

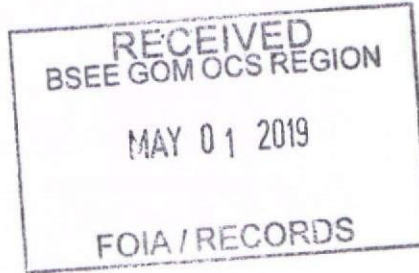
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In Reply Refer To: GE 973E

APR 30 2019

FEDERAL EXPRESS

Ms. Starlee Sykes
BP Exploration & Production Inc.
501 WestLake Park Boulevard
Houston, Texas 77079



Dear Ms. Sykes:

By letter dated December 3, 2018, BP Exploration & Production Inc. (BP) requests an action by the Bureau of Safety and Environmental Enforcement (BSEE) that would extend the terms of leases in the Keathley Canyon (KC) Block 10 Unit (the Unit), Agreement No. 754317002. The Unit, which is referred to by BP as the Guadalupe Prospect, consists of Lease OCS-G 27698 and a portion of Lease OCS-G 27697, and was held by a suspension of production (SOP) through December 31, 2018. These two leases were issued in January 2006. BP requests that BSEE either direct an SOP for the Unit under 30 CFR 250.174(a), grant a suspension of operations (SOO) for the Unit under 30 CFR 250.175(a), or grant extensions of time between lease-holding operations under 30 CFR 250.180(e) for both unit leases.

Request to Direct a Unit SOP

The decision whether to direct a suspension is entirely within BSEE's discretion. Under 30 CFR 250.174(a), BSEE may grant or direct an SOP when the suspension is in the national interest, and it is necessary because the suspension will allow you to properly develop a lease, including time to construct and install production facilities.

A request for a granted suspension must also satisfy the requirements of 30 CFR 250.171. BP does not assert that it meets the regulatory requirements for BSEE to grant an SOP, nor is BP requesting that BSEE do so. In particular, BP concedes that it does not have a reasonable schedule of work leading to the commencement of production, a commitment to production, or a commitment to perform any other lease-holding operation. Indeed, BP's proffered schedule does not contemplate any development activities on the unit. In light of this, we elect not to use our discretion to direct a unit SOP.

Request to Grant a Unit SOO

Under 30 CFR 250.175(a), BSEE may grant an SOO when necessary to allow an operator time to conduct operations when “prevented by reasons beyond your control, such as unexpected weather, unavoidable accidents, or drilling rig delays.” As explained in Notice to Lessees and Operators (NTL) No. 2000-G17, “...a fundamental component in determining whether or not you are ‘prevented beyond your control’ is whether or not the particular drilling rig was scheduled to conduct operations at your location before the lease expiration date” (emphasis in original). In this case, there was no planned or permitted drilling or other lease-holding operation scheduled to occur before the date the Unit and its leases were set to expire, nor does BP contend that it would definitely and promptly perform a lease-holding operation at the conclusion of the SOO. To the contrary, BP proposed a 5-year schedule of activities devoid of any lease-holding operations.

Further, BP has not demonstrated that it is being prevented from conducting lease-holding operations on the Unit by reasons beyond its control, as that regulatory language has been applied. BP cites “hurdles to development” including high pressures, seismic complexity, well productivity, and lack of infrastructure. Such challenges exist at many locations across the Gulf of Mexico Outer Continental Shelf and do not represent the types of temporary impediments to operators ready “to begin...operations” contemplated by 30 CFR 250.175(a). The facts that lease-holding operations have already occurred on the Unit (i.e., wells have been drilled), and the prior Unit Operator had established a commitment to produce from the Unit, contradict BP’s claim that lease-holding operations cannot be conducted for reasons beyond its control. Thus, we conclude that BP was not prevented from conducting lease-holding operations on the Unit by reasons beyond its control.

Additionally, under 30 CFR 250.171(b), BP was required to submit with its SOO request a “...reasonable schedule of work leading to the commencement or restoration of the suspended activity.” NTL No. 2000-G17 further clarifies that this regulatory requirement (common to granted SOOs and SOPs) contemplates a “...reasonable activity schedule with measurable milestones that ultimately lead to” the suspended lease-holding operations (emphasis in original). BP proposed a 5-year schedule that includes [REDACTED], but which does not include lease-holding operations. Therefore, we conclude that the proposed schedule is not reasonable nor would it clearly lead to the commencement of a lease-holding operation on the Unit.

Request for More than One Year Between Operations

Under 30 CFR 250.180(e), BSEE may allow more than a year to resume operations on a lease continued beyond its primary term when operating conditions warrant and certain other criteria are met. The decision to grant or deny such a request is within BSEE’s discretion.

BP proposes six factors that it says constitute operating conditions that warrant more than one year to resume lease-holding operations. These include high pressures, complex fluids, seismic complexity, reservoir deliverability, resource density, and lack of infrastructure. However, these factors, as well as others, have been longtime challenges at many locations across the Gulf of Mexico Outer Continental Shelf. Despite such challenges, operators are expected to diligently

explore and develop leases within the timeframes set forth in the lease instruments and applicable regulations. Even if BSEE considered one or more of these challenges an operating condition for purposes of 30 CFR 250.180(e), BP's proposed schedule of work accompanying its request does not demonstrate a clear path to solving them if the additional time were granted.

Furthermore, under 30 CFR 250.180(e), BSEE can only grant a request for additional time between operations if it determines that providing the longer period would conserve resources, prevent waste, or protect correlative rights (in addition to the request meeting all other regulatory requirements). BP contends that the longer period would "...conserve resources and prevent waste by providing time needed to achieve production economically." However, leaving the entirety of the resources in their current, virgin state would not harm or waste them. Thus, you did not demonstrate that the additional time requested is needed to conserve resources, prevent waste, or protect correlative rights.

Finally, the last lease-holding operation on the Unit ended in January 2017, and BP's proposed schedule through at least December 2023 does not project any future lease-holding operations. We conclude that the circumstances do not warrant using our discretionary authority to allow the additional time requested to resume lease-holding operations on the Unit.

Decision

For the reasons explained above, your request for BSEE to either direct an SOP for the Unit, grant an SOO for the Unit, or grant extensions of time between lease-holding operations for both unit leases, is hereby denied. We did not make a "national interest" determination in this case since your request did not meet other regulatory requirements, and neither suspensions nor extended periods under 30 CFR 250.180(e) can be granted on national interest grounds alone. Since Leases OCS-G 27697 and 27698 are beyond their primary terms and the previous suspension expired December 31, 2018, the Unit terminated effective January 1, 2019. Therefore, pursuant to 30 CFR 250.1301(f), the aforementioned leases, which are beyond their primary terms, expired concurrently with the termination of the Unit.

This decision may be appealed pursuant to 30 CFR Part 290. If you elect to appeal, a Notice of Appeal must be filed with this office and served on the Associate Solicitor, Division of Mineral Resources, within 60 days of receipt of this letter. If you have any questions regarding this matter, contact Ms. Natasha Bland at (504) 736-2528 or natasha.bland@bsee.gov.

Sincerely,

(Orig. Signed) Richie D. Baud

Richie D. Baud
Regional Supervisor
Production and Development

bc:

[REDACTED]

[REDACTED]

Leases OCS-G 27697, 27698, w/redactions – Public (GE 555A)

[REDACTED]

[REDACTED]