Gulf of Mexico Energy Security Act of 2006 and Related Articles

- The text of the Gulf of Mexico Energy Security Act of 2006 (S. 3711, passed by the 109th Congress) may be found at the following URL’s;
  - [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_cong_bills&docid=f:s3711es.txt.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_cong_bills&docid=f:s3711es.txt.pdf)
    (use the “ES” version of the bill)


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**The NewsRoom**

Fact Sheet: Energy Security Act
Date: March 20, 2008

**Minerals Management Service and the Gulf of Mexico Energy Security Act of 2006**

On December 20, 2006, the President signed into law the Gulf of Mexico Energy Security Act of 2006 (Pub. Law 109-432). The Act significantly enhances OCS oil and gas leasing activities and revenue sharing in the Gulf of Mexico (GOM). The Act:

- requires leasing in 8.3 million acres in the GOM, including 5.8 million acres that were previously held under Congressional moratoria;
- bans oil and gas leasing within 125 miles off the Florida coastline in the Eastern Planning Area, and a portion of the Central Planning Area, until 2022;
- shares leasing revenues with Gulf producing states and the Land & Water Conservation Fund for coastal restoration projects; and,
- allows companies to exchange certain existing leases in moratorium areas.
for bonus and royalty credits to be used on other GOM leases.

**Access to Acreage for Leasing**

The law requires that 8.3 million acres be offered for oil and gas leases. This acreage is included in both the Central Gulf Planning Area and the Eastern Gulf Planning Area. Approximately 2 million acres in the Central Gulf was first offered for lease after enactment of the law was and was included in Lease Sale 205 in October 2007. Approximate .5 million acres in the Eastern Gulf received additional environmental review and is being offered in Lease Sale 224 in March 2008.

The remaining 5.8 million acres in the Central Gulf is undergoing environmental review and is expected to be offered in Lease Sale 208 in 2009.

The Act also created revenue sharing provisions for four Gulf oil and gas producing States – Alabama, Louisiana, Mississippi and Texas, and their coastal political subdivisions. There are two timeframes involved in revenue sharing. From Fiscal Year 2007 through Fiscal Year 2016, 37.5 percent of all revenue including bonus bids, rentals and production royalty will be shared among the four States and subdivisions for those new leases in the .5 million acres in the Eastern Gulf and the 5.8 million acres in the Central Gulf.

**Revenue Sharing**

There is a cap of $500 million for qualified OCS revenues shared beyond 2016. From Fiscal Year 2017 and beyond, the four States and subdivisions will share 37.5 percent of revenues from all Gulf leases issued after December 20, 2006.

GOMESA funds are to be used for coastal conservation, restoration and hurricane protection.

**Extended Moratorium**

The Act also updated moratoria areas in the Gulf. Those tracts in the Eastern Gulf of Mexico that are within 125 miles of Florida, all tracts east of the Military Mission Line, and tracts in the Central Gulf of Mexico within 100 miles of Florida that are included in the moratorium area which extends until 2022.

**Credit Exchange for Eligible Leases**

The Act also allowed for the exchange of existing leases in the moratorium areas for bonus or royalty credit to be used in the Gulf of Mexico.

A credit will be provided to lessees who relinquish certain eligible leases in the Gulf of Mexico. Leases are considered eligible if they lie within 125 miles off the Florida coast in the Eastern Planning Area or within 100 miles off the Florida coast in the Central Planning Area. The lessees will be allowed to use the credits in lieu of monetary payment for either a lease bonus bid or royalty due on oil and gas production from most other leases in the Gulf of Mexico or transfer the credits to
Gulf of Mexico lease sale draws $3.7 billion in high bids

Posted by kquillen March 19, 2008 15:35PM

(Originally printed in the New Orleans Times-Picayune?)

Louisiana will finally profit from offshore oil and gas production, a shift in federal policy set in motion Wednesday during the government's annual auction of drilling tracts in the Gulf of Mexico.

The U.S. Minerals Management Service, which oversees drilling in federal waters, held two sales Wednesday in the Louisiana Superdome that together offered nearly 30 million acres and drew a record level of bidding from energy companies competing for the leases. The smaller of MMS' two offerings, Lease Sale 224, drew $64.7 million in high bids that for the first time will be shared with Louisiana and other Gulf States.

The Gulf of Mexico Energy Security Act of 2006 allowed drilling in previously untapped areas of the Gulf, including the nearly 550,000 acres auctioned during Lease Sale 224. The legislation earmarked about 37.5 percent of money generated by the sale for Louisiana, Alabama, Mississippi and Texas to use for coastal restoration projects.
Louisiana's share of the Lease Sale 224 bids would amount to about $7.7 million, or about 32 percent of the four states' share. Additional revenues would flow to the states as leaseholders make rent payments and begin paying royalties on unearthed oil and gas.

The 2006 law will also allow the four states to share profits from another 5.8 million acres in the central Gulf, which are slated for auction next year. Starting in 2016, the states will begin drawing revenue from all new leases in the Gulf. The policy would bring more than $10 million each year to Louisiana for the next decade, said Adam Sharp, a spokesman for Sen. Mary Landrieu, D-La., who co-sponsored the 2006 legislation. By 2028, the state could see as much as $1 billion a year.

Louisiana plans to sink that money into its Coastal Restoration and Hurricane Protection Trust Fund, which pays for projects such as levee construction and wetland restoration in the state's 19 coastal parishes, said Chris Macaluso, a spokesman for the state's Coastal Protection Restoration Authority.

"This state now stands ready, with a master plan for coastal restoration and protection, one that many of us have spent months of hard work to develop and want to implement," Scott Angelle, secretary of the state Department of Natural Resources, said in a statement.

Louisiana will not see any cash from Lease Sale 206, the larger of Wednesday's MMS sales, which had been planned before the 2006 law. The sale's offering of 615 tracts on more than 28.5 million acres in the central Gulf drew a record $3.7 billion in high bids, shattering the 1983 watermark of $3.4 billion.

"Today MMS won the championship," said Dirk Kempthorne, secretary of the Department of the Interior, who officiated at the auction and met with a delegation of four officials from Iraq's oil ministry in town for the event. Kemphorne said the Iraqis came to observe the "transparency" and "efficiency" of the MMS offshore auction process.

An area called Green Canyon drew high demand during Lease Sale 206, with one parcel in that area garnering the day's top bid of $105.6 million, an offer made by a team that included Anadarko E&P Co., Murphy Exploration and Production Co. and Samson Offshore.

Out-of-state companies, such as Hess Corp., Cobalt International Energy and BP Exploration & Production, dominated the sale. Louisiana firms, including McMoRan Exploration Co. and Bayou Bend Offshore, made a strong showing with offerings for various tracts. One local company, Stone Energy Corp., made the list of the top 10 high bidders for Lease Sale 206 with 25 high bids worth more $43 million.

Analysts attributed the bidding frenzy to steadily rising fuel prices and technological advancements that have allowed the energy industry to reach fuel stored in the deepest parts of the Gulf.

"The big activity is in the deepwater," said Tom Fry, president of the National Ocean Industries Association. "That's the frontier area; that's where all the new production will come from."
There appeared to be less demand for tracts offered in Lease Sale 224. The top bid for that sale came from Anadarko E&P Co. and Murphy Exploration & Production Co., which together offered about $8 million for a parcel in Lloyd Ridge. Fry attributed the calmer reaction during Lease Sale 224 to a lack of information about reserves in the area.

"There hasn't been much seismic activity in that area," he said. "Until you drill, you don't know what you're going to get."

For the first time, Louisiana will see a portion of money generated by the MMS auction. The Gulf of Mexico Energy Security Act of 2006 mandated that 37.5 percent of money derived from Lease Sale 224 go to Louisiana, Alabama, Mississippi and Texas and be used for coastal restoration projects.

Louisiana's share of bids from Lease Sale 224 would total about $7.7 million.

http://www.heritage.org/research/energyandenvironment/wm1273.cfm

December 4, 2006


by Ben Lieberman

WebMemo #1273

Prior to the elections, the House passed a strong offshore drilling bill, and the Senate passed a much more limited companion version. Both bills would open access to reserves of oil and natural gas. The House bill would do more to expand available energy resources than Senate version, which is only a little better than the status quo. Still, the Gulf of Mexico Energy Security Act of 2006 (S. 3711) is a small, but worthwhile, step that deserves consideration by the House.

Despite rising energy prices and increasing imports in recent years, the U.S. remains the only country on earth that has placed a significant percentage of its domestic energy potential off-limits. Oil and natural gas production is not allowed in 85 percent of America's territorial waters--essentially everywhere except the central and western Gulf of Mexico. A recent Department of the Interior study estimated that 19 billion barrels of oil and 84 trillion cubic feet
of natural gas could be found in these off-limits areas, and these initial energy inventories often prove to be low. To give a sense of perspective, 19 billion barrels equals about 30 years of current imports from Saudi Arabia, and 84 trillion cubic feet is enough natural gas to serve America's households for 15 years.

**The Congressional Response in 2006**

In response to high oil and natural gas prices and continued political tensions among oil-exporting nations, the House passed the Deep Ocean Energy Resources Act of 2006 (H.R. 4761) by a 232 to 187 vote, which included 40 Democrats voting in favor. The legislation would open most of the territorial waters currently off-limits, subject to state approval. In effect, each coastal state could allow or prohibit oil or natural gas production. These states could set their own restrictions, such as only allowing drilling beyond a certain distance from the shore so that the platforms cannot be seen from coastal properties. States would not have veto power for drilling beyond 100 miles from the coast. As an inducement, each state would share in the leasing and royalty revenues from deepwater drilling, which currently accrue only to the federal government.

Critics unfairly derided the bill as extreme and insufficiently protective of coastal ecosystems. Several senators threatened to filibuster any similar Senate bill. Instead, the Senate chose a more limited measure. Its bill, S. 3711, would open only one energy-rich area of the eastern Gulf of Mexico, the "Lease Sale 181" area. This area is located over 100 miles off the Florida panhandle and Alabama coast and is estimated to contain up to eight trillion cubic feet of natural gas and one billion barrels of oil. This area is not among the federally restricted portions of the Eastern Gulf, and the Department of the Interior is currently in the process of opening up portions of it for leasing. The area presents an advantage because it is adjacent to the existing pipeline infrastructure, and so the energy could be brought online more quickly than with most other new drilling. S. 3711 also opens up a large new area to the south of Lease Sale 181, but energy production there would take much longer due to the greater water depths.
Like the House bill, which also would have opened up the Lease Sale 181 area, S. 3711 allows for revenue sharing with affected coastal states in the Gulf. Indeed, the Bush Administration argued that the revenue sharing provisions were too generous and would deprive the Federal Treasury of needed dollars in the years ahead.

While critics of the House bill complained that it went too far, some critics said the Senate bill did not go far enough, including House members who were originally unwilling to compromise with the much more modest Senate bill.

Critics of the Senate bill noted that the volumes of energy in that bill were small relative to the challenges the nation faces, such as rising oil and natural gas prices, declining production from many existing domestic fields, strong growth in demand due to the growing economy. Others questioned how much of the additional energy that would be made available could have come online anyway under existing provisions. They also noted that the bill would strengthen restrictions on some other energy-rich portions of the Eastern Gulf in order to satisfy the Florida delegation. Some critics believed that this bill might hamper future passage of more comprehensive legislation because the generous Gulf state revenue-sharing provisions might satisfy legislators from the Gulf, who then would have less incentive to join in any subsequent bills to expand drilling elsewhere.

**Conclusion**

Criticisms of S. 3711 are not without merit. Nonetheless, S. 3711 is, on balance, a small step forward and should be given strong consideration. The energy resources it would open, though only a fraction of the nation's additional deepwater potential, is more than enough to be worth pursuing, and opening the Lease Sale 181 area legislatively leaves fewer potential delays and pitfalls than doing it administratively. Symbolically, this bill would represent the first real signal that Congress is serious about expanding domestic energy production--something that was conspicuously absent from any other recent legislation, including the massive 2005 energy bill. Its success could build momentum for far more important subsequent
measures. Under the difficult circumstances of the lame-duck Congress, opening the Lease Sale 181 area is the most realistic way to end 2006 on a positive legislative note for energy policy.

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from Offshore Magazine


**Gulf States to get first payment under GoM Energy Security Act**

_Offshore staff_

**WASHINGTON, DC --** More than $25 million will be paid to Gulf of Mexico coastal states and communities this week as their share of bonuses and rents on energy leases in federal waters off their coasts, according to Secretary of the Interior Ken Salazar.

The revenues include $6,179,076.25 to the state of Alabama; $6,347,321.13 to Louisiana; $5,506,235.80 to Mississippi; and $2,159,399.65 to Texas. Forty-two eligible political subdivisions will receive $5,048,008.21. Those include $1,544,769.06 to eligible Alabama counties; $1,586,830.28 to Louisiana parishes; $1,376,558.95 to political subdivisions in Mississippi; and $539,849.92 to counties in Texas. A complete list of the disbursements and eligible political subdivisions receiving funds will be online at [www.mrm.mms.gov](http://www.mrm.mms.gov)

These are the first payments under the 2006 Gulf of Mexico Energy Security Act (GOMESA), which provides that these states and counties receive 37.5% of the oil and gas qualified leasing revenues from certain Outer Continental Shelf areas. Most of the $25.2 million to be disbursed was received from Lease Sales 224 and 206, held on March 19, 2008. Lease Sale 205, held on Oct. 3, 2007, contributed a small percentage of the revenues that were shared with this disbursement, according to Salazar.

In total, the lease sales generated about $67.3 million in bonus bids and first-year rentals that qualify for revenue sharing. Under GOMESA, 12.5% of qualified revenues are disbursed to the Land and Water Conservation Fund, which provides funds and matching grants for various land and water projects. The remaining receipts are disbursed to the US Treasury.

The 2006 legislation mandates that eligible US jurisdictions on the Gulf Coast within 200
mi (322 km) of certain Outer Continental Shelf parcels leased in Sales 224, 206, and 205 receive these 37.5% share payments. The law directs that the funds be used for coastal protection, including mitigating damage to fish, wildlife or natural resources; carrying out a federally-approved marine, coastal, or comprehensive conservation management plan; mitigating the impact of Outer Continental Shelf activities through the funding of onshore infrastructure projects; as well as planning assistance and administrative costs in complying with the law.

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