

New Frontiers in the Gulf of Mexico and Beyond: Points for Policymakers to Consider

This week's news about large oil discoveries in the deep waters -- and deep geologic formations -- of the Gulf of Mexico is good for America, its economy and consumers.

The news also illustrates the benefits of energy policy that allows and encourages financially strong energy companies to make huge investment bets in testing new geoscience theories and drilling expensive exploratory wells with the hope of discovering new energy frontiers. As this week's reports show, the risks can be worth taking. And the more we explore, the more we know.

The energy policy implications of the Gulf of Mexico discoveries should be clear to policymakers:

- Exploration success can only occur where high-tech companies are allowed to conduct seismic and other geoscience evaluations over significant areas with the expectation that leases will be available for drilling where that science leads.

Energy policy should provide access to more areas that may lead to even greater natural gas and oil discoveries with potentially even more profound positive benefits for the nation.

- Exploration and production is a long-term process. The successes we have seen required years of planning and hundreds of millions of dollars of investment before the first wells were drilled, and will require more investment and more years before production begins, much less reaches its full potential.

Energy policy must provide stable fiscal and reasonable regulatory frameworks within which companies can make planning assumptions for long-term projects that will require large expenditures many years before any possibility of return.

- Exploration and production investments require financially strong, profitable companies whose shareholders are willing to put very large investments into projects that have significant risk and, if successful, have long payout periods. Strong and stable energy prices contribute to that financial strength and willingness to invest.

Energy policy must not penalize success by seeking to reduce profits or add costs by changing tax policies or royalty rates once leases are agreed-to and signed. Contract sanctity does have real meaning as the underpinning of perhaps the most successful energy investment regime in the world.