Minerals Management Service and the Gulf of Mexico Energy Security Act of 2006

On December 20, 2006, the President signed into law the Gulf of Mexico Energy Security Act of 2006 (Pub. Law 109-432). The Act significantly enhances OCS oil and gas leasing activities and revenue sharing in the Gulf of Mexico (GOM). The Act:

- requires leasing in 8.3 million acres in the GOM, including 5.8 million acres that were previously held under Congressional moratoria;
- bans oil and gas leasing within 100 miles of the Florida coastline in the Eastern Planning Area, and a portion of the Central Planning Area, until 2022;
- Shares leasing revenues with Gulf producing states and the Land & Water Conservation Fund for coastal restoration projects; and,
- Allows companies to exchange certain existing leases in moratorium areas for bonus and royalty credits to be used on other GOM leases.

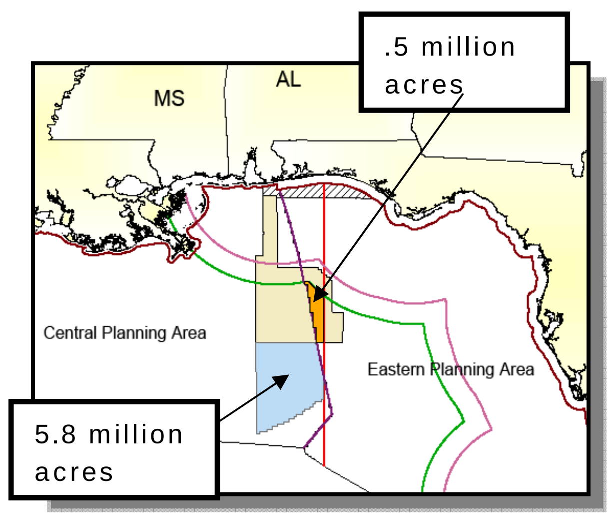
Access to Acreage for Leasing

The law requires that 8.3 million acres be offered for oil and gas leases. This acreage is included in both the Central Gulf Planning Area and the Eastern Gulf Planning Area. Approximately 2 million acres in the Central Gulf was first offered for lease after enactment of the law was and was included in Lease Sale 205 in October 2007. Approximate .5 million acres in the Eastern Gulf received additional environmental review and is being offered in Lease Sale 224 in March 2008.

The remaining 5.8 million acres in the Central Gulf is undergoing environmental review and is expected to be offered in Lease Sale 208 in 2009.

Revenue Sharing

The Act also created revenue sharing provisions for four Gulf oil and gas producing States – Alabama, Louisiana, Mississippi and Texas, and their coastal political subdivisions. There are two timeframes involved in revenue sharing. From Fiscal Year 2007 through Fiscal Year 2016, 37.5 percent of all revenue including bonus bids, rentals and production royalty will be shared among the four States and subdivisions for those new leases in the .5 million acres in the Eastern Gulf and the 5.8 million acres in the Central Gulf.



Revenue Sharing, cont'd.

From Fiscal Year 2017 and beyond, the four States and subdivisions will share 37.5 percent of revenues from all Gulf leases issued after December 20, 2006.

GOMESA funds are to be used for coastal conservation, restoration and hurricane protection.

Extended Moratorium

The Act also updated moratoria areas in the Gulf. Those tracts in the Eastern Gulf of Mexico that are within 125 miles of Florida, all tracts east of the Military Mission Line, and tracts in the Central Gulf of Mexico within 100 miles of Florida that are included in the moratorium area which extends until 2022.

Credit Exchange for Eligible Leases

The Act also allowed for the exchange of existing leases in the moratorium areas for bonus or royalty credit to be used in the Gulf of Mexico.

A credit will be provided to lessees who relinquish certain eligible leases in the Gulf of Mexico. Leases are considered eligible if they lie within 125 miles of the Florida coast in the Eastern Planning Area or within 100 miles of the Florida coast in the Central Planning Area. The lessees will be allowed to use the credits in lieu of monetary payment for either a lease bonus bid or royalty due on oil and gas production from most other leases in the Gulf of Mexico or transfer the credits to other Gulf of Mexico lessees for their use.