

**STATEMENT OF
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UNITED STATES DEPARTMENT OF THE INTERIOR
BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
U.S. SENATE**

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Chairman Wyden, Ranking Member Murkowski, and members of the Committee, I am pleased to appear before you today to discuss legislation to implement the Agreement between the United States of America and the United Mexican States Concerning Transboundary Hydrocarbon Reservoirs in the Gulf of Mexico.

Background

On February 20, 2012, the United States and Mexico signed an Agreement concerning the development of oil and gas reservoirs that cross the international maritime boundary between the two countries in the Gulf of Mexico (excluding submerged lands under Texas jurisdiction). This Agreement would establish a framework for the cooperative exploration and development of these hydrocarbon resources. The Mexican Senate overwhelmingly approved the Agreement in April 2012. The Administration wants to work with Congress to ensure implementing legislation approving the Agreement and providing the necessary authority to bring it into force is passed. The administration appreciates the work done by Chairman Wyden and Ranking Member Murkowski to introduce S. 812, legislation that provides for such authority, and we support its swift passage. As the Administration has previously stated, we do not support the extraneous provisions included in H.R. 1613, The Outer Continental Shelf Transboundary Hydrocarbon Agreements Authorization Act as passed in the House of Representatives.

The Agreement would allow, for the first time, leaseholders on the U.S. side of the maritime boundary to cooperate with the Mexican national oil company, Petróleos Mexicanos (PEMEX), in the joint exploration and safe and responsible development of hydrocarbon resources. This agreement will make nearly 1.5 million acres of the Outer Continental Shelf, currently affected by a moratorium under the Western Gap Treaty, immediately available for leasing and also make the entire transboundary region, which is currently subject to legal uncertainty in the absence of an agreement, more attractive to U.S.-qualified operators. For example, the Department of the Interior's Bureau of Ocean Energy Management estimates that the transboundary area contains as much as 172 million barrels of oil and 304 billion cubic feet of natural gas.

Benefits of Implementing the Agreement

The Agreement provides a legal framework for cooperative offshore oil and gas development along the maritime boundary, sets clear guidelines and provides legal certainty for those operations, supports the President's goal of ensuring domestic energy security and demonstrates our shared duty to exercise responsible stewardship of the natural resources in the Gulf of Mexico. It is built on a commitment to the safe, efficient, environmentally sound, and equitable development of transboundary reservoirs. The Agreement also offers the potential for generating additional revenue for the United States and Gulf States from the lease blocks located along the delimited U.S.-Mexico maritime boundary in the Gulf of Mexico.

The Mexican market has long been closed to participation by U.S. companies, but a 2008 energy reform law in Mexico opened a window for joint hydrocarbon exploration and development with foreign entities as long as it would take place pursuant to an international agreement on transboundary reservoirs. The Agreement would take advantage of that opening. It would also end the moratorium on development along the boundary in the Western Gap and provide U.S.-qualified leaseholders with legal certainty regarding the development of transboundary reservoirs along the entire boundary so as to encourage investment. The Agreement would remove legal and structural barriers that currently impede exploration and safe and responsible development along our maritime boundary with Mexico. A significant portion of the U.S. maritime boundary with Mexico – the full length of the boundary in the Western Gap – is affected by a moratorium on drilling and exploration pursuant to the Western Gap Treaty. Upon entry into force the Agreement would lift the moratorium and open up this area – nearly ten percent of the U.S. portion of the Gap – to hydrocarbon development. Finally, having the Agreement in place will mitigate the safety and environmental risks that would result from unilateral exploration and development along the boundary.

Implementing Legislation

The implementing legislation would provide the necessary domestic legal authority to implement certain key terms of the Agreement, including:

- To authorize the Secretary of the Interior to approve unitization agreements and other arrangements necessary for the management of the transboundary reservoirs and geologic structures subject to the Agreement;
- To make available, in certain narrow circumstances necessary for the functioning of the Agreement, information related to the exploration, safe and responsible development, and production of a transboundary reservoir that may be considered confidential, privileged, or proprietary under law; and
- To participate in the Agreement's dispute resolution processes.

One of the fundamental components of the Agreement would allow leaseholders on the U.S. side of the boundary and PEMEX to explore and develop jointly as a “unit” a transboundary reservoir or geologic structure, as leaseholders frequently do on the U.S. side of the boundary. The Agreement is designed to provide incentives for PEMEX and U.S.-qualified operators to enter into voluntary unitization agreements governing the development of transboundary reservoirs. Unitization – where two or more leaseholders manage the exploration and development of a resource as a unit through a single operator – promotes the rational, efficient production of a resource, reduces waste, and minimizes the number of wells that must be drilled. Existing leases are not covered by the Agreement; however, existing lessees may voluntarily opt-in to the framework if they so choose.

In cases where a unitization agreement is not initially reached between a U.S.-qualified operator and PEMEX, the Agreement provides a process to determine whether the reservoir in question is, in fact, a transboundary reservoir that should come under the Agreement, and a carefully-calibrated process to determine the allocation of the resource between the two countries and provide the U.S. operator and PEMEX another opportunity to form a unitization agreement. If they cannot reach an agreement, the Agreement would ultimately allow for unilateral production by each side, up to the amount of hydrocarbons that exists on its side of the boundary. In other words, in these circumstances U.S.-qualified operators and PEMEX would individually develop the resources on each side of the border while protecting each nation’s interests, resources and sovereignty. We anticipate, however, that the same economic incentives that currently drive voluntary unitization offshore the U.S. will similarly drive voluntary unitization under the Agreement, and that this mechanism will be rarely if ever used.

The Agreement encourages the United States and Mexico to promote common safety and environmental standards. However, the U.S. is under no obligation to alter its existing environmental laws or standards. Mexico’s standards will apply to operations under Mexican jurisdiction and U.S. standards will apply to operations under U.S. jurisdiction.

The Agreement would also establish a system of joint inspections, which would allow U.S. safety personnel to inspect PEMEX facilities involved in a transboundary operation. Again, however, each jurisdiction retains its authority and responsibility to regulate activity on its side of the boundary. The DOI’s Bureau of Safety and Environmental Enforcement and the United States Coast Guard already maintain a strong working relationship with the Mexican offshore regulatory authority, the Comisión Nacional Hidrocarburos (CNH), and this Agreement promotes further cooperation between the U.S. and Mexico with respect to drilling safety and oil spill response standards and practices.

S. 812

S. 812 introduced on April 25, 2013, authorizes the Secretary of the Interior to take actions to implement the Agreement between the United States of America and the United Mexican States Concerning Transboundary Hydrocarbon Reservoirs in the Gulf of Mexico. We appreciate the opportunity to provide the following preliminary views at this time.

Generally, the bill would authorize the Secretary to approve unitization agreements and related arrangements for the exploration of, and development or production of oil or gas from, transboundary reservoirs and geological structures; to disclose as necessary under the Agreement information related to the exploration, development, and production of a transboundary reservoir or geological structure that may be considered confidential, privileged, or proprietary information under law; and to accept and take action not inconsistent with an expert determination under the Agreement.

We support this legislation and the Administration welcomes the opportunity to work with Congress to approve this important agreement.

Conclusion

In sum, the Agreement provides a much needed mechanism to facilitate the responsible and efficient exploration and development of hydrocarbon resources along the U.S. Mexico maritime boundary and provides new opportunities for U.S. companies. The Agreement provides incentives for PEMEX and U.S.-qualified operators to enter into voluntary commercial agreements to unitize transboundary reservoirs and does not change the application of existing laws or alter existing standards. Once the Agreement is in force, both the Bureau of Ocean Energy Management and the Bureau of Safety and Environmental Enforcement will assume their respective regulatory responsibilities to implement the Agreement as authorized.

Mr. Chairman, we look forward to working with the committee to enact legislation implementing this important Agreement with our Mexican partners in Gulf of Mexico energy development.