The original documents are located in Box 4, folder “Mineral Leases and Royalties” of the Bradley H. Patterson Files at the Gerald R. Ford Presidential Library.

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Our studies of the leases made by the Federal Government for Indian resources reveal that they are among the poorest in the world to begin with. To find that even their meager terms are not being met is simply outrageous.

We shall appreciate hearing from you at your earliest convenience.

Sincerely,

LaDonna Harris
President

cc: Senator Jackson / Senator Abourezk
Dear President Ford:

Due to my negligence, I did not put in the enclosure with our President's letter to you on August 5, 1975, which was an article from the New York times concerning royalty payments to Native Americans on their leases.

Please accept my deepest apologies.

Sincerely yours,

Charlene Nephew
Secretary to LaDonna Harris
President

Enclosure
U.S. Failing to Get Its Due in Oil Royalties

Problem Is Pinpointed
As Official Ineptitude

By K. W. KENWORTHY

WASHING[O]—The United States Government is not getting full value from onshore gas and oil leases on Federal lands, according to a review of the royalty accounting system by the Interior Department's Office of Audit and Investigation.

The report states that some of the accounts in the Geological Survey's six area offices are 75 to 100 percent delinquent, with the value of the oil and gas royalties exceeding $500,000 in some cases.

The highly critical report comes a time when the Geological Survey has been under fire from oil industry critics. The expense has been called into question by oil company geologists who have regarded the survey's estimates of the nation's undiscovered, recoverable oil as highly optimistic and unreliable.

The Government's surveying function was established by the Act of 1879, which charged the Survey with the task of mapping the undeveloped areas of the country. The survey's reports are said to have been used by the oil industry's developers, and the report noted that the Survey is the only Government agency responsible for conducting the reviews of the oil companies' royalty accounting procedures.

The report stated that the survey's lack of expertise in accounting for oil company royalties is a major cause of the Government's losses. The report noted that the survey's estimates of the value of oil on Federal lands are based on the prices paid for oil in the 1920s, and that the survey's estimates do not take into account the value of the oil at the time it is produced.

In commenting on the system, the report stated that the survey's accounting is based on the prices paid for oil in the 1920s, and that the survey's estimates do not take into account the value of the oil at the time it is produced. The report concluded that the survey's estimates are likely to be 20 to 30 percent lower than the actual value of the oil.

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to 25 per cent royalty on oil and 12½ per cent on gas produced from the leases. The royalty ran from 10 per cent to 20 per cent on all products from the leases. These rates ran from the same to the highest rate. The leases are sold in competitive bidding and often have geological assurances initiated by the oil and gas potential on the competitive basis or on unknown geological structures. The production royalty is 12½ per cent on both oil and gas.

Total royalty proceeds are net payment—meaning as they did to $228 million in 1978. This was nearly double the 1977 figure because of the sharp rise in the price of oil following the Arab embargo imposed in 1973 and the subsequent surge in the price of oil per barrel. Of this amount, $133.4 million went to Indian tribes. The Federal income split is 37.5 per cent to the states where the leases lie, to be used for schools and highways; 25 per cent to the Federal Reclamation Fund, and 10 per cent to the Federal Treasury.

Among the practices uncovered by the review, one revelation shocked when a single sales price was taken. The supervisor of each Geological Survey field office, on the basis of production reports by the lessees, is empowered to set the value on which royalties are to be paid.

In setting an "estimated reasonable value" the supervisor is required to consider "the highest price paid for a part or a majority of production of like quality in the same field, to the price received by the lessee, to extend prices and to other relevant matters."

Thus the value for royalty computation is not necessarily the sales price received by the producer, however, the review found that, with few exceptions, the Geological Survey cooperates with the producer on the sale price. It is particularly noted that, in selling gas, area offices gave "virtually no consideration" to area prices established by the Federal Power Commission for sale of natural gas in interstate commerce.

The review gave cause for this situation—lack of established guidelines for area offices and lack of qualified staff.

As to reporting procedure, the review found that "information needed in the survey is always considered to be submitted and information that is required is not always submitted, or sometimes not submitted on time and often submitted in a nonstandard format."

Data, the review went on in "from different sources at different times during the month. Thus, the operator may submit a production report; the lease holder may submit a sales receipt and the lessee and the purchaser and royalty report, and the various purchasers may, or may not, submit statements of their purchases.

The purchasers' statements are the only record what the Geological Survey has of verifying the producer's stated sales volumes and values. The trouble is that the purchaser statements are not required and are supplied, as the study states, "strictly through the generosity of the purchasers."

Area offices receive such statements for only about 70 per cent of the leases. Furthermore, the study said, leases with the same companies, "which makes the control mechanism worthless."

This confused reporting system is further fragmented where a lease is held by several companies—of which are permitted to file separate reports on their conditional ownership of production and royalties due.

The area offices then computed the conclusion by amending all the separate ownership statements into one "balance carry-forward amount" for the whole lease.

"As a result," the report said, "the statement becomes almost meaningless to the lease interest holder and the Geological Survey because neither can easily differentiate which portion of the account, balancing carry-forward amounts to each lease holder."

The upshot was that "debt-four balances were allowed to accumulate until the Geological Survey determined permanent royalty due from lease interest and submitted appropriate holdings."

In some cases, the study said, "years may elapse" between the account reviews.

This situation was responsible, the report stated, for the large amount of backlog, although it added that many operators had become "somewhat lax" about making payments within the required interval after production. The total Geodetic amount in December, 1978, was $23.2 million, which resulted in interest runs to the Government for the year of $1,200,000.
The Honorable Gerald Ford
The White House
Washington, D.C. 20500