

**Calendar No. 402**

103<sup>D</sup> CONGRESS  
2<sup>D</sup> SESSION

**S. 318**

**[Report No. 103-248]**

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**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.

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APRIL 11, 1994

Reported with amendments

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**IN THE SENATE OF THE UNITED STATES**

FEBRUARY 4 (legislative day, JANUARY 5), 1993

Mr. JOHNSTON (for himself, Mr. KRUEGER, and Mr. BREAUX) introduced the following bill; which was read twice and referred to the Committee on Energy and Natural Resources

APRIL 11, 1994

Reported by Mr. JOHNSTON, with amendments

[Omit the part struck through and insert the part printed in italic]

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**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,*

1 That this Act may be referred to as the “Outer Continen-  
2 tal Shelf Deep Water Royalty Relief Act”.

3 SEC. 2. AMENDMENTS TO THE OUTER CONTINENTAL  
4 SHELF LANDS ACT.—The Outer Continental Shelf Lands  
5 Act, as amended, is amended by redesignating section  
6 8(a)(3) (43 U.S.C. 1337(a)(3)) as section 8(a)(3)(A) and  
7 by adding at the end thereof the following:

8 “(B) The Secretary may, in order to promote  
9 development and new production on a producing or  
10 non-producing lease, through primary, secondary, or  
11 tertiary recovery means, or to encourage production  
12 of marginal or uneconomic resources on a producing  
13 or non-producing lease, reduce or suspend any roy-  
14 alty or net profit share set forth in the lease.

15 “(C)(i) Notwithstanding the provisions of this  
16 Act other than this subparagraph, no royalty pay-  
17 ment shall be due on new production, as defined in  
18 ~~clause (ii)~~ *clause (iii)* of this subparagraph, from  
19 any lease located in water depths of 200 meters or  
20 greater in the Western and Central Planning Areas  
21 of the Gulf of Mexico, *and the Eastern Planning*  
22 *Area of the Gulf of Mexico west of the lateral seaward*  
23 *boundary between the States of Florida and Alabama,*  
24 *or for any lease in the frontier areas of Alaska, which*  
25 *shall, at a minimum, include those areas with sea-*

1       sonal sea ice, long distances to existing pipelines and  
2       ports, or a lack of production infrastructure, until the  
3       capital costs directly related to such new production  
4       have been recovered by the lessee out of the proceeds  
5       from such new production.

6               “(ii) With respect to any lease in existence on  
7       the date of enactment of the Outer Continental Shelf  
8       Deep Water Royalty Relief Act meeting the require-  
9       ments of this subparagraph, upon application by the  
10       lessee, the Secretary shall determine within ninety  
11       days of such application whether new production  
12       from such lease would be economic in the absence of  
13       the relief from the requirement to pay royalties pro-  
14       vided for by clause (i) of this subparagraph. In mak-  
15       ing such determination, the Secretary shall consider  
16       all costs associated with obtaining, exploring, develop-  
17       ing, and producing from the lease. The lessee shall be  
18       afforded an opportunity to provide information to the  
19       Secretary prior to such determination. Such applica-  
20       tion may be made on the basis of an individual lease  
21       or unit (as defined under the provisions of 30 CFR  
22       part 250). If the Secretary determines that such new  
23       production would be economic in the absence of the  
24       relief from the requirement to pay royalties provided  
25       for by clause (i) of this subparagraph, the provisions

1        *of clause (i) of this subparagraph shall not apply to*  
2        *such production. Redetermination of the applicability*  
3        *of clause (i) shall be undertaken by the Secretary*  
4        *when requested by the lessee upon significant change*  
5        *in the factors upon which the original determination*  
6        *was made. The Secretary shall make such redeter-*  
7        *mination within sixty days of such application. The*  
8        *Secretary may extend the time period for making any*  
9        *determination under this clause for thirty days if cir-*  
10       *cumstances so warrant. The lessee shall be notified in*  
11       *writing of any determination or redetermination and*  
12       *the reasons for and assumptions used for such deter-*  
13       *mination. In the event that the Secretary fails to*  
14       *make the determination or redetermination upon ap-*  
15       *plication by the lessee within the time period, together*  
16       *with any such extension thereof provided for by this*  
17       *clause, the relief from the requirement to pay royal-*  
18       *ties provided for by clause (i) shall apply to such pro-*  
19       *duction.*

20            ~~“(ii)~~ *(iii) For purposes of this subparagraph,*  
21        *the term—*

22            *“(aa) ‘capital costs’ shall be defined by the*  
23        *Secretary and shall include exploration costs in-*  
24        *curred after the acquisition of the lease and de-*  
25        *velopment costs directly related to new produc-*

1           tion. The terms ‘exploration’ and ‘development’  
2           shall have the same meaning contained in sub-  
3           sections (k) and (l) of section 2 of this Act ex-  
4           cept the term ‘development’ shall also include  
5           any similar additional development activities  
6           which take place after production has been ini-  
7           tiated from such lease. Such capital costs shall  
8           not include any amounts paid as bonus bids but  
9           shall be adjusted to reflect changes in the  
10          consumer price index, as defined in section  
11          (1)(f)(4) of title 26 of the United States Code;  
12          and

13                 “(bb) ‘new production’ is—

14                         “(I) any production from a lease from  
15                         which no royalties are due on production,  
16                         other than test production, prior to the  
17                         date of enactment of the Outer Continental  
18                         Shelf Deep Water Royalty Relief Act; or

19                         “(II) any production resulting from  
20                         lease development activities pursuant to a  
21                         Development Operations Coordination Doc-  
22                         ument approved by the Secretary after the  
23                         date of enactment of the Outer Continental  
24                         Shelf Deep Water Royalty Relief Act; and

1           “~~(iii)~~ (iv) In any month during which the arith-  
2           metic average of the closing prices for the earliest  
3           delivery month on the New York Mercantile Ex-  
4           change for Light Sweet crude oil exceeds \$28.00 per  
5           barrel, any production of oil subject to relief from  
6           the requirement to pay royalties under clause (i) of  
7           this subparagraph shall be subject to royalties at the  
8           lease stipulated rate, and the lessee’s gross proceeds  
9           from such oil production, less Federal royalties, dur-  
10          ing such month shall be counted toward the recovery  
11          of capital costs under clause (i) of this subpara-  
12          graph.

13           “~~(iv)~~ (v) In any month during which the arith-  
14          metic average of the closing prices for the earliest  
15          delivery month on the New York Mercantile Ex-  
16          change for natural gas exceeds \$3.50 per million  
17          British thermal units, any production of natural gas  
18          subject to relief from the requirement to pay royal-  
19          ties under clause (i) of this subparagraph shall be  
20          subject to royalties at the lease stipulated rate, and  
21          the lessee’s gross proceeds from such natural gas  
22          production, less Federal royalties, during such  
23          month shall be counted toward the recovery of cap-  
24          ital costs under clause (i) of this subparagraph.

1           “~~(v)~~ (vi) The prices referred to in clauses ~~(iii)~~  
2           and ~~(iv)~~ clauses (iv) and (v) of this subparagraph  
3           shall be changed during any calendar year after  
4           ~~1993~~ 1994 by the percentage if any by which the  
5           consumer price index changed during the preceding  
6           calendar year, as defined in section (1)(f)(4) of title  
7           26 of the United States Code.”.

8           SEC. 3. REGULATIONS.—The Secretary shall promul-  
9           gate such rules and regulations as are necessary to imple-  
10          ment the provisions of this Act within one hundred and  
11          eighty days after the date of enactment of this Act.

12          SEC. 4. AREA-WIDE LEASING.—*The Secretary shall*  
13          *not implement the system of tract nomination for oil and*  
14          *gas leasing in the Central and Western Planning Areas of*  
15          *the Gulf of Mexico under the Outer Continental Shelf Lands*  
16          *Act, and shall use the existing area-wide system of leasing*  
17          *in such areas.*

18          SEC. 5. REPORT TO CONGRESS.—(a) *The Secretary*  
19          *shall review Federal regulations and policies within the*  
20          *Secretary’s jurisdiction which create barriers and disincen-*  
21          *tives that unnecessarily preclude new production, or result*  
22          *in premature abandonment or suspension of existing pro-*  
23          *duction of oil and gas on Federal lands, including the Outer*  
24          *Continental Shelf. Such review, conducted with the partici-*  
25          *pation of all interested parties, shall assess how Federal*

1 *policies could be modified to reduce compliance costs and*  
2 *improve the cash flow of oil and gas operations on Federal*  
3 *lands. The review shall include administrative compliance,*  
4 *royalty collection, timing of operational and production*  
5 *management requirements, such as permanent plugging*  
6 *and abandonment of wells, and any other requirements*  
7 *which unduly burden natural gas and oil exploration, pro-*  
8 *duction and transportation on Federal lands.*

9       *(b) The Secretary shall evaluate the impact, if any,*  
10 *of current royalty rates for oil and gas on Federal lands,*  
11 *both onshore and offshore, on the viability of undeveloped*  
12 *fields by general category, such as production volume, crude*  
13 *quality, water depth, and distance from existing infrastruc-*  
14 *ture. The review shall be based on current industry tech-*  
15 *nology and cost information, and shall assess how a reduc-*  
16 *tion in Federal oil and natural gas royalties would encour-*  
17 *age development.*

18       *(c) The Secretary shall report to the Committee on En-*  
19 *ergy and Natural Resources of the United States Senate and*  
20 *to the United States House of Representatives on the review*  
21 *required by this section and actions taken as recommended*  
22 *pursuant to such review, or the reason such actions have*  
23 *not been taken, within ninety days of the date of enactment*  
24 *of this Act.*