



Virginia Coal & Energy Commission

Offshore Oil & Gas Leasing Program Overview

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Offshore Minerals and Energy Management

Minerals Management Service

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MMS

From Outer Continental Shelf Lands Act, as Amended

- "It is hereby declared to be the policy of the United States that . . . ***the Outer Continental Shelf is a vital national resource*** held by the Federal Government for the public, which should be made ***available for expeditious and orderly development, subject to environmental safeguards***, in a manner which is ***consistent with the maintenance of competition*** and other national needs "

Outer Continental Shelf Oil & Gas Leasing Program 2007 - 2012



**National Total
Leases and Acreage**
8,237 Leases
43,899,380 Acres

Legend

- OCS Planning Area
- Areas Withdrawn From Leasing Through 2022
- Areas Available for Leasing in the 2007-2012 5-Year Program
- National Marine Sanctuary (NMS) / Presidential Withdrawal Areas
- Existing Leases
- Areas Available for Leasing, but Outside the 2007-2012 5-Year Plan

**Active lease statistics are as of Sept 12, 2008
State Leases are not depicted**

NAD 1983
Geographic
CONUS Map 1:6,500,000

0 30 60 120 180 240 300
0 250 100 150 200 250
Nautical Miles
0 250 100 150 200 250
Statute Miles

MMS Overview

- Created in 1982
- Responsible for 1.76 billion OCS acres
 - Lease issuance to decommission
- Day-to-Day
 - ~8,000 leases
 - ~43 million acres leased
 - ~27% of oil;~15% natural gas
 - ~4,000 production platforms
 - ~33,000 miles of pipeline
 - ~42,000 OCS personnel
 - ~125 operating companies
- ~\$13 billion Annual Revenue (5-year average)
- **Core balancing objectives:**
 - Safe Offshore Operations
 - Environmental Protection
 - Fair Market Value



Minerals Management Service

OCS 5-Year Plan (2007-2012)

- The lease sale process begins with the 5 – Year Program.
- The 5-year program specifies the size, timing and location of areas proposed for Federal offshore oil and gas leasing.

The 5-Year Plan:

- Responds to national energy needs while addressing economic, social and environmental concerns of the public; and
- Reduces dependence on foreign oil and stimulates the domestic economy.

Anticipated 40-year benefits from the 5-Year Plan approximately:

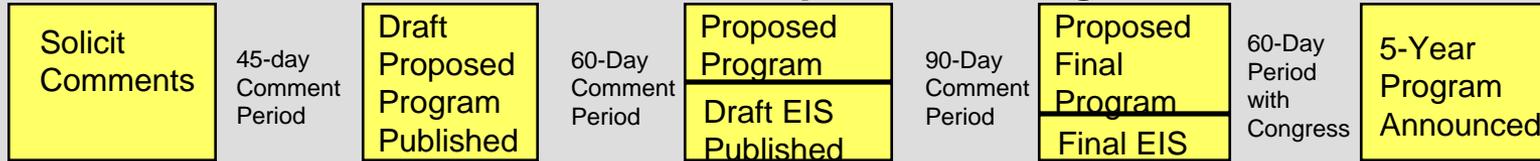
- Additional 10 billion barrels of oil;
- Additional 45 trillion cubic feet of natural gas; and
- Additional \$170 billion in net benefits to the Nation.

- Request for Information on potentially new 5-Year plan for 2010-2015 under review.

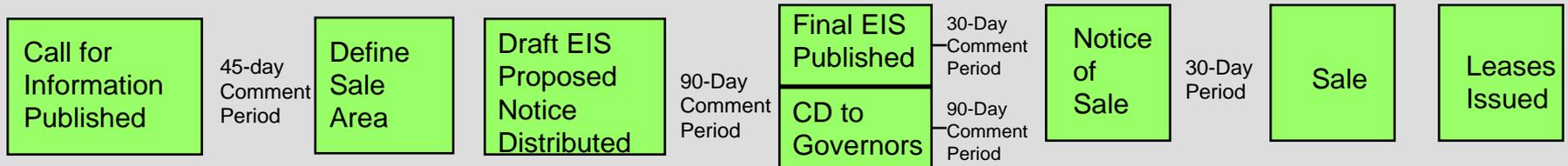
Leasing, Exploration, & Development Process

Pre-lease

Develop 5-Year Program

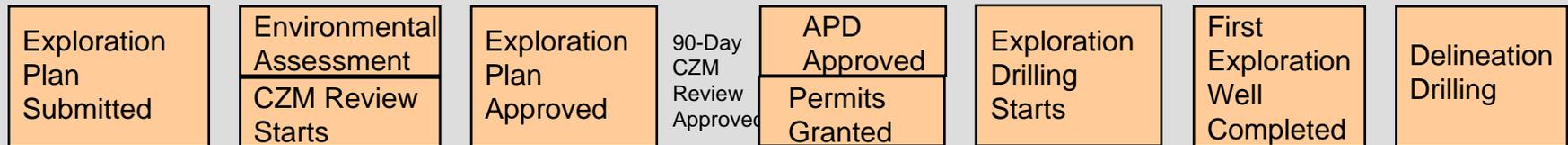


Planning for Specific Sale

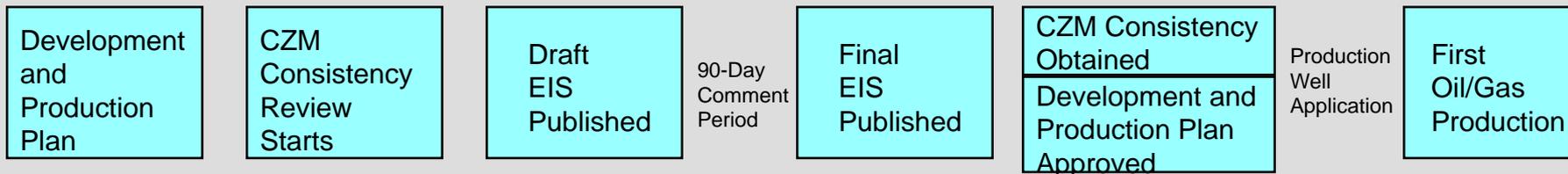


Post Lease

Exploration Plan Approval



Development & Production Plan Approval



Offshore Restrictions Lifted – Presidential Withdrawal/Congressional Moratoria

- July 14, 2008 - President George W. Bush announced a modification of the Presidential Withdrawal.
- September 30 , 2008 - the Congress let expire the previous Department of the Interior Appropriations measures that had imposed an Atlantic drilling ban that lasted over 25 years.
- As of October 1, 2008, the MMS is not prohibited from OCS oil and gas activities related to leasing and pre-leasing activities in these areas that are permitted under the OCSLA, NEPA, and other laws addressing OCS matters.
- MMS may only lease in areas that are in the current 5-year plan. (Requests for Information on developing a new 5-Year Plan from 2010-2015 was published August 2008). But the only area that is now available in the 5-year plan that was previously unavailable because of the Withdrawal and Moratoria is the area off the coast of Virginia. The current 5-year plan has a sale scheduled for that area for 2011.
- With no ban in place, MMS could start the pre-leasing activities associated with the sale, including the Call for Information and Notice of Intent to prepare and Environmental Impact Statement (EIS).

Environmental Laws Affect Program

National Environmental Policy Act		Includes environmental analysis & protection in project planning
Federal Water Pollution Control Act (Clean Water Act)		Regulates discharges from oil & gas activities into marine waters
Clean Air Act		Regulates air emissions from industrial activities
Coastal Zone Management Act		Assures compliance with State coastal area protection plans
Endangered Species Act		Protects threatened & endangered species
Marine Mammal Protection Act		Protects marine mammals
Fishery Conservation & Management Act		Protects essential fish habitat
National Historic Preservation Act		Protects archaeological resources including those on the ocean floor
Oil Pollution Act		Oil Spill Financial Responsibility

Multiple Agencies Involved

- U.S. Coast Guard
 - Oil-spill response, port and vessel security and inspections (MOU)
- Environmental Protection Agency
 - Air and water quality (MOU)
- National Oceanic and Atmospheric Administration
 - Coastal programs
 - Marine mammals/endangered species
- Fish and Wildlife Service
 - Marine mammals/endangered species

State and Local Involvement

- Office of the Governor
- State General Assembly
- Department of Natural Resources
- Department of Mines, Minerals and Energy
- Coastal Commissions
- Energy Commissions
- Local Mayors

Lease Sale Process

- Call for Information and Nominations/ Notice of Intent to Prepare EIS
- Area Identification
- Hold Public Hearing
- Conduct Environmental Analyses/EIS
- Solicit Governor's Comments
- Publish Proposed Notice of Sale/ Public Comment Period
- Publish Final Notice of Sale
- Hold Lease Sale

Lease Terms

- Every OCS lease has a primary term – how long the lease is granted.
- Statute sets a 5 year minimum and 10 year maximum.
- MMS uses 5, 8, and 10 year terms.

Fiscal Terms and Bid Adequacy

- Fiscal Terms in Every Lease:
 - Bonus Bid – winning highest \$ amount paid at time of lease auction.
 - Rental – holding cost per acre during primary term.
 - Royalty - \$ amount paid based on % of production volume.
- Bid Adequacy:
 - Each bid evaluated by our resource bid adequacy procedures for fair market value to the taxpayer.

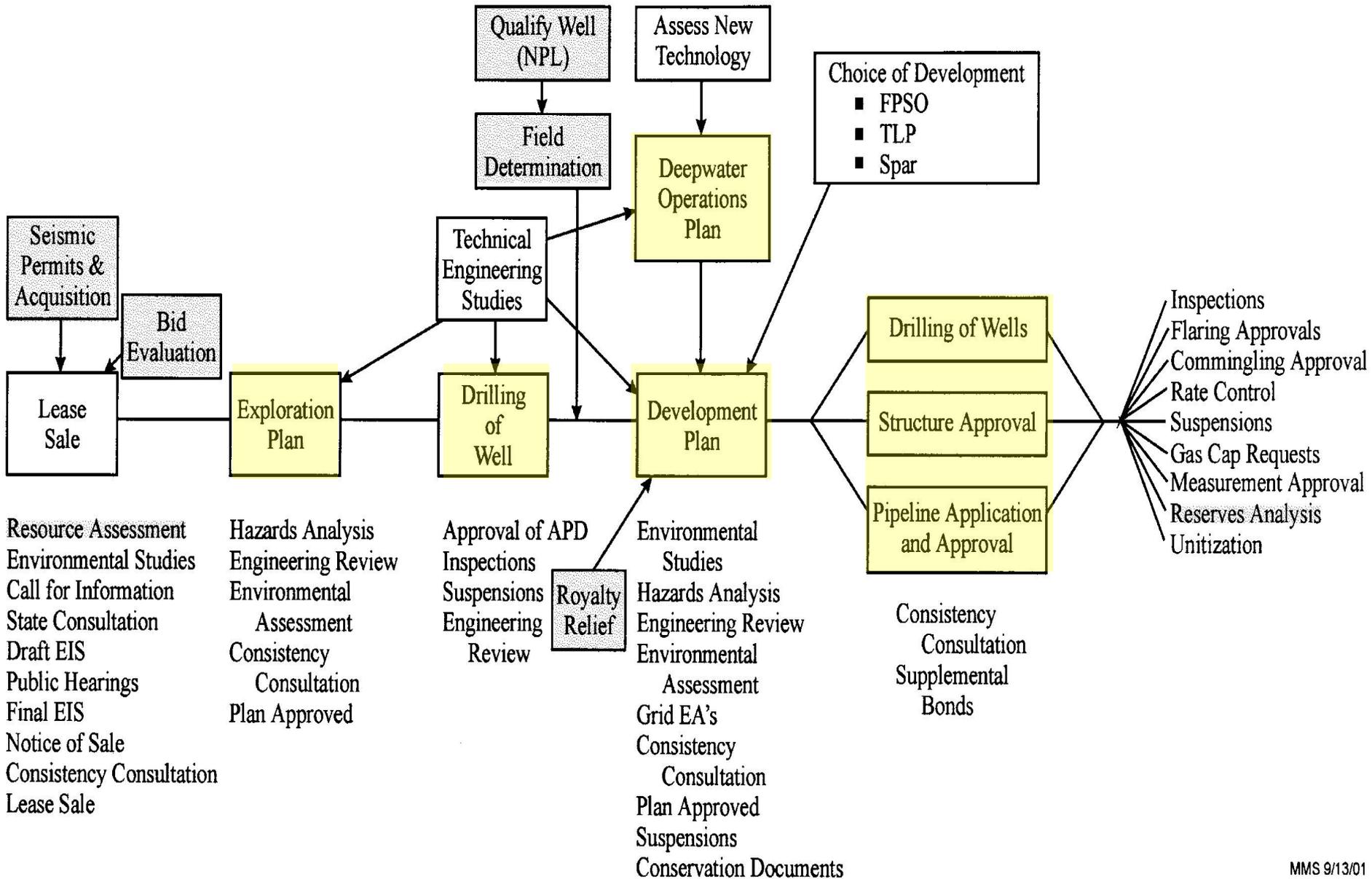
Submission of Bids

- A bidder must be a U.S. citizen or a company incorporated in the U.S.
- Companies submit a separate sealed bid for each block they wish to obtain
- With each bid, the company must send in 20% of the bid value
- Transparent Process – Bids are opened and read publically at time of sale

What the lease conveys

- The right to explore for, develop, and produce the oil and gas contained within the lease area.
 - Lease area – 5760 acres – 3 square miles
 - Initial terms of 5 - 10 years, extended for as long as production or drilling operations continue
 - Subject to specified financial and operational terms and conditions (lease and operational bonds)

Workload from an OCS Lease Sale

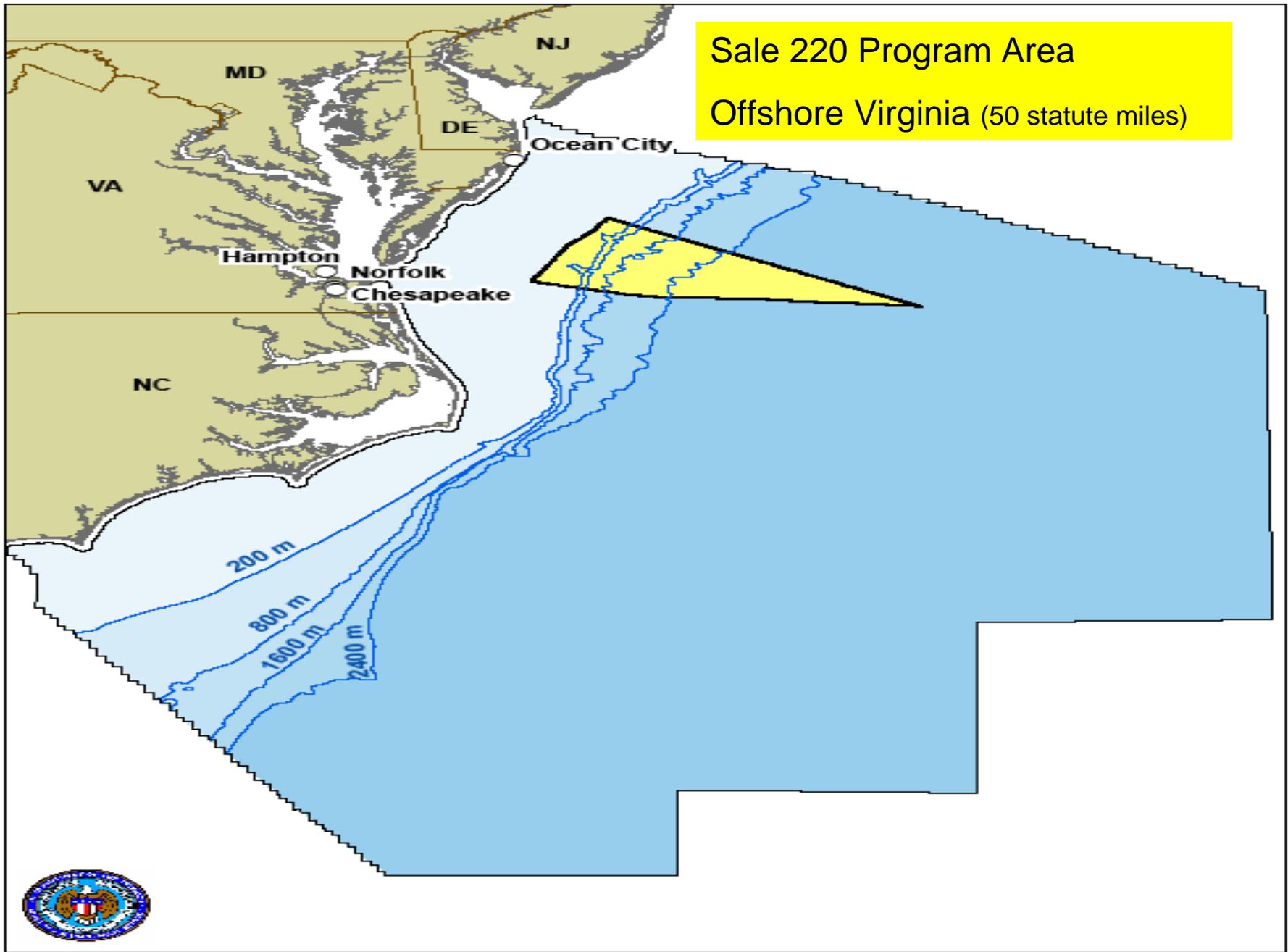


Offshore Safety

- Regulations
 - Design
 - Operations
 - Maintenance
- Technology Assessment & Research Program
- Training
 - Audits
 - Drills/Exercises
- Inspections



Sale 220 Program Area
Offshore Virginia (50 statute miles)





History of the Atlantic OCS

- 10 oil and gas lease sales were held between 1976 and 1983
- 49 exploratory wells were drilled
- Only 1 block was leased offshore Virginia; never drilled
- Potential Resources:
 - Based on the 2006 National Assessment, we estimate the mean Undiscovered Technically Recoverable Resources contained in the Sale 220 area to be 130 million barrels of oil and 1,140 billion cubic feet of gas.

Possible Legislative Action ?

- Currently, no revenue-sharing authority exists with Atlantic coastal states, unlike other states with GOMESA and CIAP.