



## Federal Oil and Gas Leasing

### **Acreage Leased but Not Producing is Normal and Necessary to Provide Energy Supplies**

***Leasing occurs at the beginning of an exploration process that is complex, expensive and that often lasts years or a decade or more before production can occur -- if it is successful. Companies have no incentive to delay the evaluation and/or drilling of leases having the possibility of economic production. Leases that prove not to have commercial oil and/or gas resources revert to the government. Non-producing leases throughout the exploration and development process are subject to annual rental fees. At any point in the process a lack of production from, or wells drilled on, a lease may lead to a totally inaccurate perception that it is somehow "inactive".***

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First, it is important to understand that production from a lease may not be readily apparent, but may be occurring nonetheless.

- Often natural gas and oil reservoirs underlie more than one lease, and these leases may be put into legal "units" to allow common production. As is the case most dramatically offshore where there are many "subsea" wells with critical equipment at or below the seabed, the result may be that production occurs from one or only a few locations, but not from a surface facility on every lease.
- With today's improved technology such as directional and extended reach drilling it is possible to have leases without surface facilities, or in selected cases to meet "no surface occupancy" permit conditions or operational situations that require production of the natural gas or oil from nearby leases or locations.

Second, having more acreage under lease than is producing is not just normal – it is necessary. The most efficient natural gas and oil exploration and production industry in the world -- that in the U. S. -- depends on a large continuing inventory of acreage under lease on which it can explore, develop and produce energy supplies.

- The most promising and under-explored areas for these activities, especially those necessary to provide natural gas, are offshore where 90% of them around the lower-48 states are under moratoria, or are on non-park, non-wilderness federal government lands in the West that should be leased in the future for oil and gas exploration, or are already leased.
- Leased but not producing acreage is normal and necessary for many reasons, including:
  1. Until drilling occurs, there is no way to fully understand the 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.
  2. Seismic surveys and/or geoscience interpretation (to, in effect, "see" by computer imaging and to understand what the underground geology looks like) may be necessary.

- Agency consideration of seismic work applications as well as the processes themselves can add significant non-producing time to leased acreage.
3. Before drilling can occur on leased acreage, all environmental and other studies must be completed. This can add years of non-producing time for leased acreage.
  4. Agency consideration of applications for permits to drill filed after the geoscience and environment-related work has been undertaken can add many months of non-producing time on leased acreage.
  5. Drilling a single well on leased acreage can take days to many months or a year or more depending on geology, depth and (onshore) seasonal environmental restrictions, adding more non-producing time on leased acreage.
  6. 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 (especially a “dry hole”) may result in a decision that gas or oil is either not present or is not present in sufficient quantities to develop, adding to non-producing leased acreage that may be relinquished.
  7. If a development decision is made, additional environmental work and applications for permits to drill wells and/or for surface facilities will require more preparation and agency consideration time, adding more non-producing time for leased acreage.
  8. If a development decision is made, time is required to plan the field development, and design and build or acquire the gathering, compression or other facilities and equipment needed to handle the production, adding more non-producing time for leased acreage.
  9. As development occurs, production begins over time from parts of the acreage that may have been leased many years earlier only as the steps in the exploration and production process proceed. Since production does not begin all at once on any area of leased acreage, there will naturally be non-producing areas for months or years.
  10. If development does not occur, or a decision has been made to “abandon” the non-producing acreage, that only means that it can be offered for lease again in the future. During the non-producing time for the leased acreage, technology may have improved or someone may have come up with a new idea as to how to explore or cut development costs in the area – and the process can start over again.

## **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.

Continuing 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 while improving environmental and permit consideration processes can help ensure that non-producing time on leased acreage is minimized, and that it also holds the greatest potential to contribute to more energy supply.