OCS LEASING PROCESS

Frank Basi

United States Department of the Interior

ABSTRACT

At the time this summary is being written the actual proposal for revising the OCS Program and leasing process is being formulated. It is impossible to report on the actual format and context since both are in a state of flux. Rather I have tried to communicate what the discussions imply in terms of the thrust of the program without stating what the program will be. By the same token I should add that this is only my impression of the direction things are going and is subject to change as the formulation process is worked through, therefore, it should be construed solely as my opinion and not a binding statement of fact or intention on the part of the Department of the Interior or the Bureau of Land Management.

THE OUTER CONTINENTAL SHELF LEASING PROCESS

The process of Federal Leasing which was instituted in 1954 with passage of the OCS Lands Act has grown constantly more time consuming and complex. Early in its evolution change was dictated largely by advancing technology and the subtly maturing perception of future need for oil and gas resources by the oil industry and government. By 1970 the program for a number of reasons had begun to resemble the system we had known for the past several years, Nominations, Tract Selection, Pre-Sale Evaluation, etc. The NEPA requirements themselves in the early 70's fit into a system that had grown fairly sophisticated as interest in and expectations from the program grew.

As the process changed over the years more and more of the activities involved became formalized first through policy implementation (Resource Estimates, Pre-Tract Selection, State Coordination, Solicitation of Comments) and finally in 1978 through legislation and regulation. If we roughly compare the timeframes at representative stages of the process we find that the earliest sales took as long to arrange as the time span between when you decided you wanted a sale and when you wanted to hold it as long as there was at least 30 days between the two dates. While none of the sales took that short a period a much shorter time was required. Many of the government/industry informal consultations that took place at this stage of the program's history would later evolve into very formal interactions, the Call for Nominations and Comments, Tract Selection, and procedures for consideration of hazards and development of stipulations to name a few are representatives of this change. From a few months the changes generated by the early "environmental age" had generated timeframes of about 2 years. With the adoption of the OCS Lands Act Amendments in 1978 that timeframe varied from about 19 months in the Gulf of Mexico to about 42 months in the Northern Alaska Basins.

While the timeframe for the steps up to leasing increased - the function of leasing became an end unto itself. Technological innovation and development were as much a product of the early process as undervalued oil and gas. Later the leasing activity was looked upon as a required step to provide access to reserves that would keep production levels growing and then stable and shortly to reduce the rate of decline of domestic production. It was in the frontier areas especially those that had no history or experience with adjacent production that leasing was perceived as an end in itself. Prior to about 1975 the leasing function was the provision of right and access at the lessees financial risk. After 1975 with the insistence upon and proliferation of sophisticated resource estimates the leasing step was perceived as a commodity sale.

The latest proposal to revise the OCS leasing process may be viewed as an example of a public resource activity that has come full circle.

The basic components of the system are 1. Call for Information, 2. Offering Determination, 3. DEIS, 4. Public Hearing, 5. FEIS/ PNOS, 6. DM/NS, 7. Sale. The manner in which the offering are determined and accessed reflect a concentration on the basic realities as indicated over the years. For example after a call for information it may be expected that only those areas where operations are inherently and absolutely impossible would be eliminated. The remainder of the area would be assessed on the basis of
reasonable expectation for tracts sold, tracts explored, discoveries made and the minimal percentage number of tracts expected to be productive. The regional analysis will reflect the fact that a lease is not a commodity contract rather it is a license for access to a financially risky venture. Furthermore the analysis will attempt on a regional basis to set a timeframe for the change of circumstances when a small percentage of lessees who were lucky, or smart if you prefer, will engage in these activities where environmental risks, if they are liable to occur, must be considered as a function of a relatively small discrete area. The regional EIS will try to identify and the type and extent of areas where production risks may occur and the specific characteristics or parameters that may contribute to the risks. It will also address the type and timing of information necessary to quantify and/or mitigate the potential damage if in fact it becomes necessary.

As for actual leasing of tracts that will be as it was a matter of market forces and competition within the industry. Basically 4 factors dominate what and how much acreage will be sold in any sale. First it is the nature of tracts themselves—some are better prospects than others. Second the amount of money available to expose at a given sale, third the degree to which a given company or group is committed to seeing that they are successful in acquiring the rights to specific acreage, fourth the particular mix of expertise, experience and intuition that accounts for some variation on every analyst's part as to what acreage is interesting and the degree to which that interest ought to be translated to capital outlay.

Quite simply companies may reduce somewhat the highest bids they would make on what they considered to be their best prospects in order to compete on some additional prospects. But even in this they have to first consider if that will make them vulnerable on those highest priority areas. The net result may be that slightly more acreage will be sold but the money received by the government should not change significantly.

By simplifying the system in this way we expect that the acreage that does actually hold producable oil and gas will be explored as soon as possible. Since the actual effect of exploration is insignificant in all but the most extraordinary circumstances it will still allow us ample time to concentration our concern on those small number of cases and the limited areas where production is destined, and to accomplish that as effectively and safely as humanly possible.