

**U.S. Department of the Interior  
Minerals Management Service  
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**MMS Update on Audits of Crude Oil Underpayments**

The U.S. Department of the Interior's Minerals Management Service (MMS) announced today that it has begun the process of auditing crude oil production for potential underpayments nation-wide, following consultation with states and Indian tribes that carry out audits under agreements with the agency. The MMS had announced on July 18, 1996, its plans to pursue and collect past underpayment of royalties on federal crude oil production in and offshore California and to pursue similar valuation issues in other states and on the Outer Continental Shelf. Actions underway nation-wide generally follow the same approach as in California, and include:

- \* MMS issued, in June 1996, procedural guidance to MMS, state, and tribal auditors. This guidance explicitly states that royalties are due on premiums received above posted prices. MMS further instructed its auditors to suspend issuance of audit closure letters to companies, effectively holding open the period from 1989 forward for further examination. Outside California, MMS' audit targets include 125 companies that account for 86% of crude oil production.
- \* MMS began the process of revising its oil product valuation regulations in December of 1995 to assure that valuation methodologies are sufficient to address a variety of market conditions. In addition to the comments received in response to an Advanced Notice of Proposed Rulemaking, MMS is also seeking advice from a number of experts and consultants, industry representatives, the Western States Land Commissioner's Association, and other federal agencies. MMS expects to propose new oil valuation regulations by the end of this year.
- \* MMS plans to engage private consultants to study the crude oil valuation practices of operators outside California to determine whether crude oil posted prices were a valid basis for royalty valuation purposes prior to the 1990's. MMS is also continuing to assist the Department of Justice in its nation-wide review of oil companies' practices in valuing crude oil for purposes of paying royalties.

MMS is the federal agency that manages the Nation's natural gas, oil, and other mineral resources on the OCS, and collects, accounts for, and disburses about \$4 billion yearly in revenues from offshore federal mineral leases and from onshore mineral leases on federal and Indian lands.

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