

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 210

AGENCY: Minerals Management Service, Interior

ACTION: Proposed Notice of Sale (NOS) 210

SUMMARY: The MMS proposes to hold WPA Oil and Gas Lease Sale 210, on Wednesday, August 19, 2009, in accordance with provisions of the OCS Lands Act (43 U.S.C. 1331-1356, as amended) and the regulations issued thereunder (30 CFR Part 256).

DATES: The MMS proposes to hold WPA Oil and Gas Lease Sale 210 on Wednesday, August 19, 2009, at a New Orleans site to be determined. Public bid reading is scheduled 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 210 Package contains information essential to potential bidders. 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: www.gomr.mms.gov.

BID SUBMISSION DEADLINE: Bidders will be required to submit bids to the MMS at the Gulf of Mexico Region, 1201 Elmwood Park Boulevard, New Orleans, Louisiana, 70123-2394, by 10:00 a.m. on Tuesday, August 18, 2009, the day before the lease sale. The MMS will specify procedures for bid submission in the Final NOS 210 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 blocks 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 blocks and portions 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;” all regulations issued pursuant to the Act and in existence upon the Effective Date of the lease; all regulations issued pursuant to the statute in the future, which provide for the prevention of waste and conservation of the natural resources of the OCS and the protection of correlative rights therein; and all other applicable statutes and regulations.

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 210, August 2009, Lease Terms and Economic Conditions” for leases resulting from this lease sale.

Please note: The following terms and conditions are proposed; they are not final. Different terms and conditions may be employed in the Final Notice of Sale.

Initial Periods: 5 years for blocks in water depths of less than 400 meters; 8 years for blocks in water depths of 400 to less than 800 meters (pursuant to 30 CFR 256.37, commencement of an exploratory well is required within the first 5 years of the initial 8-year term to avoid lease cancellation); and 10 years for blocks in water depths of 800 meters or deeper.

Extensions of Initial Periods: The 5-year initial period for a lease in water depths of less than 400 meters and issued from this sale may be extended to 8 years if a well, targeting hydrocarbons below 25,000 feet true vertical depth subsea (TVD SS) is spudded within the first 5 years of the initial period. The 3-year extension may be granted in cases where the well is drilled to a target below 25,000 TVD SS and also in cases where the well does not reach a depth below 25,000 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, 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 lease term 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 a well spudded in the first 5 years of the initial period with a hydrocarbon target below 25,000 feet TVD SS, the regulations found at 30 CFR 250.175(a), (b), and (c) will not be applicable at the end of the 5th year.

For any lease that does not have a well spudded in the first 5 years of the initial period which targets hydrocarbons below 25,000 feet TVD SS, the regulations found at 30 CFR 250.175(a), (b), and (c) will be applicable, but the 3-year extension will not be available.

At the end of the 8th year, the lessee is free to use all lease term extension provisions under the regulations.

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 210 Package. Please note that bonus bids must be in whole dollar amounts (i.e., any cents will be disregarded by the MMS).

Rental Rates: 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:

Sale 210 Rental Rates per Acre or Fraction Thereof			
Water Depth in meters	Years 1-5	Years 6, 7, and 8	Years 9-10
0 to <200	\$7.00	\$14.00, \$21.00, \$28.00 (if a lease extension is approved)	N/A
200 to <400	\$11.00	\$22.00, \$33.00, \$44.00 (if a lease extension is approved)	N/A
400 to <800	\$11.00	\$16.00 (if exploratory well drilled per 30 CFR 256.37)	N/A
800+	\$11.00	\$16.00	\$16.00

Escalating Rental Rates for leases with an approved extension of the 5-year 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 set out in the following table, to be paid 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. However, the escalating rental rates after the 5th year for blocks in up to 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.

Extended Lease Year No.	Escalating Annual Rental Rate for a Lease in: Less than a 200-Meter Water Depth	Escalating Annual Rental Rate for a Lease in a: 200- to less than 400-Meter Water Depth
6	\$14.00 per acre or fraction thereof	\$22.00 per acre or fraction thereof
7	\$21.00 per acre or fraction thereof	\$33.00 per acre or fraction thereof
8	\$28.00 per acre or fraction thereof	\$44.00 per acre or fraction thereof

Royalty Rate: 18-3/4 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. There are no circumstances under which a single lease could receive a royalty suspension both for deep gas production and for deepwater production.

In the event that sections 344 and 345 of the EPAct05 are repealed, then no royalty suspension volume relief will be offered in the lease terms, as further identified in the appendix at the end of this document.

Section 344 of the EAct05 extends existing deep gas incentives in two ways. First, it mandates a RSV of at least 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, section 344 directs that RSV's no lower than those in shallower water be applied to leases in 200 to less than 400 meters of water. Section 345 of the EAct05 directs continuation of the MMS deepwater incentive program utilized since 2001 in the Gulf of Mexico for leases issued between August 8, 2005, and August 8, 2010, and provides for an increase in RSV from 12 million barrels of oil equivalent (MMBOE) to 16 MMBOE for leases in water depths greater than 2,000 meters.

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 mandated by section 344 of EAct05. The MMS published a final rule on November 18, 2008, *Federal Register* (73 FR 69490), **Royalty Relief—Ultra-Deep Gas Wells and Deep Gas Wells and Gas Leases** (Incentives for Natural Gas Production from Deep Wells in the Shallow Waters of the GOM) implementing Section 344. If a lease is eligible, it is subject to the provisions of this rule, including the price threshold provisions. The royalty relief is in the form of the Royalty Suspension Provisions cited below.

A. The following Royalty Suspension Provisions apply to qualifying deep wells on leases entirely in water depths more than 200 but less than 400 meters:

Such wells require a perforated interval, the top of which is from 15,000 to less than 20,000 feet TVD SS. The EAct05 requires the Secretary to issue regulations granting RSV to leases entirely in water depths more than 200 to less than 400 meters that will be calculated using the same methodology as is currently employed for leases at least partly in water depth up to 200 meters. Deep wells on leases in the 200 to less than 400 meter water depth range issued in Sale 210 are eligible for royalty relief as prescribed in the final rule (73 FR 69490) published November 18, 2008 implementing Section 344 of the EAct05.

B. The following Royalty Suspension Provisions apply to qualifying ultra deep wells on leases entirely in water depths less than 400 meters:

Ultra deep wells (i.e., wells completed with a perforated interval, the top of which is 20,000 feet TVD SS or deeper) on leases entirely in water depths less than 400 meters issued in Sale 210 will be eligible for the royalty relief prescribed in the final rule (73 FR 69490) implementing section 344 of the EAct05.

Deepwater Royalty Suspensions

The following Royalty Suspension Provisions apply to deepwater oil and gas production:

A lease issued as a result of this sale may be eligible for deepwater royalty relief mandated by section 345 of EAct05. The following Royalty Suspension Provisions for deepwater oil and gas production apply to a lease issued as a result of this sale. These provisions are similar to,

and mean the same as, the language used in recent sales except for some clarifying text and updated examples. In addition to these provisions, and the EPAAct05, refer to 30 CFR 218.151

and applicable provisions of sections 260.120-260.124 for regulations on how royalty suspensions relate to field assignment, product types, rental obligations, and supplemental royalty relief.

1. A lease in water depths of 400 meters or more will receive a royalty suspension as follows, according to the water depth range in which the lease is located:

400 meters to less than 800 meters:	5 MMBOE
800 meters to less than 1,600 meters:	9 MMBOE
1,600 meters to 2,000 meters:	12 MMBOE
Greater than 2,000 meters:	16 MMBOE

2. In any calendar year during which the arithmetic average of the daily closing prices for the nearby delivery month on the New York Mercantile Exchange (NYMEX) for the applicable product exceeds the adjusted product price threshold, the lessee must pay royalty on production that would otherwise receive royalty relief under 30 CFR Part 260 or supplemental relief under 30 CFR Part 203, and such production will count towards the royalty suspension volume.

- a) The base level price threshold for light sweet crude oil is \$36.39 per barrel expressed in 2007 dollars. The adjusted oil price threshold in any subsequent calendar year is computed by changing the price threshold applicable in the immediately preceding calendar year by the percentage by which the implicit price deflator for the gross domestic product has changed during the calendar year. The implicit price deflator adjustment to determine the 2008 price thresholds will occur in late March, 2009 when the Bureau of Economic Analysis issues their 2008 inflation estimate.
- b) The base level price threshold for natural gas is \$4.55 per million British thermal units (MMBTU) expressed in 2007 dollars. The adjusted gas price threshold in any subsequent calendar year is computed by changing the price threshold applicable in the immediately preceding calendar year by the percentage by which the implicit price deflator for the gross domestic product has changed during the calendar year.
- c) As an example, if the implicit price deflator indicates that inflation is 3 percent in 2008, then the price threshold in calendar year 2008 would become \$37.48 per barrel for oil and \$4.69 for gas. Therefore, royalty on oil production in calendar year 2008 would be due if the average of the daily closing prices for the nearby delivery month on the NYMEX in 2008 exceeds \$37.48 per barrel and royalty on gas production in calendar year 2008 would be due if the average of the daily closing prices for the nearby delivery month on the NYMEX in 2008 exceeds \$4.69 per MMBTU.
- d) The MMS provides notice in March of each year when adjusted price thresholds for the preceding year were exceeded. Once this determination is made, based on the then-most recent implicit price deflator information, it will not be revised regardless of any subsequent adjustments in the implicit price deflator published by the U.S.

Government for the preceding year. Information on price thresholds is available at the MMS website at: <http://www.mms.gov/econ>.

- e) In cases where the actual average price for the product exceeds the adjusted price threshold in any calendar year, royalties must be paid no later than 90 days after the end of the year (see 30 CFR 260.122 (b)(2) for more detail) and royalties must be paid provisionally in the following calendar year (See 30 CFR 260.122 (c) for more detail).
- f) Full royalties are owed on all production from a lease after the RSV is exhausted, beginning on the first day of the month following the month in which the RSV is exhausted.

LEASE STIPULATIONS: The map “Proposed, Western Planning Area, Lease Sale 210, August 2009, Stipulations and Deferred Blocks” depicts those blocks on which one or more of five lease stipulations apply: (1) Topographic Features; (2) Military Areas; (3) Operations in the Naval Mine and Anti-Submarine Warfare Area; (4) Law of the Sea Convention Royalty Payment; and (5) Protected Species.

The texts of the stipulations are contained in the document “Lease Stipulations, Western Planning Area, Oil and Gas Lease Sale 210, Proposed Notice of Sale” included in the Proposed NOS 210 Package. In addition, the “List of Blocks Available for Leasing,” which will be contained in the Final NOS 210 Package will identify for each block listed the lease stipulations applicable to that block.

INFORMATION TO LESSEES: The Proposed NOS 210 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 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 11:00 a.m. Eastern Time the day following bid reading. Under the authority granted by 30 CFR 256.46(b), the MMS requires bidders to use electronic funds transfer procedures for payment of one-fifth bonus bid deposits for Lease Sale 210, following the detailed instructions contained in the document “Instructions for Making EFT Bonus Payments” which can be found on the MMS GOM website at: <http://www.gomr.mms.gov/homepg/lseale/210/wgom210.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, however, 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, the 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 210, 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. The data identified in the GDIS should clearly identify whether the data or information are non-exclusive data sets available from geophysical contractors or exclusive data 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); data extent (i.e., number of line miles for 2D or number of blocks for 3D) and migration algorithm of the data and information. The statement must also include the name and phone number 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 completed, owner of the original 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 a bidder bid, or participated in a bid, but for which it did not use processed 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 for bid preparation of the tract.

In the event your company supplies any type of data to the MMS, in order to get reimbursed, your company must be registered with the Central Contractor Registration (CCR) provided via website at: <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 CCR and update it annually. Payments are made electronically based on the information contained in CCR. Therefore, if your company is not actively registered in CCR, the MMS will not be able to reimburse or pay your company for any data supplied.

Please also refer to the Final NOS 210 Package for more detail concerning submission of the GDIS, making the data available to the MMS following the lease sale, preferred format, reimbursement for costs, and confidentiality.

FORCE MAJEURE: The Regional Director of the MMS Gulf of Mexico Region has the discretion to change any date, time, and/or location specified in the Final NOS 210 Package in case of a force majeure event which 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, floods), wars, riots, 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 210. 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 210 will be published in the *Federal Register* at least 30 days prior to the date of the public bid reading. A Final NOS 210 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/210/wgom210.html>.

Appendix

Repeal Language for Royalty Suspension Provisions for WPA Sale 210

Please Note:

Potential bidders are advised about possible changes in royalty relief for this sale. The House of Representatives and the previous President indicated a desire to repeal sections 344 and 345 of the Energy Policy Act of 2005 (EPAAct05). The Congress could adopt and the current President sign a bill with repeal of either or both of these sections before MMS issues the Final NOS 210.

Should section 344 be repealed on or before May 29, 2009, a date giving enough lead time for bidders and MMS to prepare for the Final NOS 210, MMS intends to offer leases for sale with no deep gas royalty suspension volumes in their lease terms. This means that leases located in 0 to entirely less than 200 meters of water with deep gas wells would not earn royalty suspension volumes of 15 to 25 BCF depending on drilling depth, leases located in 200 to less than 400 meters of water with deep gas wells would not earn royalty suspension volumes, and leases located in 0 to less than 400 meters of water with ultra-deep wells would not earn royalty suspension volumes of at least 35 BCF.

Should section 345 be repealed on or before May 29, 2009, the MMS intends to offer leases for sale with no deepwater royalty relief in their lease terms.

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 less than 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 less than 200 meters of water be applied to leases in 200 to less than 400 meters of water. Section 345 of the EPAAct05 directs continuation of the MMS deepwater incentive program utilized since 2001 in the GOM for leases issued between August 8, 2005, and August 8, 2010, and provides for an increase in RSV from 12 MMBOE to 16 MMBOE for leases in water depths greater than 2,000 meters.