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REPORT BY THE U.S.

General Accounting Office

Opportunity To Increase Oil And Gas Exploration And Lease Rental Income

As a general policy, the Federal Government does not issue oil and gas leases on lands that have been or may be designated as wilderness. Therefore, the Bureau of Land Management and the Forest Service generally do not process lease applications that include both nonwilderness lands and wilderness or potential wilderness lands. GAO found that over 1 million acres of the lands in the lease applications in seven Western States involved nonwilderness lands.

GAO believes the Bureau of Land Management and the Forest Service should implement joint procedures to segregate the non-wilderness portions of over-the-counter lease applications and lease them to willing applicants where practicable. For the seven States alone, this could increase the amount of Federal lands available for oil and gas exploration and provide about \$1 million in annual rental income.



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-211096

The Honorable James G. Watt
The Secretary of the Interior

The Honorable John R. Block
The Secretary of Agriculture

While reviewing the Department of the Interior's onshore oil and gas leasing system, we identified an opportunity for the Department to further its objective of increasing the availability of federally-owned mineral resources for development, where consistent with other land use objectives, while also significantly increasing lease rental revenues. This involves issuing oil and gas leases, through the noncompetitive, over-the-counter leasing system, by the Bureau of Land Management (BLM) on lands where the Forest Service has responsibility for determining whether a lease may be issued.

We found that BLM has delayed issuing leases on over a million acres of leasable Federal lands in the seven States our review covered. The delays, which in some cases amount to years, have occurred because BLM's State offices and Forest Service regional offices have not developed cooperative arrangements to process nonwilderness portions of lease applications that also include wilderness or potential wilderness lands. The delays result in reduced Federal acreage available for oil and gas exploration and development and potential losses of significant rental income.

BACKGROUND

The Department of the Interior has primary responsibility for coordinating the development of Federal mineral resources. Within Interior, BLM administers onshore oil and gas leasing on Federal lands under the Mineral Leasing Act of 1920 (30 U.S.C. 181 et. seq.), as amended, and the Mineral Leasing Act for Acquired Lands (30 U.S.C. 351-359). Amendments to the Mineral Leasing Act in 1946 established the framework of the existing system, which was designed to stimulate the discovery of oil and gas. BLM delegated its leasing authority to its State offices.

These onshore Federal lands are leased either competitively or noncompetitively, depending on the lands' known geologic potential. Noncompetitive leasing is either (1) over-the-counter on a first-come, first-served basis or (2) simultaneous by a lottery. A brief description of each method follows:

--Competitive method.

By law, land located within a known geologic structure (KGS) is leased through competitive bidding. A KGS is essentially land with proven production. Once a producible well is "completed," the surrounding land, generally about 1 square mile, is designated as a KGS. The KGS lands, if leased, must be leased competitively to the bidder offering the highest acceptable bonus.

--Noncompetitive method.

Simultaneous, or lottery system. As leases expire or are otherwise terminated, they are scheduled for bimonthly drawings. Schedules are posted. Interested parties submit a drawing card together with a \$75 filing fee.

Over-the-counter, or open filing. Land not previously leased is available to the first qualified applicant who submits an application along with the first year's rent and a \$75 filing fee. Potential lessees can identify available land by examining maps and title data in BLM offices.

Other Federal agencies and bureaus are also involved in leasing Federal oil and gas lands. The most prominent is the Forest Service as surface manager of some of the most promising Federal oil and gas lands. When leases are applied for through the over-the-counter leasing system on Forest Service-managed lands, BLM requests the Forest Service to recommend whether the lands should be leased and, if so, whether any special stipulations should be attached to the lease.

Since passage of the Wilderness Act of 1964, the Congress has designated about 25 million acres of lands administered by the Forest Service as wilderness. This act also authorized mineral leasing on wilderness lands until January 1, 1984. However, public and congressional concern about leasing in wilderness lands prompted the Secretary of the Interior to postpone consideration of such leasing. In addition, BLM was instructed to hold applications containing potential wilderness land, pending congressional debate of the wilderness leasing issue.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this review was to determine if Federal lands adjacent to wilderness or potential wilderness lands administered by the Forest Service could be leased in a timely manner when such lands are included in the same noncompetitive, over-the-counter oil and gas lease application. As such, we interviewed BLM officials and examined lease processing procedures for the BLM State offices in Denver, Colorado; Santa Fe, New Mexico; and Cheyenne, Wyoming. We also interviewed Forest Service officials and reviewed Forest Service records of pending applications involving nonwilderness lands adjacent to wilderness and potential wilderness lands at the Forest Service regional offices in Lakewood, Colorado; Ogden, Utah; and Albuquerque, New Mexico. In addition to Colorado, Utah, and New Mexico, these Forest Service offices handled applications and lease processing for Arizona, Idaho, Nevada, and Wyoming. These seven States were chosen because they comprised 82 percent of the outstanding over-the-counter oil and gas leased acreage and 42 percent of the 25 million wilderness acres administered by the Forest Service, as of October 1981--the latest available figures. As such, these States were likely to have lease applications pending that involve wilderness lands.

In addition, we interviewed officials and obtained information on lease processing procedures and practices from BLM's Montana State office in Billings, Montana, and the Forest Service regional office in Missoula, Montana, since these offices had developed a lease processing procedure that provides a timely response to pending oil and gas lease applications containing both wilderness lands or potential wilderness and nonwilderness lands.

We performed our review in accordance with generally accepted government audit standards.

THE GOVERNMENT CAN INCREASE OIL AND GAS EXPLORATION AND LEASE RENTAL INCOME

In the seven States where we conducted our review, 557 lease applications (see table on next page), including both nonwilderness lands and wilderness or potential wilderness lands, had been delayed because of a policy to consider the over-the-counter lease offer in total and not to segregate the nonwilderness portion of the application. This means the amount of Federal lands available for oil and gas exploration and development has been reduced and about \$1 million in corresponding potential rental income has been foregone.

Instead of routinely issuing leases on the portions of those applications not in wilderness lands or under consideration as possible

wilderness lands, BLM and the Forest Service stopped processing the applications and are holding them pending a congressional decision on oil and gas leasing on wilderness lands. In the seven States in our review, over 1 million acres were pending. (See table below.) As recently as November 22, 1982, BLM headquarters issued an instruction memorandum to all its State offices explaining the leasing prohibition in wilderness lands per its fiscal year appropriations. This memorandum stated that all lease applications containing wilderness or potential wilderness lands are not to be processed, except those lands noncompetitively offered by BLM under the simultaneous leasing system. For these simultaneously leased lands, the memorandum called for segregating the wilderness and potential wilderness lands from the nonwilderness lands. The exception did not include over-the-counter lease applications.

Oil and Gas Over-the-Counter Lease Applications
Pending with the Forest Service as of October 1982 (note a)

<u>State location</u>	<u>Forest Service region</u>	<u>Number of applications</u>	<u>Total acres applied for</u>	<u>Acres in wilderness or potential wilderness</u>	<u>Acres in non-wilderness</u>
Arizona	3	48	274,975	115,600	159,375
Colorado	2	134	448,008	193,902	254,106
Idaho	4	36	137,712	78,566	59,146
Nevada	4	15	63,357	43,919	19,438
New Mexico	3	15	63,100	38,770	24,330
Utah	4	148	465,017	229,214	235,803
Wyoming	2&4	<u>161</u>	<u>718,332</u>	<u>440,139</u>	<u>278,193</u>
Total		<u>557</u>	<u>2,170,501</u>	<u>1,140,110</u>	<u>1,030,391</u>

a/Prepared from data furnished by the Forest Service.

In analyzing 231 pending over-the-counter lease applications at the Forest Service's Lakewood, Colorado, office, we found that 68 of them had been held over 3 years, with 6 of those dating back to 1971. Lease issuance for nonwilderness portions of applications in these seven States has been done when specifically requested by the applicant. According to Forest Service officials, however, this seldom

happens (although they do not maintain such statistics) because few applicants know that it can be done. Currently, an annual rental of \$1 per acre is collected on noncompetitive oil and gas leases. As such, the 1 million acres in pending applications if leased represent a potential \$1 million in additional lease rental income.

In contrast to what we found in the other seven States, the Montana BLM office and the Forest Service Region 1 office ^{1/} in Missoula, Montana, on their own initiative, cooperatively developed informal lease processing procedures for Montana that provides a more timely response to leasing the nonwilderness portion of oil and gas lease applications that contain both nonwilderness lands and wilderness or potential wilderness lands. Using the management guidance and information incorporated in existing Environmental Assessments and Environmental Impact Statements, the Forest Service Region 1 office processes these lease applications and may recommend lease issuance for the nonwilderness lands covered by these applications. According to a regional Forest Service official, Region 1 has been using this lease processing procedure since December 23, 1980, and it was developed in response to increased public demand for leasing Forest Service land. As of October 12, 1982, these segregation procedures have resulted in recommendations for lease issuance of 1,128,488 acres of nonwilderness Forest Service lands in Montana that would have otherwise been held pending resolution of a congressional decision on leasing the wilderness or potential wilderness lands included in the same applications.

After receiving Forest Service's oil and gas recommendations for leasing the nonwilderness portion of an application, BLM may issue a lease, with the remaining wilderness lands held in suspense until a decision is made on leasing in wilderness lands. A Montana BLM official informed us that the office routinely offered leases to the applicant on the nonwilderness acres recommended by Forest Service and that applicants accepted approximately 95 percent of these leases. BLM did not have summary data supporting this success rate. However, based on this rate, the segregation leasing procedures could have provided about \$1.1 million in increased rental income and made an additional 1.1 million acres of Federal lands available for exploration and development.

Regarding the identification of wilderness and nonwilderness lands included in the same lease application, a Forest Service headquarters official said that wilderness and potential wilderness

^{1/}Region 1 covers Montana, northern Idaho, North Dakota, and northwestern South Dakota.

lands' geographic boundaries are clearly defined in local plat maps and, as such, facilitate identifying the nonwilderness portions of an application. Also, this official cautioned that since the boundaries are marked only on the plat maps, the leaseholder has to survey the land to prevent intrusion into wilderness or potential wilderness lands. Concerning this matter, an Interior headquarters official informed us that geographic boundaries of some wilderness lands are not well defined, and in such instances a buffer zone may need to be provided until a survey could be made.

Furthermore, Interior has various control procedures that should prevent or minimize the inadvertent intrusion into wilderness or potential wilderness lands by lease operators. Before exploration, an exploration plan is submitted to BLM for review and approval. This plan generally indicates planned roads and drilling sites. Before gathering geophysical and seismic data or drilling exploration oil and gas wells, leaseholders must apply for permits which BLM and the Forest Service approve. Interior's regulations for the most part prevent a leaseholder from drilling within 200 feet of the lease boundary. Also, BLM makes selected onsite lease exploration visits. All of these procedures help to insure that wilderness or potential wilderness lands remain undisturbed.

By using a cooperative procedure such as Montana's, the seven BLM State offices covered by our inquiry could attempt to lease the approximately 1 million acres we identified as the nonwilderness portion of the pending lease applications and collect the corresponding rental revenue. When we discussed this matter with headquarters BLM and Forest Service officials, they agreed that the nonwilderness portions of pending or future lease applications could be segregated and leased.

CONCLUSIONS

Potentially leasable Federal land, adjacent to actual or possible wilderness lands, can be leased through the over-the-counter leasing system by using procedures on a national level similar to the ones being used by BLM and the Forest Service informally in Montana and those recently initiated regarding the simultaneous leasing system. This could increase the amount of Federal acreage available for oil and gas exploration and development by around 1 million acres and provide about \$1 million in annual rental income in the seven States on which we obtained data.

RECOMMENDATIONS

To increase Federal acreage available for oil and gas exploration and development and to obtain the corresponding rental income, we recommend that the Secretary of the Interior require the Director of BLM to initiate and oversee actions to implement

joint regulations or procedures with the Forest Service that would segregate the nonwilderness portions of over-the-counter lease applications and lease them to willing applicants where practicable. We also recommend that the Secretary of Agriculture require the Chief of the Forest Service to work closely with the Director of BLM to implement these procedures.

INTERIOR AND FOREST SERVICE
COMMENTS AND OUR EVALUATION

Both the Department of the Interior and the Forest Service provided comments on a draft of this report. (See apps. I and II.) Each presented some qualifications.

Interior agreed with our recommendation but pointed out that in some areas, particularly in the eastern United States, boundaries are not surveyed and in these instances a buffer zone would be appropriate until a survey could be made. The Forest Service made a similar observation and suggested that our recommendation be modified to recognize that leasing may not be appropriate in every case. We agree and have modified the report to recognize the possible need for buffer zones in certain instances. However, we would not expect this to have a major impact on the potential to issue leases, especially since less than 5 percent of the wilderness lands are in the eastern States where this would most likely be a problem.

Interior also pointed out that it concentrated its efforts in 1982 on what it considered a more effective use of its resources--eliminating the backlog of lease applications. Interior stated that lease applications not involving the segregation of nonwilderness from wilderness lands can generally be adjudicated more quickly and can put an even greater amount of acreage under lease than leasing lands adjacent to wilderness. We have discussed the backlog problem in prior GAO reports and concur fully with Interior's efforts to eliminate it. We are offering our recommendation in this report as a further means of achieving the objective of making lands available for mineral leasing and development where appropriate.

Finally, Interior referred to a recent court decision regarding the adequacy of the Forest Service's RARE II environmental impact statement as applicable to California. The RARE II--an evaluation of 62 million acres of roadless and undeveloped areas within the 190 million acre national forest system--national environmental impact statement was used by the Forest Service in determining which areas within the national forest were suitable for wilderness and which should be used for other purposes. We are aware of this decision (State of California v. Block, 690 F.2d 753 (9th Cir. 1982)) that held the environmental statement

to be inadequate as it applied to specific areas in California and of the Forest Service's decision to reevaluate the wilderness potential in other States, as well as California, because of the precedence of the court's decision. Such a reevaluation could obviously increase or decrease the amount of nonwilderness land available for leasing. Regardless, we believe policies and procedures should be developed and in place to lease such lands to willing applicants whenever, and as soon as, possible.

These comments and other comments from the Forest Service, along with our responses, have been incorporated in the body of this report as appropriate.

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As you know, 31 U.S.C. §720 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations. This written statement must be submitted to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of report. A written statement must also be submitted to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report.

We are sending copies of this report to the chairmen of the four committees mentioned above; the chairmen of the energy-related congressional committees; and the Director, Office of Management and Budget.

We appreciate the courtesy and cooperation extended to our staff during the review.


J. Dexter Peach
Director



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

MAR 7 1983

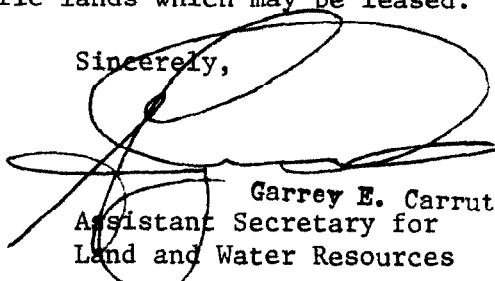
Mr. F. Kevin Boland
Senior Associate Director
Resources, Community, and Economic
Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Boland:

Thank you for the opportunity to review and comment on the General Accounting Office draft report entitled "Opportunity to Increase Oil and Gas Exploration and Lease Rental Income."

We concur with the report's recommendation that the Bureau of Land Management and the Forest Service implement joint procedures to segregate the nonwilderness portions of over-the-counter lease applications for Forest Service lands and lease them to willing applicants. The Bureau is currently preparing a directive to its field managers, instructing them to work closely with responsible FS managers to determine which lands may be leased. It should be noted that for Forest Service lands, it is that agency's responsibility to recommend to the BLM the specific lands which may be leased.

Sincerely,



Garrey E. Carruthers
Assistant Secretary for
Land and Water Resources

Enclosure

Department of the Interior Response to GAO Recommendation

"Opportunity to Increase Oil and Gas Exploration and Lease Rental Income"

RECOMMENDATION:

Bureau of Land Management and Forest Service should implement joint procedures to segregate the nonwilderness portions of over-the-counter lease applications and lease them to willing applicants.

RESPONSE:

We agree with the GAO that it would be desirable to segregate nonwilderness acreage from wilderness acreage in lease applications and proceed with partial lease issuances. We are currently preparing a directive to field managers which reemphasizes such a procedure. To the extent possible, and subject to the recommendations of the Forest Service, leases will be issued. However, contrary to statements made in GAO's report, geographic boundaries of some wilderness areas are not well defined and may not allow segregation of lands to the accuracy necessary to ensure that leases do not include prohibited areas. In particular, in the Eastern States Office area of jurisdiction boundaries are not surveyed; thus, they can only be approximated. In these instances where a boundary is not readily identifiable, a buffer zone may need to be provided until a survey could be made.

We believe an important point is ignored in the thrust of this report; specifically, in 1982 BLM leased approximately 50 million acres of land for oil and gas exploration and development. This is double the acreage leased in 1981 and represents the total elimination of a longstanding backlog of lease applications under BLM control. Our field offices were directed to eliminate this backlog by the end of 1982 and processed applications that were least complicated first. Adjudication of applications involving segregation of lands requires a decision to accompany the partial lease issuance, explaining specifically why certain acreage was suspended. This adjudication is time-consuming. While the GAO report expresses concern that BLM did not issue leases on approximately 1 million acres and collect the associated rental, we believe that it was a more effective use of resources to process the less complicated applications, enabling the Bureau to lease 50 million acres and collect \$50 million.

Finally, we would draw GAO's attention to the recent 9th Circuit Court decision regarding the adequacy of the Forest Service's RARE II environmental impact statement in California and the possible impact of this decision as discussed by Agriculture Assistant Secretary Crowell. If all FS lands must be reviewed again for wilderness potential, leasing of these lands (which would include the one million acres of concern to GAO) could be significantly affected.



United States
Department of
Agriculture

Forest
Service

Washington
Office

12th & Independence SW
P.O. Box 2417
Washington, DC 20013

Reply to 2800

Date: MAR 5 1983

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Mr. F. Kevin Boland
Senior Associate Director
U.S. General Accounting Office
Washington, DC 20548

L

Dear Mr. Boland:

Following are our comments on the draft report "Opportunity to Increase Oil and Gas Exploration and Lease Rental Income."

1. The statement at the top of page 5, projecting a potential \$1 million or more per year in rental income, should be qualified. Some of the lands involved may not be available for leasing for various reasons.

2. In the first paragraph on page 6, the first sentence is misleading in that wilderness boundaries have generally not been accurately established on-the-ground. The thrust of the entire paragraph is affected.

3. In the recommendation to the Secretary of the Interior, we believe the last clause should be modified to read ". . . and consider leasing it to willing applicants." This wording would recognize that an analysis may show that certain lands should not be leased.

Mr. Sid Gray of the Forest Service has already discussed a number of editorial and technical suggestions with Mr. Gary Chupka of your agency.

Sincerely,

RM R. Max Peterson
Chief

[GAO NOTE: Page numbers have been changed to correspond with the final report.]



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