

**MINUTES OF THE  
ROYALTY POLICY COMMITTEE**

**November 14, 2006**

**Lakewood, Colorado**

## Proceedings

### **Welcome and Opening Remarks**

The Royalty Policy Committee (RPC) meeting was held in Lakewood, Colorado, on November 15, 2006, and was called to order at 8:30 a.m. by the Designated Federal Officer (DFO), Ms. Lucy Querques Denett. The meeting was held in accordance with the Federal Register Notice published on Tuesday, October 31, 2006. The agenda for the meeting is attached. Ms. Denett welcomed everyone to the meeting and began with introductions.

### **RPC Bylaws**

Ms. Denett outlined significant changes to the RPC Bylaws. For the most part these changes resulted from information MMS staff learned at recent training on the Federal Advisory Committee Act and included:

- Deleting the section regarding membership, selection, and appointment, in an effort to streamline and avoid duplication of information already contained in the RPC Charter.
- Changing the timeframe to publish the Federal Register Notice announcing the meeting from 30 days prior to the meeting to 15 days prior to the meeting.
- Eliminating the Parliamentarian position from the Bylaws.
- Deleting the need for an Agenda Subcommittee and informing the Committee that the DFO will prepare the agenda, in consultation with the RPC Chairperson and the MMS Director. The RPC Chairperson will seek input from Committee members in developing the agenda.
- Changing the timeframe for providing copies of the Agenda to the members and posting on the MRM Internet homepage to at least 15 days prior to the meeting.
- Adding that the Chairperson has 15 days from date of receipt of the minutes prepared by MMS to certify their accuracy in order to ensure timely publication.

### **Election of Officers**

Mr. Dan Riemer was nominated as Chairperson by Ms. Marvinette Ponder and the motion was seconded by Mr. Orme Lewis. Mr. Reimer was elected Chairperson by unanimous vote. The Committee received two nominations for Vice Chairperson. First, Ms. R. Carol Harvey was nominated by Mr. William Johnson and seconded by Ms. Marcella Giles. Second, Mr. David Deal was nominated as by Mr. Michael Coney and seconded by Mr. Harold Quinn. Mr. David Deal was elected Vice-Chairperson.

### **Remarks of MMS Director, R. M. "Johnnie" Burton**

Ms. Burton announced the appointment and confirmation of Mr. C. Stephen Allred as the new Assistant Secretary for Land and Minerals Management (ASLM) and summarized his background. She outlined the major events of the past year including the controversy surrounding the omission of price thresholds in the 1998 and 1999 offshore leases. Ms. Burton provided the RPC with background information on royalty relief. She stated that although it appears from the preliminary review that the oversight occurred due to a breakdown in communication, it was difficult to determine that definitively. Therefore, the Director asked the Office of the Inspector General (OIG) to investigate. The OIG started the investigation, but has not yet issued a report. Ms. Burton reported that the Department is currently negotiating with several companies that have ownership interests in the 1998 and 1999 leases.

Ms. Burton then discussed that the focus is now on royalty management and the question of whether MMS is auditing a sufficient number of companies and collecting what is due. She also presented information about the Interior Board of Land Appeals' criteria in the Chevron-Dynegy Case involving sales to a joint venture affiliate. She informed the Committee that the Assistant Secretary will ask the RPC to form a subcommittee to look at the collection of royalties and MMS compliance procedures and processes. The Chairperson of the subcommittee will come from the RPC and the vice-chairperson from

outside the RPC. Subcommittee membership may include some RPC members, but predominately will be from outside of the RPC and the Department. The staffing support for this subcommittee will not come from MMS. The subcommittee will submit its final report to the RPC for review and approval. The RPC will then submit the report to the Secretary of the Interior.

#### **Remarks of MRM Associate Director, Lucy Querques Denett**

Ms. Denett announced recent personnel changes including the selection of Ms. Theresa Walsh Bayani as Program Director, Compliance and Asset Management; Mr. John Hovanec as Manager of Solid Minerals and Geothermal Compliance and Asset Management; and Mr. Richard Adamski as MRM, Chief of Staff. She outlined MRM accomplishments including the collection and disbursement of more than \$12.8 billion in Fiscal Year 2006; expectation of an unqualified audit opinion on the MMS's financial statements; and completion of the assessment phase reports for the Compliance and Financial Management Business Planning efforts. She also outlined accomplishments of the Audit and Compliance Program and the Royalty in Kind (RIK) Program, citing an increase in revenues of \$32 million and a cost avoidance of \$3.7 million from the RIK Program. She concluded by presenting information about the MRM implementation of Energy Policy Act requirements and the re-compete of the MRM Information Technology Operations and Support contract. Questions and answers for the Director and the Associate Director followed.

#### **Indian Oil Valuation Regulation Update**

Ms. Theresa Walsh Bayani stated that the Indian Oil Valuation Subcommittee had not met since the last RPC meeting. The MMS issued a proposed rulemaking on February 13, 2006. The comment period closed on April 14, 2006. Target date for finalizing the Indian Oil Valuation Rule is February 2007. The intent of the proposed rulemaking is to:

- Add more certainty to the valuation of oil produced from Indian lands;
- Eliminate reliance on oil posted prices; and
- Address the unique terms of Indian (tribal and allotted) leases—specifically the major portion provision.

#### **Luncheon Presentation**

The luncheon speaker was Fred Hagemeyer of Lukens Energy Group. His presentation was titled "Current and Emerging Trends in the Oil and Gas Industry."

#### **Oil and Gas Valuation Subcommittee Update**

Mr. Dan Riemer presented a Subcommittee status report. He discussed the history of Federal gas valuation rulemaking. He provided a brief report on the Gas Index Price Panel Discussion held on April 26, 2005, and March 30, 2006. The intent of the panel discussions was to bring together some of the leading experts in gas marketing to provide information on topics such as indices and differentials. He provided a summary from Gas Daily Conference on Price Transparency. He summarized areas of Subcommittee consensus and discussed future activities including regional gas marketing presentations to state and tribal representatives; issuance of the Gas Index Price Final Report; and review of natural gas liquids valuation. Mr. Harold Kemp provided comments from the Wyoming Department of Audit related to using index pricing for Federal natural gas valuation. Wyoming requested that MMS change the definition of marketing affiliate in 30 CFR 206.151. They recommended that the definition of market affiliate be changed by removing the word "only" and changing it to "any of" in the definition. By removing the word only from the definition of marketing affiliate, companies would be required to report and pay on the arm's-length downstream price.

#### **Oil and Gas Royalty Reporting Subcommittee**

Ms. Lisa Crothers presented a summary of the Final Report entitled "Royalty Reporting on Retroactively Approved Communitization and Participating Areas Agreements." She described communitization

agreements (CAs), BLM findings regarding CAs, related Wyoming statistics, CAs approved by the BLM Field Office from 2003-2006, time taken for approval, and reasons for delays from effective date to approval date. The recommendations for CAs in the Report follow:

1. MMS to accept royalty lines for approved CAs whether or not first production notice was issued.
2. BLM to refresh Instructional Memorandums on first production notices and specifically address coalbed methane.
3. BLM to develop procedures to monitor timely submission of CAs, and follow up with operators.
4. BLM to review annually status of field office approvals for backlog (identify any prioritization, training, resource allocation issues).
5. BLM to identify where importance on timely CA submission can be communicated to industry.

Ms. Crothers defined participating areas (PA) and approval requirements. She also provided details on BLM findings since 2003 on PA approvals. The recommendations in the Report for PAs follow:

1. BLM to develop procedures to monitor timely submission of PAs, and follow up with operators.
2. BLM to review annual status of field office approvals for backlog (identify any prioritization, training, resource allocation issues).
3. BLM to review reservoir management group in Wyoming's report to determine if it can be applied more universally.
4. BLM to identify where importance on timely PA submission can be communicated to industry.

Ms. Crothers made a motion for the RPC to approve the Subcommittee Report entitled "Royalty Reporting on Retroactively Approved Communitization and Participating Areas Agreements." Harold Kemp seconded the motion. The motion was approved. The Chairman of the RPC Committee will send the Report to the Director of the MMS for subsequent submittal to the Secretary of the Department of Interior.

#### **Coal Subcommittee Update**

Mr. William Hartzler updated the RPC on the activities of the Coal Subcommittee. They met twice since the last RPC meeting. They received progress reports on Energy Policy Act implementation from BLM and MMS including information on the Coal Advanced Royalty Valuation proposed rule. He also discussed that MMS is developing a process by which STRAC can access valuation decisions, lease information, project files, sales contracts, and sales summary information. He informed the RPC that due to the cooperation between industry and MMS reduced the over 180-day open receivables from \$55 million to less than \$1 million in 2 months. He also discussed a follow-up analysis that was conducted by MMS of identified audit issues that resulted in additional Federal royalty being assessed. He concluded his presentation by discussing the timeliness of coal audit appeal resolution.

#### **Subcommittee Establishment and Continuation**

Prior to the Coal Subcommittee update, Director Burton provided a letter to the RPC Chairman, Mr. Dan Riemer, from Assistant Secretary Allred. Mr. Riemer read the letter to the RPC. The letter requested that RPC establish a subcommittee to review the procedures and processes of the Minerals Revenue Management Program. Mr. Riemer asked Mr. David Deal to chair this subcommittee. Mr. Deal accepted the assignment. The Subcommittee was named the Subcommittee on Procedures and Processes by Mr. Riemer (subsequently renamed Royalty Management Subcommittee). The other current RPC subcommittees include:

- Indian Oil Valuation Subcommittee – Chairperson Mr. Perry Shirley
- Oil and Gas Royalty Reporting Subcommittee – Chairperson Ms. Marvynette Ponder
- Coal Subcommittee – Chairperson Mr. Edward Sullivan

- Oil and Gas Valuation Subcommittee – Chairperson Mr. Mark Gress

Mr. Riemer requested that the respective Subcommittee Chairpersons solicit the RPC members for a Vice-Chairperson and members to serve on those Subcommittees by the end of the year.

**Document Distribution**

Ms. Denett distributed documents submitted for RPC consideration by Beth Daley from the Project on Government Oversight (POGO). Also distributed were documents from MMS in response to the POGO submission. Mr. Harold Kemp read a statement regarding STRAC.

**Committee Roundtable**

Possible agenda topics and potential dates and locations for the next RPC meeting were discussed. Topics raised included oil shale royalties and a legislative update. The next RPC meeting is tentatively scheduled for Thursday, May 10, 2007, in Denver, Colorado.

The meeting was adjourned at 4:15 p.m.

**RPC Member Attendees**

- William Barger, Public Representative
- Andrew Bremner, Independent Petroleum Association of Mountain States
- Ronald Cattany, Western Governors' Association
- Michael Coney, American Petroleum Institute
- Lisa Crothers, Independent Petroleum Association of America
- David Deal, Public Representative
- Lavonne Garrison, Western States Land Commissioners Association
- Marcella Giles, Oklahoma Indian Land/Mineral Owners of Associated Nations
- R. Carol Harvey, Shoshone/Arapaho Joint Business Council
- William Johnson, Ute Mountain Ute Tribe
- Harold Kemp, State of Wyoming
- Orme Lewis, Public Representative
- Scott Miller, State of Louisiana
- Marvinette Ponder, Council of Petroleum Accountants Societies
- Joanna Prukop, State of New Mexico
- Harold Quinn, National Mining Association
- Daniel Riemer, US Oil & Gas Association
- Karen Westall, Natural Gas Supply Association
- William Hartzler, Foundation Coal Company
- Terence Fisher, Ute Mountain Ute Tribe
- Johnnie Burton, MMS
- Bob Middleton, Office of the Assistant Secretary of Indian Affairs
- Lucy Querques Denett, MMS
- George Triebisch, MMS
- Bob Anderson, BLM

**Additional Attendees**

MMS: Deborah Gibbs Tschudy, Greg Smith, Donald Sant, Theresa Walsh Bayani, Mary Williams, Richard Adamski, Robert Prael, Connie Bartram, John Price, Pam Rieger, Lonnie Kimball, John Hovanec, John Barder, Patrick Etchart, Nancy Messer, Jim Morris, Shirley Conway, Gina Dan, and Andy Sandoval

Other: Daryl Francois, BIA; Jay Speilman, BLM; Karen Lukin, Marathon Oil; Mary Ann O'Malley, BP; Ken Vogel, Lexon; Fred Watson, Public; Pam Williams, Shell Oil Company

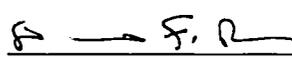
**Meeting Documents**

Documents presented, distributed, or received at the RPC meeting included:

- November 14, 2006, RPC Agenda
- Indian Oil Valuation Regulation Update
- Oil and Gas Valuation Subcommittee Status Report
- Royalty Reporting on Retroactively Approved Participating Area & Communitization Agreements
- Final Report on Royalty Reporting For Retroactively Approved Communitization and Participating Areas Agreements, October 2006
- Coal Subcommittee Report
- Input Response of the Wyoming Department of Audit Related to Using Index Pricing for Federal Natural Gas Valuation
- Wyoming's Audit Delegation's Comments on the MMS/STRAC Relationship.
- Project on Government Oversight (POGO) documents submitted for RPC consideration
- MMS documents responding to the POGO submission
- ✱ • Letter, dated November 14, 2006, to Dan Riemer, Chairperson, Royalty Policy Committee from Dirk Kempthorne, Secretary of the Interior

---

I certify that the above minutes are an accurate caption of the November 14, 2006, Royalty Policy Committee proceedings. The minutes may be released to RPC members and made available for the public inspection.

 Date 1/3/07

Daniel F. Riemer  
Chairman, Royalty Policy Committee  
Minerals Management Service

---

\*NOTE: Letter dated November 14, 2006, to Dan Riemer was actually signed by C. Stephen Allred, Assistant Secretary for Land and Minerals Management