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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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JUL 12 1974

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The Honorable William V. Roth  
United States Senate

Dear Senator Roth:

As you requested on March 11, 1974, and as your office later agreed, we are furnishing (1) data on the provisions in the Department of the Interior's current regulations and leases requiring development of oil and gas leases within a certain time frame and production by the lessee and (2) overall oil and gas statistics for onshore and offshore public lands on the number and acres of producing and nonproducing leases as of December 31, 1972, and the royalties, rentals, and bonuses collected during fiscal year 1973. 33

We are furnishing separately a listing, prepared by the Department's Geological Survey, of all leases that produced in calendar year 1973 and showing the oil and gas produced by each in that period. You also requested a copy of a study being made by Survey on the number of shut-in oil and gas wells on public lands, including the reasons for the shut-ins. As soon as Survey completes the study, we will send you a copy. 215

LEASE DEVELOPMENT AND PRODUCTION PROVISIONS

The primary statutory authorities for leasing public lands to produce oil and gas are the Outer Continental Shelf Lands Act (43 U.S.C. 1331, 67 Stat. 463) and the Mineral Lands Leasing Act (30 U.S.C. 181, 41 Stat. 437). The Department, according to this legislation, has issued regulations for leasing on the Outer Continental Shelf (OCS) in 30 CFR 250 and 43 CFR 3300 and for leasing on onshore public lands in 43 CFR 3100, 3110, and 3120.

OCS leases

All oil and gas leases on OCS are issued on a competitive basis. The lease the Department uses provides a lease term of 5 years and as long thereafter as oil and gas are produced in paying quantities or as long as drilling or well-reworking operations, as approved by the Secretary of the Interior, are carried on. The lease is silent about production of any minimum amount of oil or gas.

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The lessee is required to diligently drill and produce such wells as are necessary to protect the Government from loss due to production on other property or to compensate the Government for failing to drill and produce any such wells. The lessee is further required, after being given due notice, in writing, to drill and produce such other wells as the Secretary of the Interior may reasonably require so that the leased lands may be properly and timely developed and produced in accordance with good operating practice.

The regulatory provisions correspond to the language found in the lease, and the regulations and leases comply with the statutory provisions.

The Outer Continental Shelf Lands Act and applicable regulations permit the Secretary of the Interior to cancel a nonproducing lease for failure to comply with any provision of the act, regulations, or lease if such failure continues for 30 days after an appropriate notice is mailed to the lessee. Producing leases can be canceled, only through appropriate judicial proceedings, for such failure.

#### Onshore leases

The Mineral Lands Leasing Act states that, if the lands to be leased are within any known geologic structure of a producing oil-field or gasfield, leases are to be awarded to the highest responsible qualified bidder by competitive bidding. Lands not within any known geological structure of a producing oilfield or gasfield are to be leased to the first qualified applicant.

Regarding development of a lease within a certain time frame, a competitive lease establishes a lease period of 5 years and a non-competitive lease establishes a lease period of 10 years. Both types of lease provide for extending the lease periods for as long thereafter as oil or gas is produced in paying quantities.

Competitive and noncompetitive leases have substantially the same requirements on oil and gas production by the lessees. No minimum amounts are established, but the lessees are required to drill those wells necessary to prevent drainage due to wells on other properties and, after receiving notice, must promptly drill and produce such other wells as are required by the Secretary of the Interior to properly and timely develop the leased premises. Both competitive and noncompetitive lease forms provide that the rate of prospecting and developing and the quantity and rate of production be subject to control in the public interest by the Secretary of the Interior.

The regulatory provisions dealing with length of the lease correspond with the lease language. In addition, the regulations provide that both competitive and noncompetitive leases can be extended for 2 years if certain approved drilling operations are started before the end of the primary terms.

The regulations, however, are more specific than the leases regarding development. The regulations provide that drilling operations be carried on in such a way as to be an effort which one seriously looking for oil or gas could be expected to make in that particular area, given existing geologic and other pertinent facts. No specified minimum quantities of oil or gas, however, are required to be produced.

The provisions in the regulations and in the standard lease forms do not conflict with the statutory language.

The Mineral Lands Leasing Act and applicable regulations provide that, before a lease issued after August 21, 1935, is canceled for failure of the lessee to comply with any provision of the lease, the lessee receive at least 30 days' notice, unless or until the leased land is known to contain valuable oil or gas deposits. Leases on lands known to contain such valuable deposits may be canceled only through judicial process.

#### OIL AND GAS LEASE STATISTICS

There were 104,517 producing and nonproducing Federal oil and gas leases covering 76,424,531 acres as of December 31, 1972, as follows:

<u>Type of lease</u>	<u>OCS</u>			<u>Onshore public lands</u>			<u>Total</u>		
	<u>Number</u>	<u>Percent</u>	<u>Acres</u>	<u>Number</u>	<u>Percent</u>	<u>Acres</u>	<u>Number</u>	<u>Percent</u>	<u>Acres</u>
Producing	691	68	2,903,016	9,279	9	4,792,611	9,970	10	7,695,627
Nonproducing	323	32	1,419,978	94,224	91	67,308,926	94,547	90	68,728,904
Total	<u>1,014</u>	<u>100</u>	<u>4,322,994</u>	<u>103,503</u>	<u>100</u>	<u>72,101,537</u>	<u>104,517</u>	<u>100</u>	<u>76,424,531</u>

Department officials told us that they did not have any statistics or studies on why 91 percent of the oil and gas leases on onshore public lands were nonproducing. They said that most leases were on

lands which contained marginal geologic structures and that therefore there was little or no incentive to drill on those lands. They said that most leases probably were held for wildcatting.

During fiscal year 1973, the Department collected about \$4.1 billion in royalties, rentals, and bonuses from leasing Federal lands for oil and gas production. A bonus is the cash consideration the successful bidder paid to the Department for a mineral lease and is in addition to the rents and royalties specified in the lease. An analysis of these receipts, by type of land, follows.

## OCS:

Royalties	\$1,026,358,094
Rentals	26,317,217
Bonuses	<u>2,902,285,085</u>
	\$3,954,960,396
Onshore public lands (note a)	<u>135,928,080</u>
Total	<u>\$4,090,888,476</u>

<sup>a</sup>Analysis by type of income not available.

According to an agreement between the United States and Louisiana regarding disputed lands on OCS, receipts which result from leasing these lands are placed in an escrow account. During fiscal year 1973, about \$1.1 billion was transferred from the escrow account to the U.S. Treasury general fund accounts according to a supplemental decree of the U.S. Supreme Court. This amount is included in the above OCS receipts.

The Department is responsible for leasing Indian lands for oil and gas production. During fiscal year 1973, about \$25 million was collected from such leasing. As of December 31, 1972, there were 9,655 oil and gas leases on 3,476,279 acres of Indian lands; 2,361 of those leases (24 percent) on 948,362 acres were producing.

We are reviewing the Department's programs relating to the discovery and development of energy resources on Federal lands and OCS. Among the issues we will cover in the lease management area is production experience of leases and Federal efforts to encourage production, including reasons for nonproduction on oil and gas leases. We plan to issue a report to the Congress after we complete our review.

We do not plan to distribute this report further unless you agree or publicly announce its contents

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James P. Stroh".

Comptroller General  
of the United States