MMS News Releases

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MMS Announces Lease Terms and Conditions for Central Gulf Lease Sale 178

Agency Issues Rulemaking for Deepwater Royalty Relief

The U.S. Department of the Interior's Minerals Management Service announced today the terms for the Final Notice of Sale for Outer Continental Shelf (OCS) Central Gulf of Mexico Lease Sale 178. The sale, scheduled for March 28, 2001 in New Orleans, will offer incentives to increase domestic natural gas and oil production from federal offshore areas. In addition, final rulemaking was issued for deep water royalty relief that will provide a framework for Lease Sale 178 and future lease sales. The Federal Register published both notices today.

"This Administration is committed to finding environmentally safe methods to help meet our nation's energy needs," said Interior Secretary Gale Norton. "The OCS program holds the promise of the opportunity to advance offshore technology, and to provide the American people with substantial energy and economic benefits."

Secretary Norton noted that she was particularly pleased that the terms of this sale provide an appropriate mix of incentives to ensure exploration and development continues in ultra deep waters with the same momentum as in the past.

"Lease Sale 178 will provide the first ever incentives for high cost/high risk exploration for natural gas targets deep below the ocean floor," according to Acting MMS Director Tom Kitsos. "These prospects hold great potential to increase domestic natural gas production from deep horizons and below subsalt formations," he added.

In addition, MMS announced that deepwater royalty relief will be applied to tracts in water depths greater than 800 meters, within the framework of the new rule making. Under the provisions of the new rule making, the specific terms for royalty relief will be granted to individual leases, not fields as in the Deep Water Royalty Relief Act, and will be designated at the time of the final notice of sale. In the case of Sale 178, the royalty "suspension volumes" range from nine million barrels of oil equivalent (BOE) in water depths of 800 – 1599 meters and to twelve million barrels of relief in depths greater than 1,600 meters. Under the terms of this leasing system, lessees are allowed to produce these volumes of oil and gas before any royalty obligations are due the federal government.

Sale 178 encompasses about 4,391 available blocks in the Central Gulf of Mexico Outer Continental Shelf planning area offshore Louisiana, Mississippi, and Alabama. This area covers about 23.19 million acres. Blocks in this sale are located from three to 200 miles offshore in water depths ranging from four to more than 3,425 meters. Estimates of undiscovered economically recoverable hydrocarbons expected to be produced as a result of this sale range from 150 to 440 million barrels of oil and 1.53 to 4.39 TCF of natural gas.

Blocks in the Central Gulf of Mexico portion of the "Western Gap", which were the subject of our new U.S./Mexican boundary agreement will not be offered. MMS plans to offer these blocks in Sale 178, part 2, which will be held concurrently with lease sale 180 in the Western Gulf of Mexico, scheduled for August 2001.

In addition to the fixed up-front royalty suspension volumes, MMS also may provide additional discretionary relief if lessees meet certain criteria as published in a November 16, 2000, Proposed rule making and referred to in the deep water royalty relief framework rule announced today. This supplemental royalty relief is not available to leases sold during the 1996-2000 DWRRA new lease sale provision time period.

Further, MMS specifically designed two initiatives to spur domestic natural gas production and to address the projected increase in gas demand for the nation. One is an incentive to drill for deep gas deposits in the shallow-water shelf area of the Gulf of Mexico by providing royalty suspension on the first 20 billion cubic feet (Bcf) of production from a well drilled below 15,000 feet sea level. The other initiative applies to natural gas found beneath thick subsalt domes. Lessees may be entitled to an extension of the 5-year primary lease term when an operator has drilled a first subsalt well and needs additional time to image the subsurface data to determine the appropriate next drilling target. This will avoid premature lease expiration and the consequent delay in exploration.

"We have determined that this package of incentives provides the right balance to encourage domestic exploration while also ensuring the public a fair return for resources leased," Kitsos stated. "Although the level of up-front suspension volume relief is less than that mandated for the first five years of the DWRRA, the first-time provision of discretionary relief gives us the tool to adjust the amount of relief to the specific circumstances of each venture. I would also note, however, that in light of the current energy market situation, we will, of course, consider the entire mix of policy options for future decisions as we support the Secretary's participation in the Vice President's Energy Task Force," Kitsos added.

The MMS, a bureau in the U.S. Department of the Interior, is the federal agency that manages the nation's natural gas, oil and other mineral resources on the outer continental shelf. The agency also collects, accounts for and from federal offshore mineral leases and from onshore mineral leases on federal and Indian lands.

This press release and in-depth information about MMS programs may be found on the MMS home page: www.mms.gov. To receive the latest MMS news releases automatically by email, send a request to monica.contee@boemre.gov.

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Statistical Information Sale 178 Part 1

Size:	4,391 Unleased blocks; 23.19 million acres
Primary Lease Terms:	5 Year - Water depths less than 400 meters - 1,380 Blocks

	8 Year - Water depths between 400 and 800 meters - 141 Blocks 10 Year - Water depths 800 meters or deeper - 2,870 Blocks
Minimum Bids:	$25.00 per acre or fraction thereof - Water depths less than 800 meters - 1,521 Blocks $37.50 per acre or fraction thereof - Water depths 800 meters or deeper - 2,870 Blocks
Annual Rental Rates:	$5.00 per acre or fraction thereof - Water depths less than 800 meters - 1,306 Blocks $7.50 per acre or fraction thereof - Water depths 200 meters or deeper - 3,085 Blocks
Royalty Rates:	16 2/3% Royalty - Water depths less than 400 meters - 1,380 Blocks 12 1/2% Royalty - Water depths 400 meters or deeper - 3,011 Blocks
Royalty Suspension Rates:	0 - 200 Meter Royalty Suspension Area - 1,306 Blocks 800 - 1,600 Meter Royalty Suspension Area - 410 Blocks 1,600 Meter and Greater Royalty Suspension Area - 2,460 Blocks

OCS Lease Sale 178 Part 1

Total proposed sale

4,391 unleased blocks; 23.19 million acres

Royalty Relief

1,306 blocks subject to deep gas incentive (first 20 BCF)
215 blocks with no automatic royalty relief
410 blocks subject to 9-MMBOE relief
2,460 blocks subject to 12-MMBOE relief

Deep Gas Initiative

- Applies to all new leases in 0 to 199 meters of water.
- Eliminates royalty for first 20 Bcf of gas production from the lease at greater than 15,000-foot depth.
- Does not apply to oil production.
- Ends after 20 Bcf of gas production.
- Ends for a year if prices reach trigger limit of $3.50 per million BTU's (in Year 2000 dollars).

Deepwater Royalty Relief

- Previous deepwater relief given for new leases under DWRR Act of 1995 has expired.
  (Leases issued during 1996-2000 continue to have this relief).
- This new deepwater relief applies only to leases issued in water depths of 800 to 1,599 meters of water (first 9 MMBOE of production is royalty free) and for leases in 1,600 meters or greater water depth (first 12 MMBOE of production is royalty free).
- This royalty relief is provided on a lease basis.

If a new lease from this sale is combined with a field under the 1995 DWRR provisions it still gets its own relief of either 9 or 12 MMBOE

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