

Deep Gulf Gas Developed

A SLIGHT HELP FOR UTILITIES

BY PAM RADTKE RUSSELL

A RECORD-SETTING NATURAL GAS development with the capacity to produce up to 1 billion cubic feet a day has reversed declining production trends in the Gulf of Mexico. But the impact on natural gas markets will be short-lived as production elsewhere in the Gulf will continue to decline in 2009, analysts said.

Independence Hub, 185 miles southeast of New Orleans, in 8,000 feet of water, is a \$2 billion venture that pulled together six companies to make the development of deepwater natural gas financially feasible. Together, the companies developed subsea facilities, a platform and a pipeline to produce, process and move natural gas from 10 fields in the eastern Gulf of Mexico to shore. On their own, none of the fields would have produced enough natural gas to make developing them profitable.

"We believe that this is probably the wave of the future," said Jim Guion, project manager for Independence Hub for Enterprise Products Partners, which developed the hub for the producers. Guion said the expense of deepwater exploration and production makes it necessary for companies to work together to produce deep fields.

Enterprise and Helix Energy Solutions own the hub, while producers include Anadarko, Devon, Eni, and Hydro. Enterprise also owns the 134-mile pipeline, called Independence Trail, that moves the gas from the platform to the Tennessee Gas Pipeline, which brings the natural gas onshore in Louisiana.

The hub, the world's deepest offshore production platform and world's largest offshore natural gas processing facility, was brought up to full steam in December, producing 1 billion cubic feet of gas a day, or the equivalent of 2 percent of all the U.S. natural gas production, and 10 percent of the gas production in the Gulf of Mexico.

"It's going to be a huge increase in Gulf production, for the first time in a couple of years," said Kobi Platt, an analyst with the Energy Information Administration. "It's definitely going to affect the market."

The increase in production will probably push down natural gas prices for the rest of 2008, said David Pursell, a natural gas analyst with Tudor, Pickering and Co. in Houston.

But the fields are only expected to produce at 1 billion cubic feet for 12 to 18

months, and by next year, Gulf of Mexico production will be on the decline again, said Pursell.

"Even if Independence Hub stays fully loaded for three years, it only arrests decline elsewhere in the Gulf for the first year – the other dynamics don't change," Pursell said. Natural gas historically has been produced in the shallower Outer Continental Shelf of the Gulf. That production has dropped from about 14 billion cubic feet a day in 2001 to 8 billion cubic feet today, he said.

Platt agreed. Independence Hub is "more of a blip than a changing of the long-term supply dynamics." A spokesman with the Edison Electric Institute said the addition of natural gas from the hub wouldn't impact the natural gas market for utilities.

While there is increasing activity in the deepwater Gulf of Mexico, most of that is focused on oil because it's believed there is more oil than gas in the deepwater basin, Pursell said.

With upstream companies owning the exploration rights to more than 80 lease blocks within a 50-mile radius of the hub, Independence is well positioned to play a vital role in future natural gas production in the Gulf of Mexico.

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NewsFlash

POWER LINE PROGRESS

Minnkota Power Cooperative of Grand Forks and Otter Tail Power Co. of Fergus Falls, Minn. plan to build a \$29 million, 60-mile transmission line, according to the *Associated Press*.

The project will extend to proposed wind generation facilities in North Dakota.

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Many of those deepwater developments will produce substantial amounts of natural gas along with the oil, but nothing in the range of Independence Hub's production, he said.

Guion and others involved with Independence Hub say there is plenty of undiscovered natural gas, especially in the eastern Gulf of Mexico. Two trillion cubic feet of gas reserves have been estimated to be within a 50-mile radius of Independence Hub, he said. And several leases in the most recent Minerals Management Service offshore lease sale were within the hub's radius, he said.

"This is a very prolific gas area," Guion said. As production in the existing 10 fields declines, more wells will be brought online. After five years, Enterprise has the right to bring more producers to the hub.

He and Ray Cordova, deepwater platforms manager at

Enterprise, laughed at the continuing predictions that there's no future for natural gas in the Gulf.

Just five years ago, for instance, the Minerals Management Service couldn't have predicted that it would add an additional 10 percent to natural gas reserves as they have, he said.

"We all have our own opinions," Guion said. "But there is an awful lot of oil and gas in the Gulf."



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