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(6) Fees for your royalty relief application; and

(7) Costs associated with existing obligations (e.g., royalty overrides or other forms of payment for acquiring the lease, depreciation on previously acquired equipment or facilities).

(c) We may, in reviewing and evaluating your application, disallow costs when you have not shown they are necessary to operate the lease, or if they are inconsistent with end-of-life operations.

[63 FR 2618, Jan. 16, 1998, as amended at 63 FR 57249, Oct. 27, 1998]

§ 203.85 What is in an economic viability and relief justification report?

This report should show that your project appears economic without royalties and sunk costs using the RSVP model we provide. The format of the report and the assumptions and parameters we specify are found in the "Guidelines for the Application, Review, Approval and Administration of the Deep Water Royalty Relief Program," U.S. Department of the Interior, MMS. Clearly justify each parameter you set in every scenario you specify in the RSVP. You may provide supplemental information, including your own model and results. The economic viability and relief justification report must contain the following items for an oil and gas lease.

(a) Economic assumptions we provide which include:

- (1) Starting oil and gas prices;
- (2) Real price growth;
- (3) Real cost growth or decline rate, if any;
- (4) Base year;
- (5) Range of discount rates; and
- (6) Tax rate (for use in determining after-tax sunk costs).

(b) Analysis of projected cash flow (from the date of the application using annual totals and constant dollar values) which shows:

- (1) Oil and gas production;
- (2) Total revenues;
- (3) Capital expenditures;
- (4) Operating costs;
- (5) Transportation costs; and
- (6) Before-tax net cash flow without royalties, overrides, sunk costs, and ineligible costs.

(c) Discounted values which include:

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(1) Discount rate used (selected from within the range we specify).

(2) Before-tax net present value without royalties, overrides, sunk costs, and ineligible costs.

(d) Demonstrations that:

(1) All costs, gross production, and scheduling are consistent with the data in the G&G, engineering, production, and cost reports (§§ 203.86 through 203.89) and

(2) The development and production scenarios provided in the various reports are consistent with each other and with the proposed development system. You can use up to three scenarios (conservative, most likely, and optimistic), but you must link each to a specific range on the distribution of resources from the RSVP Resource Module.

§ 203.86 What is in a G&G report?

This report supports the reserve and resource estimates used in the economic evaluation and must contain each of the following elements.

(a) Seismic data which includes:

(1) Non-interpreted 2D/3D survey lines reflecting any available state-of-the-art processing technique in a format readable by MMS and specified by the deep water royalty relief guidelines;

(2) Interpreted 2D/3D seismic survey lines reflecting any available state-of-the-art processing technique identifying all known and prospective pay horizons, wells, and fault cuts;

(3) Digital velocity surveys in the format of the GOM region's letter to lessees of 10/1/90;

(4) Plat map of "shot points;" and

(5) "Time slices" of potential horizons.

(b) Well data which includes:

(1) Hard copies of all well logs in which—

(i) The 1-inch electric log shows pay zones and pay counts and lithologic and paleo correlation markers at least every 500-feet,

(ii) The 1-inch type log shows missing sections from other logs where faulting occurs,

(iii) The 5-inch electric log shows pay zones and pay counts and labeled points used in establishing resistivity of the formation, 100 percent water