MMS Technical Announcement

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Gulf of Mexico OCS Region

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Contact: Barney Congdon
(504) 736-2595

Caryl Fagot
(504) 736-2590

Debra Winbush
(504) 736-2597

Gulf of Mexico OCS Deep Shelf Gas Update: 2001-2002
OCS Report MMS 2003-026

The Minerals Management Service (MMS) announces the availability of the publication *Gulf of Mexico OCS Deep Shelf Gas Update: 2001-2002*. This report is an update to the MMS publication *The Promise of Deep Gas in the Gulf of* Mexico (OCS Report MMS 2001-037), and it provides a review of Gulf of Mexico deep-gas drilling and completion activity in 2001 and 2002 on the Outer Continental Shelf (OCS). The *Update* also presents the proposed incentives for deep-gas drilling and production on existing leases prior to January 1, 2001.

Drilling at depths greater than 15,000 feet below sea level in less than 200 meters (656 feet) water depth on the OCS declined from 86 wells drilled on the OCS in 2000, when natural gas prices on the spot market surged over $8 per million British thermal units (MMBtu), to 75 wells drilled in 2001, to 64 wells drilled in 2002.

Although deep drilling activity on the OCS declined, the realization of new high-rate gas well completions was good news to operators willing to drill deep wells. Completions in new deep-gas reservoirs on the OCS are showing signs of providing the best short-term opportunity for production increases to offset declining gas production from the OCS.

Recent deep gas discoveries on the OCS have shown these new completions can produce an average initial maximum rate of 27.7 million cubic feet per day (MMcfpd), with two new completions testing maximum rates in excess of 100 MMcfpd.

Some of these new completions decline to half of their initial maximum rates within two years. Rapid decline of productive capacity requires drilling more and more wells to maintain a given level of gas production to meet the increasing demand for natural gas and reduce the volatility in price.

While the shallow waters of the Gulf have been actively explored, relatively few wells have penetrated depths below 15,000 feet because of the high cost and risk associated with such wells. Since infrastructure is already in place, in terms of platforms and pipelines, MMS anticipates that production could come on line relatively quickly.

MMS has included a deep-gas royalty incentive for new leases since March 2001. In the new proposed rule, MMS proposes to allow lessees to exercise an option to replace their existing deep-gas royalty terms on leases acquired from sales held after January 1, 2001, with the terms in the final rule on this initiative.

MMS 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 leases. These revenues totaled over $6 billion in 2002 and nearly $127 billion since the agency was created in 1982. Annually, nearly $1 billion from those revenues go into the Land and Water Conservation Fund for the acquisition and development of state and Federal park and recreation lands.

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Return to Technical Announcements