FOR RELEASE: January 31, 1996 CONTACT: Tom DeRocco (202) 208-3983 Barney Congdon (504) 736-2595 MMS PUBLISHES FINAL RULE FOR BIDDING ON OUTER CONTINENTAL SHELF LEASES The Department of the Interior's Minerals Management Service (MMS) today announced publication of a final rule governing bidding for Outer Continental Shelf (OCS) natural gas and oil leases. The final rule allows MMS to modify the bidding systems used on offshore tracts offered for lease under the OCS Lands Act (OCSLA), and gives the Secretary of the Interior more flexibility in setting the terms of a lease sale. The final rule will be published in the February 2,1996 Federal Register. Under the provisions of the final rule, the Secretary may: (1) set the minimum prescribed royalty rate charged on federal offshore leases below 12« percent but greater than zero percent; (2) permit operating allowances when computing payment obligations under the lease; (3) suspend or defer royalty for a specific time period, volume, or value of production; and, (4) expand the methods for calculating royalty rates under variable royalty systems to include product prices, as well as value and amount of production, with the ability to use different formulas across time periods. This rule does not affect existing leases. "This final rule is the result of an extensive review of alternative leasing policies conducted within MMS with input from industry and other stakeholders," said MMS Director Cynthia Quarterman. "It enables MMS to set royalty terms at the time of sale for new offshore leases that will adjust automatically to changing market conditions in the oil and gas industry as lease exploration, development, and production proceed." According to Quarterman, implementation is expected to: * increase competition for new federal offshore leases; * ensure receipt of fair market value; and, * increase the likelihood that new leases will be explored and developed. Quarterman said the new royalty terms will be considered in the leasing of specific types of tracts. As examples, she cited: * tracts which can be identified before a sale containing potential oil and gas resources in reservoirs located below tabular salt formations; * tracts with qualifying wells that have uneconomic reserves; or, * tracts that previously received high bonus bids but were not explored. While MMS was developing this rule, Congress enacted the Outer Continental Shelf Deep Water Royalty Relief Act, which amended the OCSLA to add a new section which defines a new bidding system. That new bidding system prescribes a cash bonus bid with a royalty of no less than 12« percent and provides for a suspension of royalties for a period, volume, or value of production determined by the Secretary. Those suspensions may vary based on the price of production from the lease. Any lease sale held before November 28, 2000, must use the new bidding system for all tracts located in water depths of 200 meters or more in the Western and Central Gulf of Mexico Planning Areas, including a western portion of the Eastern Gulf of Mexico Planning Area. This rule, which goes into effect March 3, 1996, allows MMS to implement the new bidding system. MMS is the federal agency that manages the Nation's natural gas, oil and other mineral resources on the OCS, and collects, accounts for and disburses about $4 billion yearly in revenues from offshore federal mineral leases and from onshore mineral leases on federal and Indian lands. -MMS-