

Offshore Minerals and Energy Management

A Leasing Program Overview

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Minerals Management Service

Who is MMS?

The Minerals Management Service manages Federal mineral resources on the Outer Continental Shelf and Federal and Indian mineral revenues to enhance public and trust benefit, promote responsible use, and realize fair value.

Mission

➤ Core balancing objectives:

- Safe Offshore Operations

Promote incident-free operations during exploration, development, and production in Federal offshore waters.

- Environmental Protection

Ensure that all Federal offshore activities are conducted with appropriate environmental safeguards.

- Fair Market Value

Assure receipt of fair market value to the public.

From Outer Continental Shelf Lands Act, as Amended

- "It is hereby declared to be the policy of the United States that . . . *the Outer Continental Shelf is a vital national resource* held by the Federal Government for the public, which should be made *available for expeditious and orderly development, subject to environmental safeguards*, in a manner which is *consistent with the maintenance of competition* and other national needs "

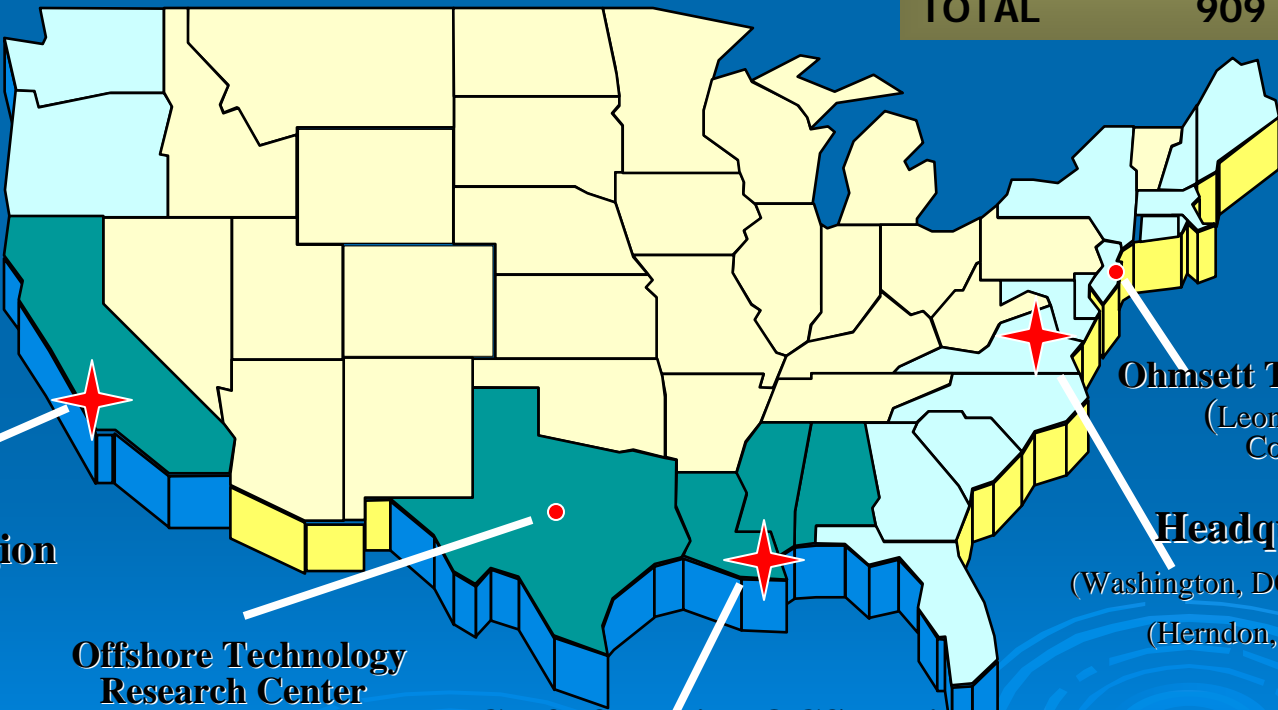
An OEMM Snapshot

Office:	
HQ	199
GOMR	581
Pacific	51
Alaska	<u>78</u>
TOTAL	909



Alaska OCS Region

(Anchorage, AK)



Pacific OCS Region

(Camarillo, CA)

1 District

Offshore Technology Research Center

(College Station, TX)

Contract

Gulf of Mexico OCS Region

(New Orleans, LA and 5 District Offices)

Ohmsett Test Facility

(Leonardo, NJ)

Contract

Headquarters

(Washington, DC - ADOMM)

(Herndon, VA)

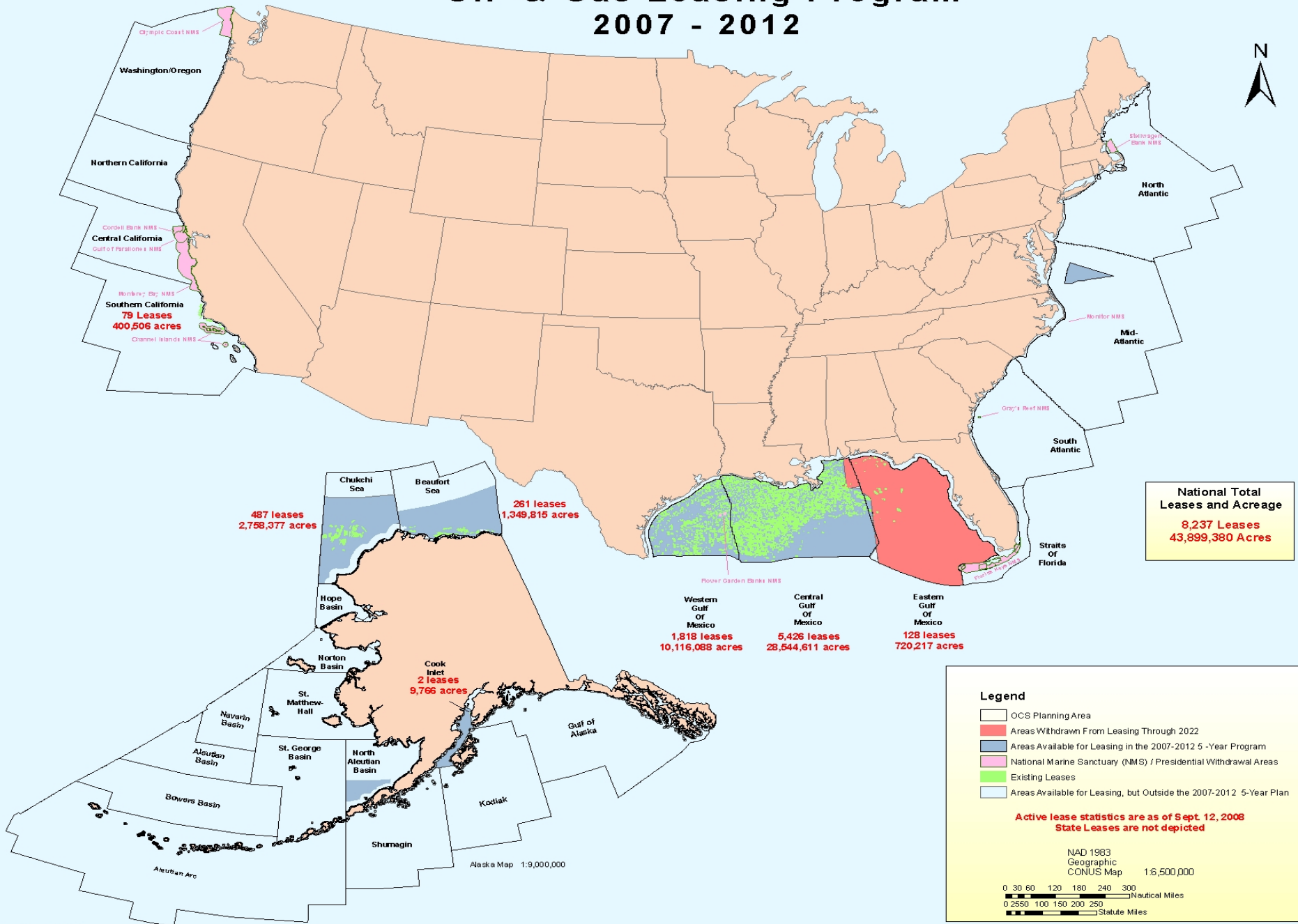
 Coastal States with OCS Production

MMS Overview

- Created in 1982
- Responsible for 1.76 billion OCS acres
 - Lease issuance to decommission
- Day-to-Day
 - ~8,000 leases
 - ~43 million acres leased
 - ~27% of oil;~15% natural gas
 - ~4,000 production platforms
 - ~33,000 miles of pipeline
 - ~42,000 OCS personnel
 - ~125 operating companies
- ~\$13 billion annual revenue (based on 5-year average)



Outer Continental Shelf Oil & Gas Leasing Program 2007 - 2012



Minerals Management Service

OCS 5-Year Plan (2007-2012)

- The lease sale process begins with the 5 – Year Program.
- The 5-year program specifies the size, timing and location of areas proposed for Federal offshore oil and gas leasing.

The 5-Year Plan:

- Responds to national energy needs while addressing economic, social and environmental concerns of the public; and
- Reduces dependence on foreign oil and stimulates the domestic economy.

Anticipated 40-year benefits from the 5-Year Plan approximately:

- Additional 10 billion barrels of oil;
- Additional 45 trillion cubic feet of natural gas; and
- Additional \$170 billion in net benefits to the Nation.

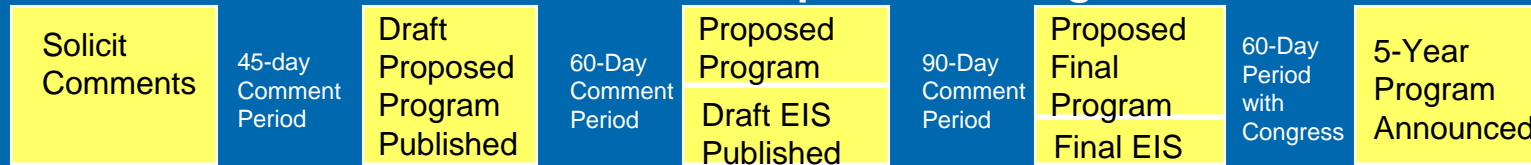
Moratoria Expired

- On September 30, 2008, the Congressional Moratoria expired. The ban was in effect since 1982 in the Interior Appropriations bills. The ban had encompassed the Pacific and Atlantic coast along with a small portion of the Eastern Gulf of Mexico. (Presidential Withdrawal modified July, 14, 2008).
- As of October 1, 2008, the MMS is not prohibited from OCS oil and gas activities related to leasing and pre-leasing activities in these areas that are permitted under the OCSLA, NEPA, and other laws addressing OCS matters.
- MMS may only lease in areas that are in the current 5-year plan. (Requests for Information on developing a new 5-Year Plan from 2010-2015 was published August 2008). But the only area that is now available in the 5-year plan that was previously unavailable because of the Withdrawal and Moratoria is the area off the coast of Virginia. The current 5-year plan has a sale scheduled for that area for 2011.
- With no ban in place, MMS could start the pre-leasing activities associated with the sale, including the Call for Information and Notice of Intent to prepare and Environmental Impact Statement (EIS).

Leasing, Exploration, & Development Process

Pre-lease

Develop 5-Year Program

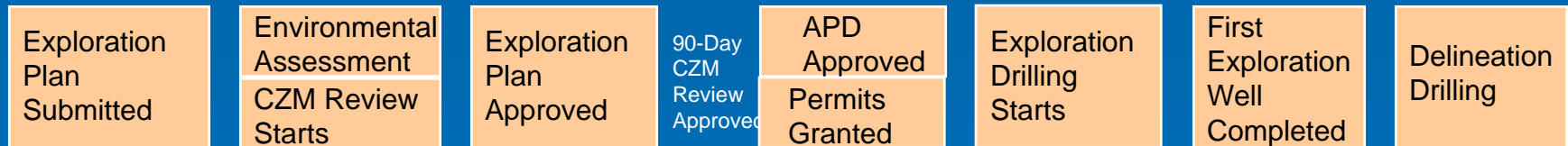


Planning for Specific Sale

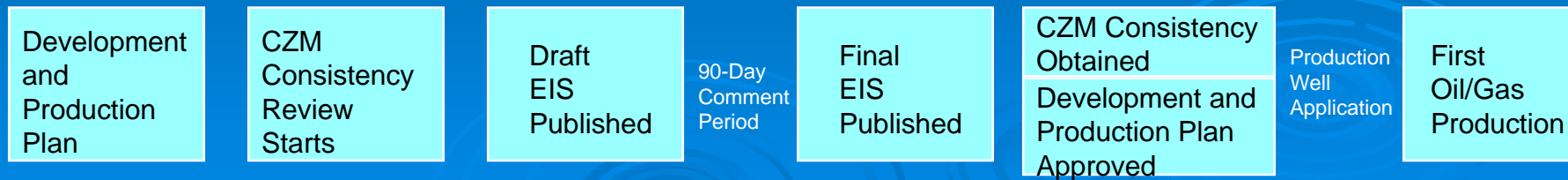


Post Lease

Exploration Plan Approval



Development & Production Plan Approval



Environmental Laws Affect Program

National Environmental Policy Act	→	Includes environmental analysis & protection in project planning
Federal Water Pollution Control Act (Clean Water Act)	→	Regulates discharges from oil & gas activities into marine waters
Clean Air Act	→	Regulates air emissions from industrial activities
Coastal Zone Management Act	→	Assures compliance with State coastal area protection plans
Endangered Species Act	→	Protects threatened & endangered species
Marine Mammal Protection Act	→	Protects marine mammals
Fishery Conservation & Management Act	→	Protects essential fish habitat
National Historic Preservation Act	→	Protects archaeological resources including those on the ocean floor
Oil Pollution Act	→	Oil Spill Financial Responsibility

MMS-Funded Research

\$800 million in environmental studies

\$100 million on technical research

Environmental Studies

Pollutant Transport (air & water)

Biological Resource Characterization (habitat & behavior)

Marine Environmental Monitoring

Fates and Effects

Socioeconomic Effects

Biotechnology

Invasive Species

Technology Assessment & Research

Reduce Emissions

Blowout Prevention

Structural Removal

Corrosion Prevention

Oil Spill Response

Leak Detection

Marine Risers

Composite Materials

Leasing

Exploration

Production

Decommissioning

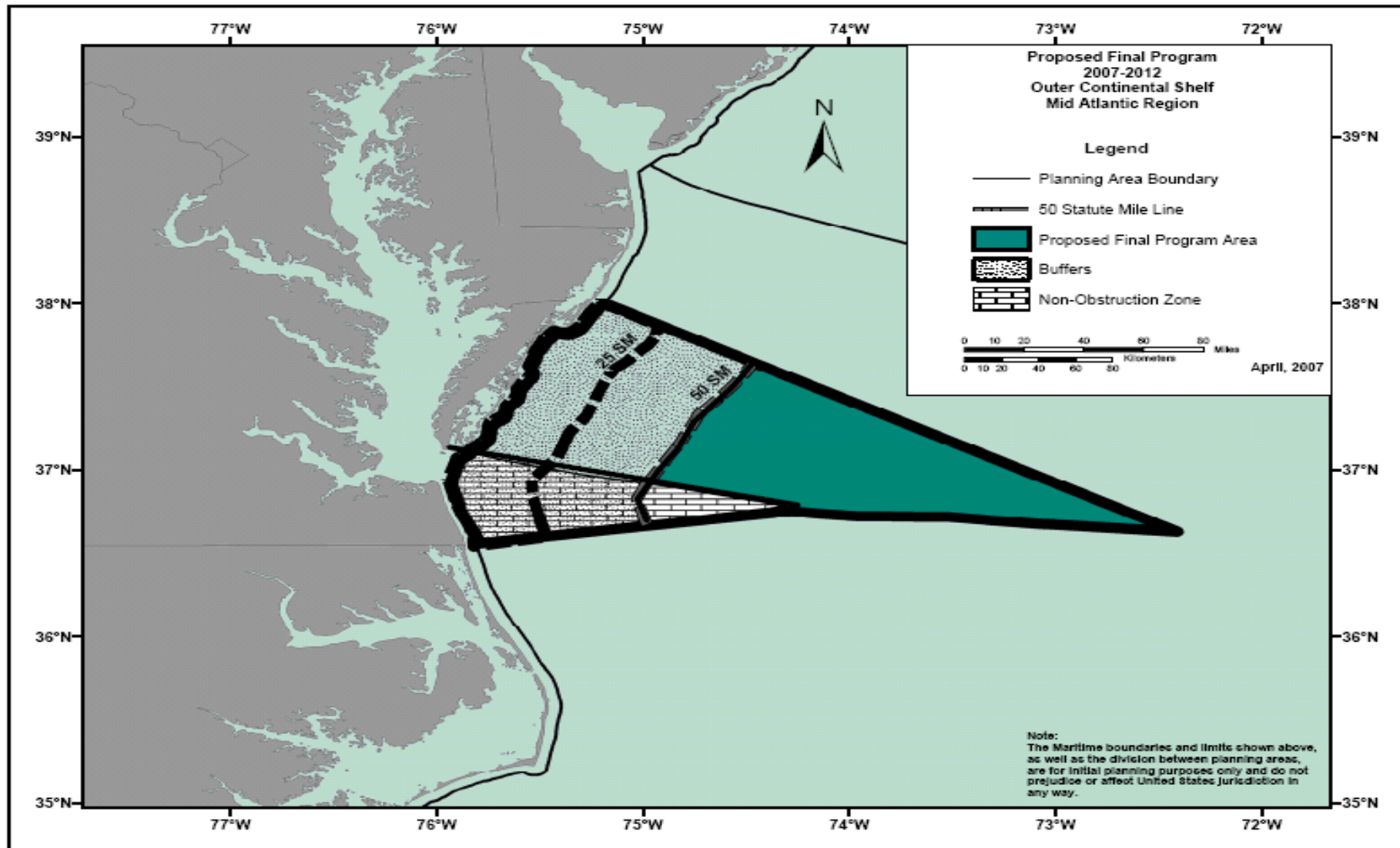
Multiple Agencies Involved

- U.S. Coast Guard
 - Oil-spill response, port and vessel security and inspections (MOU)
- Environmental Protection Agency
 - Air and water quality (MOU)
- National Oceanic and Atmospheric Administration
 - Coastal programs
 - Marine mammals/endangered species
- Fish and Wildlife Service
 - Marine mammals/endangered species

State and Local Involvement

- Coastal Commissions
- Departments of Fish & Wildlife
- Air Resource Boards
- Departments of Water Resources
- Departments of Conservation & Natural Resources
- Departments of Environmental Regulations
- Departments of Culture, Recreation, & Tourism

Mid-Atlantic Program Area



History of the Atlantic OCS

- 10 oil and gas lease sales were held between 1976 and 1983
- 49 exploratory wells were drilled
- 5 wells discovered hydrocarbons offshore New Jersey and abandoned as non-commercial
- Only 1 block was leased offshore Virginia; never drilled

Lease Sale Process

- Call for Information and Nominations/ Notice of Intent to Prepare EIS
- Area Identification
- Hold Public Hearing
- Conduct Environmental Analyses/EIS
- Solicit Governor's Comments
- Publish Proposed Notice of Sale/ Public Comment Period
- Publish Final Notice of Sale
- Hold Lease Sale

Call for Information and Nominations (45-day comment period)

- From potential bidders:
 - Industry interest
 - Industry ranking of areas

- From other interested parties:
 - Environmental effects
 - Use conflicts
 - Coastal Zone Consistency Concerns
 - Issues of Concern

Information Sources

- Geological and geophysical records
- Environmental and socioeconomic data
 - MMS Environmental Studies Program
 - Other Sources
- Experience in area, including past sales
- Early discussions with affected State representatives

Notice of Intent to Prepare an Environmental Impact Statement

- Public Notice
- Announces beginning of the environmental analysis process
- Invites public help to determine elements of analysis
 - Significant issues
 - Alternatives

Area Identification

- Sent to Governors and interested publics
- Announces the leasing proposal
 - Geographic area under consideration
 - Mitigating measures
- Based on responses to Call and other coordination
- Not a decision to hold a sale or end consultation

Environmental Impact Statement

-- Draft --

(60 day comment period)

- 1 to 1 1/2 years after Call
- Describes planning area
- Analyzes potential environmental effects of oil and gas activities
 - in area proposed for leasing (“proposal”)
 - for alternatives
- Public notice of availability

Environmental Impact Statement

-- Final --

- Considers comments on draft EIS
- Basis for analysis of leasing options
- Basis of “Consistency Determination”

Proposed Notice of Sale

- Public Notice
- Proposed area, terms, conditions of offering
- Basis of Governor's comments on size, timing, location of offering (OCSLA)

Final Notice of Sale

(about 90 days after proposed Notice published;
must be at least 30 days before sale)

- Public Notice
- Date, timing, location, blocks to be offered, terms and conditions of sale
- Illustrates balancing of national interest and well-being of citizens of affected State

Lease Terms

- Every OCS lease has a primary term – how long the lease is granted.
- Statute sets a 5 year minimum and 10 year maximum.
- MMS uses 5, 8, and 10 year terms.

Fiscal Terms and Bid Adequacy

- Fiscal Terms in Every Lease:
 - Bonus Bid – winning highest \$ amount paid at time of lease auction.
 - Rental – holding cost per acre during primary term.
 - Royalty - \$ amount paid based on % of production volume.

- Bid Adequacy:
 - Each bid evaluated by our resource bid adequacy procedures for fair market value to the taxpayer.

Submission of Bids

- A bidder must be a U.S. citizen or a company incorporated in the U.S.
- Companies submit a separate sealed bid for each block they wish to obtain
- With each bid, the company must send in 20% of the bid value
- Transparent Process – Bids are opened and read publically at time of sale

Awarding the Lease

- MMS accepts or rejects bids within 90 days of the lease sale.
- If a bid is rejected, MMS returns the 20% of the bonus that the company had submitted.
- If MMS accepts the bid, the company has 11 days to:
 - Submit remaining 80% of the bonus
 - Sign the lease document, and
 - Submit the first year's rental

What the lease conveys

- The right to explore for, develop, and produce the oil and gas contained within the lease area.
 - Lease area – 5760 acres – 3 square miles
 - Initial terms of 5 - 10 years, extended for as long as production or drilling operations continue
 - Subject to specified financial and operational terms and conditions (lease and operational bonds)

Environmental Stipulations

- Lease may contain detailed requirements designed to eliminate, alleviate, or mitigate adverse environmental effects

Other Issues

- Currently, no revenue-sharing authority exists with Atlantic coastal states, unlike other states with GOMESA and CIAP.