NEWS RELEASE

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Minerals Management Service
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MMS Proposes New Incentive for Ultra Deep Drilling

The U. S. Department of the Interior's Minerals Management Service has issued a proposed rule that will allow Suspensions of Operations (SOO) to oil and gas lessees or operators who plan to drill ultra-deep wells. MMS expects the new rule will lead to increased drilling of ultra-deep wells and increased domestic production.

The proposed rule would encourage drilling of ultra-deep wells to depths of at least 25,000 feet true vertical depth sub-surface by granting a SOO in certain situations.

Generally, when a lease reaches the end of its primary term, the lessee must be producing or conducting other leaseholding operations to extend the lease beyond its primary term. However, due to the added complexity and costs associated with planning and drilling an ultra-deep well, MMS recognizes that more time may be needed for exploration and development. In such cases, the lease term could be extended through a SOO.

The proposed rule would grant SOO, under the following circumstances:

- The lease has either a 5-year primary term, or an 8-year primary term with a requirement to drill within the first 5 years;
- The lessee or operator has plans to drill an ultra-deep well (at least 25,000 feet TVD SS) on the lease;
- Before the end of the fifth year of the primary term, the lessee or operator must have acquired and interpreted geophysical information that indicates that all or a portion of a potential hydrocarbon-bearing formation is ultra-deep and includes full 3-D depth migration over the entire lease area.
- Before requesting the suspensions the lessee or operator has conducted, or is conducting, additional data processing or interpretation of the geophysical information with the objective of identifying a potential ultra-deep hydrocarbon-bearing formation.
- The lessee or operator demonstrates that additional time is necessary to complete current processing or interpretation of existing geophysical data or information; acquire, process, or

interpret new geologic and/or geophysical data or information that would impact the decision to drill the same geologic structure or stratigraphic trap; or drill into the potential hydrocarbon-bearing formation identified as a result of the activities conducted in previous paragraphs.

Although some leases with 10 year primary terms are issued in deep water, they are not covered by the proposed rule, because MMS believes that 10 years is sufficient to explore and develop such deep prospects.

The comment period for the proposed rule closes on March 16, 2005. Comments may be submitted to MMS by the following ways:

Public Connect online commenting system at: www.ocs.connect.mms.gov
Email: rules.comments@mms.gov
Postal mail: Department of the Interior
Minerals Management Service
Attention: Rules Processing Team (RPT)
381 Elden St.
Herndon, VA 20170-4817

Specific details and instructions are available in the proposed rule on the Federal Register website.

MMS, part of the U.S. Department of the Interior, oversees 1.76 billion acres of the Outer Continental Shelf, managing offshore energy and minerals while protecting the human, marine, and coastal environments through advanced science and technology research. The OCS provides 30 percent of oil and 23 percent of natural gas produced domestically, and sand used for coastal restoration. MMS collects, accounts for, and disburses mineral revenues from Federal and American Indian lands, with fiscal year 2004 disbursements of around $8 billion and more than $143 billion since 1982. The Land and Water Conservation Fund, which pays for acquisition of state and federal park and recreation land, gets nearly $1 billion a year.

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MMS Main Website: www.mms.gov