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Innovation 4:

MMS SIMPLIFIES ROYALTY RELIEF GUIDELINES

The U.S. Department of the Interior's Minerals Management Service (MMS) announced today that it is issuing interim guidelines that streamline and simplify the royalty relief application process for producers operating Outer Continental Shelf (OCS) leases with revenues that are inadequate to sustain continued production.

Culminating a two-year effort, the new guidelines enable a producer to compute royalties due the government using a formula based on a fixed percentage of net receipts, rather than gross receipts. In this way the producer can take into account increased costs of production, processing and transportation on older leases.

"The guidelines are fair to business and government, and good for the environment," said MMS Director Cynthia Quarterman. "It gives industry a straightforward set of guidelines when applying for royalty relief on marginally producing wells and provides the economic incentive to ensure continued production on older oil and gas leases and sustain profitability. By extending production on older leases, we maintain the stream of royalties to the federal government.

"From an environmental standpoint, it promotes the recovery of oil and gas resources that otherwise may be left in the ground when a lease is relinquished, and by any definition, that's practicing good conservation," Quarterman declared.

"I am expecially pleased that industry and government worked together to define the problems and come up with a new set of guidelines that will make it easier to administer the program. These guidelines will replace the current case-by-case approach and thereby add certainty to our procedures."

"MMS wants to extend the productive life of operating leases on the OCS, and is responding to industry's interest in a procedure that is simple, flexible and easy to understand. It's also easy to apply for and administer," Quarterman said.

The objectives of the pilot are to:

- encourage additional production from continuing operations or new investments in producing leases;

- ensure that any modified arrangement is equitable for both the producer and the federal treasury and does not encourage economically inefficient activities;

- clarify and streamline the current process for considering royalty relief on existing leases;

- develop a program that can be implemented under current MMS staffing constraints and regulations; and,

- limit administrative burdens on companies filing applications for and managing affected leases.

According to Quarterman, if operating costs change substantially, the lessee may reapply to have the royalty formula adjusted to assure that both the operator and the government are treated equitably.

The guidelines are being issued as "interim" since changes may be required as the regulatory process proceeds and as the program is evaluated.

MMS also announced today that it is moving forward to implement provisions of the law signed November 28, granting royalty relief for deepwater tracts in the Gulf of Mexico. The new law requires MMS to issue regulations within 180 days. The agency has begun to develop those regulations and will soon announce the schedule for completing this effort. Once these rules are completed, operators with leases in deepwater areas of the Gulf would become eligible to apply for relief. In addition, upcoming lease sales in the Gulf will contain the statutory provisions for this relief beginning with the next Central Gulf of Mexico lease sale tentatively scheduled for April 1996.

MMS is the federal agency that manages the Nation's natural gas, oil and other mineral resources on the Outer Continental Shelf, and collects, accounts for, and disburses about $4 billion yearly in revenues from mineral leases on federal and Indian lands.

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