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May 27, 2003

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

Attention: Rules Processing Team (Comments)

Reference: AD01 – Deep Gas Provisions

Dear Sir or Madam:

Rowan Companies, Inc. is a major provider of international and domestic offshore contract drilling and aviation services. The Company also has a drilling products division which has designed or built about one-third of all mobile offshore jack-up drilling rigs, including all 23 operated by the Company. Rowan's leading edge technology in jack-up rigs and components such as mud pumps, power systems and electrical components has helped the petroleum industry drill into deeper reservoirs in the Gulf of Mexico. The proposed regulation is therefore of significant importance to us.

The proposed rulemaking would provide royalty relief for existing shallow water leases by establishing a two-tiered royalty suspension program for leases issued before January 1, 2001, in the Gulf of Mexico, in waters less than 200 meters deep that commenced drilling after the date of the proposed rule, March 26, 2003. The incentive would include a royalty suspension volume for a lease on the first 15 billion cubic feet (BCF) of deep gas production for a new well drilled and completed from 15,000 feet to 18,000 feet subsurface and on the first 25 BCF for a new well drilled 18,000 feet or deeper subsurface. In addition, up to two royalty suspension supplements per lease of 5 BCF, applied to future oil and gas production anywhere on the lease, would be allowed for unsuccessful wells drilled to a target reservoir of 18,000 feet or deeper.

Rowan commends the Minerals Management Service (MMS) for the proposal and strongly supports the proposed rulemaking, including the five-year production limitation. We recommend that some provisions of the proposal be amended to allow sidetracking to be covered under the incentive. Also, we strongly recommend the addition of a third tier of relief for ultra deep gas drilling. Finally, we strongly oppose the auction mechanism described in the notice.

Proposed Rule

The natural gas market is in a state of transition. Historically, the needs of gas

consumers have been largely met by traditional supply sources from existing U.S. basins and imports from Canada. Today, the North American market consumes roughly 25 trillion cubic feet (TCF) of natural gas per year. Demand continues to rise, and according to forecasts by various organizations, U.S. natural gas demand is expected to reach 30 TCF per year by 2015.

As America's natural gas needs are increasing, the production from traditional supply sources is declining. The increased demand and declining production requires that the industry seek resources in places that have not been as economic or as attractive in the past. One of these areas is the deep Gulf of Mexico continental shelf. The MMS Gulf of Mexico Regional Office has reported that while 80% of Gulf gas comes from shallow water, "shallow water gas production is in a steep slide." While the shallow waters of the offshore Gulf of Mexico have been an area of substantial exploration, sediments located at depths greater than 15,000 feet below sea level and in less than 200 meters of water depth are relatively unexplored.

While the shelf is an area of extensive history and activity, the depths below 15,000 feet are, in a sense, a new exploration frontier. Out of the more than 50,000 wells drilled in the shallow waters of the Gulf of Mexico, only 5% have penetrated deeper than 15,000 feet subsea, while only 1% have penetrated depths greater than 17,000 feet subsea. These numbers are startling when you consider that the MMS estimates that there could be up to 20 TCF of recoverable natural gas below this depth.

Industry has only recently developed the technology to explore at these depths. Drilling advances now allow us to reach greater depths, and 3D seismic technology, and the manner in which this data is analyzed, allows us to see what lies at these depths and to identify new targets. However, drilling success remains highly challenging. Even with seismic reprocessing, targets at such depths remain unclear, temperature and pressure regimes are intense, and industry's technology and experience is still in its early stages.

Drilling at these depths on the shelf is also very expensive. The projects require significantly more geological and geophysical data acquisition and manipulation, advanced rig specifications, innovative well construction techniques, and increased costs for support facilities. While drilling costs for conventional shallow water wells average between \$6 and \$7 million, drilling one deep gas exploratory well can result in costs ranging from \$10 to \$80 million. If exploration is successful, development will follow, but deep wells face a high risk of failure, so in order to justify the high capital outlays required, these projects require the discovery of large resource accumulations with potential for high flow rates. Furthermore, this incentive will spur industry to overcome the many technical challenges involved in deep shelf drilling, so that the heretofore untapped deep gas reservoirs may be developed.

We strongly support the MMS proposal to accelerate the discovery and production of natural gas from wells drilled to deep depths on existing shallow water leases. If successful, deep gas is one of the few short-term options available to help stem our current domestic natural gas production decline and deliver significant new production through infrastructure that is already in place.

#### Sidetracks

We do wish to express disappointment with the exclusion of sidetracking operations from the proposal. Sidetracking existing well bores is a common practice followed in the Gulf of Mexico. Our experience indicates that, with over 3,500 shelf platforms in existence, in many cases it makes sense to use a previously drilled well bore to drill a new deep test. This allows for conservation and efficient use of existing infrastructure, less impact on the environment, and a safer operation. If a deep gas well can be mechanically drilled using an existing well bore, then the well should be drilled that way. We strongly recommend that the MMS reconsider this exclusion, and encourage the use of existing wells to drill, develop and produce deep gas opportunities.

#### Support of Five Year Time Limit on Production

One of the qualifications for royalty suspension in the proposed rulemaking is that the subject lease have production of gas from the completed deep well before five years after the effective date of the final rule. Rowan supports this provision.

As MMS Director Johnnie Burton said in her comments on the issuance of the proposed rulemaking, "this new rule seeks to stimulate domestic production **in the near term** from our most abundant and easily accessible areas." (Emphasis added)). Furthermore, as stated in OCS Report MMS 2001-037, *The Promise of Deep Gas in the Gulf of Mexico*, "the main goal of MMS's deep gas initiative is to increase the volume of gas production from the OCS during the period 2001 through 2006." The time it will take for sources in the Gulf of Mexico deepwater, Alaska and Canada to come on line (after 2006) "is a major reason the MMS is considering granting royalty relief for deep gas on the OCS."

#### Ultra Deep Royalty Relief

While we applaud the MMS's initiative in proposing to accelerate gas production, we believe that the proposal could be enhanced with an additional tier of royalty relief. Many companies believe that the real targets of opportunity lie beneath the 20,000 foot depth. Large targets are always developed first, and the government needs to encourage exploration to discover those deeper targets. The difference in cost to drill an 18,000 foot well and a 20,000 foot well is dramatic. These regions remain frontier areas in many ways, and unless significant relief is offered for production in this important potential province, the ultra deep gas frontier will remain largely untapped. Therefore, we strongly recommend that an additional tier of relief be granted under the rule.

The third tier of relief would be a royalty suspension volume for a lease on the first 35 BCF of deep gas production for a new well drilled and completed from 20,000 feet or deeper subsurface. This added relief would compensate for the unique challenges present in these uncharted depths. The third tier would be added to the two tiers already outlined in the proposed rule -- a royalty suspension volume on the first 15 BCF of deep gas production for a new well drilled and completed from 15,000 to 18,000 feet subsurface, and a royalty suspension volume on the first 25 BCF of deep gas production for a new well drilled and completed from 18,000 to 20,000 feet subsurface.

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The ultra deep incentive is included in the proposed energy bills currently under consideration in the United States Congress. This relief would provide incentives to all companies, large and small, to take the risks associated with the newly identified deep gas plays. It would provide greater relief for the areas of the greatest potential and the highest cost to develop. And, combined with the existing infrastructure on the Gulf of Mexico shelf, new gas reserves could be brought to market very quickly.

#### Auction Mechanism Discussion

We strongly oppose the auction mechanism, as described in the notice. Under the proposed rule, the MMS would create an incentive to accelerate deep gas drilling for companies holding leases in shallow waters on the Gulf of Mexico shelf. The auction mechanism would defeat the purpose of the rule, denying relief to those that need it most. An auction would not serve as an incentive to drill wells that would not otherwise be drilled.

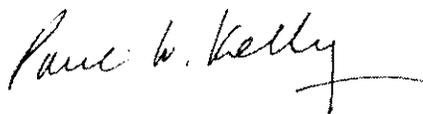
In addition to our overriding opposition to the auction proposal, we also oppose the cumbersome administrative structure that the auction mechanism would attach to the deep gas royalty relief program. Under the proposed rule, a company drills a qualified well and is granted the relief. With an auction, a company would have to wait for the auction, and would not be willing to invest any time, manpower or funding into the project until granted the winning bid at the auction. This would slow down the acceleration of drilling.

Finally, companies that receive winning bids in an auction would not necessarily have to then use the granted relief to drill the well. After placing a winning bid, a company might decide not to drill a deep gas well on the lease due to the time that has passed since it was placed or some other intervening factor that makes the project uneconomic. Other companies that may have been willing to drill will be unable to do so because they would not have been granted the relief in the auction. The current proposed rule solves this problem by requiring that the well be drilled before the relief is granted.

We appreciate your consideration of our comments on the proposed rule. Should you have any questions or need additional information, please feel free to contact the undersigned.

Sincerely yours,

ROWAN COMPANIES, INC.



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Paul L. Kelly  
Senior Vice President