

Update #15 to NTL 99-G06
Effective August 1, 2004

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 The model as you receive it will contain price inputs that may be out-of-date.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Inputs and Gas Price Inputs” and to revise cell entries, including associated Crystal Ball input windows, replacing out-of-date values by the updated values.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 2005. If your application includes production in 2004, please contact us for the prices to use.

The most likely prices in year 2005 are obtained by adjustment of the Energy Information Agency’s (EIA) forecast of the prices for that year, published in the most 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 gas prices, we add to the US lower-48 average wellhead price an amount that is the average long-term difference between that series and Gulf coast gas prices estimated by EIA. That adjustment is 32 cents/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 provided by the EIA’s most recent *Annual Energy Outlook*. Our forecast after 2010 follows EIA closely. We merge short and long-term forecasts by means of growth rates connecting the prices in 2005 and those in 2010.

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

Parameter	Minimum	Most Likely	Maximum	Dependency
Version of RSVP		2.14		
Year of Initial Oil Price		2005		
Initial Oil Price, landed (\$/bbl)	\$22.58	\$31.92	\$41.24	
Real Oil Price Growth Rate 1	-5.55%	-5.42%	-4.21%	
Year Second Oil Scenario Starts		2010		
Real Oil Price Growth Rate 2	0.00%	0.74%	1.00%	
Year Third Oil Scenario Starts		2015		
Real Oil Price Growth Rate 3	0.00%	0.74%	1.00%	
Year of Initial Gas Price		2005		
Initial Gas Price, landed (\$/Mcf)	\$4.97	\$6.13	\$7.58	+1 with Oil Start Price
Real Gas Price Growth Rate 1	-10.00%	-8.84%	-6.00%	+1 with Oil Growth Rate 1
Year Second Gas Scenario Starts		2010		
Real Gas Price Growth Rate 2	2.96%	3.96%	4.25%	+1 with Oil Growth Rate 2
Year Third Gas Scenario Starts		2015		
Real Gas Price Growth Rate 3	0.25%	0.46%	1.00%	+1 with Oil Growth Rate 3
Federal Income Tax Rate		35%		
Base Year for Discounted Cash Flow		Application date year		
Discount Rate Range	10%		15%	
Random Number Seed		104		
Overhead Cost Allowance		5%		

Graphs -- The graphs below illustrate the 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
(2004 \$/bbl PADD-III RAC import)

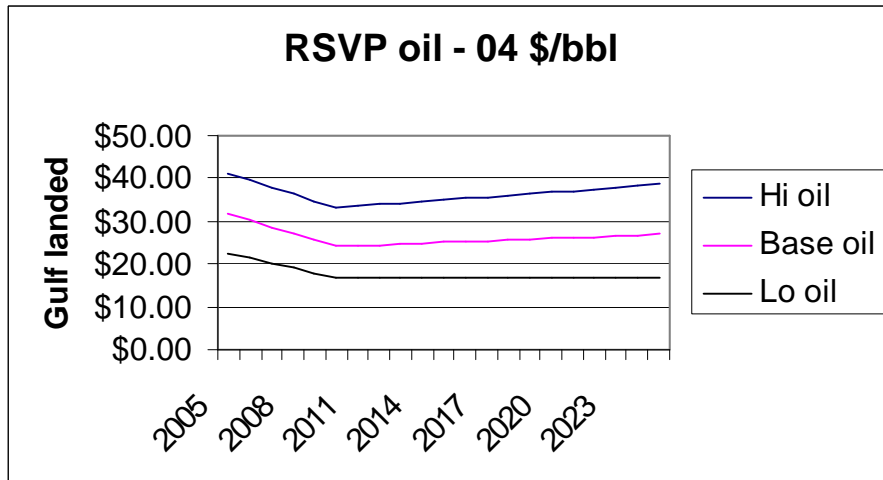
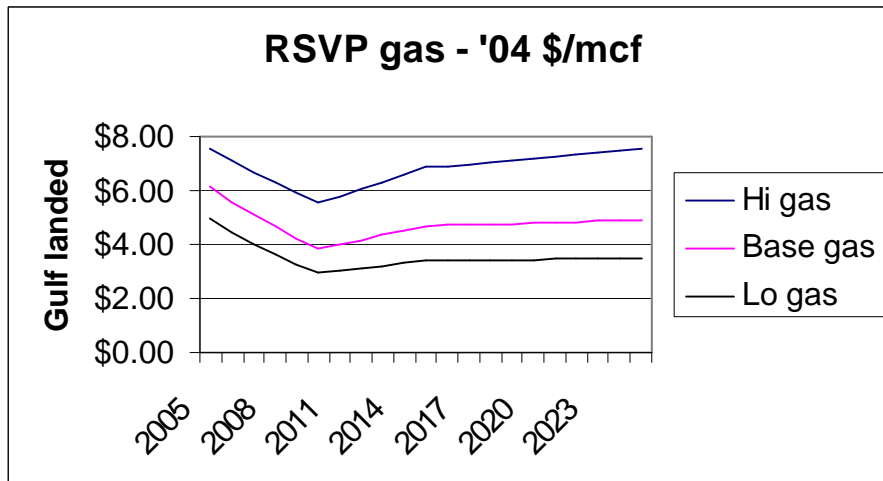


Figure 2. Gas price forecast
(2004 \$/Mcf Gulf average landed)



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