Dear Payor:

The Minerals Management Service (MMS) has recently developed three guidance papers on the valuation of oil, coal, and gas. They are:

- Valuation Guidance for Auditing Affiliate Sales of Coal - dated December 5, 1996
- Valuation Guidance for Auditing Affiliate Sales of Natural Gas - dated December 5, 1996

**Summary of The Valuation Guidance Papers**

Each of these papers states that royalty value cannot be less than the gross proceeds accruing to the lessee. Gross proceeds may not be reduced by the costs of placing production in marketable condition. For crude oil, MMS will consider premiums received by a lessee or its affiliate as part of the gross proceeds.

For **arm’s-length** sales of oil, coal, or gas, value is generally the gross proceeds accruing to the lessee. If the arm’s-length contract does not reflect total consideration, value maybe determined under the first applicable non-arm’s-length benchmark.

For **non-arm’s-length** sales or no sales situations of oil, coal, or gas, value is determined under the first applicable benchmark. For sales involving affiliates, MMS has authority under its regulations (confirmed by IBLA in the Shell case, 132 IBLA 354, decided May 11, 1995) to compare value determined under the first applicable benchmark to the lessee’s gross proceeds and select the greater of the two values. The affiliate’s records may provide information concerning gross proceeds to the lessee, placing production in marketable condition, or premiums received, and may be considered in determining royalty value.
Copies of These Papers

For your information, MMS has posted complete copies of each paper on its Internet Home Page at http:\www.rmp.mms.gov. You may also request a copy of any of the papers by calling the MMS, Royalty Management Program, Valuation and Standards Division, Oil and Gas Branch, at (303) 275-7241.

Sincerely,

James W. Shaw
Associate Director for
Royalty Management