
Leasing Activities Information



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

Information To Lessees Central Gulf Of Mexico Sale 178, Part 2

(Final Notice of Sale; July 2001)

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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>.

(b) Offshore Pipelines. Bidders are advised that the Department of the Interior and the Department of Transportation have entered into a Memorandum of Understanding, 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).

(c) 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.

(d) Archaeological Resources. Bidders are referred to the regulation 30 CFR 250.194 (Archaeological Reports and Surveys). MMS Notice To Lessees No. 98-06 (Requirements For Archaeological Resources Field Surveys for the Gulf of Mexico OCS Region) has been published in the Federal Register. This regulation also became effective on December 28, 1999, (64 FR 72787) and specifies remote sensing instrumentation, survey methodology, linespacing, and archaeological report writing requirements for lessees and operators in the Gulf of Mexico Region.

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://161.160.117.63/homepg/regulate/envIRON/archaeological/introduction.html> and can be downloaded off this site. After entering this site, 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 February 2001 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.

(e) 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:

<u>Alabama</u>	Mr. Steve Heath	(334) 968-7576
<u>Florida</u>	Mr. Jon Dodrill	(850) 922-4340
<u>Louisiana</u>	Mr. Rick Kasprzak	(225) 765-2375
<u>Mississippi</u>	Mr. Mike Buchanan	(228) 374-5000
<u>Texas</u>	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.

(f) 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.

(g) 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 geophysical data and information obtained or developed as a result of operations on the OCS. A rule specifying the details and procedures regarding this right of access is found at 30 CFR 251.11 and 251.12. Reimbursement for the cost of reproducing these data will be made in accordance with 30 CFR 251.13. For additional information, contact the MMS Gulf of Mexico Regional Office of Resource Evaluation at (504) 736-2720.

(h) 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 Internet site and from the MMS Gulf of Mexico Region Public Information Unit (see paragraph (a) above).

(i) Royalty Relief. Although the requirements of the Outer Continental Shelf Deep Water Royalty Relief Act, which mandated that the Secretary of the Interior offer certain deepwater OCS tracts in the Central and Western Gulf of Mexico for lease with specified suspension of royalties under certain conditions, have expired, the MMS is offering royalty relief on leases resulting from this sale. For this sale, the MMS is offering leases subject to the regulations at 30 CFR 260. Specific royalty relief provisions are contained in the document "Royalty Suspension Provisions Sale 178, Part 2, Central Gulf of Mexico (August 2001)" included in the Sale Notice Package.

NOTE: For leases on blocks in Royalty Suspension Areas, an Addendum will be added to modify Section 6, as appropriate, of the lease instrument to implement the provisions of the document "Royalty Suspension Provisions, Sale 178, Part 2".

A map titled "Lease Terms and Economic Conditions, Sale 178, Part 2", depicting blocks in which such suspensions may apply is included in the Sale Notice Package.

Discretionary Royalty Relief. Title III of Public Law 104-58, "Outer Continental Shelf Deep Water Royalty Relief," allows the Secretary of the Interior to reduce, eliminate, or modify the royalty rate in order to promote development or increase production on certain leases. On November 16, 2000, the MMS issued a proposed rule (65 FR 69259) that describes, for newly issued leases, the intended criteria for approval of relief, the amount of

relief to be awarded, and the conditions that must be met to retain any relief awarded under this program.

(j) Lease Instrument. Bidders are advised that the lease instrument will include provisions for royalty relief.

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

(k) 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 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. In this sale, MMS requires 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 third party guaranty, amended areawide bond coverage, letter of credit, or by using advanced EFT to prepay the guarantee. Specific details on the use of EFT are included in the document "Instructions for Making EFT Bonus Payments" in the Final Sale Notice Package.

(l) Deepwater Operations Plans. Bidders are advised that MMS Notice To Lessees NTL 2000-N06, Deepwater Operations Plans, which became effective on October 1, 2000, 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 platforms are exempted from this requirement. Copies of the Notice To Lessees may be obtained from the MMS webpage at <http://www.gomr.mms.gov/homepg/regulate/regs/ntls/ntl00-n06.html> and from the MMS Gulf of Mexico Regional Office Public Information Unit (see paragraph (a) above).

See also NTL 2001-G04 ("Remotely Operated Vehicle Surveys in Deepwater") available for the Regional Public Information Unit (see paragraph (a) above) and from the MMS webpage at <http://www.gomr.mms.gov/homepg/regulate/regs/ntls/ntl01-g04.html>

(m) 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 NTL 2000-G16 ("Guidelines for General Lease Surety Bonds"), which became effective on September 7, 2000. Copies of the Notice To Lessees may be obtained from the MMS webpage at <http://www.gomr.mms.gov/homepg/regulate/regs/ntls/ntl00-g16.html> and 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.

BOND FORMS: All bond forms can be found at <http://www.gomr.mms.gov/homepg/mmsforms/frmindx.html>. Form 2028 (revised June 2001), "OCS Mineral Lessee's and Operator's Bond and Act of Suretyship", should be used for General Bonds. Form 2028A (revised June 2001), "OCS Mineral Lessee's and Operator's Supplemental Plugging & Abandonment Bond and Act of Suretyship", should be used for supplemental bonds.

(n) Oil Spill Financial Responsibility for Offshore Facilities. Bidders should note that MMS has implemented regulations regarding the financial responsibility provision of the Oil Pollution Act of 1990. The regulations, which appear at 30 CFR 250 and 253, require 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 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 regulations at 30 CFR 250 and 253 apply to the OCS and 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.

(o) 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. 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.

(p) 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, 3200 South Second Street, St. Louis, Missouri 63118-3399; NIMA reference number PLANXAP1A. The most recent version of this document was published on March 22, 2001; it is expected that it will be reissued from time to time in the future.

The Military Areas Stipulation (see the document "Lease Stipulations for Oil and Gas Lease Sale 178, Part 2" 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 Center
16600 John F. Kennedy Boulevard
Houston, Texas 77032
Telephone: (281) 230-5536/5630

(q) Blocks Beyond the U.S. Exclusive Economic Zone. The MMS proposes to offer in this sale blocks beyond the United States Exclusive Economic Zone (in the area formerly known as the Western Gap), with the exception of blocks and portions of blocks in the 1.4 mile buffer area along the boundary established by the treaty. As noted in the Sale Notice, the "Treaty Between The Government Of The United States Of America And The Government Of The United Mexican States On The Delimitation Of The Continental Shelf In The Western Gulf Of Mexico Beyond 200 Nautical Miles" was signed by the United States and Mexico on June 9, 2000, and ratified by the U.S. Senate on October 18, 2000. The Mexican Senate gave its approval on November 28, 2000. The provisions of the treaty entered into force upon exchange of the instruments of ratification of the treaty on January 17, 2001. See also paragraph (r) below.

(r) Potential Law of the Sea Convention Requirements. Blocks or portions of blocks beyond the U.S. EEZ are offered in Sale 178, Part 2, consistent with U.S. law and potential provisions of the 1982 Law of the Sea Convention. If the U.S. becomes a party to the Convention prior to or during the life of a lease from this sale issued on a block or portion of a block located beyond the U.S. EEZ, then special royalty payment requirements may apply. The stipulation contained in the Sale

Notice will be applied to any lease issued as a result of this sale; this stipulation spells out how royalties subject to the Law of the Sea Convention will be handled by the MMS.

(s) Rentals/Minimum Royalties. The timing of when rental versus minimum royalty is due and payable has been recently revised. The revised requirement is contained in the Notice of Sale.

Note: For all leases from this sale, an Addendum will be added to the lease to modify Sections 4 and 5 of the lease instrument to implement revised rental/minimum royalty requirements.