



**U.S. Department of the Interior
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NEWS RELEASE

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MMS to Hold Workshops on Regulations for Valuing Gas Produced from Federal Leases

The Department of the Interior's Minerals Management Service will hold four public workshops during April and May 2003 to provide opportunities for the public to discuss possible revisions of the Federal Gas Valuation Rule, which is used to determine royalties due on gas from federal leases.

"Although we believe the Federal Gas Valuation Rule is providing a fair return on federal resources, it is now 15 years old," said MMS Director Johnnie Burton. "The natural gas market has changed over those years, and MMS has also gained experience from the 2000 Indian Gas Valuation Rule and from five years of taking royalties in kind. We believe it is time to review and perhaps update the existing rule."

Oil and gas companies that produce natural gas from federal lands pay a royalty, usually a percentage, of the value of the gas produced from the lease. Generally, when companies sell gas 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 gas to market. In addition, companies can also reserve the right to process natural gas in a gas processing plant. When they exercise that right, companies are allowed to deduct from the royalty value the reasonable actual costs of processing.

When oil and gas companies sell gas to an affiliate, however, they must calculate and pay royalty on the first applicable of three benchmarks that rely on a number of market indicators including comparable arm's-length contracts in the field or area. They must then compare that benchmark value to the total proceeds they receive and pay on the higher value.

MMS is seeking the participation of constituent experts on gas valuation issues at the upcoming workshops.

"Although we are not proposing any changes to the 2000 Indian gas rule at this time, we encourage tribal representatives to participate in the upcoming federal gas valuation workshops since issues discussed there may also be applicable to Indian gas valuation," said Burton.

Potential benefits of any proposed changes to the Federal Gas Valuation Rule include simplification and clarification of certain aspects of the rule and streamlining of audits and reduced litigation.

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

- 1) Allowing lessees who sell their production to an affiliate the option (for a 2 year period) of basing the royalty value on either a published index price for gas or their affiliate's arm's-length resale price;
- 2) Using NYMEX prices at the Henry Hub rather than published spot prices for natural gas;
- 3) Adjusting natural gas index prices for location differences between the index pricing point and the lease;
- 4) Reviewing the specific transportation costs that we identified in MMS's 1998 amendment to the gas transportation allowance regulations;
- 5) Determining the rate of return allowed for calculating actual costs under non-arm's-length transportation agreements;
- 6) Allowing lessees to apply natural gas index prices to wellhead gas volumes to eliminate the current requirement of tracing gas that is processed to remove natural gas liquids, and;
- 7) Valuing and reporting natural gas disposed of under joint operating agreements.

Workshop locations and dates are:

Workshop 1: April 23, 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: April 24, 2003, Albuquerque, New Mexico, 8:30 a.m. to 2 p.m. (MST), Doubletree Albuquerque, 201 Marquette NW, Albuquerque, New Mexico 87102,

(505) 247-7000.

Workshop 3: April 29, 2003, Houston, Texas, 9 a.m. to 11 p.m. and 2 p.m. to 5 p.m. (CST),

The Westin Galleria, 5060 West Alabama, Houston, Texas, (713) 960-8100

Workshop 4: May 1, 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.

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 gas valuation workshops can be viewed online at:

http://www.mrm.mms.gov/Laws_R_D/FRNotices/FRFinRules.htm

The existing Federal Gas Valuation Rule can be reviewed at 20 CFR 206.150:

<http://www.mrm.mms.gov/OilVal/FCORPRule.htm>

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.

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MMS Internet website address: <http://www.mms.gov>