



The Leasing Program

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MMS



Regulatory Authority

Outer Continental Shelf (OCS) Lands Act of 1953

- the “enabling” legislation
- grants responsibility for issuance, maintenance, and regulation of offshore leasing to U.S. Department of the Interior
- regulatory functions delegated to MMS in 1982



Regulatory Authority

Code of Federal Regulations

- the “implementing regulations” issued by MMS pursuant to the OCS Lands Act
- governs all leasing and operations offshore
- supplemented by “Notices to Lessees and Operators” which describe how to comply with the MMS regulations

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Regulatory Authority

Other Laws, Rules and Regulations play a part

- as many as 50 other Federal statutes apply to the OCS
- some impose responsibilities on MMS, others on Operators, some on both MMS and Operator
- NEPA, CZMA, ESA, MMPA, Clean Air Act, Clean Water Act, Deepwater Ports Act, National Historic Preservation Act



MMS OCS Leasing Program

Program is two-tiered:

- **Five-Year Program Planning**
- **Individual Lease Sale Planning and Execution**

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5-Year OCS Leasing Program

- **OCS Lands Act of 1953** requires the Secretary of DOI to prepare and maintain a schedule of proposed sales determined to “best meet national energy needs for the 5-year period.”
- **balances safety and environmental considerations**
- **determines size, timing, and location of sales**
- **requires public comment and Environmental Impact Statement (EIS) to assess the environmental impacts of the proposed program as required by National Environmental Policy Act (NEPA).**

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5-Year OCS Leasing Program

Location and size of lease sales are determined by configuration of 26 OCS “planning areas”

Three planning areas in GOM: Western, Central and Eastern, each divided into smaller named areas (e.g. “Galveston”)

Each named area is divided into blocks comprising approximately 5,000 acres (~ 9 square miles)

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5-Year OCS Leasing Program

2007-2012 Gulf of Mexico lease offerings

➤ **annual areawide sales in Central and Western GOM**

- March sales in Central Gulf

- August sales in Western Gulf

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5-Year OCS Leasing Program

Remaining Sales in 2007-2012 Program

<u>Sale Location and Number</u>	<u>Sale Year</u>
Western GOM Sale 210	2009
Central GOM Sale 213	2010
Western GOM Sale 215	2010
Central GOM Sale 216	2011
Western GOM Sale 218	2011
Mid-Atlantic Sale 220*	2011
Central GOM Sale 222	2012

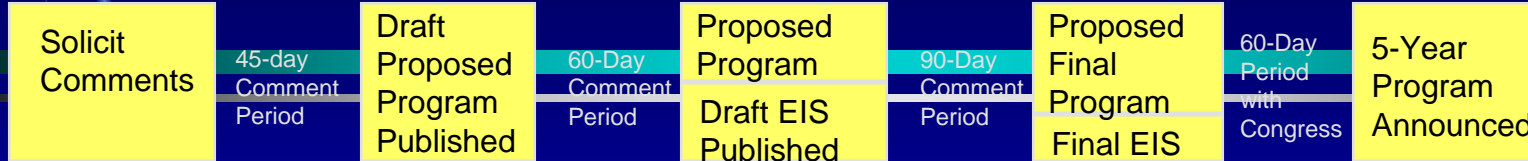
*dependent on removal of Presidential withdrawal and Congressional Moratorium discontinued

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Leasing, Exploration, & Development Process

Pre-lease

Develop 5-Year Program

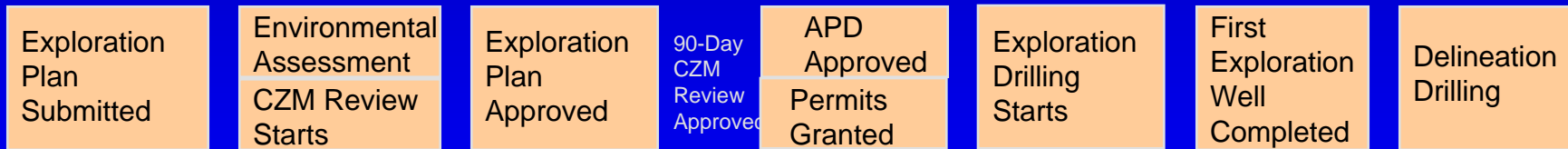


Planning for Specific Sale

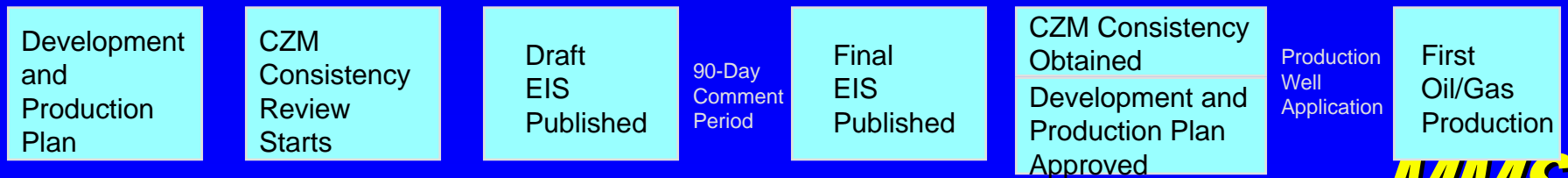


Post Lease

Exploration Plan Approval



Development & Production Plan Approval



Abbreviations: ADP, Application for Permit to Drill; CD, Consistency Determination; CZM, Coastal Zone Management; EIS, Environmental Impact Statement





Individual Lease Sale Process

Call for Information and Nominations

Area Identification

Proposed Notice of Sale

Final Notice of Sale

Lease Sale

Post-Lease Sale Reviews

Lease Award

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Call for Information and Nominations and Notice of Intent to Prepare an Environmental Impact Statement

- published in *Federal Register*
- requests indications of interest in areas for mineral leasing and items to consider in EIS
- nominations not so important in GOM because of “areawide lease sales,” where all unleased blocks in a planning area or program area are offered for lease
- responses used for “area identification” and lease offering options

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Area Identification

- Director considers comments of agencies, local government, organizations, and general public in response to the Call for Information and Nominations and Notice of Intent to Prepare an EIS
- MMS Director selects areas for environmental analysis and consideration for leasing
- result is internal memo signed by MMS Director – “Decision on the Area Identification”

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Proposed Notice of Sale

- notice published in *Federal Register* approximately 4 months prior to sale
- purpose is to consult with States and public on size, timing, and conditions of proposed sale
- contains proposed stipulations and conditions of the sale including minimum bid amounts, royalty rates and rentals

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Final Notice of Sale



- published in *Federal Register* at least 30 days prior to date of sale
- states time and place at which bids must be submitted and the place, date, and hour the bids will be opened
- description of areas to be offered for lease as well as lease form, stipulations, terms, and conditions of the sale



Lease Sale

- **companies submit sealed bids to MMS up to day before the sale**
- **day of sale, public opening and reading of all bids at local venue**
- **high bidders are identified for each block and must submit 1/5 bonus bid deposit by next day**
- **leases are not awarded at sale**

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Post-Lease Sale Reviews

- bids rejected if they fail to meet minimum bid amount or legal form requirements
- joint bids by two or more entities on restricted joint bidders list are disqualified
- Department of Justice and Federal Trade Commission conduct “competitive” or “anti-trust” review following each sale as required by OCS Lands Act
- “fair market value” determination – 90 Day period to accept or reject bids



Lease Award

- lease awarded to high bidder if “fair market value” received, bid is legally valid, and DOJ and FTC approve sale
- Solicitor’s office approves final lease form and addenda
- successful high bidder must execute lease and return to MMS within 11 business days and pay remainder (4/5) of bonus and first year’s rental



Lease Terms

Term

- 5, 8 or 10 years depending upon water depth

Minimum Bonus Bid Amount

- \$25 per acre – water depths < 400 meters
- \$37.50 per acre – water depths \geq 400 meters

Rental

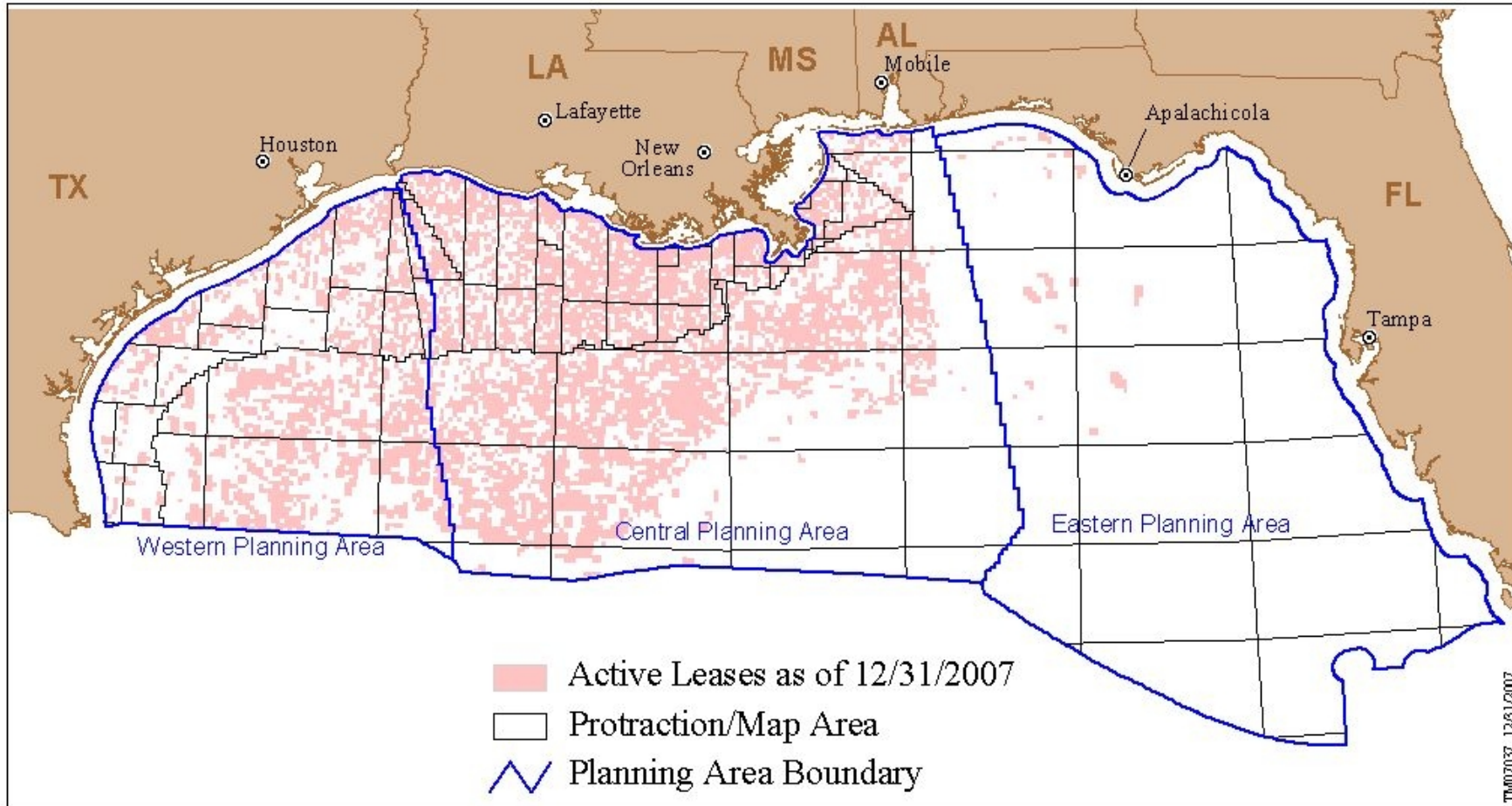
- \$7.00 per acre – water depths < 200 meters
- \$11.00 per acre – water depths \geq 200 meters

Royalty

- 18 $\frac{3}{4}$ for all blocks, all water depths

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Current Active Leases





Western Planning Area Sale 210

- **Includes 336 blocks that are newly available since last Western Planning Area Sale.**
- **Sale is planned for August 19, 2009**
 - **Royal Sonesta Hotel, New Orleans, LA**
- **Total of ~ 3,435 Unleased blocks offered**
- **Royalty rate = 18.75%**

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Limitations on Leasing Program

MMS program may be limited by:

- **moratoria by Congressional Acts or Presidential Order**
- **unsettled international boundaries (“Western Gap” and “Eastern Gap”)**
- **conflicts with military use (mine warfare areas/testing and training areas) or shipping fairways/anchorage areas**
- **environmental conflicts/marine sanctuaries**
- **other conflicting uses of OCS**

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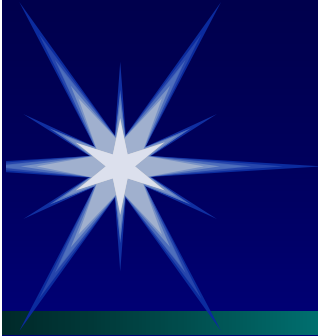


Bonding

General Bonds

Supplemental Bonds

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Bonding Considerations

What are we dealing with in the Gulf of Mexico?

- **\$8 Billion in estimated plugging and abandonment**
- **8000 Active leases**
- **4000 Structures**
- **15,000 Wells**
- **500 Lessees**
- **200 Operators**
- **60 Surety companies**