

And, More Leases Are In the Pipeline

Gulf Activity 'Healthy As Ever'

Gulf Coast stories

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Devils Tower, a deepwater success story, approximately 140 miles southeast of New Orleans. The Gulf of Mexico continues to be the U.S. oil industry's shining star.

Photo courtesy of Dominion Exploration and Production

Despite soaring demand for hydrocarbons, continuing high commodity prices and much grumbling at the local gas pump, opposition to offshore drilling remains vocal, vehement and voracious for many coastal areas.

Fortunately for the anti-drilling yet energy gorging folks, a few select southern coastal states not only allow but encourage drilling in what has become the backbone of the domestic industry: the Gulf of Mexico, aka the Old Industry Workhorse.

And the old horse is still going strong.

Written off by many as the Dead Sea not so long ago, this expansive hydrocarbon-rich region has come roaring back to life like never before. And it just keeps going and going, providing the United States with 25 percent of its gas supply and kicking out 25 percent of the total domestic oil production.

"The Gulf of Mexico has seen sustained activity for a long period of time, though admittedly with highs and lows," noted Kevin Guilbeau, senior vice president and general manager of the GOM at Dominion Exploration and Production. "Each time through history when it's been said the play in the Gulf is over, the basin has managed to regenerate itself -- mainly through new technology -- to develop new prospects.

"I think it's as healthy as ever now."

Active Participants

Dominion's offshore business unit, which is active onshore south Louisiana and both shallow and deep water, has been a player on the Gulf shelf since the 1950s (as CNG Producing Co. prior to the Dominion acquisition in 2000). The recent Central Gulf Lease Sale 194 in March is testimony to its enthusiasm for the region.

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The company's participation in the sale resulted in 25 accepted high bids, plus one other in the Eastern Lease Sale, which occurred simultaneously. The highest bid accepted on a tract in Sale 194 was \$21.1 million by Dominion and Stone Energy Corp. for West Cameron 132 in shallow water.

In fact, the MMS reported 57 percent of the tracts receiving bids were in less than 200 meters of water, indicating a continuing interest in shallow water areas, according to Chris Oynes, Gulf of Mexico Regional Director at the agency.

Standing alongside Dominion holding a total 25 accepted high bids is Focus Exploration, a low profile yet long active player in the Gulf.

"We and all our employees have worked the offshore Gulf of Mexico for 30 years," said geologist and CEO Don Crider. "We started when it was 2-D data and little well control, when deep water had no blocks leased and over the years we've worked all the areas.

"We generate all types of plays and sell to everyone in the industry," he added.

The low profile stems from the company's usual practice of selling their prospects to other companies who then bid them in their own name, Crider noted.

To date, only 6.5 percent of about 3,200 deepwater leases in the Gulf of Mexico have been drilled -- and in the next four years more than 3,600 deepwater leases are set to expire. Will the expiration dates and subsequent availability of numerous potentially



high quality leases redefine Gulf activity? Stay tuned.

Photo courtesy of Dominion Exploration and Production

More To Come?

If Dominion's planned activity is any harbinger of Gulf action overall for '05, it's shaping up to be a doozy of a year, indeed.

The company anticipates it not only will participate in about 25 total GOM wells in '05 but also will participate in the completion of as many as 22 previously drilled deepwater development wells.

Due to the larger than usual number of deepwater completions for the year, capital outlays for the Gulf may surpass the \$400-\$450 million average spent annually in the region over the last five years, according to Gullbeau.

The big reason for the current excitement over the Gulf is two-fold:

- The shelf's deep gas play.
- The deep structural play, or emerging trends play, in the deep water.

"Usually, when a company goes into a basin for the first time, they look for the really big structures," Guilbeau said. "In the Gulf, these were hidden for a long time because they were deep and partly obscured by salt.

"Industry is now starting to image these very large structures, for example, Thunder Horse, and there's been a string of discoveries in the ultra deep water the last few years," he noted. "These discoveries have occurred in the deeper Tertiary plays in the Miocene through Eocene -- and possibly as old as the Paleocene."

In fact, the MMS reported 14 new deepwater (>1,000 feet) startups and 12 new deepwater discoveries for 2004. Oynes noted this was the tenth year of sustained expansion of deepwater production.

The MMS noted that available publications and news releases indicate there have been six announced discoveries thus far for 2005 in deep water, where three known fields have begun production and an additional seven are expected to go on line before year end. There have been six discoveries announced in the newer shallow water deep gas play as well.

A Whole New World

The rush to tap into potentially huge hydrocarbon deposits in ever-deeper subsurface structures reflects the belief of many industry experts that there's a whole new Gulf under the old one -- just lying in wait for the drill bit.

Results of challenging projects such as the shallow water ExxonMobil Blackbeard well drilling for deep gas in South Timbalier 168 likely will go far to help prove this out.

The Blackbeard prospect covers multiple blocks in the South Timbalier and Ship Shoal areas offshore Louisiana. The well, which was spudded in February, will be one of the few exploration wells to penetrate the ultra-deep zone below 25,000 feet on the shelf.

Blackbeard's target depth is reported to be 32,000 feet, or even as much as 38,000 feet -- a mind-boggling seven-plus miles -- and it's predicted to take roughly a year to drill.

Don't expect any updates as it progresses, however, the operator and partners have opted to keep it a tight hole.

Blackbeard is being drilled using Rowan's Scooter Yeargain jackup rig, which is designed specifically to withstand the high pressures and temperatures of the ultra-deep environment. While a high-tech powerful rig such as this is de rigueur for a Blackbeard-type project, most any type rig is considered premium property these days.

With demand for these assemblies increasing globally both on land and water, the issue of rig availability looms large for operators most everywhere these days, particularly the challenging deepwater environment.

"The deepwater rig market has really tightened up, affecting everyone," Guilbeau noted. "And it's especially tight for rigs capable of drilling in ultra-deep water."

Deep, and Otherwise

A particularly noteworthy aspect of the GOM is that it offers operators the best of both worlds.

"The shelf contains mature plays, but because of the existing infrastructure they offer a quick turnaround for a discovery," Guilbeau noted. "You can get a discovery on production much faster than in the deep water, and this leads to quick cash flow.

"But we look to the deep water to grow our reserve base," he continued. "It's less mature, and there are larger fields to be found there."

Information gleaned from the MMS indicates there soon will be a host of opportunities opening up in the Gulf.

This relates back to the near-stampede to acquire leases during the period between 1995 and 1998. As it shakes out, many of these leases were never tested, which is a common occurrence.

In fact, it's reported only 6.5 percent of the roughly 3,200 deepwater leases assigned between 1996 and 2000 have been drilled.

Now, the lease holders are faced with lease term expirations, meaning there likely will be numerous potentially high quality leases becoming available over the next few years.

The bulk of this activity will occur from 2006 to 2007, when 2,527 deepwater leases are set to expire, according to the MMS. An additional 1,077 expirations are on tap for 2008-09.

At press time, much attention was focused on the Western Gulf Lease Sale 196, set for Aug. 17.

"We're in the middle of preparing for the Texas sale right now," said Mike Scherrer, geophysicist and president of Focus. "And we think activity in the Gulf is just going to continue to expand for a number of reasons, including increasing technology in drilling and completions.

"As we see high prices continue, a lot of prospects known about over the years that maybe at \$2 gas weren't economic, now are," he said.

Given the not-so-long-ago mass exodus of companies and personnel out of New Orleans to become a part of the vibrant energy scene in Houston, it is noteworthy that the Crescent City is once again becoming a hot spot for oil and gas as the kind-of jumping off place for the rash of activity in the Gulf.

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In fact, Guilbeau made the point that most of the top bidders in Sale 194 have a big base in New Orleans, where Dominion houses its offshore business unit.

Results of Central GOM Lease Sale

► Top Five Companies Based on Total Number of High Bids Accepted:

Company	Total High Bids	Sum of High Bids
Dominion Exploration & Production Inc.	25	\$52,300,892
Focus Exploration LLC	25	\$10,176,565
Murphy Exploration & Production Co.	22	\$27,685,175
LLOG Exploration Offshore Inc.	22	\$34,859,680
Energy Partners Ltd.	21	\$14,817,037

► Top Five Companies Based on Highest Total Bonus Accepted:

Company	Total High Bids	Sum of High Bids
Dominion Exploration & Production Inc.	25	\$52,300,892
LLOG Exploration Offshore Inc.	22	\$34,859,680
Murphy Exploration & Production Co.	22	\$27,685,175
Spinnaker Exploration Company LLC	18	\$16,145,075
Energy Partners Ltd.	21	\$14,817,037