RULES PROCESSING TEAM

MAR 29 2005

VIA OVERNIGHT MAIL

Shell Exploration & Production Company
One Shell Square
P. O. Box 61933
New Orleans, LA 70161-1933
United States of America
Tel +1 504 728 6982
Fax +1 504 728 4567
Telex http://www.shell.com/eandp-en
Email peter.velez@shell.com

Department of the Interior
Minerals Management Service
Attention: Rules Processing Team (RPT)
Mail Stop 4024
381 Eldent Street
Herndon, Virginia 20170-4817

March 29, 2005

Subject: Comments on Proposed Base Rental Increase and Use of Sliding Scale Rentals in Gulf of Mexico Lease Sales – March 2, 2005 Federal Register Notice

Dear Sir or Madam:

Shell Exploration & Production Company (SEPCo) appreciates the opportunity to comment on the Minerals Management Service (MMS) proposed changes to the lease rental payment structure. SEPCo is engaged in all aspects of the offshore oil and natural gas industry, and a major owner of federal oil and gas leases in the Gulf of Mexico (GOM). As a result, we are interested in changes to the leasing payment structure that has been proposed.

Our comments address both the proposed increases to a new base level of rentals, and the proposed structure of escalating rental rates that MMS is considering for leases in water depths of 400 meters or greater.

Increase to a new base level of rental. SEPCo is not opposed to slight increases in rental rates to reflect inflationary value of money. However, we do not see the increase in rental rates as a driver for exploration and development. Royalty payments and lease bonus continues to be the major source of revenue from the OCS. The suggested new rates represent an increase that would lessen an Operator's flexibility in evaluating prospects. The Operator would be afforded less time to be able to take a systematic, in-depth review, which would promote early lease cancellations. If the leases were to be re-leased, the clock would start again and the Operator (same or different) would have to work to mature exploration prospects against others in the portfolio. It is our opinion that this would not necessarily support the MMS objectives of expediting GOM exploration activities.

Structure of escalating rental rates. SEPCo understands the reasons for proposing to raise the rentals during the later stages of the lease. However, the suggested structure appears to be burdensome from an administrative standpoint and therefore likely to be potentially fraught with a high number of reporting and accounting errors. As proposed, the annual rate changes commence at lease mid-term and are affected by time-sensitive triggers (i.e. discovery in paying quantities, start of production) that cause the rental to be either reverted or cancelled. These moving variables on multiple leases with different timelines will likely be difficult to consistently recognize. If recognized and properly acted upon, the administrative implementation will require accurate and timely communications throughout the Operator and MMS organizations. As an alternative, SEPCo recommends a one-time increase at lease mid-term rather than annual changes as proposed. The step up rate could likely be an average of the proposed rates for the second half of the lease term or as appropriately determined by the MMS.

If you care to discuss our comments, please contact me or Phil Smith at (504) 728-4252.

Kind regards
Shell Exploration & Production Company

P Smith

for: Peter K. Velez
Manager Regulatory Affairs and Incident Command