Leaseholder likes flexible oil shale rules

By Dennis Webb

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A company that holds a federal oil shale lease in eastern Utah says it appreciates the royalty-rate flexibility in new lease rules released by the government last week.

The Bureau of Land Management unveiled federal oil shale regulations on Tuesday establishing that royalty rate structure set in 2008 will now serve as a floor for rates, with the discretion of the Interior secretary to set higher rates on a lease-by-lease basis.

The agency rejected royalty options that included a minimum 12.5 percent rate, the rate it imposes for conventional oil and gas leases. The 2008 rate structure included a rate of 5 percent of the value of production for the first five years of commercial development of a lease, increasing by 1 percent in subsequent years and a half percent in the 13th year, to a maximum of 12.5 percent.

That structure now serves as a minimum. The new regulations give the secretary of Interior discretion to increase the initial rate beyond 5 percent on any individual lease before it is sold. The annual escalation rate still would apply, resulting in a higher maximum rate for the lease.

Enefit American Oil holds a federal research, development and demonstration lease in eastern Utah, just across the Colorado border southwest of Rangely.

“We respect this administration’s desire to secure a fair return on the

utilization of oil shale located on federal land while protecting environmental resources, and we appreciate the flexibility that the new rule affords in allowing for royalty rate consideration on a lease-by-lease basis," Ryan Clerico, head of development and environment and acting chief executive officer of Enefit American Oil, said in a prepared statement.

He added, "The Energy Policy Act of 2005 identified oil shale as a strategically important domestic resource that should be responsibly developed to reduce U.S. dependency on foreign energy sources, and we look forward to the incoming administration's support of that original Congressional declaration."

David Abelson, a Colorado environmental consultant, said the new rules are beneficial in some ways, requiring companies to provide additional information about impacts to air, water and other public resources.

"But the royalty rate, by potentially leaving it alone, is a disservice to the taxpayers," he said.

He said for companies to use public lands and resources for economic gain should require a greater payment to taxpayers.

In its new rule, the BLM pointed to the challenges associated with oil-shale development. It said its case-by-case approach will let it consider factors including geology, technology, costs, and market prices for oil and gas, and it added, "Until there is a domestic commercial oil shale industry, we can only speculate about what royalty rates those factors would support."

Abelson appreciates the BLM's dilemma.

"It's extremely difficult to set a royalty rate when the history of this industry is 100 years of extremely smart people trying to crack the code and generation after generation failing. That's oil shale's history," he said.

What are considered world-class oil shale deposits in northwest Colorado,

Wyoming and Utah contain kerogen that companies have sought to produce oil from commercially, typically through heating the shale. While Enefit's efforts continue in Utah, Shell, Chevron, American Shale Oil and ExxonMobil all have given up on projects involving federal leases in northwest Colorado in recent years.

Enirgi Group has done preliminary work on a federal research-and-development lease in Rio Blanco County but remains focused on underground solution mining of sodium bicarbonate deposits there through subsidiary Natural Soda.