

**Outer Continental Shelf**

# **Oil and Gas Leasing Procedures Guidelines**

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## **DISCLAIMER**

The purpose of this Guidebook is to set forth guidelines to facilitate the approval process of documents submitted to the Gulf of Mexico OCS Regional Office of the Minerals Management Service. Processes in this book may be applicable to other MMS offices and the reader is encouraged to contact the other Regional Offices for concurrence. This Guidebook does not represent any legal guidance or policy by the Minerals Management Service.

## **REPORT AVAILABILITY**

Printed copies of this document may be obtained from the following sources:

U.S. Dept. of the Interior  
Minerals Management Service  
Gulf of Mexico OCS Region  
Public Information Office (MS 5034)  
1201 Elmwood Park Boulevard  
New Orleans, Louisiana 70123-2394  
Telephone (504) 736-2519 or  
1-800-200-GULF

Downloading the Zipped MICROSOFT WORD  
file from the MMS website address homepage at  
[www.gomr.mms.gov](http://www.gomr.mms.gov)

## **INTERNET ACCESS**

Information on the Gulf of Mexico OCS Region's leasing program can be obtained at our Internet address at [www.gomr.mms.gov](http://www.gomr.mms.gov). This website contains a variety of data on all historic lease sales as well as information on the most recent and upcoming sales. The historical information, located through the Outer Continental Shelf Lease Sale Statistics button, has various sale facts such as: sale date and OCS location; number of blocks and acres offered and bid on; bonuses paid on leased blocks; average bid per acre; number of bids received; etc.

Buttons linking to the most recent and the next upcoming lease sale contain various news releases, notices of sale, sale day statistics, and the like. The page also contains a link that is updated monthly and contains information on recently leased properties and properties now available for leasing.

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## ACRONYMS

AAP	Affirmative Action Plan
ADV	adjusted delay value
CFR	Code of Federal Regulations
COFR	Certificate of Financial Responsibility
DOCD	Development Operations Coordination Document
DOO	designation of operator
DPP	Development and Production Plan
DSO	directed suspension of operation
EFT	electronic fund transfer
EIS	environmental impact statement
EP	Exploration Plan
EPA	Environmental Protection Agency
FCF	Fishermen's Contingency Fund
FNOS	Final Notice of Sale
FONSI	Finding of No Significant Impact
FR	<i>Federal Register</i>
GAEOT	geometric average evaluation of tract
GOM	Gulf of Mexico
MMS	Minerals Management Service
MROV	mean of the range of values
NEPA	National Environmental Policy Act
NOAA	National Oceanic and Atmospheric Administration
NPDES	National Pollution Discharge Elimination System
NTL	Notice to Lessees and Operators
OCS	Outer Continental Shelf
OCSLA	Outer Continental Shelf Lands Act
OPD	official protraction diagram
PFNOS	Preliminary Final Notice of Sale
PNOS	Proposed Notice of Sale
RMP	Royalty Management Program
ROW	right-of-way
P&A	plugged and abandoned
P/L	pipeline
P/L R/W	pipeline right-of-way
RD	Regional Director
RE	Resource Evaluation
RUE	right-of-use and easement
SOO	Suspension of operation
SOP	Suspension of production
TIMS	Technical Information Management System (MMS database)

# I. OCS OIL AND GAS LEASING PROGRAM BACKGROUND

The Outer Continental Shelf Lands Act, passed by Congress in 1953 and amended extensively in 1978, provides overall guidelines for Outer Continental Shelf (OCS) leasing, exploration and development, and production activities. The Act requires that the U.S. Department of the Interior prepare a 5-year program that specifies, as precisely as possible, the size, timing, and location of areas to be assessed for Federal offshore oil and gas leasing. No OCS lease sale may be held unless it is included in the approved 5-year program. The current 5-year program is the fifth issued by the Department under the 1978 amendments and covers the period mid-1997 to mid-2002.

Annual sales are proposed for the Central and Western Planning Areas in the Gulf of Mexico (GOM), and one sale is proposed in 2001 for a small area offshore Alabama and Florida in the Eastern Planning Area.

The scheduling of a proposed sale involves a process of analysis, consultation, and decisionmaking that typically takes almost three years and includes a number of steps to comply with governing Acts, statutes, and regulations. For further treatment of the intricacies of this planning and decisionmaking process, see *Leasing Energy Resources on the Outer Continental Shelf*, Minerals Management Service, July 31, 1987).

The detailed procedures presented below are derived in part from the regulations codified at

- 30 CFR 250, Subpart J, Pipelines and Pipeline Rights-of-Way Management; and
- 30 CFR 256, Leasing of Sulphur or Oil and Gas in the Outer Continental Shelf.

Anyone doing business with the GOM Outer Continental Shelf (OCS) Region should be familiar with these regulations and the associated Notices to Lessees and Operators (NTL).

## Proposed Oil and Gas Lease Sales Remaining for the Gulf of Mexico (as approved in the 1997 – 2002 5-year plan)

Lease Sale 180, Western GOM	August 2001
Lease Sale 181, Eastern GOM	December 2001
Lease Sale 182, Central GOM	March 2002

The lease sale program falls under the responsibility of the Office of Leasing and Environment, Leasing Activities Section (LAS). The LAS comprises two units:

- Sales and Support Unit
- Adjudication Office

The Adjudication Office is the designated office for the Official Public Records for the lease and all supporting documents. The Adjudication Office is open to the public from 8:00 a.m. to 4:30 p.m. Monday through Friday. The Customer Service Representative may be contacted at (504) 736-2436 or by fax at (504) 736-2630.

The Adjudication Office is located on the first floor of the GOM Regional Office. Visitors should first sign-in with the MMS receptionist, also located on the first floor directly across from the Adjudication Office.

Please note that all mail deliveries, including express mail, are received at the Region's mailroom and subsequently delivered to the appropriate office. If you are submitting a time-sensitive document, please call and advise our customer service representative. We will go to the mailroom to pick up critical, time-sensitive mail.

All mail and hand-delivered documents are received and date stamped in the Adjudication Office. All mail and hand deliveries are considered "received" when they arrive in the Adjudication Office.

## II. QUALIFICATION AS AN OCS BIDDER, LESSEE, ASSIGNEE, OR OPERATOR

(All qualification information submitted becomes part of MMS records and is available for review by the public.)

Whether one acquires a lease interest directly from the United States at a lease sale or through assignment from a current lessee, the acquiring entity must qualify as an OCS lessee. Per 30 CFR 256.35, leases may be held only by

- a. United States citizens;
- b. aliens lawfully admitted for permanent residence;
- c. private, public, or municipal corporations organized under the laws of the United States or of any State or the District of Columbia or territory thereof; and
- d. associations of such citizens, nationals, resident aliens, or private, public, or municipal corporations, states, or political subdivisions of states.

Qualification documents should be filed with the Adjudication Office of the Regional Office where one desires to do business. Only one company number will be assigned to an entity. This number may be used with any MMS Regional Office. Each MMS Region uses an alpha prefix to designate the specific Regional Office. The Gulf of Mexico Region uses a "GOM" prefix. The letter/number sequence is referred to as the company number.

Qualification documents should be filed in aggregate as far in advance of anticipated transactions as practical to allow for the review and acceptance of the submitted documents, and the assignment of a company number. Such numbers are required for automated data processing. Prospective bidders are encouraged to file their qualification documents with the Adjudication Office one month prior to the lease sale. Assignees of record title interest or operating rights in a lease or a right-of-way must qualify and obtain company numbers prior to filing an assignment of the interest or right. Potential right-of-way applicants must also establish qualification prior to submitting an application for a right-of-way grant.

Assignments involving unqualified companies will not be accepted. Operators must qualify prior to submittal for approval of Designation of Operator forms.

Qualification documents for the GOM OCS Region should be addressed to the Adjudication Office. **Qualification documents must be received as a complete package, or the entire package may be returned to the submitter.**

## A. QUALIFICATION REQUIREMENTS

Qualification documents, in general, specify the name of the entity exactly as the submitter desires it to be shown on all documents. The name of the entity as submitted on the qualification document will be the only acceptable version of the entity's name. Any required filing with a **name that deviates** from the name on file may be **returned** in its entirety and must be refiled along with a new filing fee.

A listing of qualified companies in numeric and alphabetic order is available on request from the Adjudication Office. Requests may be for printed copies and/or data diskette of files, which are in Access database format.

The MMS **will not accept** any filings or transactions involving companies/individuals not qualified to do business on the OCS. All such documents received **will be returned**, along with any filing fee, to the submitter. This applies **even if** the company qualification, name change, or merger request and documentation have been filed with MMS. This return policy is strictly enforced, as we are unable to enter the filings or financial transactions into the computer tracking systems because the proper company identity will not exist in the computer database. This prevents entering the fee amount into the accounting system, printing a receipt, and preparing the bank deposit. Holding monies or delaying deposits are a violation of Department of Treasury regulations.

Any company undergoing a corporate change, such as a merger, is encouraged to file the necessary merger documents with MMS within 30 calendar days after filing with the Secretary of State for the state of its incorporation, if the company is able to submit a complete package including all Designations of Operator. Delayed filings will jeopardize any further acceptance of documents in the name of the new unregistered entity.

If the MMS becomes aware of a finalized merger or name change action, administrative blocks will be put in place to avoid continued actions with the new unregistered entity in the name of one of the former entities. Such administrative actions may include a review of financial status relative to a company's exemption status from providing supplemental bonds for all plugging and abandonment liabilities in excess of available bond amounts, suspensions of operations for failure of the new entity to have proper general bonds, etc.

### 1. Individuals

Mineral leases issued pursuant to Section 8 of the OCS Lands Act, as amended, may be held by citizens and nationals of the United States and by aliens lawfully admitted for permanent residence in the United States (30 CFR 256.35).

Citizens must submit a written statement attesting to their United States citizenship (30 CFR 256.46(c)). The citizenship statement need not be notarized, nor the age of the individual shown (Exhibit 1).

Resident aliens must submit a photocopy of the Bureau of Immigration Form I-151 or I-551 as evidence of legal status.

Files are not maintained on individuals; therefore, upon first receiving interest in **each** lease or right-of-way, a citizenship statement is required to be submitted along with such lease, assignment, or right-of-way. The acquisition of additional interest in the same lease, assignment, or right-of-way does not require the submission of an additional statement.

## 2. Corporations

Mineral leases may be held by private, public or municipal corporations organized under the laws of the United States or of any State, or of the District of Columbia or territory thereof (30 CFR 256.35(b)). The applicant must file the following documents to qualify to do business on the OCS (30 CFR 256.46(e)).

**The corporate seal must be embossed on each certificate** (30 CFR 256.46 (e)(1) and (2)).

- (a) A letter stating the name of the corporation exactly as it should appear on all legal documents. This will be the only acceptable version of the corporation's name on legal documents and letters filed with MMS. Names must be exactly as recorded in the Office of the Secretary of State of the State of incorporation. For example:

- SWEPI LP (note all caps with space);
- OXY USA Inc. (note all caps except for Inc.);
- Shell Offshore Inc. (note caps only for initial letter of each word);
- PanCanadian Gulf of Mexico Inc. (note no space and capitalization in first name and initial letter cap for each word); and
- Walter Oil & Gas Corporation (note the ampersand, not the word "and")

Any required filing with a **name that deviates** from the name on file may be **returned** in its entirety and must be refiled with a new filing fee.

- (b) A statement, certified by the Secretary or Assistant Secretary of the corporation, over the corporate seal, identifying the State in which the corporation is incorporated and declaring the corporation is authorized to hold mineral leases and/or rights-of-way on the OCS (Exhibit 2).
- (c) Certificate of Incumbency listing the officers authorized to bind the corporation, certified by the Secretary or the Assistant Secretary of the corporation, over the corporate seal (Exhibit 3).
- (d) Evidence of authority of persons authorized to bind the corporation; such authority may consist of one or more of the following, certified by the Secretary or Assistant Secretary of the corporation, over the corporate seal:
- (1) Copy of resolutions of the Board of Directors granting the authority (Exhibit 4); or

- (2) Copy of resolutions granting a corporate officer authority to issue a power of attorney; or
- (3) Copy of power of attorney or certified copy of resolution granting the power of attorney.
- (e) A machine copy of any certificate will be accepted only if an original certification by the Secretary or Assistant Secretary of the corporation is attached.

With regard to Certificates of Incumbency, specimen signatures are not required; however, each officer authorized thereon must sign any document exactly as his or her name appears on the certificate (i.e., “J.D. Smith — Vice President” must sign “J.D. Smith” and not “John D. Smith”). When applicable, a certificate from the Secretary or Assistant Secretary of the corporation certifying that the signature of an authorized officer is acceptable when using either “first name, middle initial, last name” or “first initial, middle initial, last name” or “first initial, middle name, last name” or variations shown therein will be accepted. **Any required filing incorrectly signed will be returned in its entirety and must be refiled with a new filing fee and, if applicable, within the prescribed 90 days after execution.**

Although statutes or regulations do not require a company to qualify well in advance of the time for filing business transactions, the MMS recommends and encourages entities intending to do business on the OCS to submit their qualification information and satisfy the general bond requirement as far in advance as practical. Early qualification affords an opportunity for clarifying any discrepancies or omissions, thereby removing the potential for disqualification or delays.

The MMS will acknowledge by letter the sufficiency of the qualification filing and assign the GOM company number by a letter of acknowledgment.

### **3. Partnerships**

Regulation 30 CFR 256.46(d) provides guidance for associations and/or partnerships to establish qualifications to bid on offshore acreage, obtain interest in a lease through assignment, or to acquire a right-of-way grant.

#### **a. Limited Partnership**

In order to establish the qualifications of a limited partnership, the following documents are required to be filed with the GOM Adjudication Office:

- (1) Copy of the Certificate of Partnership and any amendments thereto, along with evidence of filing in the Office of the Secretary of State, certified by the Secretary or Assistant Secretary of the partnership (Exhibits 5 and 6);
- (2) Copy of the Partnership Agreement and any amendments thereto, along with evidence of filing in the Office of the Secretary of State, certified by the Secretary or Assistant Secretary of the Partnership (Exhibit 7);



- (3) Statement indicating the State in which the partnership is registered or formed and that it is authorized to hold mineral leases and/or rights-of-way on the Outer Continental Shelf, certified by the Secretary or Assistant Secretary of the partnership (Exhibit 8);
- (4) Statements from each General Partner of the partnership reflecting the following, as appropriate (Exhibits 9-11);
  - (a) If a corporation, a statement indicating the State in which it is incorporated and that it is authorized to hold mineral leases and/or rights-of-way on the Outer Continental Shelf, certified by the Secretary or Assistant Secretary of the corporation, over the corporate seal;
  - (b) If a partnership, a statement indicating the State in which it was formed and that it is authorized to hold mineral leases and/or rights-of-way on the Outer Continental Shelf, certified by the Secretary or the Assistant Secretary of the partnership;
  - (c) If an individual, a statement of citizenship;
- (5) Statement from the General Partner of the partnership certified by the Secretary or Assistant Secretary reflecting that, with respect to the limited partners, (a) each individual limited partner is a citizen of the United States of America and (b) each corporate limited partner or other entity is incorporated or formed and organized under the laws of a State or territory of the United States (Exhibits 12 and 13); and
- (6) Evidence of authority of persons to bind the partnership, if not specifically set forth in the Partnership Agreement, may consist of certificates from the Secretary or Assistant Secretary of the partnership, reflecting such officers and their authority (Exhibits 14 and 15).

**The corporate seal must be distinctly embossed on each certificate executed by the Secretary or Assistant Secretary of a corporate entity (30 CFR 256.46(e)(1) and (2)).**

## **b. General Partnership**

In order to establish the qualifications of a general partnership, the following documents are required to be filed with the GOM Adjudication Office:

- (1) Copy of the Certificate of Partnership and any amendments thereto, along with evidence of filing in the Office of the Secretary of State, certified by the Secretary or Assistant Secretary of the partnership (Exhibits 16-18);
- (2) Copy of the Articles of Partnership or Partnership Agreement and any amendments thereto, along with evidence of filing in the Office of the Secretary of State, certified by the Secretary or Assistant Secretary of the partnership (Exhibits 16-18);
- (3) Statement indicating the State in which the partnership is registered or formed and that it is authorized to hold mineral leases and/or rights-of-way on the

Outer Continental Shelf, certified by the Secretary or Assistant Secretary of the partnership (Exhibit 19);

- (4) Statements from **each** General Partner of the partnership reflecting the following, as appropriate (Exhibits 20 and 21):
  - (a) If a corporation, a statement indicating the State in which it is incorporated and that it is authorized to hold mineral leases and/or rights-of-way on the Outer Continental Shelf, certified by the Secretary or Assistant Secretary of the corporation, over the corporate seal;
  - (b) If a partnership, a statement indicating the State in which it was formed and that it is authorized to hold mineral leases and/or rights-of-way on the Outer Continental Shelf, certified by the Secretary or Assistant Secretary of the partnership;
  - (c) If an individual, a statement of citizenship; and
- (5) Evidence of authority of persons to bind the partnership, if not set forth in the Partnership Agreement, may consist of certificates from the Secretary or Assistant Secretary of the partnership reflecting such officers and their authority (Exhibits 22 and 23).

**The corporate seal must be distinctly embossed on each certificate executed by the Secretary or Assistant Secretary of a corporate entity (30 CFR 256.46(e)(1) and (2)).**

#### **4. Limited Liability Company**

In order to establish qualifications of a limited liability company to bid and to hold a lease or right-of-way grant, the following documents are required to be filed with the GOM Adjudication Office:

- (a) Copy of the Articles of Organization, and any amendments thereto, along with the Certificate of Organization that evidences filing of the Articles in the Office of the Secretary of State, certified by the Secretary or Assistant Secretary of any Member or Manager of the Limited Liability Company (Exhibits 24-26).
- (b) Copy of the Regulations, and any amendments thereto, of the Limited Liability Company, if there are any, along with evidence of filing in the Office of the Secretary of State, if required, certified by the Secretary or Assistant Secretary of any Member or Manager of the Limited Liability Company (Exhibit 27).
- (c) Copy of the Operating Agreement of the Limited Liability Company, and any amendments thereto, along with evidence of filing in the Office of the Secretary of State, if required, certified by the Secretary or Assistant Secretary of any Member or Manager of the Limited Liability Company (Exhibit 28).
- (d) Statement indicating the State in which the limited liability company is registered or formed and that it is authorized to hold mineral leases and/or rights-of-way on the Outer Continental Shelf, individually certified by the

Secretary or Assistant Secretary of each member/manager of the limited liability company (Exhibits 29 and 30);

- (e) Statement from each member of the limited liability company reflecting the following, as appropriate:
  - (1) If a corporation, a statement indicating the State in which it is incorporated and that it is authorized to hold mineral leases and/or rights-of-way on the Outer Continental Shelf, certified by the Secretary or Assistant Secretary of the corporation, over the corporate seal (Exhibits 31 and 32);
  - (2) If a partnership, a statement indicating the State in which it was formed and that it is authorized to hold mineral leases and/or rights-of-way on the Outer Continental Shelf, certified by the Secretary or Assistant Secretary of the partnership;
  - (3) If an individual, a statement of citizenship.
- (f) Evidence of authority of persons to bind the limited liability company, if not specifically set forth in the Articles of Organization or regulations of the limited liability company, must consist of a certificate jointly executed by all member companies, reflecting such officers and their authority (Exhibits 33-35); and
- (g) Listing of all members of the limited liability company certified by the Secretary or Assistant Secretary of any member or manager of the limited liability company (Exhibits 36-38).

**The corporate seal must be distinctly embossed on each certificate executed by a corporate entity.**

## **5. Trust**

In order to establish qualifications of a trust to bid on offshore acreage, to obtain interest in a lease through assignment, or to acquire a right-of-way grant, the following documents are required to be filed (Exhibit 39):

- (a) Copy of the trust agreement or document establishing the trust, and all amendments thereto, duly certified by the trustee; such certification to also include a statement relative to where the original of the trust document(s) has been recorded; and
- (b) Statement indicating the law under which the trust is established and that the trust is authorized to hold mineral leases and/or rights-of-way on the OCS, duly certified by the trustee.

From time to time, trust qualification files are updated to reflect a change in trustee. An original or certified copy of an affidavit or such other instrument reflecting the withdrawal, resignation, or termination of such trustee is acceptable. To effect replacement of a trustee, an appointment certificate or some similar document is required.

## **B. GOM COMPANY NUMBERS AND QUALIFICATION FILES**

### **1. General**

When all of the required documents have been submitted, reviewed, and accepted, the entity is assigned a GOM company number. All OCS Regions use the same number for a particular company, with an alphabetic prefix identifying the Region; however, each MMS OCS Region and Subregion maintain a separate mailing address. The prefixes are as follows:

Gulf of Mexico OCS Regional Office — GOM  
Atlantic Subregion — AT  
Alaska OCS Regional Office — YK  
Pacific OCS Regional Office — LA

### **2. Updating Your Qualification File**

All qualification files are available for public review. Each qualified company is responsible for maintaining current information and thus avoid having required filings returned for incorrect signatures, etc. Changes should be forwarded to the appropriate OCS Regional Office, Adjudication Office so that the qualification records can be updated. Companies wishing to close their qualification files should make a written request for such an action to the appropriate OCS Adjudication Offices.

The following nonexclusive list gives typical examples of the kinds of qualification updates routinely filed with MMS:

- Affidavit
- Assistant Secretary's certificate
- Certificate of dissolution
- Certificate of incumbency
- Change of address
- Consent of Directors
- Delegation of Authority
- List of corporate officers
- Power of attorney
- Resolution of the Board of Directors
- Revocation of Power of Attorney
- Secretary's certificate
- Written consent of the Board of Directors

A separate instrument, referred to as a "Revocation of Power of Attorney," is required for each power of attorney being canceled and should include the date of execution of the power of attorney. Revocations are effective on the date filed in the Adjudication Office unless the company specifies a particular date.

### **3. Change of Name**

To process a change of name for a company already qualified, the following evidence is required to be filed. **(All documents should be filed together as a package or the filing may not be accepted.)**

- (a) Copy of Certificate of Amendment to the Articles of Incorporation indicating the change of name, or Certificate of Ownership and Merger or Merger Agreement, including the Certificate of the Secretary of State of the State of its incorporation, duly certified by the Secretary or Assistant Secretary of the corporation, over the corporate seal (Exhibits 40-42);
- (b) Notification indicative of the **effective date of the change of name**;
- (c) Evidence of authority of persons empowered to execute for and on behalf of the company under the new corporate name, certified by the Secretary or Assistant Secretary of the corporation, **over the corporate seal** (Exhibit 43);
- (d) Statement indicating that the company is incorporated under the laws of the State of its incorporation and is authorized to hold mineral leases and/or rights-of-way on the OCS, certified by the Secretary or Assistant Secretary of the corporation, **over the corporate seal** (Exhibit 44);
- (e) List of the authorized officers of the company, certified by the Secretary or Assistant Secretary of the corporation, **over the corporate seal** (Exhibit 45);
- (f) If applicable, for each active bond, a rider to be attached thereto and form a part thereof, which changes the name of the principal on the original bond. The rider should include identifying information such as bond number and amount and, if applicable, the lease number and the official lease description. The address of the principal and the surety should be included in the appropriate signature blocks. (Exhibit 46). **The corporate seal for both principal and surety must be distinctly embossed on the rider.**
- (g) Separate listings of all MMS leases and rights-of-way affected by the change in corporate name (Exhibit 47):
  - (1) oil and gas leases with record title holdings;
  - (2) oil and gas leases with operating rights; and
  - (3) pipeline rights-of-way.
- (h) A rider changing the name of the principal or the insured on applicable Oil Spill Financial Responsibility (OSFR) Forms, i.e., MMS 1010, MMS 1018, MMS 1020 and MMS 1019

**The corporate seal must be distinctly embossed on each certificate executed by a corporate entity.**

## 4. Merger

If an unqualified company merges into a qualified company, but such merger does not affect the corporate structure of the qualified company, the unqualified company need not establish qualifications nor is it necessary that the merger be filed.

When two companies merge and the certificate of the Secretary of State is issued, MMS will only conduct business with the surviving corporate entity. Timely filing of all necessary documents will facilitate the continuation of business with MMS.

To process a merger of companies already qualified in the Regional Office, the following evidence is required to be filed:

- (a) Copy of the Certificate of Ownership and Merger or Merger Agreement, including the Certificate of the Secretary of State, duly certified by the Secretary or Assistant Secretary of the surviving corporation, over the corporate seal (Exhibits 48-50);
- (b) Notification indicative of the effective date of the merger;
- (c) Statement identifying the surviving corporation as being incorporated under the laws of the State of its incorporation (indicate State) and that it is authorized to hold mineral leases and/or rights-of-way on the Outer Continental Shelf, duly certified by the Secretary or Assistant Secretary of the corporation, over the corporate seal (Exhibit 51);
- (d) List of those officers authorized and empowered to execute for and on behalf of the surviving corporation, duly certified by the Secretary or Assistant Secretary of the corporation, over the corporate seal (Exhibit 52);
- (e) Evidence of authority of persons empowered to execute for and on behalf of the surviving corporation, duly certified by the Secretary or Assistant Secretary of the corporation, over the corporate seal (Exhibit 53);
- (f) If applicable, a request that all bonds on file with the merged company as principal be canceled (bonds must be identified by bond number, map area and block);
- (g) A listing of the oil and gas leases, including operating rights, as well as pipeline rights-of-way in force, separately identified, that are affected by the merger (Exhibit 54);
  - (1) oil and gas leases with record title holdings;
  - (2) oil and gas leases with operating rights; and
  - (3) pipeline rights-of-way.
- (h) Using the following guidance, the **required** Designations of Operator form for each lease operator or owner must be filed along with all other documents, or the package of all documents may be returned to the submitter.

- (1) When a company that owns interest in a lease(s) is merged into another company that does not own interest in the same lease, the surviving company must submit new Designation of Operator forms designating the current operator of the lease(s).
  - (2) When a company that owns interest in a lease(s) is merged into another company that owns interest in the same lease, the surviving company does not need to submit Designation of Operator forms designating the current operator of the lease(s).
  - (3) When a company merging into another company is the current operator of a lease(s), all record title holders and owners of operating rights must submit Designation of Operator forms designating the surviving company as operator of the lease(s).
  - (4) When the company being merged owns 100 percent of the record title interest and is the operator, the surviving company, if properly bonded, does not need to designate itself.
- (i) The OSRF forms are required as follows:
- (1) When the surviving corporation does not have OSFR coverage, but acquires leases or rights-of-way with facilities that can be classified as a Certificate of Financial Responsibility (COFR), the corporation must submit a new OSFR application as well as MMS 1017 (Designation of Applicant form) from co-lessees or joint right-of-way holders.
  - (2) Where there are leases or rights-of-way with COFR's and the surviving corporation is not the designated applicant, then appropriate MMS 1017's must be submitted by the surviving corporation.

In cases where the merged entity was required to and proceeded to provide supplemental bonds, the surviving corporation must provide replacement supplemental bonds unless it is a corporation that is exempt from supplemental bonding.

To process a merger of a qualified company with and into a company not previously qualified, the unqualified company must first become qualified. If leases and/or pipeline rights-of-way are involved in the merger, appropriate general, supplemental, and right-of-way bond requirements must be met.

Alpha/numeric qualified company lists are available from the Adjudication Office.

**The corporate seal must be distinctly embossed on each certificate executed by a corporate entity.**

## **5. Business Conversion**

The MMS recognizes that states are allowing a change to a business entity type through a process called conversion. A conversion is a statutory transaction in which one type of business entity

becomes a different type of business entity, where all assets and liability of the converting entity vest in the converted entity, and where the converted entity is, for all intents and purposes, the same entity that existed before the conversion. The conversion accomplishes the same result as a merger; however, a conversion involves only a single entity whose original existence is not affected.

For our purposes, the conversion will be treated as a combination new qualification and name change. Therefore, to effect the conversion of an entity already qualified with the MMS, the following documents are required to be filed:

- (a) If the converted entity is a corporation, you are required to submit those documents listed under Section II.A.2., Corporations.
- (b) If the converted entity is a limited partnership, you are required to submit those documents listed under Section II.A.3.a., Limited Partnerships.
- (c) If the converted entity is a general partnership, you are required to submit those documents listed under Section II.A.3.b., General Partnerships.
- (d) If the converted entity is a limited liability company, you are required to submit those documents listed under Section II.A.4., Limited Liability Company.

In addition to the above, you must submit the following:

- (a) A certificate of conversion including the Certificate of the Secretary of State that evidences filing of the conversion documents, duly certified by the Secretary or Assistant Secretary or other record keeper of the converted entity.
- (b) Effective date of the conversion is normally shown in the conversion certificate; however, if not, please specify in the transmittal letter.
- (c) Separate listing of all MMS leases and rights-of-way affected by the conversion, in numerical order:
  - (1) oil and gas leases with record title interest;
  - (2) oil and gas leases with operating rights interest; and
  - (3) pipeline right-of-way grants.
- (d) If applicable, for each active bond, a rider to be attached thereto and form a part thereof, that changes the name of the principal on the original bond. The rider should include identifying information such as bond number and amount and, if applicable, the lease number and the official lease description. The address of the principal and the surety should be included in the appropriate signature blocks. **The corporate seal for both principal and surety must be embossed on the rider.**
- (e) If applicable, a rider changing the name of the principal or the insured on applicable OSFR Forms, i.e. MMS 1010, MMS 1018, MMS 1020, and MMS 1019.



Companies converted prior to qualifying with MMS will simply qualify by using the normal procedures for the particular business entity identified in this guideline book.

## **C. BOND REQUIREMENTS**

The objective of the bonding program is to ensure that all entities performing activities under the jurisdiction of MMS provide or demonstrate adequate financial resources to protect the U.S. Government from incurring any financial loss. Each lease in the region is reviewed to ensure the lessees or co-lessees have adequate financial coverage to provide for the performance of all lease obligations when the designated operator and/or the lessees cannot fulfill their requirements. These securities are necessary to ensure that you fully comply with regulatory and lease requirements to include rents, royalties, environmental damage, cleanup and restoration activities, abandonment and site clearance, and other lease obligations.

On each lease the MMS considers all lessees, operators, and operating rights interest owners to be jointly and severably liable for all lease obligations. Your designated operator, by the authority granted in the Designation of Operator Form, acts as your agent. It is the policy of the GOM Region to work directly with your designated operator for all matters affecting your lease.

An OCS lessee (30 CFR 256.52) or the designated operator, (30 CFR 256.52(c)), is required to obtain a surety bond guaranteeing performance of all contractual obligations under that lease.

As an OCS pipeline right-of-way (ROW) holder, you must provide and maintain a \$300,000 ROW bond that guarantees compliance with all terms and conditions of the ROW permit (30 CFR 250.1009(b)(1)(i)).

In addition to providing references, the following are related procedural information and guidance specifically applicable to both leases and rights-of-way in the GOM Region and the Atlantic Subregion. The authorized MMS officer for all decisions under these procedures shall be the GOM Regional Director or his designee.

### **1. General Bonds**

You are required to provide a general lease surety bond or ROW bond before the MMS will issue you a new lease or approve a lease, ROW assignment, or an operational activity plan. Specifically, the GOM Region will begin a review of your bonding coverages when you submit a request for a change of designated operator of a lease; an initial Exploration Plan (EP); an initial Development and Production Plan (DPP); an initial Development Operations Coordination Document (DOCD), or a significant revision (i.e., a supplemental plan) to an approved EP, DPP, or DOCD; a request for assignment of a lease with an approved EP, DPP, or DOCD; or ROW plan.

The authorized MMS officer may permit you to provide the required general lease surety bond or ROW bond after we approve an assignment or operational activity plan but before you begin an

operational activity under the relevant plan. The submittal of a general lease surety bond by the designated operator (30 CFR 256.52(c)) does not relieve any of the lessees of their obligations to comply with the terms and conditions of the lease. All leases and ROW's must have a general bond, regardless of the financial strength or supplemental bond waiver status (Section II.C.2., Supplemental Bonding) of any of the lessees.

The level of activity on your lease determines the amount of the general bond to be provided for that lease. All ROW permittees must have a \$300,000 ROW pipeline bond.

The GOM Region will designate each lease as No Operations, Exploration, or Development as follows:

- (a) *No Operations*-A \$50,000 lease-specific or \$300,000 areawide general lease surety bond for leases with no MMS-approved operational activity plan, or for leases under an MMS-approved operational activity plan but with no submittal to MMS of assignment or operational activity plans. You do not need to provide this bond if you have provided an applicable lease-specific or areawide lease surety bond according to one of the higher requirements in (b) below.
- (b) *Exploration*-A \$200,000 lease-specific or \$1,000,000 areawide general lease surety bond for leases in a proposed EP or a significant revision to an approved EP, or for a proposed assignment of a lease with an approved EP. You do not need to provide this bond if you have provided an applicable lease-specific or areawide general lease surety bond according to one of the higher requirements in (c) below.
- (c) *Development*-A \$500,000 lease-specific or \$3,000,000 areawide general lease surety bond for leases in a proposed DPP or DOCD or a significant revision to an approved DPP or DOCD, or for a proposed assignment of a lease with an approved DPP or DOCD.

The lessee may request to submit a bond in an amount less than the above-mentioned and prescribed amounts, when the authorized MMS officer agrees with the lessee's evidence that the potential lease obligations will be less than the amount of the lease bond coverage prescribed in the regulations.

The authorized MMS officer may permit the lessee to provide the required bond after submission of an assignment or operational activity plan but **prior to the approval** of operational activity under the relevant plan.

An operator may substitute a bond in the same amount at any time for the required equivalent lessee bond to fulfill the obligations of a lessee on the lease. The substitution of an operator's bond does not relieve the lessee of its obligation to comply with the terms and conditions of the lease (30 CFR 256.52(c)). If the operator uses the lessees' general bond to meet the lease requirements, the MMS may require a letter of concurrence from the lessees, acknowledging their general bond will be acting as the surety bond for the general lease obligations.

The authorized MMS officer may require additional security (30 CFR 266.53(d)) in the form of a supplemental bond or bonds on a case-by-case basis to ensure present and future compliance with all lease obligations. Factors to be examined by the authorized MMS officer in determining the need for supplemental security include, but are not limited to, a lessee's financial ability, record of meeting obligations, and projected financial strength.

The assignee remains responsible for all obligations associated with a lease subsequent to the date that the Regional Director approves the assignee's request for an assignment, including associated surety bond requirements (30 CFR 256.58).

## **Reference Materials**

Code of Federal Regulations -- 30 CFR 256, Subpart I-Bonding, July 1, 2000 Edition.

Notice to Lessees and Operators: NTL No. 2000-G16, Guidelines for General Lease Surety Bonds, September 7, 2000.

Website: <http://www.gomr.mms.gov/homepg/regulate/regs/ntls/ntl00-g16.html>

GOM Region and Atlantic Subregional Office Contact: Adjudication Office at (504) 736-2634.

## **2. Supplemental Bonds Procedures**

The Supplemental Bond program was developed to protect the U.S. Government from incurring costs involved with oil and gas and ROW facilities abandonment, and site clearance on the OCS. Using historical data, MMS developed a minimum bond level to ensure the coverage of cost incurred in removing these facilities. This information is calculated according to the number of platforms, water depths, and number of wells. It covers plugging and abandonment (P&A) of wells, removal of platforms, and site clearances.

### **a. When Will the Lease be Reviewed for Supplemental Bond Amount?**

We will review the lessee's general and supplemental bond(s), cumulative liabilities, and financial strength and, if warranted, will require supplemental bond(s). We may conduct a review at any time. Generally, we will initially conduct a review when a lessee submits an EP for approval.

We will conduct subsequent reviews when a lessee requests our approval of one of the following:

- (1) assignment of the lease record title interest (lessee of record), or a portion of the record title interest in a lease;
- (2) significant revision to an approved EP;
- (3) development and Production Plan (DPP) or a significant revision to an approved DPP;

- (4) development Operations Coordination Document (DOCD) or a significant revision to an approved DOCD;
- (5) application for a pipeline right-of-way (ROW) or modification to existing pipelines ROW (30 CFR 250.1009 (b)(1)(ii));
- (6) assignment of record title interest of an existing or approved pipeline ROW permit with platform amenities; and
- (7) significant revision to an approved pipeline installation plan for a pipeline having platform amenities.

At our option, we may conduct reviews:

- (1) periodically,
- (2) when we become aware of information that indicates a change in the financial strength of the company or potential cumulative liability, or
- (3) we issue Notices of Incidents of Noncompliance for incidents related to safety, the environment, nonpayment of royalty, or other violations of MMS regulations.
- (4) If you take an action that causes us to initiate a review and then you withdraw the action, at our discretion we may carry the review of the need for additional bonds to completion. If we determine that these are needed, we will require the submission of a supplemental bond.

## **b. How is the Amount Determined?**

When we require you to provide and maintain a supplemental bond, the amount, in addition to the general bond, will be equal to the cost to meet all potential present and future lease obligations including P&A costs necessary to ensure performance of regulatory requirements.

- (1) We will estimate the amount of cumulative abandonment liability including the lessee's obligations to plug and abandon wells, remove platforms and other facilities, and restore the lease to its original condition by clearing the obstructions from wells, platform sites, and ROW's. We will make this estimate on the assumption that all facilities will be removed and abandoned onshore.
- (2) We will estimate costs on the basis of available historical costs. The following example is drawn from historical data for 4-pile platforms in the Gulf of Mexico and includes costs for removing platforms from the lease and scrapping the platform onshore, plugging and abandoning wellbores according to the requirements of 30 CFR 250 Subpart G, and clearing the site according to 30 CFR Subpart I and Gulf of Mexico NTL 98-26. The estimate is based on costs in the Gulf of Mexico and assumes that a lessee will use a rig to plug and abandon all wellbores. We will adjust these figures when additional actual cost data indicate a significant cost increase or decrease. Other OCS Regions

will base estimates on their best available information. You may provide additional information for us to consider when we estimate end-of-lease costs. When providing additional data, you should explain the basis for the data. We will estimate costs as follows:

- (a) Plugging and abandoning a borehole will cost \$100,000 per borehole for all water depths;
- (b) Dismantling and abandoning a platform will vary with water depth as follows:

Estimated Costs of Removing a Platform and Scrapping it Onshore (according to water depth)			
Water Depth of 150 Feet or Less	Water Depth between 151 and 200 Feet	Water Depth between 201 and 299 Feet	Water Depth of 300 Feet or Greater
\$400,000	\$600,000	\$1,250,000	\$2,000,000+

- (c) Clearing a lease will vary with water depth as follows:

Estimated Cost of Site Clearance (according to water depth)		
Water Depths of 150 Feet or Less	Water Depths between 151 and 249 Feet	Water Depths of 250 Feet and Greater
\$300,000	\$400,000	\$500,000+

If an operator disagrees with our initial P&A cost estimate, he may request a meeting to present a convincing argument for different abandonment costs from third-party estimates or some other means. Once the abandonment costs have been finally determined by MMS, these abandonment costs will become the required supplemental bond amount. This amount is subject to annual review and adjustment to account for inflation and changing market conditions, as well as any geologic information or change in production or maintenance status of the lease.

**c. What Evidence of Financial Strength and Reliability Can I Provide to Defer Posting a Supplemental Bond?**

As specified in the current NTL 98-18N, effective December 28, 1999, Supplemental Bonding Procedures, a waiver of this supplemental bond requirement on a specific lease or right-of-way may be granted by the authorized MMS officer if at least one record title lessee meets the criteria established.

We will not require you to submit a supplemental bond when we have determined that the lessee meets the following conditions, unless we determine that the financial or operational history of the company warrants that a bond is needed to ensure that the company will meet all abandonment and clearance obligations.

The following information will be reviewed to determine any deferment for posting a supplemental bond.

- (1) If our estimate of your cumulative potential end-of-lease liability is less than or equal to 25 percent of the most recently available and independently audited calculation of the lessee's net worth, we will not require a supplemental bond if the company meets the criteria in paragraph (b) or (c) and shows adequate reliability as evidenced by the following:
  - (a) number of years of successful operations and production of oil and gas or sulphur in the OCS or in the onshore oil and gas industry,
  - (b) credit rating(s), trade references, and verified published sources,
  - (c) your record of compliance with the current and previous governing laws, regulations, and lease terms, and
  - (d) other items that indicate financial strength or reliability.
- (2) You produce fluid hydrocarbons in excess of an average of 20,000-barrel oil equivalents (BOE) per day from your OCS leases, based on our calculation of your production for the most recent 12 months for which data and information are available. For the purposes of computing BOE for natural gas, 5.62 thousand cubic feet of natural gas equals 1 barrel of oil equivalent, as measured fully saturated at 14.73 psi and 60 degrees Fahrenheit according to 30 CFR 250.1203(b).
- (3) The company can demonstrate financial strength to carry out present and future financial obligations. You may exhibit financial capacity by providing audited financial statements, including an independent auditor's report, balance sheet, and profit and loss sheet. This audit must demonstrate that the lessee falls within one of the criteria identified below:
  - (a) Stockholder's equity or net worth has a minimum value of \$50 million but does not exceed \$100 million, the current ratio (current assets/current liabilities) is equal to or greater than 1.0, and the debt to equity ratio (total liabilities/net worth) is less than or equal to 2.5.
  - (b) Stockholders equity or net worth has a minimum value of \$100 million but does not exceed \$150 million, the current ratio (current assets/current liabilities) is equal to or greater than 0.75, and the debt to equity ratio (total liabilities/net worth) is less than or equal to 3.0.
  - (c) Stockholder's equity or net worth has a minimum value of \$150 million, the current ratio (current assets/current liabilities) is greater than 0.50, and the debt to equity ratio (total liabilities/net worth) is less than or equal to 3.0.

Financial Criteria for Supplemental Bond Deferment		
Stockholders Equity or Net Worth	Current Ratio = Current Assets/Current Liabilities	Debt/Equity Ratio = Total Liabilities/Net Worth
\$50 million to \$100 million	1.00	2.5
\$100 million to \$150 million	0.75	3.0
\$150 million and up	0.50	3.0

**d. Will MMS Consider a "Lease Specific Abandonment Trust Account" to Meet the Supplemental Bond Requirements?**

On a case-by-case review, and only as a final option, the MMS may consider the establishment of an abandonment trust account (30 CFR 256.56).

You may submit and maintain a supplemental bond(s) in the following ways:

- (1) Submitting lease-specific supplemental bond(s), U.S. Treasury Securities, or an alternate form of supplemental security approved by MMS, in the full amount we determine is needed. If the value of your security falls below the level of the supplemental bond we require, or if the U.S. Treasury no longer certifies the company that issued your bond as being acceptable, you must notify us within 10 working days.
- (2) Submitting, with our prior approval, a plan under which you commit to fund fully a lease-specific abandonment escrow account according to 30 CFR 256.56. Generally, you must fully fund a lease-specific abandonment account within four (4) years or by the beginning of the year that we project you will have cumulatively produced 80 percent of the originally recoverable reserves, whichever is earlier. You must notify MMS within five (5) working days and submit this plan within 14 working days after we notify you that you need to submit a supplemental bond. The plan must include the following:
  - (a) An initial payment into the lease-specific abandonment account that is generally equal to or greater than 50 percent of our estimate of the cumulative potential lease abandonment and clearance liabilities. The lessee will base the amount of the initial payment on our analysis of current, past, and projected rates of production from the leasehold(s), or cash flow for facilities used by ROW, characteristics of the producing reservoir(s), plugging and abandonment information available in our databases, and/or other information provided to us.
  - (b) A prescribed time schedule for making specified incremental payments (e.g., monthly payments) in amounts that will ensure that the amount in the lease abandonment account will increase at a faster rate than the rate at

which the originally recoverable hydrocarbons are being produced from the lease.

- (c) Commitment by the financial institution in which the lessee established the lease-specific abandonment account to notify us of the date and amount of the initial deposit and of each subsequent incremental payment into the account.
- (d) Submitting insurance policies to guarantee your fiduciary liability for your residual liability in the event of any catastrophic failure that prevented the completion of the remaining payments. Coverages provided should include Loss of Business Interruption and General Peril or All Risk as acceptable to MMS. Additionally the insured must enter into an agreement with MMS to deposit any payments from the insurance into the trust agreement.
- (e) You must immediately submit, and subsequently maintain, a supplemental bond in an amount equal to the remaining portion of our estimate of the amount of your cumulative potential lease abandonment and clearance liabilities in the event you fail to
  - (i) make the initial payment into a lease-specific abandonment account, or
  - (ii) pay on the date due an incremental payment into the lease-specific abandonment account in the amount agreed.
- (f) The following table provides an example of a plan for incremental payments.

Example of Incremental Payment Schedule			
The following is an example of a lease-specific abandonment account, the time schedule prescribed, and the amount of each incremental payment, to fund the account over a four-year period. This example describes a situation in which, based on our estimate of your cumulative potential unfunded lease abandonment and clearance liabilities, we required a \$5 million supplemental bond.			
Year	Percent of Recoverable Hydrocarbons Produced at End of Year as a Percentage of Recoverable Hydrocarbons Originally in Place	Dollar Amount (Security) Required at Start of Year	Quarterly Payment during Year
1	20%	\$2,500,000	\$156,250
2	40%	\$3,125,000	\$156,250
3	60%	\$3,750,000	\$156,250
4	75%	\$4,375,000	\$156,250
<ol style="list-style-type: none"> <li>1. Total Supplemental Bond Payment: \$5,000,000.</li> <li>2. The amount of the initial payment is 50% of your cumulative potential lease abandonment and clearance liabilities, since 50% is greater than the percentage of the recoverable hydrocarbons originally in place that we project will be produced by the end of Year 1.</li> <li>3. By the end of Year 3, you will have produced 60% of the recoverable hydrocarbons originally in place. The fund will need to have not less than 60% of the total supplemental bond (\$3,000,000 = 60% x \$5,000,000) by the start of Year 3.</li> </ol>			



4. By the end of Year 4, you will have produced over 80% of the recoverable hydrocarbons originally in place. The fund will need to have the full \$5,000,000 by the end of Year 4. Quarterly payments of \$156,250 during the 4-year period will increase the fund to \$5,000,000 by the end of Year 4.

**e. How Can Another Company Provide a Guaranty to Defer the Posting of Supplemental Bonds (30 CFR 256.57)?**

(1) You may submit a third-party guarantee in lieu of a supplemental bond. Your guarantee must be provided by a third party (guarantor) who will guarantee compliance with all lease obligations. We will accept a third-party guarantee if the guarantor and the indemnity agreement are found to be acceptable. The guarantor must meet all requirements in this section.

The guarantor must

- (a) comply with all requirements in 30 CFR 256.57;
- (b) meet the qualifications for a lessee in 30 CFR 256.35(b);
- (c) demonstrate satisfactory levels of financial strength and business history that exceed financial and production thresholds;
- (d) have total outstanding and proposed guarantees, for the combined companies, that do not exceed 25 percent of the guarantor's unencumbered net worth in the United States; and
- (e) provide an indemnity agreement. The agreement form can be found at our website at <http://www.gomr.mms.gov/homepg/regulate/regs/ntls/ntl98-18nadd.html>

**Reference Materials**

Federal Code of Regulations -- 30 CFR 256, Subpart I- Bonding, July 1, 2000 Edition.

Notice to Lessees and Operators -- NTL No. 98-18N, December 28, 1998, Supplemental Bond Procedures. Website: <http://www.gomr.mms.gov/homepg/regulate/regs/ntls/ntl98-18n.html>

Gulf of Mexico OCS Regional and Atlantic Subregional Office Contact: Adjudication Office, (504) 736-2634.

**3. Surety Specifications**

**a. Bond Specifications (30 CFR 256.54)**

The approved bond form is MMS Form 2028 and can be found at the following website: [www.gomr.mms.gov/homepg/mmsforms/FormsMMS-2029.pdf](http://www.gomr.mms.gov/homepg/mmsforms/FormsMMS-2029.pdf) (revised June 2001). This is a generic bond form used for all types of bonds. Any modification to the form with additional

clarification language limiting the usage of the bond to plugging, abandonment, and site clearance only will require MMS approval.

Bonds are noncancelable and continue in full force and effect even though an event occurs that could diminish, terminate, or cancel a surety obligation under State surety law (30 CFR 256.54). It is MMS policy not to cancel a surety bond but to terminate the period of liability of the surety. This termination of liability does not release the surety from responsibility for all obligations and liabilities that accrued before the effective date of the termination (30 CFR 256.58).

As provided at 30 CFR 256.54(b), one may reproduce, scan, or generate a word processing version of the bond form. If one does this, and the document omits terms or conditions contained on the form approved by the Associate Director for Offshore Minerals Management, the bond form submitted will be deemed to contain the omitted terms and conditions.

There is no change under the recent final rule regarding the GOM Region's policy that an operator may substitute his or her bond for the required equivalent lessee bond.

All corporate surety bonds **must** be provided by a company listed in the U.S. Treasury Department's Listing of Approved Surety, Department Circular 570, published in the *Federal Register* annually. Co-principals **are not acceptable** on any required bond.

All designated pipeline rights-of-way operators **must** have a \$300,000 right-of-way bond to operate or hold a pipeline right-of-way.

All bonds and any bond riders for a corporation must be signed by an authorized official and attested by the Secretary or Assistant Secretary with the corporate seal embossed thereon (30 CFR 256.54(d)).

## **b. Treasury Obligations**

Pledged U.S. Treasury securities may be substituted for corporate surety bonds. A bond may be obtained for an individual lease or for an entire OCS Region (e.g., Gulf of Mexico Region and the Atlantic Subregion).

The U.S. Treasury Department's regulations at 31 CFR 225 permit any individual, partnership, or corporation to deposit with a Federal Reserve Bank, for safekeeping for MMS, certain obligations issued or guaranteed by the United States as a substitute for any required corporate surety bond. The U.S. Treasury Department has expounded these regulations in Treasury Circular 154. Treasury notes and zero-strip coupon bonds are frequently used. Treasury notes on which interest accumulates are valued at face value. Zero-strip coupon bonds have no interest accumulating and are therefore valued at current market value.

The GOM Region's Adjudication Office uses the market value of the securities as of the day filed in the Adjudication Office for the initial bond filing. Subsequent periodic or annual reviews may result in a bond surplus or deficit on the basis of market value at the time of review.

Treasury notes maturing in **more** than one year but not more than five years are the **only** type notes acceptable to MMS.

Regulations at 31 CFR 225 provide for a Federal Reserve Bank to act as depository for the Treasury obligations. The company using these provisions must deposit the Treasury obligation with its local Federal Reserve Bank into a pledge account with the MMS as pledgee. The Federal Reserve Bank requires a depositor to conduct business through a commercial bank of the depositor's choice.

The current MMS bond form must be used with a signed statement of pledge attached, using the precise, mandated language.

The Regional Director of the GOM Region is the bond-approving officer.

The procedures for using Treasury obligations in lieu of sureties are as follows:

- (1) The lessee/operator notifies MMS in writing of its desire to use the Circular 154 provisions, specifying the Federal Reserve Branch where the pledge account will be established.
- (2) The MMS notifies and authorizes the Federal Reserve Bank in writing to act as depository.
- (3) The MMS sends the lessee/operator a copy of Treasury Department Circular 154 and the appropriate bond form with the prescribed endorsement language added.
- (4) The lessee/operator executes MMS Form 2028 (revised June 2001), along with the appropriate forms from Circular 154, including the Receipt of Bond-Approving Officer and Power of Attorney and Agreement, and submits them to MMS.
- (5) The lessee/operator simultaneously deposits the bill or note in the pledge account. The Federal Reserve Bank notifies MMS in writing of the deposit. The MMS executes the Receipt of Bond-Approving Officer and returns one copy to the lessee/operator along with a letter of acknowledgment of the bond filed.
- (6) When the lease terminates and all the lease terms and conditions have been complied with, the MMS will make a determination that the security is no longer required.
- (7) When the bond-approving officer determines that the security is no longer necessary, the pledged bill or note is released and the power of attorney and agreement will be returned.

(8) Upon receipt of the returned bill or note, the lessee/operator must surrender to the MMS the original Receipt of Bond-Approving Officer and provide the MMS with an original Receipt of Obligor on Return of Securities.

(a) When a Treasury note matures, it should be replaced by a new Treasury note, of the appropriate value, through execution of a simultaneous release and re-pledge. The MMS must send a letter of authorization to the Federal Reserve Bank, and the company needs to submit a new power-of-attorney, new bond form, and provide all necessary information.

### **c. Alternative Security Instruments**

The authorized MMS officer may approve alternatives to surety bonds and U.S. Treasury securities in response to supplemental bond requirements if the interests of the U.S. Government are protected to the same extent as by such historically accepted financial instruments.

There is no change under the recent final rule regarding the GOM Region's acceptance of alternate security instruments. At present, this office accepts bonds from U.S. Treasury-certified sureties and U.S. Department of Treasury securities that have a cash value as of the day filed in the Adjudication Office equal to the MMS bond requirement. Alternative instruments that provide the same degree of security as those currently accepted will be considered on a case-by-case basis. For an informational perspective, such alternatives as letters of credit or unpledged production escrow accounts have historically been deemed unacceptable.

## **4. Replacement of Existing Surety Bonds**

Replacement bonds of equal value will be accepted at any time. A company may wish to change insurance companies or replace existing U.S. Treasury bonds with a corporate surety, etc.

## **5. Termination of Period of Liability**

The period of liability for a bond may be terminated by requesting a termination from the Regional Director. A request must be made in writing by the principal and must justify the need. If there are any outstanding liabilities, including due but yet unpaid royalty, lease abandonment requirements, or outstanding civil penalties, either assessed or under investigation, the bond will not be terminated until satisfactory action has been taken to correct the deficiency.

The MMS will return the request without action and provide an explanation. A company may submit another request for bond termination when the identified outstanding obligation has been satisfied. A bond being terminated because it is being replaced by another instrument will be terminated without cross checking. Normal processing time for a replacement bond should be approximately two weeks.

Please note that, in the execution of all bonds and bond riders, the corporate seals of both the principal and the surety must be distinctly embossed and that the signatures, as well as addresses of witnesses for both the principal and the surety, are required.

Specific requirements apply for cancellation of a surety bond. The Regional Director must determine (a) there are no outstanding obligations and (b) a replacement bond is provided and the new surety agrees to assume all outstanding and future liabilities under the bond that is to be cancelled (30 CFR 256.58(b)).

## **6. Where Do I Submit the Bonds or Lease Administration Information?**

All information regarding your lease, may be submitted to the following:

U.S. Dept. of the Interior  
Minerals Management Service  
Gulf of Mexico OCS Region  
Adjudication Office (MS 5421)  
1201 Elmwood Park Blvd.  
New Orleans, Louisiana 70123-2394

## **D. STATEMENT OF PRODUCTION**

The current regulations at 30 CFR 256.41 require that only those companies chargeable for the prior production period with an average daily production in excess of 1.6 million barrels of crude oil, natural gas, and liquefied petroleum products must file under oath a Statement of Production. This Statement must be filed no later than 45 days prior to the commencement of the applicable 6-month bidding period.

“Six-month Bidding Period” is the 6-month period of time (1) from May 1 through October 31 or (2) from November 1 through April 30, respectively (30 CFR 256.43).

The Statement of Production shall indicate that the person was chargeable with an average daily production in excess of 1.6 million barrels of crude oil, natural gas, and liquefied petroleum products for the prior production period.

“Prior Production Period” means the continuous 6-month period of January 1 through June 30 preceding November 1 through April 30 for joint bids submitted during the 6-month bidding period from November 1 through April 30, and means the continuous 6-month period of July 1 through December 31 preceding May 1 through October 31 for joint bids submitted during the 6-month bidding period from May 1 through October 31.

Statements of Production shall be submitted to the Director, Minerals Management Service (Attention: Offshore Leasing Management Division), Washington, D.C. 20240. The Director shall publish semiannually (April/October) in the *Federal Register* a “List of Restricted Joint Bidders” to be effective immediately upon publication. Reference to this list is essential in determining company eligibility in submitting joint bids at an oil and gas lease sale.

Those persons who were **not** chargeable with an average daily production in excess of 1.6 million barrels of crude oil, natural gas, and liquefied petroleum products are **not** required to file Statements of Production and are eligible to bid jointly with any other entity.

## **E. OIL SPILL FINANCIAL RESPONSIBILITY – OPA 90**

Effective December 11, 1995, MMS began requiring OCS operators producing oil or gas condensate to have a Certificate of Financial Responsibility (COFR) on file with the Gulf of Mexico OCS Regional Office before operational permits involving facilities, leases, or right-of-way assignments will be processed. The MMS will verify availability of each operator's COFR before processing applications to drill, applications for new facilities on a platform, applications for new pipelines, lease or right-of-way assignments, and other operational documents.

A few historical points should be clarified. The requirement to provide evidence of OSFR at a level of \$35 million for platforms, wells, and pipelines on the OCS is not a new requirement. It was enacted as part of the OCS Lands Act Amendments of 1978. At that time, the program for OCS facilities was administered by the U.S. Coast Guard under the regulations at 33 CFR 135. Following passage of the Oil Pollution Act of 1990 and issuance of Executive Order 12777, the portion of the program for offshore facilities was transferred to the jurisdiction of the Department of the Interior and is being administered by MMS. Initially, the processing of applications and the issuing of certificates took place at the MMS Headquarters Office in Herndon, Virginia.

This responsibility for the National OSFR program was transferred to the GOM Region on April 8, 1999. It is a part of the responsibilities of the Leasing Activities Section.

The final rule was published in the *Federal Register* on August 11, 1998, under Vol. 63, No. 154, Pages 42699-42719, and was followed by NTL No. 99-N01, "Guidelines for Oil Spill Financial Responsibility for Covered Offshore Facilities," effective January 6, 1999. The final rule can be found at [www.access.gpo.gov/su\\_docs/aces/aces140.html](http://www.access.gpo.gov/su_docs/aces/aces140.html). Once you are at this website you may do a search on *Federal Register* Notices. Page down and select *Federal Register* Notices for the year "1998" then select "Final Rules and Regulations." Then enter the date of the Notice, "08/11/1998." This will bring you to the page listing the notices. The OSFR Notice is listed as item 24. Click the PDF file and download accordingly.

The NTL can be found at: [www.gomr.mms.gov/homepg/regulate/regs/ntls/ntl99-n01.html](http://www.gomr.mms.gov/homepg/regulate/regs/ntls/ntl99-n01.html)

The OSFR program includes State waters. That portion of the program is administered in cooperation with the appropriate State officials. Companies with State leases involving a facility site or pipeline located seaward of the coastline need to be in compliance with the amounts of oil spill coverage required. If a State operator is unsure if his location comes under the jurisdiction of the program, either one of the two following options will provide the answer as to the facility location:

- (1) Telephone the MMS OSFR coordinator and provide him the coordinates of the facility location. He will plot the information, make a determination, and respond with the results in a letter faxed to the requestor for his files, or
- (2) The MMS has developed an Internet homepage at which the information is found: [www.gomr.mms.gov/homepg/lseale/latlong.asp](http://www.gomr.mms.gov/homepg/lseale/latlong.asp). The user enters the facility location information and submits the inquiry. The MMS's Gulf of Mexico Region will then plot the location and provide a return e-mail with the requirements.

Customers should refer to the above referenced NTL No. 99-N01, available on line, for detailed information concerning the OSFR program and the required levels of financial coverage and reporting requirements necessary for operations in both State and Federal offshore waters.

### III. OCS AREA ORGANIZATION AND BASIC DEFINITIONS

#### A. LEASING AREAS

##### 1. Descriptions

##### a. Planning Areas

Planning areas are large contiguous geographic areas on the OCS that are composed of entire protraction diagrams and/or leasing map areas. Planning areas form the basic geographic area for all oil and gas lease sale proposals. There are three planning areas in the GOM and all are mapped under North American Datum (NAD) 27. The areas are as follows:

<u>Area*</u>	<u>Blocks</u>	<u>Total Acres</u>
Western Gulf of Mexico (WGOM)	6,514	35,905,730.353
Central Gulf Of Mexico (CGOM)	9,109	47,780,857.79
Eastern Gulf Of Mexico (EGOM)	<u>13,457</u>	<u>75,585,243.528</u>
Total	29,080	159,271,831.671

\*The Atlantic Subregion maps were converted to NAD 83 coordinates.

##### b. Leasing Maps

Leasing maps are based on the Lambert Plane Coordinate Systems, North American Datum, 1927 (NAD '27). Map sets exist only in the Central and Western Planning Areas. Coverage extends from the Federal-State boundary, varying to approximately 50-100 miles seaward at some points. The origin of the projections are onshore, and the grid was projected onto the offshore areas as interest in oil and gas exploration continued into offshore waters. Lease maps in general cover the area referred to as "the shelf."

##### c. Official Protraction Diagrams

Official protraction diagrams (OPD's) are based on various zones of the Universal Transverse Mercator Projection Grid System (UTM), NAD 27. Coverage extends from the seaward extension of the leasing maps to the U.S.-Mexico and Cuba maritime boundaries or to the limit of protraction of the Gulf OCS Planning Area. The entire Eastern Planning Area and the deepwater portions of the Central and Western Planning Areas are composed of these diagrams.



## **2. Definitions**

### **a. Block**

A block is a numbered area on an official protraction diagram or a leasing map; the area may contain from a fractional acreage up to thousands of acres. A standard-size block is dictated by the projection used — Lambert Plane Coordinate or Universal Transverse Mercator, UTM. A zone is designated on the basis of acceptable accuracy limits that are related to the earth curvature. The zone, usually 2° of latitude, is then marked off with grid lines from west to east in the designated block size of 5,000 or 5,760 acres. As this grid approaches the eastern border of the zone, a segment of line less than that required for a standard block is left over. The resulting block, although smaller in size than a “standard or full” block, is a legally recognized block and receives a block number. These blocks can range in size from less than one acre to many thousands of acres. Typically, the lines of latitude converge as the distance from the equator increases. Thus, this type of block is largest in acreage at the south end of an OPD and gradually reduces in size as one moves northward. These type blocks are referred to as Silver blocks, (Section III.A.2.d. below).

### **b. Partial Block**

Partial block refers to the lease status of a block; that is, the block is partially leased, with the remaining unleased acreage available for leasing.

### **c. Split Block**

Split block is a local term that refers to a block traversed by an administrative line, the Federal-State boundary line. The specific acreage of the unleased portion of a split block is provided in the Notice of Sale. A split block that is leased on only one side of the administrative line can also be referred to as a partial block.

### **d. Sliver Block**

Sliver block is a slang term that refers to a block located along the edge of a mapping area, where lines are converging, that is, projection zone lines are butting together because of the curvature of the earth. In such areas, blocks are often very small and trapezoidal or pyramidal in shape. Sizes vary from a few thousand acres to less than one acre. They are considered to be a complete block even though the acreage is considerably different from that of a standard block.

## **3. Legal Descriptions**

The OCS of the GOM Region is subdivided into a series of OCS Official Protraction Diagrams (OPD's) and/or leasing maps. Each map or OPD carries an identifier (such as Texas Map No. 3 or NH 16-7) and, in most cases, a name (such as Main Pass). Each map or OPD is made up of numerous blocks, which are the basic leasing subdivisions. A standard-size block varies from 5,000 to 5,760 acres. The standard block off Louisiana is 5,000 acres, while the standard block off the remaining States and all deepwater blocks are 5,760 acres. However, a full block can

consist of a “sliver” of less than one acre. The official acreage for each specific full block is found on the official protraction diagram or leasing map on which it appears. The official unleased acreage for a partially leased or split block is listed in a supporting document to the Final Notice of Sale.

A legal description for an oil and gas lease on the OCS contains the map/OPD identifier, the map name, and the block number. If only a portion of a full block is being described, it must be described by aliquot parts, X and Y coordinates, or combinations of both.

The following are some examples of legal descriptions:

- All of Block 397, Eugene Island Area, South Addition, OCS Leasing Map, Louisiana Map No. 4A; and all of Block 4, Green Canyon, OCS Official Protraction Diagram NG 15-3.
- All of Block 790, Ewing Bank, OCS Official Protraction Diagram NH 15-12.
- That portion of Block 870, Mobile, OCS Official Protraction Diagram NH 16-4, which is more than three geographical miles seaward from the mean low water line off the coast of Mississippi and/or Alabama.
- That portion of Block 23, Eugene Island Area, Louisiana Map No. 4, which is more than three geographical miles seaward from the line described in the Supplemental Decree of the U.S. Supreme Court, June 16, 1975 (United States vs. Louisiana, 422 U.S. 13).

## **B. MAP PRODUCTS**

The OCS leasing program is supported by the following map products and diagrams designed to aid in legal location, research, and participation in the offshore minerals leasing program.

### **1. Split Block Diagrams**

Split block diagrams are individual block diagrams of the OCS Federal-State boundary line listing the precise locations of arc centers, the beginning and end points of arcs and lines, and the Federal-State acreage involved.

### **2. Block Diagrams**

Block diagrams show blocks traversed by administrative lines such as the 8(g) line or a previous Federal-State boundary line such as the 1st Supplemental Decree line.

### **3. Owner/Operator Maps**

Owner/operator maps are maps with labels and lease lines indicating lease number, owner, operator, and boundaries. The designated operator for the lease is routinely indicated unless the lessee has not designated an operator, in which case the name of the lessee appears.

#### **4. Base Maps with Fairways/Anchorages, Military Warning Areas, Active Leases, and Structures**

Base maps show active leases, the OCS lease number, and the designated operator. These maps, available by planning area at an approximate scale of 1 inch = 65,000 feet (1/2" block size), are updated periodically.

#### **5. Visuals**

Visuals are thematic color maps of the entire GOM leasing area or specific portions of the leasing area. Information contained thereon includes general information on areas under lease, oil and gas structures and pipelines, regulatory information (e.g., areas containing specific lease stipulations), and multiple use areas. Visual 1 depicts active leases and infrastructure. It is updated after the final issuance of leases from a scheduled lease sale. Visual 2 depicts areas of multiple use and is updated as necessary. Visual 3 depicts the offshore regulatory features and is updated as necessary.

## **IV. OIL AND GAS LEASE SALES**

### **A. BACKGROUND**

The GOM Region normally holds lease sales in New Orleans. There must be strict compliance with the Final Notice of Sale (FNOS). All bids must be received at the place and by the date and time specified. Bids must be publicly opened and read aloud by midnight on sale day or be returned unopened, unless an emergency exception has been declared by the Regional Director or his designee. No bids are accepted or rejected at the time of bid opening.

All high bids must be evaluated to ensure they provide “fair market value” for the public resources. The time allowable for bid evaluation is generally limited to 90 calendar days unless an extension is determined to be needed (30 CFR 256.47(e)(2)).

### **B. SALE NOTICES**

#### **1. General**

Sale notices are legal documents containing sale-specific information and requirements such as:

- (a) date, time, location of sale, bidding procedures, electronic funds transfer (EFT) requirements, lease terms, royalty rates, minimum bid, and boiler plate;
- (b) areas offered for bid;
- (c) lease stipulations and environmental mitigation measures; and
- (d) information to lessees that directs the bidder’s attention to certain information or procedures that have changed since the last lease sale, or conditions bidders should be aware of prior to bid preparation and submission.

A Final Notice of Sale package is available for each lease sale. It consists of documents and information such as:

- (a) leasing information that directs the bidders’ attention to certain unique sale information, or conditions bidders should be aware of prior to bid preparation and submission;
- (b) full text sale notice;
- (c) information to lessees listing numerous functional areas of information that alert bidders to recent changes or updates of which they should be aware;
- (d) lease stipulations;
- (e) blocks available for leasing;
- (f) small map diagrams of unleased split blocks and unleased acreage of blocks with aliquots and irregular portions under lease;

- (g) certifications regarding debarment, suspensions, and other responsibility matters;
- (h) the suggested bid form and envelope;
- (i) a form for bid submitters to list important personnel, addresses, and phone numbers, and instructions for MMS to return funds for rejected high bids using EFT;
- (j) instructions for making EFT bonus payments; and
- (k) two large-scale maps showing bidding systems, royalty rates, royalty suspension areas, stipulations, and deferred blocks. (Other documents may be included in the package if deemed appropriate.)

The need for specific lead-time for final sale configuration requires the lease block listing in the FNOS to “lock-in” approximately 60 days prior to sale day. Lease status for every lease sale is controlled by the FNOS. Even though a lease block becomes available for lease after the cutoff date, it will not be available for bidding. Any bids submitted for these blocks will not be accepted and will be immediately returned to the submitter.

## **2. Proposed Notice of Sale**

The Proposed Notice of Sale (PNOS) becomes available to the public approximately four months prior to the proposed sale date. Usually, the Central Gulf lease sale is in March and the Western Gulf lease sale is in August. Eastern Gulf Sales are not held each year, but are usually held in November or December. The PNOS is the same as the proposed action in the draft EIS and functions as notice that the proposed action is the MMS preferred alternative.

A notice announcing the availability of the PNOS appears in the *Federal Register* approximately four months prior to each target sale date and starts a formal, 60-day comment period. Public notice is also provided to individuals and companies on our e-mail and mail lists. It is also noted in the weekly Adjudication activity report. Persons desiring to comment should submit their specific comments in writing to the Regional Supervisor, Office of Leasing and Environment. Comments received will be analyzed during preparation of the decision documents that are the basis for the FNOS, including lease sale configuration and terms and conditions.

## **3. Final Notice of Sale**

If the decision is to hold a lease sale, a Final Notice of Sale is published in its entirety in the *Federal Register* at least 30 days prior to the sale date, as required by the OCS Lands Act. The FNOS includes sale-specific information and is supported by the sale package described above. All GOM lease sale documents are available from

- (a) GOM Public Information Office; and
- (b) On line at [mms.gov](http://mms.gov) (Click on the GOM Region and lease sale. Each of the documents is found here with the exception of the two large maps.)

## **C. SALE MAPS AND SUPPORTING DOCUMENTS**

### **1. Large-scale Map**

One or more maps are included in the lease sale notice package, providing block-specific information and requirements such as lease term; bidding systems; specific applicable stipulation(s); Military Warning Area control reference, which indicates controlling agency and point of contact; deferred blocks; royalty rates; and royalty suspension areas.

### **2. Unleased Split Blocks and Unleased Acreage of Aliquots and Irregular Portions**

This supporting map package is specific to each lease sale. A split block is a whole block intersected by an administrative line. The map package diagram shows only those split or irregular blocks available for leasing and the amount of available Federal acreage. They are small-scale diagrams, usually several to a page. This map package has three sections:

- (a) The first section contains small map diagrams of split blocks that are located along a Federal/State boundary and are available for leasing.
- (b) The second section is a listing of blocks partially leased in aliquot portions, i.e., N ½, as well as the unleased acreage available.
- (c) The third section contains map diagrams for blocks with irregular portions under lease. Administrative lines, such as old Federal/State boundaries, result in portions of blocks being under lease, such as that portion seaward of the 8(g) line seaward of the 3rd supplemental decree line, etc. The available unleased Federal acreage is indicated on the diagram.

### **3. Biological Stipulation Map Package**

These small-scale maps provide detailed information supporting the Topographic Features Stipulation as indicated on the large-scale map. Although the entire block is listed or shaded as encumbered, the specific mitigation requirements vary by distance from the outer perimeter of the “No Activity Zone” for the biological feature. Depending on the shape and size of the “No Activity Zone,” the 1- or 3-Mile Zones may actually extend 3 to 5 or more miles from the point center of the topographic feature. Likewise, the 1,000-meter zone may actually extend 2,000 to 3,000 or more meters from point center of the topographic feature.

An oil and gas prospect may lie outside the restricted area(s) of the block and not actually be impacted by the stipulation. The map package details

- (a) blocks involved with each topographic feature, detailing the “No Activity Zone” defined by a specific bathymetry listed in the Notice of Sale;
- (b) 1- and 3-Mile Zones, (4-Mile Zone in the Flower Garden Banks area) or

(c) 1,000-meter zone.

These map packages are a standard publication, and are available from the MMS Public Information Office.

A point of information when dealing with either the Topographic or Pinnacle Trend—Live Bottom Stipulations in postlease planning activities: The Magnuson-Stevens Fishery Conservation Management Act requires Federal agency consultation on any activity that may adversely affect Essential Fish Habitat.

The MMS has agreed with the National Marine Fisheries Service to provide them a consultation opportunity for any post-lease exploration or development plan or modification to an approved plan whenever a drilling, anchor, anchor line, platform, or pipeline site is

- (a) within 500 feet of the “No Activity Zone” of a topographic feature identified in the Topographic Features Stipulation; and/or
- (b) within 100 feet of a “pinnacle trend feature” with a vertical relief equal to or greater than 8 feet. These pinnacle trend features are identified by a live-bottom survey report containing a bathymetry map prepared using remote-sensing techniques as required in the Live Bottom Stipulation.

Such a review could add 30 or more days to the plan approval process.

## **D. BIDDING PROCEDURES**

### **1. Equal Opportunity Forms**

#### **a. What Must Be Filed**

Before any leases are issued, each company must submit the certification required by 41 CFR 60-1.7(b) and Executive Order No. 11246 of September 24, 1965, as amended by Executive Order No. 11375. This certification is done by means of the Affirmative Action Program Representation Form (MMS 2032) and can be found at [www.gomr.mms.gov/homepg/mmsforms/Leasing/2032.pdf](http://www.gomr.mms.gov/homepg/mmsforms/Leasing/2032.pdf) and the Affirmative Action Compliance Report Certification Form (MMS 2033), which also can be found at [www.gomr.mms.gov/homepg/mmsforms/Leasing/2033.pdf](http://www.gomr.mms.gov/homepg/mmsforms/Leasing/2033.pdf). These forms may not be altered. On Form MMS 2032, if a company checks the box indicating they “. . . have not developed . . .” and the reason is that the company has fewer than 50 employees, that information must be typed on both Forms MMS 2032 and MMS 2033.

#### **b. Frequency of Filing**

If a company has an Affirmative Action Program (AAP) in effect, Equal Employment Opportunity (EEO) Forms MMS 2032 and MMS 2033 should be filed at the time a company submits the other required documents to receive a GOM company number. If a company already has a GOM company number and now has an AAP in place, it may file the two required MMS

forms at any time. Once a company has certified it has an AAP in place and has complied with the requirements, no additional actions are required.

### **c. How Often Must Forms Be Filed**

A company only needs to file Forms MMS 2032 and MMS 2033 once if the company has an AAP as required by the Executive Order. If a company has fewer than 50 employees and does not have an AAP, it must complete both MMS forms for each lease sale before any lease can be awarded. The forms may be signed by any company official and should be returned with the executed leases.

## **2. Bid Form**

Exhibit 55 shows the preferred bid format. The sum of all bidding interests must equal 100 percent and may not exceed a maximum allowable five decimal places. Decimal places are not required if the interests on joint bids are in whole numbers (i.e., 50%, 27%, 9%, and 100%).

The block being bid on must be fully described, i.e., block and area number, area name (or map number, if the area is unnamed), and addition or extension (if any). The amount of bid must be stated in whole dollars (no cents). The company's name, GOM company number, and its authorized representative's name and title must appear **exactly** as shown on the company's qualification records on file in the Adjudication Office. The authorized representative must sign **exactly** the way his/her name appears in the company's qualification records or the bid may be considered invalid and be rejected.

## **3. Bid Deposit**

The MMS requires a deposit for each bid. Each notice of sale will specify the bid deposit amount and method of payment (30 CFR 256.46(b)). It is the GOM Region's current policy to require the 1/5<sup>th</sup> (20%) bid deposit to be payable only by electronic funds transfer (EFT).

The 1/5<sup>th</sup> bid deposit does not need to be secured with a surety bond or cashier's check if:

- (a) the bid submitter is a current OCS leaseholder or a designated operator for a Federal OCS lease, and
- (b) the bid submitter has never defaulted on 1/5<sup>th</sup> bonus payments, via EFT or otherwise.

If the bid submitter does not meet these requirements, then the 1/5<sup>th</sup> bid deposit **MUST** be secured by one of the following options:

- (a) Third-party guarantee by a company that is an active OCS Federal mineral lease holder or currently operates an active Federal OCS lease. The guarantee must be in writing and express consent of guarantee for your 1/5<sup>th</sup> bid deposit payment. It must be received prior to the bid submission.



- (b) Amend your \$3,000,000 areawide surety bond with a bond rider to include coverage for prelease obligations. The rider must be accepted by MMS prior to bid submission. If your areawide bond is secured by a U.S. Treasury pledge account, the pledge agreement must be amended to cover prelease obligations.
- (c) Letter of credit (LOC) that is clean, stand-by, irrevocable, and for not less than 120 days, in an amount sufficient to secure your 1/5<sup>th</sup> bid amount. The LOC must be submitted to MMS no later than one week prior to the OCS sale. The LOC must be from a bank incorporated in the U.S., and have a minimum Thompson BankWatch Rating of
  - (1) “C” for an LOC less than \$1 million;
  - (2) “B/C” for an LOC up to \$10 million; and
  - (3) “B” for an LOC over \$10 million.
- (d) A lump sum cashier's or certified check sufficient to cover 1/5<sup>th</sup> of the bid amount may be submitted at the time of bid submission. The check must be in a separate envelope with the following label:

Lump Sum Check Securing EFT Payment

OCS Lease Sale No. \_\_\_\_\_

Submitted by; <Bidder's Name>

GOM Company Number: <XXXX>

When the EFT payment has been received, the lump sum check may either be picked up at the Adjudication Office or we will return it according to your instructions.

Detailed requirements are contained in each Final Notice of Sale. Terms and conditions of the security requirements can change from sale to sale, and bidders are encouraged to familiarize themselves with the requirements in each Final Notice of Sale.

#### **4. Required Confirmation of 1/5<sup>th</sup> Bid Amount Due to MMS**

The designated representative of each company submitting an apparent high bid is required to verify and acknowledge to MMS the receipt of their official 1/5<sup>th</sup> bid amount. This amount is due and payable in one lump sum via electronic funds transfer (EFT). This acknowledgment requirement serves as “Official Notice” to a bid submitter of the amount due and starts the time clock for the payoff period. A successful bidder must EFT 1/5<sup>th</sup> of their bid amount in one lump sum to the New York Federal Reserve Bank no later than 2 p.m., Eastern Standard Time, on the day following the bid opening.

The Federal Reserve Bank will transfer the funds to the MMS Minerals Revenue Management Program, where they are deposited into an interest-bearing account. If the bid amount is accepted, the funds and the interest earned will transfer into MMS earned accounts. If the bid is rejected, the funds plus interest earned will be transferred via EFT back to the bid submitter the next business day after rejection (30 CFR 218.155).

Detailed EFT instructions are included in the Final Notice of Sale information package and are also available on the MMS website. For additional information or questions during preparation of the EFT transaction, please contact Mr. John Rodi at (504) 736-2768 or e-mail john.rod@mmms.gov.

Failure to make the 1/5<sup>th</sup> bid deposit payment on time or making an insufficient payment will result in the assessment of a late fee plus an interest charge. If the New York Federal Reserve Bank does not receive the EFT 1/5<sup>th</sup> payment by its close of business two work days following the bid opening, MMS may declare the bid(s) invalid. The company that submitted the bid(s) remains responsible to pay and forfeit the 1/5<sup>th</sup> of the bid amount, plus the late penalty and interest. Failure to make the total payment will result in a demand against the bid submitters and any joint bidder(s), surety bond, security letters of credit, and other administrative actions.

## **5. Envelope**

Exhibit 56 represents an envelope containing a sealed bid. Note the area name and number, block number, and company number reference. The area number or name and block number is used to identify blocks bid on. Bidders must use the complete area name including "additions" and "extensions" as appropriate. The information is positioned for ease of reading during data entry.

Use of a large, boldface type such as Times-Roman bold, 12 point, makes the information easier to read. The overall envelope size should not exceed 4 ½" by 10 ½". Very large envelopes delay the handling of large numbers of smaller sealed envelopes and prevent bids from being secured in boxes with lids without crushing or folding these very large envelopes.

## **6. Submission**

Sealed bids are received by representatives of the GOM Regional Director within the time limits and dates specified in the FNOS. Bid submission always closes at 10:00 a.m. local time the day before the sale. This allows for computer processing of the bid submittal information. The majority of the bids are normally received two days prior to the sale date, Monday. Traditionally, the GOM sale day is always a Wednesday.

The person delivering bids to MMS will be given a bid receipt for the bids submitted. The MMS staff will review the description on the sealed bid envelope to ensure that the block bid on is available for lease as identified in the FNOS.

## **7. Phone Numbers/Address of Bidder Form**

The bid submitter is required to fill out a form, Phone Numbers/Address of Bidders, for subsequent handling of electronic funds transfer (EFT) of monies due and return of monies from rejected bids (Exhibit 57). Bidders are cautioned to exercise extreme care when providing all information, especially ZIP codes and bank routing numbers.

## **8. Public Reading of Bids**

The sealed bids will be opened and read aloud in a public place on the date and at the time specified in the FNOS. If unforeseen circumstances or events occur, emergency operating procedures may be declared. Apparent high bids will be evaluated against established bid adequacy criteria.

## **9. Return of 1/5<sup>th</sup> Bonus Bid EFT Security**

If you were required to secure your EFT 1/5<sup>th</sup> bonus payment, the security instrument, as applicable (e.g., letter of credit or lump sum check), will be promptly returned to you upon MMS verification of the appropriate EFT deposit or confirmation that you were not a high bidder on any block. You may pick up the instrument directly from the GOM's Adjudication Office, or request that the instrument be returned to you via overnight express delivery or certified mail. The instrument will only be returned to the individual or location identified on the form in Section IV.D.7. above.

## **10. Evaluation**

In administering the offshore oil and gas leasing program, the Secretary of the Interior is required by law to see that the Government receives a fair return for the lease rights granted and the minerals conveyed. To ensure that the Government receives a fair return for these offshore lease rights, the Department uses a two-phased system of bid evaluation to assess the adequacy of bids.

The following describes these two-phase bid adequacy procedures:

Phase 1 includes evaluation criteria for accepting high bids on some tracts and determining what other bids will receive further evaluation in Phase 2. Phase 2 uses an independent Government evaluation and the bid adequacy rules based upon the Mean Range of Values (MROV), Delayed Mean Range of Values (DMROV), Adjusted Delayed Value (ADV), and Revised Arithmetic Average Measure (RAM). The MROV is a dollar measure of the Government's estimate of a tract's expected net present private value, given that the tract is leased in the current sale. The DMROV<sup>1</sup> represents an expected value estimate reflecting lease revenues to the Government if the high bid is rejected and the tract resold at the next sale in the area adjusted for changes in value because of potential drainage during the interval between sales and variations in prices prevailing at time of production. The ADV is the minimum of the MROV and the DMROV.

The RAM is the arithmetic average of the MROV and all qualified bids<sup>2</sup> on the tract that are equal to at least 25 percent of the high bid. In addition to these criteria, MMS analyzes the high

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<sup>1</sup> The DMROV is a measure used to determine whether the high bid received plus royalty receipts expected in the current sale is at least equal to the discounted sum of the bonus and royalties expected on the tract in the next sale. The bonus for the next sale is computed as the MROV associated with the delay in leasing under the projected economic, engineering, and geological conditions, including drainage.

<sup>2</sup> Qualified bids are those bids that are legal and not anomalous.

bids on certain tracts on the basis of other pertinent costs relating to delays in a possible drainage situation.

A flow chart that illustrates this process is attached as Exhibit 58 to this document.

### Phase 1

In Phase 1 we review the bid for legal sufficiency<sup>3</sup> and anomalies<sup>4</sup> to establish the set of qualified bids to be evaluated. Phase 1 partitions the tracts receiving bids into three general categories:

- those tracts with three or more bids, on which competitive market forces can be used to ensure fair market value;
- those tracts that MMS identifies as being nonviable<sup>5</sup> based on adequate data and maps; and
- those tracts identified as being viable and on which the Government has the most detailed and reliable data, including tracts classified as drainage or development.

Based on these categories, the following bid adequacy criteria are applied to all tracts receiving bids:

- accept the highest qualified bid on viable confirmed and wildcat tracts receiving three or more qualified bids if the third largest bid on the tract is at least 50 percent of the highest qualified bid, and if the high bid per acre ranks in the top 75 percent of high bids for all three or more bid tracts within a specified water depth category;<sup>6</sup>
- accept the highest qualified bid on confirmed and wildcat tracts determined to be nonviable;
- pass to Phase 2 for further evaluation all tracts that require additional information to make a determination on viability or tract type;
- pass to Phase 2 all drainage and development tracts;
- pass to Phase 2 all viable confirmed and wildcat tracts receiving one or two qualified bids; and

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<sup>3</sup> As used in this attachment, "legal bids" means those bids that comply with MMS regulations and the Notice of Sale.

<sup>4</sup> Anomalous bids include all but the highest bid submitted for a tract by the same company, parent or subsidiary (bidding alone or jointly). Those bids that remain after the anomalous bids have been excluded are referred to as the qualified bids.

<sup>5</sup> Nonviable tracts or prospects are those geographic or geologic configurations of hydrocarbons whose risk weighted most probable resource size is below the minimum economic field size for the relevant cost regime and anticipated future prices. The risk used is below the lowest level anticipated for any tract or prospect in the same cost regime.

<sup>6</sup> The designated water depth categories in the Gulf of Mexico are (1) less than 800 meters and (2) 800 meters or more. If different ones are selected, they will be specified in the Final Notice of Sale.

- pass to Phase 2 all viable confirmed and wildcat tracts receiving three or more qualified bids if either the third highest such bid is less than 50 percent of the highest qualified bid or if the high bid per acre ranks in the lowest 25 percent of high bids for all three or more bid tracts in the specified water depth category.

The percentile ranking of a tract's high bid per acre is calculated by multiplying 100 times the ratio of the numerical ordering of the three or more bid tract's high bid per acre to the total number of all viable and nonviable three or more bid tracts in the designated water depth. For example, suppose there are 21 tracts identified in Phase 1 as receiving three or more bids in the designated water depth category of at least 800 meters. All viable tracts in this set having a high bid per acre among the top 15 would satisfy the 75 percent requirement; the 15<sup>th</sup> ranked high bid per acre would represent the 71<sup>st</sup> percentile, i.e.,  $(100*(15/21)=71)$ .

In ensuring the integrity of the bidding process, the Regional Director (RD) may identify an unusual bidding pattern<sup>7</sup> at any time during the bid review process, but before a tract is accepted. If the finding is documented, the RD has discretionary authority, after consultation with the Solicitor, to pass those tracts so identified to Phase 2 for further analysis. The RD may eliminate all but the highest of the unusual bids from consideration when applying any bid adequacy rule, may choose not to apply a bid adequacy rule, or may reject the tract's highest qualified bid.

These procedures are generally completed within three weeks of the bid opening. All the leases that will be awarded as a result of the Phase 1 analysis are announced at the end of this period.

## Phase 2

The Phase 2 bid adequacy determinations are normally completed sequentially over a period ranging between 21 and 90 days after the sale. The total evaluation period can be extended, if needed, at the RD's discretion (61 FR 34730, July 3, 1996).

Activities designed to resolve bid adequacy assessments are undertaken by analyzing, partitioning, and evaluating tracts in two steps:

- Further mapping and/or analysis is done to review, modify, and finalize viability determinations and tract classifications.
- Tracts identified as being viable must undergo an evaluation to determine if fair market value has been received.

After completion of these two steps, a series of rules and procedures is followed.

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<sup>7</sup>Within the context of our bid adequacy procedures, the term "unusual bidding patterns" typically refers to a situation in which there is an excessive amount of coincident bidding by different companies on a set of tracts in a sale. Other forms of unusual bidding patterns exist as well, and generally involve anti-competitive practices, e.g., when there is an uncommon absence of competition among companies active in a sale on a set of prospective tracts.

- Accept newly classified confirmed and wildcat tracts having three or more qualified bids if the third largest such bid is at least 50 percent of the highest qualified bid and if its high bid per acre ranks in the top 75 percent of high bids for all three or more bid tracts that reside within its specified water depth category.
- Accept the highest qualified bid on all tracts determined to be nonviable.
- Determine whether any categorical fair market value evaluation technique(s) will be used. If so,
  - evaluate, define, and identify the appropriate threshold measure(s);
  - accept the highest qualified bid on all tracts whose individual measures of bid adequacy satisfy the threshold categorical requirements; and
  - conduct a full-scale evaluation, which could include the use of MONTCAR<sup>8</sup>, on all remaining tracts<sup>9</sup> passed to Phase 2 and still awaiting an acceptance or rejection decision.

MONTCAR: The Monte Carlo simulation method used for computing the MROV, can best be described as a five-step process.

- (1) The range and distribution of possible values of each variable that will affect the ultimate *outcome* of the venture are estimated.
- (2) One value from the distribution of each variable is selected at random. The tract's value is computed using this combination of samples from the variables. A second value is selected at random from the distribution of each of the variables. Again, the tract's value is computed. This is the second point in the distribution of possible values.
- (3) The process is repeated again and again, each time with a set of values selected at random from the distribution of each variable.
- (4) The possible values are then arranged to develop a cumulative probability distribution of net economic value for the tract.
- (5) The mean of this distribution is determined and risk factors and the effects of bonus write-off and depletion are applied to calculate the expected value or MROV of the tract.

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<sup>8</sup> MONTCAR is a probabilistic, cash flow computer simulation model designed to conduct a resource-economic evaluation that results in an estimate of the expected net present value of a tract (or prospect) along with other measures.

<sup>9</sup> These include tracts not accepted by a categorical rule that are: (1) classified as drainage and development tracts; or (2) those classified as confirmed and wildcat tracts that are viable and received (a) one or two qualified bids, or (b) three or more qualified bids where either the third largest such bid is less than 50 percent of the highest qualified bid or the high bid is in the bottom 25 percent of all three or more bid confirmed and wildcat tracts for a designated water depth category.

The following describes the process used in calculating the DMROV:

- (1) A new MROV is calculated, along with the present value of expected royalty and/or profit share payments, as of the next expected sale date using the above steps.
- (2) The calculations of the leasing receipts reflect adjustments for drainage (i.e., lost production) during the interval between sales and for different prices applying to the production stream.
- (3) The present worth of the new MROV, royalty, and/or profit share are discounted for the period of the sale delay (the time period between the current sale and the next expected sale).
- (4) The DMROV is then calculated as the difference between (a) the sum of the discounted present worth MROV (i.e., "bonus"), royalty, and/or profit share of the next sale and (b) the sum of the present worth of the royalty, and/or profit share of the current sale.

The MROV and DMROV are then compared. The minimum of the two is used in Phase 2 analysis and defined as the ADV. We compare the highest qualified bid on each of the remaining tracts to two measures of bid adequacy generated from MONTCAR: the MROV and the ADV. Then we

- accept the highest qualified bid for those tracts where such a bid equals or exceeds the tract's ADV;
- reject the highest qualified bid on drainage and development tracts receiving three-or-more qualified bids where such a bid is less than one-sixth of the tract's MROV; and
- reject the highest qualified bid on drainage and development tracts receiving one or two qualified bids and on confirmed and wildcat tracts receiving only one qualified bid where such a bid is less than the tract's ADV.

We select from the remaining tracts<sup>10</sup> those (a) drainage and development tracts having three or more qualified bids with the third largest such bid being at least 25 percent of the highest qualified bid and (b) confirmed and wildcat tracts having two or more qualified bids with the second largest such bid being at least 25 percent of the highest qualified bid. Then we compare the highest qualified bid on each of these selected, remaining tracts to the tract's RAM and

- accept the highest qualified bid where such a bid equals or exceeds the tract's RAM;

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<sup>10</sup> These consist of those tracts having a highest qualified bid that does not exceed the ADV for that tract, and are either (a) drainage or development tracts receiving three or more qualified bids with the highest such bid exceeding one-sixth of the tract's MROV or (b) confirmed and wildcat tracts that are viable and receive two or more qualified bids.

- reject the highest qualified bid where such a bid is less than the tract's RAM; and
- reject the highest qualified bid on all tracts remaining that were not selected for comparison to the RAM.

Upon acceptance, the high bidders must pay the balance of the bonus bid (80%) along with the first year's annual rental within 15 days.

## **11. Appeal of Rejected Bids**

Any bidder whose high bid is rejected by the Regional Director may file a written request for reconsideration with the Secretary of the Interior within 15 days of such rejection. This reconsideration authority has been delegated to the Director, Minerals Management Service. The written request, accompanied by a statement of reasons, must be sent to the Director, MMS, along with two copies to the appropriate MMS Regional Office. One copy must be directed to the Regional Director; the other copy must be directed to the Adjudication Office for the official case file. The Director, MMS, will respond in writing, following a detailed review of the data, either affirming or reversing the decision of the Regional Director (30 CFR 256.47(e)(3)).

Director  
Minerals Management Service  
Mail Stop 0100  
1849 C Street, N.W.  
Washington, D.C. 20240

Regional Director  
Minerals Management Service  
Mail Stop 5000  
1201 Elmwood Park Boulevard  
New Orleans, Louisiana 70123-2394

Adjudication Office  
Minerals Management Service  
Mail Stop 5421  
1201 Elmwood Park Boulevard  
New Orleans, Louisiana 70123-2394



## V. LEASES — OIL AND GAS AND OTHER MINERALS

### A. ISSUANCE

After receiving concurrence from the Department of Justice and Federal Trade Commission and after a specific high bid is deemed acceptable in Phase 1 or Phase 2 bid evaluation, lease packets are prepared for delivery to the bidder's office address by overnight delivery service to the address indicated on the Phone Numbers/Address of Bidder form (Section IV.D.7.).

The lease packet includes one decision form, three copies of the lease, the receipt for the 1/5th deposit, Equal Opportunity Compliance forms if needed, a receipt for the individual lease(s), and complete instructions for lease payoff. The receipt for the lease(s) should be signed, dated on the day received, and immediately returned **directly** to the Adjudication Office.

The MMS will fax the company contacts to advise them that the bid has been accepted and that the lease will arrive by express delivery. The MMS will again contact the company representative the following day to verify delivery. Leases must be fully executed, returned, and full payment received not later than the 11th business day after the bidder receives the lease packet. **The lease form requires the emboss of the corporate seal on all leases executed by corporations regardless of the corporate officer executing the lease.**

For the GOM Region, a business day is defined as a day when MMS is open for regular business.

Signatures **must** be in accordance with MMS company qualification records for authorized company officials. Payment of the balance of the bonus and the first year's rental **must** be accomplished in accordance with the guidance found in Instructions for Electronic Funds Transfer (EFT). Payments are made via EFT to MMS, Royalty Accounting, Denver, Colorado. Payments by EFT via the Federal Reserve computer system must be received by the Federal Reserve Bank of New York no later than noon, Eastern Standard Time, of the 11<sup>th</sup> business day after receipt of the lease packet.

Failure to follow the required format and payment procedures could result in late or lost payments, incurring late charges, penalty fees, or forfeiture 218.51(h) and (30 CFR 218.155(c). If the 11<sup>th</sup> day falls on a day that the Regional Office is closed, then the next regular business day becomes the due date. Minerals Revenue Management notifies the Adjudication Office that lease payoff has been received.

All leases shall be dated and become effective as of the first day of the month following the date leases are signed on behalf of the lessor. When prior written request is made, a lease may be dated and become effective as of the first day of the month within which it is so signed.

## **B. MAINTENANCE**

### **1. Lease Term**

Federal oil and gas leases in the Gulf of Mexico OCS are issued for a primary term of 5, 8, or 10 years, depending on general water depth as indicated on the FNOS map. The 5-year lease term is in water depths generally less than 400 meters, an 8-year lease term is in water depths generally between 400 and 800 meters, and a 10-year lease term is in water depths generally greater than 800 meters.

Water depths were determined using U.S. Geological Survey bathymetry maps and may be interpretative. Because of many deep finger-like canyons and other seafloor features, at times the isobath line often appears “sawtooth.” The water depth assigned to that area may be administratively flattened out. This could result in a block having a lesser or greater water depth than indicated on the FNOS map. Bidders **are cautioned** to always refer to the specific lease sale map for lease term period and royalty rates, as this is the official status used by MMS to determine lease term and royalty.

During the primary term, lessees do not have deadlines for conducting exploratory or development activities, **except leases issued with a primary term of 8 years**. The 8-year leases require commencement of an exploratory well within the first 5 years to avoid cancellation of the lease (30 CFR 256.37(a)(3)). The lease term does not expire if you do not begin drilling a well.

If you decide not to drill an 8-year lease within the first 5 years, you have forfeited the right to drill in the remaining three years of the lease. However, the **lease continues in primary term** and you are responsible for payment of the 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup> year rental fees. To avoid these additional rental fees, the lease must be relinquished prior to the expiration of the 5<sup>th</sup> year, or future lease anniversary dates.

### **2. Extension by Lease Activities**

Activities that can hold a lease beyond its primary term are (a) production, (b) operations (drilling, completion, or workover), (c) suspension of operations, (d) suspension of production, and (e) participation in an approved unit that is held by similar operations (30 CFR 256.37(b) and 256.73).

If, within 180 days prior to the expiration date of a nonproducing lease, drilling or well reworking operations are being conducted or have been conducted, such activity will extend the lease for 180 days following cessation of the last drilling or well-reworking operations.

Once a lease commences production, the lease stays in effect as long as there is no lapse in production or other leaseholding operations for more than 180 days, or the lease is still within its primary term.

Unexpected lease administration problems can occur because of the 180-day leaseholding time clock for leases within less than 180 days of the lease anniversary date. Without additional leaseholding activity, the lease will pass its anniversary date and expire shortly thereafter. This will obligate the leaseholder to pay a full year's rental/royalty. To avoid this, the lease must be relinquished before its anniversary date.

### **3. Suspensions**

Federal regulations governing a Suspension of Production (SOP) or a Suspension of Operations (SOO) are found in 30 CFR 250.168 through 250.177. The MMS issued NTL No. 2000-G17, effective on September 1, 2000, providing additional details and information concerning suspensions.

The specific type of suspension is determined by the nature of the suspended activity. These regulations apply for all or any part of either a lease or a unit. The Regional Supervisor, Production and Development, may grant or direct an SOO or SOP (30 CFR 250.172) under any of the following circumstances:

- (a) When necessary to comply with judicial decrees prohibiting any activity or the permitting of those activities. The effective date of the suspension will be the effective date required by the action of the court;
- (b) When activities pose a threat of serious, irreparable, or immediate harm or damage. This would include a threat to life (including fish and other aquatic life), property, any mineral deposits, or the marine, coastal, or human environment;
- (c) When necessary for the installation of safety or environmental protection equipment;
- (d) When necessary to carry out the requirements of NEPA or to conduct an environmental analysis; or
- (e) When necessary to allow for inordinate delays encountered in obtaining required permits or consents, including administrative or judicial challenges or appeals.

The MMS may issue suspensions for up to 5 years per suspension. The MMS may grant consecutive suspension periods (30 CFR 250.170).

There is no filing fee required when filing your application requesting either an SOP or SOO.

#### **a. Suspension of Operations**

There are two types of SOO's (30 CFR 250.168)—requested and directed. A "Requested SOO" is requested by the operator and granted by MMS. It is usually granted to allow reasonable time to commence drilling operations when good faith and diligent efforts have been made, but work is prevented by reasons beyond the operator's control, such as unexpected bad weather, rough

seas, or accidents. A fundamental consideration in determining whether or not you are “prevented beyond your control” is whether or not the particular drilling rig was contracted for and scheduled to conduct operations at your location before the lease expiration date.

The SOO’s are normally of short duration and granted on a case-by-case basis. There **does not** have to be a well capable of producing hydrocarbons in paying quantities in order for MMS to grant an SOO.

The second type is a “Directed SOO” (DSO), where the lessee is prohibited by the MMS from performing drilling or other lease activities under the lease terms. A directed suspension normally ends as specified in the letter directing the suspension. Examples of DSO’s are

- (1) leases in military warning areas where “Drilling Windows” specify when operations can take place;
- (2) leases in sensitive environmental areas that need additional time for the study of the potential effects of drilling operations; or
- (3) lease shut-ins for violations.

Eastern Gulf of Mexico Lease Sale 79 (January 1984) had some leases that were offered with a stipulation to the lease contract (Stipulation No. 5, Restriction of Exploration Activities) that prohibits the lessee’s operations when they conflict with Department of Defense activities. On December 20, 1984, a letter notifying the lessees involved was issued for the establishment of time periods (windows) during which lease exploration operations could take place. Leases not in the current open window are issued DSO’s for the period that exploration activities were not allowed. These leases are still rotating through periods of “Open Window” during which time operations may be conducted.

Most DSO’s automatically extends the primary lease term for an equivalent period of time (30 CFR 256.169(a)).

The DSO’s **will not** extend the lease term of a lease when the DSO is issued as a result of

- (1) gross negligence; or
- (2) a willful violation of a provision of the lease or governing statutes and regulations.

## **b. Suspension of Production**

The SOP’s may be requested or directed. They are requested when no other leaseholding activity is being conducted (30 CFR 250.172 and 250.174). The SOP’s are granted to facilitate lease production. The MMS may grant an SOP for a lease that has a well determined to be capable of producing oil, gas, or sulphur in paying quantities. This decision is based on criteria established in 30 CFR 250.116 or 250.1603. The MMS does not grant an SOP solely for exploration purposes.

A lease that is about to exceed its primary term and is not yet producing will, upon request, be considered for an SOP if there is a demonstrated firm commitment

- (1) to develop and produce the proven reserves diligently. The lease must have a well determined by the MMS to be capable of producing oil or gas in paying quantities; and
- (2) the operator has demonstrated a diligent effort to begin operations, but conditions beyond his control occur, such as the unavailability of a contracted drill ship.

A request for the granting of a suspension must include

- (1) brief lease history demonstrating diligence;
- (2) firm commitment to produce;
- (3) description of your proposed course of action to initiate or restore production;
- (4) reasonable activity schedule with measurable milestones that ultimately lead to production; and
- (5) reservoir structure maps(s), isopach map(s), and a reserve estimate, including the anticipated reservoir life (only for initial SOP request).

The activity schedule submitted with the SOP request should detail the development activities that lead to the commencement of production. The schedule must be **reasonable**. The operator is expected to follow the activity schedule and to notify the MMS in writing (progress report) by the end of each month in which a deadline is scheduled.

**Failure to meet the deadlines may be grounds to terminate the SOP and expire the lease.**

Below is a typical activity schedule outlining each activity and expected deadlines leading to the commencement of production:

<u>Activity</u>	<u>Deadline</u>
Commence bid and design of platform and facilities	November 2001
Commence fabrication of platform facilities and file a DOCD	January 2002
Commence installation of platform and facilities	June 2002
Commence installation of pipeline	July 2002
Commence completion operation on two wells	August 2002
Apply for production measurement and/or surface commingling approval	September 2002
Hook-up and commence production	November 2002

When a lease held by an SOP has a change of operator (through acquisition, farmout, etc.), the prior operator's approved activity schedule is to be followed by the new operator. No additional time is given solely because of a change of operator.

### **c. Length of Time**

The SOP's may be granted for a period of up to 5 years; however, most lease SOP's are for 1 year or less. The length of time for an SOP is based upon the circumstances of each individual case.

Once an SOP, along with an activity schedule, is approved, all deadlines included in the schedule are continually monitored. The ending date of an SOP coincides with the first scheduled leaseholding activity, even though the activity schedule may extend beyond the SOP.

If an additional SOP is needed, the lessee must apply for a SOP extension prior to the expiration of the current SOP. If the application filing date (date received by the MMS) is after the SOP or lease expiration date, the request for suspension will not be considered as being filed timely, and the lease will have expired by law.

### **d. SOP for Codevelopment**

The MMS may grant an SOP for the codevelopment of leases when each individual lease is in the development stage and there is a firm commitment to produce all the leases. The detailed activity schedule identifies the measurable milestones common to the codeveloped leases. The MMS encourages codevelopment, where appropriate, to ensure the safe, prompt, efficient development of hydrocarbons and the timely commencement of production.

### **e. SOP for Phased Development**

Phased development is waiting for production capacity at the host facility, which is located off lease, to become available. Hydrocarbons have been discovered by wellbore penetration, but the economics involved indicate a low or negative return rate unless the adjacent facilities are used. This might be especially true for deepwater ventures.

The proposed host facility is near maximum capacity for the major field discoveries, thus leaving no room for additional production from a satellite project. Production capacity will not be available within the adjacent lease's primary lease term and is dependent upon the production decline at the host facility.

Generally, MMS does not approve SOP's for phased development. However, we may consider, as an exception allowed by 30 CFR 250.105, phased development for

- (1) conserving the natural resources; or
- (2) preventing waste of natural resources.

You must present a compelling demonstration that phased development is appropriate under unique circumstances.

## **f. SOP for Geophysical Acquisition and Analysis**

The MMS may grant an SOP that incorporates a geophysical program if you establish a firm commitment to development and production, and your program is designed to

- (1) effectively select a location for an additional development well; or
- (2) locate an additional well needed to size production facilities properly; or
- (3) assist in siting development facilities.

## **g. Terminate a Suspension**

It is your responsibility to inform MMS if circumstances justifying the SOP no longer exist. We may terminate any suspension if we determine that the circumstances that justified the suspension no longer exist or that the lease conditions now warrant termination. We will notify you of the reason for termination and the effective date.

## **h. Payment of Rent and Royalty**

We require you to pay rental or minimum royalty for or during the granted suspension period (30 CFR 250.154). However, we will not require such payment if an SOP or SOO is directed by MMS, except in those cases where you have failed to comply with the applicable law, regulation, order, or provision of the lease or permit.

## **4. Consolidation**

An application for the consolidation of two leases must meet the following criteria: (a) the request for consolidation must be signed by the lessee's authorized person or persons; (b) the leases must have the same royalty rate; (c) the record title and operating rights in the leases must be the same; (d) the combined area of the consolidated lease must not exceed 5,760 acres, unless the authorized officer finds a larger area is necessary to comprise a reasonable economical production unit (30 CFR 256.28); (e) the oldest expiration date may continue for the consolidated lease, pending Field Operations' direction; (f) the lowest OCS-G number may continue for the consolidated lease, pending Field Operations direction; and (g) there must be a clear and distinct advantage to the Government.

## **5. Rental and Royalty**

### **a. Annual Rental**

Annual rental is stipulated in the FNOS and the lease instrument. Rental is calculated per acre or fraction thereof. A block with an annual rental of \$5 per acre and containing 2,341.1 acres would have an annual rental calculation of 2,342 acres x \$5.00 per acre = \$11,710.00. The annual rental is collected in advance of the leasing year. The first annual rental payment must be included with the 4/5<sup>th</sup> bonus bid payoff. Annual payments are due on the effective date of the lease. Annual rental payments are due in full and are not prorated should a lease be relinquished.

## **b. Annual Minimum Royalty**

The annual minimum royalty for a lease in production is stipulated in the FNOS and the lease instrument, and is also calculated on a per acre or fraction thereof basis. Once a lease begins production, rental payment is no longer applicable. Minimum royalty is applicable instead. Once a lease is in production and paying annual royalty, it never returns to annual rental status even if production stops and the lease is still in its primary term. Minimum royalty is due at the end of the year, with credit applied for actual royalty paid during the lease year. If actual royalty paid exceeds the minimum royalty requirement, then no minimum royalty payment is due.

## **6. Designation of Operator — Change of Operator**

All record title and operating rights holders must submit Designation of Operator (DOO) forms naming the new operator. The company names should be the same as the documents used to qualify the company, including capitalization and punctuation. The Designation of Operator forms must be executed by a company official authorized to sign as indicated in the company qualification file and two originally signed DOO's must be submitted (30 CFR 250.143). The Doo form can be found at [www.gomr.mms.gov/homepg/mmsforms/1123a.pdf](http://www.gomr.mms.gov/homepg/mmsforms/1123a.pdf)

The description on the designation should be identical to the description on the lease if the record title holder owns interest in the entire lease. If the designation applies to a portion of the lease, the portion must be described in aliquot portions not smaller than 1/4 1/4 1/4 of the block, such as NW1/4 NW1/4 NE1/4.

Designations on a platform can be made to the individual well level or specific operations related thereto. In such cases, the description should cover the smallest aliquot in which the well is located and identify the specific well numbers.

Lessees and operating rights owners are jointly and severally responsible for performing nonmonetary lease obligations. If the designated operator fails to perform any obligation under the lease or regulations, any or all of the co-lessees and operating rights owners may be required to bring the lease into compliance (30 CFR 250.143(b)).

When multiple co-lessees and operating rights owners have to each designate an operator, MMS **will not approve** the operator change until all required designations are properly executed and filed. When an operator is being changed, it is the preferred policy that the new operator collect the designations from all parties with record title and operating rights interest and submit them to the Adjudication Office as one package. This will ensure that the change of operator will be processed in a timely fashion.

A faxed page of the approved MMS Designation of Operator form will be accepted, provided the faxed copy of the designation is signed as an original. The Designation of Operator Form (MMS 1123) is available on our website and may be used. A computer-generated form may be used, but the data on the form must be arranged identically to the MMS form. If terms and conditions on



the official form are omitted, MMS will consider the form to contain the omitted terms and conditions, 30 CFR 250.190.

## **C. TRANSFER OF INTERESTS**

### **1. General**

The MMS **will not** accept an assignment conveying interest to a **company not qualified** to do business with MMS, **even if** the qualification or merger/name change documents have been filed but not approved by this office.

A transfer of interest in an OCS lease actually consists of two parts, the **instrument of transfer** and the **application for approval** (transmittal letter).

All instruments of transfer should be filed in duplicate (**originally executed**) (30 CFR 256.64(a)(1)) and signed by an authorized company official. Upon approval, one is filed in the lease file and the other(s) will be returned to the submitter. In cases of blanket assignments that cover several leases, there must be, at a minimum, two originally executed copies filed **for each lease involved**, unless other arrangements are approved by MMS.

Assignments must be signed by both the assignor and the assignee and filed for MMS approval **within 90 days from the date of final execution** (30 CFR 256.62(a) and 256.64 (a)(2)). The latest date on the notary public statement will be accepted as the date of final execution. Assignments returned by MMS as unacceptable and not refiled within the 90-day time limit from date of last signature must be renotarized.

An **application for approval** of an assignment executed by both assignor and assignee is a letter signed by any company official (usually the assignee) requesting the approval of an assignment by MMS. An application letter is required for each assignment filed for approval. A disinterested third party, such as an attorney, may submit an application for approval and the assignment if the third party also provides a letter of authorization from the assignee to act on its behalf.

Different types of assignments (record title and operating rights for leases and record title only for pipeline rights-of-way) must be filed individually and **not** mixed together in one document. Each type of assignment (i.e., record title) can have multiple assignments filed with one letter of application, provided that (a) assignor and assignee are the same and (b) the effective date is the same.

Affected leases should be numerically/alpha-numerically listed in the letter of application or attached as an exhibit; thus, leases predating the use of the “G” prefix are listed first, followed by the “G” number leases in numerical order.

The letter should include reference to the qualification numbers of both assignor and assignee and should request the same effective date for the assignment as contained in the instrument

itself. If an effective date **is not requested** in the application for approval, nor shown in the assignment instrument, the assignment will be made effective the first day of the month following the filing date 30 CFR 256.62(c).

The assignor and assignee should be identified by the GOM company numbers somewhere in the body of the letter, along with the OCS-G number of the lease being assumed. When using generic corporate letterhead, a subsidiary must clearly identify itself by typing the applicant's name in the signature block (e.g., Texaco letterhead is used by Texaco Exploration and Production Inc.). This procedure assists processing by clearly identifying which company is involved and helps prevent picking up the wrong company name.

An assignment of operating rights by any record title owner will cause all record titleholders to be treated as if they had also separated their operating rights from their record title rights. Consequently, whenever a lessee/record title holder desires to transfer all or a portion of its interest in the entirety of the lease, at least two assignments will be required

- (1) one to cover the record title interest; and
- (2) depending upon the scenario, one or more to cover the severed operating rights interest.

Failure to assign both record title and operating rights once severed could result in future operating rights assignments being returned, as the MMS official record will not reflect any rights for the assignor to assign. Future title abstracting may identify clouds on the title if a company trying to buy up operating rights finds the operating rights were assumed to move with the record title transfer, and now the company holding the operating rights is out of existence or a serious competitor.

#### **a. Filing Fee and Timely Filing**

**A nonrefundable \$185 filing fee** is required for each lease affected by an assignment and for each assignment on a single lease (30 CFR 256.64 (a)(8)). Payment may be by credit card (Master Card or Visa) or check. Checks should be made payable to the Minerals Management Service. For multiple assignments, it is preferred that one charge or check be submitted to cover the aggregate cost. The aggregate amount of credit charge or check can be for **all** types of transactions submitted for that day to the Adjudication Office. For example, 20 assignments for operating rights + 50 mortgages + 10 assignments of record title interest + 2 assignments of pipeline rights-of-way = 30 @ \$185 each + 2 @ \$60 each = \$5,670 — paid by one lump sum check or credit charge (currently, there is no charge for mortgage filings).

If the assignee does not already have an interest in the lease and is receiving 100 percent record title interest and does not have a bond, then an appropriate bond or Designation of Operator form (original and one copy) must be filed with each assignment, or the assignment and check **will be returned** to the submitter.

As detailed in Section II.C.4., a supplemental bond may be required prior to approval of an assignment. If a supplemental bond is required for plugging and abandonment (P&A), it must be

filed along with the assignment. The amount of the P&A bond will be determined by MMS Office of Field Operations. In advance of finalizing negotiations for a lease assignment, it is recommended that the applicant contact the customer service representative and provide the OCS-G number, map area, and block number. The MMS will respond as soon as possible with the required P&A supplemental bond amount.

If an individual receives interest in a lease, he or she must submit, or have on file, a statement of United States citizenship. Citizenship statements need not be notarized nor the age of the individual shown.

Assignments in which the assignee is on the Restricted Joint Bidders' List will be forwarded for review by the Department of Justice prior to approval (30 CFR 256.65). Some delay, therefore, should be expected in awaiting notification of approval for these assignments.

### **b. Return of Unacceptable/Incomplete Documents**

Any document received but not accompanied by the proper filing fee or necessary associated documents (designations, bonds, OSFR), not properly executed by an authorized official, or filed within the statutory 90 day period from execution, will be immediately returned to the submitter with a note of explanation. Documents may also be returned for failure to convey title properly in accordance with existing records.

## **2. Record Title**

The four different types of assignments and their various combinations are explained below.

### **a. Assignments in Whole**

This is the simplest type of assignment. The assignor owns 100 percent of the record title interest of a lease and assigns all of its rights, title, and interest in the lease to the assignee. The new owner must submit, along with the assignment application, a Designation of Operator form designating the appropriate company as operator of the lease.

### **b. Undivided Interest Assignment**

In the undivided interest assignment, the assignor assigns an undivided interest of less than 100 percent. Any portions of a whole should be expressed in decimals with **no more than** five places after the decimal point (e.g., 40.12345%). All lease interest percentages must total 100 percent. The assignor should **clearly state** what is being assigned. Assignment of 25 percent of a company's 22.5 percent interest is confusing and presents decimal rounding questions.

### **c. Undivided Interest in Part**

In the undivided interest in part assignment, the assignor owns 100 percent of the record title in a lease and assigns an undivided interest in a specific subdivision (e.g., 40% undivided interest in the NE 1/4), which must be described in aliquot parts no smaller than 1/4 1/4 1/4.

#### **d. Assignments Creating Segregated Leases**

If an assignor assigns 100 percent of the record title interest in a particular subdivision of a lease, such as the NE 1/4 of the leased block, this assignment creates a new or segregated lease (30 CFR 256.68). The lease being segregated from the original lease may receive the new OCS number. The lease numbers will be assigned after coordination with the MMS Office of Field Operations for a determination on existing well and production logs referencing the original lease number. The assignee becomes a lessee of the Government and is bound by the terms of the original lease as though the lease had been obtained from the United States in the assignee's own name. The assignment, after it is approved, shall be the basis of a new record.

The regulations in 30 CFR 256.68(c) provide that, in the event of segregated leases, production on any portion of the originally leased acreage will extend the retained and the segregated portions only on those leases segregated **prior** to September 26, 1979. Any lease segregated after this date will be extended using the same criteria applied to standard original leases; that is, production, drilling, or well reworking operations are being conducted.

### **3. Operating Rights**

Assignments of operating rights are required to be filed and approved by the appropriate office of MMS (30 CFR 256.64(a)(1)). Operating rights may convey an interest in a lease down to a specific depth in all or a portion of the block, but not less than a 1/4 1/4 1/4 aliquot. The depth specified may relate to depths found in a specific well or to stratigraphic equivalents tied to a specific well log. An assignment of operating right does not have any effect on record title interest.

The MMS recognizes two levels of operating rights, shallow and deep. Unless previously approved without an ending depth, all operating rights assignments must specify a beginning and ending depth. Drafters of such operating rights assignments should strive for clarity in defining the area being conveyed.

For example, operating rights Assignment No. 1 assigns from the surface to 8,880 feet. Operating rights Assignment No. 2 assigns from 8,881 to 16,000 feet. The MMS recognizes the operating rights below 16,000 feet have not been severed from the record title, and is thus owned in the same manner as the record title interest.

The MMS will not accept an assignment of operating rights tied to sand or other stratigraphic features.

An instrument of transfer (assignment) may be filed in counterparts. However, **all counterparts must be filed simultaneously**, inasmuch as all counterparts are construed as one and the same instrument, and shall have the same effect as if all parties had signed the same instrument.

**Note:** Please **staple** together all pages for each instrument.

## **D. RELINQUISHMENT OF AN OIL AND GAS LEASE**

### **1. Total**

A lease in its entirety may be surrendered by the record title holder(s) by filing a relinquishment with the GOM Adjudication Office (30 CFR 256.76). A relinquishment for a lease with multiple record title owners requires the signature of all record title owners. Annual rental or annual minimum royalty payments are automatically assessed on the anniversary date of the lease. Filings made after the anniversary date will not eliminate this payment requirement.

### **2. Partial**

Portions of a lease not smaller than a 1/4 1/4 1/4 aliquot may be surrendered by the record title holder(s) by filing a partial relinquishment with the identification of the OCS-G number, map area, block, and aliquot to be relinquished with the GOM Adjudication Office. A partial relinquishment for a lease with multiple record title owners requires the signature of all record title owners.

### **3. Form**

A special relinquishment form is not required. The instrument, submitted in duplicate, must be typewritten and originally executed by an authorized company official. An original letter is required. The letter transmitting the relinquishment can be signed by any company representative. Submit a self-addressed return envelope and instructions if you require an immediate acknowledgment of receipt. No filing fee is required. Witness and notarized statements are not required.

### **4. Where to File**

All relinquishments on leases issued by the GOM and former Atlantic offices should be filed with the GOM Adjudication Office.

### **5. Effective Date**

The lessee should not include or request an effective date in the relinquishment. A relinquishment is effective on the date filed in the GOM Adjudication Office, subject to acceptability and continued obligation of lessee and the surety to make all payments due, including any accrued rents, royalties, and deferred bonuses. Even though a relinquishment has been filed, a lessee must, within one year, plug and abandon all wells and remove all platforms and other facilities on the lease to the satisfaction of the Regional Director (30 CFR 256.76).

### **6. Counterpart Execution**

A relinquishment may be filed in counterparts. However, **all counterparts must be filed simultaneously**, inasmuch as all counterparts are construed as one and the same document, and shall have the same effect as if all parties had signed the same document.

## **E. ESTATE MATTERS**

The regulations at 30 CFR 256.64(d) provide primary guidance for the recognition of an heir or devisee of a deceased holder of a lease. Although the laws of the State with jurisdiction over the decedent and property govern the distribution of the affected assets, the Minerals Management Service has determined that the procedures listed below will be followed in handling estate matters.

Where the will directly distributes the interest in a lease to an heir or devisee, such heir or devisee shall be recognized as the lawful successor to such lease or interest, if evidence (original or certified copies) of such status and distribution is provided as indicated below. The same showing is necessary if an ancillary succession is required.

- (1) Copy of the last will and testament;
- (2) Property inventory schedule listing, among other things, the OCS leases affected;
- (3) Order admitting will to probate and authorizing letters testamentary;
- (4) Letters testamentary; and
- (5) Certified copy of an appropriate order or decree recognizing the last will and testament.

To transfer a leasehold interest to an entity not named in the will, such transfer must issue from the estate of the deceased. By operation of State law, the assets of the deceased will have transferred directly into the estate. Such transfer requires that the estate establish qualifications with the MMS in order to hold the interest until distributed, and the documents required are items (1) through (5) above. The estate must comply with all rules governing leaseholders.

However, to transfer the interest from the estate to the not-named entity, the following additional document is required to be filed, as an original or certified copy, along with any assignment conveying such interest:

- an original or certified copy of the court order authorizing the sale of the property.

The assignee in such assignment must comply with all rules governing lease transfers.

If a deceased individual owned interest in leases both offshore their State of residence and another State, MMS requires probate from both involved States. The MMS, lacking applicable regulations, looks to State law of the State to which the lease is offshore.

## **F. TIMELY FILING OF DOCUMENTS**

Any document that is required or permitted to be filed and that is received in the GOM Adjudication Office either in the mail or by personal delivery when the office is not open to the public, shall be deemed to be filed as of the day and hour the office next opens for business.

**Note:** For example, a lease has had leaseholding activities less than 180 days before the lease anniversary date, which falls on a Saturday. Relinquishments that could have been delivered in a Saturday mail delivery but were received on Monday will be **deemed filed** as of Monday at 7:30 a.m. This **will cause the lessee to pay** the next year's rental in full.

**Caution:** Because of interoffice mail delivery, documents received at the MMS Regional Office mailroom **may incur a delay** in delivery to the Adjudication Office, where they are **date stamped and deemed filed**. Lessees who are within days of the anniversary date of their lease **should** (1) use personal delivery or (2) overnight delivery services. Lessees should address the documents directly to the Adjudication Office and **should notify their MMS company representative** to be expecting their filing.

Federal Express, UPS, etc., courier services deliver to the main MMS mailroom, and this will delay delivery time to the Adjudication Office. Coordinating with the company representative will enable us to provide the service you need and to avoid unnecessary and potentially costly delays should a late filing result in another annual rental or minimum royalty charge. Faxed transmissions are not acceptable, as original signatures are required.

## VI. NONREQUIRED FILINGS – RECORD PURPOSES

### A. GENERAL

A nonrefundable fee of \$25 per lease affected shall accompany any document not required to be filed by regulations but submitted for record purposes. Approval by the Regional Director is not required. Such documents may be rejected at the discretion of the authorized officer (30 CFR 256.64(a)(8)).

The GOM Adjudication Office has been accepting non-required filings since approximately 1974. Each document received is filed by the applicable OCS lease number. Because of the quantity of documents received (approximately 3,500 annually), the GOM Adjudication Office began using microfiche in 1988. In June 1994, digital imaging replaced microfiche. A listing of leases that have non-required filings is now available.

For the more recent filings, a category of filing has been designated in an effort to help in locating types of filings. Relinquishments of oil and gas leases, although considered to be non-required filings, are processed outside this system and are maintained in the lease file. Relinquishment of a pipeline right-of-way is a required filing and is maintained with the right-of-way grant file.

### B. INFORMATIONAL FILINGS

Documents affecting more than one lease will be filed in all lease files. Each instrument should clearly indicate on the first page in the upper right-hand corner which OCS lease numbers are affected. If this is not done, processing is delayed and affected leases could be overlooked. **A nonrefundable \$25 filing fee** per affected lease is required for each document filed except:

- (1) overriding royalty;
- (2) production payments; and
- (3) net profit.

At the discretion of MMS, records are electronically imaged. The original instrument will be disposed of after processing unless a written request to return the documents to the originator is on file.

Document-imaging technology provides an opportunity to categorize further a filing of a document within the lease number identification. The classification categories are as follows:

- (1) mortgage/deed of trust/security agreement;
- (2) release of mortgages and liens;
- (3) UCC filings and financial statements;
- (4) abstract of judgment;
- (5) overriding royalty, production payment, net profit;
- (6) liens and lien affidavit;



- (7) contracts, agreements, and conveyances;
- (8) miscellaneous;
- (9) pipeline filing document; and
- (10) non-specific document filings.

Documents are identified by their heading. When a heading identifies two or three categories, the document is keyed to the first category. For example, a document entitled “overriding royalty agreement and conveyance” would be identified as a category 5 filing.

**Abstractors are cautioned to review all filings on a lease to protect against a document being mis-categorized.**

Submitters are encouraged to submit a letter of instructions, identifying specifically how they would like their document categorized. Category 10 is used as a default.

A complete report, listing every lease ever having a filing, is available for review. This report is updated every time a filing is entered into the database. The weekly Leasing Activities fax report also identifies all newly received non-required filings. This report is available either on a weekly broadcast basis or by hard copy in the distribution display located in the Adjudication Office.

Two document-imaging workstations are available for public use. Both workstations have identical information, and each has a printer. The cost per copy is by fee schedule and is 5 cents per page at time of publication.

## **VII. MMS LEASE FILES**

The lease files in the GOM Region are accessed by lease number and are organized in six-way folders by section as outlined below.

- (1) Check List for High Bidders
  - Bid
  - Receipts (lease related)
  - Lease and Decision
  - Relinquishments
- (2) Suspension of Production (SOP)
  - Suspension of Operation (SOO)
  - Production Notices
  - Lease Status Report
  - Drilling Window Notices
- (3) Units
  - DM 655/SO 2974
  - Archaeological Survey
- (4) Designation of Operator Forms
  - Lease Specific Bonds
- (5) Assignments of Operating Rights
- (6) Assignments of Record Title Interest
  - Changes of Name
  - Mergers

Persons wishing to view the contents of lease files may do so in the public area of the Adjudication Office. If copies of any document are desired, the page(s) of interest should be paper clipped and the file given to the customer service representative. The copy charge is by fee schedule and is \$1.00 per page at time of publication. To maintain customer service availability, requests for more than 20 copies will be held until nonpeak work activity times. The customer, at his option, can either be called when the copies are available for pickup or these can be mailed if payment has been made.

Certified copies are available at an additional charge as identified in the fee schedule and are currently \$1.00 per certification at time of publication. Customer service representatives are available to assist customers. Lengthy discussions or file reviews should be scheduled in advance with customer service representatives so they can provide quality service and uninterrupted attention.

## **VIII. PIPELINE RIGHTS-OF-WAY**

### **A. APPLICATION REQUIREMENTS AND FEES**

The regulations governing the submission of pipeline right-of-way (ROW) applications are found at 30 CFR 250.1000, Subpart J. Reference is also made to the Letter to Lessees (LTL) dated April 18, 1991, which provides additional guidance on this application process. This LTL is available from the Public Information Office at (504) 736-2915 or 1-800-200-Gulf. The pipeline application is submitted directly to the Regional Supervisor, Field Operations, for approval. The application fee is per pipeline plus an annual rental fee of \$15 per mile or fraction thereof, and \$75 per platform or accessory. Both the application fee and the first-year rental are required at the time of application.

If the right-of-way is to be jointly owned, all potential owners must execute the right-of-way application and such application must specify the percentage of ownership of each applicant. The application must also indicate the company that will serve as operator of the pipeline and as the Minerals Revenue Management payor.

### **B. BOND REQUIREMENTS**

On September 26, 1979, the Department of the Interior issued regulations requiring that a bond be filed prior to the issuance of a right-of-way grant. This bond is titled *Outer Continental Shelf Right-of-Way Grant Bond* and is in the sum of \$300,000. The form can be found at [www.gomr.mms.gov/homepg/mmsforms/FormMMS-2030.pdf](http://www.gomr.mms.gov/homepg/mmsforms/FormMMS-2030.pdf). This bond is required in addition to any other bonds previously filed. The Right-of-Way Grant Bond will be conditioned to cover the operation and maintenance of all pipelines in the designated Region. Co-principals are not acceptable on the Right-of-Way Grant Bond.

### **C. SUPPLEMENTAL BOND REQUIREMENTS**

In addition to the general bond, any ROW with associated facilities may require the posting of additional securities in the form of a supplemental bond as established at 30 CFR 250.1009(b)(1)(i) and (ii). The GOM Region will require supplemental bonds related to facility abandonment and site clearance. A waiver of this requirement on a specific ROW will be granted by the MMS authorized officer if at least one record title lessee meets the criteria stated in Section II.C.2.c.

### **D. ANNUAL RENTAL AND BILLING**

The owner of a pipeline right-of-way grant will be billed for rentals each calendar year by MMS, Minerals Revenue Management. Annual billings are issued in early November and are due and payable by January 1st of the following year. Annual rental is payable in advance for the calendar year or fraction thereof (30 CFR 250.1009(c)(2)). For example, if the right-of-way was granted in the month of October, rent submitted with the application covers only that portion of

the calendar year from October through December. The holder will be billed in November for rents due in January. Ownership and pipeline status records are entered and maintained by Field Operations in the Gulf of Mexico TIMS database; however, the billing and collection of pipeline fees is conducted by the MMS Minerals Revenue Management, Denver, Colorado. When a company has paid multiple-year rental fees in advance, a refund will be issued for paid future rental when the right-of-way grant is relinquished and a request is made for such refund.

## **E. ASSIGNMENTS**

In accordance with 30 CFR Subpart J, 250.1013, an assignment may be made of a right-of-way grant, in whole or of any lineal segment thereof, subject to the approval of MMS. The MMS will not accept an assignment conveying interest to a company that does not have on record a \$300,000 OCS Right-of-Way Grant Bond (30 CFR 250.1009(b)(1)(I)) or that has not previously qualified to do business with MMS (30 CFR 250.1010), even if the company's qualifications or merger/name change documents have been filed but not approved by MMS.

Any such proposed assignment shall be filed in triplicate and shall be accompanied by an application for approval (transmittal letter) in which the assignee shall make the showing required in 30 CFR 250.1010. Upon approval, one instrument will be filed in the right-of-way grant case file, one will be returned to the submitter, and one will be sent for document imaging.

The application for approval should reference the name and GOM company number of both the assignor and assignee and should request the effective date contained in the instrument itself. If an effective date is not requested, the assignment will be approved effective (1) the date shown in the instrument and, if there is no effective date shown in the instrument, then (2) the first day of the month following the date the assignment was filed in the office of the Adjudication Office. The right-of-way affected by the assignment must be clearly identified in the letter.

The application for approval must be signed by a company representative; however, a third party may submit an application for approval along with the assignment, if the third party provides a letter from the assignor/assignee authorizing that third party to act. That letter of authorization must be signed by an authorized officer of the company.

When using a generic corporate letterhead, the applicant must clearly identify itself by typing the appropriate name in the signature block.

Assignment instruments must be signed by both the assignor and the assignee and shall include a stipulation that the assignee agrees to comply with and be bound by the terms and conditions of the right-of-way grant (30 CFR 250.1013(b)).

Inasmuch as the MMS pipeline database does not provide complete information (all owners, complete description) on the pipeline right-of-way, to ensure that the right-of-way assignment is processed in an expeditious manner and without error, applicants are asked to attach to the assignment a copy of the grant approving the right-of-way or a copy of the approval where the assignor's interest originated, whichever is appropriate.

If the right-of-way is to be owned by more than one company, all must indicate by letter their agreement to one of the companies acting as operator of the right-of-way and being responsible for payment of rental and associated fees. Such letter must be signed by an authorized officer, not a third party, of the companies involved and must be submitted along with the assignment.

An assignment may convey an entire right-of-way or a lineal segment thereof. When an assignment is made of a lineal segment, approval of such an assignment creates two separate and distinct rights-of-way. The portion of the right-of-way being retained by the assignor will remain as originally numbered; the conveyed portion will be given a new right-of-way number. The lineal segment being conveyed must be for a portion of the line between two easily identifiable appurtenances, e.g., from Platform A in Block 21, across Blocks 23, 24, and 25, to Platform B in Block 26, all in Main Pass Area. An assignment that attempts to convey “5,000 feet of pipeline right-of-way in Block 37, Ship Shoal Area” or uses similar language will not be approved.

Only assignments conveying record title interest into a right-of-way will be approved.

A nonrefundable fee of \$60.00 per assignment per right-of-way shall accompany the application for approval 30 CFR 250.1013(b). A credit card charge or a check made payable to the Minerals Management Service must be made. One charge or check is preferred when multiple assignments are filed. All assignments must be filed in the office of the Adjudication Office.

### **Return of Unacceptable/Incomplete Documents**

Any document received but not accompanied by the proper filing fee or necessary associated documents (designations, bonds, etc.) will be immediately returned to the submitter with a note of explanation.

## **F. RELINQUISHMENTS**

The relinquishment of an ROW grant is a required filing. Regulations at 30 CFR 250.1014 provide that a right-of-way grant or a portion thereof may be surrendered by the record title holder by filing a relinquishment with the Regional Supervisor, Field Operations.

No special form, filing fee, or transmittal letter is required; however,

- (1) the relinquishment must be in writing and contain those items addressed in 30 CFR 250.1007(c);
- (2) the relinquishment must be filed in original signature letter and one copy; and
- (3) an authorized representative for each record title holder must execute it.

The relinquishment shall take effect on the date it is filed in Field Operations, and it is subject to the satisfaction of all outstanding debts, fees, or fines and the requirements in 30 CFR 250.1007(c).

Though the pipeline may have been abandoned in place and the abandonment approved by the GOM Pipeline Unit, right-of-way owners are subject to the annual rental until a relinquishment is filed and accepted.

## **G. ABANDONMENTS**

In accordance with 30 CFR 250.1006, 30 CFR 250.1007(c), 30 CFR 250.1009(b)(9), and 30 CFR 250.1014, a request for abandonment of a pipeline or relinquishment of a right-of-way grant must be filed in triplicate, in writing, with the Regional Supervisor, Field Operations.

Before a request for abandonment can be approved, the right-of-way holder must agree to the following, which shall be included in the request:

- (1) Remove along the right-of-way any platforms, structures, domes over valves, pipes, taps, and valves that would present any hazard to navigation or fishing, unless this requirement is waived in writing by MMS.
  - (a) In order to secure a waiver, the holder shall demonstrate to the satisfaction of MMS that any abandonment in place shall not constitute an unreasonable hazard to navigation, fishing, or the marine environment and that the line has been purged to remove materials that, if released, could be harmful to the marine environment.
- (2) Demonstrate to the satisfaction of MMS that all open ends of the pipe have been plugged and buried to a minimum of 3 feet or such other depth as required by MMS.
- (3) The holder shall remove any improvement required to be removed within one year of the effective date of the relinquishment, forfeiture, cancellation, or abandonment.
- (4) If the request is for a partial abandonment, submit three copies of a map showing what is required under 30 CFR 250.1007(c).
- (5) All such structures, accessories thereto, or improvements not removed within the time provided herein shall become the property of the U.S. Government, but this does not relieve the holder of liability for the cost of their removal or for restoration of the site.

**All requests for abandonment will be considered on a case-by-case basis.**

## **H. PROOF OF CONSTRUCTION**

In accordance with 30 CFR 250.1012, failure to construct the pipeline within 5 years from the date of the grant shall cause the grant to expire. A relinquishment must still be filed to avoid yearly rental fees.

Proof of construction shall be submitted to the Regional Supervisor, Field Operations, within 90 days after completion of construction of the pipeline (30 CFR 250.1008(b)). Such proof shall consist of “as built” drawings and hydrostatic test data.

## **I. MODIFICATIONS OF APPLICATION**

In accordance with 30 CFR 250.1007(b), applications to modify an approved right-of-way grant shall be submitted to the Regional Supervisor, Field Operations. The application for modification need only address those items in the original application affected by the proposed modification.

## **J. WHERE TO FILE**

All relinquishments should be filed with the GOM Regional Supervisor, Field Operations.

## **K. TIMELY FILING OF DOCUMENTS**

Any document that is required or permitted to be filed and that is received in the GOM Adjudication Office, either in the mail or by personal delivery when the office is not open to the public, shall be deemed to be filed as of the day and hour the office next opens for business.

**Note:** For example, relinquishments received for ROW’s with an anniversary date **falling on a weekend** will be **deemed filed** as of the **following** Monday at 7:30 a.m. This will **require the lessee to pay** the next year’s rental in full.

**Caution:** Because of interoffice mail delivery, documents received at the MMS Regional Office mailroom must still be delivered to the Regional Supervisor, Field Operations, where they are **date stamped and deemed filed**. Lessees who are within days of the anniversary date of their ROW **should** (1) use personal delivery or (2) overnight delivery services. Lessees should address the documents directly to Field Operations and **should notify Field Operations staff** to be expecting their filing.

Federal Express, UPS, etc., courier services also deliver to the main MMS mailroom. Items delivered must still be delivered to Field Operations. Coordinating with the staff will enable us to provide you the service needed to avoid unnecessary and potentially costly delays should a late filing result in another annual rental or minimum royalty charge. Faxed transmissions are not acceptable, as original signatures are required.

## **IX. FISHERMEN'S CONTINGENCY FUND CLAIMS**

### **A. GENERAL INFORMATION**

The Fishermen's Contingency Fund was established under the OCS Lands Act to compensate commercial fishermen for property and economic loss caused by obstructions related to oil and gas development activities on the OCS. The law requires that all persons known to have engaged in activities associated with OCS energy development in the vicinity of the claimed damage or loss be notified of the claim.

Questions related to the claim site map, which is enclosed with the declaration of liability, should be directed to the Supervisor, Sales and Support Unit (MS 5422), since this unit actually maps the coordinate location provided by the claimant.

Any other questions related to the claim should be directed to the National Marine Fisheries Service, Financial Services Division, F/TS-1, Metro 1 Building, 5th Floor, 1335 East-West Hwy., Silver Spring, Maryland 20910.

### **B. DECLARATION OF LIABILITY**

When a claim is received by the National Marine Fisheries Service, it is forwarded to MMS, which in turn notifies all pipeline and lease owner/operators in the vicinity. A form is mailed to all potentially responsible parties, who have the legal requirement to accept or deny responsibility for the claimed damages. Nonrespondents are presumed to deny responsibility for the damages claimed.

The damages described on the enclosure may be only a portion of the final award, which may include actual damages, consequential damages, resulting economic loss, and fees paid to a third party for assistance in filing the claim. If no notified party accepts responsibility for the damages, claims are paid from the fund.

### **C. FUND ASSESSMENT/REPLENISHMENT**

Payments into the fund are made through periodic assessments against all holders of an exploration permit, lease, easement, or pipeline right-of-way, issued or maintained under the OCS Lands Act. Each authorization is assessed a fee to replenish the Fishermen's Contingency Fund whenever that fund falls below a designated amount. The assessed fee is based on the number of items and the percentage of ownership interest in each item a company has on file, divided into the amount to be replenished. The assessment is issued by and payment is submitted to the MMS, Minerals Revenue Management, Debt Collection, Denver, Colorado. With the exception of the prelease exploration drilling permit, holders of geological and geophysical permits are not assessed.



## **X. OCS INFORMATION RESOURCES: PUBLIC INFORMATION OFFICE**

Information specific to leasing, such as a Notice of Sale, and other activities in the Gulf of Mexico OCS Region is distributed through the Public Information Office in the Regional Office. The exception to this is the annual *OCS Statistical Summary*, which is a consolidated listing of all MMS sales for all Regions for a specific year (Section XII.G. below). Various fees may be charged. A catalog titled *Catalog of Public Information Request, Data Files and Reports – Summer 2000* is available upon request.

The GOM home page may also be a source of information via the Internet. Go to [mms.gov](http://mms.gov) and click on GOM Region Public Server. Then click on Fast Facts or Product Information.

The following items are a few of the information sets related to lease sales and available from this source; such information may be useful to attorneys, landmen, and other practitioners.

### **A. PRESALE STATISTICS**

“Presale Statistics” detail known presale factors such as the size of the planning area and the number of blocks available for lease by the categories of lease term, royalty, water depth, and 8(g). These statistics are initially available with the PNOS and are updated for the PNOS and FNOS.

### **B. HIGH BID SUMMARY**

The “High Bid Summary” is sale specific and lists the highest bids on each block, the company(s) submitting that bid, and the percentage of interest for each company. The summary also provides the sum of high bids, sum of all bids, total number of bids, total number of companies participating, highest bid per acre, greatest number of bids on a block, number of 8(g) blocks receiving bids, and sum of high bids on 8(g) blocks. This list is available at the lease sale location a few minutes after the completion of bid reading.

### **C. PRELIMINARY BID RECAP**

The “Preliminary Bid Recap” is a sale-specific listing of all bids on every block receiving a bid. The recap is available in either hard copy or digital form; it may also be downloaded via a PC phone modem. Arrangements for modem transmission are made through the Public Information Office and require a \$20 fee. The preliminary bid recap is available at the lease sale location approximately 20 minutes after completion of bid reading.

The following information is listed in a preliminary bid recap:

- the bid type (usually a cash bonus bid);

- the block location (as described using leasing maps or official protraction diagrams);
- the block number (an administrative identification number);
- the OCS lease number (a serial identifier assigned to the lease);
- the block surface area and unit of measurement (in acres or hectares);
- group number (arbitrarily assigned on a lease-offering basis, it identifies a particular group or combine of bidders submitting a bid jointly);
- GOM company number (numerical code and the legal name of each bidder participating in a bid; the code is assigned and used uniformly throughout the MMS) (Section II.A.2.);
- the percentage interest of each bidder in each bid;
- the per-acre or per-hectare amount of monetary bids;
- the total amount of each bid;
- for blocks receiving more than one bid, the per-block rank of each bid in order of total bid (1st, 2nd, 3rd, etc.); and
- the sum and number of all bids on each block.

## **D. FINAL BID RECAP**

The “Final Bid Recap” is similar to the preliminary bid recap except that rejected bids are identified and sale revenues are adjusted. Bid recaps sell for \$5.00 per copy postpaid. The GOM Region usually maintains a supply of bid recaps for an offering until the data on the offering are published in the annual volume of the *OCS Statistical Summary*.

## **E. OUTER CONTINENTAL SHELF LEASE SALE STATISTICS**

“Outer Continental Shelf Lease Sale Statistics” is an annual compilation of individual lease sale information that places the most recent sale in historical perspective. It provides such data as blocks receiving bids, highest bid in the sale, highest bid in the 8(g) zone, number of companies participating, highest value per acre, etc.

## **F. PHASE I DECISION MATRIX**

The “Phase I Decision Matrix” is sale specific and indicates which bids were accepted according to specified criteria and shows MMS values for specific blocks.

## **G. OCS STATISTICAL SUMMARY**

The *OCS Statistical Summary* details individual sale results for all Regions and is consolidated annually. The first four volumes of the *OCS Statistical Summary* cover the periods 1954-1960, 1961-1965, 1966-1968, and 1969-1972. Thereafter, the *OCS Statistical Summary* has been

published on an annual, calendar-year basis. All volumes of the *OCS Statistical Summary* are edited, compiled, and published by the GOM Region. Questions regarding the content of these publications should be referred to the Leasing Activities Section of the GOM Region.

## **H. SALE HISTORICAL SUMMARY STATISTICS**

“Sale Historical Summary Statistics” are summarized, consolidated data for all sales and indicate blocks offered, blocks leased, acres offered, acres leased, bid amount, rental, etc. This publication offers a quick view; it is a very useful reference.

## XI. GLOSSARY

The following definitions are used by the Gulf of Mexico OCS Regional Office and do not represent a legal definition thereof or represent official MMS policy or interpretation. They are provided for ease of reference only.

**Adjusted Delayed Value (ADV)** — The minimum of the MROV and the DMROV.

**Adjusted Number of Bids** — Those bids that remain after the anomalous bids have been excluded.

**Anomalous Bids** — All but the highest bid submitted for a tract by the same company, parent or subsidiary (bidding alone or jointly).

**Bid** — An offer for an OCS lease submitted by a qualified lessee in the form of a cash bonus dollar amount or other commitments as specified in the Final Notice of Sale.

**Block** — A numbered area on an OCS leasing map or official protraction diagram. (See “OCS Leasing Maps and Official Protraction Diagrams [OPD].”) Blocks are portions of OCS leasing maps and OPD’s that are themselves portions of planning areas. Blocks vary in size; typical ones are 5,000 to 5,760 acres (approximately 9 square miles), but can be as small as less than 1 acre. Each block has a specific identifying number, area, and latitude and longitude coordinates that can be pinpointed on a leasing map or OPD.

**Block 8g** — Any block intersected by the 8g line. The 8g line is established by Section 8g of the OCS Lands Act. It defines the outer limits of the Federal-State revenue sharing zone as a line 3 geographic miles seaward of the State’s seaward boundary. Within the zone, currently, 27 percent of all revenue generated from a lease is shared with the associated state.

**Confirmed or Wildcat (C or W) Tract** — A tract classification that meets either the confirmed tract or wildcat tract definition.

**Confirmed Tract** — A previously leased tract having a well(s) that encountered hydrocarbons and may have produced. The tract contains some oil and/or gas resources whose volume may or may not be known.

**Delayed Mean Range of Values (DMROV)** — A measure that is used to determine whether the high bid received plus expected royalty receipts expected in the current sale is at least equal to the discounted sum of the bonus and royalties expected on tract in the next sale. The bonus for the next sale is computed as the MROV associated with the delay in leasing under the projected economic, engineering, and geological conditions, including drainage.

**Designation of Operator** — A formal signed designation that a specific party will perform lease operations for you. It serves as the authority for the operator to act on your behalf to fulfill all of your obligations under the lease, the OCS Lands Act, MMS regulations, and applicable laws.

**Development** — Activities following exploration, including the installation of facilities and the drilling and completion of wells for production purposes.

**Development Tract** — A tract that has nearby productive (past or currently capable) wells with indicated hydrocarbons and that is not interpreted to have a productive reservoir extending under the tract. There should be evidence supporting the interpretation that at least part of the tract is on the same general structure as the proven productive well.

**Drainage or Development (D or D) Tract** — A tract classification that meets either the drainage tract or development tract definition

**Drainage Tract** — A tract that has a nearby well that is capable of producing oil or gas, and the tract could incur drainage if and when such a well is placed on production. The reservoir from which the nearby well is capable of producing is interpreted to extend under the drainage tract to some extent.

**DSO** — An MMS-directed suspension of operation for various reasons.

**Environmental Assessment** — A concise public document required by the National Environmental Policy Act. In the document, a Federal agency proposing an action provides evidence and analysis for determining whether it must prepare an environmental impact statement or whether it finds there is no significant impact, i.e., FONSI.

**Expiration** — The end of the time period stated in a lease for the exploration and production of oil, gas, condensate, or sulphur.

**Geometric Average Evaluation of the Tract (GAEOT)** — The geometric mean of the bids and the MROV, with anomalous bids excluded.

**Lease Consolidation** — Combining of two or more small leases into one lease to facilitate production and management. The MMS regulations limit the total combined lease acreage to not more than 5,760 acres.

**Lease Map** — Offshore maps originally projected from onshore coordinate control points. Lease maps exist offshore Louisiana and Texas and extend outward to the slope of the continental shelf.

**Lease Sale** — An MMS proceeding by which leases for certain OCS blocks are offered for sale by competitive sealed bidding and during which bids are received, announced, and recorded.

**Lease Term** — Duration of a lease. Oil and gas leases are issued for an initial period of 5 years or not to exceed 10 years where such longer period is necessary to encourage exploration and development in areas because of unusually deep water or other unusually adverse conditions. Once production is established, the term continues as long as there is production.

**Lease 8g or 8f** — Administrative term referring to a lease issued during a time period when the 8g revenue sharing acreage of an 8g block was offered separately from the pure Federal portion of the block.

**Lease year** — One year from the effective date of issue of the lease document. Often referred to as the anniversary date. It is the determining date for when rental payments are due.

**Lessee** — A person or persons to whom a lease is awarded; the recipient of a lease.

**Lessor** — Entity who awards a lease.

**Legal bids** — Those bids on a tract that comply with MMS regulations and the Notice of Sale.

**Mean Range of Values (MROV)** — A dollar measure of the MMS estimate of a tract's expected net present private value, given that the tract is leased in the current sale.

**Minimum Royalty** — The lowest payment a lessee must pay on a Federal lease after production begins. It is equivalent to the yearly rental, typically \$5 to \$7.50 per acre (offshore). Rentals are paid annually before a discovery; royalties are paid on production after a discovery. If the total royalty payments amount to less than the yearly rental, the minimum royalty payments make up the difference.

**Mobile Offshore Drilling Unit** — A drilling vessel that floats upon the surface of the water when being moved from one location to another. It may or may not float once drilling begins. Mobile units include jack-up drilling units, semisubmersibles, submersibles, and drillships.

**NAD 27** — North American Datum, mapping coordinate reference base established in 1927.

**NAD 83** — North American Datum, mapping coordinate reference base established in 1983.

**Net Profit Share** — A bidding system for leasing blocks on the OCS that uses the cash bonus as the bid variable and requires a fixed annual rental payment and net profit share payments at a fixed percentage rate that is constant for the duration of the lease.

**Nonviable Tract/Prospect** — A tract or prospect of geographic or geologic configuration of hydrocarbons whose risk-weighted most probable resource size is below the minimum economic field size for the relevant cost regime and anticipated future prices. The risk used is below the lowest level anticipated for any tract or prospect in the same cost regime.

**No Lease Issued** — A reference in various lease sale computer reports to account for blocks bid on but later forfeited by the bidder without a lease ever being issued.

**Notice to Lessees and Operators (NTL)** — The MMS regulatory document used to distribute information to lessees and operators. An NTL may be issued for several reasons, e.g., providing an interpretation of a regulation or transmitting administrative information such as a change in an MMS office address.

**OCS Leasing Maps and Official Protraction Diagrams** — Basic geographical records; maps used in lease sales. Leasing maps are used in the Gulf of Mexico (nearshore Texas and Louisiana) and in small areas offshore California. Leasing maps are developed on the basis of extensions of the leasing grids used onshore. Most of the offshore area is mapped on official protraction diagrams (OPD's) using the Universal Transverse Mercator grid system. Each OPD covers 1° latitude by 2° longitude (except for offshore Alaska, which is 1° latitude by 3° longitude) and is divided into blocks.

**Operating Agreements** — Operating agreements transfer **no interest in a lease**, but merely establish the mechanics that describe the duties of the designated operator of the lease or leases and provide for planning of well locations and payment of pro-rata costs based upon percentage of participation in the lease or leases. The authority of the operator, and restrictions thereon, are spelled out in detail in the typical agreement. These do not require a filing with the MMS.

**Operating Right** — A leasehold interest that entitles the holder to conduct drilling and related operations. The mineral interest minus the royalty interest. An interest in oil and gas or sulphur that is burdened with the cost of development and operation of the property. Operating rights, operating interest, and working interest are synonymous

Operating rights on Federal OCS leases are further restricted by MMS by requiring that a specific beginning and ending depth be included in the description. If less than all of the lease, then the aliquot or X-Y description of the severed operating rights portion must be identified. Holders of operating rights are not a contractual party with the MMS, and cannot relinquish or terminate a lease.

**Operator** — The individual, partnership, corporation, or other business entity having control or management of operations on a leased area or a portion thereof. The operator may be a lessee, designated agent of the lessee, or holder of rights under an MMS-approved operating rights assignment.

**Outer Continental Shelf (OCS)** — The part of the continental shelf beyond the line that marks State ownership; that part of the offshore lands under Federal jurisdiction.

**Planning Area** — A subdivision of an offshore area used as the initial basis for considering blocks to be offered for lease in the Department of the Interior's offshore oil and gas leasing program.

**Platform** — An offshore structure built on pilings from which offshore wells are drilled, produced, or both.

**Plugging and Abandonment** — A collective term used to refer to the postlease obligation to plug all wells, remove all of the facilities, and trawl the bottom area to ensure removal of any debris deposited there during exploration and development activities.

**Primary Term** — For MMS leases, the period of time, typically 5, 8, or 10 years, during which a lease may be kept alive even though there is no exploration or development, by the payment of an annual rental fee.

**Primary DSO** — An MMS administrative option used primarily for an Eastern Gulf of Mexico lease that suspends the requirement for payment of the 4/5<sup>th</sup> bonus bid and the annual rental payments. This administrative option is used for leases located in an area where exploration and development periods are controlled by an agreement between the Department of Defense and MMS. The purpose of this option is to delay any payments and the issuance of a lease until the lessee will actually have a time period during which exploration and develop can be performed.

**Production** — The act or process of producing oil, gas, condensate or sulphur in quantities sufficient to yield a return in excess of operating cost, even though drilling and equipment cost may never be repaid, and the undertaking considered as a whole may ultimately result in a financial loss.

**Qualified Bids** — The bids on a tract that are legal bids and not anomalous.

**Qualified Bidder** — A bidding entity or person who has met the appropriate requirements of 30 CFR 256, Subpart G, and of the notice of sale.

**Record Title** — Ownership in a lease as a party in the contractual lease document with the MMS. Includes the right to explore for and develop oil, gas, or sulphur resources, as well as responsibilities for all lease liabilities created or established during tenure of ownership, and the right to relinquish the lease.

**Reject** — An administrative term used in lease sale computer reports to account for and identify a bid submitted at a lease sale that is determined not to be adequate.

**Relinquishment** — A statement filed with MMS by the lessee (Record Title Owner), indicating his release of all rights, title, and interest in a specific lease or a portion of a lease. In cases of multiple record title owners, all owners of record must file a relinquishment before the filing becomes effective.

**Rental** — A payment established in the lease agreement and made to the lessor every year there is no royalty payment from production. The MMS does not place a lease back on annual rental status once production has begun, even though production has stopped and the lease is still in primary term. In such cases, the lessee pays minimum royalty, which for MMS is calculated at the same rate as the rental.

**Reserves** — A discovered resource. That portion (in barrels or cubic feet) of an identified oil or gas resource that can be economically extracted using current technology.

**Reservoir** — A subsurface, porous, permeable rock body in which oil or gas or both are stored.

**Revised Arithmetic Average Measure (RAM)** — The arithmetic average of the MROV and all qualified bids on the tract that are equal to at least 25 percent of the high bid.

**Rig** — The derrick, draw works, and attendant surface equipment of a drilling or workover unit.

**Right-of-Use and Easement (RUE)** — For the OCS, a right-of-use and easement usually refers to the authorization by MMS to a lessee for the construction and maintenance of a platform or other structure on an OCS site not subject to the lessee's lease.

**Right-of-way (ROW)** — For the OCS, a right-of-way usually refers to a grant by MMS for the construction and maintenance of a pipeline and associated structures on the OCS.

**Royalty** — A share of the minerals produced from a lease; a percentage of production either in money or in kind that a Federal lease is required to pay.

**Section 6 Lease** — An oil and gas lease originally issued by any State and currently maintained in effect pursuant to section 6 of the Outer Continental Shelf Lands Act (43 U.S.C. 1335). See 43 CFR 3307 (1978).

**Section 8 Lease** — An oil and gas lease issued by the United States pursuant to section 8 of the Outer Continental Shelf Lands Act (43 U.S.C. 1337).

**Segregated Lease** — A lease created when the record title in a portion of a lease becomes owned by an entirely different entity(s) with no commonality. The lease created in this manner will receive a new lease number. However, the determination of which lease keeps the original lease number is at the option of the MMS Office of Field Operations, after a review of the MMS corporate database for historic production with associated data records.



**Shut-in** — To close the valves on a well classified as a producer. However, the well may be awaiting a workover or abandonment because of its condition.

**Stipulation** — A specific measure imposed upon a lessee that applies to a lease. Stipulations are attached as a provision of a lease; they may apply to some or all blocks in a sale. For example, a stipulation might limit drilling to a certain time of the year.

**Sundry Notice** — A form used by a lessee for requesting approval from MMS for specific work on a well, such as cleaning out sand or treating with acid to increase production.

**Suspension of Operations or Production (SOO or SOP)** — An authorized temporary cessation or prohibition of activities on a leasehold. As of the effective date of a suspension, time on a lease stops for the life of the suspension, thus having the effect of extending the term of a lease for a period of time equal to the length of time of the suspension.

**Termination** — End of all rights under a lease for the removal of oil or gas caused by a cessation of leaseholding activities (production, drilling, or well workover), for a period of more than 180 days on a lease that is beyond its primary term.

**Unitization** — A process by which two or more leases are joined together through an agreement to act as one. For example, leases may be unitized for the efficient development and production of a reservoir that lies beneath more than one lease.

**Workover** — Operations on a shut-in or producing well to restore or increase production. A typical workover is cleaning out a well that has sanded up. Tubing is pulled, the casing and bottom of the hole is washed out with mud, and (in some cases) explosives set off in the hole to dislodge silt and sand.

**Viable Tract/Prospect** — A tract or prospect having a resource level (obtained by using most probable inputs from ranges of values for appropriate parameters) that exceeds the minimum economic field size for that particular cost regime.

**Wildcat Tract** — A tract which has neither nearby productive (past or currently capable) wells, nor is interpreted to have a productive reservoir extending under the tract. The tract has a high risk in addition to sparse well control.

**Workover** — Operations on a shut-in or producing well to restore or increase its production.

# **EXHIBITS**

STATEMENT OF CITIZENSHIP

I, the undersigned, Ernest H. Cockrell, do hereby certify that I am a citizen of the United States of America.

\_\_\_\_\_  
Ernest H. Cockrell

DATE: January 21, 1993

CERTIFICATE OF SECRETARY  
OF  
STAR PETROLEUM CORPORATION

I, John J. Smith, Secretary of Star Petroleum Corporation, a Delaware corporation, do hereby certify that Star Petroleum Corporation is incorporated under the laws of the State of Delaware and that it is authorized to hold mineral leases and/or rights-of-way on the Outer Continental Shelf.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation, this 15th day of January, 1991.

/s/ John J. Smith  
Secretary

CORPORATE SEAL

INCUMBENCY CERTIFICATE

The undersigned, Jerry P. Smith, Secretary of Star Petroleum Corporation, a Delaware corporation, does hereby certify that the following named persons are presently serving said Corporation in the capacities set opposite their respective names and have been serving in such capacities since July 1, 1990:

<u>NAME</u>	<u>TITLE</u>
George J. O'Neill	President
Brian S. Hutchinson	Vice President
Larry R. Ramond	Vice President
Jay C. Franks	Vice President
Jerry P. Smith	Secretary
Virginia Crosby	Assistant Secretary

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of said Corporation this 30th day of September, 1990.

/s/ Jerry P. Smith  
Secretary

CORPORATE SEAL

CERTIFICATE

The undersigned hereby certified that he is Secretary of Star Petroleum Corporation, a Delaware corporation (the "Company"), that the following is a true and correct copy of a resolution duly adopted by the Board of Directors of the Company on July 23, 1990, and that said resolution has not been amended or rescinded and at this date is in full force and effect:

RESOLVED, that the President or any Vice President of the Company is hereby individually empowered on behalf of the Company, in any matter relating to the acquisition of leases and/or rights-of-way on Federal lands or of other rights under the supervision of Federal authority, to agree upon the terms of and to execute and deliver any instrument or agreement, including any application, bid, lease, bond, assignment, designation of operator, relinquishment, amendment, abandonment, power of attorney (including the revocation thereof), and any other paper.

IN WITNESS WHEREOF, I have hereunto subscribed my name and  
affixed the seal of the Company this 26th day of July, 1991.

/s/ John J. Smith  
Secretary

CORPORATE SEAL

MINERALS RESOURCE CORPORATION

CERTIFICATE

The undersigned hereby certifies that she is the duly elected, qualified and acting Assistant Secretary of Minerals Resources Corporation, a Delaware corporation (the "Company"), Managing General Partner of MRC Partnership, and that annexed hereto is a true and correct copy of a certificate of Limited Partnership and amendments thereto as well as an Agreement of Limited Partnership for MRC Partnership.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of the Company as of the 31st day of January, 1983.

/s/ Krystal G. Hopson  
Krystal G. Hopson  
Assistant Secretary

CORPORATE SEAL

NOTE: IF THIS DOCUMENT WAS FILED IN THE OFFICE OF THE SECRETARY OF STATE WHEREIN THE PARTNERSHIP WAS ORGANIZED, THE CERTIFICATE OR LETTER OF FILING FROM THE OFFICE OF THE SECRETARY OF STATE EVIDENCING SUCH FILING MUST BE ATTACHED HERETO.

CERTIFICATE OF LIMITED PARTNERSHIP

MRC PARTNERSHIP

(Series of Texas Limited Partnerships)



NOTE: IF THIS DOCUMENT WAS FILED IN THE OFFICE OF THE SECRETARY OF STATE WHEREIN THE PARTNERSHIP WAS ORGANIZED, THE CERTIFICATE OR LETTER OF FILING FROM THE OFFICE OF THE SECRETARY OF STATE EVIDENCING SUCH FILING MUST BE ATTACHED HERETO.

AGREEMENT OF LIMITED PARTNERSHIP

MRC PARTNERSHIP

(Series of Texas Limited Partnerships)

C E R T I F I C A T E

I, Blair Walston, Secretary of Minerals Resources Corporation, a Delaware corporation, Managing General Partner of MRC Partnership, is organized under the laws of the State of Mississippi, and is authorized to hold mineral leases on the Outer Continental Shelf.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 31st day of January, 1984.

/s/ Blair Walston  
Blair Walston  
Secretary

CORPORATE SEAL

C E R T I F I C A T E

I, Blair Walston, Secretary of Minerals Resources Corporation, a Delaware corporation, Managing General Partner of MRC Partnership, do hereby certify that Minerals Resources Corporation is incorporated under the laws of the State of Delaware and that it is authorized to hold mineral leases on the Outer Continental Shelf.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 31st day of January, 1984.

/s/ Blair Walston  
Blair Walston  
Secretary

CORPORATE SEAL

C E R T I F I C A T E

I, Harry Johns, Assistant Secretary of Resources Corporation, a Texas corporation, a General Partner in the MRC Partnership, do hereby certify that Resources, Inc. is incorporated under the laws of the State of Texas and that it is authorized to hold mineral leases on the Outer Continental Shelf.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 30th day of January, 1984.

/s/ Harry Johns  
Harry Johns  
Assistant Secretary

CORPORATE SEAL

C E R T I F I C A T E

I, John D. Warren, Secretary of The Minerals Company, a Louisiana corporation, a Limited Partner in the MRC Partnership, do hereby certify that The Minerals Company is incorporated under the laws of the State of Louisiana and that it is authorized to hold mineral leases on the Outer Continental Shelf.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 1st day of February, 1984.

/s/ John D. Warren  
John D. Warren

CORPORATE SEAL

C E R T I F I C A T E

The undersigned, Assistant Secretary of Minerals Resources Corporation, a Delaware corporation, General Partner of MRC Partnership, does hereby certify that the attached is a true and correct listing of the limited partners in said limited partnership and that all of same are citizens of the United States of America.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 31st day of January, 1984.

\_\_\_\_\_  
/s/ Krystal G. Hopson  
Assistant Secretary

CORPORATE SEAL

INDIVIDUAL LIMITED PARTNERS

IN

MRC PARTNERSHIP

J. M. Arata	Lillian B. Louellen
C. L. Boyce	M. M. Moses
A. C. Clair	Abby Nostrum
A. M. Dennison	Elizabeth Peoples
K. L. Fox	George Orwell
H. E. Gustavson	Thomas Victory
Agnes Hill	Grady Wilson
Warren Ingerson	E. V. Young
G. O. Jefferson	Homer Zawalski
Margery Kennedy	Edna Zawoski

C E R T I F I C A T E

The undersigned hereby certifies that he is Secretary of Minerals Resources Corporation, a Delaware corporation (the Company"), Managing General Partner of MRC Partnership, that the following is a true and correct copy of a Resolution adopted by the Board of Directors of the Company by Unanimous Written Consent dated September 1, 1983, and that said resolution has not been amended or rescinded and at this date is in full force and effect.

RESOLVED, that the President and each Vice President of the Company is hereby empowered on behalf of the Company MRC Partnership, in any matter relating to Federal lands or minerals or other rights under the supervision of Federal authority to agree upon the terms of and to execute and deliver any instrument or agreement, including any application, bid, lease, bond, assignment, relinquishment, or other paper.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 1st day of February, 1984.

/s/ Blair Walston  
Blair Walston  
Secretary

CORPORATE SEAL



MINERALS RESOURCES CORPORATION

INCUMBENCY CERTIFICATE

I, Krystal G. Hopson, Assistant Secretary of Minerals Resources Corporation, a Delaware corporation (the "Company"), Managing General Partner of MRC Partnership, do hereby certify that the following named persons now are, and at all times subsequent to September 1, 1983, have been duly elected or appointed, qualified and acting officers of the Company, holding the offices set forth after their respective names as follows:

NAMES

OFFICE

James Carter	President and Secretary
Scott Joplin	Executive Vice President
Richard Chambers	Executive Vice President
Robert Donato	Senior Vice President
Walton Hart	Treasurer
Bennett Augst	Senior Vice President
Earl Amdie	Senior Vice President
Monte Halston	Senior Vice President
Richard Smith	Senior Vice President
Deal Lawrence	Vice President
Robert English	Vice President
Stephen Kiley	Vice President
Steven Ford	Vice President

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of the Company as of the 1st day of September, 1983.

/s/ Krystal G. Hopson  
Krystal G. Hopson  
Assistant Secretary

CORPORATE SEAL

MINERALS RESOURCES CORPORATION  
CERTIFICATE

The undersigned hereby certifies that she is duly elected, qualified and acting Assistant Secretary of Minerals Resources Corporation, a Delaware corporation (the "Company"), Managing General Partner of MRC Partnership, and that annexed hereto is a true and correct copy of a Certificate of Partnership and amendments thereto, as well as an Agreement of Partnership of MRC Partnership.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of the Company as of 31st day of January, 1983.

/s/ Krystal G. Hopson  
Krystal G. Hopson  
Assistant Secretary

CORPORATE SEAL

CERTIFICATE OF PARTNERSHIP  
OF  
MRC PARTNERSHIP  
  
(a Mississippi General Partnership)

AGREEMENT OF PARTNERSHIP

OF

MRC PARTNERSHIP

(a Mississippi General Partnership)

C E R T I F I C A T E

I, Blair Walston, Secretary of Minerals Resources Corporation, a Delaware corporation, Managing General Partner of MRC Partnership, do hereby certify that MRC Partnership is organized under the laws of the State of Mississippi, and is authorized to hold mineral leases on the Outer Continental Shelf.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 31st day of January, 1984.

/s/ Blair Walston  
Blair Walston  
Secretary

CORPORATE SEAL

C E R T I F I C A T E

I, Blair Walston, Secretary of Minerals Resources Corporation, a Delaware corporation, Managing General Partner of MRC Partnership, do hereby certify that Minerals Resources Corporation is incorporated under the laws of the State of Delaware and that it is authorized to hold mineral leases on the Outer Continental Shelf.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 31st day of January, 1984.

/s/ Blair Walston  
Blair Walston  
Secretary

CORPORATE SEAL

CERTIFICATE

I, Harry Johns, Assistant Secretary of Resources Incorporated, a Texas corporation, a General Partner in the MRC Partnership, do hereby certify that Resources Incorporated is incorporated under the laws of the State of Texas and that it is authorized to hold mineral leases on the Outer Continental Shelf.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 30th day of January, 1984.

/s/ Harry Johns  
Harry Johns  
Assistant Secretary

CORPORATE SEAL

C E R T I F I C A T E

The undersigned hereby certifies that he is Secretary of Minerals Resources Corporation, a Delaware corporation (the "Company"), Managing General Partner of MRC Partnership, that the following is a true and correct copy of a Resolution adopted by the Board of Directors of the Company by Unanimous Written Consent dated September 1, 1983, and that said resolution has not been amended or rescinded and at this date is in full force and effect.

RESOLVED, that the President and each Vice President of the Company is hereby empowered on behalf of the Company and MRC Partnership, in any matter relating to Federal lands or minerals or other rights under the supervision of Federal authority to agree upon the terms of and to execute and deliver any instrument or agreement, including any application, bid, lease, bond, assignment, relinquishment, or other paper.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of the Company as of this 1st day of February, 1984.

/s/ Blair Walston  
Blair Walston  
Secretary

CORPORATE SEAL



MINERALS RESOURCES CORPORATION  
INCUMBENCY CERTIFICATE

I, Krystal G. Hopson, Assistant Secretary of Minerals Resources Corporation, a Delaware corporation (the "Company"), Managing General Partner of MRC Partnership, do hereby certify that the following named persons now are, and at all times subsequent to September 1, 1983, have been duly elected or appointed, qualified, and acting officers of the Company, holding the offices set forth after their respective names as follows:

<u>NAMES</u>	<u>OFFICE</u>
James Carter	President and Secretary
Scott Joplin	Executive Vice President
Richard Chambers	Executive Vice President
Robert Donato	Senior Vice President
Walton Hart	Treasurer
Bennett Augst	Senior Vice President
Earl Amedie	Senior Vice President
Monte Halston	Senior Vice President
Richard Smith	Senior Vice President
Deal Lawrence	Vice President
Robert English	Vice President
Stephen Kiley	Vice President
Steven Ford	Vice President

IN WITNESS WHEREOF, I have executed this Certificate and affixed the seal of the Company as of this 1st day of September, 1983.

/s/ Krystal G. Hopson  
Krystal G. Hopson  
Assistant Secretary

CORPORATE SEAL

BUCKEYE ENERGY, INC.

CERTIFICATE

The undersigned hereby certifies that he is the duly elected, qualified, and acting Assistant Secretary of Buckeye Energy, Inc., a Colorado corporation (the "Company") and member of MidAmerican Petroleum, a Ltd. Liability Co., and that annexed hereto is a true and correct copy of the Articles of Organization and amendments thereto as well as the Operating Agreement of MidAmerican Petroleum, a Ltd. Liability Co.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of the Company as of the 16th day of February, 1993.

---

Andrew D. Nichols  
Assistant Secretary of  
Buckeye Energy, Inc.,  
a member of MidAmerican Petroleum,  
a Ltd. Liability Co.

CORPORATE SEAL

BUCKEYE ENERGY, INC.

CERTIFICATE

The undersigned hereby certifies that he is the duly elected, qualified and acting Assistant Secretary of SANO Partners, Inc., a Colorado corporation (the "Company") and member of MidAmerican Petroleum, a Ltd. Liability Co., and that annexed hereto is a true and correct copy of the Articles of Organization and amendments thereto as well as the Operating Agreement of MidAmerican Petroleum, a Ltd. Liability Co.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of the Company as of the 16th day of February, 1993.

---

Matthew R. Kramer  
Assistant Secretary of  
SANO Partners, Inc., a  
member of MidAmerican Petroleum,  
a Ltd. Liability Co.

CORPORATE SEAL



STATE OF COLORADO

DEPARTMENT OF  
STATE

CERTIFICATE

I, *NATALIE MEYER*, Secretary of State of the State of  
Colorado hereby certify that

According to the records of this office

*MidAmerican Petroleum, a Ltd. Liability Co.*  
(COLORADO LIMITED LIABILITY COMPANY)

has complied with the applicable provisions of the laws of  
the State of Colorado and on this date is in good standing  
and authorized and competent to transact business or to  
conduct its affairs within this state.

Dated: JULY 24, 1992

SECRETARY OF STATE

MAIL TO:  
Colorado Secretary of State  
Corporation Office  
1560 Broadway, Suite 200  
Denver, Colorado 80202  
(303) 894-2200

ARTICLES OF ORGANIZATION

I/We the undersigned natural person(s) of the age of eighteen years or more, acting as organizer(s) of a limited liability company under the Colorado Limited Liability Company Act, adopt the following Articles of Organization for such limited liability company:

FIRST: The name of the limited liability company is Buckeye Energy, Inc., a Ltd. Liability Co.

SECOND: The period of duration is 50 years. (Not to exceed 30)

THIRD: The limited liability company is organized for Any Legal and Lawful Purpose Pursuant to the Colorado Limited Liability Company Act. A more specific purpose may be stated: \_\_\_\_\_

FOURTH: The street address of the initial registered office of the limited liability company is

820 10th Street, Suite 1500, Denver, CO 80202

and the mailing address (if different from above) of the initial registered office of the limited liability company is

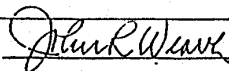
and the name of its proposed registered agent in Colorado at that address is John R. Weaver

FIFTH: The names and business addresses of the initial manager or managers are:

NAME	ADDRESS (include zip code)
<u>John R. Weaver</u>	<u>820 10th Street, Suite 1500, Denver, Co 80202</u>
<u>Jerome A. Smith</u>	<u>820 10th Street, Suite 1500, Denver, CO 80202</u>
<u>John L. Jones</u>	<u>820 10th Street, Suite 1500, Denver, CO 80202</u>

SIXTH: The name and address of each organizer is:

NAME	ADDRESS (include zip code)
<u>John R. Weaver</u>	<u>820 10th Street, Suite 1500, Denver, CO 80202</u>

Signed 

Signed \_\_\_\_\_

MIDAMERICAN PETROLEUM,  
A LTD. LIABILITY CO.

OPERATING AGREEMENT

This Operating Agreement (the "Agreement") is made and entered into as of this 1st day of May, 1992, by and among the parties listed as Members on Exhibit A attached, who hereby agree to the following provisions regarding the operations of MidAmerican Petroleum, a Ltd. Liability Co. (the "LLC"), pursuant to the provisions of the Colorado Limited Liability Company Act. The Parties Listed on Exhibit A are referred to each individually as a "Member" and collectively as the "Members".

---

ARTICLE I

Name, Purpose, Place of Business and Fiscal Year

---

1.1 LLC Name. The name of the LLC is MidAmerican Petroleum, a Ltd. Liability Co. The business of the LLC shall be conducted under the LLC name.

1.2 LLC Purpose. The purpose of the LLC is to engage in any business which, in partnership with limited partners, may lawfully be conducted under the laws of the State of Colorado.

1.3 Principal Place of Business. The principal place of business of the LLC shall be 820 10th Street, #1500, Denver, Colorado, 80202 or such other place as the Board of Managers may from time to time designate.

1.4 Fiscal Year. The LLC's fiscal year shall be the calendar year.

1.5 Registered Agent and Office. The name of the registered agent for service of process of the LLC is John R. Weaver and the address of such registered agent is the principal place of business of the LLC as indicated in Section 1.3 above. The Board of Managers of the LLC may, from time to time, designate another agent or office.

C E R T I F I C A T E

I, Andrew D. Nichols, Assistant Secretary of Buckeye Energy, Inc., a Colorado corporation and member of MidAmerican Petroleum, a Ltd. Liability Co., do hereby certify that MidAmerican Petroleum, a Ltd. Liability Co. is organized under the laws of the State of Colorado, and is authorized to hold mineral leases on the Outer Continental Shelf.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 16th day of February, 1993.

---

Andrew D. Nichols  
Assistant Secretary of  
Buckeye Energy, Inc., a  
member of MidAmerican Petroleum,  
a Ltd. Liability Co.

CORPORATE SEAL

C E R T I F I C A T E

I, Matthew R. Kramer, Assistant Secretary of SANO Partners, Inc., a Colorado corporation and member of MidAmerican Petroleum, a Ltd. Liability Co., do hereby certify that MidAmerican Petroleum, a Ltd. Liability Co. is organized under the laws of the State of Colorado, and is authorized to hold mineral leases on the Outer Continental Shelf.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 16th day of February, 1993.

---

Matthew R. Kramer  
Assistant Secretary of  
SANO Partners, Inc., a  
member of MidAmerican Petroleum,  
a Ltd. Liability Co.

CORPORATE SEAL



C E R T I F I C A T E

I, Andrew D. Nichols, Assistant Secretary of Buckeye Energy, Inc., a Colorado corporation (and member of MidAmerican Petroleum, a Ltd. Liability Co.), do hereby certify that Buckeye Energy, Inc. is incorporated under the laws of the State of Colorado, and is authorized to hold mineral leases on the Outer Continental Shelf.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 16th day of February, 1993.

---

Andrew D. Nichols  
Assistant Secretary of  
Buckeye Energy, Inc., a  
member of MidAmerican Petroleum,  
a Ltd. Liability Co.

CORPORATE SEAL

C E R T I F I C A T E

I, Matthew R. Kramer, Assistant Secretary of SANO Partners, Inc., a Colorado corporation (and member of MidAmerican Petroleum, a Ltd. Liability Co.), do hereby certify that SANO Partners, Inc. is incorporated under the laws of the State of Colorado, and is authorized to hold mineral leases on the Outer Continental Shelf.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 16th day of February, 1993.

---

Matthew R. Kramer  
Assistant Secretary of  
SANO Partners, Inc., a  
member of MidAmerican Petroleum,  
a Ltd. Liability Co.

CORPORATE SEAL

CERTIFICATE OF UNANIMOUS WRITTEN CONSENT  
OF MIDAMERICAN PETROLEUM, A LTD. LIABILITY CO.

The undersigned, being all of the members of MidAmerican Petroleum, a Ltd. Liability Co., do hereby, effective as of May 1, 1992, adopt the following resolution:

RESOLVED, that John L. Jones, General Manager of MidAmerican Petroleum, a Ltd. Liability Co., (the "Company"), is hereby empowered on behalf of the company, in any matter relating to Federal lands or minerals or other rights under the supervision of Federal authority to agree upon the terms of and to execute and deliver any instrument or agreement pertaining to oil and gas leases and pipeline rights-of-way, including any application, bid, lease, bond, assignment, relinquishment, or other paper, including the issuing or revoking of Powers of Attorney.

Buckeye Energy, Inc.

CORPORATE SEAL

\_\_\_\_\_  
By: John L. Jones, Vice President

SANO Partners, Inc.

CORPORATE SEAL

\_\_\_\_\_  
By: Jerome A. Smith, President

MIDAMERICAN PETROLEUM, A LTD. LIABILITY CO.

INCUMBENCY CERTIFICATE

I, Andrew D. Nichols, Assistant Secretary of Buckeye Energy, Inc., a Colorado corporation and member of MidAmerican Petroleum, a Ltd. Liability Co. (the "Company"), do hereby certify that the following named persons are, and at all times subsequent to May 1, 1992, have been duly elected or appointed, qualified and acting officers of the Company, holding the offices set forth after their respective name as follows:

<u>NAMES</u>	<u>OFFICE</u>
John L. Jones	General Manager
Jerome A. Smith	Manager
John R. Weaver	Manager

IN WITNESS WHEREOF, I have executed the Certificate and affixed the corporate seal of Buckeye Energy, Inc. as of this 16th day of February, 1993.

\_\_\_\_\_  
Andrew D. Nichols  
Assistant Secretary of  
Buckeye Energy, Inc., a  
member of MidAmerican Petroleum,  
a Ltd. Liability Co.

CORPORATE SEAL

MIDAMERICAN PETROLEUM, A LTD. LIABILITY CO.

INCUMBENCY CERTIFICATE

I, Andrew D. Nichols, Assistant Secretary of SANO Partners, Inc., a Colorado corporation and member of MidAmerican Petroleum, a Ltd. Liability Co. (the "Company"), do hereby certify that the following named persons now are, and at all times subsequent to May 1, 1992, have been duly elected or appointed, qualified and acting officers of the Company, holding the offices set forth after their respective name as follows:

<u>NAMES</u>	<u>OFFICE</u>
John L. Jones	General manager
Jerome A. Smith	Manager
John R. Weaver	Manager

IN WITNESS WHEREOF, I have executed this Certificate and affixed the corporate seal of SANO Partners, Inc. as of this 16th day of February, 1993.

\_\_\_\_\_  
Matthew R. Kramer  
Assistant Secretary of  
SANO Partners, Inc., a  
member of MidAmerican Petroleum,  
a Ltd. Liability Co.

CORPORATE SEAL

C E R T I F I C A T E

The undersigned, Assistant Secretary of Buckeye Energy, Inc., a Colorado corporation and member of MidAmerican Petroleum, a Ltd. Liability Co., does hereby certify that the attached is a true and correct listing of all members of said limited liability company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of Buckeye Energy, Inc. as of the 16th day of February, 1993.

---

Andrew D. Nichols  
Assistant Secretary of  
Buckeye Energy, Inc., a  
member of MidAmerican Petroleum,  
a Ltd. Liability Co.

CORPORATE SEAL

C E R T I F I C A T E

The undersigned, Assistant Secretary of SANO Partners, Inc., a Colorado corporation and member of MidAmerican Petroleum, a Ltd. Liability Co., does hereby certify that the attached is a true and correct listing of all members of said limited liability company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of SANO Partners, Inc. as of the 16th day of February, 1993.

---

Matthew R. Kramer  
Assistant Secretary of  
SANO Partners, Inc., a  
member of MidAmerican Petroleum,  
a Ltd. Liability Co.

CORPORATE SEAL

MIDAMERICAN PETROLEUM,  
A LTD. LIABILITY CO.

The following constitutes a complete listing of the members of MidAmerican Petroleum, a Ltd. Liability Co.:

Buckeye Energy, Inc.  
820 10th Street, Suite 1500  
Denver, CO 80202

SANO Partners, Inc.  
820 10th Street, Suite 1500  
Denver, CO 80202



**THE TRUST AGREEMENT HAS BEEN PURPOSELY OMITTED  
FROM THIS DOCUMENT BECAUSE OF ITS LENGTH.**

**PLEASE CALL OUR OFFICE FOR AN EXAMPLE OF THIS DOCUMENT.**

CERTIFICATE

I, Sylvert Berg, Assistant Secretary of Lealand Oil Inc., a corporation organized and existing under the laws of the State of Delaware, do hereby certify that the attached document titled Certificate of Amendment of Certificate of Incorporation is a true and correct copy of the Certificate of Incorporation filed in the Secretary of State of the State of Delaware's office on November 1, 1989.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation as of the 15th day of November, 1989.

/s/ Sylvert Berg  
Assistant Secretary

CORPORATE SEAL

STATE OF DELAWARE

OFFICE OF SECRETARY OF STATE

I, GLENN C. KENTON, SECRETARY OF STATE OF THE STATE OF DELAWARE  
DO HEREBY CERTIFY THAT THE ATTACHED IS A TRUE AND CORRECT COPY OF THE  
CERTIFICATE OF AMENDMENT OF LEALAND OIL CORPORATION FILED IN THIS  
OFFICE ON THE FIRST DAY OF NOVEMBER A.D. 1989, AT 10:01 O'CLOCK A.M.

/s/ Glenn C. Kenton  
Secretary of State

AUTHENTICATION: 10100958

DATE: 11/1/89

CERTIFICATE OF AMENDMENT  
TO  
CERTIFICATE OF INCORPORATION

LEALAND OIL CORPORATION, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of said corporation, by consent signed November 1, 1989, adopted the following resolution:

"RESOLVED, that the Board of Directors hereby declares it advisable and in the best interest of the Company that Article First of the Certificate of Incorporation be amended to read as follows:

"First: The name of the corporation shall be Lealand Oil Inc. (hereinafter called the "Company")."

SECOND: That the said amendment has been consented to and authorized by the holder of all the issued and outstanding stock entitled to vote by written consent given in accordance with the provision of Section 228 of the General Corporation Law of the State of Delaware and filed with the Corporation on the 1st day of November.

THIRD: That the aforesaid amendment was duly adopted in accordance with the provision of Sections 141(f), 228 and 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, Lealand Oil Corporation has caused its corporate seal to be hereunto affixed and this certificate to be filed by Jerry W. Butler, its Vice President, and Ann Cliene, its Assistant Secretary, this 31st day of October 1989.

By /s/ Jerry W. Butler  
Vice President

CORPORATE SEAL

ATTEST: /s/ Ann Cliene  
Assistant Secretary

STATE OF ARKANSAS    )  
  )SS  
COUNTY OF UNION    )

BE IT REMEMBERED that on this 1st day of November, A.D., 1989, personally came before me Renee' Bryant, a Notary Public in and for the County and State aforesaid, Jerry W. Butler, Vice President of LEALAND OIL CORPORATION, a corporation of the State of Delaware, the corporation described in and which executed the foregoing certificate, known to me personally to be such, and he, the said Jerry W. Butler, as such Vice President, duly executed said certificate before me and acknowledged that said certificate to be his act and deed of said corporation; that the signatures of the said Vice President and Assistant Secretary of said corporation to the said foregoing certificate are in the handwriting of the said Vice President and Assistant Secretary of said Corporation respectively, and that the seal affixed to said certificate is the common or corporate seal of said corporation and that the facts stated in the foregoing certificate are true.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of office the day and year aforesaid.

/s/ Renee' Bryant  
Notary Public in and for  
Union County, Arkansas

CORPORATE SEAL

My Commission expires:

January 18, 1990

CERTIFICATE

The undersigned hereby certifies that he is Secretary of Lealand Oil Inc., a Delaware corporation (the "Company"), that the following is a true and correct copy of a resolution adopted by the Board of Directors of the Company by unanimous written consent dated April 29, 1988, and that said resolution has not been amended or rescinded and at this date is in full force and effect:

VOTED: The Chairman and President of the Company, and each of them acting singly, be and are hereby authorized and empowered, in the name and on behalf of the company, in any matter relating to Federal lands or minerals or other rights under the supervision of Federal authority, to agree upon the terms of and to execute and deliver, and the Company is hereby authorized to perform, any instrument or agreement, including any application, bid, lease, bond, assignment, relinquishment, or other paper.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of the Company this 29th day of April, 1988.

/s/ Jerry Butler  
Secretary

CORPORATE SEAL

STATE OF ARKANSAS

COUNTY OF UNION

STATEMENT OF LEALAND OIL INC.

The undersigned, Sylvert Berg, Assistant Secretary of Lealand Oil Inc., being first duly sworn on her oath, states that the following statement is correct to the best of her knowledge and behalf.

1. State of Incorporation. Lealand Oil Inc. is incorporated in the State of Delaware.
2. Authorization to hold oil and gas leases on OCS. Lealand Oil Inc. is authorized to hold oil and gas leases on the Outer Continental Shelf.

Dated this 15th day of November, 1989

Lealand Oil Inc.

CORPORATE SEAL

/s/ Sylvert Berg  
Assistant Secretary

SUBSCRIBED AND SWORN TO before me this 15th day of November, 1989.

/s/ Renee' Bryant  
Notary Public

My Commission Expires:

RENEE BRYANT, Notary Public  
Union County, Arkansas  
My commission expires Jan. 18, 1990



INCUMBENCY CERTIFICATE

I, Sylvert Bert, Assistant Secretary of Lealand Oil Inc., a Delaware corporation (the "Company"), do hereby certify that the following named persons now are, and have been duly elected or appointed, qualified and acting officers of the Company, holding the offices set forth after their respective names as follows:

<u>NAMES</u>	<u>OFFICE</u>
Charles Toups	Chairman of the Board
Robert Orre	President
Jack Frost	Executive Vice President
Jerry Butler	Vice President and Secretary
Charles Boyer	Vice President
John Glenn	Vice President
Paul Marten	Vice President
Michael Doyle	Vice President
Glenn Johnson	Vice President
George Kennedy	Controller
Donald Richardson	Treasurer
Ann ThierryAssistant	Secretary
Sylvert BergAssistant	Secretary

IN WITNESS WHEREOF, I have executed this Certificate and affixed the seal of the Company this 15th day of November, 1989.

/s/ Sylvert Berg  
Assistant Secretary

CORPORATE SEAL

UNITED STATES FIDELITY AND GUARANTY COMPANY

BALTIMORE, MARYLAND

(A Stock Insurance Company)

R I D E R

The UNITED STATES FIDELITY AND GUARANTY COMPANY, as Surety on Bond Number 40-124-224-84, issued effective the 15th day of January, 1978, on behalf of LEALAND OIL CORPORATION, as Principal, in favor of the UNITED STATES OF AMERICA hereby gives notice of the change in the name of said Principal to:

LEALAND OIL INC.

effective the 1st day of November, 1989 and agrees to remain liable under said bond as though so originally executed.

All other terms and conditions remain unchanged.

Signed, sealed, and dated this 1st day of November, 1989.

ATTEST:

LEALAND OIL INC.

Principal

/s/ Ann Thierry

Assistant Secretary

By /s/ Glenn Johnson

Vice President

CORPORATE SEAL

UNITED STATES FIDELITY AND  
GUARANTY COMPANY

SURETY'S SEAL

By /s/ Kathryn Clark

Attorney-in-Fact

Lealand Oil Inc.

List of Oil and Gas Leases with Record Title Ownership  
in the Gulf of Mexico OCS Region Affected by Name Change

<u>OCS-G NO.</u>	<u>OCS-G NO.</u>
1848	4698
2418	4728
2422	4730
2434	4731
2555	4735
2556	4740
2751	4741
2818	5002
3283	6099

List of Oil and Gas Leases with Operating Rights Ownership  
Only in the Gulf of Mexico OCS Region Affected by Name Change

OCS-G NO.

4978  
5664

List of Pipeline Rights-of-Way Record Title Ownership  
in the Gulf of Mexico OCS Region Affected by Name Change

OCS-G NO.

1306  
1306-A

List of Pipeline Rights-of-Way Operating Rights Ownership  
Only in the Gulf of Mexico OCS Region Affected by Name Change

OCS-G NO.

15036  
16775

PHILCO OIL COMPANY

CERTIFICATE

The undersigned, D. Coneck, Assistant Secretary of Philco Oil Company does hereby certify that:

1. Effective March 2, 1989, General Energy Oil Company, as authorized by its stockholders, merged into Philco Oil Company and the separate corporate existence ceased, with Philco Oil Company becoming the surviving corporation.

2. Attached hereto as Exhibit A is a true machine copy of the Certificate of Merger of General Energy Oil Company into Philco Oil Company, including the certificate of the Secretary of State of the State of Delaware, the state of incorporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation this 31st day of May 1989.

/s/ D. Coneck  
Assistant Secretary

I, Glenn C. Kenton, Secretary of State of the State of Delaware, do hereby certify that the attached is a true and correct copy of Certificate of Merger filed in this office on March 8, 1989.

/s/ Glenn C. Kenton

BY: /s/ B. Adams

DATE: March 30, 1989

CERTIFICATE OF MERGER  
OF  
GENERAL ENERGY OIL COMPANY  
INTO  
PHILCO OIL COMPANY

Under Section 251 of the General Corporation  
Law of the State of Delaware

Pursuant to Section 251(c) of the General Corporation Law of the State of Delaware, PHILCO OIL COMPANY, a Delaware corporation ("Philco"), hereby certifies the following information relating to the merger of GENERAL ENERGY OIL COMPANY, a Delaware corporation ("General Energy"), with and into Philco (the "Merger")

1. The names and states of incorporation of Philco and General Energy, which are the constituent corporations in the Merger (the "Constituent Corporations"), are:

<u>Name</u>	<u>State of Incorporation</u>
PHILCO OIL COMPANY.....	Delaware
GENERAL ENERGY OIL COMPANY.....	Delaware

2. The Agreement and Plan of Merger, dated as of February 11, 1989 (the Agreement of Merger"), between Philco and General Energy, setting forth the terms and conditions of the Merger, has been approved, adopted, certified, executed and acknowledged by each of the Constituent Corporations in accordance with the provisions of Section 251(c), of the General Corporation Law of the State of Delaware.

3. The name of the corporation surviving the Merger is "PHILCO OIL COMPANY."

4. The Certificate of Incorporation of Philco Oil Company, as in effect at the time of filing of this Certificate of Merger, shall be the Certificate of Incorporation of the surviving corporation of the Merger.

5. The executed Agreement of Merger is on file at the principal place of business of the surviving corporation of the Merger, which is located at 1122 Main Street, New Orleans, Louisiana, 70112.

6. A copy of the Agreement of Merger will be furnished by the surviving corporation of the Merger, on request and without cost, to any stockholder of either of the Constituent Corporations.

IN WITNESS WHEREOF, this Certificate of Merger has been executed on this 8th day of March 1989.

PHILCO OIL COMPANY

By /s/ Harry Small  
Vice President

CORPORATE SEAL

Attest:

/s/ Dale Johnson  
Assistant Secretary

CERTIFICATE OF ASSISTANT SECRETARY  
OF  
PHILCO OIL COMPANY

I, D. Coneck, Assistant Secretary of Philco Oil Company, a Delaware corporation, do hereby certify that Philco Oil Company is incorporated under the laws of the State of Delaware and that it is authorized to hold mineral leases and/or pipeline rights-of-way on the Outer Continental Shelf (OCS).

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said corporation, this 18th day of July 1989.

/s/ D. Coneck  
Assistant Secretary

CORPORATE SEAL



PHILCO OIL COMPANY  
INCUMBENCY CERTIFICATE

I, D. Coneck, the Assistant Secretary of Philco Oil Company, a Delaware corporation, do hereby certify that the following named persons now are, and/or have been duly elected, or appointed, qualified and acting officers of the Company holding the offices set forth after their respective name as follows:

<u>Name</u>	<u>Office</u>
M.L. Richards	President
M.B. Thomas	Executive Vice President
W.J. Jones	Senior Vice President
W.W. Done	Vice President
D.H. Power	Vice President and Controller
Walter Leroi	Vice President and Assistant General Tax Officer
G.C. Coe	Secretary
Peter O'Toole	General Tax Officer
C.B. Radie	Assistant Treasurer
Dale J. Johnson	Assistant Secretary
D. Coneck	Assistant Secretary
Jeannie Francis	Assistant General Tax Officer

IN WITNESS WHEREOF, I have executed this Certificate and affixed the seal of the Company this 18th day of July 1989.

/s/ D. Coneck \_\_\_\_\_  
Assistant Secretary

CORPORATE SEAL

CERTIFICATE

The undersigned hereby certifies that he is the Assistant Secretary of Philco Oil Company, a Delaware corporation (the "Company"), that the following is a true and correct copy of a resolution duly adopted by the Board of Directors of the Company on July 18, 1989, and that said resolution has not been amended or rescinded and that as of this date is in full force and effect:

RESOLVED, that the President and each Vice President of the Company is hereby individually empowered on behalf of the Company, in any matter relating to the acquisition of leases and/or rights-of-way on Federal lands or of other rights under the supervision of Federal authority, to agree upon the terms of and to execute and deliver any instrument or agreement, including any application, bid, lease, bond, assignment, relinquishment, abandonment, power of attorney (including the revocation thereof), and any other paper.

IN WITNESS WHEREOF, I have hereunto subscribed my name and  
affixed the seal of the Company this 26th day of July, 1989.

/s/ D. Coneck  
Assistant Secretary

CORPORATE SEAL

List of General Energy Oil Company  
Oil & Gas Leases affected by the merger:

<u>OCS-G NO.</u>	<u>OCS-G NO.</u>
1126	3464
2262	3878
2304	4112
2479	4113
2670	5698
2712	5883
3180	6206
3383	6207

Operating Rights Only

OCS-G NO.

5007

5008

6810

Pipeline Rights-of-Way

OCS-G NO.

1702

1702-E

2009

**PREFERRED BID FORM**

Regional Director  
Minerals Management Service, USDI  
Gulf of Mexico OCS Region  
1201 Elmwood Park Boulevard  
New Orleans, Louisiana 70123-2394

Oil and Gas Lease Sale \_\_\_\_\_  
Date of Sale: \_\_\_\_\_  
Company Submitting Bid: \_\_\_\_\_  
GOM Company Number: \_\_\_\_\_

Oil and Gas Lease Bid

The following bid is submitted for an oil and gas lease on the area and block of the Outer Continental Shelf specified below:

<u>Area Name</u>	<u>Block</u>	<u>Total Amount Bid</u>	<u>Amount Per Acre</u>	<u>Amount of Cash Bonus Submitted with Bid</u>
<u>West Cameron</u>	404	\$6,157,623	\$1,231.53	\$1,231,524.60
<u>West Addition</u>				

<u>GOM Company No.</u>	<u>Percent Interest</u>	<u>Company Name(s) and Signature(s)</u>
20999	33.33	Explorer LTD Box 1234567 Dime Box, Texas 12345  By: _____ I. W. In Vice President
21115	33.33	O&G Trans Box 54321 North Zuich, Texas 12345  By: _____ M. E. Too, II Attorney-In-Fact
20137	33.34	Ideas Galor 5 Swamp Boulevard New Orleans, Louisiana 12345  By: _____ I. Al So President

TOTAL: 100.00

**NOTES:**

1. Company name as on file with MMS, GOM Company Number, company address, and area/block number must appear on all bids. Company address is where official correspondence will be sent.
2. Staple check to the bid form.
3. Use large boldface type-style, such as Times Roman Bold — 12 pt.
4. Total Amount Bid must be in whole dollar figure.
5. Amount Per Acre is equal to Total Amount Bid divided by unleased block acreage (round up to next cent). This dollar amount is used during bid reading and immediate post-sale statistics to provide a reference basis. MMS recalculates the per acre amount for all official reports based on official protraction diagram or leasing map acreage.
6. Amount of Cash Bonus Submitted with Bid must not be less than 20% of Total Amount Bid.
7. Proportional Interest of joint bids must not exceed 5 decimal places; total must always equal 100%. There is no limit to the number of joint bidders that may participate.
8. Type Signer's name under signature; each joint bidder must sign.

**Bidder's Envelope — Example of Preferred Format**

**Ideas Galor — GOM Company Number 20137**

***West Cameron Area, South Addition***

***Block 404***

**SEALED BID FOR OIL AND GAS LEASE SALE \_\_\_\_\_**  
**NOT TO BE OPENED UNTIL 9:00 A.M. C.S.T., \_\_\_\_\_,**  
**(month, day, year)**

- 1. Use standard size envelopes not to exceed 4-1/2" x 10-1/2" when submitting bids.**
- 2. Use large boldface type, such as Times Roman Bold — 12 pt.**

United States Department of the Interior  
Minerals Management Service  
Gulf of Mexico OCS Region  
Adjudication Unit (MS 5421)  
1201 Elmwood Park Boulevard  
New Orleans, Louisiana 70123-2394  
(504) 736-2436

The following information is provided relative to bids submitted for OCS Lease Sale Number \_\_\_\_\_:

Name of Company Submitting Bid(s): \_\_\_\_\_

MMS GOM Company Number: \_\_\_\_\_ Tax Identification Number: \_\_\_\_\_

General Contact Person: \_\_\_\_\_  
(Individual) (Area Code - Phone Number(s))

*I. Items available at the sale site (e.g. high bid EFT confirmation reports) will be picked up by:*

\_\_\_\_\_  
(Individual) (Area Code - Phone Number(s))

*II. Items to be FED EX'ed by MMS (e.g. leases) must be sent to:*

\_\_\_\_\_  
(Individual) (Area Code - Phone Number(s))

\_\_\_\_\_  
(Street Address) (City/State/Zip)

*III. Items to be FAX'ed by MMS (e.g. high bid acceptance notifications) must be sent to:*

\_\_\_\_\_  
(Individual) (FAX Area Code - Phone Number(s))

*IV. EFT payments to MMS will be coordinated by:*

\_\_\_\_\_  
(Primary Individual) (Area Code - Phone Number(s))

\_\_\_\_\_  
(Alternate Individual) (Area Code - Phone Number(s))

*V. EFT refunds from MMS will be made to:*

\_\_\_\_\_  
(Name of Receiving Financial Organization) (Recipient Account Number at Receiving Financial Organization)

\_\_\_\_\_  
(City and State of Receiving Financial Organization) (Recipient Name in which Account is Maintained)

\_\_\_\_\_  
(Nine-digit American Bankers Association Routing Number)

**NOTE:** The receiving financial organization must be a U.S. Corporation.

**NOTE:** PLEASE PROVIDE THIS COMPLETED FORM TO MMS PRIOR TO OR AT THE TIME OF BID SUBMISSION. DO NOT ENCLOSE IT INSIDE A SEALED BID ENVELOPE.

# Postsale Evaluation Procedures

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