

[Code of Federal Regulations]
 [Title 30, Volume 2]
 [Revised as of July 1, 2009]
 From the U.S. Government Printing Office via GPO Access
 [CITE: 30CFR260]

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TITLE 30--MINERAL RESOURCES

CHAPTER II--MINERALS MANAGEMENT SERVICE, DEPARTMENT OF THE INTERIOR

PART 260_OUTER CONTINENTAL SHELF OIL AND GAS LEASING--Table of Contents

Subpart B_Bidding Systems

General Provisions

Sec. 260.101 What is the purpose of this subpart?

This subpart establishes the bidding systems that we may use to offer and sell Federal leases for the exploration, development, and production of oil and gas resources located on the OCS.

Sec. 260.102 What definitions apply to this subpart?

Act means the Outer Continental Shelf Deep Water Royalty Relief Act, Pub. L. 104-58, 43 U.S.C. 1337(3).

Eligible lease means a lease that:

(1) Is issued as part of an OCS lease sale held after November 28, 1995, and before November 28, 2000;

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(2) Is located in the Gulf of Mexico in water depths of 200 meters or deeper;

(3) Lies wholly west of 87 degrees, 30 minutes West longitude; and

(4) Is offered subject to a royalty suspension volume.

Field means an area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same general geological structural feature and/or stratigraphic trapping condition. Two or more reservoirs may be in a field, separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both.

Highest responsible qualified bidder means a person who has met the appropriate requirements of 30 CFR part 256, subpart G of this title, and has submitted a bid higher than any other bids by qualified bidders on the same tract.

Highest royalty rate means the highest percent rate payable to the United States, as specified in the lease, in the amount or value of the production saved, removed, or sold.

Lease period means the time from lease issuance until relinquishment, expiration, or termination.

Lowest royalty rate means the lowest percent rate payable to the United States, as specified in the lease, in the amount or value of the production saved, removed, or sold.

OCS lease sale means the Department of the Interior (DOI) proceeding by which leases for certain OCS tracts are offered for sale by competitive bidding and during which bids are received, announced, and

recorded.

Pre-Act lease means a lease that:

(1) Is issued as part of an OCS lease sale held before November 28, 1995;

(2) Is located in the Gulf of Mexico in water depths of 200 meters or deeper; and

(3) Lies wholly west of 87 degrees, 30 minutes West longitude. (See part 203 of this title.)

Production period means the period during which the amount of oil and gas produced from a tract (or, if the tract is unitized, the amount of oil and gas as allocated under a unitization formula) will be measured for purposes of determining the amount of royalty payable to the United States

Qualified bidder means a person who has met the appropriate requirements of 30 CFR part 256, subpart G of this title.

Royalty rate means the percentage of the amount or value of the production saved, removed, or sold that is due and payable to the United States Government.

Royalty suspension (RS) lease means a lease that:

(1) Is issued as part of an OCS lease sale held after November 28, 2000;

(2) Is in locations or planning areas specified in a particular Notice of OCS Lease Sale; and

(3) Is offered subject to a royalty suspension specified in a Notice of OCS Lease Sale published in the Federal Register.

Tract means a designation assigned solely for administrative purposes to a block or combination of blocks that are identified by a leasing map or an official protraction diagram prepared by the DOI.

Value of production means the value of all oil and gas production saved, removed, or sold from a tract (or, if the tract is unitized, the value of all oil and gas production saved, removed, or sold and credited to the tract under a unitization formula) during a period of production. The value of production is determined under part 206 of this title.

[66 FR 11518, Feb. 23, 2001, as amended at 72 FR 25202, May 4, 2007]

Sec. 260.110 What bidding systems may MMS use?

We will apply a single bidding system selected from those listed in this section to each tract included in an OCS lease sale. The following table lists bidding systems, the bid variables, and characteristics.

For the bidding system--	The bid variable is the--	An
(a) Cash bonus bid with a fixed royalty rate of not less than 12.5 percent.	Cash bonus.....	The qua roy 12. of spe eac Not pub Reg

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(b) Royalty rate bid with fixed cash bonus.	Royalty rate.....	We w of res mus Lea Fed
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(c) Cash bonus bid with a sliding royalty rate of not less than 12.5 percent at the beginning of the lease period.	Cash bonus.....	(1) roy res mus (i) whi to of (ii) the app the pro (2) adj app the (3) hig inc for spe roy (4) of at per (5) sca sch pro inf det of OCS Fed
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(d) Cash bonus bid with fixed share of the net profits of no less than 30 percent.	Cash bonus.....	(1) the qua det pro Uni mul sha sha 220 net to (2) sha per

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(e) Cash bonus with variable royalty rate(s) during one or more periods of production. Cash bonus..... (1)
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(f) Cash bonus with royalty rate(s) based on formula(s) or schedule(s) during one or more periods of production. Cash bonus..... We w
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(g) Cash bonus with a fixed royalty rate of not less than 12.5 percent, at the beginning of the lease period, suspension of royalties for a period, volume, or value of production, or depending upon selected characteristics of extraction, and with suspensions that may vary based on the price of production. Cash bonus..... Exce
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Sec. 260.111 What conditions apply to the bidding systems that MMS uses?

(a) For each of the bidding systems in Sec. 260.110, we will include an annual rental fee. Other fees and provisions may apply as well. The Notice of OCS Lease Sale published in the Federal Register will specify the annual rental

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and any other fees the highest responsible qualified bidder must pay and any other provisions.

(b) If we use any deferment or schedule of payments for the cash bonus bid, we will specify and include it in the Notice of OCS Lease Sale published in the Federal Register.

(c) For the bidding systems listed in this subpart, if the bid variable is a cash bonus bid, the highest bid by a qualified bidder determines the amount of cash bonus to be paid. We will include the minimum bid level(s) in the Notice of OCS Lease Sale published in the Federal Register.

(d) For the bidding systems listed in this subpart, if the bid variable is the royalty rate, the highest bid by a qualified bidder determines the royalty rate to be paid. We will include the minimum royalty rate(s) in the Notice of OCS Lease Sale published in the Federal Register.

(e) We may, by rule, add to or modify the bidding systems listed in Sec. 260.110, according to the procedural requirements of the OCSLA, 43 U.S.C. 1331 et seq., as amended by Public Law 95-372, 92 Stat. 629.

Eligible Leases

Sec. 260.112 How do royalty suspension volumes apply to eligible leases?

Royalty suspension volumes, as specified in section 304 of the Act, apply to eligible leases that meet the criteria in Sec. 260.113. For purposes of this section and Sec. Sec. 260.113 through 260.117:

(a) Any volumes of production that are not normally royalty-bearing under the lease or the regulations (e.g., fuel gas) do not count against royalty suspension volumes; and

(b) Production includes volumes allocated to a lease under an approved unit agreement.

Sec. 260.113 When does an eligible lease qualify for a royalty suspension volume?

(a) Your eligible lease will receive a royalty suspension volume as specified in the Act. The bidding system in Sec. 260.110(g) applies.

(b) Your eligible lease may receive a royalty suspension volume only if your entire lease is west of 87 degrees, 30 minutes West longitude.

[73 FR 58473, Oct. 7, 2008]

Sec. 260.114 How does MMS assign and monitor royalty suspension volumes for eligibl

(a) We have specified the water depth category for each eligible lease in the final Notice of OCS Lease Sale Package. The Final Notice of Sale is published in the Federal Register and the complete Final Notice of OCS Lease Sale Package is available on the MMS Web site. Our determination of water depth for each lease became final when we issued the lease.

(b) We have specified in the Notice of OCS Lease Sale the royalty suspension volume applicable to each water depth. The following table shows the royalty suspension volumes for each eligible lease in million barrels of oil equivalent (MMBOE):

Water depth	Minimum royalty suspension volume
(1) 200 to less than 400 meters.....	17.5 MMBOE.
(2) 400 to less than 800 meters.....	52.5 MMBOE.
(3) 800 meters or more.....	87.5 MMBOE.

[73 FR 58473, Oct. 7, 2008]

Sec. 260.115 How long will a royalty suspension volume for an eligible lease be eff

A royalty suspension volume for an eligible lease will continue through the end of the month in which cumulative production from the leases in a field entitled to share the royalty suspension volume reaches that volume or the lease period ends.

Sec. 260.116 How do I measure natural gas production on my eligible lease?

You must measure natural gas production on your eligible lease subject to the royalty suspension volume as follows: 5.62 thousand cubic feet of natural gas, measured according to part 250, subpart L of this title, equals one barrel of oil equivalent.

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Royalty Suspension (RS) Leases

Sec. 260.120 How does royalty suspension apply to leases issued in a sale held afte

We may issue leases with suspension of royalties for a period, volume or value of production, as authorized in section 303 of the Act. For purposes of this section and Sec. Sec. 260.121 through 260.124:

(a) Any volumes of production that are not normally royalty-bearing under the lease or the regulations (e.g., fuel gas) do not count against royalty suspension volumes; and

(b) Production includes volumes allocated to a lease under an approved unit agreement.

Sec. 260.121 When does a lease issued in a sale held after November 2000 get a roya

(a) We will specify any royalty suspension for your RS lease in the Notice of OCS Lease Sale published in the Federal Register for the sale in which you acquire the RS lease and will repeat it in the lease document. In addition:

(1) Your RS lease may produce royalty-free the royalty suspension we specify for your lease, even if the field to which we assign it is producing.

(2) The royalty suspension we specify in the Notice of OCS Lease Sale for your lease does not apply to any other leases in the field to which we assign your RS lease.

(b) You may apply for a supplemental royalty suspension for a project under part 203 of this title, if your lease is located:

(1) In the Gulf of Mexico, in water 200 meters or deeper, and wholly

west of 87 degrees, 30 minutes West longitude; or

(2) Offshore of Alaska.

(c) Your RS lease retains the royalty suspension with which we issued it even if we deny your application for more relief.

[66 FR 11518, Feb. 23, 2001, as amended at 73 FR 69517, Nov. 18, 2008]

Sec. 260.122 How long will a royalty suspension volume be effective for a lease iss

(a) The royalty suspension volume for your RS lease will continue through the end of the month in which cumulative production from your lease reaches the applicable royalty suspension volume or the lease period ends.

(b)(1) Notwithstanding any royalty suspension volume under this subpart, you must pay royalty at the lease stipulated rate on:

(i) Any oil produced for any period stipulated in the lease during which the arithmetic average of the daily closing price on the New York Mercantile Exchange (NYMEX) for light sweet crude oil exceeds the applicable threshold price of \$36.39 per barrel, adjusted annually after calendar year 2007 for inflation unless the lease terms prescribe a different price threshold.

(ii) Any natural gas produced for any period stipulated in the lease during which the arithmetic average of the daily closing price on the NYMEX for natural gas exceeds the applicable threshold price of \$4.55 per MMBtu, adjusted annually after calendar year 2007 for inflation unless the lease terms prescribe a different price threshold.

(iii) Determine the threshold price for any calendar year after 2007 by adjusting the threshold price in the previous year by the percentage that the implicit price deflator for the gross domestic product, as published by the Department of Commerce, changed during the calendar year.

(c) If you must pay royalty on any product (either oil or natural gas) for any period under paragraph (b), you must continue to pay royalty on that product during the next succeeding period of the same length until the arithmetic average of the daily closing NYMEX prices for that product for that period can be determined. If the arithmetic average of the daily closing prices for that product for that period is less than the threshold price stipulated in the lease, you are entitled to a credit or refund of royalties paid for that period with interest under applicable law.

[66 FR 11518, Feb. 23, 2001, as amended at 73 FR 69517, Nov. 18, 2008]

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Sec. 260.123 How do I measure natural gas production for a lease issued in a sale h

You must measure natural gas production subject to the royalty suspension volume for your lease as follows: 5.62 thousand cubic feet of natural gas, measured according to part 250, subpart L of this title, equals one barrel of oil equivalent.

Sec. 260.124 How will royalty suspension apply if MMS assigns a lease issued in a s

(a) We will assign your lease that has a qualifying well (under part 250, subpart A of this title) to an existing field or designate a new field and will notify you and other affected lessees and operating

rights holders in the field of that assignment.

(1) Within 15 days of the final notification, you or any of the other affected lessees or operating rights holders may file a written request with the Director for reconsideration, accompanied by a Statement of Reasons.

(2) The Director will respond in writing either affirming or reversing the assignment decision. The Director's decision is the final action of the Department of the Interior and is not subject to appeal to the Interior Board of Land Appeals under part 290 of this title and 43 CFR part 4.

(b) If we establish a royalty suspension volume for a field as a result of an approved application for royalty relief submitted for a pre-Act lease under part 203 of this chapter, then:

(1) Royalty-free production from your RS lease shares from and counts as part of any royalty suspension volume under Sec. 260.114(d) for the field to which we assign your lease; and

(2) Your RS lease may continue to produce royalty-free up to the royalty suspension we specified for your lease, even if the field to which we assign your RS lease has produced all of its royalty suspension volume.

(c) Your lease may share in a suspension volume larger than the royalty suspension with which we issued it and to the extent we grant a larger volume in response to an application by a pre-Act lease submitted under part 203 of this title. To share in any larger royalty suspension volume, you must file an application described in Sec. Sec. 203.71 and 203.83. In no case will royalty-free production for your RS lease be less than the royalty suspension specified for your lease.

[66 FR 11518, Feb. 23, 2001, as amended at 67 FR 57739, Sept. 12, 2002; 73 FR 58473, Oct. 7, 2008]

Bidding System Selection Criteria

Sec. 260.130 What criteria does MMS use for selecting bidding systems and bidding s

In analyzing the application of one of the bidding systems listed in Sec. 260.110 to tracts selected for any OCS lease sale, we may, at our discretion, consider the following purposes and policies. We recognize that each of the purposes and policies may not be specifically applicable to the selection process for a particular bidding system or tract, or may present a conflict that we will have to resolve in the process of bidding system selection. The order of listing does not denote a ranking.

- (a) Providing fair return to the Federal Government;
- (b) Increasing competition;
- (c) Ensuring competent and safe operations;
- (d) Avoiding undue speculation;
- (e) Avoiding unnecessary delays in exploration, development, and production;
- (f) Discovering and recovering oil and gas;
- (g) Developing new oil and gas resources in an efficient and timely manner;
- (h) Limiting the administrative burdens on Government and industry; and
- (i) Providing an opportunity to experiment with various bidding systems to enable us to identify those most appropriate for the satisfaction of the objectives of the United States in OCS lease sales.

Subpart C [Reserved]

