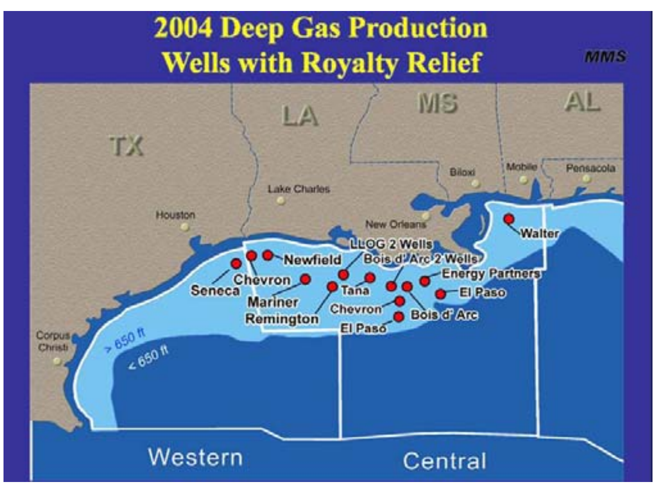
MMS Securing Ocean Energy & Economic Value for America
Minerals Management Service
www.mms.gov

Energy Production Incentives: A Step Toward Greater Energy Independence for America

The Minerals Management Service (MMS) offers incentives to encourage investment in high cost, high risk areas of the Outer Continental Shelf (OCS). The many impacts of hurricanes Katrina and Rita will be felt for years to come, but one near-term result was that the MMS offered post-hurricane incentives to the offshore energy industry to aid in recovery from the one-two punch that the hurricanes delivered. Some of the incentives are:

- Streamlined royalty relief process for rebuilding destroyed platforms that otherwise might not be rebuilt.
- Extension of a suspension of operations on offshore leases to allow extra time for energy exploration for ultra-deep drilling.

The National Energy Policy Act of 2005 continues the practice of granting incentives to the energy industry to promote investment in new supplies of oil and gas.



Incentives offered by MMS have reaped significant results in the form of more oil and gas for America from domestic sources. The deep water Gulf of Mexico, subject to royalty relief programs first outlined in the Deep Water Royalty Relief Act of 1995 (DWRRA), now accounts for over 60 percent of oil produced offshore.

Primarily an effort to decrease U.S. dependence on foreign sources of energy, the DWRRA is a call for energy companies to conduct more exploratory drilling and development on newly issued leases in deep water areas of the Federal OCS in order to meet America's growing demand for oil and gas. The Act also allows for consideration of royalty relief – called Royalty Suspension Volumes – for active deep water leases in the Central and Western Gulf of Mexico, subject to demonstrating an economic need for royalty relief.

After 2000, MMS revised many of the technical aspects of the Congressionally mandated deep water royalty relief program so that smaller amounts of relief could be granted for individual leases. The objective was to encourage still more energy exploration in a fiscally responsible manner, especially in areas that had previously been considered marginally prospective from an economic perspective.

The benefit of this incentive is seen in the numbers. Since the DWRRA was passed, it has contributed to a 550 percent increase in oil production in water deeper than 200 meters through 2004.

Deep water oil production now stands at over 350 million barrels a year – representing more than 60 percent of total Gulf of Mexico oil production. About one-third of the deep water production in 2005 was expected to occur from leases sold under the DWRRA.

The news is just as good for natural gas, where production in deep water has increased by about 650 percent between 1995 and 2004, and currently stands at more than 1.4 trillion cubic feet per year.

Incentives to drill deeper in search of natural gas have brought more positive results. Incentives announced in 2001 and modified in 2004 encourage energy companies to use infrastructure that is already in place in shallow waters to explore deeper, at least to 15,000 feet.

Deep gas production in shallow water was targeted for incentives in the form of royalty relief beginning with new leases issued in 2001. Active leases were added in 2004. Production from deep wells is expected to increase and become a larger proportion of all gas produced over the next 10 years in the Gulf of Mexico.

About 20 percent of all natural gas production in the Gulf is predicted to come from deep wells on leases issued with deep gas relief over the next decade.

Production of substantial quantities of deep gas, in conjunction with relatively tight domestic gas market conditions, results in a heating bill benefit to consumers. The MMS estimates that access to this additional supply will lower domestic natural gas prices by almost one cent per million cubic feet, which translates into a domestic savings of more than $500 million per year over 10 years.

Furthermore, the royalty relief programs implemented under the DWRRA, and thereafter, encourage additional exploration and development of economically marginal offshore hydrocarbon resources, thereby increasing domestic reserves of oil and natural gas.

What does this mean for America? It means savings for consumers. It means a lower monthly energy bill. It means energy from a domestic, stable source.

For more information on MMS's energy incentives program, contact the Office of Public Affairs at (202) 208-3985 or visit www.mms.gov.