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ADMINISTRATION

Ernest Hellwege, Secretary
Stephen Coit, Assistant Secretary

April 25, 1997

Post-it® Fax Note 7671	Date 4/25/97 # of pages ▶ 3
To DAVID GUZY	From
Co./Dept. Rules & Procedures	Co.
Phone # MMS	Phone #
Fax # Royalty Mgt. Program	Fax #

Minerals Management Service
Royalty Management Program
Rules and Procedures Staff
P.O. Box 25165
MS 3101
Denver, Colorado 89225-0165

Re: Establishing Oil Value for Royalty Due On
Federal Leases and on Sale of Federal Oil Royalty

Gentlemen:

Attached please find comments submitted by the Roger Q. Melson, Director of the Audit Division, Commissioners of the Land Office, State of Oklahoma regarding the proposed MMS oil valuation process for royalty due on federal leases.

Thank you for the opportunity to comment.

Sincerely,

Roger Q. Melson

Roger Q. Melson, Director
Audit Division

cc: Ernest Hellwege
Stephen Coit

COMMENTS ON PROPOSED MMS RULES RE VALUATION OF FEDERAL ROYALTY OIL

The Commissioners of the Land Office, State of Oklahoma, hereby respond to the Notice of Proposed Rulemaking, which would modify the valuation procedures for both arm's-length and non-arm's length crude oil transaction.

GENERAL COMMENTS

MMS is to be congratulated for its new proposed pricing regulations. We agree with a significant portion of the proposed regulations. Specifically, we agree with the MMS's proposed pricing using ANS spot prices for federal leases in California and Alaska and using the average of the daily NYMEX futures settle prices for the Domestic Sweet Crude Oil Contract for the prompt month for federal leases outside of California. We agree with the total abandonment of posted prices to value federal royalty oil. We agree, as detailed, that quality and location adjustments should be made. We agree that the limited use of gross proceeds, in the Oklahoma market, may be used to determine the value of royalties for arm's-length sales by the lessee. We disagree that the value of royalties for arm's-length sales by an affiliate of the lessee may be used.

DETERMINATION OF TRANSPORTATION ALLOWANCES AND OTHER ADJUSTMENTS, SECT. 206.105

We agree with the MMS that the index prices should be adjusted for location and quality. Transportation adjustments should be based on the lesser of the actual cost of transportation or the transportation cost reflecting the cheapest alternative available. Quality adjustments should not be recognized if the oil is exchanged or commingled and treated as 40 degree sweet crude.

THE GROSS PROCEEDS METHOD OF VALUING CRUDE OIL SECTS. 206.102(A) AND (C)

We agree that the use of gross proceeds to determine the value of royalties for arm's-length sales by the lessee may be an effective method of obtaining market value of oil produced and sold in Oklahoma. We disagree that an arm's-length sale by an affiliate of the lessee results in obtaining market value of oil royalty. The use of the gross proceeds method should be limited to sales of federal royalty oil by independent producers. We propose that the regulations define independent producers as those producers who do not refine crude oil and who do not produce more than 10,000 barrels per day in any one state.

CONCLUSION

We appreciate the opportunity to present comments on MMS's proposed regulations. We are pleased with MMS's decision to move to market based indicia of the value of federal royalty crude oil. We hope that our comments are useful in MMS's final formulation of its regulations.