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MMS Publishes Final Rule for Valuing Oil From Federal Lands

The U.S. Department of the Interior's Minerals Management Service will publish the final rule for valuing crude oil produced on federal lands in the March 15, 2000 *Federal Register*. The rule will become effective June 1, 2000, with a 3-month interest-free grace period (until September) allowed for industry to make system changes to implement the rule.

At a briefing for industry, press, and other interested parties, Assistant Secretary for Land and Minerals Management, Sylvia Baca said, "Today, I am very pleased to announce the successful completion of the federal oil valuation rule. Developing this rule has been a long, arduous and involved process with the oil industry, the States, public interest groups, and Members of Congress. But in the end, what began more than four years ago, has resulted in a better, more balanced rule. It will ensure that we are collecting the proper amount of royalties from oil produced on federal lands, but at the same time, this rule is fair to industry."

MMS Director Walt Rosenbusch noted, "We experienced an unprecedented level of public input while developing this rule. There were eight comment periods, five proposed rules, numerous meetings with Members of Congress, 20 workshops with States, industry, and public interest groups, and a review of thousands of pages of comments. Because of the valuable contributions from everyone, we believe we have a rule that strikes a responsible balance between the interests of the oil and gas industry and the government's absolute obligation to assure a fair return for the public's mineral resources."

An estimated $67.3 million per year in increased royalty revenues to the government will be realized. Approximately $2.4 million of this revenue will be shared with the following states:

State	Revenues
California	$1,012,926
Wyoming	$568,421
New Mexico	$384,760
Louisiana	$217,372
North Dakota	$87,647
Texas	$78,569

Montana	$39,803
Colorado	$27,233
Utah	$7,338
Total	$2.4 Million

About 90% of the additional revenue will come from the major integrated oil companies. There are administrative savings in the new rule, therefore, the net increase to industry will be an estimated $63.5 million.

Rosenbusch explained, "The key feature of this rule is the application of spot market pricing for the major integrated companies and others that refine their oil. In other words, this provision does away with reliance on posted prices for non-arm’s-length contracts. We continue to believe that spot market pricing is by far the best indicator of crude oil’s true value in today’s market."

What the rule does for arms-length crude oil sales contracts:

- The MMS will continue to accept prices under arm's-length contracts as we did under the 1988 rules. Thus, small independent producers that sell under arm's-length contracts will not be affected.
- The rule includes language affirming that MMS will not second-guess producers' marketing decisions.

What the rule does for non-arms-length crude oil sales contracts:

- Uses market-based spot pricing in most situations when sales are not at arm’s-length.
- Provides tailored valuation methods to fit different marketing areas of the country.
- Allows options to fit lessees’ unique marketing situations.
- Provides for location and quality adjustments between the lease and market center when using spot-market pricing.
- Allows for actual costs of transportation.
- Allows the first purchaser of a pipeline to begin a new depreciation schedule based on the price they paid for the pipeline.
- Allows for a minimum return on fully depreciated pipelines.
- Spells out new and clearer criteria for determining company affiliation.
- Provides for binding value determinations.

What the rule does not do:

- Does not allow marketing costs as a deduction from royalty.
- Does not use comparable sales or tendering at the lease, other than in the Rocky Mountain region.
- Does not allow FERC tariffs for non-arm’s-length transportation.

To ensure a smooth transition and implementation of the new rule, MMS is developing training materials and will hold training sessions in the coming months.

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

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