

YES  
274  
L 11  
6  
July  
11  
C 78

75-0058

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

JUL 12 1974

B-177219



The Honorable Wm. V. Roth  
United States Senate

R Dear Senator Roth:

As you requested on March 11, 1974, and as your office later agreed, we are furnishing (1) data on the provisions in the Department of the Interior's current regulations and laws regarding development of oil and gas leases within a certain time and production by the lessee and (2) overall oil and gas statistics for onshore and offshore public lands on the number and acres of producing and nonproducing leases as of December 31, 1972, and the royalties, rentals, and bonuses collected during fiscal year 1973.

33

We are furnishing separately a listing prepared by the Department's Geological Survey of all leases that produced oil during year 1973 and during the oil and gas production period for the period. We also have a copy of a study being done by the Geological Survey on the number of acre-feet of oil and gas reserves on public lands and the reasons for the estimates. As soon as Survey completes the study, we will send you a copy.

LEASE DEVELOPMENT AND PRODUCTION PROVISIONS

The primary statutory authorities for leasing public lands to produce oil and gas are the Outer Continental Shelf Lands Act (42 U.S.C. 1601, 47 Stat. 460) and the Mineral Lands Leasing Act (30 U.S.C. 181, 47 Stat. 407). The Department, according to this legislation, has issued regulations for leasing on the Outer Continental Shelf (OCS) in 30 CFR 250 and 43 CFR 3800 and for leasing on onshore public lands in 43 CFR 3100, 3110, and 3120.

OCS leases

All oil and gas leases on OCS are issued on a competitive basis. The lease the Department uses provides a lease term of 5 years and as long thereafter as oil and gas are produced in paying quantities or as long as drilling or well-reworking operations, as approved by the Secretary of the Interior, are carried on. The lease is silent about production of any minimum amount of oil or gas.

Copy microfilmed  
was of poor quality.

BEST DOCUMENT AVAILABLE

REC-74-250

702151

[095811]

The lessee is required to diligently drill and produce such wells as are necessary to protect the Government from loss due to production on other property or to compensate the Government for failing to drill and produce any such wells. The lessee is further required, after being given due notice, in writing, to drill and produce such other wells as the Secretary of the Interior may reasonably require so that the leased lands may be properly and timely developed and produced in accordance with good operating practice.

The regulatory provisions correspond to the language found in the lease, and the regulations and leases comply with the statutory provisions.

The Outer Continental Shelf Lands Act and applicable regulations permit the Secretary of the Interior to cancel a nonproducing lease for failure to comply with any provision of the act, regulations, or lease if such failure continues for 30 days after an appropriate notice is mailed to the lessee. Producing leases can be canceled, only through appropriate judicial proceedings, for such failure.

Onshore Leases

The Mineral Lands Leasing Act states that, if the lands to be leased are within the known geologic structure of a producing oil-field or gas-field, the lands are to be leased to the first qualified applicant, competitive or noncompetitive. Lands not within any known geologic structure of a producing oil-field or gas-field are to be leased to the first qualified applicant.

Regarding development of a lease with a certain time frame, a competitive lease establishes a lease period of 5 years and a non-competitive lease establishes a lease period of 10 years. Both types of lease provide for extending the lease periods for as long thereafter as oil or gas is produced in paying quantities.

Competitive and noncompetitive leases have substantially the same requirements on oil and gas production by the lessees. No minimum amounts are established, but the lessees are required to drill those wells necessary to prevent drainage due to wells on other properties and, after receiving notice, must promptly drill and produce such other wells as are required by the Secretary of the Interior to properly and timely develop the leased premises. Both competitive and noncompetitive lease forms provide that the rate of prospecting and developing and the quantity and rate of production be subject to control in the public interest by the Secretary of the Interior.

Copy microfilmed  
was of poor quality.

**BEST DOCUMENT AVAILABLE**

26  
1

The regulatory provisions dealing with length of the lease correspond with the lease language. In addition, the regulations provide that both competitive and noncompetitive leases can be extended for 2 years if certain proved drilling operations are started before the end of the primary term.

The regulations, however, are more specific than the leases regarding drilling operations. The regulations provide that drilling operations be carried on in such a way as to be an effort which is seriously looking for oil or gas which could be expected to flow in that particular area, given certain geologic and other pertinent facts. No specified minimum quantities of oil or gas, however, are required to be produced.

The provisions in the regulations and in the standard lease forms do not conflict with the statutory language.

The Mineral Lands Leasing Act and applicable regulations provide that, before a lease issued after August 21, 1935, is canceled for failure of the lessee to comply with any provision of the lease, the lessee receive at least 30 days' notice, unless or until the leased land is shown to contain oil or gas deposits. Leases on land known to contain such valuable deposits may be canceled only to the extent of the primary term.

OIL AND GAS LEASING STATISTICS

There were 101,017 leases on mineral and 7,661 oil and gas leases covering 75,424,931 acres as of December 31, 1972, as follows:

Type of lease	OCS			Onshore public lands			Total		
	Number	Percent	Acres	Number	Percent	Acres	Number	Percent	Acres
Producing	691	68	2,903,016	9,279	9	4,792,611	9,970	10	7,695,627
Nonproducing	323	32	1,419,972	91,224	91	67,301,926	94,457	90	69,721,898
Total	1,014	100	4,322,988	100,503	100	72,101,537	104,467	100	76,417,525

Department officials told us that they did not have any statistics or studies on why 91 percent of the oil and gas leases on onshore public lands were nonproducing. They said that most leases were on

Copy microfilmed was of poor quality.

lands which contained original geologic structures and that therefore there was little or no incentive to drill on those lands. They said that most leases probably were held for wildcatting.

During fiscal year 1973, the Department collected about \$4.1 billion in royalties, rentals, and bonuses from leasing Federal lands for oil and gas production. A bonus is the cash consideration the successful bidder paid to the Department for a mineral lease and is in addition to the royalty and royalties specified in the lease. An analysis of these receipts, by type of land, follows.

## OCS:

Royalties	\$1,020,358,074
Rentals	26,317,217
Bonuses	<u>2,902,205,015</u>
	\$3,954,880,306
Onshore public lands (note d)	<u>135,428,000</u>
Total	\$4,090,308,306

<sup>a</sup>Analysis by type of land not available.

According to an act of Congress in the United States and to a ruling of the Supreme Court, the receipts which result from leasing a lease to the Federal Government are placed in an escrow account. During fiscal year 1973, about \$4.1 billion was transferred from the escrow account to the U.S. Treasury general fund accounts according to a significant ruling of the U.S. Supreme Court. This amount is included in the above OCS receipts.

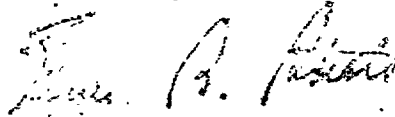
The Department is responsible for leasing Indian lands for oil and gas production. During fiscal year 1973, about \$25 million was collected from such leasing. As of December 31, 1972, there were 9,695 oil and gas leases covering 476,079 acres of Indian lands; 2,361 of those leases (24 percent) on 947,362 acres were producing.

We are reviewing the Department's programs relating to the discovery and development of energy resources on Federal lands and OCS. Among the issues we will cover in the lease management area is production experience of leases and Federal efforts to encourage production, including reasons for nonproduction on oil and gas leases. We plan to issue a report to the Congress after we complete our review.

B-178285

We do not plan to distribute this report further unless you agree or publicly announce its contents

Sincerely yours,



Comptroller General  
of the United States

**BEST DOCUMENT AVAILABLE**

Copy microfilmed  
was of poor quality.