

Statement of

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Minerals Management Service

before the

**HOUSE GOVERNMENT REFORM SUBCOMMITTEE ON
ENERGY & RESOURCES
UNITED STATES HOUSE OF REPRESENTATIVES**

OVERSIGHT HEARING ON

“Absence of Price Thresholds in Deepwater Leases”

July 27, 2006

My name is Charles J. Schoennagel Jr. My current position is the Deputy Regional Director for the Minerals Management Service (or MMS) in the Gulf of Mexico Region in New Orleans. I have been the Deputy Regional Director since my appointment in August 1998. This position is at the GS-15 level. Prior to August 1998 I served in the Gulf of Mexico Region for the Regional Supervisor for Field Operations as the Chief in the Office of Safety Management (formerly Office of Accident Investigation and Civil Penalty) since November 1992. I have been an employee of MMS and its predecessor agencies since August 1973. In my position as Deputy Regional Director I assist in the management of a staff of approximately 550 employees. The scope of operations that I assist in managing involves not only leasing but also approvals of plans, inspections for safety and environmental compliance, violation notices and penalties, operations, evaluation of the geologic or resource potential, acceptance of bids from lease sales, and environmental reviews and environmental studies.

Mr. Chairman, that leases in 1998-1999 were issued without price thresholds was a serious mistake. Let me try to describe the processes by which the MMS reviews, approves and enters into leases. My perspective is limited to that of the Gulf of Mexico Regional office and a somewhat general understanding of the MMS headquarters processes. The committee has been previously furnished a list of individuals and positions that were involved in the sales in 1998 and 1999. A description of lease sale process and the process for issuing leases has also been furnished to the Committee.

The process for a lease sale involves numerous steps that take place over a one to two year period; these steps are in addition to the development of a 5 year leasing plan which sets in motion the steps for an individual lease sale. The lease sale steps are drafted and proposed by the Gulf of Mexico Regional Office and sent to MMS Headquarters in Washington D.C. for approval. Towards the end of the process a draft is prepared in the region of a (1) decision memorandum on the Proposed Notice of Sale and (2) a Proposed Notice of Sale which includes the proposed terms and conditions under which the leases will be offered. These are sent to MMS Headquarters for supplementing, approval and issuing. Once a decision is made it is announced in the Federal Register. As part of this process the Gulf of Mexico Regional Office of MMS prepares a series of materials ("sale packet") which contains all of the specific instruments, terms and conditions

of the lease sale for each individual block of land that is available to be bid on. This packet is publicly available. This process initiates a potential series of comments from the relevant states, public, industry and perhaps even other Federal agencies. All of these comments are summarized and a draft is prepared of (1) a decision memorandum on the Final Notice of Sale and (2) a Final Notice of Sale which includes the terms and conditions under which the leases will be offered. These are then sent through an approval process in MMS Headquarters. This Final Notice of Sale is published in the Federal Register at least 30 days before the actual holding of a lease sale. A similar “sale packet” is prepared for the Final Notice of Sale.

For the actual lease sale the bidders deliver sealed bids to the MMS Regional office. All bids are publicly opened and publicly read on sale day. The MMS Gulf of Mexico Regional office then conducts a detailed review of the high bids to evaluate whether it constitutes fair market value for the block and either awards the lease to the high bidder over the next 90 days or we reject the bid. For each accepted bid during the evaluation process, a lease form is prepared and sent to the lessee (company) for signature and then returned for signature by the Regional Director.

So why were price thresholds included in the 1996 and 1997 leases and omitted in the 1998 and 1999 leases?

Before my appointment in August 1998 to the position of the Deputy Regional Director of the Gulf of Mexico Region my experience with MMS was in offshore operational issues. For the 1996 and 1997 lease sales and even the first sale in 1998 my position was in the Office of Field Operations as the Chief of the Office of Safety Management so my duties included conducting accident investigations and processing civil penalty cases. I had no involvement in either the lease sale process or price thresholds for those lease sales. My understanding of the lease sale process described above only came about after a lengthy learning curve to my new appointment as the Deputy Regional Director. Therefore my knowledge on both the lease sale process and the price threshold issue for the 1998 and 1999 sales was extremely limited.

How do I regularly interface with industry?

My involvement in interfacing with industry covers a wide range of forums and meetings that occur numerous times over any given year. To focus on the specific matter of interest to the subcommittee I attend regular meetings, at their request, with representatives of the OCS Committee of the American Association of Professional Landmen (AAPL). The timing and frequency of these meetings vary year to year. These meetings are usually held with 4 to 7 representatives of the AAPL's OCS Committee. The full OCS Committee has about 20 members from individual oil and gas companies.

The purpose of the somewhat regular meetings with the OCS Committee is to explain and clarify what MMS is doing (new rules, new forms, and new procedures). This allows for MMS to see if there are misunderstandings or ambiguities in its rules, forms, or procedures that need to be clarified. It also allows industry to more fully understand what MMS is doing. The 20 OCS committee members represent a significant percentage of the 8000+ leases that exist in the Gulf of Mexico.

I have found notations on my calendar that indicate we had meetings with 4 to 7 representatives of AAPL on November 13, 1998, April 9, 1999, and December 2, 1999. There could have been – and probably were – additional meetings held in 1998 and perhaps 1999 but I have no records or recollection of them.

Did members of the industry ever raise an issue with the omission of price thresholds in the final notices of sale and the leases themselves?

I do not remember any issues being raised by industry concerning the omission of price thresholds in either the final sale notice or the lease instruments themselves.

This concludes my written testimony.