The Florida Senate

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Committee on Environmental Preservation and Conservation

OFFSHORE DRILLING: A REVIEW OF THE FEDERAL PROCESS

SUMMARY

Serious interest in the exploration for and the drilling of offshore oil resources began in the late 1800's. The first offshore well was drilled off the coast of Summerland, California off a wharf that extended about 300 feet into the ocean.

The first successful venture into open, unprotected waters was in 1938 in the Gulf of Mexico. A discovery well was drilled from a drilling platform secured to a foundation of timber piles set in 13-14 feet of water.

In 1986, the deepest well was drilled in the Gulf of Mexico to a total depth of 25,000 feet. By 1997, production in the Gulf of Mexico exceeded a water depth of 5,000 feet.

The Outer Continental Shelf (OCS) lands are leased by the Federal government to the oil and gas industry for the exploration, development, and production of oil and gas. The State jurisdiction for Florida over the Gulf of Mexico OCS lands extends out in the gulf approximately 9 nautical miles.

The Department of Interior, through the Mineral Management Service (MMS), manages the natural gas, oil and other mineral resources in the OCS. The MMS collects, accounts for and disburses more than $8 billion per year in revenues from Federal offshore mineral leases.

The OCS Deepwater Royalty Relief Act of 1995 has had a significant impact on deepwater oil and natural gas exploration activities. This legislation provides incentives for operators to develop oil and natural gas fields in water depths greater than 200 meters, or 666 feet.

Royalties are payments to the MMS based on the value of the lease of any natural gas and oil actually produced.

Since the late 1980's, there has been only a limited amount of OCS oil drilling and exploration activity in the Eastern Gulf of Mexico Planning Area because of administrative deferrals and Congressional moratoria for offshore drilling.

There are an estimated 7 to 9 trillion cubic feet of natural gas, and 1.6 to 2.8 billion barrels of oil and condensate contained in the Eastern Gulf of Mexico Planning Area.

Currently, two bills are pending before Congress to open up the Gulf of Mexico for more oil and natural gas exploration – H.R. 4761 and S. 3711. H.R. 4761 is a comprehensive piece of legislation designed to significantly increase the areas open for drilling and exploration in the Gulf of Mexico. S. 3711 would limit the areas to be opened up to those far from land. Currently, Congress has been unable to reach a compromise on these bills.

On September 5, 2006, Chevron and its partners discovered a huge oil and natural gas reserve in the Gulf of Mexico about 270 miles southwest of New Orleans and 175 miles off the coast of Louisiana. The discovery, however, is in very deep water. Chevron had indicated that it drilled to a total depth of over 28,000 feet in waters that are 7,000 feet deep.

BACKGROUND

The country's dependence on non-domestic sources of oil and gas has become a cause for concern due to the recent impact of hurricanes and various factors occurring in foreign countries. In response, the federal government and Congress have indicated a desire to expand drilling and exploration operations in the Gulf of Mexico.

Historically, drilling has not been allowed or has been severely limited in areas off the coast of Florida. This prohibition has come about through a series of moratoria and presidential orders. Recently, the U.S. Department of Interior started a process to open up an area for drilling located south of Pensacola. As evidenced by the recent legislation pending in Congress, this could be a precursor to efforts to open up vast stretches of the Gulf of Mexico and bring drilling operations into waters directly off of Florida's Gulf Coast.

METHODOLOGY

Staff reviewed various reports issued by the Minerals Management Service of the Department of the Interior, industry publications, and current Federal law and proposed Federal legislation. In addition, staff met with industry representatives and others.

FINDINGS

History

Serious interest in the exploration for and the drilling of offshore oil resources began in the late 1800's. The first offshore well was drilled off the coast of Summerland, California 38 years after the first onshore oil well was drilled in Titusville, Pennsylvania. This first offshore well extended about 300 feet into the ocean off a wharf built for that purpose. Approximately 400 wells were drilled in this manner with the longest pier extending over 1,200 feet into the water and some wells produced from as deep as 600 feet below sea level.[1]

The oil industry's first successful venture into open, unprotected waters was in 1938 in the Creole Field in the Gulf of Mexico. The Pure Oil/Superior Oil company drilled a discovery well from a 100-300 foot drilling platform secured to a foundation of timber piles set in 13-14 feet of water.

In November 1947, a well was drilled almost out of sight of land in 16 feet of water in the Ship Shoal Area, approximately 12 miles south of Terrebonne Parish, Louisiana. This was the first well to be drilled in open water from a fixed platform/drilling tender combination which was a major breakthrough in drilling-unit design for offshore use. The well produced 600 barrels a day and established a pattern for supporting offshore wells from onshore bases.[2]

As petroleum production from the lower 48 states was declining in the early 1970's, a major discovery of oil at Prudhoe Bay in Alaska provided the promise of a significant new source of domestic supply on a world class scale. The discovery was initially estimated to be 9.6 billion barrels of oil. The field started producing in 1977.[3]

Drilling technologies have advanced to allow the exploration and drilling of oil and gas wells in very deep seas. In 1980, the Shell Oil Company installed a fixed platform named *Cognac* in 1,025 feet of water and in 1991, Shell installed *Bullwinkle* in 1,350 feet of water.[4]

In 1986, the deepest well was drilled in the Gulf of Mexico to a total depth of 25,000 feet.[5]

By 1997, production in the Gulf of Mexico exceeded 5,000 feet water depth. Since that time, wells continue to be drilled in deeper water.

The Outer Continental Shelf (OCS) lands are leased by the federal government to the oil and gas industry for the exploration, development, and production of oil and gas. The OCS consists of the submerged lands, subsoil, and seabed, lying between the seaward extent of the States' jurisdiction and the eastward extent of Federal jurisdiction.

The 1953 Outer Continental Shelf Lands Act established the Federal jurisdiction over submerged lands on the OCS seaward of the State boundaries. The act also designated the Secretary of the Department of Interior to administer mineral exploration and development of the entire OCS. As amended, the Secretary is empowered to grant leases for the exploration and development of oil and gas resources on the OCS.[6]

The State jurisdiction over the OCS is defined as follows:

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[1] *Leasing Oil and Natural Gas Resources – Outer Continental Shelf,* U.S. Department of the Interior, Minerals Management Service, page 3.

[2] Id.

[3] Id. at pg. 4.

[4] Id.

[5] *Leasing Oil and Natural Gas Resources – Outer Continental Shelf, Appendix C,* MMS, page 52.

[6] www.gomr.mms.gov/homepg/regulate/regs/laws/ocslasht.html

- Texas and the Gulf Coast of Florida are extended 3 marine leagues (approximately 9 nautical miles) seaward from the shoreline.
- Louisiana is extended 3 imperial nautical miles (imperial nautical mile=6080.2 feet) seaward from the shoreline.
- All other States' seaward limits are extended 3 nautical miles (approximately 3.3 statute miles) seaward from the shoreline.

The Federal jurisdiction over the OCO is defined under accepted principles of international law. The seaward limit is defined as the farthest of 200 nautical miles seaward of the shoreline 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[7] or a line 350 nautical miles from the shoreline.[8]

The Department of Interior, through the Mineral Management Service (MMS), manages the natural gas, oil, and other mineral resources in the OCS. The MMS collects, accounts for and disburses more than $8 billion per year in revenues from Federal offshore mineral leases.[9] Annually, nearly $1 billion goes into the Federal Land and Water Conservation Fund for the acquisition and development of state and Federal parks and recreation lands.[10]

Several other federal acts impact the exploration and production of oil and gas in the OCS. Among these are:

- National Environmental Policy Act (NEPA) which requires a detailed environmental review before any major or controversial Federal action.
- Clean Air Act (CAA) which regulates the emission of air pollutants from industrial activities.
- Coastal Zone Management Act (CZMA) which requires state review of federal action that would affect land and water use of the coastal zone.
- Clean Water Act (CWA) which regulates the discharge of toxic and nontoxic pollutants into surface waters.

Over the past decade, there has been an overall expansion in deepwater drilling and exploration activities. Fifty four percent of the active leases in the Gulf of Mexico are classified as deepwater. The OCS Deepwater Royalty Relief Act of 1995 has had a significant impact on deepwater activities. This legislation provides incentives for operators to develop fields in water depths greater than 200 meters (666 feet). Reduction of royalty payments is also available through an application process for some deepwater fields that were leased prior to the act but have not yet gone into production.[11]

Royalty Relief Program

Royalties are payments to the MMS based on the value of the lease of any natural gas and oil actually produced. The royalty due the Federal Government may be taken in dollar value or in produced oil or natural gas, known as Royalty-in-Kind.

Under the Outer Continental Shelf Lands Act (OCSLA) as amended in 1978, and under the Deepwater Royalty Relief Act of 1995 (DWRRA), relief from royalty obligations may be granted to increase production or to encourage development on certain producing or non-producing leases. The primary MMS royalty relief programs include those that were required for Gulf of Mexico deepwater leases issued in 1996-2000. The Federal Government has also offered royalty relief incentives since 2001 for natural gas production from certain deep wells in shallow water for newly issued leases, and started a similar program for active shallow water leases where drilling started on or after March 26, 2003.[12]

There are two major issues concerning royalty relief price thresholds being examined by Congress and the U.S. courts. The first issue is that a price threshold was not included in leases issued in sales held in 1998 and 1999. This means that companies holding these leases are not subject to royalty payments in subsequent producing years, despite high natural gas prices. There is no explanation why this language was excluded in these leases.

The second issue involves a court case filed by Kerr-McGee Oil and Gas Corp. against the U.S. Department of Interior, challenging the Department's authority to impose price thresholds on royalty relief for leases issued between 1996 and 2000. That case is before the U.S. District Court of Louisiana.

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[7] Isobath—an imaginary line or one drawn on a map connecting all points of equal depth below the surface of a body of water.

[8] www.gomr.mms.gov/homepg/whoismms/whatsocs.html

[9] www.gomr.mms.gov/about_common.html

[10] *Leasing Oil and Natural Gas Resources – Outer Continental Shelf*, U.S. Department of the Interior, Minerals Management Service, page 5.

[11] Id. at page 7.

[12] *Overview of the Federal Offshore Royalty Relief Program*, Energy Information Administration , Office of Oil and Gas, MMS, June 2006.

The DWRRA also provided for royalty relief to certain "end-of-life" leases and relief for current projects if formal relief programs fail to offer enough incentives for increased production.[13]

Drilling Leases

The MMS oversees two major programs: Offshore Minerals, and Minerals Revenue Management. The Offshore Minerals Program, which manages the mineral resources on the OCS, comprises three regions: Alaska, the Pacific, and Gulf of Mexico.[14]

The Gulf of Mexico Region is made up of three planning areas along the Gulf Coast – the Western, Central, and Eastern Gulf of Mexico Planning Areas. These areas contain 43 million acres under lease. There are 3,911 offshore production platforms active on the Gulf OCS. These production facilities contribute significantly to the nation's energy supply.[15] The Eastern Gulf of Mexico Planning Area extends along the Gulf's northeastern coast from Baldwin County, Alabama, southward to the Florida Keys.[16]

Since the late 1980's, a limited amount of OCS activity has taken place in the Eastern Gulf of Mexico Planning Area because of administrative deferrals and annual Congressional moratoria for offshore drilling and development on the OCS on both the U.S. east and west coasts. Specifically, the moratoria affect offshore drilling and development on the U.S. Atlantic and Pacific Coasts, the Eastern Gulf of Mexico, and parts of Alaskan offshore waters. The consequence of the moratoria is to foreclose until at least 2012 any effort to explore for critical oil and gas resources that are estimated to lie beneath this area. Recently, there have been several attempts to remove these moratoria.[17]

The lands in the OCS are leased by the Federal government to industry for the exploration, development, and production of oil and natural gas. The first offshore oil and natural gas lease sale held by the federal government was in 1954.[18]

The preparation of the schedule for the OCS oil and natural gas lease sales is governed by section 18 of the OCSLA. This section was added to the act in 1978. Prior to that time, the scheduling of OCS lease sales was a discretionary action of the Secretary of the Interior. The first OCS 5-year leasing schedule was issued in the early 1970's. The purpose of the schedule was to increase the predictability of sales in order to facilitate planning by industry, affected states, and the general public.

To facilitate the scheduling of and preparation for sales in a 5-year program, the OCS is divided into administrative geographical units called planning areas. Many of these planning areas are affected by the Congressional moratoria or Presidential withdrawal and are not available for leasing.[19]

As provided in Section 18(a)(2) of the OCSLA, the leasing program must be based on the following considerations:

- Existing information concerning the geographical, geology, and ecological characteristics of such regions;
- An equitable sharing of developmental benefits and environmental risks among the various regions;
- The location of such region with respect to, and the relative needs of, regional and national energy markets;
- The location of such regions with respect to other uses of the sea and seabed, including fisheries, navigation, existing or proposed sealanes, potential sites of deepwater ports, and other anticipated uses as indicated by exploration or nomination;
- Laws, goals, and policies of affected States which have been specifically identified by the Governors of such States as relevant matters for the Secretary's consideration;
- The relative environmental sensitivity and marine productivity of different areas of the outer OCS; and
- Relevant environmental and predictive information for different areas of the OCS.

[13] Id.
[14] www.mms.gov/aboutmms/
[15] www.gomr.mms.gov/homepg/offshore/gulfocs/gulfocs.html
[16] www.gomr.mms.gov/homepg/offshore/egom/eastern.html
[17] Testimony submitted by the American Petroleum institute and others to the President's Commission on Ocean Policy, November 30, 2001.
[18] *Leasing Oil and Natural Gas Resources – Outer Continental Shelf*, U.S. Department of the Interior, Minerals Management Service, page 5.
[19] Id at page 9.

The 5-year program must also provide for the receipt of fair market value by the Federal Government for land leased and rights conveyed.

The first 5-year leasing schedule prepared pursuant to the provisions of Section 18 of the OCSLA was issued in June 1980.

In 2005, the MMS began the 2-year process to develop the size, timing, and location of proposed lease sales for the 2007-2012 leasing program.

The OCS leasing procedure is basically as follows:
- Call for information and nominations/and notice of intent to prepare an Environmental Impact Statement (EIS).
- Area identification.
- Draft EIS.
- Public hearing.
- Final EIS.
- Proposed Notice of Sale.
- Governor's comments.
- Final notice of sale.
- Sale.
- Issuance of leases.[20]

On August 24, 2006, the MMS released for comment in the Federal Register a proposed plan for the 2007-2012 OCS leasing program and the associated draft EIS. Comments on the proposed plan will be accepted through November 24, 2006, and the draft EIS is open for comment until November 22, 2006.

The proposed program includes a total of 21 OCS lease sales in 7 of the 26 OCS planning areas. Two of those areas are in the Gulf of Mexico. According to a news release from the MMS, the program continues to schedule annual areawide lease sales, and proposes a sale in 2007 of a portion of the area that was identified in the original Sale 181 area in the 5-year program for 1997-2002. As a result of the reconfiguration of some planning areas to follow new administrative lines, some of the areas formerly included in the Eastern and Western Gulf Planning Areas are now part of the Central Gulf Planning Area. As a result, there are no new lease sales scheduled in the reconfigured Eastern Gulf Planning Area. The original Sale 181 area that is in the Eastern Gulf Planning Area is not under presidential withdrawal and has not been subject to congressional moratoria; therefore, it is not considered a new lease sale. The area being considered for leasing in the Sale 181 area is greatly reduced and is at least 100 miles off the Florida coast approximately due south of Pensacola.[21]

Activities in the Eastern Gulf of Mexico Planning Area[22]

There is estimated to be between 6.95 and 9.22 trillion cubic feet of natural gas and 1.57 and 2.78 billion barrels of oil and condensate contained in the Eastern Gulf of Mexico Planning Area. Drilling for natural gas and oil has been occurring in the Eastern Gulf of Mexico offshore from Alabama and Florida for more than three decades. The first of 11 natural gas and oil lease sales held offshore from Florida occurred in 1959 and resulted in the issuance of 23 leases. Additional lease sales have been held periodically in the Eastern Gulf from 1973 through 2003. Currently, there are 241 active leases in the Eastern Gulf of Mexico Planning Area.

Exploratory drilling started in the Eastern Gulf of Mexico in the mid-1970's with the drilling of Destin Dome Block 162, located 40 miles south of Panama City, Florida. After two years and 15 dry holes, exploration stopped. At least 54 exploratory wells have been drilled in the Eastern Gulf of Mexico.

In the 1980's there was renewed industry interest in the Destin Dome area and three lease sales were made. In the 1980's , Chevron U.S.A. and Gulfstar made natural gas discoveries in the area.

In October 1995, 73 oil and gas leases located south of 26° N. latitude (the approximate latitude of Naples, Florida) were returned to the federal government as part of a litigation settlement. Consequently, no active federal natural gas and oil leases exist off the southwest Florida coast. Also, no active leases exist in the Straits of Florida Planning Area or off Florida's east coast.

In 1996, a development plan was filed by Chevron U.S.A. and its partners on the Destin Dome 58 Unit. Chevron and its partners filed a lawsuit against the federal government for denying the companies "timely and fair review" of plans and permits relating to the Destin Dome 56 Unit. The lawsuit was settled in May 2002 and the companies (Chevron, Conoco, and Murphy Oil) relinquished seven of nine leases in

[20] Id. at page 16.

[21] www.mms.gov/ooc/press/2006/press0824.htm, MMS news release #3550.

[22] www.gomr.mms.gov/homepg/offshore/egom/eastern.html, and the House of Representatives Staff Analysis for HB 229 CS, 4/21/2006.

exchange for $115 million. The remaining two leases, Destin Dome Blocks 56 and 57, are to be held by Murphy and will be suspended until at least 2012, the year when the current moratoria will expire. Under the terms of the agreement, the leases cannot be developed unless approved by both the federal government and the state of Florida.

In July 2001, Sale 181 was adjusted from 5.9 million acres to about 1.5 million acres or 256 blocks. The adjusted area lies more than 200 miles off the Alabama/Florida State line. Lease Sale 181 was held on December 5, 2001 and the MMS awarded leases on 95 tracts involving $340.5 million.

On December 10, 2003, Sale 189 in the Eastern Gulf of Mexico was held. That lease sale involved 138 blocks comprising approximately 794,880 acres offshore Alabama. The highest bid received was $2.2 million, submitted by Shell and Nexen.

Florida Law

Pursuant to s. 253.03, F.S., lands vested in the Board of Trustees of the Internal Improvement Trust Fund (Trustees) include:

- All swamp and overflowed lands held by the state or which may inure to the state;
- All lands owned by the state by right of its sovereignty;
- All internal improvement lands proper;
- All tidal lands;
- All lands covered by shallow waters of the ocean or gulf, or bays or lagoons thereof, and all lands owned by the state covered by fresh water;
- All parks, reservations, or lands or bottoms set aside in the name of the state, excluding lands held for transportation facilities, and transportation corridors and canal rights-of-way; and all lands which have accrued, or which may accrue, to the state from any source, excluding lands held for transportation facilities and transportation corridors and canal rights-of-way, spoil areas, or borrow pits or any land, the title to which is vested or may become vested in any port authority, flood control district, water management district, or navigation district or agency created by any general or special act.

Section 253.61, F.S., expressly prohibits the Trustees from granting any "oil or natural gas lease" on state-owned submerged lands off the State's west coast. A similar provision in s. 377.24, F.S., prohibits the DEP from issuing a permit "to drill a well in search of oil or gas" on the same state-owned submerged lands.

Pending Federal Legislation

<u>H.R.. 4761—Deep Ocean Energy Resources Act of 2006</u>

As stated in Report 109-531[23] which accompanies H.R. 4761, the purpose of the bill is to provide for exploration, development, and production activities for mineral resources on the OCS, and for other purposes.

As background and an expression of need for the legislation, the report states that in 2003, the National Defense Council Foundation estimated that the "hidden cost" of imported oil totaled $305 billion and that the hidden cost of importing our oil in 2006 will be more than $825 billion. If calculated on a per gallon basis, gasoline refined from Persian Gulf oil would be $20.86 per gallon. U.S. consumers could expect to see high heating costs this winter and the U.S. chemical, manufacturing, agriculture and other industries are being forced overseas in search of lower raw material costs like natural gas.

The report further states that many have advocated conservation and the use of renewable and alternative energy as a solution to high gasoline prices. However, energy generated from renewable resources is generally for electrical power generation, not transportation fuel.

As stated in the report, many industries have been heavily impacted by high energy costs such as the Forest Products Industry. Energy is the third largest manufacturing cost for the industry at 18 percent for pulp and paper mills. This has resulted in the closing of over 232 mills and the loss of 182,000 jobs. The National Association of Manufacturers Association estimates that 3.1 million jobs have been lost since 2000 as a result of high energy costs.

Hurricane and other extreme weather events have severely impacted the energy infrastructure particularly in the Gulf Coast.

Further, the report states that reliance on foreign countries for oil poses a problem of having to depend on increasingly unstable governments. Countries like China and India are vying for the foreign oil contracts that once belonged to the U.S.

The MMS has stated that the areas under moratoria likely contain between 94 and 164 trillion cubic feet of

[23] http://thomas.loc.gov/cgi-bin/cpquery/T?&report=hr531&dbname=109&

natural gas and between 21 and 40 billion barrels of oil—enough to lower consumer costs for decades to come.

The report further stated that coastal states that support energy development off their shores are not compensated as adequately as their land-locked counterparts. Therefore, coastal states should be adequately compensated for supporting and encouraging energy development.

As reported by the Committee on Resources, H.R. 4761 is a compromise between H.R. 4761 and H.R. 4318. In brief, the bill is intended to:

- Provide abundant domestic supplies of energy and will create hundreds of thousands of high paying family wage jobs.
- Provide a framework for responsible access to, and production of, energy from the OCS.
- Empower States to control their coastal areas.
- Protect the interest of States that don't want energy production near their coastlines by permanently establishing a moratoria on oil and gas development within 50 miles of the U.S. coast. States may opt out of the moratoria.
- Provide for equitable sharing of energy receipts.
- Establish conservation of resources for non-producing oil and gas leases and deep water producing leases that are not paying royalties. The fee for these producing leases kicks in when prices exceed $40.50 per barrel for oil and $6.75 per million Btu for natural gas in 2006 dollars. The fees apply to production starting October 1, 2005. The new fee addresses the mistake made in leases issued in 1998 and 1999[24] without violating contractual obligations the U.S. has with the lease holders.
- Create three funds from onshore and offshore mineral receipts to support domestic energy programs: Federal Energy Natural Resources Enhancement Fund; the Federal Energy and Mineral Resources Professional Development Fund; and the National Geo Fund.

The Natural Resources Enhancement Fund as created would use funds from federal mineral receipts for monitoring and management of wildlife and fish, and their habitats, and air, water, and other natural resources related to energy and minerals development on federal onshore and offshore lands.

The Federal Energy and Mineral Resources Professional Development Fund as created would use funds from federal mining receipts to support existing programs at ABET-accredited petroleum and mining schools and support applied geology and geophysics programs. Also, funds would be available to individuals for degrees in petroleum and mining engineering, petroleum/mining geology and geophysics and mineral economics. The programs created in the bill give preference to Iraq and Afghanistan veterans and minorities. The bill also establishes an Office of Petroleum and Mining Schools within the Department of Interior.

The National Geo Fund would use funds from federal mineral receipts for a program for the production of fuels from strategic unconventional resources and production of oil and gas resources using certain techniques, including five pilot projects. Several grant programs would be funded to support geothermal and geopressure oil and gas energy production and facilities for coal-to-liquids, petroleum coke-to-liquids, oil shale, tar sands, heavy oil and in Alaska, natural gas-to-liquids projects.

The bill also encourages marine life development through a federal rigs-to-reefs program which authorizes the use of decommissioned offshore oil and gas platforms for artificial reefs.

The bill further strives to strengthen the new oil shale program implemented through the Energy Policy Act of 2005 by establishing a royalty framework modeled after a Canadian model. Finally, the bill increases revenue sharing with state and local governments during the first 20 years of production.

The bill passed the House and was placed on the Senate Legislative Calendar under General Orders.

S. 3711 Gulf of Mexico Energy Security Act of 2006

S. 3711 was introduced on July 20, 2006 and the bill passed the Senate on August 1, 2006. The title of the bill declares that it is an act to enhance the energy independence and security of the United States by providing for exploration, development, and production activities for mineral resources in the Gulf of Mexico, and for other purposes.

The bill requires the Secretary of the Interior to offer the 181 Area and the 181 South Area to be designated for sale for oil and gas leasing pursuant to the OCS (43

[24] Price triggers for royalties were not included.

U.S.C. 1331 et seq.) notwithstanding their omission from the OCS leasing program.

For the period beginning on the date of the enactment of this act and ending on June 30, 2022, the following areas are subject to a moratorium for oil and gas leasing and related activities:

- Any area east of the Military Mission Line in the Gulf of Mexico.[25]
- Any area in the Eastern Planning Area that is within 125 miles of the Florida coastline; or
- Any area in the Central Planning Area that is within the 181 Area and 100 miles of the Florida coastline, or
- Outside the 181 Area, east of the western edge of the Pensacola Official Protraction Diagram, and within 100 miles of the coastline of the State of Florida.

Notwithstanding those areas specified in the moratorium, the U.S. reserves the right to designate by and through the Secretary of Defense, with the approval of the President, national defense areas on the OCS.

The Secretary shall permit any person who has entered into an oil or gas lease with the Secretary in any area described in this act, as of the date of the enactment of the act, to exchange the lease for a bonus or royalty credit that may only be used in the Gulf of Mexico. The bill specifies the amount of the bonus or royalty credit for a lease to be exchanged.

The act specifies the disposition of qualified OCS revenues from the 181 area, the 181 south area, and the 2002-2007 planning areas of the Gulf of Mexico.

- 50 percent of qualified OCS revenues are to be deposited in the general fund of the Treasury;
- 50 percent of qualified OCS revenues are to be deposited in a special account in the Treasury from which the Secretary shall disburse 75 percent to Gulf producing States and 25 percent to provide financial assistance to States in accordance with section 6 of the Land and Water Conservation Fund Act of 1965.

The bill further limits the total amount of qualified OCS revenues made available to $500 million for each fiscal year for the period 2016 through 2055.

Recent Gulf Discoveries

On September 5, 2006, Chevron and its partners, Devon and Statoil, announced the discovery of a huge reserve of oil and natural gas in the Gulf of Mexico in the Walker Ridge Area which is about 270 miles southwest of New Orleans and 175 miles off the coast of Louisiana. The discovery, however, is very deep. Chevron had indicated that it drilled to a total depth of 28,175 feet in waters that are 7,000 feet deep.

It is estimated that this discovery could increase the U.S. reserves of oil by as much as 50 percent. Chevron estimated that the 300-square-mile region where its test well sits could hold between 3 and 15 billion barrels of oil and natural gas liquids.[26] However, these amounts are speculative and the area would not come on line for at least 4 to 7 years. Production would probably not start until 2010 at the earliest with full production not until 2013 at the earliest.[27]

CONCLUSIONS

It appears that there will be no change in the current policies and procedures for drilling in the OCS, particularly the Gulf of Mexico OCS, in the near future. The U.S. House of Representatives and the U.S. Senate have failed to reach an agreement on a compromise between H.R. 4761 and S. 3711. The House bill would have lifted the moratorium on drilling in much of the Gulf of Mexico while the Senate bill would have opened up certain areas far from land.

[25] As provided in the bill, the Military Mission Line means the north-south line at 86<<41 031'W. longitude..

[26] www.sptimes.com/2006/09/06news_pf/Business/Oil_discovered in_dee.shtml

[27] www.energybulletin.net/20140.html