

Idle leases – or addled minds?

Political grandstanding won't help companies find oil on federal leases

Newt Gingrich and Roy Innis

Senator Jeff Bingaman, Congressman Nick Rahall, House Speaker Nancy Pelosi and other members of Congress who oppose producing more American oil are in a bind.

They know voters are hurting from high gas prices and overwhelmingly want the government to allow more American oil production. But they can't side with the American people and risk upsetting their left-wing base. So they needed a way to make us think they support more drilling – while effectively preventing us from ever drilling a single new well.

They think they've found a solution: a proposed "use it or lose it" law on federal leases for energy exploration. Bingaman, Rahall and fellow drilling opponents accuse the oil industry of "sitting on" 68 million acres of "non-producing" leased land. They want to force energy companies to "use" this leased land within ten years – or lose all exploration and drilling rights.

America can only hope the proposed law is Bingaman and Rahall's clumsy attempt at political jujitsu. The alternative is that the politicians in charge of committees that determine US energy policy are confused and ludicrously disconnected from reality.

First, lease agreements already require that leased land be used in a timely manner. The 1992 Comprehensive Energy Policy Act requires energy companies to comply with lease provisions, and explore expeditiously, or risk forfeiture of the lease. So the Bingaman-Rahall "solution" effectively duplicates current law.

Second, and more disturbingly, Bingaman and Rahall's groundless accusation and proposed legislation rely on the absurd assumption that every acre of land leased by the government contains oil. Obviously, that's not the case.

The truth is, finding oil is a long, complex, cumbersome, expensive process. It starts with an idea – about what kinds of geologic structures are likely to hold this vital resource. Based on that idea, companies purchase leases: agreements that allow them to test their ideas, and hopefully find and produce oil and gas from leased properties.

Then geologists look at existing data and conduct seismic, magnetic and geophysical tests of the leased areas. They create detailed 3-D computer models of what subsurface rock formations look like, and whether there might be any "traps" that could hold petroleum.

Most of the time, all this painstaking, expensive initial analysis concludes that the likelihood is too small to justify drilling an exploratory well, since the cost of a single well can run \$1-5 million onshore, and \$25-100 million in deep offshore waters. Only one of three onshore wells finds oil or gas in sufficient quantities to produce it profitably; in deep water, only one in five wells is commercial. Thus, only a small percentage of the leased acres end up producing oil.

This is important because it means most of those 68 million acres Bingaman and Rahall want to force oil companies to drill actually don't have enough oil to make it worth drilling. Either they know that, and are trying to deceive us; or they don't know it, because they haven't done their homework.

Third, if a commercial discovery is made, more wells must be drilled, to delineate the shape and extent of the deposit. Production facilities and pipelines must be designed, built, brought to the site and installed. Only after oil or gas is actually flowing does the lease become "producing."

In one example, Shell Oil and its partners leased an area in 7800 feet of water 200 miles off the Texas coast. They spent five years exploring and evaluating the area, punched several "dry holes," and finally drilled a discovery well in 2002. Three appraisal wells (at \$100 million apiece) confirmed a major field,

and in 2006 the company ordered a huge floating platform and pipeline system that will initiate production in 2010. Total investment: \$3+ billion.

That's hardly "sitting on their leases." But those leases will be "non-producing" until 2010. Clearly, a "use it or lose it" law will do nothing to change these hard realities.

Thirteen years may sound like a long time. It is longer than usual. But compared to the *decades* it will take for wind power to make a meaningful – but still unreliable – contribution, it's nothing.

Further complications often stymie energy companies from obtaining and using leased land.

Every step in the process must be preceded by environmental studies, oil spill response plans, onsite inspections, and permits. The process takes years, and every step is subject to delays, challenges – and litigation.

In the Rocky Mountains, protests against lease sales rose from 27% of all leases in 2001 to 81% in 2007, according to government and industry records. Numerous additional prospects were never even offered, because land managers feared protests.

The justification used to be endangered species. Now it's climate change – as though US oil causes global warming, but imported oil substitutes do not.

If and when leases are issued, seismic and drilling work is often protested. Some years ago, an endangered plant held up drilling – until companies realized the *Astragalus* was locoweed, which ranchers had been trying to eradicate because it sickens cattle. This year, the excuses are drilling fluids that are 98% water and clay – and sage grouse, even though hunters shoot thousands of them every year.

The obstructionist tactics mean hundreds of millions of dollars in lease bonuses and rentals, seismic surveys and other exploration work are in limbo. None of this money has been refunded to companies, and no interest is paid to the companies. The money would pay for thousands of wells that drilling opponents say companies refuse to drill.

These lands are non-producing, not because companies are procrastinating – but because politicians and bureaucrats have bowed to pressure from radical environmentalists, and refused to issue permits.

We don't need a "use it or lose it" law – or more cheap-rhetoric, big-oil conspiracies. Congress simply needs to allow drilling on the 60% of onshore federal oil and gas prospects and 85% of Outer Continental Shelf prospects that it has placed off-limits.

Furthermore, instead of a "drill it or lose it" law, we need a "permit or pay" rule:

- * When the government sits on permit applications for more than six months, companies no longer have to pay lease rents; instead, they get interest on their bonus payments and expenses to date, and lease terms are extended.

- * When environmental groups lose their legal actions, they pay the companies for the court costs, delays and attorney fees.

When you go to the ballot box this fall, remember who's really behind the outrageous prices you're paying for the energy that makes your job, home, car and living standards possible.

Remember the simple solution: [Stop the war on poor families](#). Issue leases and permits. [Drill here. Drill now. Pay less.](#)

Newt Gingrich is founder of the non-partisan think tank American Solutions and author of *Winning the Future: A 21st Century Contract with America*. Roy Innis is chairman of the Congress of Racial Equality and author of *Energy Keepers - Energy Killers: The new civil rights battle*.

<http://www.AmericanSolutions.com/DrillNow> ***** <http://StopWarOnPoor.org/>