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

NTL No. 2006–G01 Effective Date: February 1, 2006

NOTICE TO LESSEES AND OPERATORS (NTL) OF FEDERAL OIL AND GAS LEASES IN THE OUTER CONTINENTAL SHELF (OCS)

Royalty Relief for Gulf of Mexico OCS Oil and Gas Leases with Facilities Damaged by Hurricane Katrina or Hurricane Rita

Minerals Management Service (MMS) is offering a royalty relief program for hurricane projects in the Gulf of Mexico OCS pursuant to 30 CFR 203.1. To expedite the application review process, MMS will assume the pre-qualification requirements stated at 30 CFR 203.80 are met by applicants making requests under this initiative. Applications will be considered if the approval of royalty relief would meet the objective of the end-of-life program (see 30 CFR 203.51, 203.83 and 203.84). End-of-life program guidelines for processing applications have been modified to accommodate characteristics unique to hurricane projects. This NTL provides guidance for preparing a complete application. "Hurricane project" is defined as a proposal to correct damage caused by Hurricane Katrina or Hurricane Rita. A project may consist of wells, platforms, pipelines, or other structures which were producing or capable of producing before the hurricane from one or more oil and gas reservoirs, located on one or more leases. The incentive is intended to encourage the production of marginal oil and gas reserves that are shut in due to hurricane damage, and for which resumption of production would not be economical in the absence of royalty relief.

Eligibility Requirements

MMS originally issued NTL No. 2005-G16, effective September 27, 2005, and subsequently superseded by NTL No. 2005-G20, effective October 24, 2005, to describe the inspections needed for identification of facilities that sustained hurricane damage. Once facilities have been inspected, MMS anticipates that a vast majority will be brought back on line. However, those facilities listed in the inspection report that appear uneconomic to return to production will be eligible to apply for the royalty relief offered through this program. Royalty relief will be approved for applicants to promote the restoration of production. **Applications will be accepted beginning on February 1, 2006.**

Applying for Royalty Relief

Operators should use the information guidelines given in the appendix to this NTL when preparing their applications. The MMS plans to perform a deterministic economic evaluation on your project and will grant a royalty suspension volume when it is determined that royalty relief is needed for production to resume. Oil and gas price thresholds will apply on an annual basis, and will be set to ensure the applicant is no worse off financially if market prices rise and royalty relief ceases compared to the situation where prices emerge as projected in the presence of royalty relief. Requests for royalty relief should be addressed to: Gulf of Mexico Regional Director, P.O. Box 60389, Houston, Texas 77205. The omnibus Appropriations Bill (PL. 104-134, 110 Stat. 13221, April 26, 1996) specifically authorized the collection of fees for royalty relief applications. Accordingly, an application fee of $8,000 must be paid to MMS on or before the day an application is filed. If you have any questions, please contact Kevin Karl by emailing kevin.karl@mms.gov, or by calling (281) 873-1806.

Paperwork Reduction Act of 1995 Statement

The collection of information referred to in this NTL provides clarification, description, or interpretation of requirements contained in 30 CFR 203. The Office of Management and Budget has approved the collection of information required by these regulations and assigned OMB Control Number 1010-0071. This notice does not impose additional information collection requirements subject to the Paperwork Reduction Act of 1995.

Attachment

1/23/06
Dated.

Thomas A. Readinger
Thomas A. Readinger
Associate Director for
Offshore Minerals Management

APPENDIX TO NTL NO. 2006-G01

Hurricane Royalty Relief Information Guidelines
Minerals Management Service, Gulf of Mexico Region

1. Administrative Information

Include the following items:

(a) The lease serial numbers and the names of the record title holders, and whether any lease is part of a unit;
(b) Well number, API number, and location;
(c) A description of the damage caused by the hurricane;
(d) Full information as to whether you will pay royalties or a share of production to anyone other than the United States, and the amount you will pay;
(e) The royalty suspension volume size you are requesting or any other changes you deem necessary to your existing lease terms; and
(f) A narrative description of the activities associated with the capital investments proposed for correcting the damage, and an explanation of proposed timing of the activities and the effect on production. The description should include discussion of all unresolved aspects of the plan that could possibly impact the cost estimates given in the application, explaining any alternative options being considered or contracting issues.

2. Economic Viability and Relief Justification

Show that your project does not appear to be economic at the royalty rate specified for the lease or leases in the project, but could be economic with royalty relief. Your deterministic economic evaluation should include a separate cash flow analysis for the full royalty scenario and the royalty relief scenario. Suspend royalties on a production volume of adequate size to allow for calculation of a 15 percent rate of return before taxes. You should show the time period when royalty relief would be in effect with monthly cash flow calculations. If annual cash flow calculations are made, you should state the time period, by month, when royalty relief would be in effect. Use the most likely economic parameters from the latest update to NTL99-G06, posted on the MMS website at www.mms.gov/econ/PDFs/update.pdf, and document any product price quality adjustments. Note any differences between the prices you will receive for your products and the price forecasts given in the update to NTL99-G06, such as those that would occur if your production was being sold under a long-term sales contract. Prices for future production sold under such contracts, signed prior to the hurricane, may be substituted for prices specified in the MMS forecast for the time period in which the existing contract applies. A copy of the sales contract should be submitted to document those price inputs. Costs incurred prior to the submittal of your application for royalty relief will not be considered in MMS royalty relief determinations.

(a) Your cash flow analyses (from the date of the application using annual totals and constant dollar values) should include:
  (1) Oil and gas production;
  (2) Total revenues;
  (3) Capital expenditures;

(4) Operating costs;
(5) Transportation costs; and
(6) Abandonment costs for any new wells (excluding exploratory wells), platforms, and pipelines.

(b) Also include discounted values for the royalty scenarios indicating:
(1) Before-tax present value with royalties, but without overrides and ineligible costs; and
(2) Before-tax present value with royalty relief, but without overrides and ineligible costs.

3. Geological Data and Interpretations

Discuss your geological interpretations, volumetric oil and gas in-place reserves estimate, and oil and gas recovery factors.

(a) Include the following geological and geophysical information:
(1) Digital well logs showing completion intervals or potential completion intervals;
(2) Structure, isopach, and amplitude maps; and
(3) Seismic volume used for the reserves estimate.

(b) Include the following reservoir information:
(1) PVT data and reports;
(2) Parameters used for the reserves estimate such as porosity, hydrocarbon and water saturations, oil and gas formation volume factors, net thickness and acres for calculating sand volume, gas-oil ratio or condensate yield, oil and gas specific gravity, oil quality, and recovery factors.

4. Engineering Information

Define elements of your proposal to restore production. Supply information supporting the method applied to forecast production rates and estimated remaining recoverable reserves.

(a) Provide information concerning wells, including:
(1) The number;
(2) The well type (platform or subsea);
(3) The kind of completion (single, dual, horizontal, injector, etc.) and completion interval;
(4) The well depth;
(5) An explanation of any well damage that occurred;
(6) The well repair schedule;
(7) Production profiles by well completion (specify the actual and projected production for each of the following products: oil, condensate, gas, and associated gas);
(8) The total production profile for all well completions (specify the actual and projected production for each of the following products: oil, condensate, gas, and associated gas);
(9) Production drive mechanisms for each reservoir.

(b) Provide information concerning production facility damage that occurred, to include:
(1) The production capacity for oil and gas and a description of limiting component(s);
(2) Any unusual problems;
(3) Plans to remedy the problems; and
(4) The schedule for correcting damage to the production facility.

5. Cost Estimates

List all projected costs for your proposal and explain and document the source of each cost estimate. You should express costs in constant real dollar terms for the base year. Factors considered when estimating costs such as steel prices and rig day rates should be discussed. If at the time of loss due to the hurricane, the production system or any part of it was insured for part or all of the replacement cost, you should subtract the payment for the assessed value of the loss from the associated costs used in your evaluation. You should also subtract payments you receive or expect to receive for any other insured losses such as business disruption. Cost estimates should be included for the following elements:

(a) Well and production facility repair or replacement costs, based on actual spending, current authorization for expenditure, bids from contractors, engineering estimates, or analogous projects.
(b) Production cost projections based on historical records or engineering estimates. These costs cover:
  (1) Operations;
  (2) Equipment; and
  (3) Existing royalty overrides (we will not use the royalty overrides in the evaluations).
(c) Transportation costs projections based on historical records or engineering estimates. These costs cover:
  (1) Oil or gas tariffs for service provider pipelines;
  (2) Actual costs for lessee owned pipelines; and
  (3) Gas plant processing costs for natural gas liquids.
(d) Abandonment costs, based on engineering estimates or analogous projects. You should only provide the abandonment costs to plug and abandon new wells and to remove a new platform or other structure, which will replace facilities destroyed by a hurricane.
(e) A spending schedule. You should provide costs for each year (in real dollars) for each category in paragraphs (a) through (d) of this section.

The following costs are ineligible for evaluating your need for relief. These costs cover:

  (1) Fees for royalty relief applications;
  (2) Expenses incurred before the hurricane;
  (3) Legal expenses;
  (4) Damages and losses;
  (5) Taxes;
  (6) Interest or finance charges, including those embedded in equipment leases;
  (7) Fines or penalties;
  (8) Money spent on previously existing obligations (e.g., royalty overrides or other forms of payment for acquiring a financial position in a lease, expenditures for plugging wells and removing and abandoning facilities that existed before the hurricane);
  (9) Any costs reimbursable by insurance; and
  (10) Exploration costs.