UNITED STATES DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE

NTL No. 2003-N04 Effective Date: May 9, 2003

NOTICE TO LESSEES AND OPERATORS AND INTERPRETIVE RULE OF FEDERAL OIL, GAS, AND SULFUR LEASES IN THE OUTER CONTINENTAL SHELF

Extension of Lease Terms by Production in Paying Quantities

This Notice to Lessees and Operators (NTL) explains your obligation to maintain production in paying quantities or other operations on your lease beyond the primary term. Failure to maintain operations may result in your lease terminating by operation of law.

What are the ways to hold my lease beyond its primary term?

To extend your lease beyond its primary term, you must satisfy the requirements found in: (1) the terms and conditions of your OCS lease agreement and (2) the regulations found at 30 CFR 250.180 or 250.168 through 177. Your lease agreement provides that the lease continues after its initial term if you produce in paying quantities from the lease, or conduct approved drilling or well reworking operations on the leased area (for the purpose of establishing or reestablishing production in paying quantities), or as otherwise extended by regulation.

Pursuant to 30 CFR 250.180(b) and (d), if you stop conducting operations on your lease, it will expire unless you resume operations within 180 days. The regulations at 30 CFR 250.180(a)(2) define the term “operations” as drilling, well reworking or production in paying quantities. To avoid automatic lease expiration, on or before the 180th day after cessation of operations you must: (1) resume production in paying quantities, (2) commence other lease-holding operations (such as drilling additional wells or reworking existing wells) with the objective to restore production in paying quantities, or (3) receive a suspension of operations or suspension of production.

How much production is needed to continue my lease?

You must produce in paying quantities to maintain your lease beyond its primary term. Under prudent operator standards and historical oil and gas precedents, production in paying quantities, for the purpose of continuing the lease beyond its primary term, means the production of enough oil, gas, sulfur, or other minerals as specified in the lease to yield a positive stream of income after subtracting normal expenses, which include the sum of: (1) minimum royalty or actual royalty payments, whichever is greater, and (2) the direct lease operating costs. Direct lease operating costs include processing fees, labor costs, fixed and variable operating costs incurred on the lease, and fixed and variable operating costs allocated to the lease when production is processed off the lease. You should monitor your lease production to ensure it meets the requirement of production in paying quantities.

If lease production appears insufficient, the Regional Supervisor will ask you to provide cost and production data to demonstrate that your lease has been producing in paying quantities.

If the Regional Supervisor determines that your lease did not produce in paying quantities for a period that exceeded 180 days, MMS either may issue an order to show cause why your lease did not expire by its own terms at the end of the 180-day period during which your lease did not produce in paying quantities, or may issue a determination that your lease has expired.

If you have any specific questions concerning this matter, please contact:

Mr. B.J. Kruse at (504) 736-2634, Office of Production and Development, Gulf of Mexico Region;

Joan Barminski at (805) 389-7707, Office of Reservoir Evaluation and Production, Pacific Region; and

Jeffrey Walker at (907) 271-6190, Field Operations, Alaska Region.

Paperwork Reduction Act of 1995 Statement: The collection of information referred to in this NTL provides clarification, description, or interpretation of requirements contained in 30 CFR 250, Subpart A. The Office of Management and Budget (OMB) has approved the collection of information required by that regulation and assigned OMB control number 1010-0114. This NTL does not impose additional information collection requirements subject to the Paperwork Reduction Act of 1995.

Dated.

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Associate Director for
Offshore Minerals Management