

DECEMBER 6, 1996
RSFA OUTREACH MEETING MINUTES
REVIEW OF PRIOR MEETINGS/MARGINAL PROPERTIES/ DISPUTES

PARTICIPANTS:

Roman Geissel, MMS
Luke Lundmark, MMS
Cathy Hamilton, MMS
Sharilyn Keeton, MMS
Barbara Widick, IPAMS
Carla Wilson, RMOGA
John Clark, COPAS
Patsy Bragg, Mid-Continent Gas
Nancy Nava, Western States Land Commissioners Association - Texas
Inge-Lisi Goss, State of Utah
George Butler, Chevron
Mary Williams, MMS
Paula Neuroth, MMS
Debbie Briggs, MMS
Bob Wilkinson, RMOGA

Roman Geissel opened the meeting with a review of the results of meetings held on October 30 and November 19, 1996. At these meetings we reached some points of general agreement.

We achieved consensus at the meetings that royalty reporting and payment responsibility for the 100% Federal agreements with the same royalty rate and fund distribution lies with the taking parties. Mr. Geissel stated that for these agreements the ultimate liability remains with the owners of the leases. A question was raised concerning whether the law (RSFA) actually specified that properties must be on takes. It was agreed that for 100% Federal properties the taking parties must report and pay based on takes, but that the law provides for an alternative method. A comment was made that this might require the auditors to audit the entire property; i.e., lease or agreement, to ensure that all taking parties have reported.

How will the reporting parties report on these 100% properties where takes reporting is required? Do the parties have to report to each lease in the agreement? Can the parties report the volume taken to the lease in the agreement where they have established a Payor Information Form (PIF)? Mr. Geissel advised we are looking into these questions. MMS has tasked AMS/OC (our computer contractor) with determining whether it is possible for the taking parties to report just on their lease(s) in the agreement. If this reporting situation is possible, then MMS would have to sum all the volumes reported and allocate volumes to all leases in the agreement. MMS has requested AMS/OC to determine the personnel and system costs of this possible reporting approach. Mr. Geissel stated MMS has identified between 2200 and 2300 agreements as qualifying for takes reporting. Mr. Geissel advised that we are trying to assemble all the information necessary to present a proposal to the Quality Steering Committee (QSC) for their consideration at the February 1997, meeting. Mr. Geissel said we are currently looking at the

possibility of the taking parties reporting to their leases or to an agreement level Accounting Identification Number (AID). Debbie Briggs advised there may be system problems for MMS in processing the information as well as problems with getting the users of the royalty information to agree to this. The users include the States and other Federal agencies. Some discussion followed relating to the fact that some States want information down to the county level and other States do not require this level of detail. Patsy Bragg said the law does not require the Government to provide distribution to the counties and believed the Solicitors Office would not support MMS taking on the responsibility of distributing to the county level. Some discussion followed concerning situations where a lease crosses county boundaries. Bob Wilkinson suggested that MMS determine how many 100% agreements have leases crossing county boundaries. Mr. Wilkinson said that if there are only a few such cases, maybe they could be added to the list of agreements reporting on an entitlements basis. MMS agreed to try to determine how many such cases might exist.

There was discussion of whether MMS would consider granting a marginal exception for a small producer that produces no more than a total, combined equivalent of 6000 mcf or 1000 bbls a month from all their Federal holdings. Since this is not covered under RSFA, this must be done through regulation.

We had also discussed whether the marginal property exception could be considered at an owner level which caused some concern about production levels. After further discussion, we agreed that a marginal property would be defined at the Unit Participating Area (PA) or Communitization Agreement (CA) level. The MMS identifies this level as a separate and distinct property. We are working with our people to get a listing of properties that might qualify for a marginal property exception.

In our meetings we also discussed the qualifying period for the marginal property exception. Originally, we discussed requiring a years production history for qualifying a property. Mr. Geissel posed some possible questions. If a property did not produce for a month during the year, is the property disqualified? Can we use the production volume that a property actually had during part of a year to qualify a property ? For example, if a property produced for only one month during a 12-month period, would this qualify a property, assuming it met the other criteria? We had discussed in previous meetings that if a newly producing property came on line during the year and, therefore, was not operational for a full year, then this property would not qualify.

It was decided that qualifying eligibility for a property would be based on a prior year period and once a property qualified, it would stay qualified until the property was looked at for the next year. This means qualification for the marginal property exception would have to be met on a yearly basis. The exception qualification will be based on 12 consecutive production months with the first qualifying period being July 1995 thru June 1996. The qualification will be good for one year and reviewed each year using the previous July through June production cycle. MMS agreed to provide a list of properties that qualify based on this cycle to the States and industry.

It was also agreed that once qualified, the marginal property reporting exception will be effective beginning with January sales of the following year and will be in effect through December of the

same year. Once MMS publishes the list, it was agreed that it would be the responsibility of the designee or operating rights owner to notify MMS of its desire to take advantage of the exception. MMS will notify established payors, the various trade associations, and could put a notice in the Federal Register. It was decided that the notice to the payors would recommend that they advise the working interest owner for whom they are reporting that the particular property qualifies for the marginal property exception.

Mr. Geissel advised that MMS was looking into adding a new transaction code to be used in conjunction with the marginal property exception. Parties reporting on a takes basis during the year would use this new code when they “true up” to the entitlements basis. This way the AFS/PAAS and the interest rate modules would know what to do when processing the 2014 line. This approach should allow us to do a “true-up” calculation for the entire year.

The meeting adjourned.