MMS OFFSHORE GULF OF MEXICO

ORAL HISTORY PROJECT

Interviewee: RALPH AINGER

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Bio

Mr. Ainger grew up on Long Island, NY. A marine biologist by training, he was hired in 1976, around the time of the first Mid-Atlantic offshore lease sale, by the Bureau of Land Management as an oceanographer. After a few years in the New York office, he moved to Washington to work in the environmental policy group, and in the early 1980s took over as regional supervisor for leasing and environment in the Atlantic region, formed with the creation of the MMS. In the early 1990s, he went to work for the associate director of the MMS, working on updating the data management system. In 1996 (?) he became the chief of the leasing division, and in 2001 he moved on to become chief of the international marine minerals division.

Summary

Good background on historic functions of the BLM and the USGS in the overall offshore leasing and regulatory program and the merging of the two into the MMS. Ainger talks about the increasing politicization of the program despite its outstanding environmental record over the last 30 years. Some discussion of potential for offshore North Carolina and issues of oil import dependence and conservation. Good detail on the "Western gap" and the negotiation of the boundary line between U.S. and Mexican zones in the middle of the Gulf of Mexico, in which Ainger participated. Discussion of resource evaluation and different methodologies involved. Problem faced by MMS of competing for technically trained people.

Side 1

TP: This is an interview with Mr. Ralph Ainger at the MSS offices in Herndon, Virginia. The date is November 22, 2002. Let's just start off by you giving us a little bit of personal background.

RA: I am a marine biologist by trade or training. I grew up in New York on Long Island. I applied for a federal job shortly after completing my graduate work at Long Island University. I was surprised to get a call from the Bureau of Land Management. As a New Yorker, I had never even heard of the Bureau of Land Management! But, to be hired as an oceanographer for the BLM sounded sort of oxymoronic.

I started in the New York Island Continental shelf office and in those days, our office was actually in the World Trade Center. I was in the first Mid Atlantic sale. At that time, I was involved in the environmental group and was the IS coordinator for OCS Sale 40 and OCS Sale 42 in the North Atlantic; that was quite an experience as we tried to open up a frontier area.

TP: Were those the Baltimore Canyon . . .

RA: Baltimore Canyon, yes that is correct. It was a bit contentious at times with some of those states. We still have a, I would not say difficult, but maybe a suspicious relationship with some of those states because we have not had a real positive experience. We did some drilling off the east coast. There were some positive results of the drilling, but no development and no real economic benefits occurring to any of the states as a result of that. But we did it out of a good working relationship over the years and we still deal with many of those same people through the OCS policy committee.

TP: You did manage to open up some leases.

RA: Yes. In fact, the first Mid-Atlantic sale, I think it was $1.1 billion in bonus bids, was under the tract selection process. I have forgotten how much we got in the Sale 42, but it was a substantial amount of money. Sale 52 never quite came off. We got there the day of the sale and canceled it because there was no positive response from industry.

There were some other South Atlantic sales that went on and we drilled some of them. I think that we initially drilled 42 or 43 wells. Several of them had commercial shows which, with the infrastructure, we could have developed but did not. But the rate of success was very, very good for the Atlantic. It was just that because of all the political controversy and the fact that I am sure industry believed that if they were not going to spend money on something that they did not have a reasonable expectation of developing, their interest wanes very quickly.

That even showed true in later years with the leases that were sold back in the 1970s off of North Carolina. Industry was unable to develop those because of opposition from the public and private interests from the land owners. State government was opposed to it. Of course, their constituents were opposed to it. And much of this is built up around lack of real knowledge. It is more about what they perceive to be true rather than what is true but that is the political reality. It is not true with what people perceive as what drives the program.

After some years in the New York office, I came to Washington and worked in the environmental policy group here. And, in the early 1980s, I took over as regional supervisor for the leasing environment in the Atlantic region. That was formed with the advent of the MMS and the closing of the New York OCS office and moving that function to northern Virginia.

After almost 10 years there, I went to work for the associate director to implement something called the TIMS project which was our updated data management system that took us from very early 1970s technology until to the mid 1990s client server type environment that we are still using now. About five years ago, I went to be chief of the leasing division and was there for another five years or so. I was the last chief of Intermar, the International and Marine Minerals Division, and my primary responsibility there was to oversee its demise as we took those two functions and integrated in other parts of the program.

The hard minerals program, which was mostly sand and gravel, went over the leasing. It had been sort of a little pilot effort for many years, but as it became more and more institutionalized and more and more a routine part of our mission effort it became time to integrate it into the mainstream. So, that function now resides in the leasing division and we have elevated the international aspects of our program up to the associate director's staff where I now am.

TP: Going back to the mid 1970s and early 1980s, which is kind of a period of transition as you mentioned at the outset before we turned the tape on, can you talk a little bit about the merger from your perspective?

RA: Yes, there were very different focused agencies. The BLM aspect, the prelease part, was involved in the rights conveyance aspect, the environmental assessment part of it, and was not as development-oriented as the Conservation Division USGS portion was. In addition to having two agencies responsible for different aspects of the program, both of those agencies worked for two different assistant secretaries which gives it a whole different level of spin or philosophy to program management. Because of the departmental rules, when you have a program that has a responsibility that is vested in more than two assistant secretaries the _______ assistant secretary takes precedence to coordinate that function. The assistant secretary is now program management and budget.

So, we had BLM, the USGS, and the third entity was the Office of OCS Program Coordination, which was responsible for seeing to it that the two agencies behaved well and cooperated in advancing the enterprise. It did not work like it would sound on the books, and eventually Secretary Watt saw that this would be much more efficient if it was all operated by the one assistant secretary. So, he created the Minerals Management Service and moved the entire function under the assistant secretary of Land and Minerals Management and that eliminated the need for the Office of OCS Program Coordination whose small staff was brought over into this MMS program. That included people like Al Powers and Carolita Kalaur and several others, some of them are still with us, but most have gone on, in one way or another!

It took a long time to get an agency-wide ethos in how to manage this program. We all had our aspects of the program that we continued to manage - the pre-lease and post-lease - and what really bridged that was the environmental aspect. At one point, we had a prelease environmental program and a post-lease environmental program. That was a little unwieldy because it was approached with two very different philosophies. It is really simplistic to say this, but one was more protectionist oriented and the other one was more development oriented. So, we worked our way through that and we now only have one environmental division that is responsible for everything.

There are many, many of the same people still around who are involved in the two different integrated agencies. Bud Dannenberger, chief of the engineering and operations division, was a USGS guy and I was a BLM guy. We worked together for many, many years. And now, it is almost undetectable to see those old different philosophies. The MMS has developed its own ethos. I think it is a good one. We have a very good reputation for being efficient and effective managers. As a regulatory agency, the companies do not always agree with us. Some people think that we are in bed with the oil companies and that we are tools of the oil company. And I think if you asked industry, they would not deny that!

TP: I think, by and large, that they are happy with what has been an incredibly successful program, over time. They always like to have more acreage offered and not have to deal with regulatory requirements, but, yes, they always feel that there are too onerous.

RA: Well, the key to it has been that we have a very open program, as most companies design regulatory development as an open process; they get to participate as we develop regulations and we try to do things that make sense for all of our constituents. Industry is one of them. The American people are obviously the primary concern. And although they do not always agree with what we do, they always know what we are going to do. It is very clear that we are very consistent in the way we apply the regulations. I think that having that predictability helps their investment strategy - they know what it is going to cost them to operate and how we are going to react, so we have a very good working relationship with the people we regulate.

Although, I do not think that they think that we are pushovers and that we regulate this program on their behalf. That is not really true but by the same token, at some level we are really partners in the enterprise. We want them to be successful. We also want them to produce oil and gas in an efficient manner, and we look to them to bring revenue into the nation's economy. So, we are not interested in keeping them from operating. We want them to operate and we want to create a climate that allows them to operate successfully but also safely and in an environmentally sound way. Much like the FAA. Their responsibility is keep the planes flying. Or to keep them on the ground. If you want to keep them safe, just keep them on the ground. But it is a little more complicated than that.

TP: I guess after the MMS is created and the move to area-wide leasing, there was a push to try to open up some of the frontier areas. The program narrowed to Alaska and the Gulf, right?

RA: Pretty much, and we have had a very difficult time breaking out of that. It is regrettable, I think, and it does not serve the interests of the nation that this program has become so thoroughly politicized. The OCS program contributes more than a quarter of our nation's energy right now, probably more than one-quarter - both oil and gas - and I think that will creep up in the near future to be over 30%, plus the substantial amount of revenue we contribute, we drop back and forth between second and third largest revenue generator after taxes. And although it is a distant second, it is still second. We really do not have any significant environmental consequences of this program, although intuitively, many people believe that they are because they look at things like that tanker accident off of Spain and also some unrelated things.

TP: Or the Ixtoc blowout in Mexico which was not the U.S.

RA: It was not the U.S. I do not want to impune our Mexican neighbors, but they have a very different kind of operating philosophy and in looking back at the issue of that spill, one of the biggest problems that they had was that there was no one on the platform who had the ability to make any decisions to take any action, and it just ran away with them. We have a very different kind of . . . it is really not a fair comparison.

TP: Well, there has not been a major blowout.

RA: Santa Barbara.

TP: Well, in 1971, you had Chevron and Shell had one, but since then the safety environmental record . . .

RA: I mean, the significantly visible one, of course, was Santa Barbara. That is one we lived with for a long time, and even the Chevron and Shell, followed closely on and what those incidents did was they created the opportunity or climate for us to develop the regulatory regime that we have now. So, it really is not a good comparison. We still see this. Every time we have a hearing or we get letters of people who are holding oil birds from Santa Barbara saying, 'This is what is going to happen.' And we cannot deny that it did happen and it was not a good thing and we have looked at early postmortems about how to prevent it. Some bad decisions were made to actually corrode that incident, but it is different now. We just point to our track record since then, in the last 30+ years and it really was an outstanding environmental accident record.

No accident is tolerable. We do not have a quota that says, well, you know, we will tolerate six deaths next year. It does not happen. The target, of course, is zero. But to have zero and to avoid all risk would be to do nothing and we cannot do that either. I am biased in this matter, but this is a very sound program, a very efficient one, and a very good one for the people of the United States, and yet most people do not want it, or they do not think they want it because they do not understand it.

TP: Do you still get that sense now?

RA: Oh, sure. The new senator from North Carolina, as she was sworn in, said, "And there will never be any oil activity off the state of North Carolina." Well, that is ludicrous when you think about what kind of benefits that could bring to their state. Although we have not done enough drilling to really be sure of this, it is generally accepted that it is in North Carolina likely that there are significant quantities of natural gas offshore. Even the conservative estimates would put that at probably a 30 to 35 year supply for North Carolina.

If you look at eastern North Carolina, that is east of, say, I-95 Corridor. You may not know where that is, but that is the road that goes north and south. It is a very poor area. There is lots of agriculture there and some textile factories and things like that . . . some chicken farms and some tobacco. It is not well developed economically and the primary reason for that, of course, is that they do not have a consistent supply of energy. The Transco pipeline runs right through the middle of North Carolina but the market goes to the northeast.

If gas could be brought offshore of North Carolina, that would provide a local supply. Somebody would say, 'Who is to say it is going to go there?' Well, it will go there because it will be cheaper to have it go there than to sell it. And the availability would still allow the Gulf gas to go to the north. So, economically, it would be sold in North Carolina and it would be available. It would provide substantial benefits to a significant portion of the population of North Carolina. They do not see it. The agenda is driven by real estate owners along the coast who believe that this is going to affect their property values. It probably will not. Also, by fishermen who believe that this is going to have adverse effects on the fisheries. It is hard to see how. There is the spectre of oil spills which is not likely at all in the gas province. So, the whole public controversy is mostly rhetorical and not based on good, sound information.

That being said, it does not matter because what drives the agenda is what people believe, not what is true. So, we are working to change some of that, to educate people more about energy and how critical it is to their lives and to our economic health and our security. Most people do not think about it in those terms. They think about OCS oil and gas in terms of impacts and oil spills on beeches and bad things that could happen to them as opposed to the good things that it brings and the benefits it brings to the entire nation.

Balance of payments people think about it because of all the Japanese cars we import. It is trivial compared to what we spend in energy costs. Our entire economy, like it or not, is energy dependent. The reason we had the successful agriculture we had, the successful industries we have, even the newly emerging high tech industries are all energy dependent. If we did not have reliable sources of energy we would not have the economy that we have. So, we are trying to get people to realize that and understand the importance of this program.

TP: Yes, certainly in this climate where there is growing anxiety about the Middle East.

RA: Right, and the reality is that we do not get a . . . well, it is probably significant but not a large percentage of our oil and gas comes from the Middle East. That is only because it is a red market and we have been getting ours from Mexico and Venezuela and Canada, which are more convenient and cheaper from a transportation standpoint. But without those Middle Eastern markets, we would be outbid for a lot of it than if you were buying now. So, it would certainly drive up the cost.

TP: Yes, that is a good point. From your sense, how interested is the industry, and I know it is hard to talk about the oil industry . . .

RA: Right. They never speak of one idea.

TP: . . . the drilling contractors, they all have a different interest. I know that the drilling contractors would like to drill everywhere and open up everything, but how interested is the industry in these different areas other than deepwater Gulf? How much would there be in the Mid-Atlantic and parts of offshore North Carolina and California, if they were open? I guess this is sort of a speculative question.

RA: Yes, it is speculative and again, as you say, it is difficult to say how industry thinks because they do not think with one mind and that is a good thing because if they did, they would all be drilling in exactly the same place. So, I think that if there was another playing field that had access and some reasonable assurance and they would be allowed to exercise their property rights if they did get a lease, then they would be interested in some of these places.

The whole Atlantic coast is actually very promising based on what little information we have. Drilling 40 or so well is nothing compared to . . . the industry drilled, I think, 230 wells in the North Sea before they had their first discovery. So, we do not know very much about it and we haven't done any research there in years now. How, with the advent or development of 3D seismic and even 4D stuff, we could learn a lot more even before drilling. But no one is going to make the investment to even gather that data if there is not some reasonable assurance that they could use it to the benefit of their company.

There are lots of attractive areas in California and those resources are well understood. No one is going to spend any money there because they are not going to be able to recoup their investment. I think if we could open these areas, it would significantly stimulate investment and open up many brand new sources of energy for us.

TP: The story goes all the way back to the early area wide sales. I think it is a fascinating story.

RA: Well, a lot of those things feed into themselves. The technology became available, but it only became available when the opportunity to develop the technology became available. It is sort of a self-feeding kind of process. Our critics used to say to us: You cannot drill off my coast until you prove that you can drill in those water depths or in those conditions. Well, no one could ever do that because unless you have the opportunity to develop that technology, you cannot make the proof. So it was a show stopper. By being able to open up the Gulf of Mexico to deep water development and allowing that technology to develop, and it developed, of course, at a geometric rate because that is how technology develops as you go along . . . the seismic industry developed quickly. The drilling industry developed quickly. The subsea completion industry developed quickly, and things that were unthinkable even 15 years ago are now commonplace. It really is quite a fascinating story.

It has created even political impetus for us. We talked a little bit earlier about the "Western Gap" and the original treaty that delineated the demarcation line between us and the government of Mexico - the United States and Mexico . . . of course only extended out to 200 miles and we have those two gaps in the Gulf . . .

TP: Two hundred miles is the Exclusive Economic Zone?

RA: Right. And so, we agreed that that would be our line but there were these two holes in the Gulf that were more than 200 miles. They were called the doughnut holes. And the eastern gap is probably problematic at this point because it involves Cuba in addition to the Gulf of Mexico. But the Western Gap was not included in the 1979 treaty which we negotiated . . . it probably took about 1-1/2 or 2 years to negotiate that boundary. Well, there was an agreement in principal right away that 200 miles is the equal distant line and the Mexicans agreed very quickly to that. And, in fact, they ratified the treaty almost right away and the United States did not. It got to the Senate Foreign Relations Committee and sat there for 2 years. So, the original treaty did not go anywhere mostly because of some not well thought out information provided by a guy named Hollis Hedberg. He was convinced that the United States was losing the best part of the resources by signing a treaty with Mexico in that area and that the more attractive targets were on their side of the line. It was probably not true and there really was not much basis for that but it got into the head of the Senate for Foreign Relations Committee and so the treaty just died there.

As deepwater technology became available and industry became more and more interested in getting closer and closer to that line, they wanted to be sure of who owned what. We needed to have title before we could convey it so there was increased interest in getting the treaty ratified and industry sort of marshaled its resources and encouraged the Safety Department to bring that into the priority 1 status treaty to get reconsidered, and it was ultimately ratified in 1998, I believe. So, that left us with a 200 mile line - 200 miles or less but did not resolve the western gap issue. And so, it became sort of the challenge.

With the 1979 treaty, the Mexicans were not as well schooled in some of the resource issues and some of the other options that might have been available to them about how to develop transboundary resources and that sort of thing. So, when it came to the Western Gap we were negotiating with a group that was a little smarter and a little more worried of what we might be negotiating for. Also, they were smarting from the fact that they were sort of embarrassed that when we negotiated the last treaty, they took it on good faith and had Congress ratify it right away, and then we said, 'No we are not interested.' So, it was a little touchy.

We worked very hard to work with the Mexicans and develop a good working relationship with Mexican government and, of course, PEMEX. It is sometimes harder to tell where the line is there because it is the national oil company so you were never quite sure about who was sitting at the table with Mexico. We were able to negotiate a treaty which we think is a good one. For the most part, it just simply extends the 200 mile line that connects the two dots at the end of the gap, with some considerations about how we managed transboundary resources but that now has allowed that area to be opened up.

TP: How far out is industry routinely drilling? I mean, in miles? I know it is about 10,000 foot depths.

RA: Yes, let's see if I can describe the Omega Road picture here. Much of our area of the western gap is on a plateau-like structure, and then, as you get a little bit into Mexico, it sort of drops off precipitously to ultra-deep kinds of things. Although not unprospective, it is not as prospective as the U.S. area of the Western Gap. That is because we do not have much information about that. We have much more on our side of the line and much more in the more shallow areas; it is still deep water, and the area does look very prospective, but it is expensive to operate in.

We have some leases now in the Western Gap . . .

TP: So, that is right approaching the 200 mile . . .

RA: Right. Instead of approaching the 200 mile line, there is certainly some right up against the Mexican boundary now and some very perspective areas that Shell has in some recent discoveries that they have. So, I think that in the foreseeable future there are likely to be discoveries in the Western Gap. That will be of historical significance because it will be the first time that anyone anywhere is drilling outside of their exclusive economic zone. So, this has lots of implications for us for law of the sea.

TP: Is that causing some momentum? I know the United States is not a signatory to the Law of the Sea Convention.

RA: We said we were going to get the Law of the Sea truly raised again last year and it did not quite come off. It was close but not quite. We have now the administration support for ratification. They have come out firmly in favor of it. The Defense Department, the Department of Energy, and Interior Department firmly believe that it is in our nation's interest to participate in this.

There are negative aspects that people perceive. First of all, back in the Reagan years, there were some legitimate issues with law of the sea. We fixed those. In fact, the U.N. is a little disturbed about that. The U.S., being the big kid on the block, saying, 'Well, we reject this treaty for the following reasons,' and they said, 'O.K., we will fix that.' They fixed it and then we still object!

There were some hard minerals issues and that sort of thing. Most of it was fixed at a conference they had in Jamaica in the late 1970s/early 1980s. So, although we had substantiative problems, the problems that were there are no longer there. We are just dealing with the artifact of the people who are still around in Congress and staffers who say, 'Oh, Law of the Sea. I remember we had problems with that.' Well, they still have a problem with it. Realize the problem and fix it. That is one issue.

There is the issue of having to pay to an international body, a certain percentage of our royalties . . . we get quite a royalty for several years and, ultimately, it is only a small amount of money and there would be a substantial return. I do not think it would be a problem. We did have to recognize that in the treaty and in our lease stipulations for leases that are in the Western Gap, in the event that there is discovery and that the U.S. does have these obligations to pay, it is the obligations on the state, meaning us - not on the operators. We have resolved that issue also.

It was quite an interesting experience dealing with the Mexicans and, in fact, the State Department was amazed that we were able to negotiate the treaty.

TP: So, MMS was involved directly in negotiations?

RA: Yes. There were three of us who were on the negotiating team for the treaty with our counterparts from State. For the most part, there were seven people involved who did the actual grunt work over about 2-1/2 years. Then, we had other people who came and went based on what interests were going on at the time. We tried to be as flexible and creative as we could. There was some initial controversy over what data we should use to compute the new line because things have changed since the 1970s, using world data, and we knew it could be better, was not acceptable to us. The Mexicans, they use different data . . . which data set to use and what the date of that data was and how it had changed. We just cut to the chase and said, 'All right. We will do a new survey.' So, we formed a team of both U.S. and Mexican surveyors and we actually went around to spots on the coast and resurveyed and agreed on the data.

TP: The coastline had probably changed, too.

RA: Oh yes, it has. Absolutely. In fact, what happened was that the Western Gap got bigger because one of the key points . . .

TP: Those lines receded.

RA: Yes, especially in Louisiana. Wolf Island had moved back about 1,000 meters. By the same token, the oil on the opposite side of the Gulf where the Mexicans had their data points had not receded because they were very hard coral. They had been misplotted. The original surveys were done with standard land survey methods in the 1970s. We used GPS satellite technology. This is before the selective differential was taken off so it had to use Defense Department technology. That technology was accurate to probably within advertised four meters, maybe something as less as under one meter accuracy. So, we were able to go to those spots, put the GPS receiver down, and pinpoint exactly where it was.

The Mexicans use GPS technology, but it is a different type. They use the differential GPS which requires a very long time to read many hundreds of signals from the GPS and then compare it to a land-based station. They used their technology and we used ours and were able to agree on exactly the points. So, we developed a controversy. We knew exactly where the other line should be. We quickly got past the original sticking point.

And then, there was this other thing about what to do about transboundary resources. What we agreed to do was have a buffer zone for 10 years. There would be sort of a no activity zone for 10 years and if there was a discovery on the U.S. side and if we thought there was potential for it to be a transboundary resource, then we agreed that we would present that information to the Mexican government and discuss it. But no commitment.

Because the Mexicans deal with their resources very differently than we did, we did not really have a lot of common ground about how to develop resources. The U.S. proceeds on a rather intermittent basis a rule of capture. Even our own lessees do this. If you are being drained, well, you had better get out there and get busy. That was the genesis, of course, of 8G legislation and how the states get to share money for blocks within three miles of the three mile line because of drainage. But the difference in this issue is that dealing with the States is not the federal government versus the States. We have a common interest. We are the States. So, the revenue-sharing provisions were simply a matter of budget considerations at that point. But in this case, you are dealing with a foreign government. It is ours versus theirs and we are going to protect our own interests. They view resources that way and, of course, they have a national oil company and we do not. We are private industry-based and they are not.

So, there were lots of differences about things. It took a little bit of maneuvering to negotiate all the aspects of the treaty and have them be satisfied. And, of course, the other big aspect is that although we think oil and gas is politically volatile here, it is nothing compared to the way it was in Mexico. I mean, it causes riots in the streets there. They are very emotional about oil and gas and their resources. And they are still smarting from the 1930s and they have a PEMEX because of it.

So, there is an incredible amount of rhetoric that went on in the newspapers over negotiating this treaty and probably more would have gone on had not the Mexican government done such a good job of keeping the focus on the negotiations and negotiating with us rather than the newspapers. And it actually went very well.

TP: This is a fascinating story. It would be interesting to see what happens out there.

RA: Yes, hopefully it proves to be worthwhile. Frankly, I would be surprised if it was not an area of high potential. But again, you do not know until you drill.

TP: That is right. That is the old line!

RA: But again, what we started here was this business about the deepwater Gulf and how things build on themselves. There would have been no reason to worry about that treaty. And, of course, the treaty only affects minerals, subsoil resources, and has nothing to do with fishing or any other stuff that goes on in the western gap. That is still high sea stuff. So maybe that was driving this. Those two years driven strictly by oil and gas interests are why we were at the table as opposed to any number of other federal agencies who could have been . . . the National Fishery Service or whatever. It has nothing to do with that. It is only oil and gas.

TP: Aside from the whole area-wide system that was put in place in the 1980s, what else has the MMS been doing to facilitate deep water exploration and development?

RA: Royalty Relief was probably the single biggest legislative thing that happened. You can just look at the statistics of pre-royalty relief and post and how the bonus bids spiked. We did it to spark interest. That was the impetus behind it. And, of course, it was enormously successful.

TP: Who were the champions in Congress with that?

RA: There is a lady from Texas . . .

TP: Kay Bailey Hutchison?

RA: Yes. The guy to talk to about with that is Marshall Rose who is the point man on that aspect. He is the chief of our Economics Division. He is the one who does all of the royalty relief packages. Marshall Rose is his name.

TP: I have his name down.

RA: It actually has had quite an impact on our program, too, because of workload. There is an enormous interest in new leases; the administrative workload of offering those leases, of doing the environmental work, transferring title.

TP: Has the schedule changed?

RA: No. We have held pretty much to a two sale a year schedule in the Gulf for the last 10 years or so and it is a pretty normalized schedule . . . not for our convenience.

Well, it works out to be convenient for us, but it is also very good for industry when they can predict what the schedule is going to be and whether we are going to offer the western part of the Gulf in the fall, by August or so, and central Gulf in the spring. They can do their investment strategies and predict where they want to go next. They have one year between sales in each area. We think they like it and we try to hold to that schedule.

TP: How about determining the parts of which areas are not going to be put up for sale?

RA: We try not to do too much of that. Withdrawals are mostly done on a small scale basis. Of course, there are traditional withdrawals like the Flower Gardens area which is offered for the period that we were . . . although we have offered the Western Gap leases for many years, no one was interested because it was so far offshore. We might as well have been offering leases on the moon. We offered them to establish our domain over those areas, but we stopped offering them during negotiations with the Mexicans as a gesture of good faith. And once a treaty was effected, then we offered them again.

Then we do some limited withdrawals for things like rights of way issues and other such stuff. For the most part, in the Central Western Gulf we offer everything that does not have some Defense Department consideration, some of which we cannot always talk about. But, we try to make as much available as possible. There are only a very, very small percentage of blocks withdrawn at sales. Now, that is not true, for example, in the Eastern Gulf where it seems to be consistently at war with Florida.

TP: How ironic was this conflict at the outset of this administration.

RA: Well, that is right. When we offered to buy back some of the leases in the Destin Dome, California jumped on that issue right away. 'You are doing that in Florida? Why do not you do it here?' Well, we have got to get Neal Bush to move to California and run for governor there, make that happen! A little cynical, but . . .

TP: Minimum bids are set for each sale?

RA: Yes.

TP: There is not a standing minimum bid?

RA: There is a minimum - $25 an acre is the minimum we will accept these days for the most part. We get a lot of minimum bids and we reject a lot of bids; not a significant percentage, but not anything like 70% or whatever. Marshall could tell you more about this but when we reject a bid and then we rough it is usually a good thing.

End of Side A

Side B

RA: Their whole resource evaluation program is done to assure that the public is getting a fair return for their resources. So although the market is pretty much driven on what people want to bid on, if there is competition on a lease, well, so be it. And if there are three or four people that want to bid on it, that is the market value. If you have one bidder, well then we establish a minimum that we will accept, just like we do on Ebay. It is not whatever you want to offer, it is what are you going to offer above my base price? Marshall would cringe if he heard me "just like on Ebay."

TP: Well, I mean, it is like an auction.

RA: It is, but it is sealed-bid auction. There are also alternative ways to do this in the U.S. We have talked in the past about what would happen if we did multiple round bidding. How would that change the picture?

TP: Has that been seriously considered?

RA: Well, some of us are serious about it. I just think it is ridiculous. I do not think it is an idea that is so ridiculous that we should not consider it and look at it as a reasonable way to better ensure competition and maybe even open up some of these areas that are trying to open. And, of course, we did not do it like you do at a tobacco auction. If nothing else, that would be really unseemly. But it could be done over the internet with multiple round bidding, much in the same way that the FCC auctions off broadcasting rights. Now, the last time they did it, it was not ultimately successful. The auction itself was successful. The revenue realized from it was not because so many people defaulted on their bids, but that is because they did not have a guarantee that went with it. We have a different kind of system with having to put 20% in with your bid and then the rest of it within 30 days. Some of these broadcast rights were bid for a large margin with 10 years to pay. Well, we are not doing that!

TP: Do you find that there is still a wide variation with this? I know there are stories about the 1960s and 1970s when companies leaving $30 million on the table.

RA: It still happens. It is not $30 million, but it might be $6 million or $8 million. If you go to a lease sale and sit there, you can hear the loud gasps from back in the room there and people saying, 'Oh my God, that guy left $10 million on the table. He is going to lose his job.' Well, maybe not. Maybe that is well invested because if that is what it took to get that and get it away from the competition and it proves to be a real money maker for the company . . . I guess there is a point where you can be just so reckless; if you have a track record of leaving lots of money on the table, it would probably put your job at risk. It is not like 20% of the bids are that way, but . . .

TP: Most of the serious players have a vigorous methodology for evaluating these things and so the numbers they attach are usually pretty . . .

RA: Well, that is true and some of them put in, oh, let's say for argument, $10 million. And that may be what they consider to be a fair bid for that resource. But then, there are a half dozen other bargain hunters out there who are going to low ball the bid and that makes the high bid look ridiculous when it could have been a perfectly reasonable bid. If you and I are bidding on a house and the house is worth $300,000, and I offer $290,000 and you offer $110,000, the house is still worth $300,000.

TP: I know that back in the late 1960s there was this big push to ensure that the government received “fair market value” and had to do more about estimating the economic potential and prospectivity of these things.

RA: And we do that. We have expectations for the sale at several levels. We do budget scoring every year. We estimate revenue projections. It is very hard to predict. There are so many things such as the price of oil and a lot of different factors that it is almost a crap shoot. I do not think that anybody has any better numbers or is any better at it than we are but it is still a high risk proposition to do with a lot of accuracy.

TP: One of the developments you see in the Gulf now with the move to deep water is that the major players are upgrading their portfolios from the Shelf in the shallow water to the deep water. When independents in smaller companies come in, is it easy to just transfer your lease to these companies?

RA: Well, it is relatively easy. You have to be qualified to hold them, and it has caused some problems. Let me see if I can find a kind euphemism . . . perhaps a mom and pop company taking over a lease that is in its declining years and trying to make it profitable may be willing to be a little less rigorous in their application of some of our regulations.

There is lots of anecdotal stuff out there. We had somebody come in and try to take the blow out preventer off because it makes the local water flow better. It is true, but we are not going to lie about it. So, yes, it is relatively easy to transfer rights. It has to be done through our adjudication group in the Gulf or in Alaska or wherever it is. And the fee is reasonable to do that. It is not a very expensive proposition. We get lots of activity - people doing that all the time.

TP: Yes, it has been a big thing.

RA: Sure, and there are multiple bidders on lease and multiple leaseholders. Sometimes you see some real odd combinations of people who are co-owners to bids and then one buys another one out. There is lots of that going on.

TP: How about the MMS' own geophysical and geological information? Do you hire seismic contractors?

RA: No.

TP: There was a point in time when you did, right?

RA: Well, we occasionally buy data, but much of it is a condition of the permit that the companies have to give us. They do not do the interpretations. We have to do our own interpretations but they provide the raw data to us. We do buy some interpreted data.

TP: There is so much data out there now, too.

RA: Well, that is true. The level of sophistication now interpreting that data is . . .

TP: That is where their competitive advantage is.

RA: Well, part of Tim's project that I talked to you about earlier was to upgrade our capabilities to industry standards to do automated evaluations of this 3D seismic data to get away from the old Venus Paradise colored pencils where we were coloring sections in. That was not working. Industry was seeing things that we could not possibly assure fair market value because we could not see them. And they knew it. We acquired what we called the GIFT tools - the geological interpretative tools that industry had, that put the bonus bids up.

TP: What year was that about?

RA: About 1993 or 1994. Now, you might ascribe this to other things. It is hard to say what causes spikes in the prices, but as soon as we had those tools in-house they knew what was going on. We are buying from the same contractors they are. We are using the same software and the same hardware. It is sort of like the police had radar and we had radar detectors. Well, as soon as they knew we had radar detectors, it changed the character of things, you know. You may be speeding down the road, but as soon as you know the cop has radar, you slow down. Well, it was the same idea. As soon as they knew who had the tools to begin to see some of the things that they were seeing, then they could not offer low ball bids on stuff anymore. So, while that was an expensive acquisition, and I do not know that we have done any real analysis on this, I am certain that it was a cost effective investment for us. When I say "us," I mean the United States.

TP: So, are a lot of bids rejected?

RA: I would not say a lot. There were a few in each sale. Historically, like I say, when you reject a bid and then reoffer it, there is generally at least a 100% increase in what we get from that. There is not as much gamesmanship going on as you think. It is not a speculative business anymore. It is a very professional kind of approach. There is lots of technology associated with it; not as many wild guesses involved anymore.

TP: Do you find that you have trouble competing for geologists and geophysicists?

RA: Oh, sure.

TP: You must be at a severe disadvantage just because of the compensation.

RA: That is true throughout the program - not simply geologists. It is true on all levels. We have the same problem in trying to increase diversity in our organization. Regrettably, there are not enough various underrepresented groups who go to graduate school for geology and marine science out there for us to get. We are competing for them with the oil companies who have the same sort of diversity objectives that we do. So, in that sense, it is a problem for us. We cannot compete with them on that level. We cannot compete with them reasonably for the numbers of specialists they have. We have some very good people - we just do not have a lot of them. Some of them go to government for things other than just money; not a lot, but some. Some we get have a condition of permit and some we buy.

We do not have the staff resources to process the amount of data that they process. We need to be taking a much less detailed look at a prospect than industry would because we are not risking it, number one, and we are not focused on one or two prospects. Another company might spend a significant percentage of resources on one or two prospects. We have got to look at everything on the border of the Gulf.

TP: It comes in the transition from the tract selection, too. It must be much more difficult.

RA: That has a very big impact for us because before when we would offer 100 or so blocks in a sale, we knew going in what the value of those blocks was. Now we have to wait until the sale and then evaluate the ones that are bid on. It is give a big sale and a lot of blocks, well, we still have X resources to apply to that task and we have got to get those bids accepted and it all processed before the next sale starts. So, it has an impact on us.

TP: Well, I do not want to take up too much of your time. This is very interesting. Is there anything else you want to add? Other significant events or developments?

RA: Well, I probably burdened you with too much knowledge about this. I do not know what is important to you and what is not. I have lots of anecdotes and lots of stories and tales about people.

TP: Oh, yes, well, if there are a couple that come to mind.

RA: Well, in fact, I just read in the paper today that one of the last heads of the Conservation Division, when a portion of this program was in the Conservation Division, died yesterday. His name was Russ Roland. He was 89 years old. He died in a nursing home in Arlington.

TP: I think I came across his name in the archives when I was looking those records.

RA: Yes, he was one of the last heads of the Conservation Division.

TP: That is too bad.

RA: He was an old line guy.

TP: I guess this holds true for the government's side, too, but I find the industry really began in the post World War II era, sort of like there are a lot of World War II generation folks. I guess that is one of the urgencies behind doing this history. It is like Ambrose and WWII veterans in that a lot of this history is disappearing.

RA: This program in particular, but the government in general has been affected by the philosophy: 'The government is too big, it is too fat, it is too expensive. Cut taxes." That is just a general thing, but it precipitated a lot of hiring freezes, lack of expansion and lack of being aggressive about developing staff because we just did not have the money to do it. So now, if you look around this building, the vast majority of people here are in their 50s. There are only a small percentage of our people who are in their 20s and another handful in their 30s. So, all of the FCS 15s and 14s are all very close to retirement, and there are not robust enough numbers of people behind them to take their place.

You would think that as the 15s retire, the 14s will move up to take their place. Well, they will not because they are the same age. We all just bumped up into AARP range. We have got one guy in the leasing division downstairs who is going to be 86 this year. The youngest person in the entire division is the division chief and, in part, she is a very talented, capable person who represents for us what the future of the agency is. The agency sent her to the SES Kennedy Development Program and then was at real risk of losing her to someone else because she was always bidding for a capable staff. So, we did some quick maneuvering to make her division chief because we needed to have her. I mean, she had to apply for it and was clearly the superior candidate so that was not the issue. But, it was appropriate that I step aside out of that slot and vacate it to make a position for her to grow into because there are so few of those around. That is a function that is really critical because it is not the kind of thing that you can hire out of college. You can hire geologists and geophysicists, but the leasing program is unique. You have to live through it. You do not go down to the old OCS leasing specialist hiring hall and pick up a few. They were all homegrown. So, we need to guard those kinds of resources. But, like I say, she is the division chief and she is the youngest one in the division.

TP: Well, I am sure it takes a lot of grooming to get to the point where the industry feels comfortable.

RA: Oh, and they do. As it happens, she is 39. She is not a child by any means but compared to the rest of us she is pretty young. She is very capable and competent. The business people know that. In fact, we just had dinner with a bunch of business people the other day. She is well respected to those people which is certainly appropriate. But, like I say, she is the youngest in that division and she is the youngest among the division chiefs. And 39 is not a child, you know. But that is going to be the real issue for us in another five years because when you look around here in five years, there are going to be very few people who are here now. And I am not sure where all the replacements are coming from.

TP: Well, I guess you may be picking up some people if the oil prices go in the tank!

RA: Yes, that is true!

TP: You can always hope for that, I guess!

RA: Over the years, people come and go - geologists, geophysicists depending on how things go. Sometimes they are easy to hire and sometimes you cannot hire one. But still, a lot of what we do is a very different perspective than the way industry operates. It is always a mistake to try to run government like a business.

TP: Well, you are not a national oil company.

RA: That is right. Do something in a businesslike way, but you cannot apply that certain corporate philosophy to the way we operate it because we do not have very much profit incentive.

TP: And you have got to keep the . . .

RA: It happens whether you like it or not. It is like we talked about earlier, how the American public does not appreciate this agency. We are probably the second largest revenue generator in the nation. We facilitate a significant percentage of our oil and gas resources. The offshore portion we have less than 900 people. Altogether, the entire agency was less than 2,000. I think it is 1,700+. That is nothing compared to even small oil companies or other federal agencies. I forgot how many people they said are in the Homeland Defense Agency. There are 75,000 people in the Department of the Interior and we are less than 1,000 in offshore.

TP: 75,000?

RA: Yes. So, we are a very tiny agency that is relatively efficient. They are actually highly efficient.

TP: Yes, it is impressive.

RA: And they have never heard of us. It is sort of incredible to me.

TP: Well, I guess maybe it is good in some sense that you are not a lightning rod.

RA: Yes, except that I think part of the controversy associated with this program is that our constituents are polarized. You are for the program because you have an economic interest in it, as in you live in Louisiana and your job is tied to the offshore oil and gas program. Or, you are against it because you believe that there are always environmental tragedies looming on the horizon to screw up the program. But if you live in Iowa and you are the recipient of both the energy, at least in the indirect way, and certainly, you benefit from the revenue stream because virtually all of our revenue goes in the general fund. Then you do not even know they are here. I mean, you have got an interest in this program, too, but you have never heard of us. So, you have these two extremes which is really a very small percentage of the constituents.

We want to get out there and talk to most of our constituents and let them understand the program perspective and how important it is to them. Then we want to see how it stacks up politically. For a Congressman in California who plays this program is a no brainer; they would clearly be against it because their constituents are against it like it or not. And the people in Iowa have no problem throwing in with them because they want their vote for something else later on, and it is no loss of their constituents because they do not know about us. We ought to give them something to be interested in, not just to be a throwaway vote.

TP: I have a lot of friends and family on the east coast, but seeing the opposition to drilling off the coast and looking back to around 1969, 1970, the governors of all the East Coast states and the chairmen of all the power commissions were pushing to develop faster and faster in the Gulf. It is the old story of we want the energy but . . .

RA: That is true. And not in my backyard. It is true. But the problem is that most people do not have the program in perspective. They see only one aspect of the program and, in fact, have a distorted view of that. I was involved in some ridiculous things at public hearings over the years. They made me testify about how, if we allowed the gas wells off North Carolina to be developed, she was certain that there would be trailer parks full of shady women catering to the needs of the roughnecks offshore! That was her issue! This stuff has no basis in reality.

TP: I guess it is the old stereotype about boom and bust communities but it would not be a boom and bust kind of development.

RA: Yes, in fact, initially the development would have some positive economic effects for people in local industry and stores.

TP: Well, now offshore is so high tech. It has always been capital intensive.

RA: If you go down to the parking lot and see the cars parked there from the guys offshore, there are cars from Iowa and South Dakota because they are there for two weeks and they come home. They do not live there. They do not live right next to where they drill offshore.

TP: That is an interesting point of the industry. I know a guy who worked on a platform down in Brazil. Many of the people they hired were from the Gulf Coast.

RA: Yes, that is right. Try to find it in Alaska now on the North Slope.

TP: Well, good. I have run out of questions. This has been very enlightening. Thank you very much.

THE END