

**DEPARTMENT OF THE INTERIOR**

**Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE)**

Outer Continental Shelf (OCS) Western Planning Area (WPA) Gulf of Mexico (GOM) Oil and Gas Lease Sale 218

**AGENCY:** Bureau of Ocean Energy Management, Regulation and Enforcement, Interior

**ACTION:** Proposed Notice of Sale (NOS) 218

**SUMMARY:** BOEMRE proposes to hold WPA Oil and Gas Lease Sale 218, on Wednesday, December 14, 2011, in accordance with provisions of the OCS Lands Act (OSCLA) (43 U.S.C. 1331-1356, as amended) and the regulations issued thereunder (30 CFR Part 256). The Proposed NOS 218 Package contains information essential to potential bidders, and bidders are charged with the knowledge of the documents contained in the Package.

**DATES:** BOEMRE proposes to hold WPA Oil and Gas Lease Sale 218 on Wednesday, December 14, 2011, 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:** Interested parties can obtain a Package by writing or calling the:

Gulf of Mexico Region Public Information Unit  
Bureau of Ocean Energy Management, Regulation and Enforcement  
1201 Elmwood Park Boulevard  
New Orleans, Louisiana 70123-2394  
(504) 736-2519 or (800) 200-GULF  
BOEMRE GOM Internet website at: [www.gomr.boemre.gov](http://www.gomr.boemre.gov).

**BID SUBMISSION DEADLINE:** Bidders will be required to submit bids to BOEMRE at the GOM Region, 1201 Elmwood Park Boulevard, New Orleans, Louisiana, 70123-2394, by 10:00 a.m. on Tuesday, December 13, 2011, the day before the proposed lease sale. BOEMRE will specify procedures for bid submission in the Final NOS 218 Package.

**PROPOSED LEASE SALE AREA:** BOEMRE 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 that 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

\*Leased

High Island, South Addition (Leasing Map TX7B)

Portions of Blocks: A-502, A-513

Garden Banks (OPD NG15-02)

Portions of Blocks: 134, 135

Whole and portions of blocks that lie within the former Western Gap and lie within the 1.4 nautical mile 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 is issued pursuant to the OCSLA of August 7, 1953; 43 U.S.C. 1331 et seq., as amended, (hereinafter called “the Act”). This lease is subject to the Act, regulations promulgated pursuant thereto, and other statutes and regulations in existence upon the Effective Date of the lease, and those statutes enacted (including amendments to the Act or other statutes) and regulations promulgated thereafter, except to the extent they explicitly conflict with an express provision of this lease.

The BOEMRE will use a new lease form to convey leases offered in this sale. The new lease form will be referenced in the Final Notice of Sale for WPA Lease Sale 218, and will be available to view at that time on the BOEMRE website. Changes to the lease form may be viewed at: <http://www.gomr.boemre.gov/homepg/lseale/218/wgom218.html>. The lease form will be amended to conform with the specific terms, conditions and stipulations applicable to the individual lease. Addressed below are the 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. Related areas are depicted on the map “Proposed, Western Planning Area, Lease Sale 218, December 2011, 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 the potential for an earned extension of three additional years (5+3 year) superseded and replaced 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 five years of the initial 8-year period to avoid lease cancellation. This change relieved BOEMRE 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 BOEMRE approval.

An initial period of seven years with an earned extension of an additional three years (7+3 year) replaced 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 ten years. In both the 5+3 year and 7+3 year cases, the lease expires at the end of five or seven years, respectively, if no qualifying well has been spudded before the end of the 5th or 7th year, respectively.

**Initial Periods:** Five 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 eight years); five 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 eight years conditional upon the spudding of a well within the initial 5-year period); seven 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 ten years conditional upon the spudding of a well within the initial 7-year period); and ten 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 may be extended to 8 years if a well, targeting hydrocarbons below 25,000 feet TVD SS, is spudded within the 5-year initial period. The 3-year extension will be granted in cases where the well is

drilled to a target below 25,000 feet TVD SS and may also be granted in cases where 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 eight 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 three 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, BOEMRE will 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 8<sup>th</sup> 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 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 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 initial period three years.

Before the end of the 5<sup>th</sup> year on a lease without a well or the 8<sup>th</sup> 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 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 ten 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 three years.

Before the end of the 7<sup>th</sup> year on a lease without a well or the 10<sup>th</sup> 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 \$100 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,” that will be contained in the Final NOS 218 Package. Please note that bonus bids must be in whole dollar amounts (i.e., BOEMRE will disregard partial dollar amounts).

The previous minimum bid level of \$37.50 per acre, or fraction thereof, for leases in at least 400 meters of water depth has been in place since 1999, when oil prices were around \$20 per barrel. BOEMRE will reassess the revised minimum bid level following this sale and the next one in the CPA to determine whether further adjustments are needed in subsequent Gulf of Mexico lease sales.

**Rental Rates:** Annual rental rates are summarized in the following table.

<b>Rental Rates per Acre or Fraction Thereof</b>		
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

**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 above. The escalating rental rates after the 5<sup>th</sup> 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 BOEMRE concurs that such a well has been spudded. 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.

**Royalty Rate:** 18.75 percent

**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.

**Royalty Suspension Provisions:** Leases with royalty suspension volumes (RSV), are authorized under existing BOEMRE 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, BOEMRE has determined there is no need now for royalty relief to encourage exploration and development. Section 345 of Energy Policy Act of 2005 (EPAct05) directed that RSV levels at least as high as those then used by BOEMRE be continued for five years following enactment. The EPAct05 was signed into law on August 8, 2005, and this sale is being held more than five years after the passage of EPAct05. Therefore, the statutory requirement for deepwater royalty relief expired before this sale.

**LEASE STIPULATIONS:** The map “Proposed, Western Planning Area, Lease Sale 218, December 2011, 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 218, Proposed Notice of Sale” included in this Proposed NOS 218 Package. In addition, the “List of Blocks Available for Leasing,” will be contained in the Final NOS 218 Package and will identify for each block listed the lease stipulations applicable to that block.

**INFORMATION TO LESSEES:** The Proposed NOS 218 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 the Office of Natural Resources Revenue (ONRR) 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 found on the BOEMRE website at:

<http://gomr.boemre.gov/homepg/lseale/218/EFT-Inst-June 20-2011.pdf>) by 11 a.m. Eastern Time the day following bid reading (no exceptions). Under the authority granted by 30 CFR 256.46(b), BOEMRE requires bidders to use electronic funds transfer procedures for payment of one-fifth bonus bid deposits for Lease Sale 218, following the detailed instructions contained on the Payment Information Webpage that may be found on the ONRR website at: <http://www.onrr.gov/FM/PayInfo.htm>. 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, ONRR 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 title holder 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, BOEMRE 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 218, or participating as a joint bidder in such a bid, must submit at the time of bid submission a Geophysical Data and Information Statement (GDIS) in a separate and sealed envelope, 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 2-D or number of blocks for 3-D) 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. BOEMRE 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 block.

In the event your company supplies any type of data to BOEMRE, 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, BOEMRE *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>. The 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: You may now submit the GDIS Information Table digitally on a CD as an Excel Spreadsheet.**

**FORCE MAJEURE:** BOEMRE Regional Director of the GOM Region has the discretion to change any date, time, and/or location specified in the Proposed and Final NOS 218 Packages 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.boemre.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 218. 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 218 will be published in the *Federal Register* at least 30 days prior to the date of the public bid reading. A Final NOS 218 Package containing all lease sale terms and conditions and detailed instructions to bidders will also be available at that time from the BOEMRE GOM Public Information Unit and on the GOM website at: <http://www.gomr.boemre.gov/homepg/lseale/218/wgom218.html>.



## **Appendix**

### **Repeal Language for Royalty Suspension Provisions for WPA Sale 218**

#### **Please Note:**

Potential bidders are advised about possible changes in royalty relief for this sale. Congress could adopt and the President sign a bill with repeal of EAct05 section 344 before BOEMRE issues the Final NOS 218.

Should section 344 be repealed on or before October 13, 2011, a date giving enough lead time for bidders and BOEMRE to prepare for the Final NOS 218, BOEMRE 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 RSVs, and leases located in 0 to 400 meters of water with ultra-deep wells would not earn RSVs of at least 35 BCF.

Absent repeal, section 344 of the EAct05 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 BOEMRE's 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.