Lease Suspensions – Suspensions of Operations andSuspensions of Production

Kevin J. Karl
Deputy Regional Director
Bureau of Safety and Environmental Enforcement
Gulf of Mexico Region

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

- General Info
- Law/Regulations
- Suspension of Production (SOP)
- Suspension of Operations (SOO)
- Requests for Suspensions
Maintaining Lease

What keeps a lease term in effect?

- Primary Term
- Leaseholding Operations (30 CFR 250.180(a))
  - Drilling
  - Well-reworking
  - Production in paying quantities
- Plus 1-Year Period After Cessation of Ops
  - 30 CFR 250.180(b)
- Unit lease
- Suspension of Production (SOP)
- Suspension of Operations (SOO)
What is a Suspension?

➢ By definition means: “A granted or directed deferral of the requirement to produce (Suspension of Production (SOP)) or to conduct leaseholding operations (Suspension of Operations (SOO))”.

➢ In short – the running of the term is paused during the period of suspension resulting in an extension of the expiration date.

- **Number of Lease Suspensions Processed**

- **Year**
  - SOP
  - SOO

- **Drilling Moratorium**

- **Katrina/Rita**

- **Gustav/Ike**

- **Yearly Values**
  - 2000: 97
  - 2001: 18
  - 2002: 15
  - 2003: 21
  - 2004: 81
  - 2005: 86
  - 2006: 65
  - 2007: 16
  - 2008: 24
  - 2009: 35
  - 2010: 36
  - 2011: 1445
  - 2012: 194
  - 2013: 137
  - 2014: 107
  - 2015: 110
  - 2016: 95
  - 2017: 50

- **Legend**
  - SOP
  - SOO
# Unit Suspensions (2000 – 2017)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Unit Suspensions Processed</th>
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</thead>
<tbody>
<tr>
<td>2000</td>
<td>37</td>
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<td>2001</td>
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<td>2002</td>
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<td>2011</td>
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<td>2014</td>
<td>28</td>
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<td>2015</td>
<td>3</td>
</tr>
<tr>
<td>2016</td>
<td>13</td>
</tr>
<tr>
<td>2017</td>
<td>17</td>
</tr>
</tbody>
</table>

**Katrina/Rita**

**Gustav/Ike**

**Drilling Moratorium**
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Statutory Authority For Suspensions:

OCSLA 43 USC 1334(a)(1)
Statutory Basis
OCSLA 43 USC 1334(a)(1)

Calls upon the Secretary to promulgate regulations “for the suspension or temporary prohibition of any operation or activity, including production, pursuant to any lease or permit:

(A) at the request of a lessee, in the national interest, to facilitate proper development of a lease or to allow for the construction or negotiation for use of transportation facilities, or…
(B) if there is a threat of serious, irreparable, or immediate harm or damage to life (including fish and other aquatic life), to property, to any mineral deposits (in areas leased or not leased), or to the marine, coastal, or human environment…
Regulations

Regulatory Authority For Suspensions:

30 CFR 250.168-177
Suspensions – Regulatory Authority
30 CFR 250.168-177

- Suspension – All or any part of a lease or unit area

- BSEE may “grant” or “direct”
  - Grant at request of operator
  - Direct normally to prohibit operations (safety and environmental reasons, military warning areas, etc.)
  - If directed due to gross negligence or willful violation, does not extend term of lease

- Rentals or minimum royalty are still paid during periods under a granted suspension

- Rentals or minimum royalty are not paid during periods of directed suspensions except when directed for failure to comply with a law, regulation, order, or provision of lease or permit (ONRR regulations 30 CFR 1218.154)
Suspensions – Regulatory Authority
30 CFR 250.170

- BSEE may issue suspensions for up to 5 years per suspension but may grant consecutive suspension periods.
- BSEE sets the length of time based on conditions of the case.
- SOO ends automatically when suspended operation begins.
- SOP ends automatically when production begins.
- Directed suspensions normally end on date specified in letter.
- BSEE may terminate any suspension “when the Regional Supervisor determines the circumstances that justified the suspensions no longer exist or that other lease conditions warrant termination.”

See also NTL No. 2000-G17; 2009-N02; 2011-N10
Suspensions – Regulatory Authority
Four Categories

- Grant or Direct SOO or SOP
  - 30 CFR 250.172

- Direct an SOO or SOP
  - 30 CFR 250.173

- Grant or Direct SOP
  - 30 CFR 250.174

- Grant SOO
  - 30 CFR 250.175
Grant or Direct SOO or SOP
30 CFR 250.172

- When necessary to comply with judicial decrees...
- When activities pose a threat of serious, irreparable, or immediate harm or damage...
- When necessary for the installation of safety or environmental protection equipment...
- When necessary to carry out the requirement of NEPA...
- When necessary to allow for inordinate delays encountered in obtaining required permits...
Direct an SOO or SOP
30 CFR 250.173

- You failed to comply with an applicable law, regulation, order, or provision of a lease or permit

- The suspension is in the interest of National security or defense
Grant or Direct SOP
30 CFR 250.174

When in the National Interest and:

- **It will allow you time to properly develop a lease…**
- **It will allow you time to obtain adequate transportation facilities**
- **It will allow you time to enter a sales contract**
- **It will avoid continued operations that would result in premature abandonment of a producing well(s)**
...when necessary to allow time to begin drilling or other operations when you are prevented by reasons beyond your control...

- Additional time is needed for geophysical work - subsalt prospect

- Additional time is needed for geophysical work – deep prospect (>25,000 TVD SS)
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Suspensions of Production
30 CFR 250.171

Operator request must be received prior to end of lease term* and include:

- The justification, including the length of suspension requested
- A well drilled on the lease and determined to be producible (30 CFR 550.115, 116, or 250.1603)
- A commitment to production
- A reasonable schedule of work leading to the commencement of production
- Service fee of $2,123

*See NTL No. 2009-N02 “Timely Submission of Suspension Requests”
Commitment to Production

- Operator has explored and appraised lease
- Operator demonstrates a firm and definite commitment to produce the reserves proven by well penetration
- That is, the operator has:
  - Obtained and evaluated sufficient technical data (e.g., drilling, seismic, well testing, etc.)
  - Determined the project to be economic when considering all future costs
  - Made a firm decision to proceed to production (by the proper management level)
  - Assured the availability of a production facility or plans to construct
SOP Approval/Denial

Deny
- More wells needed to prove up reserves
- Looking for partners
- Time needed to sell to another company
- Negotiating deal to use another company’s production facility

Approve
- Sanctioned project
- Facility in fabrication
- Facility in place, need time for final hook-up
Schedule of Work

Request must be supported by a reasonable schedule of work - measurable milestones ending with production
## Reasonable Schedule

<table>
<thead>
<tr>
<th>Activity</th>
<th>Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commence fabrication of platform</td>
<td>June 2018</td>
</tr>
<tr>
<td>Commence installation of platform</td>
<td>February 2019</td>
</tr>
<tr>
<td>Commence installation of pipeline</td>
<td>March 2019</td>
</tr>
<tr>
<td>Commence tieback and completion operations</td>
<td>April 2019</td>
</tr>
<tr>
<td>Apply for production measurement and/or surface commingling approval</td>
<td>May 2019</td>
</tr>
<tr>
<td>Commence production</td>
<td>June 2019</td>
</tr>
</tbody>
</table>
# Unreasonable Schedule

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>DEADLINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commence fluid and core analysis</td>
<td>June 2018</td>
</tr>
<tr>
<td>Commence reprocessing seismic data</td>
<td>December 2018</td>
</tr>
<tr>
<td>Complete fluid and core analysis</td>
<td>January 2019</td>
</tr>
<tr>
<td>Complete reprocessing and commence interpretation of seismic data</td>
<td>June 2019</td>
</tr>
<tr>
<td>Complete interpretation of seismic data</td>
<td>December 2019</td>
</tr>
<tr>
<td>Update geologic models</td>
<td>June 2019</td>
</tr>
<tr>
<td>Commence concept selection, and tender bids to enter FEED</td>
<td>December 2019</td>
</tr>
<tr>
<td>Submit APD for appraisal well</td>
<td>March 2020</td>
</tr>
<tr>
<td>Update reservoir model</td>
<td>September 2020</td>
</tr>
<tr>
<td>Commence study on completion design</td>
<td>November 2020</td>
</tr>
<tr>
<td>Select development concept</td>
<td>December 2020</td>
</tr>
<tr>
<td>Award FEED contracts; commence preliminary engineering studies</td>
<td>January 2021</td>
</tr>
<tr>
<td>Complete study on completion equipment design</td>
<td>March 2021</td>
</tr>
<tr>
<td>Submit DOCD</td>
<td>August 2021</td>
</tr>
<tr>
<td>Submit APD for development well</td>
<td>September 2021</td>
</tr>
<tr>
<td>Commence drilling of development well</td>
<td>October 2021</td>
</tr>
<tr>
<td>Commence fabrication of platform</td>
<td>November 2021</td>
</tr>
<tr>
<td>Commence installation of platform</td>
<td>February 2024</td>
</tr>
<tr>
<td>Commence installation of pipeline</td>
<td>April 2024</td>
</tr>
<tr>
<td>Commence tieback and completion operations</td>
<td>June 2024</td>
</tr>
<tr>
<td>Apply for production measurement and/or surface commingling approval</td>
<td>July 2024</td>
</tr>
<tr>
<td>Commence production</td>
<td>September 2024</td>
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Suspensions of Operations

- “Determination of well producibility” not required
- Normally of shorter duration than SOP’s
- Schedule of Work not always needed
Most common authority used

Operator prevented from leaseholding operation for “reasons beyond their control” (e.g., unexpected weather, unavoidable accidents, rig delay)

- Must have all required permit approvals
- Must demonstrate operations were scheduled to begin prior to lease expiration

See ATP Oil & Gas Corp., 173 IBLA 250 (2008) [IBLA 2007-26]
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How are Suspensions Requested

- SOPs usually submitted ~ 3 weeks before lease expiration

- SOOs usually submitted closer to lease expiration date

- BSEE must receive request before lease expiration including the cost recovery fee of $2,123

- BSEE may approve/deny after lease expiration date, but operator cannot perform leaseholding operation after expiration date unless & until approval granted
Questions??
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