

Minerals Management Service, Interior

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and/or stratigraphic trapping condition. Two or more reservoirs may be in a field, separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both.

Highest responsible qualified bidder means a person who has met the appropriate requirements of 30 CFR part 256, subpart G of this title, and has submitted a bid higher than any other bids by qualified bidders on the same tract.

Highest royalty rate means the highest percent rate payable to the United States, as specified in the lease, in the amount or value of the production saved, removed, or sold.

Lease period means the time from lease issuance until relinquishment, expiration, or termination.

Lowest royalty rate means the lowest percent rate payable to the United States, as specified in the lease, in the amount or value of the production saved, removed, or sold.

OCS lease sale means the Department of the Interior (DOI) proceeding by which leases for certain OCS tracts are offered for sale by competitive bidding and during which bids are received, announced, and recorded.

Pre-Act lease means a lease that:

- (1) Is issued as part of an OCS lease sale held before November 28, 1995;
- (2) Is located in the Gulf of Mexico in water depths of 200 meters or deeper; and
- (3) Lies wholly west of 87 degrees, 30 minutes West longitude. (See part 203 of this title.)

Production period means the period during which the amount of oil and gas produced from a tract (or, if the tract is unitized, the amount of oil and gas as allocated under a unitization formula) will be measured for purposes of determining the amount of royalty payable to the United States

Qualified bidder means a person who has met the appropriate requirements of 30 CFR part 256, subpart G of this title.

Royalty rate means the percentage of the amount or value of the production saved, removed, or sold that is due and payable to the United States Government.

Royalty suspension (RS) lease means a lease that:

- (1) Is issued as part of an OCS lease sale held after November 28, 2000;
- (2) Is in locations or planning areas specified in a particular Notice of OCS Lease Sale; and
- (3) Is offered subject to a royalty suspension specified in a Notice of OCS Lease Sale published in the FEDERAL REGISTER.

Tract means a designation assigned solely for administrative purposes to a block or combination of blocks that are identified by a leasing map or an official protraction diagram prepared by the DOI.

Value of production means the value of all oil and gas production saved, removed, or sold from a tract (or, if the tract is unitized, the value of all oil and gas production saved, removed, or sold and credited to the tract under a unitization formula) during a period of production. The value of production is determined under part 206 of this title.

[66 FR 11518, Feb. 23, 2001, as amended at 72 FR 25202, May 4, 2007]

§ 260.110 What bidding systems may MMS use?

We will apply a single bidding system selected from those listed in this section to each tract included in an OCS lease sale. The following table lists bidding systems, the bid variables, and characteristics.

For the bidding system—	The bid variable is the—	And the characteristics are—
(a) Cash bonus bid with a fixed royalty rate of not less than 12.5 percent.	Cash bonus	The highest responsible qualified bidder will pay a royalty rate of not less than 12.5 percent at the beginning of the lease period. We will specify the royalty rate for each tract offered in the Notice of OCS Lease Sale published in the FEDERAL REGISTER.
(b) Royalty rate bid with fixed cash bonus.	Royalty rate	We will specify the fixed amount of cash bonus the highest responsible qualified bidder must pay in the Notice of OCS Lease Sale published in the FEDERAL REGISTER.

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For the bidding system—	The bid variable is the—	And the characteristics are—
(c) Cash bonus bid with a sliding royalty rate of not less than 12.5 percent at the beginning of the lease period.	Cash bonus	(1) We will calculate the royalty rate the highest responsible qualified bidder must pay using either: (i) A sliding-scale formula, which relates the royalty rate to the adjusted value or volume of production, or (ii) A schedule that establishes the royalty rate that we will apply to specified ranges of the adjusted value or volume of production. (2) We will determine the adjusted value of production by applying an inflation factor to the actual value of production. (3) If you are the successful high bidder, your lease will include the sliding-scale formula or schedule and will specify the lowest and highest royalty rates that will apply. (4) You will pay a royalty rate of not less than 12.5 percent at the beginning of the lease period. (5) We will include the sliding-scale royalty formula or schedule, inflation factor and procedures for making the inflation adjustment and determining the value or amount of production in the Notice of OCS Lease Sale published in the FEDERAL REGISTER.
(d) Cash bonus bid with fixed share of the net profits of no less than 30 percent.	Cash bonus	(1) If we award you a lease as the highest responsible qualified bidder, you will determine the amount of the net profit share payment to the United States for each month by multiplying the net profit share base times the net profit share rate, according to § 220.022. You will calculate the net profit share base according to § 220.021. (2) You will pay a net profit share of not less than 30 percent. (3) We will specify the capital recovery factor, as described in § 220.020, and the net profit share rate, both of which may vary from tract to tract, in the Notice of OCS Lease Sale published in the FEDERAL REGISTER.
(e) Cash bonus with variable royalty rate(s) during one or more periods of production.	Cash bonus	(1) We may suspend or defer royalty for a period, volume, or value of production. Notwithstanding suspensions or deferrals, we may impose a minimum royalty. The suspensions or deferrals may vary based on prices or price changes of oil and/or gas. (2) You may pay a royalty rate less than 12.5 percent on production but not less than zero percent. (3) We will specify the applicable royalty rates(s) and suspension or deferral magnitudes, formulas, or relationships in the Notice of OCS Lease Sale published in the FEDERAL REGISTER.
(f) Cash bonus with royalty rate(s) based on formula(s) or schedule(s) during one or more periods of production.	Cash bonus	We will base the royalty rate on formula(s) or schedule(s) specified in the Notice of OCS Lease Sale published in the FEDERAL REGISTER.
(g) Cash bonus with a fixed royalty rate of not less than 12.5 percent, at the beginning of the lease period, suspension of royalties for a period, volume, or value of production, or depending upon selected characteristics of extraction, and with suspensions that may vary based on the price of production.	Cash bonus	Except for periods of royalty suspension, you will pay a fixed royalty rate of not less than 12.5 percent. If we award to you a lease under this system, you must calculate the royalty due during the designated period using the rate, formula, or schedule specified in the lease. We will specify the royalty rate, formula, or schedule in the Notice of OCS Lease Sale published in the FEDERAL REGISTER.

§ 260.111 What conditions apply to the bidding systems that MMS uses?

(a) For each of the bidding systems in § 260.110, we will include an annual rental fee. Other fees and provisions may apply as well. The Notice of OCS Lease Sale published in the FEDERAL REGISTER will specify the annual rental

and any other fees the highest responsible qualified bidder must pay and any other provisions.

(b) If we use any deferment or schedule of payments for the cash bonus bid, we will specify and include it in the Notice of OCS Lease Sale published in the FEDERAL REGISTER.