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Offshore Division

May 27, 2003

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

Attn: Rules Processing Team (Comments)

RE: Comments on MMS Proposed Rulemaking on  
Relief or Reduction in Royalty Rates – Deep Gas Provisions;  
Federal Register, Volume 68, pages 14868-14886 (March 26, 2003)

Gentlemen:

Noble Energy, Inc. (Noble) appreciates the opportunity to comment on the Minerals Management Services' (MMS) proposed rulemaking covering the suspension of royalties for deep gas drilling on leases located in the shallow waters of the Gulf of Mexico. Noble is very encouraged by the proposed rule.

Noble has reviewed the comments offered by the National Ocean Industries Association (NOIA) and the joint comments by the American Petroleum Institute, Domestic Petroleum Council, Independent Association of Drilling Contractors, Independent Association of America and the US Oil and Gas Association, (hereinafter referred to as "API") and fully supports their positions on this matter.

NOIA, however, has made a specific recommendation for relief for wells below 20,000' of 35 BCF. Noble strongly supports the addition of a third tier of relief to the proposed rulemaking.

In addition to its support of the above referenced comments by NOIA and API, Noble does have a few suggested clarifications, additions and/or comments, which are noted below.

Noble recognizes that there are several significant areas of the proposed rulemaking, but wants to emphasize five that appear to be more critical. These deal with (1) threshold prices, (2) sidetracks, (3) units, (4) auctions, and (5) timing to commence production. The relief proposed slightly improves the overall economics, but the more risky wells remain risky. The "dry hole supplement" for wells below 18,000' is quite small given the risk and cost of these wells. For wells between 15,000' and 18,000' only successful wells get rewarded. These are still expensive and risky wells at these depths and the dry hole risk is substantial.

Although there are some overall similarities with the comments made by NOIA and API, Noble emphasizes the following points:

- **Threshold Prices:** The MMS proposes a \$5.00 per mmbtu threshold. Noble has three concerns related to this issue. First, it is very difficult to determine the right threshold price. Second, having a threshold just puts in doubt whether there will be relief and complicates the simplicity in the proposed rule. Because of the volatility of natural gas prices, it is easy to imagine the price swinging above and below a set threshold, no matter what price is set as the threshold. To encourage deep gas drilling, as is the intent of the proposed rulemaking, Noble proposes either raising the threshold or eliminating it all together. Third, Noble also recommends deleting section 203.47(C), which would allow production volumes above the threshold price to count against the royalty relief volumes and supplements. Those volumes should not count against royalty suspension volumes and supplements. A more fair approach is to require that royalty be paid when prices are above the threshold, but not to count those volumes against the suspension volumes. That way, if prices later fall, and the well's reserves are still adequate, the incentives would still be available. This recommended change would eliminate some uncertainty of whether a lessee would have royalty relief when it evaluates a proposed well.
- **Sidetracks:** The proposed rulemaking inquires about but does not offer royalty relief for sidetracks, however, Noble recommends that sidetracks be eligible for royalty relief. Deep drilling should be encouraged at the most economical cost. If it is more economical to drill a well out of a sidetrack versus a new hole, the parties should be encouraged to do that instead of drilling the new hole just to be eligible for royalty relief. By not including the ability to have sidetracks eligible for royalty relief, the MMS is eliminating one of the options a company would have when considering drilling a well by the most economical and efficient means. API proposes royalty relief of 10 and 20 BCF for sidetrack operations to depths below 15,000' and 18,000' respectively. Noble supports that recommendation. If a third tier of relief is added for a sidetrack below 20,000', then Noble recommends granting that sidetrack 30 BCF of royalty relief.
- **Unitization:** In reviewing the proposed rulemaking, specifically under section 203.41(b)(3)(ii), there is an apparent ambiguity. This paragraph includes the statement that "If the first successful qualified deep well on your lease was not a unit well, and if your lease is entitled to an allocated share of production under an MMS approved unit agreement from another deep well within the unit participating area either on your lease or on another lease, that allocated share of production will not increase the volume of royalty suspension you qualify for under this section based on the first successful qualified deep well on your lease." This statement is not only confusing, but it seems ambiguous in that you could have a "first successful qualified deep well on your lease" when there is already another deep well "on your lease". Although the sentence may appear to convey the information necessary to make it understandable, some clarity is warranted.

Second, the unitization proposal may actually provide a disincentive to drill deep wells on a unit basis. For example, if two leases are combined on a 50/50 basis to form a unit to test a prospect at 17,000' and it is anticipated that only one well will be necessary, the unit owners could conclude that the discovered reserves would have to be at least 30 BCF to allow each to receive the full incentive versus 15 Bcf if the prospect was on one lease only. Thus the intended incentive is significantly reduced. It is highly unlikely, if only one well is necessary to drain the discovered reserves, the owners would find it economically feasible to drill another well costing perhaps twenty million dollars just to qualify for additional royalty suspension. In fact, under the threshold prices proposed the investment would not be recovered through additional suspension volumes alone. As a result, the proposed rule results in a reduced incentive to drill deep gas wells on units involving multiple leases.

The intent of the rulemaking is to stimulate deep gas drilling and one way to obtain that intent is to encourage the parties to drill the best locations and opportunities. By restricting any royalty relief to only the lease within a unit that the well is located on eliminates that option. Without having the right to share in the royalty relief, the lessees are actually being encouraged to drill unnecessary wells to earn royalty relief. Royalty relief should be shared by all the leases within the unit as if it is where a common lease. The provisions of how royalty relief will be shared or applied in units need to be reviewed and clarified. Units are approved for the prevention of waste and the conservation of natural resources. The MMS should continue to encourage that the number of wells to develop deep gas prospects be kept at a minimum.

Third, the API comments recommend that a paragraph (iv) be added to Article 203.41. This would allow the MMS the discretion to grant royalty suspension for each lease included in the unit after determining a successful well is not necessary to be drilled on each lease in the unit to efficiently develop the discovered reservoir. Noble agrees with API's comments but recommends that the royalty relief qualification process should allow some type of "pre-certification process" so that lessees can approach the MMS and obtain input as to which interests in a unit qualify for royalty relief. This input is needed prior to drilling so that the lessees can evaluate the economics of these expensive wells.

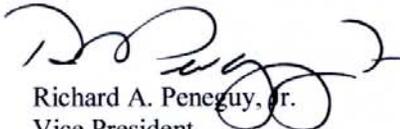
- Auctions: The MMS is soliciting comments on an alternative approach to allocate relief for existing leases. This approach would not be considered at this time, but may be considered in the future. The use of an auction or bidding system to determine which leases are eligible for royalty relief seems to undermine the whole purpose of any proposed or future provisions. Applying relief to all eligible leases is a fair and nondiscriminatory approach. To use an auction or bidding system would create an element of competition in which all companies may not be able to compete competitively and would ultimately harm the whole program. Noble recommends that the MMS eliminate any consideration of using an auction system to determine the lease eligible for royalty relief.

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- Timing to Commence Production: Noble feels that five (5) years, calculated from the effective date of the proposed rule, to commence production in order for a well to qualify for royalty relief is not long enough to explore for and produce deep reserves. The timetable might be acceptable if the parties are drilling from and intend to produce from an existing infrastructure. But in cases where platforms and pipelines do not exist and will have to be built and installed, the proposed time frame may not be sufficient.

We appreciate the opportunity to have commented on the proposed rule. Please direct any questions to the attention of the undersigned or the attention of Cam Countryman at the above address or he can be contacted at 281-876-6276.

Very Truly Yours,



Richard A. Peneguy, Jr.  
Vice President  
Offshore Division