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March 27, 2006

The Honorable Johnnie Burton
Director
Minerals Management Service
1849 C Street, NW
Washington, D.C. 20240

Dear Director Burton,

Recently, lease sale198 in the Central Gulf of Mexico generated nearly $1 billion in total bids, a 38% increase over the previous year's Central Gulf sale bid total. In addition to the overall increased interest in this sale, as the Minerals Management Service (MMS) stated in its own press release from March 15, 2006, there was an increased interest in shallow water tracts containing deep natural gas -- gas at well depths of 15,000 feet or greater. "While interest in deep water production continues, the large number of tracts receiving bids in shallow water is of particular note, indicating industry interest in deep gas in shallow waters, as well as deep water oil and gas production."

As you know, oil and gas companies are not required to pay the federal government any royalties on oil and gas produced in deep water if the price of oil and gas is below a price threshold set by MMS. Royalty relief is also given on natural gas produced from deep wells in shallow water. However, MMS has set the price cap for natural gas produced from deep wells in shallow water significantly higher than the cap for deep water natural gas production.

For the leases offered as part of lease sale 198, the estimated price cap set by MMS for the cancellation of royalty relief in 2006 on deep water natural gas production, would be $6.90/MMbtu. However, the estimated price cap for the cancellation of royalty relief on deep natural gas production in shallow water would be $9.91/MMbtu. Therefore, the estimated 2006 price cap for deep gas production in shallow water is nearly 44% higher than the price cap for deep water natural gas production. Moreover, despite current high natural gas prices, prices would still have to increase by more than 40% in order for MMS to suspend royalty relief on deep gas production from any of the leases offered as part of lease sale 198.

With high natural gas prices and oil and gas companies showing an increased interest in deep gas production, the high price cap could lead to the loss of significant revenue for the federal treasury and the American taxpayer. Therefore, I am writing to ask for more information regarding deep gas production and the price cap for royalty relief. Specifically, I am asking for the following information:

- How much natural gas is currently being produced from deep gas wells? How much of that production is currently being offered royalty relief?

- How much natural gas is estimated to be produced from deep gas wells as part of lease sale 198? How much natural gas could be still be produced from deep wells under previous leases offering royalty relief?

- What is the rationale behind offering deep gas royalty relief in addition to deep water oil and gas royalty relief?

- Why is the price threshold for the cancellation of deep gas royalty relief so much higher than the price cap for royalty relief on deep water natural gas production?

Thank you for your attention in this matter and I hope that you will consider this request with the utmost urgency.

Sincerely,

Edward J. Markey
Member of Congress