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GAO
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Highlights

Highlights of GA0-09-74, a report to congressional requesters

OIL AND GAS LEASING

Interior Could Do More to Encourage Diligent Development

Why GAO Did This Study

In 2007, the Department of the Interior (Interior) collected about $10.5 billion in revenues from companies that hold federal oil and gas leases. Interior's Minerals Management Service manages offshore leases, while its Bureau of Land Management manages onshore leases and leases in the National Petroleum Reserve in Alaska. Acquiring a federal lease gives the lessee the rights to explore for and develop the oil and gas resources under the lease. Development entails many tasks, including drilling wells and building pipelines that may lead to oil and gas production.

GAO agreed to (1)describe Interior's efforts to encourage development of federal oil and gas leases and compare them to states' and private landowners' efforts, (2)examine trends in leasing and factors that may affect development, and (3) describe development on a sample of leases. GAO reviewed data on about 55,000 leases and spoke to officials at Interior and in eight states with leasing experience, among others.

What GAO Recommends

GAO recommends that the Secretary of the Interior develop a strategy to evaluate options to encourage faster development of its oil and gas leases. Interior generally agreed with the recommendation, but questioned whether some actions could have potentially adverse impacts. GAO maintains that Interior should study these options and report on the results to Congress.

To view the full product, including the scope and methodology, click on GAO-09-74. For more information, contact Frank Rusco at (202) 512-3841 or ruscof@gao.gov.

What GAO Found

Interior does less to encourage development of federal oil and gas leases than some state and private landowners. Interior officials cited one lease provision that may encourage development—escalating rental rates. For example, the rental rates for 10-year onshore federal leases increase from $1.50 per acre per year for the first 5 years to $2 per acre per year for the next 5 years. Compared to Interior, the eight states we reviewed undertook more efforts to encourage development on their oil and gas leases, using increasing rental rates as well as shorter lease terms and escalating royalty rates. Some states also do more than Interior to structure leases to reflect the likelihood of oil and gas production, which may encourage faster development. Specifically, while Interior uses varying lengths for offshore leases, with deeper waters receiving longer lease terms, this provision is not explicitly related to the expected productivity of the lease. On the other hand, five of the states that GAO reviewed—Alaska, Louisiana, Montana, New Mexico, and Texas—vary lease lengths or royalty rates to reflect the likelihood that the lease will produce. GAO also found that private landowners have used various leasing methods to encourage faster development, including lease terms as short as 6 months.

Over the past 20 years, the total number of oil and gas leases Interior issued has varied each year but generally increased in recent years, as has the amount of development activity, and industry officials told GAO that a range of factors influence their decisions to acquire and develop leases. The number of offshore leases issued annually from 1987 through 2006 had two large peaks—in 1988 and 1997—and has generally been increasing since 1999. Onshore leases peaked in 1988 and then declined until about 1992, remaining at these lower levels until about 2003 when they increased, coinciding with rising oil and historically higher natural gas prices. Drilling and production activity on federal leases has been higher over the last 10 years than from 1987 through 1996, but the increase has been more dramatic for onshore leases. Industry officials told GAO that several factors influence their decisions to acquire and develop federal oil and gas leases, including oil and gas prices; the availability and cost of equipment; the geology of the land underlying the lease; and regulatory issues, such as limitations on when drilling can occur.

GAO's review of data on about 55,000 offshore and onshore federal leases issued from 1987 through 1996—those that have exceeded their primary 10-year lease terms—identified three key findings regarding development. First, development occurred on about 26 percent of offshore and 6 percent of onshore leases issued during the sample period. Production was less frequent, with about 12 percent of offshore leases and 5 percent of onshore leases ultimately achieving production. Second, shorter leases were generally developed more quickly than longer leases, but not as frequently during the term of the lease. Finally, for those leases that eventually produced oil or gas a substantial amount of the initial drilling activity—about 25 percent onshore—took place after the scheduled expiration of the lease, following a lease extension.