Leasing Activities Information

MMS U.S. Department of the Interior
Minerals Management Service
Gulf of Mexico OCS Region

Royalty Suspension Provisions
Sale 180, Western Gulf of Mexico
(August 2001)

In accordance with the new final regulations at 30 CFR 260, the following royalty suspension provisions apply to Western Gulf of Mexico Oil and Gas Lease Sale 180:

A. The following provisions apply to Royalty Suspension for Shallow Water Deep Gas Production:

1. A lease in less than 200 meters of water where the lessee drills a new deep gas reservoir (15,000 feet or greater subsea) and commences production within the first 5 years of the life of the lease (does not include lease extensions due to the granting of a suspension) will receive a royalty suspension on the first 20 billion cubic feet of its deep gas production. Deep gas is defined as any gas production from a completion with the top of perforated interval 15,000 feet or greater subsea (true vertical depth below the datum at mean sea level). The lessee must notify the Regional Supervisor, Office of Production and Development, Gulf of Mexico OCS Region, in writing upon the commencement of such deep gas production.

2. Liquid hydrocarbons (oil and condensate) which exist in liquid form at standard conditions after passing through separating facilities will be subject to royalty payments.

3. The lease will receive the royalty suspension even if the field to which MMS assigns it is producing.

4. Any volumes of deep gas production that are not normally royalty-bearing under the lease terms or regulations (e.g. fuel gas) do not count against royalty suspension volumes.

5. Production includes deep gas volumes allocated to a lease under an approved unit agreement.

6. The royalty suspension will continue through the end of the month in which cumulative production from deep gas reservoirs on the lease reaches the applicable royalty suspension volume or the lease period ends, whichever comes first.

7. The lessee must pay the rental fee at the end of each lease year during the period of royalty suspension. A rental fee is not due if the royalty payment during the lease year (for other lease production and under A.7. and A.9.) exceeds the rental amount.

8. The lessee must pay royalty on natural gas production that would otherwise receive royalty suspension under the following conditions:

   a) In any calendar year during which the arithmetic average of the closing prices for the nearby delivery month on the NYMEX for natural gas exceeds $5.00 per million British thermal units (threshold gas price).

   b) This threshold price for natural gas represents an annual average for 2000 and must be adjusted for subsequent calendar years by the percentage by which the implicit price deflator for the gross domestic product has changed. For instance, suppose the computation for the deflator for 2001, which is made in the spring of 2002, indicates that inflation was 3% in 2001. Then the threshold prices in calendar year 2001 would become $5.15 per million British thermal units for natural gas. Royalty on all natural gas production in calendar year 2001 would be due if the 2001 average NYMEX natural gas price (in A.8.a) above) exceeded $5.15 per million British thermal units.

   c) MMS will provide notice when this price threshold is exceeded. Also, information on price thresholds is available at the MMS website (www.mms.gov/econ).

   d) Production under this paragraph counts toward the royalty suspension volume.

   e) The lessee must pay the royalty due under this paragraph plus late payment interest by March 31 of the following calendar year.

9. There are no circumstances under which a single lease could receive a royalty suspension both for deep gas production and for deepwater production.

B. The following provisions apply to Deepwater Royalty Suspension. In addition, these provisions refer to the Deepwater Royalty Relief Act (DWRRA) (Public Law 104-58)

1. A lease in water depths 800 meters or deeper will receive a royalty suspension as follows:

800 meters to 1599 meters:	9 million barrels of oil equivalent (BOE – see B.10. below)
1600 meters and deeper:	12 million BOE

2. The lease will receive the royalty suspension even if the field to which MMS assigns it is producing.

3. Any volumes of production that are not normally royalty-bearing under the lease terms or regulations (e.g. fuel gas) do not count against royalty suspension volumes.

4. Production includes volumes allocated to a lease under an approved unit agreement.

5. No other leases in the field to which the lease is assigned will share in this lease's royalty suspension volume.

6. The royalty suspension will continue through the end of the month in which cumulative production from the lease reaches the applicable royalty suspension volume or the lease period ends, whichever comes first.

7. The lessee must pay the rental fee at the end of each lease year during the period of royalty suspension. A rental fee is not due if the royalty payment during the lease year (under B.6. and B.11.) exceeds the rental amount.

8. If MMS establishes a royalty suspension volume for the field to which a lease from this sale is assigned, then:

   a) Royalty-free production from the lease counts as part of any royalty suspension volume remaining for the field.

   b) The lease may continue to produce royalty-free up to its specified royalty suspension volume even if all of the field's specified royalty suspension volume has been produced.

   c) The lease may share in a field suspension volume larger than the lease's own specified royalty suspension volume if the larger field volume is granted in response to an application by a pre-Act lease submitted under 30 CFR part 203. To share in any larger royalty suspension volume, the lessee must file a "short-form" application pursuant to 30 CFR part 203.71 and 83.

   d) The lease may not share in a field suspension volume larger than the lease's own specified royalty suspension volume if the larger field volume is the result of production starting from one or more eligible leases receiving an automatic field suspension volume resulting from the DWRRA of 1995.

   e) Except under B.11., royalty-free production for a lease from this sale will not be less than the royalty suspension volume specified for the lease, even if the field to which the lease is assigned produced prior to November 28, 1995.

9. The lessee may also apply for a supplemental royalty suspension volume for a project under 30 CFR part 203. The lessee should consult the MMS proposed rule on the discretionary royalty relief program, published in the Federal Register on November 16, 2000, at 65 FR 69259.

10. Natural gas production subject to the royalty suspension volume for the lease is measured according to 30 CFR 250, subpart L, which is 5.62 thousand cubic feet of natural gas equals one barrel of oil equivalent.

11. The lessee must pay royalty on production that would otherwise receive royalty suspension under the following conditions:

    a) Oil royalty is due in any calendar year during which the arithmetic average of the closing prices for the nearby delivery month on the New York Mercantile Exchange (NYMEX) for light sweet crude oil exceeds $28.00 per barrel (threshold oil price).

    b) Gas royalty is due in any calendar year during which the arithmetic average of the closing prices for the nearby delivery month on the NYMEX for natural gas exceeds $3.50 per million British thermal units (threshold gas price).

    c) These threshold prices for oil and natural gas represent an annual average for 2000 and must be adjusted for subsequent calendar years by the percentage by which the implicit price deflator for the gross domestic product has changed. For instance, suppose the computation for the deflator for 2001, which is finalized in the spring of 2002, indicates that inflation was 3% in 2001. Then the threshold prices in calendar year 2001 would become $28.84 per barrel for oil and $3.605 per million British thermal units for natural gas. Royalty on all oil production in calendar year 2001 would be due if the 2001 average NYMEX oil price (in B.11.a) above) exceeded $28.84 per barrel. Royalty on all natural gas production in calendar year 2001 would be due if the 2001 average NYMEX natural gas price (in B.11.b) above) exceeded $3.605 per million British thermal units.

    d) MMS will provide notice when price thresholds are exceeded. Also, information on price thresholds is available at the MMS website (www.mms.gov/econ).

    e) Production under this paragraph counts toward the royalty suspension volume.

    f) The lessee must pay the royalty due under this paragraph plus late payment interest by March 31 of the following calendar year.

    g) The lessee must pay royalty in the following calendar year on the product whose average price exceeded the threshold in the previous calendar year. If average prices in the following calendar year fall below the threshold for that calendar year, the lessee will receive a refund of royalties paid plus interest for that calendar year.

12. Regarding MMS assignment of a lease from this sale to a field that is eligible for royalty relief based on a pre-November 2000 lease:

a) MMS will assign the lease that has a qualifying well (under 30 CFR 250, subpart A) to an existing field or designate a new field and will notify the lessee and any other lessees in the field of that assignment.

b) Within 15 days of the final notification, any affected lessees may file a written request with the MMS Director for reconsideration, accompanied by a Statement of Reasons.

c) The MMS Director will respond in writing either affirming or reversing the assignment decision. The MMS Director's decision is final for DOI and is not subject to appeal to the Interior Board of Land Appeals under 30 CFR part 290 and 43 CFR part 4.

13. There are no circumstances under which a single lease could receive a royalty suspension both for deep gas production and for deepwater production.