copas
Council of Petroleum Accountants Societies

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ATTN: RIN 1010-AD00 – Indian Oil Valuation Proposed Rule

COPAS completed their conference call last week, and we would like to make the following comments concerning the MMS's proposed rule on Indian Oil Valuation. The COPAS members work at companies that represent a large number of federal and tribal royalty reporters, who collectively report a major portion of the royalty lines reported to the MMS. As usual, the COPAS membership did a great job of identifying any issues, and we appreciate the MMS seeking industry input on this issue.

COPAS fully supports the providing of more certainty to the valuation of oil produced from Indian lands. With this said, we support the use of gross proceeds the lessee or its affiliate receives in an arm's-length sale.

Calculation of the Major Portion Value

1. We agree with the proposed rule that leaves the percentile at which the major portion value is determined. The price at which 50 percent (by volume) plus one barrel (starting from the bottom) is sold.
2. COPAS does not support the adding of the API Gravity and/or Crude Type to the MMS Form 2014 for Indian Leases. This change would require a significant programming change to the 2014 processing and history tables, and the cost is too great for the small benefit the MMS would receive. Additionally, the programming would most likely take a year to implement. It should be noted that it appears the MMS is looking for the API gravity associated with the contract rather than the actual weighted average gravity, and this contract /"deemed" gravity and the Crude Type are not even in our accounting records. We recommend the MMS simply continue to use the Indian oil in each field to calculate the Major Portion value. If you believe additional information is needed, you

should get it from the OGOR through the use of existing data (API Gravity) and/or existing data fields.

3. We also do not support including arm's length sales of oil produced from Federal leases within a designated area, or expanding the boundaries of the designated area beyond the reservation boundaries and including arm's length sales of oil produced from Federal leases in the vicinity of a reservation. We do not support this suggestion because the terms "designated area" and "in the vicinity of a reservation" are too vague. Additionally, we are very concerned that new reporting requirements could be applied to these Federal leases, such as having to report the API Gravity, Crude Type, and any special record retention requirements that are currently applicable to Indian leases only.

Transportation Allowances

COPAS supports the elimination of the requirement to file the Form MMS-4110, Oil Transportation Allowance Report for arm's-length transportation allowances, and the submission of the form in advance with estimated information for non-arm's-length transportation arrangements. Because the allowances are subject to audit, we do not support the proposed new requirement to submit copies of its transportation contract(s) and any amendments thereto within 2 months after the lessee reported the transportation allowance on Form MMS-2014.

COPAS knows of no situations where the allowable/non-allowable deductions would be different between the Indian and Federal oil valuation, other than what may be detailed in the individual lease agreements.

We also support the change from the Standard & Poor BBB bond rate to 1.3 times the BBB bond rate. At the same time, due to the difficulties associated with obtaining the S&P BBB bond rate, we recommend that the MMS either post the rate each year, or move to a similar but more accessible index. This last change should be for both Indian and Federal and oil and gas valuation.

Definitions

Our only comment concerning the suggested definition changes is to more fully understand why "marketable condition" is being expanded to include transportation contracts. It would be difficult to apply this change if we don't fully understand what is actually being changed. Understanding the reason for the change would be most helpful.

Once again we appreciate the opportunity to provide input on this issue. Please let me know if you have any questions on the above (918) 925-7055.

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