

- The one-time notice of a switch to the proposed deep gas incentive terms § 203.48(b); and

- Our assumptions that:

- (1) Small entities are more prevalent in the shallow water than the deep water GOM;

- (2) The risk, cost, and technical complexity of deep drilling is more like that found in deep water development than in traditional shallow water development; and

- (3) The royalty suspension supplement tends to be more valuable to small entities with fewer deep drilling opportunities than large entities that have more deep drilling opportunities.

Small Business Regulatory Enforcement Fairness Act (SBREFA)

This rule is a major rule under 5 U.S.C. 804(2), the SBREFA. This rule:

- (1) Does have an annual effect on the economy of \$100 million or more. This rule introduces a royalty relief program for deep gas that will save consumers \$200 million annually for about a decade. Based on the EIA price projections, the reduction in royalty collected by the Federal government under the revised rulemaking would exceed the \$100 million per year threshold in five out of 16 years in which meaningful amounts of program related production are generated. The benefits of the rule on the economy more than offset the royalty losses. A comparison of two types of production provides a proxy measure of this net social benefit. We estimate the magnitude of new gas production that ultimately occurs because of the incentive in the rule is about 1.4 times the size of gas production on which the government forgoes royalty. The government only forgoes royalty on production that would have occurred anyway without the incentive.

Moreover, consumers of natural gas will benefit from additional domestic gas supplies and have lower market prices.

More lessees may take advantage of the proposed new deep gas royalty relief provisions over the next few years than have ever applied for end-of-life or deepwater royalty relief. However, the incremental drilling and production induced by this royalty relief will be small relative to total gas drilling and production in the GOM. The main thrust of the initiative is to increase and help accelerate new gas production to promote timely production otherwise inhibited. Even a small moderation of prices due to added deep gas production would result in a significant savings in gas expenditures and dampen natural gas prices in the market. Further, the proposed rule would impose no costs on

any local or private entity, but may initially impose some small costs (\$1 to \$2 million per year) on Gulf coast States in the form of reduced payments under Section 8(g) of the OCSLA. However, production that otherwise would not occur will result from these incentives. That production will produce extra royalty payments, mostly after the royalty suspension volumes have been produced. Participation in the program by lessees is voluntary.

We consider the key adverse economic effect of this program with regard to the \$100 million dollar annual benchmark to be forgone Federal royalties on deep gas production that would have been generated without this program. Since lower royalties mean more taxable income to companies, we measure the effect on forgone Federal revenues net of tax increases, assuming a 25 percent tax rate. Note that this is a transfer payment so that the government loss is also an operator gain from pursuing a socially desirable activity—deep gas production.

We forecast that without the proposed deep gas royalty relief program, 37 wells would be drilled annually to depths of 15,000 to 18,000 feet TVD SS and 11 wells to drilling depths below 18,000 feet TVD SS. Based on trends in drilling deep depths during the past 10 years in shallow water, we expect 12 successful wells in the 15,000 to 18,000 feet TVD SS drilling depth and 3 successful wells at deep drilling depths below 18,000 feet TVD SS without the incentive. We assume all these new successful deep wells are on different leases. With the incentive, we estimate there would be 35 wells drilled to depths below 18,000 feet TVD SS, of which 28 would be unsuccessful, and 19 of them on leases having other production to which the royalty suspension supplement could be used.

Annually over the 2003 through 2009 period, the absence of our deep gas royalty relief program could thereby save the government about 350 BCF in new royalty suspension volumes ($12 * 15 + 3 * 25 + 19 * 5$) awarded for drilling activities that would have occurred anyway. These savings may decline before the program ends in about 2009 because of the availability of less prospective reservoirs in later years of the program. Further, in any one year, only about 20 to 25 percent of the accrued amount of royalty suspension volumes could actually be used.

Offsetting most of these initial royalty losses are the extra royalties in later years on production beyond the royalty suspension volume from additional reserves discovered because of the incentive. Along with the incremental

24 wells (35–11) annually to drilling depths below 18,000 feet TVD SS, we expect 17 incremental wells (54–37) would be drilled annually to depths of 15,000 to 18,000 feet TVD SS. We estimate these incremental wells ultimately will lead to production of about 2.3 TCF, of which 0.7 would be royalty-free and 1.6 TCF would be royalty-bearing. We anticipate that the royalties on this 1.6 TCF of production will begin in about 2010 and continue until about 2025. Further offsetting benefit also comes from extra profits from production that would otherwise not occur.

A detailed economic analysis of this regulatory action was prepared and will be available at <http://www.mms.gov/econ>. This economic analysis explains our monetary calculations.

- (2) Will not cause a major increase in costs or prices for consumers, individual industries, Federal, State, or local government agencies, or geographic regions. The deep gas incentive should materially moderate expected gas prices by adding to the overall supply.

- (3) Does not have significant adverse effects on competition, employment, investment, innovation, or the ability of United States-based enterprises to compete with foreign-based enterprises. Companies eligible for the proposed deep gas royalty relief should produce more natural gas and earn more income, while encountering no negative effects.

Paperwork Reduction Act (PRA) of 1995

The proposed rule requires information collection (IC), and an IC request (form OMB 83–I) has been submitted to OMB for review and approval under section 3507(d) of the PRA. The title of the collection of information is “Proposed Rulemaking—30 CFR 203, Deep Gas Provisions.” Respondents include approximately 130 Federal OCS oil and gas lessees. The frequency of reporting is on occasion. Responses are required to obtain or retain a benefit. The IC does not include questions of a sensitive nature. We will protect information considered proprietary according to 30 CFR 203.63(b) and 30 CFR 250.196.

OMB approved the information collection requirements in the current 30 CFR 203 regulations under control number 1010–0071, with a current expiration date of September 30, 2003. The following table lists the proposed new IC requirements and respective burdens. The proposed rule would increase the total paperwork hour burden of the 30 CFR part 203 regulations by 361 hours. Based on a