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REPORT TO THE CONGRESS



Opportunity For Benefits Through Increased Use Of Competitive Bidding To Award Oil And Gas Leases On Federal Lands B-118678

Department of the Interior

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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MARCH 17, 1970

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

B-118678

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the opportunity for benefits through the increased use of competitive bidding to award oil and gas leases on Federal lands. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being furnished to the Chairman of the Public Land Law Review Commission because the matters discussed in the report and our recommendations thereon are within the purview of the Commission.

Copies of this report are also being sent to the Director, Bureau of the Budget, and to the Secretary of the Interior.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

BIA	Bureau of Indian Affairs
BLM	Bureau of Land Management
GAO	General Accounting Office
GS	Geological Survey
KGS	known geologic structure
CFR	Code of Federal Regulations

D I G E S T

WHY THE REVIEW WAS MADE

Oil and gas leasing of Federal lands is handled by the Bureau of Land Management and the Geological Survey of the Department of the Interior. The General Accounting Office (GAO) reviewed the awarding of these leases because a large percentage of leases have been granted on a noncompetitive basis.

Of the 15,254 oil and gas leases that covered these lands and were entered into by the Bureau of Land Management during fiscal year 1968, 14,962 were awarded noncompetitively. The GAO review covered Federal lands in Colorado, Montana, New Mexico, and Wyoming, where about 70 percent of the leases were issued.

FINDINGS AND CONCLUSIONS

Many oil and gas leases of Federal lands outside a known geologic structure of a producing oil or gas field were awarded noncompetitively at prices that appeared to have been less than fair market value. (See P. 6.)

For example, GAO estimates that 2.5 million acres of Federal lands in the general vicinity of the Bell Creek Field discovery in Montana were leased noncompetitively for about \$24 million less than their indicated fair market value. This estimate represents the difference between the average price per acre for leases on these Federal lands and the average price per acre for competitively awarded leases on State lands in the same area. (See chap. 2 for this and other examples.)

GAO believes that the substantial public interest in acquiring noncompetitive leases indicates that effective price competition could have been obtained if the leases had been awarded competitively. However, the leases could not have been awarded competitively because, under the governing statute the first qualified applicant is entitled to lease, without competitive bidding, lands of the United States that are not within any known geologic structure of a producing oil or gas field. Generally, the geologic data needed to determine whether lands offered for leasing are within such a structure are not available to the Department before leasing and drilling. (See p. 7.)

On the basis of its review, GAO believes that the Department, in leasing Federal lands for the development of oil and gas resources, should use competitive bidding to a greater extent to ensure that the lands are leased at prices that more nearly approximate their fair market value. (See p. 38.)

GAO believes, also, that the increased use of competitive bidding would tend to reduce or eliminate certain undesirable aspects of awarding leases to applicants on the basis of simultaneously filed lease applications, such as the multiple filing of applications to increase the chances of getting a lease, and the acquisition of leases for speculation rather than for the development of the resources.

The revenues received from oil and gas leases of Federal lands are shared by the Federal and State Governments. (See p. 3.)

GAO found indications that the statutory right of lessees to assign to other persons oil and gas leases of Federal lands in units as small as 40 acres impedes rather than induces the development of oil and gas resources. The paperwork resulting from the assignment of leases creates administrative burdens on the Bureau of Land Management. GAO believes that the minimum acreage limitations should be increased. (See p. 27.)

RECOMMENDATIONS OR SUGGESTIONS

GAO is recommending that the Mineral Leasing Act be amended to:

- require that oil and gas leases of all Federal lands be awarded competitively unless otherwise justified, and
- increase the minimum acreage limitations applicable to the assignments of oil and gas leases of Federal lands. (See p. 39.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of the Interior stated that, of three alternatives it had considered for extending competitive bidding procedures, it preferred the partially competitive systems to the fully competitive system. (See p. 33.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

The matters discussed in this report need legislative consideration and action. (See p. 39.)

CHAPTER 1

INTRODUCTION

The General Accounting Office has reviewed the award of leases of federally owned land for the development of oil and gas resources. These leasing activities are under the direction of the Bureau of Land Management (BLM) and the Geological Survey (GS), Department of the Interior. We selected for review the leasing activities in Colorado, Montana, New Mexico, and Wyoming because of the large number of Federal oil and gas leases issued by BLM in these States. In fiscal year 1969 BLM issued 13,486 oil and gas leases covering about 13.4 million acres of Federal land in 25 States, of which 8,804 leases covering 8.4 million acres were in the four States included in our review. The scope of our review is described on page 40.

The Mineral Lands Leasing Act, as amended, also known as the Mineral Leasing Act, is codified at Title 30, United States Code. The act provides that Federal lands within a known geologic structure (KGS) of a producing oil or gas field shall be leased competitively to the bidder who offers the greatest bonus, the lessee being subject to an annual rental of not less than \$0.50 an acre and to a royalty of not less than 12.5 percent in amount or value of oil or gas produced (30 U.S.C. 226(b) and (d)). The act provides also that Federal lands not within a KGS shall be leased without competitive bidding to the first qualified applicant, the lessee being subject to the same rental as that on lands within a KGS and a royalty of 12.5 percent in amount or value of oil or gas produced. Upon discovery of oil or gas in paying quantities, a minimum royalty of \$1 per acre is payable in lieu of the annual rental (30 U.S.C. 226(c) and (d)).

The act provides further that of the money received under the leases 37.5 percent shall be paid to the State in which the land is located for the specific purposes specified in the act; 52.5 percent shall be deposited to the Federal Government reclamation fund, except that for Alaska the 52.5 percentage shall be paid to the State of Alaska for disposition by its legislature; and the remainder --10 percent--is to be retained by the United States (30 U.S.C. 191).

The act provides that all competitive leases shall be for a primary term of 5 years, noncompetitive leases shall be for a primary term of 10 years, and each lease shall continue after the primary term so long as oil or gas is produced in paying quantities.

The regulations issued pursuant to the act provide that lands within a KGS be leased to the qualified person who offers the highest bonus by competitive bidding, either at public auction or by sealed bids; the lessee being subject to an annual rental of \$2 an acre and royalty at rates prescribed in the lease offer (43 CFR 3124.1; id 3125.1(b) (3)). According to lease offers examined in our review, royalties are payable on a sliding scale basis, depending on the amount of production, but are not less than 12.5 percent.

The regulations provide also that lands not within a KGS be leased noncompetitively at an annual rental rate of \$0.50 an acre, unless a different rate is prescribed in the lease, and a royalty at the rate of 12.5 percent of the value of oil or gas produced. The regulations provide further that an application for lease of lands not within a KGS be accompanied by a \$10 filing fee, which is retained by BLM as a service charge.

The oil and gas leases of Federal lands give the lessees the exclusive right to drill for, mine, extract, remove, and dispose of all oil and gas deposits, except helium gas, as well as the right to construct and maintain necessary structures, subject to control by the Government of certain specified activities.

BLM is responsible for the management of public lands and is concerned with the identification, classification, use, and disposal of Federal lands and with the development, conservation, and utilization of the natural resources of these lands.

GS is responsible for (1) examining into the geological structure and mineral resources of Federal lands, (2) providing BLM with geologic and engineering advice and services for the management and disposition of Federal lands, (3) determining the boundaries of a KGS of a

producing oil or gas field, (4) supervising certain aspects of the leasing operations, and (5) maintaining records of oil or gas production on leased Federal lands and collecting royalties on such production.

The principal officials of the Department of the Interior responsible for the activities discussed in this report are listed in appendix VII.

CHAPTER 2

BENEFITS FROM INCREASED USE OF

COMPETITIVE BID PROCEDURES

IN AWARDING FEDERAL OIL AND GAS LEASES

On the basis of our review, we believe that increased use of competitive bidding in the leasing of Federal lands for the development of oil and gas resources would provide greater assurance that the lands are leased at prices that more nearly approximate their fair market values. Our review showed that most of the leases of Federal lands had been awarded noncompetitively and, in many cases, at prices less than their fair market value. Our review showed also that the Federal lands had been leased noncompetitively because of the statutory requirement that lands not located within a KGS of a producing oil or gas field must be leased noncompetitively and that the geologic data needed by GS to determine whether the lands were within a KGS was not available before drilling.

Our comparisons of the amounts received under the non-competitive leases of Federal lands in three States with the (1) approximate amounts received under leases of State and private lands in the same general areas as the lands under noncompetitive leases and (2) amounts received by lessees of Federal lands from the assignment of their leases indicate that the Government has leased Federal lands at prices substantially less than their fair market value. For example, we estimate that, for the lease of 2.5 million acres of Federal lands in the general vicinity of the Bell Creek Field in Montana subsequent to the discovery of oil, the Government may have received about \$24 million less than fair market value because the leases had not been awarded competitively.

In addition, we believe that the leasing of Federal lands competitively would eliminate or reduce certain undesirable aspects of awarding noncompetitive leases to lessees by means of drawings of simultaneously filed lease applications, such as (1) multiple filing of lease

applications to increase the chances of acquiring a lease and (2) acquiring of leases primarily for speculation rather than development of the oil and gas resources.

KNOWN GEOLOGIC STRUCTURE CONCEPT LIMITS
COMPETITIVE LEASING OF THE FEDERAL LANDS

GS has defined a KGS as a trap in which an accumulation of oil or gas has been discovered by drilling and determined to be productive. The definition provides that the limits of a KGS will include all acreage that is presumptively productive.

Our review indicates that the statutory restriction on competitive bidding for leases of lands outside those areas designated by GS to be within a KGS has greatly limited the use of competitive bidding because the geological data needed to establish the boundaries of a KGS is not generally available before leasing and drilling by the lessees. Statistical data available in BLM offices in Colorado, Montana, New Mexico, and Wyoming showed that at least 36,500 Federal oil and gas leases had been issued in these four States in fiscal years 1965 through 1968, of which only about 800 had been awarded competitively. ✓

As summarized in the following tabulation of the oil and gas leases of Federal lands, awarded in fiscal years 1965 through 1968, in the four States, leases involving more than 99 percent of the acreage were awarded noncompetitively.

<u>State</u>	<u>Number of acres leased</u>		<u>Percent of acreage leased noncompetitively</u>
	<u>Competitively</u>	<u>Noncompetitively</u>	
Colorado	38,488	4,345,071	99.12
Montana	3,753	8,531,816	99.96
New Mexico	38,443	1,193,560	96.88
Wyoming	<u>82,773</u>	<u>14,974,319</u>	<u>99.45</u>
Total	<u>163,457</u>	<u>29,044,766</u>	<u>99.44</u>

Additional information concerning the extent of leasing of Federal lands in these States is included in appendixes II and III of this report.

We were informed by the Regional Geologists of the Rocky Mountain and Southwestern Regional Offices of the Branch of Mineral Classification, GS--the two regional offices responsible for establishing KGS boundaries in three of the four states--that there had been little or no fieldwork to identify lands in the general vicinity of new discoveries that might be valuable for oil and gas production. These Regional Geologists informed us further that GS did not have the resources for such fieldwork. One of the Regional Geologists stated that only limited value could be derived from fieldwork involving the use of surface geology, because most structural traps of oil and gas deposits which could be detected by this means had previously been identified and tested.

In this regard, the Department of the Interior advised us that:

"The Survey annually maps thousands of square miles of land, but geologic mapping and subsurface projections alone cannot be used to establish 'known geologic structures.' Without the completion of a discovery well capable of producing oil or gas, there is no authority under the Mineral Leasing Act to set aside such lands for competitive leasing. The Survey does not have the resources necessary to perform extensive drilling programs. The geological data used by GS to establish and revise KGS boundaries of necessity consists primarily of information from wells drilled by the oil and gas industry. The initial areas designated as KGS's are generally small areas in the immediate vicinity of the wildcat discovery well. One well does not provide adequate subsurface geologic data for determining the areal extent and reservoir characteristics of an entire new field, particularly since in recent years many new fields, such as Bell Creek, are the result of

stratigraphic rather than structural entrapment and lack surface expression and sharp structural definition."

As stated by the Department, the lands included by GS in the initial areas designated as KGSs are generally small areas surrounding a discovery well. As additional wells are completed, the KGS areas are expanded piecemeal, as shown by the following examples.

The discovery well of the Cato Field in New Mexico was completed on June 19, 1966. By July 22, 1968, the KGS area, initially including 360 acres, has been expanded to include almost 13,000 acres by a series of 11 additions resulting from additional wells. At that time a total of 232 wells had been drilled. A graphic presentation of the development of the Cato Field KGS is shown on page 10.

The Rangely Field in Colorado was discovered in 1902. As of May 31, 1944, the defined KGS area included a total of 12,567 acres. By April 22, 1968, the KGS area had been expanded to include 35,720 acres by a series of eight additions based on data obtained as additional wells were completed.

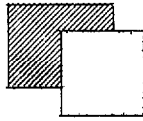
The discovery well of the Bell Creek Field in Montana was completed in June 1967. By October 16, 1968, the KGS area, initially including 960 acres, had been expanded to include about 20,581 acres by eight additions.

Although we did not determine the extent of competitive leasing for the lands included in the present KGS boundaries for these fields, the Department informed us that generally most lands in the vicinity of a discovery had been leased noncompetitively prior to the drilling of a discovery well.

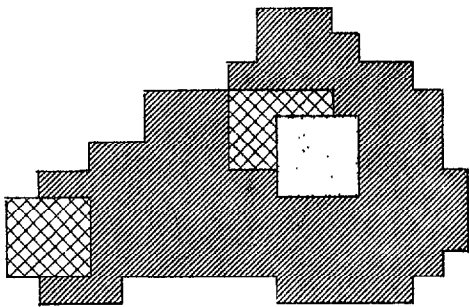
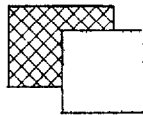
JUNE 19, 1966
360 ACRES →



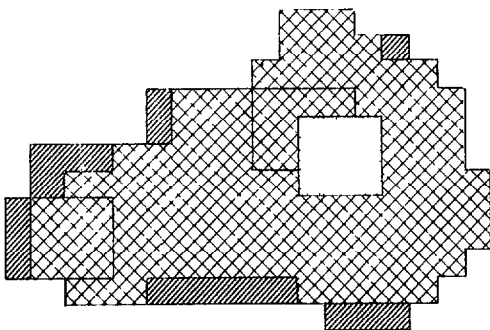
JULY 31, 1966
680 ACRES →



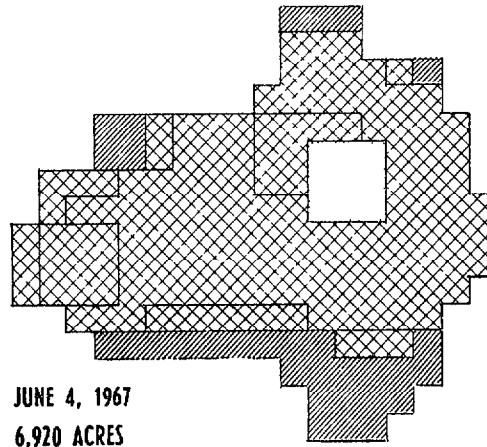
AUG. 11, 1966
1040 ACRES



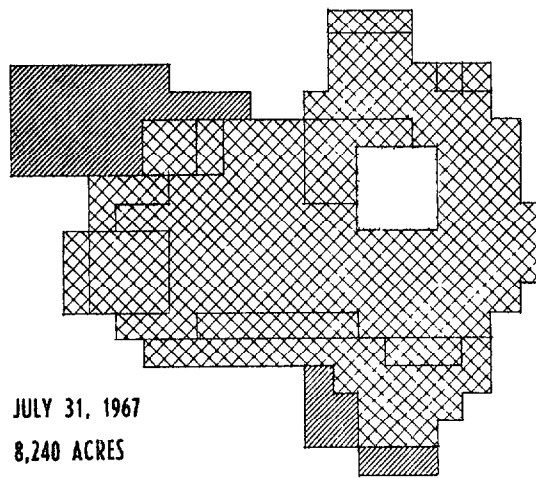
FEB. 5, 1967
4,920 ACRES



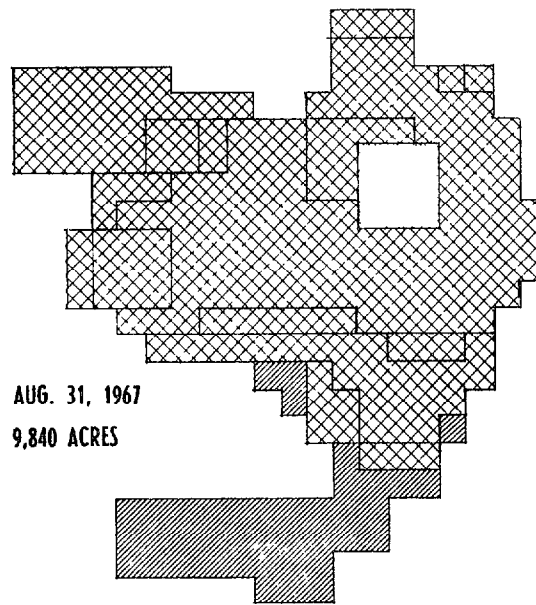
MAR. 8, 1967
5,680 ACRES



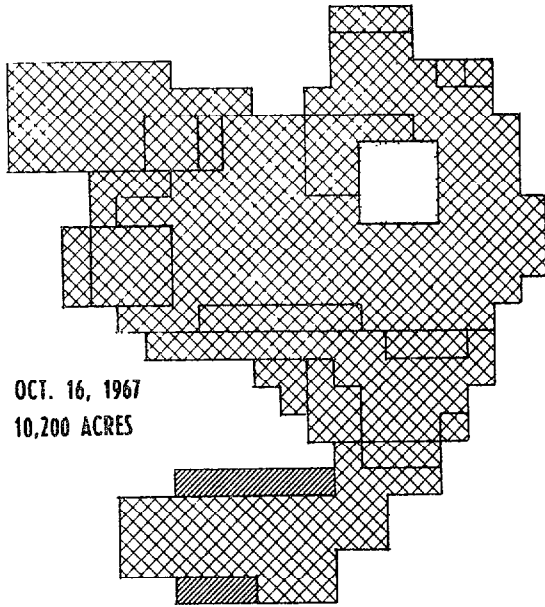
JUNE 4, 1967
6,920 ACRES



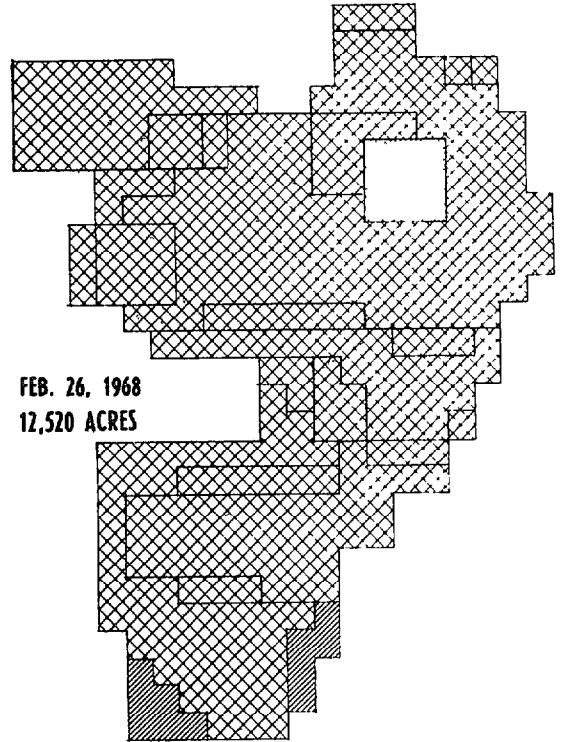
JULY 31, 1967
8,240 ACRES



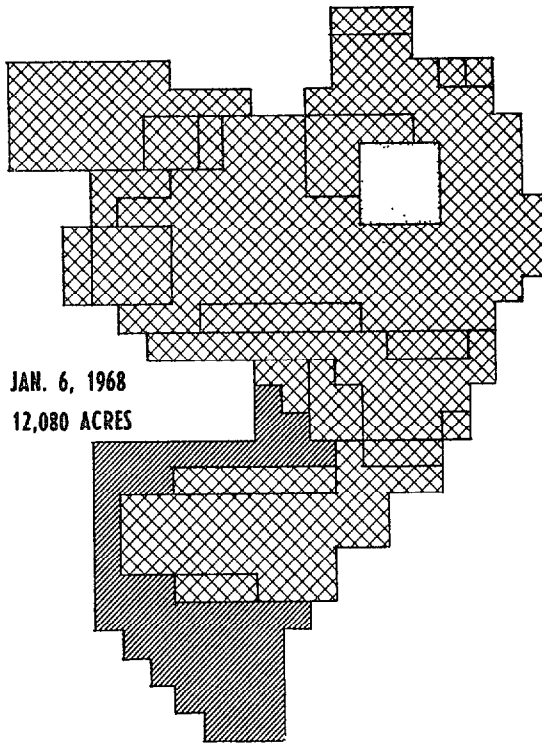
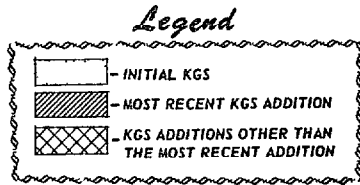
AUG. 31, 1967
9,840 ACRES



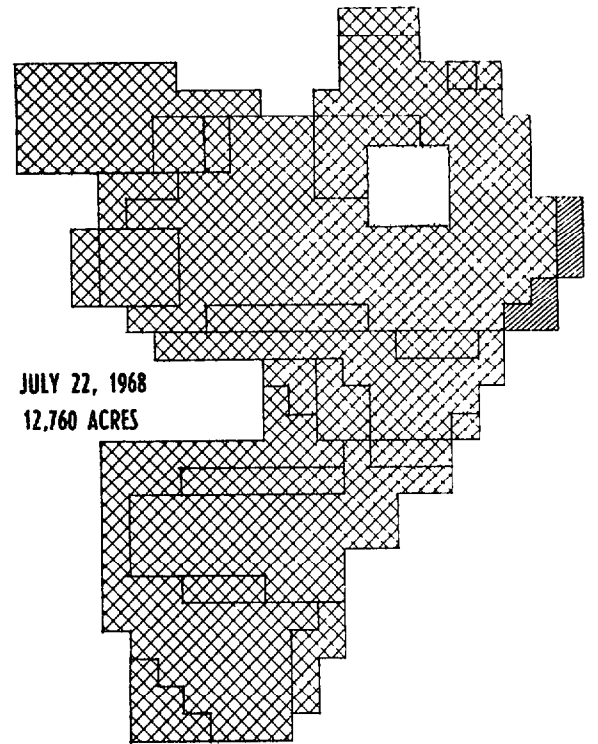
OCT. 16, 1967
10,200 ACRES



FEB. 26, 1968
12,520 ACRES



JAN. 6, 1968
12,080 ACRES



JULY 22, 1968
12,760 ACRES

FEDERAL OIL AND GAS RIGHTS DISPOSED
OF AT LESS THAN FAIR MARKET VALUE

On the basis of our examination into the reasonableness of the prices of oil and gas leases of Federal lands in Montana, New Mexico, and Wyoming, we believe that under the present leasing system, rights to federally owned oil and gas resources are being disposed of at less than their fair market value. For example, in Montana and New Mexico, where State lands are leased competitively in the same general area, the average price per acre for leased State lands exceeded the average price per acre for leased Federal lands. In addition, we noted numerous instances where the original lessees of Federal lands in the three States had assigned their leases at prices substantially in excess of the prices paid to the Government for the leases. Such a comparison was not made in Colorado.

Our detailed comments on these matters are set forth below.

Montana

On the basis of our comparisons of prices paid for oil and gas leases of Federal and State lands in five counties in Southeastern Montana, we estimate that 2.5 million acres of Federal land had been leased for \$24 million less than their indicated fair market value. These lands were in the general area of a recent major oil discovery in Powder River County, Montana, which was referred to as the Bell Creek Field. The discovery well was completed on June 29, 1967. It is estimated that the field contains recoverable reserves of 200 million barrels of oil. By July 1968, 315 wells capable of production had been drilled.

We found that this discovery had a significant impact on oil and gas leasing activities in Southeastern Montana. At the time of the Bell Creek discovery, most of the Federal lands in the five-county area were not under lease. Since the KGS could not be established by GS before completion of the discovery well, the lands were available for leasing noncompetitively to the first qualified applicant. In fiscal year 1968, 3,482 leases covering about 5,018,000 acres of Federal land were issued as compared with

820 leases covering 860,000 acres of Federal land in fiscal year 1967.

Montana uses competitive bidding in awarding oil and gas leases of State lands. Normally, every 3 months there is a lease sale of State lands for which lease applications have been received and of State lands offered for lease at the direction of the Board of Land Commissioners. Leases are awarded by competitive oral bidding to the qualified applicant who submits the highest bonus bid; the lessee being subject to annual rentals and royalties on production. A lessee pays a \$5 filing fee and an annual rental based on \$1 an acre. In addition, it is required that a lessee pay royalties ranging from 12.5 to 25 percent in value or amount of the oil produced, depending on the volume of production, and royalties of 12.5 percent in value or amount of gas produced.

From June 29, 1967--the completion date of the Bell Creek Field discovery well--to September 10, 1968, BLM issued 1,596 noncompetitive leases, covering about 2.5 million acres of Federal lands in the five-county area, for the payment of first-year rentals of \$1,226,407 based on \$0.50 an acre. During this same period, Montana issued 850 competitive leases, covering 457,550 acres of State lands in the same general area, for the payment of \$4,544,025, or an average of \$9.93 an acre, comprised of an average bonus of \$8.93 and first-year rentals of \$1 an acre. This information is summarized in the following table.

County	Acres	State of Montana		Acres	Federal Government	
		Total	Per acre		Total	Per acre
Powder						
River	119,583	\$1,516,890	\$12.68	654,332	\$ 327,234	\$0.50
Carter	108,479	1,359,186	12.53	794,870	397,506	.50
Custer	122,187	749,650	6.14	414,274	207,179	.50
Rosebud	68,716	423,127	6.16	430,981	215,483	.50
Big Horn	<u>38,585</u>	<u>495,172</u>	<u>12.83</u>	<u>158,182</u>	<u>79,005</u>	<u>.50</u>
Total	<u>457,550</u>	<u>\$4,544,025</u>	<u>\$ 9.93</u>	<u>2,452,639</u>	<u>\$1,226,407</u>	<u>\$0.50</u>

Because of the substantial leasing activity resulting from the discovery of the Bell Creek Field, we believe that

the Federal lands could also have been leased competitively at prices comparable to those paid for leases of State lands in each of the five counties. The basis for our estimate that an additional \$24 million in revenues could have been realized by the Federal Government is summarized in the following table.

<u>County</u>	<u>Average price per acre on State lands</u>	<u>Number of acres of Federal land leased</u>	<u>Indicated market value</u>	<u>Amount paid under Federal leases</u>	<u>Market value not realized</u>
Powder					
River	\$12.68	654,332	\$ 8,296,931	\$ 327,234	\$ 7,969,697
Carter	12.53	794,870	9,959,724	397,506	9,562,218
Custer	6.14	414,274	2,543,639	207,179	2,336,460
Rosebud	6.16	430,981	2,654,842	215,483	2,439,359
Big Horn	12.83	<u>158,182</u>	<u>2,029,474</u>	<u>79,005</u>	<u>1,950,469</u>
Total		<u>2,452,639</u>	<u>\$25,484,610</u>	<u>\$1,226,407</u>	<u>\$24,258,203</u>

We found that the Bell Creek Field discovery also had a significant impact on the leasing of oil and gas rights on Indian lands located within the five-county area. The Bureau of Indian Affairs (BIA) awards leases of Indian lands under a competitive bidding system. The leases provide for annual rentals of \$1.25 an acre and royalties of 16-2/3 percent of the value of oil and gas produced. Revenues received from oil and gas leases of the Indian lands supports our belief that Federal lands in the five-county area that were leased subsequent to the discovery of oil in the Bell Creek Field were leased at less than their fair market value.

At the time of the Bell Creek Field discovery, BIA's Northern Cheyenne Indian Agency had not held a lease sale for 2 years. BIA's Crow Indian Agency had received bids for only 3,482 of the 40,152 acres offered for lease in August 1966 and June 1967. However, between June 29, 1967--the completion date of the Bell Creek Field discovery well--and September 10, 1968, the Northern Cheyenne Indian Agency held four lease sales. For 149,039 of the 149,519 acres offered, the high bonus bids plus the first-year rentals averaged \$8.10 an acre. The Crow Indian Agency also held two lease sales during that same period. For 44,199 of the

47,519 acres offered, the high bonus bids plus the first-year rental averaged \$10.39 an acre. This increased leasing activity occurred despite the fact that these Indian lands are located at least 65 miles from the Bell Creek Field.

Information obtained during our review regarding leases of privately owned lands in Powder River, Carter, and Custer Counties indicates that, although such leases generally were entered into on a negotiated rather than on a competitive bid basis, the revenues from these leases exceeded the revenues from the noncompetitive leases of Federal lands.

Our review of records maintained by the county clerks in the three counties indicated that, on the basis of the value of documentary revenue stamps affixed to 68 leases covering a total of 82,240 acres of privately owned land, the prices for these leases averaged about \$1.30 an acre compared with \$0.50 an acre for noncompetitive leases on Federal lands. Although the documentary revenue stamps affixed to the leases of the private lands do not provide a precise estimate of the prices paid for the leases, the value of the stamps is indicative of the amount received by the lessors.

A local banker in Powder River County, Montana, experienced in the financial aspects of oil and gas leasing activities of private lands in the area, advised us that the prices paid per acre for leases of private lands were usually less than the prices paid per acre for leases of State lands because of (1) costly title searches on private lands which are not required on State and Federal lands and (2) lack of competitive bidding for such leases.

We also found that, of the 1,596 noncompetitive leases of Federal lands in Powder River, Carter, Custer, Rosebud, and Big Horn Counties that were issued by BLM subsequent to the Bell Creek Field discovery, 1,082, or 67.8 percent, had been assigned by the lessees in whole or in part, to oil companies or individuals. Our review of the records maintained by the county clerks of three of the five counties showed that, 72 assignments, covering 75,406 acres of Federal lands, had documentary revenue stamps affixed.

These stamps indicated that the lessees had received about \$266,000 from the assignments of their leases, or about \$228,000 more than the \$38,423 they had paid the Federal Government for the leases. In addition, the lessees retained royalty interests ranging from 2 to 3 percent. See appendix IV for examples of these lease assignments.

We believe that the amounts received by the lessees for the assignment of their leases of Federal land represent a portion of the fair market value of the oil and gas rights on the leased lands that might have accrued to the Federal Government if the leases had been awarded competitively.

New Mexico

On the basis of our comparison of revenues derived from oil and gas leases of Federal and State lands in three counties in Southeastern New Mexico, we estimate that about 95,000 acres of Federal land were recently leased for about \$1 million less than their fair market value, because of the statutory requirement that lands not within a KGS be leased noncompetitively.

The three counties--Chaves, Eddy, and Lea--comprise a major oil-producing area that has experienced sustained oil and gas production for about 30 years. To measure the value of oil and gas rights in this three-county area, we examined into oil and gas leases of State, Federal, and private lands awarded in 80 townships where both State and Federal leases had been issued during fiscal year 1968.

New Mexico uses competitive bidding for awarding oil and gas leases of State lands. Our examination of selected lease sale notices showed that a minimum bonus bid of \$10 an acre had been established for leases of State land in Lea County but that no minimum bonus bid had been established for State land in Chaves and Eddy Counties. In addition, minimum annual rental rates ranging from \$0.10 to \$1.00 an acre had been established for State lands on the basis of their proximity to producing areas and of the State's prior leasing experience. The lowest rental rates are applicable to land that is far from known producing areas. The minimum charge for the issuance of any lease is \$100 or the first year's rental, whichever is greater.

Lessees are also required to pay to the State a royalty of 12.5 percent of the value of any oil and gas produced.

During fiscal year 1968 BLM issued 231 noncompetitive leases--covering 94,718 acres of Federal land in the 80 townships--for \$47,369, or an average of \$0.50 an acre. During the same period, the State of New Mexico issued 226 competitive leases--covering 92,274 acres of State land in these townships--for \$1,010,191, or an average of \$10.95 an acre.

This leasing of Federal and State lands--a total of about 187,000 acres--in this major oil-producing area and the interest in acquiring leases of Federal lands, as evidenced by 76,324 applications for the 231 leases, indicates to us that the Federal lands could have been leased competitively at prices comparable to those paid for leases of the State lands if BLM had not been precluded by law from competitively leasing Federal lands outside a KGS.

On the basis of the difference between the payment per acre for the State-leased lands and for the Federal-leased lands in each of the townships, we estimate that the Federal lands were leased for about \$1 million less than their fair market value.

That the Federal lands were leased for less than their fair market value is also evidenced by the prices paid for (1) leases of privately owned lands and (2) assignments of leases of both privately owned and Federal lands as indicated by the documentary revenue stamps affixed to the leases and assignments of leases filed with the county clerks of the three counties.

From the records maintained by the county clerks, we identified (1) 478 leases of privately owned lands leased for an average of about \$19.51 an acre, (2) 32 assignments of leases, covering 2,557 acres of privately owned lands, for which the assignors received an average of about \$29.75 an acre and for which about half the assignors retained royalty interests in the lands, ranging from 2 to 7.5 percent, and (3) 169 assignments of noncompetitive leases, covering 76,704 acres of Federal lands, for which the assignors received an average of about \$18.93 an acre and for which

most of the assignors retained royalty interests in the lands, ranging from 3 to 5 percent. See appendix IV for examples of the assignment of leases of Federal lands.

Wyoming

An estimate of the fair market value of oil and gas rights on Federal lands in Wyoming could not be made on the basis of competitive bid prices for State lands because the leases of State lands were awarded noncompetitively. Our examination into the leases of Federal lands in the vicinity of the Kitty and Recluse Fields indicated, however, that the Federal Government had not received the fair market value of the leased lands.

A May 1968 technical publication which provides information to the oil and gas industry pointed out that, although the Kitty Field had been discovered in 1965, it was not until the discovery of the Recluse Field in August 1967, 35 miles to the north, that exploration and development in the area accelerated. The report stated that the discovery of the Recluse Field followed closely the discovery of the Bell Creek Field in Montana, almost 30 miles to the northeast, and that the resulting exploration and development made the Powder River Basin, at that time, the country's most active oil producing province. Further the report pointed out that the Kitty Field got little attention until the fall of 1967 when another well being drilled in the field "blew out" and flowed oil at rates of 1,250 to 1,600 barrels per day. The report stated that the well caught fire and that this spectacular mishap attracted nationwide attention to the area. Further, the report stated that:

"Prices immediately after Recluse ranged from \$5.00 to \$7.50 an acre, moved to \$25.00 an acre when the Kitty field outpost flowed oil. Now, reports indicate that acreage deals are virtually impossible to find ***."

From August 23, 1965, to December 12, 1968, BLM awarded 408 noncompetitive leases covering 210,398 acres of Federal lands in 50 townships in Campbell County, which included the Kitty and Recluse Fields, at an annual rental of \$0.50 an

acre. Public interest in acquiring the leases is evidenced by the 41,403 applications for the 408 leases.

Our review of the records of the County Clerk and Recorder of Campbell County showed that, of the 408 leases of Federal lands, 61 had been assigned. The documentary revenue stamps affixed to the assignments indicated that the lessees received an average of \$11.83 an acre, or \$11.33 an acre more than they paid the Federal Government for the leases. Also, 33 of the lessees retained royalty interests in the lands, ranging from 2 to 5 percent.

RENTAL RATES ON NONCOMPETITIVE FEDERAL
LEASES NOT COMPARABLE TO RATES CHARGED
FOR LEASES OF NON-FEDERAL LANDS

The Mineral Leasing Act as amended by the Mineral Leasing Act Revision of 1960 (30 U.S.C. 181), established a minimum annual rental of \$0.50 an acre for leases of Federal lands awarded noncompetitively. Our review showed that the use of the minimum rental for such leases has contributed to the Government's not realizing the fair market value of the oil and gas rights on Federal lands. For example, of our estimate of the fair market value of \$24 million not realized from the lease of 2.5 million acres of Federal lands in the general vicinity of the Bell Creek Field subsequent to the completion of the discovery well (see p. 12), about \$1.2 million represents the effect of leasing the lands at the established minimum annual rental of \$0.50 an acre rather than the annual rental of \$1 an acre as charged by Montana for State lands leased in the same general area.

Colorado and New Mexico have established varying annual rentals for leased State lands. Colorado's annual rentals are \$0.50 an acre for the first 5 years of a lease and \$1 an acre for the second 5 years. New Mexico's annual rentals for the first 5 years of a lease range from \$0.10 an acre to \$1 an acre, depending upon the proximity of the leased lands to an oil or gas producing area. These rates are increased for the second 5 years of the lease.

Although Colorado charges an annual rental of \$0.50 an acre and New Mexico may charge a lower annual rental than the minimum for Federal lands--\$0.50 an acre--we are of the view that a fair annual rental for Federal lands in excess of the established minimum annual rental is indicated not only by Montana's annual rental charge of \$1 an acre for State lands but also by lessors' annual rental charges for privately owned lands in Montana, New Mexico, and Wyoming. Our review showed that, of 598 leases of privately owned lands in the three States, for 580 leases the annual rentals were at least \$1 an acre. Also, as prescribed by the Secretary of the Interior, an annual rental of \$1.25 an acre is charged for most leases of Indian lands.

The Department of the Interior, on December 27, 1968, proposed an amendment to the Code of Federal Regulations that would provide that the annual rental for oil and gas leases of Federal lands might be in excess of \$0.50 per acre if the prospective oil and gas value of the land justified a higher rental. A subsequent Department of the Interior news release announcing the proposed amendment to the regulations included the following justification:

"Interior officials said that noncompetitive leasing has led to the development of a middleman group, largely professional lease brokers, who take up a large proportion of the leases, and hold the land at 50 cents per acre per year pending active development by oil firms. Operating companies thus in many cases deal with the middleman, paying him substantial sums for the leases he holds."

A BLM official advised us on December 16, 1969, that a final decision on the Department's proposal to increase the present \$0.50 an acre annual rental rate had not been made.

OTHER UNDESIRABLE ASPECTS OF
AWARDING FEDERAL OIL AND GAS
LEASES ON A NONCOMPETITIVE BASIS

Our review indicated that awarding leases of Federal lands outside a KGS competitively rather than noncompetitively would eliminate the undesirable aspects of awarding leases of Federal lands to applicants by means of a drawing of simultaneously filed applications. The lands that are leased noncompetitively by this means are those on which prior leases have expired or have been relinquished, terminated, or canceled.

The undesirable aspects inherent in the selection of an applicant for a lease of Federal lands by means of a drawing are (1) possible multiple filing of applications by individuals to increase their chances of acquiring a lease of Federal lands and (2) the speculative activities of lease brokers and individuals having no experience in the oil and gas industry, which results in their acquiring leases of Federal lands primarily for the assignment of the leases to others at a profit rather than for the development of the oil and gas resources.

Prior to 1960 all lands outside KGSs were leased over the counter to the first qualified person making application. This procedure resulted in numerous administrative problems for BLM in determining the first qualified applicant, especially when the more attractive lands became available for lease because of expiration, relinquishment, termination, or cancellation of prior leases. A 1963 report to the Secretary of the Interior from an Ad Hoc Staff Committee on competitive leasing of Federal lands for oil and gas noted that:

"In the years prior to 1960 it was found that there was more and more interest in the speculative value of leases on lands which had previously been leased and the lease had expired or been cancelled. Competition among applicants to be literally the 'person first making application' resulted in near chaos in some land offices. Departmental employees were accused of being in collusion with applicants, and mob

scenes sometimes took place at the land offices ***. To correct the then existing situation, the Departmental regulations were amended in 1960 to provide for the present 'simultaneous filing' system."

Under the simultaneous filing system, or procedure, each BLM State Land Office prepares and posts each month a list of all tracts of lands under its jurisdiction that are not within a KGS and for which the prior leases have expired or have been relinquished, terminated, or canceled. Applications for the leases of these lands may be filed with the BLM offices during a period of 5 working days after the lists are posted, and all applications received are considered to have been filed simultaneously. Each month a drawing is held to select the applicant to whom the lease of a particular tract will be awarded.

Lands offered for lease under the simultaneous filing procedure for which no applications are received and other Federal lands outside of KGSs which were not under lease when the procedure became operative are available for lease over the counter to the first qualified applicant.

Although the simultaneous filing procedure has simplified BLM's administrative task of determining the first qualified applicant, this method of awarding oil and gas leases is subject to criticism for the reasons discussed below.

The drawing has many aspects of a lottery in that applicants, by investing a \$10 filing fee plus the first year rental of \$0.50 an acre, hope to acquire leases of valuable Federal lands on the basis of chance.

Private leasing services have been established in various sections of the country. By advertising in newspapers and magazines that they will, for a fee, act as agent for individuals, the leasing services encourage public participation in BLM lease drawings. The lottery aspects of the drawings can readily be seen from information furnished to prospective clients by these leasing services. For example, one such leasing service advises its clients that:

"This is the game for those who like to flirt with Lady Luck. It is absolutely legal, you can play it on a tax-deductible basis, the odds are far shorter and the payoff potentially far greater than the Irish Sweepstakes.

"Some of these lands have had a potential of over \$500,000 in royalty income for the winner. A great many parcels have a potential income value of from \$100,000 to \$250,000 and when sold to an oil company, under an advance oil production agreement, this income can be received as capital gain cash.

"It is no longer necessary for you to visit the Federal Land Office to participate in these drawings. We, as your agent, can do it all for you for a very nominal fee of \$10 or less per entry when filing on a regular basis. This includes our financing your filings by furnishing up to \$1280 advance rental deposit per application."

A report issued in June 1966 by a departmental task group established to study the pricing and disposal of federally owned mineral resources pointed out that the procedure had many aspects of a lottery whereby applicants hoped to acquire a lease on the basis of chance at less than fair market value.

Another indication of undesirable aspects of the procedure is the identifications we made of winning applicants who apparently had never intended to explore for or develop the oil or gas resources on the leased lands because they had assigned the leases to others at a profit within a short period after the leases became effective. Examples of lessees' assignments of noncompetitively awarded leases of Federal lands at prices considerably in excess of the prices paid for the leases are presented in appendix IV. Of the 26 examples of assigned leases, 12 of the leases had been awarded under the drawing procedure.

Multiple filings

The drawing procedure creates an incentive for applicants to file as many applications as possible to increase their chances of obtaining a lease. Although the Department has established regulations in an attempt to ensure that each applicant has an equal opportunity for success in the drawings, various studies by the Department state that this objective has not been achieved.

As pointed out in a report to the Secretary of the Interior in 1963 by an Ad Hoc Staff Committee, the simultaneous filing system by its very nature encourages collusive filing, i.e., individuals make use of friends, relatives, and employees, in whose names applications are filed but who, if awarded the lease, could be relied upon to assign it to the real party in interest. The report stated that collusive filing was very difficult to detect and was still more difficult to prove because it would be virtually impossible to check into the relationships and associations of all the applicants. The report stated also that, unless the system was changed to eliminate this incentive on the part of potential lessees, this defect could not be cured without prohibitive policing and investigative work on the part of the agency.

Also, the 1966 departmental task group study report states that the simultaneous filing procedure has been abused through the use of multiple filings and that the Department's efforts to control this practice has been expensive and fruitless.

In a report to the Public Land Law Review Commission, dated March 29, 1968, on the identification of problems in public land management, the Department pointed out that the simultaneous filing procedure required very careful surveillance to prevent violations of the laws and regulations as well as public criticism and that no noncompetitive system seemed likely to offer a complete solution to this problem.

Our review in the four States included in our review showed instances where both husband and wife as well as other family members had filed applications for the lease

of the same tract of land. We could not ascertain whether the individual applicants were the sole party of interest or whether they had filed on behalf of someone else. Our review of BLM and county records raised questions as to the actual interest of certain applicants in that the individuals who obtained the leases subsequently assigned them to others without retaining a royalty interest. We found that lessees generally do not make assignments without retaining a royalty interest.

Leases obtained for sale

The drawing procedure has also led to the development of a group of middlemen who obtain and hold leases primarily to sell to the oil and gas industry. The 1966 departmental task group study report stated that:

"BLM employees have estimated that less than 5 percent of the people awarded leases under the noncompetitive leasing program ever engage in development activity."

Our review identified numerous instances where the winning applicants for the lease of Federal lands apparently had never intended to explore for or develop the oil or gas resources on the leased lands, because they had assigned their leases to others within a short period after the leases became effective. Also, there were instances where lease brokers had obtained leases of Federal lands for sale of their interests in fractional parts to the general public as discussed in chapter 3 of this report.

The procedure has also resulted in leasing service firms' filing large numbers of applications on behalf of individuals. The firms provide the service to the general public for a fee. The extent of the leasing firms' activities is indicated by the number of applications that one firm filed for six tracts of Federal land for lease by the BLM State Office in Cheyenne, Wyoming, in October and November 1968. Of 8,643 applications filed, 2,443, or 28.3 percent, were filed by the leasing firm. This firm provided us with copies of letters and brochures relating to the Federal lands available for lease. A copy of the fee schedule and agreement for obtaining the firm's services are presented in appendix V.

CHAPTER 3

NEED TO INCREASE MINIMUM ACREAGE

LIMITATIONS FOR ASSIGNMENT OF FEDERAL LEASES

On the basis of our review, we believe that there is a need to revise the provisions of the Mineral Leasing Act (30 U.S.C. 187a) relating to the assignment of oil and gas leases of Federal lands. Under the provisions of the act, lessees may assign or sublease portions of leased acreage in small units--40 acres. We believe that the right to assign leased acreage in such small units has encouraged brokers to acquire oil and gas leases of Federal lands for assignment to individuals in fractional parts at a profit and that such activities tend to impede, rather than assist in the development of oil and gas resources, and to create an administrative burden on BLM.

The number of acres that may be leased under a noncompetitively awarded oil and gas lease of Federal lands is generally limited by 43 CFR 3123.1 to a maximum of 2,560 acres and a minimum of 640 acres. However, the Mineral Leasing Act limits the Secretary's authority to restrict assignments. The Secretary generally can disapprove an assignment of a lease only if the assignee is unqualified or cannot provide sufficient bond but, at his discretion, he may disapprove an assignment of less than a legal subdivision. The smallest legal subdivision is normally 40 acres. Therefore, when an assignee meets the qualifications the lessee may assign his interest in a lease of Federal lands in units as small as a legal subdivision.

The statutory right of lessees to assign their interests in leases of Federal lands in units as small as 40 acres has resulted in lease brokers' noncompetitively acquiring leases covering large tracts of Federal lands for the purpose of subdividing the tracts and assigning their interests therein at a profit. For example, our review of BLM records showed that, from June 1, 1967, through November 1, 1968, one lease broker had acquired oil and gas leases covering 57,304 acres of Federal lands in the four States. As summarized below, by January 17, 1969, he had made 811 assignments of

fractional parts of the leases covering 49,598 acres, or about 87 percent of the total acreage leased.

<u>State</u>	<u>Number of original leases</u>	<u>Total acres leased</u>	<u>Number of partial assignments</u>	<u>Total acres assigned</u>
Colorado	14	16,973	287	16,426
Montana	4	9,600	101	7,640
New Mexico	12	16,970	258	15,731
Wyoming	<u>6</u>	<u>13,761</u>	<u>165</u>	<u>9,801</u>
Total	<u>36</u>	<u>57,304</u>	<u>811</u>	<u>49,598</u>

During the 4-month period ended October 1, 1967, the lease broker acquired the 14 leases covering 16,973 acres of Federal lands in Colorado. By March 1, 1968, he had made 287 assignments covering 16,426 acres, or about 97 percent of the total acreage he had leased in Colorado. All the assignments were made within 6 months after the effective dates of the leases.

That lease brokers acquire leases of Federal lands for the purpose of disposing of the leases is also indicated by literature published by the brokers. The literature is generally written in nontechnical terms and emphasizes the large profit potential available to individuals willing to speculate in Federal leases at nominal cost. An example of the literature published by one broker is included as appendix VI of this report.

The literature advises the broker's clients that an 80-acre parcel of Federal oil and gas leases in Natrona County, Wyoming, being held by the broker for the client, can be acquired at a price of \$3.00 an acre and that leases of parcels of 40 to 320 acres are available at the same price with payment terms of as little as \$20.00 down and \$20.00 a month. The literature points out that the broker had recently recommended the acquisition of leases in Colorado, Montana, New Mexico, and Wyoming and cites many instances where individuals had sold their interests in leases for as much as \$10,000 to \$15,800, plus royalties. The literature points out also that in some instances the leases had been obtained

on the basis of the broker's recommendation. The literature stated that:

"The only chance the little man has today is in leases that can be purchased and held for sale to potential developers. Wyoming is one of the last of these opportunities where you can get in on a GROUND FLOOR BASIS!"

Our review of letters on file at BLM offices indicates that individuals who acquire leases of Federal lands from these brokers do not intend to develop the oil or gas resource, that they are inexperienced in oil and gas exploration and development activities and that their sole interest in acquiring the leases is to sell them at a substantial profit to parties interested in developing the natural resources.

The statutory right of lessees of Federal lands to assign their leases in units as small as 40 acres has also contributed to the workload of the BLM offices in the Western States. For example, when a lessee of Federal land subdivides the land into many parcels and assigns his interest therein to others, the BLM office responsible for maintaining records of the leased acreage must, for each assignment, determine whether the assignee of a lease is qualified to hold a lease, and, if the assignment is approved, adjust the records to show the acreage retained by the original lessee and issue a new lease for the acreage assigned to the assignee.

If the original lessee of 640 acres (the minimum acreage that generally may be leased under 43 CFR 3123.1(d) and 3134.1) disposes of all the leased acreage in tracts of 40 acres each, the BLM office has to perform the foregoing operations 16 times. The workload of the office is further increased if the assignments are made to multiple interests.

The effect of lease assignments on the workload of the BLM offices was noted by the Department in a report dated September 25, 1963. The report stated that:

"A great number of people and a great percentage of the BLM employees in the western public land

states where mineral activity is taking place, are employed to process applications for leases, assignments, and similar matters. The backlog and accumulated case load in these cases is very large and there have been instances where it has taken up to and sometimes over a year simply to get an approval of a lease assignment through the Bureau offices."

BLM State office employees in Montana advised us that the assignments of leases of Federal lands immediately after the Bell Creek Field discovery created an administrative burden. We noted that, of the 1,596 Federal land leases issued in the five-county area (see p. 15), 1,082, or 68 percent, had been assigned in whole or in part to individuals or oil companies. Only 107, or 6.7 percent, of the 1,596 leases had been issued to major oil companies that presumably acquired the leased acreage for development of the oil and gas resources.

Our review of BLM records showed that, in August 1968, a private company engaged in the exploration for and production of oil and gas began to increase its lease holdings of certain Federal lands that the broker, referred to on page 27, had previously leased and had assigned in small units to many individuals. Instead of being able to lease the Federal lands directly from the Government or from a relatively few leaseholders, the company had to identify, contact, and negotiate with many different individuals to lease the desired acreage. BLM records showed that, as of April 24, 1969, the company had obtained the acreage under 88 assignments by 86 different individuals or groups. The individual parcels ranged in size from 12.38 acres to 160 acres. More than 75 percent of the parcels were tracts of 40 acres or less.

CHAPTER 4

PRIOR RECOGNITION OF THE NEED FOR CHANGES IN

EXISTING LEGISLATION RELATING TO THE DISPOSAL OF

OIL AND GAS RESOURCES IN FEDERAL LANDS

The need for legislation that would provide the Secretary of the Interior with more discretion in the leasing of Federal lands to the highest competitive bidder has been recognized by the Department of the Interior since 1935. The need for increased use of competitive bidding was considered during congressional hearings prior to approval of the act of August 8, 1946 (30 U.S.C. 181), which amended the Mineral Leasing Act.

In a speech before the New Mexico Landmen's Association in 1961, an Assistant Secretary of the Interior questioned the adequacy of the system for issuing oil and gas leases on Federal lands. Since 1961 two task force groups comprised of Department of the Interior personnel have conducted comprehensive studies of the problems associated with the administration of mineral leasing activities on Federal lands. Although both groups recommended that the Secretary be given more discretion in leasing Federal lands on a competitive basis, the Department has not proposed legislation to the Congress that would provide for increased use of competitive bidding to ensure that oil and gas resources are disposed of at prices which more nearly approximate their fair market value.

The need to curb speculation in noncompetitive oil and gas leases of Federal lands and to reduce the administrative workload caused by assignments of the leases was commented on in our reports to the Congress, dated May 19, 1955, and October 31, 1961 (B-114815). The Department proposed that legislation be introduced in the Eighty-sixth and Eighty-seventh Congresses to amend section 30(a) of the Mineral Leasing Act to prevent the undesirable division of oil and gas leaseholds. Bills were introduced in the Eighty-sixth Congress but were not reported out by the Committee. According to Department officials, the Department has submitted no further requests for legislative action.

The Department advised the Congress of the general obsolescence of the public land laws by letter dated June 14, 1961, to the Speaker of the House of Representatives. We were advised by a BLM official that this action led to the enactment by the Congress of the act of September 19, 1964 (43 U.S.C. 1391), which provided for the establishment of the Public Land Law Review Commission to study existing laws and procedures relating to the administration of the public lands of the United States. The declared purpose of this legislation as set forth in Section 2 of the act is as follows:

"Because the public land laws of the United States have developed over a long period of years through a series of Acts of Congress which are not fully correlated with each other and because those laws, or some of them, may be inadequate to meet the current and future needs of the American people and because administration of the public lands and the laws relating thereto has been divided among several agencies of the Federal Government, it is necessary to have a comprehensive review of those laws and the rules and regulations promulgated thereunder and to determine whether and to what extent revisions thereof are necessary."

The Commission's report, including its recommendations for modifications in existing laws, regulations, policies, and practices, is required to be submitted to the President and the Congress not later than June 30, 1970.

CHAPTER 5

AGENCY COMMENTS AND OUR EVALUATION

GAO submitted a draft of this report to the Secretary of the Interior on August 5, 1969, and proposed that the Mineral Leasing Act be further amended to (1) require that the leasing of all Federal lands for the development of the oil and gas resources be on a competitive basis and (2) increase the minimum acreage limitations applicable to the assignment of oil and gas leases of Federal lands. By letter dated December 3, 1969, the Director of Survey and Review furnished us the Department's comments on our draft report. (See app. I.)

The Department stated that of three alternatives that it had considered for extending competitive bidding for oil and gas leases of Federal lands, it preferred the partially competitive systems to an all competitive system. The three alternatives considered by the Department are:

"(a) Extending competitive bidding to lands outside of known Geological structures of producing oil or gas fields; (b) discretionary extension of competitive leasing to lands in 'known or probable productive Geological provinces'; and (c) extend competitive bidding to 'wildcat' lands only when competitive interest is indicated by the receipt of noncompetitive offers."

The Department referred to a 1966 task group study which presented an additional alternative. Under this alternative,

"*** the Secretary of the Interior, through new authorizing legislation and regulations, would be able to permit exploration and lease or sell depositions in the manner and under terms and conditions determined best under various circumstances. Fair market value would be the prevailing resource pricing principle, but the authorization would include the possibility of negotiated grants for special purposes, such as to foster research or encourage exploration and

development. The Secretary would be authorized to choose from among various methods to obtain fair market value, such as bonus bidding, rental bidding, royalty bidding, and could adjust other sale or leasehold terms to the existing conditions. In short, the Secretary would be enabled legally and financially to conduct active management operations under general statutory standards, rather than passive adjudication under inflexible statutory strictures which inhibit the achievement of maximum benefit to the general public."

The Director subsequently informed us that this alternative had not been endorsed by the Department.

Because of the vast acreage of Federal lands available for oil and gas leasing and the limited geologic data available to the Department for determining the value of the lands (see pp. 8 and 9), we are of the view that the Department should rely to a maximum extent on full and free competition for determining the fair market value of oil and gas resources in the lands.

We are of the view also that (1) in those cases where there is adequate competition for a lease of Federal lands, the Department should rely on the highest offer to establish a reasonable value of the oil and gas resources and (2) in those cases where there is inadequate competition to assure the reasonableness of offers for a lease of Federal lands and the Department believes that such lands should be leased, there should be some other means that would assure reasonableness. Such assurance could be obtained by a comparison of the offers with the prices paid for leases of State, Indian, or private lands in the general vicinity of the Federal lands.

The Department pointed out that a broad authorization for awarding leases of Federal lands would include the possibility of negotiated grants for special purposes, such as fostering research or encouraging exploration and development. In our opinion, a leasing system could provide for exceptions to competitive bidding; however, we believe that, when Federal lands are leased on other than a

competitive basis, the justification for such action should be fully documented and approved by appropriate agency officials.

The Department stated that the need for amendatory legislation to restrict the subdivision of Federal oil and gas leases was dependent upon a decision to revise the leasing system. It stated that if the all-competitive leasing system were adopted, the necessity for change would be reduced.

We believe that, although the necessity for change would be reduced, the need for such amendatory legislation would not be dependent upon a decision to revise the leasing system, because the adoption of either a full or a partial competitive system would not preclude the assignment of interests in oil and gas leases of Federal lands. For example, some lands may have a low fair market value even under full and free competition. Thus, a lease of such lands could still be acquired by brokers at relative low cost and disposed of by assignment in small units as is the current practice.

The Department stated also that our proposal may not be effective in restricting the activities of those persons presently soliciting the public, generally having no knowledge of oil and gas leasing, to purchase leases with the hope of reaping fantastic profits. It indicated that, if our proposal were adopted, the lease brokers could promote the investment in a participating interest in the entire leasehold rather than the sale of leases and that it was questionable whether such loopholes could be eliminated.

While the adoption of our proposal would not preclude all speculation in the leasing of Federal lands by those not interested in developing the oil and gas resources, it would reduce the BLM State offices' administrative work of processing the assignments and maintaining records of leases and rental payments. Also, it would not be necessary for oil and gas companies to negotiate with numerous lessees to acquire large tracts of Federal land for oil and gas development and extraction. Further, although the Department acknowledges that the subdivision of leased Federal lands for assignment to others is a problem, it did

not present a potential solution to the problem but stated that "Whether or not language could be devised which would be sufficiently limiting to plug such 'loopholes' is questionable."

Also, in this regard the Department's Solicitor, as a member of the Public Land Law Review Commission's Advisory Council, commented to the Commission, by letter dated August 7, 1969, on a report by the Rocky Mountain Mineral Law Foundation entitled "Legal Study of the Federal Competitive and Noncompetitive Oil and Gas Leasing Systems." The report suggested that, as an alternative to the present system, assignments of leased Federal lands be limited to 640 acres except in those cases where production had been obtained or drilling operations were committed. The Solicitor stated that this alternative was sound and should be supported.

In summary, our proposal that the Mineral Leasing Act be amended to restrict the assignment of interests in oil and gas leases of Federal lands, in our opinion, would (1) significantly improve the leasing system and (2) although it might not solve all conceivable problems that could arise, in the absence of a better alternative it would tend to limit the activities of middlemen who acquire leases of Federal lands primarily for the purpose of selling them and would reduce the administrative work of maintaining records.

The Department questioned our estimate that the Government received about \$24 million less than the indicated fair market value of the 2.5 million acres of Federal land in a five-county area that was in the general vicinity of the Bell Creek Field and was leased noncompetitively during the 14-month period following the Bell Creek discovery. The Department stated that:

*** No apparent distinction is made between the value of the competitive leasing value of the lands in the Bell Creek field and those in the 5-county area which are distant from the field. A more meaningful documentation would include data as to the lands, if any, in the immediate vicinity of the Bell Creek field discovery which were leased noncompetitively after such discovery.

The lease bonus value of such lands would have been much greater than the value of other lands in the 5-county area outside the immediate vicinity of the field discovery."

Our estimate that the Government realized \$24 million less than the fair market value of the leased Federal land in the five-county area represents the difference between the average price per acre for noncompetitive leases of Federal lands in each of the five counties and the average price per acre for competitive leases of State lands in each of the five counties.

Although we recognize that the above comparison may not precisely measure the Government's loss of revenue that results from noncompetitive leasing, we believe that it provides a good indication of the additional revenues that could have been realized by competitive leasing.

Although in some instances the lease bonus values of lands in the immediate vicinity of the Bell Creek discovery field may be greater than the lease bonus values of lands not in the immediate vicinity of the field, our review showed that the Bell Creek Field had a significant impact throughout the five-county area. For example, our comparison of the average price for leases of State lands located in Powder River County--the county where the Bell Creek discovery is located--with the average price for leases of State lands in Big Horn County--a county west of Powder River County--shows that, after the Bell Creek discovery, the average price for leases of State lands in Big Horn County was higher than the average price for leases of State lands in Powder River County, even though all the leased State land in Big Horn County was more than 50 miles from the Bell Creek discovery well whereas the leased State land in Powder River County encompassed an area immediately adjacent to the Bell Creek Field and extended outward to generally less than 50 miles from the discovery well.

CHAPTER 6

CONCLUSIONS AND MATTERS FOR THE

CONSIDERATION OF THE CONGRESS

CONCLUSIONS

On the basis of our review, we believe that the Government's disposal of oil and gas rights on Federal lands should be based on the principle of a fair market return to the Government and that this objective can best be achieved under a competitive bidding system. We found many instances where the Government did not realize fair market value from the disposal of oil and gas rights on Federal lands, primarily because of the statutory requirement that lands not within a KGS of a producing oil and gas field be leased noncompetitively.

We believe also that the use of a competitive bidding system would eliminate the undesirable aspects of awarding leases of Federal lands on the basis of a drawing of simultaneously filed lease applications, such as the multiple filing of lease applications to increase the chance of acquiring a lease.

In our opinion, the disposal of the Nation's oil and gas resources under full and free competition would be more consistent with our free enterprise economy.

The statutory right of lessees of Federal lands to assign acreage in units as small as 40 acres, or less, has resulted in lease brokers acquiring oil and gas leases on Federal lands for assignment of small parcels to others at a profit. New leases have to be issued for each partial assignment thereby adding significantly to BLM's administrative workload. Such partial assignments may tend to impede exploration and development of oil and gas resources because the development companies must deal with many lessees to obtain the right to develop the resources.

MATTERS FOR THE CONSIDERATION OF THE CONGRESS

We recommend to the Congress that the Mineral Leasing Act be amended to (1) require that oil and gas leases of all Federal lands be awarded competitively unless otherwise justified and (2) increase the minimum acreage limitations applicable to the assignment of oil and gas leases of Federal lands.

CHAPTER 7

SCOPE OF REVIEW

Our review of the leasing of Federal lands for the development of the oil and gas resources in Colorado, Montana, New Mexico, and Wyoming, was made at BLM's land offices; regional offices of the Branch of Mineral Classification, GS; offices of State land commissioners; offices of county clerks and recorders; the Billings Area Office of the Bureau of Indian Affairs; and the Washington, D.C., offices of the Department of the Interior, BLM, and GS.

We primarily examined into the reasonableness of the revenues derived from oil and gas leases of Federal lands under the Mineral Leasing Act, as amended, but we also reviewed administrative problems associated with the non-competitive selection of lessees for Federal lands under the simultaneous filing procedure and with the assignments of leased lands.

We examined pertinent laws and regulations that govern the administration and issuance of oil and gas leases of Federal lands by BLM. We obtained statistical and other data on leases of Federal, State, Indian, and privately owned lands and on assignments of leased lands, and we examined into leases and related records maintained by BLM land offices and into the bases on which GS establishes KGSs.

APPENDIXES



UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

DEC 3 1969

Mr. Allen R. Voss
Associate Director, Civil Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Voss:

The Department has reviewed the GAO draft Report to the Congress "Review and Administration of Onshore Oil and Gas Leasing Activities on Federal Lands, Bureau of Land Management and Geological Survey, Department of the Interior (B-114815)."

[See GAO note]

On the basis of a 1966 Task Group study, an additional alternative, more generally applicable than the report's specific area of concern has been endorsed. Under this proposed legislative trend, the Secretary of the Interior, through new authorizing legislation and regulations, would be able to permit exploration and lease or sell depositions in the manner and under terms and conditions determined best under various circumstances. Fair market value would be the prevailing resource pricing principle, but the authorization would include the possibility of negotiated grants for special purposes, such as to foster research or encourage exploration and development. The Secretary would be authorized to choose from among various methods to obtain fair market value, such as bonus bidding, rental bidding, royalty bidding, and could adjust other sale or leasehold terms to the existing conditions. In short, the Secretary would be enabled legally and financially to conduct active management operations under general statutory standards, rather than passive adjudication under inflexible statutory strictures which inhibit the achievement of maximum benefit to the general public.

Our comments on the two major recommendations follow:

GAO Recommendation:

"... the increased use of competitive bidding in awarding Federal oil and gas leases"

[See GAO note]

Three alternatives have been considered relating to the problem identified in the report. They are: (a) Extending competitive bidding to lands outside of known Geological structures of producing oil or gas fields; (b) discretionary extension of competitive leasing to lands in "known or probable productive Geological provinces"; and (c) extend competitive bidding to "wildcat" lands only when competitive interest is indicated by the receipt of non-competitive offers. Of these alternatives, the partial competitive systems are believed to be preferable to an all-competitive system.

GAO Recommendation:

"... an increase in the established minimum acreage limitations applicable to lease assignments"

The necessity for legislation to accomplish this recommendation is dependent upon the decision made relating to the leasing system adopted. That is, if either the all-competitive system or the productive geologic province concepts were adopted, the necessity for change would be reduced. It is concluded in your report that such legislation would have a salutary effect and would tend to restrict the activities of those presently soliciting the general public, which has no knowledge of oil and gas leasing to purchase leases in hope they will reap fantastic profits. This may not solve this problem, because the advertiser could shift his pitch from the sale of leases, to investing in a participating interest in the entire leasehold. Whether or not language could be devised which would be sufficiently limiting to plug such "loopholes" is questionable.

In page-by-page review of the report, our reaction and explanation are as follows:

Page 1, Findings and Conclusions. The estimate of the additional funds which the Federal Government might have received from the competitive leasing of 2.5 million acres of land in a 5-county area in the vicinity of the Bell Creek field in Montana could take into consideration the possibility that if 2.5 million acres of unleased Federal lands had been leased on a competitive basis, there could have been a depressing effect on the cash bonuses received by the State of Montana. Assuming that the bonus and rental monies paid the State of Montana and the Federal Government were the total funds available for that purpose, an all-competitive leasing system would have returned \$4.9 million to the Federal Government or \$2 per acre. Under this assumption, the Federal Government would have received an additional \$3.7 million for the lands it leased. The plausibility of this assumption is questionable.

Page 1, Findings and Conclusions. The statement that 2.5 million acres of land in the vicinity of the Bell Creek Field discovery in Montana was leased without the benefit of competition could be considered misleading. Much of this acreage is in a 5-county area and is distant from the Bell Creek field.

Page 1, Findings and Conclusions. Adequate justification is not documented for the estimate that \$24.3 million less than the fair market value for the lands was received. No apparent distinction is made between the value of the competitive leasing value of the lands in the Bell Creek field and those in the 5-county area which are distant from the field. A more meaningful documentation would include data as to the lands, if any, in the immediate vicinity of the Bell Creek field discovery which were leased noncompetitively after such discovery. The lease bonus value of such lands would have been much greater than the value of other lands in the 5-county area outside the immediate vicinity of the field discovery.

APPENDIX I

Page 4

Page 8, Paragraph 2. The Survey annually maps thousands of square miles of land, but geologic mapping and subsurface projections alone cannot be used to establish "known geologic structures." Without the completion of a discovery well capable of producing oil or gas, there is no authority under the Mineral Leasing Act to set aside such lands for competitive leasing. The Survey does not have the resources necessary to perform extensive drilling programs. The geological data used by GS to establish and revise KGS boundaries of necessity consists primarily of information from wells drilled by the oil and gas industry. The initial areas designated as KGS's are generally small areas in the immediate vicinity of the wildcat discovery well. One well does not provide adequate subsurface geologic data for determining the areal extent and reservoir characteristics of an entire new field, particularly since in recent years many new fields, such as Bell Creek, are the result of stratigraphic rather than structural entrapment and lack surface expression and sharp structural definition.

Page 9, Paragraph 1. The Cato field example in New Mexico should indicate which of the 13,000 acres in the KGS were leased noncompetitively before and which after the field discovery. The lease bonus value of specific tracts would vary greatly depending on whether offered for lease competitively before or after such discovery. The same comment is applicable to other examples cited. Generally, most lands in the vicinity of a discovery have been leased noncompetitively prior to drilling a discovery well.

Page 13, Paragraph 1, Line 7. The latter part of this sentence beginning with "***structure had not been***" should read "***structure could not be established by GS in advance of completion of the discovery well, the lands were available for leasing on a noncompetitive basis to the first qualified applicant."

Page 19, Line 1. "If the Government had not been restricted to the KGS concept of competitive leasing" should be added to the sentence ending with "***State land in each of the three counties."

Page 22, Paragraph 3. "The Mineral Lands Leasing Act" is more properly referred to as the "Mineral Leasing Act."

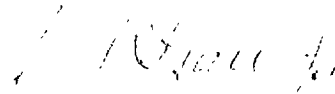
Page 23, Paragraph 2. The statement implying that all rentals for unproven OCS tracts is \$3 per acre is incorrect. Some rentals are \$5 per acre although most rates are \$3. The latter part of this paragraph

beginning with "***and in recent sales***" should be corrected to read "and in sales for tracts being drained by wells on adjacent tracts, the Department has charged \$10 per acre rentals."

Page 30. References to "Mineral Lands Leasing Act" should be changed to the "Mineral Leasing Act."

We appreciate the opportunity to have reviewed the report material in draft.

Sincerely yours,



Director of Survey and Review

GAO note: Comments pertaining to draft report material revised in the final report have been omitted.

APPENDIX II

SCHEDULE OF NONCOMPETITIVE LEASES ON
FEDERAL LANDS--FISCAJ. YEARS 1965 THROUGH 1968

State	Fiscal year	Leases issued under the simultaneous filing system		Leases issued over the counter to the first qualified person making application		Total	
		Number	Acres	Number	Acres	Number	Acres
Colorado	1965	911	585,769	312	288,877	1,223	874,646
	1966	1,030	755,191	448	515,943	1,478	1,271,134
	1967	816	535,363	623	626,278	1,439	1,161,641
	1968	<u>648</u>	<u>415,901</u>	<u>583</u>	<u>621,749</u>	<u>1,231</u>	<u>1,037,650</u>
Total		<u>3,405</u>	<u>2,292,224</u>	<u>1,966</u>	<u>2,052,847</u>	<u>5,371</u>	<u>4,345,071</u>
Montana	1965	562	402,924	1,051	1,231,323	1,613	1,634,247
	1966	413	298,049	582	723,779	995	1,021,828
	1967	325	199,069	490	659,014	815	858,083
	1968	<u>438</u>	<u>316,176</u>	<u>3,041</u>	<u>4,701,482</u>	<u>3,479</u>	<u>5,017,658</u>
Total		<u>1,738</u>	<u>1,216,218</u>	<u>5,164</u>	<u>7,315,598</u>	<u>6,902</u>	<u>8,531,816</u>
New Mexico	1965 ^a	-	-	-	-	-	-
	1966 ^a	-	-	-	-	-	-
	1967	715	434,602	145	166,166	860	600,768
	1968	<u>743</u>	<u>452,896</u>	<u>138</u>	<u>139,896</u>	<u>881</u>	<u>592,792</u>
Total		<u>1,458</u>	<u>887,498</u>	<u>283</u>	<u>306,062</u>	<u>1,741</u>	<u>1,193,560</u>
Wyoming	1965	3,745	2,139,901	1,786	1,826,322	5,531	3,966,223
	1966	4,016	2,284,740	1,776	1,685,248	5,792	3,969,988
	1967	4,070	2,067,493	1,412	1,440,878	5,482	3,508,371
	1968	<u>3,228</u>	<u>1,651,673</u>	<u>1,691</u>	<u>1,878,064</u>	<u>4,919</u>	<u>3,529,737</u>
Total		<u>15,059</u>	<u>8,143,807</u>	<u>6,665</u>	<u>6,830,512</u>	<u>21,724</u>	<u>14,974,319</u>
Total		<u>21,660</u>	<u>12,539,747</u>	<u>14,078</u>	<u>16,505,019</u>	<u>35,738</u>	<u>29,044,766</u>

^aData for these periods was not available at the BLM State Office.

SCHEDULE OF COMPETITIVE LEASES ON FEDERAL LANDS

FISCAL YEARS 1965 THROUGH 1968

<u>State</u>	<u>Fiscal year</u>	<u>Number</u>	<u>Acres</u>
Colorado	1965	17	3,832
	1966	9	2,211
	1967	73	19,594
	1968	<u>41</u>	<u>12,851</u>
Total		<u>140</u>	<u>38,488</u>
Montana	1965	11	1,155
	1966	6	599
	1967	5	1,759
	1968	<u>3</u>	<u>240</u>
Total		<u>25</u>	<u>3,753</u>
New Mexico	1965 ^a	-	-
	1966 ^a	-	-
	1967	43	10,709
	1968	<u>93</u>	<u>27,734</u>
Total		<u>136</u>	<u>38,443</u>
Wyoming	1965	99	11,324
	1966	132	15,492
	1967	124	23,123
	1968	<u>120</u>	<u>32,834</u>
Total		<u>475</u>	<u>82,773</u>
Total		<u>776</u>	<u>163,457</u>

^aData for these periods was not available at the BLM State Office.

SCHEDULE OF ASSIGNMENT OF NONCOMPETITIVE FEDERAL OIL AND GAS LEASES
 IN THE STATES OF MONTANA, WYOMING, AND
 NEW MEXICO DURING FISCAL YEAR 1968

Lease	Geographical area	Effective date of lease	Date lessee executed assignment	Acres	
				Leased	Assigned
A	Powder River County, Montana	9-1-67	9-21-67	1,855.97	1,855.97
B	do.	9-1-67	12- 4-67	1,982.57	1,510.57
C	do.	9-1-67	12- 4-67	1,560.00	1,000.00
D	do.	10-1-67	10- 3-67	1,149.04	446.41
E	do.	11-1-67	11- 5-67	1,874.39	1,874.39
F	do.	12-1-67	12-29-67	2,240.00	2,240.00
G	Carter County, Montana	11-1-67	11- 7-67	1,600.00	1,120.00
H	do.	11-1-67	11-16-67	2,507.92	960.00
I	do.	11-1-67	12-28-67	719.89	320.00
J	Custer County, Montana	12-1-67	12-21-67	1,000.48	1,000.48
K (note a)	Campbell County, Wyoming	11-1-65	10-26-67	620.39	620.39
L (note a)	do.	11-1-66	12-26-67	1,911.08	1,911.08
M (note a)	do.	12-1-66	9-19-67	1,360.00	1,160.00
N (note a)	do.	12-1-66	12-26-67	2,200.00	2,200.00
O (note a)	do.	12-1-66	12-26-67	2,480.00	2,480.00
P	do.	9-1-67	10- 6-67	1,254.38	772.71
Q	do.	9-1-67	10-16-67	2,560.00	2,560.00
R	do.	9-1-67	10-16-67	2,560.00	2,560.00
S	do.	9-1-67	10-16-67	1,920.00	1,920.00
T (note a)	do.	12-1-67	11-21-67	640.00	640.00
U (note a)	Chaves County, New Mexico	7-1-67	12-18-67	1,200.40	1,200.40
V (note a)	do.	8-1-67	11- 5-67	640.56	640.56
W (note a)	Eddy County, New Mexico	11-1-66	7- 2-67	1,650.65	1,650.65
X (note a)	do.	11-1-66	9-28-67	226.39	226.39
Y (note a)	Lea County, New Mexico	6-1-67	6- 2-67	1,240.00	640.00
Z (note a)	do.	7-1-67	10- 5-67	2,320.00	2,320.00
				<u>41,274.11</u>	<u>35,830.00</u>

^aLease obtained under the simultaneous filing procedure.

<u>Percent of interest assigned</u>	<u>Amounts paid to BLM for lease</u>	<u>Proceeds from assignment</u>	<u>Excess of assignment proceeds over amount paid to BLM</u>	<u>Percent of overriding royalty interests retained</u>
75	\$ 703.50	\$ 12,250.00	\$ 11,546.50	3
100	765.50	15,250.00	14,484.50	3
100	510.00	10,250.00	9,740.00	3
100	233.50	1,750.00	1,516.50	3
100	947.50	3,750.00	2,802.50	2
100	1,130.00	4,250.00	3,120.00	2-1/2
100	570.00	1,750.00	1,180.00	2
100	490.00	9,750.00	9,260.00	3
100	170.00	3,250.00	3,080.00	3
100	510.50	3,750.00	3,239.50	3
100	631.00	2,250.00	1,619.00	3
50	961.00	20,750.00	19,789.00	-
100	590.00	5,750.00	5,160.00	3
50	1,105.00	23,750.00	22,645.00	-
50	1,245.00	27,250.00	26,005.00	-
100	396.50	3,750.00	3,353.50	3
100	1,290.00	2,750.00	1,460.00	3
100	1,290.00	2,750.00	1,460.00	3
100	970.00	1,750.00	780.00	3
100	330.00	9,750.00	9,420.00	3
100	610.50	12,250.00	11,639.50	5
100	330.50	5,250.00	4,919.50	3
100	835.50	247,750.00	246,914.50	5
100	123.50	2,250.00	2,126.50	3
100	330.00	21,750.00	21,420.00	5
100	<u>1,170.00</u>	<u>8,750.00</u>	<u>7,580.00</u>	5
	<u>\$18,239.00</u>	<u>\$464,500.00</u>	<u>\$446,261.00</u>	

EXAMPLE OF PROMOTIONAL LITERATURE AND AGREEMENT OF A LEASING SERVICE
COPY

Dear Investor:

Thank you for answering our ad on Uncle Sam's Drawing for petroleum rights on the rich oil and gas lands in the West.

This is the game for those who like to flirt with Lady Luck. It is absolutely legal, you can play it on a tax-deductible basis, the odds are far shorter and the payoff potentially far greater than the Irish Sweepstakes.

Some of these lands have had a potential of over \$500,000 in royalty income for the winner. A great many parcels have a potential income value of from \$100,000 to \$250,000 and when sold to an oil company, under an advance oil production agreement, this income can be received as capital gain cash.

It is no longer necessary for you to visit the Federal Land Office to participate in these drawings. We, as your agent, can do it all for you for a very nominal fee of \$10 or less per entry when filing on a regular basis. This includes our financing your filings by furnishing up to \$1280 advance rental deposit per application. The enclosed literature explains our program in full.

Regularity is the keynote to success in this game. Most oil companies, shrewd investors and insiders file each and every month, on several parcels, without fail. Just one small winner can easily pay for 25 years of regular filing.

If you are interested in participating in these drawings, just sign and return one or more of the enclosed blue Entry Cards, along with your checks, and we will do the rest. If you hurry, you can make this month's drawing.

If you desire any additional information please feel free to write directly to me.

Yours For Good Luck,

P.S. Over 95% of all federal leases acquired by oil companies are purchased directly from private citizens who have won in this drawing.

COPY

AGREEMENT FOR SERVICES
AUTHORITY TO SELECT AND FILE

To:

RE: Simultaneous Filing
Federal Oil & Gas Leases

I would like to participate in the monthly U.S. Government simultaneous drawings for oil and gas leases and I hereby employ your services and authorize and request you to select and file for me and in my behalf.

I request that you select the parcels to be filed upon; furnish in my behalf all of the funds necessary to cover the advance rental deposits required by the Bureau of Land Management; complete the blue Entry Cards and file them with the Bureau Of Land Management in the proper State. You are authorized to use your address on my Entry Cards in order that the advance rental deposit checks which you have furnished in my behalf will be returned directly to you if I am not successful in the drawing. You are further authorized to remove such rental funds from the mail and negotiate, endorse and/or deposit the same when received by your office.

I understand I am to furnish one \$10. personal check, made out to the Bureau Of Land Management, for each application. This is the statutory government required filing fee and it will be retained by the Bureau Of Land Management.

I understand you will keep me informed as to the parcels which have been filed for me and will notify me immediately if I am successful, otherwise forward the returned unsuccessful applications to me and furnish me the names and addresses of the individuals awarded the parcels for which I have applied.

In consideration of you performing the foregoing services, I agree to the following:

- (1) Reimburse you for the amount of the cashier's check for the advance rental deposits, on those tracts I win at the drawing.

The advance rental for the first year is fifty (50) cents per acre or fraction thereof. The amounts of the advance rental deposits will vary with the size of the parcel; but never more than \$1280 (2560 acres), nor less than \$20 (40 acres) in one lease.

- (2) Pay you for your professional services the following sums of money:

Check One	Method of Filing	
Trial Filing:		
/ / (a) One Parcel.....		\$12.50
Regular Filing:		
/ / (a) One Parcel Each Month.....		\$10.00
/ / (b) Three Parcels Each Month.....		\$25.00
/ / (c) Five Parcels Each Month.....		\$37.50

I understand that I will be under no obligation whatsoever to continue a filing program and can discontinue filing anytime I so desire.

The above service fees are paid to you for the sole purpose of performing the services authorized herein. After the described services have been performed you will have complied with my instructions, earned the service fees and you

EXAMPLE OF PROMOTIONAL LITERATURE OF A LEASE BROKER

COPY

FINAL -- 1968 CLOSE-OUT!!

In line with our policy to offer a number of Oil and Gas Lease selections in promising areas to our clients-----this is our 1968 close-out!!

I am protecting you for a lease here by putting a HOLD-ORDER on 80 ACRES of U. S. Government Oil and Gas Leases in Natrona County, Wyoming, and request your answer to this message right away. YOU SEND NO MONEY WITH YOUR PURCHASE ORDER-----I'll bill you later. Just let me know the size lease to hold for you! This is a limited offer---and must be FIRST COME, FIRST SERVED! GET YOUR ORDER APPROVED NOW!!

November 18, 1968

Dear Friend:

HAVE YOU FORGOTTEN THAT I RECOMMENDED LEASES IN THESE ROCKY MOUNTAIN AREAS..... IN ROOSEVELT, EDDY AND LEA COUNTIES, IN NEW MEXICO?.....

HAVE YOU FORGOTTEN SAN MIGUEL COUNTY, COLORADO?.....AND THAT I RECOMMENDED AN AREA IN RICHLAND COUNTY, MONTANA? YOU MUST DEEPLY REGRET YOU LET ME GO UNHEEDED.....YOU PUT OFF.....OTHERS DID NOT!

ALSO, OTHER CLIENTS MADE GOOD FOLLOWING OUR RECOMMENDATION IN RED-HOT CAMPBELL COUNTY, WYOMING!

Here's what happened since then-----

Steve M. Letinich made better than \$10,000.00. That's right---TEN THOUSAND DOLLARS CASH plus a 5 per cent royalty interest, in Lea County, New Mexico, from a 160-acre lease!

Oral Plew, Chicago, cashed in for \$1,370.00!-----John Finn, Detroit, EIGHT THOUSAND DOLLARS RICHER!-----Louis Cohen, Milwaukee, \$3,600.00 plus royalty-----Fred J. Semken, New York City, \$15,799.20 plus royalty-----

C. Kenneth Chaplin, Portsmouth, Rhode Island, bought a 40-acre lease that I recommended to him in Richland County, Montana. He paid \$400.00 for it and recently sold it for FOUR THOUSAND DOLLARS CASH plus an overriding royalty that could bring him additional profits every month for years from this royalty.

I COULD GO ON AND ON!

I HAVE THE PROOF! I AM ENCLOSING THIS PROOF IN THE REPRODUCTION OF SOME OF THE LETTERS I HAVE RECEIVED.

Some of these profits were from outright lease purchases, such as Mr. Chaplin's. Others were leases by clients filed on at my recommendation. I am not talking about profits made way back many years ago. My clients have made these lease sales in recent years including this year, 1968.

The past is gone. There is nothing that we can do about it. If we don't learn from our mistakes then life's experiences count for nothing. If we profit from them, then, and only then can they be counted worthwhile.

I come to you again with another opportunity to purchase a lease, a United States Government Oil & Gas Lease, in Natrona County, Wyoming, out of a block of acreage which I recently selected.....AND YOU DON'T HAVE TO SEND ME ONE DOLLAR TODAY..... ONLY YOUR PURCHASE ORDER AGREEMENT and request the size lease you want me to hold for you here in Natrona County, Wyoming.

You heard me right. Not one dollar today to take advantage of this lease offering. If this recommended area proves profitable like other areas we have recommended, you will be glad you were offered this opportunity.

I am enclosing an area map of this portion of the State of Wyoming. You will note by the legend that the producing oil fields are designated by solid spots, the gas fields are dotted. The oil pipe lines gathering this oil are shown in solid lines while the gas lines are identified by broken lines.

Wyoming has been producing oil for many years and, like many other areas, exploration work is continually going on.

The demand for petroleum and petroleum products is growing so great that the major oil companies are spending hundreds of millions of dollars in geological work, lease buying, and exploration.

Off the coast of California, Santa Barbara Bay, one of the majors is drilling in 600 feet of water. This takes special equipment running into the millions of dollars. I tell you this ONLY TO EMPHASIZE the growing need for new oil fields, new oil and gas reserves.

I have never seen conditions in oil circles healthier. According to reports many oil producers are making more money than ever before. This means more money on hand for exploration purposes---such as drilling wells and expanding leasing activities in promising areas. Other reports now being circulated are that a new oil price increase is "inevitable." These are some of the reasons carefully selected oil and gas leases are becoming more and more attractive today as a means for the average individual.

The only chance the little man has today is in leases that can be purchased and held for sale to potential developers. Wyoming is one of the last of these opportunities where you can get in on a GROUND FLOOR BASIS!

According to a statistical report dated October 24, Petroleum Information reports that Wyoming is leading all other states in the Rocky Mountains for the number of wells drilled the past year. A total of 933 wells were drilled in the state of Wyoming for a one-year period ending last month on October 24---Montana was second, with 744. A grand total of 2,861 wells were drilled in the twelve states included in the Rocky Mountain region. In the first six months of 1968 Federal land under lease in the Rocky Mountain states increased by 9.2% which amounted to 3,826,867 acres. Petroleum Information also reports as of October 17, last month, a total of 24 operations were listed in Natrona County, Wyoming, alone. This means wildcat and field operations at some stage; which means locations announced, equipment moving in, wells drilling, or wells completion reports.

AND THIS IS GOING TO BE MY FINAL 1968 SELECTION AND RECOMMENDATION! AND IT IS YOUR FINAL CHANCE TO ACT---YOUR FINAL CHANCE TO BECOME A POTENTIAL WINNER..... TAKE YOUR PLACE AMONG MY GROWING LIST OF SUCCESSFUL CLIENTS. I have indicated the approximate location of these leases on the enclosed map.

Incidentally, the Natrona County leases are U. S. Government ten-year term, dating from November 1, 1968. They are full 7/8ths oil and gas leases, with

annual rental of 50-cents per acre. Rentals are payable at the Land Office in Cheyenne. (I have already paid the first year's rental).

I have priced these leases at \$3 per acre, and am enclosing a "hold order" in your name for 80 acres. I urge you to let me know as quickly as you can if you DO--- or DO NOT want this lease. But we recommend that you do take the full "eighty" if you can, because with the frantic leasing going on now, you may never have another chance for a lease here. Eighty acres cost you only \$240, either cash or terms. Or, if you can't handle the "80"---by all means take half---40 acres---the minimum size lease. And you can have terms, if needed. On the 80 acres you can pay \$40 down and \$40 per month for five additional months. On the 40 acres you can pay only \$20 down and \$20 per month for five months. If you want a larger lease--- say 160 acres, or 320 acres, there is a space for requesting it on the enclosed "Hold Order" form, but it must be accepted subject to previous subscription.

I AM PAYING THE POSTAGE ON YOUR RETURN MAIL ANSWER. This will make it convenient and help you get your answer on the way to me right now. And a final reminder: This "Hold Order" cannot be re-assigned. It is for YOU and YOU only---given as a gesture of gratitude for my old clients. Some of these old clients took my advice when I wrote them about Richland County, Montana, and have already been rewarded---In the Summer of 1966 I selected and recommended an area for leasing in Richland County, Montana. My clients quickly bought all leases offered. Recently *** Petroleum Company drilled a test well close to our leases and this well was completed for a good producer. Other locations have been made in the area and drilling is now in progress.

AND CLIENTS REPORT SALES FOR THEIR LEASES HERE UP TO \$100 PER ACRE plus override retained---cost to clients only \$10.00 per acre. Other clients are in line to profit here from leases they bought on my recommendation as production moves closer to them. They got in on a GROUND FLOOR BASIS, and are watching developments with keen interest.

Also, many clients have already sold leases they bought from me in San Miguel County, Colorado, and doubled their money, and retained an overriding royalty of 3%. The leases were United States Oil & Gas Leases just like we are now recommending in Natrona County, Wyoming.

MAKE YOUR RESERVATION WHILE THE OPPORTUNITY IS BEFORE YOU! Many clients have profited from leases we recommended in New Mexico---Colorado---Montana---and Wyoming. These Natrona County, Wyoming, leases may also be profit making soon!

Remember, Mr. Keiser put up \$40.00 and took down \$800.00---Mr. Letinich put up \$90.00 and took down \$10,400.00---Mr. Howe put up \$30.00 and took down \$1,000.00 cash---Mr. Reardon followed our advice and put up \$150.00 and took down \$7,000.00---Miss Hayes put up \$30.00 and took down \$1,400.00 cash---Mr. Barber put up \$90.00 and took down \$1,600.00 cash---Mr. Cohen put up \$400.00 and took down \$4,000.00---Mr. Semken took our advice and put up \$410.00 and took down \$15,799.20---Mr. Madzis put up \$328.50 and took down \$7,500.00---Mr. Meyer put up \$330.00 and took down \$9,600.00 cash---Mr. Boebel put up \$400.00 and has already sold his lease for \$4,000.00 cash. These clients all retained an overriding royalty, and may profit much more later!

YOU CAN GET IN ON THE NATRONA COUNTY, WYOMING, OFFER, IF YOU ANSWER RIGHT NOW, BUT I MUST REMIND YOU FOR THE LAST TIME---THIS IS A LIMITED OFFER AND STRICTLY FIRST COME---FIRST SERVED---MAKE UP FOR LOST TIME---HEED ME NOW BEFORE YOU MAY AGAIN BE TOO LATE!

Sincerely yours,

PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF THE INTERIOR
RESPONSIBLE FOR THE ADMINISTRATION OF THE
ACTIVITIES
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF THE INTERIOR</u>		
SECRETARY OF THE INTERIOR:		
Walter J. Hickel	Jan. 1969	Present
Stewart L. Udall	Jan. 1961	Jan. 1969
ASSISTANT SECRETARY OF THE INTERIOR (PUBLIC LAND MANAGEMENT):		
Harrison Loesch	Apr. 1969	Present
Vacant	Jan. 1969	Apr. 1969
Harry R. Anderson	July 1965	Jan. 1969
John A. Carver, Jr.	Jan. 1961	Dec. 1964
ASSISTANT SECRETARY OF THE INTERIOR (MINERAL RESOURCES):		
Hollis M. Dole	Mar. 1969	Present
J. Cordell Moore	Aug. 1965	Feb. 1969
John A. Kelly	Mar. 1961	June 1965
BUREAU OF LAND MANAGEMENT:		
Boyd L. Rasmussen	July 1966	Present
Charles H. Stoddard	June 1963	June 1966
Karl S. Landstrom	Feb. 1961	May 1963
GEOLOGICAL SURVEY:		
William T. Pecora	Sept. 1965	Present
Thomas B. Nolan	Jan. 1956	Sept. 1965