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DEEPWATER: A NEW FRONTIER FOR RESOURCE MANAGEMENT

The Department of the Interior's Minerals Management Service recently published a report entitled *Deepwater Gulf of Mexico: America's Emerging Frontier.* The MMS report heralds the arrival of America's new frontier for resource management and chronicles the unfolding of the deep water regions in the Gulf of Mexico.

When exploration reaches water depths beyond 1,000 feet, according to industry terminology, oil producers are in deepwater. Advanced technology is digging deep to explore ways to enhance the nation's energy resources and economy.

In the early 1990s, some industry experts considered the Gulf of Mexico a "dead sea" when it came to offshore oil production. Most of the early indicators pointed to an oil and natural gas basin nearing the end of its productivity. Many thought the Gulf would only attract the small investor, and there appeared to be little potential for new discoveries.

The Gulf, however, has reemerged as a major player - a key component of the nation's energy source. How? In a word: Deepwater.

Today there are approximately 7600 active leases in the Gulf of Mexico, 48 percent of which are in deepwater. Contrast this to 5600 active leases in 1992, only 27 percent of which were in deep water regions. By the end of 1999, there were 30 producing fields, up 30 percent in 12 months.

According to MMS Director Walt Rosenbusch, "Advances in deepwater drilling and production technology are as remarkable as the strides made in the space industry. Exploratory drilling and production in the western and central portions of the northern Gulf of Mexico have steadily increased. Deepwater is driving the new millennium."

Rosenbusch added, "The march towards deepwater exploration and production has also significantly expanded the government's responsibilities. Deepwater activities represent a new set of regulatory challenges for the MMS."

The agency's mandate is to manage the development of Outer Continental Shelf mineral resources in a safe and environmentally sound manner. "Accomplishing this in deepwater brings us to a new frontier, not only for technology but also for resource management," explained Rosenbusch.

New technology coupled with discoveries of high production rate wells have lowered the cost of finding, extracting and delivering deepwater oil and natural gas to energy markets. Areas of the Gulf of Mexico once thought beyond reach, that

is, depths beyond 5,000 feet, are now being explored and developed successfully. A new generation of drillships and techniques allows drilling in water depths down to 10,000 feet.

More than 40 percent of the drilling rigs worldwide that are capable of working in deepwater are in, or committed to, the Gulf. The rising amount of production coming from the deepwater has great momentum and will continue to play a key role in the national energy strategy. For the first time in history, the amount of oil production in the Gulf of Mexico from deepwater rose above 50 percent of the total. This was a significant crossover since production first began there 53 years ago.

In 1990 about four percent of the oil and less than one percent of the natural gas produced on the Gulf's outer continental shelf was from deepwater. By the end of 1999, more than 50 percent of the Gulf's oil production and 20 percent of its natural gas was from that area. This represents a 2,800 percent increase in oil produced from those depths during the 1990's and a 3,500 percent increase in natural gas production from deepwater.

In the early part of the 1990s, Gulf of Mexico oil production hovered around 300 to 315 million barrels per year, but now has sky-rocketed, reaching almost 500 million barrels in 1999. This is due in part to more accurate methods to locate hydrocarbon deposits in deepwater and beneath salt formations in the seabed, coupled with less costly means of developing these properties. The potential for sustained, long-term activity levels in the Gulf looks promising.

Operators are developing more sophisticated and cost-efficient deepwater technology that will enable the United States to stem the tide of dependency on foreign oil. Production potential from deepwater reserves is estimated to be around 2 billion barrels of oil and 6 trillion cubic feet of natural gas.

About 30 percent of the nation's households (3 million homes) currently using fuel oil could be supplied with product for one year from oil produced in deepwater. These figures are significant. With the fluctuation in oil prices, it is reassuring to know that domestic production is growing at a steady rate in the Gulf's deep water areas.

This increase in activity also benefits society by the jobs it creates in all sections of the United States; from computer technology developed in California and used on offshore platforms, to steel from Ohio and Pennsylvania to build the rigs. Nearly 37,000 jobs are directly dependent upon the Gulf of Mexico offshore oil and natural gas industry.

Rosenbusch commented, "Deepwater development is the engine driving new energy production in the U.S. It has emerged as a world class oil and gas province and is a major source of economic growth and energy supply for all Americans."

To obtain a complete copy of the 89-page report, call the MMS Gulf of Mexico Publication Information Office at 1-800-200-GULF.

MMS is the federal agency that manages the Nation's natural gas, oil and other mineral resources on the OCS, and collects, accounts for and disburses about $4 billion yearly in revenues from offshore federal mineral leases and from onshore mineral leases on federal and Indian lands.

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