United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

TAKE PRIDE IN AMERICA

JUN 25 2008

The Honorable Don Young
Ranking Republican Member
Committee on Natural Resources
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Young:

Thank you for your letter of June 19, 2008, to Secretary Kempthorne regarding a recent report on oil and gas by the House Committee on Natural Resources. Secretary Kempthorne has asked me to reply.

In your letter you asked that the Department of the Interior (Department) address the report's claim that oil companies hold non-producing leases on 68 million acres which could produce 4.8 million barrels of oil and 44.7 of natural gas each day.

The report does not reference specific locations for much of the data and therefore we cannot ascertain where each of the numbers was derived. It appears the report took raw data, some of which can be found on the Department websites, and then used various formulas to reach certain conclusions. The report does not disclose the assumptions or formulas used.

The views contained in the report are based on a misunderstanding of the very lengthy regulatory process. The existence of a lease does not guarantee the discovery of, or any particular quantity of oil and gas. To truly determine this, lessees must develop data and eventually explore their leases which requires numerous permits involving compliance with various environmental laws and regulations. This process often takes months or years. In addition, lessees undertake a vast array of business steps prior to making a decision to move a lease into production, and must obtain another set of Federal and State permits to do so. I would like to provide some background on both points.

Obtaining a lease is just the first step. The lessee must first obtain the myriad of permits and approvals for exploration activities and development plans that are required before production can occur. Exploration, which occurs after the issuance of the lease, is critical. For example, after an operator acquires an onshore lease they must obtain Geophysical Permits, Permits to

Drill, Sundry Notices, and permits that may be required by State government. In addition to all necessary permits being obtained, an operator must also file a plan of development.

Development offshore is equally complex. An operator must obtain Geological and Geophysical Exploration Permits, Environmental Protection Agency National Pollutant Discharge Elimination System Permits, an Army Corps of Engineers Permit, Permits to Drill, and Marine Mammals/Endangered Species Permits. If a lessee makes the decision to move to development, in addition to the myriad of required permits, an operator must file numerous plans, including Deepwater Operations Plans, Oil Spill Response Plans, Hydrogen Sulfide Plans, Development Plans or Development Operations Coordination Documents.

While these lists are not exhaustive, they illustrate the efforts that must be undertaken before a lease can be explored and developed and production comes online. A more comprehensive list of the various permits, approvals, and other legal and regulatory prerequisites that may be required based on site specifics for both onshore and offshore production is attached for your information.

In addition to the processes mentioned above, other factors affect potential development and subsequent production. These factors include capital investments and equipment such as drilling rigs and platforms.

In shallow water, approximately one in three wells results in a discovery of a quantity of oil and/or natural gas sufficient to produce economically In deeper water, one well in five is economical. Shallow wells cost approximately $200,000 for just the drilling. In deepwater, the drilling of one well may cost $100 million to $200 million. A full development project, including a platform or floater, involves multiple blocks and has cost as much as $3.5 billion. Onshore development is less expensive. A well 10,000 feet or deeper well will $2 million to $3 million. A shallow well runs about $200,000.

To illustrate further that a lease does not mean the discovery of oil and gas, it is important to look at the well success rates. For onshore leases, the well success rate is about 10 percent for new areas. For areas already developed, it is much higher – about 95%. For offshore, in shallow water, the success rate is about 33 percent. In deepwater it is about 20 percent.

In the Gulf of Mexico, 1132 new deep water exploration wells have been drilled since 1995, with over 170 new discoveries. While the government does conduct activities to determine resource availability, it is the private sector that funds exploration activities for more refined data and analysis on a site specific basis that can lead to production. The lengthy processes we have in place can lead to more production but it takes time to find the exact location of those resources.

In today's market, it does not make business sense for lease holders to defer or forgo pursuing production and continue to pay rental fees. In addition to the bonus bid paid at the time of a

lease being issued, lessees are required to pay rentals for leases. In Fiscal Year 2007, $267.2 million in rental fees was collected as rent for oil and gas, coal, and other mineral leases.

If a lessee determines that leased acreage does not contain sufficient resources to produce economically, it will typically relinquish the lease, and the Federal Government is free to offer the tract at a subsequent lease sale. However, only after numerous steps are taken, and leased acreage is determined to contain economically and technologically producible oil and gas, can a lessee justify the significant investment required to bring leased acreage into producing status.

While increasing the productivity of already leased land is important, to ensure our country's future security and economic well being we need to open new areas for development. The lengthy processes we have in place, which can lead to more production, means that we need to look to new areas. We cannot ignore that the world's demand for oil has grown dramatically. Meanwhile, the supply of oil has grown much more slowly. As a result, oil prices have risen sharply, and that increase has been reflected at American gasoline pumps.

Sincerely,

C. Stephen Allred
Assistant Secretary,
Land and Minerals Management

Attachments

Plans and Permits Required on OCS

The number of required plan and permit approvals is on the order of 25 to 30. The reason for a range is that the specific lease holder may not file for certain permits on their own. For example, they may not file for a G&G (geological/geophysical) permit but it is certain that no lease holder will move forward with out geophysical data to guide them. They may obtain sufficient data from a third party that acquired under their own speculative permit with the intention to sell the information to successful lease bidders. Additionally, there may be supplemental plans filed to cover changes in assumptions based on newer information and other steps that not all lessees will need to file. The overview of MMS regulations is at http://www.gomr.mms.gov/homepg/regulate/regs/reg_sum.html with a discussion of the plans and permits at http://www.gomr.mms.gov/homepg/regulate/regs/laws/env_safe.html#perapp. Following is a fairly complete list of the plans and permits that a lessee may have to file to bring a lease to production:

List of Typical Plans and Permits Required to Bring a Lease to Production

Oil and Gas Lease
Geological and Geophysical Exploration permit
Exploration Plan
Coast Guard Compliance review for mobile drilling units
Oil Spill Response Plan
Oil Spill Financial Responsibility
Hydrogen Sulfide Plan (some locations)
Coastal Zone Management Consistency Determination (Exploration)
Army Corps of Engineers Permit (Navigation and National Security)
EPA National Pollutant Discharge Elimination System Permit
EPA Air Emissions Permit (some locations)
Marine Mammals/Endangered Species permits from NOAA or FWS (some locations)
Application for Permit to Drill (exploratory wells)
Application for Permit to Modify (any changes in drilling program)
Application for Permit to Modify (to plug and abandon exploration wells)
Deepwater Operations Plan (for some locations)
Conservation Information Document (for some locations)
Coast Guard Structural Review (for floating production systems)
Certified Verification Agent Review (for some locations)
Development Plan or Development Operations Coordination Document (depending on location)
Pipeline Right-of-Way
Coastal Zone Management Consistency Determination (Development)
Application for Permit to Drill (development wells)
Application for Permit to Modify (any changes in development drilling program)
Application for Permit to Modify (to plug and abandon development wells)
Platform Removal Application
Pipeline Decommissioning Application

Permits, Plans, and Surveys for Development of an Oil and Gas Lease On-Shore

BLM Permits, Plans, and Surveys

Geophysical Exploration Permit - Notice of Intent; Notice of Completion – (Required if the operator chooses to conduct this optional activity) Purpose: Allows exploration for oil and gas resources on Federal lands.

- **National Environmental Policy Act (NEPA) Review** – Environmental review may consist of review and documentation through a Determination of NEPA Adequacy (DNA), Categorical Exclusion (CX), Environmental Assessment (EA), or Environmental Impact Statement (EIS). (May be completed by the BLM or the Operator to BLM standards. The BLM signs the Decision)
- **Land Use Plan Conformance** – Project evaluated to ensure it is in conformance with the BLM's land use plan.
- **Surveys** - (Completed by the BLM or the Operator.)
    - **Cultural Survey –** Almost always required. Almost always completed through an operator-funded contract with a cultural survey contractor that has been approved by the BLM. May involve consultation with the State Historic Preservation Officer.
    - **Wildlife Surveys –** Frequently required. May be completed by the BLM or the operator to BLM standards.
    - **Endangered Species Act Consultation –** only required when endangered species may be affected by the project.
- **Tribal Consultation –** May occur at the Planning or Permitting stage in areas where Indian tribes have historically used an area or have expressed an interest in proposed projects.

Oil and Gas Lease – (Required) Conveys a basic right to develop oil and gas from Federal Mineral estate pending approval of additional site-specific permits.

- **Land Use Plan Conformance** – The proposed lease is evaluated to ensure it is in conformance with the BLM's land use plan.
- **Tribal Consultation** – May occur at the leasing stage if not current in the land use plan.
- **Endangered Species Act Consultation –** May occur at the leasing stage if not current in the land use plan and there are endangered species present.

Communitization/Unitization Approval - (Some Locations) Creates management units to improve development efficiency.

Plan of Development - (If operations are located within a unit agreement) Creates a development management plan for the Unit.

Application for Permit to Drill (APD) – (Required) Contains the operator's proposed drilling and surface use plans and any additional permit requirements added by the BLM. The BLM may also require Cultural and Wildlife surveys.

- **National Environmental Policy Act (NEPA) Review** – Environmental review may consist of review and documentation through a Determination of NEPA Adequacy (DNA), Categorical Exclusion (CX), Environmental Assessment (EA), or Environmental Impact Statement (EIS). (May be completed by the BLM or the Operator to BLM standards. The BLM signs the Decision)
- **Land Use Plan Conformance** – Project evaluated to ensure it is in conformance with the BLM's land use plan.
- **Surveys** - (Completed by the BLM or the Operator.)
    - **Cultural Survey –** Almost always required. Almost always completed through an operator-funded contract with a cultural survey contractor that has been approved by the BLM. May involve consultation with the State Historic Preservation Officer.
    - **Wildlife Surveys –** Frequently required. May be completed by the BLM or the operator to BLM standards.
    - **Endangered Species Act Consultation –** only required when endangered species may be affected by the project.
- **Tribal Consultation –** May occur at the Planning or Permitting stage in areas where Indian tribes have historically used an area or have expressed an interest in proposed projects.

Sundry Notice – (Required) Notifies the BLM of the operator's proposed changes to the APD

- **Approval and/or Review** – In limited cases may involve NEPA, Cultural, Wildlife, ESA reviews and consultation.

Hydrogen Sulfide Plan – (Required if the poison gas may be encountered) Plans for protection of public health and safety in the event of a hydrogen sulfide leak.

Right-of-Way Grant – (Required for any development that occurs off the lease area.) Provides legal access for roads, pipelines, and powerlines.

- **National Environmental Policy Act (NEPA) Review** – Environmental review may consist of review and documentation through a Determination of NEPA Adequacy (DNA), Categorical Exclusion (CX), Environmental Assessment (EA), or Environmental Impact Statement (EIS). (May be completed by the BLM or the Operator to BLM

standards. The BLM signs the Decision.) Usually completed in conjunction with the APD NEPA analysis.

- **Land Use Plan Conformance** – Project evaluated to ensure it is in conformance with the BLM's land use plan.
- **Surveys** - (Completed by the BLM or the Operator.)
    - **Cultural Survey –** Almost always required. Almost always completed through an operator-funded contract with a cultural survey contractor that has been approved by the BLM. May involve consultation with the State Historic Preservation Officer.
    - **Wildlife Surveys –** Frequently required. May be completed by the BLM or the operator to BLM standards.
    - **Endangered Species Act Consultation –** only required when endangered species may be affected by the project.
- **Tribal Consultation –** May occur at the Planning or Permitting stage in areas where Indian tribes have historically used an area or have expressed an interest in proposed projects.

Other Federal, State, or Local Permits and Plans

Air Emission Permit – (May be required by State)

National Pollutant Discharge Elimination System Permit – (May be required by the State or EPA)

Section 404 Permit – (May be required by the Army Corp of Engineers if the project would potentially dredge or fill waters of the US)

Storm Water Prevention Plan - (Required in some States)

UIC Permit - (Required for Class II wells - water disposal or reinjection)

Spill Prevention Countermeasure Control Plan - This is a permit required by EPA when oil and gas activities have the potential to impact waters of the United States