

Supporting Statement for Paperwork Reduction Act Submissions
30 CFR Part 203, Relief or Reduction in Royalty Rates
OMB Control Number 1010-0071
Expiration Date: December 31, 2006

General Instructions

A Supporting Statement, including the text of the notice to the public required by 5 CFR 1320.5(a)(i)(iv) and its actual or estimated date of publication in the Federal Register, must accompany each request for approval of a collection of information. The Supporting Statement must be prepared in the format described below, and must contain the information specified in Section A below. If an item is not applicable, provide a brief explanation. When statistical methods are used, Section B of the Supporting Statement must be completed. OMB reserves the right to require the submission of additional information with respect to any request for approval.

Specific Instructions

A. Justification

1. Explain the circumstances that make the collection of information necessary. Identify any legal or administrative requirements that necessitate the collection. Attach a copy of the appropriate section of each statute and regulation mandating or authorizing the collection of information.

The Outer Continental Shelf (OCS) Lands Act, as amended by P.L. 104-58, Deep Water Royalty Relief Act (DWRRA), gives the Secretary of the Interior (Secretary) the authority to reduce or eliminate royalty or any net profit share specified in OCS oil and gas leases to promote increased production. The DWRRA also authorized the Secretary to suspend royalties when necessary to promote development or recovery of marginal resources on producing or non-producing leases in the Gulf of Mexico (GOM) west of 87 degrees, 30 minutes West longitude.

Section 302 of the DWRRA provides that new production from a lease in existence on November 28, 1995, in a water depth of at least 200 meters, and in the GOM west of 87 degrees, 30 minutes West longitude qualifies for royalty suspension in certain situations. To grant a royalty suspension, the Secretary must determine that the new production or development would not be economic in the absence of royalty relief. The Secretary must then determine the volume of production on which no royalty would be due in order to make the new production from the lease economically viable. This determination is done on a case-by-case basis. Production from leases in the same water depth and area issued after November 28, 2000, also can qualify for royalty suspension in addition to any that may be included in their lease terms.

In addition, Federal policy and statute require us to recover the cost of services that confer special benefits to identifiable non-Federal recipients. The Independent Offices Appropriation Act (31 U.S.C. 9701), Office of Management and Budget (OMB) Circular A-25, and the Omnibus Appropriations Bill (P.L. 104-133 110 Stat. 1321, April 26, 1996) authorize the Minerals Management Service (MMS) to collect these fees to reimburse us for the cost to process applications or assessments.

Regulations at 30 CFR part 203 implement these statutes and policy and require respondents to pay a fee to request royalty relief. OMB approved the information collection burden under, this collection 1010-

0071. Section 203.3 states that, “We will specify the necessary fees for each of the types of royalty-relief applications and possible MMS audits in a Notice to Lessees. We will periodically update the fees to reflect changes in costs as well as provide other information necessary to administer royalty relief.”

2. Indicate how, by whom, and for what purpose the information is to be used. Except for a new collection, indicate the actual use the agency has made of the information received from the current collection. [Be specific. If this collection is a form or a questionnaire, every question needs to be justified.]

The MMS uses the information to make decisions on the economic viability of leases requesting a suspension or elimination of royalty or net profit share. These decisions have enormous monetary impact on both the lessee and the Federal Government. Royalty relief can lead to increased production of natural gas and oil, creating profits for lessees and royalty and tax revenues for the Federal Government that they might not otherwise receive. We could not make an informed decision without the collection of information required by 30 CFR part 203.

3. Describe whether, and to what extent, the collection of information involves the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g., permitting electronic submission of responses, and the basis for the decision for adopting this means of collection. Also describe any consideration of using information technology to reduce burden [and specifically how this collection meets GPEA requirements].

Approximately 75 percent of the geological and geophysical data (which includes all of the raw data) is submitted electronically. Electronic submission represents approximately 50 percent of the total information collected. The lessees may submit the information electronically, using prescribed formats for spreadsheets, databases, etc. For deep water royalty relief applications, MMS provides an internet-accessible program for inputting financial and operational cost data (model inputs).

The MMS Offshore Minerals Management (OMM) program is moving to fully implement the Government Paperwork Elimination Act with re-engineered business processes. Re-engineering the OMM full complement of business processes and related information collection burdens will take place incrementally beginning with the pre-implementation effort in FY 2002 and continuing through FY 2008. The first component was the Public Commenting System implemented in July 2004.

4. Describe efforts to identify duplication. Show specifically why any similar information already available cannot be used or modified for use for the purposes described in Item 2 above.

To determine whether royalty relief is truly needed, lessees must provide MMS their detailed geological, geophysical, reservoir data, and the lessee’s interpretation of the data and details on how they propose to produce the new resources. While MMS may have some of these data, the lessee must submit all data (and corresponding interpretations) used to support the request. This will ensure that MMS has the current information from the lessee's viewpoint for each individual project to make an informed decision. The other information needed to make a determination is not collected by any other organization. Lessees hold closely the required data and information that are not available from other sources. If identical data and information are available from prior requests, MMS would not require the submission of duplicate data or information.

5. *If the collection of information impacts small businesses or other small entities, describe any methods used to minimize burden.*

The regulations have a positive economic effect on some small entities. The regulations set the terms and conditions for granting royalty relief under the provisions of section 8(a)(3)(A) of the OCS Lands Act. These terms reduce costs for end-of-life operations by 6 to 10 percent, more than doubling profits. This significantly prolongs operations on marginally economic leases. We estimate that small entity operators account for under 10 percent of production from OCS leases.

The regulations also set terms and conditions for granting royalty-suspension volumes under the DWRRA for certain deep water leases on the OCS in the GOM. The conditions limit these terms to the rare situations in which royalty costs are the difference between unprofitable and profitable development. Four of the nine applications we have processed to date have been from small entities, indicating that our application process does not place those entities at a disadvantage.

6. *Describe the consequence to Federal program or policy activities if the collection is not conducted or is conducted less frequently, as well as any technical or legal obstacles to reducing burden.*

The MMS must administer a balanced, focused program of royalty relief designed to increase production of natural gas and oil, while increasing profits for lessees and royalty and tax revenues for the Federal Government. At the same time, we must implement these provisions in conjunction with our stewardship and trust responsibilities for the sound management of public lands. This includes obtaining a fair return to the public on OCS resources and ensuring that all OCS development is safe and consistent with sound environmental standards and procedures. To do this, we collect sufficient information to determine the need to reduce, suspend, or eliminate royalty or net profit share. The lessee must file an application to request relief. It must contain sufficient scientific, geological, engineering, and financial information to allow MMS to evaluate the need for and amount of relief. If we approve a request for relief for a project that is economically viable without royalty relief, Federal revenues will be unnecessarily reduced and the lessee will gain a “windfall.” Alternatively, if we deny relief to a lease that is not economically viable, premature abandonment of resources and a corresponding loss of revenues could result. Lessees respond on their own initiative to obtain a benefit and, therefore, frequency is not applicable.

7. *Explain any special circumstances that would cause an information collection to be conducted in a manner:*

(a) requiring respondents to report information to the agency more often than quarterly.

Not applicable in this collection.

b) requiring respondents to prepare a written response to a collection of information in fewer than 30 days after receipt of it.

Not applicable in this collection.

(c) requiring respondents to submit more than an original and two copies of any document.

Not applicable in this collection.

(d) requiring respondents to retain records, other than health, medical, government contract, grant-in-aid, or tax records, for more than 3 years.

Not applicable in this collection.

(e) in connection with a statistical survey, that is not designed to produce valid and reliable results that can be generalized to the universe of study.

Not applicable in this collection.

(f) requiring the use of statistical data classification that has been reviewed and approved by OMB.

There are no special circumstances with respect to 5 CFR 1320.5(d)(2)(v) through (viii) as the collection is not a statistical survey and does not use statistical data classification.

(g) that includes a pledge of confidentiality that is not supported by authority established in statute or regulation, that is not supported by disclosure and data security policies that are consistent with the pledge, or which unnecessarily impedes sharing of data with other agencies for compatible confidential use.

This collection does not include a pledge of confidentiality not supported by statute or regulation.

(h) requiring respondents to submit proprietary trade secrets or other confidential information unless the agency can demonstrate that it has instituted procedures to protect the information's confidentiality to the extent permitted by law.

This collection does not require proprietary, trade secret, or other confidential information not protected by agency procedures.

8. If applicable, provide a copy and identify the date and page number of publication in the Federal Register of the agency's notice, required by 5 CFR 1320.8(d), soliciting comments on the information collection prior to submission to OMB. Summarize public comments received in response to that notice [and in response to the PRA statement associated with the collection over the past 3 years] and describe actions taken by the agency in response to these comments. Specifically address comments received on cost and hour burden.

Describe efforts to consult with persons outside the agency to obtain their views on the availability of data, frequency of collection, the clarity of instructions and recordkeeping, disclosure, or reporting format (if any), and on the data elements to be recorded, disclosed, or reported. [Please list the names, titles, addresses, and phone numbers of persons contacted.] Consultation with representatives of those from whom information is to be obtained or those who must compile records should occur at least once every 3 years – even if the collection of information activity is the same as in prior periods. There may be circumstances that may preclude consultation in a specific situation. These circumstances should be explained.

As required by 5 CFR 1320.8(d), MMS provided a 60-day notice in the Federal Register on March 15, 2006 (71 FR 13420). Also, 30 CFR 203.82 explains that MMS will accept comments at any time on the information collected and the burden. We display the OMB control number and provide the address for sending comments to MMS. We received two comments in response to the Federal Register notice or unsolicited comments from respondents covered under these regulations. Neither comment was germane to the IC cost or hour burden or to the subject of the collection at all.

During the comment period, MMS requested input from the following respondent on the burden of collecting this information. As a result, the burden estimates in Section A.12 remain the same.

VENOCO, Bob Zahner – Senior Reservoir Engineer, 805-745-2122
6267 Carpinteria Ave., Suite #100, Carpinteria, CA 93013

The only application submitted in the GOM Region in the last three years under our formal programs was for deepwater royalty relief. Since there are now fewer non-producing leases issued prior to the Deepwater Royalty Relief Act, we have reduced the estimated number of submittals to one every three years.

9. Explain any decision to provide any payment or gift to respondents, other than remuneration of contractors or grantees.

MMS will not provide payment or gifts to respondents in this collection.

10. Describe any assurance of confidentiality provided to respondents and the basis for the assurance in statute, regulation, or agency policy.

The MMS will protect information considered proprietary under applicable law and under regulations at 30 CFR 203.63, “How do I assess my chances for getting relief?” and 250.196, “Data and information to be made available to the public.”

11. Provide additional justification for any questions of a sensitive nature, such as sexual behavior and attitudes, religious beliefs, and other matters that are commonly considered private. This justification should include the reasons why the agency considers the questions necessary, the specific uses to be made of the information, the explanation to be given to persons from whom the information is requested, and any steps to be taken to obtain their consent.

The collection does not include sensitive or private questions.

12. Provide estimates of the hour burden of the collection of information. The statement should:

(a) Indicate the number of respondents, frequency of response, annual hour burden, and an explanation of how the burden was estimated. Unless directed to do so, agencies should not conduct special surveys to obtain information on which to base hour burden estimates. Consultation with a sample (fewer than 10) of potential respondents is desirable. If the hour burden on respondents is expected to vary widely because of differences in activity, size, or complexity, show the range of estimated hour burden, and explain the reasons for the variance. Generally, estimates should not include burden hours for customary and usual business practices.

(b) If this request for approval covers more than one form, provide separate hour burden estimates for each form and aggregate the hour burdens.

(c) Provide estimates of annualized cost to respondents for the hour burdens for collections of information, identifying and using appropriate wage rate categories. The cost of contracting out or paying outside parties for information collection activities should not be included here. Instead, this cost should be included in Item 14.

Respondents are those from the approximately 130 Federal oil and gas lessees that are required to obtain or retain benefits for royalty relief. The frequency of response is on occasion. The burden estimates include the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. We estimate a total of 4,721 annual burden hours. Based on \$50 an hour, the estimated annual hour burden is \$236,050 ($50 \times 4,721 \text{ hours} = \$236,050$). Refer to the chart below for a breakdown of the burden.

SECTIONS A.12 and A.13 HOUR/FEE BURDEN BREAKDOWN

Citation 30 CFR 203	Reporting or Recordkeeping Requirement 30 CFR Part 203	Hour Burden	Average No. of Annual Responses	Annual Burden Hours
43(a); 46(a)	Notify MMS of intent to begin drilling.	1	45	45
43(b)(1), (2), (d), (e)	Notify MMS that production has begun, request extension, request confirmation of the size of RSV.	2	15	30
46	Provide data from well to confirm and attest well drilled was an unsuccessful certified well and request supplement.	8	10	80
51; 83; 84	Application—leases that generate earnings that cannot sustain continued production (end-of-life lease).	100	1 Application every 3 years	34 (rounded)
		Application $1/3 \times \$8,000 = \$2,667$ (rounded)* Audit $1/3 \times \$12,500 = \$4,167$ (rounded)		
55	Renounce relief arrangement (end-of-life) (seldom, if ever will be used; minimal burden to prepare letter).	1	1 Letter every 3 years	1 (rounded)
61; 62; 64; 65; 71; 83; 85-89	Application—leases in designated areas of GOM deep water acquired in lease sale before 11/28/95 or after 11/28/00 and are producing (deep water expansion project).	2,000	1 Application every 3 years	667 (rounded)
		Application $1/3 \times \$19,500 = \$6,500$		
61; 62; 64; 65; 203.71; 203.83; 203.85-89	Application—leases in designated areas of deep water GOM, acquired in lease sale before 11/28/95 or after 11/28/00, that have not produced (pre-act or post-2000 deep water leases).	2,000	1 Application every 3 years	667 (rounded)
		Application $1/3 \times \$34,000 = \$11,334$ (rounded)* Audit $1/3 \times \$37,500 = \$12,500$		
61; 62; 64; 65; 71; 83; 85-89	Application—preview assessment (seldom if ever will be used as applicants generally opt for binding determination by MMS instead).	900	1 Application every 3 years	300
		Application $1/3 \times \$34,000 = \$11,334$ (rounded)		
74; 75	Redetermination.	500	1 Redetermination every 3 years	167 (rounded)
		Application $1/3 \times \$16,000 = \$5,334$ (rounded)*		
70; 81; 90; 91	Submit fabricator's confirmation report.	20	1 Report every 3 years	7 (rounded)
70; 81; 90; 92	Submit post-production development report.	50	1 Report * every 3 years	17 (rounded)
70; 79(a)	Request reconsideration of MMS field designation.	400	1 Request every 3 years	134 (rounded)
77	Renounce relief arrangement (deep water) (seldom, if ever will be used; minimal burden to prepare letter).	1	1 Letter every 3 years	1 (rounded)
79(c)	Request extension of deadline to start construction.	2	1 Request every 3 years	1 (rounded)
80		250	2 Applications	500

Citation 30 CFR 203	Reporting or Recordkeeping Requirement 30 CFR Part 203	Hour Burden	Average No. of Annual Responses	Annual Burden Hours
		Application Fees		
	Application—apart from formal programs for royalty relief for marginal producing lease (Special Case Relief).	Application 2 x \$8,000** = \$16,000 Audit 1 x \$10,000 = \$10,000		
80	Application—apart from formal programs for royalty relief for marginal expansion project or marginal non-producing lease (Special Case Relief).	<u>GOM</u> 1,000	2 Applications	2000
		Application 2 x \$19,500** = \$39,000 Audit 1 x \$20,000 = \$20,000		
		<u>POCS</u> 40	1 Application	40
		Application 1 x \$6,500*** = \$6,500		
81; 83-89	Required reports.	Burden included with applications.		0
83	Application – short form to add or assign pre-Act lease.	40	1 Application every 3 years	14 (rounded)
		Application 1/3 x \$1,000 = \$334 (rounded)		
91	Retain supporting cost records for post-production development/fabrication reports (records retained as usual/customary business practice; minimal burden to make available at MMS request.	8	2 Recordkeepers	16
Total Annual Burden			89 Responses	4,721 Hours
			Total Fees = \$145,670	

* CPA certification expense burden also imposed on applicant.

** These applications currently do not have a set fee since they are done on a case-by-case basis.

*** Application was withdrawn after the preliminary work indicated that project wouldn't qualify at the time.

NOTE: Applications include numerous items such as: transmittal letters, letters of request, modifications to applications, reapplications, etc.

13. Provide an estimate of the total annual [non-hour] cost burden to respondents or recordkeepers resulting from the collection of information. (Do not include the cost of any hour burden shown in Items 12 and 14).

(a) The cost estimate should be split into two components: (1) a total capital and start-up cost component (annualized over its expected useful life) and (2) a total operation and maintenance and purchase of services component. The estimates should take into account costs associated with generating, maintaining, and disclosing or providing the information [including filing fees paid]. Include descriptions of methods used to estimate major cost factors including system and technology acquisition, expected useful life of capital equipment, the discount rate(s), and the time period over which costs will be incurred. Capital and start-up costs include, among other items, preparations for collecting information such as purchasing computers and software; monitoring, sampling, drilling and testing equipment; and record storage facilities.

(a) Under § 203.3, we charge lessees (respondents) applying for royalty relief an amount that covers the cost of processing their applications and auditing financial data when necessary to determine the proposed development's economic situation. As discussed in section A.1, these fees may be revised as necessary to recover our costs in processing royalty relief applications.

In the previous submission, potential audits and their associated fees were inappropriately removed from the ICR. This submission includes these fees. Since the start of the program, there have been no audits, but we include the audit and their respective fees due to the potential situation arising.

We estimate this total cost burden to be approximately \$145,670 annually. Refer to the chart in Section A.12 of this supporting statement for a breakdown.

(b) If cost estimates are expected to vary widely, agencies should present ranges of cost burden and explain the reasons for the variance. The cost of purchasing or contracting out information collection services should be a part of this cost burden estimate. In developing cost burden estimates, agencies may consult with a sample of respondents (fewer than 10), utilize the 60-day pre-OMB submission public comment process and use existing economic or regulatory impact analysis associated with the rulemaking containing the information collection, as appropriate.

(b) Under § 203.81, a report prepared by an independent certified public accountant (CPA) must accompany the application and post-production report (expansion project, short form, and preview assessment applications are excluded). The OCS Lands Act applications will require this report only once; the DWRRA applications will require this report at two stages—with the application and post-production development report for successful applicants. We estimate an average cost for a report is \$45,000 and that three CPA certifications, during the information collection extension period, will be necessary if the applications are approved. The total estimated annual cost burden is \$135,000 (\$45,000 x 3 CPA certifications = \$135,000).

The total of the two burdens under Section A.13(a) and (b) is estimated at \$280,670.

(c) Generally, estimates should not include purchases of equipment or services, or portions thereof, made: (1) prior to October 1, 1995, (2) to achieve regulatory compliance with requirements not associated with the information collection, (3) for reasons other than to provide information or keep records for the government, or (4) as part of customary and usual business or private practices.

This collection does not require purchases of equipment and/or services.

14. Provide estimates of annualized cost to the Federal Government. Also, provide a description of the method used to estimate cost, which should include quantification of hours, operational expenses (such as equipment, overhead, printing, and support staff), and any other expense that would not have been incurred without this collection of information. Agencies also may aggregate cost estimates from Items 12, 13, and 14 in a single table.

The following is an estimate of the Federal Government time to review and analyze the information submitted. At an average cost of \$50 an hour, the cost to the Federal Government is estimated at \$211,100. However, this cost is offset by the corresponding application fees paid by respondents with their submissions discussed in item A.13. The total estimated cost to the Government is \$65,430 (\$211,100 - \$145,670 = \$65,430).

Application/Response	Annual MMS Hours Per Response	Annual Cost @ \$50 per Hour
Deep Gas Royalty Relief	70 submittals × 7 hours = 490	\$24,500

Application/Response	Annual MMS Hours Per Response	Annual Cost @ \$50 per Hour
OCS End-of-Life (1 application)	$1/3 \times 200 = 67^*$	\$3,350
DW Expansion Project	$1/3 \times 780 = 260$	\$13,000
DW Non-producing Leases	$1/3 \times 1000 = 334^*$	\$16,700
DW Short Form	$1/3 \times 20 = 7^*$	\$350
DW Redetermination	$1/3 \times 400 = 134^*$	\$6,700
Special case apart from formal programs	$4 \times 700 = 2800$	\$140,000
Reconsideration of MMS field designation	$1/3 \times 328 = 110^*$	\$5,500
Other Miscellaneous Submissions	20	\$1,000
Total	4,222	\$211,100

* Rounded

15. Explain the reasons for any program changes or adjustments.

We are requesting a program change as follows:

Originally, this IC had 70 hours associated with 203.48(b) that, due to rulemaking (70 FR 22250 – OMB approved IC 1010-0153) was then consolidated into 1010-0071 – Notify MMS of decision to exercise option to replace one set of deep gas royalty suspension terms for another set of such terms. This requirement is no longer applicable since the deadline was as of 9/1/2004; therefore, we are no longer carrying the 70 hours associated with that requirement (-70 hours).

We are requesting adjustments as follows.

(a) The currently approved burden in is 8,911 hours. This submission requests 4,721 burden hours, representing an adjustment decrease of 4,120 hours resulting from re-estimating the annual number of applications/responses (we are receiving far fewer applications than originally expected). Therefore we are requesting a net decrease of 4,190 hours (8,911 current OMB inventory – 4,721 hours requested – (70 program change) = -4,120 hour adjustment).

(b) The currently approved cost burden is \$414,000. This submission requests \$280,670 rounded to \$281,000, representing an adjustment decrease of \$133,000 resulting from re-estimating the annual number of applications/responses (we are receiving far fewer applications than originally expected) and associated costs (application/audit fees and CPA certification reports). Based on recent and expected oil and gas prices, we foresee less need for and use of the royalty relief program over the next several years.

16. For collections of information whose results will be published, outline plans for tabulation and publication. Address any complex analytical techniques that will be used. Provide the time schedule for the entire project, including beginning and ending dates of the collection of information, completion of report, publication dates, and other actions.

The MMS will not publish the data.

17. If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons that display would be inappropriate.

Not applicable, as this collection of information concerns requirements in regulations.

18. Explain each exception to the certification statement “Certification for Paperwork Reduction Act Submission.”

To the extent that the topics apply to this collection of information, we are not making any exceptions to the “Certification for Paperwork Reduction Act Submissions.”

B. Collection of Information Employing Statistical Methods

The agency should be prepared to justify its decision not to use statistical methods in any case where such methods might reduce burden or improve accuracy of results. If statistical methods are used, then the following documentation should be included in the Supporting Statement to the extent that it applies to the methods proposed.

This section is not applicable for this collection. We will not employ statistical methods in this information collection.