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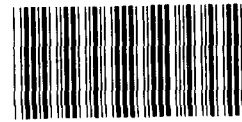
Comptroller General

OF THE UNITED STATES

Pitfalls In Interior's New Accelerated Offshore Leasing Program Require Attention

Interior's new proposed 5-year offshore oil and gas leasing program is another in a long line of efforts to accelerate offshore hydrocarbon exploration and development. In addition to accelerating leasing, the new proposal calls for changes reducing the time for environmental analyses and allowing for larger acreage offerings in lease sales.

GAO raises a number of questions about Interior's planning for program implementation, particularly its ability to accommodate large increases in lease offerings at the same time appropriations and budgets are being reduced. GAO also points out that Interior has not evaluated all likely impacts of an expanded program and makes specific recommendations designed to improve the Department's final program submission to the Congress.



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The Honorable John D. Dingell
Chairman, Subcommittee on Oversight
and Investigations
Committee on Energy and Commerce
House of Representatives

The Honorable Toby Moffett
Chairman, Subcommittee on Environment,
Energy, and Natural Resources
Committee on Government Operations
House of Representatives

The Honorable Walter B. Jones
Chairman, Committee on Merchant
Marine and Fisheries
House of Representatives

This report was prepared in response to the separate but similar requests received from each of you and 14 members of the House Committee on Merchant Marine and Fisheries. The report discusses the Interior Department's new proposed 5-year offshore oil and gas leasing and development program. Significant changes in the program and the associated problems and issues that could affect the accomplishment of program goals are highlighted. The report should be of assistance in Congress' review of Interior's final program which is to be presented to the Congress in 1982.

As requested, we did not take the additional time to obtain agency comments on the matter discussed in this report.

Chairman Dingell requested that we not publicly release the report at this time. Thus, unless it is publicly announced by one of the requestors, we plan no further distribution until 30 days from the date of the report. At that time, copies will be sent to the Director, Office of Management and Budget; the Secretary of the Interior; other House and Senate committees and subcommittees having oversight and appropriation responsibilities for the offshore leasing and development program; and other interested parties.

Charles A. Bowsher

Comptroller General
of the United States

D I G E S T

The Interior Department has announced a proposed revision to the previous Administration's 5-year offshore oil and gas leasing program. Public reaction, as with past accelerated leasing programs, has been diverse and intense.

Chairmen of three House Committees together with 14 other House members asked the General Accounting Office (GAO) to review the new offshore leasing program, posing questions focused on the

- differences between the proposed and current programs;
- process by which Interior developed the new program and the influence of non-Interior agencies and other affected groups in the process;
- Interior Department's capabilities to handle the accelerated program;
- capability of industry to respond to increased acreage offerings, i.e., its ability to lease and diligently explore additional offshore land in a timely manner;
- potential impacts of the program, in terms of the amount of land to be leased, the economy and the environment, receipt of fair market value for leased lands, small company participation and competition in lease sales, and other factors;
- legal implications of the program, and
- soundness and workability of the program.

PROGRAM CHANGES
ARE SIGNIFICANT

The proposed program provides for an overall 17 percent increase in lease sales over the current program approved in June 1980 with major increases occurring in Alaska. Sales will increase by 60 percent in Alaska and 15 of the 26 remaining sales in the current schedule will be advanced by as much as 9 months. Proposals are also being designed to either shorten the prelease planning process, make more land available for leasing, or facilitate post-lease exploration and development activities. Because several of the 1982 and 1983 sales under the current schedule are already in the later stages of planning, the full impacts of the new program will not occur until the 1983-1984 time frame. (See p. 6.)

PROGRAM DEVELOPMENT

Redesign of the program was done within Interior with little or no input from other Federal agencies and only minor consideration of input from the public sector. The new program reflects the Administration's policy decision to accelerate leasing more than it reflects the comments received through the public participation and review process. (See p. 28.)

INTERIOR'S ABILITY TO ACCOM-
MODATE THE PROGRAM UNCERTAIN

Interior's 5-year estimates of appropriations and staffing show the proposed program costing \$42 million less (a 5.6-percent reduction) and being accomplished with about 948 fewer staff years (an 11-percent decrease) than the June 1980 program. (See p. 38.)

Interior has not detailed how simultaneous reductions of program funding and staffing and implementation of its expanded leasing program will be accomplished. Further, Interior has not fully evaluated all likely impacts of the program, especially the impacts in terms of additional land expected to be leased, industry competition and small company participation in lease sales, long-range revenue receipts, and impacts on the economy. Neither has Interior assessed the ability of State and local governments to participate in offshore decisionmaking under the new

program nor has Interior examined the use and impact of using alternative bidding systems in the program. (See p. 43.)

GAO believes that it is important that Interior have the ability to administer the new program in an efficient and timely manner and be able to deliver "clean leases," i.e., leases free of litigation for which permits for exploration and development can be obtained without problems.

TO WHAT EXTENT WILL INDUSTRY
RESPOND TO THE PROGRAM?

Because there are no estimates of how much offshore acreage has hydrocarbon potential, it is difficult to determine how much acreage needs to be leased and explored in order to fully inventory offshore lands. In the past, industry has expressed interest in only about half the acreage considered for leasing in frontier areas--and then actually bid on only about 41 percent of the land eventually offered, even though a big factor in deciding on the acreage offered was high industry interest. (See p. 50.)

Industry appears fully capable of increasing its offshore activities and is currently making plans to do so. The amount of increase is uncertain at this time. Some think the increase will not be significant in terms of leased acreage, but that what is leased will be of better quality. The magnitude of any increased participation by industry will, in GAO's opinion, be more closely tied to the economics of oil and gas development and the predictability of the leasing schedule than to accelerated offerings of offshore lands. (See p. 57.)

Interior's recent action in extending lease terms from 5 to 10 years in difficult areas could also increase the amount of land leased. Yet, if this becomes a trend, it could well result in land being explored and developed at a slower pace than what is desired, i.e., industry would have 10 rather than 5 years to explore a lease, or industry leasing more land than it could possibly hope to explore. (See p. 63.)

LITIGATION SLOWED FAST PROGRAMS

Litigation has slowed the accelerated OCS leasing initiatives of the 1970s. Although a costly and time-consuming process, the resultant court decisions have added definition to OCS-related legislation and have established precedent for future leasing and development decisionmaking. Changes to the leasing and exploration processes--streamlining--may well lead to a new round of court challenges inasmuch as the changes could disrupt any balancing of interests achieved to date. Allaying possible challenges is essential if the new proposed program is to be viewed with any degree of certainty and confidence. (See p. 65.)

CONCLUSIONS

Interior's program represents a new initiative to determine the hydrocarbon potential of the offshore. Such an assessment is sorely needed inasmuch as the oil and gas potential of the offshore is an unknown in the equation for solving the Nation's future energy needs. However, Interior's planning for the program in terms of (1) detailing how the program is to be implemented in practice, (2) assessing the potential impacts of the program, and (3) evaluating its capabilities to accommodate the program, needs constant attention. Numerous pitfalls stand in the way of the program being accomplished as planned. The success of the program will depend on Interior's ability to overcome the pitfalls.

Congress also needs to be satisfied that the Department has thought through and taken appropriate steps to successfully accomplish the program as planned. GAO's recommendations are designed to improve the Department's final submission to the Congress.

RECOMMENDATIONS TO THE SECRETARY OF THE INTERIOR

The Secretary of the Interior, in the Department's final program submission to Congress, should provide detailed information and analyses as to:

- The practices and procedures by which the streamlining concepts are to be implemented. This effort should focus on such key areas

as environmental impact statement preparation and fair market value determinations--these being areas of considerable controversy and litigation in the past.

--The estimated potential impacts of the program in terms of (1) increased amounts of land to be leased on energy supply and environmental degradation, (2) competition and small company participation in lease sales, (3) the ability of State and local governments to participate in OCS decision-making, (4) revenue projections, and (5) the economy. The implications of using alternative bidding systems should also be included in this analysis.

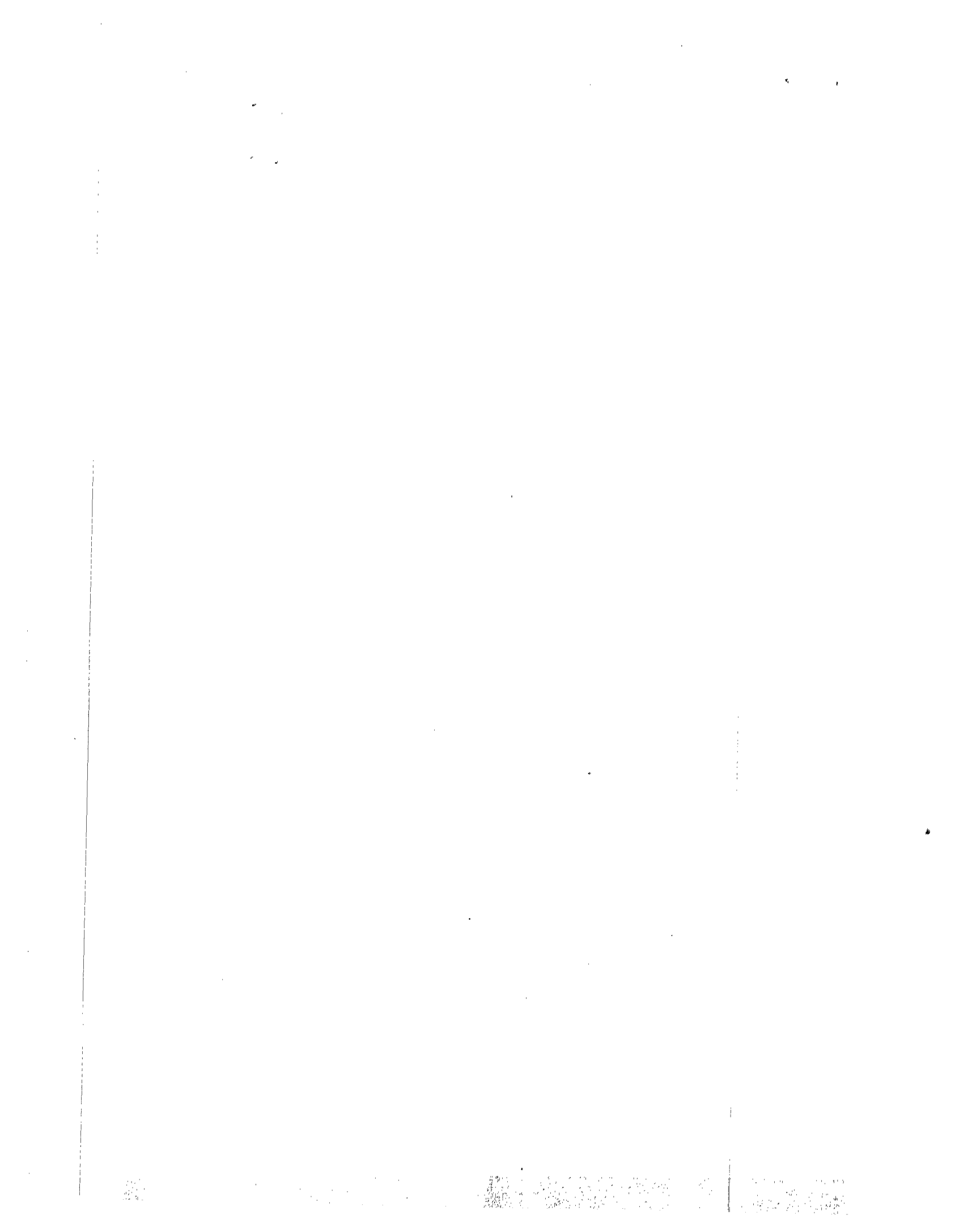
--The Department's capabilities to implement the proposed program. The relationship between reduced funding and staffing and an accelerated program should be carefully documented.

GAO also recommends that the Secretary of the Interior consider adopting a modified streamlining approach by reducing the size of the areas offered for lease. Trimming the lease sales down to smaller offerings will allow for a more detailed analysis of the environmental features in an area and also reduce the acreage Interior must consider for tract valuations.

In addition, GAO recommends that the Secretary (1) exercise caution in awarding 10-year leases, limiting the issuance of such leases to only those areas where the situation clearly warrants this option, and (2) closely monitor the impact on diligent development of changes in lease terms and conditions, including possible extensions of time frames for submitting exploration plans. (See pp. 77-78.)

AGENCY COMMENTS

The requestors of this review asked that GAO forego agency comments on this report prior to its issuance.



C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	The issue	1
	Federal responsibilities for offshore leasing and development	1
	Objectives, scope, and methodology	2
2	CHANGES IN THE PROGRAM ARE SIGNIFICANT	6
	Sales to be increased	6
	Schedule changes increase leasing in high potential areas	11
	Changes in the leasing and post-lease management process	11
	Revenues projected to increase	21
3	CHRONOLOGY OF EVENTS IN THE DEVELOPMENT OF THE PROPOSED NEW LEASING PROGRAM	28
	Legislative requirements	28
	Annual review began in December 1980	29
	Revision process started in March 1981	33
	Current status of development	36
4	INTERIOR'S ABILITY TO ACCOMMODATE THE PROPOSED PROGRAM	38
	Program costs and staffing estimates questionable	38
	Implementation and impacts of stream- lining procedures uncertain	43
	Level of environmental analysis not clear	43
	Procedures for assuring fair market value not settled	45
	Post-lease management workload unclear	46
	Few studies assessing impact of program	47
5	INDUSTRY'S ABILITY TO RESPOND TO THE NEW LEASING PROGRAM	50
	Industry's past reaction to accelerated leasing	50
	Defining what industry should be capable of doing is difficult	53
	Studies of industry's capabilities	55
	GAO's inquiry into industry's capabilities	57
	Industry diligence	63

CHAPTER

Page

6	IMPLICATIONS FOR LITIGATION	65
	Past legal challenges	65
	Current challenges	68
	Section 18 of the OCSLAA	69
	Use of alternative bidding systems	70
	CZMA consistency provisions	71
	Compliance with DOE Organization Act	73
7	OBSERVATIONS, CONCLUSIONS, AND RECOMMENDATIONS	74
	Observations and conclusions	74
	Recommendations to the Secretary of the Interior	77
	Agency comments	78

APPENDIX

I	Letter from Chairman John D. Dingell, House Subcommittee on Oversight and Investi- gations, Committee on Energy and Commerce	79
II	Letter from Chairman Toby Moffett, House Subcommittee on Environment, Energy, and Natural Resources, Committee on Govern- ment Operations	81
III	Letter from Chairman Walter B. Jones, et al House Committee on Merchant Marine and Fisheries	82
IV	Comparison of Interior's critical actions and dates for revision and reapproval of the OCS 5-year oil and gas leasing program	85
V	Companies and industry associations contacted by GAO	88

ABBREVIATIONS

API	American Petroleum Institute
BLM	Bureau of Land Management
CZMA	Coastal Zone Management Act
DOE	Department of Energy
EIS	environmental impact statement
FMV	Fair market value
FTP	Full time positions
GAO	General Accounting Office
IADC	International Association of Drilling Contractors
NEPA	National Environmental Policy Act
NRDC	National Resources Defense Council
OCS	Outer Continental Shelf
OCSLA	Outer Continental Shelf Lands Act

OCSLAA
OMB
SID
USGS

Outer Continental Shelf Lands Act Amendments
Office of Management and Budget
Secretarial Issue Document
United States Geological Survey

CHAPTER 1

INTRODUCTION

THE ISSUE

The leasing, exploration, and development of the Nation's offshore lands--the Outer Continental Shelf (OCS)--for oil and gas energy resources continue to remain a most controversial issue. Through the 1970s numerous initiatives were undertaken to open up the offshore for increased oil and gas exploration and development. While activity on the OCS increased during these years, planned program goals were never achieved. As we noted in March 1981, environmental issues and limited industry interest in the areas proposed for leasing were major factors affecting non-achievement of the goals. ^{1/}

In April 1981, the Administration announced a new accelerated leasing initiative. The proposed program consists of changes in the current leasing schedule and changes in the administrative procedures and processes--called streamlining--in planning for lease sales and in conducting post-sale activities. The new program is currently undergoing several iterations of both public and congressional review in accordance with the procedures outlined in section 18 of the OCS Lands Act Amendments of 1978 (Public Law 95-372). Final approval of a new leasing program initially targeted for late 1981 and then early 1982, will be delayed until later in 1982 because of a recent court ruling on the processes and procedural requirements that must be met in developing OCS leasing programs. A new target date for approval had not been established at the conclusion of our review.

Public reaction to the proposed new program has been intense with the various groups affected by the program--State and local governments, industry, environmentalists, and other consumer advocate groups--strongly vocalizing their positions and concerns. The level of reaction raises a basic question as to whether this newly proposed program will result in increased amounts of offshore land being opened up for exploration, development, and ultimately production--or as with past programs, fall short of planned goals.

FEDERAL RESPONSIBILITIES FOR OFFSHORE LEASING AND DEVELOPMENT

The 1953 OCS Lands Act (Public Law 83-212) and its 1978 Amendments are the central pieces of legislation governing OCS hydrocarbon exploration and development activities. Numerous other laws, such as the National Environmental Policy Act

^{1/}"Issues in Leasing Offshore Lands for Oil and Gas Development," EMD-81-59, Mar. 26, 1981.

(Public Law 91-190), the Endangered Species Act (Public Law 93-205), the Coastal Zone Management Act, as amended (Public Laws 94-370 and 92-583), and the Marine Protection, Research and Sanctuaries Act (Public Law 92-532), although not specific to hydrocarbon activities, are also relevant to OCS oil and gas activities.

The Department of the Interior (Interior) has primary responsibility within the Federal Government for OCS activities. Within the Interior Department, the Bureau of Land Management (BLM) and the U.S. Geological Survey (USGS) have the day-to-day responsibility for OCS management. BLM is basically responsible for pre-lease activities which includes the planning and holding of sales. USGS is basically responsible for managing the exploration, development, and production activities after a lease is awarded. BLM and USGS offices in Los Angeles, California; Anchorage, Alaska; New Orleans, Louisiana; New York, New York; and in Washington, D.C.; have regional responsibilities for coordinating OCS activities among the regional Federal agencies and with the various State and local governments in their respective regions. Interior's regional offices are also the focal point for inputs from regional private interest groups concerned with OCS activities.

Other Federal agencies such as the Departments of Energy, Commerce, Justice, and State; the Environmental Protection Agency, the U.S. Coast Guard; and the U.S. Army Corps of Engineers also have mission-specific OCS responsibilities. The Secretary of the Interior is responsible for coordinating the OCS responsibilities of all Federal agencies.

OBJECTIVES, SCOPE, AND METHODOLOGY

Chairman John D. Dingell, House Subcommittee on Oversight and Investigations, Committee on Energy and Commerce; Chairman Toby Moffett, House Subcommittee on Environment, Energy, and Natural Resources, Committee on Government Operations; and Chairman Walter B. Jones and 14 other members of the House Committee on Merchant Marine and Fisheries, by letters dated July 17, July 23, and August 3, 1981, respectively, asked us to review the new offshore leasing program being proposed by Interior. (See apps. I, II, and III.) Questions posed by the Chairmen varied between requests. Collectively, however, the questions focused on

- the differences between the proposed and current programs, i.e., changes in the number of sales, changes in the leasing schedule, changes in the amount of acreage to be offered for lease, and changes in presale planning and post-lease management practices and procedures;
- the process by which Interior developed the new program and the influence of non-Interior agencies and other affected groups in the process, i.e.,

the Cabinet Council on Natural Resources and Environment, the Office of Management and Budget (OMB), the Energy Department, and groups outside the Federal establishment;

- the Interior Department's analysis of its capabilities to handle the accelerated program;
- the capability of industry to respond to increased acreage offerings, i.e., its ability to lease and diligently explore additional offshore land in a timely manner;
- the potential impacts of the program, i.e., the economic and environmental impacts, the impacts on the receipt of fair market value for leased lands and the associated revenue implications, the impacts on small company participation and competition in lease sales, and the impacts of using alternative bidding systems in the new program;
- the legal implications of the program, and
- the soundness and workability of the program.

As agreed upon with the requestors, we have focused our review on what the Interior Department has done or not done, in evaluating and answering the above questions. Our analysis of Interior's actions has been supplemented to the extent possible, considering the uncertainties of the program and time constraints, by our own analysis of information we obtained from non-Interior sources and the inclusion of findings from our past reviews. Our overall objective in this review was to identify and provide information on major issues in the program for the Committees and the Congress to consider and explore in the draft and final program proposals.

We conducted our review at Interior's Headquarters in Washington, D.C., and at Interior's field offices in Anchorage, Alaska. The Anchorage offices were selected for review over the Gulf of Mexico, Pacific, or New York field offices because the impacts of the new leasing program are more significant in Alaska than in other leasing regions. We also contacted Department of Energy (DOE) and OMB officials as well as officials of the Cabinet Council on Natural Resources and Environment. At Interior we interviewed agency officials and reviewed agency correspondence, documents, and files showing the development and planning for the new program. We also reviewed and analyzed comments provided by industry, the States, and the private sector to both Interior's December 1980 request for information on the current leasing program and Interior's April 1981 draft proposed leasing schedule.

We discussed industry's capability to accommodate the new leasing program with a number of oil companies and with various other firms or groups involved in offshore activities, i.e., manufacturers of tubular goods and drilling rigs, geophysical companies, boat builders, and financial organizations. We also discussed the future manpower needs of the industry with selected education groups and industry associations. We obtained and reviewed studies addressing industry's present capabilities and the constraints on increased leasing and exploration. Time did not allow us to conduct a detailed review of industry's capability to respond to the new leasing program. Consequently, our efforts were limited to a review of past studies and an update of industry's current profile and future projections with selected industry officials and professional organizations.

Our analysis of the program has been limited by two significant factors: (1) in many areas Interior has not analyzed the potential impacts of the program in any great detail, thus, the amount of information we had to review was often sparse and (2) we were not allowed access to either OMB files or files of the Cabinet Council on Natural Resources and Environment. In view of the lengthy amounts of time that would be involved in pursuing the access issue, we notified the Committees midway through our study of this problem along with the specific details of our denials for requested information. The Committees indicated that they would pursue this problem in conjunction with denials of information received from the Administration on other issues and would advise us if follow-up would be required in our review. We agreed to pursue the involvement of the above groups through our review of Interior's files only. (See pp. 23 and 34.)

In preparing this report, we have drawn extensively on our past work in the OCS area and have combined this knowledge with information obtained in this review. Our two recent reports "Issues in Leasing Offshore Lands for Oil and Gas Development," EMD-81-59, March 26, 1981, and "Impact of Regulations--After Federal Leasing--On Outer Continental Shelf Oil and Gas Development," EMD-81-48, February 27, 1981, are two key reports used in the development of this report.

Chapter 2 describes the new program and how it compares with prior leasing initiatives. Chapter 3 discusses the process by which the program was developed; chapter 4 discusses Interior's capabilities to handle the new program; chapter 5 addresses industry's capabilities; chapter 6 discusses the vulnerability of the new program to legal challenge; and chapter 7 contains our observations and views on the workability of the new program and the factors that may impede program success. Our analysis and comments regarding potential impacts of the program on other offshore development objectives, i.e., environmental protection, receipt of fair market value, etc., are included, as appropriate, throughout chapters 2 through 7.

At the direction of the requestors, agency comments were not solicited on this report prior to its issuance.

CHAPTER 2

CHANGES IN THE PROGRAM

ARE SIGNIFICANT

The July 1981 proposed leasing program provides for an overall 17 percent increase in lease sales--an increase from 36 to 42 sales--over the current program with major increases occurring in Alaska. Under the proposed program, sales will increase by 60 percent in Alaska--from 10 to 16 sales. Alaskan sales will now constitute 38 percent of the total program sales, an increase from about 27 percent in the current program. In addition to more sales, 15 of the 26 remaining sales in the current June 1980 schedule--13 of the 15 of which are in the areas of higher hydrocarbon potential--will be advanced by as much as 9 months. ^{1/} Together with the proposed schedule changes, major changes are being proposed in prelease planning and post-lease management activities--changes which are designed to either shorten the prelease planning process, make more land available for leasing, or facilitate post-lease exploration and development activities. The transition to the new program will require some time since several of the 1982 and 1983 sales under the June 1980 schedule are already in the later stages of planning. As a result, the full impacts of the new program will not occur until the 1983-84 time frame.

In addition to accelerating leasing, revenues from leasing and post-lease activities are expected to increase substantially as a result of the new program. Although major increases in leasing are not expected until 1983 and 1984, the Administration anticipates revenues to increase from \$7.8 to \$9.6 billion in fiscal year 1981 and from \$9.9 to \$11.0 billion in fiscal year 1982--\$550 million of the \$1.1 billion fiscal year 1982 increase is not attributed to any particular sale but rather is an overall increase anticipated as a result of the new program. According to Interior, estimates for follow-on years have not been developed.

SALES TO BE INCREASED

Table 1 compares the April 1981 and July 1981 leasing schedule proposals with those of prior leasing programs. As shown in the table, the program calls for an approximate 17 percent overall increase in the number of lease sales--an increase from 36 to 42 sales--and in the annual rate of leasing--from 7.2 to 8.4 sales per year--over what is planned in the June 1980 program. However, of perhaps more significance, leasing in Alaska is to

^{1/}Twenty-six sales are scheduled under the current June 1980 leasing program between January 1982 and June 1985--the years of comparability between the current and proposed schedules. The proposed schedule retains 22 of the 26 sales and drops 4 sales.

Table 1
Comparison of New Program Proposals
With Prior Programs

<u>Lease schedule</u>	<u>Time frame</u>	<u>Number of years</u>	<u>Planned sales</u>						<u>Average sales per year</u>
			<u>Gulf of Mexico</u>	<u>Pacific</u>	<u>Atlantic</u>	<u>Alaska</u>	<u>Re-offering</u>	<u>Total</u>	
June 1971	06/71-12/75	4.5	10	-	1	1	-	12	2.7
July 1973	07/73-12/78	5.5	11	2	-	2	-	15	2.7
November 1974	11/74-12/78	4.0	4	5	6	9	-	24	6.0
June 1975	06/75-12/78	3.5	4	3	6	9	-	22	6.3
January 1977	01/77-12/80	4.0	5	3	7	9	-	24	6.0
May 1977	05/77-12/78	1.5	4	-	3	1	-	8	5.3
August 1977	08/77-12/81	4.5	6	2	7	6	-	21	4.7
June 1979	06/79-02/85	5.5	12	4	6	9	-	31	5.6
June 1980	06/80-06/85	5.0	11	4	6	10	5	36	7.2
April 1981	01/82-12/86	5.0	10	5	6	16	5	42	8.4
July 1981	01/82-12/86	5.0	14	5	6	16	1	42	8.4

FIGURE 1
Comparison of June 1980 and July 1981
Leasing Schedules Emphasizing Years of Comparability^{a/}

COMPOSITE ALL REGIONS

Schedule	1980	1982	1983	1984	1985	1986	Total
June 1980	3	7	8	7	4		36
July 1981		7	8	9	5	9	42
Increase		0	0	2	1		

Comparable Years

GULF OF MEXICO

Schedule	1980	1981	1982	1983	1984	1985	1986	Total
June 1980	2	2	2	2	1			11
July 1981		2	3	3	1	2	3	14
Increase		0	1	1	0			

Comparable Years

ALASKA

Schedule	1980	1981	1982	1983	1984	1985	1986	Total
June 1980	1	1	2	3	1	2		10
July 1981			2	2	4	2	4	16
Increase			0	(1)	3	0		

Comparable Years

ATLANTIC

Schedule	1980	1981	1982	1983	1984	1985	1986	Total
June 1980	-	2	1	1	2	-		6
July 1981		1	2	1	1	1	1	6
Increase		0	1	(1)	1			

Comparable Years

PACIFIC

Schedule	1980	1981	1982	1983	1984	1985	1986	Total
June 1980	-	1	1	1	1	0		4
July 1981		1	1	1	1	1	1	5
Increase		0	0	0	0	1		

Comparable Years

^{a/} Composite of all regions includes reoffering sales. Regional totals do not include reoffering sales.

be increased by 60 percent to 16 sales over the next 5 years--an average of about three sales per year. Overall, about 38 percent of the planned sales in the next 5 years will be in Alaska--an increase from about 27 percent in the current program.

The new leasing proposal will, beginning in 1983, divide the Gulf of Mexico into three leasing areas, rather than two, with a sale occurring once a year in each area. Thus annual sales will increase from two to three in the Gulf of Mexico, although the sales may not involve any additional area over what would have been included in a two sale per year approach. Annual leasing in the Atlantic and Pacific OCS areas will remain about the same as planned under the June 1980 5-year program.

Figure 1 shows a comparison of the two programs (June 1980 versus July 1981) for the years of comparability, i.e., January 1982 through June 1985. As shown in the figure, major increases in sales will not occur until 1984. Thus the annual rate of leasing in each OCS region will remain about the same for the next 2 years.

The new program, however, provides for changing the proposed sale date for 20 of the 26 sales shown in the June 1980 schedule during the January 1982 through June 1985 time frame and for dropping 4 sales from the schedule--Sale 61 in Alaska's Kodiak area scheduled for April 1983 and reoffering sales for 1983, 1984, and 1985, respectively. Two sales were not changed by the new schedule. As shown in table 2, the more significant changes in terms of time frames were the advancing of three Alaskan sales by an average of 7 months and moving up four Atlantic sales by an average of 6 months. Also as shown in the table, five sales--two in the Gulf of Mexico and three in Alaska--were slipped 2 months each.

Table 2

Sale Dates Changed
In New Proposal

<u>Area</u>	<u>Sale</u>	<u>June 1980</u>	<u>July 1981</u>	<u>Changes in months</u>		
Gulf of Mexico	67	3/82	2/82	1	Average advance of 3 months	
	74	9/83	8/83	1		
	79	3/84	11/83	4		
	81	7/84	4/84	3		
	84	1/85	7/84	6		
		69	8/82	10/82	(2)	Average slip of 2 months
		72	3/83	5/83	(2)	
	Alaska	71	2/83	9/82	5	Average advance of 7 months
		75	10/83	4/83	6	
		83	12/84	3/84	9	
		57	9/82	11/82	(2)	Average slip of 2 months
		70	12/82	2/83	(2)	
		86	5/85	7/85	(2)	
Atlantic	52	10/82	8/82	2	Average advance of 6 months	
	76	11/83	3/83	8		
	78	1/84	7/83	6		
	82	10/84	2/84	8		
Pacific	68	6/82	4/82	2	Average advance of 4 months	
	73	5/83	1/83	4		
	80	6/84	1/84	5		

SCHEDULE CHANGES INCREASE LEASING
IN HIGH POTENTIAL AREAS

A major thrust of the new program is to provide earlier entry and more frequent re-entry into those offshore areas thought to have the best potential for hydrocarbon discovery. Our analysis of the leasing planned under the July 1981 schedule in comparison with the leasing that would occur in the June 1980 schedule (for the comparable time frame January 1982 through June 1985) clearly bears this out. As shown in table 3, the July 1981 schedule provides for six additional sales, five of which are scheduled for higher potential leasing areas. It should be noted, however, that two of the five are the result of offering the Gulf of Mexico in three sales each year rather than in two. Thus, in actuality, the increase in sales in higher potential areas will increase by three. Of more significance, however, is the advancing of sale dates in the higher potential areas. Fifteen of the 26 sales dates in the June 1980 schedule are advanced by the new schedule--13 of the 15 are sales in the higher hydrocarbon potential leasing areas.

CHANGES IN THE LEASING AND
POST-LEASE MANAGEMENT PROCESS

The acceleration of OCS lease sales, the offering of larger areas, and the earlier exploration of high potential areas requires modifying the Federal Government's prelease planning and post-lease management activities. The tract specific, valuative practices and procedures now used to plan and prepare for an OCS sale are labor-intensive, costly, and time-consuming, and according to Interior, serve to restrict the size, timing, and location of specific sales. Also, past and recent experience has shown that post-lease permitting delays have been a frequent constraint to timely exploration and development of OCS leases. The Department of the Interior is proposing significant modifications to present sale preparation and permitting steps--changes which place a greater reliance on data industry may be required to provide.

Lease sale planning

Prior to the 1970s, OCS lease sale planning was accomplished in a 4- to 6-month time frame in the Gulf of Mexico. During the 1970s, because of the controversial nature of the program, the time required to plan for a sale increased significantly. As shown in table 4, the current 1980-85 leasing program provides for an average of 26 months to plan for a sale in the Gulf of Mexico and up to 41 months for planning Alaskan sales--reflecting the differing environmental characteristics in these areas. A major goal of the new leasing program is to streamline the sale planning process and thereby reduce the time needed to plan for and conduct a sale. Under the proposed program, schedule sale planning steps are supposed to be accomplished in about a 21-month time frame regardless of the leasing area, plus more land will be offered in each lease sale.

TABLE 3
RESOURCE POTENTIAL OF AREAS AFFECTED BY CHANGES IN
LEASE SCHEDULE DURING JANUARY 1982-JUNE 1985 TIME FRAME ^{a/}

PLANNING AREA ^{d/}	RESOURCE POTENTIAL ^{b/}		SCHEDULED SALES 1/82-6/85			NUMBER OF SALE DATES CHANGED	
	Billion Barrels Of Oil	Trillion Cubic Feet Of Gas	June 1980 Schedule	July 1981 Schedule	Increase	Advanced	Delayed
DAIPER FIELD	7.93	40.43	1	2	1	1-5 Months	—
GULF OF MEXICO	6.50	71.84	7	9	2	5-3 Month Ave.	2-2 Month Ave.
MID-ATLANTIC	3.49	14.22	1	1	0	1-8 Months	—
BARROW ARCH	2.84	8.60	1	1	0	—	—
S. CALIFORNIA	2.36	3.96	2	2	0	2-3.5 Month Ave.	—
N. ATLANTIC	2.00	6.13	2	2	0	2-5 Month Ave.	—
NAVARIN BASIN	1.74	7.14	1	1	0	1-9 Months	—
S. ATLANTIC	1.65	4.44	1	1	0	1-6 Months	—
ST. GEORGE ATLANTIC ^{e/}	1.48	4.28	1	2	1	—	1-2 Months
	—	—	—	1	1	—	—
	<u>29.99</u>	<u>161.04</u>	<u>17</u>	<u>22</u>	<u>5</u>	<u>13 Sales</u>	<u>3 Sales</u>
C.+N. CALIFORNIA	1.18	1.52	1	2	1	1-4 Months	—
GULF OF ALASKA	1.00	3.18	—	—	—	—	—
KODIAK ^{e/}	1.00	3.23	1	0	(1)	—	—
N. ALEUTIAN	.99	2.37	1	2	1	1-6 Months	—
NORTON BASIN	.71	2.17	1	2	1	—	1-2 Months
COOK INLET	.40	2.34	—	—	1	—	—
SHUMAGIN	.40	1.40	—	—	—	—	—
HOPE BASIN	.31	1.29	1	0	(1)	—	1-2 Months
	<u>5.99</u>	<u>17.50</u>	<u>5</u>	<u>6</u>	<u>1</u>	<u>2 Sales</u>	<u>2 Sales</u>
TOTAL	<u><u>35.98</u></u>	<u><u>178.54</u></u>	<u><u>22</u></u>	<u><u>28</u></u>	<u><u>6</u></u>	<u><u>15 Sales</u></u>	<u><u>5 Sales</u></u>

^{a/} Does not include 4 reoffering sales under the June 1980 schedule nor 1 reoffering under the July 1981 schedule.

^{b/} The conditional mean estimate, Draft supplement to the Final Environmental Statement, Proposed Five-Year OCS Oil and Gas Lease Sale Schedule, January 1982-December 1986, pg.13.

^{c/} Sale 90 is designated "Atlantic" in the July 1981 schedule and included in the group of higher potential areas because the estimates for all sub-areas of the Atlantic OCS fall in the high resource potential grouping.

^{d/} GAO grouping of areas based on oil and gas potential.

^{e/} Sale 61 "Kodiak" scheduled for 4/83 was dropped in the July 1981 schedule, however, the planning area is included in the combined Cook Inlet, Shumigan, Kodiak, Gulf of Alaska Sale 100 planned for 10/85 in the July 1981 schedule.

Table 4

Percentage of Time Allocated
to Prelease Planning Steps

	1980-85 Leasing Schedule										
	Gulf of Mexico		Pacific		Atlantic		Alaska		New proposal		
	Months	Percent	Months	Percent	Months	Percent	Months	Percent	Events	Months	Percent
Call for nominations	2	7.5	2	7	2	6.5	3	7.0	Call for information	2	9.50
Tentative tract selection	2	7.5	3	10	3	10.0	4	9.5	Area Identification	2	9.50
EIS process	15	58.0	18	60	19	61.5	27	66.0	EIS Process (note a)	13	62.00
Tract selection	2	7.5	2	7	2	6.5	2	5.0			
State review	2	7.5	2	7	2	6.5	2	5.0	State and Energy Review	2	9.50
Energy review	1	4.0	1	3	1	3.0	1	2.5			
Final sale notice	1	4.0	1	3	1	3.0	1	2.5	Final sale notice	1	4.75
Final notice to sale	<u>1</u>	<u>4.0</u>	<u>1</u>	<u>3</u>	<u>1</u>	<u>3.0</u>	<u>1</u>	<u>2.5</u>	Final notice to sale	<u>1</u>	<u>4.75</u>
Total	<u>26</u>	<u>100</u>	<u>30</u>	<u>100</u>	<u>31</u>	<u>100</u>	<u>41</u>	<u>100</u>		<u>21</u>	<u>100.00</u>

(note b) .

a/Does not include any environmental analysis done prior to the call for information. EIS process includes preparation of EIS and public hearings on the draft statement.

b/A single prelease sale process is being planned for the two annual sales in the Gulf of Mexico for 1981 through 1984. The June 1980 schedule shows activities for both yearly sales conducted concurrently through the final EIS. At this point, the second sale date is planned for about 6 months after the first sale. Thus, the second annual sale will occur about 32 months after the call for nominations.

OCS sale preparation is a complex, participative process. Under the current program, the acreage offered in any given sale is initially restricted by determining the boundaries of a call area. Industry and other interested groups then nominate individual tracts in the call area for possible offering--or in some cases, non-offering. Subsequently, the specific sale area is determined by using a selection process where basically only those tracts receiving high industry nominations remain in the proposed sale. This reduced area results from a number of considerations, including optimal sale size, Interior's capabilities to prepare a sale, the oil and gas resource potential of particular acreage, environmental concerns, OCS multiple-use conflicts, and boundary disputes.

According to Interior, under current practices and procedures used to satisfy various legislative requirements--particularly those of the National Environmental Policy Act (NEPA) and the OCS Lands Act Amendments (OCSLAA)--not all nominated tracts can be included in a lease sale. We were told that USGS is limited in the amount of acreage it can evaluate prior to a lease sale. Gathering environmental and geotechnical information are particularly time-consuming tasks. USGS conducts geohazard assessments and pre-sale valuations of the oil and gas potential of all tracts offered. These valuations, in turn, are used to evaluate industry bids and to assess the safe exploration of potential resources. Considering all these factors, Interior estimates that between 600,000 and 1,000,000 acres, depending on the OCS region, is the present optimum sale size.

An integral part of Interior's revised leasing program is the adoption of certain streamlining proposals designed to reduce the time needed to plan for a sale and at the same time increase the amount of acreage offered in each sale. The proposals were developed by BLM, USGS, and the Department's Office of OCS Program Coordination.

Streamlining initiatives started under previous administration

Initiatives to streamline the leasing process originated in August 1980 under the previous Administration. A joint BLM and USGS task force examined the possibility of streamlining the leasing process, and on December 30, 1980, issued a report making 11 recommendations for change. Specific recommendations called for

- offering entire OCS areas for lease and eliminating the tract selection process;
- replacing the call for nominations and comments with a call for information;
- shortening preparation of the draft environmental impact statement (EIS) to 8 months;

- eliminating the Secretarial Issue Document (SID) and including the information formerly contained in the SID in the final EIS and a decision memorandum;
- preparing the proposed notice of sale and the final EIS simultaneously; and
- preparing tract specific resource economic evaluations after, rather than prior to, a lease sale.

We were told that Interior's former Assistant Secretary for Land and Water Resources failed to sign the task force report before his resignation because of supposedly conceptual differences with the report's findings. Subsequently, on January 21, 1981, under the new Administration, the report was transmitted to Interior's Assistant Secretary for Policy, Budget and Administration by the acting Assistant Secretary for Land and Water Resources. It was subsequently submitted to the Secretary of the Interior on February 6, 1981, and approved in concept by the Secretary on March 17, 1981. In April 1981, Interior announced in the Federal Register its proposed changes which included area-wide lease offerings, area-wide environmental and hydrocarbon resource assessments and tiering of NEPA documents, and development of a new procedure for meeting the Department's statutory responsibility to assure receipt of fair market value. Each of these changes is discussed in detail later in this chapter.

A task force report covering the streamlining of post-lease permitting procedures was completed on June 25, 1981. It was prepared by USGS in consultation with BLM in response to a March 24, 1981, request from Interior's Deputy Assistant Secretary for Energy and Minerals. The task force concluded that

- all steps in the current Department of the Interior permitting process are necessary and that associated time frames are reasonable and, for the most part, are mandated by law;
- a streamlining change could be made to Interior regulations without amending the OCS Lands Act to eliminate OCS development and production plan requirements in the western Gulf of Mexico;
- the EIS process could be streamlined by changing authorities and responsibilities covered in Department and Bureau manuals and procedures (e.g., delegation of EIS preparation responsibilities to regional managers); and
- the greatest post-lease permitting delays result from procedures and authorities external to Interior, specifically the National Pollutant Discharge Elimination System (NPDES) permitting procedures by the Environmental Protection

Agency (EPA), and the Federal consistency provisions of the Coastal Zone Management Act (CZMA). 1/

The report provided options for streamlining through regulatory change and through legislative amendment.

Area-wide lease offerings

This proposed change shifts the focus from offering a limited number of tracts in a planning area to offering all the tracts in a planning area. Under streamlining, the "call for nominations" and "tentative tract selection" steps in the sale preparation process would be replaced with a "call for information" and "area identification," respectively (see table 4). The call for information will be used to determine possible areas within an entire planning unit which should not be considered for leasing. Its purpose is to define areas of petroleum interest and environmental concern as opposed to narrowing the area of study using positive and negative nominations from which specific sale tracts are chosen. Information from the call and from other sources 2/ is used during area identification and during the period preceding final notice of sale, to decide whether any portion of the entire planning area should be deleted from further consideration, e.g., military use areas.

Under the revised program, the proposed offering for sale will consist of all the tracts in a planning area less those tracts deleted for specific concerns or multiple-use conflicts. Estimates of the acreage to be offered, as provided by Interior, for the 1982 through 1986 leasing years are shown in table 5. As shown in the table, increased acreage offerings will not occur until 1983 because presale planning for most of the 1982 sales, i.e., at least through the tract selection milestone, has already started. In Alaska, increased offerings will not occur until 1984.

1/We reached a similar conclusion on permitting problems in our report, "Impact of Regulations--After Federal Leasing--On Outer Continental Shelf Oil and Gas Development," EMD-81-48, Feb. 27, 1981.

2/Includes consultation with other Federal agencies and affected States.

Table 5

Estimates of Acreage to be Offered
Under Streamlining Proposal (note a)
(millions of acres)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Gulf of Mexico	2.5	139.0	139.0	139.0	139.0
Atlantic	3.1	133.1	95.0	95.0	95.0
Pacific	1.1	15.0	19.0	38.0	19.0
Alaska	<u>4.3</u>	<u>6.1</u>	<u>186.0</u>	<u>186.0</u>	<u>186.0</u>
Total	<u>11.0</u>	<u>293.2</u>	<u>439.0</u>	<u>458.0</u>	<u>439.0</u>

a/Estimates are gross estimates of planning area with no allowances for (1) land already under lease, (2) leasing which might occur during the 5 year period, or (3) land that may be withdrawn from leasing.

Area-wide environmental and hydrocarbon
resource assessments and tiering of NEPA
documents

The emphasis on larger offerings and the elimination of tract specific nomination and selection procedures requires changing the scope of environmental and hydrocarbon resource assessments and modifying the procedures for performing these tasks. Under the present system, these assessments have a much narrower focus which emphasizes the proposed sale area identified during tract selection. As a result, detailed environmental and resource assessments generally are not begun until after the initial tract selection phase of the presale process is completed. Since the proposed revised procedures emphasize offering the entire planning areas (which can be as large as 50 million acres), requisite environmental and resource assessments will be started sooner--about 8 to 12 months before the call for information. They will be modified during the post-call, sale preparation process to reflect any subsequent area deletions.

Under the revised program, an area-wide environmental impact statement will be prepared for the first sale in a planning area to assess the effects of oil and gas activity that might occur within the entire planning area. The EIS will establish, on a broad basis, important features decisionmakers require about the ecology of the entire planning area and the non-oil and non-gas activities which may compete for space or which might be put

at risk by oil and gas operations. These include physical oceanography, the migration routes of endangered species, and the economic importance of commercial fishing. The EIS, reportedly, will address alternatives focusing on risks to the environment as a result of oil and gas exploration and development activity that might occur within the planning area, with particular attention to the exploration stage of offshore development.

The EIS prepared for the second and following area-wide offerings in a planning area will update the EIS for the first or previous offerings with information that has become available since a preceding document was written. This concept is called "tiering." It is expected that the time needed to prepare EISs for subsequent sales will be less and result in much shorter environmental documents. Interior is also proposing that regional technical papers be prepared on subjects which tend to be repeated in sale specific EISs. The technical papers will be upgraded as new information becomes available and will be incorporated by reference, as required, in NEPA documents for future sales in a planning area.

Interior believes this change complies with NEPA regulations which encourage agencies to tier their environmental statements to eliminate repetitive discussions, duplication of analyses and information, and to focus on specific issues needing decision.

The Department's Environmental Studies Program--a program separate but related to the preparation of sale specific EISs--and regional geohazard investigations will continue to provide data used to assess possible impacts from OCS leasing. However, both will be phased to provide a level of environmental detail appropriate to decisions at each step in the leasing process.

The Environmental Studies Program, which the new Administration reduced by \$10 million in the fiscal year 1982 budget--will stress large-scale, regional reconnaissance studies and address generic issues that are not area-specific. In some instances the level of specificity will be less than in earlier studies because Interior believes detailed, site-specific information can sometimes be of limited use in the lease program's pre- and post-sale phases. Because of the uncertainty about the timing and location of such activities at the presale stage, the studies program will also emphasize use of existing information, rather than generation of detailed new analyses of the potential effects of oil and gas activities. Post-lease, site specific studies of potential development effects will be carried out, as needed, for developing post-sale NEPA documents and for decisions on the management of OCS operations.

Presale, site specific geohazard information will no longer be gathered by the Federal Government to be used for tract deletion decisions. Interior will instead rely on broader based regional geohazards studies for making presale decisions and will require lessees to furnish tract specific geohazard information

prior to approval of exploration, development, or production plans. USGS will use both the regional and tract specific geo-hazard information when evaluating both type of plans during the post-lease stage.

According to Interior, the above modifications recognize that the lease sale is only one of many decision and control points leading to exploration, development, and production. Interior believes it is neither feasible nor necessary to have a comprehensive understanding of all the possible environmental and multiple-use conflicts of the entire sale area prior to a lease offering.

Hydrocarbon resource assessments have also been modified to accommodate the area-wide offerings required under the revised program. Under the current system, detailed analytical work on resource estimates used for EIS preparation is done after tentative tract selection. The revised process will use existing broad based USGS hydrocarbon estimates for the entire geologic basin, or basins, for a planning area to prepare an area-wide EIS. The area evaluated in the EIS will be one for which USGS has already estimated the hydrocarbon resources; USGS will not make any further sale area estimates for the purposes of the EIS. Since "on-the-shelf" resource data is used, this information will be available before a call for information is issued and as soon as it is needed for EIS purposes. Therefore, much of the analytical work can begin earlier than under the current process.

Economic tract valuations to assure fair market value

The revised 5-year OCS program requires a change in the approach used to assure receipt of fair market value for leased lands. Under the current process, a detailed economic valuation is prepared for every tract offered for lease. This value is then used to determine if the high bids received should be accepted or rejected. Use of this system is no longer practicable, however, because the significant increase in the number of tracts that will be offered under the area-wide concept will likely far exceed Interior's ability to prepare these presale tract-specific valuations. Current valuative techniques are manpower intensive. To value each tract under the area-wide offering concept would require extensive amounts of skilled personnel--personnel who are in short supply and, according to USGS, hard to attract and retain in Government service.

An alternative system that will allow tract valuations to be done on a selective basis after the sale is now being considered by Interior. This change is being proposed in order to prevent unnecessary expenditure of limited Government funds and staff on offered tracts which do not receive bids. Furthermore, Interior plans to perform a detailed economic valuation on only selected tracts. The exact procedures for selecting tracts to be valued is still under consideration by Interior; however, the general concept is to accept the high bid on tracts where there is thought

to be adequate competition (Interior has suggested three or more bids would constitute adequate competition) and selectively value all other tracts using a sampling technique. Regardless of the bids received, Interior plans to evaluate all drainage tracts and tracts containing known hydrocarbons. The details of how this new concept will be actually implemented had not been finalized by the conclusion of our review.

Timing of steps in the presale process

Interior believes that additional procedural changes can also be made in the timing of steps in the presale process. Significant recommendations to aid in streamlining the process include

- shortening the time frame for the EIS process to approximately 13 months, mainly by shortening the time frame to prepare the draft EIS to 8 months (see table 4);
- publishing the proposed notice of sale in the same month as the final EIS; and
- scheduling the Department of Energy's review of sale lease terms so it is concurrent with State government sale reviews.

The proposed presale streamlining initiatives are expected to reduce the typical time required to plan a sale to about 21 months.

Post-lease permitting

Earlier exploration and development of OCS leases will require timely acquisition of necessary drilling permits. After a lease is awarded, the lessee must submit plans and secure permits before conducting exploration, development, or production activities on the lease. Interior is proposing to shift to post-lease--after a lease sale--the need for tract-specific environmental and geohazard data needed for evaluating permit applications and approving required plans. This has been done in order to focus on only those specific areas where drilling is planned and to more closely tie exploration and development information needs to relevant post-lease decision points requiring such levels of detail. It is expected that the burden of providing requisite environmental and geohazard data will be shifted to industry and, as a result, will be more economical and efficient for all concerned since the focus is only on tracts leased and not on the total universe of tracts offered for lease.

Current status

The Department is now in the process of proposing changes to regulations governing its presale and post-lease management

activities. On September 14, 1981, the Secretary told the Subcommittee on the Panama Canal and the Outer Continental Shelf, House Committee on Merchant Marine and Fisheries, that all of the steps currently being considered for streamlining could be achieved administratively. He said legislative changes to the OCS Lands Act were not needed but that the Department does intend to revise some of its OCS regulations in line with the proposed procedural changes. We were told that regulatory changes covering prelease activities have been drafted by the Department but are not expected to be published until December 1981. Requisite changes of departmental and Bureau administrative practices and procedures needed to fully implement the revised program are, for the most part, still being developed. They are not expected to be completely finalized until 1983, according to departmental agendas we reviewed. As will be discussed in chapter 4, the lack of details at this time as to how streamlining will be implemented and administered, raises the issue of whether the program will eventually result in increased offshore leasing and development as planned by the Administration.

REVENUES PROJECTED TO INCREASE

The program generates substantial revenues

A major goal of the OCS program from its beginning in 1953 was to ensure that the Government received a fair and equitable monetary return on OCS activities--referred to as fair market value (FMV). Through competition for leases between oil and gas companies (bonus bids), royalties from the oil and gas produced, and rental payments on leased land, revenues generated from OCS activities have totaled over \$41 billion from the beginning of the program in 1953 through the end of 1980. About 75 percent of the \$41 billion has been bonus money received through the competitive bidding process--bonus money paid by a company, over and above rents and royalties, to gain the exploration and development rights for a lease. Revenues for the past several years, as shown in table 6, have increased significantly when compared to the early years of the program. It is also significant to note the increase in bonus money in 1973 and 1974. These increases coincide with the major initiatives by the Nixon Administration to accelerate offshore leasing.

Table 6

OCS Revenues
1953 - 1980 (note a)

(billions)

<u>Year</u>	<u>Bonuses</u>	<u>Royalties</u>	<u>Rents</u>	<u>Total</u>
1953-1971	<u>4.47</u>	<u>1.87</u>	<u>.11</u>	<u>6.45</u>
1972	2.25	.36	.01	2.62
1973	3.08	.40	.01	3.49
1974	5.02	.56	.01	5.59
1975	1.09	.62	.02	1.73
1976	2.24	.70	.02	2.96
1977	1.57	.92	.02	2.51
1978	1.77	1.15	.02	2.94
1979	5.08	1.52	.02	6.62
1980	<u>4.20</u>	<u>2.14</u>	<u>.02</u>	<u>6.36</u>
	<u>26.30</u>	<u>8.37</u>	<u>.15</u>	<u>34.82</u>
Total 1953-80	<u>30.77</u>	<u>10.24</u>	<u>.26</u>	<u>41.27</u>

a/Does not include (1) minimum royalty payments and (2) shut-in gas well payments totaling about \$35.5 million.

The revenue aspects of the offshore program have been controversial for some time. According to a 1973 National Science Foundation funded report, 1/ Interior's policy during the earlier leasing years was one of pacing OCS development at a low rate to keep demand for leases high, thus keeping bonuses high. We reported in the past that the needs of the Bureau of the Budget (now the Office of Management and Budget) to generate revenues for the Treasury heavily influenced leasing decisions. 2/

The oil industry maintains that the Government has reaped the lion's share of the dollar value of hydrocarbons produced on the offshore to date. On the other hand, others maintain that the

1/"Energy Under the Oceans," The Technology Assessment Group Science and Public Policy Program, University of Oklahoma, June 1973.

2/"Outlook For Federal Goals to Accelerate Leasing of Oil and Gas Resources on the Outer Continental Shelf," RED-75-343, Mar. 19, 1975.

Government is not receiving a fair value from OCS activities because the bonus bidding system used in the past stifles leasing competition. That is, the tremendous amount of money needed to obtain a lease limits the number of tracts firms can bid on and also limits small company participation in offshore sales. Furthermore, emphasis on the bonus bid, combined with a low royalty, precludes the Government from obtaining the full economic benefits of any downstream hydrocarbon discoveries. Those following this latter line of thinking generally favor a bidding system which places emphasis on sharing the economic benefits of future discoveries rather than emphasizing bonus bids or up-front money.

Impact of the new program
on leasing revenues

Offshore revenues are expected to increase under Interior's new leasing program over what was estimated under the June 1980 program. Indications are that the need to generate revenues was a consideration in developing the new leasing proposal; however, because we were not given access to OMB files we were unable to clearly and specifically determine the extent that the need for revenues impacted program decisions. OMB provided us general information on OMB's involvement in the OCS program, leasing decisions, and revenue estimates in a telephone interview. (OMB would not grant a face-to-face interview nor allow us access to its OCS files. We were told that this was Presidential information and if we pursued the matter we would be denied access on Executive privilege grounds. Our denial was reported to the requesting Committee staffs at which time we were told to await guidance from the Committees before pursuing the matter further.)

The Carter Administration's 1982 fiscal year budget submitted to Congress in January 1981 estimated OCS revenues for 1981-84 as follows:

Carter Administration Estimates
of OCS Revenues - 1981 to 1984

(billions)

<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
<u>\$7.8</u>	<u>\$9.9</u>	<u>\$9.9</u>	<u>\$9.9</u>

The Reagan Administration in both policy and budget guidance issued in early 1981 emphasized accelerated mineral leasing as a major goal of the Administration--the OCS being a major area for increased leasing. While the major emphasis in these announcements was on exploration and production, reference was also made in a lesser vein to the revenue and budgetary impacts of additional leasing. A February policy paper showed the following

estimates of increases in revenue expected from increased mineral leasing. ^{1/}

Estimated Revenues from
Mineral Leasing (note a)

(billions)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Carter program	9.26	10.9	10.8	10.9	11.0	11.1
Increases due to Reagan policy changes	<u>.25</u>	<u>.8</u>	<u>2.0</u>	<u>3.1</u>	<u>3.5</u>	<u>3.5</u>
Total	<u>9.51</u>	<u>11.7</u>	<u>12.8</u>	<u>14.0</u>	<u>14.5</u>	<u>14.6</u>

^{a/}Adapted by GAO for presentation purposes.

The above amounts reflect revenues for all mineral leasing, i.e., coal, oil shale, on-shore oil and gas not just offshore revenues. OMB refused to provide us detailed data on how those estimates were developed, thus we were unable to determine the amounts attributable to OCS activities only.

In March 1981, revisions to the previous Administration's fiscal year 1982 Interior Department budget were summarized and provided to the Congress. Revisions to Interior's offshore budget together with revisions to the OCS revenue estimates were highlighted. The summary stated that oil price decontrols and the greater leasing expectations assumed through accelerated leasing initiatives resulted in estimated OCS receipts being revised upward from \$7.8 to \$9.6 billion for fiscal year 1981 and from \$9.9 to \$11.0 billion for fiscal year 1982. No estimates were provided for fiscal years 1983-86.

Information from Interior records shows that the fiscal year 1981 increases resulted from a combination of (1) adjustments to the OCS accounts, (2) assumed increases in royalties, and (3) anticipated increases in bonus money through increased leasing. Increases for fiscal year 1982 were, as shown below, solely attributable to increased royalties and leasing bonuses.

^{1/}See White House report entitled "America's New Beginning: A Program for Economic Recovery," Office of the President of the United States, Feb. 18, 1981, pp. 4-36 and 4-37.

March 1981 Administration
Revision of OCS Revenue
Estimates For FY 1981-82

(millions)

	<u>FY 1981</u>	<u>FY 1982</u>
Carter budget	<u>7,801</u>	<u>9,900</u>
Reagan budget revisions		
Accounting Corrections		
. Correction of Sale 62 receipts	551	
. Deposits from Sale A62 made in FY 1981	561	
. Account entry corrections	(18)	
Royalty increases	472	435
Increased tract leasing	<u>250</u>	<u>700</u>
Total revisions	<u>1,816</u>	<u>1,135</u>
Revised program revenue estimates	<u>9,617</u>	<u>11,035</u>

According to an Interior official, revenues were again re-estimated in May 1981. The fiscal year 1981 estimates increased by about \$42 million and the fiscal year 1982 estimates increased about \$231 million. These later revisions, however, indicated increased bonus monies and lesser royalty revenues than the earlier revisions.

May 1981 Revisions of
FY-1981-82
OCS Revenue Estimates

(millions)

<u>FY 1981</u>	<u>March 1981</u>	<u>May 1981</u>	<u>Difference</u>
Bonuses and Rents	6,204	6,859	655
Escrow Releases (note a)	218	100	(118)
Royalties	<u>3,195</u>	<u>2,700</u>	<u>(495)</u>
Total	<u>9,617</u>	<u>9,659</u>	<u>42</u>
<u>FY 1982</u>			
Bonuses and Rents	6,544	7,672	1,128
Escrow Releases	94	94	-
Royalties	<u>4,397</u>	<u>3,500</u>	<u>(897)</u>
Total	<u>11,035</u>	<u>11,266</u>	<u>231</u>

a/Section 8(g) of the OCS Lands Act provides for the sharing of Federal revenues from Federal tracts overlying hydrocarbon deposits common to both Federal and State offshore lands. If the Secretary of the Interior and the Governor of the affected State cannot agree on a revenue sharing formula, the revenues from the tract are placed in an escrow account until agreement can be reached. As of September 1981, revenues in escrow totaled about \$3.3 billion.

The revised 1982 bonus revenue estimates reflect (1) the addition of a North Atlantic and a Norton Basin sale (\$2,250 million and \$422 million, respectively), and (2) the rescheduling of a Gulf of Mexico sale to fiscal year 1983 (\$1,556 million). OMB reduced its estimate of additional bonus revenues that would result from anticipated increased 1982 leasing activity--not sale specific--from \$700 to \$550 million in the May estimates. Interior told us that it was not aware of how OMB arrived at the new estimate.

Development of estimates

Both Interior and OMB officials we interviewed maintained that the quest for revenues was not a driving force in developing the new offshore leasing program. OMB's March 18, 1981, budget guidance to Interior makes no direct mention of increasing Federal revenues through either accelerated mineral or OCS leasing,

although it does emphasize the Administration's goal to reduce Government spending and balance the budget. As stated earlier, because we were precluded from reviewing OMB files on the subject, and were not allowed access to papers and documents reflecting the activities of the Cabinet Council on Natural Resources and Environment, we were unable to clearly determine the extent OCS revenues were considered in developing the new leasing program.

According to Interior, estimates of OCS revenues are developed through an analysis of the yearly sale schedule and several leasing factors. For example, bonus estimates are developed for each sale based on past leasing in the sale area. Estimates are made of (1) the acreage to be offered, (2) the likely acreage to be leased, (3) the likely dollar per acre bid, and (4) the revenue impact of using alternative bidding systems. A review of Interior's estimates for fiscal years 1981 and 1982 sales showed that the bonus receipts anticipated through the use of the bonus bid-fixed royalty bidding system were reduced by 24 percent to compensate for the use of alternative bidding systems required by the OCS Lands Act Amendments of 1978--for fiscal year 1982, Interior's estimates showed this reduction to be about \$2.3 billion. Individual sale estimates are then totaled by year to arrive at a yearly estimate.

Royalty estimates are developed by the USGS based on projected oil and gas production estimates and estimated hydrocarbon selling prices. Deductions in these estimates are made to account for the impact of the windfall profits tax.

Rents from leased lands are somewhat minimal in comparison to bonuses and royalties. Rents are developed by BLM using estimates of the land that will be under lease in a given year multiplied by the three dollar per acre rental price.

Interior's estimates are then provided to OMB where they are reviewed and compared with OMB's own estimates. Again, OMB would not discuss the details of how it reviewed Interior's estimates nor how it prepared their estimates. All we were told was that OMB has no sophisticated system for making revenue estimates and that, contrary to our past reports, revenue has never been the driving force behind the OCS leasing program.

CHAPTER 3

CHRONOLOGY OF EVENTS IN THE DEVELOPMENT OF THE PROPOSED NEW LEASING PROGRAM

The Reagan Administration's recently proposed changes for accelerating and streamlining the June 1980 5-year OCS leasing program are now in the mid-stages of the review and approval process required under the OCSLAA. The required annual review of the 5-year OCS leasing program began in December 1980 under Secretary of the Interior Andrus and ended with Secretary Watt's February 1981 decision to develop a new program which would offer larger areas of the OCS for lease sooner than the present program. Our review of the Interior's administrative record, and other information provided to us by departmental officials, showed that the redesign of the leasing program appears to have been done within Interior with little or no input from other Federal agencies and only minor consideration of input from the public sector. The new program reflects the Administration's policy decision to accelerate mineral leasing more than it reflects the comments received through the public participation and review process, begun in December 1980, to reapprove the June 1980 leasing program.

Internal administration delays and an October 6, 1981, court decision in which Interior was found to have erred in developing the June 1980 leasing program, has upset Interior's planned schedule for completing the review of the program and issuing an approved leasing schedule. Interior estimates that mid-1982 would probably be the soonest the program could be approved. Uncertainties associated with complying with the recent court decision could, however, extend approval further into 1982. Thus, at this time, no one can predict with any certainty when the proposed program will be finally approved.

LEGISLATIVE REQUIREMENTS

The 1953 OCS Lands Act authorizes the leasing of OCS lands and provides the Secretary of the Interior with general guidelines for managing and leasing OCS resources. The 1978 Amendments provided the first comprehensive national policy for the exploration and development of OCS oil and gas resources, requiring that such activities be balanced with respect to potential environmental impacts, the concerns of affected State and local governments, free enterprise competition, and other national needs.

Section 18 of the OCSLAA directs the Secretary of the Interior to prepare and maintain an OCS oil and gas leasing program to implement the Act's policies. The program is to be reviewed annually and consists of

--a schedule of proposed lease sales which indicates, as precisely as possible, the size, timing, and location

of leasing activity which the Secretary determines will best meet national energy needs for the 5-year period following its approval or reapproval; and

- estimates of the appropriations and staff needed to meet requisite pre- and post-lease management responsibilities in a manner consistent with the principles and procedures set forth in the amended OCS Lands Act.

In developing or revising the 5-year schedule, the Secretary is directed to consider various factors, including

- an equitable sharing of developmental benefits and environmental risks among regions;
- other uses of the OCS including fisheries, navigation, sealanes, and deepwater ports;
- interests of potential oil and gas producers; and
- the environmental sensitivity and marine productivity of different OCS areas.

Procedures for reviewing and reapproving or revising the 5-year OCS leasing program are also provided for in section 18 of the OCSLAA. Any proposed changes to a 5-year lease schedule which are considered to be significant must be developed and implemented in accordance with the original program approval process described in the Act. This process is complex and time consuming since it requires soliciting comments from State and local governments, the private sector, and interested Federal agencies. After receiving and considering comments, Interior is required to balance the multiple uses of the OCS in a manner consistent with the purposes and provisions of the Act and numerous other laws governing or impacting OCS activities.

The June 1980 schedule was the first program to be prepared in accordance with the section 18 provisions of the OCSLAA. The April 1981 (draft proposal) and the follow-on July 1981 proposed programs are the first attempts to revise and reapprove a leasing program under the Act.

ANNUAL REVIEW BEGAN IN DECEMBER 1980

In December 1980, the Department of the Interior invited comments and suggestions on the possible revision or reapproval of the June 1980 5-year OCS oil and gas leasing program, triggering the annual review process. During the period December 22-24, 1980, Interior sent information request letters to the Governors of the 23 affected coastal States and to the Departments of Justice, Commerce, and Energy. On December 31, a request for

comments was published in the Federal Register. The due date for providing a response was February 2, 1981.

The information provided to the Department in response to the request for comments resulted in several documents being prepared for the Secretary's review. They were

- a February 4, 1981, summarization of the comments received from the December solicitation for information prepared by the Department's OCS Program Coordination Office;
- a February 6, 1981, memorandum from the Deputy Assistant Secretary for Policy, Budget and Administration transmitting the 37 responses received, together with the above summary and two staff papers on ways to streamline the lease process--one jointly prepared by BLM and USGS, and the other by the OCS Coordination Office; and
- a February 9, 1981, memorandum from the Deputy Assistant Secretary for Policy, Budget and Administration transmitting seven additional responses received after February 4 which were not incorporated in the earlier summary provided to the Secretary.

The brief, two-page summary of the 37 responses received as of February 4 provided the following information.

- Twelve responses were from State officials. All but two recommended no change in the timing of sales in the June 1980 schedule. Alaska and California recommended the deletion and deferral of certain sales off their coasts. Several States expressed concern about the adequacy of the Department's environmental studies program.
- Industry responses were provided by 10 companies and one industry association. All indicated general satisfaction with sales scheduled outside Alaska but expressed differing opinions on whether to accelerate or increase sales in high potential Alaskan areas. None wanted the leasing pace slowed but some expressed concern regarding industry's ability to participate in a significantly accelerated Alaskan program.
- Six environmental organizations commented. Their recommendations included delaying leasing in the North Atlantic and off Central and Northern California, the deletion of specific California basins, and the delay or deletion of some Alaskan sales.
- Seven other respondents--one a Federal agency--took exception to the June 1980 schedule. Commentors representing Alaskan local governments and native

associations called for sale delays or deletions; a community action group recommended delaying the entire Alaskan program; and the National Oceanic and Atmospheric Administration advocated a delay in Georges Bank leasing and the deletion of some Alaskan sales.

--The Department of Energy recommended significant revisions of the program to increase acreage offered and earlier entry into promising new areas. The position is consistent with the agency's November 1980 report on reducing U.S. oil vulnerability 1/ which also recommended streamlining the permitting process.

The seven responses received after February 4 also reflected a lack of consensus and provided the following information.

--Three were from State officials. They emphasized the importance of Federal consistency with State coastal management programs and called for a restructuring to streamline the lease process and to expedite leasing the highest quality acreage. One recommended an increase in the number of sales and another the importance of adhering to the OCSLAA to avoid delays and unnecessary litigation.

--One from an oil company expressed general satisfaction with the schedule but recommended several delays and an addition in the Alaskan schedule so as to integrate State and Federal sales--both onshore and offshore.

--An environmental group reiterated concern it expressed in testimony and in legal actions and called for a full public review of any sale added to the schedule.

--Comments from an Alaskan industry association and a native group called for delaying Alaskan sales to allow time for development of a State coastal management program and for the proper balancing of developmental impacts on the fishing industry--particularly Bristol Bay's world class fishery.

1/"Reducing U.S. Oil Vulnerability - Energy Policy for the 1980s" DOE/PE-0021, an analytical report to the Secretary of Energy, prepared by the Assistant Secretary for Policy and Evaluation, U.S. Department of Energy, Nov. 10, 1980.

On February 13, 1981--11 days after the receipt of the initial 37 responses to the December request for comments on changing the program--Secretary Watt issued his decision to revise the program. In a brief memorandum to the Solicitor, the Assistant Secretaries, and the Directors of the BLM, USGS, and Fish and Wildlife Service, the Secretary directed that necessary steps be taken

- to develop new program options which place greater emphasis on early entry into areas of high potential, and
- to identify ways to streamline presale preparations, accomplish necessary analytical steps more efficiently, and increase acreage offerings.

The Assistant Secretary for Policy, Budget and Administration was assigned responsibility for preparing a calendar of revision steps and critical action dates for completing this effort by the end of 1981. A detailed chronology of planned versus achieved milestones in response to the initiative is shown in appendix IV.

Our analysis of the events taking place in late January and early February 1981 indicates that the main force behind the decision to substantially revise the program is more closely connected to the general policies and philosophies of the newly-elected Administration than to the comments received in response to the annual review process discussed above. For example, revision of the 5-year OCS oil and gas leasing schedule is an integral part of the President's plan to accelerate the leasing of mineral resources on Federal lands. 1/

The plan announced on February 18, 1981--5 days after Secretary Watt's decision to revise the OCS schedule--requires that the program be revised as quickly as can be done in accordance with the requirements of the OCS Lands Act, as amended, while preserving adequate protection of environmental values and the public's proprietary interest. Major objectives of the revision are

- a substantial increase in the rate (i.e., size and timing) of OCS leasing; and
- streamlining of the program to shorten the sale preparation process and to shorten the time required to start exploration drilling in all OCS areas.

Interior's action is also consistent with the recommendations of the Heritage Foundation whose October 15, 1980, report commented

1/See White House report entitled "America's New Beginning: A Program for Economic Recovery," Office of the President of the United States, Feb. 18, 1981, pp. 4-36 and 4-37.

that the June 1980 leasing program was too timid and not adequate. The report recommended that a new leasing schedule be issued within 30 to 60 days if there was to be an immediate and lasting impact on OCS production. 1/

REVISION PROCESS STARTED
in MARCH 1981

In accordance with the Secretary's February 13, 1981, directive, a decision package was transmitted to the Secretary on March 24, 1981, providing options for revising and reapproving the 5-year leasing program. Documents in the package explained the reapproval process required for changes called for in the Secretary's February 13 directive which Interior's Solicitor said were significant and subject to the full consultation procedures under section 18 of the OCS Lands Act, as amended. It included

- a schedule of options for years 1982 through 1986 consisting of the current schedule and a core option alternative with possible modifications reflecting the changes directed by the Secretary;
- a map of proposed new boundaries for Alaskan planning areas to more clearly separate geologic provinces;
- a discussion of the requirements to be followed under section 18 of the OCSIAA;
- a detailed summary of all the comments provided to the Department during the annual review process described earlier;
- a staff paper entitled "Assuring Receipt of Fair Market Value," which discussed the meaning of FMV, reviewed departmental policies for meeting the FMV requirement, and analyzed the way sale scheduling (i.e., the size, timing and location of lease sales) can affect its receipt; and
- the final environmental statement for the 5-year lease schedule developed under Secretary Andrus.

The package also discussed proposed new sale preparation procedures--essentially the streamlining options proposed during the prior administration--needed to modify the leasing program to accelerate sales and offer larger OCS areas.

1/Mandate For Leadership, Project Team Report For the Department of Interior. Oct. 15, 1980 pgs. 67, 69.

On March 27, 1980, the Under Secretary of the Interior announced the decision to adopt the core option, modified by the addition of an Alaskan sale and new Alaskan planning areas, as the draft proposed program. According to the departmental memorandum supporting the decision, the core option was supported by USGS and BLM and provided for

- streamlined sale preparation;
- earlier first entry into areas of high potential;
- earlier re-entry into promising areas;
- a steady pace of leasing off the lower 48 States; and
- an annual reoffering sale.

Our discussions with various agency officials indicated that the revision of the program was essentially an Interior undertaking with little or no input from non-Interior groups. For example, subsequent to the establishment of DOE, a Leasing Liaison Committee was established as a coordinating focal point between the Departments of Interior and Energy. According to DOE officials, neither DOE nor the Leasing Liaison Committee had a role in the redesign of the leasing program. According to Interior, the Committee has not met since October 2, 1980. OMB officials also told us that they had no role in redesigning the program. OMB officials denied us access to its OCS files (see p. 23); thus, we were unable to document whether they were involved or not. We also contacted Cabinet Council on National Resources and Environment officials to determine the role played by the Council in redesigning the program. We were told that discussion on the revised program had not been a planned agenda topic at the Council meetings during the review and revision period. The only time it was discussed was when it was added to a meeting agenda in which California Sale 53 was to be reviewed. Again, as with OMB, we were denied access to the agendas and minutes of the Council. Thus, we could not document the extent the Council was involved in the program revisions. However, our review of Interior files and documents pertaining to the revision of the program showed no evidence of major involvement by other Federal agencies in redesigning the program.

On April 10, 1981, the Secretaries of the Interior and Energy jointly announced a new draft proposed leasing program. Following the announcement, comments were requested on the draft from the Governors of the affected States and the general public. The deadline for receiving comments was initially set for May 11, 1981, but was later extended by Federal Register notice to May 26, 1981.

Comments provided in response to the above announcements were part of the decision package used by the Secretary in developing the proposed 5-year OCS lease schedule announced by Interior

in July 1981. The almost 100 letters received by the Department, which expressed a divergence of opinion on the draft proposed lease schedule and the streamlining of the lease process, were described and analyzed in a June 15, 1981, Secretarial decision memorandum prepared by the Deputy Assistant Secretary for Policy, Budget and Administration. It was submitted to the Secretary as part of a June 19, 1981, decision package that also included the comments and recommendations of departmental policy officials. The memorandum contained

- eight alternative schedule options and maps of OCS planning areas;
- a detailed summary of comments and responses received on the draft proposed program;
- a discussion paper on assuring the receipt of fair market value;
- A discussion on the size, timing, and location of sales;
- initial estimates of appropriations and staff needed to accommodate the revised leasing program; and
- the June 1981 draft supplemental environmental impact statement on the 5-year leasing program which was made available for public review and comment in a Federal Register notice dated June 10, 1981.

Several decision options were covered in the draft supplemental environmental impact statement and were provided for the Secretary's consideration. In addition to the April 1981 schedule, three additional accelerated leasing options were proposed. An option to continue to hold sales according to the June 1980 schedule, and an option to extend the June 1980 schedule through 1986 at the current pace of leasing were also included.

On June 22, 1981, the Under Secretary made the decision to adopt a slightly modified version of the April 1981 draft as the proposed program. The changes proposed modified the timing, location, and designation of several sales in order to

- allow for operating conditions and the completion of stratigraphic test well drilling programs off Alaska;
- provide three Gulf of Mexico sales annually after 1982, rather than two;
- delete reoffering sales after 1982;
- substitute a second Navarin Basin sale in place of a sale previously scheduled for the St. Matthew Hall area; and

--designate California sales according to specific planning area.

The Department of the Interior announced the proposed program in a July 15, 1981, press release. On July 24, 1981, the proposed program was submitted for review and comment to the Congress, the Attorney General, and Governors of affected States in accordance with section 18 (c)(3) of the OCSLAA. On July 31, 1981, it was sent to the Chairmen and Ranking Minority Members of cognizant House and Senate Committees, and it was published in the Federal Register to invite public comment. Deadline for receipt of comments was October 22, 1981. Because of time constraints we were unable to review the comments submitted in response to this notice.

CURRENT STATUS OF DEVELOPMENT

The statutorily mandated reapproval process to put in place a new 5-year OCS leasing program will not be completed by the end of 1981 as originally scheduled. Administrative delays in reviewing and analyzing comments on the draft program proposal and a recent court decision more specifically defining how the section 18 requirements of the OCSLAA are to be met have extended the initial estimates to at least mid-1982. These delays appear indicative of the complexity associated with making the changes proposed.

The law requires several more steps before the revised 5-year program can become final. It cannot be approved by the Secretary until 60 days after a proposed final program is submitted to the President and the Congress together with

- any comments received from the Attorney General on the anticipated effects of the proposed program upon competition;
- comments and recommendations provided by any State, local government, or other person as to any aspect of the proposed program; and
- an indication why any specific recommendation of the Attorney General or a State or local government was not accepted.

In September 1981, the Department revised its agenda for completing the revision of the 5-year program from the end of 1981 to March 12, 1982. It now appears, however, that a recent court opinion based on a legal challenge to the June 1980 schedule (see chapter 6) could cause a delay. On October 6, 1981, the U.S. District Court of Appeals for the District of Columbia ruled on a suit brought against the previous Secretary of the Interior which charged that the June 1980 leasing program had not been developed in compliance with section 18 of the OCSLAA. The court ruled in favor of the plaintiffs remanding the program to Interior with instructions that the findings of the court be considered

in developing the new program. Interior officials said that about 3 months of analytical work will be required to comply with the court's requirement. The relief provided by the court included the requirement that after these changes are made, a proposed program be provided for public comment in accordance with section 18 (c)(3)--which in effect is a recycling of the program through the 3-month review process completed on October 22, 1981. Interior contends that the needed program changes can be made in the final proposal review process, thus avoiding the recycling action, and has asked the court for clarification on the relief granted. Thus, the program could be brought back on track in as little as 3 months, or it may be delayed up to 6 months. Interior officials cautioned, however, that additional delay could be incurred if the adequacy of Interior's action to comply with the courts ruling is challenged--i.e., another lawsuit.

Given the uncertainty of the recent developments, it is difficult to predict when the new leasing program will be finally approved--mid-1982 would probably be the earliest date possible.

CHAPTER 4

INTERIOR'S ABILITY TO ACCOMMODATE

THE PROPOSED PROGRAM

Interior's 5-year OCS leasing program has been submitted to the Congress together with the agencies estimates of appropriations and staff needed to accommodate the program. Interior estimates show the proposed program costing \$42 million less--a 5.6-percent reduction--and being accomplished with about 948 fewer staff years--an 11-percent decrease--than the June 1980 5-year program, even though leasing will be accelerated under the new program.

Interior has not detailed how simultaneous reductions of program funding and staffing and implementation of its expanded leasing program will be accomplished. Further, Interior has not fully evaluated all likely impacts of the program, especially the impacts in terms of additional land expected to be leased, industry competition and small company participation in lease sales, long-range revenue receipts, and the impact on the economy. Neither has Interior assessed the ability of State and local governments to participate in OCS decisionmaking under the new program nor has Interior examined the use and impact of alternative bidding systems in the program.

We believe that it is important that Interior have the ability to administer the new program in an efficient and timely manner and be able to deliver "clean leases," i.e., leases free of litigation for which permits for exploration and development can be obtained without problems.

PROGRAM COSTS AND STAFFING ESTIMATES QUESTIONABLE

Under section 18(b) of the OCSLAA, the Department of Interior is required to estimate for the Congress the dollar and full-time permanent positions (FTP) needed to support a revised or new leasing schedule. Summarized in table 7 are the estimates submitted to the Congress on July 24, 1981, in support of the new leasing program.

The estimated dollars and personnel reflect resources needed to support only those sales on the schedule, as opposed to what it costs Interior to run the OCS program on a yearly basis. For example, planning cost incurred in 1985 or 1986 for sales to be held in 1987 would not be included in the cost estimates submitted to the Congress for the proposed program. The same holds true for the June 1980 program estimates, i.e., planning costs for late 1985 and 1986 sales would not be included in the 1984 and 1985 estimated costs. Thus, it is difficult to make year-by-year comparisons between the current and newly proposed program.

Overall comparisons, however, in terms of a total 5-year program cost as well as a yearly average cost are possible. Table 8 shows this comparison.

Table 7

Estimated Appropriation and Staff Requirements for
Proposed 5-Year OCS Leasing Program (note a)

Activity	<u>FY 1982 (note b)</u>		<u>FY 1983</u>		<u>FY 1984</u>		<u>FY 1985</u>		<u>FY 1986</u>	
	<u>Million (note c)</u>	<u>FTP</u>	<u>Million</u>	<u>FTP</u>	<u>Million</u>	<u>FTP</u>	<u>Million</u>	<u>FTP</u>	<u>Million</u>	<u>FTP</u>
Collection of resource information and Valuation of tracts	\$ 43.93	603	\$ 46.53	679	\$ 50.03	714	\$49.83	712	\$48.33	693
Interpretation of exploratory data	2.50	3	2.50	3	2.50	3	2.50	3	2.50	3
Environmental statements and studies	45.90	225	47.30	243	50.90	249	30.70	234	31.40	224
Supervision of lease operations	33.00	420	31.10	394	32.90	415	34.80	425	36.80	435
General administrative activities	<u>15.10</u>	<u>189</u>	<u>16.00</u>	<u>193</u>	<u>16.50</u>	<u>207</u>	<u>13.90</u>	<u>202</u>	<u>12.10</u>	<u>192</u>
	<u>\$140.43</u>	<u>1,440</u>	<u>\$143.43</u>	<u>1,512</u>	<u>\$152.83</u>	<u>1,588</u>	<u>\$139.73</u>	<u>1,576</u>	<u>\$131.13</u>	<u>1,547</u>

a/Estimates do not include costs of studies, operations, assessment and administrative costs incurred during 5-year period for sales which will be held after December 1986.

b/Reflects proposed reprogramming of the FY 1982 Budget now being considered by the Congress.

c/Full-time permanent positions.

Table 8

Comparison of Total and Average Yearly
Costs and Workload Between the
June 1980 and July 1981 Schedules

	<u>June 1980 schedule</u>	<u>July 1981 schedule</u>	<u>Reduction in June 1980 program estimates</u>
<u>Dollars (millions)</u>			
Total 5 years	\$749.6	\$707.6	\$ 42.0
Average per year	149.9	141.5	8.4
<u>Staffing (FTP)</u>			
Total 5 years	8,611	7,663	948
Average per year	1,722	1,533	189

The table shows that Interior has estimated that it will run the new accelerated leasing schedule over a 5-year period with \$42 million less than was estimated in the June 1980 schedule--about a 5.6-percent reduction--as well as a workload reduction of 948 full time positions (FTP)--11 percent less than in the current program. This averages to approximately \$8.4 million less per year and 189 less personnel per year. At the same time, Interior is planning to offer more and faster sales, primarily in frontier areas.

In commenting on the new estimates, Interior officials told us that in late April 1981, when the program offices were asked to develop cost and staffing estimates for the new program, the Department did not have a precise definition of how the streamlining concept would work. Although there was a general concept in place, the details of precisely how this concept would translate into specific work tasks was not decided. In addition, there was no definition of how the revised schedule and streamlining would actually impact on leasing, i.e., the Department had no estimates of how much land would be leased under the new program. In our review, we also noted that the estimates were developed in a relatively short time frame--between April and July 1981. Despite the uncertainties in the program existing at this time, Interior officials told us that based on their professional judgments the estimates continue to represent adequate funding and personnel to carry out the program.

Our analysis of the 5-year program estimates indicated that the estimates for the initial year of the program, 1982, are basically the estimates proposed by the prior Administration for fiscal year 1982, less the program cuts made by the new Administration. As shown in table 9, the Administration's March 1981 revision to the prior fiscal year 1982 estimates amounted to

Table 9

Comparison of FY 1982 Estimates
for 5-Year OCS Program
(million dollars)

Activity	Carter Administration FY 1982 Budget	Reagan Administration's March 1981 Revisions		Estimates submitted to Congress in July 1981	Further reductions in October 1981		Total reductions	
		Decrease	New Estimate		Decrease	Current estimates	Decrease	Percent reduction
Collection of resource infor- mation and valua- tion of tracts	\$52.98	\$ 9.5	\$ 43.48	\$ 43.93	-	\$ 43.93	\$ 9.05	17.1
Interpretation of exploration data	2.50	-	2.50	2.50	1.00	1.50	1.00	40.0
Environmental studies and statements	55.90	10.0	45.90	45.90	-	45.90	10.00	17.9
Supervision of lease operations	33.00	-	33.00	33.00	6.40	26.60	6.40	19.4
General adminis- trative activities	<u>14.10</u>	-	<u>14.10</u>	<u>15.10</u>	<u>.94</u>	<u>14.16</u>	<u>(.06)</u>	(0.5)
Total	<u>\$158.48</u>	<u>\$19.5</u>	<u>\$138.98</u>	<u>\$140.43</u>	<u>\$ 8.34</u>	<u>\$132.09</u>	<u>\$26.39</u>	16.7

\$19.5 million--a \$10-million reduction in the environmental studies program area and a \$9.5-million reduction in resource data collection activities. The estimates submitted to the Congress in July 1981 in compliance with section 18(b) of the OCSLAA are almost the same as the March 1981 estimates. Further budget revisions of \$8.34 million were made in October 1981 in response to a second round of budget cuts. One million dollars was trimmed from the resource data interpretation program, \$6.4 million was cut from lease supervision operations (i.e. post-lease management activities) and the program's general and administrative costs were reduced by about \$1 million.

Overall, the new Administration has trimmed the prior Administration's fiscal year 1982 program funding by about \$26.4 million--a 16.7-percent reduction. About 34 percent of the reductions can be directly tied to streamlining--\$9.05 million for tract economic valuations used in the bid acceptance process. A direct correlation between the other reductions is not as clear. For example, the \$10-million reduction (over 37 percent of the total) in the environmental area is generally attributable to reductions in the Department's environmental studies program--not specifically the preparation of sale specific environmental impact statements. It is not clear how the change to the area-wide EIS concept planned under streamlining has impacted the environmental studies program in terms of reducing the amount of information needed from the program to prepare a sale specific EIS. According to Interior, about \$222 million was spent on the environmental studies program between 1975 and 1980--with about 55 percent of the total being for studies in the Alaska OCS. Interior's position is that the program has already generated a great deal of the environmental information needed for leasing program decisions.

Cost and personnel estimates for the remaining 4 years of the program (1983 through 1986) are, according to Interior officials, basically an extension of the fiscal year 1982 estimates. As noted earlier, and as will be more fully discussed below, a great deal of uncertainty surrounded the program when the July 1981 estimates were developed. And, as indicated by the continuing budget reductions and revisions of October 1981, the program appears to be continuing through further stages of definition and detail. Because of these uncertainties and comments from program officials that the out-year estimates were (1) highly tentative, (2) had not been scrutinized by OMB, and (3) would be subject to detailed budget reviews in follow-on years, we did not attempt to evaluate the estimates for fiscal year 1983 through 1986.

As noted above, the projected 5-year cost of the proposed leasing is about \$42 million less than the current program costs. In comparing the costs of the two programs, we asked Interior officials for an explanation of how the June 1980 program estimates, and documentation supporting these estimates, were developed. We were told that the June 1980 program estimates were less reliable than the July 1981 program estimates. BLM officials could provide

us no documentation showing its rationale and analysis in support of the June 1980 program costs estimates.

Section 18 of the OCSLA requires estimates of the costs and personnel needed to carry out the 5-year programs be submitted to the Congress for review. We recognize that estimates are by definition only approximations of what may be expected. However, considering the brevity of analysis and documentation associated with both the June 1980 and July 1981 program estimates, we question whether the estimates that have been submitted to the Congress have reasonably predicted what realistically may be needed to run the offshore program. Given the limited documentation provided to us, it is not clear (1) whether the new program will actually cost less over a 5-year period than the June 1980 program and (2) whether the July 1981 estimates fairly represent the future cost of the new program. Furthermore, it is not clear as to how much of the proposed reductions are a function of savings through streamlining and how much are more closely tied to the need to trim the budget. Given the level of accelerated leasing and development proposed by the Administration, it is possible that funding and staffing for the program will have to exceed current projections in future years if program goals are to be achieved.

IMPLEMENTATION AND IMPACTS OF STREAMLINING PROCEDURES UNCERTAIN

The Department has not yet determined the amount of OCS acreage expected to be leased under the new program or the specifics of the streamlined system's procedural requirements. Interior officials indicated to us that the level of acreage leased may be 2 to 3 times more than under the current program. In terms of annual acreage leased, this would mean a level of about 3 to 4 million acres each year based on an average 1.4 million acres actually leased each year between 1974 and 1980. As of November 19, 1981, Interior had no official estimates of how much land they expected would be leased under the new program. Officials said that initial estimates had been prepared and submitted to the higher departmental levels for approval but were returned to the program offices because they were poorly developed.

The specifics of how the streamlining proposals, as was noted above, will be implemented, and how much resources will be needed to do it, remain unclear. Especially important are the levels of presale environmental analysis, the bid acceptance and rejection process, and post-lease management activity. The potential impact of these changes on the Alaska OCS Region, which is emphasized in the new program, is particularly important. A more detailed discussion of the uncertainties in each of these areas follows.

Level of environmental analysis not clear

Area-wide offerings under the accelerated schedule require that less detailed environmental assessments covering entire

planning areas for the first time be done in such a way as to

- allow preparation of a draft EIS in 8 months after the sale area is identified; 1/
- adequately reflect alternatives covering areas added to or deleted from the proposed offering during the sale preparation process; and
- provide sufficient detail and coverage to allow tiering of NEPA documents for future sales and for evaluating various plans and permits during the post-lease stage of the program.

Interior's goal is to provide a level of detail consistent with the needs of specific decision points at various stages in the lease process. Interior's revised program calls for beginning the environmental assessment process sooner (approximately 12 months before the call) with an emphasis on the use of existing regional data from departmental environmental studies and geohazards investigations. As discussed in chapter 2, these data will be supplemented by technical papers, site specific environmental and geohazard data required from the lessee, and site specific environmental studies, conducted as appropriate by Interior, for use in evaluating post-lease plans and issuing permits. However, specifics regarding the content of the revised EIS and its level of detail are not yet available. For example, we asked BLM officials in Alaska how future environmental impact statements--to be prepared in about 8 months--would compare with those planned under the current program--which allows upwards of 20 or more months for preparation. We were told that the details for the new program had not been worked out, and they did not know what would be changed, modified, or eliminated. They indicated that the EISs under the new program would, because of the collapsed time frames, most likely contain less information and detail than EISs under the current program.

Interior's Solicitor reviewed the proposed EIS changes with regard to NEPA compliance and concluded there is no legal problem with the use of area-wide environmental statements followed by supplements and any new significant findings. The Solicitor concurred that a comprehensive understanding of the environmental impacts of the entire exploration and development process need not be known at the time of the lease sale decision. He cautioned, however, that more than an analysis of the consequences of the exploratory phase is necessary for an adequate EIS and that analysis of developmental impacts must also be included. Also, according to Interior, the courts had ruled that NEPA does not require study activity beyond the assembly and presentation of

1/Does not include environmental analysis preceding the call for information.

existing information. In addition, NEPA regulations require that in cases where information is incomplete or unavailable, the agency must make clear that such information is lacking or that uncertainty exists.

Procedures for assuring fair
market value not settled

USGS provides BLM with the tract valuations needed for making bid rejection decisions. As discussed earlier in the report the valuation process now used is labor-intensive, costly, and time-consuming and in the past has served to constrain the amount of acreage offered for lease. This process is being changed to accommodate the area-wide offerings under the new program. The new procedures to be used by Interior for this purpose are still under consideration and have not yet been finalized.

Our review of Interior documents and discussions with program officials indicates a phased screening and sampling procedure will likely be used after a sale to select tracts for valuation in such a way as to

- keep the USGS workload manageable,
- allow the leasing of larger OCS areas,
- deter collusive bidding, and
- meet fair market value requirements.

We were told the phased valuation procedures now under consideration will place a heavy reliance on the abilities of USGS's technical staff to make professional judgments for determining the adequacy of the vast majority of bids received. A process being considered provides for acceptance of the high bid on all tracts receiving three or more bids. According to an Interior study, only about 50 percent of the tracts in a lease area are bid on--and of those bid on, about 40 percent receive three bids or more. The high bids on tracts receiving less than three bids will be evaluated by the USGS staff to determine if a detailed tract valuation--as is currently done--is necessary prior to accepting the high bid. Essentially, this will be a comparative analysis of the bid with high bids accepted on similar tracts in the area, i.e, a professional judgment. We were told that the number of tracts eventually requiring a detailed valuation is expected to be only about 10 to 20 percent of those bid on. Also included in this detailed valuation will be all drainage tracts in the area and a sampling of tracts selected from the universe of all the tracts receiving bids--regardless of the number of bids received on these tracts.

Interior believes they will be able to accommodate industry's response to the accelerated leasing initiatives of the new program.

This opinion is based on a professional judgment that the amount of acreage requiring detailed valuation will be approximately the same as the level of activity now experienced under the current program--not on a detailed analysis of the acreage expected to be leased. If, as noted previously, the amount of acreage leased amounts to 3 or 4 million acres annually, then the amount requiring detailed valuation under the procedure noted above would be about 300,000 to 800,000 acres a year, or about 43,000 to 114,000 acres for each sale based on 7 sales per year--assuming that 10 to 20 percent of the acreage would be valued on a tract-by-tract basis. This level appears to be within USGS capabilities, based on the lease program's past experience. If the acreage leased exceeds the agency's expectations, however, or if the screening and sampling procedures employed result in a higher percentage of tracts requiring detailed valuation, then USGS's ability to be responsive to this increased level of activity is less certain. Of concern also is the 90-day time frame after the sale in which all bid acceptance decisions must be made. Current tract valuations are done in parallel with the prelease planning processes and are ready on the sale date. Whether USGS can begin detailed tract valuations after bids are received and complete them within 90 days is uncertain and will be dependent on

- the adequacy of USGS's existing geologic and geophysical data base which will be relied on to provide information for the valuation;

- the ability of USGS to accurately predict key target areas of interest to industry, based on presale geological and geophysical exploration permits, and to then obtain necessary data from industry's efforts, in a timely fashion, for purposes of the post-sale evaluations; and

- the ability of USGS to maintain an adequate level of the technical and professional skills needed to perform these complex valuations at a time when these skills are in critically short supply.

USGS officials in Alaska told us they were not a part of the conceptual studies to streamline the program nor revise the tract valuation processes. In fact they said their first exposure to the new program was when it was announced in April 1981. They commented that they were not clear on how the new tract valuation process would be implemented but, conceptually, they could foresee no reduction in USGS's presale tract valuation work load for individual sales. If sales increased then their overall workload would increase--which because of current staffing shortages, would make the proposed program difficult to accommodate.

Post-lease management workload unclear

The USGS has primary responsibility for post-lease management activities on the OCS. These responsibilities include

- NEPA compliance covering post-lease exploration, development, and production activities;
- approval of industry's exploration, development and production plans;
- approval of drilling permits;
- onsite inspection of offshore activities; and
- collection of oil and gas royalties from OCS production.

Interior officials told us they expect their workload for the above activities to increase in response to the expected expansion of industry's exploration and development efforts. But the agency has not prepared any detailed analysis of the magnitude of the expected increase or the specifics as to how the anticipated increase will be accommodated. As present, post-lease management emphasis within Interior appears to be centered primarily around USGS' oil and gas royalty accounting program which has been the subject of recent controversy and allegations of mismanagement. The agency, however, has completed a task force report on regulatory and legislative changes needed to streamline the post-lease permitting process.

Few studies assessing impact of program

As noted earlier, Interior has not evaluated the impact of the new proposed program in terms of additional acreage expected to be bid on, nor additional acreage expected to be leased. Neither have they developed and evaluated scenarios of what could possibly happen under differing leasing assumptions. In our opinion, estimates of these acreages would be critical to evaluating and planning the Department's capabilities to respond to and accommodate the new program. Neither did we find where Interior has evaluated the potential impact of the program in areas such as

- small company participation in offshore leasing,
- State and local government ability to participate in OCS decisions both prelease and post-lease,
- long-range revenues to the Government from the OCS program, and
- the economic impacts of the program.

Also, Interior has not examined the use and impact of alternative bidding systems in the program.

Interior did prepare a supplement to the June 1980 5-year program EIS to reflect the environmental impacts of the new leasing initiative. The EIS considered several alternatives to the

June 1980 program and the impacts of the accelerated alternatives. The Supplemental EIS concluded that an accelerated program offered the greatest opportunity to inventory OCS hydrocarbon resources and increase production, however, the environmental consequences would also be expected to be greatest as drilling activity (and therefore impacts) would be certain to increase. The June 1980 program, according to the supplement, offered the slowest pace of leasing and the least opportunity to locate and produce hydrocarbon resources quickly, but it also provided the opportunity to bring about the lowest level of environmental consequences.

The only other impact analysis we found in our review was a general discussion of how offering larger leasing areas and more tracts would impact on the average number of bids for each tract in a lease sale. Interior's streamlining task force, in its December 1980 report, generally discussed the impact of offering larger lease areas on tract competition. This subject was also touched on by Interior's Solicitor in reviewing the task force's recommendations and in a discussion paper on alternatives to the tract valuation process. The discussion of impacts was largely philosophical in nature indicating that (1) competition for high hydrocarbon potential tracts would not vary under the new program; (2) overall averages of bids per tract would probably decrease because of increased interest in marginal tracts, i.e., companies experimenting with new exploration and development strategies; and (3) the percent of tracts bid on to tracts offered would decrease.

The impact of the program on small company participation in OCS leasing and development, on State and local government participation in the program, on the use and testing of alternative bidding systems, and the economy are all areas in need of evaluation. Industry has indicated that large acreage offerings will have little impact on small company participation. They believe that the larger companies will continue to out-bid (no matter what the bidding system) the small companies for the more promising acreage. However, larger offerings may allow small companies to bid on and acquire OCS acreage perceived to have marginal potential. Thus, some acreage, which otherwise would not be acquired and drilled, may experience activity as a result of larger offerings. Others have commented that the prohibitive cost of operating, i.e., exploration, drilling, production, on the offshore precludes small companies from individual ventures. They maintain that the best way for small companies to operate on the OCS is through joint ventures.

Recent comments by various State governments indicate concern over whether they will be able to fully participate in future OCS leasing and development given the budget cuts in the Coastal Energy Impact Program run by the Department of Commerce. States will most likely have to turn to internal funding to support continued participation in the program at current levels. Given increased sales and broader sale areas such participation will possibly become more costly. The end result could be States causing a slowdown of the

program by their inability to participate in leasing and post-lease activities in a timely fashion--thus impacting Interior's program goals.

It appears the major impact of the use and testing of alternative bidding systems will be on the revenue aspects of the program and small company participation in the offshore program. The alternative systems deemphasize bonus monies in favor of downstream benefits of oil and gas development through increased royalty rates. As we noted earlier, Interior assumed a 24-percent reduction in fiscal year 1981 and 1982 bonus revenues estimates due to the use of alternative bidding systems in lease sales. We plan to look at the impact of alternative bidding systems in a future review.

The economic impacts of the program are vast and difficult to gauge. Increased OCS leasing will no doubt increase the economic activity surrounding the oil and gas industry and the associated industries supporting oil and gas development. Because of the many uncertainties with the program, we did not attempt to analyze these impacts in our review.

CHAPTER 5

INDUSTRY'S ABILITY TO RESPOND

TO THE NEW LEASING PROGRAM

The success of the newly proposed leasing program will depend to a large extent on industry's ability and willingness to accelerate its leasing and exploration of offshore lands. Industry has signaled that it is willing and able to accommodate the proposed leasing program. However, the extent of its capabilities have been questioned by many who are fearful that increased offerings may not be in the Government's best interest. Defining what industry should be capable of achieving in absolute terms is difficult because there are no estimates of how much offshore acreage has hydrocarbon potential. Therefore, it is difficult to determine how much acreage needs to be leased and explored to fully inventory offshore lands. And, as we have previously reported, limited industry participation in past lease sales was a major reason past leasing goals were not achieved.

Information we reviewed indicates that industry is fully capable of and is currently making plans to increase its offshore activities. The amount of increased leasing and development anticipated is uncertain at this time. Some think the increase will not be significant in terms of leased acreage but what is leased will perhaps be of better quality. As discussed in chapter 4, speculation is that competition for high quality tracts will remain about the same but that some firms may want to experiment with different exploration strategies on the more marginal tracts. Interior has indicated that more of the marginal tracts may be leased. However, overall sale competition may decrease because of the increased interest in marginal tracts. While more small companies may compete for the tracts, the high cost of operations on the OCS may preclude sole ventures by the small firms. The magnitude of increased participation by industry will, in our opinion, be more closely tied to the economics of oil and gas development and the predictability of the leasing schedule than to larger offerings of offshore areas.

Interior's recent action in extending lease terms from 5 to 10 years in certain difficult leasing areas could also increase the level of leasing. While longer lease terms are sometimes appropriate, there could be a tendency for industry to lease more land than it can diligently explore and develop or, because of the extended time frame, to explore and develop leased lands at a slower pace than what is desired--thus thwarting the Administration's goal of inventorying the OCS as rapidly as possible.

INDUSTRY'S PAST REACTION TO ACCELERATED LEASING

Attempts to accelerate leasing are not new. In April 1973, former President Nixon directed the Secretary of the Interior to

tripled (from 1 million acres a year to 3 million acres a year) OCS acreage under lease. Later, in January 1974, President Nixon instructed the Department to further accelerate the OCS leasing program from 3 million acres to 10 million acres, another tripling of the goal in less than 1 year. Under the Presidential mandate, Interior proceeded with plans to lease 10 million acres in 1975. This was nearly as much acreage as was leased in the first 20 years of OCS leasing. Later on the leasing goals were changed to that of holding six sales per year and opening all frontier areas by the end of 1978. Acreage objectives were dropped as specific leasing goals and replaced by scheduling a specified number of sales to be held over a 12-month period. According to agency documents, the draft June 1979 and June 1980 final leasing schedules responded to President Carter's initiatives to increase OCS leasing and to provide earlier consideration of Alaskan OCS areas. While no leasing acreage goals were stated, Administration announcements indicated that leasing would be increased to about 5 million acres per year.

As we pointed out in our, "Issues In Leasing Offshore Lands For Oil and Gas Development" report, the leasing goals of the 1970s were never achieved. As shown below, leasing averaged about 1.2 million acres per year during the 1970s.

OCS Acreage
Offered and Leased

1971-80

(1,000 acres)

<u>Year</u>	<u>Offered</u>	<u>Leased</u>
1971	56	37
1972	971	826
1973	1,515	1,033
1974	5,007	1,762
1975	7,247	1,680
1976	2,827	1,278
1977	1,843	1,101
1978	3,141	1,297
1979	3,412	1,767
1980	<u>2,563</u>	<u>1,134</u>
Total	<u>28,582</u>	<u>11,915</u>
Average per year	(2,858)	(1,192)

It is significant to note, however, that with the 5 and 7.2 million acre offerings in 1974 and 1975, respectively, leasing did increase well above the average of 1.2 million acres, but still not to the level planned.

In addition to not bidding on most land offered for lease, industry has not shown an interest in all land that was considered for lease through the presale call for nomination process. Again, as we pointed out in our prior report, for the ten frontier sales held outside the Gulf of Mexico in the 1970-80 time period, only about 51 percent of the 103 million acres considered in the call area were nominated by industry for inclusion in lease sales. And, of the tracts eventually offered for lease in these areas--most of which were highly nominated--industry only bid on about 41 percent.

DEFINING WHAT INDUSTRY SHOULD BE
CAPABLE OF DOING IS DIFFICULT

Industry's past nominating and bidding performance is no doubt indicative of the fact that not all offshore acreage is believed to have hydrocarbon potential. Thus, reports that only a small percentage of the offshore has been offered for lease (and a lesser percentage leased) should be viewed in this context and should not be viewed as suggesting that all land not offered for lease contains hydrocarbons.

How much of the offshore has hydrocarbon potential? Our inquiries at USGS and reviews of industry's past bidding indicate that no one can define with any level of precision how much of the offshore has hydrocarbon potential, i.e., how many acres of the 1.2 billion acre OCS are thought to have good prospects for hydrocarbons. And of those areas where oil and gas is thought to be, there may not be a consensus. For example, the second Gulf of Alaska lease sale held in October 1980 only drew bids from nine firms with one firm having the high bid on 25 of the 37 tracts receiving bids. In the September 1981 Cook Inlet sale, only two firms participated with one firm having the high bid on all the tracts bid on. These leasing areas are perceived by many companies to contain little hydrocarbon potential, yet some firms believe differently.

Thus, there is no real consensus as to how much of the offshore has potential. Until such acreage figures can be developed, defining what industry should be capable of doing in quantifiable terms is not possible. In our opinion, the argument as to whether industry is or is not capable of handling the new program in terms of inventorying prospective lands is unanswerable at this time. And even if it were answerable, the next question would be how much exploration would be necessary to determine its potential. Again this is difficult to determine. For example, the highly touted initial Gulf of Alaska sale in which 76 tracts (over 400,000 acres) were leased is now thought to have limited potential after the drilling of 10 dry wells. Consequently, discussions of industry's capability to respond to the new program are more appropriately couched in terms of industry's posture to do more in future years in comparison to its current activity.

As discussed in chapter 3, Interior in December 1980, requested comments from all interested parties on the possible revision or reapproval of the June 1980 OCS lease sale schedule. Ten oil and gas companies and one industry association responded to the request. The majority of these respondents (7 of 11) suggested that the June 1980 5-year OCS leasing schedule be adhered to without any significant changes. The predominant reason given for this position was the belief that significant changes to any of the lease sales already scheduled would disturb industry's advanced planning and commitment of money, equipment, and personnel necessary to effectively participate in leasing and

exploration activities. The other industry respondents suggested accelerating leasing, particularly for areas in Alaska. In April 1981, Interior requested comments on a draft proposed schedule and streamlined leasing process. In addition, Interior requested comments on two other specific proposals: (1) will increased acreage offerings--up to 50 million acres at one time--affect the amount of acreage bid on by industry and (2) does industry have the capability from the standpoint of capital, manpower, and equipment availability to prepare for and participate in 10, 20, or 50 million acre sale offerings, with at least 8 sale offerings each year?

Twenty-four oil and gas companies and four industry associations responded to the April 1981 request for comments. Except for one, the respondents expressed support of the program, applauding the general effort and/or concept. However, many of these respondents, while supporting the proposal, expressed several areas of concern as follows.

- Fourteen respondents commented that acreage should be limited from 2 million to no more than 20 million acres in any one sale for better use of equipment, better identification of quality tracts for possible leasing (rather than the quantity), and better assessment of a more manageable area.
- Thirteen respondents expressed concern over the industry's capabilities; equipment, money, and personnel. Among the concerns were that: (1) too large an area may be offered and expected to be explored, (2) rig availability may not exist for certain areas in Alaska, (3) there may be constraints on some operations since the industry has already experienced shortages of tabular goods and experienced personnel, and (4) some sales may follow too close to previous sales in the same area which may not allow a sufficient amount of time to conduct and evaluate first sale exploration activity results.
- Twelve respondents expressed concern over another change to the 5-year OCS leasing schedule. They commented that a firm schedule is necessary for proper industry planning of money, equipment, and personnel. Of these respondents, eight favored the June 1980 schedule because of its greater predictability than proposed changes which might create uncertainty.
- Seven companies expressed concern that moving some Alaskan sales up would result in insufficient

time to evaluate data from stratigraphic test wells prior to lease sales.

Industry's reaction to the April proposal was viewed by many as a wavering of its past position of calling for a more aggressive leasing program. Reacting to this interpretation, much of industry, i.e., industry associations, individual oil companies, etc., has clarified its position by firmly supporting the new program.

STUDIES OF INDUSTRY'S CAPABILITIES

Little has been done in analyzing industry's capabilities to accommodate the new leasing program. Interior officials told us that the Department has not analyzed Industry's capabilities and, according to statements made by Secretary Watt, the Department apparently sees no need for such studies. Secretary Watt has argued that the availability of offshore lease offerings should not be paced by industry's capability. Interior's role, as viewed by the Secretary, is to make as much land as possible available to industry to ensure that the hydrocarbon potential of the OCS is rapidly inventoried.

Two private groups have recently prepared studies expressing their opinion of industry's capability to accommodate increased leasing and exploration. A study prepared for the Center for Environmental Education ^{1/} concluded that the oil and gas industry does not, and will not, have the capability for efficient and effective OCS exploration under the July 1981 proposed 5-year leasing plan. It bases this conclusion on projected leasing figures under four sale offering scenarios: (1) present sale offerings, (2) 10-million-acre sale offerings, (3) 20-million-acre sale offerings, and (4) 50-million-acre sale offerings. For each scenario four elements--funds, technology, drilling rigs, and personnel--necessary for the industry to accommodate the lease offering proposals were analyzed. Leasing for 1982 and 1983 would, according to the study, continue under present trends regardless of the assumed scenario. For the years 1984 through 1986, however, the study concluded that limitations in all elements would preclude full development under the 10, 20, or 50-million-acre scenarios.

The following estimates taken from the study summarize the expected amounts of OCS lands to be leased for each year (1982-1986) under the differing scenarios.

^{1/}"Offshore Petroleum Exploration: Capabilities and Constraints," Center for Environmental Education, Washington, D.C., 1981.

Total Yearly OCS Leasing

1982-1986
(millions of acres)

<u>Year</u>	<u>Present trends</u>	<u>10 million acre sales</u>	<u>20 million acre sales</u>	<u>50 million acre sales</u>
1982	1.96	1.96	1.96	1.96
1983	2.20	2.20	2.20	2.20
1984	2.41	4.82	9.64	24.10
1985	2.41	4.82	9.64	24.10
1986	<u>2.68</u>	<u>5.36</u>	<u>10.72</u>	<u>26.80</u>
Total leased over 5-years	<u>11.66</u>	<u>19.16</u>	<u>34.16</u>	<u>79.16</u>

Based on our review of this study, we question the assumptions regarding the amount of acreage to be leased. Only in 1 year of the past history of OCS leasing has leased acreage approached 2 million acres--1.9 million in 1962. As noted above, under the 10 million acre scenario, annual leasing presumably would approach 5 million acres in the 1984-86 time frame--approximately two and one-half times the best leasing year of the past. The 20- and 50-million-acre offering scenarios project even more annual leasing. In our opinion, the assumption that upwards of 5 million acres, or more, being leased in 1 year is overly optimistic when compared to past leasing. The study cites the American Petroleum Institute (API) as providing the source data from which the estimates were developed. API officials, however, told us the data they provided the Center for Environmental Education was inappropriately used in the study. API disclaimed any responsibility for the study estimates of leased land--but at the same time API offered no substitute estimates.

A second study we reviewed was done by API. Rather than establish leasing scenarios for the future, the API study comments on recent increases in industry activity and discusses the likelihood of these trends extending into the future. According to the study, ^{1/} economics alone will determine the level of industry participation since industry expansion will be positively related to the profit potential. The study states that

^{1/}Donald A. Norman, "The Response of Drilling Activity to Higher Oil Prices," July 16, 1981.

"* * *despite repeated warnings of equipment and labor shortages, the level of drilling activity in 1980 and early 1981 has increased at a faster rate than previously thought possible."

This phenomenon, according to the paper,

"* * *can be attributed to the phased decontrol of domestic crude oil prices in 1980, complete decontrol in January 1981, and the rise in oil prices on the world market. During 1980, the domestic average wellhead price of crude oil increased 68 percent and this, along with expectations of complete decontrol, seem to have touched off the faster rate of expansion."

The study cites the increase in drilling rigs, shipyard expansion and new firms entering the rig building industry (up from 10 to 17 firms over the past 5 years), increases in tabular goods production (47 percent increase in 1980), and increases in personnel due to higher salaries as indicative of industry's response to the more favorable economic climate for offshore activity. The study makes mention of the reported shortages and constraints on industry ability to respond to accelerated leasing and exploration but concludes that as long as the profitability factor exists, the industry will be responsive to needed expansion in capability.

GAO's INQUIRY INTO INDUSTRY'S CAPABILITIES

As part of our review, we contacted several firms either directly involved or associated with the offshore industry to obtain a better understanding of industry's current capabilities and future projections. Our discussions with industry officials, however, should not be viewed as an indepth analysis of industry's current profile nor its expansion plans--time constraints to meet this report's issuance date did not permit this type of study. Our main objective was to gather first-hand information, and to the extent possible, quantifiable information, describing industry's current posture and expectations for the future. We also solicited the industry's views on the new program in terms of what additional acreage might be leased.

As was discussed earlier in the chapter, two key questions to be kept in mind in discussing industry's capabilities are (1) how much additional land may be leased under the new program? and (2) how many wells might be needed to adequately explore the leased land and develop any new-found hydrocarbons? Our discussions with officials of major oil companies and oil industry supply companies revealed a general consensus that there would not be a significant increase in the amount of acreage leased, however, the overall quality of the land leased in terms of hydrocarbon potential may increase. The second question and most important

is the number of wells to be drilled in order to determine an areas potential. Again, this is a difficult question to answer in that the number of wells needed to determine an area's hydrocarbon potential will vary according to many geological factors--many of which would not be known until some exploratory wells have been drilled.

Drilling rigs

Primarily, mobile drilling rigs are used in exploratory drilling on the OCS, although a few exploratory wells may be drilled from fixed structures or artificial islands. There are four types of mobile offshore drilling rigs: jack-up, semi-submersible, submersible, and drill ship, all of which are usually self-contained. The worldwide status of the offshore mobile drilling fleet as of September 1, 1981, was as follows:

- There were 596 mobile rigs worldwide of which 2 were idle.
- Of the 596 mobile rigs, 433 rigs are competitive rigs, that is, they are capable of being moved worldwide.
- There are 234 mobile rigs under construction.

Drilling rig construction has increased significantly over the past few years. We were told that there are currently 60 shipyards building rigs--40 of which were not in the rig building business 3 years ago. And of the 234 units under construction, 104 are being constructed in yards that only entered the business in the past few years. We were also told that from 1970 through 1979 (10 years), the average number of mobile rigs delivered from shipyards worldwide was 27 each year. In 1980 there were 60 new mobile rigs delivered to the industry, and in 1981 industry will take delivery of 99 new rigs. Next year, 1982, 141 rigs will be completed.

There appears to be little question that industry has the capacity to conduct a massive rig building program, should one be needed. We were told that there are 22 shipyards that have never built offshore mobile rigs that are actively trying to enter the market and another 13 yards attempting to reenter the business. If one assumes three deliveries each year (starting in 1983) from each of these 35 yards--assuming the demand is there--an additional 315 rigs could be built by the end of 1985. Adding these new additions to the 540 that could be built by the other 60 builders, would total 855 rigs that could be built by the end of 1985.

The 433 rigs in the competitive fleet today are exploring almost 4 billion acres worldwide which makes the rig availability situation tight at this time. However, some industry officials think that the current high rate of rig construction may cause the industry to become oversupplied within 12 to 18 months.

Tubular goods

Tubular goods, including drill pipe, casing, and tubing, are critical to increased offshore drilling activity. An official of one of the largest tubular steel manufacturers advised us that it takes about 1,300 tons of tubular products to service one rig for 1 year. Traditionally, the oil companies have kept an inventory of 700 to 750 tons for each rig. In 1980, the U.S. oil industry received more than 4.5 million tons of tubular steel with approximately 23 percent of it being imported. In 1981, the oil and gas industry reportedly will need 5.2 million tons of tubular goods. Domestic production capacity currently is about 4 million tons; a shortfall of about 30 percent of demand. By 1985, the gap will have widened to a demand of 7.4 million tons versus a domestic production capacity of 5.2 million tons. U.S. demand will require up to 9.7 million tons a year by 1990, 53 percent of the 18.2 million ton worldwide demand.

One official of a tubular steel manufacturer advised that under normal conditions the supply industry can deliver more equipment than the contractors can use. But, today's conditions are not normal and there is currently a large over-demand for equipment which is based on projections of new rig deliveries. The worst shortages are occurring in seamless high-strength drill pipe with future deliveries being quoted from 8 to 18 months. There is a definite shortage and backlog in tubular goods supply but the question is how much of a shortage--and for how long--and could it affect an accelerated leasing program. A certain amount of backlog is necessary for manufacturing efficiency. We were told that U.S. expansion and foreign manufacturers will remedy current shortages. The next 2 years will find foreign manufacturers penetrating the U.S. market, but new mills coming on line in 1983 and 1984 in the United States will take up the slack in the shortage and there should be few problems of tubular equipment availability by 1984.

Drill bits

Drill bits wear out commensurate with use and the hardness of formations drilled. Some wells may require only a few bits to drill them while others may require dozens of bits to drill them. There are instances where a bit may have drilled very little footage (50 feet or so) and other instances where a bit has drilled hundreds of feet. New technologies in bit design, manufacture, and use are expected to increase the drilling life of a bit. The average well depth is expected to increase by 700 feet over the next 5 years but require fewer bits to drill it.

Officials of one of the largest bit manufacturers advised us that, although the bit supply is tight now, they expect bit capacity to be ample to support an expanded drilling effort by 1984. The current tight supply would not impact an accelerated OCS leasing program since any substantial increased drilling resulting from such a program would not take place before 1984. This

manufacturer has increased its capital budget this year by 62 percent over their 1980 capital expenditures. Officials told us that they were committed to having an adequate supply of drill bits to support an accelerated leasing program.

Drilling mud

Drilling mud is a blended mixture of minerals chemically suspended in a water or oil base medium which is pumped down the drill pipe, through the drill bit jets, and up the bore hole outside the drill pipe of a drilling well. Drilling mud has many functions of which some of the more important are (1) transport the formation cuttings from the bottom of the hole to the surface, (2) stop the bore hole wall from caving in, (3) cool and lubricate the bit, and (4) control formation pressure (stop blowouts). To accomplish these functions, drilling muds must maintain certain gravities and viscosities. The mud cost for a single well runs into thousands of dollars even with the saving and reuse of the mud in numerous wells.

Over 150 mud additives are marketed by mud companies. The bulk of mud material tonnage consists of the minerals barite (used for weight), bentonite (used for swelling), and of lignosulfonates (used for thinning). We were told that adequate quantities of barite and bentonite would be available for increased offshore drilling. Increased production of lignosulfonates may be a bit more complicated, but should not pose insurmountable problems, according to industry sources.

Service boats

We contacted the president of one of the largest boat contractors in the United States and were told that there is a surplus of oil industry boats in the Gulf of Mexico and there is no problem in supplying boats for use elsewhere. This official's company had \$84 million in business in 1980 and for 1981 is currently building 21 boats--worth about \$126 million. He said his firm could increase to \$200 million next year if the demand exists.

Shipyards producing offshore service boats have a shorter leadtime than those building rigs, and therefore, do not have to make such long-range plans. For example, if a company orders a rig today it will be delivered in about 3 years, but boats to service the rig can be built in a year or less. Therefore, the boat builder has more time to study the current market before committing to orders. In the United States alone there are 25 companies building boats in 20 separate yards. Present U.S. shipyard capacity is 80 to 90 boats each year. Domestic yards have current orders for 110 large vessels, which is a 100-percent increase over last years orders. During the past 18 months, five U.S. yards have entered the construction market for the first time. We were told that the shipbuilding industry can meet the demands resulting from an accelerated leasing program.

Capital availability

An official of the Chase Manhattan Bank told us that in a recent study done by his bank it was estimated that the oil and gas industry would invest \$2.6 trillion during the period 1980 to 1990, based on 1980 dollars. By comparison the industry invested \$287 billion from 1970 through 1980, of which \$58 billion or about 20 percent, was in the year 1980. The study, we were told, estimates that the industry will generate 75 to 80 percent of their capital needs, leaving 20 to 25 percent to be financed.

Based on information we received from financial officials in some of the largest firms on the East and Gulf Coasts, there is also optimism that capital supply will meet demand and there will be few, if any, financial constraints to the proposed accelerated leasing. Some of the major companies, we talked to, did not believe there will be a great increase in the number of leases and believed companies would have the capability of financing their ventures either in-house or through worldwide sources. Some of the industry officials commented that they have found financing conditions to be more favorable in some areas outside of the United States. A few of the independent oil and gas company officials stated that they will operate only on a cash flow basis and will not increase their debts under the present high interest conditions.

Personnel--Professional and Skilled Labor

The offshore industry is moving to meet the demand for more trained personnel by sponsoring schools, formal in-house programs, and on-the-job training. In the drilling segment alone the number of U.S. offshore drill rigs has increased more than threefold in the past 10 years while the number of crews has increased more than fourfold. It takes about five crews (45 personnel) to keep one rig active year-around. Worldwide, according to the International Association of Drilling Contractors (IADC), the number of drilling crews has expanded from about 3,000 to almost 15,000--a growth rate of 17.5 percent--in the past 10 years. Last year alone, nearly 8,400 persons attended courses sponsored by the IADC--three times the number who attended the courses 3 years ago.

Exploration and production companies in search for oil and gas employ professional personnel in critical fields such as geology, geophysics, and engineering. Most of these professionals, except the geophysicist, are employed by exploration and production companies but many are employed by service and supply companies, consulting firms, or are self-employed. Employers are almost entirely dependent on colleges and universities to ensure an adequate supply of qualified geologists, geophysicists, and engineers. Industry demand for these graduates has been cyclical and this varying demand has caused problems in attracting students. However, with the sustained demand of the past few years more students are enrolling in these curriculums for career potentials.

Studies show that historically the number of wells drilled per geologist has ranged between 2.5 and 3.0 annually. Currently, there are almost 30,000 members of the American Association of Petroleum Geologists, and about 2,400 members of the Society of Economic Paleontologists and Mineralogists. Last year's growth rate, 16 percent, indicates additions to the profession. The availability of geologists is not expected to be a constraint to accelerated leasing. The decline in level of experience, however, is a concern and is causing considerable "job raiding" and "job swapping" among the more experienced companies.

It is more difficult to predict the availability of geophysicists since it is estimated that only approximately 30 percent of the present geophysical workforce is composed of graduate geophysicists. Another 30 percent are geologists and the remainder mainly physicists, engineers, and computer scientists. The Society of Exploration Geophysicists reports a current membership of about 15,900 members and a growth rate of 10 percent per annum. It is a logical assumption that the vast majority of these members are employed in oil and gas related work. Studies of seismic work from 1974-78 show approximately 10,000 geophysicists were required to conduct 4,272 crew months of work in 1978 resulting in approximately 2.69 wells drilled per crew month in 1979 (about 11,500 wells). This reflects the need of one geophysicist for every 1.15 wells drilled. However, an official of one of the largest geophysical companies advised us that technological advances and increasingly more sophisticated geophysical equipment and procedures being adopted are resulting in a lesser need for geophysicists. Some work at sea can be done by fewer geophysicists and some can be done by technicians at sea and onshore. There should be no constraint in accelerated leasing due to the lack of geophysicists. Skilled personnel are rapidly increasing in the geophysical service segment of the oil and gas industry. The number of active seismic crews (total land and marine crews) has increased from 407 in July 1979 to 711 in July 1981, a 75-percent increase.

The geophysical industry is vital to the petroleum industry since its work must be done before exploration and development can proceed. Fortunately, it is better equipped technologically and financially than ever before, and the manpower training, instrument procurement, and ship building progress required are, we are told, in place and working.

Geophysical vessels, also called seismic boats, are basically the same as other boats used for many duties in offshore oil fields. The "typical" boat costs about \$5 million to build and carries about \$2.5 million in seismic equipment. Currently, there are 89 such boats working worldwide, 42 in U.S. waters, and at least 14 more are either under construction or are on order for delivery within the next year. This will increase the U.S. geophysical fleet by more than 40 percent at an investment of more than \$100 million. Also, a number of existing boats could be purchased by geophysical firms in the near future, refitted for seismic work, and put into service if needed. The geophysical

industry, already expanding at a rate of 35 percent per year for the past 2 years, would reportedly have no problems in meeting rising demand for its services.

The cyclic demand for petroleum engineers has been a problem to educational institutions in funding, planning, expanding, etc., but the continuing high demand of the past few years caused a growth in school enrollments which will be beneficial in meeting the future demand. There has been a large increase in the number of engineers since 1974 and the number is projected to grow from about 6,800 engineers to about 11,400 by the end of 1981--an increase of about 68 percent. Currently, the Society of Petroleum Engineers has about 29,800 members, excluding students, listing their primary address in the United States. Although only 42 percent of the members have petroleum engineering degrees, mechanical, chemical, electrical, and civil engineers can become qualified petroleum engineers with a minimal amount of training. We were told that there was a rapid increase in demand for engineers in 1979 resulting in a shortage of petroleum engineering graduates, but the demand has been met by hiring graduates of other engineering disciplines.

The vice president of one oil and gas company advised that his company, like almost all others, has an in-house training program for oil field workers. For certain skills the company requires a college degree in any field--arts, sciences, social sciences, etc.--to qualify for training. He said the company has had good results in attracting and training applicants. In many cases they have successfully trained employees within 78 weeks to perform some necessary skills. One large service company requiring field personnel in oil field related disciplines has the capacity to train more than 10,000 people per year.

INDUSTRY DILIGENCE

Another factor that should be included in the industry capability equation is the issue of diligence, i.e., industry capability to explore leased lands and to develop any new found hydrocarbons as quickly as possible. Specific concern is whether industry is capable of exploring a lease or, at a minimum, gathering additional information on its hydrocarbon potential during the time frame for which the lease is issued.

Traditionally, leases have been awarded for a 5-year lease term with lease holders being required to submit either exploration plans, or statements of intentions to explore, by the end of the second year of the lease. The Secretary of the Interior is authorized to award 10-year leases where the situation warrants, i.e., for exploration in harsh environments such as Alaska and for tracts in deeper waters. In our February 27, 1981, report "Impact of Regulations--After Federal Leasing--On Outer Continental Shelf Oil and Gas Development," EMD-81-48, we noted that over 79 percent of the Gulf of Mexico leases issued between 1970 and 1974 had been drilled, and we

concluded that industry had a credible record in pursuing offshore oil and gas development. We did note, however, that drilling during the first year of a lease had fallen off between 1977 and 1979 and indicated that this decline could be a result of equipment availability.

We did not pursue this issue in this review, but we did note that in at least two recent sales, Interior has offered deepwater tracts under 10-year lease terms as opposed to the traditional 5-year lease period. Also, Interior is considering changing the time requirement for submitting exploration plans from the end of the second year of the lease term to the end of the fourth year for 5-year leases, and allowing industry up to 8 years to submit plans on 10-year leases.

A stated goal of the new program is the rapid inventorying of offshore lands. Allowing industry to hold leases for 10 years could lead to a lesser rate of exploration than if the lease term remained at 5 years. For example, whereas industry may not be capable of exploring additional leased lands given a 5-year lease term, it may have the capability to explore these same lands given a longer time period, i.e., a 10-year lease. Also, given the unlimited acreage offerings under the new program and the extended lease time frames, there could be a tendency for industry to lease more land than it could possibly explore and develop. The possible reoffering and releasing of excess land to firms having available exploration capabilities would be delayed under the 10-year lease term concept, by an additional 5 years. In our opinion, industry's diligence on tracts leased for 10 years should be closely monitored by Interior and used only when the situation warrants a longer lease time frame.

IMPLICATIONS FOR LITIGATION

Litigation has slowed the accelerated OCS leasing initiatives of the 1970s affecting both the leasing of offshore land and follow-on exploration and development activities. Although a costly and time-consuming process, the resultant court decisions have added definition to OCS and OCS-related legislation which has established precedent for future leasing and development decision-making. This in turn has led to a somewhat greater degree of future certainty and predictability in the offshore program.

Now, however, changes to the leasing and exploration processes--streamlining--may well lead to a new round of court challenges inasmuch as the program represents a balancing of competing and often inconsistent interests, and changes may upset any balance which has been achieved to date. Allaying possible challenges, by doing a thorough job in preparing for sales and aggressively managing the program, is essential if the new proposed program is to be viewed with any degree of certainty and confidence--necessities if Interior's offshore program objectives are to be achieved.

PAST LEGAL CHALLENGES

Evolution of legislation

Up until about 1970, offshore leasing was a relatively non-controversial issue with most leasing taking place in the Gulf of Mexico. The 1953 OCS Lands Act provided the basic legislative authority for leasing activities. Several things happened in the late 1960 early 1970 time period, however, which increased the public's concern with offshore leasing. The first of these was the 1969 Santa Barbara Channel well blowout and oil spill. As a result of the blowout, Interior placed a moratorium on leasing which in turn resulted in two Gulf of Mexico lease sales being delayed several months and the planning for a Gulf of Alaska sale being deferred. The greater impact of the blowout, however, was a heightening of public concern as to the environmental impacts of offshore oil and gas development--a concern which in part contributed to passage of the National Environmental Policy Act (NEPA) in 1969.

Following NEPA, several other environmental laws were enacted-- (1) the Marine Protection, Research, and Sanctuaries Act of 1972 (16 U.S.C. 1431), (2) the Marine Mammal Protection Act of 1972 (16 U.S.C. 1361), and (3) the Endangered Species Act of 1973 (16 U.S.C. 1531)--all of which have affected offshore leasing and development. And, paralleling and akin to the various environmental statutes affecting the offshore, the Coastal Zone Management Act (16 U.S.C. 1451) was passed in 1972--and later amended in 1976--which also had a direct bearing on Interior's offshore program. This act required that the offshore development

program be in concert with the coastal zone management plans of the affected States.

At the same time legislation was being enacted to protect the environment and to include States in OCS development, several initiatives were launched by the Nixon Administration to increase offshore leasing, exploration, development, and production. These and subsequent initiatives developed by succeeding administrations were undertaken in response to the energy crises of the 1970s.

As debate over offshore development heightened, the Congress in 1974, began to review the 1953 OCS Lands Act. This review led to the OCS Lands Act Amendments of 1978--an almost complete rewriting of the Act to reflect and accommodate the varied interest groups and changing National priorities affecting the offshore. It was hoped that the 1978 Amendments would provide a workable framework by which offshore leasing and development could proceed in an orderly manner.

Major court actions against the program

Table 10 shows the major court actions brought against offshore leasing and development during the 1970s and into the 1980s. Most of the suits have included challenges based on NEPA requirements. Violations of the OCS Lands Act and its Amendments are the second most cited offenses with challenges based on CZMA requirements cited to a lesser degree. Alleged violations of the Administrative Procedures Act, the Endangered Species Act, the Marine Mammal Protection Act, or other Federal statutes were also frequently cited in the listed actions; however, they are not included in the table for reasons of brevity.

The impact of the court challenges in terms of sale delays and post-sale uncertainties is also shown in the table. Some of the court actions have resulted in no delay while others have delayed activities by as much as 2 years. Regardless of whether there is delay or no delay, the mere fact that a lawsuit is brought against a sale or the program in general, as has been the case more recently, impacts on the level of certainty and predictability of the leasing program.

Regarding past court challenges leveled against the program, two important points should be noted which should lead to future stability in the program. First, court decisions have added definition as to how the OCS Lands Act and other statutes applicable to offshore activities are to be implemented. For example, in the Beaufort Sea Sale decision the court defined how the requirements of NEPA and related environmental statutes are to be applied to offshore leasing decisions. ^{1/} The court

^{1/}North Slope Borough v. Andrus, 642 F. 2d 590 (1980).

Table 10

OCS Leasing Program
Court Cases a/

<u>Case</u>	<u>Lease area/ sale</u>	<u>NEPA</u>	<u>Basis of challenge</u> <u>OCSLA/OCSLAA</u>	<u>CZMA</u>	<u>Impact</u>
NRDC v Morton (1971)	Gulf of Mexico E. Louisiana Sale	Inadequate EIS			Sale delayed 9 months; two subsequent GOM sales delayed 7 months
Sierra Club v. Morton (1973)	Gulf of Mexico MISS-ALA-FLA Sale	Inadequate EIS			No delay
California v. Morton (1974)	Southern Calif. Sale 35	Inadequate EIS			Sale delayed 14 months
California v. Kleppe (1975)	Southern Calif. Sale 35	Inadequate EIS	Fair market value determination	Consideration of State/local government comments	No delay
New York v. Kleppe (1976)	Mid-Atlantic Sale 40	Inadequate EIS	Inadequate environmental consideration	Inadequate consideration	No delay in sale but status leases unclear for one year after sale
Alaska v. Kleppe (1976)	Gulf of Alaska Sale 39	Inadequate EIS			No delay
English Bay Village v. Secretary of the Interior (1977)	Alaska Lower Cook Inlet Sale	Inadequate EIS	Inadequate environmental consideration		Sale delayed 8 months pending Secretarial review of the Sale
County of San Diego v. Andrus (1977)	Southern Calif. Sale 48	EIS requirements questioned			Sale delayed 25 months
Massachusetts v. Andrus (1978)	North Atlantic Sale 42	Inadequate EIS	Inadequate environmental considerations	Inadequate consideration	Sale delayed 23 months.
Get Oil Out v. Andrus	Southern Calif.	EIS requirements for exploration activities			Three months delay in issuing permits
North Slope Borough v. Andrus (1979)	Alaska Beaufort Sea Sale	EIS inadequate, inadequate biological opinion	Inadequate environmental studies		Issuance of leases delayed 6 months; status of leases unclear for an additional 3 months
Energy Action v. Andrus (1979)	All leasing in general, Sale 48 specifically		Fair market value concern		No delay.
Energy Action v. Andrus (1980)	All leasing in general		Fair market value concern		DOE/Interior required to promulgate regulations on work commitment and variable profit share bidding system. No delay.
State of Alaska State of Calif. NRDC v. Andrus (1980)	All leasing in general	Inadequate environ- mental consideration in development of 5-year leasing program.	5-year leasing program inadequately prepared		No leasing delay. Leasing program remanded to Interior for addi- tional considerations.
Calif. v. Watt (1981)	Calif. Sale 53	Inadequate EIS	Failure to accept California's recommenda- tions on sale.	Consistency review requirements disputed	No delay in lease sale how- ever, award of leases on 29 tracts delayed pending Interior appeal of CZMA consistency requirements.

a/ Represents the major court suits against offshore leasing. Multiple plaintiffs are collectively represented in many of the above suits. NEPA, OCSLA/OCSLAA, and CZMA are the only statutes cited as the basis for challenge. Challenges based on the Administrative Procedures Act (5 U.S.C. 701-706), the Endangered Species Act (16 U.S.C. 1540), the Marine Mammal Protection Act (16 U.S.C. 1361), or other Federal statutes, for purposes of brevity, are not shown.

said NEPA requirements are procedural in character and that the EIS is not an end in itself but a means toward better decision-making. Also, NEPA does not preclude an agency decision that presents either a risk or certainty of environmental damage, as long as the decision is not arbitrary or capricious. Furthermore, the court decision indicated that answers to all environmental questions need not be known prior to a sale. The court reasoned that follow-on decision points in the exploration, development, and production phases of post-lease management, as provided for in the OCS Lands Act Amendments allows for additional data gathering and reevaluation of environmental considerations.

The new leasing program proposes significant changes in the environmental aspects of presale planning--procedures which appear to follow the Beaufort Sea decision. One of the proposals is that the EIS for each particular stage in the leasing process address the environmental concerns associated with the decision to be made at that stage. However, Interior has not yet determined specifics regarding the content of the EIS or the level of detail. So, the implementation of these proposals could be questioned in the future.

In a more recent decision, the U.S. Court of Appeals for the District of Columbia provided extensive guidance as to what the Interior Department is required to do in developing a 5-year leasing program to comply with section 18 of the OCS Lands Act Amendments of 1978. 1/

A second point is that once a sale is held in a lease area, challenges to follow-on sales in the same area seem to lessen. For example, leasing in the Gulf of Mexico has gone smoothly since the initial EIS challenges, as have follow-on sales in the mid-Atlantic. Initial Gulf of Alaska and Cook Inlet Sales were challenged. Subsequent sales in both areas have gone smoothly. Reopening the Southern California OCS proved to be difficult (Sales 35 and 48)--yet Sale 68 planned for the same area in April 1982 is proceeding smoothly.

CURRENT CHALLENGES

Compliance with section 18 of the OCSLAA, which specifies how the 5-year leasing program is to be developed; clarification as to the use of alternative bidding system in leasing offshore land; and the applicability of the consistency provisions of the CZMA (section 307 (c)(1)) in leasing offshore lands are current legal issues undergoing resolution which may impact the proposed program significantly.

1/California v. Watt, No. 80-1894 (D.C. Cir. Oct. 6, 1981).

Section 18 of the OCSLAA

Section 18 of the OCSLAA requires that the Secretary of the Interior develop a 5-year offshore leasing program. Included in the statute is a step-by-step procedural process to be followed in developing the program as well as a list of factors and considerations that must be examined in putting the program together. The States of Alaska and California, the Natural Resources Defense Council, Inc., et al, and Alaska's North Slope Borough challenged former Interior Secretary Andrus' development of the June 1980 leasing program. They maintained that several factors required for consideration in developing the leasing program were not adequately evaluated and thus, the final program did not represent an equitable balance between the potential for environmental damage, the potential for hydrocarbon discovery, and the potential for adverse impact on the coastal zone. Specific challenges centered on the environmental considerations required and the extent that the record should show how such factors were evaluated and dealt with in weighing alternatives. The petitioners also questioned whether the procedural requirements for developing the program were met.

On October 6, 1981, the U.S. Court of Appeals for the District of Columbia Circuit in *California v. Watt* concluded that Secretary Andrus had erred in certain areas. The court held that the leasing program could continue, however, remanded the 5-year program to the Secretary of the Interior for revision in accordance with the court's holdings.

Interior is currently studying the courts decision and considering how to comply with the court's directive. The court stated that it was granting the relief sought by the petitioners. Part of the relief requested is a schedule for reconsidering and approving a new program. Interior is not sure if the court intended to incorporate this schedule into the relief order. On October 20, 1981, the Justice Department, on behalf of Interior, asked the court for clarification. The impact of the courts decision on the implementation of the new leasing program, as discussed in chapter 3, is unclear at this time. The court's decision has, however, added definition to the OCSLAA in that the requirements for developing and reapproving a 5-year program have been clarified. Specifically, the court addressed the questions of (1) how much specificity is required in the program in terms of size, location, and timing of sales, (2) the extent that competing OCS interest must be considered in developing a program, and (3) the record that the Secretary must maintain showing the basis for his findings and judgments. Yet because the work Interior's done to date mirrors the work done in developing the June 1980 program, the court's decision will most likely require backtracking to rethink or reevaluate the current proposed program--which will no doubt result in additional delays in obtaining a new approved program.

Use of alternative bidding systems

Offshore lands are leased under competitive bidding arrangements with the highest bidder being awarded the right to explore for and develop any discovered hydrocarbons (Interior reserves the right to reject high bids for various reasons, thus a high bidder may not always be awarded a lease). The traditional bidding scheme used by Interior in awarding leases requires companies to compete on the amount of bonus money they are willing to pay the Government for the exploration and development rights to a tract, with the royalty on produced hydrocarbons being usually fixed at 16-2/3 percent. ^{1/} Without alternative bidding systems the huge amounts of bonus money required to bid for an offshore tract could hinder small company involvement and restrict competition in offshore leasing. An argument has also been made that the use of the cash bonus with a fixed royalty bidding system does not provide a fair return to the Government for the hydrocarbons found on offshore lands.

In response to these arguments, Section 205 of the 1978 Amendments to the OCS Lands Act provides that alternatives to the traditional cash bonus with a fixed royalty bidding system would be used for at least 20 percent of the land offered in future sales. Approval was provided in the Amendments for using six specific alternatives with the provision that other alternatives could be used with congressional approval. The use of alternative bidding systems would be tested during the 5-year period ending in September 1983 at which time a decision would be made on continuing their use. Regulations for the alternative systems are to be promulgated by the Department of Energy.

Beginning in June 1979, a series of lawsuits have been brought against the Departments of Interior and Energy regarding the use of alternative bidding systems. The plaintiffs, led by the Energy Action Educational Foundation, have charged that the Government has been too slow in implementing alternative bidding systems. In 1979, the D.C. Circuit Court rejected Energy Action's argument on the grounds that Interior and DOE had not had adequate time to draft regulations and implement the new systems. ^{2/} However, the court warned that the time might come when the Secretary's continued failure to use all experimental bidding systems would amount to an abuse of discretion.

^{1/}Section 205(a)(1) of the OCSLAA provides that royalty may not be less than 12-1/2 percent; however, section 205(a)(3) allows the Secretary of the Interior to reduce or eliminate royalties in a lease area to promote increased production.

^{2/}Energy Action Educational Foundation v. Andrus, 631 F. 2d 751 (1979).

A second suit was filed about a year later with the resulting decision being that Interior and DOE had been less than diligent in putting the new bidding systems into practice. ^{1/} The court directed that regulations be promulgated for two of the bidding systems for which there were no regulations prior to the 1981 planned lease sales--(1) fixed cash bonus with a net profit share reserved as the bid variable, and (2) work commitment bid with a fixed cash bonus and a fixed royalty. Contrary to Interior and DOE's position, the court also indicated--although it did not direct--that all of the alternative bidding systems listed in the amendments had to be used during the 5-year test period if an adequate testing of various alternatives to the bonus bidding system was to be achieved. Interior had maintained that it was only bound to use alternative systems 20 percent of the time and that it was not bound to use any specific bidding system.

DOE complied with the court order issuing regulations for (1) net profit share and (2) work commitment bidding systems in the first part of 1981. However, the Departments of Energy and Interior filed a motion for a review of the court's decision with specific reference to the court's comments regarding the required use of all the alternative bidding included in the OCSLAA. Interior maintained the use of the net profit share and work commitment bidding systems were counterproductive to the purposes of the OCSLA and would not be used in future leasing. After further deliberation within Interior and DOE, the case was brought before the Supreme Court, being argued on October 5, 1981. On December 1, 1981, the Supreme Court announced its decision, overturning the D.C. Circuit Court opinion, and ruled that the Federal Government was not required to use all of the alternative bidding systems. The Supreme Court stated that the OCSLAA did not limit Interior's discretion in deciding which bidding systems to experiment with.

CZMA consistency provisions

Debate on the consistency provisions of the Coastal Zone Management Act centers on whether the provisions of the Act apply to prelease as well as post-lease decisionmaking activities. States such as California and Alaska contend that offshore areas cannot be leased without a prerequisite determination that OCS activities are consistent with State and local government coastal management plans. Interior maintains that leasing itself is not a major Federal action requiring application of the consistency criteria. The controversy derives from provisions of the CZMA which states that any Federal agency conducting activities directly affecting the coastal zone shall conduct those

^{1/}Energy Action Educational Foundation v. Andrus, No. 80-2127
(D.C. Circuit, October 30, 1980)

activities in a manner which is, to the maximum extent practicable, consistent with approved State coastal management programs (16 U.S.C. 1456 (c)(1)). Interior has taken the position that the consistency requirement applies to post-lease activities only.

The consistency question was a focal issue in OCS Lease Sale 53. The State of California objected to Interior's leasing of 29 tracts in the Sale area, maintaining that the leasing of the tracts was not consistent with the State's coastal management plan. California maintained that the sale directly affected the coastal zone and thus the Secretary of the Interior was required under the CZMA to provide written notice to the State that the sale would be carried out to the maximum extent practicable, in a manner which conforms to the State's program. Interior, maintaining that holding a lease sale does not directly affect the coastal zone, issued no consistency notice.

California filed suit against the sale alleging violations of the CZMA. 1/ The court found that the term "directly affected" was not well defined in the statute but held that while a lease sale in itself may not directly affect the coastal zone, the anticipated impacts of a sale may be known beforehand. The court reasoned that in Sale 53 the anticipated impacts of the sale were evidenced in (1) tract specific lease stipulations, (2) the EIS, and (3) the Secretarial Issue Document for the sale. Thus, Interior erred in not providing a consistency determination. The court disallowed leasing the 29 tracts in question. Interior has appealed the case to the 9th Circuit Court.

Paralleling the court case, the new Administration has sought to promulgate regulations concerning the definition of "directly affecting" as called for in the CZMA. On July 8, 1981, the National Oceanic and Atmospheric Administration published a regulation limiting the application of the "directly affecting" criteria in prelease decisionmaking. Although no regulation defining "directly affecting" had been promulgated up to this time, the past Administration had taken the position that prelease activities directly affected the coastal zones. Under the new Administration's regulation, prelease activities are not included as directly affecting the coastal zones.

All final rules promulgated under the Coastal Zone Management Act are subject to congressional review. In late September 1981, the House Marine and Fisheries Committee voted to disapprove the new regulation.

Thus, the implementation of the "directly affecting" provisions of the CZMA is still an unsettled issue but it may be

1/California v. Watt, Nos. 81-2080 and 81-2081 (C.D. Cal., Aug. 18, 1981).

resolved once Interior's appeal has run its course. According to Interior officials, arguments on the appeal are slated for January 1982.

COMPLIANCE WITH DOE
ORGANIZATION ACT

Under the DOE Organization Act, certain Federal leasing and energy development activities were transferred from Interior to DOE (Title III, Public Law 95-91). A question has been posed as to whether the development of the new program was accomplished in accordance with the statute. Under the Act, DOE became responsible for

- establishment and promulgation of regulations for offshore bidding systems to foster competition,
- collection of royalty payments in kind, i.e., the taking of oil and gas rather than cash as the royalty,
- establishment of a maximum efficient rate of production for offshore leases, and
- establishment of regulation for the diligent exploration and development of offshore leases.

The DOE Act (nor the OCSLA as amended) does not provide a specific role for the Energy Department in developing the 5-year OCS leasing program itself. And, as noted in chapter 3, DOE apparently did not have a role or substantial input in developing the leasing schedule or streamlining procedures. It could be argued that DOE should have been heavily involved in redesigning the program in that DOE is responsible for establishing energy production goals and developing the Nation's overall energy policy--but there is no specific legislative requirement for this involvement.

CHAPTER 7

OBSERVATIONS, CONCLUSIONS, AND

RECOMMENDATIONS

OBSERVATIONS AND CONCLUSIONS

The newly proposed leasing program is another in a long line of attempts by previous Administrations to accelerate the search for hydrocarbons on the offshore and develop and produce any new-found resources as quickly as possible. The new program is similar to most of the previous programs in that it calls for increased leasing with a great deal of emphasis on frontier areas--especially Alaska. However, it is different from past programs in that presale planning and post-lease management processes--referred to as streamlining--are to be significantly changed. The basic thrust of streamlining is a reduction in the time-consuming presale environmental analyses and a change in tract valuation practices which in the past have limited the amount of land offered for lease.

Consideration and study of alternatives to the current leasing processes began under the prior Administration but were never adopted. The current Administration, picking up on these conceptual ideas, developed the new proposed program in about a 3-month time period--announcing the new program in April 1981. The proposed program was formally presented to the Congress for its initial review and comment in July 1981. (A final program is to be presented to the Congress for review sometime in early to mid-1982.) The details of (1) how the program would be implemented, (2) the costs and personnel needed to accommodate the program, and (3) the likely impacts of the program in terms of additional leasing, industry competition and small company participation in lease sales, long-range revenue receipts, and the impact on the economy have not been fully evaluated. Neither has Interior assessed the ability of State and local governments to participate in OCS decisionmaking under the new program nor has Interior examined the use and impact of using alternative bidding systems in the program.

In our early 1981 reports, we commented that Interior was considering alternatives to streamline the offshore program and improve its efficiency. Among other things, we recommended that Interior:

- Take appropriate steps to ensure that sales scheduled under the present program are held as planned--thus giving a greater degree of credibility to the OCS leasing program.
- Continue to seek ways to streamline the leasing process with special emphasis on reducing the amount of time needed to plan for second and

follow-on sales in a lease area, particularly the time needed to comply with EIS requirements.

- Identify and examine alternatives for leasing more of the tracts offered in lease sales.
- Reexamine the justification and rationale for the withdrawal of the 25 million acres of offshore lands currently not available for lease. The resource potential of these lands should be reexamined and reweighed against the reasons for exclusion to see if any additional high potential lands could now be made available for lease.
- Direct the USGS to intensify its efforts to define more precisely the portions of the OCS that are potentially attractive for leasing. This action should lead to increased leasing in those specific areas within OCS regions where oil and gas resources are thought to be located.
- Improve the quality and timing of environmental reviews by the Department of the Interior and others, so that significant concerns are dealt with prior to leasing--thus establishing the credibility of the leasing process and minimizing post-leasing challenges.
- Expand USGS's capabilities to monitor industry performance in diligently exploring and developing leases issued.

Interior's new proposal is partly in concert with our recommendations. For example, our recommendations regarding streamlining, alternatives for leasing more land offered in lease sales, and reconsidering land withdrawn from leasing are reflected in Interior's new plan. On the other hand, Interior's decision to revise the leasing program runs counter to our recommendation to adhere to the current sale schedule as much as possible in order to increase program credibility and predictability. Interior has commented that, while in overall agreement with this recommendation, the new Administration considered the June 1980 program lacking and in need of significant revision. Interior has also commented that with these proposed revisions, only minor program changes should be necessary in future years. Also, Interior's decision to reduce the amount of detail in presale environmental studies could increase the uncertainty associated with post-lease activity, i.e., the concept of industry being awarded a "clean lease" may be impaired. And reducing funding for post-lease management activities could impact on the Government's ability to effectively monitor exploration and development activities--activities, which under the new program, would supposedly increase.

We believe these latter issues are still areas in need of attention by Interior and many of our recommendations are directed to this.

In our opinion, the prospects of success for the new program are largely based on three factors

- the ability of Interior to implement and carry out the program in an efficient, effective, and timely manner;
- the willingness and ability of industry to accelerate its leasing and exploration of offshore lands; and
- the level and degree of legal challenge brought against the program, that is, will the program be acceptable to State and local governments and the public.

All the above factors are interrelated and each, at this stage, is unpredictable. For example, Interior's ability to carry out the program will be impacted by the level of industry's participation in the program--which is uncertain at this time--and the level of legal challenge brought against the program by the State and local governments and the public. More leasing will require more lease supervision and, depending on how thorough a job Interior does in preparing for a sale, legal challenges may result in Interior having to perform more analysis of program trade-offs. Industry's participation will no doubt be influenced by the amount of legal challenge leveled at the program, that is, industry's willingness to risk huge sums of money will be tempered by the prospects of Interior (1) being able to hold a sale as scheduled, (2) being able to issue a clean lease, and (3) being able to issue permits to explore a lease without delay--all of which have been problems in the past. Another factor to be considered is industry's past performance in responding to offshore sales. Our review indicates that industry believes it is fully capable and is gearing up for increased offshore activity. But as we have reported in the past, industry has only indicated an interest in about half the acreage considered for leasing in frontier areas--and of the acreage eventually offered, most being the higher nominated tracts, industry has only bid on about 40 percent. And lastly, legal challenges will probably be dependent on how thorough a job Interior does in preparing for a sale and how aggressive USGS is in managing post-lease activities.

There are no easy answers to the above factors. If the past is indicative of the future, leasing and offshore development may well continue at a restricted pace--current developments indicate this is highly possible, at least in Alaska. On the other hand, the Atlantic, Gulf of Mexico, and lower Pacific offshore areas have been opened for leasing, albeit accomplished through a long drawnout process. Leasing in these areas under the streamlining

concepts may prove to be both workable and acceptable to those concerned with offshore development. Also, leasing appears to be established in certain Alaskan areas--the Gulf of Alaska, Cook Inlet, and in some areas of the Beaufort Sea. The last frontiers for leasing, at least the areas of highest hydrocarbon potential, are the general Bering and Chukchi Sea areas of Alaska. These could well be the areas where the new program receives the greatest challenge.

Adopting a new leasing program is not an easy undertaking. Unlike most Federal activities, section 18 of the 1978 OCS Lands Act Amendments prescribes a step-by-step procedural process for developing a 5-year program. The process calls for (1) specific analyses and trade-offs between oil and gas development and other uses or concerns associated with the offshore, and (2) consultation and public review of proposed programs with State and local governments, the general public, other Federal agencies, and the Congress. Over a year and a half was needed to develop the June 1980 program--the initial program to be developed under the Amendments. And that program was challenged in the courts as being inadequately prepared, generally because of insufficient environmental analyses and consideration of the environmental impacts in program trade-off decisions. Development of the new program began in December 1980--a year ago. Currently, it is estimated that the earliest the program could be finalized would be mid-1982, or about 18 months after the beginning of the review and approval process.

Interior's program represents a new initiative to determine the hydrocarbon potential of the offshore. Such an assessment is sorely needed inasmuch as the oil and gas potential of the offshore is an unknown in the equation for solving the Nation's future energy needs. However, Interior's planning for the program in terms of (1) detailing how the program is to be implemented in practice, (2) assessing the potential impacts of the program, and (3) evaluating its capabilities to accommodate the program, needs constant attention. Numerous pitfalls stand in the way of the program being accomplished as planned. The success of the program will be dependent on Interior's ability to overcome the pitfalls.

Congress also needs to be satisfied that the Department has thought through and taken appropriate steps to successfully accomplish the program as planned. Our recommendations are designed to improve the Department's final submission to the Congress.

RECOMMENDATIONS TO THE SECRETARY OF THE INTERIOR

We recommend that the Secretary of the Interior, in the Department's final program submission to Congress, provide detailed information and analyses as to:

--The practices and procedures by which the streamlining concepts are to be implemented. This effort should focus on such key areas as environmental impact statement preparation and fair market value determinations--these being areas of considerable controversy and litigation in the past.

--The estimated potential impacts of the program in terms of (1) increased amounts of land to be leased on energy supply and environmental degradation, (2) competition and small company participation in lease sales, (3) the ability of State and local governments to participate in OCS decisionmaking, (4) revenue projections, and (5) the economy. The implications of using alternative bidding systems should be included in this analysis.

--The Department's capabilities to implement the proposed program. The relationship between reduced funding and staffing and an accelerated program should be carefully documented.

We also recommend, that the Secretary of the Interior consider adopting a modified streamlining approach by reducing the size of the areas offered for lease. Trimming the lease sales down to smaller offerings will allow for a more detailed analysis of the environmental features in an area and also reduce the acreage Interior must consider for tract valuations.

In addition, we recommend that the Secretary (1) exercise caution in awarding 10-year leases, limiting the issuance of such leases to only those areas where the situation clearly warrants this option, and (2) closely monitor the impact on diligent development of changes in lease terms and conditions, including possible extensions of time frames for submitting exploration plans.

AGENCY COMMENTS

The requestors of this review asked that we forego agency comments on this report prior to its issuance.

NINETY-SEVENTH CONGRESS

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CONGRESS OF THE UNITED STATES
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 SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
 OF THE
 COMMITTEE ON ENERGY AND COMMERCE
 WASHINGTON, D.C. 20515

July 17, 1981

Mr. Milton J. Socolar
 Acting Comptroller General
 General Accounting Office
 441 G Street, N. W.
 Washington, D. C. 20548

Dear Mr. Socolar:

The Subcommittee is initiating an accelerated examination into the actions taken by the Secretary of the Interior and the Secretary of Energy, as well as other agencies, in 1981 concerning the leasing and opening up for lease additional acreage of Federal onshore and offshore lands for mining and mineral exploration and development. The investigation will also examine the actions of the Geological Survey in establishing, auditing, and collecting royalty payments.

I am particularly interested in recent announcements by the DOI of plans to open for leasing large offshore acreage after the Reagan Administration has been in office for only a few months. I am also concerned about contentions by some in the mineral industry that some firms lack the financial, technical, and equipment capability to respond to such an expanded program. I am interested in identifying the policies and actions of the prior Administration that have been revised, changed, or ignored in developing and announcing this expanded program and in reviewing whether all applicable laws and regulations have been complied with, including the National Environmental Policy Act of 1969 and the applicable provisions of title III of Public Law 95-91. I am interested in learning whether such a program is sound and workable.

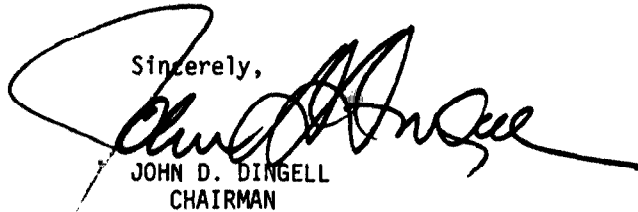
I request that the GAO carry out this investigation for the Subcommittee and look into these various matters, including an examination of the contentions or concerns of the mineral industry. At the same time, our staff will be examining these matters and request that GAO personnel be assigned to assist my staff.

I also expect that the Subcommittee may initiate hearings into these matters very soon and will want the GAO to testify and later provide a report. In furtherance of this effort, we request that you obtain within thirty days from the DOI all letters, memoranda, notes, reports, etc., in

BLM, GS, Solicitor Office, Secretary, and other DOI files concerning the recent DOI announcement opening more offshore acreage and a chronology of actions taken by DOI and other agencies concerning the opening. This should include any documents prepared for the Cabinet Council on Natural Resources and the Environment. I request that the GAO discuss these matters with our staff (Mr. Barrett, 225-4441, and Mr. Finnegan, 225-3147).

With best wishes,

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "John D. Dingell". The signature is written over the typed name and title.

JOHN D. DINGELL
CHAIRMAN

JDD/DBF/cam

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 MAJORITY—228-6427
 MINORITY—228-2736

July 23, 1981

Mr. Milton J. Socolar
 Acting Comptroller General
 U.S. General Accounting Office
 441 G Street, N.W.
 Washington, D.C. 20548

Dear Mr. Socolar:

The Subcommittee on Environment, Energy and Natural Resources pursuant to its responsibility as the House oversight Subcommittee for the Department of Interior, has been investigating that Department's activities in regard to the leasing of federal lands on the Outer Continental Shelf for oil and gas exploration and production. To date, the Subcommittee has held two days of hearings on that topic and plans more extensive hearings in the next few weeks.

As you know, the Secretary of Interior has recently announced a proposed new 5-year offshore leasing program designed to offer more offshore lands for lease and to accelerate the leasing process. The proposed program is currently being reviewed by the public and the Congress.

My Subcommittee plans to hold hearings on that Interior program in the early fall. I have read your recent reports on the OCS leasing program with great interest and would like you to review Interior's proposed program changes for the Subcommittee. Specifically, I request that you determine (1) how the new proposed program differs from the June 1980 leasing program, (2) what Interior has done to assure itself that the Department can accommodate the program, (3) the cost of the new program, (4) Interior's assessments of the impacts of the new proposal, and (5) how Interior has used comments from the private sector and the states in shaping the program.

I request that you be prepared to testify on your review in late September 1981 and later provide a full report to the Congress. Please coordinate your review with Mr. Lester Brown of my staff. Thank you for your cooperation.

Sincerely,

Toby Mopfett
 Toby Mopfett
 CHAIRMAN

NINETY-SEVENTH CONGRESS

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 MICHAEL J. TOOHAY

U.S. House of Representatives
Committee on
Merchant Marine and Fisheries
 Room 1334, Longworth House Office Building
 Washington, D.C. 20515

August 3, 1981

Hon. Milton J. Socolar
 Acting Comptroller General
 441 G St. NW, Room 7000
 Washington, DC 20548

Dear Mr. Socolar:

The Committee on Merchant Marine and Fisheries maintains broad jurisdiction over the implementation of the Outer Continental Shelf Lands Act (OCSLA) and other related marine and coastal legislation.

In the environment of austerity in which we operate today, we are interested in assuring that the U. S. taxpayer gets full value for the exploration and development of resources contained on public lands. In fact, one of the purposes established in the 1978 amendments to the OCSLA was a provision to insure the public a fair and equitable return on the resources of the OCS.

Given this congressional statement of policy and the budgetary constraints under which the government is operating, we are particularly interested in exploring the ramifications of recent policy proposals of the Department of the Interior with respect to OCS exploration and development activities.

Consequently, we would like the General Accounting Office (GAO) to investigate certain issues involved in the Department of the Interior's proposed accelerated leasing schedule (46 Federal Register 39226, July 31, 1981). Specifically, we would like you to address the following questions:

1. What is the economic impact, with respect to value received by the government, of the Department's proposal to offer 200 million acres per year in offshore leases? Would competition for such leases be increased or decreased as a result of that level of offering?
2. Does the oil and gas industry have the capital, manpower, and equipment capacity required by such a level of offering of OCS acreage? Will the increased demand on the industry have an inflationary impact?
3. Is the proposed funding of the Department of the Interior OCS-related administrative and environmental budgets adequate to deal with the accelerated schedule?

4. In the GAO report "Impact of Regulations--After Leasing--on Outer Continental Shelf Oil and Gas Development", it was recommended that the Interior Department--

"improve the quality and timing of environmental reviews . . . so that significant concerns are dealt with at the front end (prior to leasing)--thus establishing the credibility of the process and minimizing post-lease challenges."

What will be the impact of the proposed changes in the leasing schedule with respect to this issue?

5. Under the proposed changes, what can be expected in the federal effort to determine the value of the property being offered? To what extent will the government become dependent on the industry to provide such information and what implications would a possible dependency have for our OCS policy?

6. Under the proposed acceleration of the leasing schedule, is the front end cash bonus system more likely to produce a greater return to the government or would some alternative bidding system be more appropriate, given the significant increase in the acreage offered?

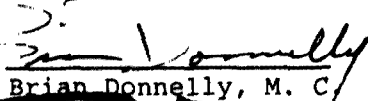
7. What will be the effect of the combination of large offerings and front end cash bonus bidding systems on the participation of small companies in competing for OCS tracts?

The changes in the OCS program, as proposed by the Department of the Interior, are imminent. Consequently, although the scope of this request is broad, we would be grateful for responses to our inquiries as soon as possible. We appreciate your cooperation and immediate attention to this matter and look forward to hearing from you in the near future.

Sincerely,


Mike Lowry, M.C.


Walter B. Jones, Chairman

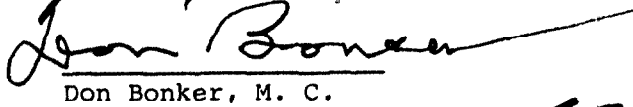

Brian Donnelly, M. C.


Paul N. McCloskey, M. C.


Roy Dyson, M. C.


William J. Hughes, M. C.


Thomas M. Foglietta, M. C.

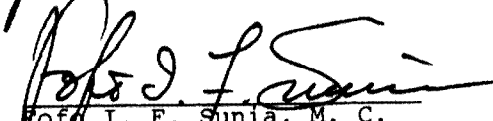

Don Bonker, M. C.



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COMPARISON OF INTERIOR'S CRITICAL ACTIONS AND DATES FOR REVISION
AND REAPPROVAL OF THE 5-YEAR OCS OIL AND GAS LEASING PROGRAM 1/

85

Critical action	Date		Remarks
	Planned	Actual	
Transmittal of decision memorandum describing feasible alternative accelerated/streamlined sale schedules to Executive Secretary and to Assistant Secretaries.	3/19/81	3/19/81	The decision memorandum is routinely prepared by the Assistant Secretary for Policy, Budget and Administration and sets out options for decision by the Secretary.
Recommendations due from Assistant Secretaries.	3/23/81	3/23/81 and 3/24/81	Recommendations and comments were provided by the Solicitor; the Assistant Secretary for Energy and Minerals; the Deputy Assistant Secretaries for Land and Water Resources and Policy, Budget and Administration, the Acting Deputy Assistant Secretary for Fish and Wildlife and Parks, the Director, National Park Service, and the Acting Directors, U.S. Geological Survey and Bureau of Land Management.
Transmittal of 3/19/81 memorandum and 3/23/81 recommendations to Secretary through Under Secretary.	3/24/81	3/24/81	The decision package is routinely prepared and transmitted to the Secretary by the Executive Secretariat.
Secretarial decision meeting on the draft proposed program.	3/27/81	None held	A decision meeting was not scheduled because according to the 3/24/81 transmittal memo, "...there is little controversy within the Department on this issue..."
Secretarial decision on the draft proposed program.	Week of 3/30/81	3/27/81	Decision made by the Under Secretary.
Transmittal of decision to Governors of affected coastal States for review and comment and announcement of decision by press release and <u>Federal Register</u> notice.	4/6/81	4/10/81 to 4/17/81	Press releases announcing proposed changes were made 4/10/81 and 4/16/81; letters sent to Governors were dated 4/13/81; and the <u>Federal Register</u> notice was dated 4/17/81. Responses were due 5/11/81.
Transmittal memorandum requesting estimates of appropriations and staff as required under Section 18(b) of the OCSLAA.	4/10/81	4/23/81	Response from Interior organizational elements due 5/8/81.
Transmit to the Under Secretary a BLM paper on the scope and content of basin-wide EISs and subsequent tiered EISs.	4/21/81	4/21/81	A BLM memorandum dated 4/17/81 on "Preparing Basin-Wide EIS's Under the OCS Streamlining Process," was transmitted to the Under Secretary on 4/21/81 by the Assistant Secretary, Land and Water Resources.
Transmit to the Under Secretary a USGS paper on proposed bid evaluation practices.	4/21/81	4/23/81	A paper on "Proposed Geological Survey Evaluation Practices," was transmitted by the Acting Director, Geological Survey, on 4/23/81, through the Assistant Secretary for Energy and Minerals.
Estimates of appropriations and staff due.	5/4/81	4/28/81 to 6/10/81	Estimates were provided by the Acting Associate Solicitor for Energy and Resources; the Deputy Assistant Secretary for Energy and Minerals; the Acting Deputy Director, Fish and Wildlife Service; and the Acting Directors, Geological Survey and Bureau of Land Management.

Critical action	Date		Remarks
	Planned	Actual	
Transmit to the Under Secretary an economic/legal analysis by the Office of Policy Analysis and Solicitor of alternative ways for assuring receipt of fair market value.	5/4/81	6/15/81	A paper on "Efficiency Improvements in Assuring Receipt of Fair Market Value for OCS Oil and Gas Leases" was prepared by the Office of Policy Analysis in consultation with the Office of the Solicitor. It was summarized and submitted to the Under Secretary on 6/15/81 by the Assistant Secretary for Policy, Budget and Administration through the Executive Secretariat.
Responses due on draft proposed program.	5/11/81	5/26/81	Due date was extended to 5/26/81 by <u>Federal Register</u> notice dated 5/6/81. Approximately 100 responses were received by Interior.
Release of the Draft Supplemental EIS on the proposed revision, if determined that such a statement is required. 2/	5/81	6/10/81	<u>Federal Register</u> notice dated 6/10/81 announced the availability of the Draft Supplemental EIS on the proposed 5-year schedule. Comments were due 7/27/81.
Transmittal of decision memorandum regarding adoption of a proposed leasing program to Executive Secretariat.	5/22/81	6/15/81	Decision memorandum submitted by the Acting Deputy Assistant Secretary for Policy, Budget and Administration.
Transmittal of decision memorandum to Assistant Secretaries for their recommendations.	5/26/81	6/15/81	Recommendations requested by the Executive Secretariat.
Secretarial recommendations due from Assistant Secretaries.	5/29/81	6/18/81 and 6/19/81	Recommendations and comments were provided by the Solicitor; the Assistant Secretaries for Fish and Wildlife and Parks and for Land and Water Resources; the Deputy Assistant Secretary for Energy and Minerals; the Acting Deputy Assistant Secretary for Policy, Budget and Administration; and the Director of the Bureau of Land Management.
Transmittal of 5/22/81 memorandum and 5/29/81 recommendations to Secretary.	6/1/81	6/19/81	Decision package assembled and transmitted by the Executive Secretariat.
Secretarial decision meeting on proposed program.	6/4/81	6/22/81	The decision on the proposed program was made by the Under Secretary during this meeting but it was not formally documented until 7/24/81.
Secretarial decision.	Week of 6/8/81	6/22/81	
Transmittal of proposed program to Congress, the Attorney General, and Governors, and announcement of the decision by press release and <u>Federal Register</u> notice.	Week of 6/15/81	7/15/81 to 7/31/81	Announcement made by press release on 7/15/81. Package formally transmitted to the President of the Senate, the Speaker of the House, the Attorney General and Governors of affected States on 7/24/81. On 7/31/81, the revised program was announced in the <u>Federal Register</u> and submitted to cognizant Senate and House Committees. Responses were due 10/22/81.
Public hearing on Draft Supplemental EIS and comments due.	7/81	7/21/81 to 8/10/81	Dates and locations for public hearings on the Draft Supplemental EIS were announced in the <u>Federal Register</u> on 6/24/81. Comments were due 8/10/81. Hearings were scheduled from 7/21/81 thru 7/24/81 to be held in New York, Alaska, California, Washington, D.C., and Louisiana.

Critical action	Date		Remarks
	Planned	Actual	
Release of the Final Supplemental EIS on the proposed program if determined that such a statement is required. <u>2/</u>	8 or 9/81	Pending	
Comments due on proposed program.	9/81	10/22/81	
Submittal of proposed final program to the President and the Congress.	10/81	Pending	Target dates were subsequently revised and are now uncertain. <u>3/</u>
Close of 60 day notification period required under Section 18(d)(2) of the OCSLAA.	12/81	Pending	
Approval of final leasing program by the Secretary.	12/81 or 1/82	Pending	

1/Based on the calendar of revision steps and critical action dates established by the Interior Secretary for revising the 5-year OCS leasing program as set forth in departmental memorandum dated March 19 and March 27, 1981, from the Secretary and Under Secretary, respectively.

2/The Solicitor advised the Secretary by memorandum on 3/24/81, that a supplemental EIS should be prepared to comply with Council on Environmental Quality regulations and to meet section 18 requirements for considering environmental factors associated with the reapproval of an accelerated program.

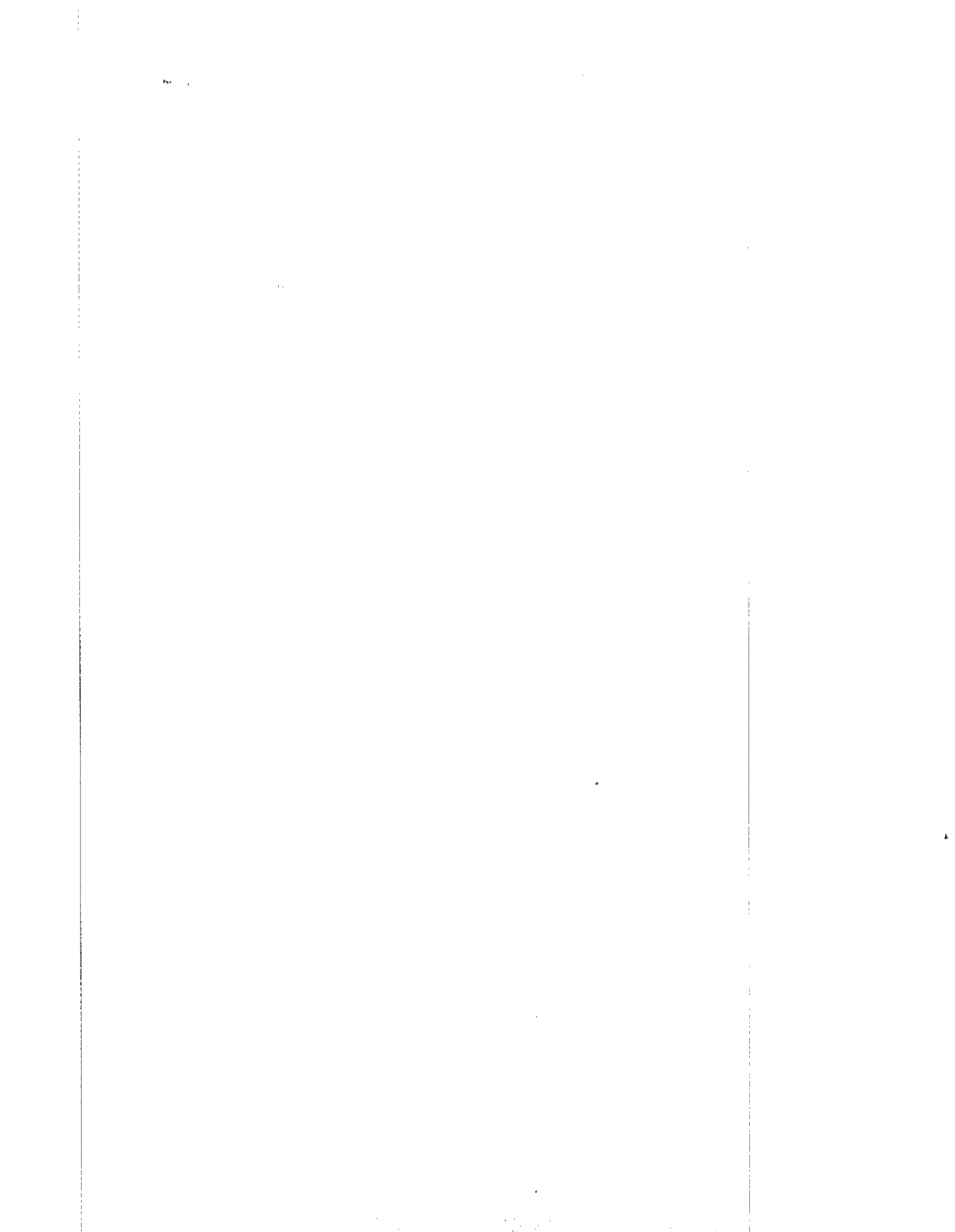
3/In September 1981, the Department of the Interior issued the revised schedule shown below which provides for final approval of the new program by March 12, 1982. The schedule is part of the Department's Management By Objective (MBO) system which describes the actions required in terms of subtasks and target dates.

<u>Subtask</u>	<u>Target Date</u>	<u>Responsibility</u>
Transmit Final Supplemental EIS to EPA	10/23/81	Deputy Director--Energy and Minerals Resources, Bureau of Land Management.
Transmit decision documents on proposed final program to Executive Secretariat	12/7/81	Director, OCS Program Coordination Office
Circulate final decision documents on proposed final program	12/8/81	Executive Secretariat
Submit recommendations to Executive Secretariat	12/11/81	All Assistant Secretaries
Decision meeting on proposed final program	12/17/81	Director, OCS Program Coordination Office
Transmit proposed final program to the President and the Congress	1/5/82	Director, OCS Program Coordination Office
Sixty-day notification period ends	3/ 6/82	
Final approval	3/12/82	Secretary

An Interior official told us the above dates are again being revised to allow the Department to consider a recent court decision's impact on the proposed revisions to the program (see chapter 6, p. 68). We were told final approval will likely be extended 3 to 6 months as a result of the decision.

COMPANIES, INDUSTRY ASSOCIATIONS, AND OTHERSCONTACTED BY GAO

American Association of Petroleum Geologists
American Society for Engineering Education
American Petroleum Institute
Blocker Energy
Cameron BP
Chase Manhattan Bank
Charles Menut, Independent Oil Operator and Consultant
Engineering Manpower Commission
EXXON
Hughes Tool Company
International Association of Drilling Contractors
International Association of Geophysical Contractors
National Lead, Baroid Division
National Science Foundation
National Supply Company, Armco Tubular Division
National Ocean Industries Association
Northwind Exploration Company
Offshore Data Services
Shaffer Blow-out Preventer Company (Division of National Lead)
Shell Oil Company
Society of Petroleum Engineers
Society of Exploration Geophysicists
The Petroleum Publishing Company
The Oil and Gas Journal
Tidewater Marine
U.S. Department of Education, National Center
for Education Statistics
U.S. Department of Labor, Bureau of Labor
Statistics
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