

December 16, 2009



Dr. Marshall Rose  
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**Re: Comments on Proposed Revision of Initial Lease Terms for CPA Sale 213**

Dr. Rose:

Statoil Gulf of Mexico LLC, (“Statoil”) is pleased to submit comments on the Minerals Management Service’s (MMS) proposal to modify initial lease terms for blocks being offered during Outer Continental Shelf (“OCS”) Central Planning Area Gulf of Mexico Oil and Gas Lease Sale 213 (“Proposal”). Specifically, the MMS is proposing to revise the initial lease periods for blocks in water depths of 400 meters to less than 1600 meters.

***Introduction and Summary of Position***

Statoil supports collaborative efforts between government and industry to address issues such as the appropriate time period for primary lease terms. Statoil recognizes regulations and policies are not stagnant and must reflect certain objectives, such as resource conservation and responsible development. These policies should also incentivize prudent operators to optimize the production of resources using up-to-date information.

As MMS knows, the development of deepwater resources is costly and often unpredictable. There are a variety of obstacles to maturing a lease to the point of drilling an exploratory well, many of which are not squarely within the operator’s control (*e.g.* seismic data; rig availability; weather; permitting; litigation). We strongly urge the MMS to consider the technological, commercial, and other challenges operators face when concluding on this important matter. As for the primary terms outlined in the Proposal, Statoil offers the following:

- The proposed change for leases in the 400-800m category represents a reasonable approach to lifting the administrative burden MMS encounters by having to take formal steps to terminate a lease. This change will have a limited impact.
- The proposed change for leases in the 800-1600m category could have adverse consequences (*e.g.* inefficient unitization; suboptimal production based on inadequate planning), particularly if MMS does not have the flexibility to grant suspensions under certain circumstances prior to drilling an exploratory well.
- The primary lease term for blocks located in water depths greater than 1600m is appropriate.



### ***About Statoil***

Statoil Gulf of Mexico is a wholly-owned subsidiary of Statoil ASA, an international oil and gas company, headquartered in Norway, with operations in 40 countries. Statoil ASA is the world's largest operator in water depths greater than 100 meters and aims to be an industry leader in the development and implementation of deepwater technology. Statoil has made significant investments in the U.S. Gulf of Mexico ("GoM") and is now the 4<sup>th</sup> largest leaseholder in the deepwater, holding an interest in approximately 450 leases. Statoil has had a successful 2009, with the start-up of production on *Tahiti and Thunder Hawk*, in which we hold a 25% interest, and recently initiating an extensive exploratory drilling campaign with two new-built Statoil operated vessels.

### ***Comments***

Despite growing competence and advances in technology, deepwater production remains a costly and time consuming endeavor. In our experience, a deepwater exploratory well in water depths between 800 and 1600 meters costs in excess of \$100 MM per well. Some of the leases in these water depths may take up to 10 years to get "drill ready," due to poor seismic imaging, economic risk, commercial considerations, or lack of rig availability.

In preparation for a lease sale, Statoil carefully considers its business needs and the resource potential of blocks being offered before submitting a bid. Statoil does not bid on leases that it does not expect, at the time, to enhance its portfolio or business position. Over time, however, changes occur that may increase or decrease the relative value of a particular lease. Statoil, like other operators, has financial and personnel constraints, making it impossible to explore every single lease. Critics suggest that such leases are sitting "idle" and companies are somehow not taking advantage of available acreage. This is simply not the case in our view. As MMS knows, for a variety of reasons companies may choose not to develop a lease, but that lease may still have value to other operators. In any event, companies are paying rental fees for each leased acre, regardless of its potential value.

MMS has already taken measures that encourage lessees to explore (*i.e.* spud a well) their leases. For example, graduated rental rates in later years provide companies with an incentive to efficiently explore, develop, and produce their leases. MMS and lessees alike should seek to employ practices that promote efficiency, but not at the expense of discouraging eventual production.

Statoil offers the following specific comments on the Proposal:

#### Initial Lease Term: 400-800m

MMS is proposing a five (5) year primary term in water depths of 400-800 meters with an earned extension of three additional years (the "5+3" term). Statoil understands that this will require the leaseholder to spud a well within the primary term in order to extend the lease for an additional three (3) years. MMS would be empowered to grant such an extension if it is satisfied, by



evidence, that the leaseholder has taken the required actions. This change appears to remove the burden on the MMS to undertake efforts to cancel the lease because it will automatically terminate. Provided the lessee has satisfied the drilling requirement, the extension of the lease by an additional 3 years should be automatic and simply would require the lessee to submit a letter of evidence to the MMS. Rentals or minimum royalty would be due during the remaining term of the lease. If this accurately reflects the proposed modification, Statoil believes this revision is reasonable and will not impose any additional burden on leaseholders.

#### Initial Lease Term: 800-1600m

MMS is proposing a new initial lease term of seven (7) years for leases located in water depths of 800-1600m. Like the other category, the lease can be extended for 3 years if a well is commenced within that initial term. If this is adopted, similar to the extension of leases in water depths of 400-800m, the additional 3 years should be automatic and simply would require the lessee to submit a letter of evidence to the MMS.

This change to existing policy may have a greater impact on operators, and ultimately on production and U.S. energy security. Statoil believes that there is a balance to be struck on this issue and we are hopeful that MMS and industry can work together to properly determine that balance, thus avoiding unintended consequences.

MMS notes in the NOS that, “[t]he deepwater challenges and drilling difficulties justifying longer lease terms under the OCSLA in 800 to less than 1600 meters have diminished considerably, although not completely, over the last 25 years.” While the technical challenges for drilling in these water depths have diminished over time, the geological challenges have actually increased due to the complexity of the traps being explored. In addition, there are a variety of challenges beyond the control of the lessee (*e.g.* inclement weather) that inevitably delay exploratory plans. There are also challenges created by the proliferation in deepwater development. Because infrastructure has expanded in these water depths, the MMS has placed restrictions on the use of moored rigs close to existing infrastructure and in certain areas during hurricane season (between July 15 and November 1<sup>st</sup>). These measures, while promoting safety, effectively limit the rigs and time that leases may be drilled.

#### *Technical Issues*

Reducing the primary term of leases may pose additional constraints on lessees and the environment. The shortening of lease terms may prompt companies to mature prospects more rapidly and drill them sooner based on inferior geologic and geophysical data. In addition, lessees need adequate time to put together the necessary lease blocks to form a unit, properly plan for the well, and secure the capital to drill the lease/prospect. Inadequate time may actually cause waste and adverse environmental impacts from excess drilling (*i.e.* inability to form a unit that causes wells to be drilled simultaneously and results in excess and unnecessary drilling).

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*Business and Commercial Issues*

Statoil believes that efforts to adjust the primary term should also take into account MMS's ability to grant suspensions based on such issues as rig availability, permit delays, and inclement weather. These issues are closely aligned in our view and reasonable alternatives or regulatory steps can be taken to ensure a stable business environment in GoM. Statoil supports policies that: (1) encourage companies to use the best possible data prior to drilling a well, (2) help to identify the best well location; (3) allow for time to secure agreements between all lessees within a prospect as well as appropriate rigs. Ultimately, 7 years to drill an exploratory well is sufficient time in some, but not all, instances. MMS should fully examine the circumstances that lead to wells not being drilled within 7 years and consider whether current regulations are adequate enough to address the challenges outlined above.

*Conclusion*

Statoil appreciates the opportunity to comment on this important issue and is ready to work with the MMS to discuss these matters in greater detail. Statoil encourages the MMS to adopt policies that are flexible enough to accommodate the many challenges presented by deepwater development.

Sincerely,



Tony Doré  
Vice President  
Global Exploration North America