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NEGOTIATED RULEMAKING GAS VALUATION TEAM RECOMMENDS IMPROVEMENTS IN REGULATIONS ON FEDERAL LANDS

The U.S. Department of the Interior's Minerals Management Service (MMS) today released a report containing recommendations to improve gas valuation regulations for federal lands. The report was prepared by a 20-member committee of MMS, state and industry representatives.

The committee recommends that some gas produced from federal leases be valued based on indices published in trade publications such as "Inside FERC" and "Natural Gas Intelligence." The committee also recommends that where agreements contain a mix of federal, state, Indian and fee leases, royalties be reported and paid based on the amount of production to which each lessee is entitled whether or not that amount of production is actually taken and sold by the lessee. However, an exception is recommended for small independent gas producers who pay on their actual annual sales of production (commonly referred to as "takes"). This would allow these producers to pay royalty based on the amount of gas they actually sold rather than the amount of gas that they were entitled to take from production on a lease.

"This report is the result of a 13-month comprehensive examination of valuation issues by parties with very diverse interests," said MMS Acting Director Cynthia Quarterman. "This consensus decision will serve as the basis for regulations that provide more simplicity and certainty in valuation of gas produced from federal leases.

"We view this negotiated rulemaking as a success and, in fact, MMS is working to complete proposed regulations based upon this report," she added.

Acting on a recommendation from the Royalty Management Program's National Performance Review Laboratory, a study group was formed in December 1993, to determine the best approach for valuing natural gas produced on federal public lands.

The study group was later transformed into the more formal "Federal Gas Valuation Negotiated Rulemaking Committee," and chartered by the Secretary of the Interior to advise MMS on a federal gas valuation rulemaking.

Committee participants included representatives from the American Petroleum Institute, Independent Petroleum Association of America, Independent Petroleum Association of Mountain States, Natural Gas Supply Association, Rocky Mountain Oil and Gas Association, Council of Petroleum Accountants Societies; representatives from individual large independent oil and gas companies; representatives from the States of Montana, New Mexico, North Dakota and Utah; and MMS.

Meeting at least monthly for the past 13 months, the committee addressed all aspects of the process including such controversial and complex valuation issues as gas produced from unitization and communitization agreements and gas sold under non-arm's-length contracts.

"We believe that this cooperative effort has equitably addressed the needs of our many constituents," said Quarterman. "The proposed regulation will help to clarify how to pay royalties on natural gas, while reducing administrative costs, decreasing litigation, and maintaining revenue neutrality. MMS expects to publish the proposed rule early this summer."

Free copies of the report are available by contacting John Barder at (303) 275-7234.

MMS is the federal agency that manages and regulates the nation's natural gas, oil and other mineral resources on the Outer Continental Shelf, and collects and disburses revenues from offshore federal mineral leases and from onshore mineral leases on federal and Indian lands.

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