U.S. Department of the Interior
Minerals Management Service
Office of Public Affairs

NEWS RELEASE

FOR RELEASE: February 12, 2003

CONTACT: Nicolette Humphries
(202) 208-3985

Michael L. Baugher
(303) 231-3162

MMS TO HOLD WORKSHOPS ON REGULATIONS FOR VALUING CRUDE OIL PRODUCED FROM FEDERAL LEASES

The Department of the Interior's Minerals Management Service will hold four public workshops during March to provide opportunities for the public to discuss possible technical revisions of the Federal Oil Valuation Rule, which is used to determine royalties due on crude oil from federal leases.

MMS published the current Federal Oil Valuation Rule in March 2000, and believes the regulations work well overall to ensure a fair return on federal resources. However, the agency believes there are some technical issues, such as the treatment of transportation costs and the price indices used in valuing oil from federal leases, that require review and may be in need of refinement.

"After three years of experience, we are convinced this is a sound rule that generally does what it is intended to do -- provide the federal government and lessees alike with a fair valuation of crude oil from federal leases," said MMS Director Johnnie Burton. "At the same time, we believe we need to look at these technical issues to ensure that we are properly accounting for the cost of transporting oil and properly valuing oil produced from federal leases according to current market conditions. We are eager to hear from the public on these issues."

Oil and gas companies that produce crude oil from federal lands pay a royalty, usually a percentage, of the value of the oil produced from the lease. Generally, when companies sell oil to a non-affiliated third party, they calculate and pay royalty based on the price they receive from that party. They can also deduct from the royalty value the costs of transporting the oil to market.

When oil and gas companies sell oil to an affiliate, however, they must calculate and pay royalty on either the value their affiliate received for the oil or on published market prices. Companies also may adjust the published market prices for differences in the location and the quality of the oil produced from the lease.

MMS also announced today that it is reopening the comment period on the proposed rule for valuing crude oil produced from Indian leases.

"Even though we will focus the upcoming workshop discussions on federal oil valuation technical issues, questions may be raised and feedback received that could apply to Indian oil valuation," said Burton. "We want to make sure that the final Indian Oil Valuation Rule is as up to date as possible, and the knowledge gained through our experience in applying the Federal Oil Valuation Rule may also be applicable to Indian oil valuation."

During the upcoming workshops, MMS is requesting comment on the following specific issues:

1) The possibility of using different published market prices for valuing crude oil produced from federal leases;

2) The calculation of adjustments for the quality of oil and differences in location between oil delivered and received when companies don't have that information at hand;

3) What specific transportation costs companies are allowed to deduct;

4) The rate of return that companies use to calculate their actual costs of transportation when they own part or all of a pipeline; and

5) How companies value oil under a joint operating agreement; i.e., an agreement in which companies jointly develop and produce an oil and gas property.

Workshop locations and dates are:

Workshop 1: March 4, 2003, Denver, Colorado, 8:30 a.m. to 2 p.m. (MST),

Minerals Management Service, Denver Federal Center, 6th Avenue and Kipling Street, Building 85, Auditoriums A-D, Denver, Colorado, 80226-0165, (303) 231-3302.

Workshop 2: March 5, 2003, Houston, Texas, 8:30 a.m. to 2 p.m. (CST),

Minerals Management Service, 4141 North Sam Houston Parkway East, Houston,

Texas, 77032, (281) 987-6800.

Workshop 3: March 6, 2003, Washington, D.C., 8:30 a.m. to 2 p.m. (EST),

Main Interior Building, South Penthouse, 1849 C Street, NW, Washington, D.C. 20240,

(202) 208-3512.

Workshop 4: March 6, 2003, Albuquerque, New Mexico, 8:30 a.m. to 2 p.m. (MST), Wyndham Albuquerque, 2910 Yale Boulevard SE, Albuquerque, New Mexico 87106,

(505) 843-7000.

The workshops will be open to the public without advance registration. However, public attendance may be limited to the space available, and attendees may be required to show photo identification to gain access to the meeting venues.

The *Federal Register* notice announcing the oil valuation workshops can be viewed online at: http://www.mrm.mms.gov/OilVal/FedVal.htm . The *Federal Register* notice reopening the comment period on the Indian Oil Valuation Rule can be viewed online at: http://www.mrm.mms.gov/OilVal/IndVal.htm .

The existing federal oil royalty valuation regulations for crude oil produced from federal leases can be reviewed at: http://www.mrm.mms.gov/Laws_R_D/FRNotices/PDFDocs/14022.pdf .

MMS is the federal agency in the U.S. Department of the Interior that manages the nation's oil, natural gas, and other mineral resources on the Outer Continental Shelf in federal offshore waters. The agency also collects, accounts for, and disburses mineral revenues from federal and American Indian leases. These revenues totaled over $6 billion in 2002 and nearly $127 billion since the agency was created in 1982. Annually, nearly $1 billion from those revenues go into the Land and Water Conservation Fund for the acquisition and development of state and federal park and recreation lands.

-MMS-