



February 27, 2012

The Honorable Ken Salazar
Secretary of the Interior
1849 C Street, N.W.
Washington, D.C. 20240

Dear Secretary Salazar:

I am writing in regards to a report the Department of Interior (DOI) recently commissioned entitled "Comparative Assessment of the Federal Oil and Gas Fiscal System," completed by IHS-CERA. The study seems to show that an increase in royalty rates for onshore and offshore oil and natural gas production will, in fact, suppress development and greatly reduce the bonus bids and revenues that our nation receives annually from this development.

Recently, you testified before the House Interior Appropriations Committee and stated that the American people do not receive a fair share of profit from oil and gas leases and your agency plans to increase the onshore royalty rate by 50 percent from 12.5 to over 18 percent. Given the information included in the royalty report and the consistent concerns independent producers have raised with the Department of the Interior regarding possible royalty rate increases, IPAA urges you to not raise the royalty rates for onshore and offshore production on federal lands. As your own report suggests, increasing the royalty rate on American producers is both counterproductive and misguided.

As you know, the study indicates that "the wide ranges of government take between 53 percent for profitable projects to 86 percent for marginal ones in the deepwater Gulf of Mexico (GOM) suggest a highly regressive fiscal system that penalizes marginal fields."

America's natural gas and oil producers are proud to provide one of the largest revenue streams to the federal treasury through royalties from public lands. We know from operating our businesses, and now confirmed by this report, that increased royalties and other costs actually reduce investment and provide less revenue and energy to America.

Despite the unnecessary regulatory burdens and threats of additional tax hikes to business costs, America's independent oil and natural gas producers have remained successful and are committed to delivering the reliable energy that the American people demand and deserve.

We hope that you will take the necessary steps to support resource development in America and not take measures that are counterproductive to the President's stated goal of increasing American made energy.

Sincerely,

Daniel T. Naatz

Vice President, Federal Resources & Political Affairs