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

Subject: Comments on the Proposed Changes in Lease Terms
Proposed Notice of Sale 213
Central Planning Area, Gulf of Mexico

Dear Mr. Rose:

The Minerals Management Service (MMS) has proposed that oil and gas Lease Sale 213 for the Central Gulf of Mexico (GoM) Planning Area be held March 17, 2010. 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 8-year lease term to a five-year initial lease term, where commencement of an exploratory well would extend the lease term to eight years. Furthermore, blocks in 800 to less than 1600 meters are proposed to change from a ten-year initial lease term to a seven-year initial lease term, where commencement of an exploratory well would extend the lease term to ten years.

Retain current lease terms
BP America strongly supports a continuation of the regular leasing program in the central and western GoM—the region has been safely and reliably producing oil and natural gas for the nation for over 50 years. However, we are very concerned about reducing lease terms. We urge MMS to reconsider this proposal. We believe the appropriate approach is to retain the current lease term structures for these waters because they have served the US Government and industry well. Stable and predictable leasing structures have encouraged significant investments which have led to a dramatic increase in production in the GoM over the past decade. Today, the GoM accounts for almost one quarter of the oil produced in the US. Key to the success has been a stable leasing program, including lease terms that do not change from one sale to another.

Potential for significant unintended consequences
We believe that the proposed reduction of lease terms could produce serious unintended detrimental consequences. The proposal will likely impact the overall attractiveness of the GoM in comparison with other areas around the world. If the region becomes less attractive for investment, this will result in a reduction in revenues to the US Treasury from lower bonus bids on leases, reduced lease rental payments, and lower royalty payments. Furthermore, limiting the terms of leases in water depths up to 1600 meters will likely result in the drilling of fewer exploration wells. Fewer exploration wells will result in fewer discoveries, fewer development projects, and less production. This will cause the US to import more oil from other locations where environmental laws are less stringent. The US balance of trade would also be negatively impacted, fewer jobs will be created, and US energy and national security could be undermined.

Policies that drive companies to drill additional wells merely to retain or extend shortened lease terms will result in a waste of resources simply for the purpose of extending the term of the lease. This is inconsistent with the Congressional declaration of policy found in §1332 of the Outer Continental Shelf Lands Act, particularly Congress' stated policy of"…expeditious and orderly development, subject to environmental safeguards, in a manner which is consistent with the maintenance of competition and other national needs…" This could also lead to inefficiencies in the GoM drilling sector and unnecessary environmental risks.

GoM complexity demands regulatory flexibility
The GoM is one of the most complex oil and gas basins in the world. This complexity is demonstrated by very deep, subsalt, high pressure and high temperature reservoirs that are currently being explored and appraised. It was not until earlier in this decade that the industry was able to position exploration wells and appraise discoveries in complex subsalt and high pressure strata. The complexity of the subsurface requires long periods of time to acquire and process seismic images before being able to safely design and execute wells which today take at least a year to plan. Therefore, past experiences regarding the timeframes from lease acquisition to the first exploration well are not appropriate analogues for the present and the future.

Water depth should not be the only driver
We believe that water depth should not be the primary driver of lease terms. More often than not, it is the subsurface difficulties associated with imaging and drilling designs that require industry to need more time to image, plan, and execute the drilling of deep water wells. We believe this fact is recognized by MMS, and especially so in the deepwater and ultra deep gas plays on the shelf. MMS has issued Notices to Lessees and Suspensions of Operations regarding the evaluation, planning and drilling of ultra deep gas wells on the shelf**.** In doing so, MMS has acknowledged that these operations are as challenging as those in the deepwater even though the leases are in less than 200 meters of water.

Technology challenges require time to overcome
Industry has always operated on the cutting edge of technology. This is more the case today than ever before. Due in large part to advances in seismic imaging, deepwater drilling technology and production systems technology, the industry is able to explore previously inaccessible areas of the GoM. The challenges of operating in deeper water, subsalt, and at higher temperatures and pressures are extraordinary. The fact remains, new supplies are harder to find, more difficult and more expensive to extract and take much more time and resources of all kinds to bring online, not less. These facts call for a more flexible leasing program, not one which is more restrictive.

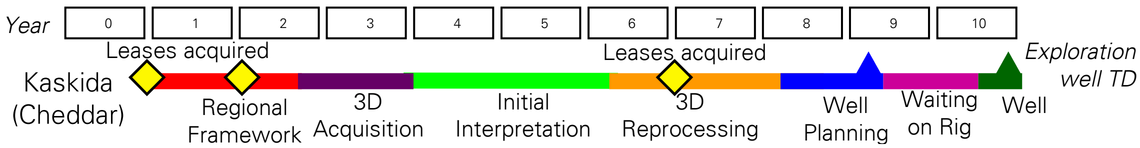
Drilling costs are increasing
Today, exploration wells cost between $100 and $250 million each and take several years to plan and execute. On average, only one in three exploration wells will find sufficient commercial quantities of oil and gas to develop. When discoveries are made, the projects that bring them to production often require the development of new technology. These projects are hugely expensive and require many years to deliver. This said, the projects are being delivered with a safety and environmental record that would be the envy of any industry.

Next generation of discoveries will require more time
The next generation of discoveries in the GoM will require more time and more investment to move from discovery to production. Today, exploration wells in the GoM target reservoirs lying as much as 6 to 7 miles below sea level. Water depth is just one element of increased complexity. Subsurface challenges associated with seismic imaging and drilling designs have an even more significant impact on the time and investment required. As the remaining resources become increasingly difficult to discover, and more challenging and expensive to develop, stable and predictable leasing, regulatory, and fiscal regimes will continue to be important to successful oil and gas resource development.

Ten year lease terms are critical
Today, the significant amount of uncertainty involved, and the technology and investment required justify the full 10-year lease term. As we move to deeper and more challenging environments, whether they be on the shelf or in deepwaters, there is no reasonable logic for shorter lease terms.

Kaskida example
With more difficult to image and deeper prospects our recent successes like Kaskida clearly demonstrate that it may take a full ten years from the initial lead identification and lease acquisition to drill the exploration well. It took ten years for us to produce a seismic image of sufficient quality to safely plan and execute the exploration well at Kaskida (see timeline below). We believe this will be a typical timeline for many future GoM prospects.

Timeline to Mature Kaskida from Lease Access to 1st Well



New play concepts will be discouraged
The current ten-year lease term for deepwater areas of the GoM enables industry to adequately evaluate new play concepts. Examples include recent success in assessing the Paleogene/Lower Tertiary plays where industry has discovered billions of barrels of oil and gas in-place. New play concepts require sufficient time, investment and technology to be properly assessed and tested. Often, one well is selected to test a play concept; however, there is a group of related prospects on other leases which are dependent upon the outcome of the play test. If lease terms are reduced, the incentive to pursue new play concepts will be severely diminished as industry will be less likely to test a single prospect in a new play if they do not hold a portfolio of leases with "follow-on" prospectivity.

Hub developments
While conventional plays in the GoM mature, field sizes are decreasing. As a result, in order to make a discovery economically viable it is often required that multiple discoveries are tied together into a single hub, or production facility. Such circumstances require that industry has the time and flexibility to mature each of these opportunities individually. This concept is demonstrated by BP's Nakika development, which includes six separate fields tied together into a common host/hub facility. None of these fields was economic on its own. However, the hub concept enabled collective development. Under the proposal, industry will be discouraged from pursuing such opportunities because of the lack of time available to fully explore and appraise multiple fields.

Escalating rental rates
The Notice also includes new, escalating rental rates for leases in the GoM. BP is concerned about what we see as a trend toward higher levels of government take. This includes recent increases in royalty rates on leases across the GoM, new taxes on GoM production being contemplated by Congress and the administration, and escalating rental rates. These actions, when combined with a reduction in lease terms, have the undesired effect of decreasing the competitiveness of the GoM. We urge MMS to retain the existing rental rate structure.

Conclusion
Technology has been, and will continue to be, the key to our energy future. We must continue to invest in exploration and production capability, and in technology to meet demand. We must also continue to develop technologies to increase recovery of oil and gas from established hydrocarbon positions in the US. To encourage and ensure

continued success, we must have stable leasing, fiscal, and regulatory policies so that the oil and gas industry can continue to maintain investments which create jobs, generate revenues and enhance US energy and national security.

BP appreciates the opportunity to comment on the Proposed Notice of Sale 213. In order to enhance the nation's economic, energy, and national security, the U.S. clearly needs to aggressively expand offshore access and open all available areas to oil and gas leasing, exploration and development, rather than limiting the opportunities by reducing lease terms. A dramatic change in policy with regard to lease terms, as proposed in the Notice, sends the wrong signal to industry and undermines the confidence built in the leasing program over decades. Again, BP urges the MMS to reconsider this proposal and retain the current lease term structure. We would welcome the opportunity to further discuss our comments.

Sincerely,

D. I. Rainey

David I. Rainey

cc: Associate Director, Mr. Chris C Oynes (MS 5438), Main Interior