

March 29, 2005

**RULES PROCESSING TEAM**

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Department of the Interior  
Minerals Management Service  
Attn: Rules Processing Team  
381 Elden Street, MS 4024  
Herndon, VA 20170-4817

Re: Increasing Base Rentals and Sliding Scale Rentals

Gentlemen:

Kerr-McGee Oil & Gas Corporation wishes to comment on the proposal by the Minerals Management Service to increase base rentals on Gulf of Mexico oil and gas leases and to provide for a sliding scale rental increase for oil and gas leases in water depths greater than 400 meters. Kerr-McGee opposes such rental increases for the reasons cited herein and requests that MMS consider these comments in its decisions regarding these matters.

While we appreciate the increased revenue requirement in the President's FY 2006 Budget, we do not believe that increasing base rentals for both shallow and deepwater Gulf of Mexico leases offered in future Gulf of Mexico OCS Lease Sales is in the best interest of the industry or the nation. The Gulf of Mexico provides approximately 25% of the nation's oil and natural gas production and all efforts should be made to encourage exploration and development activities in the region, not increase the cost of doing business. Consideration should be given to the revenues that would be generated from leasing and subsequent development of those federal OCS areas currently subject to moratoria. The oil and gas industry has demonstrated the ability to operate safely and in an environmentally sound manner in the Gulf of Mexico and could do so in an expanded offshore arena.

Additionally, Kerr-McGee opposes the proposed sliding scale rental schedule for those Gulf of Mexico leases in water depths greater than 400 meters. Proposing to escalate the rental amount in year six of the primary term of a lease does not recognize the geologic complexity of ultra-deep targets and sub-salt structures that are the high potential exploration plays in the deepwater Gulf of Mexico. The MMS has correctly recognized this complexity for deep targets on the Gulf of Mexico shelf through the granting of suspensions of operations to allow time to complete depth imaging and other detailed geophysical products. Typically, leases acquired at an OCS Lease Sale are "leads" that require much detailed work to mature to a drillable status. Many times several blocks are required to

be leased in support of a lead (especially the large structures in ultra deep water) or agreements among several lessees have to be negotiated prior to drilling a prospect. This can be a complex and time consuming process. Increasing the base rental and then subjecting the rentals to escalation will create an undue burden on parties attempting to execute deepwater exploration programs. Also, there are few drilling rigs in the Gulf of Mexico fleet that are capable of drilling in ultra-deep waters. We would expect that rig availability could potentially further delay executing a drilling program. Given these factors, we do not believe escalating the rentals will have the desired effect of improving the timing of exploration it will only make it more costly.

MMS has requested comments on whether fewer tracts would receive bids or whether bid amounts would be affected as a result of increased rentals. It is difficult to assess the impact because there are many variables that would tend to affect these activities such as quality of the tracts being offered and the number of available tracts.

Kerr-McGee appreciates the opportunity to comment on this important matter.

Sincerely,



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