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Statement of  
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Before the  
Subcommittee on the Panama Canal  
and the Outer Continental Shelf  
House Committee on Merchant  
Marine and Fisheries



Mr. Chairman and Members of the Subcommittee:

GAO welcomes the opportunity to appear before the Subcommittee to discuss the findings of our recently completed reviews of the OCS program. Our reviews, which were requested by Congressman Edwin B. Forsythe of the Subcommittee, focused on the evolution of the offshore program through the 1970s and the identification of problems that have restricted the leasing and development of OCS lands. The results of our work were made available to the Congress in two recently released reports--which I would like, at this time, to submit for the record as part of my testimony. 1/

HISTORICAL PERSPECTIVES  
ON THE OCS PROGRAM

Interior's offshore leasing program began in 1953 with the passage of the OCS Lands Act. Between 1953 and 1969, the offshore program was a fairly non-controversial program restricted to the

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1/"Issues In Leasing Offshore Lands For Oil and Gas Development" EMD-81-59, March 26, 1981, and "Impact of Regulations--After Federal Leasing--On Outer Continental Shelf Oil and Gas Development" EMD-81-48, February 27, 1981.

114752

Gulf of Mexico. Only 4 of the 21 lease sales held through 1969 were outside the Gulf--these being lease sales off the coasts of California, Oregon, and Washington.

A series of changing events in the late 1960s and the early 1970s had a pronounced effect on the offshore program. Initiatives to improve the management of the program and to help ensure that the Government received a fair value for OCS resources began in the late 1960s. These efforts were followed by the environmental movement of the early 1970s and the decision to consult more closely with State governments in OCS development. The energy crisis closely followed the environmental movement. In response to the energy crisis, aggressive plans were made to accelerate the leasing and development of OCS lands, especially in frontier areas outside the Gulf of Mexico. The combination of these events, the objectives of each not necessarily common to the others, led to considerable public controversy--which threatened efforts to continue leasing.

As debate on offshore development intensified, Congress became involved and in September 1978 amended the OCS Lands Act. It was envisioned that the amendments would provide a more comprehensive framework for managing offshore oil and gas leasing and development activities than what had been followed in the past.

#### LEASING INCREASED BUT GOALS NOT MET

Amid these changing events, OCS leasing and development increased significantly during the 1970-80 time period when compared to the first 16 years of the program. The number of sales increased by more than 50 percent, over twice as much land was

offered for lease, the amount of land actually leased almost doubled, and first-time sales were held in seven new OCS frontier areas. At the beginning of 1970 only about 1 percent of the OCS had been offered for lease. By the end of 1980, 4 percent had been offered and about 2 percent leased. These increases were achieved during a time when sales were continuously delayed by lawsuits and the planning process for holding a sale was lengthened from 4-6 months to between 26-41 months.

Although leasing increased significantly, the planned leasing goals of the 1970s were never achieved. Only about 60 percent of the planned sales were held, the amount of land leased was only a small fraction of what was planned under the more aggressive schedules, and 9 frontier leasing areas were not opened for leasing.

REASONS WHY PLANNED LEASING  
GOALS NOT MET

The need to develop more information about the environmental aspects of offshore development has led to an extension in the time needed to plan for lease sales--the result being the delay or cancellation of numerous sales. For example, the time to complete the environmental impact statement process for an OCS lease sale now ranges from an average of 15 months in the Gulf of Mexico to about 27 months in the Alaska OCS and encompasses about 60 percent of the total prelease planning time.

At the same time, much of the acreage initially considered by DOI for leasing has not actually been leased. Industry has not shown an interest in all the land that has been considered for leasing--particularly in frontier areas--including land for which high interest was indicated during the nomination process.

This has contributed to shortfalls in achieving the acreage leasing goals. For example, during the 1970s, for non-Gulf of Mexico frontier sales, industry nominated only about half the acreage included in Interior's call areas--52.6 million of 103.1 million acres. Even though Interior only offered land nominated by industry, it offered only 16 percent of the land industry nominated--about 8.6 million acres. Of this acreage about 80 percent was heavily nominated. However, industry only bid on about 41 percent of the offered acreage--3.6 million acres. In our opinion two major reasons for industry's limited bidding are (1) the lack of information on the resource potential in the lease areas and (2) the existing requirements in the 1970s to put up relatively large sums of front-end money through the bonus bidding system to obtain a lease.

On a different issue, there has been and currently is, a large amount of the OCS excluded from leasing--about 25 million acres--because of environmental issues, boundary disputes, and national defense priorities. We believe the Secretary should reevaluate and re-weigh the rationale for excluding these lands from leasing.

EXPLORATION AND DEVELOPMENT--AFTER LEASES  
HAVE BEEN AWARDED--HAVE BEEN SLOWED

Turning to the post-leasing side of the OCS program, the story is much the same. As a result of the 1978 OCS amendments and other legislation--particularly environmentally-related statutes--various Federal as well as State agencies became involved in managing OCS activities and various approvals and permits are

now needed before exploration and development activity can begin. The response time of these Federal and State agencies can--and frequently does--affect timely OCS exploration and development. Thus, what used to require days can now take months and even years.

Actually it is too early to judge what the full post-leasing impact of the OCS amendments will be because the new rules and regulations have not really been fully tested in any of the OCS areas. Among other things, the amendments established time limitations for Geological Survey's processing of exploration and development plans and also mandated a State review process--which must take place before any activity can begin on the OCS.

We found that regulations instituted by the Survey in 1978 in anticipation of the amendments significantly increased the time required for these approvals in the Gulf of Mexico region. More recently, revised regulations implemented to meet the mandated time frames specified in the amendments, have improved the Survey's responsiveness. But processing times will probably never return to the 30-day (or less) lengths prior to 1978. And the current time frames even in the Gulf could be lengthened because--to this point--no State or local government in that region has participated in the review process emphasized by the amendments.

Survey's responsiveness in approving plans for exploration in the Pacific and Atlantic regions has also improved, but it is too early to gauge what will happen with more controversial development plans. A recent Pacific development plan--not covered by new regulations--took over 2 years to process. It is also too soon to judge the total Alaskan experience where stipulations in leases have delayed both approval of plans and exploratory activities.

In addition to approving industry's operating plans, Survey shares primary responsibility with the Corps of Engineers, Environmental Protection Agency, and the Coast Guard for issuing exploration and development activity permits. A delay by any one agency can hold up OCS operations.

We found that the most serious delays involving permits encountered so far relate to functions of agencies not directly affected by the OCS Lands Act Amendments, and where time frames for completing agency actions are not legislatively mandated. For example, in the Gulf of Mexico, the Corps' processing time for permits for the installation of fixed structures and dredging operations is about 150 days when objections arise and, in Alaska, it exceeds 100 days for controversial topics such as permits to construct artificial islands for oil exploration.

The Environmental Protection Agency's drilling discharge permit approvals are the most time-consuming and have had an effect on Shelf operations. Permit requests filed more than a year ago for Pacific area exploratory drilling are still pending and the Agency was not prepared to issue permits for operations in North Atlantic areas, thus delaying exploratory drilling on leases issued in 1979 until at least mid-1981.

Various laws in addition to the amendments, give coastal States a greater voice in Outer Continental Shelf activities and their involvement can extend issuance of necessary permits. States through the Coastal Zone Management Act's consistency provisions have up to 6 months to review industry operating plans and can rule against them any time during this period. These review procedures can result in prohibiting any OCS oil and gas operations

from taking place for an extended period of time. So far, however, no State apparently has exercised this authority in a way to disrupt Outer Continental Shelf activity. In fact, California and Alaska recently have taken steps to expedite responses to industry requests and to bring together and coordinate post-leasing activities requiring multi-agency reviews. With more future Outer Continental Shelf activity destined for other frontier areas, these lessons should be helpful to other States.

Despite the regulatory process, GAO found a credible record by industry in pursuing offshore oil and gas. Drilling has occurred on over 79 percent of the leases issued in the Gulf between 1970 and 1974 and production has resulted from 29 percent of the leases issued and 37 percent of the leases drilled. However, a declining trend in leases drilled during the first lease year occurred between 1977 and 1979, which might reflect the requirements imposed by the amendments, as well as other factors such as the availability of drilling rigs.

#### PROSPECTS FOR FUTURE LEASING AND DEVELOPMENT

##### Prospects for Meeting the 5-Year Schedule

The current 5-year lease schedule emphasizes increased access to frontier areas such as Alaska and continued leasing in the more mature areas such as the Gulf of Mexico. The schedule provides for 36 sales (about 7 sales per year) with at least one sale in 16 OCS areas. In Alaska, 7 areas are scheduled to have sales for the first time. If the schedule is adhered to, annual sales and the estimated annual acreage to be leased, when compared to the leasing experiences of the 1970s, will more than double.

The current 5-year schedule was developed amidst competing demands from States, environmental organizations and the oil and gas industry. The "go-slow" approach of environmentalists and several States conflicted with industry's emphasis on expediting OCS leasing and development. This was especially true in Alaska. Elsewhere the differences were smaller between industry, the environmentalists, and the States. The 5-year schedule developed in 1980 appears to represent a compromise among these often divergent groups.

There are positive indications that the efforts expended to develop the schedule and bring all concerned groups into the decisionmaking process may lessen future conflict and leasing delays. In addition, court decisions have helped to clarify and refine the objectives of the OCS program and establish precedent for evaluating the contentions of future litigants.

On the other hand, litigation remains inherent to the OCS program. Delays may result from suits challenging the development of the 5-year schedule, promulgation of regulations defining alternative bidding systems, and the application of the consistency requirements of the Coastal Zone Management Act to the prelease planning process. Court decisions favoring Interior's implementation of the amendments is establishing precedent; thus OCS leasing may be subject to less challenge in the future. Also, by increasing the credibility of the prelease planning process so that post-lease sale challenges and delays are avoided or minimized, petroleum companies may become more confident of their ability to engage in offshore petroleum recovery activities on purchased leases.



Proposals to increase and  
accelerate OCS leasing

The time now taken for prelease processes such as the call for nominations, tentative tract selection and draft EIS's for second sales in specific OCS areas is being examined by Interior--the thinking being that data on an area's resource potential and environmental sensitivity obtained from the first sale could reduce the time needed for these analyses in a second sale.

The EIS process itself may also be subject to substantive changes. For example, the use of a regional or area-wide environmental impact statement could reduce the amount of time required to conduct similar analysis in second sales. Also, applying the concurrent EIS approach used in Gulf of Mexico--i.e., one EIS for two annual sales held in the same area--to other regions would save administrative time and costs. These concepts would allow Interior to accelerate second and third lease sales in an area.

Accomplishing certain prelease tasks simultaneously might also produce timesavings--for example, issuing the proposed notice of sale either before or simultaneously with the final EIS's and scheduling DCE's required review of the bidding system to be used in a sale concurrent with State government reviews.

Streamlining the process could eliminate administrative inefficiencies and possibly accelerate offshore leasing. Industry is not opposed to a more aggressive leasing schedule. However, it appears that a primary question on the leasing program at this time is whether or not scheduled sales will be held as planned. Our review indicated that holding OCS sales as planned is of

major importance to industry at this point in time, whether or not that schedule is the current one or a modified one.

#### CONCLUSIONS AND RECOMMENDATIONS

Offshore leasing and development remains a highly controversial national issue. The 1978 OCS Lands Act Amendments have not, thus far, led to a timely resolution of problems inherent to planning for and holding a lease sale. The new administration is currently reviewing the OCS Lands Act Amendments and considering administrative changes for streamlining the leasing process and for making more land available for leasing. Many opportunities for administrative changes exist, and the Secretary now has the advantage of recent judicial decisions to assist in his review. GAO recommends that the Secretary of the Interior continue addressing the prelease planning problems with the present leasing approach, taking into consideration such things as the time delays caused by environmental needs, the lack of interest in many tracts offered for leasing, and the need to review the status and potential of the 25 million OCS acres currently not available for leasing.

In addition, coordination and cooperation between Federal and State agencies (and the public sector) in approving plans and issuing permits for post-lease activities is crucial if exploration and development of leased OCS lands is to proceed in an orderly and timely manner. GAO believes congressional initiatives may be needed to spark improvements and thus recommends that legislation be enacted to establish a standard, reasonable time--a maximum 90-day turnaround time should be the general rule--within which

all Federal agencies would complete their post-lease approval and permitting processes.

In summary, we have made a number of recommendations to help assure that a balance is achieved between offshore oil and gas development and environmental protection, and to expedite leasing and development.

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Gentlemen, this concludes my prepared statement. My staff and I would be happy to answer any questions you may have at this time.