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COVER

Land drilling is now a growth industry for the first time in a generation, according to Land Rig Newsletter publisher Richard Mason. Turn to Page 31 to read his full forecast for 2006. Cover photo of the PACE Rig 687, shown drilling near Riffle, Colo., courtesy of Nabors Industries.

DRILLING CONTRACTOR

CAPITAL WIRELINES



Lease extension reviews toughen up

Brian T Petty, Senior Vice President-Government Affairs

Washington, DC—The US Minerals Management Service informally circulated a proposed “Notice to Lessees” (NTL) involving operators’ claims that they can’t fulfill their OCS lease obligations because of “rig delays, lack of rig availability and procurement of long lead equipment.” Under the proposal, operators that find themselves without rigs to initiate drilling on expiring offshore leases could apply for an effective lease extension via a request to “suspend operations.”

In response, IADC sent a letter to the Gulf of Mexico regional office expressing concern that only operators were invited to comment despite the proposal’s potential impact on offshore drilling contractors. IADC’s letter noted that its members would be equally affected by the proposed NTL and therefore expects to be consulted on the same footing.

The letter also added a caution on the assessment of operators’ extension requests. Where an operator is required to demonstrate a “timely” but unsuccessful search for a rig, IADC pointed out how that claim could be gamed. For instance, an operator might look only within the GOM market rather than worldwide. The operator may have another rig under contract elsewhere in the GOM that could be used to drill on the expiring lease. And the operator might bid unrealistic under-market terms for a rig, then file for a lease “suspension” for a lack of takers.

Since IADC lodged its protest, MMS has significantly altered the NTL to apply a more rigorous test to lease suspensions and extensions. In a final NTL issued on 10 February, MMS stipulated that all requests must demonstrate that no other rig options are available. Where a rig under contract isn’t delivered in time to conform to the primary terms of an offshore lease, the operator must produce evidence of an executed contract and full details explaining the delivery delay.

DRILLING REQUIREMENTS FOR ULTRA-DEEP WELLS EASED

In a similar development, MMS on 17 January made effective a new rule relaxing drilling requirements for “ultra-deep” wells. Comments were solicited widely and publicly in this case, and IADC objected to the proposed change. However, MMS replied that the rule would result in “no more than 10 requests for suspensions” and “affect less than 0.23 percent of leases in the eligible areas.”

The final ultra-deep rule sets forth the following:

- 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 approved plans to drill an ultra-deep well (at least 25,000 ft true vertical depth) 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 indicating that all or a portion of a potential hydrocarbon-bearing formation is ultra-deep;
- Before requesting the suspension, the lessee or operator must conduct additional data processing or interpretation of geophysical information to identify a potential ultra-deep hydrocarbon-bearing geologic structure or stratigraphic trap;
- The lessee or operator must demonstrate that additional time is necessary to complete current processing or interpretation of existing geophysical data or information; acquire, process or interpret new geologic 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. ■