

**Supporting Statement for
Stripper Royalty Rate Reduction Notification
(Form MMS-4377)
(OMB Control Number 1010-0090)
(Expiration date: August 31, 2001)**

A. Justification

1. What circumstances make this collection of information necessary?

The Bureau of Land Management (BLM), the surface management agency for Federal onshore leases, grants royalty rate reductions to operators of stripper oil properties producing less than 15 barrels of oil per well-day. See 43 CFR 3103.4-2 (Attachment 1). The purpose of these royalty rate reductions is to encourage continued production, provide an incentive for enhanced oil recovery projects, discourage abandonment of properties producing less than 15 barrels of oil per well-day, and reduce the operator's expenses. The stripper royalty rate is lower than the rate reflected in the lease instrument and reduces the amount of revenues paid the Federal Government. Because the Minerals Management Service (MMS) performs the royalty management functions for the Department of the Interior, we must have some process for timely notification of any royalty rate changes.

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

Operators are required to notify MMS using Form MMS-4377, Stripper Royalty Rate Reduction Notification (Attachment 2), when they take a reduced royalty rate. The form requires identification of the operator, name of the contact person, lease and agreement numbers, calculated royalty rate, current royalty rate, qualifying period, and effective date of royalty rate reduction. MMS uses the information to update its lease database with the correct royalty rate. MMS must know the correct royalty rate in order to verify that the proper royalty amount has been paid on each lease.

Operators of stripper oil properties use a formula developed by BLM to determine the reduced royalty rate:

$$[\text{royalty rate (\%)} = 0.5 + (0.8 \times \text{average daily production rate})]$$

The reduced royalty rate becomes effective for all oil production from qualifying properties the first day of the

month after MMS receives notification of the rate change. Failure to inform MMS of the new royalty rate would result in erroneous exceptions generated in our computer system which is programmed to compare royalty rates paid to those reflected in the lease instrument. The operator could be held liable for royalty at the higher rate and be subject to interest charges as well.

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

MMS does not anticipate that operators will use electronic means to report new royalty rate reductions. However, should any operator wish to report electronically, MMS will encourage them to do so. Our Government Paperwork Elimination Act Implementation Plan indicates that this form is being evaluated for conversion to assess the risks and costs. We will, if at all feasible, offer an electronic alternative for submitting data by October 2003.

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

Information on reduced royalty rates on stripper oil properties is not available from any other agency or source. Production records required for the calculation of reduced rates are unique to each property and are maintained by the operator.

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

Large oil companies generally sell low producing and less profitable wells to small companies; therefore, this collection of information usually involves small operations. The method of determining the reduced royalty rate has been simplified so that operators will be able to use production data from their records to make the calculation. MMS has a toll free telephone number to provide assistance to operators.

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 less frequently?

Obtaining the correct royalty rate in a timely manner is critical for MMS to determine the proper amount of royalty to be paid on each lease. Operators must submit a Form MMS-4377 when a new property qualifies as a stripper property or to notify MMS of a lower rate on an existing stripper property. Frequency is "on occasion" and not subject to change.

7. Are there any special circumstances that require exceptions to 5 CFR 1320.5(d)(2) requiring respondents to: (i) report more often than quarterly, (ii) prepare written responses in fewer than 30 days after receipt, (iii) submit more than an original and two copies of any document, or (iv) retain records for more than 3 years?

This collection of information will be conducted in a manner consistent with the guidelines at 5 CFR 1320.5 except that, in accordance with 30 U.S.C. 1724(f) (Attachment 3), oil and gas records must be maintained for 7 years or for a longer period, as necessary, if an audit has been initiated.

There are no special circumstances with respect to 5 CFR 1320.5(d)(2)(v) through (viii), as the 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?

As required in 5 CFR 1320.8(d), MMS published a 60-day review and comment notice in the Federal Register on April 6, 2001 (66 FR 18297) (Attachment 4). We received one comment. The comment and MMS's response are summarized below.

Comment: The respondent was supportive of Form MMS-4377, commenting that "the collection of information is necessary for the agency to perform its duties and is useful in that it serves as notification that the operator will apply a reduced royalty rate to a specific lease."

Response: MMS agrees that the information on Form MMS-4377 is critical to our mission.

9. Will payment or gifts be provided to respondents?

No payments or gifts will be provided to respondents.

10. What assurance of confidentiality is provided to respondents?

Commercial or financial information submitted to the Department of the Interior relative to minerals removed from Federal 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 Department of the Interior regulations (43 CFR 2). 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?

MMS estimates that there are approximately 900 respondents (lessees of low-producing Federal onshore leases) submitting 1,600 Forms MMS-4377 for 1,600 properties. We estimate that it takes 30 minutes to complete each form for a total annual burden of 800 hours. There are no recordkeeping requirements. Based on \$50 per hour, we estimate the hour burden cost to respondents is \$40,000 (\$50 X 800 hours). Refer to the chart following section B for a breakdown of the burden.

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

We have identified no reporting and recordkeeping non-hour cost burdens for this collection of information.

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

The total annualized cost to the Federal Government is approximately \$256,750 as reflected below:

Maintenance <u>1/</u>	\$ 42,500
Verification/Exceptions <u>2/</u>	\$214,250
	<u>\$256,750</u>

1/ 850 hours x \$50 per hour. Maintenance includes initial research on exceptions generated from the existing royalty rate exceptions processing routine (which compares reported royalty rate to the royalty rate in the lease database).

2/ 4,285 hours x \$50 per hour. Includes the verification of notification forms, updating the data base with the accepted royalty rate reductions, processing of exceptions discovered through data edits (production volume variances, days produced, and well status), and research of royalty rates reported to the lease data base on Form MMS-2014, Report of Sales and Royalty Remittance.

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

The currently approved OMB Inventory includes 600 burden hours in Item 13 of Form OMB 83-I. The total annual burden for this information collection is 800 hours. This increase of 200 hours is a revision and correction of our previous burden hour estimate based on actual data from the 12-month period June 2000 to June 2001. As a result, we have increased the approximate number of operators of stripper oil properties from 800 to 900 and the number of responses (notifications of lower royalty rates) from 800 to 1,600. 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-4377.

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

To the extent the topics apply to this collection of information, we are not requesting exceptions to the "Certification for Paperwork Reduction Act Submissions".

B. Collections of Information Employing Statistical Methods

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

SECTION A.12 BURDEN BREAKDOWN

Citation 43 CFR 3103.4-2	Reporting Requirement	Burden Hours Per Response	Annual Number of Responses*	Annual Burden Hours
(b)(3)(iii)(B)	The lower of the two rates shall be used for the current period provided that the operator notifies MMS of the new royalty rate. The new royalty rate shall not become effective until the first day of the month after MMS receives notification. Notification shall be received on Form MMS-4377	30 minutes	1,600 properties	800 hours
	Total	30 minutes	1,600 properties	800 hours