

(6) How much is MMS likely to save and at what cost in terms of drilling delayed or forgone as a result of employing this alternative allocation mechanism?

Procedural Matters

Public Comments Procedures

Our practice is to make comments, including names and home addresses of respondents, available for public review during regular business hours. Individual respondents may request that we withhold their name and home address from the rulemaking record, which we will honor to the extent allowable by law. If you wish us to withhold your name and/or address, you must state this prominently at the beginning of your comment. However, we will not consider anonymous comments. We will make all submissions from organizations or businesses, and from individuals identifying themselves as representatives or officials of organizations or businesses, available for public inspection in their entirety.

Regulatory Planning and Review (Executive Order 12866)

According to the criteria in Executive Order 12866, this rule is a significant regulatory action for which a Regulatory Analysis has been prepared. The Office of Management and Budget (OMB) has made that determination under Executive Order 12866.

(1) This preferred alternative proposed in this rule will have an economic effect of \$100 million or more by reducing consumer expenditures on natural gas by about \$280 million each year and may have a slightly adverse effect on other units of government. An economic analysis of this regulatory action was prepared and will be available at <http://www.mms.gov/econ>. This proposed rule reduces royalties for lessees that drill and produce natural gas from deep wells in shallow water areas of the GOM. The royalty suspension volumes offered should increase deep drilling activity on existing leases over the period of the program and make additional resources economic. The royalty suspensions will reduce net Federal royalty collections by about \$270 million in net present value.

The royalty relief program for deep gas drilling will have two distinct effects, recovery of some otherwise uneconomic gas resources and accelerated recovery of some marginally economic gas resources. Our data indicate that about 10 to 20 percent of the undiscovered gas resources in the

most prospective depths, *i.e.*, 18,000 TVD SS or deeper, could be converted from an unprofitable to profitable state by the incentives provided in this rule. We estimate that those resources are located in approximately 20 to 30 percent of undiscovered gas reservoirs.

We estimate that about one-fourth of the economically explorable gas reservoirs at drilling depths 18,000 feet TVD SS or deeper, would be drilled one to five years sooner if we implement the proposed royalty suspension volumes and royalty suspension supplements. These reservoirs are associated with less than 10 percent of the undiscovered resource. We estimate that the aggregate amount of undiscovered gas resources possibly affected at depths 18,000 feet TVD SS or deeper alone amount to over two TCF. Application of our proposed program to reservoirs in the 15,000 to less than 18,000-foot TVD SS range of drilling depth could affect another one to two TCF of gas. The deep drilling program will affect only a part of these resources in any one year.

(2) This rule will not create any inconsistencies with actions by other agencies because royalty relief is confined to leasing in Federal offshore waters that lie outside the coastal jurisdiction of State and other local agencies. Careful review of the lease sale notices along with stringent leasing policies now in force, ensure that the Federal OCS leasing program, of which royalty relief is only a component, does not conflict with the work of other Federal agencies.

(3) This rule may have a small effect on entitlements, grants, user fees, loan programs, or their recipients. The main effect will be to postpone royalty distributions. MMS distributes about one percent (\$40 million) of the OCS revenue it collects annually in the GOM to neighboring States under section 8(g) of the OCSLA. Royalty suspensions from the deep gas program could affect up to five percent of the total production from the GOM in any one year. If deep gas production occurs in the 8(g) zone at the same proportion as elsewhere in the GOM, these State grants could be reduced by \$1 to \$2 million per year for five to ten years. However, extra production that occurs because of the incentive will also provide extra royalties, mostly after the royalty suspension volumes have been produced. Ultimately, the extra royalties could fully offset the initial drop in both Federal and State royalties. This would occur if our program generates 25 percent more incremental gas resources than we estimated would occur in the most likely scenario.

(4) This rule raises a novel legal or policy issue. The royalty suspension supplement for an unsuccessful deep gas well expands the scope of royalty relief to reward efforts for exploration in frontier well depths whether or not they eventually produce. As explained earlier, we believe this creates a more cost-effective royalty relief program in this very risky environment.

In addition, royalty suspension volumes have been used for several years as an incentive to accelerate exploration and production in deep water. Application to deep gas is a logical extension of that policy. A well-defined program for deep-gas drilling is more administratively efficient than the elaborate case-by-case requirements of the application process for deepwater royalty relief. The focus here is on a very straightforward definition of well depth and circumstances to qualify for royalty relief.

An economic analysis of this regulatory action was developed in accordance with requirements associated with a major rule under executive order and statutory criteria. This analysis describes why market forces alone will not increase deep gas development in the short term, considers a range of possible royalty relief alternatives to serve that need, and analyzes the social benefits and costs and related transfer payments associated with several royalty suspension alternatives. Three options provide the highest level of added production and net social benefits. One, option A, is the level of royalty suspension proposed in this rule—15 BCF for successful wells to 15,000—18,000 feet TVD and 25 BCF for successful wells or 5 BCF for unsuccessful wells to 18,000 feet TVD or deeper. The two others provide a reduced level of royalty suspension. The second, option B, offers 10 BCF for successful wells to 15,000—18,000 feet TVD and 25 BCF of successful wells or 5 BCF for unsuccessful wells to 18,000 feet TVD or deeper. The third, option C, offers 10 BCF for successful wells to 15,000—18,000 feet TVD and 20 BCF of successful wells or 5 BCF for unsuccessful wells to 18,000 feet TVD or deeper. These three options performed much better on several criteria than alternatives which include higher suspension levels as a substitute for royalty relief for unsuccessful drilling.

We ranked alternatives based on estimates of their net social benefits. Net social benefits are the sum of the net gains to producers and consumers associated with the additional production attributable to this rule. These gains are measured as changes in