MMS

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MMS PROPOSES FRAMEWORK FOR FUTURE DEEPWATER ROYALTY RELIEF

The Department of the Interior's Minerals Management Service (MMS) is proposing regulations that outline how the agency will issue OCS leases after 2000 with royalty suspensions. The proposed regulations will be published in the *Federal Register* on September 14, 2000. There will be a 30-day comment period, ending October 16, 2000. The proposed regulations also present a plain-language revision of the existing rules for bidding systems and joint bidding restrictions.

On November 28, 2000, the mandatory provision for offering leases with royalty suspension volumes for portions of the deepwater Gulf of Mexico under the existing Deep Water Royalty Relief Act expires. However, another provision of the Act, that does not expire, provides authority to include royalty suspensions as a financial feature of leases sold in the future. "These new regulations will provide the framework to ensure the continuation of royalty relief that may be needed as an incentive in the deepwater areas of the Gulf of Mexico," said MMS Director Walt Rosenbusch. "The ability to continue some form of selective royalty relief is important for maintaining the momentum created by the Deep Water Royalty Relief Act, avoiding abrupt changes to our ongoing leasing system, and stimulating technological advances and expansion of infrastructure into deeper waters," he added.

Rosenbusch went on to say, "Continued growth in OCS deepwater oil and gas exploration and development is vital for our Nation's long-term energy supply. The continuation of incentives for the deepwater Gulf of Mexico will help support one of our Nation's energy policy goals, to increase domestic supplies of natural gas. Further expansion of Gulf gas production is necessary if we are going to meet the projected demand for 29 trillion cubic feet of gas in the Nation by 2010."

Rosenbusch commented, "Some may question the need to continue leasing incentives when oil and gas prices are now unusually high. However, given that oil and gas prices are highly volatile, we think it is prudent to have the means or the framework established in regulations that will enable us to offer incentives that are both targeted and flexible. This will help ensure that deepwater development can move forward in all market conditions."

Major provisions of the new rules include the following proposals:

1. Royalty relief will be provided, as needed, for new leases issued after November 2000.
2. Automatic royalty suspension volumes by selected water depths, along with applicable oil and gas price thresholds above which relief would not apply, will be specified prior to each sale in the Proposed and Final Notices of Sales.

3. Once established by MMS, royalty suspension volumes are expected to be in place for about 3 years.
4. Relief volumes, if provided, will be issued to individual leases, not fields, and these volumes would not be affected by the status of the fields to which the leases may be assigned.
5. New leases will be issued with an extended "rental fee" provision that applies during the period of royalty suspension.
6. An application process that will allow lessees to apply for additional relief (project relief) on new leases when they believe the automatic royalty suspension is insufficient to justify development.

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.

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