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MMS Responds to Record Low Oil Prices With Royalty Relief Modifications

The U.S. Department of the Interior's Minerals Management Service (MMS) has updated two Notice to Lessees (NTL) to help the domestic industry adjust to and survive low prices. "Oil prices, adjusted for inflation, are down to levels last seen in the early 1970's. While benefitting consumers generally, unanticipated price drops have some adverse consequences for society," said Carolita Kallaur, Associate Director, Offshore Energy and Minerals Management Program. "When the price of oil falls, it can simply make continued production of a given oil field uneconomic. MMS would like to make sure that industry has every opportunity to make a project economic rather than the nation losing the oil and gas resources that would be left behind if the wells are abandoned early," added Kallaur. With the two NTLs, MMS has taken two important steps to ease the number of early abandonments, and to lower the threshold needed to qualify for royalty relief.

For the second time in five months, MMS lowered price forecasts used by existing leaseholders that apply for deep water royalty relief. Fields in water deeper than 200 meters in the Central and Western Gulf of Mexico (GOM) that demonstrate economic need at these prices qualify for suspension of royalty payments. MMS has reduced its 1999 estimate price to better reflect prices companies are currently experiencing. "MMS anticipates that industry's continued interest in deep water development in the GOM will help slow the trend of declining domestic production and rising oil imports, plus provide important economic benefits to the region and the entire nation," said Kallaur.

MMS has revised its guidelines for those applying for deep water and end-of-life royalty relief. In addition, MMS has identified the need for relief outside these formal programs. Under the formal process for instance, a lessee who has invested significant resources to lower production costs would be required to wait at least a year before applying for end-of-life royalty relief. Under the new approach, a lessee who has made a commitment of capital and meets additional criteria would be able to apply immediately during this period of low oil prices. End-of-life royalty relief and exceptional circumstance relief are aimed at situations where resources would be prematurely abandoned without the relief being granted.

MMS is the Federal agency that manages and regulates the Nation's natural gas, oil and other mineral resources on the Outer Continental Shelf; and collects, accounts for, and last year disbursed about \$6 billion in revenues from offshore Federal mineral leases and from onshore mineral leases on Federal and Indian lands.

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