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May 7, 2015

Greg Gould
Director
Office of Natural Resources Revenue
U.S. Department of the Interior
1849 C Street NW, MS 4230
Washington, D.C. 20240

Re: Consolidated Federal Oil & Gas and Federal & Indian Coal Valuation Reform (RIN 01012-AA13)

Dear Mr. Gould:

These comments are submitted on behalf of State and Tribal Royalty Audit Committee (STRAC). However, the comments submitted from an individual State or Tribe should be deemed to represent the comments from that State or Tribe.

<u>General</u>
STRAC believes it is beneficial to separate the proposed Federal & Indian Coal valuation regulations from the proposed Federal Oil & Gas Valuation regulations. The proposed coal valuation regulations need to be reviewed and tested further. Also, this proposal, we believe, would help minimize any delays in approving the positive aspects of the proposed rules.

STRAC also believes the 50% limit for transportation and 66 2/3% limit for processing allowances should be reviewed. For instance, the processing allowance does not reflect current plant efficiencies. These limits were developed in the 1920's and industry's technology has drastically changed over the years, which makes the allowance limits obsolete.

Approval must be granted by the State or Tribe if the default provision is applied in their jurisdiction. The current regulations have a good and specific way explaining the default provisions. The default provisions on the proposed regulations do not specifically explain the default provisions.

Within 1206.258 (b), STRAC recommends changing the 'may' to 'shall'. Using the word 'may' gives the interpretation of an option instead of a requirement.

Federal Oil & Gas Valuation Concerns:

- The new regulations conflict with RSFA: Keepwhole agreements: 30 USC 1709 (g) "...the Secretary should not perform or require accounting, reporting, or audit activities if the Secretary and the State concerned determine that the cost of conducting or requiring the activity exceeds the expected amount to be collected by the activity, based on the most current 12 months of activity." STRAC's experience is that this is a reporting issue that does not result in revenue collections. The application of the Keepwhole provisions requires an enormous amount of resources for both auditors and industry.
- Index Pricing: 1) prices should be from an active index zone, 2) producer has the option to 'opt-in' while the states do not have a choice. This option should not be given to industry. When comparing to the Indian Gas Valuation rule, Tribes were able to opt in or out of using an index price. If the Tribe opted in industry would have to comply, 3) price testing would be necessary. Also, a 'true-up' mandate must be included in order to verify the index pricing valuation is greater than gross proceeds
- Reverting back to the 'old reporting processes' for Percentage of Proceeds (POP) contracts will cause major issues with industry. Companies changed their systems to accommodate the latest changes required by us now to have them revert back to the original ways is not good business practice.
- Accounting for Comparison (Dual Accounting) may no longer be appropriate. The current market has proven there is no market for the wet gas therefore there is no need for accounting for comparison. However, what happens as the market changes?

Federal & Indian Coal Valuation Concerns:

- Historically, the federal energy resources value reported for federal royalty purposes must 1) never be less than gross proceeds and 2) the lessee is obligated to perform certain services at no cost to the federal government and that resource must be in marketable condition.
    - Do the new proposed coal regulations say the royalty value cannot be less than gross proceeds as the current regulations do?
    - Is there a floor, meaning gross proceeds that limit an allowance that can be taken under the proposed coal regulations like the current regulations?
    - Recommendation: Additional language within the proposed coal regulations which clearly state coal for royalty purposes cannot be less than gross proceeds accruing to the lease and that produced coal must be in marketable condition as stated in the current regulations.

Positive Changes:

STRAC supports many of the new proposals that will simplify, enhance early certainty, and result in reducing administrative costs including, but not limited to:

- The elimination of the benchmarks

- Eliminates line loss as an allowable royalty deduction
- Depreciation of the original transportation system
- The use of salvage value
- Change to BBB
- Treat line fill as non-deductible marketable condition costs

If you have any questions, please feel free to call me at (512) 463-6907.

Sincerely,

Chairperson, STRAC