



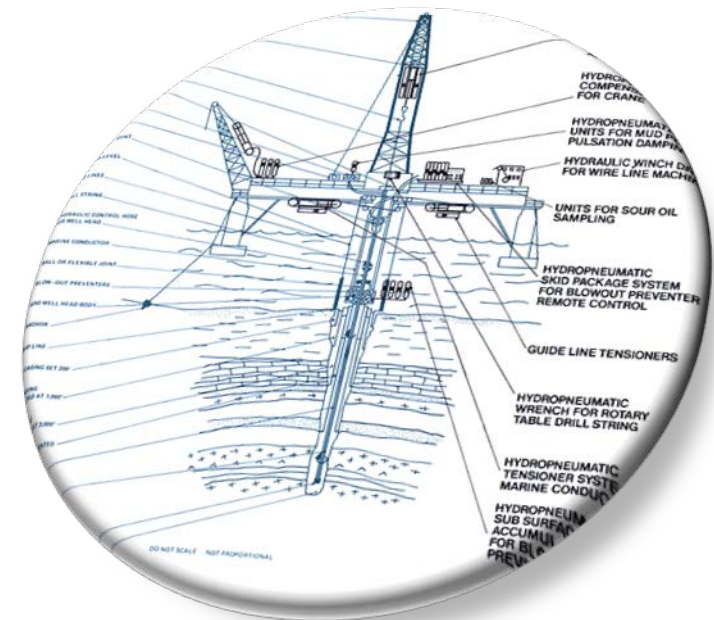
# Mexico Oil & Gas Summit 2015

**Kevin J. Karl**  
**Bureau of Safety and Environmental Enforcement**  
**Gulf of Mexico OCS Region**  
**March 5 and 6, 2015**

# Mission



*“To promote safety, protect the environment and conserve resources offshore through vigorous regulatory oversight and enforcement.”*



# BSEE Offices



**BSEE Alaska Region Office**  
3801 Centerpoint Dr Ste 500  
Anchorage, AK 99503

**BSEE Headquarters Offices**  
1849 C St NW  
Washington DC 20240



**BSEE Pacific Region Office**  
770 Paseo Camarillo  
Camarillo, CA 93010



**BSEE Headquarters Offices**  
381 Elden St  
Herndon, VA 20170



**BSEE Gulf of Mexico Region Office**  
1201 Elmwood Park Blvd  
New Orleans, LA 70123

# BSEE Responsibilities



- BSEE Primary Responsibilities Related to “Agreement”
  - Unitization approval
  - Allocation of production
  - Reservoir management (e.g., restriction production rates)
  - Competitive reservoir determinations
  - Inspections (22 Helicopters)
  - Approval of production measurement meters
  - Collection of production data from meters
  - Pipeline approvals

# BSEE Gulf of Mexico Region



# Transboundary Agreement (TB)



- Applies to Gulf of Mexico only
- Reservoir or geologic structure must be entirely beyond nine nautical miles of coastline
  - excludes Texas State waters
- Allows production to occur while preserving the rights of each country\*
- Mexican laws apply to activities occurring in Mexican jurisdiction and U.S. laws apply to activities in U.S. jurisdiction

# Foundation



- Data exchange/Notifications
  - Subject to National Law
- Voluntary unitization
- Potential for Unilateral production absent Unitization
- Joint inspection (safety, environmental, metering, etc.)

# Data Exchange



- Annual Meetings (Mexico/BSEE/BOEM)
  - Consult on activities carried out within 3 miles of the delimitation line
  - Exchange of data associated with such activities
- Data Exchange Triggers:
  - Seismic Permit (BOEM)
  - Exploration Plan (BOEM)
  - Application for Permit to Drill (BSEE)
  - Development Plan (BOEM)
  - **Hydrocarbon occurrence from drilling (BSEE)**
  - **Likely existence of TB reservoir (BSEE/BOEM)**





# Voluntary Unitization (VU)

# What is Unitization?

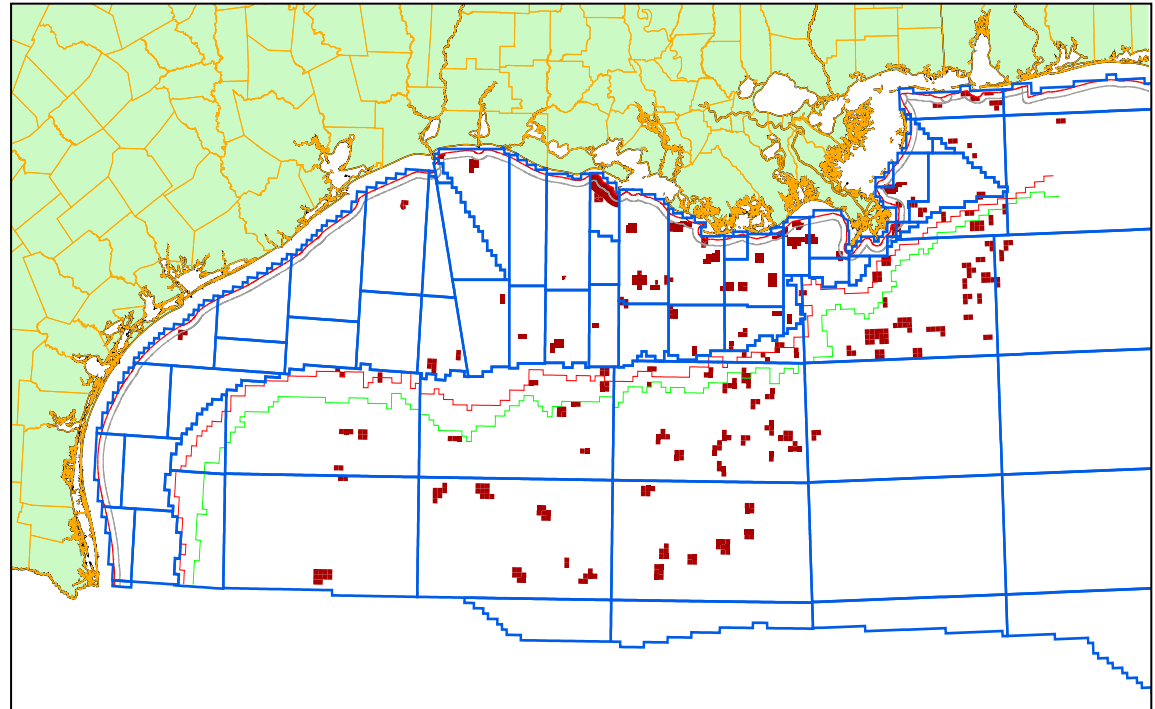


Combining acreage for joint exploration or development of common geologic accumulations under terms of a Unit Agreement and a Unit Operating Agreement

# Unitized Leases Gulf of Mexico



- 594 Leases Unitized
- 181 Active Units
  - 137 Exploratory
  - 44 Reservoir
- 13 State/Fed



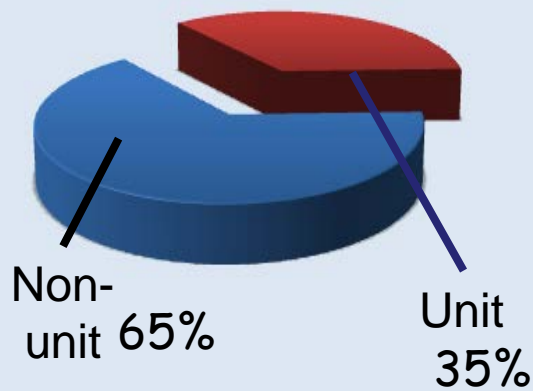
# Impact of Units



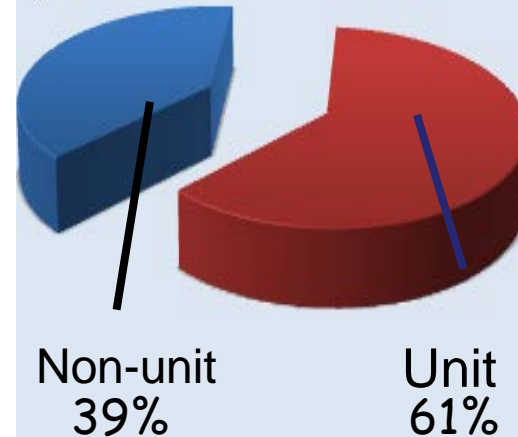
## Producing Leases



## Gas Production



## Oil Production



# VU: Why does it work?



- Allows for the sharing of costs and risk
- Eliminates competition
- Eliminates unnecessary wells, platforms, pipelines, etc.
- Potentially more access to drilling rigs
- Leverages expertise between operators
- Provides for proprietary data sharing

# Voluntary Unitization



- Flexibility built into the Agreement for:
  - Unitization for a “geologic structure”
  - Unitization for a single “reservoir”
  - Negotiation between the governments and licensees on acceptable **Unit Agreement** terms
  - Negotiation of an acceptable **Unit Operating Agreement** between the Licensees which establishes how all costs, liabilities, and benefits will be shared between the Licensees

# Voluntary Unitization



- Unit request submitted to both Governments
  - Single Unit Operator
- Request must include:
  - Geological & Geophysical Information
  - Unit Agreement
  - Unit Operating Agreement

# Geological & Geophysical (G&G) Information



- Subsurface data includes:
  - 3D seismic
  - Structure and/or amplitude maps
  - Well log(s), correlations, petrophysical analysis, and engineering data (if applicable)
  - BSEE independent G&G evaluation is performed
  - G&G forms basis for unit size
  - BOEM to provide input



# Unit Agreement



- Identification of the Unit Area
- Methodology used to calculate allocation of production
- Licensees plans for exploring and/or developing the unit (submitted to BSEE and Mexico initially and then at least annually)
- Unit Operator (appointment, process for removal and successor approval)
- Production measurement procedures
- Safety and environmental measures
- Procedures for any allocation redetermination including triggers
- Provisions to share data between the unit operator and each Government

# Unit Operating Agreement



- Unit operator and working interest owners sign Unit Operating Agreement:
  - Describes how all costs & liabilities allocated
  - Describes how all benefits allocated
  - Complex business arrangements

# Allocation of Production



- The proper allocation of production will be established at the start of first production from any transboundary reservoir

# Allocation Issues



- Unit operator to initiate consultations on the initial allocation of production from a TB reservoir 60-days prior to production by submitting a proposal for approval by the Executive Agencies
- If EA's can't agree, the Joint Commission shall address issue
  - On the U.S. side, representative is the Deputy Secretary with the Assistant Secretary for Land and Minerals as the alternate
- If Joint Commission can't resolve in 60-days, either Government may submit for Expert Determination

# Expert Determination



- Governments to provide all information to the Expert (including proprietary information subject to a confidentiality contract)
- Expert Determination is binding

# Inspections



- Enable inspectors to safeguard their respective safety, environmental, and fiscal interests
- Joint inspection mechanism created
  - Drilling rigs, production platforms, meters, etc.
- Enforcement actions taken by inspector with jurisdiction (e.g., issuance of Incident of Noncompliance)

# Inspections



- For the purpose of averting risk to life or serious personal injury or significant damage to the environment:
  - Inspector with jurisdiction shall order the immediate cessation of any or all operations upon request by the “visiting” inspector
  - Immediately thereafter (not more than 4 hours) the inspectors shall notify the EAs of the action and reasons
  - The EAs will consult immediately
  - Does not prevent the right of each Government to authorize the resumption of operations



What happens if Unitization has not been approved and drilling has occurred?



# First Step



- Governments shall initiate consultations when:
  - One side feels there is a “likely” existence of a Transboundary reservoir, or
  - There is a Hydrocarbon Occurrence from drilling

# Definitions



- TB Reservoir – “... which extends across the Delimitation Line ... exploitable in whole or in part from both sides...”
- Hydrocarbon Occurrence – “means a detection of Hydrocarbons drilling operations within 3 statute miles on either side of the Delimitation Line”

# Second Step



- TB Determination:
  - If EA's can't agree, either side may submit to the Joint Commission
  - If the Joint Commission is unable to resolve in 60 days, either side can submit for Expert Determination but only if:
    - There is a well in the prospective TB reservoir on each side



What happens after a TB reservoir has been determined by the EA, Joint Commission, or Expert?

# Third Step



- Production will not be allowed for up to a 16-month period to allow time to pursue forming a voluntary unit.
  - Includes 6 months for Licensees to work together and submit a voluntary unit request

# Fourth Step



- If the Government's are notified that a unitization agreement will not be pursued:
  - Each Government will require its Licensee to submit a proposed Unitization Agreement (UA) and Unit Operating Agreement (UAO); and
  - The EA's will jointly determine an estimate of recoverable hydrocarbons (bbls/Mcf) on each side along with the associated allocation of production (%)
    - *If can't agree, issue shall be referred to binding Expert Determination*

# Potential Unitization



- Governments will have 90 days to approve one of the submitted UA and UOA (or alternative agreements)
  - If no agreement, it will be referred to the Joint Commission
- Ideally, once the Governments agree on a UA, UOA, and proper allocation, a unitization agreement will be signed by the licensees
- However, still no guarantee Unitization would be executed by all parties.

# Unilateral Production



- If Unitization at this point fails:
  - Each Government may authorize its Licensee to proceed with production
  - Production will be limited to the earlier determination of recoverable hydrocarbons on each side
  - Subject to potential joint management by Governments (e.g., restrict rates, wells, etc.)
  - Exchange of monthly production data



# Conclusions



- Protects the rights of each Nation
- Ensures safe and environmentally sound operations within approved units
- Ensures the proper development of the resources
- Provides the certainty needed by licensees



Website: [www.bsee.gov](http://www.bsee.gov)



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