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Amendments to Federal Oil Valuation Rule Keep Pace with Changing Marketplace

Amendments to the Federal Oil Valuation Rule, published today in the *Federal Register*, reflect changes in energy market conditions and trends, according to the Minerals Management Service. The agency said the amended rule was designed to reduce litigation by providing clarity and certainty for oil and gas producers, and improve compliance with federal law.

MMS Director Johnnie Burton said the amended rule was important for ensuring a fair return on federal resources. "As a responsible steward of domestic energy resources, MMS must strike a balance between industry's need to bring energy to our economy and the return the American taxpayer expects from the country's natural resources," noted Burton. "This rule provides the opportunity to ensure the public receives its fair share of royalties paid on oil produced on federal lands," Burton added.

The 2004 amendments do not alter the basic concepts and principles of the June 2000 rule. The most notable change is a switch from index spot prices to NYMEX-based valuation for oil that is not sold at arm's-length (i.e. sold to an affiliate or not sold at all) for areas other than California and Alaska. Crude oil produced from Federal leases in California and Alaska will continue to be valued using Alaska North Slope (ANS) spot prices for oil that is not sold at arm's-length. Price adjustments will be allowed for locality and quality differentials.

The final rule, effective August 1, 2004, also provides industry with greater clarity regarding which deductions they may or may not take from their royalties. In calculating a transportation allowance (i.e. deduction in royalties due) where the transportation is not at arm's length, the rule raises the rate of return on undepreciated capital from 1.0 times the Standard & Poor's BBB bond rate to 1.3 times the BBB bond rate to better reflect the industry's actual cost of capital.

The changes to the Federal Oil Rule will not have a major economic impact on the public, or on state or federal governments. The rule includes a projected range of potential economic impacts, which vary by geographic area and fluctuations in the market.

The Final Federal Oil Valuation Rule is available on the MMS website at: http://www.mrm.mms.gov/Laws_R_D/FRNotices/FRFinRules.htm.

The Minerals Management Service is the federal agency in the U.S. Department of the Interior that manages the nation's oil, natural gas, and other mineral resources on the Outer Continental Shelf in Federal offshore waters. The agency also collects, accounts for, and disburses mineral revenues from Federal and American Indian lands. MMS disbursed more than $8 billion in FY 2003 and more than $135 billion since the agency was created in 1982. Nearly $1 billion from those revenues go into the Land and Water Conservation Fund annually for the acquisition and development of state and Federal park and recreation lands.

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