Oil companies facing loss of exploration leases

EDITOR'S NOTE — On Aug. 11, there were 64 rigs drilling for oil in the Gulf of Mexico. On the same date last year, there were 182. The plunge in petroleum prices has crushed offshore exploration, but now a new factor is coming into play: lease expiration dates. This story is another in a continuing series examining how the decline in oil prices has affected people and business around the nation.

One hundred miles off the coast of Louisiana, Ocean Drilling and Exploration Co. did something this month that rarely happens in these days of depressed energy; it started drilling an oil well.

ODECO's gamble in the Gulf of Mexico was prompted neither by the recent upturn in oil prices nor a hunch that a barrel would sell for [illegible] anytime soon. The company drilled because it faced an Aug. 31 deadline to explore the Vermillion Block 295 lease, or lose it.

Vermillion Block 295 is one of 2,300 unexplored leases bought by oil companies for a total of $6.4 billion and due to expire from now through 1988. Interior Department rules are simple: drill it or lose it.

Before the plunge in petroleum prices earlier this year, drilling in the Gulf was booming. Now, with oil at $15 a barrel or so, just half the going price of 10 months ago, expensive offshore exploration is a bust.

And so may be those vast lease investments, experts say.

But there may be a silver lining in this oil industry black cloud, industry officials say. If companies rush to drill the properties before their expiration dates, the Gulf, and the onshore economy dependent on it, could see a mini revival.

"If there's any hope at all, that's the hope," said Mike Simmons of Offshore Data Services Inc. in Houston. "That's where drilling will be done, on those leases."

Still, Simmons predicts that a majority of the 2,300 leases will be returned to the Interior Department undrilled.

"The $6.4 billion is money that's already been spent," he said. "Companies have to make decisions on their future and not necessarily throw good money after bad."

Oil company officials say they are scrambling to find ways to salvage leases. Sun Exploration is deferring drilling in other areas to explore its Gulf prospects; Texaco is looking to "farm out" leases to smaller oil companies because it won't explore all its properties before their expiration dates.

And ODECO is hoping to cash in on the big boys' predicament by grabbing all the "farm outs" it can get. The company has set up a leasing task force to hunt deals as deadlines near.

Vermillion Block 295 was purchased at auction by Chevron. But as the expiration date neared, Chevron decided to farm out the drilling to ODECO in exchange for a share of ownership, ODECO officials said.

ODECO president and chief executive officer Hugh J. Kelly, said, "A year's drilling has been deferred, and a compression of time left on those leases is occurring. The opportunity to acquire excellent exploratory prospects is growing."

The Interior Department held its biggest auction in May 1983, when it put the entire Gulf on the block for the first time and sold 1,029 leases for $4.9 billion. Most of those leases expire in 1988, but to drill them all, companies would have to step up exploration next year.

Amoco exploration manager Tony Benson said those deadlines could spark an upturn in Gulf drilling, despite depressed prices.

Any new drilling means jobs in the economically ravaged Gulf coast area, which has seen the boom days of five years past dissolve into a bust. Giant rigs line inland bays. Roustabouts and roughnecks line up at unemployment offices throughout southern Louisiana. Business bankruptcies are at all-time highs in the area, and state budgets in oil states are strapped as oil tax revenue and royalties dry up.

Chevron is now planning its 1987 exploration budget and trying to squeeze more cash for government Gulf leases, spokesman Brent Wood said. At the same time, the company is farming out leases, like Vermillion Block 295.

"We're not pursuing any dump policy," Wood said. "We're just proceeding cautiously."

Texaco has explored one-third of its Gulf leases and plans to drill "a number of additional leases between now and 1988," spokesman Joe Kelly said. "Those leases that Texaco will not be drilling are available for farm out or other consideration."

Sun doesn't want to lose any leases and is "shifting money slated to other leases to drill some of the earlier expiring leases," spokesman Tom Sullivan said. "We don't want to return any of them. Hopefully, we'll have enough money to drill everything."

Sun's earliest expiration dates fall in 1988.

Leases that expire are put back on the auction block, but the process takes about two years, said Barney Congdon, spokesman for the Minerals Management Service of the Interior Department.

Because rigs have been dismantled, crews have been laid off, exploration departments have been dismantled and entire industries that service offshore drilling have been devastated, gearing back up for the 1988 deadline will be difficult, Simmons said.