U.S. Offshore Oil and Gas Fiscal System

Presentation offered to: U.S.-Russia Energy Working Group, Sub-Group on Energy Security

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Washington, DC
Wednesday, May 26, 2010
Alaska, Chukchi Sea Leases
Gulf of Mexico Leases
U.S. Offshore Leasing System is Concessionary

• Lease grants to the lessee the right to explore for and develop the leased mineral resources.

• The U.S. transfers the mineral rights (ownership) to a lessee for a:
  – bonus payment,
  – rent until production and,
  – royalty on the gross value of production.

• Profits from OCS leases are taxed at a 35% federal corporate income tax rate
U.S. Concessions Exclude

• Work commitments
  – U.S. system uses a limited lease term by which the lessee must achieve production, or the lease returns to U.S. inventory

• Cost recovery clauses
  – Royalty due on all production
Economic Concepts
Guiding principles for sale design and each sale’s economic terms

• Fair Market Value
  – Provide a fair return to the public

• Economic competition
  – Facilitate competition and market efficiency
  – All requirements are developed and publicly known before bids are submitted.
  – All requirements are transparently applied to bidders, clear, consistent, timely, and flexible administrative process.
Economic Concepts (continued)

• Limit the administrative burden

• Limited royalty incentives offered
  – No new incentives are being considered at this time

• We routinely evaluate these factors and occasionally adjust lease terms for newly offered leases
  – Regressive systems are less efficient and we are evaluating a sliding royalty
100% Foreign Ownership of Offshore Leases is Permitted

• A corporation:
  – must be organized under the laws of the United States
  – post bonds or demonstrate financial assurance
  – demonstrate Oil Spill Financial Responsibility
    • Laws will likely change (BP - Deepwater Horizon oil spill)
  – comply with all laws and regulations
Typical Foreign Entrant: *Ecopetrol* (Columbia)

- Several hundred million dollars invested in the Gulf of Mexico over the last 4-years
  - 2007, exploratory joint ventures with ENI and BP and Shell
  - 2007, production joint venture with Anadarko, K2 field
  - 2008, farm-in agreement with StatoilHydro
    - drill three deepwater exploratory wells
  - 2009, singly acquired 15 leases
  - 2010, singly acquired 5 leases

- Currently holding interest in 43 leases
Ecopetrol Press Release

• The Gulf of Mexico agreements enable Ecopetrol to consolidate its internationalization process

• Besides increasing its presence in the Gulf of Mexico, the joint ventures enable Ecopetrol to diversify its exploratory risk and to acquire knowledge and technology for development of future deep water projects.

Thank You

Questions