

Fuzzy Numbers

Leasing Revenue Projections from Arctic Refuge Drilling Don't Add Up

The Bush administration's claims of \$2.4 billion in revenue from lease sales in the Arctic Refuge as cited in the President's budget request are wildly speculative, as are the Congressional Budget Office's claims of \$5 billion. Lack of industry interest and past experience on the North Slope of Alaska and the Gulf of Mexico suggest that such high revenue projections are misleading, irresponsible, and out of touch with the modern realities of oil drilling.

An advisor to the Bush Administration agrees that the oil industry has little interest in drilling the Arctic Refuge:

*"If the government gave them the leases for free they wouldn't take them. ... No oil company really cares about [the Arctic Refuge]."*¹

If industry is not interested in drilling for oil in the Arctic Refuge, revenue will not be generated by leasing it.

In the past, the Bush administration has based its \$2.4 billion projection on leasing 400,000 to 600,000 acres in the Arctic National Wildlife Refuge. To achieve this number oil companies would have to pay, on average, \$4,000 to \$6,000 per leased acre. In order for CBO's projection to be correct, oil companies would have to bid, on average, \$3,333.33 per acre in a lease sale that resulted in each of the coastal plain's 1.5 million acres being leased.

The fact is that the average price per leased acre on the North Slope over the past 20 years is approximately **\$50 per acre**. Therefore, for Bush administration and CBO projections to be correct, oil companies would have to bid between 66 and 120 times the historic average.

Despite significant new oil discoveries in the Gulf of Mexico, in the last 20 years bidding trends there have been similar.

Further, no drilling bill has ever provided that leasing in the Refuge would provide the federal treasury more than 50% of the revenue, with the rest going to the State of Alaska. Alaska Representative Don Young's drilling bill would result in a 90/10 state/federal revenue split. And if Young's legislative formula is not used, Alaskans are likely to sue the federal government for the rights to 90 percent of what little revenue is generated from drilling the Refuge.

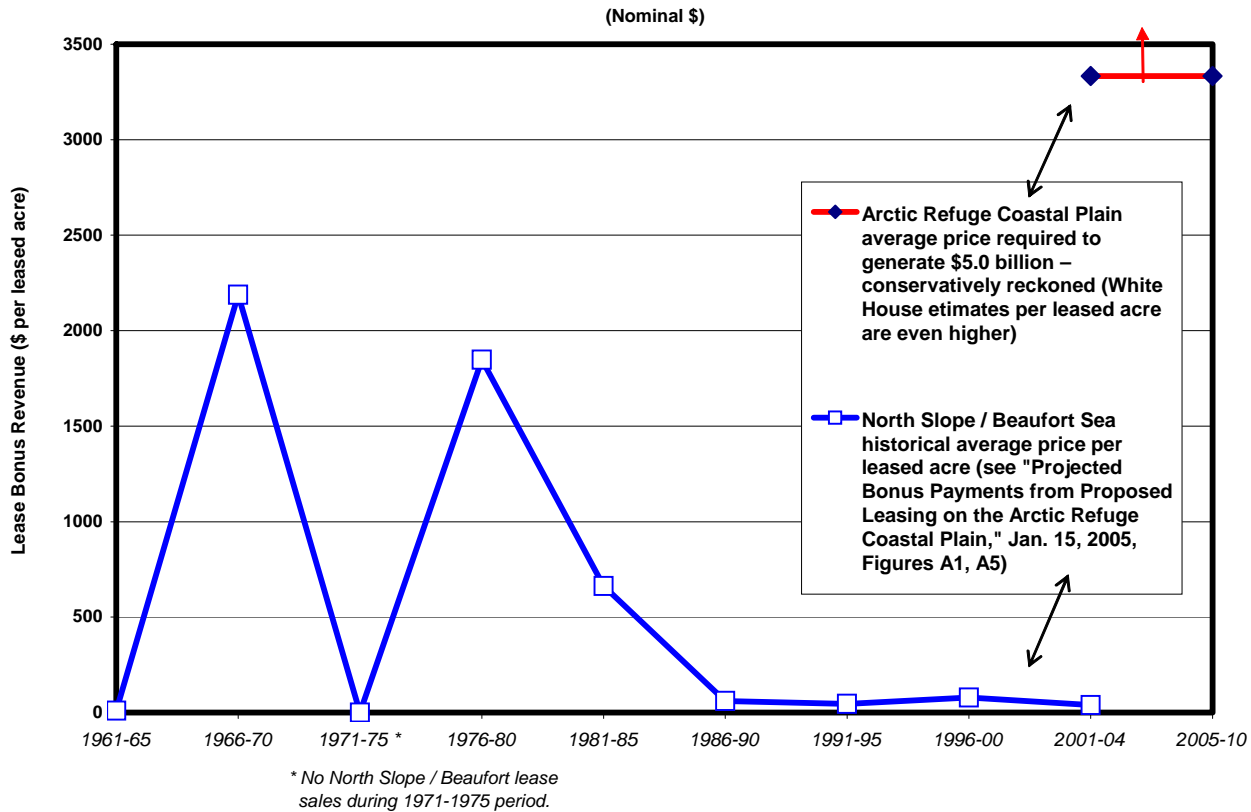
The Arctic Drilling plan is based on fuzzy numbers. Such a speculative scheme should not be pushed through Congress in the federal budget.

There are some places that should be off-limits to oil drilling and industrial development, and the Arctic Refuge is one of them. The harm to wildlife habitat for polar bear, caribou, and millions of migratory birds would be permanent and irreparable. We have a moral responsibility to save wild places like the Arctic National Wildlife Refuge for future generations.

(See diagram on reverse)

¹ Jeff Gerth, Big Oil Steps Aside in Battle Over Arctic, The New York Times (February 21, 2005).

Alaska North Slope Petroleum Lease Revenues, 1961 - 2010



The Congressional Budget Office (CBO) estimates that oil and gas leasing on the coastal plain of the Arctic Refuge would generate approximately \$5 billion in revenues between 2008 and 2010.² The White House's Budget of the United States Government Fiscal Year 2006 assumes that oil and gas leasing on the coastal plain would generate \$2.4 billion in new revenues.³

In order for CBO's revenue assumptions to be correct, oil companies would have to bid, on average, \$3,333.33 per acre in a lease sale that resulted in each of the coastal plain's 1.5 million acres being leased. In previous years, the White House has assumed that between 400,000 and 600,000 acres would be leased, which would require a \$4,000.00 to \$6,000.00 per acre price to meet its revenue estimates.⁴

In contrast to these large bid projections, in the last twenty years oil companies have paid, on average, approximately \$50.00 per acre for oil and gas leases on the North Slope of Alaska and its near-shore waters. If only the recent lease sales in the National Petroleum Reserve Alaska (NPRA) are considered, the average becomes approximately \$110.00 to \$120.00 per acre. And if you expand the analysis beyond Alaska and include the Gulf of Mexico, which has had significant new discoveries of oil in recent years, a similar trend is found, with an average of roughly \$134.00 per acre.⁵

² CBO, Natural Resources and the Environment, Budget Option 300, at 300-09, page 100

<http://www.cbo.gov/ftpdocs/60xx/doc6075/300.pdf>.

³ See Analytical Perspectives, Budget of the United States Government FY2006, Federal Receipts and Collections at 309, <http://www.whitehouse.gov/omb/budget/fy2006/pdf/spec.pdf>; see also Budget of the United States Government FY2006, Appendix, Department of the Interior at 657, <http://www.whitehouse.gov/omb/budget/fy2006/pdf/appendix/int.pdf>.

⁴ See e.g., Budget of the United States Government for Fiscal Year 2005 at p. 647: <http://www.whitehouse.gov/omb/budget/fy2005/pdf/appendix/int.pdf>; Budget of the United States Government for Fiscal Year 2004, General Provisions at 603.

⁵ Fineberg, Richard, Projected Bonus Payments from Proposed Leasing On the Arctic National Wildlife Coastal Plain Greatly Exceed North Slope Historical Trends at i, 8, 11 and Appendix A1 (January 15, 2005), <http://www.finebergresearch.com/arbr.pdf>.