



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management *Lucy Jungues-Jennett*

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifying deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Application

Apply this guidance prospectively. Any previously received requests for guidance should be reviewed. If the above criteria are met, and the previously issued decision conflicts with this guidance the company must be notified.

Questions concerning the applicability of this guidance to specific situations should be referred to the Royalty Valuation Division (RVD). Additionally, requests for determinations on a case-by-case basis should be referred to RVD.