



## Federal Offshore Oil and Gas

### **Acreage Leased but Not Producing Must Always Exceed Producing Acreage to Provide Energy Supplies**

- The most efficient natural gas and oil exploration and production companies in the world, including many high-tech leaders among both the large US independents and major integrated companies, depend on significant continuing inventories of acreage under lease on which they can explore, develop and produce energy supplies.
- Some of the most promising offshore areas for these activities, especially those necessary to provide natural gas, may prove to be in the more than 80% of the Lower 48 coastal areas under moratoria that have not yet been leased or explored.
- *A first and fundamental reason for acquiring large amounts of leased acreage is that, until sophisticated geoscience work and drilling occurs, it is not certain where eventual oil and gas resources actually are within a leased area. As a result, companies need to have large enough lease holdings to be able to follow any resource trends they discover, with the possibility of putting together large enough projects to be commercially viable.*
- Once leasing has occurred in non-moratoria areas, it is normal and necessary that there be non-producing leases for considerable lengths of time for many reasons, including:
  1. Until drilling occurs, there is no way to fully understand the existence, exact location or extent of subsurface natural gas or oil deposits in an area of interest, so ample acreage to include reasonable possibilities is sought in each lease sale.
  2. Seismic surveys and geoscience interpretation (to, in effect, better “see” by computer imaging and begin to develop exploration plans) are usually necessary after leasing as well as before – rarely is enough known at the time of leasing to make a prospect immediately “drillable”. Agency consideration of seismic applications, as well as the processes themselves, can add significant non-producing time to leased acreage.
  3. Acquisition, processing and subsequent interpretation of 2- and 3-dimensional post-leasing seismic data can take years, adding more non-producing time to leased acreage.

4. Before drilling can occur on leased acreage, all pre-drilling environmental work must be completed. This can add more non-producing time.
5. Agency consideration of applications for permits to drill filed after the geoscience and environment-related work has been completed can add many months of non-producing time on leased acreage.
6. Drilling schedules, especially in deeper waters, depend on availability of often scarce high-technology drill ships and rigs that can have contract rates of \$500-thousand each day. Wait times can be months or a year or more.
7. Drilling a single well on leased acreage can take many months depending on geology and depth, adding more non-producing time on leased acreage.
8. Once an initial well is drilled, time is often needed to assess its results and to make decisions as to whether or where additional wells should be attempted. This adds more non-producing time on leased acreage – and eventually may result in a decision that gas or oil is either not present or is not present in sufficient quantities to commercially develop, adding to non-producing leased acreage.
9. If a development decision is made, additional environmental work and applications for permits to drill wells and for seabed and surface facilities will require more preparation and agency consideration time, adding more non-producing time for leased acreage.
10. If a development decision is made, time is required for engineering, fabrication and installation of very sophisticated seabed and surface equipment tailored to the quality and amount of oil and/or gas expected to be produced, and that must operate at extreme pressures in harsh environments. This work can take years, adding more non-producing time for leased acreage.
11. As development occurs, and as work is done over time, production begins in stages from different parts of the acreage that may have been leased many years earlier. Since production does not begin all at once from all areas of leased acreage, there will naturally be non-producing areas for months or years.

12. If development is found to not be commercially viable and does not occur, or a decision has been made to release the non-producing acreage, that only means that it will be offered again in a future lease sale. Over time, technology may improve (as has been the case dramatically with respect to the ultra deep waters of the Gulf of Mexico), and companies may develop new ideas as to where to explore or how to cut development costs in an area – and the process can start over again. *During non-producing periods until a lease is returned to the government, annual rental payments are made to the Treasury.*

## **Conclusion**

No one should be surprised that exploration and production companies have significant inventories of leased acreage that do not have oil or gas production – or that do not have production yet.

Companies that invest billions of dollars in the offshore search for energy – with the likely prospect of having no revenue, much less cost recovery or profit, from even successful projects for years or perhaps a decade or more -- clearly have significant commercial incentives to make decisions and investments as quickly as possible on their leased acreage.

Having significant leased acreage inventories are normal and necessary for an efficient natural gas and oil exploration and production program. Making more acreage available in promising areas will enable more such work, eventually adding to the nation's energy supplies.

Finally, continuing improvements in environmental and permit consideration processes can help to ensure that non-producing time on leased acreage is minimized.