

104TH CONGRESS
1ST SESSION

H. R. 2106

To provide for the energy security of the Nation through encouraging the production of domestic oil and gas resources in deep water on the Outer Continental Shelf in the Gulf of Mexico, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JULY 25, 1995

Mr. TAUZIN (for himself, Mr. DOOLEY, Mr. ARCHER, Mr. HAYES, Mr. FIELDS of Texas, Mr. MOORHEAD, Mr. WILSON, Mr. THORNBERRY, Mr. FROST, Mr. BONILLA, Mr. SAM JOHNSON of Texas, Mr. STOCKMAN, Mr. BREWSTER, Mr. ALLARD, Mr. BAKER of Louisiana, Mr. BARTON of Texas, Mr. LAUGHLIN, Mr. HASTINGS of Washington, and Mrs. CUBIN) introduced the following bill; which was referred to the Committee on Resources

A BILL

To provide for the energy security of the Nation through encouraging the production of domestic oil and gas resources in deep water on the Outer Continental Shelf in the Gulf of Mexico, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be referred to as the “Outer Continen-
4 tal Shelf Deep Water Royalty Relief Act”.

1 **SEC. 2. AMENDMENTS TO THE OUTER CONTINENTAL**
2 **SHELF LANDS ACT.**

3 Section 8(a) of the Outer Continental Shelf Lands
4 Act, (43 U.S.C. 1337(a)(3)), is amended by striking para-
5 graph (3) in its entirety and inserting the following:

6 “(3)(A) The Secretary may, in order to—

7 “(i) promote development or increased pro-
8 duction on producing or non-producing leases;
9 or

10 “(ii) encourage production of marginal re-
11 sources on producing or non-producing leases;
12 through primary, secondary, or tertiary recovery
13 means, reduce or eliminate any royalty or net profit
14 share set forth in the lease(s). With the lessee’s con-
15 sent, the Secretary may make other modifications to
16 the royalty or net profit share terms of the lease in
17 order to achieve these purposes.

18 “(B)(i) Notwithstanding the provisions of this
19 Act other than this subparagraph, with respect to
20 any lease or unit in existence on the date of enact-
21 ment of the Outer Continental Shelf Deep Water
22 Royalty Relief Act meeting the requirements of this
23 subparagraph, no royalty payments shall be due on
24 new production, as defined in clause (iv) of this sub-
25 paragraph, from any lease or unit located in water
26 depths of 200 meters or greater in the Western and

1 Central Planning Areas of the Gulf of Mexico, in-
2 cluding that portion of the Eastern Planning Area
3 of the Gulf of Mexico encompassing whole lease
4 blocks lying west of 87 degrees, 30 minutes West
5 longitude, until such volume of production as deter-
6 mined pursuant to clause (ii) has been produced by
7 the lessee.

8 “(ii) Upon submission of a complete application
9 by the lessee, the Secretary shall determine within
10 180 days of such application whether new produc-
11 tion from such lease or unit would be economic in
12 the absence of the relief from the requirement to pay
13 royalties provided for by clause (i) of this subpara-
14 graph. In making such determination, the Secretary
15 shall consider the increased technological and finan-
16 cial risk of deep water development and all costs as-
17 sociated with exploring, developing, and producing
18 from the lease. The lessee shall provide information
19 required for a complete application to the Secretary
20 prior to such determination. The Secretary shall
21 clearly define the information required for a com-
22 plete application under this section. Such application
23 may be made on the basis of an individual lease or
24 unit. If the Secretary determines that such new pro-
25 duction would be economic in the absence of the re-

1 lief from the requirement to pay royalties provided
2 for by clause (i) of this subparagraph, the provisions
3 of clause (i) shall not apply to such production. If
4 the Secretary determines that such new production
5 would not be economic in the absence of the relief
6 from the requirement to pay royalties provided for
7 by clause (i), the Secretary must determine the vol-
8 ume of production from the lease or unit on which
9 no royalties would be due in order to make such new
10 production economically viable; except that for new
11 production as defined in clause (iv)(aa), in no case
12 will that volume be less than 17.5 million barrels of
13 oil equivalent in water depths of 200 to 400 meters,
14 52.5 million barrels of oil equivalent in 400 to 800
15 meters of water, and 87.5 million barrels of oil
16 equivalent in water depths greater than 800 meters.
17 Redetermination of the applicability of clause (i)
18 shall be undertaken by the Secretary when requested
19 by the lessee prior to the commencement of the new
20 production and upon significant change in the fac-
21 tors upon which the original determination was
22 made. The Secretary shall make such redetermina-
23 tion within 120 days of submission of a complete
24 application. The Secretary may extend the time pe-
25 riod for making any determination or redetermina-

1 tion under this clause for 30 days, or longer if
2 agreed to by the applicant, if circumstances so war-
3 rant. The lessee shall be notified in writing of any
4 determination or redetermination and the reasons
5 for and assumptions used for such determination.
6 Any determination or redetermination under this
7 clause shall be a final agency action. The Secretary's
8 determination or redetermination shall be judicially
9 reviewable under section 10(a) of the Administrative
10 Procedures Act (5 U.S.C. 702), only for actions filed
11 within 30 days of the Secretary's determination or
12 redetermination.

13 “(iii) In the event that the Secretary fails to
14 make the determination or redetermination called
15 for in clause (ii) upon application by the lessee with-
16 in the time period, together with any extension
17 thereof, provided for by clause (ii), no royalty pay-
18 ments shall be due on new production as follows:

19 “(I) For new production, as defined in
20 clause (iv)(I) of this subparagraph, no royalty
21 shall be due on such production according to
22 the schedule of minimum volumes specified in
23 clause (ii) of this subparagraph.

24 “(II) For new production, as defined in
25 clause (iv)(II) of this subparagraph, no royalty

1 shall be due on such production for 1 year fol-
2 lowing the start of such production.

3 “(iv) For purposes of this subparagraph, the
4 term ‘new production’ is—

5 “(I) any production from a lease from
6 which no royalties are due on production, other
7 than test production, prior to the date of enact-
8 ment of the Outer Continental Shelf Deep
9 Water Royalty Relief Act; or

10 “(II) any production resulting from lease
11 development activities pursuant to a Develop-
12 ment Operations Coordination Document, or
13 supplement thereto that would expand produc-
14 tion significantly beyond the level anticipated in
15 the Development Operations Coordination Doc-
16 ument, approved by the Secretary after the date
17 of enactment of the Outer Continental Shelf
18 Deep Water Royalty Relief Act.

19 “(v) During the production of volumes deter-
20 mined pursuant to clause (ii) or (iii) of this subpara-
21 graph, in any year during which the arithmetic aver-
22 age of the closing prices on the New York Mer-
23 cantile Exchange for light sweet crude oil exceeds
24 \$28.00 per barrel, any production of oil will be sub-
25 ject to royalties at the lease stipulated royalty rate.

1 Any production subject to this clause shall be count-
2 ed toward the production volume determined pursu-
3 ant to clause (ii) or (iii). Estimated royalty pay-
4 ments will be made if such average of the closing
5 prices for the previous year exceeds \$28.00. After
6 the end of the calendar year, when the new average
7 price can be calculated, lessees will pay any royalties
8 due, with interest but without penalty, or can apply
9 for a refund, with interest, of any overpayment.

10 “(vi) During the production of volumes deter-
11 mined pursuant to clause (ii) or (iii) of this subpara-
12 graph, in any year during which the arithmetic aver-
13 age of the closing prices on the New York Mer-
14 cantile Exchange for natural gas exceeds \$3.50 per
15 million British thermal units, any production of nat-
16 ural gas will be subject to royalties at the lease stip-
17 ulated royalty rate. Any production subject to this
18 clause shall be counted toward the production vol-
19 ume determined pursuant to clause (ii) or (iii). Esti-
20 mated royalty payments will be made if such average
21 of the closing prices for the previous year exceeds
22 \$3.50. After the end of the calendar year, when the
23 new average price can be calculated, lessees will pay
24 any royalties due, with interest but without penalty,

1 or can apply for a refund, with interest, of any over-
2 payment.

3 “(vii) The prices referred to in clauses (v) and
4 (vi) of this subparagraph shall be changed during
5 any calendar year after 1994 by the percentage, if
6 any, by which the implicit price deflator for the
7 gross domestic product changed during the preced-
8 ing calendar year.”.

9 **SEC. 3. NEW LEASES.**

10 (a) Section (8)(a)(1) of the Outer Continental Shelf
11 Lands Act, as amended, (43 U.S.C. 1337(a)(1)) is amend-
12 ed as follows:

13 (1) Redesignate section 8(a)(1)(H) as section
14 8(a)(1)(I);

15 (2) Add a new section 8(a)(1)(H) as follows:

16 “(H) cash bonus bid with royalty at no less
17 than 12½ per centum fixed by the Secretary in
18 amount or value of production saved, removed, or
19 sold, and with suspension of royalties for a period,
20 volume, or value of production determined by the
21 Secretary. Such suspensions may vary based on the
22 price of production from the lease.”.

23 (b) For all tracts located in water depths of 200 me-
24 ters or greater in the Western and Central Planning Areas
25 of the Gulf of Mexico, including that portion of the East-

1 ern Planning Area of the Gulf of Mexico encompassing
2 whole lease blocks lying west of 87 degrees, 30 minutes
3 West longitude, any lease sale within 5 years of the date
4 of enactment of this Act, shall use the bidding system au-
5 thorized in section 8(a)(1)(H) of the Outer Continental
6 Shelf Lands Act, as amended by this Act, except that the
7 suspension of royalties shall be set at a volume of not less
8 than the following:

9 (1) 17.5 million barrels of oil equivalent for
10 leases in water depths of 200 to 400 meters;

11 (2) 52.5 million barrels of oil equivalent for
12 leases in 400 to 800 meters of water; and

13 (3) 87.5 million barrels of oil equivalent for
14 leases in water depths greater than 800 meters.

15 **SEC. 4. REGULATIONS.**

16 The Secretary shall promulgate such rules and regu-
17 lations as are necessary to implement the provisions of this
18 Act within 180 days after the enactment of this Act.

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