

DEPARTMENT OF THE INTERIOR

Minerals Management Service (MMS)

Outer Continental Shelf (OCS) Western Planning Area (WPA) Gulf of Mexico (GOM) Oil and Gas Lease Sale 215

AGENCY: Minerals Management Service, Interior

ACTION: Proposed Notice of Sale (NOS) 215

SUMMARY: The MMS proposes to hold WPA Oil and Gas Lease Sale 215, on Wednesday, August 18, 2010, in accordance with provisions of the OCS Lands Act (43 U.S.C. 1331-1356, as amended) and the regulations issued there under (30 CFR Part 256). The Proposed NOS 215 Package contains information essential to potential bidders, and bidders are charged with the knowledge of the documents contained in the Package.

DATES: The MMS proposes to hold WPA Oil and Gas Lease Sale 215 on Wednesday, August 18, 2010, at a New Orleans site to be determined. Public bid reading is proposed to begin at 9:00 a.m. All times referred to in this document are local New Orleans times, unless otherwise specified.

ADDRESSES: The Proposed NOS 215 Package contains information essential to potential bidders, and bidders are charged with the knowledge of the documents contained in the Package. Interested parties can obtain a Package by writing or calling the:

Gulf of Mexico Region Public Information Unit
Minerals Management Service
1201 Elmwood Park Boulevard
New Orleans, Louisiana 70123-2394
(504) 736-2519 or (800) 200-GULF
MMS GOM Internet website at: www.gomr.mms.gov.

BID SUBMISSION DEADLINE: Bidders will be required to submit bids to the MMS at the GOM Region, 1201 Elmwood Park Boulevard, New Orleans, Louisiana, 70123-2394, by 10:00 a.m. on Tuesday, August 17, 2010, the day before the proposed lease sale. The MMS will specify procedures for bid submission in the Final NOS 215 Package.

PROPOSED LEASE SALE AREA: The MMS proposes to offer for bid in this lease sale all of the unleased acreage in the WPA in the GOM except:

Whole and portions of blocks which lie within the boundaries of the Flower Garden Banks National Marine Sanctuary at the East and West Flower Garden Banks and Stetson Bank (the following list includes all blocks affected by the Sanctuary boundaries):

High Island, East Addition, South Extension (Leasing Map TX7C)

Whole Block: A-398

Portions of Blocks: A-366*, A-367*, A-374*, A-375, A-383*, A-384*, A-385*, A-388, A-389*, A-397*, A-399, A-401

High Island, South Addition (Leasing Map TX7B)

Portions of Blocks: A-502, A-513*

* Leased

Garden Banks (OPD NG15-02)

Portions of Blocks: 134, 135

Whole and portions of blocks which lie within the former Western Gap portion of the 1.4 nautical mile buffer zone north of the continental shelf boundary between the United States and Mexico:

Keathley Canyon (OPD NG15-05)

Portions of Blocks: 978 through 980

Sigsbee Escarpment (OPD NG15-08)

Whole Blocks: 11, 57, 103, 148, 149, 194

Portions of Blocks: 12 through 14, 58 through 60, 104 through 106, 150

STATUTES AND REGULATIONS: Each lease issued in this lease sale is subject to the OCS Lands Act of August 7, 1953; 43 U.S.C. 1331 et seq., as amended, hereinafter called “the Act;” regulations promulgated pursuant thereto, and other statutes and regulations in existence upon the Effective Date of the Lease; and those statutes enacted and regulations promulgated thereafter, except to the extent they are inconsistent with an express provision of the lease.

The MMS will use Form MMS-2005 (October 2009) to convey leases; it can be viewed at: <http://www.gomr.mms.gov/homepg/forms/FormMMS-2005.pdf>. The lease form will be amended with the specific terms, conditions and stipulations applicable to the individual lease. Addressed below are the collective terms, conditions, and stipulations applicable to this sale.

LEASE TERMS AND CONDITIONS: Proposed initial periods, extensions of initial periods, minimum bonus bid amounts, rental rates, escalating rental rates for leases with an approved extension of the initial 5-year period, royalty rate, minimum royalty, and royalty suspension provisions, if any, applicable to this sale are noted below. Depictions of related areas are shown on the map “Proposed, Western Planning Area, Lease Sale 215, August 2010, Lease Terms and Economic Conditions,” for leases resulting from this lease sale.

The 5-year initial period in water depths of 400 to less than 800 meters with an earned extension of 3 additional years (5+3 year) supersedes and replaces the previous 8-year initial period provisions for these water depths as authorized but not required by regulations at 30 CFR 256.37 (a)(3) where a well must have been spudded within the first 5 years of the initial 8-year period to avoid lease cancellation. This change relieves MMS of the administrative burden of taking action to cancel a lease, and instead requires the lessee to apply for an extension with evidence

that it has earned it by spudding a well to secure MMS approval.

An initial period of 7 years with an earned extension of an additional 3 years (7+3 year) is replacing the traditional 10-year initial period in 800 to less than 1,600 meters of water. The deepwater challenges and drilling difficulties justifying longer lease terms under the OCSLA in 800 to less than 1,600 meters have diminished considerably, although not completely, over the last 25 years. The 7+3 year lease term recognizes that exploration can typically be undertaken within the initial 7-year period, but development still may require the full 10 years. In both the 5+3 year and 7+3 year cases, the lease expires at the end of 5 or 7 years, respectively, if no qualifying well has been spudded before the end of the 5th or 7th year, respectively.

Initial Periods: 5 years for blocks in water depths of less than 400 meters (subject to administrative requirements noted below, i.e. that spudding of an ultra-deep well within the 5-year initial period will extend the lease term to 8 years); 5 years for blocks in water depths of 400 to less than 800 meters (subject to administrative requirements noted below, i.e., that the initial period will be extended to 8 years conditional upon the spudding of a well within the initial 5-year period); 7 years for blocks in water depths of 800 meters to less than 1,600 meters (subject to administrative requirements noted below, i.e. that the initial period will be extended to 10 years conditional upon the spudding of a well within the initial 7-year period); and 10 years for blocks in water depths of 1,600 meters or deeper.

<u>Water Depth in meters</u>	<u>Initial Periods</u>
0 to <400	5 years extended to 8 years if a well is spudded during the initial 5-year period targeting hydrocarbons below 25,000 feet true vertical depth (TVD) subsea (SS)
400 to <800	5 years extended to 8 years if a well is spudded during the initial 5-year period
800 to <1,600	7 years extended to 10 years if a well is spudded during the initial 7-year period
1,600+	10 years

Extensions of Initial Periods:

1. The 5-year initial period for a lease in water depths of less than 400 meters will be extended to 8 years if a well, targeting hydrocarbons below 25,000 feet TVD SS, is spudded during the 5-year initial period. The 3-year extension may also be granted in cases where the well is drilled to a target below 25,000 feet TVD SS but the well does not reach a depth below 25,000 feet TVD SS due to mechanical or safety reasons.

In order for the 5-year initial period to be extended to 8 years, the lessee is required to submit to the Regional Supervisor for Production and Development, within 30 days after completion of the drilling operation, a letter providing the well number, spud date, information demonstrating the target below 25,000 feet TVD SS, and if applicable, any safety or mechanical problems encountered that prevented the well from reaching a depth below 25,000 feet TVD SS. The Regional Supervisor must concur in writing that the conditions have been met to extend the

initial period 3 years. The Regional Supervisor will provide written confirmation of any lease extension within 30 days of receipt of the letter provided.

For any lease that has earned a 3-year extension by spudding a well during the 5-year initial period with a hydrocarbon target below 25,000 feet TVD SS, MMS would not consider granting a suspension for that same period under the regulations at 30 CFR 250.175 because the lease is not at risk of expiring. Before the end of the 8th year, the lessee may seek a suspension under the regulations then in effect.

2. The 5-year initial period for a lease in water depths of 400 meters to less than 800 meters and issued from this sale will be extended to 8 years, if a well is spudded within the initial 5-year period; otherwise, the lease expires on its own terms.

In order for the 5-year initial period to be extended to 8 years, the lessee is required to submit to the appropriate District Manager, within 30 days after spudding a well, a letter providing the well number, spud date, and requesting confirmation of a 3-year extension of the initial period. The District Manager will review the request and make a determination. A written response will be sent to the lessee documenting the District Manager's decision within 30 days of receipt of the request. For an extension to be granted, the District Manager must concur in writing that the conditions have been met to extend the initial period 3 years.

Before the end of the 5th year on a lease without a well or the 8th year on a lease with a timely well, the lessee may seek a suspension under the regulations then in effect.

3. The 7-year initial period for a lease in water depths of 800 meters to less than 1,600 meters and issued from this sale will be extended to 10 years if a well is spudded within the initial 7-year period; otherwise, the lease expires on its own terms.

In order for the 7-year initial period to be extended to 10 years, the lessee is required to submit to the appropriate District Manager, within 30 days after spudding an exploratory well, a letter providing the well number, spud date, and requesting confirmation of a 3-year extension of the initial period. The District Manager will review the request and make a determination. A written response will be sent to the lessee documenting the District Manager's decision within 30 days of receipt of the request. For an extension to be granted, the District Manager must concur in writing that the conditions have been met to extend the lease term 3 years.

Before the end of the 7th year on a lease without a well or the 10th year on a lease with a timely well, the lessee may seek a suspension under the regulations then in effect.

Minimum Bonus Bid Amounts: A bonus bid will not be considered for acceptance unless it provides for a cash bonus in the amount of \$25 or more per acre or fraction thereof for blocks in water depths of less than 400 meters, or \$37.50 or more per acre or fraction thereof for blocks in water depths of 400 meters or deeper; to confirm the exact calculation of the minimum bonus bid amount for each block, see "List of Blocks Available for Leasing," which will be contained in the Final NOS 215 Package. Please note that bonus bids must be in whole dollar amounts (i.e., any cents will be disregarded by the MMS).

Rental Rates: Annual rentals for leases issued in this sale are to be paid at the rental rates summarized in the following table on or before the 1st day of each lease year until determination of well producibility is made, then at the expiration of each lease year until the start of royalty-bearing production.

Escalating Rental Rates for leases with an approved extension of the initial period: Any lease in water depths less than 400 meters and granted a 3-year extension beyond the 5-year initial period as provided above will pay an escalating rental rate as shown below. The escalating rental rates after the 5th year for blocks in less than 400 meters will become fixed and no longer escalate if another well is spudded during the 3-year extended term of the lease that targets hydrocarbons below 25,000 feet TVD SS, and MMS concurs that this has occurred. In this case the rental rate will become fixed at the rental rate in effect during the lease year in which the additional well was spudded.

Sale 215 Rental Rates per Acre or Fraction Thereof		
Water Depth in meters	Years 1-5	Years 6, 7, and 8+
0 to <200	\$7.00	\$14.00, \$21.00, \$28.00
200 to <400	\$11.00	\$22.00, \$33.00, \$44.00
400 to <800	\$11.00	\$16.00
800+	\$11.00	\$16.00

Royalty Rate: 18.75 percent royalty rate for blocks in all water depths, except during periods of royalty suspension, to be paid monthly on the last day of the month following the month during which the production is obtained.

Minimum Royalty: \$7.00 per acre or fraction thereof per year for blocks in water depths of less than 200 meters and \$11.00 per acre or fraction thereof per year for blocks in water depths of 200 meters or deeper regardless of the year of the lease and notwithstanding any royalty relief volume. Minimum royalty is to be paid at the expiration of each lease year beginning in the year in which royalty bearing production commences, and continuing thereafter regardless of either the lease year or whether any royalty suspension may apply. A credit will be applied for any actual royalty paid on the lease during the lease year in which minimum royalty is owed on the lease. If the actual royalty paid on the lease for a given lease year exceeds the minimum royalty otherwise owed, then no minimum royalty payment is due.

Royalty Suspension Provisions: Leases with royalty suspension volumes (RSV), are authorized under existing MMS rules at 30 CFR Parts 203 and 260.

Deep and Ultra-Deep Gas Royalty Suspensions

A lease issued, as a result of this sale, may be eligible for royalty relief for deep and ultra-deep wells pursuant to 30 CFR 203.0 and 30 CFR 203.30-203.49. The regulations provide deep gas incentives in two ways. First, they provide an RSV of 35 billion cubic feet of natural gas for certain wells completed in a drilling depth category (20,000 feet TVD SS or deeper) for leases in 0 to less than 400 meters of water. Second, they offer RSVs to leases in 200 to less than 400 meters of water that are the same as the RSVs that were previously offered in shallower water i.e., in zero to 200 meters of water. These RSV incentives are conditional on applicable price thresholds and require that wells completed from 15,000 to 20,000 feet TVD SS on leases in 200 to less than 400 meters of water must begin production before May 3, 2013.

Deepwater Royalty Suspensions

No deepwater royalty suspension provisions will be offered for leases issued from this sale. Because of higher oil and gas price expectations, MMS has determined there is no need now for royalty relief to encourage exploration and development. Section 345 of EPAct05 directed that RSV levels at least as high as those then used by MMS be continued for 5 years following enactment. The EPAct05 was signed into law on August 8, 2005, and this sale is being held more than 5 years after the passage of EPAct05. Therefore, the statutory requirement for deepwater royalty relief expires before this sale.

LEASE STIPULATIONS: The map “Proposed, Western Planning Area, Lease Sale 215, August 2010, Stipulations and Deferred Blocks” depicts those blocks on which one or more of four lease stipulations apply: (1) Topographic Features; (2) Military Areas; (3) Law of the Sea Convention Royalty Payment; (4) Protected Species.

The texts of the stipulations are contained in the document “Lease Stipulations, Western Planning Area, Oil and Gas Lease Sale 215, Proposed Notice of Sale” included in this Proposed NOS 215 Package. In addition, the “List of Blocks Available for Leasing,” will be contained in the Final NOS 215 Package and will identify for each block listed the lease stipulations applicable to that block.

INFORMATION TO LESSEES: This Proposed NOS 215 Package contains an “Information To Lessees” document that provides detailed information on certain specific issues pertaining to this proposed oil and gas lease sale.

BONUS BID DEPOSIT: Each bidder submitting an apparent high bid must submit a bonus bid deposit to MMS equal to one-fifth of the bonus bid amount for each such bid. All payments must be electronically deposited into an interest-bearing account in the U.S. Treasury (account information provided in the Electronic Funds Transfer (EFT) instructions) by 11 a.m. Eastern Time the day following bid reading. Under the authority granted by 30 CFR 256.46(b), MMS requires bidders to use electronic funds transfer procedures for payment of one-fifth bonus bid deposits for Lease Sale 215, following the detailed instructions contained in the document “Instructions for Making EFT Bonus Payments” which can be found on MMS GOM website at:

<http://www.gomr.mms.gov/homepg/lseale/215/wgom215.html>. Acceptance of a deposit does not constitute and shall not be construed as acceptance of any bid on behalf of the United States. If a lease is awarded, MMS requests that only one transaction be used for payment of the four-fifths bonus bid amount and the first year's rental.

Please note: Certain bid submitters (i.e., those that are NOT currently an OCS mineral lease record titleholder or designated operator OR those that have ever defaulted on a one-fifth bonus bid payment (EFT or otherwise)) **are required to guarantee (secure) their one-fifth bonus bid payment prior to the submission of bids.** For those who must secure the EFT one-fifth bonus bid payment, one of the following options may be used: (1) provide a third-party guarantee; (2) amend bond coverage; (3) provide a letter of credit; or (4) provide a lump sum payment in advance via EFT. The EFT instructions specify the requirements for each option.

GEOPHYSICAL DATA AND INFORMATION STATEMENT: Pursuant to 30 CFR 251.12, MMS has a right to access geophysical data and information collected under a permit in the OCS.

Every bidder submitting a bid on a block in Sale 215, or participating as a joint bidder in such a bid, must submit a Geophysical Data and Information Statement (GDIS) identifying any enhanced or reprocessed geophysical data and information generated or used as part of the decision to bid or participate in a bid on the block (including the use of Controlled Source Electromagnetics, Gravity, etc.). The data identified in the GDIS should clearly identify whether the data or information are multi-client (speculative) data sets available directly from geophysical contractors or exclusive (proprietary) data sets specially processed for or by bidders.

In addition, the GDIS should clearly identify the data type (2-D or 3-D, pre-stack or post-stack and time or depth); areal extent (i.e., number of line miles for 2D or number of blocks for 3D) and migration algorithm (Wave Equation Migration, Reverse Time Migration, etc.) of the data and information. The statement must also include the name, phone number and full address of a contact person, and an alternate, who are both *knowledgeable* about the information and data listed and *available* for 30 days post-sale, the processing company, date processing was completed, owner of the original data set (who initially acquired the data), original data survey name and permit number. The MMS reserves the right to query about alternate data sets and to quality check and compare the listed and alternative data sets to determine which data set most closely meets the needs of the fair market value determination process.

The statement must also identify each block upon which the bidder submitted a bid or participated as a partner in a bid, but for which it did *not* use enhanced or reprocessed pre- or post-stack geophysical data and information as part of the decision to bid or to participate in the bid. The GDIS must be submitted, even if no enhanced geophysical data and information were used in bid preparation for the tract.

In the event your company supplies any type of data to MMS, your company must meet the following requirements to get reimbursed:

1. Your company must be registered with the Central Contractor Registration (CCR). The initial registration is valid for one year and must be updated annually

thereafter. The website for registering is: <http://www.ccr.gov>. This is a requirement that was implemented on October 1, 2003, and requires all entities doing business with the Government to complete a business profile in the CCR. It must be *updated annually*. Payments are made electronically based on the information contained in the CCR. Therefore, if your company is not *actively* registered in the CCR, MMS *will not* be able to reimburse or pay your company for any data supplied.

2. Your company must complete an on-line application for your Representations (Reps) and Certifications (Certs) at <http://orca.bpn.gov>. ORCA (On-line Representations and Certifications Application) is an E-Government initiative. Even though your company may have never provided Reps and Certs previously, they are now mandated in order to do business with the Government or receive reimbursement.

Please note that you may now submit the GDIS information table digitally on a CD as an Excel spreadsheet. Refer to the Final NOS 215 Package for more detail concerning submission of the GDIS, making the data available to MMS following the lease sale, preferred format, reimbursement for costs, and confidentiality.

FORCE MAJEURE: The MMS Regional Director of the GOM Region has the discretion to change any date, time, and/or location specified in the Proposed NOS 215 Package in case of a force majeure event that the Regional Director deems may interfere with the carrying out of a fair and proper lease sale process. Such events may include, but are not limited to, natural disasters (earthquakes, hurricanes, and floods), wars, riots, and acts of terrorism, fire, strikes, civil disorder or other events of a similar nature. In case of such events, bidders should call (504) 736-0557 or access our website at: <http://www.gomr.mms.gov> for information about any changes.

UPCOMING MILESTONES: After the Governors of the affected states (Louisiana and Texas), have had an opportunity to comment on the size, timing, or location of the proposed lease sale, as required by section 19 of the Act, the Assistant Secretary - Land and Minerals Management will make a decision on the Final NOS 215. The Department of the Interior reserves the right to revise the areas offered for bidding and associated terms and conditions described in this proposed notice. If the Assistant Secretary decides to proceed with the lease sale, a Final NOS for WPA Oil and Gas Lease Sale 215 will be published in the *Federal Register* at least 30 days prior to the date of the public bid reading. A Final NOS 215 Package containing all lease sale terms and conditions and detailed instructions to bidders will also be available at that time from the MMS GOM Public Information Unit and on the GOM website at: <http://www.gomr.mms.gov/homepg/lseale/215/wgom215.html>.

Appendix

Repeal Language for Royalty Suspension Provisions for WPA Sale 215

Please Note:

Potential bidders are advised about possible changes in royalty relief for this sale. The House of Representatives and the President have indicated a desire to repeal section 344 of the Energy Policy Act of 2005 (EPAAct05). The Congress could adopt and the President sign a bill with repeal of EPAAct05 section 344 before MMS issues the Final NOS 215.

Should section 344 be repealed on or before June 20, 2010, a date giving enough lead time for bidders and MMS to prepare for the Final NOS 215, MMS intends to offer leases for sale with no deep gas royalty suspension volumes in their lease terms. This means that leases located in 200 to 400 meters of water with deep gas wells would not earn royalty suspension volumes, and leases located in 0 to 400 meters of water with ultra-deep wells would not earn royalty suspension volumes of at least 35 BCF.

Absent repeal, section 344 of the EPAAct05 extends existing deep gas incentives in two ways. First, it mandates a RSV of at least 35 BCF of natural gas for certain wells completed in a drilling depth category (20,000 feet TVD SS or deeper) for leases in 0 to 400 meters of water. Second, section 344 directs that the same incentives prescribed in MMS' 2004 rule for wells completed between 15,000 feet and 20,000 feet TVD SS on leases in 0 to 200 meters of water be applied to leases in 200 to 400 meters of water.