Houston	Hilcorp Energy Corp.	$147,206,867	$73,603,433
PureWest Energy/Ultra Petroleum	Denver	Ultra Petroleum Corp., UP Energy LLC	$136,128,893	$68,064,446
Matador Resources	Dallas	Matador Resources Co	$124,023,980	$62,011,990
Coterra Energy	Houston	Coterra Energy	$97,673,100	$48,836,550
Bta Oil	Midland, Texas	Bta Oil Producers LLC	$93,165,134	$46,582,567
Jonah Energy	Denver	Jonah Energy Parent LLC	$85,839,425	$42,919,712
Kaiser-Francis Oil	Tulsa, Oklahoma	GBK Corp.	$81,906,308	$40,953,154
Continental Resources	Oklahoma City	Continental Resources Inc	$74,838,712	$37,419,356
Terra Energy Partners	Houston	Terra Energy Partners, Terra Energy Partners LLC Ursa Resources Group II LLLC	$68,052,203	$34,026,102
Slawson Companies	Wichita, Kan.	Slawson Exploration Co.	$60,242,390	$30,121,195
Caerus Oil and Gas	Denver	Caerus Oil And Gas LLC, Caerus Washco LLC	$52,891,038	$26,445,519
Petro-Hunt	Dallas	Petro-Hunt LLC	$52,875,724	$26,437,862
Fleur De Lis	Irving, Tx	Fleur De Lis Energy LLC	$44,186,733	$22,093,367
Tap Rock Resources	Golden, CO	Tap Rock Operating LLC	$42,398,496	$21,199,248
Spur Energy Partners	Houston	Spur Energy Partners LLC	$41,942,545	$20,971,273
Marathon Oil	Houston	Marathon Oil Co	$37,899,009	$18,949,505
Chesapeake Energy	Oklahoma City	Chesapeake Energy Corp	$29,033,650	$14,516,825
Totals			$2,617,857,109	$1,308,928,554