Shell Exploration and Production Company

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Office of Information and Regulatory Affairs, OMB
Attention: Desk Officer for the Interior Department
OMB Control Number 1010-NEW
725 17th Street, NW
Washington, D.C. 20503

Gentlemen:

SUBJECT: AGENCY INFORMATION COLLECTION ACTIVITIES: SUBMITTED FOR OFFICE OF MANAGEMENT AND REVIEW; COMMENT REQUEST (FEDERAL REGISTER 65FR31598 AND 65FR31600)

Shell Exploration and Production Company (Shell) appreciates the opportunity to comment on the MMS' proposed revisions to the Production Accounting and Auditing System Forms and the Report of Sales and Royalty Remittance Form MMS-2014. Shell has extensive experience and knowledge in working with these forms and believes our comments will be beneficial in improving Royalty Management Program(RMP) processes for both the MMS and Industry. We provide the comments to assist MMS and OMB in their continuous improvement effort to make the reporting and recordkeeping less burdensome and complex.

Production Accounting and Auditing System Reports (PAAS)

1. Form MMS-4054, Oil and Gas Operations Report (OGOR)

Previously when comments were due to the MMS on the new proposed OGOR in April 1999, Shell did not have much to comment on because we had been using OGOR's since implementation in the mid 1980's for both our Onshore and Offshore properties. The proposed changes to the report were minimal and would require little programming changes for our vendor, Oracle Energy Volumes Accounting System.

Recently, the MMS' RMP decided to add Product Code to the required fields on the OGOR. This decision makes the proposed OGOR very onerous to implement.

First and foremost, the addition of the Product Code is not necessary for the MMS to gather the additional data they are after. By adding more disposition codes (currently required on the OGOR) the MMS can attain the same end result. Once the MMS informs us what the new disposition codes would be, our vendor could add those codes to the

volumes system. That would be considerable less programming changes than adding an entirely new field.

The addition of the Product Code requires massive programming changes not only to the form itself but also from where the new required data would need to be pulled. This Product Code addition not only affects changing the regulatory report itself but also impacts the volumes system where the new requested data would have to be pulled from.

Unfortunately, due to the recent addition of this Product Code and the fact that no record layouts are available until the form is approved, Shell is unable to provide an accurate analysis of the cost of the system changes, although we feel it would be substantial.

Shell requests that the Product Code be removed and additional disposition codes be added to accommodate the MMS' reengineering initiatives.

2. Form MMS-4055, Gas Analysis Report (GAR)
Form MMS-4056, Gas Plant Operations Report (GPOR)
Form MMS-4058, Production Allocation Schedule Report (PASR)

Shell has no comments on these reports.

AUDITING AND FINANCIAL SYSTEM

Form MMS-2014, Report of Sales and Royalty Remittance

Previously when comments were due on the new proposed 2014 to the MMS in April 1999, Shell submitted comments as to our grave concerns on some data elements. Those concerns still exist with the addition of some new ones based on further discussions with the MMS since April 1999. All of the concerns will be addressed in these comments.

Sales Type Code (formerly Valuation Code) – Shell is opposed to the requirement to report a sales type code on the proposed Form MMS-2014. This would cause a major reporting burden to industry for the following reasons:

1) Marketing of the products changes month to month and even if a system could be built to track volumes back to the lease it would have to be quite extensive and would be very expensive to develop and maintain.

2) There are seven different types of codes available to report. This code would increase the number of reported lines on the Form MMS-2014 because each transaction would have to be broken out to the type of sale. Where one line is reported now a payor could potentially have to report seven different lines of coding. An increase in the number of original reported lines would automatically cause an increase in the number of adjustment lines. More lines of reporting naturally leads to more reconciliation.

3) For integrated oil companies, the producer's systems are not linked with the marketing affiliate systems. It would require a manual effort on the part of the producer to report by sales type.

4) The data the MMS receives from various companies reporting using this sales type code will inherently be skewed. Each company will decide for itself how to report based on their interpretation of the seven sales type codes and the resulting data the MMS receives from everyone will be useless for comparison purposes. For example, some companies report using the price the E&P company receives for the product while others report using the price the marketing affiliate receives. Both companies would report using the non-arm's-length long term contract valuation code and the comparison of those two distinctly different transactions would be invalid. The MMS would have no way of knowing they were comparing an E&P price to a marketing affiliate price from the use of this sales type code.

5) The use of this sales type code by the MMS will cause a greater audit burden on industry than we already bear because it will generate many questions to industry to resolve because of the ambiguity of the code.

It would be reasonable for Shell to report arm's-length sales and non-arm's-length sales because the purchaser is carried in our system at a lease level and it would not be difficult to add a conversion table to our existing system to report that way. Shell believes that this is probably true for most, if not all, of industry.

Suggestion – The Compliance and Asset Management Process (CAMP) which has developed over the last year or so is also a part of the MMS reengineering project. In this process, the MMS is developing an expected values database to compare reported values on the 2014 to for compliance purposes. This "expected value" is currently being gathered from other MMS sources with the help of Industry. The current 2014 format enables the MMS to calculate a reported price, compare it to the expected values database, and inquire about differences. The type of sale is not required to do this comparison now or in the future. The geographical teams which are a part of CAMP are supposed to have an in depth knowledge of the area they are auditing.

The suggestion is to have the geographical teams in CAMP gather the sales type information outside of the 2014 and compare that to the price Industry reports.

In summary, the sales type code needs to be eliminated as a reporting requirement on the proposed 2014 because

1) The comparison the MMS is looking for can be done more efficiently and and effectively through CAMP than requiring Industry to turn it's systems upside down to accommodate a MMS wish list.

2) The code does not reduce the volumes of lines reported and processed.

3) It does not simplify reporting.

4) It does not reduce costs for Industry and MMS RMP.

Reporting Adjustments – Shell applauded the concept of "net adjustments" in our April 1999 comments to the MMS. However, since then because of MMS Explanation of Payments(EOP) requirements this positive reporting change will not be able to be utilized. The option formats presented to Industry in April 2000 in order to be able to take advantage of net reporting are not viable ones. It would require Industry to report volume and value on two separate lines(another programming change) in one scenario and to report a false price in another scenario.

Industry has requested to be able to maintain the current practice of reversal and re-entry to report adjustments. The MMS has agreed to leave this practice as a reporting option.

However, one of the huge advantages of "net adjustments" was to greatly reduce the number of lines required to be reported. Now that advantage has been lost.

API Well Number – Shell wants this element eliminated. As defined for the two uses outlined in the Federal Register, this element would not impact Shell at this time. Shell's concern is that if a field is available for use it will only be a matter of time before it is required for all sales. Reporting at a well level would be a huge burden for our regulatory reporting system.

API Gravity – Eliminate this element on the Form MMS-2014 as it is already provided on the production report Form MMS-4054-B.

Royalty Rate – Eliminate requiring this data element to be reported. The MMS can calculate this as is done currently.

Unit Price - Eliminate requiring this data element to be reported. The MMS can calculate this as is done currently.

Note: With the elimination of Royalty Rate and Unit Price, Sales Value would need to be added for the MMS to be able to calculate those elements. Adding Sales Value would also add consistency to the Form MMS-2014. Currently, in the proposed format Sales Volume and Royalty Value are required and those two elements are not at the same reporting level. Having Sales Volume and Sales Value would accomplish having a volume and a value at the same level and would eliminate the need for two new data fields.

Reporting Burden - Shell does not agree with the MMS that the reporting burden will decrease. Shell believes that the reporting burden will significantly increase for the following reasons:

1) The requirement of the sales type code. See previous comments.

2) The loss of the ability to report net adjustments. See previous comments.

3) The expense to make programming changes to not only the regulatory reporting system but to the revenue accounting system to accommodate all the MMS requested changes to the 2014 will be huge. Unfortunately, as explained earlier, without the record layouts it is impossible to make a good educated estimate of the cost.

Conclusion

In conclusion, for Form MMS-4054, Shell requests that product code be dropped as a requirement on the form and more disposition codes be added. This would result in the MMS receiving the information needed by them without adding an undue burden on Industry.

For the Form MMS-2014, Shell requests that the sales type code be dropped as it is currently proposed. Shell would not have a problem with reporting our sales as arm's – length and non-arm's-length without the contract type included. This would result in the MMS getting the information they need to do their price compliance comparison without placing a huge burden on Industry as described above. CAMP can accomplish the same goal. API Well number, API gravity, royalty rate, and unit price also need to be eliminated for the reasons stated above.

We appreciate the opportunity to submit these comments. If you have any questions, please don't hesitate to call Pam Williams at (281) 544-3149.

Yours very truly,

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