

§ 203.1

Sunk costs means costs (as specified in 30 CFR 203.89(a)) of exploration, development, and production that you incur after the date of first discovery on the field and before the date we receive your complete application for royalty relief. Sunk costs include the costs of the discovery well qualified as producible under 30 CFR part 250, subpart A but do not include any pre-discovery activity costs or lease acquisition and holding costs such as cash bonus and rental payments.

Withdraw means action we take on a field that has qualified for relief if you have not met one or more of the performance conditions.

§ 203.1 What is MMS's authority to grant royalty relief?

The Outer Continental Shelf (OCS) Lands Act, 43 U.S.C. 1337, as amended by the OCS Deep Water Royalty Relief Act (DWRRA), Public Law 104-58, authorizes us to grant royalty relief in three situations.

(a) Under 43 U.S.C. 1337(a)(3)(A), we may reduce or eliminate any royalty or a net profit share specified for an OCS lease to promote increased production.

(b) Under 43 U.S.C. 1337(a)(3)(B), we may reduce, modify, or eliminate any royalty or net profit share to promote development, increase production, or

encourage production of marginal resources on certain leases or categories of leases. This authority is restricted to leases in the Gulf of Mexico (GOM) that are west of 87 degrees, 30 minutes West longitude.

(c) Under 43 U.S.C. 1337(a)(3)(C), we may suspend royalties for designated volumes of new production from any lease if:

(1) Your lease is in deep water (water at least 200 meters deep);

(2) Your lease is in designated areas of the GOM (west of 87 degrees, 30 minutes West longitude);

(3) Your lease was acquired in a lease sale held before the DWRRA (before November 28, 1995);

(4) We find that your new production would not be economic without royalty relief; and

(5) Your lease is on a field that did not produce before enactment of the DWRRA, or if you propose a project to significantly expand production under a Development Operations Coordination Document (DOCD) or a supplementary DOCD, that MMS approved after November 28, 1995.

§ 203.2 When can I get royalty relief?

We can reduce or suspend royalties for OCS leases or projects that meet the criteria in the following table.

IF YOU HAVE A LEASE—	AND IF YOU—	THEN YOU MAY BE GRANTED—
That generates earnings which cannot sustain production (<i>End-of-Life lease</i>),.	Seek to increase production by operating the lease beyond the point at which it is economic under the existing royalty rate,.	A reduced royalty rate on current production flows along with a higher royalty rate on some additional production flows.
In designated areas of the deep water GOM, acquired in a lease sale held before November 28, 1995, and you propose activity in a DOCD or supplement to significantly expand production,.	Are producing and seek to increase ultimate recovery of resources from the field with a substantial investment (e.g., platform, multiple wells, subsea template) (<i>an expansion project</i>),.	A royalty suspension for an increment to production large enough to make the project economic.
In designated areas of the deep water GOM, acquired in a lease sale held before November 28, 1995 (<i>pre-Act lease</i>),.	Are on a field from which no current pre-Act lease produced (other than test production) before November 28, 1995 (<i>authorized field</i>),.	A royalty suspension for a minimum production volume plus any additional volume needed to make the field economic.

§ 203.3 Why must I pay a fee to request royalty relief?

(a) When you submit an application or ask for a preview assessment, you must include a fee to reimburse us for our costs of processing your application or assessment. Federal policy and law require us to recover the cost of services that confer special benefits to

identifiable non-Federal recipients. The Independent Offices Appropriation Act (31 U.S.C. 9701), Office of Management and Budget Circular A-25, and the Omnibus Appropriations Bill (Pub. L. 104-133, 110 Stat. 1321, April 26, 1996) authorize us to collect these fees.

(b) We will specify the necessary fees for each of the types of royalty-relief applications and possible MMS audits

Minerals Management Service, Interior

§ 203.4

in a Notice to Lessees. We will periodically update the fees to reflect changes in costs as well as provide other information necessary to administer royalty relief.

§ 203.4 How do the provisions in this part apply to different types of leases and projects?

The tables in this section summarize how similar provisions in this part apply in different situations.

(a) Provisions relating to application content in §§ 203.51, 203.62 and 203.81 through 203.89.

Information elements	End-of-life lease	Deep water expansion project	Pre-act deep water lease
Administrative information report	x	x	x
Net revenue and relief justification report (prescribed format)	x		
Economic viability and relief justification report (Royalty Suspension Viability Program (RSVP) model inputs justified with Geological & Geophysical (G&G), Engineering, Production, & Cost reports)		x	x
G&G report		x	x
Engineering report		x	x
Production report		x	x
Deep Water cost report		x	x

(b) Provisions relating to verification in §§ 203.70, 203.81 and 203.90 through 203.91.

Confirmation elements	End-of-life lease	Deep water expansion project	Pre-act deep water lease
Fabricator's confirmation report		x	x
Post-production development report (approved by certified public accountant (CPA)		x	x

(c) Provisions relating to approval criteria contained in §§ 203.50, 203.52, 203.60 and 203.67.

Approval conditions	End-of-life lease	Deep water expansion project	Pre-act deep water lease
At least 12 of the last 15 months have the required level of production	x		
Already producing	x	x	
Well can produce			x
Royalties for qualifying months exceed 75 percent of net revenue (NR)	x		
Substantial investment (e.g., platform, multiple wells, subsea template)		x	
Determined to be economic only with relief		x	x

(d) Provisions related to redetermination in §§ 203.52 and 203.74 through 203.75.

Redetermination conditions	End-of-life lease	Deep water expansion project	Pre-act deep water lease
After 12 months under current rate, criteria same as for approval	x		
For material change in geologic data, prices, or costs		x	x