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STATEMENT OF
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BEFORE THE SUBCOMMITTEE ON ENERGY RESEARCH,
DEVELOPMENT AND DEMONSTRATION
COMMITTEE ON SCIENCE AND TECHNOLOGY
U.S. HOUSE OF REPRESENTATIVES



We appreciate the opportunity to appear before this Subcommittee to discuss some of the issues related to accelerated Outer Continental Shelf (OCS) development and the ability of the Department of the Interior to administer such a program. 32

Until recently, little consideration had been given to the impacts of onshore commercial and industrial developments resulting from the production of OCS areas. In this respect the situation is quite different from that which has occurred with the development of the oil and gas resources in the Gulf of Mexico. Development there has grown gradually over a period of more than 20 years. It has been viewed, and has been accommodated by the residents of the region, as an extension of an industrial development already in the area.

The new areas now under consideration--the Atlantic, the Gulf of Alaska, and the Southern Pacific OCS areas--have no such history. The tensions that are generated stem from the inevitable conflicts over proposals which would change the character and lifestyle of a region to satisfy a national goal, increased energy supply.

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Resolving these conflicts between local and national purposes will require a combination of individual and group accommodations which can be facilitated by the right kind of institutional mechanisms. In some cases, we may have suitable mechanisms; but in others, we clearly do not.

The Outer Continental Shelf Lands Act of 1953 which created the system now in use for leasing and developing our OCS resources has never been amended. Experience with its operation indicates that consideration must be given to improving leasing and operating practices. Whether such improvements require legislative remedy--or just more aggressive and responsive administrative management--is an open question.

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The GAO has been deeply involved in reviewing a number of issues concerning offshore development as part of a broader investigation of Federal leasing policies and practices for oil, gas, and coal.

The results of these efforts will be a series of reports to the Congress. The first of the series entitled "Outlook for Federal Goals to Accelerate Leasing of Oil and Gas Resources on the Outer Continental Shelf" was issued March 19, 1975. The second of the series entitled "Outer Continental Shelf--Improvements Needed in Determining Where to Lease and at What Dollar Value" was issued June 30, 1975. We are submitting copies of both reports for inclusion in the record.

These efforts, along with other related GAO work in the energy area, are designed to help illuminate both the issues and opportunities associated with implementation of a national energy policy.

I would like now to briefly summarize the results of these efforts in the remainder of my opening statement.

FEDERAL LEASING GOALS

In our March 19, 1975, report to the Congress we focused on the circumstances under which Interior's accelerated "10-million-acre" leasing goal was developed, its relationship to the Project Independence effort, and constraints which can be expected to hinder accomplishing such an accelerated leasing program.

Throughout most of 1974, the Interior Department vigorously supported a stated goal of leasing 10 million acres of OCS lands in 1975. Several frontier OCS areas were potentially targeted for lease as part of that plan.

In our judgment, the far-reaching implications of such a leasing goal, both with respect to the direction of future energy resource development and potential environmental consequences, made it one of the most critical policy decisions in the 20-year history of Federal OCS leasing. Yet we found that the goal was hastily conceived by Interior policy officials under pressures exerted by the energy crisis without adequate data or adequate consideration of several major factors, and despite opposition from Interior's program personnel.

Interior officials now say that Interior no longer has a 10-million-acre-leasing goal. They state that emphasis is on production and opening up frontier areas as quickly as possible. A revised leasing schedule which Interior announced June 18, 1975, proposes 24 sales during 1975-78 including five for calendar year 1975. Interior has not shed any light on what the magnitude of the leasing program might be. No new acreage goals were announced and the rationale for holding 24 sales during the period 1975-78 rather than some other number remains a mystery. We do not see how it is possible to conduct a rational leasing program without setting

reasonable goals of how much to lease, with some preliminary estimates of how much oil and gas to expect from development of the leases.

Without clear guidance as to the relationship of any OCS leasing program to national goals and objectives, we do not see how Government or industry can effectively plan for OCS development. Accordingly, our report recommends that the Secretary of the Interior clearly define the leasing goals and how they relate to overall national energy goals and plans.

IMPROVEMENTS NEEDED IN DETERMINING
WHERE TO LEASE AND AT WHAT DOLLAR VALUE

Our report focuses on the adequacy of the Federal Government's program for deciding where to lease potential oil and gas resources, and at what dollar values. Under the present leasing system, we believe the Federal Government is frequently committed to development before it has sufficient information to make intelligent choices. The Government's OCS evaluation programs

- are hindered by inadequate data and analysis,
- do not reasonably insure that a fair market value return is received on lease offers of OCS oil and gas resources, and
- are being jeopardized by an accelerated leasing pace.

The Federal Government relies primarily on industry interest in deciding where to lease. Interior has for all intents and purposes left tract selection up to industry. But even industry officials admit that they do not have adequate data concerning resource potential of new OCS areas.

In situations where there is not a large number of bona fide bidders, there is no assurance that the market is competitive. Therefore, Interior has developed a valuation system which calculates a prelease estimate of the value for tracts being offered. This value can be used as a basic tool in deciding whether to reject a given bid when competition is poor. However, because of inadequate data and analysis, the Federal Government cannot reasonably insure that a fair market value return is received in OCS lease sales.

Increases in OCS sale size and frequency in 1974 have caused workload problems resulting in an abbreviated valuation program and have further lessened the Government's ability to insure a fair market value return on lease offers. All this occurs at a time when, because of the accelerated leasing program, competition has been growing weaker. Evaluation is all the more important under such circumstances.

We recognize that many factors in the tract selection and valuation process cannot be quantified with certainty, but we believe that the Federal Government could do much to improve the process.

What can be done? First, the Government must act to insure that sufficient geological data is collected and evaluated before lease offers. Second, all geophysical and geological data which industry has developed under exploratory permits should be available to the Government for use in the valuation program. Also, Interior should contract for needed exclusive geophysical data not available from industry, and should pace lease offers at a frequency which will permit USGS to adequately consider geotechnical data in its OCS valuation program. Third, the Government should improve the economic factors used in the valuation program by establishing

procedures requiring periodic assessments and, if warranted, adjustments in such factors on the basis of the most current information available.

Information received from stratigraphic test drilling, carefully located in previously undrilled areas of the OCS, would be valuable in identifying areas favorable for oil and gas accumulation. This knowledge would allow exploration and resource appraisal to proceed more scientifically and efficiently than would otherwise be possible.

Interior has recently announced new proposed regulations which would include deep stratigraphic drilling in OCS areas. But indications are that drilling would still be done at industry's preference without Federal involvement or direction to insure adequacy of data coverage.

We believe that the Government should take the lead to insure the development and implementation of a systematic exploration plan for resource appraisal, and to insure implementation of federally planned efforts through Government financed exploration.

The question of data availability--what data should be available, to whom, and how soon after collection--is so recurrent in dealing with energy problems as to be chronic. In testifying before the Senate Committee on Interior and Insular Affairs in February 1974, on a report on energy data done at the request of that Committee Chairman, we stated our general view that the burden of proof should be on those who argue that energy-related information is proprietary and should be withheld from the public. It seems to us this rule is particularly appropriate when the information concerns the public lands.

BEST DOCUMENT AVAILABLE

Concerning data collected in the process of exploring or leasing the OCS, we believe the following general rules are appropriate.

1. A clear distinction should be made between raw, processed, and interpreted data, to avoid disputes at some later date as to which specific data should be made available for public inspection.
2. Raw, processed, and interpreted data, produced directly by the Government, should be made available to the public.
3. Raw, processed, and interpreted data, produced through wholly federally financed activities, should be made available to the public.
4. Raw, processed, and interpreted data, gathered by private parties under exploration permit, should be made available to the Government; the raw and processed data should be made available to the public at large at a time certain, determined by the Secretary of the Interior, which would not be detrimental to the competitive interest of the permittee.
5. Raw, processed, and interpreted data, gathered by private parties under a Federal lease, should be made available to the Government; the raw and processed data should be made available to the public at a time certain, determined by the Secretary of the Interior as not being detrimental to the competitive interests of the lessee.

With these guidelines and review findings in mind, we have recommended that the Secretary of the Interior take several steps to improve the Federal Government's programs for deciding where to lease and at what dollar value. The recommendations, broadly outlined, call for:

- Interior to direct an exploration program for a systematic planned appraisal of Outer Continental Shelf oil and gas resources, including selective stratigraphic test drilling in Shelf areas before leasing.
- Industry involvement in resource appraisal through exploration permits supplemented by Government-financed exploration to insure implementation of federally planned efforts.
- Federal regulations aimed at providing the Government and the general public with geotechnical information.
- Procedures for periodic assessment of economic factors used in valuing resources and adjusting such factors on the basis of the most current information available.
- Pacing lease offers at a frequency which will permit Interior to adequately consider geotechnical data in its OCS valuation programs.

Also, we reported that improved valuation and development of oil and gas resources is indicated through evaluating, offering, and leasing OCS areas on a geological structure rather than tract-by-tract basis. Officials in Government and industry share this belief. Also, efficiencies in exploration and production activities are indicated through unitization whereby lease holdings would be developed under cooperative arrangements among oil companies.

Although these features are not without problems we believe they indicate promising potential which Interior should pursue to determine their usefulness and general applicability in leasing and developing OCS resources. We believe that an actual test program under which empirical

results could be observed and evaluated is needed to provide answers regarding these issues. Accordingly, we recommended that the Secretary of the Interior establish a test program to evaluate, offer, and lease entire geological structures as opposed to the present practice of leasing tracts. Unitization of exploration and development activities would be required for test purposes.

PRIOR RELATED GAO WORK AND WORK UNDERWAY

We reported on efforts to control oil spills on the OCS to the Conservation and Natural Resources Subcommittee of the House Committee on Government Operations in June 1973 and February 1974. We stated that improved inspection and regulation by the Department of the Interior could reduce the possibility of oil spills--and we made recommendations to the Secretary along these lines.

We recommended that the Department could improve supervision of these operations by (1) strengthening enforcement actions against operators violating Geological Survey regulations, (2) establishing a realistic policy on the frequency of inspections of various types of offshore operations, considering the resources available and the risks of oil spills, (3) establishing a formal inspection training program, (4) issuing inspection instructions for certain operations such as remedial and abandonment operations, and (5) regulating certain operations which were not regulated at the time of our review but which potentially could cause pollution.

The Department has advised us that it has implemented our recommendations, except for the issuance of certain written inspection instructions and regulatory orders. We believe that the issuance of the inspection instructions and regulatory orders should be expedited.

We are continuing to do work in the OCS area with regard to Interior's environmental studies program and how Federal OCS leasing policies and practices compare with onshore oil, gas, and coal arrangements. We believe this perspective will be particularly enlightening, because it permits direct comparison of separately developed Federal policies, procedures, and legislation for fossil fuels.

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Mr. Chairman, that concludes my prepared statement. We appreciate the opportunity to review our work with you and members of the Subcommittee and will be glad to answer any questions.