

(1) Notify the Production and Development Division of MMS in the GOM region (MMS-PD) of intent to commence drilling a deep well;

(2) Notify MMS-PD that production has commenced from the deep well and request confirmation of the size of royalty suspension volume;

(3) Provide MMS-PD with data from the deep well to confirm that the well drilled was an unsuccessful certified well and request supplement; and

(4) Notify MMS-PD of a decision to exercise an option to replace the deep gas royalty suspension terms in the lease document with the terms in the proposed rule.

The frequency of reporting is on occasion. Responses are voluntary but are required to obtain or retain a benefit. We will protect information considered proprietary according to 30 CFR 203.63(b) and 30 CFR 250.196.

Because this program is administered on a categorical rather than a lease-by-lease basis, minimal administrative time and cost is needed to qualify for royalty relief. The notifications in items (1) and (2) above only entail sending a letter affirming that an action which is a normal part of business operations has occurred. Item (3) involves sharing data from well logs and seismic surveys that the company would develop even in the absence of this rule as a normal part of its exploration business. The notification in item (4) involves making

a business decision about which of two alternative incentives best fit the prospects faced by the individual lease. The professional skills involved include those normally used in the operation of all OCS leases—geologists, geophysicists, engineers, and economists. Since no special analysis or independent review would be necessary to accomplish these compliance activities, we see very little burden on normal operations of either small or large companies. Beyond the paperwork notifications, there are no other compliance costs associated with this proposed rule.

The following passages and table are derived from our Paperwork Reduction Analysis. The proposed rule would increase the total paperwork hour burden of the 30 CFR part 203 regulations by 361 hours annually, spread across the entire industry. Based on a cost factor of \$50 per hour, the burden of the new paperwork requirements would be \$18,050 for the entire industry. This cost pales in comparison to the \$10 to \$20 million that it costs to drill a single well on the OCS to the deep depths covered by this proposed rule. As explained in the detailed economic analysis of this regulation, we estimate profits to both large and small entities will increase an average of over \$33 million per year. The small business proportional share would be \$23 million. So, even if small

businesses were to bear 100 percent of this compliance costs, it would represent less than 1/10th of one percent of the average annual gross benefits obtained by small business in the form of their proportional share of added industry profits. The last subsection of this Regulatory Flexibility section mentions two reasons, *i.e.*, risk sharing and location advantages, to think that small OCS entities could get a disproportionate share of the large benefits of this rule, so small entities could get significant positive net benefits from this rule as well. Furthermore, choosing to engage in this program, and hence incurring the nominal compliance cost, is voluntary. Non-participation is not detrimental, since companies that choose not to participate are no worse off than they would be in the absence of the rule.

Except for the row associated with § 48(b), these annual measures of burden costs cover the 5 to 6 years in which the incentive would be effective. The switch option of § 48(b) is only available for 6 months after the rule becomes effective. We assume the small business share of compliance costs is proportional to the maximum small business presence in offshore activities, *i.e.*, 70 percent. This means that small business would incur up to 253 burden hours in year 1 and 204 burden hours in years 2 through 6.

INDUSTRY BURDEN BREAKDOWN

30 CFR 203 section	Reporting requirement	Hour burden	Annual number	Annual burden hours
43(a), 46(a)	Notify MMS of intent to commence drilling	1	189	89
43(b)(1)(2)	Notify MMS that production has commenced and request confirmation of the size of royalty suspension volume.	2	125	50
46(b)(1)(2)	Provide data from well to confirm and attest well drilled was an unsuccessful certified well and request supplement.	8	219	152
48(b)	Notify MMS of decision to exercise option to replace one set of deep gas royalty suspension terms for another set of such terms.	2	135	70
Total reporting burden—1 year			³ 168	361
Total reporting burden—2–6 years			³ 133	291

¹ Notices.

² Submissions

³ Responses.

Federal Rules That May Duplicate, Overlap or Conflict With the Proposed Rule

We are not aware of any Federal rules that conflict with the proposed rule. Two other kinds of royalty relief apply to OCS leases, but do not overlap this proposed rule. Deep water royalty relief has been granted to leases in water at least 200 meters deep in the GOM since 1996, but no leases covered by this

proposed rule are eligible for deep water royalty relief. Also, any OCS lease may apply for royalty reduction when it nears the end of its economic life, but this form of relief is only relevant to mature production on a lease, not to development of new reservoirs covered by this proposed rule.

A different royalty relief incentive for deep gas drilling has been included for newly issued leases in the five OCS

lease sales held since the beginning of 2001. This incentive is not available to older leases issued before 2001, so they do not overlap the main set of leases targeted by this rule. However, a provision of this proposed rule allows newly issued leases a one-time option to switch to the incentives in this proposed rule. This switching provision is included to be fair and is voluntary. Lessees paid a premium in their bid for