

The facts about non-producing federal leases

1. **CLAIM:** Oil and natural gas companies are given leases by the government and purposely don't produce from them to increase prices.

FACT: Companies pay billions of dollars for the right to explore on federal lands. If the company does not produce within the lease term, it must give the lease back to the government, and the company does not recover the billions of dollars it may have invested.

2. **CLAIM:** Companies let many of their leases sit idle and don't produce them

FACT: Companies actively develop their leases – but not every lease contains oil or natural gas in commercial quantities. In many cases, the so-called “idle leases” are not idle at all; they are under geologic evaluation or in development and could be an important source of domestic supply. However, this does not mean all leases have the potential to produce. Companies can evaluate leases for several years only to determine that they do not contain oil or natural gas in commercial quantities. The road to bring the oil and natural gas to market -- obtaining the lease, evaluation, exploration and production -- is a long and complicated one.

3. **CLAIM:** If the lease doesn't contain oil or natural gas, then the company shouldn't have bought it.

FACT: There are tremendous risks and challenges involved in finding and producing oil and natural gas. There is no guarantee that a lease will even contain hydrocarbons. It is not unusual for a company to spend in excess of \$100 million only to drill a dry hole. A company usually has only limited knowledge of resource potential when it buys a lease. Only after the lease is acquired, will the company be in the position to evaluate it, usually with a very costly seismic survey followed by an exploration well.

4. **CLAIM:** There's absolutely no reason for a company not to produce if it finds oil or gas on the lease.

FACT: If the company finds resources in commercial quantities, it *will* produce the lease. But there can sometimes be delays – often as long as seven to 10 years – for environmental and engineering studies, to acquire permits, install production facilities (or platforms for offshore leases) and build the necessary infrastructure to bring the resources to market. Litigation, landowner disputes and regulatory hurdles can also delay the process.

5. **CLAIM:** The vast majority of federal oil and natural gas resources are already available for development.

FACT SHEET

October 1, 2008



FACT: In the Lower 48 states, about 67 percent of onshore federal lands are off-limits or facing significant restrictions to development. While the moratoria banning Outer Continental Shelf leasing off the Atlantic and Pacific Coasts was lifted October 1, 2008, several key steps remain before actual leasing, and then development, can take place.

6. **CLAIM:** Non-producing leases could provide a major source of new supplies.

FACT: Many of these leases will provide a major source of new domestic supply once they are developed. Companies are actively developing the leases, and in addition to paying for the lease, they must also pay rent to the government while they conduct development and exploration efforts. But this process takes time. Reducing the time companies have to develop a lease or increasing the costs imposed by government will not increase supply for American consumers. Nor will denying access to areas of oil and natural gas potential like the Atlantic and Pacific OCS.

7. **CLAIM:** Increased domestic drilling activity has not led to lower gasoline prices, and more leases and drilling won't help either.

FACT: Our nation needs more supplies of all forms of energy, including domestic oil and natural gas, to meet its growing energy demand. Increased drilling has helped the United States offset the natural declines in domestic oil and natural gas production from older fields. Greater drilling activity tends to produce more supply. Fundamental economics suggest that additional supplies put downward pressure on prices.

8. **CLAIM:** Companies should be penalized for not producing from their leases.

FACT: Oil and gas companies take all the risk with federal leases. Not only do they pay billions to obtain leases, they pay to hold them while they are spending even more capital to determine if these leases contain resources. Penalties on leaseholders on top of those fees would only discourage U.S. exploration and production, at a time when the United States needs all the energy it can get.

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