

**§ 260.112**

(c) For the bidding systems listed in this subpart, if the bid variable is a cash bonus bid, the highest bid by a qualified bidder determines the amount of cash bonus to be paid. We will include the minimum bid level(s) in the Notice of OCS Lease Sale published in the FEDERAL REGISTER.

(d) For the bidding systems listed in this subpart, if the bid variable is the royalty rate, the highest bid by a qualified bidder determines the royalty rate to be paid. We will include the minimum royalty rate(s) in the Notice of OCS Lease Sale published in the FEDERAL REGISTER.

(e) We may, by rule, add to or modify the bidding systems listed in §260.110, according to the procedural requirements of the OCSLA, 43 U.S.C. 1331 *et seq.*, as amended by Public Law 95-372, 92 Stat. 629.

ELIGIBLE LEASES

**§ 260.112 How do royalty suspension volumes apply to eligible leases?**

Royalty suspension volumes, as specified in section 304 of the Act, apply to eligible leases that meet the criteria in §260.113. For purposes of this section and §§260.113 through 260.117:

(a) Any volumes of production that are not normally royalty-bearing under the lease or the regulations (e.g., fuel gas) do not count against royalty suspension volumes; and

(b) Production includes volumes allocated to a lease under an approved unit agreement.

**§ 260.113 When does an eligible lease qualify for a royalty suspension volume?**

(a) Your eligible lease will receive a royalty suspension volume as specified in the Act. The bidding system in §260.110(g) applies.

(b) Your eligible lease may receive a royalty suspension volume only if your entire lease is west of 87 degrees, 30 minutes West longitude.

[73 FR 58473, Oct. 7, 2008]

**§ 260.114 How does MMS assign and monitor royalty suspension volumes for eligible leases?**

(a) We have specified the water depth category for each eligible lease in the

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final Notice of OCS Lease Sale Package. The Final Notice of Sale is published in the FEDERAL REGISTER and the complete Final Notice of OCS Lease Sale Package is available on the MMS Web site. Our determination of water depth for each lease became final when we issued the lease.

(b) We have specified in the Notice of OCS Lease Sale the royalty suspension volume applicable to each water depth. The following table shows the royalty suspension volumes for each eligible lease in million barrels of oil equivalent (MMBOE):

Water depth	Minimum royalty suspension volume
(1) 200 to less than 400 meters .....	17.5 MMBOE.
(2) 400 to less than 800 meters .....	52.5 MMBOE.
(3) 800 meters or more .....	87.5 MMBOE.

[73 FR 58473, Oct. 7, 2008]

**§ 260.115 How long will a royalty suspension volume for an eligible lease be effective?**

A royalty suspension volume for an eligible lease will continue through the end of the month in which cumulative production from the leases in a field entitled to share the royalty suspension volume reaches that volume or the lease period ends.

**§ 260.116 How do I measure natural gas production on my eligible lease?**

You must measure natural gas production on your eligible lease subject to the royalty suspension volume as follows: 5.62 thousand cubic feet of natural gas, measured according to part 250, subpart L of this title, equals one barrel of oil equivalent.

ROYALTY SUSPENSION (RS) LEASES

**§ 260.120 How does royalty suspension apply to leases issued in a sale held after November 2000?**

We may issue leases with suspension of royalties for a period, volume or value of production, as authorized in section 303 of the Act. For purposes of this section and §§260.121 through 260.124:

(a) Any volumes of production that are not normally royalty-bearing under the lease or the regulations (e.g., fuel

gas) do not count against royalty suspension volumes; and

(b) Production includes volumes allocated to a lease under an approved unit agreement.

**§ 260.121 When does a lease issued in a sale held after November 2000 get a royalty suspension?**

(a) We will specify any royalty suspension for your RS lease in the Notice of OCS Lease Sale published in the FEDERAL REGISTER for the sale in which you acquire the RS lease and will repeat it in the lease document. In addition:

(1) Your RS lease may produce royalty-free the royalty suspension we specify for your lease, even if the field to which we assign it is producing.

(2) The royalty suspension we specify in the Notice of OCS Lease Sale for your lease does not apply to any other leases in the field to which we assign your RS lease.

(b) You may apply for a supplemental royalty suspension for a project under part 203 of this title, if your lease is located:

(1) In the Gulf of Mexico, in water 200 meters or deeper, and wholly west of 87 degrees, 30 minutes West longitude; or

(2) Offshore of Alaska.

(c) Your RS lease retains the royalty suspension with which we issued it even if we deny your application for more relief.

[66 FR 11518, Feb. 23, 2001, as amended at 73 FR 69517, Nov. 18, 2008]

**§ 260.122 How long will a royalty suspension volume be effective for a lease issued in a sale held after November 2000?**

(a) The royalty suspension volume for your RS lease will continue through the end of the month in which cumulative production from your lease reaches the applicable royalty suspension volume or the lease period ends.

(b)(1) Notwithstanding any royalty suspension volume under this subpart, you must pay royalty at the lease stipulated rate on:

(i) Any oil produced for any period stipulated in the lease during which the arithmetic average of the daily closing price on the New York Mercantile Exchange (NYMEX) for light

sweet crude oil exceeds the applicable threshold price of \$36.39 per barrel, adjusted annually after calendar year 2007 for inflation unless the lease terms prescribe a different price threshold.

(ii) Any natural gas produced for any period stipulated in the lease during which the arithmetic average of the daily closing price on the NYMEX for natural gas exceeds the applicable threshold price of \$4.55 per MMBtu, adjusted annually after calendar year 2007 for inflation unless the lease terms prescribe a different price threshold.

(iii) Determine the threshold price for any calendar year after 2007 by adjusting the threshold price in the previous year by the percentage that the implicit price deflator for the gross domestic product, as published by the Department of Commerce, changed during the calendar year.

(2) You must pay any royalty due under this paragraph, plus late payment interest under §218.54 of this title, no later than 90 days after the end of the period for which royalty is owed.

(3) Any production on which you must pay royalty under this paragraph will count toward the production volume determined under §§ 260.120 through 260.124.

(c) If you must pay royalty on any product (either oil or natural gas) for any period under paragraph (b), you must continue to pay royalty on that product during the next succeeding period of the same length until the arithmetic average of the daily closing NYMEX prices for that product for that period can be determined. If the arithmetic average of the daily closing prices for that product for that period is less than the threshold price stipulated in the lease, you are entitled to a credit or refund of royalties paid for that period with interest under applicable law.

[66 FR 11518, Feb. 23, 2001, as amended at 73 FR 69517, Nov. 18, 2008]

**§ 260.123 How do I measure natural gas production for a lease issued in a sale held after November 2000?**

You must measure natural gas production subject to the royalty suspension volume for your lease as follows: 5.62 thousand cubic feet of natural gas,