U.S. DEPARTMENT OF INTERIOR

FEDERAL OIL AND GAS VALUATION PUBLIC WORKSHOP

Yates Auditorium
U.S. Department of the Interior
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Washington, D.C.

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Wednesday, September 29, 2011

A G E N D A

P R O C E E D I N G S

(8:38 a.m.)

Welcome and Opening Statements

MODERATOR: So before you speak, if you can please identify yourself by stating your name and your affiliation.

Finally, based on the feedback we receive today and from the other workshops, clarifications to the Federal Oil and Gas Rules may be in order. If so, ONRR will take the next step to issue Proposed Rule followed by a written comment period.

So if there are any questions, we'd be happy to take those at this time.

(No response.)

MODERATOR: Okay. So with that, I'm going to turn it over to Jim Steward who will start the session.

Topics for Discussion - Federal Oil

MR. STEWARD: Okay. Just a few more introductory remarks and then we'll start with some questions on Federal Oil and then well move to Federal Gas after that.

ONRR has over 23 years' experience valuing gas under the current federal gas valuation regulations and has over 10 years' experience valuing oil under the current federal oil valuation regulations which were updated in 2000.

Additionally, we have over 10 years' experience valuing gas under the Indian gas valuation regulations. Indian gas valuation regulations provide early certainty and greatly simplify compliance. The lessons learned from this experience suggest that the current federal gas valuation regulations could be improved to provide greater certainty that royalties have been paid correctly and to reduce the burden to both industry and government.

We are interested in determining ways to simplify, clarify, and provide consistency in product valuation. We have examined the written comments submitted to the Advanced Notice of Proposed Rulemaking which closed on July 26th and are interested in further input regarding the need to modify current oil and gas valuation regulations to meet the above-stated objectives. We received comments from 19 parties representing a good cross-section of stakeholders.

So now let's begin by looking at the valuation for royalty purposes of Federal Oil. Generally, the commenters agreed that the current use of spot prices and NYMEX prices for non-arms length sales of oil is working. So the first question is: should the use of index pricing be expanded or altered?

Are there any comments on the use of index pricing?

MR. RAIMER: Dan Raimer, Marathon Oil Company. In the federal oil valuation regulations, one of the areas where index prices are prescribed or can be used is if the lessee has transfers to an affiliate or has multiple buy/sell exchanges, even though they ultimately sell the oil at arms length, and I think there was quite a bit of dialogue in the record prior to the promulgation of the 2000 rules where those exclusions, if you will, or provisions that if you had this or if you had multiple buy/sells and I think that there are some companies that would like, just because of the way they market their production and do a bunch of exchanges or purchases and separate sales, they may not be buy/sells, I think there are situations where it would be beneficial for a lessee to be able to use index without having those expressed two caveats if you fall in this category or that category and then ultimately sell arms length.

So I guess, in summary, arms length transactions, I think there are some situations where that would be beneficial and would not compromise any value to use index, even in the presence of an arms length transaction.

MODERATOR: Thanks, Dan.

MR. STEWARD: Thank you, Dan. Any other comments on the use of index pricing?

(No response.)

MR. STEWARD: Okay. The second question for Oil is: should ONRR consider any other methods to value oil that is not sold at arms length?

(No response.)

MR. STEWARD: Okay. Next, let's consider the transportation of oil. ONRR is examining possible alternatives to the requirement to track actual costs for determining transportation allowances for oil.

What methods should be considered that would adjust for location differentials between the leaser unit and the index pricing and publication point?

MR. RAIMER: Dan Raimer, Marathon Oil Company. When a lessee owns interest in the transportation system, the lessee is required to calculate their actual reasonable costs using a prescribed formula that includes operating costs, maintenance costs, undiscounted capital, and so forth.

It's a very burdensome process. It takes a lot of effort to get the information. If a lessee is a minority owner in the transportation system and is not the operator and I think it would be -- and I understand, I think, why that was done because there was a perception at least that there was not a lot of oversight in the rate-making for pipelines, but I think the environment has changed and I think that, you know, commercial rates that are either published as tariffs or that are negotiated in exchange agreements or buy/sell agreements for proprietary systems, I think it would be -- ONRR should consider allowing a lessee to use the commercial rate, whether it's a published tariff or the contract rate that they've negotiated, even if they had to provide some form of documentation that it was a rate that applies to other lessees and that it's been adjudicated as a cost of service rate rather than having to go through the burdensome actual cost analysis.

MR. STEWARD: Thank you, Dan. Finally, one more question before we move to Fed Gas and it's basically are there any other suggestions to improve the current oil valuation regulations?

(No response.)

MR. STEWARD: All right. Thank you. I'll turn it over to Rich Adamski to cover the Federal Gas questions.

Topics for Discussion - Federal Gas

MR. ADAMSKI: Good morning again. Richard Adamski with ONRR, and we wanted to start out with Oil because we do feel that that's a little more straightforward than Gas. Gas is very -- well, more complex in the way that it's marketed and also could be processed further into additional products and also on the Federal Oil side, we have had significant changes to the regulations, first in 2000 and then amended again in 2004 which actually modified not only the transportation but also the valuation procedures which did simplify the regs quite a bit and obviously there's always opportunities for improvement. So that's why we have that in the mix, also.

So moving to Federal Gas, again it's a little more complex scenario and the federal gas regulations have been in effect since 1988 and the valuation portion of those regulations specifically has not substantively been, you know, modified since that time. So we are, you know, opening up again and hoping to get some different ideas or maybe new ideas.

So we have the line of questioning for gas in three sections. We'll start with index prices first, then explore transportation a little bit more, and, finally, processing of gas.

So use of index prices, comments on the use of index pricing in valuing federal gas for royalty purposes were varied. Some commenters stated that they would support an index pricing methodology if it was an option and not subject to any later true-up calculations. Some commenters raised concerns that basing value on index prices may yield values that could be higher than their actual gross proceeds. Still other commenters were opposed to the use of index pricing because of concerns of potential manipulation and that values may be less than the gross proceeds they actually receive under their contracts.

So again, what we're trying to do here is we did get some comments in the Advanced Notice of Proposed Rulemaking and we're trying to, if possible, today through these public workshops delve a little deeper into some of those comments and maybe get some more specifics.

So the ONRR invites more specific comments as to whether index pricing could possibly replace gross proceeds in certain circumstances in valuing federal gas production.

Our first question is we would like to hear from those that support index pricing as an option and how that would meet the intent of any changes to the regulations to add simplicity and clarity. How would that option be applied?

So again, we got in our written comments to the ANPRs that, you know, some people thought that index pricing could be viable in certain circumstances but they suggested that they would like to use it as an option. That would come into play in the valuation methodology.

Any comments?

MR. RAIMER: Dan Raimer, Marathon Oil Company. I was encouraged when I read through the comments that I only heard one reference to manipulation. In the '90s there was a lot of concern and there were a lot of comments about manipulation and those comments were more toward manipulation of the price itself, the index price, and what I heard this time is, because of all the work that FERC has done and the oversight, there appears to be a lot of confidence in the index prices themselves, that they're viable, they're transparent, and they're liquid, and the one reference that I did see to manipulation was not -- did not directly involve the price or determining the price itself, it was which price.

If gas could flow in different directions to multiple markets, I think there was a concern that the lessee might choose the one that's more beneficial to them and I think that's a relatively simple -- there's a solution to that. You basically trace the molecules and you use the index for the market that the gas actually flowed to.

So again, I was encouraged and I'm speaking, I think, on behalf of the industry in the working that we've done through the EPI Royalty Subcommittee that there is a lot of confidence in the index price and, yes, an index price methodology could, we think could be viable in lieu of gross proceeds.

MR. ADAMSKI: Thank you. Appreciate those thoughts.

Next, we would also like to hear from those opposed to the use of index pricing and what the specific concerns are for that side.

(No response.)

MR. ADAMSKI: Okay. The next question we have, we'd like to explore the concept of revenue neutrality a little bit further and again there's not necessarily a strict definition of the way that that's applied or could be used in any broad methodology.

Is there anyone that would support going to an index pricing methodology that would replace the gross proceeds calculation if it was not revenue neutral for every transaction? Would the economic benefits of simplicity, certainty, and consistency offset any potential increase in royalty revenues paid?

So you could look at maybe revenue neutrality on a broader scale across the universe of onshore and offshore production and also over time. I mean maybe just not any specific transaction but over, you know, a number of months, a number of years, would the added benefit of knowing that the price that you pay initially for royalty or 2014 is the price that, you know, we will accept? Is there any benefit to that instead of having to go through all the calculations for actual costs?

MR. MILLER: I'm Morris Miller from Williams, and I guess, Debbie, I can understand why Jim and Richard get water, and, you know, Debbie, I'm thinking back to the days when Jim Shaw and I was with MMS and I was in the meeting in Tulsa and Jim -- it was we were celebrating the $1 billion collection day, something like that, and the conversation came back to in order to be in compliance and not have the issues that the regulations, the process be made simpler and easier so that we could stay in compliance because we understood the rules and this is what, 20 years later almost, and we're still having the same conversation, even after royalty simplification.

You know, we simplify it and then somebody else figures out a way to complicate it and I'm trying to get to the question and I have comments about every single one of these questions. So I'm trying to focus in on what benefit would it be to even -- would it be a benefit to us, even if we had to pay a little bit more once in awhile, for simplification and the answer is emphatically yes.

You know, we heard in Tulsa staff up. You're going to need more staff to handle the complexities of reporting royalty and that's not a very good option. It doesn't benefit anyone to staff up. To increase our costs means we're going to decrease production and decrease production, we're going to increase prices and then we're going to increase prices, you know, everybody suffers.

So we would rather have simplicity. We could -- my shop could come down to one person if I knew what the rules were today and knew that five years from now, I wasn't going to have an audit finding that made me go back and correct back to five years.

So, yes, we want -- I would like, and I think our company would like to see certainty, you know, and that's a very important word, I think, in this conversation, certainty in valuing the production.

MR. DEALE: Hello. I'm Dave Deale with Deale

Consulting and current Vice Chair of the Royalty Policy Committee.

I have a simple comment to your question about whether or not, in terms of revenue neutrality, if every transaction should be revenue neutral or something else. I hope that's a rhetorical question. I think it's impossible for you to assess, for anyone to assess every transaction satisfies revenue neutrality.

I think an accounting process, an auditing process which has the character of an electron microscope is a waste of resources and doesn't produce statistically a useful result. So I hope your question is a rhetorical question and I hope there is some programmatic view, some reasonable level of examination which doesn't obsess over every single transaction. That is just, especially in this environment where we're talking about dealing with deficits and major budget questions, I think that we'd be -- everyone, both the government and companies, would be squandering resources to obsess over every transaction.

MR. ADAMSKI: Thank you for those comments. Anyone else?

MR. RAIMER: Dan Raimer, Marathon Oil Company. I think in terms of looking at revenue neutrality at a higher level rather than on an individual lease level, we kind of went through some of that discussion with the oil rule relative to quality banks on pipelines offshore and I think initially the position that I heard from the Federal Government was, well, we're the only royalty owner out there and, you know, so to the extent that some value may get shifted here or there, at the end of the day, as long as it gets passed back to the Federal Government, there wasn't that much of a concern.

But there was a concern from the individual lessees because of our different ownership percentages in the different blocks and then you've got the added complexity of the different royalty rates. Not everything is one-sixth anymore. In the Gulf of Mexico, there is some one-eighth in the deepwater and there's some royalty relief and so forth.

That said, you know it's possible that the Federal Government, I think, could step back and look at a mechanism that might work but then once you get onshore, it's even more complex because the federal properties onshore are not just federal ownership, there are some other owners in that property and then to complicate things, the Federal Government, the states are beneficiary, even if they're not an owner in the lease or the well or the property. They're a beneficiary to the funds that the government collects and I saw a lot of pushback in the comments in that regard.

So it's possible for revenue neutrality at maybe a higher level but probably bifurcated offshore and onshore.

MR. ADAMSKI: Okay. Finally, in the area of index pricing, even we realize that if we went to some sort of index pricing methodology, that there are areas of the country where limited reported spot marketing and index pricing activity exists and so for those areas, does anybody have any comments on what would be an alternative or something else we could use rather than index pricing in areas not covered by that?

(No response.)

MR. ADAMSKI: Okay. Oh, Dan. Great.

MR. RAIMER: Dave Raimer, Marathon Oil. I think in terms of an alternative, if an index doesn't work, the one thing that every lessee does have access to, ready access is their actual gross proceeds, and I know comparables is one of the benchmarks today.

I don't know how often it's used and every time I've tried to use comparables, I've run into some roadblocks in terms of I don't have the information that other lessees in the field area are using and ONRR itself doesn't have the contracts. They see the prices and they see the values on a per-barrel basis or per-MVF or BTU basis being reported but you don't have the contracts. You can't go through the normalization process.

So I'd be hard-pressed to say that there's a better surrogate, if an index price methodology was promulgated, to use anything other than gross proceeds, primarily because that's what the lessees have readily available to them today.

MR. ADAMSKI: Okay. Moving on to our next section for Federal Gas talking about transportation allowances and I'd like to reiterate at this time, just as a background for any changes that we may make to the regulations, that we would like to make those changes in a context of making the regulations simpler, more efficient, and more consistent in their application.

So with that in mind, we would now like to examine possible alternatives to the requirement to track actual costs for determining transportation.

Comments that we received during the Advanced Notice of Proposed Rulemaking were divided with some commenters generally supporting retaining the use of actual costs and other commenters supporting a location differential with an escalation factor and a separate component for fuel.

There was general consensus that a flat percentage of index value would likely not provide revenue neutrality and is not preferred.

In the interest of simplifying the determination and verification of location adjustments, ONRR requests any alternative methods to calculating actual transportation costs that would adjust for location differences between the leaser unit and the index price and publication point.

So are there any ideas of having to trace all the actual costs involved in transportation to the actual sale of gas? These are long questions, so we'll give you a little time to think about this.

MR. RAIMER: Dan Raimer, Marathon Oil. You know, the two examples that we have out there of index price methodologies, you reference the Indian Gas Index Price in the opening introductory remarks and that has a flat percentage, but I think that, as the Negotiated Rulemaking Committee was working through the process, there were some other considerations that kind of led to that conclusion, like the major portion analysis that had to be done. So that was a concession I think that was made on behalf of industry and the tribes and the Federal Government.

The other example is the Oil Valuation Rule and we looked long and hard at location differentials, other than actuals, and at the end of the day, ONRR promulgated the rule with index price but then using actual location and quality adjustments and, unfortunately, that's the part that we're trying to resolve on the gas side, is avoiding the use of actuals but we defaulted to that on the oil side, I think, for a variety of good reasons and it's a challenge.

MR. ADAMSKI: Thank you. Any other comments on the transportation of gas?

(No response.)

MR. ADAMSKI: Okay. The other area of Gas that we have are when gas is processed at a gas processing plant and new products are extracted from the gas stream that are additionally sellable and again trying to simplify that entire process of accounting for those products, either after processing or actually before, as part of the total gas stream, ONRR is considering accounting for the value of liquid hydrocarbons contained in the gas stream by applying an adjustment or bump to the index price applicable to residue gas when gas is processed in lieu of valuing residue gas and extracted liquid product separately, calculating the actual processing costs and deducting those costs from the value of the extracted liquids.

Again, in the comments that we received, there was not a consensus in the ANPR comments. Some commenters preferred actual costs. Those who believe that a proxy is workable suggested that adjustments should be plant-specific and frequently updated to reflect changing market conditions.

ONRR is actively soliciting suggestions regarding other methodologies that would simplify the reporting associated with gas processing allowances or, if possible, eliminate the allowances by substituting a market-based proxy to reflect the value of liquid hydrocarbons contained in the gas stream.

And as many of you know, on the Indian gas side, we do have an adjustment or bumping mechanism based on the BTU content of the gas stream and also whether you're an owner or not an owner in the plant, the gas plant where that's being processed.

So we do have some experience with those type of methodologies and we just wanted to throw out there at this time is there something similar that could work in the federal gas arena?

MR. MILLER: Morris Miller from Williams. We went to -- on our Indian property and it's really a pretty small percentage of our production. We went to the simpler method. We do have the alternate dual. Except for the Bacinol, our Indians are index zones. So we have certainty on price, we have certainty on what we can deduct, and it works beautifully. It costs us a little money but it's, you know, -- the last audit we had with the Southern Ute was just a couple volume issues and we were done.

But if you're going to make it -- put it on a bigger scale, now we're going to the federal properties, we've got dew point control plants, we've got lean oil plants, we got cryogenic plants, and I don't know how you can apply a fixed rate or a certain percentage when you have that complexity.

The less-efficient plants, you know, when I'm thinking of your unbundling, Larry, and Larry and I've had a few conversations about this, you know, what was the difference on the Kutz plant than the Ignacio plants and, by the way, Mr. Gould, five of the six or four of the six, whatever it is, facilities on that unbundling website belong to our company, you know. They've singled out the San Juan Basin essentially as their benchmark as how this is going to work and we're still waiting on the plants in other locations and what we should do there cause, you know, especially where we don't own the plant, we don't get much help there.

But now I'll get back on the topic. I think that it has to be almost plant-specific. Let's come up with something for each plant, give us a number that we can use and rely on, depend on it, but we can't use a Kutz number for production going through Ignacio.

MR. ADAMSKI: I appreciate those thoughts.

MR. RAIMER: Dan Raimer, Marathon Oil. In terms of the processing cost adjustments and using actuals, we, the lessee, we get plant processing statements and they're, for the most part, pretty detailed and they certainly break down all the gas products and we have prices and plant fuel and so forth and if we could get -- if ONRR could get to the point with a bright line definition, if you will, of what's allowed and what's not allowed, similar to the bright line definition for gathering, it's very clear on gathering, whatever the BLM onshore or BOMR offshore determined as the facility measurement point, any transportation, regardless of what it's called, and we call it gathering, production flow lines, whatever, transportation upstream of the facility measurement point is not allowed, except in the case of offshore when you've got sub-C production that's going to a host platform and it's more than one contiguous blockway.

So there's some exceptions.

But, you know, it's a bright line and transportation downstream of that facility measurement point is allowed, and if we could have the same type of bright line for processing, you know, and the one big issue is compression and there's a nebulous reference and I think it's 1953 or some version of the regulations that says boosting residue is not allowed, except as provided for in -- you know, it's not allowed but it is and so it's not allowed when -- except when it's allowed and ONRR tends to cut it off and say boosting residues is not allowed and we get interpretations like the Devin decision that said, well, we could have done this, we could have done that, but what we did was we disallowed the compression at the Buckshot Plant.

Well, that complicates things significantly, you know. If we could get to the point where compression, which is primarily a means of transporting the gas, if that could be dealt with, whether compression is allowable within transportation segment as opposed to the processing, that would at least simplify the administrative effort and compliance associated with processing because then we could rely on and use the settlement statements, the documents, the source documents that we get from the service providers and that our revenue accountants use for entering into our systems and going through the systems.

MR. DEALE: Dave Deale, Deale Consulting again. I would just like to build on a prior comment about unbundling and the website which has some information on some plants.

You know, I'm hardly a gas processing expert. Anything I've read over the years, read or heard from industry or, for that matter, from you folks in the course of depositions and rulemaking, what have you, is that gas processing plants, each one is sua generous, none of them are identical, and I think the prior comment said -- reflected the fact that some of the plants' numbers have been generated in the San Juan Basin but even in that area, numbers haven't been generated for others.

I think the larger question is it is just inherently a problem for industry, I think, to have a small population, a very small slice of the gas processing industry to have unbundling numbers associated with it. It just lays the basis for arbitrary decisions.

I think, you know, between industry and the agency, you need to bite the bullet and arrive at, if it's feasible, to come up with some formula, some number, if you will, for each plant and that eliminates arbitrariness. I'm certainly not trivializing that task but what's the alternative?

Absent that task, you have this cloud of uncertainty. My experience is the companies want to know what the expectation is rather than get into an endless series of suggestions what the numbers are, where the basis is unclear. They just want certainty.

So I would just -- I think it's a worthy topic, a daunting task to undertake this, but having a website with a handful of gas processing plants in one area to me just underscores the problem rather than in any way satisfies it.

MR. ADAMSKI: And I would like to thank Mr. Miller, Mr. Raimer, and Mr. Deale for those comments because it actually leads into the final topic which pretty much was unbundling and what we wanted to talk about and that was a good start on that for other members of the audience.

Unbundling is a situation where, if you transport or process your gas, the lessee or producer is often charged a feed or a cost for those applications that is just kind of a flat fee that involves a lot of different processes and that fee could represent some costs which are allowable deductions from the royalty value, such as for transportation and processing, but that fee also typically includes other costs which are not allowable deductions for putting that gas in marketable condition, such as, you know, possibly for compression, dehydration, and services such as that.

So the Federal Government could not blanketly, you know, knowing that there are different components in that fee, accept that fee as a total deduction from our royalty value and therein lies the conundrum, you know. How do we break those out when they're not done naturally in any transportation or processing sales agreements?

And we are actively looking for a way to get around that situation or to, you know, simplify that whole situation, if possible. So I know we've had some comments on that. If anybody's had a chance to maybe think of any more in the interim, we'd appreciate hearing anything.

MR. MILLER: Morris Miller from Williams again, and this is probably the -- I'm more -- the most passionate about this topic of any of the topics.

Just from a practical standpoint, you know, we have an affiliate that gathers our gas, so we have to go to them and ask them to provide us cost data. They won't provide us the cost data. They'll provide us the calculation for our cost of service on the system and then I have to go back to them and say, well, you need to break this down now a certain way and I have not figured out a way to communicate to them what you all require. You know, the unbundling, posting those factors on the website eased that point but, you know, we're five years behind on the process now, I think Manzanaris is 2006 is the last breakdown.

It has just made it so complicated and impossible to understand. People in the industry go to the field and say you can't use that compressor as a cost anymore. Well, the manager of the midstream company said if we had known you were going to do these unbundling rates the way you did, we would have designed the system differently. You know, they built the system for efficiency. Well, the efficiency required more compression. They're not going to allow the compression. So that system that has the Valverta system is not -- I'm told is not as efficient as the Manzanaris system. So they get a better rate.

There's so much unfairness built into this because of the definitions and the rules that you've made, that you've come up with. You know, even on the gas plants, you know, if it had the name "compressor" on it, it was checked off as not allowed, didn't ask, I'm told, I wasn't -- you know, I'm went to that midstream company, I got the impression that there wasn't much conversation about what the compressor was for, what the purpose of it was. The people asking the questions were accountants. They weren't industry -- weren't engineers that were familiar with the plants.

So the third point, if I can step aside and just represent the consumers in Minnesota a little bit and Illinois, I don't think there are very many gas wells in Minnesota. So if you're increasing costs, you're increasing the royalty that we pay, 50 percent of that royalty is going to the residents of the state where that facility is located or where the production came from, 40 percent goes to the Reclamation Fund which your website says the Reclamation Fund is finding water for Western states, 10 percent goes to fund you guys on onshore for, you know, the General Fund, but I'm sure a bulk of that goes to fund the ONRR.

So I can understand why New Mexico and Wyoming and Colorado are so passionate about this, but I don't think enough consideration is being given to the impact it has on the rest of the world, you know, over something that's so controversial. Tell me if I go too far on this because some of this -- my lawyer's not here. So I can't -- I don't know when to shut up sometimes.

But somewhere in between where you are now and where we were has to -- we need to have a conversation and I was -- you know, ConocoPhillips in their response suggested a workshop just on this and I'd like to hear if you're interested in doing that and, you know, when we can do that and make it quick cause I'm going to retire pretty soon. So I would like to see this finished before I retire but that's probably not going to happen in the next year.

Anyway, I'm off my soapbox. Thank you.

MR. ADAMSKI: We really do appreciate those thoughts and again it helps our further understanding of the complexity of, you know, the entire problem and it is administratively challenging, you know, for both the government and also the industry and we recognize that. That's why we're looking for ideas to help that situation out a bit.

Other Comments

MR. ADAMSKI: Kind of the last section is just, you know, if there's something that we, you know, may not have specifically touched on in the regulations, you know, we just open it up for additional ideas again for simplicity, clarity, and consistency.

Currently for Federal Oil, we have separate regulations for Indian and Federal Oil, also separate regulations for Federal and Indian Gas. So there's four sets of regulations, four sets of definitions, and things that apply, you know, to all those regulations.

You know, maybe there's ways of, you know, just simplifying what's contained in the 30 CFR Part 1206 that we, you know, haven't thought about or haven't looked at recently and I think I'll turn it over to Greg Gould to maybe expand on that a little bit.

MR. GOULD: And actually getting to what Mr. Miller was talking about, too, in that, you know, right now the Administration's looking across government in terms of all of our regulations. This is just one part of the regulations that need to be simplified and clarified and so we are working, you know, across government right now. So it is a bigger picture and it's for that same purpose that you're talking about, Mr. Miller, in terms of making sure that the regulations are clear and consistent and fair.

So that's where we're going with this and that's where we welcome, you know, input. It would be nice if we had actually more people here for this workshop to give us some additional ideas but we've been happy with the comments we've received so far. We've had comments down in Houston and we're also going to have another workshop in Denver.

So if there is an opportunity for you to get additional comments to folks that will be attending the workshop in Denver, please do that, as well.

Like Richard said, we do -- you know, looking across the rulebook, we're looking for areas where we might be able to even simplify from just a structural sense definitions. Another one that I think somebody mentioned. If we need to clarify the definitions, let's do that now. Let's take this opportunity to go in and take a hard look at the definitions.

Possibly we have the definitions for all four sets of rules in the beginning of the section of 1206 and its own definitions section. So things like that, so wherever we can simplify or clarify the regulations, not only technically but just for ease of understanding and readability. So we're looking for those comments, as well.

So if anybody has anything, any comments generally on the rules at this point, we'd love to hear those.

Dan?

MR. RAIMER: Yeah. Dan Raimer, Marathon Oil Company. I think what you're contemplating, Greg, I think does have some merit. You know, since the 2000 Oil Rule and then the 2004 Amendment and then 2005, you revised the Gas Rule to make some changes, conforming changes basically to get it lined up with some of the changes that have been made in the Oil Rule.

So to the extent that you've pulled all the definitions into something in the forefront, that would help with that effort, plus there have been some decisions since these rules were promulgated, you know, such as the Waxbro decision involving beneficial use or lease use gas, and the Bastar decision, arms length transportation versus non-arms length transportation, and it would be nice to see those embraced in the regulations so that then a lessee wouldn't have to go through the process of petitioning ONRR for some form of alternative valuation methodology in order to get the blessing of, yes, you've interpreted correctly what those decisions said and now you can, you know, just build it into the regulations and then we can take it and use it.

MR. GOULD: Well, I want to thank Mr. Raimer, Mr. Miller, Mr. Deale for sharing your thoughts with us today. I think it was Mr. Miller who pointed out that we've been having this discussion for over 20 years and I think the people that are -- most of the people that are sitting at this table have been involved in that discussion for the 20+ years. So I have had a lot of advice that's been coming to me over the last three years that I've been involved in this side of our house.

So I think, Mr. Deale, you probably know that this is a daunting task and I do agree with you on that, as well. It's not easy. One thing I was told early on was this is some complicated stuff that we're working with and it is, but I think what we're trying to do here is see where we can find some simplification or clarification.

So again, I thank you all for taking the time to come here and share your thoughts with us.

Our next steps going forward, like I said, as we continue through the workshops, we will make a decision on the proposed rule stage. We will then draft and publish one and there will be comment, another set of comments and comment period at that point.

So again, thank you all. If there's no

further comments, we'll call it a day.

Thank you all for coming out.

(Whereupon, at 9:29 a.m., the workshop was concluded.)

REPORTER'S CERTIFICATE

This is to certify that the attached proceedings before:

U.S. DEPARTMENT OF INTERIOR

In the Matter of:

FEDERAL OIL AND GAS VALUATION PUBLIC WORKSHOP

Were held as herein appears and that this is the original transcript thereof for the file of the Department, Commission, Board, Administrative Law Judge or the Agency.

Further, I am neither counsel for or related to any party to the above proceedings.

Wendy Greene
Official Reporter

Dated: October 13, 2011