Rep. Kevin McCarthy Plans Oversight Attack On Western Budgets By Targeting The Biden Administration's Royalty Rate Reform.

Summary: With Republican taking control of the House of Representatives in 2023, anticipated speaker Kevin McCarthy released an absurd list of "oversight" priorities.

Included in McCarthy's list is a plan to look into the Office of Natural Resources Revenue's "royalty rate scheme" - in other words, the Biden administration's modest raise to royalty rates.

In April 2022, the Biden administration increased federal royalty rates from 12.5% to 18.75%, bringing the rate in-line with what most states charge to drill public lands. This update to the 100-year-old rates aimed to stop the "sweetheart deal" oil and gas producers got to drill on our public lands.

Royalties are "integral" to state budgets, and for years Big Oil was allowed to drill on federal lands for even less than the royalties required on state lands. Outdated royalty rates cost western states **a billion dollars** annually in 2019 and 2020, money that could have gone to improved schools and infrastructure.

Not only is McCarthy's attack on updated royalty rates a shot at state budgets, it isn't based in any logic. Revenues from onshore oil production were up **115% percen**t in FY 2022, and so far are **up 73% over FY 2022.** What's more, Big Oil is still raking in billions in profits, making over **$343 billion** in profits in the first nine months of 2022.

New Oversight Plans In The Upcoming Congress Include Attacks On Updated Royalty Rates - And State Budgets.

Anticipated Speaker Of The House Kevin McCarthy Released An Oversight Plan That Included Attacking The Biden Administration's Royalty Rate Raise.

Anticipated House Speaker Kevin McCarthy Released An Outline Of Planned Oversight In The 118th Congress. "Over the last two years of Democrats' one-party rule in Washington, House Democrats have not lifted a finger to engage in oversight and accountability of the Biden administration's actions and abuses of power. The American people responded this fall by electing a Republican majority in the House of Representatives to stand up for their interests." [Republican Leader, 12/06/22]

Rep. McCarthy's Oversight Plan Includes Attacking Royalty Rate Reform. "Instead Democrat policies have sold out American energy security and American industry, leaving America dependent on energy from abroad and vulnerable to the whims of dictators from around the world. [...] Office of Natural Resources Revenue (ONRR) royalty rate scheme"[Republican Leader, 12/06/22]

The Biden Administration Updated The 100-Year Old Royalty Rate From 12.5% To 18.75%.

In 2022, The Biden Administration Raised Royalty Rates From 12.5% To 18.75%. "The Interior Department on Friday said it's moving forward with the first onshore sales of public oil and natural gas drilling leases under President Joe Biden, but will sharply increase royalty rates for companies as federal officials weigh efforts to fight climate change against pressure to bring down high gasoline prices. The royalty rate for new leases will increase to 18.75% from 12.5%." [*NPR*, 04/16/22]

The Mineral Leasing Act Set The Royalty Rate AT 12.5% Of The Market Value Of The Product To Be Paid To The Mineral Owners. On Public Lands, That's The Public. "The Mineral Leasing Act (MLA) defines the minimum royalty rate on oil and natural gas produced on federal lands to be 12.5%. Royalties (i.e., revenue from the application of the royalty rate to production) reflect the product of the royalty rate and the market value of the commodity produced. Royalty rates are defined in the terms of each lease and are not expected to change during the term of the lease." [Congressional Research Service, 09/22/20]

- **The Royalty Rate Had Been Unchanged Since The Mineral Leasing Act Was Passed In 1920.** "The current royalty rate, 12.5%, was established in 1920. Changing the royalty rate for new leases would not be expected to affect an operator's production from producing wells, but it could influence interest in future leases and impact bonus payments received during lease sales." [Congressional Research Service, 09/22/20]

Meanwhile, Rig Count, Production, And Revenue For Taxpayers Have Grown Despite The Updated Royalty Rate.

Onshore Production Has Risen Every Month Since The Biden Administration Modernized The Federal O&G Royalty Rate

In 2022, US Crude Oil Production Rose From 11.37 Million Barrels Per Day In January To 12.23 Million Barrels Per Day In December. Production rose every month since May 2022, after the Biden administration announced the updated royalty rate. [EIA, Short Term Energy Outlook, 12/06/22]

Rig Count In The US Continued To Rise For The Third Week In A Row In November 2022, Hitting Its Highest Point Since March 2020. "U.S. energy firms this week added oil and natural gas rigs for a third week in a row as relatively high oil prices encourage companies to drill more. The oil and gas rig count, an early indicator of future output, rose three to 782 in the week to Nov. 18, its highest since March 2020, energy services firm Baker Hughes Co (BKR.O) said in its closely followed report on Friday." [*Reuters*, 11/18/22]

Thanks In Part To Royalty Rate Modernization, Oil-Producing Communities Are Seeing More Revenue Than Ever Before – Taxpayers Saw A 115% Increase In FY2022 Over FY 2021

Federal Onshore Oil Revenue Rose 115% In 2022 Over FY2021. [Natural Resources Revenue Data, accessed 12/07/22]

Source	FY 2022	FY 2021	Change
Native American	$1,590,792,866	$974,591,177	↑ 63%
Federal offshore	$11,120,276,596	$3,696,595,942	↑ 201%
Federal onshore	$8,821,139,721	$4,105,073,044	↑ 115%
Total	**$21,532,209,183**	**$8,776,260,163**	**↑ 145%**

Source: DOI Office Of Natural Resource Revenue

And Federal Onshore Oil Revenue Is Currently Up 73% So Far Over FY2022. [Natural Resources Revenue Data, accessed 12/07/22]

This Means Huge Benefits For Oil-Producing Communities, Like Rep. McCarthy's District

In The Past, McCarthy Has Praised The Leasing Program For Bringing "Royalty-Based Revenue" To Bakersfield, McCarthy's District. "McCarthy released the following statement: 'After years of addressing protests, I want to commend President Trump and the BLM Bakersfield Field Office on successfully conducting an oil and natural gas lease sale. This sale is expected to create new jobs in Kern County, stimulate our local economy, generate new royalty-based revenue for the federal government and the State of California, and help us to ensure that all Americans have access to reliable and affordable domestically-produced energy.'" [Rep. McCarthy Press Release, 12/11/20]

Under The Old Royalty Rate, Big Oil Got A "Sweetheart Deal" To Drill On Federal Lands…

Under The Previous 100-Year Old Rates, Oil And Gas Drillers Were Getting A "Sweetheart Deal" To Extract On Public Lands.

Senator Chuck Grassley: Artificially Low Royalty Rate Is A "Sweetheart Deal" For Oil Companies. "The law no longer reflects fair market value. It has become a sweetheart deal for legacy energy companies. It's shortchanging the taxpayer and depriving public coffers from their fair share of revenue generated from public lands." [Senator Chuck Grassley, 03/06/20]

The Federal Royalty Rate Is Substantially Lower Than What Western States Charge On State Public Lands— In The Case Of Texas, The Federal Rate Is Twice As Low.

The GAO Found That States Get A Better Return On Public Lands Oil Royalties Because They Charge Higher Rates For Oil Production. "Also, preliminary observations from GAO's ongoing work indicate that selected states charge royalty rates for oil and gas produced on state lands at a higher rate than the federal government charges for production on federal lands." [Government Accountability Office, 09/24/19]

- **Texas Charges The Highest Royalty Rate At 25 Percent On State Public Lands.** Other oil-producing states charge rates at 16.67 percent or 18.75 percent. [Government Accountability Office, 09/24/19]

…Depriving States Of Over A Billion In "Integral" Revenue For The Budget.

Energy Royalties Are "An Integral Component Of Many Western States' Budgets." "While a small portion of federal government revenue, energy royalties are important to resource-rich states in the mountain west that receive about half of what Washington collects inside their borders. 'These oil and gas royalties are an integral component of many western states' budgets, and suspending their collection would have a direct negative effect on states,' the Western Governors' Association wrote in early April to David Bernhardt, a former oil lobbyist who serves as interior secretary." [*Financial Times*, 06/28/20]

Western States Would Have Gotten An Additional Billion Dollars For Their Budgets In 2019 And 2020 If The Royalty Rates Had Been Updated.

In 2019, Western States Collected $2.6 Billion In Revenues From Their Share Of The 12.5% Public Lands Oil And Gas Royalty Rate. A calculation estimate shows that If the royalty rate were 18.75%, states' share from oil extracted on public lands in their state would have been $1.3 billion higher. [Interior Office of Natural Resource Revenue, accessed 09/24/21]

2019 Cost Of Low Royalty Rate In Western States*			
	2019 Royalty Revenue (actual)**	2019 Royalty Revenue (at 18.75%)	2019 cost to state of low royalty rate
New Mexico	$1,340,557,753.87	$2,010,836,630.81	$670,278,876.94
Wyoming	$668,180,446.01	$1,002,270,669.02	$334,090,223.01
North Dakota	$318,929,799.71	$478,394,699.57	$159,464,899.86
Colorado	$124,657,581.71	$186,986,371.50	$62,328,790.50
Utah	$87,768,202.08	$131,652,303.12	$43,884,101.04
California	$75,459,265.98	$113,188,898.97	$37.729,632.99
Montana	$21,246,305.55	$31,869,458.33	$10,623,152.78
	$2,636,799,354.91		**$1,318,399,677.10***

Source: Interior Office Of Natural Resource Revenue

In 2020, Western States Collected $2.0 Billion In Revenues From Their Share Of The 12.5% Public Lands Oil And Gas Royalty Rate. A calculation estimate shows that If the royalty rate were 18.75%, states' share from oil extracted on public lands in their state would have been $994 million higher. [Interior Office of Natural Resource Revenue, accessed 09/24/21]

2020 Cost Of Low Royalty Rate In Western States*			
	2019 Royalty Revenue (actual)**	2019 Royalty Revenue (at 18.75%)	2019 cost of low royalty rate
New Mexico	$1,145,735,228.85	$1,718,602,843.28	$572,867,614.43
Wyoming	$478,580,136.92	$717,870,205.38	$239,290,068.46
North Dakota	$167,026,311.63	$250,539,467.45	$83,513,155.82
Colorado	$70,538,369.65	$105,807,554.48	$35,269,184.83
Utah	$58,702,871.54	$88,054,307.31	$29,351,435.77
California	$55,116,221.58	$82,674,332.37	$27,558,110.79
Montana	$12,931,067.90	$19,396,601.85	$6,465,533.95
TOTAL:	$1,988,630,208.07		**$994,315,104.04***

Source: Interior Office Of Natural Resource Revenue

**These total cost is calculated from actual share of onshore oil and gas production revenues received by states under the low 12.5% rate and extrapolating them to the amount that states' share would have been had the royalty rate been 20%, all other factors equal. This cost is a conservative estimate because it only reflects the royalty rate change in the reconciliation package; it does not include new royalties for vented methane or increased revenues from updated rents and bonus bid increases.*

***The actual royalty revenue figures are from the Interior Office of Natural Resource Revenue. They reflect each state's 50% share of the standard 12.5% royalty rate.*

An Increased Royalty Rate Hasn't Hurt The Oil Industry's Bottom Line– Many Companies Are Seeing Record Profits

24 Top Oil And Gas Companies Brought In Over $125B In The Third Quarter Of 2022, Bringing Their Total Earnings In 2022 So Far To $343B.

Company	Q3 2022 Profits	¾ Year Profits	% Change	Source
BP America	$3,954,000,000	$9,553,000,000	98%	Link
ExxonMobil	$20,198,000,000	$43,798,000,000	202%	Link
Shell	$9,454,000,000	$30,056,000,000	133%	Link

Chevron	$11,231,000,000	$29,153,000,000	175%	Link
Phillips 66	$5,391,000,000	$9,173,000,000	4,013%	Link
Marathon Petroleum	$5,020,000,000	$11,738,000,000	19%	Link
Occidental Petroleum	$2,746,000,000	$11,377,000,000	1,349%	Link
ConocoPhillips	$4,527,000,000	$15,431,000,000	183%	Link
TC Energy*	$624,581,265	$1,871,581,265	227%	Link
Hess Corp	$515,000,000	$1,599,000,000	199%	Link
Equinor	$9,371,000,000	$20,833,000,000	300%	Link
Halliburton	$549,000,000	$929,000,000	45%	Link
Devon Energy	$1,900,000,000	$4,823,000,000	265%	Link
Enbridge*	$1,025,003,535	$3,392,666,835	6%	Link
Coterra	$1,196,000,000	$3,033,000,000	1,282%	Link
Plains All American	$384,000,000	$1,249,000,000	722%	Link
Marathon Oil	$817,000,000	$3,087,000,000	939%	Link
Murphy Oil	$528,428,000	$765,985,000	389%	Link
Ovintiv	$1,186,000,000	$2,608,000,000	8,050%	Link
APA Corporation	$530,000,000	$3,356,000,000	305%	Link
Pioneer Natural Resources	$1,984,000,000	$4,357,009,000	222%	Link
W&T Offshore	$66,721,000	$187,699,000	108%	Link
Noble Corporation	$33,585,000	$434,585,000	90%	Link
Aramco	$42,400,000,000	$130,300,000,000	68%	Link
Totals	**$125,631,318,800**	**$343,105,536,100**	**126%**	

*Numbers converted from CAD to USD at 1:0.74 on 11/09/22