Mission

“To promote safety, protect the environment and conserve resources offshore through vigorous regulatory oversight and enforcement.”
BSEE Responsibilities

- BSEE Primary Responsibilities Related to “Agreement”
  - Unitization approval
  - Allocation of production
  - Reservoir management (e.g., restriction production rates)
  - Competitive reservoir determinations
  - Inspections (22 Helicopters)
  - Approval of production measurement meters
  - Collection of production data from meters
  - Pipeline approvals
Transboundary Agreement (TB)

- Applies to Gulf of Mexico only
- Reservoir or geologic structure must be entirely beyond nine nautical miles of coastline
  - excludes Texas State waters
- Allows production to occur while preserving the rights of each country*
- Mexican laws apply to activities occurring in Mexican jurisdiction and U.S. laws apply to activities in U.S. jurisdiction
Foundation

- Data exchange/Notifications
  - Subject to National Law
- Voluntary unitization
- Potential for Unilateral production absent Unitization
- Joint inspection (safety, environmental, metering, etc.)
Data Exchange

- Annual Meetings (Mexico/BSEE/BOEM)
  - Consult on activities carried out within 3 miles of the delimitation line
  - Exchange of data associated with such activities

- Data Exchange Triggers:
  - Seismic Permit (BOEM)
  - Exploration Plan (BOEM)
  - Application for Permit to Drill (BSEE)
  - Development Plan (BOEM)
  - Hydrocarbon occurrence from drilling (BSEE)
  - Likely existence of TB reservoir (BSEE/BOEM)
Voluntary Unitization (VU)
What is Unitization?

Combining acreage for joint exploration or development of common geologic accumulations under terms of a Unit Agreement and a Unit Operating Agreement.
Unitized Leases Gulf of Mexico

- 594 Leases Unitized
- 181 Active Units
  - 137 Exploratory
  - 44 Reservoir
- 13 State/Fed
Impact of Units

Producing Leases
- Non-unit: 75%
- Unit: 25%

Gas Production
- Non-unit: 65%
- Unit: 35%

Oil Production
- Non-unit: 39%
- Unit: 61%
VU: Why does it work?

- Allows for the sharing of costs and risk
- Eliminates competition
- Eliminates unnecessary wells, platforms, pipelines, etc.
- Potentially more access to drilling rigs
- Leverages expertise between operators
- Provides for proprietary data sharing
Voluntary Unitization

- Flexibility built into the Agreement for:
  - Unitization for a “geologic structure”
  - Unitization for a single “reservoir”
  - Negotiation between the governments and licensees on acceptable **Unit Agreement** terms
  - Negotiation of an acceptable **Unit Operating Agreement** between the Licensees which establishes how all costs, liabilities, and benefits will be shared between the Licensees
Voluntary Unitization

- Unit request submitted to both Governments
  - Single Unit Operator

- Request must include:
  - Geological & Geophysical Information
  - Unit Agreement
  - Unit Operating Agreement
Geological & Geophysical (G&G) Information

- Subsurface data includes:
  - 3D seismic
  - Structure and/or amplitude maps
  - Well log(s), correlations, petrophysical analysis, and engineering data (if applicable)
  - BSEE independent G&G evaluation is performed
  - G&G forms basis for unit size
  - BOEM to provide input
Unit Agreement

- Identification of the Unit Area
- Methodology used to calculate allocation of production
- Licensees plans for exploring and/or developing the unit (submitted to BSEE and Mexico initially and then at least annually)
- Unit Operator (appointment, process for removal and successor approval)
- Production measurement procedures
- Safety and environmental measures
- Procedures for any allocation redetermination including triggers
- Provisions to share data between the unit operator and each Government
Unit Operating Agreement

- Unit operator and working interest owners sign Unit Operating Agreement:
  - Describes how all costs & liabilities allocated
  - Describes how all benefits allocated
  - Complex business arrangements
The proper allocation of production will be established at the start of first production from any transboundary reservoir.
Allocation Issues

- Unit operator to initiate consultations on the initial allocation of production from a TB reservoir 60-days prior to production by submitting a proposal for approval by the Executive Agencies
- If EA’s can’t agree, the Joint Commission shall address issue
  - On the U.S. side, representative is the Deputy Secretary with the Assistant Secretary for Land and Minerals as the alternate
- If Joint Commission can’t resolve in 60-days, either Government may submit for Expert Determination
Expert Determination

- Governments to provide all information to the Expert (including proprietary information subject to a confidentiality contract)
- Expert Determination is binding
Inspections

- Enable inspectors to safeguard their respective safety, environmental, and fiscal interests
- Joint inspection mechanism created
  - Drilling rigs, production platforms, meters, etc.
- Enforcement actions taken by inspector with jurisdiction (e.g., issuance of Incident of Noncompliance)
Inspections

- For the purpose of averting risk to life or serious personal injury or significant damage to the environment:
  - Inspector with jurisdiction shall order the immediate cessation of any or all operations upon request by the “visiting” inspector
  - Immediately thereafter (not more than 4 hours) the inspectors shall notify the EAs of the action and reasons
  - The EAs will consult immediately
  - Does not prevent the right of each Government to authorize the resumption of operations
What happens if Unitization has not been approved and drilling has occurred?
First Step

- Governments shall initiate consultations when:
  - One side feels there is a “likely” existence of a Transboundary reservoir, or
  - There is a Hydrocarbon Occurrence from drilling
Definitions

- TB Reservoir – “… which extends across the Delimitation Line … exploitable in whole or in part from both sides…”

- Hydrocarbon Occurrence – “means a detection of Hydrocarbons drilling operations within 3 statute miles on either side of the Delimitation Line”
Second Step

- TB Determination:
  - If EA’s can’t agree, either side may submit to the Joint Commission
  - If the Joint Commission is unable to resolve in 60 days, either side can submit for Expert Determination but only if:
    - There is a well in the prospective TB reservoir on each side
What happens after a TB reservoir has been determined by the EA, Joint Commission, or Expert?
Third Step

- Production will not be allowed for up to a 16-month period to allow time to pursue forming a voluntary unit.
  - Includes 6 months for Licensees to work together and submit a voluntary unit request.
Fourth Step

- If the Government's are notified that a unitization agreement will not be pursued:
  - Each Government will require its Licensee to submit a proposed Unitization Agreement (UA) and Unit Operating Agreement (UAO); and
  - The EA’s will jointly determine an estimate of recoverable hydrocarbons (bbls/Mcf) on each side along with the associated allocation of production (%)
    - If can’t agree, issue shall be referred to binding Expert Determination
Potential Unitization

- Governments will have 90 days to approve one of the submitted UA and UOA (or alternative agreements)
  - If no agreement, it will be referred to the Joint Commission
- Ideally, once the Governments agree on a UA, UOA, and proper allocation, a unitization agreement will be signed by the licensees
- However, still no guarantee Unitization would be executed by all parties.
Unilateral Production

- If Unitization at this point fails:
  - Each Government may authorize its Licensee to proceed with production
  - Production will be limited to the earlier determination of recoverable hydrocarbons on each side
  - Subject to potential joint management by Governments (e.g., restrict rates, wells, etc.)
  - Exchange of monthly production data
Conclusions

- Protects the rights of each Nation
- Ensures safe and environmentally sound operations within approved units
- Ensures the proper development of the resources
- Provides the certainty needed by licensees
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