

## SUMMARY TABLE OF MINIMUM BIDS, MINIMUM ROYALTY RATES AND RENTAL RATES

Terms (values per hectare)	Zone A	Zone B
Royalty Rate .....	12½% fixed .....	12½% fixed
Minimum Bid .....	\$37.50 .....	\$25.00
Minimum Royalty .....	\$13.00 .....	\$13.00
Rental Rates:		
Year 1 .....	\$7.50 .....	\$2.50
Year 2 .....	\$7.50 .....	\$3.75
Year 3 .....	\$7.50 .....	\$5.00
Year 4 .....	\$7.50 .....	\$6.25
Year 5 .....	\$7.50 .....	\$7.50
Year 6 .....	\$12.00 .....	\$10.00
Year 7 .....	\$17.00 .....	\$12.00
Year 8 .....	\$22.00 .....	\$15.00
Year 9 .....	\$30.00 .....	\$17.00
Year 10 .....	\$30.00 .....	\$20.00

**Royalty Suspension Areas:** Royalty suspension provisions apply to first oil production. Royalty suspensions on the production of oil and condensate, prorated by lease acreage and subject to price thresholds, will apply to all blocks. Royalty suspension volumes (RSV) are based on 2 zones, Zone A and Zone B, as depicted on the Locator Map and listed in the document "Blocks Available for Leasing in the Beaufort Sea OCS Oil and Gas Lease Sale 186." More specific details regarding royalty suspension eligibility, applicable price thresholds and implementations are included in the document "Royalty Suspension Provisions, Sale 186" in the final NOS 186 package. Minimum royalty requirements apply during RSV periods. Depending on surface area and zone, leases will receive a RSV as follows:

Hectares	Zone A million barrels RSV	Zone B million barrels RSV
770 or less .....	10	15
771–1540 .....	20	30
1541 or above .....	30	45

The RSV only applies to liquid hydrocarbon production, *i.e.*, oil and condensates. Natural gas volumes that leave the lease are subject to original lease-specified royalties. The market value of natural gas will be determined by MMS's Minerals Revenue Management (MRM) office. MRM will value the natural gas from Sale 186 based on its potential uses and applicable market characteristics at the time the gas is produced.

The lessee must pay royalty on production that would otherwise receive royalty suspension from automatic relief (in 30 CFR 260), and such production will count towards the RSV, in any calendar year during which

the arithmetic average of the daily closing prices for the nearby delivery month on the New York Mercantile Exchange (NYMEX) for oil exceeds the adjusted product price threshold.

(a) The adjusted ceiling price threshold for light sweet crude oil in any year, say *t*, is determined by inflating an oil price of \$28 per barrel beginning in base year 1994. This base year price is modified by the percentage change in the implicit price deflator for the interval between 1994 and year *t*, resulting in the adjusted oil price threshold for year *t*. For example, if the deflator from 1994 through 2003 indicates that inflation totaled 15 percent, then the adjusted price threshold in calendar year 2003 would become \$32.20 per barrel for oil. Royalty on all oil production in calendar year 2003 would be due if the 2003 average NYMEX oil price exceeded \$32.20 per barrel.

(b) MMS will provide notice when adjusted price thresholds are exceeded.

(c) In cases where the actual average price for the product exceeds the adjusted price threshold in any calendar year, royalties must be paid in the following calendar year. (See 30 CFR 260.122(c) for more detail.)

A fixed oil price floor applies, below which oil and condensate would be produced both royalty-free except for the required minimum royalty of \$13 per hectare, and would not count against the RSV. Until the total RSV allocation is exhausted, if the arithmetic average of the daily closing oil prices for the specified time period is below the price floor, then any oil produced during that time period would be royalty-free and would not be subtracted from the lease's remaining RSV. If the arithmetic average of the daily closing oil prices falls below the floor price after the original RSV is exhausted, the lessee

receives no additional royalty-free production.

(a) The price floor for light sweet crude oil is set at a fixed \$18 per barrel with no adjustment for inflation. The comparison with the price floor is based on the arithmetic average of the daily closing prices for the "nearby delivery month" on the NYMEX for light sweet crude oil with no adjustments for inflation. "The period of assessment" for which the average daily prices are calculated is a quarter of a calendar year with the calendar year quarters being January–March, April–June, July–September, and October–December.

(b) MMS will provide notice in the **Federal Register** or directly to lessees when the average NYMEX quarterly oil price is below \$18 per barrel.

The price ceiling and floor provisions expire when aggregate production excluding floor production volumes of oil (and condensate) has used up the lease's original RSV amount.

For purposes of the RSV, a lease operating under an approved unit agreement must have its own qualifying well, as defined in 30 CFR 250.115. Otherwise, production allocated to it from a well in another lease in the unit is not eligible for royalty relief.

Stipulations and Information to Lessees: The documents entitled "Lease Stipulations for Oil and Gas Lease Sale 186" and "Information to Lessees for Oil and Gas Lease Sale 186" contain the text of the Stipulations and the Information to Lessees that apply to this sale. This document is included in the FNOS 186 package.

Method of Bidding: Procedures for the submission of bids in Sale 186 are described in paragraph (a) below. Procedures for the submission bids for the four blocks in the Disputed Portion of the Beaufort Sea will differ as described in paragraph (b) below.