

**Supporting Statement for  
Oil Transportation Allowances  
(Form MMS-4110)  
(OMB Control Number 1010-0061)  
(Expiration Date: August 31, 2001)**

**A. Justification**

**1. What circumstances make this collection of information necessary?**

The Secretary of the U.S. Department of the Interior (Secretary) is responsible for collecting royalties from lessees who produce minerals from leased Indian lands. The Secretary is required by various laws to manage mineral production on Indian lands, collect the royalties due, and distribute the funds in accordance with those laws. The product valuation and allowance determination process is essential to assuring that Indians receive payment on the proper value of the minerals being removed.

The Minerals Management Service (MMS) performs the royalty management functions for the Secretary. When a company or an individual enters into a lease to explore, develop, produce, and dispose of oil from Indian lands, that company or individual agrees to pay the Indian tribe or allottee a share (royalty) of the value received from production from the leased lands. Royalty rates are specified in the lease instrument. To determine whether the amount of royalty tendered represents the proper royalty due, it is first necessary to establish the proper value of the oil that is being sold or otherwise disposed of, as well as the proper costs associated with allowable deductions.

The lease creates a business relationship between the lessor and the lessee. The lessee is required to report various kinds of information to the lessor relative to the disposition of the leased minerals. Such information is similar to data that is reported to private and public mineral interest owners and is generally contained in the records of the lessee or others involved in developing, transporting, processing, purchasing, or selling of such minerals. The information collected includes data necessary to assure that the royalties paid are appropriate.

MMS normally accepts gross proceeds accruing to the lessee under its arm's-length oil sales contract, less allowable transportation deductions, as representing proper value for royalty. We will also accept, for royalty valuation purposes, the prices in other than arm's-length oil sales contracts, less applicable transportation deductions, if the criteria in the

benchmarks at 30 CFR 206.52(c) are met and provided that the value is not less than gross proceeds accruing to the lessee under 30 CFR 206.52(h). In some circumstances, lessees are authorized to deduct from royalty payments the reasonable actual cost of transporting the royalty portion of the oil from the lease to a delivery point remote from the lease. Transportation allowances are a part of the product valuation process that we use to determine if the lessee is reporting and paying the proper royalty amount.

The Secretary is required by 30 U.S.C. 1711 (Attachment 1) to establish a system to accurately determine product valuation, royalties, and other amounts due. Such a system requires the continued collection of published oil price bulletins, oil sales contracts (upon request), and data necessary for the lessee to deduct costs associated with allowable transportation. Failure to collect the data described in this information collection could result in the under-valuation of leased minerals and render it impossible for the Secretary to fulfill his/her statutory and trust responsibilities for Indian leases.

Regulations at 30 CFR 206, Subpart B (Attachment 2), establish uniform product valuation and allowance policies for Indian leases. These regulations require payors to submit information in support of the product valuation or allowances claimed. In some instances, these regulations require the lessees to provide information to support their requests for the approval of product valuation for royalty purposes or appropriate allowances. Without such information, we cannot evaluate the amount of royalties paid or the amount of allowances claimed. We have developed product valuation and allowance policies as a part of our responsibility to establish criteria and accountability for revenues from mineral leases.

The Secretary is authorized to prescribe rules and regulations in order to administer the provisions of laws pertaining to mineral leases on Indian lands. Applicable citations include: 25 U.S.C. 369d, pertaining to Indian Lands; and 30 U.S.C. 1751, pertaining to oil and gas from Public and Indian Lands (Attachment 3).

**2. How, by whom, and for what purpose will the information be used?**

The information collected on transportation costs is used by MMS and tribal personnel to evaluate the reasonableness of allowances reported and claimed by lessees. Under Section 202 of the Federal Oil and Gas Royalty Management Act of 1982, certain tribes have been given audit authority by the Secretary (30 U.S.C. 1732). We reimburse the tribes for their audit work under this agreement. The determination of the appropriate product

value or allowance rate directly affects royalties due. Tribes given audit authority use the data submitted on the allowance forms and contained in allowance contracts for verification purposes. The tribes urge continuation of the requirement to routinely submit allowance information.

Regulations at 30 CFR 206.54 provide that where the value of oil for royalty purposes has been determined at a point remote from the lease site, a reasonable deduction will be allowed for the transportation of royalty oil. Provisions for determining transportation allowances are at 30 CFR 206.55. Our approval of a transportation allowance is not required before a lessee may take a deduction. However, to take a transportation deduction, a lessee must submit Form MMS-4110 (Attachment 4) before or in the same month the transportation allowance is reported on the Report of Sales and Royalty Remittance, Form MMS-2014, (OMB Control Number 1010-0022). This requirement is contained in 30 CFR 206.55(a)(1).

Information required on the current Form MMS-4110 includes the lessee's (payor's) name and address; the payor code, accounting identification (AID) number, product code, and selling arrangement code as used on Form MMS-2014; data supporting the transportation allowance claimed in the prior 12-month reporting period, if applicable; and data supporting the estimated allowance for the current period. Supporting data includes the quantity of royalty oil, costs incurred transporting royalty oil, and the allowance rate determined by dividing costs incurred by quantity of royalty oil transported. The allowance rate is effective for a calendar year, or until the contract terminates or is modified, whichever is earlier, at which time the lessee must resubmit Form MMS-4110, in accordance with 30 CFR 206.55(c). At times, we may request that a lessee submit arm's-length transportation contracts, production agreements, operating agreements, and related documents in support of transportation allowances and product valuation.

If a lessee has a non-arm's-length transportation contract or has no contract, the transportation allowance is based on the lessee's reasonable actual costs (30 CFR 206.55(b)). The lessee must initially submit a completed Form MMS-4110 the same month the transportation allowance is first reported on Form MMS-2014. The completed Form MMS-4110 summarizes actual operating, maintenance, and overhead costs, along with a summary of depreciation and undepreciated capital investment costs.

In addition to obtaining OMB's approval to continue to use Form MMS-4110, MMS is also seeking OMB's approval for a revision of this form (Attachment 5). This revision is necessary to make the information collected on Form MMS-4110 compatible with other

recently revised forms, such as the Form MMS-2014, Report of Sales and Royalty Remittance (OMB Control Number 1010-0140). These revisions are the result of a major reengineering of MMS's financial and compliance processes. For example, during the reengineering initiative, MMS decided to eliminate the reporting of accounting identification (AID) numbers and selling arrangement numbers. In their place, MMS is requiring a combination of lease and agreement numbers and sales type codes. Since the existing Form MMS-4110 contains columns for AID and selling arrangement numbers, these columns must be removed and new columns for lease and agreement numbers must be added. The form will continue to have the same number of columns to be completed and similar data to be provided by the lessee so we do not anticipate any changes in burden hours associated with this form. The revised form will become effective and replace the existing form on or about January 1, 2002, when our new financial and compliance system is fully operational.

**3. Does the collection involve the use of information technology, does it reduce the burden, and to what extent?**

The use of improved information technology is not applicable for this information collection. Form MMS-4110 is not automated because we receive only 3 per year and designing a computer system to process so few forms is not cost effective.

**4. Is the information duplicated by any other Federal agency, and can similar available information be used or modified for this collection?**

No other Federal or State agency collects the same or similar information. The primary information necessary for the evaluation of a specific transportation allowance proposal is available only within the records of the applicant, and the use of such data is unique to our mission. No other adequate information is available which can be used to determine the reasonableness of oil transportation allowances.

**5. What is the agency doing to minimize the burden on small businesses or other small entities?**

Small organizations are among the potential respondents. MMS has carefully analyzed its requirements to ensure that the information requested is the minimum necessary and places the least possible burden on industry. This information collection has no significant economic impact on small businesses or other small entities. There are no special reporting provisions for small organizations. We provide toll-free telephone assistance upon request and annually schedule product valuation training in

addition to other MMS training sessions offered throughout the year.

**6. Are there any technical or legal obstacles to reducing the burden, and what are the consequences to the Federal program if the information is not collected or is collected less frequently?**

New transportation allowance proposals must be submitted at least annually and thereafter as new transportation arrangements occur. If this information is not collected, we will not be able to ascertain the reasonableness of the costs claimed for transportation allowances and thus assure that royalties are properly calculated and collected.

**7. Are there any special circumstances for exceptions to 5 CFR 1320.5(d)(2)(i) through (viii)?**

There are no special circumstances with respect to 5 CFR 1320.5(d)(2)(i) through (viii) except as follows:

(i) Form MMS-4110 is initially submitted the first month the allowance is reported on Form MMS-2014 and on a calendar year basis thereafter. Allowance forms may be submitted more than quarterly if transportation costs increase or decrease sufficiently to require a recalculation of the unit cost; and

(iv) Records required by the Secretary relative to Indian leases must be maintained for 6 years as required by 30 U.S.C. 1713.

This collection is not a statistical survey and does not use statistical data classification; nor does it include a pledge of confidentiality not supported by statute or regulation or require proprietary, trade secret, or other confidential information not protected by agency procedures.

**8. What efforts were made to consult with the public and a representative sample of respondents?**

Regarding the issue of pre-filing Form MMS-4110, on February 12, 1998, we published a notice of proposed rulemaking, 30 CFR 206, Establishing Oil Value for Royalty Due on Indian Leases (63 FR 7089). We requested comments on the benefits and drawbacks of eliminating the requirement to pre-file an allowance form prior to, or at the same time as, the allowance is deducted on Form MMS-2014. We did not receive any comments on this issue, and the requirement for pre-filing Form MMS-4110 was retained in another supplementary proposed rule, 30 CFR 206, Establishing Oil Value for Royalty Due on Indian Leases, published on January 5, 2000

(65 FR 403).

We also met with several Indian tribes on November 8, 2000, to discuss several issues relevant to revisions to this allowance form for Indian leases. The tribes were unanimous in their support for retaining allowance forms for Indian leases.

As required in 5 CFR 1320.8(d), MMS published a 60-day review and comment notice in the Federal Register on November 13, 2000 (65 FR 67755), soliciting comments from the public (Attachment 6). One comment was received.

**Comment.** The filing of Form MMS-4110 is neither necessary nor useful because the information contained in the form is subject to review under audit. Further, filing this form is inconsistent with gas valuation rules which state the comparable Form MMS-4295 does not need to be pre-filed. This inefficiency and inconsistency needs to be addressed by MMS and minimize the administrative burden to Indian lessees.

**Response.** The pre-filing of Form MMS-4110 is currently found in 30 CFR 206. MMS cannot suspend the requirements without changing the regulations. MMS will pursue separate rulemaking to eliminate the pre-filing of the Form MMS-4110.

**9. Will payment or gifts be provided to respondents?**

There will not be any payment or gift to respondents.

**10. What assurance of confidentiality is provided to respondents?**

Commercial or financial information submitted to the Department of the Interior (Department) relative to minerals removed from Indian leases may be proprietary. Trade secrets and proprietary information are protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(b)(4)), and Departmental regulations (43 CFR 2). The Indian Minerals Development Act of 1982 (25 U.S.C. 2103) provides that all information related to any Indian minerals agreement covered by the Act in the possession of the Department shall be held as privileged proprietary information. Storage of such information and access to it is controlled by strict security measures.

**11. Does the information collected include any questions of a sensitive nature?**

None of the information requested is considered sensitive.

**12. What is the estimated reporting and recordkeeping "hour" burden?**

We estimate that 3 Indian lessees will submit 20 allowance data lines annually for a total of 5 burden hours. Using a cost estimate of \$50 per hour, the annual estimated cost to respondents is approximately \$250. The following chart lists the components of the burden estimate.

Section	Reporting or Recordkeeping Requirement	Burden Hours Per Line	Annual Number of Lines	Annual Burden Hours
§ 206.55 (a)(1)(i)	<i>Arm's-length contracts.</i> Before any deduction may be taken, the lessee must submit a completed page one of Form MMS-4110 (and Schedule 1), Oil Transportation Allowance Report.	See § 206.55(c)(1)(i) and (iii) below.		
§ 206.55 (b)(1)	<i>Non-arm's-length or no contract.</i> Before any estimated or actual deduction may be taken, the lessee must submit a completed Form MMS-4110 in its entirety.	See § 206.55(c)(2)(i), (iii), and (iv) below.		
§ 206.55 (c)(1)(i)	<i>Reporting requirements--Arm's length contracts.</i> With the exception of those transportation allowances specified in paragraphs (c)(1)(v) and (c)(1)(vi) of this section, the lessee shall submit page one of the initial Form MMS-4110 (and Schedule 1), Oil Transportation Allowance Report, prior to, or at the same time as, the transportation allowance determined under an arm's-length contract, is reported on Form MMS-2014, Report of Sales and Royalty Remittance.	9 minutes per line	5 lines	3/4 hour
§ 206.55 (c)(1)(iii)	After the initial reporting period and for succeeding reporting period, lessees must submit page one of Form MMS-4110 (and Schedule 1) within 3 months after the end of the calendar year, or after the applicable contract or rate terminates or is modified or amended, whichever is earlier, unless MMS approves a longer period (during which period the lessee shall continue to use the allowance from the previous reporting period).	5 minutes per line	3 lines	1/4 hour
§ 206.55 (c)(2)(i)	<i>Reporting requirements--non-arm's-length or no contract.</i> With the exception of those transportation allowances specified in paragraphs (c)(2)(v), (c)(2)(vii) and (c)(2)(viii) of this section, the lessee shall submit an initial Form MMS-4110 prior to, or at the same time as, the transportation allowance determined under a non-arm's-length contract or no-contract situation is reported on Form MMS-2014. . . The initial report may be based upon estimated costs.	20 minutes per line	6 lines	2 hours
§ 206.55 (c)(2)(iii)	For calendar-year reporting periods succeeding the initial reporting period, the lessee shall submit a completed Form MMS-4110 containing the actual costs for the previous reporting period. . .	20 minutes per line	3 lines	1 hour
	If oil transportation is continuing, the lessee shall include on Form MMS-4110 its estimated costs for the next calendar year. MMS must receive the Form MMS-4110 within 3 months after the end of the previous reporting period, unless MMS approves a longer period (during which period the lessee shall continue to use the allowance from the previous reporting period).	20 minutes per line	3 lines	1 hour

Section	Reporting or Recordkeeping Requirement	Burden Hours Per Line	Annual Number of Lines	Annual Burden Hours
§ 206.55 (c)(2)(iv)	For new transportation facilities or arrangements, the lessee's initial Form MMS-4110 shall include estimates of the allowable oil transportation costs for the applicable period.	See § 206.55(c)(2)(i) above.		
<b>Total</b>			<b>20 lines</b>	<b>5 hours</b>

**13. What is the estimated reporting and recordkeeping "non-hour cost" burden?**

We have identified no "non-hour cost" burden associated with this collection of information.

**14. What is the estimated annualized cost to the Federal Government?**

The estimate of the annual burden to the Federal Government is 1.5 hours (30 minutes per respondent X 3 respondents). The time estimate includes maintaining a log of allowance forms filed by payor code and filing the forms for possible future audit use. Using a cost estimate of \$50 per hour, the annually estimated cost to the Federal Government is \$75.

**15. Are there any program changes or adjustments reported in Items 13 or 14 for the Form OMB 83-I?**

The currently approved OMB Inventory includes 7 burden hours in Section 13 of Form OMB 83-I. The total annual burden for this information collection is 5 hours. This adjustment of 2 hours is the result of a decrease in our estimate of data lines submitted annually. There is no cost burden requested in Item 14.

**16. Are there plans for tabulation and publication of the results of the information collection?**

The data collected will not be tabulated and published for statistical use.

**17. Is the agency seeking approval to not display the expiration date?**

No. We will display the expiration date of OMB's approval on Form MMS-4110.

**18. Is the agency requesting exceptions to the certification statement in Item 19 of Form OMB 83-I?**

No, collection of this information complies with the "Certification for Paperwork Reduction Act Submissions" of Form

OMB 83-I.

**B. Collection of Information Employing Statistical Methods**

This section is not applicable. We will not employ statistical methods in this information collection.