



# United States Department of the Interior

## MINERALS MANAGEMENT SERVICE

Royalty Management Program  
P.O. Box 25165  
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS/RVD  
Mail Stop 3150

MAR 12 1998

Dear Payor:

On August 4, 1993, we transmitted a copy of Volume III of the Oil and Gas Payor Handbook, titled Royalty Valuation Procedures, Transportation Allowances, and Processing Allowances (Handbook). This volume addressed valuation for royalty purposes of oil, gas, and gas plant products produced from Federal and Indian leases, including procedures for computing and reporting transportation and processing allowances.

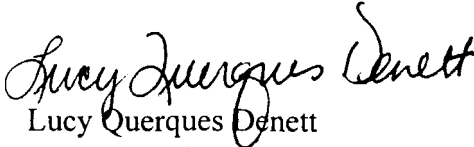
Since publication of this Handbook, we issued two documents that provide additional guidance clarifying MMS's policy on exchange agreements and the non-arm's-length gas valuation benchmarks. These documents are:

A June 24, 1996, guidance paper from the Acting Associate Director, MMS, titled **Valuation Guidance for Auditing Crude Oil Premiums**, discussing valuation procedures for exchange agreements. (Sent by Dear Payor Letter dated December 19, 1996)

A December 30, 1996, memorandum from the Assistant Secretary, Land and Minerals Management, titled **Policy Interpretation of Valuation Regulations** discussing valuation under the non-arm's-length gas benchmarks (Enclosure 1).

Based on the guidance issued in these documents, we are amending the oil and gas exchange agreement and the non-arm's-length benchmark sections of the Handbook. Enclosure 2 is a transmittal sheet with the updated pages that reflect these changes.

Sincerely,

  
Lucy Querques Denett  
Associate Director for  
Royalty Management

Enclosure



## United States Department of the Interior

OFFICE OF THE SECRETARY  
Washington, D.C. 20240

DEC 30 1988

**Memorandum**

**To:** Director, Minerals Management Service

**From:** Bob Armstrong /s/ Bob Armstrong  
Assistant Secretary, Land and Minerals Management

**Subject:** Policy Interpretation of Valuation Regulations

By memoranda dated October 14, 1988, and December 12, 1988, this office provided policy interpretation for the enforcement of the benchmarks contained in the current gas valuation regulations (30 CFR 206.152 (c) and 206.153(c)) (1995).

Specifically, the October 14, 1988, policy interpretation stated that the gross proceeds accruing to the lessee under its non-arm's-length contract shall be viewed as meeting the requirements of 30 CFR 206.152 (c)(1) and 206.153 (c)(1) (1995) if they are within the range of the gross proceeds derived from or paid under comparable arm's-length contracts between parties not affiliated with the lessee for similarly situated production. The December 12, 1988, policy interpretation further stated that when there are no comparable arm's-length contracts in the field or area between parties not affiliated with the lessee, then the lessee's gross proceeds will determine value if they are within the range of gross proceeds paid under comparable arm's-length contracts between sellers who are not affiliated with the lessee and purchasers who are.

The Minerals Management Service has had nearly a decade of practical experience in applying this policy interpretation and has not found it to be particularly useful in clarifying the valuation benchmarks. Therefore, effective immediately, I hereby rescind the October 14, 1988, and December 12, 1988, policy interpretation memoranda.