OFFICE OF INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

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Memorandum

To: Abigail Hopper
Director, Bureau of Ocean Energy Management

From: Jeff Carlson
Director, Energy Audits

Subject: Closeout Memorandum – Audit of BOEM Offshore Oil and Gas Leasing
Assignment No. 2015-EAU-038

We have completed the survey phase of our audit of the Bureau of Ocean Energy Management (BOEM) offshore oil and gas leasing program. During this phase, we visited the BOEM headquarters offices in Washington, D.C., and in Sterling, VA, as well as the BOEM Gulf of Mexico Region Office in New Orleans, LA. We also contacted BOEM offices in Anchorage, AK, and Camarillo, CA. After completing the survey phase of this audit, we determined that further work in the area of offshore oil and gas leasing is not necessary at this time. Although we are closing this assignment without conducting fieldwork, we have identified a concern important enough to be brought to management's attention, even though it did not rise to the level of a recommendation. We discuss this below in the section pertaining to the auction and bidding processes.

Background

Our survey objective was to fully understand the BOEM offshore oil and gas leasing program. We focused on all areas of the leasing process and included the current leasing plan (2012–2017), plus preparations for the next leasing plan (2017–2022). We reviewed relevant laws, regulations, policies, and procedures; and reviewed budget, annual strategic plans and goals, and other program-related information. We also gained high-level understanding of the offshore oil and gas leasing program activities, reviewed documents related to the leasing program, witnessed the Western Planning Area Lease Sale 246 in New Orleans, LA, and interviewed program officials.

We learned that BOEM oversees both conventional and renewable energy, as well as marine mineral leasing policies and programs. For conventional energy, this oversight applies to all Outer Continental Shelf (OCS) leasing and development issues for oil, gas, and other marine minerals.

BOEM's responsibility for OCS issues also includes developing 5-year programs for OCS resource development, as well as specific planning for individual oil and gas lease sales in a way that makes oil and gas resources available, protects communities and the environment, ensures a fair value return to the American public, and provides incentives for diligent development of leases.

The 2012–2017 Five-Year Program for oil and gas leasing, approved by the Secretary of the Interior in August 2012, schedules lease sales in six offshore areas where leases and/or activity currently exist. Twelve of the 15 scheduled lease sales are located within the Gulf of Mexico. As of July 2015, lease sales for the current program have generated $4.1 billion in bonus bids and $69.5 million in rental revenue for the first year.

Results of Survey

We determined that BOEM is compliant with the Outer Continental Shelf Lands Act (OCSLA) in its overall lease processes.

Pre-leasing and planning for specific sales

We found that BOEM has many different disciplines that contribute to and support the overall leasing program—from the initial assessment of resources to environmental considerations to the final determination of what is actually offered for lease. BOEM tailors its leasing strategy by region. In the Gulf of Mexico, we noted that BOEM has extensive experience, data, and infrastructure. The Five-Year Plan for that region includes area-wide leasing of all legally available, unleased acreage. On the other hand, we note that Alaska is a frontier area with technical challenges, causing exploration to be limited to “open water” season. Most recently, the scheduled lease sales for the Beaufort and Chukchi seas listed in the 2012–2017 Five-Year Plan have been cancelled, since, according to OCSLA, the Secretary has the authority to cancel any lease sale. The Pacific region has 43 active oil and gas leases with no intent on future leasing. The Atlantic region has been added to the 2017–2022 Five-Year Plan with the anticipated lease sale in 2021.

Auction and bidding

The Gulf of Mexico Region Office currently is the only office holding lease sales. The Alaska Region Office’s last lease sale occurred in 2008, and the Pacific Region Office has not held a lease sale for several decades.

We witnessed the Gulf of Mexico Region Office’s auction and bidding process for Western Planning Area Lease Sale 246 in New Orleans, LA, August 2015. We found the process for bid submission has remained relatively unchanged for the past 3 decades and were concerned to realize how labor intensive it was for BOEM employees. From the paper bid submission process to the maintenance of the sealed bids (separate, secure briefcases delivered to a locked room with controlled access) to the rental of space at the Mercedes-Benz Superdome to hold the sale, the process offers opportunities to improve the economy and efficiency of the lease sale process.

We noted that, in addition to the excessive labor hours related to conducting a live auction, the monetary outlay is significant. The cost to rent the Superdome is nearly $18,000, which includes $2,283 to provide tap water for the participants. At Sale 246, a total of five offshore energy companies submitted only 33 bids on 33 tracts. The auction was over within minutes.

We asked management how many people would be essential to plan and hold the lease sale if the bidding process were to be electronic. While not all people and teams could be eliminated, management estimated that at least 450 hours could be redirected to other mission critical activities by adopting an electronic bidding, or e-bidding, process. Electronic bidding has the potential to save money and increase efficiencies across BOEM.

BOEM has the opportunity to improve its lease sales by converting to electronic bidding, a process not unfamiliar to BOEM personnel. The BOEM Office of Renewable Energy has held four electronic lease sales, the most recent sale being November 9, 2015, for Atlantic offshore wind. The acting regional supervisor provided an internal document on the electronic bidding process prepared in April 2015. It concluded that electronic bidding is a more efficient process than the current process. It also indicated that the structure to build the electronic application already exists and would be relatively easy to complete.

Having an electronic process would enable all regions to hold lease sales electronically, thus eliminating the need for a physical location with experienced staff on hand. We encourage BOEM to put more effort and resources into using this available technology.

Promising Practices

We identified a promising practice that could benefit BOEM if replicated in its auction lease process. The day following Western Planning Area Lease Sale 246, we observed the subsequent adjudication process and were impressed with the process improvement in this area. In July 2015, BOEM Leasing and Plans section held an adjudication process conference that included BOEM employees from Alaska, California, and Louisiana. These employees identified areas where the Adjudication Group could use current technology to assist the New Orleans Adjudication Group with its backlog. This innovative process allowed adjudication to be performed from any BOEM office by using technology to distribute the adjudication workload to all regions.

Conclusion

After completing the survey phase of this audit, we concluded that further work in the area of offshore oil and gas leasing is not necessary at this time. We encourage BOEM to pursue the electronic bidding option for its OCS lease sales and to contact its Office of Renewable Energy for ideas and support. The electronic bidding structure has the potential to be a more efficient process producing significant long-term savings, while also providing BOEM the ability to hold lease sales across its regions from one location.

We appreciate the cooperation and assistance provided by your staff during our survey. If you have any questions, please contact me at 303-236-9107.