

**UNITED STATES DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE
GULF OF MEXICO OCS REGION**

NTL No. 2004-G15

Effective Date: August 10, 2004

Expiration Date: September 1, 2004

NOTICE TO LESSEES AND OPERATORS
OF FEDERAL OIL AND GAS LEASES
ON THE OUTER CONTINENTAL SHELF, GULF OF MEXICO OCS REGION

Application of the Deep Gas Royalty Relief Rule to Leases Issued from 2001 through 2003

Authority – This Notice to Lessees and Operators (NTL) is issued pursuant to regulations at 30 CFR 203.0 and §§ 203.40 through 203.48, which govern deep-gas royalty relief for Gulf of Mexico shallow-water leases.

Purpose and Need for NTL – This NTL provides guidance and clarification to operators electing to exercise the option to replace the deep-gas provisions in the lease instrument (leases that were issued from 2001 through 2003) with the deep-gas royalty relief terms and conditions provided in the regulations mentioned above and effective May 3, 2004. Pursuant to 30 CFR 203.48 and NTL No. 2004-G13, you may exercise this option by providing a written notification of your decision to the Regional Supervisor for Production and Development before September 1, 2004.

Background – The deep-gas rule at 30 CFR 203.48 provides an option for certain leases to switch from their original deep-gas terms to those in the deep-gas rule, subject to general administrative conditions and timing requirements. On April 30, 2004, MMS published both Technical Amendments (69 FR 24052-24054), which modified the effective date of the final deep-gas rule, and a Notice (69 FR 24055), which provided, for certain leases, royalty relief in addition to the relief included in the final rule. For operators of leases that elect to switch their deep-gas lease terms, this NTL elaborates on these administrative conditions and timing requirements; clarifies the amount of relief in the deep-gas rule that will be forthcoming following the switch, depending upon the category and timing of previous deep drilling and on the magnitude of associated production; and indicates how and under what conditions the added relief included in the Notice will apply to such leases.

Guidance – The following interpretations of the regulations at 30 CFR 203.0 and §§ 203.40 through 203.48 are applicable to operators exercising the option:

- a. The effective date of the switch is the date the Regional Supervisor for Production and Development receives written notification from the operator exercising the option to switch terms. [§ 203.48(c)]

(1) All deep-gas production before that date is subject to lease terms and conditions.

- (2) All deep-gas production on and after that date is subject to rule terms and conditions.
- b. Any of the 20 BCF royalty suspension volume (RSV) used (or lost because of a violation of the price threshold) under the original lease terms before the switch date shall be deducted (see preamble of Notice of Proposed Rulemaking (68 FR 14875) dated March 26, 2003) from the 15 or 25 BCF RSV available under the regulations, except in the following situations:
 - (1) Deep-gas production from a well spud too early to qualify under the regulations keeps the RSV used and this amount is not deducted from any RSV earned under the rule (i.e., a second deep-gas well drilled below 18,000 feet subsea).
 - (2) Deep-gas production from a well for which no or incomplete notice requirements (per new lease terms in NTL 2004-G03) were submitted earns no incentive under the lease terms, so it is not deducted from any RSV earned after the switch.
- c. Any of the 20 BCF RSV used (or lost because of a price threshold violation) under the original lease terms is not deducted from the RSV or royalty suspension supplement (RSS) available under §§ 203.41(c) and 203.44(a)(2) and (3) of the regulations, that is from:
 - (1) The 10 BCF RSV or 2 BCFE RSS earned by drilling deeper than 18,000 feet after a success between 15,000 and 18,000 feet,
 - (2) The sidetrack RSV (i.e., that earned according to formula).
- d. The RSV earned under § 203.41(c) after switching to the regulations can be shared by subsequent production from any pre-existing deep well on the lease that was spud on or after March 26, 2003. [§ 203.42(a)(2)].
- e. Written notifications to switch received by the Regional Supervisor before the delayed effective date of the regulations, May 3, 2004 (see Final Rule – Technical Amendments (69 FR 24052-24054) dated April 30, 2004), are treated as having been received on May 3, 2004.
- f. Royalty relief apart from the terms of the rule (see Notice of April 30, 2004 (69 FR 24055)) applies to leases that switched by May 3, 2004, and to deep-gas production:
 - (1) From qualified wells that were spud on or after March 26, 2003, and
 - (2) That was generated during the period March 1, 2004, through May 2, 2004, and
 - (3) Without regard to price thresholds, and the relief does not reduce the otherwise available RSV.
- g. Pursuant to 30 CFR 203.43(d), if a lease commenced production prior to May 3, 2004, the Regional Supervisor must have been notified by August 3, 2004. If a shallow-water lease issued from 2001 through 2003 commenced production prior to May 3, 2004, but does not switch terms until after August 3, 2004, then the MMS will accept for the

purpose of the regulation the commencement of production notification provided under the lease terms.

Paperwork Reduction Act of 1995 Statement - The information collection referred to in this NTL is intended to provide clarification, description, or interpretation of requirements contained in 30 CFR 203, Relief or Reduction in Royalty Rates. The Office of Management and Budget (OMB) has approved the information collection requirements in these regulations under OMB control number 1010-0071. This NTL does not impose additional information collection requirements subject to the Paperwork Reduction Act of 1995.

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