The Nuts and Bolts of OCS Leasing - An Overview

J. Keith Couvillion
June 8, 2017
Outline

- Authority to Lease Offshore Federal Submerged Lands
- Outer Continental Shelf Acreage
- 5 Year Leasing Program
- Lease Sale Process
- The Future
- Questions
Outer Continental Shelf Lands Act of 1953 (OCSLA)

[43 U.S.C. 1336]

SEC. 8. LEASING OF OUTER CONTINENTAL SHELF.—(a)(1) The Secretary is authorized to grant to the highest responsible qualified bidder or bidders by competitive bidding, under regulations promulgated in advance, any oil and gas lease on submerged lands of the Outer Continental Shelf....
The bidding shall be by sealed bid and, at the discretion of the Secretary, on the basis of—

(A) cash bonus bid with a royalty at not less than 12\(\frac{1}{2}\) per centum fixed by the Secretary in amount or value of the production saved, removed, or sold;

(B) variable royalty bid based on a per centum in amount or value of the production saved, removed, or sold, with either a fixed work commitment based on dollar amount for exploration or a fixed cash bonus as determined by the Secretary, or both;

(C) cash bonus bid, or work commitment bid based on a dollar amount for exploration with a fixed cash bonus, and a diminishing or sliding royalty based on such formulae as the Secretary shall determine as equitable to encourage continued production from the lease area as resources diminish, but not less than 12\(\frac{1}{2}\) per centum at the beginning of the lease period in amount or value of the production saved, removed, or sold;

(D) cash bonus bid with a fixed share of the net profits of no less than 30 per centum to be derived from the production of oil and gas from the lease area;

(E) fixed cash bonus with the net profit share reserved as the bid variable;
(F) cash bonus bid with a royalty at no less than 121/2 per centum fixed by the Secretary in amount or value of the production saved, removed, or sold and a fixed per centum share of net profits of no less than 30 per centum to be derived from the production of oil and gas from the lease area;

(G) work commitment bid based on a dollar amount for exploration with a fixed cash bonus and a fixed royalty in amount or value of the production saved, removed, or sold;

(H) cash bonus bid with royalty at no less than 12 and 1/2 per centum fixed by the Secretary in amount or value of production saved, removed, or sold, and with suspension of royalties for a period, volume, or value of production determined by the Secretary, which suspensions may vary based on the price of production from the lease; or

(I) subject to the requirements of paragraph (4) of this subsection, any modification of bidding systems authorized in subparagraphs (A) through (G), or any other systems of bid variables, terms, and conditions which the Secretary determines to be useful to accomplish the purposes and policies of this Act, except that no such bidding system or modification shall have more than one bid variable.
Outer Continental Shelf
Acreage
Government Controlled Offshore Lands
United States - Exclusive Economic Zone
(3 Billion Acres - 4.1 Million Sq. Miles)
Federal Offshore Acreage

*Currently Under Lease*

- Available Acreage - 1.76 Billion (*Lower 48 States and Alaska*)
- Acreage Leased - 16.3+ Million
- Percent Leased - .927% (Less than 1%)
State/Federal Offshore Jurisdiction

- **State jurisdiction** is defined as those submerged lands seaward of the coastline to a distance of approximately 3 geographical miles (4.83 km). The offshore jurisdiction of the Gulf coast of Florida and the State of Texas is 3 marine leagues (approximately 10 miles) seaward.

- **Federal jurisdiction** is defined under accepted principles of international law. The seaward limit is defined as the farthest of 200 nautical miles (370 km) seaward of the baseline from which the breadth of the territorial sea is measured or, if the continental shelf can be shown to exceed 200 nautical miles, a distance not greater than a line 100 nautical miles from the 2,500-meter isobath or a line 350 nautical miles from the baseline.
Offshore Jurisdiction

Source: Dept. of Interior
Lower 48 States - 11 Planning Areas

Department of the Interior Outer Continental Shelf Oil and Gas Strategy

Source: DOI
15 Alaska Planning Areas

Source: DOI
Atlantic Region

- Acres in Region: 265,348,686
- Active Leases: 0
- Acres Leased: 0
- Wells Drilled: 51
- Platforms: 0

- Ten oil and gas lease sales were held in the Atlantic between 1976 and 1983.
- Fifty-one (51) wells were drilled in the Atlantic OCS:
  - Five (5) Continental Offshore Stratigraphic Test (COST) wells between 1975 and 1979
  - Forty-six (46) industry wells between 1977 and 1984

Source: DOI
Department of the Interior Outer Continental Shelf Oil and Gas Program Pacific Region

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<th>Acres in Region</th>
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<td>Wells Drilled</td>
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<td>Platforms</td>
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Source: DOI
### Department of the Interior Outer Continental Shelf Oil and Gas Strategy

**Alaska Region**

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<tr>
<th>Metric</th>
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<td>Wells Drilled</td>
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Source: DOI
5 Year Leasing Program
The Decision Makers

President Trump

Secretary of Interior
Ryan Zinke

Acting BOEM Director
Walter Cruickshank
OCS Lease Sales

- 1978 Amendment to the OCS Land Act

[43 U.S.C. 1331]

SEC. 18. OUTER CONTINENTAL SHELF LEASING PROGRAM.—(a) The Secretary, pursuant to procedures set forth in subsections (c) and (d) of this section, shall prepare and periodically revise, and maintain an oil and gas leasing program to implement the policies of this Act. The leasing program shall consist of a schedule of proposed lease sales indicating, as precisely as possible, the size, timing, and location of leasing activity which he determines will best meet national energy needs for the five-year period following its approval or re-approval.

- 2017-2022 Leasing Program
5 Year Leasing Program Process Example

Timetable for OCS Leasing Program

- Request for Comments and Information [45-day period] (June 16, 2014)
- Draft Proposed Program [60-day period]
- Proposed Program and Draft EIS [90-day period]
- Proposed Final Program and Final EIS [60-day waiting period]
- Program Approval
- Current program ends and new program begins (July 1, 2017)

2 to 3 Year Process

Source: DOI
Map of the Offshore Planning Areas
Lower 48 States

Source: DOI
Map of Alaska Planning Areas

Source: DOI
### 2017-2022 5 Year Leasing Program

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2017–2022 Oil and Gas Leasing Proposed Final Program Area for the Cook Inlet

- Planning Area Boundary
- Presidential Withdrawal Area
- Proposed Final Program Area

The maritime boundaries and limits shown hereon, as well as the divisions between planning areas, are for initial planning purposes only and do not necessarily reflect the full extent of U.S. sovereignty.
2017-2022 5-Year Leasing Program

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<th>Total Acreage offered in the Five Year Program</th>
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(* 5.39% of the 1.76 Billion OCS Acres)
Lease Sale Process
Gulf of Mexico Regional Sale
DEPARTMENT OF THE INTERIOR
Bureau of Land Management

Notice of Availability of the Proposed Notice of Sale for Outer Continental Shelf (OCS) Oil and Gas Lease Sale 216222 in the Central Planning Area (CPA) in the Gulf of Mexico


ACTION: Notice of Availability of the Proposed Notice of Sale for Proposed Sale 216222.

SUMMARY: BLM announces the availability of the proposed Notice of Sale (NOS) for proposed Sale 216222 in the CPA. This Notice is published pursuant to 30 CFR 535.29(c) as a matter of information to the public. With regard to oil and gas leasing on the OCS, the Secretary of the Interior, pursuant to section 19 of the OCS Lands Act, provides the affected states the opportunity to review the proposed NOS. The proposed NOS sets forth the proposed terms and conditions of the sale, including minimum bids, royalty rates, and rentals.

DATE: Affected states may comment on the sale, timing, and location of proposed Sale 216222 within 60 days following their receipt of the proposed NOS. The final NOS will be published in the Federal Register at least 30 days prior to the date of bid opening. Bid opening is currently scheduled for June 26, 2012.

SUPPLEMENTAL INFORMATION: The proposed NOS for Sale 216222 and a "Proposed Notice of Sale Package" containing information essential to potential bidders may be obtained from the Public Information Unit, Gulf of Mexico Region, Bureau of Ocean Energy Management, 1301 Elmwood Park Boulevard, New Orleans, Louisiana 70112-2384. Telephone: (504) 776-2519. Agency Contact: Steven Taski, Acting Leasing Division Chief, Steven.Taski@blm.gov.


AGENCY: Bureau of Land Management, Interior.

ACTION: Notice of availability.

SUMMARY: In compliance with the National Environmental Policy Act of 1969, as amended, (NEPA) and the Federal Land Policy and Management Act of 1976, as amended, the Bureau of Land Management (BLM) Winnemucca District, Black Rock Field Office, Winnemucca, Nevada has prepared a Draft Environmental Impact Statement (EIS) for the Hycroft Mine Expansion and by this Notice is announcing the opening of the comment period.

DATES: To ensure comments will be considered, the BLM must receive written comments on the Hycroft Mine Expansion Draft EIS within 45 days following the date the Environmental Protection Agency publishes its Notice of Availability in the Federal Register.

The BLM will announce future meetings or hearings and any other public involvement activities at least 15 days in advance through public notices, media releases, and/or mailings.

ADDITIONAL: You may submit comments related to the Hycroft Mine Expansion Draft EIS by any of the following methods:

• Website: www.blm.gov/nv/st/en/st/ wfs/blm_information.html
• Email: wfsweb_comments@blm.gov
• Fax: (775) 623-1339
• Mail: Bureau of Land Management, Winnemucca District Office, 5100 E. Winnemucca Boulevard, Winnemucca, Nevada 89445; attention: Hycroft Mine Expansion Draft EIS.

FOR FURTHER INFORMATION CONTACT: Kathleen Robberg, Project Lead, telephone: (775) 623-1560; address: 5100 E. Winnemucca Boulevard, Winnemucca, Nevada 89445; email: wfsweb@blm.gov. Persons who use a telecommunications device for the deaf (TDD) may call the Federal Information Relay Service (FIRS) at 1-(800) 877-8339 to contact this above individual during normal business hours. The FIRS is available 24 hours a day, 7 days a week, to leave a message or question with the above individual. You will receive a reply during normal business hours.

SUPPLEMENTAL INFORMATION: Hycroft Resources Development Inc. (HRD) proposes to expand mining activities at the existing Hycroft Mine on BLM managed public land and on private land in Humboldt and Pershing counties, approximately 55 miles west of Winnemucca, Nevada, on the west flank of the Kamloops Mountains. HRD submitted an amended Plan of Operations to the BLM for approval, which proposes to expand the existing project boundary of 8,460 acres by an additional 5,860 acres for a total project area of approximately 14,322 acres of public and private land. The Hycroft Mine currently employs approximately 265 workers. The proposed expansion would increase the mine life by approximately 12 years and increase annual mine production by approximately 307,000 tons.

The Draft EIS analyzes the potential environmental impacts associated with the proposed expansion, which includes 2,735 acres of new surface disturbance. An updated inventory of wildlife characteristics was used for analysis of potential impacts associated with this project. The existing open pit operation and associated disturbance would be
## Lease Sale Blocks/Tracts

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**Notes:**
- The table above lists the lease sale blocks/tracts for various companies.
- Each row represents a different block/tract with its associated date and interest.
- The table includes companies such as Chevron USA, ExxonMobil, and Shell Offshore.
Lease Financial Terms

Initial Period:

- 5 years for blocks in water depths less than 400 meters (3 year extension available if a well is spudded targeting hydrocarbons below 25,000 feet True Vertical Depth Subsea during the first 5 years of the lease - must apply for the extension)
- 5 + 3 years for blocks in water depths of 400 to less than 800 meters (must apply for the extension)
- 7 + 3 years for blocks in water depths of 800 to less than 1600 meters (must apply for the extension)
- 10 years for blocks in water depths of 1600 meters or deeper

Minimum Bonus Bid Amount:

- $ 25.00 per acre or fraction thereof for water depths less than 400 meters
- $100.00 per acre or fraction thereof for water depths 400 meters or deeper

Rental Rates:

- $ 7.00 - $28.00 per acre or fraction thereof for water depths less than 200 meters
- $11.00 - $44.00 per acre or fraction thereof for water depths 200 meters to less than 400 meters
- $11.00 - $16.00 per acre or fraction thereof for water depths 400+ meters

Minimum Royalty Rates:

- $ 7.00 per acre or fraction thereof for water depths less than 200 meters
- $11.00 per acre or fraction thereof for water depths 200 meters or deeper

Royalty Rate: 18.75%
OCS Lease Sale Preparation

- Access and review Final Sale Notice online
  - Follow instructions
  - Pay close attention to lease stipulations
    1. Topographic Features
    2. Live Bottom
    3. Military Areas
    4. Evacuation
    5. Coordination
    6. Blocks South of Baldwin County, Alabama
    8. Protected Species
    9. Below Seabed Operations
       10. Agreement between the United States of America and the United Mexican States concerning Transboundary Hydrocarbon Reservoirs in the Gulf of Mexico

- Submit Qualification Paperwork
- Submit Equal Opportunity Forms
OCS Lease Sales Bid Submittal

- Cash bonus variable
- All other commercial terms are fixed
- One Tract per Bid
- Bids can be submitted to BOEM during normal business hours until 10:00 a.m. the day before the Sale
- Signed Bid Form submitted in sealed Envelope
- Geophysical Data and Information Statement
- Joint bids do not include *Restricted Bidders*
- Bids may be withdrawn only by written request delivered to BOEM prior to the Bid Submission Deadline.
Oil and Gas Lease Sale 206  
Date of Lease Sale: March 19, 2008  
Company Submitting Bid:  
Chevron U.S.A. Inc.  
GOM Company Number: 00078

Oil and Gas Lease Bid

It is understood that this bid legally binds the bidder(s) to comply with all applicable regulations, including paying the $1/5^{th}$ bonus on all high bids, as provided in the Final Notice of Sale.

The following bid is submitted for an oil and gas lease on the area and block of the Outer Continental Shelf specified below:

<table>
<thead>
<tr>
<th>Map Name</th>
<th>Map Number</th>
<th>Block Number</th>
<th>Amount Bid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Canyon</td>
<td>NG15-03</td>
<td>944</td>
<td>$55,053,032</td>
</tr>
</tbody>
</table>

GOM Company Number  
Percent Interest  
Company Name(s), Address(es) and Signature(s)

00078  
100.00  
Chevron U.S.A. Inc.  
1500 Louisiana St.  
Houston, Texas 77002

By:  
J. Keith Couvillion  
Assistant Secretary
Bid Envelope

Chevron U.S.A. Inc. - GOM Company No. 00078

Green Canyon (NG15-03)
Block 944

SEALED BID FOR OIL AND GAS LEASE SALE 206,
NOT TO BE OPENED UNTIL 9 A.M., WEDNESDAY, MARCH 19, 2008.
OCS Lease Sales - *Sale Day*

- Bid opening will be available for public viewing on BOEM’s website at [www.boem.gov](http://www.boem.gov) via live-streaming video beginning at 9:00 a.m. on the date of the sale
  - No Public Access to Sale
  - Live streaming provides greater access to a wider national and international audience
  - Security for BOEM staff

- Bid results are posted on BOEM’s website after bid opening and reading are completed

- High bid(s) receipt available electronically after the Sale on BOEM’s website

- 1/5th Bonus due by Electronic Funds Transfer (EFT) to US Treasury by 11:00 a.m. Eastern Time the day after the Sale
Acceptance, Rejection, or Return of Bids

The United States reserves the right to reject any and all bids. No bid will be accepted, and no lease for any block will be awarded to any bidder, unless:

(1) The bidder has complied with all requirements of the Final Notice of Sale (NOS), including those set forth in the documents contained in the Final NOS package, and applicable regulations;

(2) The bid is the highest valid bid; and

(3) The amount of the bid has been determined to be adequate by the authorized officer.

Any bid submitted that does not conform to the requirements of the Final NOS and Final NOS package, OCSLA, or other applicable statute or regulation will be rejected and returned to the bidder. The U.S. Department of Justice and the Federal Trade Commission will review the results of the lease sale for antitrust issues prior to the acceptance of bids and issuance of leases.
OCS Lease Sale - Lease Awarding

- Phases I & II Bid adequacy determination
- Payment of remaining 4/5th bonus, and first year’s rental, by EFT to Treasury by 11:00 a.m. Eastern Time on or before the 11th business day after notice of award of lease
  - Sign Lease Form (Triplicate)
  - Submit Executed Leases to BOEM
  - Submit Designation of Operator Forms to BOEM
- Fully executed Lease issued to Lessee(s)
OCS Lease Form

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF OCEAN ENERGY MANAGEMENT
AND RECLAMATION
UNDER THE OFFSHORE CONTINENTAL SHELF LANDS ACT

This lease is effective as of FEB 8, 2012

Office
New Orleans, LA

Contractor
BOEM

Lease Number
OCS-G-3461

Contract Term
40 Years

Price
$1,100 per acre

Union Oil Company of California

RECEIVED
JAN 19, 2012

ADJUDICATION SECTION

[Text continues]

This lease is subject to the provisions of theje lease and is considered to be the first and is subject to the terms, conditions, and other lease provisions (including the specifications) contained in the lease and the lease agreement as follows:

Sec. 1. Terms and Conditions: This lease was issued pursuant to the Outer Continental Shelf Lands Act of August 7, 1953, 43 U.S.C. 1331-48, and consists of approximately 132.1 acres, more or less, and is subject to the restrictions, conditions, and other provisions of the lease, which are incorporated herein by reference. The lessee shall comply with all applicable provisions of the lease and any applicable federal, state, or local laws, rules, and regulations.

Sec. 2. Rights of Lessee: The lessee has the right to use and enjoy the lease, subject to the provisions of the lease, and is subject to the terms of the lease and any applicable federal, state, or local laws, rules, and regulations.

All of Block 332, Alaminos Canyon, OCS Official Production Diagram, NO 75-94.

This lease is amended by addendum pursuant to the Final Notice of Sale for OCS Oil and Gas Lease Sale 216. The addendum shall become a part of the lease and is subject to the terms and conditions of the lease as amended.

BOEM Item 3010-005 (OCT 2011)
From Idea to Production

OCS Oil and Gas Leasing, Exploration, and Development Process

Pre-Lease
- Request For Information
- Draft Proposed Program Published: NOI for PEIS
- Proposed Program
- Draft PEIS Published
- Final PEIS Published

Develop 5-Year Program (HQ Responsibility)
- Proposed Final Program
- 60-Day Period for Congress
- Final 5-Year Program Announced
- Record of Decision

Planning for Specific Oil and Gas Lease Sale (Regional Responsibility)
- Call for Information Published
- Define Sale Area
- Draft EIS Published
- Final EIS Published
- Proposed Notice
- CD Sent to States
- Final Notice of Sale Published
- Sale Held
- Sale Value Analysis
- Leases Issued

Environmental Consultations

Post Lease

Exploration Plan Approval (Regional Responsibility)
- Exploration Plan Submitted
- Environmental Assessment
- Exploration Plan Review
- APD Decision
- Exploration Drilling Starts
- First Exploration Well (s) Completed
- Delineation Well Drilling

Development and Production Plan Approval (Regional Responsibility)
- Development & Production Plan Submitted
- Company Submits CZM Consistency Certification
- BOEM Prepares NEPA Analysis
- CZM Consistency Concurrence from State
- Production Well Application
- First Oil/Gas Production

Abbreviations: APD, Application for Permit to Drill; CD, Consistency Determination; CZM, Coastal Zone Management; EIS, Environmental Impact Statement; HQ, Headquarters; NEPA, National Environmental Policy Act. PEIS, Programmatic Environmental Impact Statement.
Future Lease Sales ????

- 2019-2024 5 Year Leasing Program
- Virtual Sales for Now (No Public Meetings)
- Online Bidding is being Evaluated
- One option is to eliminate Virtual Sales altogether with all bids submitted online and results announced online the day of the Sale
- BOEM & BSEE Merger ????
  - Scott Angelle - Director