

Oil and Gas Lease Utilization – Onshore and Offshore

Report to the President

**U.S. Department of the Interior
March, 2011**



INTRODUCTION AND EXECUTIVE SUMMARY

On March 11, 2011, President Obama asked the Department of the Interior (Department) to determine the acreage of public lands (onshore and offshore) that have been leased to oil and gas companies and remain undeveloped, noting that companies should be encouraged to produce energy from leases that they are holding.

In response to this request, the Department's Office of Policy Analysis (PPA) collected data on oil and gas leasing and production for Federal onshore and offshore areas from the United States Geological Survey (USGS), Bureau of Land Management (BLM), and Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE).

The information provided in this report indicates that the Department offered substantial acreage for potential oil and gas development in 2009 and 2010 that was not subsequently leased by bidding parties. In addition, for areas that are under lease, there are tens of millions of acres currently idle – that is, not undergoing exploration, development, or production.

The Department is currently evaluating policy options to provide companies with additional incentives for the more rapid development of oil and gas production from existing and future leases.

OFFSHORE OIL AND GAS LEASES

Background

BOEMRE manages energy and mineral resources, including renewable energy resources, on the nation's outer continental shelf (OCS) to help meet the energy demands and other needs of the Nation while balancing access with the protection of the human, marine, and coastal environments.

The areas of the OCS leased for offshore oil and gas development can be broadly categorized as:

- Total acres under lease;
- "Active leases," or leased areas that are subject to exploration or production; and
- "Inactive leases," or leased areas that are not producing nor currently covered by an approved exploration or development plan. These areas may be subject to certain ancillary activities such as geophysical and geotechnical analysis, including seismic and other types of surveys.

The regulatory process governing offshore oil and gas exploration and development can be briefly summarized as follows:

- Leasing: The Secretary must prepare a 5-year program consisting of a schedule of oil and gas lease sales indicating the size, timing, and location of proposed leasing activity the Secretary determines will best meet national energy needs. Preparing a 5-year program involves extensive public comment and requires the Secretary to balance the potential for the discovery of oil and natural gas, the potential for environmental damage, and the potential for adverse effects on the coastal zone. An area must be included in the 5-year program in order to be offered for leasing. There is an additional public process for each lease sale to determine whether to hold the lease sale or modify the sale area, and what terms and conditions to apply to leases.
- Exploration: Exploration activities include geophysical exploration and exploratory drilling. Prior to conducting any exploratory drilling activity on a lease, an Exploration Plan (EP) must be submitted to BOEMRE for approval. The EP describes exploration activities planned by the operator for a specific lease(s), the timing of these activities, information concerning drilling rigs, the location of each well, and other relevant information.
- Development: Before an operator can begin development or production activities, a development and production plan and its supporting information must be submitted for approval to BOEMRE.¹ The development and production plan describes a schedule of development activities, platforms, or other facilities including environmental monitoring features and other relevant information. As with EPs, BOEMRE can require modification of a plan based on inadequate or inaccurate supporting information.²

¹ Leases in the Central and Western Gulf of Mexico Planning Areas require a "Development Operations Coordination Document (DOCD)."

² Source: <http://www.gomr.boemre.gov/homepg/regulate/regs/laws/postsale.html>

Lease Information

Approximately 70% of the Undiscovered Technically Recoverable Resources currently under lease in all areas of the Federal Gulf of Mexico are not producing or not subject to approved or pending exploration or development plans.³

- This includes an estimated 11.6 billion barrels of oil, and 59.2 trillion cubic feet of natural gas.

In the Gulf of Mexico, 34 million acres are under lease. However, only approximately 10 million acres have approved exploration or development plans (see Table 1).

- 6.3 million acres in the Gulf of Mexico are producing acres.

In the Central and Western Gulf of Mexico, approximately 53 million acres were offered for lease in 2009, of which 2.7 million acres were bid on and sold. In the Central Gulf, approximately 37 million acres were offered in 2010, of which 2.4 million acres were bid on and sold (see Table 2).

Table 1. U.S. Offshore Lease Activity (As of March 1, 2011)

Region	Acres Under Lease	Inactive Leases	Active Leases	
		Acres with Inactive Leases	Acres with Approved Exploration Plans	Acres with Approved Development Plans (% producing acres) ¹
Gulf of Mexico	34,009,660 [6,342 leases]	23,834,317 [4,251 leases]	2,983,667 [488 leases]	7,191,676 (87%) [1,603 leases]
Pacific	241,023 [49 leases]	23,354 [6 leases]	0 ³	217,669 (100%) [43 leases]
Alaska	3,723,465 ² [670 leases]	3,650,974 [656 leases]	51,237 [9 leases]	21,254 (49%) [5 leases]
Total	37,974,148 [7,061 leases]	27,508,645 [4,913 leases]	3,034,904 [497 leases]	7,430,599 (87%) [1,651 leases]

¹ Producing acreage is a subset of the acreage subject to approved development plans/DOCDs.

² Approximately three-quarters of Alaska acreage (issued in Chukchi Sea Lease Sale 193 in 2008) is subject to litigation.

³ No lease sales have been held in the Pacific region since 1984.

³ Source: BOEMRE, Resource Evaluation Division

Table 2. Outer Continental Shelf Acreage Offered and Leased

	2009		2010	
	Acres Offered	Acres Leased	Acres Offered	Acres Leased
Central Gulf	34,594,940	1,784,242	36,957,957	2,369,101
Western Gulf	18,393,357	884,167	0	0
Total Gulf	52,988,297¹	2,668,409	36,957,957	2,369,101

¹Central Gulf of Mexico lease sales offer virtually all unleased acreage. Many of the acres shown for the 2009 Central Gulf sales were also offered in 2010.

²Seven leases from the 2010 sale are still pending; these pending acres are included in the leased total.

ONSHORE OIL AND GAS LEASES

Background

BLM is the leasing agent for all energy minerals on approximately 700 million acres of Federal lands and supervises operational activities on leases on Indian lands held in trust by the United States.⁴ The lands that are leased by BLM for oil and gas development can be broadly categorized as:

- Total acres under lease
- “Active leases,” or areas with ongoing exploration or production activities. Exploration activities include exploratory and geophysical exploration.
- “Inactive leases,” or areas with no ongoing exploration or production activities

The regulatory process for onshore oil and gas exploration and development includes:

- Leasing: Unlike the offshore process, BLM accepts “expressions of interest” from industry for lands to be placed on future oil and gas lease sales. “Expression of interest” areas are then evaluated by BLM to determine their eligibility for leasing and the conditions to lease. Lease sales are then held that allow potential developers to bid on areas they are interested in for exploration and development.
- Exploration and Development: Operators are required to submit an “Application for Permit to Drill” (APD) that includes details such as the well plat, drilling plan, evidence of bond coverage, and operator certification. The APD must also include a Surface Use Plan of Operations. The Surface Use Plan of Operations must describe the proposed project in a narrative, as well as on maps and diagrams.

Lease Information

Approximately 57% of total onshore acres under lease are not conducting production or exploration activities, as of March 14, 2011 (see Table 3).⁵

- This represents 21.6 million acres of onshore public lands.

Roughly 57% of the onshore acres offered for lease between January 1, 2009 and March 1, 2011 have been leased for oil and gas activities (see Table 4).

- Acreage not leased during a lease sale remains available “over-the-counter.”

⁴ Onshore Oil and Gas Order Number 1 – commonly known as “Onshore Order #1” – contains the requirements necessary for the approval of all proposed oil and gas exploratory, development, or service wells on all Federal and Indian onshore oil and gas leases. BLM activities with regard to Indian lands do not include issuance of leases and determining their length, rental or royalty, approval of suspensions or units. These functions are undertaken by the Bureau of Indian Affairs.

⁵ Onshore leases vary widely in terms of the number of acres per lease, in contrast to offshore leases which have more uniform size.

The annual ratio of onshore APDs received to APDs processed has remained within a consistent range over the past 10 years (see Figure 1 and Table 5).

Producing acres as a percentage of leased acres have averaged about 30% over the past ten years (see Figure 2).

Table 3. Onshore Oil and Gas Lease Activity (Whole U.S., as of 3/14/11)

Lease Category	Acres Under Lease	Percent of Total Acres	Number of Leases	Percent of Total Leases
Production & Exploration	16,641,078	43%	27,640	55%
Not in Production or Exploration	21,645,058	57%	22,663	45%
Total	38,286,136	100%	50,303	100%

Table 4. Onshore Oil and Gas Leases (Whole U.S., 1/1/09 to 3/14/2011)

Acres Offered	Acres Leased	Parcels Offered	Parcels Leased
6,447,942	3,669,779	4,260	2,492

In this table only, “leased” acres and parcels represent acres and parcels that have received winning bids – the best measure of current leasing activity. Most winning bidders eventually receive the lease.

Table 5. Onshore Drilling Permits (2001-2010)

Year	APDs Received (During Fiscal Year)	APDs Processed (During Fiscal Year)	APDs Pending (At End of Fiscal Year)
2001	4,819	4,266	5,638
2002	4,585	5,830	4,393
2003	5,063	5,143	4,313
2004	6,979	7,351	3,941
2005	8,351	7,736	4,556
2006	10,492	8,854	6,194
2007	8,370	8,964	5,600
2008	7,884	7,846	5,638
2009	5,257	5,306	5,589
2010	4,251	5,237	4,603

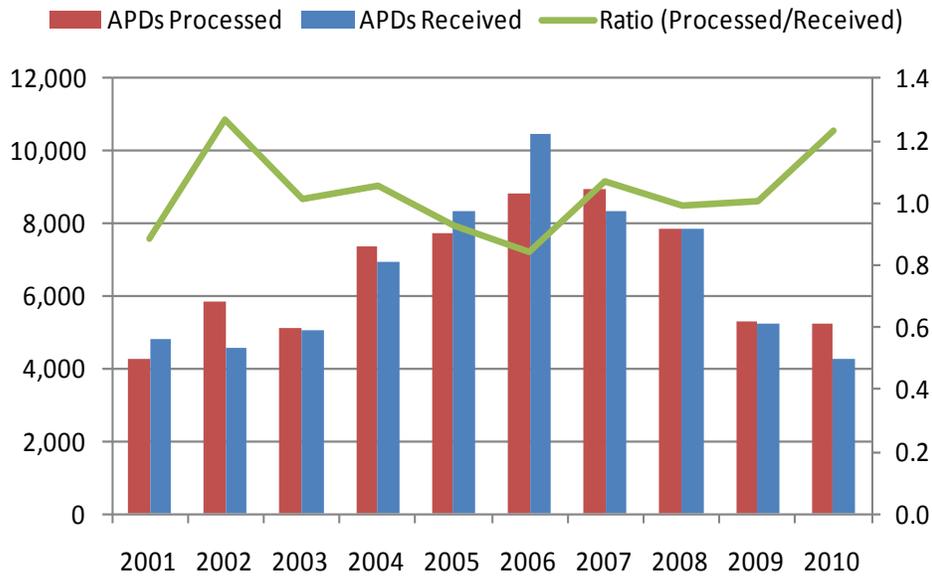


Figure 1. Onshore APDs Received and Processed (FY2001-FY2010)

Note: Given potential backlogs, the number of APDs processed might exceed the number of APDs received for any given year.

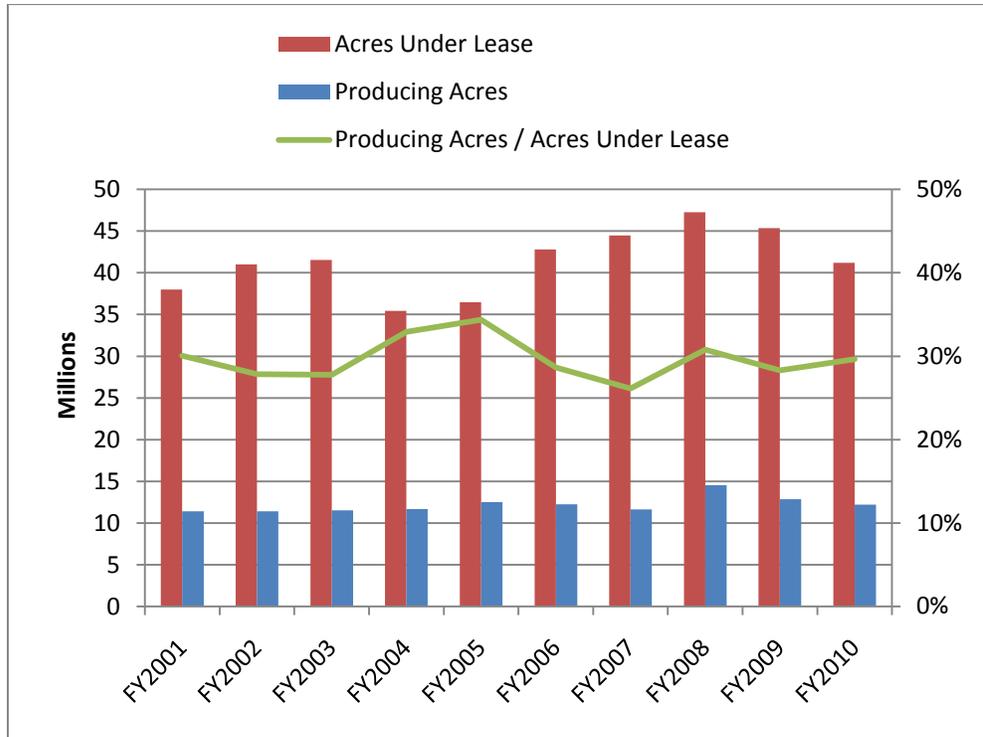


Figure 2. Onshore Producing Acres as a Percentage of Leased Acres, FY2001 – FY2010

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APPENDIX 1: BOEMRE – Development Incentives Included in the March 2010 Lease Sale

APPENDIX 2: Maps

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Lease terms

The primary term of the lease is the principal diligence tool for OCS leases. A lease expires at the end of the primary term unless it is producing, or approved drilling operations are being conducted.

In March 2010, Secretary Salazar shortened the primary term for future leases in certain categories of leases to the length shown in Table 6. Leases in 400 to 1,600 meters of water can obtain a three-year extension if the operator has spudded a well and submitted the information for BOEMRE District Manager confirmation. BOEMRE lease analysis indicated that, for leases in 800 to 1,600 meters of water, a seven-year lease term would be sufficient for an operator to evaluate seismic data and to commence drilling.

Table 6. Offshore Lease Terms

Water Depth (in meters)	Primary Lease Term	Extensions for Wells Spudded
< 400	5 years	n/a
400 to < 800	5 years	3 years
800 to < 1600	7 years	3 years
1600+	10 years	n/a

Rental Rates

Rental rates are per-acre payments for leases that are paid annually until the start of royalty-bearing production. Prior to March 2009, BOEMRE’s standard rental rates were \$6.25 per acre in water less than 200 meters deep, and \$9.50 per acre in water depths of 200 meters or more. In March 2009, Secretary Salazar increased the base rental rates for new leases offered in Gulf of Mexico lease sales, and established escalating rentals as an incentive for early exploration. These new rental rates are shown in Table 7.

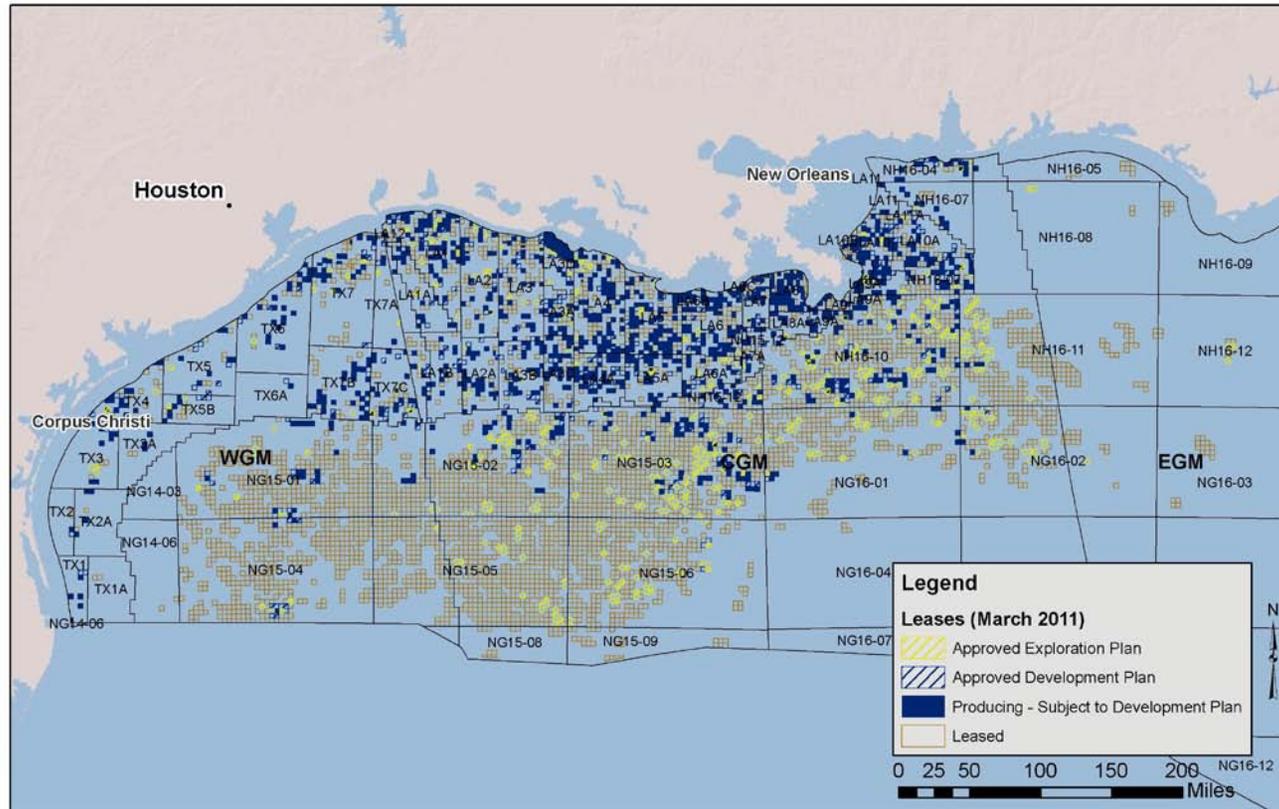
Table 7. Off and Onshore Lease Rental Rates (per acre or fraction of an acre)

	Year 1 through Year 5	Year 6	Year 7	Year 8 and Onward
<i>Onshore</i>	1.50	2.00	2.00	2.00
<i>Offshore</i>				
Water Depth (in meters)				
< 200	\$7	\$14	\$21	\$28
200 to < 400	\$11	\$22	\$33	\$44
400+	\$11	\$16	\$16	\$16

Note: Leases in <400 meters of water where an ultra-deep well (>25,000 feet) is spudded within the initial 5-year lease term may be extended to 8 years. Escalating rental rates apply during this extended period (MMS news release April 11, 2007).

APPENDIX 2: Maps

Existing Leases - Gulf of Mexico Outer Continental Shelf



Note:
The Maritime boundaries and limits shown above, as well as the division between planning areas, are for initial planning purposes only and do not prejudice or affect United States jurisdiction in any way.



Figure 3. Gulf of Mexico OCS Leases (as of March 2011)

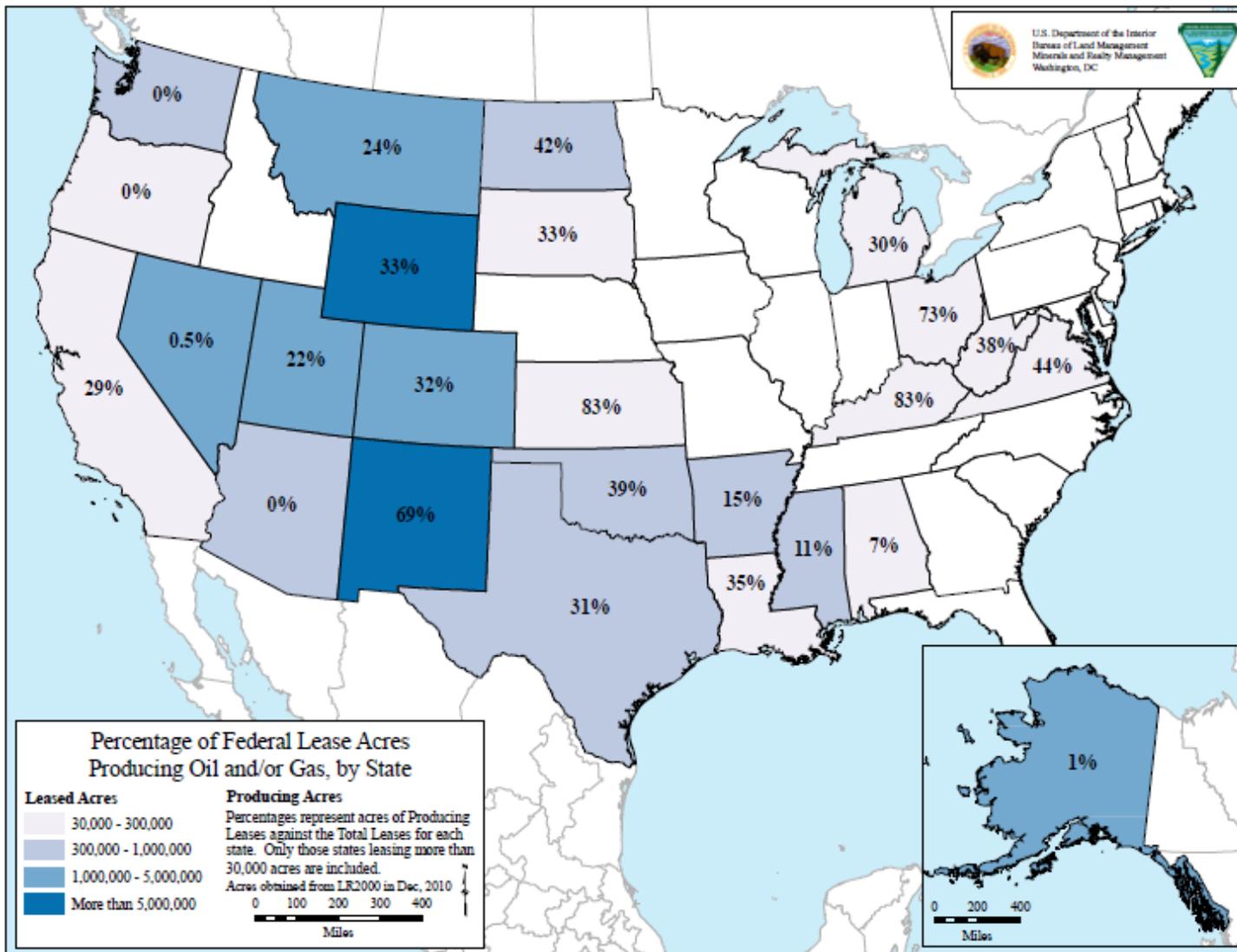


Figure 4. Percentage of Federal Lease Acres Producing Oil and/or Gas, by State (March 2011)