

US Drillers Set for \$1bn Award

By Sheila McNulty in Houston

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A US federal appeals court ruled on Monday that 11 oil and gas companies should receive more than \$1bn awarded to them in 2006 after the government effectively changed the terms of leases to drill off the California coast.

The US Court of Appeals was upholding a 2006 ruling that the government had breached the leases when federal law changes interfered with the companies' efforts to develop the oil and gas reserves off California.

The case points to the difficulties US oil and gas companies have developing oil and gas resources in the US.

Even when acreage is legally open to production, restrictive regulations about how properties can be developed have made it impossible for companies to follow through.

The US government had estimated the area contained more than 1bn barrels of oil equivalent.

Politicians have been critical of the industry for pushing for Senator John McCain's proposal to open up protected areas off the coast of Florida, saying they have yet to develop all the property currently open to production.

The industry can point to this case as a good example of why not all leased properties in the US are under development.

"We're very pleased and we believe it is the right result," said Lyndon Taylor, senior vice-president and general council for Devon Energy.

"This illustrates the importance of the government honouring its contractual obligations."

The nearly three dozen leases in this case were sold in the 1980s by the US Department of Interior to the 11 companies, which included Devon Energy, the biggest US oil and gas company solely focused on exploration and production.

The bigger companies, such as ExxonMobil, the world's biggest publicly listed oil company, also carry out refining and marketing.

"When any person, company or organisation enters into a contractual agreement in this country, they must fulfil the terms or pay damages, even if that entity is the US government," said Steven Rosenbaum, partner at Covington & Burling, which represented the 11 companies.