



MMS and Louisiana

*U.S. Department of the Interior ~ Minerals Management Service
Summer 2003*

MISSION: The Minerals Management Service manages the minerals resources on the Outer Continental Shelf and Federal and Indian minerals revenues to enhance public and trust benefits, promote responsible use, and realize fair value.

In Fiscal Year (FY) 2002, MMS distributed to the State of Louisiana approximately:

- \$ 11.9 million from Federal Offshore lands
- \$ 730.156 million from Federal onshore production

In addition, from 1968 through FY 2002 the following monies have been distributed to the State of Louisiana from OCS funds—approximately:

- \$ 64.4 million for Land and Water Conservation Fund State Grants
- \$ 116.0 million for Land and Water Conservation Fund Federal acquisitions
- \$ 14.3 million for Historic Preservation Fund Grants
- \$ 939.7 million from section 8(g) OCS Lands Act Amendment funds (since 1986)

I. Ongoing MMS Relationships with the State of Louisiana

MMS Employees in Louisiana

MMS has about 600 employees and contract personnel living in Louisiana. The MMS Gulf of Mexico Regional Office is in New Orleans, and MMS has additional district offices in Houma, Lafayette and Lake Charles.

Economic Impacts from OCS Activities in the Gulf of Mexico

An estimated 40,000 jobs directly depend on the offshore program – about 60 % of them are in Louisiana. As of 2001, the average annual salary for these jobs was \$58,000. These wages generate about \$155 million per year in state and local tax revenues.

In addition to payroll expenditures, producers also pay substantial sums of money to vendors in the Gulf of Mexico coastal area. This creates indirect employment for an estimated 77,000 workers, many of whom are located in Louisiana. These workers further support state and local tax revenues. Thus, although OCS activities impose costs in Louisiana for roads, schools, and other support activities for workers and families, the revenue from the OCS also provides substantial benefits.

Environmental Studies Research Efforts

MMS's extensive and constantly-evolving Environmental Studies Program (ESP) supplies the scientific and technical information needed to determine which offshore areas are acceptable for leasing, as well as predicting, assessing, and managing the potential impact of OCS activities on the marine, coastal and human environments. Since the inception of the ESP in 1973, more than \$733 million has been directed towards diverse areas of study including physical, chemical, and biological oceanography; atmospheric studies; marine mammal, fisheries, turtle and seabird studies; and studies of the sociology and economic factors and impacts related to OCS and marine mineral activities. Through fiscal year 2002, the MMS ESP has spent about \$200 million in the Gulf of Mexico Region.

In response to the deepwater-driven growth of the oil and gas industry in the Gulf of Mexico and as a result of the 1997 workshop on issues surrounding deepwater oil and gas development, MMS has initiated several studies to address these needs.

Gulf of Mexico Deepwater Studies:

An Analysis of the Socioeconomic Effects of OCS Activities on Ports and Surrounding Areas in the Gulf of Mexico Region is identifying available port facilities that directly or indirectly support oil and gas production.

Assessing and Monitoring Industry Labor Needs addresses the direct affects of deepwater development on State and regional economies.

Benefits and Burdens of OCS Activities on Selected Communities and Local Public Institutions is a study that is attempting to deal with the inventory effects of roads, water, waste disposal, public education, and available medical and health facilities for supporting oil and gas development, particularly that of deepwater.

The Current Dynamics of the Oil and Gas Industry examines the implications of recent changes to the organization of the industry for onshore social and economic effects.

Northern Gulf of Mexico Continental Slope Habitats and Benthic Ecology Study is a major field effort examining the ecology of organisms in the deepest reaches of the Gulf of Mexico.

Effects of Oil and Gas Exploration and Development at Three Continental Slope Sites in the Gulf of Mexico is a major multiyear field study begun in 2000 of the short term physical and chemical impacts associated with platform placement and discharges in deepwater.

History of the Offshore Oil Development in the Gulf of Mexico focuses on the expansion of the oil industry from the coastal marshes to deepwater. Early pioneers and oil field workers are being interviewed in order to record the personal stories of those involved.

Cooperative Research Efforts

Coastal Marine Institute: Louisiana State University (LSU) was chosen for MMS's first coastal marine institute (CMI)—one of three such research partnerships between MMS and coastal States. MMS has invested over \$19 million in research to date that has been equally matched by Louisiana through the LSU system. Over 100 projects have been initiated providing critical information on fates and effects of oil in the sea and physical and biological oceanography. Through the CMI, LSU researchers have expanded the knowledge and understanding of the interaction of offshore platforms with the environment. Through the Center for Energy Studies, important social and economic studies are being conducted to better understand the impacts of OCS activities on coastal communities.

More than a dozen socioeconomic studies are funded through the LSU CMI, many through the Center for Energy Studies. Examples include:

- *Cost Profiles and Cost Functions of Gulf of Mexico Oil and Gas Development Phases for Input-Output Modeling*
- *Modeling Platform Installations and Removals by Water Depths and Planning Areas*
- *Labor Migration and the Deepwater Oil Industry*
- *The Relationship of Crime to Oil Development in the Coastal Regions of Louisiana.*

Listed below are some other projects undertaken as part of the CMI partnership:

- *Interactions Between Migrating Birds and Offshore Oil and Gas Structures Off the Louisiana Coast*
- *Comparisons of the Assemblage of Organisms at Two Artificial Reefs and a Production Platform in the Northern GOM*
- *Development of Louisiana Geographic Information System data in support of the MMS Gulf Wide Information System*
- *Coastal Marine Environmental Modeling*
- *The Coastal Division of Industrial Labor Over Time and Space*
- *Economic Impact Analysis of OCS Activities on Coastal Louisiana*
- *Air Quality and Dispersion Meteorology of the Northeast Gulf of Mexico: Measurements, Analyses, and Synthesis.*

Marine Biotechnology: MMS and LSU have also signed a cooperative research agreement to launch a \$1.1 million, two-year marine biotechnology research initiative. Scientists from both MMS and the University are investigating whether the organisms that are encrusted on offshore oil and gas platform legs have pharmaceutical or other commercial applications. The MMS Dive Team assisted LSU scientists in collecting samples from offshore structures. Field work is now complete and a report of the results was presented at the 2003 Information Transfer Meeting.

OCS History: In 2001, MMS and LSU entered into a multiyear cooperative agreement to collect and analyze oral histories and existing literature on the development of Louisiana's offshore petroleum industry. This study, "*History of the Offshore Oil Development in the Gulf of Mexico*" is a multi-institution effort including participants from the Center for Energy Studies, and universities in Texas and Arizona.

The Gulf Of Mexico Region Oil Spill Program: The purpose of the Oil Spill Program (OSP) is to ensure that MMS is provided with the specialized expert knowledge and capabilities required to adequately fulfill its responsibilities in carrying out the oil spill prevention, planning and natural resource protection mandated by Federal law. The OSP's actions and recommendations may significantly affect the course of action taken by potentially responsible parties. The OSP is highly specialized, and serves as the technical authority providing professional review of offshore oil spill prevention, containment, and cleanup matters.

Owners and operators of oil and/or gas facilities located seaward of the coastline are required to maintain a high level of spill response preparedness through annual training and drills. The MMS has the responsibility of verifying the subject training and exercises, and the administration of the unannounced oil spill drill program. The OSP conducts approximately 20 drills in the region each fiscal year. The drill scenarios range from well blowouts to vessel collisions and pipeline breaks. The responses required during the drill include equipment deployment and tabletop command post exercises.

One of the recent unannounced oil spill drills was attended by the Louisiana Oil Spill Coordinator. The drill scenario included an uncontrolled blowout in the Central Planning Area, flowing at a rate of 120 Bbl/hr.

The OSP requires the inspection of oil spill response equipment. These inspections are held in the areas of equipment availability, operational readiness, equipment maintenance and record keeping. Last year, inspections were conducted at 32 locations.

The latest equipment inspections included fifteen equipment stock piles in Louisiana.

Coastal Wetland Impacts: Through an agreement with U.S. Geological Survey's Biological Resources Division (BRD) National Wetlands Research Center, MMS initiated a study of the impacts on coastal wetlands from OCS pipeline canals - *Assessment of Changes to Coastal Habitats related to OCS-related Pipelines, Pipeline Canals, Navigation Canals, and Mitigation Activities in the Western and Central Planning Areas of the Gulf of Mexico.*" In addition to documenting impacts, the study addresses the effectiveness of existing and possible new pipeline mitigation techniques. The study area includes Louisiana, Texas, Mississippi, and Alabama. The final report is expected by the end of 2003.

Marine Buoy Interagency Agreement with NOAA: Through this agreement, winds, waves, and other meteorological measurements made over several years in Gulf waters have helped enhance the forecasting of local weather and support air quality studies in Louisiana, Texas, and Florida.

Collection of Meteorology Air Quality and Air Emissions Data for the Breton National Wildlife Refuge: At the request of MMS, operators conducted an air quality and meteorological data program on the OCS in the area around the Breton National Wildlife Refuge. The data will be used by MMS to assess the contribution from OCS oil/gas activities to the allowable increase of the Federal primary air pollutants in the Refuge.

Collection of Air Emissions Data: The MMS is engaged in a program to collect emission data from OCS activities on the entire Gulf of Mexico. The data may be used by the State of Louisiana in photochemical and visibility modeling in support of their air quality planning efforts in relation to the Federal ozone standard and the Regional Haze Rules.

Collection of Meteorological Data: MMS is initiating a program to collect meteorological data for the Breton National Wildlife Refuge, a Federal Class I air quality area. The data may be used by the State of Louisiana in visibility modeling in support of their air quality planning efforts in relation to the Federal Regional Haze Rules.

Technology Assessment and Research Program

The Technology Assessment and Research (TA&R) Program supports research associated with operational safety and pollution prevention as well as oilspill response and cleanup capabilities. The program was established in the 1970's to ensure that industry operations on the OCS incorporated the use of the Best Available and Safest Technologies (BAST) subsequently required through the 1978 OCSLA amendments. The program is comprised of two functional research activities: Operational Safety and Engineering Research (OSER) and Oil Spill Response Research (OSRR).

The program operates through contracts with universities, private firms, and government laboratories to assess safety-related technologies and to perform necessary applied research. Participation in jointly funded projects with industry, other Federal and States agencies, and international regulatory organizations has become the primary funding mechanism, in view of the overlap of issues and challenges, as well as a broader recognition that participation in these joint projects is the most effective and efficient means to leverage available funds. Since its inception, the TA&R Program has funded nearly 500 research projects addressing the broad scope of operations, equipment, and technologies employed in offshore oil and natural gas exploration, development, production, and transportation activities.

Although specific funding levels attributable to individual states are indeterminable because of the various fund sharing arrangements utilized in the program, TA&R Projects of particular interest to Louisiana include:

Offshore Technology Research Center (OTRC) B This is a joint venture between Texas A&M University and the University of Texas and receives funding from more than 25 companies, the State of Texas, and additional Federal and state agencies. The MMS and OTRC initiated a cooperative agreement which focuses a portion of the OTRC resources upon specific activities associated with the MMS Regulatory Program. In addition, the cooperative agreement provides for an expanded level of participation in certain joint industry projects conducted by OTRC as

well as an enhanced level of support for broad-based research conducted through the OTRC with future applications to deepwater oil and natural gas operations in the Gulf of Mexico. During the past five years, the MMS has funded approximately 60 projects and workshops at OTRC focusing on specific areas such as deepwater structures, risers and moorings, materials, seafloor engineering and subsea equipment. In addition the TA&R program has held numerous workshops addressing a range of technical issues associated with offshore oil and gas activities.

Other Research of Interest

MMS Atlas of Gulf of Mexico Gas and Oil Sands: The *Offshore Atlas* is a publicly available, systematic compilation of Gulf of Mexico reserves, production and geologic data within a play-defined framework, with the goal of assisting industry to more efficiently discover and develop hydrocarbon resources in the Gulf of Mexico. This information also will be useful to Federal and State government decision-makers. The atlas (published in September 2001) is an all-digital publication and consists of a report and various data files. This study details 65 established plays that contain reserves across the Gulf of Mexico OCS. These 65 plays, comprising 10,235 sands in 1,042 fields, contain proved and unproved reserves totaling approximately 168 trillion cubic feet of gas and 15 billion barrels of oil, or a combined total of 45 billion barrels of oil equivalent.

MMS 2000 Assessment of Conventionally Recoverable Hydrocarbon Resources of the Gulf of Mexico and Atlantic Outer Continental Shelf: The *MMS 2000 Assessment* is a publicly available, systematic assessment of Gulf of Mexico and Atlantic conventionally recoverable hydrocarbon resources, reserves, production and geologic data within a play-defined framework. One of its goals is to assist industry to more efficiently discover and develop hydrocarbon resources. This information also will be useful to Federal and State government decision-makers. The assessment (published in October 2001) is an all-digital publication and consists of a report and various data files. This study forecasts that over half of the oil and natural gas total endowment of the Gulf of Mexico remains to be discovered, with mean undiscovered resources of 192 trillion cubic feet of gas and 37 billion barrels of oil, or a combined total of 71 billion barrels of oil equivalent.

Historic Shipwreck Investigations: MMS required a remote sensing survey that has located over 65 shipwrecks off the coast of Louisiana. Historic shipwrecks are afforded protection from adverse impacts resulting from oil and gas exploration and development. MMS has worked with the Division of Archaeology of the Louisiana Department of Culture, Recreation, and Tourism to report potential historic shipwrecks observed on pipeline surveys that extend into State waters.

Underwater Archaeological Sites: MMS and NASA are jointly working on the development of a GIS presentation of archaeological sites in Louisiana. The State has provided the locations of known sites and will receive completed maps.

Other Cooperative Efforts with the State of Louisiana

State/Federal Cooperative Hydrocarbon Development: MMS has established an ongoing liaison with certain coastal states (including Louisiana) to proactively monitor State and Federal areas of mutual interest along the State/Federal offshore boundary. The goal of this initiative is

to identify and resolve issues early on and in a coordinated fashion so that oil and gas resources along the State/Federal boundary can be explored/developed in an efficient and cooperative manner.

Section 205 Cooperative Audit Agreement: Under the Federal Oil and Gas Royalty Management Act, MMS has had an agreement with the State of Louisiana since 1989 to perform audits of royalty payments on section 8(g) Federal leases lying offshore the State. In FY 2002, the State received approximately \$91,000 for this effort, with monies received to date totaling over \$1 million.

Sand and Gravel Cooperative Agreements:

Use of Sand from Ship Shoal: Since the late 1980's, MMS and the State of Louisiana have had a cooperative agreement to assess the geologic characteristics of Ship Shoal sand, a large sand source in Federal OCS waters offshore of Isle Dernieres, Louisiana. The sand comprising this enormous shoal was determined to be compatible with the sand needed to repair the severely eroding Isles Dernieres. A *Barrier Shoreline Feasibility Study* (BSFS) managed by the State of Louisiana, and funded by the Coastal Wetlands Planning, Protection, and Restoration Act was completed in 1999. The study's objective was to determine the optimal barrier island configuration for the protection of Louisiana coastal resources. The BSFS identifies Ship Shoal as a potential secondary source of sand or as future maintenance material. The MMS is a cooperating agency on an EIS being prepared by the USACE to evaluate the impacts of the Louisiana barrier shoreline restoration. MMS participated in an interactive forum to discuss the technical and logistical issues associated with utilizing offshore sand resources for barrier island restoration on July 12, 2001, at the USACE New Orleans District Office. MMS is waiting on development of the final alternatives to be analyzed in the EIS before beginning preparation of the impacts section.

Presently, EPA, one of the Federal agencies which sits on the Coastal Wetlands Planning, Protection, and Restoration Act (CWPPRA) committees is actively seeking CWPPRA funds for two projects to restore portions of Whisky Island, one of the major islands within the Isles Dernieres chain. The overall strategy is to restore the island chains to a condition suitable for maintaining the integrity of the estuarine system.

The MMS is actively working with EPA and the State of Louisiana to assure that an adequate NEPA document is prepared to support the possible issuance of a negotiated lease to use Ship Shoal sand for the project.

In March 2001, LSU investigators delivered a final CMI report that describes physical processes over Ship Shoal. This study, and a modeling study completed several years ago, will be used for any NEPA documents relative to the use of Ship Shoal sand.

Holly Beach Negotiated Sand Lease Agreement: In September 2001, MMS received an official request from Cameron Parish, Louisiana, regarding the use of sand from offshore the west coast of the State for a planned renourishment at Holly Beach, LA. Two potential borrow sites in Federal waters were identified for possible use. The project involves the placement of 1.5

million cubic yards of sand which to be placed along five miles of shoreline behind existing breakwaters. The sand will extend the existing shoreline so as to create a buffer to better protect Louisiana Highway 82, local coastal communities, and the threatened coastal marsh areas behind the beach.

An initial draft Environmental Assessment (EA) prepared by the Louisiana Department of Natural Resources (LDNR) was reviewed by MMS Headquarters and the Gulf of Mexico Region and found to be inadequate. The MMS subsequently revised and prepared new sections of the EA which was used to formulate the final lease document and lease stipulations.

In February 2002, LDNR informed MMS that the volume of sand required for the project could be as much as 4.5 million cubic yards of sand due to issues concerning severe losses of sand during previous dredging projects along the Louisiana coast. This change in project scope necessitated the revision of the prior completed EA to reflect the additional sand volume. This revised EA was completed in April 2002 and the final lease document was prepared. The lease was signed by all parties in May 2002.

LDNR issued a contract for bid May 16, 2002. The nearshore, Peveto Beach deposit was selected as the source of sand for the project. Beach renourishment began in mid-September 2002 and will continue for approximately two months.

Use of Sand from Sabine Bank: Via the MMS/Louisiana CMI, a project entitled, “Wave-Bottom Interaction and Bottom Boundary Layer Dynamics in Evaluating Sand Mining at Sabine Bank for Coastal Restoration, Southwest Louisiana” was recently initiated. Sabine Bank, offshore southwestern Louisiana, has been identified as a source of sand for beach renourishment and coastal protection projects in western Louisiana, as well as coastal portions of Texas. The State of Louisiana has indicated their desire to utilize this resource in the near future. Previous physical research in the area indicates the potential for major changes in the local wave and current regime should large quantities of sand be removed from the Bank. The area may provide on the order of 10- to 20 million cubic yards of sand for future beach projects; thus, it is essential that the physical effects of dredging the Bank be examined prior to any large-scale excavations.

Artificial Reefs: MMS helps facilitate artificial reef development through the acquisition of retired oil and gas platforms for use as artificial reefs. To date, over 151 petroleum structures have been converted to permanent reefs in the Gulf of Mexico.

Additionally, the MMS Dive Team is assisting the State of Louisiana in monitoring and documenting the success of platform reefs as artificial habitat. MMS completed the sixth and final *Louisiana Rigs to Reefs* Fishing Map. This map is a composite of the State’s offshore rigs-to-reefs project and focuses on the positive effect offshore platforms have vis-a-vis fishing activities.

Meeting with Louisiana Coastal Zone Management Staff: MMS continues to work with the State to streamline and improve interagency CZM processes and to improve MMS/State working relationships. MMS continues to monitor the implementation of Louisiana’s identified CZM required necessary data and information into the OCS Plan review process. Using the State

consultation agreements, MMS will ensure that all required information is complete and included in the public information copy of the plan. The MMS plans to present the State with an approach to streamlining the Federal Consistency Determinations they receive for OCS Lease Sales. MMS will meet with the State later in 2003.

II. Major Issues of Interest to the State of Louisiana

Status of Gulf of Mexico OCS Deep Water Activities: Leasing activity in the deepwater Gulf of Mexico steadily increased in the early 1990's and exploded in 1996 due, in part, to incentives introduced in the Deep Water Royalty Relief Act of 1995 (DWRRA). During the period mandated by DWRRA, i.e. 1996 through 2000, over 4,500 new leases were issued in water depths greater than 200 meters in the Gulf of Mexico OCS, with a majority of these located in water depths greater than 800 meters. From 2000 to 2001, deepwater oil production was up 24 percent—to 335 million barrels; deepwater gas production was up 20 percent—to 1.18 Tcf. Beginning in 2001, MMS used its discretionary authority to continue to provide upfront royalty suspension incentives. Incentives were provided for new deep water leases issued in 800 meters of water or greater. Also, for 2002 and 2003 Central and Western Gulf of Mexico lease sales, MMS has expanded the upfront royalty suspension incentives offered in 2001 by including royalty holidays for new leases issued in water depths of greater than 400 meters.

Mercury Associated with OCS Oil and Gas Production: In late 2001/early 2002, several articles appeared in local Gulf of Mexico newspapers indicating the potential for offshore discharges of mercury to be taken up by fish and other commercial species. A small amount of mercury is found in barite, which is used in drilling muds. However, this type of mercury is in an inert form and the quantity is strictly regulated by EPA (in amounts limited to less than 1 part/million). MMS has sponsored research in this area, most notably the “GOOMEX” study (*Gulf of Mexico Offshore Operations Monitoring Experiment*). The study found that mercury uptake, as measured in fish and other organisms found near platforms, did not differ significantly from levels measured far away from platforms. Although it is generally believed that OCS oil and gas activities do not contribute in a significant way to mercury uptake by marine organisms, MMS asked the independent OCS Advisory Board Scientific Committee to review the literature on this issue and advise the Secretary if further studies are needed. In response to the recommendations of the subcommittee, the MMS environmental studies program has initiated a contract with FY 2002 funds that will look at whether barite could dissolve on the sea floor and release trace metals such as mercury. Other studies will be initiated, as appropriate.

Eastern Gulf of Mexico Lease Sale 189 (2003): Two lease sales in the Eastern Gulf of Mexico Planning Area are scheduled under the OCS 5-Year Program for 2002-2007. Under the current 1.5 million acre configuration, lease sales 189 and 197 would be held in 2003 and 2005, respectively. The proposed sale area lies more than 100 miles off the coasts of Alabama and Florida. Of the 256 blocks located in the proposed Sale 189 area, 118 blocks are currently under lease. Upcoming Dates of Interest: Final EIS to the Public—June 2003; Proposed Notice of Sale—July 2003; Final Notice of Sale—October 2003; Sale Date—December 2003

OCS Exploration Plans Filed in Eastern Gulf of Mexico Planning Area: The MMS has received 12 exploration plans (EP's) for leases that resulted from Eastern Gulf Sale 181, held in December 2001. Five of the EP's have received coastal zone management consistency certification from affected states and have been approved. Companies that submitted EP's included Marathon (2 Plans--DeSoto Canyon 445 and 489; and DeSoto Canyon Blocks 490, 491, and 535), Anadarko (4 Plans--Lloyd Ridge Blocks 5, 6, 49, and 50; Lloyd Ridge Blocks 315, 316, 359, and 360; Lloyd Ridge Blocks 265 and 309; and Lloyd Ridge Blocks 47, 91 and 135), Shell (2 Plans--Desoto Canyon Block 269 and Lloyd Ridge Block 399), Ocean Energy (1 Plan--DeSoto Canyon Block 180 and 244), Amerada Hess (1 Plan--DeSoto Canyon Block 620) and Kerr McGee (1 Plan--DeSoto Canyon Blocks 226 and 270).

Two exploration plans were received on leases issued prior to Sale 181, but within that sale area. Marathon has drilled an exploration well on its DeSoto Canyon Block 927 lease (Barracuda) and Shell has had its EP approved for the Red Dawg (DeSoto Canyon Blocks 622 and 666) project.

Anadarko finished drilling (PA) its No. 1 well on Lloyd Ridge Block 360 in May 2003. Upon leaving this site the rig commenced drilling Anadarko's No. 1 well on Lloyd Ridge Block 50.

OCS Impact Assistance: Impact assistance legislation was passed as part of the Department of Commerce's Fiscal Year 2001 Appropriations Act (Title IX, P.L. 106-553); however, to date it has only been funded for one year (FY 2001). The State of Louisiana received approximately \$26.5 million at the end of FY 2001 under the program. There was no funding appropriated in FY 2002 or FY 2003, and the Administration did not propose any funding for FY 2004.

OCS 5-Year Program for 2002-2007: The OCS 5-Year Program for 2002-2007 became effective in July 2002. As part of the program, there are annual lease sales proposed for the Central and Western Gulf of Mexico (for a total of 10 sales) and two sales proposed for the Eastern Gulf—one in 2003 and one in 2005. The Eastern Gulf sale area is limited to an area that lies more than 100 miles offshore Alabama. MMS will consult closely with the State of Louisiana on all OCS leases sales affecting the State prior to making any final decisions on scheduled sales.

Royalty-in-Kind Programs: Beginning in 1998, MMS commenced a series of royalty-in-kind (RIK) pilots to test and evaluate the viability of taking production in-kind (as opposed to in-value) and selling it through a competitive bid process. The pilots are—1) a Gulf of Mexico OCS oil pilot; 2) a Gulf of Mexico natural gas pilot; and 3) a Wyoming oil pilot. More recently, MMS also began another pilot—a Strategic Petroleum Reserve (SPR) oil pilot (see highlight below for more information). With respect to the Gulf of Mexico natural gas pilot, currently about 350,000 mmbtu per day of royalty natural gas is being disposed of through competitive sales. This pilot has been merged with the Texas 8(g) natural gas pilot that MMS operated from 1999-2001. With respect to the Gulf of Mexico oil pilot, up until April 2002, MMS was taking about 50,000 barrels per day of royalty oil under contracts awarded by MMS through competitive sale. With expiration of the contracts on March 31, MMS committed the volumes to the SPR initiative, with deliveries beginning April 1, 2002.

Administration Initiative to Use Gulf of Mexico OCS Oil to Fill the Strategic Petroleum Reserve: In late 2001, President Bush announced an initiative to fill the remaining capacity of the Strategic Petroleum Reserve (SPR) utilizing Federal RIK oil. Approximately 120 million barrels of this RIK oil from the Gulf of Mexico will be used to support the SPR fill. The fill began in April 2002 and is estimated to be completed in December 2004, with contract closeouts and reconciliation's completed by June 2005.

Proposal For an Offshore Liquefied Natural Gas (LNG) Terminal: Chevron U.S.A. Inc. has applied for a Right of Use and Easement to construct, install, and operate a facility designed to receive international and domestic LNG from tankers, regasify the LNG, and deliver the gas for distribution into the U. S. pipeline system. The terminal, which Chevron proposes to locate in Vermilion Area Block 140 (VR 140), approximately 40 miles from the Louisiana coast, will consist of one or more Gravity Based Structures resting on the seafloor with internal LNG storage tanks, deck mounted processing equipment, and associated fixed structures for tanker berthing, emergency flaring, and crew quarters. The MMS will act as a cooperating agency with either the U. S. Coast Guard in project approval.

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