

§ 203.42 To which production do I apply the royalty suspension volume earned from qualified wells on my lease?

(a) This paragraph applies to any lease that is not within an MMS-approved unit. Subject to the requirements of §§ 203.40, 203.41, 203.43, 203.44, and 203.47, you must apply the royalty suspension volumes prescribed in § 203.41 to the earliest gas production:

(1) Occurring on and after the later of May 3, 2004, or the date that the first qualified well that earns your lease the royalty suspension volume begins production (other than test production);

(2) From all qualified wells, regardless of their depth, on your lease for which you have met the requirements in § 203.43, up to the aggregate royalty suspension volume earned by your lease.

Example to paragraph (a): You began drilling an original well that was a qualified well with a perforated interval the top of which is 18,200 feet TVD SS on May 1, 2003 and it began producing on September 1, 2003. You subsequently drilled two more original wells that are qualified wells with a perforated interval the tops of which are 16,600 feet TVD SS. The first well earned a royalty suspension volume of 25 BCF. You must apply the royalty suspension volume each month beginning on March 1, 2004 to production from all three wells until the 25 BCF royalty suspension volume is fully utilized.

(b) This paragraph applies to any lease all or part of which is within an MMS-approved unit. If your lease has a qualified well, a share of the production from all the qualified wells in the unit participating area will be allocated to your lease each month according to the participating area percentages. Subject to the requirements of §§ 203.40, 203.41, 203.43, 203.44, and 203.47, you must apply the royalty suspension volume to the earliest gas production occurring on and after the later of May 3, 2004, or the date that the first qualified well that earns your lease the royalty suspension volume begins production (other than test production):

(1) From all qualified wells on the non-unitized area of your lease and

(2) Allocated to your lease from qualified wells on unitized areas of your lease and other leases in the unit under an MMS-approved unit agreement. That allocated share does not in-

crease the royalty suspension volume for your lease. None of the volumes produced from a well that is not within a unit participating area may be allocated to other leases in the unit.

Example to paragraph (b): The east half of your lease A is unitized with all of lease B. There is one qualified well on the non-unitized portion of lease A, one qualified well on the unitized portion of lease A and a qualified well on lease B. The participating area percentages allocate 32 percent of production from both of the unit qualified wells to lease A and 68 percent to lease B. If the non-unitized qualified well on lease A produces 12,000 MCF and the unitized qualified well on lease A produces 15,000 MCF, and the qualified well on lease B produces 10,000 MCF, then the production volume from and allocated to lease A to which the lease A royalty suspension volume applies is 20,000 MCF $[12,000 + (15,000 + 10,000)(32 \text{ percent})]$. The production volume allocated to lease B to which the lease B royalty suspension volume applies is 17,000 MCF $[(15,000 + 10,000)(68 \text{ percent})]$.

(c) Unused royalty suspension volume transfers to a successor lessee and expires with the lease.

(d) You may not apply the royalty suspension volume allowed under § 203.41:

(1) To production from completions less than 15,000 feet TVD SS, except in cases where the qualified well is re-perforated in the same reservoir previously perforated deeper than 15,000 feet TVD SS;

(2) To production from a deep well that commenced drilling before March 26, 2003; or

(3) To production from a deep well on any other lease, except as provided in paragraph (b) of this section.

(e) You must begin paying royalties when the cumulative production of gas from all qualified wells on your lease, or allocated to your lease under paragraph (b) of this section, reaches the applicable royalty suspension volume allowed under § 203.41. For the month in which cumulative production reaches this royalty suspension volume, you owe royalties on the portion of gas production that exceeds the royalty suspension volume remaining at the beginning of that month.

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(f) No royalty suspension volume may be applied to any liquid hydrocarbon (oil and condensate) volumes.

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§ 203.43 What administrative steps must I take to use the royalty suspension volume?

(a) You must notify, in writing, the MMS Regional Supervisor for Production and Development of your intent to begin drilling operations on all deep wells; and

(b) Within 30 days of the beginning of production from all wells that would become qualified wells by satisfying the requirements of this section, you must:

(1) Provide written notification to the MMS Regional Supervisor for Production and Development that production has begun; and

(2) Request confirmation of the size of the royalty suspension volume earned by your lease.

(c) Before beginning production, you must meet any production measurement requirements that the MMS Regional Supervisor for Production and Development has determined are necessary under 30 CFR part 250, subpart L.

(d) If you produced from a qualified well before May 3, 2004, you must provide the information in paragraph (b) of this section no later than August 3, 2004.

(e) If you cannot produce from a well that otherwise meets the criteria for a

qualified well before May 3, 2009, the MMS Regional Supervisor for Production and Development may extend the deadline for beginning production for up to 1 year, based on the circumstances of the particular well involved, provided you demonstrate that:

(1) The delay occurred after reaching total depth in your well;

(2) Production (other than test production) was expected to begin before March 1, 2009; and

(3) The delay in beginning production is for reasons beyond your control, including but not limited to adverse weather and unavoidable accidents.

[69 FR 3510, Jan. 26, 2004, as amended at 69 FR 24054, Apr. 30, 2004]

§ 203.44 If I drill a certified unsuccessful well, what royalty relief will my lease earn?

Your lease may earn a royalty suspension supplement. Subject to paragraph (d) of this section, the royalty suspension supplement is in addition to any royalty suspension volume your lease may earn under § 203.41.

(a) If you drill a certified unsuccessful well and you satisfy the administrative requirements of § 203.46 and subject to the price conditions in § 203.47, you earn a royalty suspension supplement shown in the following table (in billions of cubic feet of gas equivalent (BCFE) or in thousands of cubic feet of gas equivalent (MCFE)) applicable to oil and gas production as prescribed in § 203.45:

If you have a certified unsuccessful well that is . . .	Then, you earn a royalty suspension supplement on this volume of oil and gas production as prescribed in this section and § 203.45:
(1) An original well and your lease has not produced gas or oil from a deep well.	5 BCFE.
(2) A sidetrack (with a sidetrack measured depth of at least 10,000 feet) and your lease has not produced gas or oil from a deep well.	0.8 BCFE plus 120 MCFE times sidetrack measured depth (rounded to the nearest 100 feet) but no more than 5 BCFE.
(3) An original well or a sidetrack (with a sidetrack measured depth of at least 10,000 feet) and your lease has produced gas or oil from a deep well with a perforated interval the top of which is from 15,000 to less than 18,000 feet TVD SS.	2 BCFE.

(b) We will suspend royalties on oil and gas volumes produced on or after May 3, 2004, reported on the Oil and Gas Operations Report, Part A (OGOR-A) for your lease under 30 CFR part 210, Subpart C—Production Reports—Oil

and Gas, as and to the extent prescribed in § 203.45.

Example 1. If you drill a certified unsuccessful well that is an original well to a target 19,000 feet TVD SS, you earn a royalty suspension supplement of 5 BCFE of gas and