

**Supporting Statement for
30 CFR 216, Subpart B—Oil and Gas, General,
§ 216.57 Stripper Royalty Rate Reduction Notification
(Form MMS-4377, Stripper Royalty Rate Reduction Notification)
(OMB Control Number 1010-0090)
(Expiration Date: September 30, 2004)**

A. Justification

1. What circumstances make this collection of information necessary?

General Background

The Secretary of the U.S. Department of the Interior is responsible for collecting royalties from lessees who produce minerals from leased Federal and Indian lands. The Secretary is required by various laws to manage mineral resources production on Federal and Indian lands, collect the royalties due, and distribute the funds in accordance with those laws. The Secretary also has an Indian trust responsibility to manage Indian lands and seek advice and information from Indian beneficiaries. The Minerals Management Service (MMS) performs the royalty management functions and assists the Secretary in carrying out the Department's Indian trust responsibility.

When a company or an individual enters into a lease to explore, develop, produce, and dispose of minerals from Federal or Indian lands, that company or individual agrees to pay the lessor a share (royalty) of the value received from production from the leased lands. The lease creates a business relationship between the lessor and the lessee. The lessee is required to report various kinds of information to the lessor relative to the disposition of the leased minerals. Such information is similar to data reported to private and public mineral interest owners and is generally available within the records of the lessee or others involved in developing, transporting, processing, purchasing, or selling of such minerals. The information collected includes data necessary to assure royalties are paid appropriately.

Information Specific to this Information Collection Request

The Bureau of Land Management (BLM), the surface management agency for Federal onshore leases, grants royalty rate reductions to operators of stripper oil properties producing an average of less than 15 barrels of oil per eligible well per well-day (stripper oil property). See 43 CFR 3103.4-2 (Attachment 1). The purpose of these royalty rate reductions is to encourage continued production, to provide an incentive for enhanced oil recovery projects, to discourage abandonment of stripper oil properties, and to reduce the operator's expenses. The stripper oil property royalty rate is lower than the royalty rate reflected in the lease instrument and reduces the amount of revenues paid to the Federal Government. The MMS must have a process for timely notification of requests for royalty rate changes because it performs the royalty management functions for the Secretary.

2. How, by whom, and for what purpose will the information be used?

Operators of stripper oil properties are required to notify MMS using Form MMS-4377, Stripper Royalty Rate Reduction Notification (Attachment 2), when they request a royalty rate reduction. The Form MMS-4377 requires identification of the operator, the name and phone number of the contact person, the submittal date, lease and agreement numbers, the calculated royalty rate, the current royalty rate, the qualifying period under consideration, and the effective date of royalty rate reduction. The MMS uses the approved royalty rate information to update lease data in the MRM system and to verify that the proper royalty amount is paid on each lease.

Operators of stripper oil properties use a formula developed by BLM to determine the royalty rate reduction:

$$\text{Royalty Rate (\%)} = 0.5 + (0.8 \times \text{the average daily production rate})$$

The formula-calculated royalty rate reduction becomes effective for all oil production (except condensate) from qualifying properties the first day of the month after MMS receives notification of the approved royalty rate change. Failure to inform MMS of the new royalty rate would result in erroneous exceptions generated in our computer system, which is programmed to compare royalty rates used for payment to royalty rates documented in the lease instrument. In addition, payors on stripper oil properties could be held liable for royalty at the higher royalty rate and could be subject to interest charges as well.

3. Does the collection of information involve the use of information technology, does it reduce the burden, and to what extent?

The MMS anticipates additional operators will use electronic means to report new royalty rate reductions. However, this represents a small percentage of a small universe. Currently, Form MMS-4377 can be filled out in electronic format and submitted to MMS via email.

4. Is the information duplicated by any other Federal agency, and can similar information be used or modified for this collection?

Information on royalty rate reductions on stripper oil properties is not available from any other agency or source. Production records required for the calculation of royalty rate reductions are unique to each property and are maintained by the operator.

5. What is the agency doing to minimize the burden on small businesses or other small entities?

Large oil companies generally sell low-producing and less-profitable wells to small companies; therefore, this collection of information usually involves small operations. The method of determining a royalty rate reduction allows operators to use production data from their records to make the calculation. The MMS has a toll-free telephone number to provide assistance to operators.

6. What are the consequences to the Federal program or policy if the information is not collected or is collected less frequently; and are there technical or legal obstacles to reducing the burden?

Obtaining the correct royalty rate in a timely manner is critical for MMS to determine the proper amount of royalty to be paid on each lease. Operators must submit a Form MMS-4377 when a new property qualifies as a stripper oil property or to notify MMS of a royalty rate reduction that is lower than the initial royalty rate reduction on an existing stripper oil property.

The frequency of notifications depends on when an operator initially believes he qualifies for a royalty rate lower than the lease instrument royalty rate and becomes an annual submittal for each year he calculates a royalty rate lower than his original submission. The frequency of submittals is not subject to change.

7. Are there any special circumstances that require exceptions to 5 CFR 1320.5(d)(2) requiring respondents to (i) report more often than quarterly, (ii) prepare written responses in fewer than 30 days after receipt, (iii) submit more than an original and two copies of any document, or (iv) retain records for more than 3 years?

This collection of information is consistent with the provisions at 5 CFR 1320.5(d)(2) except for (iv). In accordance with 30 U.S.C. 1713(b), Indian oil and gas records must be maintained for 6 years after the records are generated unless the Secretary notifies the record holder that such records must be maintained for a longer period due to an ongoing audit or investigation. There are no special circumstances with respect to 5 CFR 1320.5(d)(2)(v) through (viii), as the collection is not a statistical survey and does not use statistical data classification; nor does it include a pledge of confidentiality not supported by statute or regulation or require proprietary, trade secret, or other confidential information not protected by agency procedures.

8. What efforts did the agency make to consult with the public and a representative sample of respondents?

As required in 5 CFR 1320.8(d), MMS published a 60-day review and comment notice in the *Federal Register* on February 3, 2004 (69 FR 5182) (Attachment 3). We received no comments in response to this notice.

In addition, MMS contacted a sample of nine potential respondents to obtain their view on the public reporting burden hours for the Form MMS-4377. The MMS did not feel that the current burden of 30 minutes per property to review instructions, search existing data, gather and maintain data, and complete and review the form was valid. The potential respondents ranged in size from small independent companies to large oil and gas companies. Burden hour revisions are based on responses received from a sample of potential respondents on their burden hour responses.

As requested, we submit their names and addresses below.

Ms. Lil Pachello
Carol-Holly Corporation
P.O. Box 370900
Denver, Colorado 80237-0900

Mr. Justin Hawthorne
Jack L. Phillips Company
P.O. Drawer 1686
Gladewater, Texas 75647

Ms. Debra Harris
Citation Oil & Gas Corporation
8223 Willow Place South
Houston, Texas 77070

Ms. Sharon Thompson
Townsend Company, Inc.
P.O. Box 760
Newcastle, Wyoming 82701

Ms. Sharon Clute
Eland Energy
13455 Noel Road
Suite 2000
Dallas, Texas 75240

Mr. Tom Allison
Allison Bros. Drilling Company
1275 Sherman Street
Denver, Colorado 80203

Ms. Stacy Springston
Coral Production Corporation
1600 Stout Street
Suite 1500
Denver, Colorado 80202

Ms. Lindy Combrink
Continental Resources
P.O. Box 1032
Enid, Oklahoma 73702

Ms. Ruby Parker
Webb Oil Company
P.O. Box 1345
Artesia, New Mexico 88211-1345

9. Will payment or gifts be provided to respondents?

No payments or gifts will be provided to the respondents.

10. What assurance of confidentiality is provided to respondents?

Commercial or financial information provided to MMS relative to minerals removed from Federal and Indian leases may be proprietary. Trade secrets and proprietary and other information are protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982, as amended (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(b)(4)), and Department regulations (43 CFR 2). The Indian Minerals Development Act of 1982 (25 U.S.C. 2103) provides that all information related to any Indian minerals agreement covered by the Act in the possession of the Department shall be held as privileged proprietary information. Storage of proprietary information and access to it is controlled by strict security measures.

11. Does the information collected include any questions of a sensitive nature?

None of the information requested is considered sensitive.

12. What is the estimated respondent reporting and recordkeeping "hour" burden?

The annual reporting burden is 1,080 hours. We expect approximately 900 responses from 900 operators of stripper oil properties to submit the required information. The burden estimates include the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Using an average cost of \$50 per hour, the total cost to respondents is \$54,000. There are no additional recordkeeping costs.

Respondent Annual Burden Hour Chart

30 CFR Section	Reporting Requirement	Burden Hours per Response	Annual Number of Responses	Annual Burden Hours
216.57	<p>Stripper royalty rate reduction notification. In accordance with its regulations at 43 CFR 3103.4-1, titled "Waiver, suspension, or reduction of rental, royalty, or minimum royalty," the Bureau of Land Management (BLM) may grant reduced royalty rates to operators of low producing oil leases to encourage continued production. Operators who have been granted a reduced royalty rate(s) by BLM must submit a Stripper Royalty Rate Reduction Notification (Form MMS-4377) to MMS for each 12-month qualifying period that a reduced royalty rate(s) is granted.</p> <p>[58 FR 64903, Dec. 10, 1993]</p> <p>Please note the BLM citation and title changed to 43 CFR 3103.4-2 Stripper well royalty reductions.</p> <p>The MMS will have principle monitoring responsibilities as published in the <i>Federal Register</i> on August 11, 1992 (57 FR 35969).</p>	1.2	900	1,080
		Total	900	1,080

13. What is the estimated reporting and recordkeeping "non-hour" cost burden of the collection of this information, excluding any costs identified in Items 12 and 14?

We identified no reporting and recordkeeping non-hour cost burdens for this collection of information.

14. What is the estimated annualized cost to the Federal Government?

We estimate the Federal Government will spend 4,675 hours to analyze and review the required information. Based on \$50 per hour, the annualized cost to the Federal Government is \$233,750. Refer to the chart below for the cost breakdown.

Cost Breakdown for Federal Government

30 CFR Section	Reporting or Recordkeeping Requirement	MMS Processing Time	Annual Number of Requests	Total MMS Processing Time/Hours	Cost to Federal Government
216.57	In accordance with its regulations at 43 CFR 3103.4-1, titled "Waiver, suspension, or reduction of rental, royalty, or minimum royalty," the Bureau of Land Management (BLM) may grant reduced royalty rates to operators of low producing oil leases to encourage continued production. Operators who have been granted a reduced royalty rate(s) by BLM must submit a Stripper Royalty Rate Reduction Notification (Form MMS-4377) to MMS for each 12-month qualifying period that a reduced royalty rate(s) is granted. Please note the BLM citation and title changed to 43 CFR 3103.4-2 Stripper well royalty reductions.	5.2 ¹	900	4,675	\$233,750
Total			900	4,675	\$233,750

¹ The MMS Processing Time of 5.2 is rounded up from 5.19444. Hence, the actual Total MMS Processing Time/Hours are 4675.

Detail

Maintenance 1/ \$ 42,500

Verification/Exceptions 2/ \$191,250
\$233,750

1/ 850 hours x \$50 per hour. Maintenance includes initial research on exceptions generated from the existing royalty rate exceptions processing routine (which compares reported royalty rate to the royalty rate in the lease database).

2/ 3,825 hours x \$50 per hour. Includes the verification of notification forms, updating the database with the accepted royalty rate reductions, processing of exceptions discovered through data edits (production volume variances, days produced, and well status), research of royalty rates reported to the lease database on Form MMS-2014, Report of Sales and Royalty Remittance, and salaries and overhead for contractor and

Government employees developing necessary computer programs for processing production and royalty reports.

15. Is the agency requesting any program changes or adjustments reported in items 13 and 14 of the Form OMB 83-I?

Item 13, Form OMB 83-I

The current OMB inventory is 800 hours in Item 13 of Form OMB 83-I. We are revising the number of burden hours upward by 280 hours to reflect an adjustment increase. The revision is due to review and correction based on a sample of potential respondent's actual burden hours.

Item 14, Form OMB 83-I

There is no cost burden requested in Item 14.

16. Are there plans for tabulation and publication of the results of the information collection?

The data collected will not be tabulated or published for statistical use.

17. Is the agency seeking approval to not display the expiration date?

No. We will display the expiration date of OMB's approval on Form MMS-4377.

18. Is the agency requesting exceptions to the certification statement in Item 19 of Form OMB 83-I?

To the extent the topics apply to this collection of information, we are not requesting exceptions to the "Certification of Paperwork Reduction Act Submissions."

B. Collections of Information Employing Statistical Methods

This section is not applicable. We will not employ statistical methods in this information collection.