The NewsRoom
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Amendments to Federal Natural Gas Valuation Rule Finalized; Clarity, Consistency Will Aid Royalty Reporting

DENVER - Amendments to the 1988 Federal Gas Valuation Rule will make Federal natural gas leases more attractive for development, and provide assurance of a fair market return on these resources to the American public, according to the Minerals Management Service. Final amendments to the rule, used to determine royalties due on natural gas from federal leases, were published today in the ***Federal Register*.**

"These amendments provide greater certainty, clarity and consistency and will result in more accurate royalty reporting," said MMS Director Johnnie Burton. "That ultimately helps this agency continue to assure economic value for America on these important resources."

MMS held a series of public workshops in April and May of 2003 to gather feedback on possible revisions to the 16-year-old rule. Based on feedback from the workshops, MMS published a proposed rule on July 23, 2004. The comment period on the proposed rule closed Sept. 21, 2004. Based on the written comments received on the proposed rule, MMS issued a final rule with the following changes.

Synopsis of changes

Future Valuation: The final amendments add a provision to allow for future valuation agreements between the MMS and a lessee. This provision is intended to provide flexibility to both MMS and the lessee in those few unusual circumstances where an individual written agreement is needed. Any such agreement must at least approximate the royalty value for the production that would apply under these regulations.

Transportation Allowances: Revises the definition of transportation allowance in the gas rule to conform to the definition found in other rules. It provides allowances for the reasonable, actual costs of moving gas to a point of sale or delivery. The transportation allowance does not include gathering costs.

It also provides language clearly stating that allowances approved prior to 1988 are no longer valid; and changes the 1988 regulations to allow deduction of unused firm demand costs as part of the transportation allowance consistent with a recent court decision.

Rate of Return - Increases the rate of return used in non-arm's-length transportation systems from 1 times the Standard and Poor's BBB Industrial Bond rate to 1.3 times that rate to better reflect industry's actual weighted average cost of capital.

Arm's-length Transportation Contracts - Allows costs of securing a letter of credit that the pipeline requires a shipper to maintain. Disallows fees paid to brokers, fees paid to scheduling service providers, and internal costs.

Non-arm's-length Transportation Contracts - Allows fees paid (either in volume or in value) for actual line losses. Disallows fees paid to brokers, fees paid to scheduling service providers, and internal costs.

Definitions: The final amendments modify the definition of "arm's-length contract" and also add a definition of the term "affiliate" to be consistent with a recent court decision. An "arms-length contract" refers to a contract between two independent companies that are not affiliated and that have opposing economic interests regarding that contract.

Tariffs: For Federal Energy Regulatory Commission-approved tariffs used in non-arm's-length transportation situations, simplifies and revises the conditions under which a lessee may request an exception to the requirement to calculate actual transportation costs.

The rule can be viewed online at: **www.mrm.mms.gov**.

MMS, part of the U.S. Department of the Interior, oversees 1.76 billion acres of the Outer Continental Shelf, managing offshore energy and minerals while protecting the human, marine, and coastal environments through advanced science and technology research. The OCS provides 30 percent of oil and 23 percent of natural gas produced domestically, and sand used for coastal restoration. MMS collects, accounts for, and disburses mineral revenues from Federal and American Indian lands, with Fiscal Year 2004 disbursements of approximately $8 billion and more than $143 billion since 1982. The Land and Water Conservation Fund, which pays for acquisition of state and federal park and recreation land, gets nearly $1 billion a year.

Relevant Web Sites:
MMS Main Website

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