

DEPARTMENT OF THE INTERIOR**Minerals Management Service****Agency Information Collection****Activities: Submitted for Office of Management and Budget Review; Comment Request**

AGENCY: Minerals Management Service, DOI.

ACTION: Notice of Information Collection Solicitation.

SUMMARY: Under the Paperwork Reduction Act of 1995, the Minerals Management Service (MMS) is soliciting comments on an information collection, Net Profit Share Leases (OMB Control Number 1010-0073), which expires on May 31, 1999.

FORM: None.

DATES: Written comments should be received on or before February 9, 1999.

ADDRESSES: Comments sent via the U.S. Postal Service should be sent to Minerals Management Service, Royalty Management Program, Rules and Publications Staff, P.O. Box 25165, MS 3021, Denver, Colorado 80225-0165; courier address is Building 85, Room A613, Denver Federal Center, Denver, Colorado 80225; e-mail address is RMP.comments@mms.gov.

FOR FURTHER INFORMATION CONTACT: Dennis C. Jones, Rules and Publications Staff, phone (303) 231-3046, FAX (303) 231-3385, e-mail Dennis.C.Jones@mms.gov.

SUPPLEMENTARY INFORMATION: In compliance with the Paperwork Reduction Act of 1995, Section 3506 (c)(2)(A), we are notifying you, members of the public and affected agencies, of this collection of information which expires May 31, 1999. We are requesting OMB approval for a three year extension of this existing collection authority. Is this information collection necessary for us to properly do our job? Have we accurately estimated the industry burden for responding to this collection? Can we enhance the quality, utility, and clarity of the information we collect? Can we lessen the burden of this information collection on the respondents by using automated collection techniques or other forms of information technology?

To encourage exploration and development of oil and gas leases on submerged lands of the Outer Continental Shelf (OCS), regulations were promulgated at 30 CFR 260.110(4) implementing a net profit share bidding system. The Net Profit Share Lease (NPSL) bidding system was established to properly balance a fair market return

to the Federal Government for the lease of its lands, with a fair profit to companies risking their investment capital. The system provides an incentive for early and expeditious exploration and development, and provides for a sharing of the risks by the lessee and the Government. The bidding system incorporates a fixed capital recovery system as the means through which the lessee recovers costs of exploration and development from production revenues, along with a reasonable return on investment.

The Government does not receive a profit share payment from an NPSL until the lessee shows a credit balance in its capital account; that is, cumulative revenues and other credits exceed cumulative costs. The credit balance is multiplied by the net profit share rate (usually 50%), resulting in the amount of profit share (royalty) due. The lessee is able to recover exploration and development expenses, plus a reasonable return on its investment, prior to payment of any royalty to the Government.

Lessees are required (30 CFR 220.010) to maintain an NPSL capital account and to provide annual and monthly reports using data taken from the capital account (30 CFR 220.031). This collection of information is necessary in order to determine when royalty payments are due, and to determine the proper amount of payment.

The Department of the Interior (DOI) is the department within the Federal Government responsible for matters relevant to mineral resource development on the OCS. The Secretary of the Interior (Secretary) is responsible for managing the production of minerals from Federal and Indian Lands and the OCS; for collecting royalties from lessees who produce minerals; and for distributing the funds collected in accordance with applicable laws. The Minerals Management Service (MMS) performs the royalty management functions for the Secretary.

Under the NPSL bidding system, a notice of OCS lease sale is published in the **Federal Register** with a net profit share rate and a capital recovery factor (CRF) established for each tract within the sale. The CRF allows the lessee to inflate certain allowable costs by multiplying costs by the CRF. This additional allowance results in a type of risk-sharing arrangement with the Government. Tracts within the same sale may have different profit share rates and different CRF's. The last OCS lease sale involving NPSL's was in August 1983.

After entering into a lease agreement, the lessee is required to maintain an

NPSL capital account (30 CFR 220.010). The capital account balance represents the cumulative total of all costs and credits received over the life of the lease. Once the account balance reaches zero, or the lease becomes profitable, royalty payments are due.

When companies enter into NPSL agreements, they agree to submit the reports required by 30 CFR 220.031. There are no reporting forms required, but the lessees must submit updates containing specific information. Before production begins, reports are required on an annual basis. These reports must document costs incurred, credits received, and the balance in the NPSL capital account. Once production begins, monthly reports are required that include the amount and disposition of oil and gas saved, removed, or sold; the amount of production revenue; the amount and description of costs and credits to the NPSL capital account; the balance in the capital account; the net profit share base and net profit share payment due the Government; and the lessee's monthly profit share. All information submitted is taken directly from the lessee's own records. No unique information is required by MMS.

Royalty payments are made based on the individual lease's net profit share rate, multiplied by the quantity (revenues and other credits, less costs). MMS uses the data submitted in the annual and monthly reports to verify costs claimed, revenues earned, and royalty payments due. No royalties are paid until the lessee recovers exploration and development expenses. Information provided in the reports is used by MMS auditors. Failure of the respondent to submit the information results in noncompliance with the requirements of 30 CFR 220 and could result in loss of royalty payments to the Government.

We estimate that about 16 hours are required to prepare each annual and monthly lease report in order to extract from company records the data required by 30 CFR 220.031. Information required to complete these reports comes from records maintained by the companies for their own use. One additional hour for recordkeeping may be required as companies set up files for each lease.

Dated: December 3, 1998.

Lucy Querques Denett,

Associate Director for Royalty Management.

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