

Minutes
Oil & Gas Valuation Subcommittee
January 18, 2005 – Teleconference
1:00 (12:00 MST) -3:00 p.m. CST (ended 3:30 CST)

Participants: Dan Riemer (USOGA), Mary Williams (MMS), Lisa Crothers (IPAA), Richard Adamski (MMS), Gary Paulson (NGSA), Bob Wilkinson (COPAS), Mary Ann O'Malley (BP), Mike Coney (API), Valdean Severson (New Mexico), Perry Shirley (Navajo), David Darouse (Louisiana), Dimitri Seletzky (ChevronTexaco), Fred Watson (COPAS).

Membership: Official members are: Dan Riemer – Chair (USOGA), Harold Kemp – Vice- Chair (Wyoming), Valdean Severson (New Mexico), Perry Shirley (Navajo), David Darouse (Louisiana), Tom Shipp (Southern Ute), Lisa Crothers (IPAA), Gary Paulson (NGSA), Mike Coney (API), Carla Wilson (IPAMS)

MMS staff: Mary Williams and Richard Adamski

Consensus: Majority vote. Discussion ensued on presenting majority and minority reports to the RPC, if necessary. Alternates were discussed along with attempting to place any items requiring a vote on the agenda prior to the meeting. Alternates are allowed but the RPC will pay travel costs for only one member or their alternate to attend a meeting. Since items requiring a vote will be included on agenda, an alternate can vote for a member or member can inform Chair and MMS senior official of their vote if unable to attend.

Minutes: No secretary was elected as MMS will take minutes. Minutes will go to members prior to next meeting and approval will be first agenda item at the next subcommittee meeting. Final minutes will be posted on the MMS website at http://www.mrm.mms.gov/Laws_R_D/RoyPC/RoyPC.htm.

Discussion and approval of Charter: Charter is still a draft. Dan, Mary and Richard will send to all members and a vote for adoption will take place at next meeting.

Scope and Objectives: The following four items were identified on the agenda for review/action by the subcommittee:

1. Oil differentials. Dan laid out the issues surrounding differentials. With the issuance of the amendments to the Federal Oil rule, effective 8/2004, the requirement for lessees to calculate a weighted average WTI differential if they have arm's-length exchanges to Cushing of at least 20 percent of their oil, or to propose a WTI differential if they do not have arm's-length exchanges of at least 20 percent of their oil is administratively burdensome for lessees and for MMS auditors, and allowing the use of published WTI differentials would be revenue neutral over time. The 2000 Federal oil rule already had WTI differentials embedded in the Platts spot price assessment. Issues: Are WTI differentials (published by Platts and PArgus) appropriate? Can they eliminate

unnecessary burden on lessees and audit? Can they be used instead of actuals with upstream adjustments for location and quality? Would it be revenue neutral to not require lessees to use actuals (gross proceeds fit)?

Under the proposed gas rule amendments, alternative valuation methodologies can be requested if they approximate value under the rule (already available for oil). MMS will provide numbers of approved alternative valuation requests under the oil rule where oil differential is part of the agreement. Also obtain some information from RIK on differentials. COPAS will provide comments submitted on amendments to Federal Oil rule along with COPAS letter and MMS response on this issue to all members/attendees. COPAS and other industry organizations will poll their constituents on examples to determine the impact and how wide spread.

Industry proposed to allow use of WTI differential for all lessees that exchange crude oil between market centers and Cushing not just those that do not have arm's length sales or meet the 20% threshold. Lessees want to get away from the burdensome obligation of calculating weighted average actual differentials if the use of WTI differentials is revenue neutral.

2. Gas value- Indexes or other alternative value method. Mary and Dan began discussion of an MMS sponsored workshop in conjunction with the Industry Awards on 4/26/05. The workshop does not predispose the subcommittee to anything and is intended to bring together folks in various areas of gas marketing or use of index values as informational/educational. The panel might include representatives from FERC, NGSA, Platts, etc. It is not a workshop to develop amendments to the MMS gas rule. MMS believes the workshop will draw a good audience on a current topic and will include a question and answer session. Discussion within the subcommittee on attendance, not just limiting to gas indexes by including how to improve current Federal gas benchmarks, etc. Dan recommended that Gary Paulson or someone from NGSA work with MMS to develop the workshop title, agenda, and list presenters. Dimitri mentioned that the latest FERC report on gas indexes is 10/19/04 available on the web.

Further discussion on value for gas will continue at future meetings.

3. NGL value. Valdean pointed out that NGL valuation falls under the Gas Valuation Rule. May discuss concurrent with gas value or leave until later meetings. Issue: Where does value start for netback calculation? Is it at the fractionation plant where Lessees mixed stream is separated into measurable and qualifiable components such as Ethane, Butane, Propane, Natural Gasoline... etc? Or is it at the inlet to a chemical plant if a lessee moves fractionated liquids downstream from a fractionator to a lessee owned chemical plant? Possible improvements or clarifications to regulations.

4. Coalbed methane value (possibly separate regulations). There are numerous appeals and litigation surrounding coalbed methane – primarily around what are allowable deductions. Definitely on the radar but may want to wait until more case law is established. Mike stated that we should work together vs. addressing via litigation.

An additional issue from Valdean is lessees not having records to support arm's-length transactions and what to do under an audit. If not at arm's-length can follow benchmarks. MMS will do further research and get back to subcommittee.

Next Meeting is scheduled for March 2, 2005, and will be a teleconference. Following meetings tentatively scheduled for April 27, 2005 following the Industry awards in Houston and May 25 prior to the RPC full committee meeting in New Orleans, face-to-face with teleconference capability at both.

Action Items – attached.

RPC Oil and Gas Valuation Subcommittee – Action Items 1/18/05		
Item	Responsibility	Response
1. Assure majority and minority reports can be presented to RPC.	Mary	Majority and minority reports can be presented
2. Can members designate an alternate? Can they vote for member? How are costs reimbursed?	Mary	Members can designate an alternate that can have a proxy vote but issues requiring voting will be on agenda. RPC will only reimburse one representative per meeting.
3. Send draft charter to members.	Dan, Mary and Richard	
4. COPAS will send comments submitted to MMS on oil differentials	Bob Wilkinson	Completed – e-mail dated 1/19/05
5. Under oil rule how many alternative valuation agreements have included oil differential language	Mary	
6. Industry organization representatives will poll their constituents for complex/burdensome examples of oil differentials	Dan, Mike, Lisa, Carla, and COPAS	
7. Send e-mail to members on studies, reports and workshop outline for use of gas index prices	Mary	
8. Determine MMS policy on determining value in arm's-length transactions when no records are available	Mary	
9. Review calendars and determine availability for meeting on 4/27 in Houston in person or via phone.	All	