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Statement of  
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Before the Subcommittee on Energy  
Resources and Materials Production  
Senate Committee on Energy  
and Natural Resources

on  
[Federal Leasing Policy]

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to appear before this Subcommittee to discuss Title VII of S. 1308 which deals with onshore oil and gas leasing.

I would like to preface my remarks this morning by stating that the General Accounting Office has just recently initiated a study of the competitive aspects of onshore oil and gas leasing and we plan to start a comprehensive review of the entire onshore leasing system in the near future. Our previous work in this area is limited to a March 1970 report 1/ on the use of competitive versus noncompetitive leasing and an April 1979 report 2/ on the lottery system.

1/ "Opportunities for Benefits Through Increased Use of Competitive Bidding to Award Oil and Gas Leases on Federal Lands" (B-118678, March 17, 1970).

2/ "Onshore Oil and Gas Leasing--Who Wins the Lottery?" (EMD-79-41, April 13, 1979).

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In our 1970 report, we concluded that many oil and gas leases on Federal lands outside a known geologic structure of a producing oil and gas field were awarded noncompetitively at prices that appeared to have been less than fair market value. We recommended that greater use of competitive bidding should be followed to more nearly approximate fair market value.

Our April 1979 report concluded that the Department should ensure that the present lottery system is conducted in a manner which eliminates the possibility of the lottery drawings being manipulated. We also concluded that the Department should not allow lessees to hold oil and gas leases for a long period of time without production and with no intention of exploring or producing and that the Secretary should

(1) consider increasing application fees and rental rates to discourage speculation, and (2) require, as a condition to obtaining a lease, an obligation to begin exploratory drilling within a specific timeframe.

Given that perspective, my remarks today will address our views on Title VII and raise some issues that we think are important in the context of the timely and orderly development of onshore oil and gas resources.

*to balance speculation  
with lands  
off leases  
for lease*

### Five-Year Leasing Program

The General Accounting Office has long advocated a systematic approach to leasing Federal resources. In a series of reports concerning OCS leasing and a recent report on coal leasing we have taken the position that the Government needs to lease its resources in a manner which encourages exploration and development of the most prospective lands. A five-year leasing schedule would allow the industry, affected States, and other groups a chance to express their views as to where leasing should occur and over what timeframe.

However, the implementation of a schedule for onshore oil and gas leasing may be difficult at best for various reasons--including the vast amount of leases and acreage already under lease with varying expiration dates, absence of geophysical and geological data, and scattered ownership patterns.

Much of the best prospective onshore areas are already under lease, having been awarded either competitively or noncompetitively. For example, it is estimated that as much as 90 percent of the Overthrust Belt in the four-State area of Idaho, Montana, Utah and Wyoming is already under lease. The best available data from the Department of the Interior indicates that, at the end of 1977, there were over 114,000 existing leases covering about 93.1 million acres, of which as much as 98 percent were awarded noncompetitively. The lease terms are

5 years for the competitive and 10 years for the non-competitive leases and they may be extended where oil or gas are found in paying quantities. As these leases expire, they could be re-leased as part of the five-year leasing schedule. It might, however, require putting a freeze on a good portion of any future leasing in order to assemble, organize, and schedule tracts to be leased. Thus, this would do little to help stimulate exploration and development in the short-term.

It may also be difficult to select which tracts are to be scheduled for lease sale. For most leased areas, the Department does not have the type of data on which to base tract selection decisions or a management system which could provide for more systematically planning and scheduling onshore leasing. The Department knows little about most of the existing leases, including how much production can be expected from them. Interior generally has not required the industry to share exploratory data with the Government, as is required for the OCS. In fact, the Department does not even know what specific Federal land areas have been studied by industry, and the results of these studies.

The Department would have to either rely on the industry to identify the best tracts, or begin to acquire the data

needed to select the tracts. According to the Department, the cost of acquiring data from industry, if industry does not already have it, could reach \$300 million annually. This could be somewhat offset by sharing cost with industry and requiring industry to make available existing data, but it may still cost as much as \$22 million annually. The Department would need additional personnel to analyze data and select tracts for lease, schedule sales, and evaluate bids. It would also take time for the Department to develop the administrative skills for such a program. Thus, this may cause delays in exploring and developing onshore resources.

The concept of a leasing schedule is normally associated with a strategy to meet specifically established production goals, such as is being done in the case of the OCS or coal. We support this concept but, given the status of existing leases and the uncertainties over what lands could actually be made available in future years, together with the absence of adequate data--including potential production from existing leases--we believe even the simple mechanics of establishing a 5-year leasing schedule at this stage would be a difficult task and may not be very meaningful or realistic in relation to production goals.

## Competitive Leasing

Expanding the use of competitive leasing could help discourage speculation and--if true competitive forces are working--it could help assure fair market value return to the Government for the resources given over. Other tradeoffs, however, such as I mentioned earlier, might tend to offset these benefits. In addition, the fair market value issue might be dealt with through provisions to expand the operative areas of a known geologic structure (KGS). Fringe areas are primarily the areas where the issue of fair market value most often arises. As an observation, the Congress might want to consider loosening up existing legislation to give the Secretary more latitude in defining the boundaries of a KGS.

As mentioned earlier, we noted that the Department has little information on existing leases, including those it leased competitively. Without data on which areas have the best petroleum potential and the extent of that potential, the Department would have a difficult time identifying "favorable petroleum geological provinces," selecting the best tracts to offer, and evaluating the potential of the tracts. It would also require additional personnel to prepare the various pre-sale and post-sale evaluations to insure that competitive bids are providing a fair return to the Government for leasing public lands.

It appears that it may be more appropriate--at least in the near-term--to make improvements in the noncompetitive system to discourage speculation and encourage development. Recently the Secretary of the Interior announced administrative changes which we believe will alleviate some of the problems with the present system. We believe the announced changes in the noncompetitive system--such as increasing the maximum size of the leases, tightening diligence requirements, and substantially increasing rental rates if no development occurs during the first 5 years of the lease--will have positive impacts on discouraging speculation and encouraging exploration and development.

We intend to explore these issues further in our ongoing work.

#### Exploration and Development Plans

In our past work we have advocated requiring lessees to file exploration and development plans and we, therefore, favor this provision of S.1308. We believe, however, if the intent of the bill is to encourage earlier exploration, the mere requirement to file a plan does not go far enough. We would suggest adding more teeth to the legislation by tying the requirement for a plan to diligence requirements--i.e., requiring the lessee to prepare a plan and begin exploration within a certain specified timeframe or subjecting the lease to cancellation.

The exploration and development plans would also allow

Government oversight to insure the environment is protected. This type of planning will also fit in well with the concept of developing overall land management plans for Federal lands.

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As a general observation, we have difficulty in focusing on the intent of Title VII. If the intent is to stimulate faster exploration and development of our onshore resources, it is our overall view that it may not achieve this objective. A rapid expansion of the onshore competitive leasing system may not be practical at this stage when considering the administrative burden and cost--as well as the potential delays in making Federal resources available--associated with such a change.

In summary, moving toward the type of leasing system we see envisioned by Title VII would require the Department to 1) put a freeze on a good portion of any future leasing until such time as enough lands could be gathered together to develop an appropriate lease schedule, 2) begin gathering data already available from industry on existing leases, 3) acquire available data from industry on areas with the best potential not under lease, and 4) where data is not available, begin obtaining such data through a systematic exploration and development program which for some areas may require exploratory drilling.



Once the Department has this type of data base it can begin a systematic planning and scheduling program. However, as mentioned before the tradeoffs to moving toward this type of system are that it may--at least initially--delay oil and gas production from onshore Federal lands.

In closing, we believe there are areas primarily on the fringes of KGSs that should be included in a competitive leasing program. In addition, we support changes recently announced by the Secretary of Interior which could streamline the existing system, discourage speculation, and encourage earlier exploration and development, without creating bureaucratic delays or increasing the administrative burden of the Department.

Mr. Chairman, this concludes my statement. We will be happy to answer any questions the Subcommittee may have.