

DEPARTMENT OF THE INTERIOR**Minerals Management Service****Mid-term Assessment of the New Leases Provision in the Outer Continental Shelf (OCS) Deep Water Royalty Relief Act**

AGENCY: Office of the Assistant Secretary, Land and Minerals Management.

ACTION: Notice of Workshop to discuss an assessment of the new leases provision of the OCS Deep Water Royalty Relief Act.

SUMMARY: Implementation of section 304 of the OCS Deep Water Royalty Relief Act (DWRRA), the provision related to OCS lease sales in the Gulf of Mexico (GOM) held after the date of enactment, is about at the half way point in its 5 year authorized period. The Assistant Secretary for Land and Minerals Management (ASLM) is the official responsible for administering and overseeing the offshore oil and gas program for the Secretary of the Interior (Secretary). The ASLM is interested in assessing the contribution that the new lease provision has made to the levels of bidding activity observed in the deep water areas of the GOM. Taken in conjunction with recent changes in technological development, market conditions, and a number of other factors prevalent in current deep water operations, the ASLM would like to determine whether modifications in the terms and conditions of deep water leases issued in 1999 and 2000 may be warranted. Additionally, the ASLM is interested in assessing whether the new lease provision should be continued beyond the current 5-year period, and if so, in what form. A public workshop will be held to discuss these issues.

DATES: Assistant Secretary Robert Armstrong will chair the workshop which will be held on Monday, June 29, 1998, from 1:00 p.m. to 5:30 p.m. Written comments received within 60 days after the workshop is held will be considered and made part of the record.

ADDRESSES: The workshop will be held at the Sheraton Crown Hotel & Conference Center, 15700 John F. Kennedy Blvd., Houston, Texas 77032. The telephone number is (281) 442-5100. Mail or hand carry comments to the Department of the Interior; Minerals Management Service; [Mail Stop 5114; 1201 Elmwood Park Blvd., New Orleans, Louisiana 70123; Attention: Thierry M. De Cort, Supervisor, Resource and Economic Analysis Unit, or send comments via e-mail to

thierry.decort@mms.gov or Fax to (504)736-2905.]

FOR FURTHER INFORMATION CONTACT: Thomas R. Kitsos, Staff Assistant, Office of ASLM, at (202) 208-5220, e-mail to thomas.kitsos@mms.gov, or Fax to (202) 208-3144 or (202) 208-6243.

Background

On November 28, 1995, President Clinton signed Public Law 104-58, which included the DWRRA. The new law carries a number of discretionary and mandatory provisions related to the granting, by the Secretary, of royalty relief on existing and new deep water leases in the GOM, west of 87 degrees, 30 minutes west longitude. Section 304 of the DWRRA provides that all such leases offered in water at least 200 meters deep within 5 years of the date of enactment must be offered under a new bidding system established in section 303 (bonus bids with royalty suspensions for a period, volume, or value determined by the Secretary) and with mandatory minimum suspension royalty volumes of: 17.5 million barrels of oil equivalent (MMBOE) for leases in 200-400 meters of water; 52.5 MMBOE for leases in 400-800 meters; and 87.5 MMBOE for leases in more than 800 meters. The MMS issued an interim rule for new lease sales on March 25, 1996, and published a final rule on January 16, 1998.

As little as 5 years ago, technology for developing deep water projects was still in its infancy. At that time, there were only two platforms producing in water depths greater than 400 meters and development costs were expected easily to exceed \$1 billion per project. The facility design and construction phase was expected to take two or three times that needed in shallow water and the hydrocarbon recovery period was expected to be much longer in deeper waters.

Since that time, and particularly in the 2½ years since enactment of the DWRRA, there have been dramatic changes in deep water exploration, development, and production. Industry has demonstrated that production rates can be high, improved technologies can reduce the costs of floating production systems, projects can get on line quickly, and geologic risk can be reduced primarily because of improved seismic imaging and processing tools.

Additionally, five extremely active OCS sales in which a number of leasing records were broken have been held since enactment of the DWRRA, and the experience and technological advances by the oil and gas industry in deep water operations in the GOM continue to grow.

On the other hand, the robust activity in the GOM which has led to many of these unanticipated and very positive developments also has resulted in some added costs. It appears, for example, that there has been a steep rise in the day rates for drilling rigs, crew and supply boats, and pipeline lay barges. Also, there is an apparent shortage of skilled, experienced personnel which is driving up the costs in the deep water and there is some recent indication that certain technological approaches may have run into costly problems. Finally, the price of oil, about one third lower than a year ago, adds to the uncertainties in deep water development.

The mandatory minimum royalty relief provided to newly leased fields under section 304 of the DWRRA can be substantial. For example, ultra deep water fields at 800 meters or deeper are entitled to royalty free production of a minimum of 87.5 million barrels. Assuming a well-head price (gross price minus transportation and processing costs for some gas) of \$16 per barrel of oil (\$2.15 per mcf of gas), the operators of an oil field at that depth would be able to produce about \$1.4 billion in gross value of energy (\$1.1 billion for a gas field) without paying royalty to the Federal Government. The standard 1/8th royalty rate for development at this depth would result in a royalty payment of some \$175 million for an oil field (\$138 million for a gas field), which represents the amount of royalty not paid under the terms of the DWRRA.

In view of these developments, deep water production may be more economic than first anticipated. Consequently, deep water fields leased since enactment of the DWRRA may be benefitting from royalty relief beyond simply the recoupment of capital costs, which was the original intent of the Act. The ASLM wants to assess this situation as decisions are made on terms and conditions for future lease sales and in anticipation of the end of the 5-year period of mandatory relief for new leases.

Under the OCS Lands Act (OCSLA), the Secretary is directed to carry out an offshore energy development program that, among many goals, assures "receipt of fair market value for the lands leased and the rights conveyed by the Federal Government."

A concern of the ASLM is whether bidders, particularly those bidding at or near the per acre minimum for deep water tracts, are acquiring large amounts of acreage to "bank" them as options rather than for near term exploration and development. Such a strategy, if being practiced, may be at odds with the

Secretary's responsibility to assure receipt of fair market value, increases the post sale tract evaluation workload on MMS, precludes other companies from acquiring and possibly exploring the tract for many years, and fails to result in expeditious development.

Given this mix of policy concerns regarding deep water leasing issues, the ASLM believes that a workshop held with industry at the half-way point of the new lease provision is desirable. This workshop will review, among other factors, the state of knowledge about deep water exploration and production profitability today in comparison with what was anticipated at the time the suspension volumes were developed. In particular, industry and MMS will participate in a series of presentations addressing the following issues:

- General economic parameters (e.g., well rates, average finding and other costs, production times, rates of return) in the GOM; and
- Technological developments (e.g., seismic acquisition and processing, production facility design, subsea completions).

Moreover, through these presentations, the ASLM is seeking information that will allow him to answer the following questions:

- To what extent has section 304 of the DWRRA contributed to the increased bidding activity observed for the last five lease sales?
- What refinements, if any, should be made in lease terms and conditions for the remainder of the 5-year new lease provision?
- At the end of the five year authorization period for section 304, should MMS continue to offer leases with royalty suspensions and why—or why not? If yes, should the terms of the suspension (period, volume or value) or other financial terms be modified at that time?
- To what extent, if any, is option bidding occurring on deep water tracts?
- If some option bidding is occurring, is it having a beneficial or adverse impact on the Secretary's ability to assure a fair return to the public for its resources, on energy markets, and on the national economy?
- With respect to leasing in the deep water of the GOM, to what extent, if any, should MMS modify its lease terms to assure a fair return to the public for its resources and to lessen any adverse impacts that option bidding may be having on the economy?
- How does the deep water of the GOM currently compare in the global

market to other areas, both offshore and onshore, with respect to its attractiveness for investment?

Additional Information

1. An agenda of scheduled workshop presentations and times will be available through the Minerals Management Service on the MMS homepage approximately 1 week before the workshop.

2. The next Western Gulf of Mexico sale, Lease Sale 171, scheduled for August 26, 1998, in New Orleans, will not be affected in any way by the workshop.

Dated: June 3, 1998.

Bob Armstrong,

Assistant Secretary, Land and Minerals Management.

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DEPARTMENT OF THE INTERIOR

National Park Service

National Register of Historic Places; Notification of Pending Nominations

Nominations for the following properties being considered for listing in the National Register were received by the National Park Service before MAY 30, 1998. Pursuant to section 60.13 of 36 CFR Part 60 written comments concerning the significance of these properties under the National Register criteria for evaluation may be forwarded to the National Register, National Park Service, 1849 C St. NW, NC400, Washington, DC 20240. Written comments should be submitted by June 24, 1998.

Beth Savage,

Acting Keeper of the National Register.

ALABAMA

Jefferson County

Downtown Birmingham Retail and Theatre Historic District (Boundary Increase), 1914, 1917, 1919, 1930 4th Ave., N., Birmingham, 98000709

Lawrence County

Courtland Historic District (Boundary Increase), Roughly bounded by Clinton, Madison, Van Buren, Jefferson, Ussery, Tennessee, Monroe and Academy Sts., Courtland, 98000710

Wilcox County

Oak Hill Historic District, Area around Jct. AL 10 and Al 21, Oak Hill, 98000711

CALIFORNIA

Los Angeles County

Golden State Mutual Life Insurance Building, 4261 S. Central Ave., Los Angeles, 98000712

Yolo County

Davis Subway, Richards Blvd. between Olive Dr. and 1st St., Davis, 98000713

FLORIDA

Glades County

Moore Haven Residential Historic District, Roughly bounded by Ave. J to Ave. M and 1st to 5th Sts., Moore Haven, 98000714

GEORGIA

Newton County

Starrsville Historic District, Jct. GA 213, Old Starrsville and Dixie Rds., Starrsville, 98000715

IOWA

Adair County

Adair Viaduct (Highway Bridges of Iowa MPS) Business 80 over IAIS RR, Adair, 98000775

Adams County

Snider Bridge (Highway Bridges of Iowa MPS) 220th St. over unnamed stream, Corning vicinity, 98000774

Allamakee County

Monsrud Bridge (Highway Bridges of Iowa MPS) Swebakken Rd. over Paint Cr., Waterville vicinity, 98000771

Red Bridge (Highway Bridges of Iowa MPS) Fuel Hollow Rd. over Yellow R., Postville vicinity, 98000773

Upper Iowa River Bridge (Highway Bridges of Iowa MPS) Mays Prairie Rd. over Upper Iowa R., Dorchester vicinity, 98000772

Benton County

Shellsburg Bridge (Highway Bridges of Iowa MPS) Pearl St. over Bear Cr., Shellsburg, 98000770

Black Hawk County

Crane Creek Bridge (Highway Bridges of Iowa MPS) Marquis Rd. over Crane Cr., Waterloo vicinity, 98000769

Dunkerton Bridge (Highway Bridges of Iowa MPS) Town street over Crane Cr., Dunkerton, 98000768

Boone County

Beaver Creek Bridge (Highway Bridges of Iowa MPS) 210th St. over Beaver Cr., Ogden vicinity, 98000762

Big Creek Bridge (Highway Bridges of Iowa MPS) 2110 300th St. over Big Cr., Madrid vicinity, 98000766

Big Creek Bridge 2 (Highway Bridges of Iowa) 2130 320th St. over Big Cr., Madrid vicinity, 98000767

Boone Bridge (Highway Bridges of Iowa MPS) Old US 30 over Des Moines R., Boone vicinity, 98000761

Boone Bridge 2 (Highway Bridges of Iowa MPS) 1000 200th St. over Des Moines R., Boone vicinity, 98000765

Squaw Creek Bridge (Highway Bridges of Iowa MPS) 120th St. and V Ave. over Squaw Cr., Ridgeport vicinity, 98000763

Squaw Creek Bridge 2 (Highway Bridges of Iowa MPS) 110th St. and V Ave. over Squaw Cr., Ridgeport vicinity, 98000764