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MMS Reaches Decision about FPSO's in Gulf of Mexico

The Minerals Management Service (MMS) announced today its decision to accept applications for the use of floating production, storage and offloading systems (FPSO's) in the Gulf of Mexico. FPSO's, currently in use around the world, offer an option to develop areas in the Gulf that challenge or exceed current infrastructure or technologies and to help meet the nation's growing need for energy resources.

"MMS has completed a rigorous environmental and safety review of FPSO's for use in the deepwater areas of the Central and Western Gulf of Mexico. We examined the environmental risks and found them comparable to other types of production systems currently accepted for use in these deepwater areas. Therefore, we have concluded not to categorically exclude them from use as an offshore production system," said MMS's Acting Director Lucy Querques Denett. "While we will accept applications for the use of FPSO's, each will be considered on a case-by-case basis," according to Denett.

The decision is documented in the Record of Decision, which is the culmination of the programmatic environmental impact statement (EIS) process on the potential use of FPSO's. The EIS evaluated a permanently moored, double-hulled, ship-shaped FPSO with up to 1 million barrels of crude oil storage capability. FPSO's store crude oil in tanks located in the hull of the vessel and periodically offload the crude to shuttle tankers or ocean-going barges for transport to shore. Consideration of the proposed action covered a 10-year period, 2001 through 2010. Rapidly changing technologies make projections beyond that time frame very uncertain.

"While this programmatic level decision does not approve any specific FPSO site or project, it provides a foundation for considering a specific request by a company to use an FPSO for a project. When a specific project is applied for, MMS will still conduct a site-specific environmental assessment as well as a project-specific technical and operational review before a project is approved. A review for projects that fall within the base case can now be completed in less time, since an EIS has already been prepared," noted Denett.

Further technical and environmental evaluation will be required for specific FPSO proposals. The MMS will require submission and approval of a deepwater operations plan and a development operations and coordination document before any FPSO operation could occur. Any proposed FPSO operation that is not within the range of operations evaluated in the programmatic EIS will require a more extensive environmental review and National Environmental Policy Act documentation than would a proposed operation within the range addressed in the EIS.

FPSO operations have not previously been proposed or approved for use in the U.S. Gulf of Mexico; however, there are more than 70 FPSO's currently installed and in use around the world. "Today's programmatic decision provides an additional production system option for industry to consider as companies develop projects in the deepwater areas of the Gulf of Mexico," said Associate Director for Offshore Minerals Management Carolita Kallaur.

"Industry is encountering a variety of situations in the more than 100 discoveries of oil and gas in the deep waters of the Central and Western Gulf of Mexico," said Kallaur. "Sometimes these discoveries are small and sometimes

they are distant from existing infrastructure. These types of discoveries represent potential use of FPSO's to produce oil and gas resources that would not be developed using current technology and infrastructure. This decision simply gives industry the opportunity to submit a plan to use an FPSO for a specific project, and gives MMS the ability to consider this type of development project"

Today's decision excludes the use of FPSO's in a 471-block area just off the continental shelf from Galveston to New Orleans, part of the U.S. Coast Guard lightering-prohibited areas. The MMS will not approve the use of FPSO's in this area for a period of two years while it continues discussions with the Coast Guard. The two-year period will allow a fuller discussion of what measures might be necessary to protect the environment should FPSO's be considered for use within the lightering-prohibited areas. The environmental assessment completed 10 years ago by the Coast Guard in support of the rulemaking that established the lightering-prohibited areas will also be reviewed for applicability during this two-year period. In addition, the MMS will continue to work with the Coast Guard to delineate jurisdictional issues on the basis of the memorandum of understanding between the two agencies.

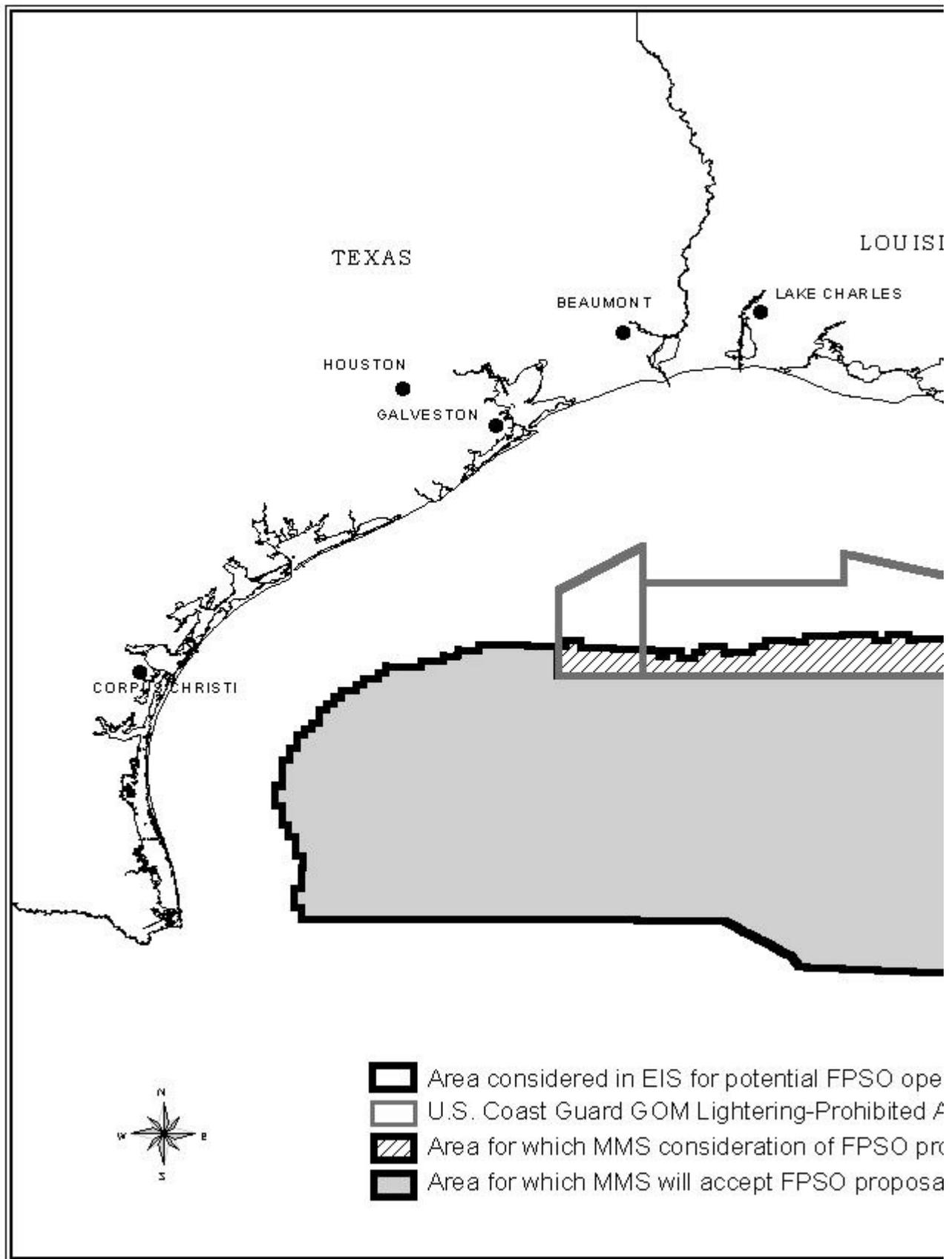
The MMS has worked closely with the Coast Guard to assess all aspects of FPSO's. The Coast Guard was an advisory agency in the preparation of the EIS and was heavily involved in the preparation of a comparative risk analysis (CRA) prepared under contract by Offshore Technology Research Center. The MMS-funded CRA was performed to compare the relative risks of an FPSO system with three other deepwater development systems: fixed platform production hub, a spar, and a tension leg platform. The overall intent of the CRA was to provide MMS context and perspective for FPSO risks, and to help in MMS decisions regarding the potential use of FPSO's in the Gulf. The CRA was also designed to help MMS understand the risk contributions of the various components (subsystems) and phases of operation.

Kallaur noted that, "MMS has a strong regulatory framework to evaluate the technical merits, including safety and environmental measures for an FPSO proposal. This was confirmed with the rigorous review that has occurred over the past two years."

The MMS gathered information from the international community to learn about FPSO systems during the early stages of the FPSO regulatory model development. Much of this effort was targeted at gaining a clear understanding of the historical operating experiences. This effort engaged representatives from all facets of offshore oil and gas development, including lease operators, contractors, consultants, classification societies, and regulatory agencies from numerous countries with FPSO developments. The domestic and international resources involved in this effort represent a significant segment of the world's deepwater experience and expertise in equipment design, construction, operation, and risk studies. The technical expertise and practical experience of the engineering personnel involved have allowed the successful development of a sound regulatory framework. Key components of this regulatory framework include the deepwater operations plan (NTL 2000-N06) and the development operations coordination document (30 CFR 250.204) with associated conservation reviews (NTL 2000-N05) and environmental reviews (NTL 2000-G21). Additional engineering reviews of the facility and safety systems will ensure the FPSO can operate safely. Once an FPSO system is installed, MMS inspectors will examine the facility on a routine basis.

For more information about FPSO's, including frequently asked questions, the EIS and the CRA, go to: <http://www.gomr.mms.gov/homepg/offshore/fps/fps.html>.

MMS is the federal agency in the U.S. Department of the Interior that manages the nation's oil, natural gas, and other mineral resources on the outer continental shelf in federal offshore waters. The agency also collects, accounts for, and disburses mineral revenues from federal and Indian leases. These revenues totaled nearly \$8 billion last year and more than \$110 billion since the agency was created in 1982. Annually, nearly \$1 billion from those revenues go into the Land and Water Conservation Fund for the acquisition and development of state and federal park and recreation lands.



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