Current Assumptions for Royalty Relief Evaluations
Effective August 1, 2011

Introduction –Applicants for deepwater royalty relief for leases sold prior to late 1995 use a cash-flow model called RSVP. Until May 1, 1999, the economic parameters for this model were published by the Gulf of Mexico Region of BOEMRE (formerly MMS) in the form of a Notice to Lessees (NTL). However, NTL 99-G06 (May 1, 1999) established a regular quarterly schedule to address necessary changes to these prices and to publish updates over the internet, without issuing a new NTL. The planned quarterly schedule for updating is around February 1, May 1, August 1, and November 1.

How to use this update of economic parameters –You should first download or obtain the version of RSVP named in the table below. The model as you receive it will contain price inputs that may be out-of-date. It is your responsibility to inspect the model's "Viability Module, Oil Price Inputs and Gas Price Inputs" and to revise cell entries, including associated Crystal Ball input windows, replacing out-of-date values by the updated values.

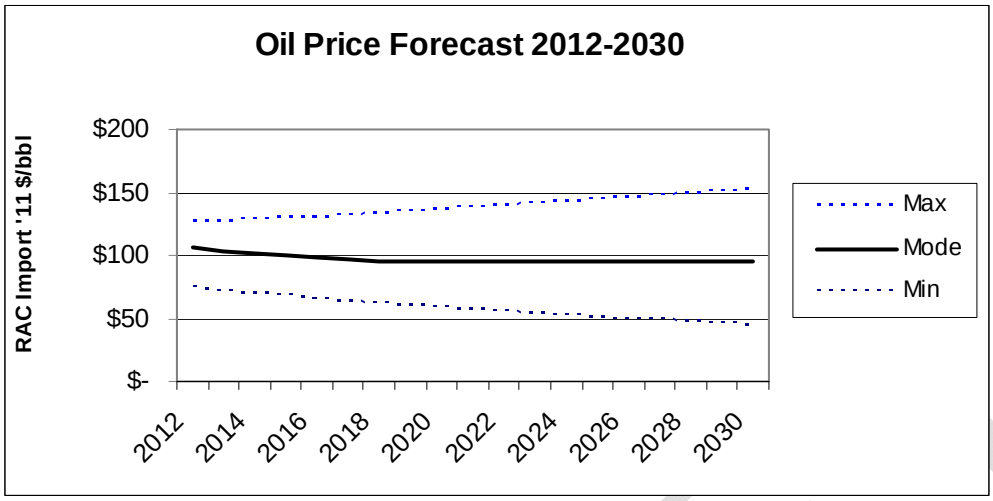
Overview of this update – For this update, the starting prices are set for 2012. If your application includes production in 2011, please contact us for the prices to use.

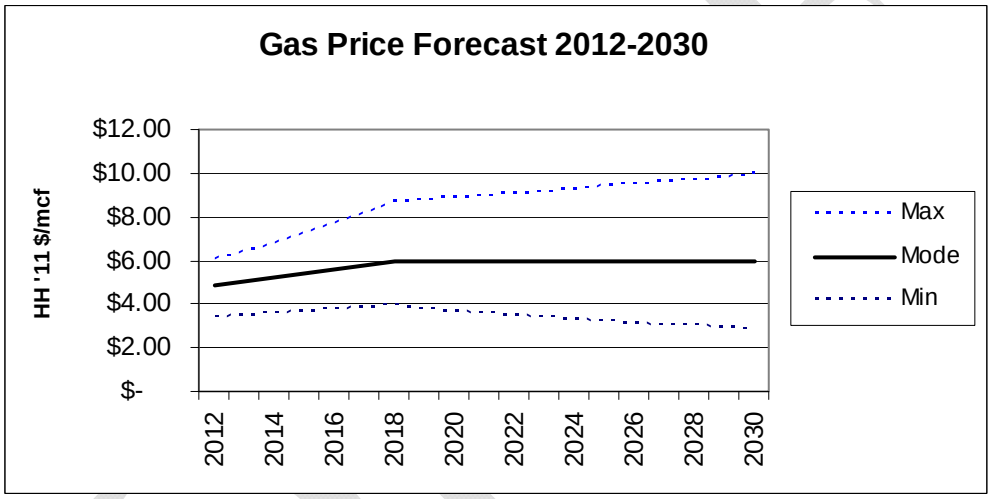
The most likely prices in year 2012 are based on the Energy Information Agency's (EIA) forecasts, published in the most recent *Short-term Energy Outlook,* and discounted to 2011 dollars using EIA's *Annual Energy Outlook.* The most likely long-term forecasts are based on OMB's latest set of economic assumptions. Oil prices are in terms of refiner's acquisition cost for imported oil. For natural gas prices, we use the Henry Hub spot gas prices in terms of $/Mcf. As gas and oil prices are on a "landed" basis, you deduct from them any allowable transportation costs to infer your wellhead prices.

Updated table of parameters -- The entire table of parameters including the updates is:

Parameter	*Minimum*	*Most Likely*	*Maximum*	*Dependency*
Version of RSVP		2.14		
Year of Initial Oil Price		2012		
Initial Oil Price, landed (2011 $/bbl)	$73.96	$105.66	$126.79	
Real Oil Price Growth Rate 1	-3.00%	-1.79%	0.76%	
Year Second Oil Scenario Starts	2nd rates are first applied to infer 2019 price from 2018			
Real Oil Price Growth Rate 2	-2.63%	0.00%	1.18%	
Year Third Oil Scenario Starts		NA		
Real Oil Price Growth Rate 3	NA	NA	NA	
Year of Initial Gas Price		2012		
Initial Gas Price, landed (2011 $/Mcf)	$3.38	$4.84	$6.04	+1 with Oil Start Price
Real Gas Price Growth Rate 1	2.37%	3.64%	6.23%	+1 with Oil Growth Rate 1
Year Second Gas Scenario Starts	2nd rates are first applied to infer 2019 price from 2018			
Real Gas Price Growth Rate 2	-2.63%	0.00%	1.14%	+1 with Oil Growth Rate 2
Year Third Gas Scenario Starts		NA		
Real Gas Price Growth Rate 3	NA	NA	NA	
Federal Income Tax Rate		35%		
Base Year for Discounted Cash Flow		Application date year		
Discount Rate Range	10%		15%	
Random Number Seed		104		
Overhead Cost Allowance		5%		

Notes: NA means there is no 3rd growth scenario.





Contact – Questions may be directed to Marshall Rose at the Economics Division in Herndon, VA, 703-787-1536.