The State of Federal Oil & Gas Leasing: Underwhelming Returns During the Trump Administration

The administration continues its leasing push with little concern for low returns, the current state of the economy, or cash-strapped states.

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The federal Bureau of Land Management (BLM) within the U.S. Department of the Interior manages natural resource development on more than 250 million acres of federal land. In states with eligible lands, the BLM holds quarterly auctions for the rights to lease and produce oil and gas on federal land. Bid revenue from these auctions is a critical part of what taxpayers receive in exchange for the use of the land and development of resources we own, in what should be a mutually-beneficial partnership between the federal government and private industry. But outdated leasing policies, and an overabundance of available public lands, coupled with low rates of return have led to the loss of billions of dollars in federal revenue.

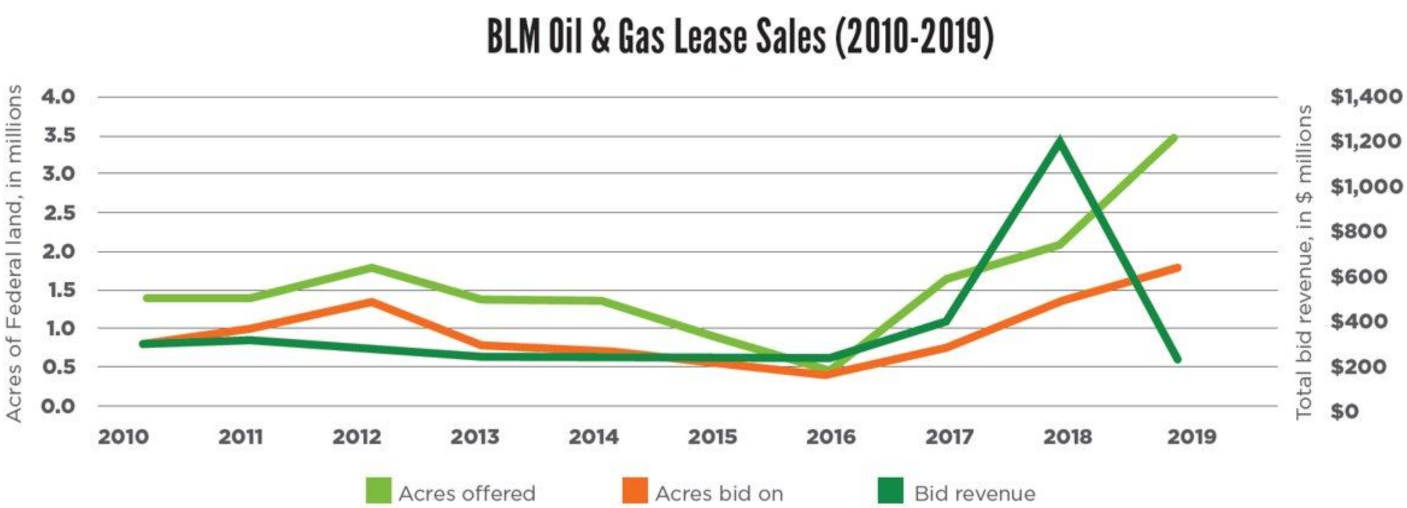
The BLM's administration of auctions for new leases in 2019 and management of existing leases in 2020 catered to the oil and gas industry's interests to the detriment of state and federal taxpayers. In 2019, the continued expansion of federal acreage offered in lease auctions led to abnormally low revenue collection. This year, leasing continued in the first quarter but was soon halted due to the COVID-19 pandemic through the late summer. Unfortunately for taxpayers, the BLM's aggressive leasing plans have restarted all but guaranteeing insufficient returns for federal taxpayers.

Recent Revenue-Losing Leasing

In 2019, the BLM held 28 oil and gas lease sales in 14 mostly-western states offering 3.4 million acres of federal land for development.[1] This was more than double the acreage offered in any other year in the last decade except for 2018, when the BLM offered 2.1 million acres for lease.

In the 28 lease sales in 2019, oil and gas companies and other private interests bid on parcels covering 1.7 million acres of federal land, surpassing the previous decade-high of 1.3 million acres in 2018. The winning bids, however, totaled just $201 million, compared to $1.2 billion collected in 2018. Comparing 2019 to the average year of lease sales over the preceding decade (2009- 2018), the BLM offered 2.5 times as much acreage and got bids on twice as many acres, yet collected less than two-thirds of the average bid revenue.

The 2019 results show how taxpayers are getting record-low revenue for each acre of federal land leased, even as the administration seeks to expand the total number of acres offered for lease. The BLM collected more revenue in 2014 ($210 million)[2] from 60 percent fewer acres sold at auction (680,000). Instead of managing taxpayer-owned resources strategically, and generating more revenue, the BLM flooded the market in 2019and taxpayers paid the price.



Despite the failings of 2019, the BLM continued holding lease sales as planned through March of 2020.

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[1] All leasing and revenue figures exclude sales in the National Petroleum Reserve-Alaska.

[2] Adjusted for inflation using the Consumer Price Index for all Urban Consumer (CPI-U) published by the Bureau of Labor Statistics

Leasing Trends in 2019

Of the 1,632 parcels sold nationwide last year, 398 parcels—roughly one-quarter—covering more than 450,000 acres received a bid of just $2 per acre, the lowest allowed by law. The minimum bid per acre was last set in 1987. If the BLM had simply adjusted the minimum bid for inflation to roughly $4.50/acre, taxpayers would have received more than $1.1 million in additional revenue in 2019.

Flooding the market with cheap federal leases has driven down the bids the BLM has received in some states. In Colorado, bidding rates dropped to record lows in 2019. At roughly $12, the average high bid per acre in 2019 was the lowest in a decade, and less than one-tenth the $143 average from 2010 to 2018. BLM oil and gas lease sales in New Mexico are typically more competitive and garner more bid revenue than anywhere else. But like the sales in Wyoming, average bids per acre dropped in 2019 to $781, down from $7,699 in 2018 and $6,800 over the last five years.[3] Similarly, bidding rates in Wyoming were down significantly.

Adding to the number of available acres per lease sale has also increased the number of federal oil and gas leases sold in noncompetitive sales. When parcels of federal land go unsold at auction, companies can submit a noncompetitive offer for the parcel the very next day or up to two years later. The process is a relic of the largely noncompetitive federal leasing system in place before 1987 and allows companies to avoid paying the legal minimum bid for parcels at auction.

Leasing in 2020 and Under COVID-19

The BLM held seven first quarter oil and gas lease sale in February and March of 2020. In those sales, oil and gas companies bid less on average for available parcels compared to first quarter sales in previous years, likely due to falling oil prices and rising uncertainty in oil markets. Sales scheduled to take place in the second quarter of the year were postponed amid the COVID-19 pandemic. In total, seven lease sales originally scheduled for May and June in Colorado, New Mexico, Montana, Mississippi, Nevada, Utah, and Wyoming were postponed.

[3] All figures in 2019 dollars.

2020 1Q Sales Results in Context

State	Acres Sold	2020 Avg. Bid/Acre	1Q Sale Avg. (2015-2019)	2020 vs. 2015-2019 Avg.
Colorado	10,415	$6	$13	-50.3%
Mississippi	322	$37	$2	+1734.6%
Montana	5,181	$5	$25	-78.2%
New Mexico	14,672	$1,386	$1,543	-10.1%
Nevada	1,223	$2	$3	-38.0%
Oklahoma	2,113	$22	$221	-89.8%
Utah	28,492	$8	$41	-79.4%
Wyoming	71,689	$46	$229	-79.8%
Total	134,105	$179	$185	-3.0%

Many of the parcels put on hold in in May in June were incorporated into nine oil and gas lease sales scheduled over a five-week period beginning August 26. In those sales, the BLM will make over 530,000 acres of federal land available for oil and gas exploration and development. The nine lease sales combined contain 541 parcels of federal land located in 13 states across the continental US. But moving ahead with oil and gas leasing during the ongoing economic downturn will only hurt taxpayers by reducing federal leasing revenue from valuable public lands.

2020 Quarter 3 Lease Sales

Date	Location of Leases	Acres
8/26/20	New Mexico, Oklahoma	2,866.87
8/27/20	New Mexico, Texas	45,405.76
9/8/20	Nevada	16,913.61
9/22/20	Montana, North Dakota	17,302.43
9/22/20	Wyoming	169,750.75
9/24/20	Alabama, Louisiana, Michigan, Mississippi	1,612.25
9/24/20	Colorado	69,726.19
9/24/20	Wyoming	181,881.21
9/29/20	Utah	27,387.86
	TOTAL	532,846.93

In tight financial times, oil and gas producers often cut their budgets for exploration and development of new reserves. Limited funds for new drilling naturally correlates with lower bidding for new leases, as well as fewer new wells drilled. The number of active rotary rigs in oil fields serves as an able proxy for the latter, and thereby indicates the industry's overall appetite for new leases. Coming into September 2020, rig counts in U.S. oil fields were at or near record lows.[4] In the 10 states where the BLM intends to hold lease sales through the end of the month, just 40 rigs were active on September 4, down 87 percent from the average of 310 rigs operating in the same week over the previous 20 years. By putting leases covering 485,000 acres up for auction in September while oil and gas industry activity is at historic lows and the U.S. economy continues to struggle, the administration is setting taxpayers up for failure.

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Conclusion

The BLM manages oil and gas development on federal lands on behalf of the American taxpayer, the owners of these natural resources. Like any landowner, taxpayers should receive a fair return from the use of federal land and production of federal oil and gas. Instead, the BLM's continued push to lease large swaths of federal land to the oil and gas industry under outdating leasing policies and despite unfavorable market conditions is cutting taxpayer revenue from this valuable resource while limiting access to vast stretches of public land.

[4] Source of all rig count data: Baker Hughes - https://rigcount.bakerhughes.com/