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CONTACT: Barney Congdon
(504) 736-2595

A.B. Wade
(202) 208-3985

MMS Issues Proposed Notice of Central Gulf Lease Sale 178 Announcing Initiatives to Increase Domestic Energy Production

The Director of the Minerals Management Service, Walt Rosenbusch, announced today several initiatives to increase domestic natural gas and oil production to meet the nation's energy needs. These initiatives are proposed for the next offshore oil and gas lease sale in the Central Gulf of Mexico scheduled for March 28, 2001. The announcement came as part of the issuance of a proposed notice of sale for Sale 178 in today's Federal Register.

MMS designed two of these initiatives specifically to spur domestic natural gas production during the years 2004-2006. Director Rosenbusch called the changes "strong initiatives on the part of the MMS to deal with the large projected increase in gas demand for the nation. Several studies, including the report issued by the National Petroleum Council, indicate that the nation's demand for natural gas will grow from the current 22 trillion cubic feet (TCF) of gas to 29 TCF of gas in 2010. These initiatives may contribute additional gas production, in the range of 500 billion to 1 TCF per year in the period 2004 to 2006."

Rosenbusch noted that "there are predictions of serious shortages of natural gas this winter, including the northeast U.S. There have already been several brownouts across the country this year because of the demands on electrical production."

Included in the proposed notice are two initiatives for increasing natural gas production:

- An incentive to drill for deep gas deposits located in the shallow-water shelf area of the Gulf of Mexico by providing for royalty suspension for the first 20 billion cubic feet (Bcf) of production from a well drilled below 15,000 feet sea level.
- An incentive to drill for natural gas below the thick subsalt domes. MMS proposes that lessees obtain a 2-year extension of the 5-year primary lease term when an operator has drilled a first subsalt well and needs additional time to image the subsurface data to determine the appropriate next drilling target. This will avoid premature lease expiration and the consequent delay in exploration.

In addition, MMS proposes modified initiatives for deep water royalty relief:

- An incentive to keep exploring and developing oil and gas deposits in the ultra deepwater areas to replace the expiring provisions of the 1995 Deepwater Royalty Relief Act. A royalty suspension volume of nine million barrels of oil equivalent (BOE) is proposed for water depths from 800 meters to 1,599 meters, and a royalty suspension volume of the first 12 million BOE in water depths equal to or greater than 1,600 meters.
- An opportunity to apply for additional "discretionary" royalty relief, pursuant to new proposed rulemaking, if certain conditions are satisfied.

MMS will conduct public workshops to discuss the new provisions announced in the proposed notice of sale, as well as provisions of the proposed rule (65 FR 69259 published November 16), regarding discretionary royalty relief for leases in water depths of 200 meters and greater. Details about the workshops that will be held this December in New Orleans and Houston will be released today.

Proposed Sale 178 encompasses about 4,366 available blocks in the Central Gulf of Mexico Outer Continental Shelf planning area offshore Louisiana, Mississippi, and Alabama. This area covers about 23.07 million acres. Blocks in this sale are located from three to 200 miles offshore in water depths ranging from four to more than 3,425 meters. Estimates of undiscovered economically recoverable hydrocarbons expected to be discovered and produced as a result of this sale proposal range from 150 to 440 million barrels of oil and 1.53 to 4.39 TCF of natural gas.

MMS is the federal agency that manages the nation's natural gas, oil and other mineral resources on the Outer Continental Shelf. The agency also collects, accounts for and disburses over $5 billion per year in revenues from federal offshore mineral leases and from onshore mineral leases on federal and Indian lands.

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MMS Internet website address: **http://www.boem.gov**
24 hour Fax-on-Demand Service:(202) 219-1703