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Industry: No such thing as 'idle leases'

Posted on March 31, 2011 at 11:15 am by Tom Fowler in Deepwater drilling, Domestic Policy, E&P, Energy demand, Gulf Oil Disaster

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In his speech Wednesday outlining a broad national energy strategy, President Obama cited an Interior Department report that says the oil and gas industry has vast numbers of leases sitting idle.

The study says 70 percent of federal Gulf of Mexico leases and 57 percent of federal onshore leases "are not producing or not subject to approved or pending exploration or development plans."

The oil and gas industry has heard this before and was ready with the reply: There really is not such thing as an idle lease.

In a press call this week the American Petroleum Institute chief lobbyist Erik Milito depicted the report as blind and deaf to how companies go about exploring for oil and gas.

"The administration's report assumes that oil and natural gas are spread uniformly across the lease acreage – suggesting that 70 percent of idle leases equates to 70 percent idled resources. As if finding oil was no more difficult than sticking a pipe in the ground," Milito said.

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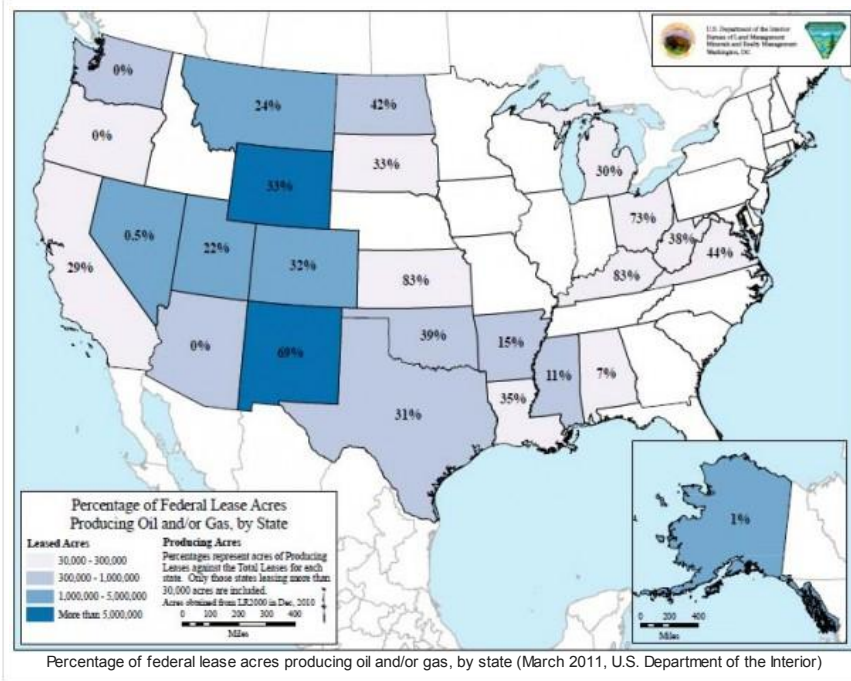
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Rather, when the government puts up many hundreds of thousands of acres at a time in lease sales, there's no way all of that acreage will actually get drilled – onshore wells can cost tens of millions of dollars to drill and offshore wells hundreds of millions. And even after spending millions shooting and analyzing seismic data, there's no guarantee a drilled well will be a successful one.

Knowing exactly where the good spots are takes a lot of work, so the practice is to use the varying amounts of pre-lease data available to put bids on as many of the acres as you believe/hope/pray will have a high probability of success.

Over on Exxon Mobil's company blog, Ken Cohen notes that the DOI report defines "inactive leases" as areas that "may be subject to certain ancillary activities such as geophysical and geotechnical analysis, including seismic and other types of surveys."

Did they just call a seismic survey – one of the most fundamental activities of finding oil and natural gas – ancillary? Meaning it's not essential, secondary in nature, or extra activity?

Yes, they did. And that proves my point. You don't have to be an industry expert to know that seismic surveys – along with a whole host of other activities – are among the most essential activities in oil and gas exploration, and anything but a sign of "inactivity."

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Exxon has more like 93 percent of its leased acreage under production or being studied and analyzed in some form, Cohen said.

Industry also finds it a bit ironic that the Department of Interior would criticize it for a lack of Gulf drilling activity given the recent drilling moratorium and the slow resumption of permitting.

"This is like leasing an apartment from the government for \$20 million dollars and the government refuses to give you the keys to the apartment – then the government proceeds to complain because you are not occupying the premises," API's Milito said.

In all likelihood the Department of Interior knew all this already. But in the always heated/politicized war of words over energy policy, the numbers in the lease report look damning at first blush and provide good fodder for firing up the faithful.

Now before you go jumping up and down about regulators injecting politics and deceptive information into the debate, don't forget **that's a two-way street**.

Mentioning [drilling permits and current pump prices in the same breath](#) is misleading, as a permit issued today won't really affect the supply/demand balance for months or years.

And API has no problem dropping mentions of Brazil into its talking points to whip-up the [grassroots frenzy over the Obama/George Soros/Petrobras conspiracy](#). It lacks context (the \$2 billion Ex-Im Bank loan from a few years ago was to have Brazilians buy U.S. equipment and services) and avoids the notion that increased Brazilian oil production has been touted by government and industry alike as a friendlier alternative to Middle Eastern oil.

Don't forget: no one – not the feds or the industry – is really talking about U.S. "energy independence," as in self-sufficiency. That ship has sailed and it's widely accepted we're not going to produce all the energy we consume.

The language instead is all about "energy security," meaning we should not be held hostage to hostile sources.

1,903 |

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phantom

March 31, 2011, 11:37 AM

Never take what a politician says at "face value" whether they are President of the United States or a Vice-President at Exxon-Mobile. Although I'm more inclined to believe there is less spin coming from the Exxon-Mobile camp. One thing is for sure ... political spin is involved on both sides.

TXS

March 31, 2011, 11:49 AM

Great expose. Shows the Administration distorting facts in pursuit of its agenda. Sadly, average reader is clueless and will accept such fictionalized characterizations of the industry as fact.

Dollar

March 31, 2011, 11:50 AM

" Mentioning drilling permits and current pump prices in the same breath is misleading, as a permit issued today won't really affect the supply/demand balance for months or years. "

Well kinda, yeah.

But with an oil market that is increasingly headline driven, then the non issuance or issuance of permits is just one more piece of news that impacts the direction of the market.

Ya gotta admit, that since Obama has taken office, there has not been a lot of good news about domestic oil production. The environmentalists have been ruling the day, and projects from the KeystoneXL , to shut down of the GOM, to denial of permits to drill the Arctic, to closure os the eastern continental shelf I mean hey, the list just goes on and on.

And taken en total, that can have a psychological impact on a headline driven oil market.

Energy Moron

March 31, 2011, 12:25 PM

"Exxon has more like 93 percent of its leased acreage under production or being studied and analyzed in some form, Cohen said."

Yes... just remember the book "The Smartest Guys in the Room" about Enron kept making the point that sometimes the best projects are the ones you don't do.

So, should a company like Exxon do all of the possible projects just to keep the feds happy?

This was all in the 2008 dem platform anyway so is anybody really surprised?

WriterDude

March 31, 2011, 1:48 PM

I find it comical that the words of an oil industry lobbyist somehow are more believable than someone in the Department of Energy or the administration.

"I'm a liar (lobbyist), but I promise I'm telling you the truth this time, ... I swear."

Dollar

March 31, 2011, 2:00 PM

WriterDude, I don't see it that way, not at all.

My first impression is the bureaucrat does not know the oil business. And he's more apt to be biased toward his political ideology.

Bureaucrats may be financially honest, but when it comes to political gain, they will lie, cheat, and steal with the best of them.

I will grant you this, it's very difficult to sort through a lot of this and try to find something that you know, in your mind, is truth. It means we have to use our own critical logical thinking process to sort it out.

The problem the oil industry has in a lot of these issues, is the only people who really understand the problem or the process, are in the industry. So that leaves them at an extreme disadvantage in the court of public opinion.

richard

March 31, 2011, 2:16 PM

Did you just spend millions on a lease, shoot seismic, and then just let the oil sit there? Why would you do that? Because reporting proven reserves in SEC filings is just as valuable as drilling a well. Faster and cheaper too.

richard

March 31, 2011, 2:18 PM

"there has not been a lot of good news about domestic oil production" Huh?
3/25/2011 Baker Hughes reported that there are now 851 oil rigs drilling in the US. That is the highest level since Baker Hughes started counting 24 years ago. In February API reported that US crude oil production is at a historically high level of 5.428 m/b/d.

Trail Trash

March 31, 2011, 4:03 PM

I'd like to see anybody in the Obama Administration try to map a 3-way trap against a fault at 25,000' under 5000' of salt and then put up their \$100 million to drill it. Let's see how far those Ivy League educations can get them.

Dollar

March 31, 2011, 4:05 PM

richard, I thought you stood corrected on your "facts", the other day.

The Hughes Tool co, who primarily made drill bits, began the rig count in the 1940's.

It became the Baker Hughes count when the two companies merged in 1987.

You need to check rig count for 1981.

And you were told the other day, about the diff between a lease and booking reserves.

I kinda think you're a fourteen yr old boy who is trolling for attention.

Energy Moron

March 31, 2011, 4:22 PM

"Did you just spend millions on a lease, shoot seismic, and then just let the oil sit there? Why would you do that? Because reporting proven reserves in SEC filings is just as valuable as drilling a well. Faster and cheaper too."

Uh, do you like understand anything about reserves at all? You are claiming the potential accumulation is only based upon seismic imaging and no money is put into the project (the latter is more important than the first even).

In this case, putting reserves on the books is fraud, pure and simple.

You need to at least commit to spend money to put things on the books.

Uh, you Obama supporters are really showing a total lack of understanding of US law.

Trail Trash

March 31, 2011, 4:48 PM

little richard: Did you just spend millions on a lease, shoot seismic, and then just let the oil sit there?

=====
No you then staff a team to re-image the 3D, come up with a time-to-depth conversion, work up the basin geology and local depositional systems, do source rock analysis and migration, predict trap containment and petrophysical properties, do volumetric, economic and risk evaluations. Sell the propect to management. Work land deals. Contract a rig. And finally, hope you are not having to drill during hurricane season.

Trail Trash

March 31, 2011, 5:01 PM

In richards defense, he does seem to know no less about oil & gas exploration as the President of the United States.

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