

Update #27 to NTL 99-G06
Effective November 1, 2008

Introduction –Applicants for deepwater royalty relief for leases sold prior to late 1995 use a cash-flow model called RSVP. Until May 1, 1999, the economic parameters for this model were published by MMS’ Gulf of Mexico Region in the form of a Notice to Lessees (NTL). However, NTL 99-G06 (May 1, 1999) established a regular quarterly schedule to address necessary changes to these prices and to publish updates over the internet, without issuing a new NTL. The planned quarterly schedule for updating is around February 1, May 1, August 1, and November 1.

How to use this update of economic parameters –You should first download or obtain the version of RSVP named in the table below. The model as you receive it will contain price inputs that may be out-of-date. It is your responsibility to inspect the model’s “Viability Module, Oil Price Inputs and Gas Price Inputs” and to revise cell entries, including associated Crystal Ball input windows, replacing out-of-date values by the updated values.

Overview of this update – For this update, the starting prices are set for 2009. If your application includes production in 2008, please contact us for the prices to use.

The most likely prices in year 2009 are obtained by adjustment of the Energy Information Agency’s (EIA) forecasts, published in a recent *Short-term Energy Outlook*. EIA publishes US-wide average prices. For oil prices, we adjust the US imported refiners’ acquisition cost to a Gulf of Mexico level by multiplying by a factor, estimated to be 96% using historical data provided by EIA. For natural gas prices, we use the Henry Hub spot gas prices estimated by EIA in terms of \$/Mcf. As gas and oil prices are on a “landed” basis, you deduct from them any allowable transportation costs to infer your wellhead prices.

Long-term forecasts are based on EIA’s current *Annual Energy Outlook*, reference case. Our most likely prices for 2030 are fixed at the level of the EIA forecasts for the year 2030. The most likely prices for 2015 are based on the level of the EIA forecasts for that year, raised by 20% in the case of oil prices and 10% in the case of gas prices to avoid extreme down and up patterns in the forecast. Annual growth rates are calculated to connect prices for 2009 to 2015 and for 2015 to 2030.

Updated table of parameters -- The entire table of parameters including the updates is:

<i>Parameter</i>	<i>Minimum</i>	<i>Most Likely</i>	<i>Maximum</i>	<i>Dependency</i>
<i>Version of RSVP</i>		2.14		
<i>Year of Initial Oil Price</i>		2009		
<i>Initial Oil Price, landed (\$/bbl)</i>	\$74.91	\$95.44	\$117.07	
<i>Real Oil Price Growth Rate 1</i>	-9.25%	-7.51%	-5.45%	
<i>Year Second Oil Scenario Starts (see note at end of table)</i>		2015		
<i>Real Oil Price Growth Rate 2</i>	-0.58%	-0.08%	0.38%	
<i>Year Third Oil Scenario Starts</i>		NA		
<i>Real Oil Price Growth Rate 3</i>	NA	NA	NA	
<i>Year of Initial Gas Price</i>		2009		
<i>Initial Gas Price, landed (\$/Mcf)</i>	\$7.22	\$8.56	\$9.91	+1 with Oil Start Price
<i>Real Gas Price Growth Rate 1</i>	-4.16%	-3.33%	-2.74%	+1 with Oil Growth Rate 1
<i>Year Second Gas Scenario Starts</i>		2015		
<i>Real Gas Price Growth Rate 2</i>	0.06%	0.72%	1.00%	+1 with Oil Growth Rate 2
<i>Year Third Gas Scenario Starts</i>		NA		
<i>Real Gas Price Growth Rate 3</i>	NA	NA	NA	
<i>Federal Income Tax Rate</i>		35%		
<i>Base Year for Discounted Cash Flow</i>		Application date year		
<i>Discount Rate Range</i>	10%		15%	
<i>Random Number Seed</i>		104		
<i>Overhead Cost Allowance</i>		5%		

Note: First application of second scenario is to infer 2016 prices from 2015 prices.

Graphs -- The graphs below illustrate the price forecasts. For the annual price forecasts, the top lines are based on the maximum parameters, the middle lines on the most likely, and the bottom lines on the minimum.

Figure 1. Oil price forecast
(2008 \$/bbl PADD-III RAC import)

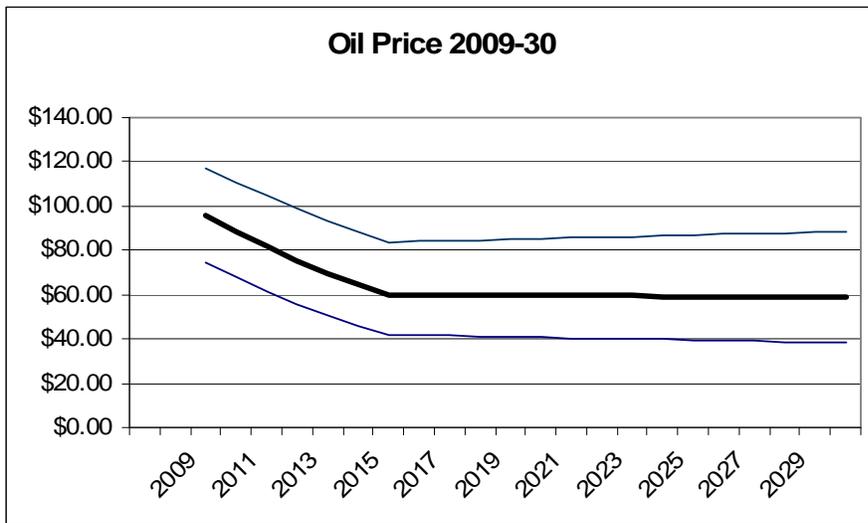
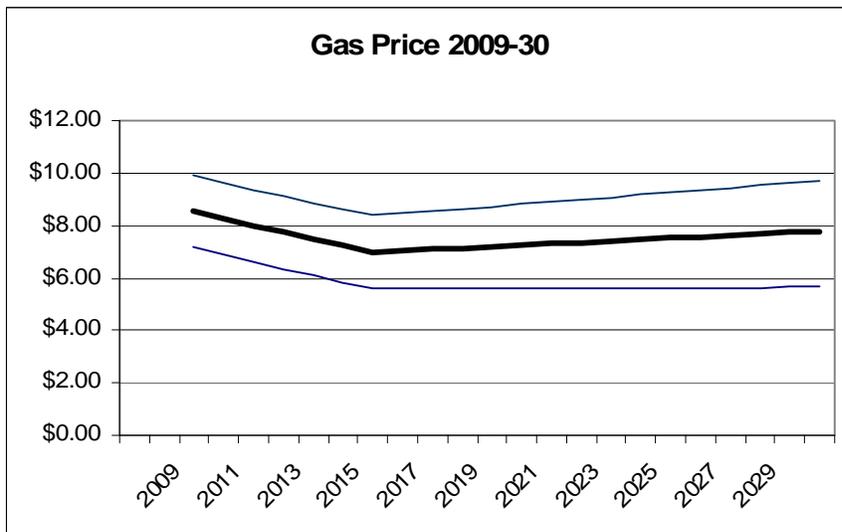


Figure 2. Gas price forecast
(2008 \$/Mcf Henry Hub)



Contact – Questions may be directed to Marshall Rose at the Economics Division in Herndon, VA, 703-787-1536.