I. SUMMARY OF DECISION—DRAFT PROPOSED PROGRAM FOR 2010-2015

Introduction

Section 18 of the Act requires the Secretary of the Interior to prepare and maintain a schedule of proposed Outer Continental Shelf (OCS) oil and gas lease sales determined to "best meet national energy needs for the 5-year period following its approval or reapproval." Preparation and approval of a 5-year program must be based on a consideration of principles and factors specified by Section 18. Those criteria, and the manner in which they have been considered in the preparation of the draft proposed program for 2010-2015, are summarized in part III.

With the President's 2008 lifting of the withdrawal on offshore oil and gas exploration, areas of the OCS are now available for leasing that were not included in the 2007-2012 5-Year Program. Consequently, these new areas need to be evaluated for both their resource potential and public and industry interest in exploring and developing these areas. The President has acted to remove the withdrawal without restrictions, and Congress has acted to discontinue the annual moratoria without any further restrictions. In moving this process forward and to ensure the broadest possible review, public and industry comments are solicited on all the areas that the President and Congress have made available.

It is uncertain that the next 5-Year Program will offer as many areas for leasing as are included in this document. Such decisions on the size, timing and location of sales will rest with members of the next Administration. This draft proposed program (DPP) provides the next Administration with the maximum flexibility and the maximum available information to make these important decisions. To that end, the following questions will need to be addressed regarding the areas of the OCS that may be made available for leasing:

- Should there be buffer zones (i.e. areas where certain activities are prohibited or restricted)? If so, how large should they be? What criteria should be used for setting them (e.g., visual impacts, infrastructure, etc.)? Should they be uniform in all new areas or vary by area according to issues of concern and/or technical constraints?

- Are there specific areas/subareas that should be excluded because they are particularly sensitive? Or because oil and gas activities may significantly conflict, in area, with other uses for which the area/subarea might be better suited (e.g., alternative energy)?

- This Administration views revenue sharing as a strong feature of state participation in coastal resource development. When the President modified the presidential withdrawal, he called upon Congress to address new legislation to enhance current revenue sharing laws, to allow broader state participation in fiscal planning related to future coastal resource development. Please provide your views on what policies and programs MMS, Congress and the Administration should consider relative to OCS revenue sharing.

- For those areas proposed for leasing consideration in the Southern California Planning Area, in deciding the next steps in the 5-year program preparation, should MMS include a requirement for mandatory unitization to potentially limit the number of structures in one or more of these areas?

The DPP also outlines prospective resources and the potential revenues associated with the DPP. The MMS plans to complete an update of their 2006 National Assessment in early 2010 which should be available prior to publication of the Proposed Final Program.

It is important to note that the DPP invites comment from coastal states on how OCS resources are developed off their shores. Despite efforts on the part of the Administration to urge Congress to take up revenue sharing legislation, Congress has not expanded revenue sharing outside of four Gulf States. Other coastal states could share in revenues from leasing starting at the offshore state/Federal boundary, based upon the inherent revenue sharing built into section 8(g) of the Act. Congress could establish a broader revenue sharing program. Because of the then current energy situation and the 2008 President's action to remove the previous Presidential withdrawal, the governors of all 50 states were specifically asked for their comments, particularly on issues that are unique to each state, such as revenue sharing. The 2008 expiration of the congressional moratoria highlights new issues related to participation in revenue sharing.

While the DPP necessarily includes a schedule of sales (size, timing, and location), the intent of this document and associated materials is to make clear the Secretary is not recommending that any particular areas be in or out of the eventual final program. Rather, this DPP is designed to gather information, allowing the process to move forward in a way that will allow the next Administration to design a program that meets the objectives of the Nation.

This DPP is part of a multi-step process to prepare a new 5-Year Program to possibly replace the current one that began on July 1, 2007, and will end on June 30, 2012. The Secretary instituted the multi-step program preparation process two years early in order to provide an opportunity for greater access to domestic energy resources in a shorter time frame. Included in this document is information about OCS alternative energy leasing and development, an authority given to the Department by the Energy Policy Act of 2005, although this information is not part of the Section 18 process. Part II provides an overview of the Alternative Energy Program. Also included in Part IV is more area-specific alternative energy program information in conjunction with the discussion about that particular planning area and the oil and gas options considered and chosen for the DPP decision.

Before the new 5-Year Program may be approved and implemented, MMS must accept and consider comments on the draft proposed program, issue for public review and comment a proposed program and draft Environmental Impact Statement (EIS), and issue a proposed final program and final EIS. The 5-year preparation process is described in part III.

Section 18 of the Act requires that the 5-year schedule of lease sales be based upon a comparative analysis of the oil and gas-bearing regions of the OCS. Purely for administrative planning purposes, MMS has created 26 planning areas. Maps 1 and 2 in part IV show the planning areas, including those currently under restrictions.

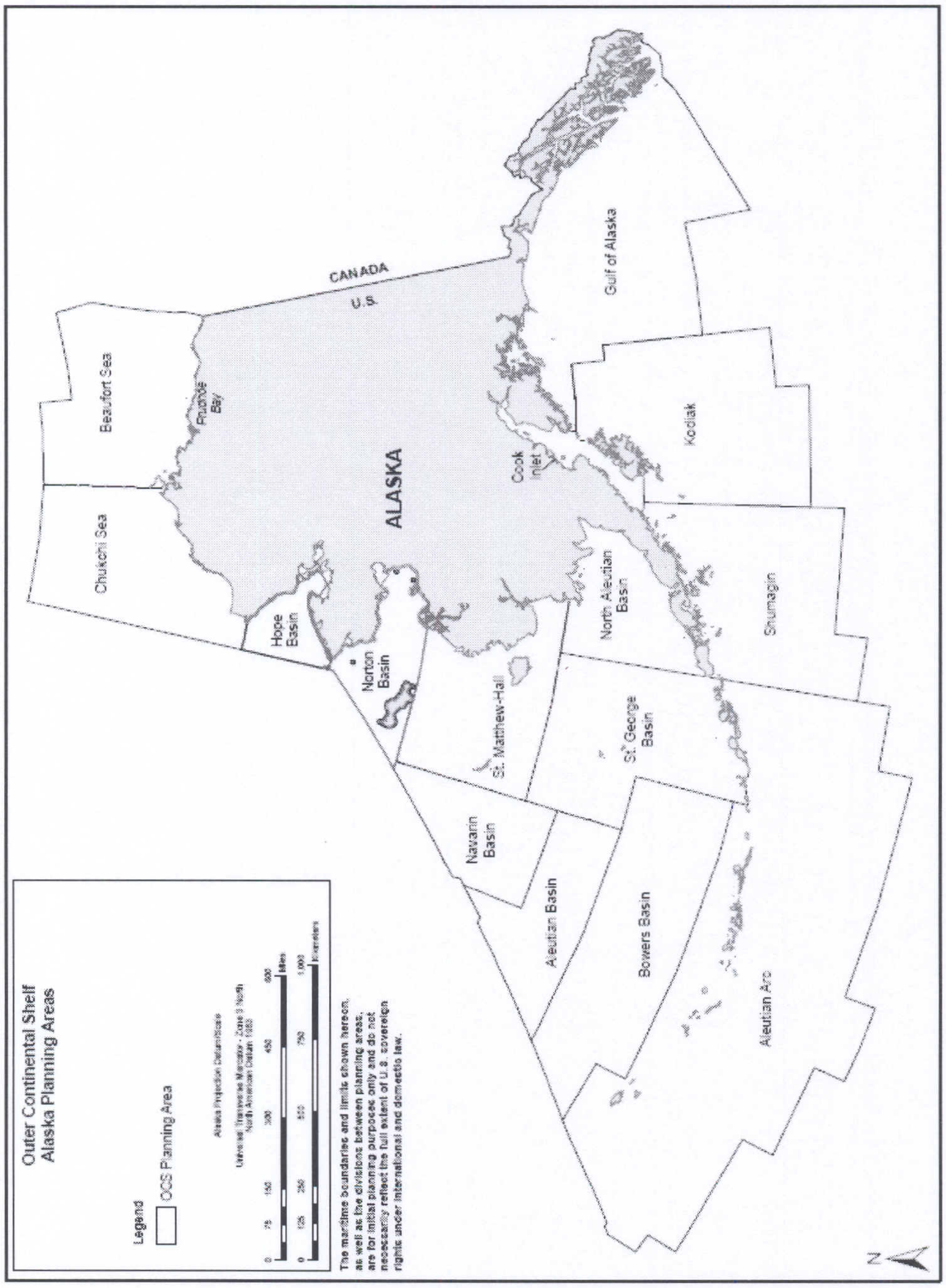
In developing the draft proposed program for 2010-2015, MMS analyzed and considered leasing in all 26 planning areas of the OCS. The Secretary has decided to include all or portions of 12 planning areas in the DPP. This proposal includes a portion of the Central Gulf of Mexico Planning Area off the coast of Alabama and part of the Eastern Gulf of Mexico Planning Area, which are currently withdrawn from leasing consideration to 2022 under the Gulf of Mexico Energy Security Act of 2006 (GOMESA). While these areas may continue to be included on a 5-year schedule, in order to actually hold a lease sale, Congress must pass new legislation lifting the restriction. In addition, pursuant to Section 18 of the OCS Lands Act, no lease sale will be proposed until all affected states have the opportunity to comment.

On August 1, 2008, MMS published a Notice in the *Federal Register* (73 FR 45065) requesting comments on all areas of the OCS and, specifically, whether to proceed with a new program 2 years early. One of the criteria to be considered under Section 18 is the Nation's energy needs. The August Notice laid out the current and future scenarios as put forth by the Department of Energy (DOE) in their *Annual Energy Outlook 2008,* cited the then-current price of oil, which had doubled since the announcement of the current program in April 2007, and provided information on the world energy markets and what activities were occurring closer to home, off Canada and Cuba. While the recent, precipitous price decline was due largely to a serious economic crisis that suddenly constrained demand, prices during the new 5-year lease sale schedule time period may rise as global economies recover. Energy plays a central role in the operation of the U.S. economy, and energy spending is commensurately large. In recent years, American consumers have spent well over a trillion dollars a year, more than 8 percent of the gross domestic product, on energy. For national and economic security reasons, the Nation needs more dependable access to many sources of energy—in its more traditional forms such as oil and gas, as well as opportunities for alternative sources of energy, such as wind, wave, and tidal current on the OCS.

The MMS received over 152,000 comments in response to the August 2008 Notice. See Appendix A, Summary of Comments. With the national and global energy situation, the comments from the public were about 60 percent in agreement with starting a new program to provide some level of expanded access to domestic sources of oil and natural gas. This DPP is designed to gather information, allowing the process to move forward in a way that will allow the next Administration to design a program that best fits their assessment of how to balance energy needs, environmental risks and benefits.

The DPP proposes a total of 31 OCS lease sales in 12 areas (4 areas off Alaska, 3 areas off the Atlantic coast, 2 areas off the Pacific coast, and 3 areas in the Gulf of Mexico). Maps A and B show the areas proposed for leasing (proposed program areas). Table A lists the location and timing of the proposed lease sales. Of the 31 sales, 10 sales are in 6 areas that were formerly under executive and/or congressional restrictions.

MAP A: Shows the Alaska Program Areas



MAP B: Shows the Lower 48 States Program Areas

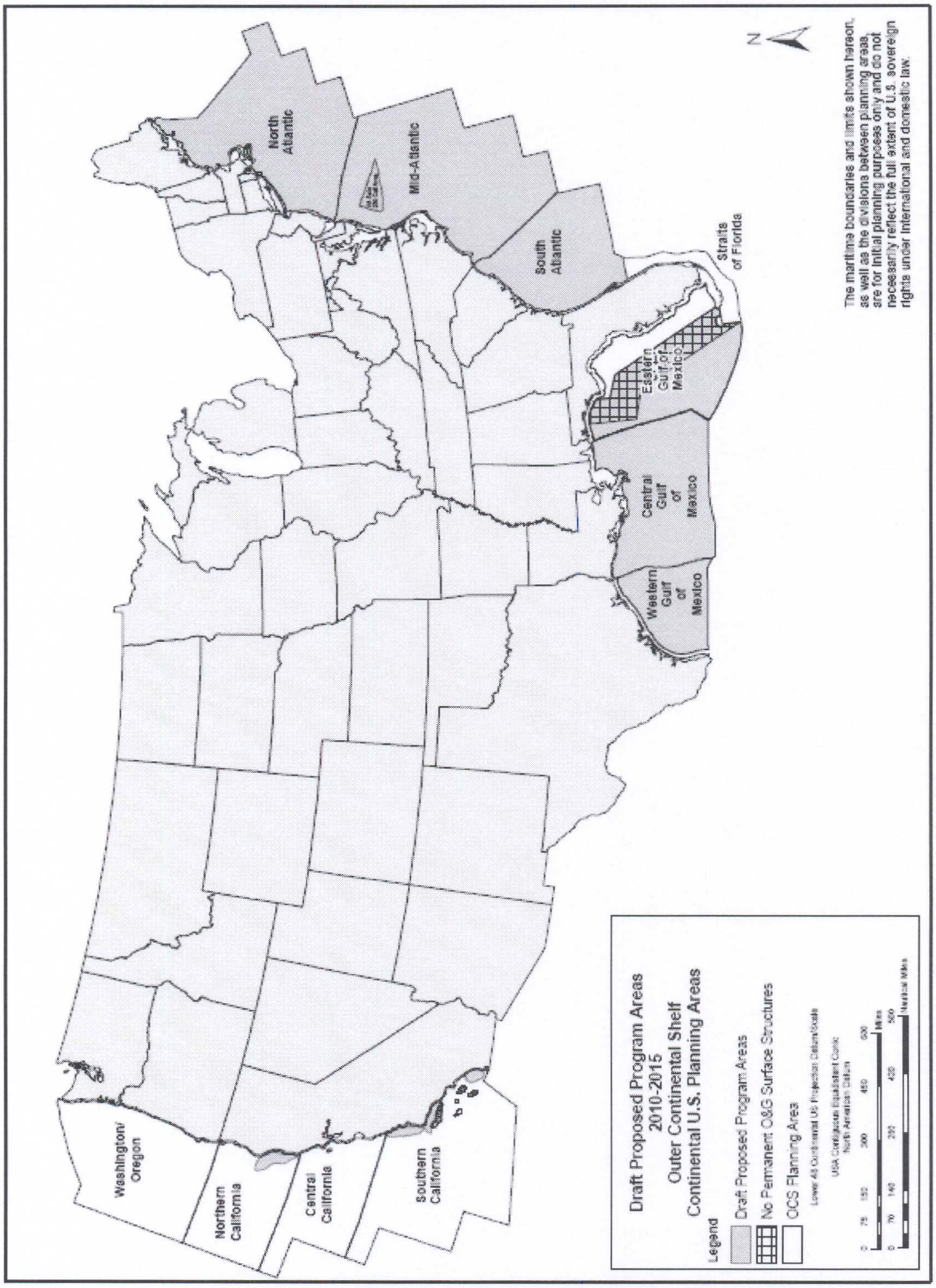


Table A
Draft Proposed Program for 2010-2015—Lease Sale Schedule

Sale No.	Area	Year
225	Eastern Gulf of Mexico	2010
215	Western Gulf of Mexico	2010
212	Chukchi Sea	2010
216	Central Gulf of Mexico	2011
218	Western Gulf of Mexico	2011
226	Eastern Gulf of Mexico*	2011
227	Central Gulf of Mexico*	2011
214	North Aleutian Basin	2011
219	Cook Inlet	2011
220	Mid-Atlantic	2011
222	Central Gulf of Mexico	2012
221	Chukchi Sea	2012
228	Southern California	2012
229	Western Gulf of Mexico	2012
230	Mid-Atlantic	2012
231	Central Gulf of Mexico	2013
217	Beaufort Sea	2013
232	North Atlantic	2013
233	Western Gulf of Mexico	2013
234	Eastern Gulf of Mexico*	2013
235	Central Gulf of Mexico	2014
236	Northern California	2014
237	Chukchi Sea	2014
238	Western Gulf of Mexico	2014
239	North Aleutian Basin	2014
240	South Atlantic	2014
241	Central Gulf of Mexico	2015
242	Beaufort Sea	2015
243	Southern California	2015
244	Cook Inlet	2015
245	Mid-Atlantic	2015

**Program area for lease sales would be expanded if Congress passes new legislation to lift any or all of the moratorium mandated by the Gulf of Mexico Energy Security Act of 2006 (GOMESA).*

Table B gives the leasing revenues (royalties plus bonuses for this discussion) that are estimated to be generated from leases issued in potential lease sales held in the draft proposed program planning areas. The total leasing revenues for all proposed sales sum to $368 billion in nominal dollars and $56 billion in present value dollars. (Cash flows are discounted at a 7 percent real interest rate plus the inflation rate to obtain present values.) Table B also gives the states' potential shares of the leasing revenues by applicable region, assuming the same revenue sharing formula of 37.5 percent as in GOMESA. They sum to $123 billion in nominal dollars and $18 billion in present value dollars, excluding revenues distributed under section 8(g) of the Act. Based on the projections of net economic value, the sum of Federal corporate income taxes and corporate profits generated by the new program is forecasted to be an additional $1.1 trillion in nominal dollars and $130 billion in present value dollars. It is assumed that Congress enacts legislation under which all leasing revenues with the states will be shared at 37.5 percent under future legislation, for areas where no sales were included in the 2007-2012 program and which were previously under moratoria. Sales in areas already included in the 2007-2012 leasing program are assumed to share revenues only as provided by GOMESA. That is, sharing begins in the Central and Western Gulf of Mexico for revenues starting in FY 2017, except certain parts of the Central and Eastern Gulf of Mexico formerly included in the Lease Sale 181 area or due south of that area, where sharing started in 2008. The estimates provided do not take account of the $500 million annual cap on revenue sharing currently provided in GOMESA for the Central and Western Gulf of Mexico planning areas.

Table B. Leasing Revenues and States Shares

		Federal Leasing Revenues Before Sharing					
		Nominal Dollars (Millions)			**Present Values (2010 Millions)**		
Region	**Sales**	**Royalty**	**Bonus**	**Total**	**Royalty**	**Bonus**	**Total**
Gulf of Mexico	13	$281,855	$3,955	$285,811	$41,662	$3,403	$45,065
Atlantic	5	$15,084	$410	$15,494	$1,599	$334	$1,933
Pacific	3	$29,612	$407	$30,018	$3,017	$290	$3,307
Alaska	9	$36,051	$291	$36,342	$4,998	$217	$5,215
Total	30	$362,602	$5,063	$367,665	$51,277	$4,244	$55,521
		States' Shares (37.5%)					
		Nominal Dollars (Millions)			**Present Values (2010 Millions)**		
Region	**Sales**	**Royalty**	**Bonus**	**Total**	**Royalty**	**Bonus**	**Total**
Gulf of Mexico	13	$105,696	$600	$106,296	$15,623	$546	$16,169
Atlantic	5	$5,656	$154	$5,810	$600	$125	$725
Pacific	3	$11,104	$152	$11,257	$1,131	$109	$1,240
Alaska	9	$13,519	$109	$13,628	$1,874	$81	$1,956
Total	30	$122,456	$906	$123,363	$17,355	$780	$18,134

Notes:

Estimates assume revenue sharing occurs without annual revenue sharing caps (currently $500 million/yr in the GOM)

Estimates assume legislation granting immediate revenue sharing for States near formerly restricted planning areas; GOM States share royalties after 2017

Estimates assume that legislation granting revenue sharing for Atlantic and Pacific States also grants same terms for Alaska.

Rental revenues are not estimated.

Alaska Region

In the Alaska Region, the DPP schedules multiple lease sales in the Beaufort Sea, Chukchi Sea, and North Aleutian Basin Planning Areas. Multiple sales are consistent with the Governor of Alaska's recommendations and the State's administration of its offshore oil and gas program. The sales in the Beaufort and Chukchi Seas are staggered by year with each other and timed to allow for possible new data from drilling between sales. The draft proposal expands the program areas to the entire planning areas for the Beaufort and Chukchi Seas, but the two subsistence deferrals in the Beaufort Sea and the 25-mile no-leasing buffer in the Chukchi Sea are continued from the current program.

Two sales are proposed in the North Aleutian Basin, a sale in 2011 in the current program and a second sale in 2014. The draft proposed program area is limited to that area included in the current program, commonly called the Sale 92 area, from the only sale held in this planning area in 1988.

The Cook Inlet Planning Area is included on the schedule as a special interest sale area. The sales are proposed for 2011 and 2015, but before MMS proceeds, it will issue a request for nominations and comments and will move forward only after consideration of the comments received in response to annual calls for information. If the comments from a call for information do not support consideration of a sale, the sale will be postponed and a request for nominations and comments will be issued again the following year, and so on through the 5-year schedule, until a sale is held or the schedule expires.

Maps 3-6 in part IV depict the specific Alaska OCS areas proposed for lease sales.

Pacific Region

The Pacific Region consists of four planning areas—Washington-Oregon, Northern California, Central California, and Southern California. The draft proposed program schedules one sale in the Northern California Planning Area and two in the Southern California Planning Area. The proposed sales are focused on areas of known hydrocarbon potential—the Point Arena Basin in Northern California, and the Santa Maria, Santa Barbara/Ventura, and Oceanside/Capistrano Basins in Southern California. The potential sales are limited to no more than these basins. The MMS also requests comments on mandatory unitization to potentially limit the number of structures in each of these basins. The draft proposed program area for the first sale in the Southern California Planning Area includes the Ecological Preserve offshore Santa Barbara for leasing but with access available only by directional drilling from structures outside the Preserve.

Maps 7 and 8 in part IV depict the specific Pacific OCS areas proposed for leasing consideration.

Gulf of Mexico Region

The draft proposed program includes sales in all three areas of the Gulf of Mexico Region—Western, Central and Eastern. The Central and Western Gulf of Mexico Planning Areas remain the two areas of highest resource potential and interest. The draft proposed program would continue the customary practice of annual lease sales in these two areas, offering all the area that is not leased or under restriction. In addition, a second sale is proposed for 2011 in a small portion of the Central Gulf of Mexico Planning Area. This portion was recently made available with the lifting of restrictions.

Three sales are proposed for the Eastern Gulf of Mexico Planning Area, starting in 2010, offering all the area that is not leased or under restriction. The majority of the planning area is under restriction pursuant to GOMESA. Should any or all of that restriction be lifted during the 2010-2015 time frame, the draft proposed program area encompasses a portion of the planning area as depicted in Map 11. The proposal includes a 75-mile wide no permanent surface structures zone, with no leasing eastward of that zone. This area is configured to preliminarily address military multiple-use issues. Dialogue with the Department of Defense will continue through the development of this 5-year program and throughout the prelease process. To the extent that GOMESA restrictions remain in effect during the duration of the program, the program area for these sales would include the area offered in Sale 224 in 2008 as mandated by GOMESA plus a small portion to the south of the Sale 224 area recently made available with the lifting of restrictions.

Maps 9-11 in part IV depict the specific Gulf of Mexico OCS areas proposed for lease sales.

Atlantic OCS

There are four planning areas in the Atlantic OCS—North Atlantic, Mid-Atlantic, South Atlantic, and Straits of Florida. The draft proposed program proposes one sale each in the North and South Atlantic Planning Areas and three sales in the Mid-Atlantic Planning Area. Sale 220, offshore Virginia is the first of the three sales. In the current program, the Sale 220 program area includes a 50-mile no leasing buffer. However, for the two subsequent sales, the draft proposed program area contains no buffers for the entire Mid-Atlantic planning area. The Department intends to continue to be responsive to the request for a 50-mile buffer during subsequent steps in the 5-year program process or during the individual sale process, if the Commonwealth continues to hold that position. No sales are proposed for the Straits of Florida Planning Area.

Maps 12-14 in part IV depict the specific Atlantic OCS areas proposed for leasing consideration.

Assurance of Fair Market Value

Section 18 of the Act requires receipt of fair market value from OCS oil and gas leases. The MMS expects to continue using a two-phase post-sale bid evaluation process that it has used since 1983 to meet the fair market value requirement. Further, the DPP provides that MMS may set minimum bid levels, rental rates, and royalty rates by individual lease sale based on its assessment of market and resource conditions as the sale approaches. See part IV.D for fair market value options. Further information and analysis is contained in part V.D.