**U.S. Department of the Interior**
**Minerals Management Service**
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# MMS ISSUES SECOND INTERIM RULE FOR ROYALTY RELIEF FOR DEEPWATER LEASES IN THE GULF OF MEXICO

The U.S. Department of the Interior's Minerals Management Service (MMS) published in the May 31, 1996, Federal Register, an interim rule that establishes conditions for granting suspensions of royalty payments for volumes of natural gas and oil produced on certain deep-water Gulf of Mexico (GOM) leases. The rule also sets out the terms for granting royalty relief on producing leases in all Outer Continental Shelf (OCS) areas through their conversion to Net Revenue Share (NRS) leases.

The deep-water portion of the rule implements the provisions of the OCS Deep Water Royalty Relief Act for leases issued prior to November 28, 1995 (i.e., the date of the Deep Water Royalty Relief Act enactment). Under the interim rule, MMS will apply royalty suspension volumes to fields in the Central and Western GOM planning areas that would not be economic to produce without royalty relief. Fields that did not produce before November 28, 1995, and that meet the MMS economic determinations may receive royalty suspension volumes of at least: o 17.5 million barrels of oil equivalent (mmboe) in 200 to 400 meters of water; o 52.5 mmboe in 400 to 800 meters of water; and, o 87.5 mmboe in more than 800 meters of water.

"The high level of interest in deep-water development in the Gulf of Mexico will likely help slow the trend of declining domestic production and rising oil imports, plus provide important economic benefits to the region and the entire nation," said MMS Director Cynthia Quarterman. "The royalty relief available under this rule will add even greater momentum to industry's efforts to find and produce the deep-water resources needed for the growing U.S. economy. We invite comments on this interim rule to assist us in preparing the subsequent final rule."

Projects that will significantly expand production on deep-water fields that started production before or after November 28, 1995, may also receive royalty suspension volumes if they meet similar economic determinations.

Earlier, on March 25, 1996, MMS issued an interim rule establishing royalty suspension volumes for new eligible leases (i.e., deep-water leases issued as a result of sales held after November 28, 1995). The royalty relief offered had a significant impact on Central GOM Sale 157, held on April 24, 1996, at which MMS received a record 1,381 bids on 924 tracts, including 471 bids on tracts in water depths of 200 meters or more.

MMS is the federal agency that manages and regulates 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.

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