

already exists, is the most attractive source on the OCS of additional natural gas to meet the near and mid-term energy needs of the nation.

Summary of the Deep Gas Royalty Relief Program

This summary integrates the various components of our proposed royalty relief provisions for deep gas production in shallow water. On designated leases, we would suspend royalty payments after certain deep drilling activities and outcomes occur. A lease would be eligible to receive this royalty relief if it:

- (1) Was issued in a lease sale held before January 1, 2001;
- (2) Is located in the GOM entirely in water depths less than 200 meters on a block wholly west of 87 degrees, 30 minutes west longitude; and
- (3) Has not produced gas or oil from a well that commenced drilling before the publication date of this proposed

rule in the **Federal Register** with a completion 15,000 feet TVD SS or deeper.

A lease could qualify for a royalty suspension volume that may be applied to subsequent deep gas production from the lease, or allocated from other deep wells drilled after the date of this proposed rule in the **Federal Register**, if it:

- (1) Has completed a successful well 15,000 feet TVD SS or deeper that commenced drilling after the publication date of this proposed rule in the **Federal Register**; and
- (2) Has production of gas from that completed deep well before five years after the effective date of the final rule.

A lease could qualify for a royalty suspension supplement that may be applied to any subsequent gas and oil production from or allocated to the lease if it:

(1) Has an unsuccessful well that targets a reservoir on the lease at a depth of at least 18,000 feet TVD SS, and the drilling commenced after the publication date of this proposed rule in the **Federal Register** but no later than five years after the effective date of the final rule;

(2) Has started drilling that unsuccessful sub-18,000 foot well before producing from a deep well on the lease; and

(3) Receives subsequent confirmation from MMS that the drilling effort was deep enough but unsuccessful. We rely on data that the lessee provides within 60 days after the well reaches its total depth.

The following table shows the royalty suspensions, in BCF, we propose for various categories of leases that have not produced from wells deeper than 15,000 feet TVD SS.

ROYALTY SUSPENSION VOLUMES AND ROYALTY SUSPENSION SUPPLEMENTS FOR DEEP GAS
[0–200 meters water depth]

Reservoir depth (TVD SS)	For a successful qualified deep well, a lease receives	For an unsuccessful certified well, a lease receives
From 15,000 to less than 18,000 feet	15 BCF	None.
18,000 feet or deeper	25 BCF	5 BCF.

In addition, MMS is also soliciting comments on two other RSV levels. Option B would provide 10 BCF for wells 15,000–18,000 ft deep, and 25 BCF for wells >18,000 ft. Option C would provide 10 BCF for wells 15,000–18,000 ft deep, and 20 BCF for wells >18,000 ft. Both options B and C would result in less incremental production and a reduction in lost royalties. For a fuller discussion of the relative merits of these alternatives, please see the section addressing Executive Order 12866.

A lease could obtain up to two royalty suspension supplements plus the royalty suspension volume associated with the first successful qualified deep well to start production. Thus, a lease could earn the right to produce up to as much as 35 BCF of natural gas royalty free, that is, 10 BCF because of two unsuccessful wells and then 25 BCF from a successful well.

A lessee or successor lessee may apply any remaining royalty suspension volume from the lease's successful qualified deep well to any natural gas production from subsequent deep wells drilled and completed on the lease. However, the suspension amount allocated to deep gas wells less than 18,000 feet TVD SS cannot exceed 15 BCF.

Accordingly, a successful qualified deep well must be located on the lease before it may use any royalty suspension volume. Therefore, if a lease is in a unit and is allocated production from a deep well on another lease in the unit, the first lease will receive no royalty suspension volume unless it also has a successful qualified deep well. Further, once production begins from a successful qualified deep well on a lease, the lessee must use the applicable royalty suspension volume for all production from deep wells on or allocated to that lease and drilled after this rule is published in the **Federal Register**. In other words, the lessee cannot delay applying the royalty suspension volume to applicable production.

The royalty suspension supplement would be used against any gas and oil produced from the lease targeted by the unsuccessful certified well, however, the lessee first must file the information we need to confirm the supplement. A lessee would not obtain both a full royalty suspension volume and a full royalty suspension supplement from the same wellbore. If an unsuccessful certified well later produces, then any portion of the royalty suspension supplement taken (plus gas and oil produced during periods when gas

prices exceed the price threshold) would have to be subtracted from any royalty suspension volume earned. Also, the lessee could not use any remaining royalty suspension supplement earned from that wellbore.

The deep gas relief provisions for active leases would be subject to a natural gas threshold price of \$5 per million Btu, adjusted from year 2000 for inflation. If the average annual NYMEX natural gas price exceeds this adjusted level for that full calendar year, the lessee would have to pay full royalties on any production of natural gas or oil that would otherwise have royalties suspended due to royalty relief from a successful qualified deep well or royalty suspension supplements. Moreover, the volume produced during such a calendar year would count against the eligible royalty suspension volumes and royalty suspension supplements.

A shallow water lease issued in a sale held after January 1, 2001, but before the effective date of this final rule, may substitute the provisions proposed here for the deep gas incentive terms in the lease. If a lease is eligible and the lessee chooses to substitute, then the lessee would have to do so within 180 days of the final rule's effective date.