

DEPARTMENT OF THE INTERIOR

Minerals Management Service (MMS)

Outer Continental Shelf (OCS) Central Gulf of Mexico (GOM) Oil and Gas Lease Sale 198

AGENCY: Minerals Management Service, Interior

ACTION: Proposed Notice of Sale (NOS) 198

SUMMARY: The MMS proposes to hold Central GOM Oil and Gas Lease Sale 198 on Wednesday, March 15, 2006, in accordance with provisions of the OCS Lands Act (43 U.S.C. 1331-1356, as amended) and the regulations issued thereunder (30 CFR Part 256).

DATES: The MMS proposes to hold Central GOM Oil and Gas Lease Sale 198 on March 15, 2006, at a site to be determined. Public bid reading is scheduled to begin at 9 a.m. All times referred to in this document are local times, unless otherwise specified.

ADDRESSES: The Proposed Notice of Sale 198 Package (NOS 198 Package) contains information essential to potential bidders. Interested parties can obtain a Package by writing or calling the:

Gulf of Mexico Region Public Information Unit
Minerals Management Service
1201 Elmwood Park Boulevard
New Orleans, Louisiana 70123-2394
Telephone: (504) 736-2519 or (800) 200-GULF
MMS Homepage Address on the Internet: www.mms.gov

BID SUBMISSION DEADLINE: Bidders will be required to submit bids to the MMS by 10 a.m. on the day before the lease sale, Tuesday, March 14, 2006. The MMS will specify procedures for bid submission in the final NOS 198.

PROPOSED LEASE SALE AREA: The MMS proposes to offer for bid in this lease sale all of the unleased acreage in the Central GOM Planning Area except:

Blocks which are beyond the United States Exclusive Economic Zone in the area known as the Northern portion of the Eastern Gap:

Lund South (Area NG16-07)

Blocks:

172 and 173

213 through 217

252 through 261
296 through 305
349

Whole and partial blocks which lie within the 1.4 nautical mile buffer zone north of the continental shelf boundary between the United States and Mexico:

Amery Terrace (Area NG15-09)

Whole Blocks:

280 and 281
318 through 320
355 through 359

Partial Blocks:

235 through 238
273 through 279
309 through 317

STATUTES AND REGULATIONS: Each lease issued in this lease sale is subject to the OCS Lands Act of August 7, 1953, 67 Stat. 462; 43 U.S.C. 1331 et seq., as amended (92 Stat. 629), hereinafter called "the Act"; all regulations issued pursuant to the Act and in existence upon the Effective Date of the lease; all regulations issued pursuant to the statute in the future which provide for the prevention of waste and conservation of the natural resources of the OCS and the protection of correlative rights therein; and all other applicable statutes and regulations.

LEASE TERMS AND CONDITIONS: Initial period, extensions of initial period, minimum bonus bid amount, rental rates, royalty rates, minimum royalty, and royalty suspension areas are shown on the map "Lease Terms and Economic Conditions, Lease Sale 198, Proposed" for leases resulting from this lease sale:

Initial Period: 5 years for blocks in water depths of less than 400 meters; 8 years for blocks in water depths of 400 to less than 800 meters (pursuant to 30 CFR 256.37, commencement of an exploratory well is required within the first 5 years of the initial 8-year term to avoid lease cancellation); and 10 years for blocks in water depths of 800 meters or deeper;

Extensions of Initial Period: Extensions may be granted for eligible leases on blocks in water depths of less than 400 meters as specified in NTL No. 2000-G22;

Minimum Bonus Bid Amount: A bonus bid will not be considered for acceptance unless it provides for a cash bonus in the amount of \$25 or more per acre or fraction thereof for blocks in water depths of less than 400 meters or \$37.50 or more per acre or fraction thereof for blocks in water depths of 400 meters or deeper; to confirm the exact calculation of the minimum bonus bid amount for each block, see "List of Blocks Available for Leasing" which will be contained in the final NOS 198 Package;

Rental Rates: \$6.25 per acre or fraction thereof for blocks in water depths of less than 200 meters and \$9.50 per acre or fraction thereof for blocks in water depths of 200 meters or deeper, to be paid on or before the first day of each lease year until a discovery in paying quantities of oil or gas, then at the expiration of each lease year until the start of royalty-bearing production;

Royalty Rates: 16-2/3 percent royalty rate for blocks in water depths of less than 400 meters and a 12-1/2 percent royalty rate for blocks in water depths of 400 meters or deeper, except during periods of royalty suspension, to be paid monthly on the last day of the month next following the month during which the production is obtained;

Minimum Royalty: After the start of royalty-bearing production: \$6.25 per acre or fraction thereof per year for blocks in water depths of less than 200 meters and \$9.50 per acre or fraction thereof per year for blocks in water depths of 200 meters or deeper, to be paid at the expiration of each lease year with credit applied for actual royalty paid during the lease year. If actual royalty paid exceeds the minimum royalty requirement, then no minimum royalty payment is due;

Royalty Suspension Areas: Royalty suspension, subject to deep gas price thresholds, will apply to blocks in water depths less than 400 meters where deep gas (typically 15,000 feet or greater subsea) is drilled and commences production before May 3, 2009. The Energy Policy Act of 2005 provided additional royalty relief for ultra deep gas wells and extended the water depth to less than 400 meters for deep gas wells. In addition, subject to both oil and gas price thresholds, royalty suspension will apply in water depths of 400 meters or deeper. See the map "Lease Terms and Economic Conditions, Lease Sale 198, Proposed" for specific areas and the "Royalty Suspension Provisions, Lease Sale 198, Proposed" document contained in the PNOS 198 Package for specific details regarding royalty suspension eligibility, applicable price thresholds and implementation.

LEASE STIPULATIONS: The map "Stipulations and Deferred Blocks, Lease Sale 198, Proposed" depicts the blocks on which one or more of nine lease stipulations apply: (1) Topographic Features; (2) Live Bottoms; (3) Military Areas; (4) Blocks South of Baldwin County, Alabama; (5) Law of the Sea Convention Royalty Payment; (6) Protected Species; (7) Limitation on Use of Seabed and Water Column in the Vicinity of the Approved Port Pelican Offshore Liquefied Natural Gas (LNG) Deepwater Port Receiving Terminal; (8) Below Seabed Operations on Mississippi Canyon Block 920; and (9) Limitation on Use of Seabed and Water Column in the Vicinity of an Approved Research Facility for Gas Hydrates (Mississippi Canyon Block 118 Surface-Use). The texts of the lease stipulations are contained in the document "Lease Stipulations for Oil and Gas Lease Sale 198, Proposed" included in the PNOS 198 Package. In addition, the "List of Blocks Available for Leasing" which will be contained in the final NOS 198 Package will identify for each block listed the lease stipulations applicable to that block.

INFORMATION TO LESSEES: The PNOS 198 Package contains an "Information To Lessees" document which provides detailed information on certain specific issues pertaining to this proposed oil and gas lease sale.

BONUS BID DEPOSIT: Each bidder submitting an apparent high bid must submit a bonus bid deposit to the MMS equal to one-fifth of the bonus bid amount for each such bid. Under the authority granted by 30 CFR 256.46(b), the MMS requires bidders to use electronic funds transfer procedures for payment of one-fifth bonus bid deposits for Lease Sale 198. Such payment will be due by 11:00 a.m. Eastern Time the day following bid reading. In addition, certain bid submitters [i.e., those that are NOT currently an OCS mineral lease record title holder or designated operator OR those that have ever defaulted on a one-fifth bonus bid payment (EFT or otherwise)] will be required to guarantee (secure) their one-fifth bonus bid payment prior to the submission of bids. Detailed bid deposit procedures for final NOS 198 will be found within the "Instructions for Making EFT Bonus Payments" document on the MMS website.

GEOPHYSICAL DATA AND INFORMATION STATEMENT: Pursuant to 30 CFR 251.12, the MMS has a right to access geophysical data and information collected under a permit in the OCS.

Every bidder submitting a bid on a block in Sale 198, or participating as a joint bidder in such a bid, must submit a Geophysical Data and Information Statement identifying any processed or reprocessed pre- and post-stack depth migrated geophysical data and information in its possession or control and used in the evaluation of that block. The existence, extent (i.e., number of line miles for 2D or number of blocks for 3D) and type of such data and information must be clearly identified. The statement must include the name and phone number of a contact person, and an alternate, knowledgeable about the depth data sets (that were processed or reprocessed to correct for depth) used in evaluating the block. In the event such data and information includes data sets from different timeframes, you should identify only the most recent data set used for block evaluations.

The statement must also identify each block upon which a bidder participated in a bid but for which it does not possess or control such depth data and information.

The MMS will specify additional detailed procedures in the final NOS 198 Package regarding these geophysical data and information statements. Please also refer to NTL No. 2003-G05 for more detail concerning submission of the Geophysical Data and Information Statement, making the data available to the MMS following the lease sale, preferred format, reimbursement for costs, and confidentiality.

UPCOMING MILESTONES: After the Governors of the affected states (Mississippi, Alabama, Louisiana, and Texas), have had an opportunity to comment on the size, timing, or location of the proposed lease sale, as required by section 19 of the Act, the Assistant Secretary, Land and Minerals Management will make a decision on the final NOS 198. The Department of the Interior reserves the right to revise the areas proposed for bidding and associated terms and conditions described in this proposed notice. If the Assistant Secretary decides to proceed with the lease sale, a final NOS for Central GOM Oil and Gas Lease Sale 198 will be published in the

Federal Register at least 30 days prior to the date of the public bid reading. A final NOS 198 Package containing all lease sale terms and conditions and detailed instructions to bidders will also be available at that time from the MMS Gulf of Mexico Public Information Unit and on our website at www.mms.gov.