The NewsRoom
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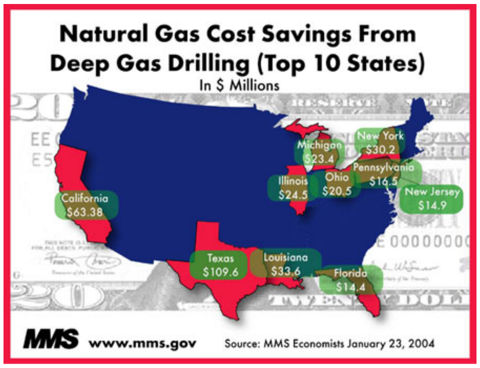
Secretary Norton Unveils New Incentives to Boost Domestic Natural Gas Production, Save Americans $570 Million a Year

(WASHINGTON) – Interior Secretary Gale Norton today announced new incentives for natural gas development in hard-to-reach areas of the Gulf of Mexico that will save American consumers an estimated $570 million a year, create as many as 26,000 jobs, and help to ensure the nation's energy security by boosting domestic production.



As part of President Bush's National Energy Plan, these new incentives offer developers royalty relief to tap into pockets of natural gas deep under shallow waters of the Gulf of Mexico that otherwise would not be economical to produce. The incentives should translate into more predictable fuel bills and new jobs.

"With demand for natural gas climbing as more American families and businesses choose this clean-burning fuel, we must provide incentives for development of known resources that are harder to reach," said Norton. "These incentives will help ensure we have a reliable domestic supply of natural gas in the future."

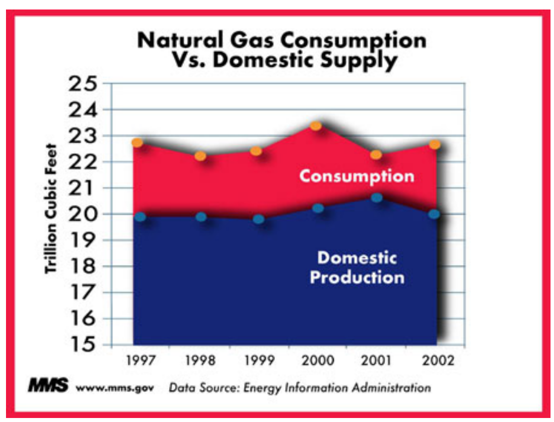
The Minerals Management Service estimates, for example, that energy consumers and businesses in California and Illinois would realize annual cost savings of $63 million and $24.5 million respectively.

Americans use 22 trillion cubic feet of natural gas per year. Residential consumers, factory workers and farmers are among those feeling the pinch caused by the gap between supply and demand for natural gas.

About half of all American homes -- around 56 million -- are heated with natural gas. Home utility bills have soared in many parts of the country. For example, natural gas bills in New York are expected to increase by nearly 50 percent in February, and residential consumers in Central Ohio are paying nearly double what they were charged for natural gas in June.

Forty percent of American industry currently depends on natural gas, and about 90 percent of new electricity plants to come online in the next decade will be fueled by natural gas. Some businesses are moving natural-gas-based manufacturing overseas, to places where gas is available at a fraction of the price in the United States.

Farmers are paying more to run irrigation pumps, heat greenhouses and to buy fertilizer made with natural gas.



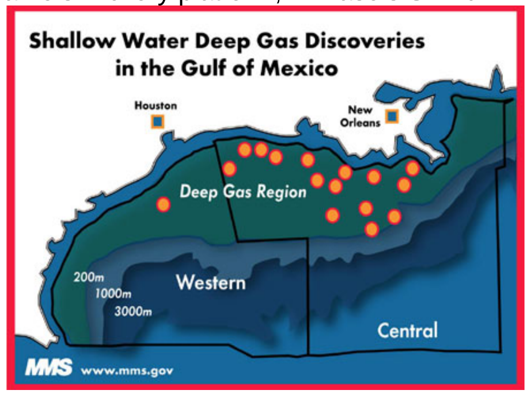
"We need a reliable supply of natural gas to heat our homes, power our lives, keep our businesses operating in the black and—in America," Norton said. "This is one more way we can protect American consumers and our jobs."

The MMS estimates that the drilling and platform upgrades associated with the extra deep gas production will generate up to 26,000 new jobs that could be sustained for at least the next six years.

The royalty relief incentives should encourage industry to explore and develop deep gas accumulations in water depths less than 656 feet, and 15,000 feet below the shelf.

"Since infrastructure and lease-specific facilities are already in place, the Outer Continental Shelf is one of the best available sources for additional near-term domestic natural gas supply to meet the nation's needs," said Johnnie Burton, director of the Minerals Management Service. "We believe the incentives offered in this rule will spur industry to explore and produce these deep, undiscovered resources."

Recent deep gas discoveries have been made in the gulf at Anadarko's Hickory platform, El Paso's ST 204 unit, and Shell's Alex Discoveries.



The MMS estimates that undiscovered gas resources of up to 55 trillion cubic feet may exist in this "frontier" area. If converted into electricity, 55 TCF could provide nearly a 5-year supply of energy for every home in America.

The Energy Information Administration forecasts the demand for natural gas will increase by 42 percent in the United States over the next 20 years.

Briefly, the new incentives provide the following:

- A royalty suspension on the first 15 billion cubic feet of gas produced from depths greater than 15,000 feet and less than 18,000 feet or on the first 25 BCF produced from 18,000 feet or deeper. A royalty suspension volume of 15 BCF can be increased to 25 BCF from a second successful well to 18,000 feet or deeper. Gas production from all qualified wells on a lease participates in the full royalty suspension volume earned by the lease.
- A royalty suspension supplement of 5 BCF (equivalent), applied to future lease production of gas and oil from any depth, for drilling a qualifying dry hole (unsuccessful well) at 18,000 feet or deeper. Two royalty suspension supplements are available per lease prior to production from a deep well. The maximum relief the lease can earn from drilling unsuccessful and successful deep wells is 35 BCF.
- Eligibility of sidetrack wells to earn royalty suspensions in amounts based on drilling depth and sidetrack length.
- Price threshold provisions that discontinue royalty relief if gas prices rise too high.
- An option for qualifying lessees to replace existing deep gas royalty relief lease provisions with the deep gas royalty incentive terms in this final rule.
- Drilling of qualified wells must have started on or after March 26, 2003, and production must begin within 5 years of the effective date of the final rule. However, any royalty suspension volume or supplement earned must be applied only to production occurring after the effective date of the final rule, even if this production actually started between the proposed and final rule.

Information related to the final rule is available for review on the MMS Web Site at: http://www.gomr.mms.gov/homepg/offshore/deepgas.html. The final rule will be published in the Federal Register and published prominently on the MMS Web Site on January 26, 2004.

The Minerals Management Service 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 American Indian lands. MMS disbursed more than \$8 billion in FY 2003 and more than \$135 billion since the agency was created in 1982. Nearly \$1 billion from those revenues go into the Land and Water Conservation Fund annually for the acquisition and development of state and Federal park and recreation lands.

Press Kit

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Deep Gas Rule Backgrounder

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Secretary Norton

MMS Director Johnnie Burton

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MMS Facts

OCS Sand and Gravel Facts

OCS Oil and Gas Facts

Relevant Web Sites

Benefit-Cost/Small Business and Regulatory Flexibility Economic Analyses

Appendices to Benefit/Cost Analysis For Final Deep Gas Rule

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