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Council of Petroleum Accountants Societies
Turning Energy Into Synergy

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Comments on Proposed Rule on Indian Oil Valuation Amendments (1012-AA15)

COPAS is a professional organization comprised of the oil and gas industry's most knowledgeable and influential accounting professionals. COPAS has operated as a non-profit entity for 50 years and has over 4,000 members with 24 societies in the United States and Canada. COPAS was established in 1961 by representatives from various independent local societies throughout the U.S. and Western Canada. These societies recognized the need for standardized procedures and guidelines as the oil and gas industry expanded across the country so that common issues and problems could be addressed in a central forum. The societies have developed standardized documents in areas such as joint interest accounting, auditing, production volume and revenue accounting, and financial reporting and tax matters so that companies operating in all parts of the U.S. and Canada can effectively and efficiently use the same standards and guidelines. Additionally, many of our members are responsible for the filing of the Federal royalty reports to the ONRR.

COPAS appreciates the opportunity to comment on the proposed amendments to Indian oil valuation, as well as the other possible changes ONRR may consider. With that said, we would like to provide comments for the following areas where ONRR requested comments:

- While ONRR expects the basic operation of the NYMEX market to be the same for the foreseeable future, it is not clear the roll will be a permanent feature of the marketplace. Therefore, ONRR proposes that the Director of ONRR would have the option terminating use of the roll when ONRR believes that using the roll is no longer a common industry practice. To terminate the roll, ONRR will publish notice in the **Federal Register**. Further, ONRR also proposes to have the option to redefine how the roll is calculated to comport with changes in industry practice through a notice published in the **Federal Register**. ONRR will explain its rationale when it publishes such notice. ONRR believes this flexibility is appropriate so the valuation standards more closely reflect market developments. ONRR specifically requests comments on whether these options are necessary.

Should ONRR proceed with providing the options for ONRR to eliminate or redefine how the roll is calculated, COPAS supports that not only the notice be published in the **Federal Register**, but that industry also be given the opportunity to comment on the proposed change.

- Not requiring filing of the transportation allowance form ONRR–4110, Oil Transportation Allowance Report. Instead, the lessee would have to submit to ONRR copies of its arm's-length transportation contract(s) and any amendments thereto within 2 months after the lessee reported a transportation allowance on its Form ONRR–2014. This change would mirror the requirement to file arm's-length transportation contracts with ONRR, instead of a form, under the current Indian Gas Valuation Rule. For non-arm's-length transportation arrangements, ONRR would eliminate the requirement that lessees submit a Form ONRR–4110 in advance with estimated information. Lessees would still be required to submit the Form ONRR–4110. However, the lessee would submit actual cost information in support of the allowance on its Form ONRR–4110 within **3** months after the end of the 12-month period to which the allowance applies. This change would also mirror the 1999 Indian Gas Rule.

As this is consistent with the regulations for Indian Gas, COPAS supports this change although further guidance needs to be provided on: a) The required format in which the contracts need to be provided – hardcopy, email, flash drive?; b) What needs to be provided for FERC tariffs and/or transportation factors for which there are not any transportation contracts?; and c) Does this requirement also apply for mainline transportation which could have tens and in some cases hundreds of contracts when it is tied to a pool price?

- Eliminating transportation factors from the regulations. Currently, § 1206.57(a)(5) allows lessees to reduce their gross proceeds where their arm's-length transportation contract includes a provision reducing the applicable price by a transportation factor. Under the current rule, lessees report their gross proceeds net of the transportation factor on their Form ONRR–2014s. Thus, unlike the transportation allowances, which lessees report on their Form ONRR–2014s, ONRR cannot tell if lessees are taking a deduction for transportation when lessees report their gross proceeds net of a transportation factor. As such, the reporting requirements for transportation factors are not transparent. Eliminating the ability to net an arm's-length transportation fee would require lessees to report these transportation fees as a transportation allowance.

COPAS does not support eliminating transportation factors in 1206.57(a)(5) as that would not be consistent with the regulations for Indian Gas - 1206.178(a)(5), Federal Oil – 1206.110(g), and Federal Gas – 1206.157(a)(5), all of which state that "ONRR will not consider the transportation factor to be a transportation allowance." That change would also be a major recording change as the pricing adjustment is typically accounted for as a part of the base price within our systems. Additionally, the transportation factors used for oil often include both a location and a quality differential, and it may not be possible to separate this factor between the two differentials.

- Eliminating the ability to request approval to exceed 50% transportation allowance – ONRR states that no one has ever requested to do so, so it would simply eliminate the language saying you can request approval. Thus, it would simply say you could never exceed 50%.

COPAS does not support the elimination of the capability to request approval to exceed the 50% on Indian Oil, as that would not be consistent with the regulations for Indian Gas - 1206.177(c)(2), Federal Oil – 1206.109(c)(2), and Federal Gas – 1206.156(c)(3). It should be noted, that although no one has requested to do so previously, a situation could develop where it would exceed the 50% limit. If this would happen, the lessee should be allowed to request approval to exceed the 50% limit.

Once again, COPAS appreciates having the opportunity to comment on the proposed amendments to Indian oil valuation as well as the other possible changes ONRR may consider. If you have any questions regarding our comments, please contact me at (832) 337-2592.

Sincerely,

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