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Testimony

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Committee on National Security
United States House of Representatives

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**NAVAL PETROLEUM
RESERVES**

**Transfer Options for Naval
Oil Shale Reserves 1 and 3**

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Mr. Chairman, Mr. Sisisky, and Members of the Subcommittee:

We appreciate the opportunity to provide our views on the Department of Energy's recommendation to transfer Oil Shale Reserves 1 and 3 to the Department of the Interior for leasing and surface management under the Mineral Leasing Act of 1920 and the Federal Land Policy and Management Act of 1976.

The Petroleum and Oil Shale Reserves were established by executive orders in the early 1900's when the government began setting aside large sections of public lands favorable for hydrocarbon production. These lands are located in California, Colorado, Utah and Wyoming. Although the reserves were originally intended as a source of petroleum for the nation's military, the Naval Petroleum Reserves (NPR) are now produced primarily for commercial purposes. By contrast, the Naval Oil Shale Reserves (NOSR) have remained largely undeveloped.

NOSR-1 is located in western Colorado and has estimated oil shale resources of about 2.5 billion barrels of shale oil. Extraction of this resource may be technologically feasible, but it will require a high sales price to make the recovery economically attractive. Additionally, in 1994 the U.S. Geological Survey estimated in excess of 500 billion cubic feet of natural gas reserves that are continuous through the region in which NOSR-1 is located. No natural gas, however, is produced at NOSR-1.

NOSR-3 stretches along the eastern and southern flanks of NOSR-1 and, unlike NOSR-1, essentially is devoid of oil shale reserves within its boundaries. However, DOE has conducted protective gas drilling and production since 1985 to prevent depletion of government resources due to gas production on adjacent lands. This production totaled approximately 10 million cubic feet of gas per day during 1996. The gas was sold competitively and generated approximately \$3.1 million in revenues for the federal government for Fiscal Year 1996.

As you know, section 3416 of the National Defense Authorization Act for FY 1996, Public Law 104-106, required the Secretary of Energy to retain an independent petroleum expert to conduct a study to determine which of four options, or combination of options, would maximize the value to the United States of the five Naval Petroleum and Oil Shale Reserves. The Naval Petroleum Reserve at Elk Hills, which is to be sold, was specifically excluded from the study.

The four options specified in the Act for DOE's consideration and recommendation to the Congress are:

1. Retention and operation of the Naval Petroleum Reserves¹ by the Secretary of Energy under chapter 641 of title 10 U.S.C. (commonly referred to as the Naval Petroleum Reserve Law), the current statutory authority for managing and operating the reserves.
2. Transfer of all or a part of the reserves to the jurisdiction of another federal agency for continued administration under chapter 641 of title 10 of the U.S. Code.
3. Transfer of all or a part of the reserves to the Department of the Interior for leasing in accordance with the Mineral Leasing Act (30 U.S.C. 181 et seq.) and surface management in accordance with the Federal Land Policy and Management Act (43 U.S.C. 1701 et seq.).
4. Sale of the interest of the United States in the reserves.

Based on DOE's analysis of the consultant's report, DOE is recommending to the Congress that NOSR-1 and NOSR-3 be transferred to the Department of Interior and leased under the Mineral Leasing Act.² Whether to enact legislation in accordance with DOE's recommendation is a matter of policy for the Congress to determine and we have no position to offer with respect to that determination. Our comments today are merely for the purpose of apprising the Subcommittee of another available option as it considers the DOE recommendation.

DOE assumes in its report that after Congress transfers NOSR-1 and NOSR-3 to the Department of the Interior for leasing under the Mineral Leasing Act, 50 percent of the lease revenues will accrue to the state of Colorado. It is our understanding that DOE has not yet provided to the Congress proposed legislation mandated by section 3416 which would implement its recommendations. Accordingly, we assume that DOE proposes to structure the transfer in such a manner that NOSRS 1 and 3 would lose their identity as Naval Oil Shale Reserves. This would result in the reserves losing the unique status that they enjoy under current law whereby all of the receipts from those reserves are and would continue to be retained by the

¹"Naval Petroleum Reserves" in Pub. L. 104-106 has the same definition it has in title 10 of the U.S. code; it includes both the petroleum and oil shale reserves.

²"Report and Recommendations on the Management and Disposition of the Naval Petroleum and Oil Shale Reserves (Excluding Elk Hills)," issued by DOE March 1997.

government. Instead, as envisioned by DOE, if NOSR-1 and NOSR-3 are transferred to the Secretary of the Interior to be administered in the same manner as the Secretary is obligated to administer other leases under the Mineral Leasing Act of 1920, 50 percent of the lease revenues will be paid over to the state of Colorado.

While DOE's recommendation to transfer NOSR-1 and NOSR-3 to the Secretary of the Interior is one option, there is another option which, with some technical conforming statutory revisions, would allow the Secretary of Energy to retain those reserves and operate them by leasing them in a manner consistent with commercial practices. Revenues from such leases would be paid into the miscellaneous receipts account of the Treasury and all of the proceeds, not just 50 percent, would accrue to the U.S. government.

The Secretary of Energy currently has authority to lease NOSR-1 and NOSR-3, although there are some limitations on the use of that authority. In the Mineral Leasing Act of 1920 and the Naval appropriations act for FY 1921, such authority was originally reserved to the Secretary of the Navy. The Secretary of the Navy's authority for administration of and jurisdiction over these reserves was subsequently transferred to the Secretary of Energy on August 4, 1977, under the statute which established the Department of Energy.

An exemption to authorize the United States to retain all of the proceeds generated from the NPRS and NOSRS is delineated in the Mineral Leasing Act of 1920. Moreover, when the Act was amended in 1981 to allow states to receive 50 percent of revenues from minerals on lands acquired for military purposes, the specific exception for these reserves was repeated. As the House Armed Services Committee's report on that legislation indicated, the Interior Department supported this exception.

We have been advised by a DOE official that disposition of revenues from various reserves over the years has been consistent with this position. As I previously mentioned, protective drilling is performed at NOSR-3 by the DOE resulting in revenues of \$3.1 million for FY 96. According to DOE, all of those revenues were deposited into the Treasury and retained by the United States. In addition, NPR-2 in Buena Vista, California, was originally leased by the Secretary of the Interior in 1923 and managed by Interior until the late 1970's when the Secretary of Energy assumed responsibility for it. DOE officials told us that the U.S. government has retained all of the proceeds from those leases since 1923.

Mr. Chairman, that concludes my prepared remarks. I would be happy to address any questions you might have.

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