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Draft Resources bill overhauls agency's leasing, royalties, ethics rules

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Draft (pdf) by the House Natural Resources Committee's Democratic staff would forge a new Interior Department agency to govern oil and gas leasing on federal lands and waters while raising onshore royalty rates and tightening ethics rules.

The far-reaching bill also includes measures to improve planning for renewable energy development on public lands onshore and on the federal outer continental shelf.

The legislation has been in circulation as another panel -- the House Energy and Commerce Committee -- worked on a sweeping energy and climate change bill. Energy and Commerce Committee members approved that bill last week, and floor votes could take place as soon as this summer.

Aides to Natural Resources Chairman Nick Rahall (D-W.Va.) and House Speaker Nancy Pelosi (D-Calif.) did not provide comment by press time about whether the bills could be combined. But Rahall last week said he was eyeing additions to the House climate and energy bill.

Interior would see a major restructuring of its energy agencies under the draft Natural Resources Committee staff bill. All federal energy and mineral leasing programs would be consolidated within one bureau in Interior that would handle lease sales, inspection, enforcement and revenue collection.

Specifically, the energy portions of the Minerals Management Service and the Bureau of Land Management -- including oil and gas, wind, wave and solar programs -- would be combined into one new agency called the "Office of Federal Energy and Minerals Leasing."

That agency would be responsible for all aspects of leasing both onshore and offshore, including siting, development, regulation and collection of royalties. The director of the office would require Senate confirmation, unlike the head of MMS, which currently is the only major bureau within Interior whose top official does not require confirmation.

Employees currently working for BLM and other Interior agencies would be transferred to the new agency. All employees of the new office that conduct audits or compliance reviews would have to meet professional auditor qualifications.

Other royalty-related changes include elimination of the royalty-in-kind program, which allows industry to provide petroleum directly to Interior in lieu of royalty payments. An Interior inspector general report last year found that 19 employees, nearly one-third of the

entire staff of the royalty-in-kind program, socialized with and received a wide array of gifts and gratuities from oil and gas companies with which the agency was conducting official business.

The bill also contains numerous ethics reforms aimed at correcting a host of problems at Interior, including the MMS scandal and numerous deficiencies outlined in a series of scathing reports by government watchdog agencies on how royalties are collected.

Employees of the new office would be prohibited from accepting a gift from, owning stock in or being employed by any entity engaged in "exploring for, developing, mining, transporting, processing, or trading energy or minerals."

The bill also contains a "revolving door" provision prohibiting employees from working for energy companies for one year after leaving Interior. Employees also would be subjected to financial disclosure requirements.

Violation of any of the ethics rules would be a felony.

The changes proposed by the legislation fall in line with those promised by Interior Secretary Ken Salazar. He has repeatedly promised to "clean up the mess" at Interior and to make restoring the department's integrity his highest priority. He also has been considering a reorganization of the agencies he oversees, including a fundamental restructuring of its royalty program.

"The place where we are most focused on looking at potential reorganization has to do with MMS and BLM," he said at a hearing earlier this month. An Interior spokesperson said the department is reviewing the draft bill.

"Secretary Salazar has worked and will continue to work with Chairman Rahall and Congress on reform initiatives that will help change how the Department of the Interior does business," said Interior spokeswoman Kendra Barkoff.

Other provisions in the bill would overhaul the system for energy development planning on federal lands and waters.

Provisions include new outer continental shelf "Regional Planning Councils" -- made up of federal and state officials, industry, tribes and other stakeholders -- that would undertake new strategic planning; joint BLM and Forest Service efforts to work with states planning for both renewable and traditional energy development; replacing the current administrative process for onshore public lands wind and solar projects with a commercial leasing program; and several other provisions.

The new office also would be required to prepare five-year onshore leasing programs for 11 Western states and Alaska, similar to the five-year plans currently required for offshore leasing.

Leasing, royalty changes

The bill also aims to pressure oil companies to develop leases more quickly while raising several industry costs.

It would create new "diligent development" rules for onshore and offshore leases while imposing new fees on nonproducing leases. It also would shorten initial onshore lease terms from 10 years to five and raise minimum royalty rates to 18.75 percent.

The bill also would repeal provisions in a major 2005 energy law that expanded the offshore royalty waiver program called "royalty relief."

And it would make a host of other changes aimed at improving Interior's royalty collections processes, which have been criticized in recent years by Interior's inspector general and the Government Accountability Office.

Oil industry officials and their allies quickly attacked the measure.

Andy Radford, a senior policy adviser with the American Petroleum Institute, said the bill would be harmful to domestic production, especially when viewed alongside separate Obama administration proposals to repeal several industry tax incentives. "You are looking at a real disincentive to investment and the development of resources," he said.

Added Patrick Creighton, a spokesman for the American Energy Alliance, a group that pushes for easing limits on domestic oil and gas drilling: "This latest proposal will only further restrict access to our vast domestic resources and increase the price of energy. Congress and the House Resources Committee would be well served to focus their time and efforts on policy that would increase domestic energy production, not further restrict domestic supply as this measure proposes."

The Wilderness Society's Dave Alberswerth, however, praised some provisions in the measure. "There are a number of fiscal reforms, royalty management reforms that are very laudable in that proposal," he said.

Alberswerth also lauded provisions aimed at pressuring companies to develop their current leases. The group has long alleged that Interior, under the Bush administration, was too aggressive in seeking to open new areas to leasing.

But Alberswerth is wary of plans to create a new Office of Federal Energy and Minerals Leasing within Interior, in light of the group's concerns that the agency has in the past prioritized energy development over other uses on public lands.

He said Interior does not need a "super leasing" office. "What we need is more balance in the way the public lands are managed," he said. The group has been discussing its concerns with majority staff on the Natural Resources Committee, he added.

Athan Manuel of the Sierra Club called the proposal a "mixed bag." He praised provisions aimed at helping develop offshore renewable energy. But he lamented the absence of new limits on offshore oil and gas leasing following the expiration of decades-old moratoria last year. "The bottom line for us is we don't want to see any new offshore drilling happen, and I am not sure this bill gets us there," he said.