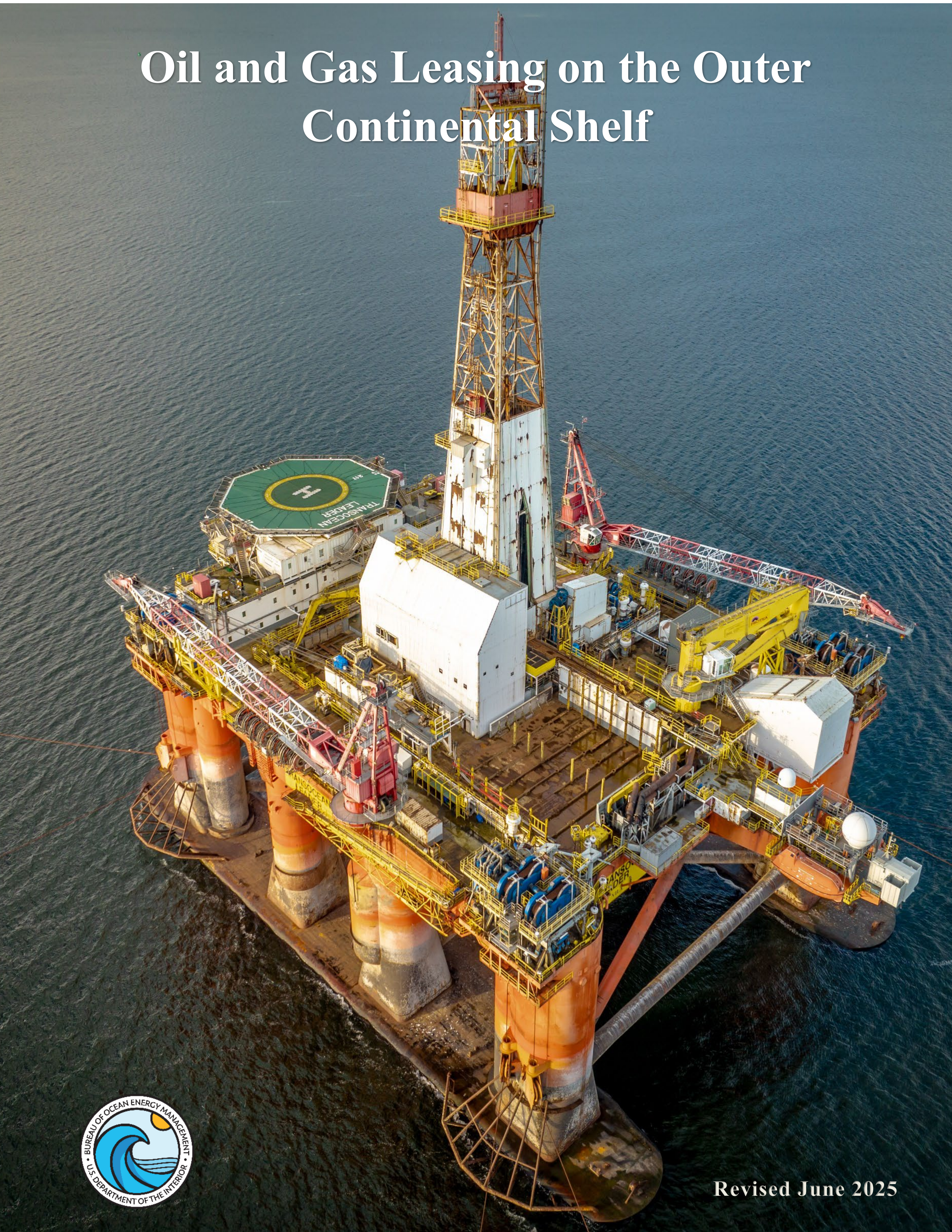
Oil and Gas Leasing on the Outer Continental Shelf



Revised June 2025

Background

The Bureau of Ocean Energy Management (BOEM), within the United States Department of the Interior (DOI), manages the offshore energy and mineral resources of the Outer Continental Shelf (OCS). BOEM manages approximately 3.2 billion acres on the OCS, providing responsible access to energy and mineral resources while protecting the human, marine, and coastal environments. BOEM uses advanced science and technology research to determine appropriate mitigation measures. In 2024, conventional energy leases managed by BOEM accounted for about 14 percent of America's domestic oil production and 2 percent of America's domestic natural gas production. Leasing statistics are posted monthly to BOEM's website, and production statistics are available on the Bureau of Safety and Environmental Enforcement's (BSEE's) website.

The Outer Continental Shelf Lands Act (OCSLA, 43 U.S.C. §§ 1331 *et seq.*) authorizes the Secretary of the Interior to grant mineral leases and to prescribe regulations governing oil and natural gas activities on OCS lands. The OCSLA provides the framework for the expeditious and orderly development of oil and gas resources on the OCS, subject to environmental safeguards, while maintaining competition. BOEM's regulations governing offshore leasing and development activities are available at Title 30 of the Code of Federal Regulations. Federal jurisdiction begins three nautical miles off most coastal states; the exceptions are Texas and the Gulf Coast of Florida, where the OCS starts at nine nautical miles. For information on the extent of Federal jurisdiction offshore, see BOEM's website.

Development of the National Oil and Gas Leasing Program

BOEM has start-to-finish oversight responsibility over oil and gas leasing activities on the OCS. Section 18 of OCSLA requires the Secretary to prepare and maintain a schedule of proposed OCS oil and gas lease sales (referred to as the National OCS Program) determined to "best meet national energy needs for the five-year period following its approval or reapproval." The National OCS Program must balance the priorities of meeting national energy needs and environmentally sound and safe operations, while ensuring receipt of fair market value to the Nation. When approving a National OCS Program, OCSLA requires the Secretary to consider the following eight factors:

- Geographical, geological, and ecological characteristics of the OCS regions
- Equitable sharing of developmental benefits and environmental risks among regions
- National and regional energy markets
- Other uses of the resources and OCS
- Expressed industry interest in oil and gas development
- Laws, goals, and policies of affected states as identified by governors
- Environmental sensitivity and marine productivity of different areas of the OCS

- Environmental and predictive information for different areas of the OCS

Based on these considerations, the National OCS Program must reflect a proper balance among the potential for the discovery of oil and natural gas, the potential for environmental damage, and the potential for adverse effects on the coastal zone. It also must provide for the receipt of fair market value for land leased and rights conveyed.

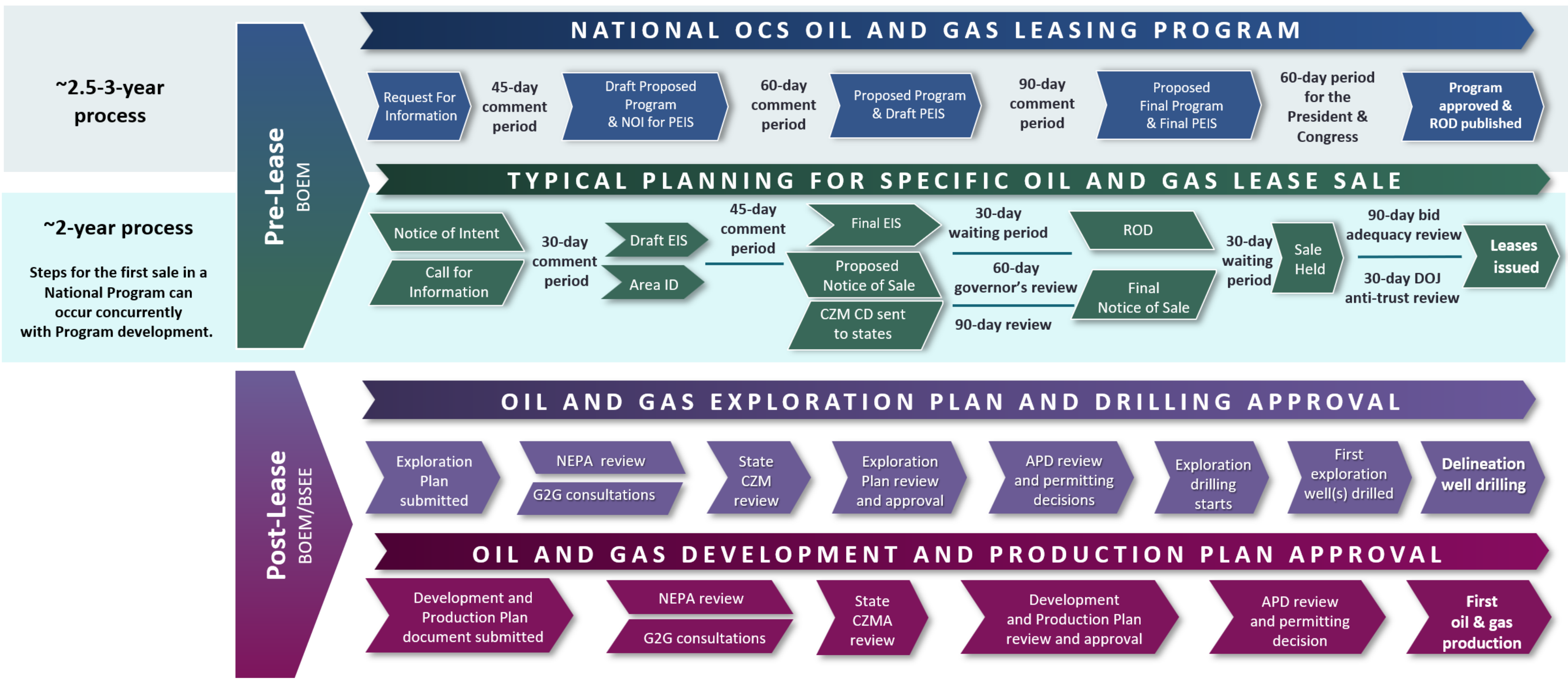
BOEM can only hold an oil and gas lease sale if it is included in an approved National OCS Program or if required through an act of Congress. In preparing a new National OCS Program, the Secretary solicits comments from coastal state governors and localities, tribal governments, the public, the oil and natural gas industry, environmental groups, affected Federal agencies, and the Congress. The National OCS Program development process includes three separate comment periods and three discrete proposals. The three proposals are as follows:

1) the Draft Proposal (with a 60-day public comment period)
2) the Second Proposal (with a 90-day public comment period)
3) the Final Proposal (with a 60-day notification period following submission to the President and Congress).

Additionally, BOEM prepares a Programmatic Environmental Impact Statement (Programmatic EIS) for the National OCS Program pursuant to the National Environmental Policy Act (NEPA, 42 U.S.C. §§ 4321 *et seq*.). After the Final Proposal is published, if Congress does not object during its 60-day review period, the Secretary may approve the Program. This entire process usually takes several years to complete. The National OCS Program includes the schedule of sales, their approximate year, and the geographic area in which the proposed sales will be held.

More information on the National OCS Program can be accessed here. **Figure 1,** below, shows the major steps in the development process.

Figure 1. Oil and Gas Leasing, Exploration, and Development Process



Key: APD = Application for Permit to Drill; BOEM = Bureau of Ocean Energy Management; BSEE = Bureau of Safety and Environmental Enforcement; CD = Consistency Determination; CZM = Coastal Zone Management; G2G = government-to-government; NEPA = National Environmental Policy Act; NOI = Notice of Intent; OCS = Outer Continental Shelf; PEIS = programmatic environmental impact statement; ROD = Record of Decision

Notes: Publishing the Draft and Final EISs must occur after the Area ID and prior to the issuance of the ROD/Final Notice of Sale. The ROD and Final Notice of Sale publish simultaneously. Usually, the Proposed Notice of Sale and CDs are finalized after the Draft EIS is issued but at least 90 days prior to Final Notice of Sale/ROD signature.

The Oil and Gas Lease Sale Process

Each lease sale scheduled in a National OCS Program will be subject to separate, established pre-lease decision processes, including environmental review, consultation, and analysis. Interested and affected parties have multiple opportunities to participate and comment prior to any decision to hold a specific lease sale. The entire leasing process, from initial planning to holding a lease sale, typically takes two years to complete (see **Figure 1**, above).

The leasing process contains multiple steps and decision points along the way, including a heavy focus on conducting environmental review and consultations. The first step in the sale process is for BOEM to publish in the *Federal Register* a Call for Information and Nominations (Call) and a Notice of Intent (NOI) to prepare an environmental impact statement (EIS). The Call solicits public input on areas of interest or concern and requests industry nominations on areas that should be considered for leasing. After the Call, BOEM publishes its Area Identification (Area ID), which identifies the preliminary area to be considered for leasing and environmental analysis. The Call and the Area ID may cover a single sale, or a series of sales. Prior to holding any sale, BOEM publishes a Proposed Notice of Sale (NOS), which announces the proposed sale's size, timing, and terms and conditions, including any mitigation measures necessary to protect the environment and reduce potential conflicts-of-use. After required consultations and environmental review are completed, BOEM publishes a Final NOS, which includes the date, time, and location of the bid opening, the OCS blocks being offered, and the terms and conditions of the lease sale. These steps, and others, are described in additional detail below.

1. **Call for Information and Nominations** *(30 CFR 556.301)*. This is the initial step in the leasing process. The Call solicits public comments about geological conditions; archaeological sites; multiple uses of the area; sociological, biological, and other environmental information; and asks the public for information on areas of special concern that should be analyzed. It also formally solicits nominations from industry identifying which OCS blocks within the Call Area they are interested in leasing.

2. **Review under NEPA**. Each individual lease sale requires a NEPA review. This could include preparation of a programmatic EIS covering the sales identified in an approved National OCS Program for a given region or program area. Subsequent lease sales could then be covered by an Environmental Assessment (EA), a Determination of NEPA Adequacy (DNA), or, if new information or circumstances warrant, a Supplemental EIS. To initiate the NEPA process, BOEM publishes an NOI to prepare an EIS.

3. **Area Identification** *(30 CFR 556.302)*. Area ID identifies the area proposed for leasing and further environmental analysis. Based on information gathered from responses to the Call and the NOI, BOEM identifies the Proposed Action to be analyzed in the NEPA document. BOEM publishes the Area ID decision in the *Federal Register*.

4. **Government-to-Government Consultations**. BOEM consults with federally recognized tribes. In Alaska, BOEM additionally consults with Alaska Native Claims Settlement Act Corporations. These consultations are conducted throughout the OCS oil and gas leasing process.

5. **Environmental Consultations**. Consultations under various environmental statutes occur, such as for the Endangered Species Act (ESA) of 1973 (16 U.S.C. § 1531 *et seq.*) and the Magnuson-Stevens Fishery Conservation and Management Act (16 U.S.C. § 1801 *et seq.*), among others, with Federal agencies including the U.S. Fish and Wildlife Service (USFWS) and National Marine Fisheries Service (NMFS). BOEM also consults with State historic preservation officers under Section 106 of the National Historic Preservation Act (54 U.S.C. § 306108).

6. **Proposed Notice of Sale (NOS)** *(30 CFR 556.304)*. The Proposed NOS is the first public notice stating the proposed sale's size, timing, and location. It also provides potential bidders with information on proposed lease terms and conditions, including any proposed environmental mitigations. BOEM publishes a Notice of Availability of the Proposed NOS in the *Federal Register* and, in accordance with Section 19 of OCSLA (43 U.S.C. § 1345) and BOEM's regulations at 30 CFR 556.305(a), the governor(s) of affected state(s) have 60 days to comment on the proposed sale's size, timing, and location.

7. **Consistency Determination (CD)** *(30 CFR 556.305(b))*. All Federal activities must be consistent with the enforceable policies of an affected state's coastal zone management program (16 U.S.C. § 1456(c)(1) and (2)). BOEM prepares a CD in accordance with the Coastal Zone Management Act (CZMA) and provides coastal states with a CD that determines whether the proposed lease sale is consistent, to the maximum extent practicable, with the enforceable policies of federally approved state Coastal Management Plans. A state has 60 days to review the CD. A state may request a 15-day extension with an additional 15 days for internal review if needed, providing a total of 90 days for the CD process.

8. **Issuance of a Record of Decision (EIS-level), Finding of No New Significant Impact (EA level) or Determination of NEPA Adequacy**. The NEPA review for each individual lease sale must be completed before the sale can occur. Depending on the NEPA review undertaken for a lease sale, this could be through the issuance of a Record of Decision, a Finding of No New Significant Impact, or a DNA. The appropriate determination is published concurrently with the Final NOS, at least 30 days prior to the sale.

9. **Final NOS** *(30 CFR 556.308(a))*. BOEM publishes a Final NOS at least 30 days before a lease sale is held. The Final NOS includes information on (1) how to submit bids; (2) the date, time, and location of the bid opening and reading; (3) the OCS blocks being offered; and (4) terms and conditions of the lease sale, including required environmental mitigations.

10. **Holding the Lease Sale** (*30 CFR 556.516*). BOEM opens the sealed bids at the place, date, and hour specified in the Final NOS for the sole purpose of publicly announcing and recording the bids. BOEM does not accept or reject any bids at that time.

11. **Post-Lease Sale Review.** The Department of Justice (DOJ), in consultation with the Federal Trade Commission (FTC), has 30 days to conduct an antitrust review of the lease sale, a

requirement prior to any leases being issued. Additionally, BOEM conducts a Bid Adequacy Review, where high bids are subject to further evaluation to ensure the government receives fair market value. If a bid is rejected, any money deposited will be refunded with the bid plus any interest accrued.

12. **Lease Issuance** *(30 CFR 556.520-522)*. BOEM reserves the right to reject any or all bids and the right to withdraw any block from the sale. If a bid is accepted, the remaining four-fifth's bonus and first-year rentals are due no more than 11 days after BOEM approves the bid.

Fair Market Value

BOEM is required by OCSLA to ensure the Government receives fair market value for the lease rights granted and the minerals conveyed. When the lease is acquired, the bid price paid by a lessee is known as a "bonus bid." This acquisition cost reflects the opportunity cost of exploring and producing those minerals resources. BOEM uses a two-phased system of bid evaluation to assess the adequacy of bids based on multi-faceted criteria.

After the bids are open and read publicly, BOEM has 90 days to determine if a bid can be accepted and a lease issued. High bids are first examined for technical and legal adequacy, followed by an antitrust review by the DOJ and the FTC. Each high bid is then analyzed from a fair market value perspective. Fair market value at the time of lease award is not based on the value of the oil and gas eventually discovered or produced, instead it is related to BOEM's estimates of the value of the right to explore, and, if there is a discovery, to develop and produce hydrocarbons. This value is therefore based on the expected, not actual, activities and results that are anticipated to occur after the sale.

Acquiring a Lease

A lease conveys the rights to explore for, develop, and produce the oil and gas contained within the lease area. The lease is a contractual agreement and thus further defines requirements for surety bonds, royalty payments, rental payments, and assignment or other transfers of the lease or any partial interest.

Leases are offered as whole or partial blocks. A standard OCS block is 9 square miles or 5,760 acres, and a lease is typically issued for one block unless BOEM has determined that a larger area is necessary for reasonable economic production. No lease may be sold, exchanged, assigned, or otherwise transferred except with the approval of BOEM. Before BOEM issues a lease or approves an assignment of an existing lease, the high bidder or assignee must provide adequate financial assurance in the form of a bond.

BOEM places some restrictions on who may acquire a lease. Prior leaseholders may be barred from acquiring new leases if they fail to exercise due diligence or have unacceptable operating performance. Additionally, pursuant to the Energy Policy and Conservation Act of 1975 (42 U.S.C. §6213), BOEM publishes a semi-annual List of Restricted Joint Bidders which prohibits oil and gas companies that produce more than 1.6 million barrels of oil or oil equivalent per day from jointly bidding on a lease.

Financial Assurance and Diligence Requirements

Information on BOEM's financial assurance requirements for the offshore oil and gas industry can be found on BOEM's webpage. BOEM requires that most offshore companies post a $3 million general area-wide bond on new leases that have no existing infrastructure and no decommissioning liability. BOEM may also determine that the prospective lessee (or an existing lessee, as activities on the lease or the lessee's financial situation change) needs to provide a supplemental bond. The determination for supplemental bonding is based upon financial evaluations conducted per the regulations located at 30 CFR § 556.901(d). BOEM also requires offshore lessees to provide Oil Spill Financial Responsibility per the regulations located at 30 CFR § 553. BOEM may call for forfeiture of all or part of the bond or pledged security or performance by the guarantor if the high bidder refuses or fails, within the specified timeframe, to comply with any term or condition of the lease. The terms and conditions are established in the Final NOS and listed on the BOEM lease form.

Additionally, BOEM sets primary terms to ensure due diligence to explore and develop the lease, and the lessee must relinquish the lease if no activity has occurred within a specified amount of time. Primary terms are longer "where the Secretary finds that such longer period is necessary to encourage exploration and development in areas because of unusually deep water or other unusually adverse conditions" 43 U.S.C. § 1337(b)(2). If a discovery is made within the initial term of the lease, production activities may be approved, and the lease extended for as long as oil or gas is produced in paying quantities or approved drilling operations are conducted. The term of the lease may also be extended if a suspension of production or suspension of operations has been granted or directed. Examples of when a suspension of operations may be granted include weather delays such as hurricanes or other circumstances beyond the lessee's control. Examples of a suspension of production may include unforeseen delays in retrieving a drilling rig once a schedule and commitment to production has been demonstrated.

Lease Terms and Conditions

Environmental Mitigation

BOEM includes environmental mitigations in the form of lease stipulations. Appropriate stipulations are developed through BOEM's extensive environmental review and consultation process and in response to concerns raised by coastal states, Federal agencies, federally recognized tribes, and other stakeholders. Examples of stipulations include required biological surveys of sensitive seafloor habitats, procedures for the protection of endangered and protected species, environmental training for operations personnel, special operating procedures near military bases or their zones of activity, visual impacts mitigation, establishment of no-activity zones, and other restrictions on OCS oil and gas operations. Lease stipulations are legally binding, contractual provisions designed as mitigating measures to address specific concerns pertinent to the lease area.

In addition, the lease requires that the lessee comply with additional rules and regulations that may be issued after the lease is awarded. BOEM's Guidance Portal is used to notify operators of changes in administrative practices or procedures for complying with rules, regulations, and lease stipulations and to clarify requirements or convey information.

Fiscal Terms

Fiscal terms are specified prior to each sale in the Final NOS. Fiscal terms are reevaluated for each lease sale and therefore may differ from one lease sale to another.

- **Primary Term:** The primary term is the length of time a lease can be held for exploration before drilling or production begins. OCSLA provides that the primary term for conventional energy leases will be set at 5 years, or up to 10 years "where the Secretary finds that such longer period is necessary to encourage exploration and development in areas because of unusually deep water or other unusually adverse conditions." 43 U.S.C. § 1337(b)(2). When developing recommendations on the appropriate length of time for the primary terms, BOEM ensures compliance with this statutory requirement and considers and balances important policy considerations consistent with the requirements of OCSLA.

- **Minimum Bonus Bid:** Bonus bids are the bidding variable for oil and gas lease sales. Minimum bids are assessed on a per-acre basis and are typically dependent on water depth. BOEM sets minimum bid levels to appropriately balance investment attractiveness to industry, encourage diligence, and assure the public's interest in receiving fair market value.

- **Rentals:** During the initial term of a lease and before royalty on production is paid, the lessee pays annual rentals, in an amount prescribed in the lease, on a per-acre basis. Rentals reflect the holding cost of the lease during the initial term, prior to production in paying quantities, and contribute to the receipt of fair market value for OCS resources. In shallow depths, BOEM has imposed rentals that escalate over time to encourage due diligence of lease development.

- **Royalty:** The government receives a royalty payment once production starts. The royalty rate is a percentage of the value of produced oil and gas resources. The royalty rate is used to calculate the royalty payment, that is, the dollar amount paid based on value of the amount of production. Royalty rates can have a significant impact on bidder interest and are a key fiscal parameter in the calculation of the underlying economic value for an OCS block.

- **Royalty Suspension:** Royalty suspension (or royalty relief) provides an economic incentive when production might not otherwise occur due to market conditions. The two general royalty suspension categories are *automatic* and *discretionary*. Automatic royalty relief refers to relief included by BOEM in specific leases. Leases issued with royalty relief have royalties suspended if market prices are below a price threshold or if drilling occurs below a specific depth. Discretionary royalty relief is specific royalty relief companies can apply to BSEE for under certain scenarios, to have the royalty payment temporarily waived based on certain financial conditions. There are programs for end-of-life and special cost royalty relief.

Exploration, Development, and Production

Post-leasing activities include OCS exploration, development, and production. To initiate any activity on a leased block, the company must first submit a plan to BOEM. These include (1) plans to **explore** a block for resources, and (2) plans to **develop and produce** resources known to exist.

- **Exploration**

The Exploration Plan must be submitted to BOEM and approved before an operator can begin exploratory drilling on a lease. It sets forth how the operator will explore the lease and describes the exploration activities, the timing of activities, information concerning drilling, the location of each well, and other information. Prior to any drilling, the lessee must file an Application for Permit to Drill with BSEE.

- **Development**

If the operator completes its exploration and discovers oil and/or natural gas, a Development Plan must be submitted to BOEM and approved prior to development and production commencing. It describes the number of wells planned, their location, what types of structures will be used, and how oil and gas resources will be transported to shore. BOEM analyzes and approves or disapproves these plans based on a thorough assessment of their safety and impacts on the environment.

- **Decommissioning**

When production ends, a company is required to decommission its facilities and restore the site to the same conditions that existed before the process started. Environmental review and analysis under NEPA are required at each stage of the process.

The time for development of a project from lease sale to oil and gas production varies for each lease. Depth, location, resources, and many other factors influence the complex process of a project's lifecycle. **Figure 2,** below, shows a graphic example of the activities and timeline for a typical deepwater project.

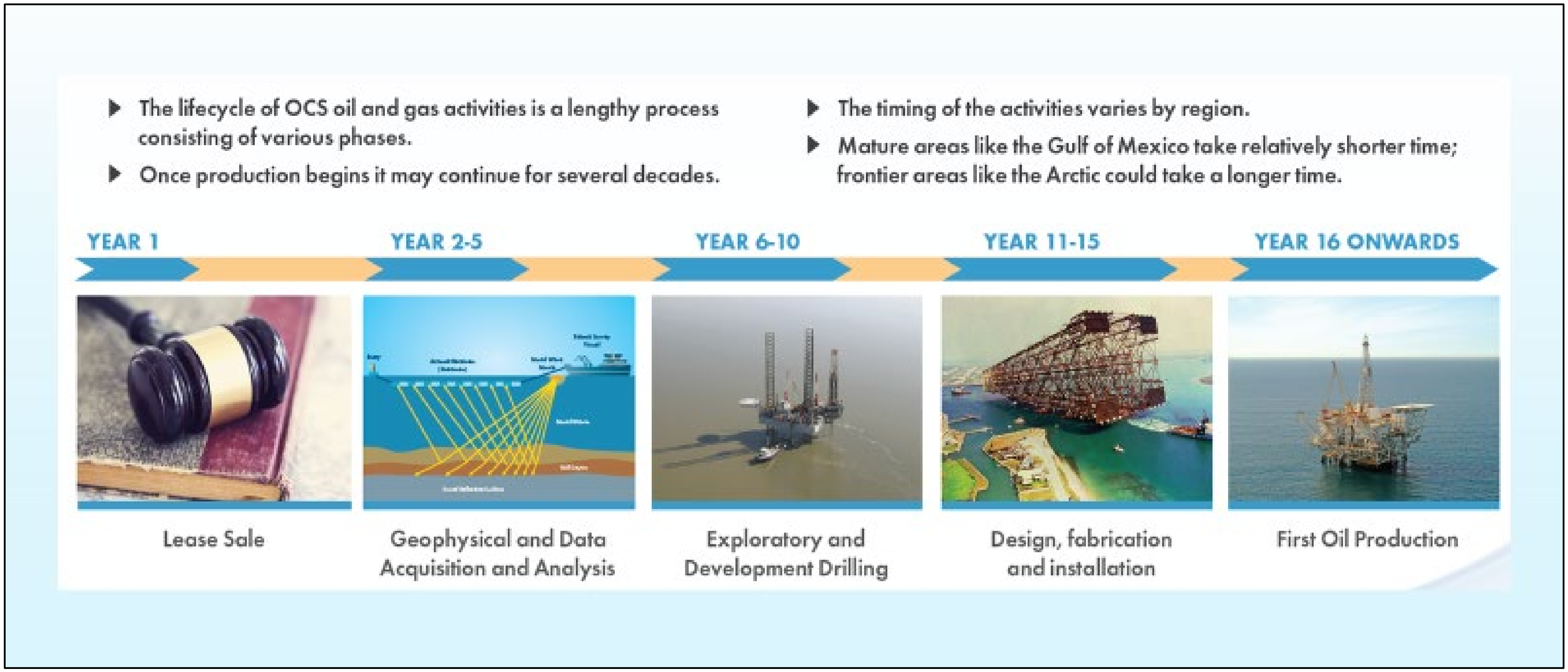


Figure 2. Activities and Timeline for a Deepwater Project

Production and OCS Revenues

Revenues from OCS leases consist of the bonus bids submitted in a lease sale, rentals, and royalties and are collected by the Office of Natural Resource Revenue (ONRR). These revenues are shared with coastal states, as directed by statute, or deposited in the U.S. Treasury. OCS revenues support the Great American Outdoors Act (GAOA) by providing annual deposits to the Land and Water Conservation Fund and the Historical Preservation Fund. By statute, coastal states share a portion of the revenues from OCS leasing and production under two programs:

1) the OCSLA Section 8(g) revenue sharing program
2) the Gulf of Mexico Energy Security Act (GOMESA) revenue sharing provisions for Alabama, Louisiana, Mississippi, and Texas.

- Information on **revenue sharing** can be accessed on BOEM's website here.
- Information on **natural resource revenue data** can be found on DOI's website here.
- **Leasing statistics** are posted monthly to BOEM's website here.
- **Production statistics** are available on the BSEE's website here.

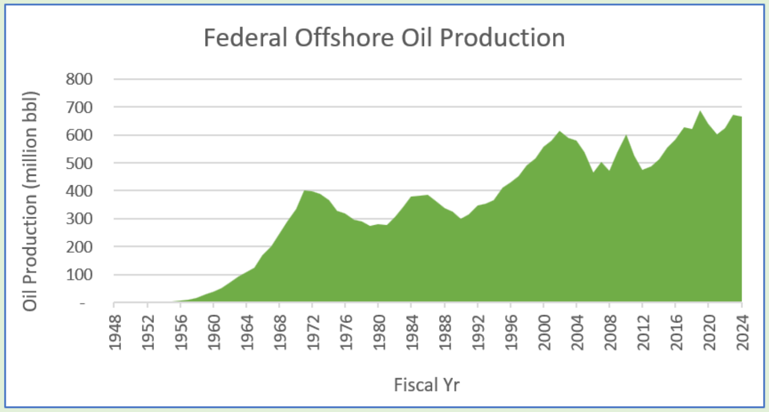
Figure 3, below, shows a breakdown of how Fiscal Year 2023 revenue from oil and gas lease sales, rental payments, and royalty on production is disbursed.

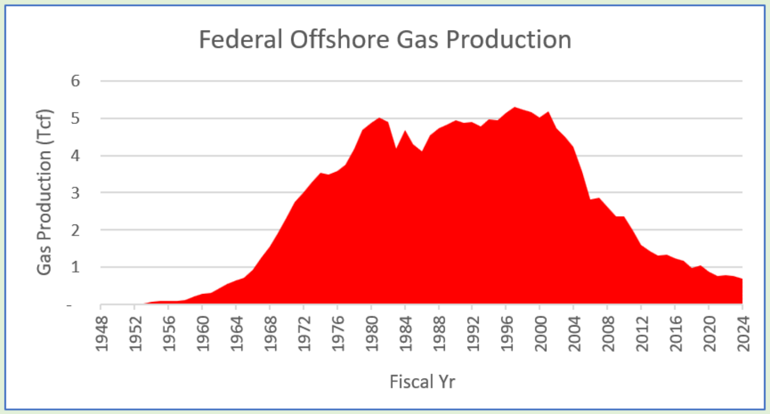
FY2024 OCS Oil Production

- 667.5 million barrels (14% of domestic production)

FY2024 OCS Natural Gas Production

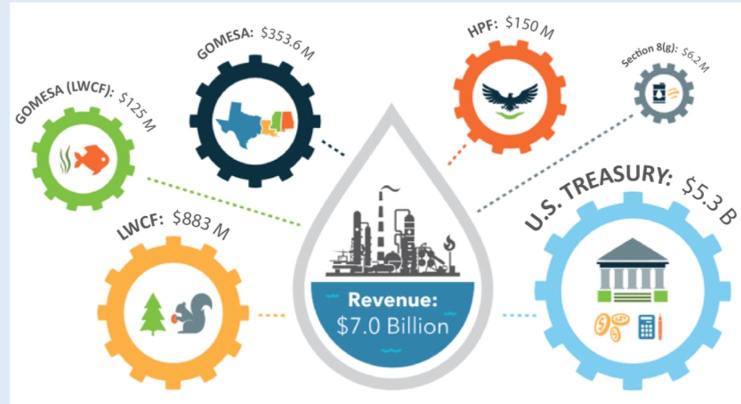
- 700 billion cubic feet (2% of domestic production)





$7 Billion in FY 2024 Revenue

- $6.5 billion in royalties on production; $122.8 million in rent payments; $372.5 million in bonuses



OCS Interesting Facts:

- There have been 182 oil and gas lease sales held since 1954.
- Some 32,630 oil and gas leases covering 172 million acres have been issued since that time.
- OCS oil and gas revenues (bonuses, rents, royalties) have totaled over $232 billion since 1982.
- The highest revenue generating sale ever held was Lease Sale 206. Held in the Gulf of America in 2008, it generated over $3.6 billion in bonus bids.
- The highest bid ever received on a single OCS lease block in an oil and gas lease sale was approximately $333.5 million, submitted during Lease Sale 53, held offshore California in 1981.
- Approximately 26.5 billion barrels of oil and 196.4 trillion cubic feet of gas have been produced on the OCS since 1948.

Figure 3. OCS Oil and Gas Production and Revenue Disbursements

Areas Restricted from Leasing

Not all unleased land on the OCS is available for oil and gas leasing. Under Section 12(a) of the Outer Continental Shelf Lands Act, 43 U.S.C. §1341, the President of the United States may, from time to time, withdraw from disposition any of the unleased lands of the Outer Continental Shelf. Restrictions on leasing may also be imposed through other means, such as presidential proclamations pursuant to existing statutes, through acts of Congress, through regulatory restrictions, and through management plans. BOEM maintains a list of restrictions applicable to the OCS. For a complete and current listing of areas unavailable for oil and gas leasing, please visit BOEM's webpage "Areas Under Restriction."