



Fesmire, Mark &lt;mark.fesmire@bsee.gov&gt;

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## Documents

1 message

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**Foster Wade** <FWAD@statoil.com>

Tue, Jul 15, 2014 at 2:22 PM

To: "mark.fesmire@bsee.gov" <mark.fesmire@bsee.gov>

Mark,

Thanks again for coming by to talk to Bill and me today. We greatly appreciate the opportunity to have a meaningful conversation.

As per your request, attached are the two documents we discussed.

Please let me know if you wish to discuss further.

Best regards,

**Foster L. Wade, Ph.D.**

Manager, US Regulatory Affairs

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Thank you

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### 2 attachments

■ **Alaska SOO Request 07\_01\_14 Final.pdf**  
231K

(b) (4)

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July 3, 2014

Dear Director Salerno:

Statoil is writing pursuant to 30 C.F.R. §250.171 to request that the Bureau of Safety and Environmental Enforcement (BSEE) issue an annual Suspension of Operations (SOO) for all Statoil leases located in the Chukchi Sea on the Alaska Outer Continental Shelf (OCS).<sup>[1]</sup> Specifically, we request that BSEE issue suspensions for Statoil leases for the time period outside of the drilling window established by BSEE each year, which allows for only limited, operations on the leases. Thus, each year when BSEE establishes the annual drilling window BSEE would direct suspensions for each existing OCS lease in these areas for the time period that Statoil cannot enjoy our leases.

The Department of the Interior has acknowledged the unique conditions and challenges associated with development of offshore oil and gas resources in the Arctic.<sup>[2]</sup> These conditions warrant an SOO to help ensure that Statoil and other leaseholders have sufficient time to develop these important energy resources in a safe, timely, and cost-effective manner.

### **Legal/Regulatory Background**

The Outer Continental Shelf Lands Act (OCSLA) grants BSEE the authority to issue regulations governing the suspension of operations at a lessee's request to facilitate proper development of a lease.<sup>[3]</sup> These regulations allow a Regional Supervisor to grant an SOO under certain circumstances: when necessary to comply with judicial decrees prohibiting activities or the permitting of those activities; when activities pose a threat of serious, irreparable, or immediate harm or damage; when necessary for the installation of safety or environmental protection equipment; when necessary to carry out requirements under the National Environmental Policy Act; or when necessary to allow for inordinate delays encountered in obtaining required permits or consents, including administrative or judicial challenges or appeals.<sup>[4]</sup>

An SOO may also be granted to allow a lessee time to begin drilling or other operations when the lessee is prevented by reasons beyond its control, such as unexpected weather,

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<sup>[1]</sup> These particular Statoil leases are listed in the attached document *Statoil, Leasehold Inventory by Area*, January 31, 2013.

<sup>[2]</sup> See *Report to the Secretary of the Interior, Review of Shell's 2012 Alaska Offshore Oil and Gas Exploration Program* at 6, U.S. Department of the Interior, March 8, 2013 (“As Shell’s 2012 experience has made absolutely clear, the Arctic OCS presents unique challenges associated with environmental and weather conditions, geographical remoteness, social and cultural considerations, and the absence of fixed infrastructure to support oil and gas activity . . . .”)

<sup>[3]</sup> 43 U.S.C. §1334(a)(1).

<sup>[4]</sup> 30 C.F.R. §250.172(a)-(e).

unavoidable accidents, or drilling rig delays.<sup>[5]</sup> In addition, the Regional Supervisor may direct a suspension when in the interest of National security or defense.<sup>[6]</sup>

## **Discussion**

The Gulf of Mexico is a mature oil and gas region where leasing, development risks, and regulatory standards are well understood both by the regulator and the regulated community. Moreover, unlike in the Gulf of Mexico, where the availability of numerous drilling rigs allow for parallel development, exploration and development of Alaska OCS leases must proceed consecutively. Lessees simply do not have access to enough suitable drilling rigs and support vessels. The Chukchi Sea is a frontier region in the truest sense, and in 2008, when Statoil purchased our leases; we were prepared to take the appropriate steps to prudently develop the mineral resources there. Thus, in addition to overcoming the unique environmental conditions that exist in the Chukchi Sea, Statoil must satisfy the State of Alaska, the North Slope Borough, Local Municipalities, Alaskan Native organizations, and local environmental organizations that operations can proceed safely and with full respect of local needs.

Moreover, nearly a decade after the first of the current group of Alaska OCS leases were issued, BSEE and the Bureau of Ocean Energy Management (BOEM) are preparing regulations that will address the unique performance requirements for the Alaska OCS. We fully support BOEM and BSEE's efforts and look forward to working with them to develop practical regulatory standards. However, the delays associated with developing the new rules, coupled with the litigation and regulatory uncertainty, threaten the hundreds of millions of dollars invested to date in this frontier area. While 2020, the year our leases expire, may seem distant, in practical business terms in the context of the Alaska OCS, it is a impending deadline.<sup>[7]</sup> As a result, prompt action is needed to allow us to plan for and safely develop the oil and gas resources so vital to our Nation's economy and security.

While industry is committed to developing the energy resources on the Alaska OCS, we cannot commit the substantial sums needed for that effort if our existing leases will expire before the benefits of our investment can be realized. This is particularly true since there currently is no certainty of future leasing and exploration on the Alaska OCS. We simply cannot drill and evaluate our planned exploration wells before the expiration of our Chukchi leases.

BSEE's lease suspension regulations were adopted long before lessees and operators began considering broad-scale development of extremely challenging, costly, and complex prospects in the Beaufort and Chukchi Seas offshore Alaska. Unlike leases in all other areas of the OCS, environmental conditions that appear each year in the Arctic totally preclude a lessee's ability to enjoy the benefits of its lease and undertake any exploration or development activities. For most leases in the Chukchi Sea, ice conditions during approximately nine months of every year totally prevent the conduct of any exploration activities because drilling rigs and support vessels cannot operate in those conditions. As noted above, BSEE regulations provide

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<sup>[5]</sup> 30 C.F.R. §250.175.

<sup>[6]</sup> 30 C.F.R. §250.173(a).

<sup>[7]</sup> Our lease term has been extended "until the Bureau of Ocean Energy Management meets its obligations" pursuant to the January 22, 2014 opinion of the Ninth Circuit Court of Appeals in *Native Village of Point Hope v. Jewell*.

that an SOO may be granted when a lessee is prevented from drilling or other operations due to reasons beyond its control. That particular provision provides examples of circumstances deemed beyond the lessee's control, and nothing in the regulations suggests these are the only conditions for which a suspension may be granted.

The annually recurring ice conditions in the Arctic and the BSEE annual drilling window preclude a lessee from enjoying its lease and provide a basis to stop the running of the lease term for such periods. After lease sale 193, the DOI instituted drilling windows in the Chukchi and Beaufort Seas further reduced the time available to conduct operations. These new drilling windows were put in place to address the Whaling Blackout (as well as other subsistence hunting periods), the Pre July 1 restriction on transiting through the Bering Strait, and the annual predicted sea ice conditions.

Additionally, other "reasons beyond a lessee's control" have added time and expense to the planning, permitting and drilling in the Alaska Arctic and further demonstrate the need for lease term suspensions:

- Relief rig requirements;
- Mud line cellar requirements;
- Well control/containment requirements;
- Integrated operation plan requirements;
- Letters of Authorization/Incidental Harassment Authorizations;
- New EPA air emissions standards;
- Restrictions around Hannah Shoal for transiting which limits ice management capability during drilling window;
- Extensive baseline science prior to initial drilling;
- Polar bear critical habitat designation and litigation;
- Continuing litigation of Sale 193; and
- NPDES permits.

The requested SOO is consistent with BSEE's grant of a lease term "time-out" in other areas, during specific times when lessees are prevented from undertaking activities on their leases because of recurring circumstances beyond their control. For example, pursuant to NTL No. 2014-G01, BSEE established a three-month drilling window on certain Gulf of Mexico leases due to military operations in the area. For the remaining nine months of the year the lessee may not undertake any activities and DOI stops the running of the lease term during that period. Similarly, in this case the national interest supports issuing Statoil's requested SOO. Arctic lease development provides energy security, economic growth, and increased government revenue from royalties and future lease bonuses. Moreover, the new production will ensure the continued viability of the Trans-Alaska Pipeline.

## **Conclusion**

Department of the Interior officials have on numerous occasions recognized the unique and challenging conditions that exist in the Alaska OCS. We therefore urge that BSEE address those challenges by taking steps to immediately issue an SOO to allow Statoil to conduct

exploration activities on our leases and proceed with development of this extraordinary energy resource in a diligent and safe manner.

Sincerely,

Bill Schoellhorn  
Exploration Director Alaska

Cc: Walter Cruickshank  
Tommy Beaudreau  
Mark Fesmire