

**UNITED STATES DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE**

NTL No. 98-17N

Effective Date: November 1, 1998

**NOTICE TO LESSEES AND OPERATORS OF FEDERAL OIL AND GAS LEASES
IN THE OUTER CONTINENTAL SHELF**

Revised Guidelines for Royalty Relief under 30 CFR Part 203

This NTL supercedes NTL 98-3N and amends the guidelines for applying for royalty relief. As we stated in NTL 98-3N, we expect to periodically update these guidelines to reflect our experience in processing applications.

Under 30 CFR Part 203, certain lessees may apply to MMS for a suspension of royalty payments or a reduced royalty rate by submitting a complete application. We describe the specific data elements, parameters, reports and computer model or spreadsheets in a complete application in two separate Appendices to this NTL. These guidelines are Appendix I: GUIDELINES FOR THE APPLICATION, REVIEW, APPROVAL, AND ADMINISTRATION OF THE DEEP WATER ROYALTY RELIEF PROGRAM and Appendix II: GUIDELINES FOR THE APPLICATION, REVIEW, APPROVAL, AND ADMINISTRATION OF ROYALTY RELIEF FOR END-OF-LIFE LEASES. They also explain the procedures we will follow for evaluating applications and implementing royalty relief.

The main changes in Appendix I include five clarifications:

- (1) Expansion projects must have discoveries in reservoirs they target (so as to preclude exploration), but need not have a CPA certify their sunk costs (since we do not count sunk costs in this situation). See Section H, Special Cases.
- (2) We provide a more rigorous explanation of and example for the maximum acceptable deviation of average capital costs from most likely capital costs. Further, we explain how we will adjust model input data for an application that exceeds the maximum acceptable deviation. See Section H, Applicant Inputs.
- (3) We remove the statement that the minimum royalty obligation for a pre-Act lease continues even if we approve a royalty suspension volume (so they are treated like eligible leases). See Section K.
- (4) We ask applicants to break out estimates for additional costs likely to be allowed as deductions for the value on which royalties would be due. These are costs of self-performed transportation and processing services (non-arm's-length arrangements), and special measures required in deep water (e.g., dehydration, extra floatation). See Cost Report guidance, paragraph e.
- (5) We update the price assumptions used to evaluate future applications. See Economic Viability and Relief Justification Report guidance, paragraph b.

The main changes in Appendix II include nine clarifications:


- (1) We explain how unit operators are to deal with situations where confidentiality concerns preclude their getting actual payor data on all lease or unit revenues and royalties. See parts A and C.
- (2) We explain how we deal with applications from leases or units that have recently, or are in the process of, making significant changes to their operations. See part B.
- (3) We clarify what capital costs, joint costs, and off-lease costs are appropriate for consideration during an end-of-life royalty relief determination. See part C and Attachment 1.
- (4) We distinguish between transportation and processing costs and allowances using examples. Also, we emphasize that we count only transportation and processing expenditures allowed under MMS Royalty Management regulations. See part C.
- (5) We add examples of how to calculate effective royalty rates (before relief) and royalty relief volumes available under end-of-life relief. See part D.
- (6) We add reference to our general legal authority to collect back royalties and penalties should we find you qualified for relief with false or intentionally misleading information. See part G.
- (7) We explain why owners but not operators may change while we are evaluating an application for relief. See part I.
- (8) We add guidance on what we consider an adequate CPA review for certification. See Attachment 3.
- (9) We remove a misleading feature (on oil processing costs) of the spreadsheet we recommend you use for formatting the qualification data. See Attachment 4.

We advise that you carefully review a copy of the appropriate guidelines if you intend to request royalty relief. They will help you structure your application so as to expedite our evaluation. The most current version of the guidelines display a date of November, 1998.

You may request a copy of the guidelines from your regional office. They, along with the computer model or spreadsheet that you will need to prepare an application, are also available on the Minerals Management Service website at <http://www.mms.gov>.

Paperwork Reduction Act of 1995 Statement: Any collection of information that we mention in this NTL and its guidelines provides clarification, description, or interpretation of requirements contained in 30 CFR Part 203. The Office of Management and Budget has approved our collection of information required by these regulations and assigned OMB Control Number 1010-0071. These guidelines do not impose additional information collection requirements that would be subject to the Paperwork Reduction Act of 1995.

Dated: October 29, 1998



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