
Leasing Activities Information



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

Royalty Suspension Provisions Eastern Gulf of Mexico Oil and Gas Lease Sale 197 (Final Notice of Sale)

The following Royalty Suspension Provisions apply to Deepwater Oil and Gas Production:

In addition to these provisions, 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 of 1600 meters or deeper will receive a royalty suspension of 12 million barrels of oil equivalent.
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, then the price threshold in calendar year 2005 would become \$39.62 per barrel for oil and \$6.60 for gas. Therefore, royalty on oil production in calendar year 2005 would be due if the 2005 actual NYMEX oil price exceeds \$39.62 per barrel and royalty on gas

production in calendar year 2005 would be due if the 2005 actual NYMEX gas price exceeds \$6.60 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.