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COVER

Atwood Oceanics' semisubmersible Atwood Hunter is representative of the type of deepwater rig commanding near-record dayrates. A series of offshore regional reports begins on page 12. High performance drilling fluids are reviewed beginning on page 48 and onshore activity features start on page 34.

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CAPITAL WIRELINES



IADC fights MMS plan to extend terms on deep-well OCS leases

Brian T Petty, Senior Vice President-Government Affairs

Washington, DC—The US Minerals Management Service (MMS) is proposing to amend regulations that govern oil and gas leases to allow a suspension of operations (SOO) for drilling ultra-deep wells to depths of at least 25,000 feet. This rule would allow lessees or operators to apply for SOOs where the lease has either an existing 5-year primary term, or an 8-year primary term with the requirement to drill within the first 5 years.

Generally, when a lease reaches the end of the primary term, the lessee must be producing or conducting other leaseholding operations to extend the lease beyond its primary term. Under most circumstances, the primary lease term provides sufficient time to acquire and interpret geophysical information needed to determine the presence of oil and natural gas, drill a well, and for the operator to continue with development and production.

In its comment to the rulemaking docket, IADC strongly opposed MMS's proposal to alter existing lease terms for ultra-deep wells. The notice of the proposed rule recites the usual operator arguments that added "complexity" and costs warrant what is in fact an extension of primary lease terms. Despite the MMS's expression of concern about this significant deviation from established OCS leasing policy, MMS proposes to accept operators' claims which at the end of the day rest more on selective cost considerations than on technical limits for planning and analysis.

IADC very reluctantly acquiesced to the 2002 MMS proposal for sub-salt lease extensions in the Gulf of Mexico western planning area. At that time, IADC understood that any extension request would be severely scrutinized on a case-by-case basis. Since that time, a respectable body of scientific evidence has called into question the basis upon which the operators seeking sub-salt extensions made their claims for release from their obligations under their primary lease terms. And IADC was further dismayed when MMS in 2004 essentially extended and expanded the criteria for making such claims, this time without seeking other OCS stakeholders' comments about the appropriateness of this further governmental largesse.

IADC stated in its 2002 comment to the record on sub-salt lease extensions that the MMS should avoid setting a "precedent for other lease suspension requests that are essentially motivated by the financial or strategic priorities of a given lessee." And now the text of the proposed ultra-deep rulemaking baldly states that "lessees or operators will not request a suspension unless it is in their financial interest."

The financial interests of an operator aren't necessarily consistent with those of the federal government or the many offshore contractors who engage in OCS exploration. IADC pointed out that drilling contractors must finance their fleets on the basis of reliable government drilling programs which by finite license terms afford the certainty that leases will be drilled, or dropped and re-offered to operators with the appetite and resources to develop them.

IADC has urged MMS to reconsider this proposal, and to take note of its implications for the economic viability of the offshore contractor infrastructure put at risk by increasingly unreliable primary lease terms. ■