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December 16, 2009

Dr. Marshall Rose
Chief, Economics Division
Minerals Management Service (MS-4050)
381 Elden Street
Herndon, VA 20170

Dear Dr. Rose:

The American Petroleum Institute (API) appreciates the opportunity to provide the attached comments to the Minerals Management Service (MMS) on its proposed oil and gas Lease Sale 213 for the Central Gulf of Mexico Planning Area be held March 17, 2010. Specifically, the Proposed Notice of Sale 213 published in the *Federal Register* on November 16, 2009 includes a revision of lease terms for the blocks in water depths of 400 meters to less than 1600 meters.

Under the proposal, blocks in 400 to 800 meters are proposed to change from an eight-year lease term to a five-year initial lease term, with an extension of the term to eight years upon commencement of an exploratory well. Blocks in 800 to less than 1600 meters are proposed to change from a 10-year initial lease term to a seven-year initial lease term, with an extension of the lease term to 10 years upon commencement of an exploratory well.

API is a national trade association representing more than 400 member companies involved in all aspects of the oil and natural gas industry. Those members include producers, refiners, suppliers, pipeline operators and marine transporters, as well as service and supply companies that support all segments of the industry. API members are dedicated to meeting environmental requirements while economically developing and supplying energy resources for consumers. API members account for a tremendous amount of oil and natural gas leasing and production in the Gulf of Mexico and specifically in the Central Gulf. Therefore, API and its member companies have a direct interest in proposed changes to the lease terms.

Deepwater exploration and development in the Gulf of Mexico is an undisputed exceptional program that owes its success to government policies designed to attract interest in developing these areas and to industry's willingness to take the risks necessary to explore this challenging frontier area for resources and to develop the technology needed to produce these resources. After nearly 15 years of successful deepwater exploration, development and production, it is API's opinion that changing the lease terms for deepwater development has the potential to make the development of these leases less certain and has the potential to discourage future investment. This view is further supported when coupled with other recent actions that call into question the federal government's commitment to continue supporting deepwater oil and natural gas development.

Shortening these lease terms may seem to be justified based on historical development scenarios, but as the Gulf of Mexico has matured as an oil and natural gas producing basin, the ability to find and produce these resources has become more difficult and using water depth as the main factor for determining the duration of a lease is flawed. To a great extent, the easy to find resources have been discovered and produced, and industry is now forced to become more creative in its approach to exploration and development. Future discoveries will likely require deeper wells which bring with them unique challenges. The complex geology found in the Gulf of Mexico requires long lead times to collect, process, and interpret geological and geophysical data and challenging reservoir characteristics will require the development of new technologies and development schemes. Shortening lease terms may result in a scenario where industry will not be willing to take the risks needed to test novel geologic and technological theories because the lease terms will not allow the time needed to adequately test them. The likely unfortunate end result will be less revenue from lease sales, fewer discoveries, and less offshore oil and natural gas production.

The industry values stability and certainty in government policies so that the large investments needed to develop these high risk resources can be justified. Recent changes in government leasing and development policies include increased royalty rates, increased rental rates, and now shorter lease terms. As the MMS considers these and additional changes, it is important to realize that Gulf of Mexico investments are judged against investment opportunities throughout the world. Continued policy changes could result in deterioration of the confidence industry has placed in the U.S. government and a reduction of investment in developing U.S. deepwater resources.

Finally, these changes appear to be a reaction to the "use-it-or-lose-it" argument used in Congress last year that has since been rejected. Industry does diligently develop its lease holdings and the current lease terms and rental rates offer ample encouragement for a company to explore its leases.

The API and its members appreciate the opportunity to comment on these important issues, and we encourage the MMS to reconsider the shortening of lease terms. If you should require additional information or have any questions please contact me at (202) 682-8584 or radforda@api.org.

Sincerely,

Andy Radford

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