

Barton, Jayne

From: Kirumakki, Nagaraja
Sent: Thursday, January 08, 2004 8:43 AM
To: Burhop, Shirley; Conway, Karen
Subject: Sales to Affiliates training slides

Attachments: Sales to Affiliates.ppt

These are some of the slides that I have started to prepare for the training class. This is just a start.



Sales to
ffiliates.ppt (46 KB..)

*Raj Kirumakki
Center for Excellence
(303) 231-3466*

Sales to Affiliates: Gas, Oil & Coal

Purpose

To provide you with information and guidance on how to value NAL sales from Federal and Indian lands. This includes Federal gas, Indian oil and Coal sales from Federal and Indian leases.

Definitions

Marketing Affiliate – An affiliate of the lessee whose function is to acquire only the lessee's production and to market that production.

Definitions

Affiliate – Corporations/organizations which are related either as (1) parent and subsidiary, or as (2) subsidiaries of the same parent organization. For gas sales, an affiliate is one who acquires production from other lessees and sells the production to an non-affiliated third party.

Definitions

Arm's Length – Contract arrived at in the market place between independent, non affiliated persons with opposing economic interests.

- Ownership $> 50\%$ Control
- Ownership = 10% - 50%
- Ownership $< 10\%$ Assume Noncontrol

Definitions

Gross Proceeds – The value of production for royalty purposes shall never be less than the gross proceeds accruing to the lessee from the sale thereof. The sale price

Definitions

Sale - A contract between two persons (parties) where:

- the seller unconditionally transfers title to the goods to the buyer
- the buyer pays money or other consideration for the sale
- the parties' intent is for a sale to occur.

Definitions

Marketable Condition – means lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area.

Normal requirements – lessee must meet include pressure and quality

Definitions

(Marketable Condition – Contd)

(Btu, moisture, H₂S, CO₂) requirements

Costs incidental to marketing (brokerage and marketing fees) are also considered costs to place production in marketable condition. A lessee performing these duties with its own employees may not deduct the costs of finding markets for the gas; neither may a lessee that contracts out these functions deduct those costs.

Federal Valuation Guidance

- MMS Policy Paper 11/26/1996
- Xeno inc, IBLA 92-501, 11/14/1995
Gross Proceeds
- 132 IBLA 354
Shell – Gross Proceeds and affiliates
- Tenth Circuit Court of Appeals No. 95-1221, 4/10/1996
Santa Fe Energy Products
Records of the affiliates

Federal Valuation Guidance

- 127 IBLA 265

Santa Fe

Affiliate Sales

- US District Court Cause No. 92-99-BLG-RWA, 1993.

Beartooth Oil & Gas Company

Gross Proceeds & Marketable Condition

Federal Valuation Guidance

Regulatory Authority

- 30 CFR 206.152 (c) establishes value for gas sold under non-A/L contracts.

Audit/Compliance Approach

- | | | |
|---|--|---|
| X | | 2 |
| X | | 2 |
| X | | 2 |
| X | | 2 |
| X | | 2 |

Barton, Jayne

From: Conway, Karen
Sent: Thursday, January 08, 2004 9:00 AM
To: Kirumakki, Nagaraja; Burhop, Shirley; Conway, Karen
Subject: RE: Sales to Affiliates training slides

Seems like Sales to Affiliates would be incorrect in light of Fina; we might consider calling it non-marketing affiliates or related companies?

-----Original Message-----

From: Kirumakki, Nagaraja [mailto:Nagaraja.Kirumakki@mms.gov]
Sent: Thursday, January 08, 2004 8:43 AM
To: Burhop, Shirley; Conway, Karen
Subject: Sales to Affiliates training slides

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<<Sales to Affiliates.ppt>>

Raj Kirumakki
Center for Excellence
(303) 231-3466

Barton, Jayne

From: Palme, Chuck
Sent: Wednesday, January 21, 2004 1:47 PM
To: Burhop, Shirley
Subject: RE: Telecon tomorrow

Shirley -

I'll start the connections at 8:30, and will add any names you email.

-----Original Message-----

From: Burhop, Shirley
Sent: Wednesday, January 21, 2004 1:35 PM
To: Brian Johnson; Cynthia Stuckey; Dana Summers; Ellwood Soderlind; F David Loomis; George Staigle; Karen Conway; Nagaraja Kirumakki; Nancy Rodriguez; Perry Shirley; Robert Davidoff; Sara Teel; Terence Fisher
Cc: Palme, Chuck
Subject: Telecon tomorrow

Just to clarify what's going on:

Raj Kirumakki, Karen Conway and I have been working on the power point presentation. We've got an 81-page (or so) presentation developed and will be going through a trial run of it tomorrow. For anyone who will not be here in person, we will either hook you in by net-meeting (Perry) or have sent you the slides to view on your own computer (Nancy).

Anyone else who wants to participate via net-meeting tomorrow, please let me know ASAP, as Chuck Palme will be assisting me to get you tied in starting at 8:30 tomorrow morning.

Karen, Raj, and I have used the papers extensively in preparing the presentation, but we have had second thoughts about incorporating them into a training manual. Here's why: They're a lot to review. To be of continuing relevance, they would need a lot of maintenance. What I propose to do instead, is to extract from them the relevant "resources" applicable to valuation of a product, such as the CFR cites, the Payor Handbook sections, legal decisions, policy documents, etc. and then list these rather than copying all the relevant wording.

We can discuss this more tomorrow.

We will be meeting in auditorium C at 9:00 am Denver time.

Barton, Jayne

From: Rodriguez, Nancy
Sent: Wednesday, January 21, 2004 2:21 PM
To: Burhop, Shirley
Subject: RE: Telecon tomorrow

Importance: High

Shirley,

I will participate in the conference call tomorrow, but will not be able to join until after another meeting that is scheduled for the same time. If this is not acceptable, please advise and I will see if Jay can participate for me.

Thanks,

Nancy Rodriguez
205 Federal Royalty Audit Supervisor
New Mexico Taxation & Revenue Dept.
Phone: (505) 827-9843
Fax: (505) 827-9888

-----Original Message-----

From: Burhop, Shirley [mailto:Shirley.Burhop@mms.gov]
Sent: Wednesday, January 21, 2004 1:35 PM
To: Brian Johnson; Cynthia Stuckey; Dana Summers; Ellwood Soderlind; F David Loomis; George Staigle; Karen Conway; Nagaraja Kirumakki; Nancy Rodriguez; Perry Shirley; Robert Davidoff; Sara Teel; Terence Fisher
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Barton, Jayne

From: Rodriguez, Nancy
Sent: Wednesday, January 21, 2004 3:08 PM
To: Burhop, Shirley
Subject: RE: Telecon tomorrow

Yes, thank you. It printed fine, but I haven't had a chance to look at them yet. I will be before the meeting tomorrow.

Nancy Rodriguez
205 Federal Royalty Audit Supervisor
New Mexico Taxation & Revenue Dept.
Phone: (505) 827-9843
Fax: (505) 827-9888

-----Original Message-----

From: Burhop, Shirley [mailto:Shirley.Burhop@mms.gov]
Sent: Wednesday, January 21, 2004 3:03 PM
To: Rodriguez, Nancy
Subject: RE: Telecon tomorrow

That will be fine. Did you receive the power point presentation via email?

-----Original Message-----

From: Rodriguez, Nancy
Sent: Wednesday, January 21, 2004 2:21 PM
To: Burhop, Shirley
Subject: RE: Telecon tomorrow
Importance: High

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Barton, Jayne

From: Conway, Karen
Sent: Wednesday, January 21, 2004 3:21 PM
To: Burhop, Shirley
Subject: RE: FEDERAL AND INDIAN GAS6.doc

Thanks

-----Original Message-----

From: Burhop, Shirley [mailto:Shirley.Burhop@mms.gov]
Sent: Wednesday, January 21, 2004 3:22 PM
To: Brian Johnson; Cynthia Stuckey; Dana Summers; Ellwood Soderlind; F David Loomis; George Staigle; Karen Conway; Nagaraja Kirumakki; Nancy Rodriguez; Perry Shirley; Robert Davidoff; Sara Teel; Terence Fisher
Subject: FEDERAL AND INDIAN GAS6.doc

<<FEDERAL AND INDIAN GAS6.doc>> Condensed version of the Indian and Federal gas documents.

Barton, Jayne

From: Conway, Karen
Sent: Friday, January 23, 2004 7:41 AM
To: Burhop, Shirley
Subject: RE: Sales to Affiliates - draft.ppt

Looks good.

-----Original Message-----

From: Burhop, Shirley [mailto:Shirley.Burhop@nms.gov]
Sent: Thursday, January 22, 2004 3:54 PM
To: Stuckey, Cynthia; Throckmorton, Michael; Loomis, F David; Conway, Karen; Fisher, Terence; Summers, Dana; Kirumakki, Nagaraja; Shirley, Perry; Rodriguez, Nancy; St. Goddard, Harold
Subject: Sales to Affiliates - draft.ppt

<<Sales to Affiliates - draft.ppt>> Here it is. I've made the following changes:

Slide 6 is new - I explained what "non-marketing affiliate" means Slides 10, 11, and 12 are new and discuss the guidance resulting from the National Mining Assoc. decision Slide 14 - added reference to other slide numbers for coal Slides 20, 21. 22 - deleted "Federal" in the heading, as they also apply to Indian Slides 42 and 43 - changes "Lessee's Gross Proceeds" to lower case Slide 44 - Added "Determine lessee's gross proceeds" as a sub-title Slide 45 and 46 - changed "various contracts" to "special situations" in the title Slides 52 and 53 - added to the oil section (had been only in gas) Slide 66 - updated references to other slide numbers Slides 68 onward - changed any reference to coal "benchmarks" to coal "criteria" and "criterion" Around slide 79 - took out the slide that talked about "cents-per-ton" leases Slides 86 and 87 - new. More detail about what is and is not included in gross proceeds for coal

Barton, Jayne

From: Stuckey, Cynthia
Sent: Friday, January 23, 2004 1:02 PM
To: Burhop, Shirley
Subject: Coal Valuation Examples for Training

Shirley -- Mike Throckmorton is looking over my examples for use in the Fina training. As soon as he's done, I will forward them to you (with luck before the end of the day).

Cindi

Gibbs Tschudy, Deborah

From: Gibbs Tschudy, Deborah
Sent: Monday, January 26, 2004 9:08 AM
To: Burhop, Shirley; Williams, Mary
Cc: Conway, Karen; Kirumakki, Nagaraja
Subject: RE: Status - Fina training

These look really good. Just one comment. The December 14, 1998, Royalty Valuation Guidance for Sales to Joint Venture Affiliate was withdrawn at STRAC and RPC's request. If you cannot find the letter withdrawing it, let me know as I think I have a copy.

-----Original Message-----

From: Burhop, Shirley
Sent: Friday, January 23, 2004 4:31 PM
To: Gibbs Tschudy, Deborah; Williams, Mary
Cc: Conway, Karen; Kirumakki, Nagaraja
Subject: Status - Fina training

Attached are abbreviated versions of what you've seen before. These are intended to be handouts to accompany the training.

Why do we think this information is necessary?

X _____ 5
So I think that providing a "resource list" to accompany the training would be very valuable.

Debbie, you asked why we should even bother mentioning dual accounting and major portion. It think it's important that auditors understand that they don't stop when they've arrived at a benchmark value - that other things may need to be considered. Thus the references to these topics.

Status of the rest of the project: we have an 80+ page slide show developed which I think is in final form. It includes many place-holders for examples, which are still being developed. The examples, and a case study will be presented as handouts. I would prefer to pass along the whole package for review and will hope to have it available next week. I believe we're in pretty good shape with both gas and coal examples and oil should be fairly easy.

Gibbs Tschudy, Deborah

From: Gibbs Tschudy, Deborah
Sent: Monday, January 26, 2004 10:40 AM
To: Burhop, Shirley
Subject: RE: Status - Fina training

Good idea.

-----Original Message-----

From: Burhop, Shirley
Sent: Monday, January 26, 2004 10:32 AM
To: Gibbs Tschudy, Deborah
Subject: RE: Status - Fina training

Should we be taking some action to clean up the policy documents that are out on the pipeline? I would advocate effective dating them so as not to lose track of the history, but there's a lot of stuff out there that is no longer in effect.

-----Original Message-----

From: Gibbs Tschudy, Deborah
Sent: Monday, January 26, 2004 9:08 AM
To: Burhop, Shirley; Williams, Mary
Cc: Conway, Karen; Kirumakki, Nagaraja
Subject: RE: Status - Fina training

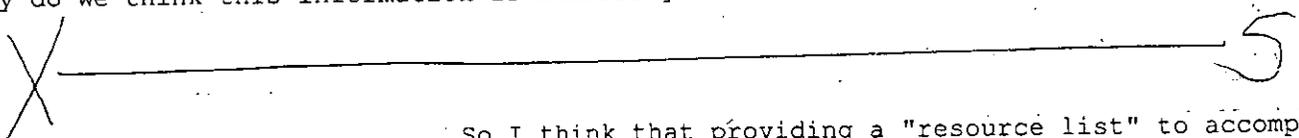
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Barton, Jayne

From: Burhop, Shirley
Sent: Monday, January 26, 2004 10:54 AM
To: Johnson, Ralph
Subject: FW: Status - Fina training

Ralph, can this be done? Not sure who's the best person to identify what's no longer in effect, but the first step is to create a field in which to enter the effective dates or, at least, expiration date.

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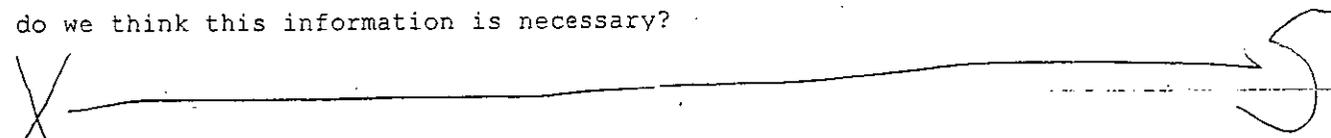
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