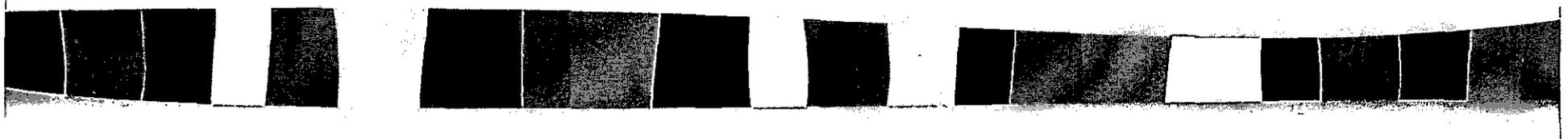
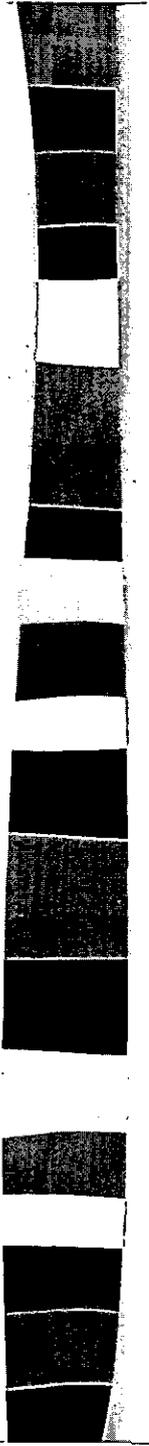


# MMS Payor Training Form MMS-2014



Valuation/Sales Type Code  
Federal/Indian Oil and Gas



# Sales Type Code and Value

- Value is based on how production is sold
- How product is valued dictates what sales type code (STC) you should use
- STC must be reported correctly

# Sales Type Code (Field)

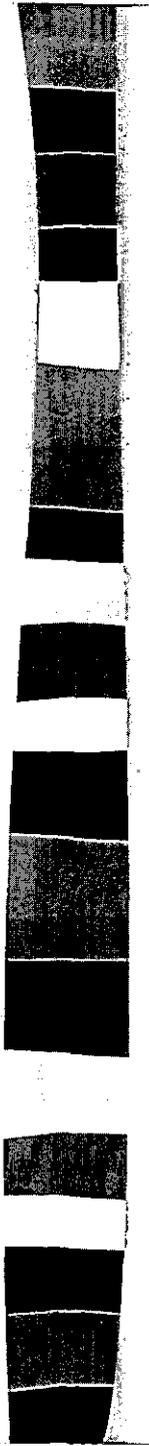
- Enter the appropriate sales type code in Field 11 of the Form MMS-2014

7 MMS LEASE NUMBER		10 PRODUCT CODE	11 SALES TYPE CODE	12 SALES MO/YR (MMCCYY)	13 TRANSACTION CODE	14 ADJUSTMENT REASON CODE	15 SALES VOLUME Mcf/bbl/gal/long ton)	
9 MMS AGREEMENT NUMBER		10 PRODUCT CODE	11 SALES TYPE CODE	12 SALES MO/YR (MMCCYY)	13 TRANSACTION CODE	14 ADJUSTMENT REASON CODE	19 ROYALTY VALUE PRIOR TO ALLOWANCES	
							\$	
048	123456	0	01	ARMS	012001	01	1,000	00
							4,000	00
048	123456	0	04	NARM	012001	01	10,000	00
							7,200	00



# Field 11: Sales Type Code

- 4-digit alpha-numeric code
- New code on Form MMS-2014
- Relates to sales contract NOT transportation or processing contract
- You can report on one line all contracts in the same STC category
- You cannot combine contracts in different STC categories on one line



# Field 11: Sales Type Code

- STC reported on original line will be the same on every adjustment line reported
- Is considered fraud if you or MMS knowingly misreports STC



# Sales Type Codes

- ARMS
  - Arm's-length transactions
- NARM
  - Non-arm's-length transactions
- POOL
  - Pooled sales, both AL and NAL
- RIKD
  - Royalty-in-kind deliveries



# Sales Type Codes (con't)

- OINX
  - Oil Index
- APOP
  - AL percentage-of-proceeds contract
- NPOP
  - NAL percentage-of-proceeds contract
- GNST
  - Geothermal no sales transaction



# Sales Type Code (con't)

- Z700
  - Historical POP conversion
- Z999
  - Historical conversion
- Codes assigned as needed
  - Other codes will be added as future valuation agreements are negotiated with individual companies



# Valuation Regulations

- 30 CFR Part 206

- Indian Oil: §206.50 - §206.55
- Federal Oil: §206.100 - §206.121
- Federal Gas: §206.150 - §206.160
- Indian Gas: §206.170 - §206.181



# General Valuation Principles

- Arm's-length
- Affiliate
- Gross proceeds
- Marketable condition



# Arm's-Length

- A contract or agreement between independent, nonaffiliated parties with opposing economic interests



# Affiliate

## ■ Affiliation

- Entity controls, is controlled by, or is under common control with another entity

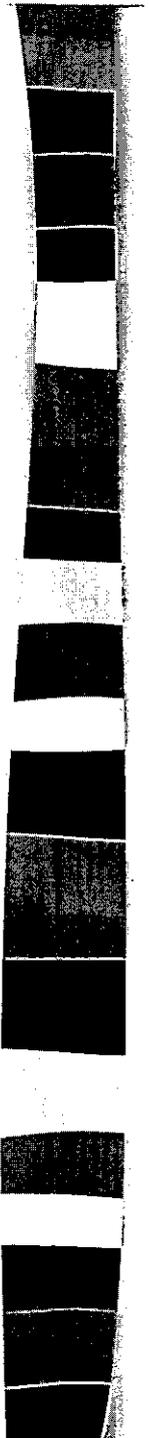
## ■ Control

- Ownership  $> 50\%$  is control [NARM]
- Ownership between 10 and 50%  
[ARMS or NARM]
  - **Control criteria based on various factors**
- Ownership  $< 10\%$  constitutes presumption of non-control [ARMS]



# Arm's-Length or Non-Arm's-Length?

- Arm's-Length [ARMS]
  - Are companies independent, nonaffiliated parties with opposing economic interest?
- Non-arm's-Length [NARM]
  - Are companies affiliated?
  - Defined by degree of control



# Gross Proceeds

- **Value can never be less than gross proceeds accruing to lessee**
  - Exceptions for Federal oil, Indian gas-Index zone
- **Gross proceeds includes:**
  - **Reimbursements**
    - taxes
    - production related costs
    - certain services



# Marketable Condition

- No deductions for placing production in marketable condition
  - Includes separating, gathering, compressing, measuring, sweetening, and dehydrating
- No deduction for marketing costs
  - If you market it or pay someone else



# Indian Lease Term Principles

- **Dual Accounting (DA):** Accounting for Comparison
  - Royalty value based on higher of:
    - Value of unprocessed gas, or
    - Combined value of residue gas, gas plant products, and condensate
    - less applicable allowances



# Indian Lease Term Principles

- Major Portion (MP)
  - Indian (Non-Index only)
  - MMS calculates the price at which a major portion of production from a designated area is sold
  - You use greater of MP or GP/NAL price in DA calculation



# Oil Valuation - Indian

- Arm's-length (AL) contracts [ARMS]
  - Generally accept gross proceeds under arm's-length contracts
- Non-arm's-length (NAL) contracts [NARM]
  - First applicable of 5 benchmarks



# Oil Valuation - Indian (con't)

- Subject to major portion
- New Indian oil valuation rules
  - Proposed and supplementary proposed rules published in 1998 and 2000
  - Final rule now at department level
  - Rule should be implemented this year



# Oil Valuation - Federal

## ■ Arm's-length (AL)

- Generally accept gross proceeds under AL sales contracts **[ARMS]**
- If you sell or transfer oil to affiliate and affiliate sells AL, may use either AL or NAL rules--must use election for 2 years **[ARMS][ NARM, or OINX** under 206.102 (2)(i)]
- If you sell under AL exchange agreement(s), may use either AL or NAL rules--must use election for 2 years **[ARMS][NARM, or OINX** under 206.102 (d)(1)]



# Oil Valuation - Federal (con't)

- Non-Arm's-length (NAL)
  - Three regions
    - California or Alaska
    - Rocky Mountain Region
    - Rest of the Country



# Oil Valuation - Federal (con't)

- NAL - California or Alaska
  - Alaska North Slope (ANS) spot price (MMS-approved publication) [OINX]
    - Average of daily high and low price
    - Adjusted for location and quality
    - Deduct actual transportation costs
    - Trading month is calendar month in which production occurs
    - Use same publication for 2 years



# Oil Valuation - Federal (con't)

- NAL - Rocky Mountain Region

- Colorado, Montana, North Dakota, South Dakota, Utah and Wyoming

- Does not include San Juan Basin and fields in “Four Corners” area of CO / UT



# Oil Valuation - Federal (con't)

- NAL - Rocky Mountain Region (con't)
  - Four ordered benchmarks
    - Tendering **[ARMS or NARM]**
    - Average of AL sales/purchases in field or area **[NARM]**
    - Cushing WTI spot price **[OINX]**
    - MMS-approved alternative **[NARM]**
  
- If not in tendering benchmark, must use same benchmark for 2 years



# Oil Valuation - Federal (con't)

- NAL - Rest of the Country

(Includes OCS Production)

- Spot price of similar quality oil from nearest market center [OINX]



# Gas Valuation

## ■ Unprocessed gas

- Gas is never processed
- Gas is sold AL before processing and no rights reserved or exercised

## ■ Processed gas

- Lessee or affiliate processes gas
- Sold AL before processing but rights reserved and exercised
- Gas not covered under unprocessed rules



# Gas Valuation

- Royalty on Unprocessed Gas
  - Unprocessed gas volume at royalty measurement point x price
- Royalty on Processed Gas
  - Sum of:
    - Residue gas value,
    - Gas plant products value
    - Condensate value recovered downstream of royalty settlement point and prior to processing
    - Less applicable allowances



# Pooling

- A pool is an aggregation of production
- Production is commingled and sold under multiple contracts
- Individual sales can't be traced to specific leases
- Valued using a weighted-average AL sales price [POOL]
- For NGLs use [POOL]



# Percentage-of-Proceeds (POP) Contracts

- POP contract is a contract for the sale of gas prior to processing where the value of the gas is based on a percentage of the purchaser's proceeds resulting from processing



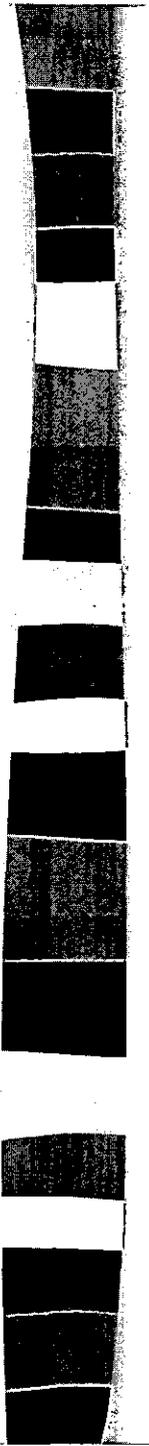
# POP Contract (con't)

- Federal Arm's-Length [APOP]
  - Royalties are based on the greater of:
    - GP under the POP contract, or
    - 100 percent of the residue gas value
- Federal Non-Arm's-Length [NPOP]
  - Royalties are based processed gas value, sum of:
    - Residue gas value,
    - Gas plant products value,
    - Condensate value recovered downstream of royalty settlement point and prior to processing.
    - Less applicable allowances



# POP Contract (con't)

- Indian - Index zone
  - Use Index value [OINX]
  - To perform DA, if lessee chooses actual DA
    - AL POP, use POP contract to calculate processing allowance
    - NAL POP, use NAL processing allowance regulations to calculate processing allowance



# POP Contract (con't)

## ■ Indian - Non-Index zone

– Use APOP or NPOP

– Royalties are based on processed gas value, sum of:

- Residue gas value,
- Gas plant products value,
- Condensate value recovered downstream of royalty settlement point and prior to processing,
- less applicable allowances.



# POP Contract (con't)

- Indian - Non-Index zone (con't)
  - Reported on multiple lines
  - To perform DA, if lessee chooses actual DA
    - AL POP, use POP contract to calculate processing allowance
    - NAL POP, use NAL processing regulations to calculate processing allowance



# Keepwhole

- Lessee receives 100 percent of attributable residue gas and consideration for attributable plant volume reduction (PVR)
- PVR payment may be cash or additional MMBtus of residue gas
- Processor takes gas liquids as processing payment



## Keepwhole (con't)

- Report both processed gas and NGLs
- Gas STC is based on sales contract  
[ARMS or NARM]
- NGL STC is [POOL]



# Gas Valuation - Federal (con't)

- Arm's-length contracts [ARMS]
  - Generally accept gross proceeds under AL contracts
- Non-arm's-length contracts [NARM]
  - First applicable of 3 ordered benchmarks



# Gas Valuation - Federal (con't)

- Dual Accounting (DA) [NARM]

- Required when Federal lessee or affiliate processes gas and sells residue gas NAL



# Gas Valuation - Indian

- Valued under one of two methods:
  - Index Zone method
    - Use published indexes
    - Includes transportation/major portion (**MP**)
    - Requires dual accounting (**DA**)
  - Non-Index Zone method
    - Initially use AL gross proceeds (**GP**) or NAL benchmarks
    - Requires major portion (**MP**)
    - Requires dual accounting (**DA**)

# Gas Valuation - Indian (con't)

- Index zones [OINX]
  - MMS defines index zones
    - Tribes may request exclusion
    - MMS may exclude Allotted leases
  - Value is based on prices published in MMS-approved publications
    - No other deductions taken against index price (includes 10% allowance factor)
    - Index zone price applied to wellhead MMBtu
    - Index zone price includes GP and MP
    - Index zone method mandatory for leases in MMS-established index zones
    - Use adjustment reason code 49 to correct previous reporting that didn't use index zone price



# Gas Valuation - Indian (con't)

- Index zones (con't)
  - Safeguard
    - Arm's-length dedicated sales contracts [**ARMS**]
  
- Index information (designations, prices, etc.) on MMS website at:
  - [www.mrm.mms.gov/TribServ/allzones.htm](http://www.mrm.mms.gov/TribServ/allzones.htm)



# Gas Valuation - Indian (con't)

- **Non-Index Zone (initial reported value)**
  - Arm's-length [ARMS]
    - Generally accept gross proceeds (GP) under AL contracts
  - Non-arm's-length (3 ordered benchmarks) [NARM]
    - Gross proceeds if equivalent and comparable to GP under AL contracts in field/area, plant/nearby plants
    - Other relevant information
    - Net-back or other reasonable method



# Gas Valuation - Indian (con't)

## ■ Non-Index Zone (con't)

- Lessee initially reports value based on AL or NAL criteria [**ARMS or NARM**]
- MMS calculates MP value and establishes due date for reporting upward adjustments
  - Publishes FR notice
  - Posts on website
- No interest due if lessee makes adjustments by due date
- Use adjustment reason code 16 for upward adjustments [**ARMS or NARM, same as your original line**]

# Gas Valuation - Indian (con't)

## ■ Dual Accounting (DA)

### – Two options

- Actual dual accounting

- For Index zone, use Index price for gas [**OINX**]

- For Non-Index zone [**ARMS or NARM**]

- » use greater of MP or GP/NAL price for gas

- Minimum value for gas plant products [**POOL**]

- Alternative method [**ARMS , NARM, or OINX**]

### – Election to use either method made separately for each MMS-designated area

- Applies to all leases in designated area

- Remains in effect for 2 years



# Allowances (Oil & Gas)

- No other allowances for gas in Indian Index Zone
- For Federal and Indian (except gas in Index zones):
  - Allowances for AL contracts
    - Based on actual costs
  - Allowances for NAL contracts
    - Based on lessee's operating and capital costs for the pipeline or plant
    - Indian Gas, Non-Index zone transportation allowance alternative:
      - 10% (not to exceed \$0.30/MMBtu)



# Allowances (Oil & Gas) (con't)

## – Allowance Limits

- 50% transportation
- 66 2/3% processing
- May request exception from MMS
  - No exception for Indian processing
- Combination of transportation and processing allowance cannot exceed 99% of the value of the product



# Filing Allowance Forms

- Federal production
  - No forms required
- Indian Gas
  - AL contracts
    - No forms required
    - Must submit transportation or processing contracts within 2 months of claiming allowance
  - NAL contracts
    - Must submit actual cost data on allowance form 3 months after the end of the allowance year or allowance period, whichever is less



# Filing Allowance Forms (con't)

## ■ Indian Oil

### – AL contracts

- File initial Form-4110 (and Schedule 1) with actual costs prior to, or at the same time as reporting the allowance on Form MMS-2014

### – NAL contracts

- File a completed Form-4110 with estimated costs prior to, or at the same time as reporting the allowance on Form MMS-2014
- File form with actual costs within 3 months after the calendar year the allowance was taken



# Is Sales Type Code Required For All Transaction Codes?

- Required for the following transaction codes:
  - TC 01, 11, 12, 14, 15, 41, 53, 54
- Optional:
  - TC 06, 10, 13, 31, 37, 38, 39, 40, 42
- Not required for rent, minimum royalty, other annual obligations, or any other TCs



# Contacts

- Federal Onshore

- Valuation

- Dave Hubbard
    - 303-236-8940

- Allowances

- James Morris
    - 303-236-3595

- Federal Offshore

- Valuation and Allowances

- Teresa Morzos
    - 303-231-3848



# Contacts (con't)

- Indian

- Valuation and Allowances

- John Barder
    - 303-275-7234

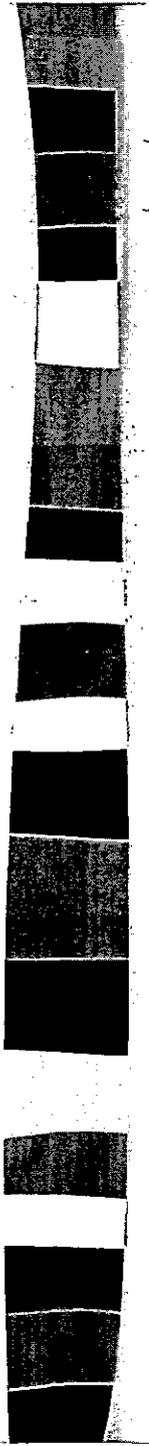


# Volume (Mcf) and Quality (Btu/cf)

- Mcf is a volume measurement
- Btu/cf is a quality measurement
- MMBtu represents the volume adjusted for the measured quality

# MMBtu Field on Form MMS-2014

<b>16</b>	<b>GAS MMBtu</b>	



# Reporting Gas MMBtu to MMS

- **Field 16 on Form MMS-2014**
- **Complete both sales volume and gas MMBtu fields for product codes 03, 04, 12, 15, 16, or 39**
- **Gas MMBtu is left blank for all other product codes**
- **Adjust the gas volumes and Btu heating value to:**
  - standard pressure base of 14.73 psia
  - standard temperature base of 60<sup>o</sup>F
  - same degree of water saturation

# Formulas to Calculate MMBtu and Value

## Formula to calculate MMBtu:

Used for both unprocessed (wellhead) and processed (residue) gas

$$\text{Measured Volume} \times \text{Conversion Factor} \times \text{Measured Quality} \times \text{Conversion Factor} = \text{MMBtu}$$

$$\text{Mcf} \times \frac{1000 \text{ cf}}{\text{Mcf}} \times \frac{\text{Btu}}{\text{cf}} \times \frac{\text{MMBtu}}{1,000,000 \text{ Btu}} = \text{MMBtu}$$

## Formula to calculate value:

$$\text{MMBtu} \times \frac{\text{Price (\$)}}{\text{MMBtu}} = \text{Value (\$)}$$



# Example of Gas Plant Statement

- See Handout

# Calculation Example

## Calculate Residue Gas MMBtu

– From gas statement:

- Residue Mcf = 1147
- Residue Btu = 1011

– Gas MMBtu

$$1147 \cancel{\text{Mcf}} \times \frac{1000 \cancel{\text{cf}}}{\cancel{\text{Mcf}}} \times 1011 \frac{\cancel{\text{Btu}}}{\cancel{\text{cf}}} \times \frac{\text{MMBtu}}{1,000,000 \cancel{\text{Btu}}} = 1160 \text{ MMBtu}$$

## Calculate Value

– 1160 MMBtu  $\times$   $\frac{\$2.13}{\text{MMBtu}}$  = \$ 2,470.80

# Calculation Example

## Natural Gas Liquids (NGLs)

■ **Volume (gallons) X Price  $\frac{(\$)}{(\text{gallons})}$  = Value (\$)**

■ **From gas statement:**

Product	Gallons	\$/Gallon	Value
Ethane	3429	\$0.13755	\$471.60
Propane	2139	\$0.32550	\$696.24
Isobutane	304	\$0.41241	\$125.37
Normal Butane	822	\$0.34565	\$281.12
Pentanes Plus	834	\$0.40928	\$341.34
Total	7528		\$1,915.67

- **Total Gallons = 7,528**
- **Total Value = \$1,915.67**
- **Lease Royalty Rate = 10%**
- **Processing Allowance = \$0.03/gal**
  - 7,528 gal X \$0.03/gal = \$22.58

# Calculations Entered on Form MMS- 2014

LINE NUMBER	RESERVED FOR PREPARER'S USE			MMS LEASE NUMBER			PRODUCT CODE	SALES TYPE CODE	SALES MO/YR (MMCCYY)	TRANSACTION CODE	ADJUSTMENT REASON CODE	SALES VOLUME (mcf/bbls/gal/long tons)		GAS MMBtu		SALES VALUE \$		INTENTIONALLY LEFT BLANK		PAYMENT METHOD CODE	
	API WELL NUMBER			MMS AGREEMENT NUMBER								ROYALTY VALUE PRIOR TO ALLOWANCES \$		TRANSPORTATION ALLOWANCE DEDUCTION \$		PROCESSING ALLOWANCE DEDUCTION \$		ROYALTY VALUE LESS ALLOWANCES \$			
				123	000123	0	03	NARM	102001	01		1147	00	1160	00	2470	80				
												247	08								
				123	000123	0	07	POOL	102001	01		7528	00			1915	67				
												191	57								



# MMBtu Field Adjustments

- If you fill out current format MMS-2014
  - No direct translation from Quality Measurement Column on old format MMS-2014
  - You must calculate MMBtu
- If you make adjustments to old format MMS-2014
  - You must populate the MMBtu field if Quality Measurement Column was left blank on any old format MMS-2014



# Gas Quality Information

- **May be obtained from:**

- Gas Analysis Report
- Monthly Gas Settlement/Purchase Statement
- Company Engineer
- Lease operator

- **May be found under various names:**

- Btu, Btu Factor, Gross Dry Btu, Gross Wet Btu, etc.

- **If stated in MMBtu/Mcf (million Btu per thousand cubic feet)**

- quality measurement will look like **1257**

- **If stated in Btu/cf (Btu per cubic foot)**

- quality measurement will look like **1.257**