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# ***Leasing Activities Information***



U.S. Department of the Interior  
Minerals Management Service  
Gulf of Mexico OCS Region

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## **Royalty Suspension Provisions Oil and Gas Lease Sale 184, Western Gulf of Mexico August 2002**

In accordance with regulations at 30 CFR 260, the following royalty suspension provisions apply to Western Gulf of Mexico Sale 184:

### **A. The following provisions apply to Royalty Suspension for Shallow Water Deep Gas Production:**

1. A lease in less than 200 meters of water where the lessee drills a new deep gas reservoir (15,000 feet or greater subsea) and commences production within 5 years from lease issuance, i.e., not extended by lease suspension, will receive a royalty suspension on the first 20 billion cubic feet of its deep gas production. Deep gas is defined as any gas production from a completion with the top of perforated interval 15,000 feet or greater subsea (true vertical depth below the datum at mean sea level). The lessee must notify the Regional Supervisor, Office of Production and Development, Gulf of Mexico OCS Region, in writing upon the commencement of such deep gas production. Only one royalty suspension volume is available per lease.
2. Liquid hydrocarbons (oil and condensate) which exist in liquid form at standard conditions after passing through separating facilities will be subject to royalty payments.
3. The lease will not receive the royalty suspension for a well drilled into a deep gas reservoir that has produced on any current lease.
4. Any volumes of deep gas production that are not normally royalty-bearing under the lease terms or regulations (e.g. fuel gas) do not count against royalty suspension volumes.
5. Production includes deep gas volumes allocated to a lease under an approved unit agreement.
6. The royalty suspension will continue through the end of the month in which cumulative production from deep gas reservoirs on the lease reaches the applicable royalty suspension volume or until the lease becomes expired, relinquished, or terminated, whichever comes first.

7. The lessee must pay the rental fee at the end of each lease year during the period of royalty suspension. A rental fee is not due if the royalty payment during the lease year (for other lease production and under A.6. and A.8.) exceeds the rental amount.
8. The lessee must pay royalty on natural gas production that would otherwise receive royalty suspension, and such production will count towards the royalty suspension volume, in any calendar year during which the arithmetic average of the closing prices for the nearby delivery month on the NYMEX for natural gas exceeds the adjusted gas price threshold.
  - a) The base level price threshold for natural gas is set at \$5.00 per million British thermal units (MMBTU) in 2000. The adjusted gas 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 indicates that inflation was 3% in 2001 and 4% in 2002. Then the adjusted price threshold per MMBTU would become \$5.15 in 2001 and \$5.36 in 2002 for natural gas. Royalty on all natural gas production in calendar year 2002 would be due if the 2002 average NYMEX natural gas price exceeded \$5.36 per MMBTU.
  - c) MMS will provide notice when this adjusted price threshold is exceeded. Also, information on price thresholds is available at the MMS website ([www.mms.gov/econ](http://www.mms.gov/econ)).
  - d) The lessee must pay the royalty due under this paragraph plus late payment interest by March 31 of the following calendar year.
9. There are no circumstances under which a single lease could receive a royalty suspension both for deep gas production and for deepwater production.

**B. The following provisions apply to Deepwater Royalty Suspension. In addition, to these provisions, refer to 30 CFR 218.151 and 260.120-260.124 for regulations on how royalty suspensions relate to field assignment, product types, rental obligations, and supplemental royalty relief.**

1. A lease in water depths 400 meters or deeper will receive a royalty suspension as follows:

400 meters to 799 meters:	5 million barrels of oil equivalent (BOE)
800 meters to 1599 meters:	9 million BOE
1600 meters and deeper:	12 million BOE

2. The lessee must pay royalty on production that would otherwise receive royalty suspension from automatic relief (in 30 CFR 260) or supplemental relief (in the Federal Register at 67 FR 1862), and such production will count towards the royalty suspension volume, in any calendar year during which the arithmetic average of the closing prices for the nearby delivery month on the New York Mercantile Exchange (NYMEX) for the applicable product 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) The base level price threshold for natural gas is set at \$3.50 per million British thermal units (MMBTU) in 1994. The adjusted gas 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.
  - c) As an example, suppose the computation for the deflator from 1994 through 2002 indicates that inflation totaled 17%. Then the adjusted price thresholds in calendar year 2002 would become \$32.76 per barrel for oil and \$4.10 per MMBTU for natural gas. Royalty on all oil production in calendar year 2002 would be due if the 2002 average NYMEX oil price exceeded \$32.76 per barrel. Royalty on all natural gas production in calendar year 2002 would be due if the 2002 average NYMEX natural gas price exceeded \$4.10 per MMBTU.
  - d) 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](http://www.mms.gov/econ)).
  - e) 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.)
3. There are no circumstances under which a single lease could receive a royalty suspension both for deep gas production and for deepwater production.