

[Reports & Testimonies](#)[Bid Protests & Appropriations Law](#)[Key Issues](#)[About GAO](#)[Careers](#)[Multimedia](#)[Resources](#)[Key Issues](#) > [Oil and Natural Gas](#)

Oil and Natural Gas

The U.S. oil and natural gas industry is a critical component of the nation's economy, providing energy for transportation, manufacturing, and residential use, while creating jobs and reducing imports. In addition, a portion of the nation's oil and natural gas is produced on federal lands and waters, generating billions in revenues, such as royalties.

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The Department of the Interior oversees oil and natural gas production on federal lands and waters—providing access to these resources while ensuring their safe and responsible development. However, technological advances and market forces continue to challenge the government's ability to provide oversight. For example:

- **Shale oil and natural gas.** New applications of horizontal drilling techniques and hydraulic fracturing have allowed the development of oil and natural gas from shale formations. From 2007 to 2011, shale oil production increased more than fivefold, and shale gas production increased more than fourfold. Oil and natural gas development pose inherent environmental and public health risks, and studies GAO reviewed generally found that the potential long-term, cumulative effects of shale development have not been examined. In April 2012, the Federal Energy Regulatory Commission approved a liquefied natural gas (LNG) export facility, the first project authorized by the commission to export LNG from production resources within the U.S. Recent studies commissioned by the Energy Department found that increased natural gas exports lead to higher domestic natural gas prices while providing net economic benefits for the United States.
- **Royalties.** Interior does not have reasonable assurance that it is collecting its share of royalties for oil and natural gas extracted from leased federal lands and waters. The federal government has, in the past, changed royalty rates on an ad hoc basis. In addition, the Energy Policy Act of 2005 mandated royalty relief for some leases over a five year period. In addition, because Interior has not always conducted production inspections, it is uncertain whether oil and natural gas operators accurately reported oil and natural gas production from federal leases and remitted the appropriate royalties.
- **Federal oversight.** Following the Deepwater Horizon incident in 2010, Interior established new safety and environmental requirements and policy changes designed to mitigate the risk of an offshore well blowout or spill. However, Interior continues to face challenges in its ability to prioritize oversight according to risk and build and maintain information technology capabilities and a workforce sufficient to meet present and future needs.

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