
Leasing Activities Information



U.S. Department of the Interior
Minerals Management Service
Gulf of Mexico OCS Region

Information To Lessees Western Gulf Of Mexico Sale 177

(Final Notice of Sale; July 2000)

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(a) Supplemental Documents. For copies of the various documents mentioned in the Sale Notice or in the Sale Notice Package and identified as available from the MMS Gulf of Mexico Regional Office, prospective bidders should contact the Public Information Unit, Minerals Management Service, 1201 Elmwood Park Boulevard, New Orleans, Louisiana 70123-2394, either in writing or by telephone at (504) 736-2519 or (800) 200-GULF. For additional information, contact the Regional Supervisor for Leasing and Environment at that address or by telephone at (504) 736-2759. Many sale-related documents may also be found on the MMS Homepage Address on the Internet: <http://www.mms.gov>. The MMS also maintains a 24-hour Fax-on-Demand service: (202) 219-1703.

(b) Navigation Safety. Operations on some of the blocks offered for lease may be restricted by designation of fairways, precautionary zones, anchorages, safety zones, or traffic separation schemes established by the U.S. Coast Guard pursuant to the Ports and Waterways Safety Act (33 U.S.C. 1221 et seq.), as amended.

U.S. Army Corps of Engineers (COE) permits are required for construction of any artificial islands, installations, and other devices permanently or temporarily attached to the seabed located on the OCS in accordance with section 4(e) of the OCS Lands Act, as amended.

For additional information, prospective bidders should contact Lt. Commander Dan Whiting, Assistant Marine Port Safety Officer, 8th Coast Guard District, Hale Boggs Federal Building, New Orleans, Louisiana 70130, (504) 589-4218. For COE information, prospective bidders should contact Mr. Don Nannings, Chief Evaluation Section, Regulatory Branch, Post Office Box 1229, Galveston, Texas 77553, (409) 766-3938.

(c) Offshore Pipelines. Bidders are advised that the Department of the Interior and the Department of Transportation have entered into a Memorandum of Understanding (MOU), dated December 10, 1996 (published in the Federal Register on February 14, 1997, at 62 FR 7037), and implemented by a final rule on August 17, 1998 (63 FR 43876), concerning the design, installation, operations, inspection, and maintenance of offshore pipelines. See also 30 CFR 250.1000(c)(1). Bidders should consult both Departments for regulations applicable to offshore pipelines; at the MMS Gulf of Mexico Regional Office,

the appropriate contact is Mr. Alex Alvarado at (504) 736-2547. Copies of the MOU are available from the MMS Internet site and the MMS Gulf of Mexico Regional Office Public Information Unit (see paragraph (a) above).

(d) 8-Year Leases. Bidders are advised that commencement of an exploratory well is required within the first 5 years for all leases with an initial 8-year term. Failure to do so will result in lease cancellation shortly after the end of the fifth year (30 CFR 256.37). Furthermore, a sixth year's rental will be due despite such cancellation.

(e) Affirmative Action. Lessees are advised that they must adhere to the rules of the Department of Labor, Office of Federal Contract Compliance, at 41 CFR Chapter 60. Companies with questions regarding those rules should contact one of the various regional Department of Labor Offices of Federal Contract Compliance.

(f) Ordnance Disposal Areas. Bidders are cautioned as to the existence of two inactive ordnance disposal areas in the Corpus Christi and East Breaks areas, shown on the Stipulations and Deferred Blocks map included in the Sale Notice Package. These areas were used to dispose of ordnance of unknown composition and quantity. These areas have not been used since about 1970. Water depths in the Corpus Christi area range from approximately 600 to 900 meters. Water depths in the East Breaks area range from approximately 300 to 700 meters. Bottom sediments in both areas are generally soft, consisting of silty clays. Exploration and development activities in these areas require precautions commensurate with the potential hazards.

(g) Archaeological Resources. Bidders are referred to the regulation 30 CFR 250.126 (Archaeological Reports and Surveys). MMS Notice To Lessees No. 98-06 (Requirements For Archaeological Resources Field Surveys for the Gulf of Mexico OCS Region) published in the Federal Register on November 10, 1998, (63 FR 63071-63074) effective August 10, 1998, specifies remote sensing instrumentation, survey methodology, linespacing, and archaeological report writing requirements for lessees and operators in the Gulf of Mexico Region (GOMR).

In addition, a specific list of lease blocks that fall within the GOMR high-probability area for both prehistoric and historic archaeological resources on the OCS are available on

the MMS Internet site at <http://www.mms.gov> and can be downloaded off this site. After entering this address, click on **Managing Offshore Resources**, then **New Orleans, Louisiana (Gulf of Mexico & Atlantic)**, then **Environmental Information**, then **Requirements for Environmental Information from Operators**, then **Archaeological Information**, and finally scroll down and click on **Archaeology Survey Blocks** to select a specific lease block area within the Gulf of Mexico or to download the complete file.

This block list has been updated in November 1998 and represents the most current archaeological survey lease block list for the GOMR. This block list supersedes all previous archaeological high-probability block lists published by the MMS GOMR.

(h) Proposed Artificial Reefs/Rigs to Reefs. Bidders are advised that there are OCS artificial reef planning and general permit areas, and reef sites for the Gulf of Mexico. These are located in water depths of less than 200 meters. While all artificial reef sites require a permit from the U.S. Army Corps of Engineers, the Artificial Reefs program is implemented through State sponsorship through the following State Coordinators:

Alabama Mr. Steve Heath, (334) 968-7576
Florida Mr. Jon Dodrill, (850) 922-4340
Louisiana Mr. Rick Kasprzak, (225) 765-2375
Mississippi Mr. Mike Buchanan, (228) 374-5000
Texas Ms. Jan Culbertson, (281) 461-4064

For more information, on artificial reef sites, prospective bidders should contact the above listed State Artificial Reef Coordinators for their areas of interest.

(i) Lightering Zones. Bidders are advised that the U.S. Coast Guard has designated certain areas of the Gulf of Mexico as lightering zones for the purpose of permitting single hull vessels to off-load oil within the U.S. Exclusive Economic Zone. Such designation may have implications for oil and gas operations in the areas. See 33 CFR 156.300 for the regulations concerning lightering zones; additional information may be obtained from Lieutenant Commander Russ Proctor of the Coast Guard's Ports and Facilities Compliance Staff (G-MOC-3) at (202) 267-0499.

(j) Statement Regarding Certain Geophysical Data. Pursuant to Sections 18 and 26 of the OCS Lands Act, as amended, and the regulations issued thereunder, MMS has a right of access to certain geophysical data and information obtained or developed as a result of operations on the OCS. A final rule specifying the details and procedures regarding this right of access (published in the Federal Register on December 24, 1997) is found at 30 CFR 251.11 and 251.12. For additional information, contact the MMS Gulf of Mexico Regional Office of Resource Evaluation at (504) 736-2720.

(k) Information about Indicated Hydrocarbons. Bidders are advised that MMS makes available, about 3 months prior to a lease sale, a list of unleased tracts having well bores with indicated hydrocarbons. Basic information relating to production, well bores, and pay range for each tract is included in the list. The list is available from the MMS Gulf of Mexico Region Public Information Unit (see paragraph (a) above).

(l) Royalty Relief. The Outer Continental Shelf (OCS) Deep Water Royalty Relief Act authorizes the Secretary of the Interior to offer certain deepwater OCS tracts in the Central and Western Gulf of Mexico for lease with suspension of royalties for a volume, value, or period of production the Secretary determines. The final rule specifying royalty suspension terms for lease sales in the Central and Western Gulf may be found at 30 CFR 260.

NOTE: For leases on blocks in Royalty Suspension Areas, an Addendum will be added to modify Sections 5 and 6 of the lease instrument, as follows:

Sec. 5. Minimum Royalty.

The minimum royalty requirement is not applicable during periods of royalty suspension.

Sec. 6. Royalty on Production.

Sec. 6 of the lease instrument will be superseded by 30 CFR Part 260, published in the Federal Register on January 16, 1998 (63 FR 2626). In addition, the following procedures also apply:

In any year during which the arithmetic average of the closing prices on the New York Mercantile Exchange (NYMEX) for light sweet crude oil exceeds \$28.00 per barrel (threshold oil price), royalties on the production of oil must be paid at the lease stipulated royalty rate, and production during such years counts toward the royalty suspension volume.

In any year during which the arithmetic average of the closing prices on the NYMEX for natural gas exceeds \$3.50 per million British thermal units (threshold gas price), royalties on the production of natural gas must be paid at the lease stipulated royalty rate, and production during such years counts toward the royalty suspension volume.

These prices for oil and natural gas are as of 1994 and must be adjusted for subsequent years by the percentage by which the implicit price deflator for the gross domestic product changed during the preceding calendar year. For 1999, the threshold oil price was \$30.40, compared to a \$19.26 average NYMEX oil price in 1999. For 1999, the threshold gas price was \$3.80, compared to a \$2.31 average NYMEX gas price in 1999.

A map titled "Lease Terms and Economic Conditions, Sale 177" depicting blocks in which such suspensions may apply is included in the Sale Notice Package.

The publication "OCS Operations Field Names Master List" depicts currently established fields in the Gulf of Mexico. This document is updated monthly and reprinted quarterly. Copies may be obtained from the MMS Gulf of Mexico Regional Office Public Information Unit (see paragraph (a) above).

(m) Lease Instrument. Bidders are advised that the lease instrument will include provisions for royalty relief and 8-year lease cancellations, if applicable.

Leases will continue to be issued, as in recent sales, on Form MMS-2005 (March 1986) as amended.

(n) Electronic Funds Transfer (EFT). Bidders are reminded that the 4/5ths and first year rental EFT instructions for lease payoff have been revised and updated by MMS Royalty Management.

Companies may now use either the Fedwire Deposit System or the Automated Clearing House (overnight payments).

Bidders are further alerted to the requirement in effect for this sale, the mandatory use of EFT for payment of the 1/5th deposit on bonus bids.

On July 28, 1999, the MMS published in the Federal Register at 64 FR 40764 a final rule revising 30 CFR 256.46(b) to allow the MMS to require a specific method (or methods) of payment of the deposit on bonus bids submitted at OCS lease sales. For Sale 177, MMS will require the submitters of high bids to use EFT procedures for payment of the deposit on bonus bids. Current OCS lessees and/or operators may secure such payment using only a signed bid form as prescribed in the Sale Notice Package; others are required to guarantee their EFT payments by any one of several methods, such as a letter of credit or a lump-sum check. Specific details on the use of EFT are contained in the Sale Notice Package.

(o) Deepwater Operations Plans. Bidders are advised that MMS Notice to Lessees 98-8N, which became effective on June 1, 1998, requires that a Deepwater Operations Plan be submitted for all deepwater development projects (water depths greater than 304.8 meters (1,000 feet)) and for all projects utilizing subsea production technology; projects using conventional fixed-leg projects are exempted from this requirement. Copies of the NTL may be obtained from the MMS Gulf of Mexico Regional Office Public Information Unit (see paragraph (a) above).

(p) Bonding Requirements. MMS general bonding requirements are found at 30 CFR 256 Subpart I. These regulations are further clarified in the MMS Notice to Lessees No. 99-G04, which became effective on March 12, 1999; copies of the NTL may be obtained from the MMS Gulf of Mexico Regional Office Public Information Unit (see paragraph (a) above).

In addition, MMS Notice To Lessees No. 98-18N, Supplemental Bond Procedures, became effective on December 28, 1998. This document is an updated summary of the procedures that will be used in assessing the financial strength of OCS lessees as they implement the requirement to submit a supplemental bond in compliance with 30 CFR 256. These procedures apply to all OCS Regions. In the Gulf of Mexico Region these procedures supersede the procedures described in the Leasing Activities

Information document dated October 22, 1993, and update the supplemental bond information contain in the Gulf of Mexico Letter To Lessees of November 5, 1993.

(q) Final Rule: Oil Spill Financial Responsibility for Offshore Facilities. Bidders should note that MMS has implemented a final rule regarding the financial responsibility provision of the Oil Pollution Act of 1990 (OPA). The rule, which appears at 63 FR 42711 (August 11, 1998), requires those responsible for offshore oil facilities to demonstrate that they can pay for cleanup and damages caused by facility oil spills. See also 30 CFR 254.

Oil spill financial responsibility (OSFR) for offshore facilities establishes requirements on responsible parties for demonstrating financial responsibility for cleanup and damages caused by oil or condensate discharges from offshore oil and gas exploration and production facilities and associated pipelines. The final rule, published in the regulations at 30 CFR 250 and 253, applies to the OCS, State waters seaward of the line of ordinary low water along that portion of the coast that is in direct contact with the open sea, and certain coastal inland waters.

OSFR requirements may not affect facilities which have a worst case oil spill discharge potential of 1,000 barrels or less. The regulation explains how to calculate this discharge. If the facility's potential worst case spill exceeds this amount, facilities will be required to establish and maintain oil spill financial responsibility at a minimum level of \$35 million. Prior to receiving approval for an application to drill or for a lease assignment a company must demonstrate sufficient coverage for all covered offshore facilities which have a worst case oil spill of greater than a 1000 barrels.

MMS Notice to Lessees No. 99-N01 ("Guidelines for Oil Spill Financial Responsibility for Covered Facilities"), issued on January 6, 1999, and effective immediately, provides guidelines for implementing this program.

(r) Response Plans for Facilities Located Seaward of the Coast Line. The regulations at 30 CFR 254 Subpart D implements the facility response planning provision of Oil Pollution Act of 1990 (OPA). The rule supersedes an interim rule in effect since February 18, 1993, and allows one plan to be used to cover

multiple offshore facilities. This allows operators to reduce the cost of spill response compliance without sacrificing environmental protection.

(s) Military Warning Areas. Military Warning Areas are established in the Flight Information Publication "Area Planning - Special Use Airspace - North and South America" published by the National Imagery and Mapping Agency (NIMA), 3200 South Second Street, St. Louis, Missouri 63118-3399; NIMA reference number PLANXAP1A. The most recent version of this document was published on April 20, 2000; it is expected that it will be reissued from time to time in the future.

The Military Areas Stipulation (Stipulation No. 2 in the document "Lease Stipulations for Oil and Gas Lease Sale 177" included in the Sale Notice Package) will be applied to leases in any new areas that may be established by that publication in addition to blocks in those Warning Areas which have had the stipulation in past sales.

Certain restrictions on flights and radio communications in the Warning Areas will require close coordination between lessees (and their operators and agents) and the appropriate military commander using the specific Warning Area. It is the responsibility of lessees to establish and maintain contact and coordination with the military commander(s) in any Warning Area in which operations or flights would be expected in the course of occupying and developing any leases; this could include flights through a Warning Area traveling to a leased block which is not in a Warning Area.

Lessees should establish and maintain contact and coordination with the appropriate military commander(s) whether or not there is a military stipulation in their lease(s).

The contact for administrative questions about the warning areas is:

Federal Aviation Administration
Houston Air Route Traffic Control (ARTC) Center
16600 John F. Kennedy Boulevard
Houston, Texas 77032
Telephone: (281) 230-5536/5630

(t) Minimizing Oil and Gas Structures Near the Flower Garden Banks. Bidders are reminded of Notice to Lessees and

Operators (NTL) 98-13 (which replaced NTL 85-8 of November 26, 1985), "Minimizing Oil and Gas Structures in the Gulf of Mexico," dated August 10, 1998. The NTL sets forth the MMS' policy with regard to the minimization of structures for drilling, development, and production on OCS leases. The policy requires that such structures including lease-term pipelines be placed in a manner that causes minimum interference with other significant uses of the OCS. Please be advised that the MMS will strictly adhere to this policy when reviewing Exploration Plans and Development Operations Coordination Documents which propose the use or installation of such structures within the **A**Four-Mile Zone[®] and adjacent areas surrounding the Flower Garden Banks National Marine Sanctuary.