Calendar No. 402

109TH CONGRESS
2d Session

SENATE

REPORT
109–240

OIL AND GAS LEASING IN THE 181 AREA OF THE GULF OF MEXICO

APRIL 20, 2006.—Ordered to be printed

Filed, under authority of the order of the Senate of April 7, 2006

Mr. DOMENICI, from the Committee on Energy and Natural Resources, submitted the following

R E P O R T

[To accompany S. 2253]

The Committee on Energy and Natural Resources, to which was referred the bill (S. 2253) to require the Secretary of the Interior to offer the 181 Area of the Gulf of Mexico for oil and gas leasing, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

PURPOSE OF THE MEASURE

The purpose of the measure is to direct the Secretary of the Interior to offer for oil and gas leasing an area within the 181 Area as soon as practicable but not later than one year after the date of enactment of this Act.

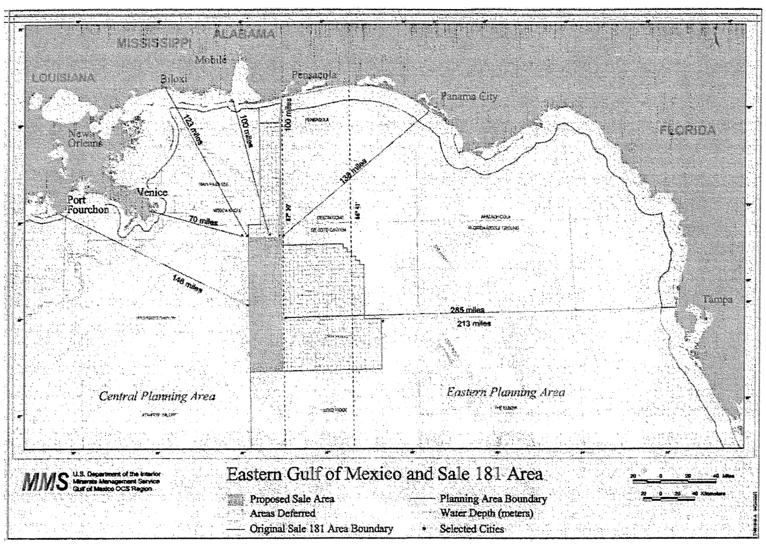
BACKGROUND AND NEED

S. 2253 directs the Secretary of the Interior to offer for oil and gas leasing certain parts within the 181 Area as soon as practicable but not later than one year after the date of enactment of this Act. The area to be offered for sale under S. 2253 is at least 100 miles from any point on the Florida coastline. The area is not under congressional moratorium or Presidential withdrawal. Also excluded from oil and gas leasing under S. 2253 is any portion of the 181 Area that is east of 86 degrees 41 minutes longitude (the “Military Mission Line”) unless the Secretary of Defense agrees in writing before the area is offered for lease that the area can be developed in a manner that will not interfere with military activities. This

49–010

provision seeks to address issues raised in a November 30, 2005, letter from Secretary of Defense Donald Rumsfeld to Senator John Warner, raising concerns that drilling structures and associated development east of the Military Mission Line would be incompatible with military activities. The Minerals Management Service ("MMS") has in the past attempted to address such concerns through a memorandum of understanding with the Department of Defense.

On November 14, 1996, MMS announced that Secretary Bruce Babbitt had approved the 5-Year Program for oil and gas leasing on the Outer Continental Shelf ("OCS") for 1997–2002. The plan included an intention to offer the entire 5.9 million acre area (geographically shaped like the state of Idaho) commonly referred to as the "Original Lease Sale 181 Area" or oil and gas leasing. This area is outlined in the MMS map below and labeled as "Original Sale 181 Area Boundary."



The decision to include the Original Sale 181 Area in the 5-Year Program was the culmination of an extensive consultation process by the federal government with coastal states and the public at large. This decision by the Clinton Administration to offer these lands for oil and gas leasing was made after negotiations with then-Florida Governor Lawton Chiles. This area included submerged lands within 15 miles directly off of Alabama's coastline in the area commonly referred to as the "stove-pipe." This stove-pipe area is excluded from oil and gas leasing under S. 2253.

In preparation for oil and gas leasing in the entire Original Sale 181 Area, a Final Environmental Impact Statement was completed in June 2001 for the full area. On July 2, 2001, Secretary of the Interior Gale Norton proposed a Notice of Sale for oil and natural gas production in a modified 181 area (labeled on the map as "Proposed Sale Area"). Secretary Norton stated, "Our modified 181 area has been adjusted from 5.9 million acres to 1.5 million. The adjusted area is at least 100 miles from any portion of the Florida coast. For example, its northern border is more than 100 miles from Pensacola, Florida and its eastern edge is 285 miles from the shores of Tampa Bay." At the time of the Notice of Sale in 2001, the Department of the Interior projected that the adjusted area contained 1.25 trillion cubic feet of natural gas and 185 million barrels of oil. The 2001 estimates for the entire Original Sale 181 Area (5.9 million acres) were 11.69 trillion cubic feet of natural gas and 1.87 billion barrels of oil.

In its most recent resource assessment on the OCS, MMS noted, "The OCS remains a significant potential domestic source of new natural gas resources from fields yet to be discovered." The MMS estimate for undiscovered technically recoverable gas resources on the OCS increased 16 percent when comparing the 2006 assessment with the 2001 assessment, and the volume of undiscovered oil resources increased 15 percent over that same time period.

According to recent mean estimates from MMS, there are 930 million barrels of undiscovered recoverable oil and 6.03 trillion cubic feet of undiscovered recoverable natural gas in the entire 3.6 million acre area covered by S. 2253. In the approximately 725,000 acres east of the Military Mission Line (available for leasing under S. 2253 only with the approval of the Secretary of Defense), MMS estimates that there are 1.17 trillion cubic feet of undiscovered, recoverable natural gas and 130 million barrels of undiscovered, recoverable oil.

According to the Energy Information Agency, the United States consumed 22.2 trillion cubic feet of natural gas in 2005, making the estimated resources covered in S. 2253 greater than 25% of the total natural gas consumed in the United States last year. Furthermore, the American Gas Association estimates that MMS assessments for the area covered in S. 2253 equals the amount of natural gas used to heat and cool approximately 6 million homes for 15 years.

On February 8, 2006, MMS released for comment a draft proposed 5-Year Plan for 2007–2012 Oil and Gas Leasing on the OCS. The Department of the Interior described this as the second step of a four-step process to developing a final OCS leasing plan.

The Department of the Interior published Federal OCS offshore administrative boundaries in the *Federal Register* on January 3, 2006 *(Federal Register Vol. 71, No.1)*. According to the MMS, the agency developed these administrative boundaries beyond State submerged lands for the purpose of agency planning, coordination and administrative purposes. As stated in the *Federal Register* notice, applying the principle of equidistance, MMS specifically designated these areas to better carry out its responsibilities and mandates under the Coastal Zone Management Act, the Outer Continental Shelf Lands Act and the Energy Policy Act of 2005.

MMS stated its intention to realign the boundaries of the Central Gulf of Mexico Planning Area to correspond with the new offshore administrative boundaries. Under this revision, part of the Original Sale 181 Area, and the deepwater area to the south of that would be considered part of the Central Planning Area and could be considered for future oil and gas development. According to MMS, the re-designated Sale 181 Area included as part of the Central Planning Area is approximately 2 million acres, in contrast to approximately 3.6 million acres under S. 2253.

The Outer Continental Shelf Lands Act (OCSLA) specifically authorized the Secretary of the Interior to manage oil and natural gas and other marine minerals activity seaward of state submerged lands. Today, submerged lands within three nautical miles off the coastline fall within the jurisdiction of the individual states. Texas and the Gulf Coast of Florida (and unincorporated U.S. territory of Puerto Rico) are the exceptions, with state (or territorial) waters extending out to three marine leagues (nine nautical miles).

There are over 8,200 producing and non-producing existing leases on the OCS, and about 4,000 offshore facilities. MMS estimates that there are 42,000 OCS personnel and 125 companies operating on the OCS. There are 46 million acres leased in the approximately 1.76 billion acre OCS (2.6%) and 33,000 miles of oil and gas pipeline. About twenty percent of this lease acreage is currently in production.

Oil and gas production on the OCS provides approximately 1.6 million barrels of oil per day, and 11 billion cubic feet of natural gas per day to the domestic market. Annually, this production amounts to over 600 million barrels of oil per year (30% of United States domestic production) and 4.7 trillion cubic feet of natural gas per year (23% of United States domestic production). According to MMS, the OCS contains more than 60% of the remaining undiscovered oil in the United States and as much as half of our nation's undiscovered, recoverable natural gas. MMS estimates that over the next five years, OCS production could account for more than 40% of domestic oil production and 23% of domestic natural gas production, mostly due to new discoveries in deepwater and at greater depths beneath the ocean floor.

In addition to providing significant energy resources, activities on the OCS provide substantial revenues to the Federal Treasury, in the form of bonuses, rents and royalties. Activities on the OCS provide an average of over $6 billion per year in revenues to the Treasury.

LEGISLATIVE HISTORY

S. 2253 was introduced by Senator Domenici for himself and Senators Bingaman, Talent and Dorgan on February 7, 2006. S. 2253 was read twice and referred to the Committee on Energy and Natural Resources. On February 16, 2006, the Senate Committee on Energy and Natural Resources met in a full committee hearing to receive testimony regarding S. 2253. To date, twenty-four members of the Senate have cosponsored S. 2253. At the business meeting on March 8, 2006, the Committee on Energy and Natural Resources ordered S. 2253 favorably reported.

COMMITTEE RECOMMENDATION AND TABULATION OF VOTES

The Senate Committee on Energy and Natural Resources, in open business section on March 8, 2006, by a majority vote of a quorum present recommends that the Senate pass S. 2253.

The roll call vote on reporting the measure was 16 yeas, 5 nays, 1 present as follows:

Yeas	Nays	Present
Mr. Domenici	Mr. Martinez	Ms. Landrieu
Mr. Craig	Mr. Akaka	
Mr. Thomas	Mr. Wyden *	
Mr. Alexander *	Mrs. Feinstein *	
Ms. Murkowski	Mr. Menendez	
Mr. Burr *		
Mr. Talent		
Mr. Burns*		
Mr. Allen		
Mr. Smith		
Mr. Bunning		
Mr. Bingaman		
Mr. Dorgan		
Mr. Johnson*		
Ms. Cantwell		
Mr. Salazar		

* Indicates vote by proxy.

SECTION-BY-SECTION ANALYSIS

Section 1. Offshore Oil and Gas Leasing in 181 Area of the Gulf of Mexico

Section 1(a) provides definitions for the terms “181 Area,” “Military Mission Line,” and “Secretary.”

Section 1(b) directs that, except as otherwise provided in this section, the Secretary of the Interior shall offer the 181 Area for oil and gas leasing pursuant to the Outer Continental Shelf Lands Act (43 U.S.C. 1331 et seq.) as soon as practicable, but not later than one year, after the date of enactment of this Act.

Section 1(c) excludes certain areas from the lease sale directed under section 1(b). These areas are only excluded, by this section, from the oil and gas leasing authorized under this Act.

Section 1(d) provides that the 181 Area shall be offered for lease notwithstanding the omission from the 181 Area from any prior outer Continental Shelf leasing program under the Outer Continental Shelf Lands Act.

COST AND BUDGETARY CONSIDERATIONS

The Congressional Budget Office estimate of the costs of this measure has been requested but was not received at the time the report was filed. When the report is available, the Chairman will request it to be printed in the Congressional Record for the advice of the Senate.

REGULATORY IMPACT EVALUATION

In compliance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee makes the following evaluation of the regulatory impact which would be incurred in carrying out S. 2253. The bill is not a regulatory measure in the sense of imposing Government-established standards or significant economic responsibilities on private individuals and businesses.

No personal information would be collected in administering the program. Therefore, there would be no impact on personal privacy.

Little, if any, additional paperwork would result from the enactment of S. 2253, as ordered reported.

EXECUTIVE COMMUNICATIONS

At a hearing before the Committee on Energy and Natural Resources on February 16, 2006, the Department of the Interior provided the following testimony with respect to S. 2253:

STATEMENT OF R.M. "JOHNNIE" BURTON, DIRECTOR, MINERALS MANAGEMENT SERVICE, DEPARTMENT OF THE INTERIOR

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear here today to discuss the area of the Federal Outer Continental Shelf (OCS) in the Gulf of Mexico commonly referred to as the "Sale 181 area". We appreciate the Committee's efforts to address our nation's domestic energy needs. S. 2253, calling for the expansion of leasing within the Gulf of Mexico of non moratoria areas closely resembles the draft 5-year proposed program released by the Department on February 8, 2006.

The OCS Lands Act directs the Secretary of the Interior to make resources available to meet the nation's energy needs. The accompanying congressional declaration of policy states, "The OCS is a vital national resource reserve held by the Federal Government for the public, which should be made available for expeditious and orderly development." The Administration has directed the Minerals Management Service (MMS) to meet this charge through specific policy initiatives provided in the President's National Energy Policy. This direction is all the more critical in the face of higher oil and natural gas prices and their impacts to our economy.

As the Nation's offshore energy and mineral resource management agency, the MMS has a focused and well established ocean mandate—to balance the benefits derived from exploration and development of oil, gas, marine minerals and renewable energy resources with environmental protection and safety.

The environmental record of the OCS program is outstanding. There has not been a significant platform spill in the last 35 years. The Sale 181 area is a gas prone area and natural gas production offshore represents one of the most environmentally sound energy developments this country could propose.

The oil and gas produced from the OCS plays a major role in supplying our daily energy needs, accounting for 30% of domestic oil production and 21% of domestic natural gas production. The Gulf of Mexico is the most prolific producing offshore region, providing 27% of the oil and 20% of the natural gas produced domestically. The share of Gulf of Mexico production is expected to rise within the next several years to about 23% of natural gas and 40% of oil domestic production.

Sale 181 area

In 1999, MMS put out a call for information and notice of intent to prepare an environmental impact statement for a proposed Federal oil and gas lease sale in the area now referred to as the original Sale 181 area. This area, original Sale 181, included an area offshore of Alabama beginning 15 miles south of the Alabama coast and an area offshore of Florida more than 100 miles from the Florida coast. It included 1,033 lease tracts covering 5.9 million acres.

In 2001, the Secretary of the Interior spent a great amount of time speaking with officials and citizens of the affected states around the original Sale 181 area. Based on those discussions, a decision was made to modify the 181 area that would be offered in the December 2001, lease sale and that would become available for leasing during the 5-Year Oil and Gas Leasing Program for 2002–2007. This modification reduced the acreage available for leasing in the Sale 181 area from 5.9 million acres to 1.5 million acres. At the time, the Department projected the adjusted area contained an estimated 1.25 trillion cubic feet of natural gas and 185 million barrels of oil.

There have been three sales held in the modified Sale 181 area. The first, Sale 181, held in December 2001; Sale 189 in December 2003; and Sale 197 in March 2005. The results of Sales were as follows:

Sale 181: 95 leases were awarded, with total high bids of $340,474,113.

Sale 189: 14 leases were awarded, with total high bids of $8,376,765.

Sale 197: 10 1eases were awarded, with total high bids of $6,595,753.

There have been a total of 26 exploration wells drilled on the leases in this area. The first discovery on leases issued in these recent sales was announced in 2003 with seven additional discoveries subsequently announced. These discoveries are predominately natural gas.

Five independent exploration and production companies and a mid-stream energy company have come together to facilitate the development of multiple ultra-deepwater natural gas discoveries located in the Central and Eastern Gulf of Mexico, including all of the 7 discoveries mentioned above. The fields' water depths range from 7,800 to 9,000 feet. The production from these discoveries will be tied-back to a central platform, Independence Hub, which will be located on unleased Mississippi Canyon Block 920 in the Central Gulf. First production is expected in 2007.

5-Year Program for 2007–2012

In August 2005, the Department began the process of developing the next 5-Year Oil and Gas Leasing Program 2007–2012 by requesting comments on all OCS areas, including the Sale 181 area. On February 8, 2006, the Department announced its draft proposed program for the 5-year OCS Oil and Gas Leasing Program 2007–2012. This was the second step in a 5-step process which affords substantial opportunity for public comment. Under the draft proposal, the MMS would plan on conducting a lease sale in a larger part of the original Sale 181 area in the fall of 2007.

On January 3, 2006, the Department published in the Federal Register revised administrative lines that differentiate Federal waters of the Eastern, Central and Western Gulf of Mexico. These lines were drawn on the principle of equidistance. It is now clear which area of Federal waters is off the coast of each state. These lines are purely administrative with no legal effect on civil or criminal jurisdiction. We published the lines because the OCS is more and more subject to multiple-use activities, and it became timely to delineate zones of interest of coastal states in Federal waters.

The draft proposal includes consideration of leasing in an expanded area within the original Sale 181 area. The expanded area is approximately 2 million acres now located within the Central Gulf Planning Area under the new administrative lines. This area is in addition to the 1.5 million acres within the original Sale 181 area already offered for leasing under the current 2002–2007 5-year program.

MMS estimates that most of the prospective tracts in this area would be leased out within 5 years, under annual sales, and that the first production would occur within 5 years of the first sale.

The Sale 181 area, which we believe has a huge potential for natural gas and oil resources, is not under Congressional moratorium or Presidential withdrawal. Nevertheless, in accordance with the Secretary's commitment, the draft does not propose any leasing within 100 miles of the coast of Florida, including that portion of the Sale 181 area which is now in the Central Gulf Planning Area. No lease sale is proposed in the Eastern Gulf Planning Area. This respects the commitment made by the Secretary, which was reiterated in the August 2005 Request for Information, that the Secretary "had no intention of offering for leasing areas in the Eastern Gulf of Mexico Planning Area within 100 miles of the coast of the State of Florida."

In addition, the area proposed for leasing is west of the Military Mission Line (86 degrees, 41 minutes West longitude) and would not interfere with military readiness or training. We work extensively with the Department of Defense on all oil and gas leasing on the OCS and envision this relationship to continue with future leasing decisions.

The draft proposed program would continue to schedule annual area-wide lease sales in the Central and Western Gulf Planning Areas, as has been the customary practice.

The area south of the original Sale 181 area that is west of the new administrative line has been included for analysis. This area is currently under both Presidential withdrawal and Congressional moratorium; both of these would need to be removed before this area could be offered for lease. It is estimated that there could be 700 million barrels of oil and 3.68 trillion cubic feet of natural gas in this area. This area warrants further analysis and consideration in order to inform future decisions as to whether or not to include the area in the final program. Therefore, the draft proposed program notes that subsequent annual Central Gulf sales may consider the area to the south. No sale will be held unless the moratorium is discontinued by Congress and the Presidential withdrawal is modified. In addition, pursuant to Section 18 of the OCS Lands Act, no sale will be proposed until all affected states have the opportunity to comment.

2006 Resource assessment

Concurrent with the draft proposed program, MMS released two documents: (1) Assessment of Undiscovered Technically Recoverable Oil and Gas Resources of the Nation's Outer Continental Shelf, 2006; and (2) the Report to Congress: Comprehensive Inventory of U.S. OCS Oil and Natural Gas Resources, which was sent to Congress. These documents report MMS's new estimates for the total endowment of technically recoverable oil and gas resources for the entire OCS, including areas under Congressional moratoria or Presidential withdrawal. In the draft proposed program for 2007–2012, numbers were predicated on the 2003 estimates. These numbers will be updated in the proposed program that will be released in the summer of 2006. MMS periodically updates its resource assessments to include any new data and information, incorporate advances in exploration and development technologies, and use new assessment methods. MMS did *not* directly acquire or contract for the acquisition of new seismic data or the drilling of wells. All of the data used was commercial data or published scientific research.

The Department has completed eight comprehensive resource assessments since 1976. During this timeframe, the magnitude of resources believed to be technically recoverable continued to grow with each assessment in those areas with leasing activity.

Estimates for the sale 181 area

MMS has examined the resource potential of the Sale 181 area under the 2003 interim update. Based on those assessments, we have estimated that the portion of the Sale 181 area east of the area currently available for lease has a potential of 930 million barrels of oil and 6.03 trillion cubic feet of gas. This is the area proposed in S. 2253. By contrast, the new area included in the Draft Proposed Program for 2007–2012 is estimated to contain 530 million barrels of oil and 3.42 trillion cubic feet of gas.

S. 2253

Mr. Chairman, I will now turn to S. 2253, the legislation that you, along with Senators Bingaman, Talent and Dorgan, introduced last week. The legislation would require the Secretary of the Interior to offer a large portion of the Sale 181 area for oil and gas leasing within one year of enactment. We support the goals of the legislation and we appreciate your efforts to make additional energy resources available for our nation. This proposal would make 3.6 million acres available for lease while maintaining a 100 mile buffer zone along the Florida coast. Leasing in the area east of the Military Mission Line, an area of approximately 725,000 acres, would be subject to the agreement and approval of the Secretary of Defense.

The work MMS must conduct to comply with the National Environmental Policy Act, Marine Mammal Protection Act, Endangered Species Act, and Coastal Zone Management Act is very similar for the sale included in its draft proposed oil and gas leasing program as for the lease sale called for in S. 2253. Mr. Chairman, we look forward to working with you and your staff on this legislation.

Conclusion

This Administration and the Department of the Interior remain committed to ensuring that the OCS remains a solid contributor to the nation's energy needs. The relative contribution from federal offshore areas will increase in the upcoming years due to activity in the deep water areas of the Western and Central Gulf of Mexico.

Mr. Chairman, this concludes my statement. Please allow me to express my sincere appreciation for the continued support and interest of this committee for MMS's programs. It would be my pleasure to answer any questions you or other members of the Committee may have at this time.

CHANGES IN EXISTING LAW

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, the Committee notes that no changes in existing law are made by the bill S. 2253, as ordered reported.

○