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P R O C E E D I N G S

MR. DIAL: Good morning. We have scheduled this public meeting in addition to a public meeting held last week in Houston. These meetings have a pretty specific purpose. Basically what we are doing is we are using these meetings for the next level or stage of contact with the public on some reporting changes that we are contemplating in the areas of financial reporting and production reporting.

This is another step in the fact-finding information gathering. Nothing is cast in concrete, nothing is firmed up in terms of this reporting. We are at that stage of, again, further information gathering.

Before we get into the agenda, a couple of administrative matters. I think everybody saw the rest rooms off to your left as you exit this room. There's a snack bar on the other side of two walls that way if you need a soda pop or something to drink, and at lunch time if you're going to be coming back to the afternoon session up along Union there's lots of restaurants if you'd care to get lunch.

We have today a panel of folks from the MMS to basically present the reporting changes that are being contemplated for the future. This morning's session for financial reporting we have John Barder from the Royalty

Valuation Division, Theresa Bayani, also from the Royalty Valuation Division, and our stalwart leader of the effort in the financial reporting area, Paula Neuroth.

I'm sure many of you know Paula from years past. She's very, very visible, very active, always keeps us on our toes.

MS. NEUROTH: What are you saying, I've been here for a long time?

MR. DIAL: I did that down in Houston, I said that and I got touched. So I tried to do it in a little different way, but we'll try again. I'm Milt Dial, I'm sort of the head of odds and ends around here in the program reengineering effort. I'm pleased to see many of you I know, I'm pleased to see Carla here. We've seen Carla on and off for, oh, the last year and a half or so as we've been touching on the areas of program reengineering and changing future reporting requirements.

A few comments on the process. We're sort of following a process that seems to have been effective in past sessions that we've had with the various groups, and it seemed to work down in Houston last week. That was to first see if anybody had any prepared comments that they wanted to present or somehow capture at the session today.

We have Lynn with us for the day to be our note taker, and those notes will be available to everybody, probably off

the web to be sure. We'll put it out there, but be sure and leave your name and address and we'll get it to you that way, too.

The sign-in sheet indicated that we didn't have anyone who wanted to make a prepared statement or presentation, so we'll go on that assumption that no one's changed their mind between the front door and here. I see concurrence.

A process issue; without having anyone interested in a prepared statement, basically what we'll do is Paula will be presenting the background of what brought us here today in the last year and a half, two years, and we'll walk through the 2014 and contemplated changes. And what we would like is an interaction as we go through.

Be sure when you see something that you want to comment on or would like to explore further discussion wise or otherwise, pick it up right at that point in time. That seems to have been pretty effective in marching through the forms.

In our session in Houston we had I think 16 or 17 people, 18 people, something like that in attendance, and I think we had a real interesting session both in the morning and the afternoon, and I would expect the same thing today.

I'd like to leave with a few comments in terms of where we've been in the reengineering initiative, where

we're going and how this all fits in. We undertook the reengineering initiative in 1996. We expanded the initiative in 1997 from just a compliance-focused initiative to a program-wide initiative.

We believe that a multi-management program could and should be addressed in the fashion of really a very significant shift or change in business processes and in the technology. We had studied the need for this for quite some time, and some causal events convinced us that we needed to head in this direction.

One of those was the enactment of the Federal Oil and Gas Royalty Simplification and Fairness Act, and we had other signals out there, inspector general reports, our own people feeling the pains of a process in technology that wasn't serving them as well as it should.

We had recommendations from the Royalty Policy Committee, that's a committee of industry, state and tribal representatives. That committee gave us some really strong signals and recommendations on how to change our business process and reporting, particularly in the reporting area. All of them touched on some aspect of that.

The inspector general addressed issues of technology and particularly in the area of our existing systems and our database managers. They are antiquated, they are 80s or mid 80s technology. They made

recommendations to us on pursuing alternative approaches; for instance database managers where for relatively significant investments we could make significant changes in the efficiency of the way we do business and payback in reasonably short periods of time.

We agreed with the inspector general that we ought to do that. How to do that and the timing we disagreed with that, as we did reporting changes, as we did process changes. From the standpoint of a focused group in the state and tribal arena we focused with a so-called--that people would bring to our environment and that we would go to theirs to pursue the initiative from a process standpoint and technology standpoint.

The industry, our focus group was an outfit by the name of Council of Petroleum Accounting Societies, COPAS. We deliberately picked COPAS as that focus point because we wanted technical input from people who do the work for us, an organization that promulgates standards in the area of industry accounting practices for oil and gas.

We wanted a group that was going to be able to sit down shoulder-to-shoulder with us and work on issues today and tomorrow in the area of reporting technology and process. COPAS, too, I think to our mutual delight, responded very favorably, and we had quite a number of times where we had all day, multi-day sessions, and I think in a

very real sense there's been a partnership there.

We've picked up folks along the way, other trade groups along the way, where you have multiple persons who are a member of several groups, and that really has been excellent. A couple weeks ago we spent a morning with the Washington trade groups. These are the people that by focusing on COPAS we didn't necessarily touch--we spent--had a day with those folks and it was very interesting.

Today we have entered into partnerships with a number of companies to further the effort in terms of process development, in terms of continuing to examine future reporting requirements, and also pursuing technology. We don't want to be building technology where the industry is heading in an entirely different direction. We cannot have that happening.

Some of the partners we are involved with are Texaco, Amaco, Chevron, several others on the gas rules and on the solid minerals, particularly coal companies that we're involved with. We today are on an acquisition track in terms of technology. We're early in the track. This initiative has a project period that ends in 2001. We're looking for delivery of technology system support. We're looking for conversion to the reporting requirements.

We're looking for a variety of other changes that have been out there for two and a half years. From the

technology standpoint we have--last year we solicited a request for corporate capability statements. We had a conference in this room in December, it was almost full. It was past full of folks interested in this initiative and interested in doing work with us.

We have received corporate capability statements from 20, I think roughly, and we did down select here recently to five firms that we will continue to work with in terms of advancing a request for proposals and some circulation statements of work which should be occurring at the end of this month, very early April.

The companies we're working with are very familiar with the oil and gas sector, and some of them like Price Waterhouse is one of the offerors that will be coming our way, Anderson is there, AMS, Oracle and KPMG. So those are the five that are there.

We are seeking solutions for a variety of reasons. We need to go in that direction because it makes good business sense to head that direction. So that acquisition effort will continue through spring into the summer. We expect more probably mid summer, fall.

So in terms of reporting and the reason we're here we'll continue to work with the reporting concepts and information collection, data elements, through this spring into the summer. We would like to start firming up those

data elements and have a pretty good view of them by the time this contract shows up or the contract is awarded.

So we have a lot of time in front of us still for discussions on a lot of topics and particularly the reporting area. We're working with Bayless to have a session like this down in Farmington sometime later this month into next month, basically pull the folks together down in the 4 Corners area and discuss what's before us in terms of financial reporting, production reporting.

We have a--we haven't a firm date picked up yet, but we're working towards that. I think I'll probably stop now.

Are there any questions? Okay. There aren't. I think we can continue, and Paula will pick up the agenda from here and she does really very nicely on this.

MS. NEUROTH: Is the temperature okay in here? Are you cold? If you are just speak up and we'll adjust the temperature. All right.

Can everyone hear me all right? Like Milt said, we do have a court reporter here today who is trying to take minutes for this meeting, so what I would like to ask you to do as you have comments as we walk through today's agenda could you please identify yourself for the reporter, and actually what I'd like to try to do is pass you this mike.

We have a fan going on in here and it makes it a

little bit difficult for her to hear what you're saying, so if you don't mind we would like you to use this if you can.

I thought what we'd do is basically walk through the proposed notice and go through each of the reporting concepts and each of the data elements, and then as you have comments please just stop as we go through this, because really we're here to hear your comments.

We've already gone through this, so let us know what your feelings are and what problems you see or what advantages you see to what we're proposing.

A lot of things that are in this federal notice, Federal Register Notice, are follow-on items from the Royalty Policy Committee recommendations. We tried to incorporate as many of those recommendations as we could when we did this initiative, and I'll try to identify those for you as we walk through this.

The RPC was made up of basically representatives from industry, the BIA, the States and MMS, so we had a wide variety of individuals who had a stake in developing these reporting concepts, so hopefully we're on the right track.

The first one is elimination of the payor information form, the PIF. Let me ask this question; how many of you here actually work with the Royalty Reporting on a monthly basis? Can I just have a show of hands? Great. Okay. Good. Quite a few of you do.

So you're familiar with the payor information form, which is basically the form that you submit to tell MMS that you're going to report on a certain property, product, selling arrangement and effective date of that payment responsibility, the start date of your responsibility.

It also lets you know what revenue source code to report to us. The revenue source code just identifies for MMS the length between the lease and the appropriate associated agreement if it's agreement-level production. The revenue source code represents that relationship.

That concept has always caused a lot of problems for both the industry and for MMS. The concept of revenue sources is a foreign concept, it's not used in industry, and the submission of the payor information forms is somewhat sporadic at best.

A lot of times companies don't understand why they have to submit the payor information form and when they actually start reporting on 2014, so we have a lot of lines that reject each month because the payor information form that we have set in our data base doesn't match what you're reporting on the 2014 or else no payor information form is submitted.

The RPC recommended that we try to simplify the payor information form and reduce the frequency of those

submissions. We tried to go a little bit farther in this proposal believing that in a new reengineered system we can eliminate the need for that payor information form all together. And that's what we're proposing, is to eliminate that form and basically substitute that functionality with the actual data that you report on the 2014 each month.

So instead of submitting a payor information form that tells you when to report just report on what you might sell, we'll use that line to populate our data base. And to replace the functionality of the revenue source code, what you'll see on the 2014 is we've added--we've renamed a couple of columns and added one.

One of them is the MMS lease number; the second one is the MMS agreement number, so that reporting lease level production to us all you're going to report is the MMS lease number. If you're reporting production from a lease to an agreement you're going to report both the lease number and the MMS agreement number. So reporting those two key pieces of information allows us to eliminate the need to code that with a revenue source code.

The other things that the PIF did, like I said, was to tell us basically what your code responsibility start and end dates were. We're going to use the 2014 sales month to drive that functionality, and this will eliminate approximately 23,000 PIFs that are submitted annually to

MMS.

MS. MUSTOE: Is this a good place?

MS. NEUROTH: Yes.

MS. MUSTOE: Hi. My name is Lora Mustoe, I'm with Mallon Resources. I'm curious as to what--once the MMS agreement number is identified why it continues to be necessary to identify the lease. Correct me if I'm wrong, but is my thinking correct that if I have an agreement with multiple leases that I am still reporting several lines as a result of having to report not only the lease but also the agreement, too, or the agreement that the--leases that are contained within that agreement?

MS. NEUROTH: Everybody heard her question okay? Let me see if I can rephrase this if I understand your question. This proposal does not eliminate lease-level reporting, so, yes, if you're reporting on--let's keep it simple, let's say you're reporting--with three federal leases in it, that still is going to require three lines of reporting to MMS, but that's no different than the concept today, because even today you report several lines for all three agreements--excuse me, for all three leases.

And the three leases might have different revenue source codes and all the revenue source codes ties it back to that one agreement number, but instead of using the revenue source code on all three leases you're going to use

the lease number and the same agreement number for all three lines.

So it doesn't change the number of lines that you report with us but we're still going with lease number reporting. Does that--

MS. MUSTOE: That answers it.

MR. HULT: Good morning. My name is David Hult from the state of New Mexico, and our comment on that is if you're going to go to agreement-level reporting it would seem that if you have all reporting at just the agreement number and not the lease number then we would be able to allocate the responsibility based on the unitization percentages that it was responsible for on the DOI.

Is that now what you're thinking about doing here, because that's the way we read what was in here.

MS. NEUROTH: No, we're not--that's not what we're proposing. At the back of the Federal Register Notice there is a section that talks about agreement-level reporting, it says basically what do you think about agreement-level reporting; that concept being that under a particular agreement-level concept, you're right, you can report the agreement number.

MMS has the allocation percentages stored in our data base, so then we would then allocate your one line at the agreement level down to the appropriate number of leases

involved in that agreement.

That is really not what we're proposing here, though, because what we're still proposing is that you report at the lease level, and you're just going to use the agreement number so that we can tie that royalty line back to the production report, because you can have a federal lease that has lease-level production and one or more agreements that its committed to.

When we do our--what we call currently our AFSPAAS comparison, we're trying to match that production to the sales on the 2014 that are reported to us. So we need to match leave-level production with lease-level sales; agreement-level production with agreement-level sales. So by reporting both the lease and the lease or agreement number for the agreement production we can still make that comparison.

But the proposal is not pure agreement-level reporting when you just report one line for the agreement number and MMS would then allocate it to all the appropriate leases.

MR. HULT: Would industry continue to report only the leases that they have an ownership in?

MS. NEUROTH: Yes. I would assume that would be the case unless they're reporting a service for somebody and they can't--we still have purchases to report on behalf of

working interest owners, we have reporting services that report on behalf of working interest owners, but normally companies don't report on leases they have no interest in unless they're the purchaser or something like that.

MR. HULT: Okay. Thank you.

MS. NEUROTH: Have I confused anybody on that concept? Okay.

STACY: I'm Stacy--with Royalty Management Program. I didn't know if you said it was on the Federal Register Notice whether they would like to go with agreement-level reporting; are we going to touch on that? Is that on the agenda to talk about later?

MS. NEUROTH: It's on the agenda to talk about later, it's on the very end of the Federal Register Notice. And basically the Federal Register Notice says industry, do you like this concept if we really wanted to go to agreement-level reporting, and we tried to list some of the advantages or problems that we saw with that concept, and we really wanted your feedback on how you felt on that concept.

MS. MUSTOE: I personally, and I think I can speak for some of the companies that I have worked with, like the concept of reporting on an agreement-level basis. I don't-- I think it actually increases reporting rather than using the three-digit revenue source code except for the fact that it does eliminate the PIF.

I don't think that there's anything to be gained inasmuch as--and I don't know--that inasmuch as the MMS does have the ability to take those sales and allocate it to the leases that are contained with a communitizied area or a federal unit that there is any logical reasoning in assuming that although I might be a lessee and would only report on one lease contained within a communitized area or within that agreement.

My experience has been more recently with some of these, the AFSPAAS exceptions and working with some companies that were trying to resolve those within the time frame of RSFA, was that that was true in some cases, that was not true in other cases. There may have been a designated operator, there may have been negotiated or an understanding between the parties, and quite often it was always the operator, designated operator, regardless of whether they were lessee or not, as to whom the MMS was reporting for. And then they would proceed based upon those instructions.

And I would think that that would continue to be the case whether or not we were reporting multiple lines with a lease in the communitization or the agreement number or if we were only reporting total sales and volumes attributable to that agreement. Does that make any sense?

MS. NEUROTH: And really, that's the kind of

information that we need to know. I'm assuming that many of you if not all of you intend to provide written comments to these notices also, and if you do you need to be sure to address those areas that are near and dear to your hearts, those areas that you think MMS needs to understand.

We've been working on these reporting concepts for probably almost a year and a half now. There's a lot of interest in the new reporting concepts, there's a lot of diversity, and diversity of opinions, basically, on what data elements are the proper ones to collect, what level of reporting is the proper level of reporting.

As Milt mentioned we have had quite a few interesting meetings on these topics, but it's still better to have a Federal Register on a topic where everyone gets a chance to comment on it, because at these meetings you only see a small percentage of the industry, so we're hoping to get lots of comments from industry on our proposals; are we on target or are we off, how close are we. So those types of things are great.

MR. COWART: I'd like to make a comment. My name is Dan Cowart, OG professional. I've seen some problems of this type of concept to the extent that let's assume you're speaking of a unit, and for whatever reason I have not identified one of the federal leases, so therefore let's just say that there's 30 leases which are involved and I

properly made the calculation for 29 of those but not the 30th. I roll those back up in to a reporting unit as you suggest.

MS. NEUROTH: To one line at the agreement level?

MR. COWART: To the agreement level. Now, instead of one error I've got 30 errors, or if we get a unit expansion, but the timing of this is very critical to the extent of the same result to the extent there may be 30 problems rather than one problem, so there's a timing problem between the MMS and the producer.

There are additional--I wouldn't say problems, but there are additional considerations for the MMS. Let's just say you have 50 leases in a unit, you have three Indian, 30 federal and the rest fee. Well, now you're going to have to convert your percentages to make the hundred percent for the federal lease and the Indian to allocate the amount that I reported for federal and Indian. So I think there's various problems here that you should consider.

MR. HULT: I'm seeing a problem that I thought I had the concept wrong, that you were going to have an agreement line and a lease line?

MS. NEUROTH: No.

MR. HULT: It's just going to be at the agreement level?

MS. NEUROTH: No. Let's try this one more time.

Go to the 2014 that's on the back of the Federal Register Notice if you've got your copy. So I'm industry, and I have a federal lease with only well on it. That well is not sharing production with any other leases, it's not communitized, it's not committed to a unitization agreement, it's lease-level production. So when I report that line of reporting I'm going to populate Column 7, MMS lease number. I'm not going to put anything in Column 9, MMS agreement number because it's not committed to any agreement.

On the other hand I have another property that is a federal lease again, it has a couple wells on it, but it's also committed to a communitization agreement based on the same space agreement, so it's sharing production to those two wells with another, let's say an Indian lease and a fee lease, so when I report that line reporting to MMS I'm going to give us the MMS lease number, then I'm going to also populate Column 9 giving MMS the appropriate agreement number for that federal lease.

If I'm also reporting the Indian lease that I mentioned in this communitization agreement I'm going to have a third line of reporting, I'm going to give the MMS lease number and I'm going to repeat that same agreement number for both the federal lease and the Indian lease that are committed to this same agreement.

So if the other concept, if I was doing the

agreement-level reporting concept then MMS would probably--
Column 7 wouldn't be there because we would not need a lease
number reported, we would just report the appropriate
agreement number, and MMS based on the data that we have in
our system for lease allocation percentages would allocate
to the federal lease and to the Indian lease based on our
percentages stored in our data base, assuming our data base
was accurate. So the concept here is not pure
agreement-level reporting. We are staying at a lease-level
reporting.

MR. HULT: Yeah. You're staying at a lease-level
reporting where it's--where the revenue--where the producing
zone is not participating in the unit, okay? For production
that is in an agreement, okay, are you contemplating one
line for all the different leases in that agreement?

MS. NEUROTH: No. My example is the agreement I
just mentioned had a federal lease and an Indian lease in
one agreement, so I get two lines reported to MMS; one using
the federal lease number and the agreement number, a second
line using the Indian lease number and the agreement number.

So even though both lines have the same agreement
number because they're committed to the same agreement, we
are still relying on industry to do the allocation to the
two leases and report two lines of data to us.

MS. MUSTOE: Although as I understand it you have

the ability currently to perform that allocation to the leases?

MS. NEUROTH: We have lease allocations in our system. We know that, let's say the federal lease received a 25 percent allocation and the--50 percent allocation, but like Dan brought up, that data base is as good as the information received by the Bureau of Land Management, our sister agency, from industry telling us, oh, this agreement has expanded, this agreement has retracted, we used to have 30 leases, this month it's been revised, now it has 31, MMS, do you know it has 31, I'm giving you one agreement-level line, you need to allocate all 31 leases, and if our data base isn't quite on target we're going to misallocate.

MS. MUSTOE: Well, I would have to--you're not going to take my word for it. I'm going to receive an AFSPAAS exception report until your records have been updated, and generally speaking, that we're only talking about a very short period, you know, like in time once we have received approval from the BLM or whatever, what other agency with the Department of Interior might be instructing us to do so at either our request or not, so we're talking about a very small time frame.

But although I may know in advance that we have applied to communitize the acreage you are not going to

accept payment on that basis until that has been approved by the appropriate agency with the Department of Interior.

MS. NEUROTH: We would not--I mean, if you tried to report an agreement number to us that we didn't know existed because BLM hadn't given it to us yet, you're right, the line would probably not pass our--because it only recognizes the agreement number.

MS. MUSTOE: Right.

MS. NEUROTH: But if it's an expansion or a contraction agreement the agreement number is already valid on our system, we're going to allocate based on the data in our data base at that point. Let's say 30 leases versus maybe 31 leases that really should be--maybe I can--let's try something else here--

MS. MUSTOE: But it simplifies the process if I make one reversal or if I make one correcting entry, in and out sort of situation, but in a situation where once your system has done the allocation to the multiple federal and Indian leases and have excluded any fee or state leases, that overall the production that I reported is short. Once I adjust that with the one line entry then we're back into sync with each other, we're whole.

MS. NEUROTH: Maybe to help out with this, too, if you go to Page 8839 of the Federal Register Notice in the middle column it talks about the agreement-level reporting

concept, Page 8839. And like I said, basically on our knowledge of how we believe the agreement reporting could work we tried to lay out some of the issues involved, and if you haven't had a chance to read this you probably need to read this portion and see if you agree with our concept here that these are the issues that this concept raises.

Let me ask you this one; about the fourth or fifth bullet down it talks about results in RMP allocating each payor's volumes, allowances and values to all leases in the agreement even though the payor may not have an interest in all leases in the agreement. Again, because we're going to allocate based on the allocation percentage to each federal lease all federal leases in the agreement, we won't know which of those five leases you have an interest in based on 30 leases that exist in the agreement, so we're gong to allocate your agreement line of reporting to all 30 leases.

Does that cause any problems for anyone? Because we have no way of knowing which individual leases you may have an interest in and would have been reporting in if we had stayed at a lease-level reporting level.

MR. HULT: I think one of the problems is that if the unit is all reported by the operator and all the production is reported at the same time things will work out okay, all the allocations will be done correctly.

If it's reported by several different people then

there's a chance that every working interest in that unit will be affected by one of the reporting entities not reporting the correct amount on time.

MS. NEUROTH: Right.

MR. HULT: And that's one possible problem I can see with it. The other is sort of a conceptual thing, that if you're going to go to agreement-level reporting which probably could work out very well, it could simplify the number of lines, why then also include a lease line? Maybe I'm missing something, that when you go to the agreement-level reporting--

MS. NEUROTH: There would be no lease number reported.

MR. HULT: There would be no lease number.

MS. NEUROTH: Right. You would only report the agreement number and we would allocate total leases.

MR. HULT: That's what I thought when I originally read this that it was going to be. And I think it could work if everything gets reported.

MR. COWART: I could be completely accurate, or 30 of us could be completely accurate and the 31st one would foul it up and we all get notices.

MR. HULT: That would be a problem. I agree.

MS. NEUROTH: Just keep in mind what we're proposing is not agreement-level reporting. The only reason

this agreement-level reporting is in this document is to ask for comment on that concept, but that is not the concept we're proposing.

MR. BARDER: Well, one of the problems you have, just to throw this out real briefly, one of the problems you would have is under RSFA where you're allowed to report on 100 percent federal units, by allowing you to report your takes by going--by reporting on the 2014 at an agreement level you would essentially be putting those people back on entitlements because you're making us do the allocation back and therefore you're back with entitlement of 400 percent federal agreements. So that would be another drawback under RSFA.

MS. NEUROTH: That was interesting. Should we move on to the second concept or are there any more comments on what we've been talking about? This is good, really, this is good to hear all these things.

The second issue in here is product valuation, and I'm going to hold off on that discussion a little bit to walk through the 2014 data elements themselves, and then I'll let Theresa and John talk to you about product valuation.

The third concept is reporting adjustments. Currently if you report a line to us and six months later you decide that you need to make an adjustment to that

volume or value reported that would require you to reverse your original line and bring in an entirely new line to replace that data.

Under the proposed concept you would just bring in the net volume or value changes, you would not have to reverse your original line where you reported the line, just bring in the net different, positive or negative. Comments?

MR. COWART: Under a net reporting basis you're going to have some funny looking things on there if in fact both volume and the value change. You can have a positive volume in a negative--well, positive value, negative volume and vice versa, or the Btu content changes, so if you--if you have a net situation it is going to look strange, I think, more of a problem for the MMS from their standpoint to make any kind of validation thing to go back and throw it back in to the--roll out the history and roll those back in to that in order to make a calculation.

MS. NEUROTH: Nothing else on that? Okay. The fourth concept is transportation and processing allowance deductions. Currently you have those deductions reported to us each month--is one line, transportation is a separate line and the processing allowance is a third line.

Under this concept we've added columns to the 2014 royalty due line, and it's all reported together as one line versus three lines. Those new columns are 21 and 22 on the

proposed form. So we're hoping that that's going to eliminate a lot of lines that you currently have to report to us.

So instead of three lines we essentially have one. I think we estimated that's going to reduce the total number of lines reported to us annually by approximately 800,000 lines a year.

MR. COWART: I hate to be the one that continues to talk here, but I have a couple of problems here, not with the concept that's on the form per se. Perhaps not a new concept--not a new problem to the extent that as a working interest owner you receive information from whoever purchases the debts.

In some cases this is a--in all the cases I'm thinking of here it's a well-head purchase. In some cases they just give you money and a volume. We do know that associated with the money that they do obviously charge you some transportation charge and perhaps processing. You know everything that's in there. Some show you that information and some don't, but when you report on this and you try to compare one party to another, if I don't have that information in there and report it all as a--and somebody else has a gross number in there and puts in the deduct information then the prices are not going to look right although the net result will be the same. This is where you

have that type of a situation.

You have other situations where you may have separate agreements where you don't sell the gas at well head, what you do is transport it, you have your own transportation agreements, your own processing agreements, so you move it from the well head to the--to receive money at that point. That's pretty clear cut to the extent that you can put that information on here.

What is not as clear cut on that is if you have some type of a line loss or something where you loose some gas in the transportation of this then some how you have to value that, either lower your gas price or place it as a transportation--add it to your transportation cost or something of this nature. Seems to me like that type information should be clarified as to where it goes.

MR. BARDER: There's a bunch of questions all rolled into what you just talked about, and I could probably talk half the morning on this issue alone very easily. We have certain policies on line loss depending on whether it's part of an arms-length transportation agreement or non-arm's-length. It just--that difference alone, we allow it, possibly allow it in one area and don't allow it another agreement.

If you're selling at the well head we understand that you're going to be paid a net price, the purchaser is

going to be picking up the transportation and passing on a price at the well head minus those costs. Our rules do address that, our current rules do address that as well. We could talk about transportation factors. That's another way that transportation costs are netted.

We understand the issue surrounding all of this, and we try to address it the best we can in our rules, but there are some unique situations out there that aren't easy to address. And, again, you know, we try to fit into that rule, but keep in mind we can't necessarily make rules to address exceptions that don't happen too often, at least that we don't think happen too often. It's tough to do that anyways.

MR. COWART: Well, one thing where you have it today you don't have the capability. You don't have the capability of really making validations. In tomorrow's world you're going to have those capabilities, and when you compare one company against another it could have dramatic effects in how you report.

MR. BARDER: But the only means of validation we have right now is audit, and that's way down the road after the fact. We're hoping with our new systems under reengineering that we'll have some validation up front; in other words, if--we'll have our systems and our edits such that we can target to see if something looks unreasonable or

not. That doesn't necessarily mean that it's incorrect, but it will help us target our resources better and say these transportation costs look out of line, or these valuation costs or valuation prices look out of line, let's target these with our resources and then do a little more research to see if they are out of line or not out of line.

I mean, that's sort of the change in concept that we're looking at, and by doing this we're hoping to reduce our overall cycle as far as auditing and, you know, being able to say that this property is paid correctly for this period of time. We're trying to reduce that time period to three years or less instead of six or--

MR. COWART: Which is precisely why you need very stringent clarifications as to where that type of information goes.

MR. BARDER: And I think we're going to collect that but in a different manner. We're not going to collect it possibly or obviously on the 2014, that detailed stuff, but the regional teams that we're setting up supposedly will be able to gather that information.

Just like a marketer in a company knows his region and knows where all the interconnects are and knows how to get the best prices and the best transportation, our regional teams are hopefully going to be able to concentrate on their area and their specific properties and the pipes

and gas lines--or gas plants connected to those properties, and be able to be just as knowledgeable as gas marketers within the industry and know or find out these details and, you know, store them in some type of a reference system that we can access readily. I'm not--these are the concepts that I'm throwing out and the direction we're going.

MS. NEUROTH: And I think really what you're telling us is it's making not so much a problem as to which data element we're collecting, it's a problem with our definitions, our instructions on how to treat certain scenarios.

MR. COWART: That's right.

MS. NEUROTH: How to treat line loss. Okay. That's the last of the overall reporting concepts. We can start walking through the actual 2014 data elements or would you like to take a break at this point? No? Okay.

Some of these are exactly the way you're familiar with them today and I'm not going to spend a lot of time on them but, again, as we just walk through these let's stop if you have questions.

Column 1 is the payor name, no difference. We still need to know. Two is the payor code, again, a five-digit code that identifies for our system who you are. Indian report indicator, the concept here is that we still want separate federal and a separate Indian document, and if

it is Indian we would like an indicator check.

Four is the payor assigned document number. The only change here is we would expand to eight characters, and, again, that is the length between your report and the associated payment. That's what enables our system to automatically associate those two pieces of information and process it in the system.

Five is line number; 6 is reserved for payor's use, which is where you can identify this line of reporting by well name or meter number or however you choose to, and that data is actually going to be key to retain as part of that royalty line feature. Today you can report it but we don't actually store it, so it's a good communication tool between you and us.

Seven is the MMS lease number. We have a standardized 10-digit MMS number. Eight is the API well number. The API well number has been added under this proposal for future flexibilities. We do not intend to go to well-level reporting, we want the flexibility to accommodate certain scenarios that may occur in the future, and the two that are listed here, one of them is Indian tribe elects out of the index in the new proposed Indian gas valuation rules, and--

MS. MUSTOE: So say for instance we have the--from my understanding although it's--the Apache tribe as well as

the Oklahoma Allottees have already opted out of those indices areas that in addition to any lease number and agreement number that we might--we will also be reporting the well number for those two for Oklahoma, which is a--the last word I had was non-indices index areas--so that would be reported in those three--

MS. BAYANI: Well, first of all if a tribe does opt out of the index they would have to come in to MMS and negotiate what methodology we would use to calculate the value for royalty purposes. If indeed we negotiated a certain methodology that we determined the API well number was what we wanted to collect and everyone agreed it is possible we would go to the API well number.

MS. MUSTOE: Well, it is my understanding, and correct me if I'm wrong, but from members of the committee of the negotiated regulatory committee MMS employees informed me months ago that the--Apache tribe as well as Oklahoma allottees have opted out of the index area under the proposed regs, so is that what is expected and anticipated of me as a producer today to report those three fields?

MS. BAYANI: At this time the rule is proposed, but the--as far as a definitive answer, is that what you're going to have to do for the Hicoria or other tribes that have opted out, we have not negotiated that to the point

that yes, this is what we're going to do for Hicaria, API well number is required right now. That is not the situation. The rule is not final yet. I can't say that that won't happen, but at this point there is nothing definitive.

MS. MUSTOE: Thank you.

MS. NEUROTH: I would say that MMS realizes that going to well reporting increases the volume of lines and data reported to us and that's probably not our preference, so if there's another way to handle these unique scenarios we will attempt to do so.

Nine is the MMS agreement number, again, a standardized 10-digit number, and what we plan to do also since we no longer have the payor information form that basically converted the agency agreement number to our standardized 10-digit agreement number, we have to make that available to you some how, so we either have to provide it via phone or post it on the internet. We'll get it out there to you so you know those agreement numbers.

We'll probably have a table that shows the agency number and our converted number and you can sort it any way you want to and access that data that's on the internet.

Ten is product code. Again, no change here from what you're currently dealing with except we've added some product codes for geothermal products. Eleven is API

gravity, and 12 is valuation code. This is a new code, a new concept, and I'll let John and Theresa address this issue.

MS. BAYANI: Can everyone hear me? The valuation code that we're proposing is a tool that we plan to use to do automated valuation monitoring. We're proposing at this time three valuation codes that would basically identify the nature of the sale, meaning whether it was an arm's length or non-arm's length situation, and the contract type.

The three contract codes that we would be proposing include first the spot-sale contract, and this is a contract that is 30 days or less and it is tied to a spot market or index price. The second code would be long-term sales contracts, and that would be a contract that is 30 days or greater than 30 days and is tied to something other than the spot market price. And the third code would be the percentage of proceeds contract.

Now, what we're proposing to do with this is we anticipate developing ranges or tolerances that we would compare against what's reported on the 2014. In doing that if it was determined that your price reported on the 2014 fell outside the range of the tolerance then we would look into it, but keep in mind the valuation code, again, is only a tool that we would use to determine if a price was unreasonable.

MS. MUSTOE: So my understanding is is that this would replace the selling arrangement, and I guess my question is over the course of the years that the various producers were using the selling arrangement how much was and how reliable was that information utilized or found to be?

MS. BAYANI: Your question relates to the selling arrangement, how much did we find it beneficial to use and how much did we actually use it and why do we think that this code would be different?

In answering that first of all the selling arrangement was a numeric system that basically you had selling arrangement 001 and 001 unless you knew what was happening didn't equate to any chart that you can say that's an arm's-length situation, what was the real situation here.

What we're proposing with the valuation code is that the codes would be identified, for example, if it were a--we would be able to correlate it so that we would be able to look at a valuation code and say, okay, for example, ALLT, arm's length long term, and yes, that would be meaningful to us. We would be able to in a particular geographic area or field we would be able to compare the prices reported on the 2014 for a field to a the expected range of prices.

MS. MUSTOE: I think that the selling arrangement,

the companies that I've consulted with did serve that purpose. A selling arrangement 001 was pre deregulation. 002 I frequently saw with a lot of independent mid-sized medium independent companies was spot sell. More specific uses that were used in identifying--sometimes those producers would actually identify their purchasers, so this data was provided to you on those payor information forms, so once again I would ask you, how much was it used and how reliable was it? Am I hearing that it wasn't used?

MS. BAYANI: No. I'm not saying that it was never used for any purpose. What I'm saying is that we believe that the valuation code will be even more useful than the selling arrangement in the respect that we will now be--at least be able to do our valuation monitoring in an automated fashion and we can compare arm's-length pop to arm's-length sales.

The selling arrangement did not identify if it was arm's length or non-arm's length for example, and that is a very critical element in valuation as we all know. So we believe that the valuation code will be a very valuable tool to identify or target the particular properties that we want to look into.

And for situations--for example, that arm's-length contract, we wouldn't have to chase something like that like we do possibly today under the selling

arrangement situation. We would know if it's an arm's-length pop and the price appears to be somewhat lower but when you compare it to other arm's-length pop it's reasonable. Therefore we won't spend our resources chasing those types of contracts when there aren't any other valuation issues related to it.

We have a time limitation, and after all we are going from a six-year audit cycle to three, and we have to meet our stretch goals, so this is an effort to do that, okay?

MR. HULT: I've got a comment about the arm's length, non-arm's length nature of the sale, and the position that industry normally takes that all their sales are arm's length, and the position that some of the states and tribes take that they're not arm's length, and that this code might be a place to get that information out that there's some accounting rules about control that if you own 10 to 50 percent that's presumption of control, et cetera. If you own less than 10 percent that's an assumption of no control, and are those guidelines not being used by industry, and that's really I'm looking for comments on it, are we off base on that?

MS. BAYANI: Well, your comments relate to the arm's-length issue that can be a very--issue depending on where you sit. One of the difficulties in today's

environment is there's a lot of joint ventures and mergers and a lot of different types of acquisitions going on, where even though you have a definitive--well, we have percentages that we look at, one of the other parts of that definition include opposing and common interest.

So as far as MMS's position on this code we recognize that there may be differences of positions on arm's length versus non-arm's length. However, when we do do our monitoring of the prices reported if something does happen to look out of the range we would investigate that, and if at that time the differences came up, they believed it was arm's length or not arm's length, that might be the perfect avenue to get that resolved from that time to the future, so to get it up front rather than wait.

So, I don't know, does industry have any other comments?

MR. DEAN: I'm Scott Dean with Texaco. We look at those regulations really carefully in every situation, and we're real careful on that and as we don't want to do this over and over and over and go through all these audits, so if we can get it right the first time we're going to do it. So a lot of people memorize that part of the regulations.

MS. BAYANI: Thank you. You know it in your sleep?

MR. DEAN: Yes.

MS. BAYANI: Okay. Are there any other comments on the valuation code and how it will operate? No? Okay. Thank you. I'll give it back to Paula.

MS. NEUROTH: Okay. Column 13 is sales month and year, no changes from what you're used to.

MR. COWART: Why not? With the Y2K problem I notice that you haven't--it's a two-digit code.

MS. NEUROTH: Yes, the year.

MR. COWART: Everybody on Y2K is going to four digits for the year. This remains two digits.

MS. NEUROTH: And I'm not a systems person so I couldn't begin to tell you. Hang on.

MR. CARLSON: I'm John Carlson with Oracle Energy, and he's quite correct. What we do presently is we store information in the table to be Y2K compliant; in other words, we would still store a two-digit month and a four-digit year, and then on the report format you would put in whatever the agency required, so it's really up to MMS, but it would be easier to be consistent across the board and have a four-digit year across the board.

MS. NEUROTH: And I'll refer that to our systems people.

MS. STEFFEN: My name is Jean Steffen, I'm with MMS, and even though we have collected the year as a two character we store it as a four character, and we've already

gone through Y2K testing and we don't think there's going to be any problems with that. But I think it's a good point while we're going through this reengineering we could certainly change our forms to four character if we wanted to. Our magical year is 1940. Anything later than 1940 is considered 1900, and anything earlier is considered the 21st century.

MS. NEUROTH: Okay. So, Dan, we'll see. Fourteen is transaction code. Again, not a change for you except we plan to eliminate some transaction codes, simplify those codes if at all possible. Total in fact they're eliminating the transportation line and manufacturing processing line. Those will eliminate at least two transaction codes, and we'll see what else happens after we've had a chance to review those transaction codes in more detail.

Adjustment reason code, again, MMS is retaining this data element. I think it provides some flexibility. We seem to get a lot of initiatives that come down from legislation that we had to respond to in a relatively short period of time, and a lot of cases we used the adjustment reason code to identify some of these scenarios. We really don't want to give up that flexibility at this point.

Sales volume, again, this is equivalent to the current sales volume you report to us. The MCF, barrels, gallons, long tons, et cetera, with a line of reporting that

you're giving us; standard pressure base of 14.73.

Seventeen is gas MMBtu sales volume, this is a new column. This is also one that was recommended by the RMPC committee, and basically we're saying that if you have certain gas products we want you to report the associated MMBtu and MCF. Based on those two data elements we will calculate the Btu content of the gas.

This is different than what you currently report today when you give us MCF, when you give us the Btu content. The problem we've had in the past is that normally--I shouldn't say normally, that's not fair--in several cases the Btu content that's reported on the royalty line is inaccurate or missing, so we tried to take a little bit of a different approach in this concept in saying give us your MCF and MMBtu and we'll calculate the Btu content.

Eighteen is the royalty rate. The royalty rate we use to calculate this line of reporting, hopefully it matches the royalty rate we have stored in our data base for the lease of property.

MS. MUSTOE: I would like to comment on this volume and reporting book in the MCF and MMBtu. I fully believe that companies more recently have been more diligent in reporting Btu content to you. There has perhaps been some questions as to what Btu they ought to be reporting, whether that's at a central delivery point or at a well

head, and that might be their own lack of knowledge.

I also know that I have seen producers who have tremendous reservation in reporting to you Btu content that they know your system is going to reject. I don't know or I guess I'm curious as to why you're thinking that the MMBtu, by reporting MMBtu is going to be more efficient for you because you're still going to be dealing with MMBtu.

I guess what I mean is this so you can make a determination as to whether or not they were doing that conversion at the various points, at a sales point or well head or at a lease level, or why was that determination made? If you could expound upon the problems that you had when you converted MCF to MMBtu?

MR. BARDER: Basically it wasn't so much a problem of diligence, although, you know, some companies aren't as diligent as others, but it was more a problem of the people doing the reporting for these companies. A lot of times they just didn't have that information, they weren't giving the Btu content data in a lot of instances or they weren't giving the right Btu data, you know, like the Btu content of the well head as opposed to, say, a Btu content of residue gas. If they were selling residue gas and listing the well head Btu content, you know, we have a problem with that.

One of the main reasons why we're going this way at least in my mind is industry does most of their business,

almost 100 percent of their business contract sales on an MMBtu volume basis. They're not selling MCFs, they're selling MMBtus, and that's one reason why we want to go that way.

However, on the production side your movers still only measure MCF volumes. There's--they are a little more sophisticated or can be a little more sophisticated at gas plants where they can actually give you a real time measurement of MMBtus but not at the well head where our royalty settlement points are.

So this we're hoping will alleviate possibly a couple of problems. One is getting a Btu content correct or more correct by having this--the volume of MCF and volume of MMBtu we can calculate it. The MMBtu volume should be more readily available to the reporting people because that's what they're selling volumes of, selling volumes of MMBtu, and hopefully the reporting people--well, not hopefully--on the production side those reporting people are going to be having the MCF volumes.

So we just think it's a better scenario for industry and for us in a number of areas, and I've sort of elaborated on some of them there. Those are the main reasons.

MR. COWART: You just touched on something here that I find very difficult to the extent that your sell is

say a tailgate, and yet what you're asking for is well head test gallons, or I mean, MMBtu, and it's almost meaningless when you have that situation.

MR. BARDER: If that's how it came across it wasn't meant to be that way. When you're selling residue gas at the tailgate of the plant you're going to be reporting on the 2014 residue gas volumes and MMBtu volume of that residue.

MR. COWART: Are you?

MR. BARDER: Yes.

MR. COWART: You don't put any well head in?

MR. BARDER: No. Well, you will have a well head MCF volume, and then just like we do today our AFSPAAS comparison using the formulas that they use, the plan efficiency and combining the NGLs with that residue, do a comparison between the well head MCF and basically the tailgate MCF, and if they match within a certain tolerance they're accepted into our system.

That's really not going to change. The only thing we're doing is collecting--again, we had three elements that we wanted to collect or be able to calculate and collect, and we could do that by collecting any one of the two. And we thought instead of collecting the MCF volume, then the Btu content, we thought it would be easier, a little more accurate for both MMS and industry by collecting the MCF

volume and the MMBtu volume and calculate the Btu content. That's the--

MR. COWART: But you have the MCF volume at well head and a tailgate MMBtu, which are kind of unrelated, that's what you sold.

MR. BARDER: You know as well as I do you can easily go back and forth.

MR. COWART: You almost need both of them.

MR. BARDER: In a sense your tailgate MMBtu volume is on a plant statement you will also have the Btu content normally for that MMBtu volume and with that our AFSPAAS can say okay, with this amount of residue gas, MMBtu, this amount of liquids from the tailgate of the plant, this is what we expect that you should have had as an MCF well head volume, and if you're within our tolerances AFSPAAS says that's a match, we'll accept that, it won't kick out an exception. That's how it works today.

MR. COWART: Well, you have your line losses and everything else in between.

MR. BARDER: That's all taken into consideration with regard to the fuel flare at the plant, plant efficiency is taken into consideration in this formula.

MR. COWART: I'm speaking of that which occurs prior to the inlet of the plant, you have fuel gas and things like that.

MR. BARDER: I understand that, and, again, the tolerance, you know, I don't want to say is generous, but a number of factors are considered in this formula when they do the comparison, you know. Again, if it's within the tolerances it's accepted, if it falls outside there's some investigation that goes on. And it doesn't mean that still is not legitimate, it just means that there's some investigation that has to go on further.

MS. BAYANI: There was a another reason for the format, and that being that we were looking at if you look at the form, the proposed form, you can--it looks like a formula. You have your royalty rate times your dollar per MCF, Btu times your MMBtu equals the royalty due, so that was another reason for the change as well.

MS. MUSTOE: I want to make certain that I understand this correctly. In filling out this form my sales volume is going to be that gas that was available for sale--the MMBtu is going to be tailgate volume and not necessarily volume converted at utilizing the Btu content at my approved measurement point?

MR. BARDER: No. I'm sorry, if you misunderstood that.

MS. MUSTOE: Okay. I did in this conversion.

MR. BARDER: The sales volume will still be where you sell. If you sell at the well head or you sell at the

tailgate the sales volume will be in MCFs and in MMBtus. So if you're selling at the tailgate of the plant you're still going to be reporting an MCF volume there but as well as an MMBtu volume on the 2014.

Your 3160 for your OGOR, which is the direction we're going, your OGOR will reflect the volume of gas in MCFs that went through the royalty settlement point.

MS. BAYANI: There is no change from our current regulations. The royalties are due on the quantity and quality at the point of royalty settlement. What we're doing is collecting this information differently. It looks different, but we get to the same end.

We're not collecting the Btu as a Btu anymore, Btu cubic foot, we want the MMBtu and the MCF at your point of royalty settlement, and then we're going to convert it to a Btu. It looks different, but your reporting requirements are the same on volume, if that's your question.

MS. MUSTOE: Right. And then if we move forward to the unit price then we're really looking at, if we're discussing tailgate, a net after price, to that vendor, we move that price to the--where royalty settlement occurs. Disregard that. We'll proceed with--

MS. BAYANI: Could you state that again? I'm not sure I understand your question.

MS. MUSTOE: I'm not certain what I just said and

if I wanted to say it, so I'll retract that statement.

MR. BARDER: The unit price is just a calculated price, just like it says here. It's the sales value divided by the sales volume.

MS. BAYANI: And now we impute it in our system from the information we currently get. It's just going to be in a different unit.

MS. NEUROTH: So we were at royalty rate. Any comments on royalty rate? And the next one was unit price.

Just as it states here MMS understands that this price will not directly relate to a specific price, contract, because in most cases it represents a weighted average price of many sales occurring during the sales month. Any comments on unit price? Okay.

Twenty is the royalty--

MS. MUSTOE: I'm curious as to why we're having to do that. I mean, we're giving you the sales--or we're no longer giving you a sale; right?

MS. NEUROTH: No, just sale price value. Twenty is royalty value prior to allowances. As Theresa mentioned we've made this calculation across the royalty document. We've come up with a royalty value.

Column 21 is where you report your transportation deduction if you have one. Twenty-two is the processing.

MS. MUSTOE: Actually, I'm sorry, I do have a

question. My understanding of unit prices is the price based upon when, in most cases our sales prices will be on an MMBtu basis, but I have seen some MCF contracts, not recently, but is my understanding correct that we would report our price but we would not be indicating to you whether that was an MMBtu or an MCF price?

MS. BAYANI: It would be dependent on your products. Some products don't have a Btu, so it would be only reported in MCF. However, if you had a gas contract--

MS. MUSTOE: Right.

MS. BAYANI: --and that's what I think you're referring to--

MS. MUSTOE: Yes.

MS. BAYANI: --and you were paid based on the dollar per MCF how would you report it? Is that--

MS. MUSTOE: Uh-huh.

MS. BAYANI: Well, we would--in that scenario we would--if it were 04, product code 04, we would still want you to report MCF in that column and the MMBtu you would have a Btu for that production.

MS. MUSTOE: But how would you know when I input the price whether that is an MCF price or an MMBtu price without me indicating to you what price it is?

I mean, you might be able to make a conversion to see whether it was--or whether it was what appeared to be a

price paid for at an MMBtu basis; is that what this is going to be looking for?

MR. BARDER: Actually she's absolutely correct. We're going to have to spell that out in our handbook, and we're probably going to spell it out that in the case of a hydrocarbon gas that unit price will be dollars per MMBtu, but in situations where it is--was--is obvious where there's no Btu content of a certain gas, then, of course, it would be dollars per MCF.

MS. BAYANI: We would have to be--we would clarify that in the final documents.

MS. NEUROTH: It's not final.

MR. BARDER: You're right.

MS. BAYANI: It would be dependent on the product.

MS. MUSTOE: All right.

MS. NEUROTH: I think we'll have to clarify that in our reporting. Somebody else have a comment on that? Okay.

We were down to processing deduction, and then 23 is the royalty value less allowances.

MS. WISE: Laureen Wise with Cedar Ridge, and since I've been reporting a mineral agreement that was a non-standard, MMS decided to roll up all the non-standards and have them reported as a standard lease, and I have deductions that are not processing or transportation but

they are allowed. And presently I report them under a separate line and I can't even remember the code I've been given, will I just be instructed to deduct those under one or the other?

MS. NEUROTH: And I guess I don't know the answer to that. I'm assuming you're referring to an Indian non-standard lease, and I don't know what our reporting instructions would be in those cases. We really haven't walked through that. Basically it's a lot of the Indian non-standard leases are reported on a 2014 but they're not processed through our mainframe computer, they're handled in a separate stand-alone system.

MS. WISE: They are not processing anything through the non-standard--anymore. That's what she told me. All the non-standards are now processed through the standard system.

MS. NEUROTH: I don't believe so. I think there's a misunderstanding there. The only thing I can say is we'll keep your comments, we'll have to check on that exactly how we're going to handle those non-standard leases. We don't know yet.

Twenty-four is the payment method. Again, this is not a lot different than what you're used to today. We do intend to simplify payment methods. If you look in the report control block at the bottom left-hand corner of the

form I think we're basically down to four payment methods, and we retain this payment method basically because industry said they want us to retain it. The payment method drives the processing along the company system, so we are retaining that. Okay.

That's the last of the 2014 data elements themselves.

MR. DEAN: Sorry to go back to the valuation code. What happens if you have a couple different types of ways in which you sell your gas; do you just have separate line items?

MS. BAYANI: Well, what we're proposing with that is for example if on the valuation code if you had two or three arm's-length spot on a property on a lease then you would roll that into one line so similar types of contracts would be rolled together.

If you had two non-arm's length long term that would be rolled into one weighted price. So it would be accumulated together each arm's length or non-arm's length type of code.

MS. MUSTOE: So if I had a federal unit containing numerous leases and the sales, some portion of that gas was an affiliate sale and the remainder of that gas were multiple arm's-length spot sale contracts, I would be reporting on all of those leases twice; the arm's-length

sales rolled into one and the affiliate sales or non-arm's-length sale reported again for that lease and that agreement but report as a non-arm's length?

MS. BAYANI: Yes. You would have to report each lease and each contract type for your scenario, yes.

MS. NEUROTH: Okay. The last thing on the report control block is--the major change I want to point out here is you'll see something identified as Doc ID, and that's been added to let you apply for credits that exist in our system, apply those credits to a current royalty obligations.

Right now our system creates credits for a variety of reasons. One of the main reasons being RSFA mandated interest calculations, so we may have on any given month we may have $100, $200, whatever amount that our system has generated, we normally contact the payor and say you've got this available credit, how do you wish to use it or do you want it refunded to you?

In most cases industry says yes, I would like to use it to make my next royalty obligation, and so we know you'll short your payment, your next royalty payment to us, and we'll try to apply this credit up to pay that document. It's an extremely manually intensive effort for you and for us, a lot of coordination needs to happen in order to make that match occur correctly.

We're proposing adding these data elements on here so that, again, if we provide access to data via the internet to you, that access to your royalty production and payment data, you would be able to see those available credits that exist in our system and identify them on the 2014 that I want to use this document, this dollar amount as part of my royalty payment this month.

Again, that's one of our concepts is to give you access to more data than you have today, to give you access via the internet to a lot of data. Most cases right now you might call and say I need to adjust the line I reported three years ago but I can't find the history on that line, could you please tell me how I reported it.

Under the concept we're giving you access to that data. You can log into our system and see how that line was reported to us. And even though we spent a lot of time going over this--these data elements I want you to keep in mind that our goal is not to receive paper documents. Our goal is to receive electronic reporting.

Even though we're walking through this paper document keep in mind we have a lot of options for reporting electronically. We encourage you to report electronically. There were some pamphlets on the outside table there that identify our reporting options, such as e-mail, diskette, EDI. I would encourage you to review--if you do not

currently report to us electronically pick up one of those pamphlets and let's try to get you converted to electronic reporting.

The last thing here on this document was the agreement level reporting. I think we talked about that earlier as far as that's just a comment area. We're asking you what industry things of that concept.

And the last area was the 2014 format itself, for those situations where you will be reporting on hard copy documents, you prefer the landscape or portrait version.

Okay. That's pretty much it on royalty reporting. Any other comments that you'd like to get on the record?

MR. GRAY: Wendell Gray with Price Waterhouse Coopers. I just had a comment or curiosity, in your earlier session that you guys did in Houston what were some of the feedback you got from industry regarding going to a net reporting for prior period adjustments? Indifferent? Positive? Negative?

What I'm getting at is there's obviously a reduction that you're going to get in the lines being reported. My concern is was there any feedback from industry on how much internal auditing it's going to place on reporting companies if all they're going to see on the 2014 is just a net effect?

MS. NEUROTH: I'm trying to remember. I don't believe we had any direct comments on that in Houston. This--that concept, though, again, was one of the things that the Royalty Policy Committee recommended. So industry is well aware of the concept. Beth, do you remember any?

MS. DANFORD: Beth Danford, MMS. I just remembered them questioning our keys that we're going to use which we haven't clearly defined yet because we are not sure, but certain keys, like the lease number, et cetera, would have to stay, you couldn't change.

If you had to change the lease number you'd have to do the standard reversal right now, but that's the only comment we got was what is our key.

MR. GRAY: And in reference to your key change, would you then just have it by--you show your negatives and your positives on--

MS. NEUROTH: Correct. What he's talking about here is obviously if you gave us the wrong lease number originally there's no net on--you'd have to reverse the line as it's set in our data base and report it with a brand new line with the correct lease number.

And Beth was talking about what makes up that key code information, what pieces of data have to be reported as a brand new line and what data can just be reported as a net entry. And we really haven't defined that yet.

MS. MUSTOE: I understand why you would want to segregate and have identified to you arm's length and non-arm's length POP sales, but as an individual who does the reporting my price doesn't come to me that way.

Those prices, it's pooled, and although I might know that there is some portion of that price which is non-arm's length the data systems that I have seen with mid sized, small producers, it would require that individual or individuals to manually segregate and revalue that gas to report to you what portion of that gas sale is non-arm's length in gas, or whatever product it might happen to be, and what portion of it is arm's length.

So I would request that you create a code that would indicate to you that that sale can be both non-arm's and arm's length, and that if it fell outside of your tolerance that that would be an issue that could be addressed in the audit.

MS. BAYANI: And what you're referring to is pooled situations that--

MS. MUSTOE: Yeah.

MS. BAYANI: --have maybe a hundred sales behind it--

MS. MUSTOE: Exactly.

MS. BAYANI: --and we'll take that on record, thank you.

MR. COWART: One item here that's not been addressed which concerns me greatly, if I understand it right on the 3160 there is a credit that would be provided for operators to file electronically. To the extent it would be the 25th of the month, I think if they do that they can wait until the 25th of the month to file the 3160.

As a non-operator I currently receive information from the operator for what they put on the 3160 in or about the 20th of the month. Now, if in fact they're not going to have to furnish this until the 25th that means that I can't possibly get it until at the very best probably the 26th, and that would probably be pushing it.

If I get it on the 26th, particularly say in February, now I have to make a full settlement for my entitlements by the 28th, or at the worse--or at the best situation the 31st of the month. There isn't enough time in there.

We need to have a pretty good clearance in here, or several days clearance, a week, seven days, something like this at least in order to get that 3160 information in. Now, if it was immediately posted on the internet that would help a bunch where we could go in there and dig it up and download it.

So that's a stringent need that concerns me greatly relative to the operation of the requirement.

MR. BARDER: I think that's a good suggestion. I don't know if we've looked at that situation where I'm assuming you would be the person that would be an interest owner in the property and marketing your own production, you're filing your own 3160s as opposed to the overall operator on the property, or do I understand that correctly?

MR. COWART: Working interest owner filing his own 3160.

MR. BARDER: Yeah, and I don't know if that's a possibility or not under our new reengineered system where--

MR. COWART: Well, but you're going to reengineer us out of being able to make timely reports and payments.

MR. BARDER: Yeah. I understand that, and if we're giving industry access to their own royalty lines I don't know if there's a way we can give them access to production lines.

MS. NEUROTH: The goal is to provide royalty production and payment data to industry. Now, there's some discussion about, okay, what information is generally available to the public and what is limited to access only to the payor who submitted that data.

Beth, can you help me out, is there anything on the production as far as sales volumes as considered proprietary or can that be posted?

MS. DANFORD: We're proposing to have the OGORs out there, or 3160s, available if they've cleaned all the edits, okay, number one. But if they have cleaned all the edits, the only thing considered proprietary on the OGOR is for offshore, and that's the well status code.

That will continue to be proprietary, but right now unless you are the actual designated operator of the lease who submitted the report you have to go through FOIA to get it.

So you will still only be able to see the stuff that you submit. There will be a fire wall that will not allow you to see Texaco's lease on line.

MR. COWART: Right. All this is public information eventually, but I'm thinking of--

MS. NEUROTH: Timely, you want it--

MR. COWART: To get it on a timely basis so we can make timely payments and reports. And we're able to do that now, but if you allow the operator a greater length of time before they report it they're not going to have it until then, and that pushes the time frame down to where we can't--

MS. DANFORD: The carrot has always been out there.

MR. COWART: The what?

MS. DANFORD: The carrot, you know, the extra 10

days.

MS. NEUROTH: It's been out there for, say, 2 years, it's always--

MS. DANFORD: It's been out there since Day One since we got it, but it's--we really don't have a lot of takers if you take a look at how much is coming in electronically from royalty is, what, 80 percent?

MS. NEUROTH: Eighty percent.

MS. DANFORD: I think we're 50 for production. So people still aren't biting, they're still submitting on paper.

MR. COWART: The one that bites is the one I'm worried about.

MS. NEUROTH: He's worried about the one that bites that he has to report for. So let's keep that in mind and see if there's any conclusion we can come up with or any way to mitigate that.

MS. DANFORD: Once we get everybody electronic we'll just take it back, how's that?

MS. NEUROTH: Okay. If there are no more comments we certainly appreciate your attendance today. Again, I would encourage your written comments also if you have other issues that you did not bring up here today.

We hope to--the comment period closes April 26th. We'll be reviewing and consolidating those comments,

modifying our proposal based on your comments, and we hope to finalize these data elements by the July-August time frame. And implementation date is currently scheduled for September 2001 to report these new requirements.

Okay. Thank you very much.

(Whereupon, the morning session was concluded at 10:35 a.m.)

A F T E R N O O N S E S S I O N

MR. DIAL: Well, good afternoon all. I'm glad to see we have a good turn out, it's shifted a little bit from this morning. We had a fair number of people here this morning for the financial reporting changes that we're contemplating, and this afternoon is production reporting and schedule changes. I appreciate you all coming.

Those of you who are here today, we did a little introduction this morning in terms of what the purpose of these sessions are. I'll repeat a little bit of that for this afternoon.

Basically what the Minerals Management Service, Royalty Management Program is doing today in holding this public meeting is furthering the outreach and communication information gathering and solicitation for input into the reporting changes that we are considering for the future, oil and gas production reporting. That's the topic this afternoon.

We emphasize this is part of an ongoing process that started probably a year and a half ago, and it is continuing. What we're speaking to today and what's in the Federal Register is not cast in stone, it's not fixed, it's not final. It's continuing to be worked.

We've spent quite a lot of time with states, tribes and industry, and as we mentioned this morning, the--

accounting societies and companies in getting to the point we have on our financial production reporting changes we're contemplating. With additional input coming during the passage of that time, I think the future reporting requirements that are being contemplated are continuing to improve, continuing to be refined more.

We feel it needs to be done, what we're doing today and will continue to do for the rest of the spring into the summer and fall at this session today. We're working with Tucker Bayless out of Farmington and we're trying to put together a similar session to this in Farmington once he's able to lay out a good schedule that folks are able to attend a similar session on both financial and production reporting. He was shooting for the tag end of this month, early April last we talked, so that's being worked.

We believe that sessions like this are vital, they're not just required, they're vital to our being able to form the basis for future reporting requirements for the Royalty Management Program.

As I mentioned this morning that these changes in reporting requirements are falling within the context of a reengineering initiative Royalty Management Program undertook several years ago. We understood that we needed this initiative for a variety of reasons.

The Road Map to the 21st Century, that document I think is available here for those of you who are interested in reading through the history of where the project's been, that gives a nice capsule summary. It's also called the preliminary design concepts document that was issued in March of 1998. That's also quite a useful document and in understanding where we've been, why we're doing it and where we're headed.

The initiative itself, just to set the context for why we're changing some of the information in the collection by MMS, in the context of the reengineering initiative basically what we're looking at as part of the initiative are changes in business processes for the Royalty Program, changes in the technology that we use here in the underlying systems that we have in place, and with that we have the opportunity, it's a rare opportunity, to also address future reporting requirements.

We have looked carefully toward recommendations that are being made to us in terms of how we can improve our reporting requirements. The hallmark report, I would refer to it, I guess, in terms of recommendations from industry, states and tribes, was issued by the Royalty Policy Committee in 1996, and it recommended changes to financial 2014 reporting, very significant changes. It also recommended changes to production reporting.

The Royalty Policy Committee--industry representatives at the time the report was provided to us the MMS by the Royalty Policy Committee we agreed with much of the report, almost all of it. We adopted a few aspects of it in terms of implementing it, but most aspects of the recommendations could not be adopted because it was too expensive, too expensive in terms of changing our existing reporting requirements without addressing the systems that use that information to our business.

However, we did take that report and we carried it with us into this recommendation, carefully evaluated it, and what you'll see in the financial reporting changes has largely been captured in the Royalty Policy Committee report recommendations, and in fact goes beyond it in terms of elimination of the payor information form. The dreaded PIF is proposed to be eliminated. Quite a few other changes to the 2014 that's utilized.

On the production side there were a number of recommendations made by the Royalty Policy Committee. A good share of them related to how to use the 3160; for instance, how to amend the 3160, the gas reporting form to be a more efficient form, and a suggestion was to amend the form in the way of the OGOR, the OCS reporting firms, how that process works.

We certainly agreed with that, but it is an aspect

of the report that suggested to us perhaps we are at a juncture with where making the 3160 behave in a similar way of the 4054 on the OGOR. Perhaps we were half way to a solution, a better solution, and the better solution may be to use the OGOR form in lieu of the 3160.

Analysis indicated that virtually all of the data elements on the 3160 are replicated on the OGOR, and that there's some opportunity there for streamlining the organization collection requirements in terms of reducing two forms to one form. That sort of sets the stage of where we are headed on attempting to improve our financial and production reporting requirements. Again, we have a long ways to go still yet to refine those approaches and those requirements.

Today we have a fine panel of people to present as well as dialog with you to the proposed changes. We have Michael Miller, who is the chief of the Accounting Reports Division; we have Beth, the famous Beth Danford--

MS. DANFORD: BAD.

MR. DIAL: B-A-D, who has been leading the effort in terms of furthering these proposed changes to the reporting requirements, and equally famous Jean Steffen, who has worked in this area for al song as it seems like I've been alive and around here.

MS. STEFFEN: Thanks, Milt.

MR. DIAL: So you have the experts here and they know both ends. And we have another expert right here. In fact, she's should be sitting here.

We have been running these sessions generally in the style that seems to have worked in terms of opening the session up to general remarks, having an opportunity if anyone has a prepared comment or presentation, to present that early on in terms of the session or in terms of commenting on the reporting approaches and the data elements and the strategies of information collection and the direction that we're headed.

WE've been using the sessions in the fashion of addressing data element by data element, understanding what the terms mean and where they come from, where they come from now on the 3160 and how those same data elements fall on the 4054, the offshore oil and gas operations report.

And also in there, too, to touch upon the very few tune ups that we're going through to the OGOR offshore operations report.

So at this point in time does anybody have any prepared comments you'd like to make?

MS. DANFORD: If you want to use the podium you'll feel official, you know.

MS. TAYLOR: Good afternoon. My name is Michelle Taylor, I'm with Yates Petroleum from Artesia, New

Mexico, and I do have a few comments. And I'm just commenting off of what I pulled from the Federal Register, so I'm not that familiar with all of the ins and outs and what you guys are looking at, but first of all, I'd like to talk about the bad timing.

When industry is faced with serious financial difficulties you're proposing that they spend additional dollars reprogramming their computer systems. Is it really necessary at this time? And I think we all know what the oil prices have done and how industry, especially in southeast New Mexico where I'm from, it's pretty devastating at this time.

Until MMS and the states can get together and standardize production reporting I'm opposed to any changes. The operators have been forced to redesign their systems several times in the last few years.

One of the biggest changes was for the state of New Mexico, the On Guard system, which I'm sure a lot of people have heard about. This change alone cost the operators thousands of dollars and the State of New Mexico millions. After several years of modifications they are still trying to work out some of the problem areas.

For years the operators have encouraged the states and MMS to work together on the production reports to simplify and streamline this paperwork, not only for the

operators but the government as well. If the operators reported all production and dispositions at the API completion level it would solve many of the auditing problems and the amendment issues, including the most significant one that has not been mentioned in this new design, where wells change from units or coms back to the lease, et cetera, back and forth, and that's always causing amendment issues.

Ideally the MMS could pull all production and sales volumes directly from the state or a central data base, therefore receiving a hundred percent of the data electronically and with less errors than they currently have.

On the proposed changes I'd like to comment on certain areas listed in the Federal Register. First of all, it stated that both offshore and onshore operators must currently maintain two separate systems. If you're streamlining why are you eliminating a one-page 3160 to go with a two-part A and B 4054?

Also strictly guessing on my part I feel there may be more operators that already have 3160s set up on their systems than the 4054s. If so, why are you asking the majority to make all these changes?

Also, any changes, whether it's adding fields or dropping them is going to impact the operators. Most

operators do have a system in place that won't need to be redesigned; therefore, the templates and the pull down menus will mean very little to most of the operators.

Also in closing I'd like to ask if there's been a problem with the 3160s and the way reporting has been done in the past with the exception of the amendment problems mentioned earlier? Also, please keep in mind that any time the states or the feds decide to change their systems the burden falls on the operators.

We report a lot of different states, and the operators are the ones that are having to change their system, spend the money on redesigning and computer people for however many different states we have to report to. So we are changing constantly and it has cost us several thousand dollars, to say it lightly, in the past.

Just for us we only operate in five states and we've had two system changes not including this third one that's proposed. At this time I feel that the operators should not be forced to incur any unnecessary cost or retraining what's left of their personnel. That's all that I have.

MR. DIAL: Thanks for those comments, and anyone else like to add anything? Okay.

Beth has a really nice walk through here of what's contemplated, and, again, we're early in the process and

we're hearing you and $10 oil is getting old, but anyhow, for purposes of today's session maybe Beth can do a walk through of the data elements so we can get a better understanding of what they all are and how that crosses between the old form and the 3160.

MS. DANFORD: I think he filled my intro, but I feel that the elimination of the 3160 has more pros than cons, and maybe to answer some of your concerns that you had or what else has been--beside the amendment issue.

One of our biggest problems, it's kind of a two-fold thing. The 3160 as it exists now only allows you to dispose of your deductions seven ways, okay, and everything else gets crammed into Other, some positive, negatives, et cetera. What that is causing especially for our companies that opt to submit OGORs for their onshore properties, okay, they don't report 3160, they report OGOR, which is why we go through the stages of two systems being maintained.

The OGOR right now, and it's included in the package that you picked up, we currently have 44 ways for you to dispose of your production, and especially with the case of the companies using the OGOR to report versus the 3160, when we cram everything back into the bucket of the 3160, the seven codes, the rest of them go into the Other category, and what it does on every single one of them is

cause the spurious exception which we can't resolve.

It also gives BLM data that is misconstrued, they're unsure of what Other means, and so they're having to burden the company with what does this Other mean, I don't have a clue.

And so really the companies are being burdened for supplying more data, and if we went to the OGOR they could just report it up front. There would be no question, which another pro to that aspect is BLM and BIA have already given us the okay. They can see the benefits of yeah, they'll have to change their system but they're getting the information up front. The company's being burdened once to tell them how you disposed of your data and everybody's storing the same data and not doing any manipulating.

So I guess in a nutshell it will get rid of the spurious exceptions, which will eliminate the calls back to the companies we're having to explain other than those seven dispositions, and it also will eliminate the second call you're getting from BLM or BIA because they're unsure of what you were reporting. So I don't know if that's helping the issue.

Some of the other comparisons are, again, we have 44. We're talking of even growing that number of dispositions once BLM has given us their buy in they might want to adapt some other dispositions which are relevant to

only onshore scenarios. So, there could be even more ways to dispose of your data which would clearly define how you got rid of all the production that you produced.

The other thing it does with eliminating the 3160 is you have nine elements, and they were addressed in the Federal Register, that we are burdening you with every month to report, and we have that data. You don't have to give it to us, but it's there.

So under our Paperwork Reduction Act we're in violation for requesting those nine elements from you. We get out of the violation by, gee, they're not on the OGOR, they've never existed there. Because all that data, including your address, we have in our data base. We don't need it updated every month, nor do we do anything with the data that you're submitting to us to update our system.

I guess one last benefit we see, and we may be being selfish about this, we do maintain two systems. There are a lot of companies, not as many as 3160 companies, though, that do maintain both offshore and onshore systems, 3160 and OGOR, and where they see that as a benefit along with us is you no longer have to--two different systems, you no longer have to report two different ways and you no longer have to train people on how to complete two different forms.

You can actually train a person that no matter if

it was an onshore property or offshore property, this is how you do it. We here internally, we have people that can do the OGOR, and the 3160. Very few of them can do both, they're so confused because the concepts are so different.

So eliminating one of the forms going to two, and the reason why it's a two-page report is because it's getting down to the dirty deed, what did you do with all that production by completion code, for this lease or unit for this month. The 3160 just high level of all the production you reported on this top part, what did you do with it.

You don't have to be specific. You don't have to get down to the fact that you really have 10 tanks that are individually strapped and gauged every month that have individual adjustments. You don't have to all sum it up again like the 3160 requires.

So I don't know if that's helping or giving any of the additional things that are--s pros versus cons. I mean, I hear your cons.

MS. TAYLOR: But the disposition is the main problem with the 3160 is what I'm gathering with the exception of the headings that you already know about.

MS. DANFORD: Yes. The dispositions are the main culprit to really burdening the company with additional information not only to MMS but also BLM and BIA. You're

being attacked on the same property because it's just not clear enough as the 3160 exists now, which is why the RPC committee wanted to reengineer it, but essentially they were going to the avenue of well, let's kind of do what the OGOR does. It gets down to each disposition as to what happens with each of the products.

And when you look at the two where there's a revised 3160 and the OGOR they were almost identical. But the maintenance of two systems, the maintenance of training people doing two different systems, two different reporting scenarios because one's offshore and one's onshore that was why we--well, okay. Enough about that.

If we get to go with the elimination of the 3160 we had the thought, and really Jean came up with it, was so we would not have to--and again, we were just thinking of that process, we were thinking that in lieu of receiving amended 3160s for all report months prior to turn-over date in the system we would actually take all existing 3160s on our system and all existing OGORs and convert them to the new OGOR.

We also could provide companies with dumps so that they could not--so they didn't have to go through a conversion process, they could just load the data as it resides on MMS' data base to where when they had to go back and modify they would have the data we had and they could

just actually just modify it. But you wouldn't have to think, should I submit a 3160 or should I submit an OGOR for this time period.

Now, how we would do that is we do have, per that disposition list, we do have codes to match all seven dispositions. The Other category we would just make a new disposition, so if you had an AFSPAAS comparison and the problem was the Other category, you would come in with an amendment to delete out like Code 60, which means Other on the converted 3160, and then you could break it out and exactly tell what that Other represented using the new codes.

Just a thought, though, so nobody has to maintain two systems or think of which one do I file.

MR. BROWN: I'm with the BLM, Paul Brown, and when you--I understand the process when you retroactively go back and convert the previously reported 3160 data, but would the clean up on the Other category be a requirement, or--

MS. DANFORD: No.

MR. BROWN: --or an option?

MS. DANFORD: An option based on really an AFSPAAS comparison that needed to be cleaned up, or like at your request, especially in the cases where for the people that are currently using the OGOR to report their onshore and they're using all 44 of them and we're rolling them back and

your Other really represents 10 different positive and negative volumes, you would have the option of asking those people to break out the Other.

But you wouldn't have the confusion of, you know, maintaining the 3160 system, and then the people would not have to maintain an old system. We could provide the data for your upload in your computer because we've already had it converted to store it. So just a thought.

Okay. To actually go--one of the things in your packet is a little spreadsheet that I did comparing the MRO 3160 to the proposed OGOR element by element, and it's provided any comments as to a difference. I guess I'll just go right through this field by field.

As far as the amended flag which is the problem with the 3160 and the reason why it was looked at, right now you can only do an amendment, which is a complete overlay. A lot of problems exist with that.

If you've got 300 wells and we just asked you for one more we may end up with only 250 wells this time versus 301 wells, so we just keep amending and we just keep storing and we've ran out of disk room of all the 3160s, and for eight single 3160s for a report month lease relationship we can have up to 35 3160s and only the current one is accurate. You can't get to any of the old ones. So that's what the amendment causes.

Our thoughts on that, though, in addition to the original modified method that's currently allowed for the OGOR which is in the scenario where we call you for a missing well, you have the option of submitting just an OGOR-A, add this well to my existing report.

You don't have to tell me anything about your other wells because you aren't touching it, you don't have to tell me anything about disposition if it had none. You just send in one line, one page, versus now where you send in your whole 300 line 3160 with the additional line and we just overlay what we have in our system.

So the original modified method is just so you can give us additional data that we need. However, the amendment concept is a good idea when you have to do a reallocation to all of your wells.

In that case for a 300-well lease we're processing over 600 lines with a delete-add method because they have to delete out every single well and then you have to add them all back in again. So what we're opting for the new OGOR is also the amendment capability to where, yeah, I did a reallocation of this whole thing, here's my new report, throw away my old one.

And what we plan on doing for storage is not retaining more than like three of them. After the third one they just disappear because they can't be brought back to

life.

So for the proposed OGOR not only are we satisfying the current amendment requirements, which are original modified, but we're also opting for the amendment, which the 3160 people are used to doing and continue doing.

The other thing on this is we do not plan on requiring a company to come up front and say, oh, I will always send you a modified or I will always send you an amendment or this property will always be modified. It's clear that whatever you want the scenario and the reason why you're modifying. It's up to you. We'll take it either way.

For report period there really is no change other than the report heading. We clarified it more to identify your production month versus a report period. Operator number, no change, operator name has not changed.

The OGOR does have two operator fields. Really, anything with an operator identified in it as the first name in the element is not edited, it's there for your use. But what we do encourage people to do is actually complete these because they aid us in speeding back error correction with you all because you're not used to our MMS lease number, you're used to seeing like--that's where you would put that to where when we communicate back to you you know exactly which document we're talking about that we need to discuss.

The MMS lease agreement number, you have the option of not completing that. If you don't complete that then we need at least the agency. In our system we have both, and they just interrelate with each other, but the OGOR does allow you to do either. The 3160 only allowed you to do the agency lease number, or agreement number.

The next five fields are five of the nine that we're burdening with you every month for submitting to us. These fields we have retained from BLM and BIA. They don't change. So we store them as the office of enforcement has told us to, but you guys are still being asked to send it even though we're not doing anything with it. So that takes care of our violation of the Paper Reduction Act.

For the well information which is now considered the OGOR Part A, there is a line number on there. That's so we can incrementally load your document. And there is an action code. The ADD will be for any original or amendments that you've checked up in the header, and if you've opted for a modified then you also have the option of doing a delete.

API well number and producing interval code have just merged together on one field. Operator well number, right now we propose to keep the--any time you see less than we've actually just retained the field length that the current OGOR has. This is up for option also. If you need

those extra characters let us know, we'll just make the field bigger.

The next three, again, we will no longer burden you with these. The well location, as far as I know the well can't move once it's--is that correct?

MR. BROWN: Unless you're in California and have an earthquake.

MS. DANFORD: Okay. Well, there you go. But you would be telling us if it moved.

MR. BROWN: Somebody should.

MS. DANFORD: The BLM production status code versus the well code, what we opt to do here is this is a change for the OGOR. Currently this is 13 digits long, and what it requires is when you have a shut-in well, an oil shut in or gas shut in, offshore is required to indicate why that well is shut in.

Those--that two-digit code for why the well is shut in is considered proprietary. It will continue to be proprietary. But the rest of the digits of the existing well number, which are your last production date, what you're doing to the well and when you expect the well to come back on, are going away.

So what we plan on doing for this stat or for this well code is that it will be four digits to allow you all to continue reporting the alphabet code that you're used to,

PDW, versus an 11, which is one and the same animal.

The only one who will be required to report an actual code is the offshore who also have to give the shut-in code because we need four digits, and if you do it in OSI you have no room for the two-digit code.

Days produced has not changed, oil production hasn't changed, gas production hasn't changed, water production has not changed by interval, by producing interval.

One thing the OGOR does allow you, though, is injection volume, and this will allow tracking of injection actually down in to each zone. And then we also have total columns--also for the people already on OGOR, what we propose is if you leave it blank we'll calculate it for you.

It has its pros and its cons. Sometimes your detail lines don't add up to the total that you have on your report, but really your total is correct. There's something wrong with your detail line.

Right now we catch that and we ask you where the problem is and then we correct it, versus asking you to amend it. Now you're getting into an amendment scenario if you just add up your detail line because you've left that blank. But people don't want to add them so we just left it optional.

The disposition data which is currently on the

same form on the 3160 as the detail well level information is a separate page to the OGOR. The OGOR-A is your production volumes by producing interval. Your OGOR-B is your disposition of any production that you reported on your A, or any inventory that you have left in the balance on a prior month you must carry it and report it forward.

The OGOR-B also has line numbers and it also has the action code. This is what really differentiates, though, between the 3160 and the OGOR is the disposition code, and that's the extra page I gave you of all the codes that we currently have right now.

Product code, what it had to do because the OGOR-B is getting so long and so wide, and that's really a legal size that got published in the Federal Register, that's not really--it allowed for only one volume column, and so in order to identify the disposition and what volume was associated with a product that was disposed of--because keep in mind for direct sale that's the same code whether you're directly selling oil or gas--so we've had to add a product code for you to differentiate what product you're disposing of.

Metering point will continue to be required for offshore; however, for onshore it will be optional. This can be your actual serial number of your equipment, it could be Tank 1, Tank 2, Tank 3, Meter 1, Meter 2, Meter 3. If

you're individually strapping and gauging tanks or if you have individual--meters or LACT units instead of summing up and rolling up like you're doing on the 3160 you're putting something in this field to differentiate between if you have two direct sale lines.

If you make something unique in that meter column to change the disposition to show that this line is different than the next one, they will take it and you won't be required to sum any more. And they will come to us singular and they will store singular in BLM and BIA will be single.

They'll see that you're actually, when they go up for your inspections, that you're actually measuring through these two ACTs that you have and you're reporting them individually on your OGOR.

So it has the option for clarifying, and just by putting something in that field then you can report them individually versus summing them.

Gas plant number, currently on the 3160 you're just reporting the last four digits of the full 11-digit number that we actually have stored in our system. For the OGOR we do propose to receive all 11 digits. That number once it's created for the gas plant never changes, and we will get information out to you to dispose of the whole 11-digit number if we get to go to this option.

API gravity, no change. Btu content, the only thing is I dropped content to the heading. GPM and mol percent methane, these will be coded as optional fields, but the reasoning behind adding these two fields on the OGOR-B is currently we have a Gas Analysis Report which is required when you transfer your gas to a gas plant. It definitely is required for all offshore properties. We have a few onshore properties, though, that have to submit it because the BLM is watching the gas plants where that stream is flowing to.

Right now the GAR for any of you that don't know what it looks like, looks like this, it's very detailed. I wanted to note that all the components that were in your gas--before it left your lease site. In lieu of this if we just get GPM and mol percent methane as your samples are changing there will be no need to request this except in unique scenarios, and you shouldn't even have a down-stream impact, because these two fields are all we need in order to do the allocation residue in the NGLs.

Continuing on, right now you have what I call buckets on your 3160s that lets you dispose of all your sales, all your lease use, all your injection surface, et cetera. We actually, what I've done over here is we have a volume column, but with a disposition code and a product code combination I can do a match on every single one of

those buckets that are on the 3160.

For the total disposed, again, if they're blank we'll go ahead and total them for you. Oil beginning on hand inventory, this really reflects no change, but in the case where you actually have multiple tank batteries and you're actually individually strapping, gauging and selling from them, you have the option now of not summing them like the 3160 allowed and actually individually reporting them just by putting something in that, Tank 1 or Tank 2 or the actual serial number that's inscribed on the tanks.

Production quantity, this disallows if you do break it out the actual production that went into each tank, not how much production went to the tanks like on the 3160. Same thing with the adjustment code, it allows you to individually adjust by tank not through a total sum like you're doing on the 3160. Same with the volume, just the volume and the code go together.

Other dispositions, though, we have all the codes, hopefully, to replace that field entirely to where you'll never have to get into an Other scenario.

In inventory there's no change, I guess, other than the name and the description. Totals, again, any totals left blank we'll calculate.

And then lastly we have a trailer which is required to even though it's a two-page report you've got to

fill it out at least on the first page, we don't care if you do it on the second page, but essentially we're just asking for a contact name. Again, notice that the field is proposed to be reduced. If you already know your name will not fit in 20 digits we need to change that, okay, and we've eliminated the address from the trailer that you currently do on the 3160.

Questions? Did I go too fast?

MS. TAYLOR: Yes. On the beginning and ending inventory on hand at a production you're trashing production into each tank?

MS. DANFORD: Right.

MS. TAYLOR: And that is going to be required for--

MS. DANFORD: Only if you, an onshore person, put something in that meter column.

MS. TAYLOR: Okay. So we can just forget about it.

MS. DANFORD: If you blow away the meter columns then you're doing a summation just like you're reporting now on the 3160.

MS. TAYLOR: Okay.

MS. DANFORD: So later when BLM comes and inspects and they have to question this big massive adjustment and you say well, it really was to that tank, an individual

reporting would right up front tell them that this tank is the one that's having all the adjustments made to it just by putting something in that meter column to differentiate that line from the one above it, but it's still optional.

MS. TAYLOR: Normally doesn't the BLM just do an audit? I mean, they get all that when they do an audit rather than pull that information off of the 3160s or the OGOR.

MS. DANFORD: Paul?

MR. BROWN: That level of detail is not available on the 3160. When we do a production accountability review a lot of times we'll request that from the operator. Again, it's a little bit redundant. So if it's already listed on there, year number, tank numbers, we've already got that information supplied so we don't have to come back to the operator and request that.

MS. TAYLOR: Okay. So if we do fill that out you're saying that when you do an audit we will not be asked to give you the tank number, the strapping--but you won't need the gauge sheet basically from that?

MR. BROWN: We might need to request purchase statements to verify what's actually left the lease, but it--I guess the comment I need to make is when we originally were talking about this proposal BLM was concerned that we would get less information with the conversion of 3160 to

OGOR.

We're actually getting more information that's beneficial to us, and with that additional information and stuff we don't have to go to the operator, so it is in your benefit somewhat to go from the 3160 to the OGOR. We're getting more information.

MS. DANFORD: And we could give you even more, but if you got the actual serial number from BLM that's kind of like just on the line of why the meter point exists. This is mainly for offshore because offshore does compare the run tickets to the production reporting on the OGOR, and how they do that is every single meter that you have approved or ask for permission they assign an FMP number 11 digits long for you to report on your OGOR that represents those serial numbers, but then when they go do--when they total up all the run tickets for the month they go and look at all the OGORs that reported that 11-digit number and they do their verification against it to the barrel. I mean, that's why the meter number exists.

But BLM liked the concept of, yeah, let the company individually report, but they did not want to get into the business of assigning an 11-digit number, nor did they want to get in the business of actually telling us the serial number and the lease combination. That's why it's just strictly optional. And they'll figure it out if they

see Tank 1, Tank 2 and Tank 3, but it really represents what they have in their system.

MR. BROWN: And usually we're using an operator assigned tank number or a purchaser assigned meter number. When we go out and make these calibrations or do tank gauging or things like that we have the capability to track that data in our data base against the meter number that usually it's the purchaser that's assigning that because they'll tell us about the calibration schedule. And the same thing with the tank numbers.

So there's some cross-validation that could go on between the numbers that the operator is reporting and the number that we're looking at in the data base.

MS. TAYLOR: On the off lease measurement surface--will that--if you report the measurement points on say for a com agreement number whatever, but there's also another part of a com agreement or lease that goes into that measuring point, will that confuse BLM on that part knowing that their run sheets aren't going to match up with that particular disposition or--

MR. BROWN: In a situation where you have allocation two different directions from a well, you're saying like out of the total gas stream that comes out of the well, that allocation production goes to two different places where there's two different coms and two different

leases--is that the situation you're describing?

MS. TAYLOR: Right, or I was thinking more on the oil side when you have four different com agreements going into a common tank battery, several tanks.

MR. BROWN: Okay. In surface commingling or off lease measurement BLM's already gone through an approval process for the operator to say, yeah, we'll accept commingling or off lease measurement, off lease sales in this manner, and we recognize that the production that comes from a particular well or a tank battery may represent more than one well, or you may be taking that production stream and splitting it two or three different ways. We've got the capability in our data base to allow for that.

One of the things that's real popular in New Mexico is the requirement to report down hole commingling production out to the formation, and if you have a company of--you have to report that in two separate lines to the State of New Mexico but you can also report it the same way to BLM. But we recognize that as something that occurs, and when we've done a prior approval or a prior recognition to say this is the way the product is going to be handled.

But I think it would not be a problem if you're reporting to the completion level and the completion is split out and it has two different meter numbers or two different tank numbers or an individual line there. I don't

see that would be a problem. It isn't currently, so that would--and if I understand everything that I've been told, we're not losing any functionality in the transition from the 3160 to the OGOR.

MS. DANFORD: No. Because we plan on the way we actually get it, if we get to go with the modified OGOR, is you will take it as we get it. We will do not translation which is why we're thinking along the lines of the historical stuff so the engineers don't have to look at it and go, yeah, this is a 3160 but this is now the OGOR, how do I read it. We'll just give them a form.

But as long as the field exists and as long as it remains optional in the event where it does become a problem and BLM wants to do a little more enforcement verification, they could get into the partnership like we have with offshore and essentially for this lease have them report this number, please, and then that way they're getting the data and you're telling them up front what they're expecting to see. So it does have the potential of getting, I guess, more enforcement addage, more benefit.

Later if it's--I mean, it's not like we're going to have to do another computer change to add it. Right now it's just there, it exists, you can leave it blank or you can put something in there. But down the road we may be telling you what that something should be so you can

communicate those types of unique situations to BLM where they don't have to come and say, now, is this the property that--

MS. TAYLOR: On that if that is talked about with the measurement--I don't know how many people here are familiar with the On Guard system in the State of New Mexico. That's a POD number is what you're talking about basically, and I don't know if--the biggest problem with the OGOR system was that number right there, and that has caused more confusion and more problems than anything I did.

And it really scares me because we do have to rely on an agency when we complete a well or put a well on, we have to get the number back and forth, transfer this number and make sure everybody's data base matches or you get hung on it.

MR. BROWN: And if I remember correctly the State of New Mexico assigns that POD number, and there's the different between what's in our system and the On Guard system. The OGOR system is that it's not a number that we assign or control and tell you what to report, but it's a number that you use for internally.

Now, POD for the people in New Mexico--the POD number probably wouldn't make any sense to BLM people, but an individual meter number from your purchaser or an individual tank number would make a lot more sense because

it would be what we would tie production reports or sales volumes back, run tickets, meter calibrations.

It would be a third-party number, but it's still the number that you would supply. It wouldn't be a number that we would be dictating. And I don't know whether the POD number means anything to anybody but--

MS. TAYLOR: It doesn't mean anything to them, either.

MS. DANFORD: Okay. The other sheet I've given you is just the comparison, and I don't know if either of you currently do OGORs. This was just a comparison I did for the existing OGOR people to show them the fields that are changing for them.

One of the biggest changes we're proposing for them is the combination of the B and the C. Right now the OGOR is a three-part report. The A is still the production, the B is still the disposition, but the C is strictly just for inventory right now, and what the new proposed has done is mesh the B and the C together.

So for the current people that are on OGOR they probably--may not have any opposions going to the new other than they still have to program their computer because now they're sending us two pages versus three. So this will probably mean nothing to you if you're not doing OGORs now.

So if none of you do OGORs or none of you have offshore

properties--okay.

The other forms that I have, and I guess I really won't go into detail on them, are required monthly for offshore properties. That's the gas plant operations report, with the exception of a few onshore gas plants that BLM is making us monitor every month using the current GPOR.

Currently the GPOR even for the onshore people, I think I have one, looks like this, very nasty, very complex. You have to be a chemical engineer to fill it out, and you have to be a chemical engineer to error correct it. Right now in your package you'll see the new one. It's been very streamlined.

And then the other form that we have is the production allocation schedule report. This is required because of all the commingling that happens in the Gulf of Mexico. Usually you've got 300 miles between the lease and the sales point and we have to monitor all the measurement meters in between the two.

This is a tracking tool to what we call our puzzle on how they actually get back from the sales point back to your lease offshore. So, again, it probably will never be required for onshore unless they wanted to monitor for federal Indian properties that were commingling. But right now it's not required.

Any other questions, concerns, comments, something

I didn't answer?

I guess another thing is we do plan, and you already caught on to that, the user friendly templates. Right now the OGOR and the 3160 are the only things that can come in electronically. Kind of defeats our purpose of trying to be 100 percent electronic when we have two other forms that we get in massive quantities that have to be submitted in paper.

So we opt to have all the forms be reported via template or take XCel spreadsheets and we convert it to ASCII or CFC format, whatever, but right now we don't have the vehicle other than for OGOR and the 3160.

The other thing, and we mentioned it this morning in the royalty portion, we do plan on getting a little more active on the internet as to allowing you access to your own data. So if you have any question of, boy, I wonder how that month and that lease actually got stored on MMS' system, instead of calling us you can actually get in and look yourself.

So--and additionally they're going to have account balances available for you so if you have a credit on our system you can apply it to an upcoming payment. So we do plan on putting a lot more inquiries out on the internet for you all to use.

MR. BROWN: When we first started the 3160

collection by MMS we used--MMS used a lot of preprepared models of the 3160 data for--okay. I got the--no, you won't be doing models?

MS. DANFORD: No, we will not be doing models. It's kind of--defeats the purpose of electronic when we send them a piece of paper to send back to us.

MR. BROWN: For those people who are reporting manually--

MS. DANFORD: Yes.

MR. BROWN: --models might be useful to begin with.

MS. DANFORD: Models, I guess, would be a requirement for like a mom and pop company that doesn't have a computer. We do plan on--I don't know if Milt wants to touch on this or Mike, the electronic commerce vendor that we're hiring?

MR. MILLER: Well, currently we have received some bids from an electronic commerce vendor. We also have an electronic commerce rule that's going to be going out shortly mandating electronic commerce in a number of different ways, and, of course, we don't know what solutions the vendor has for us but we're hoping that it's going to be at least what we have right now.

If we start sending out models of course we're discouraging the use of electronic commerce, and I think--I

know we're going to be using internet and just about everything that we have now.

As far as I know we would not--we will be giving some exceptions, I think there's three or four exceptions that are currently in the rule that's going out that's going to permit people to report on paper, but basically it's going to be a small company that has absolutely no access, does not have a computer, does not have access to a computer somewhere, local library or government office or something like that. We have to make--we have to give exceptions to that. That's going to be the only exceptions.

There's going to be a phased-in conversion. Those that have six lines or more a month of reporting will if the rule goes out as is right now will start reporting electronically in September, this coming September. And then four to five lines will be a year from now, and then three to four--I believe it's somewhere in that range--would be a year after that.

But it's going to be a very small company, though, and if you fit into that those ranges and you feel you'll meet one of the criteria for reporting paper then you'd let us know.

MR. BROWN: I wasn't necessarily thinking about a paper record with the model but some sort of prepopulated format based on the data that you would expect, whether it

be the electronic version or the paper version, to kind of help out some of the operators to say, okay, what do I report on and how do I report it. A prepopulated form, not a paper form.

MS. DANFORD: Template.

MR. BROWN: But a template.

MS. DANFORD: Template is what we plan on doing, a very beefed up template, not even comparing what we have right now. I mean, actually allowing companies to not have to think, oh, god, what's the code for, you know, flaring. They could pick the word flaring, it would populate the code. It would also, you know, the first load we give you a dump for our data base and the wells that we're expecting, but the requirement of keeping them updated would be yours.

As you receive--we send out well confirmation reports as we receive data from you on offshore and we send it to the company. It's a manual process for them to add that well to their template so they don't miss that well or get a call from us.

MR. BROWN: Usually it's the other way around.

MS. DANFORD: What?

MR. BROWN: They have the--they add the well before we do, but that's another issue.

MS. DANFORD: Any other questions?

MS. TAYLOR: Back to the electronic reporting,

from what I understand you're also going to be hiring contract computer people. Right now this is brought up by our computer person, Susan Kline, which I believe some of you have talked to, right at this time with the 2000 problem at issue, to find computer programmers is very difficult and it's going to cost a lot.

They are--they're paying premium prices right now for computer people, so we need to keep that in mind, too. For some of the other--for most of the operators they're going to have to redesign their system. We are shorthanded in our company.

I know that the State of New Mexico is shorthanded. They cannot find computer people to help work on their On Guard system. So that is a big concern of owners right now.

MS. DANFORD: Okay. Just on that if we were able to get approval of this form or this concept to have OMB approve it by September to where we would have our data elements defined for September, a two-year jump ahead would not be long enough?

MS. TAYLOR: I mean, I don't know just right at this point. That's what we're looking at is premium prices for any kind of computer personnel and availability of them. So I'm not a computer person so I don't know how long it takes to program or do anything like that.

MS. DANFORD: Two years?

MR. BROWN: Yeah. I think the data in here--you guys are talking about September of 2000?

MS. DANFORD: One.

MR. BROWN: 2001 to implement a system. Based on what we've developed in the past between the two agencies that's probably not that unreasonable to take that much time to go through the process.

MS. DANFORD: Well, and that's under the assumption that this 60-day period goes well. The comments are give us the okay to go, we can do a final publication and we get OMB approval. Now, the longer this takes the less time we have.

MR. BROWN: There's a lot of ifs in that.

MS. DANFORD: So any other questions?

MR. BROWN: In the information on the trailer where you're dropping the requirement for addresses, with the current 3160 sometimes we get a trigger in BLM that an operator has changed from operator A to operator B and that's our first notification that the lease or agreement has changed hands.

From the existing operator as I understand you have names and addresses and so do we in our data base, but for a new operator will they be required to report back once to say I'm the new operator and here's my name and address?

MS. DANFORD: They need an operator number from us in order to even file.

MR. BROWN: Okay.

MS. DANFORD: If they don't have an existing number up front we have to give them a number and we have their name and address in the computer.

One other inquiry we're thinking of putting out on the internet is right now address changes are done by phone or by letters to us, and that one letter gets spread out to everybody in the building, update your system, update yours.

But what we plan on doing is in lieu of that allowing internet access for the company to go update their own. We would actually pull that address to send their confirmation reports to. You could get the current address.

MR. BROWN: How would you propose to get that to us?

MS. DANFORD: Oh, I don't know. Jean?

MS. STEFFEN: Good question.

MR. BROWN: You probably need to discuss that next week.

MS. STEFFEN: Okay. But we don't--let's see, I guess we do send you what's on the 3160, but each 3160 has a phone number, so when it's a new company and we don't know anything about them we use that phone number to contact them and get information. That's available to you, too.

MR. BROWN: But once you update that information in your data base right now it shows up on the 3160, the name, address and telephone number, the whole bit. But if it's a new operator that we don't have in our data base yet and they start filing 3160s we're not going to know.

MS. STEFFEN: Right.

MR. BROWN: If we get a phone number we have to call them and say, well, what's your address.

MS. STEFFEN: So that means two phone calls for the same--yeah. We could think of ways to alleviate that.

MR. BROWN: It's something.

MS. DANFORD: Good point. No answer at this point. Not even one question?

MS. TAYLOR: You did a great job of answering all the questions I had.

MS. DANFORD: Well, I knew it wouldn't last until five. I never do. If you have any other questions that you can think of, my address--my name and address is on the list. Thank you.

MS. TAYLOR: I think just the main thing is IPA New Mexico would also like to see all reports sent to a central data base or to the states and have all the reports in a central location to send everything to and let all the different agencies come out and pick out what they need.

MS. DANFORD: Okay. Well, again, thank you for

coming this afternoon. Thank you.

(Whereupon, the session was concluded at 2:20 p.m.)

C E R T I F I C A T E

This is to certify that the attached proceedings before:

MINERALS MANAGEMENT SERVICE

Location: Lakewood, Colorado Date: MARCH 17, 1999

were held as herein appears and that this is the original transcript thereof for the file of the Agency.

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