

**U.S. Department of the Interior  
Minerals Management Service  
Office of Communications**

***PRESS ADVISORY***

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**Update on MMS Audits of Crude Underpayments**

On July 18, 1996, the Department of the Interior's Minerals Management Service (MMS) announced its plan of action to pursue and collect underpayments of royalties on federal crude oil produced in and offshore California from 1980 forward. MMS stated that it would focus its efforts on the 20 largest payors who together accounted for nearly 97 percent of California's federal production, and that it would issue its first orders and bills within a few months and conclude its audits and billing efforts within a year after all data are received.

Simultaneously, MMS issued audit or investigation letters to the 20 companies. To date, MMS has also issued subpoenas to companies that have not responded to MMS's requests for data necessary to complete the audits.

The first order and bill was issued on September 5, 1996, for post-1988 production. On October 18, 1996, MMS issued additional orders and bills to 10 of the 20 companies that refine the crude oil they produce. The orders and bills issued to these integrated companies pertain to underpayments for the period October 1983 through February 1988. Detailed audits of integrated company records for that period are not required because MMS is basing the royalty value of the oil produced on Alaska North Slope (ANS) prices which are readily available, not on individual sales contracts. Within a few months, MMS expects to issue bills to these same companies for the period January 1980 through September 1983, using ANS prices as the valuation basis. These orders are somewhat more difficult to issue as the production data required for calculating underpayments are not automated for that earlier period. The above activities are within the time table set out in the plan of action announced in July 1996.

Audits are proceeding for the remaining companies, both integrated and non-integrated, for remaining time periods where records have been made available. Some of these companies will not receive bills for the earlier periods as they did not dispose of federal production during those years.

MMS is also pursuing similar oil valuation issues nationwide. To assist auditors in determining if crude oil payments were made properly, specific valuation guidance was issued to MMS audit offices and to States and Tribes with MMS-delegated audit authority. Outside California, audit personnel have been instructed to hold open the most recent audit period (1989-1992) for further examination. MMS will go back to the earlier period as needed and warranted.

MMS is continuing with the prospective revision of its oil product valuation regulations, and plans to publish a draft for public comment by the end of 1996.

MMS is the federal agency that manages the Nation's natural gas, oil, and other mineral resources on the OCS, and collect, verifies, 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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