Royalty Suspension Provisions
Beaufort Sea Oil and Gas Lease Sale 186
(Proposed Notice of Sale)

In accordance with applicable regulations at 30 CFR 260, the following royalty suspension provisions apply to Beaufort Sea Oil and Gas Lease Sale 186. The zones in which blocks are located can be found in the list and map included in the Proposed Notice of Sale package that is available from the MMS Alaska Region office.

These Royalty Suspension Provisions apply to Oil Production. In addition, refer to 30 CFR 218.151 and applicable parts of 260.120-260.124 for regulations on royalty suspensions and rental obligations that will apply to your lease.

1. A lease in the Beaufort Sea, depending on surface area and zone, will receive a royalty suspension volume (RSV) as follows:

Hectares	Zone A Million Barrels RSV	Zone B Million Barrels RSV
770 or less	10	15
771-1540	20	30
1541 or above	30	45

2. The RSV only applies to liquid hydrocarbon production, i.e., oil and condensates. Natural gas volumes that leave the lease are subject to original lease-specified royalties. The market value of natural gas will be determined by MMS's Minerals Revenue Management (MRM) office. MRM will value the natural gas from Sale 186 based on its potential uses and applicable market characteristics at the time the gas is produced.

3. The lessee must pay royalty on production that would otherwise receive royalty suspension from automatic relief (in 30 CFR 260) and such production will count towards the royalty suspension volume, in any calendar year during which the arithmetic average of the daily closing prices for the nearby delivery month on the New York Mercantile Exchange (NYMEX) for oil exceeds the adjusted product price threshold.

a) The base level price threshold for light sweet crude oil is set at $28.00 per barrel in 1994. The adjusted oil price threshold in any subsequent calendar year is computed by changing the base price by the percentage by which the implicit price deflator for the gross domestic product has changed.

b) As an example, suppose the computation for the deflator from 1994 through 2003 indicates that inflation totaled 15%. Then the adjusted price threshold in calendar year 2003 would become $32.20 per barrel for oil. Royalty on all oil production in calendar year 2003 would be due if the 2003 average NYMEX oil price exceeded $32.20 per barrel.

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

d) In cases where the actual average price for the product exceeds the adjusted price threshold in any calendar year, royalties must be paid in the following calendar year. (See 30 CFR 260.122 (c) for more detail.)

4. A fixed oil price floor applies, below which production would be produced both royalty-free and would not count against the RSV. As long as aggregate production of oil (and condensate) is less than the original lease-specified RSV, if the arithmetic average of the daily closing oil prices for the specified time period is below the price floor, then any oil produced during that time period would be royalty-free and would not be subtracted from the lease's remaining RSV. If the arithmetic average of the daily closing oil prices is below the floor price prior to production or after the original RSV is used up, the lessee receives no additional royalty-free production.

    a) The price floor for light sweet crude oil is set at a fixed $18.00 per barrel with no adjustment for inflation. The comparison with the price floor is based on the arithmetic average of the daily closing prices for the nearby delivery month on the New York Mercantile Exchange (NYMEX) for light sweet crude oil for a quarter of a calendar year with no adjustments for inflation. The calendar year quarters are January-March, April-June, July-September, and October-December.

    b) MMS will provide notice when the average NYMEX quarterly oil price is below $18.00 per barrel. Also, information on the oil price floor will be available at the MMS website (www.mms.gov/econ).

5. The price ceiling and floor provisions in items 3 and 4 above expire when aggregate production of oil (and condensate) reaches the lease's original RSV amount.

6. For purposes of the RSV, a lease that is part of an approved unit agreement can only apply allocated production from the unit against the lease's RSV if that lease has a qualifying well, as defined in 30 CFR 250.115.