

You Reap What You Sow

Why more mineral leases now benefit consumers later

On the surface, it seems to make economic sense: force natural gas companies to explore and develop the leases they already have before making more federal land available. Dig a little deeper and the opposite is true: limiting exploration options today means less supply tomorrow.

It is like forcing a farmer to plant seeds in a small patch of the field that may have clay soil or rocks, waiting for a harvest, and only then letting him sow the rest of the field. It is incredibly short-sighted, inefficient, and costly. To help ensure more affordable energy for consumers in the future, natural gas companies urgently need access to more federal lands, even if there are non-producing leases. Here's why.

Developing a lease can take a decade

It takes 5 to 10 years to develop a lease. Approximately 45 percent of the 2007 lease inventory is less than five years old, while less than 25 percent of the 2007 lease inventory is non-producing and more than 5 years old. To obtain and hold a lease, exploration and production companies pay the federal government a lease fee and continue to make lease payments annually. More than \$250 million was paid for mineral leases in 2007. Undeveloped leases go back to the government when they expire and can be offered as a new lease sale.

Applying for a lease does not mean that natural gas is underground

Production companies often do not know whether a particular lease has natural gas under it. While technology is increasing the odds, resource certainty cannot be assured until the well is drilled. Even then, there

are likely to be “dry holes,” as were about 60 percent of wells drilled from 1995 to 2005, according to the Energy Information Administration (EIA). In fact, it is not unusual for a company to spend in excess of \$100 million only to drill a dry hole.

In the Lower 48 states, about 85 percent of the Outer Continental Shelf and 67 percent of the on-shore federal lands are off-limits or facing significant restrictions to development. Although we do not know the extent of the resources off-limits, production on federal lands helps put the supply potential into perspective: Today, leases on 87 million federal acres account for 26 percent of U.S. natural gas production.

Non-producing acreage is only a fraction of leased federal acreage

Non-producing acreage is a term used to describe a federal mineral rights lease that is not actively in production. Of the current “non-producing leases,” only about 15 percent are likely to be returned as “non-producing.” Drilling is planned for or construction is already underway on 35 percent of the non-producing leases and half of the non-producing leases are under evaluation in the data collection stage. With today's technology, a surface facility on each individual lease may not be necessary to extract the resources from neighboring leases, causing some leases to appear to be “non-producing.”

Access to more land creates more options for exploring efficiently and preventing waste

Like planting extra seeds to increase the likelihood of growth, efficient

natural gas production depends on an inventory of acreage. Federal regulations require that natural gas be produced in a way that does not damage or waste resources in a reservoir containing natural gas and oil. Appropriately, the lease evaluation process finds that some leases may not produce or simply cannot be cost-effectively produced yet. Congress must make more acreage options available for exploration, development and production allowing consumers to benefit from efficient natural gas production that realistically and appropriately results in some non-producing leases. Cost-effectively increasing natural gas supplies requires an increase in the acreage options, not a requirement to produce resources that may not be economical. This tough decision takes Congressional action. ■



To increase food supplies, a farmer must use all available land to grow crops. To increase energy supplies, we must allow more federal land for natural gas exploration today. Government restrictions apply to an estimated 250 trillion cubic feet (Tcf) of natural gas reserves (National Petroleum Council, July 2007 Report).