Royalty Suspension Provisions
Central Gulf of Mexico Oil and Gas Lease Sale 198
Final Notice of Sale

In accordance with applicable regulations at 30 CFR 260, the following royalty suspension provisions apply to Central GOM Oil and Gas Lease Sale 198:

A. The following Royalty Suspension Provisions apply to qualifying deep wells on the shelf (leases at least partly in water depth up to 200 meters):

Such wells require a perforated interval the top of which is from 15,000 to less than 20,000 feet TVD SS. Suspension volumes, conditions, and requirements prescribed in 30 CFR 203.41 through 203.47 (effective May 3, 2004), published at 69 FR 3492 through 3514 on January 26, 2004, with technical amendments published at 69 FR 24052 through 24055 and a correction published at 69 FR 25499 through 25500, and a final rule with technical amendments published April 29, 2005 at 70 FR 22250 through 22252, apply to shallow water deep gas production from a lease issued as a result of this sale. Definitions that apply to this category of royalty relief can be found in 30 CFR 203.0. To receive this category of royalty relief, production from a qualified well or drilling of a certified unsuccessful well must commence before May 3, 2009. The MMS issued two Notices to Lessees (NTLs) on relevant aspects of shallow water deep gas royalty suspensions: NTL No. 2004-G11, "Clarification of Deep Gas Royalty Relief Regulation Regarding Natural Gas Liquids and Pipeline (Retrograde) Condensate," effective May 3, 2004, and NTL No. 2004-G12, "Clarification of Deep Gas Royalty Suspension Provision in Lease Instrument Relating to Sidetrack Completions," effective June 21, 2004.

B. The Energy Policy Act of 2005 Royalty Suspension Provisions will apply to qualifying deep wells on the slope (leases entirely in water depth more than 200 but less than 400 meters):

Such wells require a perforated interval the top of which is from 15,000 to less than 20,000 feet TVD SS. The Energy Policy Act of 2005 requires the Secretary to issue regulations granting suspension volumes to slope (leases entirely in water depth more than 200 but less than 400 meters) leases that will be calculated using the same methodology as is currently employed for shelf leases (leases at least partly in water depth up to 200 meters). This methodology is codified in regulations cited above in Paragraph A of this document. Deep wells on slope leases (leases entirely in water depth more than 200 but less than 400 meters) issued in Sale 198 will be subject to the rulemaking under the Energy Policy Act of 2005.

C. <u>The Energy Policy Act of 2005 provides for Royalty Suspension Provisions to qualifying ultra deep wells on leases entirely in water depth less than 400 meters:</u>

Ultra deep wells on both the shelf (leases at least partly in water depth up to 200 meters) and slope (leases entirely in water depth more than 200 but less than 400 meters) for leases issued in Sale 198 will be subject to the rulemaking under the Energy Policy Act of 2005.

D. <u>The following Royalty Suspension Provisions apply to Deepwater Oil and Gas Production:</u>

In addition to these provisions, and the Energy Policy Act of 2005, refer to 30 CFR 218.151 and applicable parts of 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 less than 800 meters:	5 million barrels of oil equivalent (BOE)
800 meters to less than 1600 meters:	9 million BOE
1600 meters to 2000 meters:	12 million BOE
Greater than 2000 meters:	16 million BOE

2. The lessee must pay royalty on production that would otherwise receive royalty relief under 30 CFR 260 or supplemental relief under 30 CFR 203, 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 $39 per barrel in 2004. 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 $6.50 per million British thermal units (MMBTU) in 2004. 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, if the deflator indicates that inflation is 1.6 percent in 2005 and 2.1 percent in 2006, then the price threshold in calendar year 2006 would become $40.45 per barrel for oil and $6.74 for gas. Therefore, royalty on oil production in calendar year 2006 would be due if the 2006 actual NYMEX oil price exceeds $40.45 per barrel and royalty on gas production in calendar year 2006 would be due if the 2006 actual NYMEX gas price exceeds $6.74 per MMBTU.

d) The MMS plans to provide notice in March when adjusted price thresholds for the preceding year were exceeded. Once this determination is made, based on the then most recent implicit price deflator information, any subsequent adjustments in the implicit price deflator published by the U.S. Government will not affect the determination previously made for that year by MMS regarding lessee qualification for royalty relief. Information on price thresholds is available at the MMS website (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 no later than 90 days after the end of the year (see 30 CFR 260.122 (b)(2) for more detail) and royalties must be paid provisionally in the following calendar year. (See 30 CFR 260.122 (c) for more detail.) A lease must resume paying full royalties on the first day of the month following the month in which the RSV is exhausted.

3. There are no circumstances under which a single lease could receive a royalty suspension both for deep gas production and for deepwater production.