

Shell Exploration & Production Company



RULES PROCESSING TEAM

MAY 23 2003

One Shell Square  
PO Box 61933  
New Orleans LA 70161-1933  
(504) 728-6161

*via e-mail and overnight mail*  
[rules.comments@mms.gov](mailto:rules.comments@mms.gov)

May 23, 2003

Department of the Interior  
Minerals Management Service (MS 4024)  
381 Elden Street  
Herndon, Virginia 20170-4817

Attention: Rules Processing Team (RPT)

**Subject: Comments on MMS Proposed Rule – 30 CFR 203.40-48  
Relief or Reduction in Royalty Rates-Deep Gas Provisions  
68 FR 14868**

Shell Exploration and Production Company (SEPCo) is pleased to submit comments on the subject proposed Deep Gas Rule effective March 26, 2003. SEPCo is a leading producer of oil and gas and a large leaseholder in the Gulf of Mexico. Additionally, we have an extensive asset base of offshore fixed structures in the shallow waters of the Gulf of Mexico. As such, we are very interested in providing comments on the Minerals Management Service (MMS) proposed rule on deep gas.

Due to recent declines in natural gas production on the Gulf of Mexico shelf along with increasing national demand of natural gas, MMS has proposed royalty incentives in the form of Royalty Suspension Volumes (RSV) and Royalty Suspension Supplements (RSS). MMS projects that these shallow water deep gas royalty incentives plus existing infrastructure will result in stimulating production activity to help offset the gap between supply and demand within the next five years. The proposed rule will be retroactively effective to March 26, 2003.

If MMS implements this proposed rule, SEPCo believes it should be modified to better address the following issues:

Sidetracks

SEPCo requests that sidetracks be included in the current proposed RSV and RSS parameters. Many of the mature platform infrastructure located on the shelf that would be utilized for deep gas development are already slot limited. The only opportunity to utilize the

current infrastructure would be sidetrack opportunities. To do otherwise would require major structural modifications to platforms. The high cost of special high temperature and high pressure completion equipment which must be utilized for deep gas plays is the same whether the wells are drilled via sidetracks, slot recoveries, or original holes. In fact, sidetracks will have to utilize a smaller than normal completion string which will reduce production flow and could negatively effect the economics of a deep gas play. Sidetracks will also help decrease the environmental footprint of the development. Less rig time from drilling operations will decrease air emissions significantly. Use of existing hole will reduce the volume of drill cuttings released back into the environment. Advanced technology such as expandable tubulars will help operators optimize older wellbores for sidetracks. However, the cost to utilize this technology will be at a premium to industry. Finally, sidetracks will alleviate the necessity of drilling through depleted zones that can cause difficulties and well control problems. Drilling from a kick-off point deeper in the well will help the operator to avoid critical well problems. We believe MMS should encourage, not discourage, the use of sidetracking procedures to drill, develop and produce deep gas opportunities. One of the principal rationales that MMS expressed as a reason for its failure to include sidetracks was the lack of published API drilling cost data on historical sidetracks. In many cases, sidetracks cost almost the same as a entire new well. However, the use of existing well slots through sidetracks achieves many of the goals articulated by MMS with reduced impact on the environment.

#### 5 Year Limit

We propose that the 5 year limit of the program be expanded to 10 years to accommodate the technical difficulties of development in extreme temperature and pressure environments found in deep gas. This extension can be permissive and can be granted by MMS on a case by case basis where the situation merits. Examples of technical justification could include high temperature and high pressure reservoirs which require special wellheads, downhole tubulars and downhole equipment that have significant manufacturing lead times. Other examples include the molecular composition of gas which includes corrosive components such as H<sub>2</sub>S and CO<sub>2</sub> which may also require special equipment or unusual metallurgy as well as the installation of new pipelines to move the gas to market if the gas is not allowed to enter existing infrastructure pipelines.

We appreciate the MMS' efforts in preparing and proposing the subject rule. If you have any questions, please don't hesitate to contact Rian Riche at (504) 728-6012 or me at (504) 728-6982.

Yours truly,



Peter K. Velez

Manager Regulatory Affairs & Incident Command