



## NEWS RELEASE

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NEWS MEDIA CONTACT  
Caryl Fagot, 504/736-2590  
Eileen Angelico, 504/736-2595

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### **New Provisions Proposed for Western Gulf Sale**

#### *MMS Issues Proposed Notice of Western Gulf Lease Sale 204*

**NEW ORLEANS** – The Minerals Management Service has proposed several changes for the first lease sale scheduled in its 2007 – 2012 Outer Continental Shelf Oil and Gas Leasing Program. Western Gulf of Mexico (GOM) Lease Sale 204 is scheduled for August 22, 2007. The Proposed Notice of Sale was published in today's [Federal Register](#).

The proposed lease sale encompasses about 3,400 unleased blocks covering approximately 18 million acres in the Western GOM Outer Continental Shelf (OCS) Planning Area offshore Texas. The blocks are located from 9 to about 210 miles offshore in water depths of 4 meters to more than 3,425 meters. MMS estimates the proposed lease sale could result in the production of 242 to 423 million barrels of oil and 1.64 to 2.64 trillion cubic feet of natural gas.

Recently revised provisions proposed in this lease sale include the following:

*Ultra-deep Drilling Lease Term Extension* – A 5-year initial term for a lease issued from this sale may be extended to 8 years if a well targeting hydrocarbons below 25,000 feet true vertical depth subsea (TVD SS) is spudded within the initial 5 year term and this well is located on the lease or in an approved unit including the lease when the well is spudded. The 3-year extension will be granted whether or not the well reaches the permitted total depth or discovers hydrocarbons. Also, escalating rental rates may be applicable in the 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup> year for leases with this approved extension of the initial 5 year period.

*New Administrative Planning Area Boundary Lines* – The Gulf of Mexico Administrative Planning Area boundaries have been reconfigured. These boundary changes were first announced in the Draft Proposed Oil and Gas Leasing Program for 2007-2012 (February 2006), and this is the first Gulf of Mexico sale based thereon. The MMS plans to publish new official leasing maps and protraction diagrams before the Final Notice of Sale 204 that will include the newly-defined administrative planning area boundaries implemented in this sale. These boundaries are generally depicted on the "Lease Terms and Economic Conditions" and "Stipulations and Deferred Blocks" maps that are available from the MMS Website or from the MMS Gulf of Mexico Regional Office, Public Information Unit.

*Deepwater Royalty Rate Increase* – The royalty rate increased from 12 1/2 percent to 16 2/3 percent for new deepwater federal oil and gas leases offshore in the Gulf of Mexico.

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*Possible Royalty Relief Changes* – Potential bidders are advised about possible changes in royalty relief provisions that are included in this proposed notice of sale. The House of Representatives has passed a bill (H.R. 6) that would repeal Sections 344 and 345 of the Energy Policy Act of 2005 (EPAAct05), 42 U.S.C. 15904 and 15905. Also, the President, in the Department of the Interior's Fiscal Year 2008 Budget, proposes to repeal Sections 344 and 345 EPAAct05. Though it is unlikely that the Fiscal Year 2008 Budget will be enacted before we issue a final notice for this Sale, the Congress could adopt and the President sign a bill with repeal of either or both of these two sections before we issue the FNOS 204. Should section 344 be repealed on or before July 1, 2007, MMS intends to offer leases for sale with no deep gas royalty suspension volumes in their lease terms. This means that deep gas wells on leases located in 0 to entirely less than 200 meters of water would not get royalty relief terms of 15 or 25 Bcf depending on drilling depth, deep gas wells in 200 to 400 meters of water would get no royalty relief terms, and ultra-deep wells in 0 to 400 meters of water would not get royalty relief terms of at least 35 Bcf. Only leases located partly but not entirely in less than 200 meters would receive deep gas royalty relief as specified in our current regulations as long as they produce before May 3, 2009. Should section 345 be repealed on or before July 1, 2007, MMS intends to offer leases for sale with no deepwater royalty relief in their lease terms. This means that no deep water leases would be eligible for royalty relief simply by virtue of being located in deep water. Absent repeal, section 344 of EPAAct05 extends existing deep gas incentives in two ways. First, it mandates an royalty suspension volume (RSV) of at least 35 billion cubic feet (Bcf) of natural gas for certain wells completed in a third drilling depth category (greater than 20,000 feet subsea) for leases in 0-400 meters of water. Second, section 344 directed that the same incentives prescribed in MMS' 2004 rule for wells completed between 15,000 feet and 20,000 feet TVD SS on leases in 0-200 meters of water be applied to leases in 200-400 meters of water. Section 345 of the EPAAct05 directed continuation of the MMS deepwater incentive program utilized since 2001 in the Gulf of Mexico for leases issued between August 8, 2005, and August 8, 2010, and provides for an increase in royalty suspension volume from the MMS rule-specified 12 MMBOE to 16 MMBOE for leases in water depths greater than 2000 meters.

The Proposed Notice of Sale will be posted on the MMS Website at <http://www.gomr.mms.gov>. In addition, copies of the document are available from the MMS Gulf of Mexico Regional Office, Public Information Unit, 1201 Elmwood Park Boulevard, New Orleans, Louisiana 70123. Telephone (504) 736-2519, toll free 1-800-200-GULF.

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