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NEWS RELEASE

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Natural Gas Valuation Rule Amendments Proposed:
MMS Aims to Secure Economic Value for America

Proposed changes to the 1988 Federal Gas Valuation Rule will make Federal natural gas leases more attractive for development, and provide assurance of a fair market return on these resources to the American public, according to the Minerals Management Service. The valuation rule is used to determine royalties due on natural gas from federal leases. The proposed changes were published today in the Federal Register.

"The proposed changes will offer greater certainty, clarity and consistency on natural gas valuation issues for the producers," said MMS Director Johnnie Burton. "The result will be more accurate royalty reporting, which ultimately helps MMS continue to assure economic value for America on these important resources."

MMS held a series of public workshops in April and May of 2003 to gather feedback on possible revisions to the 16-year-old rule. Based on feedback from the workshops as well as subsequent written comments, MMS determined that proposing changes to the rule was warranted.

MMS is proposing changes to future valuation, rate of return, transportation allowances, and definitions and tariffs.

Synopsis of the proposed changes:

Future Valuation: Add a provision in 30 CFR 206.150, to allow for future valuation agreements consistent with language contained in the June 2000 Federal Oil Rule.

Rate of Return: Increase the rate of return on non-arms length transportation arrangements from one times the Standard and Poor's BBB Industrial Bond rate to 1.3 times that rate to better reflect industry's actual weighted average cost of capital consistent with the May 2004 Federal Oil Rule amendments.

Transportation Allowances: Revise the definition of transportation allowance in the gas rule to conform to the definition found in other rules. Eliminate the 1988 "grandfather clause" for pre-1988 allowance approvals. Change the 1998 amendment to the gas transportation allowance regulations specifying that unused firm demand costs are allowable consistent with the D.C. Circuit Court's decision in IPAA v. DeWitt.

Arm's-length Transportation Contracts - Allow costs of securing a letter of credit that the pipeline requires a shipper to maintain. Disallow fees paid to brokers, fees paid to scheduling service providers and internal costs.

Non-arm's-length Transportation Contracts - Allow fees paid (either in volume or in value) for actual line losses. Disallow fees paid to brokers, fees paid to scheduling service providers and internal costs.

Definitions: Modify the definition of "arm's-length contract" and add a definition of the term "affiliate" to be identical to the June 2000 Federal Oil Rule and to conform the gas valuation rule to the D.C. Circuit's holding in National Mining Association v. DOI.

5) **Tariffs:** For Federal Energy Regulatory Commission-approved tariffs used in non-arm's-length transportation situations, simplify and revise the conditions under which a lessee may request an exception to the requirement to calculate non-arm's-length transportation costs.

The proposed rule can be viewed online at:
http://www.mrm.mms.gov/Laws_R_D/FRNotices/2004/2004.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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