

**UNITED STATES DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE**

NTL. No. 98-5N

Effective Date: April 1, 1998

NOTICE TO LESSEES AND OPERATORS OF FEDERAL OIL AND GAS LEASES
ON THE OUTER CONTINENTAL SHELF

**Application and Audit Fees for Requests for
Royalty Relief or Adjustment Under 30 CFR Part 203**

This Notice to Lessees (NTL) replaces NTL No. 96-3N and details information on fees for royalty relief or adjustment applications and possible audits, as well as when and how you make payments to the Minerals Management Service (MMS). We will periodically update the fees to reflect changes in costs as well as provide information needed for administering the royalty relief program.

Operators on the Federal Outer Continental Shelf (OCS) who apply for reductions, suspensions, or change of royalty or net profit share on their oil and gas leases must obtain approval from the MMS (30 CFR part 203). The OCS Deep Water Royalty Relief Act (Public Law 104-58 (DWRRA)) clarified and expanded the Secretary of the Interior's authority in 43 U.S.C. 1337(a)(3) to reduce royalty rates on existing leases in order to promote development, increase production, and encourage production of marginal resources on producing or nonproducing leases. The DWRRA provision applies only to leases in water at least 200 meters deep in the Gulf of Mexico west of 87 degrees, 30 minutes west longitude.

The omnibus Appropriations Bill (PL. 104-134, 110 Stat. 13221, April 26, 1996) specifically authorized collection of fees. It provides:

That beginning in fiscal year 1996 and thereafter, fees for royalty rate relief applications shall be established (and revised as needed) in Notices to Lessees, and shall be credited to this account in the program areas performing the function, and remain available until expended for the costs of administering the royalty rate relief authorized by 43 U.S.C. 1337(a)(3).

There are six types of applications/assessment requests. Different fees apply to the various categories initially. Some applicants will be eligible for significant refunds if we reject their deepwater relief applications as incomplete within the first 20 business days after receipt. A supplemental fee will be charged if, during the review period, we either initiate an audit or identify the need for an audit. Those applicants who choose to submit a draft application for deepwater royalty relief (i.e., a nonbinding assessment request) will pay less than those submitting a complete application, because we will not perform a completeness review.

Paperwork Reduction Act Statement : Any collection of information that we mention in this NTL provides clarification, description, or interpretation of requirements contained in 30 CFR part 203. The Office of Management and Budget has approved our collection of information required by these regulations and assigned OMB Control Number 1010-0071. This NTL does not impose additional information collection requirements that would be subject to the Paperwork Reduction Act of 1995.

The following instructions do not supersede, but are supplemental to, the procedures for royalty relief to increase production and for pre-enactment deepwater leases specified in regulations at 30 CFR part 203 (63 FR 2605, dated January 16, 1998).

I. TYPES OF APPLICATIONS

Q. What types of royalty relief applications are available under the DWRRA?

A. There are five different categories:

- (1) pre-Act relief -- an initial request for a volume suspension on a deepwater lease or unit on a field that did not produce before November 28, 1995;
- (2) redetermination of royalty relief -- a request for a redetermination of our findings before start of new production if one of three changes specified in the rule occurs;
- (3) expansion project -- a request for a volume suspension on a producing deepwater lease or unit proposing development in a supplemental Development Operations Coordination Document (DOCD) approved after November 28, 1995, that will expand production significantly beyond the level anticipated in an earlier DOCD;
- (4) nonbinding assessment for pre-Act relief -- a draft request for a nonbinding assessment for a volume suspension on a deepwater lease or unit on a field that did not produce before November 25, 1995; and
- (5) abbreviated application -- a request to add a pre-Act lease to a field with an approved volume suspension.

Q. What other type of royalty relief is available under the regulations?

A. MMS provides end-of-life relief to marginal producing leases anywhere on the OCS. Royalties are halved when lessees can show they have inadequate revenues to continue production. Special case requests to adjust royalty terms to increase ultimate recovery of the resources on the lease may also be considered.

II. FEES

Q. How much do I have to pay to apply for MMS to evaluate my royalty relief request?

A. It depends on the type of application. The following table lists the application fees by category of relief:

| Fees to Cover Cost of Processing Royalty Relief Requests * | | |
|--|-------------|-----------|
| Type of Request/Audit | Request Fee | Audit Fee |
| Pre-Act relief -- No audit | \$34,000 | \$37,500 |
| Redetermination of relief finding | \$16,000 | \$37,500 |
| Expansion project | \$19,500 | \$18,750 |
| Nonbinding assessment for pre-Act relief | \$28,500 | 0 |
| Abbreviated application to add a lease to a field with an approved volume suspension | \$1,000 | 0 |
| End-of-life relief for marginal leases | \$8,000 | \$12,500 |

* MMS will periodically update these fees to reflect changes in costs for processing requests.

Q. Under what conditions do I pay a fee?

A. You must pay an application fee when you file for royalty relief or request a nonbinding assessment or royalty adjustment. You will also pay an audit fee if we notify you that we will conduct an audit during the application evaluation process or if we notify you at approval of relief that we will conduct a later audit.

Q. How do I pay an application fee?

A. You must submit the appropriate fee by an Automated Clearing House (ACH) payment to MMS for settlement on or before the day you file your application for royalty relief or your request for a nonbinding assessment. You must file your royalty relief application or your nonbinding assessment request with the MMS Regional Director of the OCS Region where the lease(s) are located. Contact the OCS Regional Office for wiring instructions.

Q. If my application is rejected, do I get a refund?

A. Ordinarily, no refund is given when we reject an application. The one exception applies to the first three categories of deepwater royalty relief listed above. If we reject these applications for incompleteness during the first 20 business days after receiving the application, then we will refund all but \$5,500 of the initial application fee. We will attempt to get any missing information from the applicants before rejecting an application as incomplete.

Q. What circumstances would trigger the need to perform an audit?

A. We may initiate an audit or identify the need to conduct an audit during the evaluation period, if we determine that additional information, clarification, or interpretation could materially affect our decision to grant royalty relief. We expect that, in most cases, audits will be completed during the evaluation period. Applications may be audited when: significant historical costs are claimed, there appear to be inconsistencies in the data, or the economic viability of the field approaches the qualification threshold.

Q. How do I pay an audit fee?

A. When we notify you that an audit will be performed, you will be sent an invoice. You must pay the invoice on or before the due date by an ACH payment to MMS.

This NTL is also on the MMS worldwide website at <http://www.mms.gov>.

Dated:

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Offshore Minerals Management

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