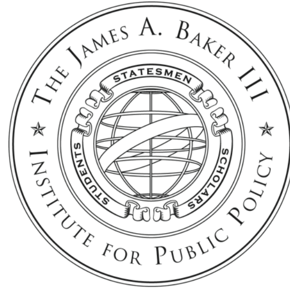

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The OCS Leasing Moratorium: Which Way Forward?

by

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As the price of gasoline reaches unprecedented highs, Americans have begun to actively think about ways to lower fuel prices. Recent government statistics indicate 2007 saw the largest year-on-year decline in miles driven since the late 1970s, and the recent flood of sport utility vehicles (SUVs) into the used car market is a testament to people altering their choices regarding fuel efficiency. In addition, consumers are looking to government to provide some sort of relief.

Record-high crude oil prices are the primary reason for record-high gasoline prices, and a confluence of factors is responsible for the recent run-up in crude oil prices. One important factor behind the strength of oil prices is the expectation of inadequate future oil supply. This has led to a debate regarding the removal of drilling access restrictions in the U.S. Outer Continental Shelf (OCS).[1]

According to an assessment by the U.S. Department of the Interior's Minerals Management Service (MMS), the OCS in the Lower 48 currently under leasing moratorium holds a mean estimate of 19 billion barrels of technically recoverable oil.[2] This has led some to claim that opening the OCS will not significantly improve the energy situation because 19 billion barrels would sustain only about 2 years of current U.S. consumption. But, a more appropriate way to consider the issue is that if the OCS could provide additional production of 1 million barrels per day (b/d) of oil, our Persian Gulf imports could be reduced by up to 40 percent. At 1 million b/d, 19 billion barrels would last about 50 years.

Of course, opening the OCS will not likely have an immediate impact on oil prices because of the time necessary to organize lease sales and to develop supply delivery infrastructure. However, once development progresses, the expected growth in supply would eventually influence market prices. Thus, opening the OCS should be viewed as a relevant part of a larger strategy encompassing a portfolio of options aimed at easing prices over time.

Lifting the current moratorium in the OCS would also provide the benefit of access to almost 80 trillion cubic feet of technically recoverable natural gas. A recent study by the Baker Institute indicates that removing restrictions on resource development in the OCS has substantial implications for future U.S. liquefied natural gas (LNG) import dependence.[3] This is particularly salient since natural gas is becoming an increasingly important fuel in power generation, and,

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[1] See the appendix of this article for more on those areas under the leasing moratorium.
[2] It is worth noting that the MMS assessment was ordered by Congress with the passage of the Energy Policy Act in 2005, and the findings were reported in 2006.
[3] See P.R. Hartley and K.B. Medlock III, "North American Security of Gas Supply in a Global Market" (2007). Working paper available at http://www.rice.edu/energy/publications/naturalgas_na.html.

given concerns about carbon emissions, many studies predict this trend to accelerate in the next decade or so.[4] Thus, lifting the current moratorium in the OCS has potentially strong energy security implications as it could impact the transportation sector, industry and power generation.

The MMS reports more than 4,000 active platforms in the OCS areas of the Western and Central Gulf of Mexico. In fact, this activity accounts for about one-third of our nation's oil supply and a quarter of our natural gas. Even so, oil companies hold undeveloped leases in these areas, so it has been argued that new areas of the OCS should not be opened. This is not a well-reasoned thesis. To begin with, some areas currently under moratorium may contain better targets for oil and gas exploration, so opening them would ultimately provide more supply than if companies were limited to drilling on existing leases. In those areas where leases are currently held, oil company assessment of the acreage may not indicate commercial quantities of oil and gas, meaning the lease will remain undeveloped. In other cases, leased acreage may be currently under study, but drilling, which may happen eventually, has not yet begun. If oil companies were hoarding leased acreage, as has been claimed by some, they would be heavily penalized by shareholders for paying for unused leases, not realizing reserve appreciation and failing to identify drilling opportunities.

The most vehement objection to opening the areas currently off-limits in the OCS is made on environmental grounds. But, according to the MMS, the offshore drilling industry is one of the safest in the United States.

> "A recent study by the National Academy of Sciences reports that in the last 15 years there were zero platform spills greater than 1,000 barrels. Compared to worldwide tanker spill rates, outer continental shelf operations are more than five times safer. Imports present an environmental risk of spills about 13 times greater than domestic production. In fact, annual natural seeps account for 150–175 times more oil in the ocean than OCS oil and gas operations."[5]

Given the fact that tanker spill rates are higher than platform spill rates, by encouraging more imports through restricting domestic production, we are in fact utilizing a more environmentally damaging option.

[4] Note that widespread adoption of electric vehicles, as has been proposed, would further increase natural gas demand for power generation. Certainly nuclear, wind and other renewables can play a role in the longer term, but natural gas is the fuel likely to bridge the gap from today to tomorrow.

[5] Excerpt from the MMS Web page, "5-Year OCS Leasing Program" (http://www.mms.gov/5-year/WhatIs5YearProgram.htm).

The record of the oil industry in the OCS is quite astounding, especially when one considers its success despite the challenges presented by hurricanes. Nevertheless, oversight by the MMS, as required by the OCS Lands Act, must be diligently maintained to ensure that the offshore record remain outstanding.

Another objection to increased offshore drilling is that opening the OCS will only further our nation's "addiction to oil." Ultimately, oil is a finite resource, so it is feasible that lifting access restrictions will provide oil today but also push current problems onto future generations. Thus, development of new oil supplies should be considered an interim step that is part of a larger strategy designed to move us toward an economy that is not so dependent on oil and gas.

One option would be to earmark royalties from all new OCS developments into a fund that is explicitly for research and development (R&D) in alternative energy. The OCS resources then could serve as a bridge to a new energy future. As a nation with a substantial vested interest in matters of energy security, we greatly underinvest in energy research. Royalties from new drilling could provide much-needed funding for R&D.

But again, it is important to reiterate that lifting the moratorium in the OCS is only one part of a portfolio of options that should be pursued. We must develop a diversified, comprehensive energy strategy that encompasses many options, including drilling, conservation, efficiency and alternative energy.

Appendix[6]

Which planning areas are considered to be under moratoria/executive withdrawal from leasing?

On January 9, 2007, President George W. Bush modified the 1998 OCS leasing withdrawal in order to allow leasing in two areas -- the North Aleutian Basin planning area offshore Alaska, and the 181 South Area of the Gulf of Mexico. These actions were in response to the requests from Alaska state officials and local communities and enactment of the Gulf of Mexico Energy Security Act (GOMESAct) of 2006 respectively.

The Gulf of Mexico Energy Security Act of 2006 mandated a sale in the original Sale 181 area -west of the military mission line, and 125 miles from Florida in the Eastern Gulf of Mexico and 100 miles in the Central Gulf of Mexico. This mandated sale, Sale 224 is scheduled for March 2008. The act also established moratoria to 2022 in rest of the Eastern Gulf of Mexico and in a near shore portion of Central Gulf of Mexico within 100 miles of Florida.

The following planning areas are still subject to a 1998 Presidential withdrawal from leasing through June 30, 2012, under the authority of Section 12 of the OCS Lands Act (43 USC 1341). All but North Aleutian Basin, Alaska, are also subject to annual Congressional moratoria, some from as early as Fiscal Year (FY) 1982:

- Washington-Oregon
- Northern, Central and Southern California
- Eastern Gulf of Mexico, except for the portion located off Alabama and more than 100 miles off Florida that was proposed, but not offered, for Lease Sale 181 in 2001
- South, Mid and North Atlantic

In addition, in 1998 President Clinton withdrew indefinitely all National Marine Sanctuaries, which are located in the following planning areas:

- Washington-Oregon (Olympic Coast)
- Central California (Cordell Bank, gulf of Farallones and Monterey Bay)
- Southern California (Channel Islands)
- Western Gulf of Mexico (Flower Garden Banks)
- Straits of Florida (Florida Keys)
- South Atlantic (Gray's Reef)
- Mid-Atlantic (Monitor)
- North Atlantic (Stellwagen Bank)

[6] Excerpt from the MMS Web page, "5-Year OCS Leasing Program" (http://www.mms.gov/5-year/WhatIs5YearProgram.htm).