

assumed to remain constant throughout the time period considered for the analysis. This reduces the possible effects of incorrect price path forecasts on the value estimates and allows the decision maker to focus more clearly on comparative benefits.<sup>6</sup> The MMS has chosen to base its estimates of anticipated production, exploration and development scenarios, and economic analysis on an oil price of \$46 per bbl and a natural gas wellhead price of \$6.96 per mcf. While the oil price is below recent open market prices, the MMS believes it to represent a realistic estimate of the kind of long-term prices the oil and gas industry will be using for making its development decisions. In addition, an examination of previous OCS lease sales and activity levels (including the effects of infrastructure and capital equipment constraints) indicates that current prices have reached a point at which higher price levels are unlikely to have a major effect on activities that result from sales under this PP. While lower prices could have an important effect on the results, it is fairly easy to adjust an approved 5-year schedule to consequent reductions in industry interest. A real discount rate of 7 percent was chosen for the PP analysis.

Figure 1 summarizes the components of the MMS net benefit analysis. The methodology for the economic analysis and the additional assumptions required for the valuation of the PP are described more fully in MMS Report 2006-056.

|  |
|--|
| <p><b>Available Undiscovered, Economically Recoverable Resources*</b><br/> x Assumed Price<br/> = Gross</p> <p><b>Gross Revenue</b><br/> - Private Costs<br/> = Net Economic Value (NEV)</p> <p><b>NEV</b><br/> - Environmental and Social Costs<br/> = Net Social Value (Net Supply-Side Benefits)</p> <p><b>Net Social Value</b><br/> + Consumer Surplus Benefits (Net Demand-Side Benefits)<br/> = Net Benefits</p> |
|--|

*Figure 1: Components of the Net Benefits Analysis*

\*The PP estimates are based on resources anticipated to be discovered, developed, and produced as a result of each EIS alternative.

**Estimates of Net Economic Value.** The net economic value of anticipated oil and gas production represents the net expected present (discounted) worth of oil and gas market values less the discounted real cost of exploring, developing, producing, and transporting the resources to market. The net economic value estimates for each planning area in the PP are based on

<sup>6</sup> Because the MMS uses the common practice of discounting estimates of future costs and benefits to net present value, the timing of price increases or decreases, as well as the relative rates of price changes, could affect the Net Benefits values in ways that make it difficult for the decision maker to estimate the effects of alternate price assumptions.