

Setting the Record Straight

Threshold Omissions Generate Concerns

In 1995, the Outer Continental Shelf Deep Water Royalty Relief Act (DWRRA) was passed and signed into law to promote exploration and production of oil and natural gas in deep waters. In general terms, the DWRRA allows companies to produce energy resources royalty-free until they produce a certain amount (volume suspension) or until the price of oil or natural gas rises to a certain level (price threshold). At that point, the payment of royalties commences.

- Leases signed during the previous administration in 1998 and 1999 omitted these price thresholds resulting in concerns about revenues that have not been collected to date, approximately \$950 million as of Sept. 30, 2006.
- During this administration, price thresholds have been included in all deep water leases issued.
- Six companies (BP, ConocoPhillips, Marathon Oil Company, Shell, Walter Oil and Gas Corporation, and Walter Hydrocarbons Inc.) have voluntarily signed amendments obligating them to pay royalties from Oct. 1, 2006 forward, on production from leases issued in 1998 and 1999.
- The six companies represent 20 percent of the 1998 – 1999 leases with discoveries and 23 percent of recent production from 1998 – 1999 deepwater leases.
- The amendments contain a standard contract provision that ensures companies will all receive the same contract terms, regardless of when they sign.
- The agreements contain a provision preserving Congress's authority to act with regard to the 1998-99 leases.
- MMS is continuing to work with various oil and natural gas companies to address the financial impact of these missing thresholds.