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

Attention: Regulations and Standards Branch (RSB)

**Re: Oil and Gas and Sulphur Operations in the Outer Continental Shelf (OCS) –
Royalty Relief – Ultra-Deep Wells and Deep Gas Wells on the OCS Oil and Gas
Leases; Extension of Royalty Relief Provisions to OCS Leases Offshore of Alaska
(Federal Register Vol. 72, No. 96, Friday, May 18, 2007)
Proposed Rule (RIN – 1010-AD33)**

Gentlemen and Ladies,

Chevron North America Exploration and Production Company, a division of Chevron U.S.A. Inc., welcomes the opportunity to submit comments on the Minerals Management Service's ("MMS") Proposed Rule, 72 Fed. Reg. 28, 396 (May 18, 2007) (the "Proposed Rule"), implementing section 344 of the Energy Policy Act of 2005, Pub. L. 109-58, 119 Stat. 594, 702 (codified at 42 U.S.C. § 15904) ("section 344"). Section 344 requires MMS promulgate regulations creating a new category of royalty relief for "ultra deep" gas wells, extend royalty relief to Alaska, and expand the existing deep gas royalty relief program to leases located in waters depths between 200 to 400 meters in the Gulf of Mexico. While we applaud MMS for crafting the proposed regulations in a manner to address the Congressional mandate stipulated in section 344, we question the approach MMS has chosen to take in regard to three of the core provisions stated in the Proposed Rule. In some instances the text of the Proposed Rule has been written in a way that effectively eliminates the royalty relief incentive as defined in section 344. To explain our assessment of the Proposed Rule, the following comments are provided.

First, given that section 344's purpose is to encourage deep gas exploration and production, MMS's proposed price threshold of \$4.47 per MMBTU is too low and will have the effect of

nullifying the stipulated royalty relief incentive. In the Proposed Rule, the MMS acknowledges that “Congress intended to supplement the existing [deep gas] rules . . . with the objective of reducing the cost of producing domestic gas from deep formations in the shallow waters of the GOM” 72 Fed. Reg. at 28,397. For the foreseeable future, however, natural gas prices seem likely to continue to exceed the Proposed Rule’s \$4.47 threshold, which means that lessees who explore for deep gas are likely to give the new deep gas royalty relief incentives little or no value in making lease acquisition or drilling decisions. If lessees are not likely to include the benefit associated with deep gas royalty relief required by section 344 in their decisions to acquire or not acquire a lease, and/or to drill or not to drill new deep gas wells, the incentive has little or no value. The effect of establishing a low price threshold in the Proposed Rule circumvents section 344’s purpose. Rather than using an arbitrary and excessively low threshold, we recommend MMS redraft the Proposed Rule applying the higher price threshold from its existing deep gas royalty relief regulations (*see* 30 C.F.R. § 203.47 - 2006) to the new categories of deep gas royalty relief. By using the existing regulatory price threshold regime, MMS will have the advantage of using a threshold price that is reflective of current market conditions and does not void the implementation of the new incentive program before it begins. In addition, using the existing price thresholds will help to reduce some of the complications and confusion that will exist once the Proposed Rule is implemented.

Second, again disregarding section 344’s purpose of providing an incentive for new gas production, the MMS proposes limiting deep gas royalty relief for “ultra deep” wells to instances where an “ultra deep” well is the first deep gas well to produce on a lease without regard to when the well was drilled. Limiting royalty relief to “ultra deep” wells that are the first deep gas wells to produce on a lease, however, flouts section 344’s intent by arbitrarily eliminating the cost reduction incentive of royalty relief for an “ultra deep” gas well that merely happens not to be the first deep gas well to produce on a lease. Currently, very few “ultra deep” gas wells are producing in the shallow waters of the Gulf of Mexico. Drilling such wells is expensive and risky, and, to date, only a few companies have been willing to assume these risks and incur the costs associated with these ultra-deep drilling opportunities. Because the intent of section 344 is admittedly to provide an incentive for production of “ultra deep” gas by reducing the costs associated with “ultra deep” wells, the MMS’s arbitrary proposal to limit “ultra deep” gas royalty relief to wells that are first disregards the statute’s purpose. Accordingly, we recommend MMS not limit royalty relief to “ultra deep” gas wells that are the first wells to produce on a lease, but rather allow relief to be applied to new deep gas wells whenever they are drilled on a lease after implementation of the rule.

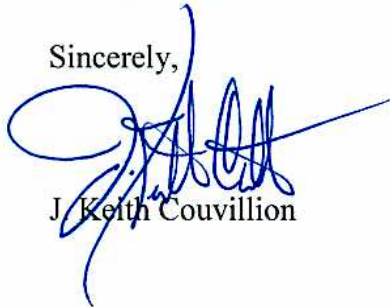
Third, the MMS’s proposed May 3, 2013 sunset provision for the application of royalty relief for deep gas wells located on leases in water depths between 200-400 meters, *see* 53 Fed. Reg. at 28,396, also contravenes section 344’s purpose of encouraging deep gas production. Because of the complexity and expense involved in deep gas exploration, especially where acquisition of new leases is involved, in many cases it will likely take lessees many years to bring new deep gas wells to production. In such cases, however, the cost reduction incentive Congress created in section 344 for deep gas exploration in waters depths of 200-400 meters is negated by the proposed sunset provision. We recommend MMS eliminate the sunset provision altogether or, alternatively, double it to a more realistic 10-year period (May 3, 2018) to allow sufficient time

for the incentive provided for in section 344 to be effectively implemented. Either approach would remove a great deal of uncertainty regarding whether royalty relief would be received for a particular project. Lessees have more control over when a well is drilled than they do in bringing a discovery on production. Producing a discovery in many cases involves activities beyond the sole control of the party drilling for deep gas, such as negotiating third-party transportation agreements to facilitate moving newly-discovered production to market. Tying the Proposed Rule's deadline for receipt of royalty relief to a discovery rather than a specific date to establish production would better enable lessees to plan their deep gas drilling projects with confidence that royalty relief would be received. If in fact MMS insists a specific date be used to sunset the royalty relief provisions, we suggest a date well into the future.

In addition to the above comments, please be advised that we concur with the Proposed Rule general comments and text modifications suggested in the American Petroleum Institute ("API") letter dated July 17, 2007 on the Proposed Rule. In lieu of restating the line by line comments as stated in the API letter, we incorporate those comments herein by reference.

We appreciate the opportunity to comment on the Proposed Rule. Should you have any questions regarding our comments, please do not hesitate contacting the undersigned.

Sincerely,

A handwritten signature in blue ink, appearing to read 'J. Keith Couvillion', is written over the typed name. The signature is stylized and cursive.

J. Keith Couvillion