resident counterparties (i.e., foreign-to-foreign payments) may be included in such regulations. In addition, comments are also solicited concerning the appropriate treatment of swaps or other derivative transactions on property (other than stocks and securities) that produce FDAP income, e.g., rents and royalties.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory impact analysis is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations, and because the regulation does not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Therefore, a Regulatory Flexibility Analysis under the Regulatory Flexibility Act (5 U.S.C. Chapter 6) is not required. Pursuant to section 7805(f) of the Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business.

Comments and Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments that are submitted timely to the IRS (a signed original and eight (8) copies). All comments will be available for public inspection and copying.

A public hearing has been scheduled for September 9, 1998, at 10:00 A.M., in room 2615, Internal Revenue Building, 1111 Constitution Avenue NW, Washington, DC. Because of access restrictions, visitors will not be admitted beyond the Internal Revenue Building lobby more than 15 minutes before the hearing starts.

The rules of 26 CFR 601.601(a)(3) apply to the hearing. Persons that wish to present oral comments at the hearing must submit written comments by September 10, 1998, and submit an outline of the topics to be discussed and the time to be devoted to each topic by August 19, 1998.

A period of 10 minutes will be allotted to each person for making comments.

An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

Proposed Effective Date

These regulations are proposed to be effective for taxable years beginning 30 days after the date final regulations are published in the **Federal Register**. Taxpayers may elect to apply the provisions of the final regulations to taxable years beginning before the date which is 30 days after these regulations are published as final in the **Federal Register**. No inference is intended regarding the treatment of derivative transactions under sections 864(b)(2)(A)(ii) and (B)(ii) and the current regulations. For periods prior to the effective date, taxpayers engaged in derivative transactions may take any reasonable position with regard to the section 864(b)(2)(A)(ii) and (B)(ii) safe harbors. Positions consistent with these proposed regulations will be considered reasonable.

Drafting Information

The principal author of these regulations is Milton Cahn of the Office of Associate Chief Counsel (International). However, other personnel from the IRS and Treasury Department participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Par. 2. Section 1.864(b)–1 is added to read as follows:

§ 1.864(b)–1 Trading in derivatives.

(a) *Trading for taxpayer's own account.* As used in part I (section 861 and following) and part II (section 871 and following), subchapter N, chapter 1 of the Internal Revenue Code (Code), and chapter 3 (section 1441 and following) of the Code, and the regulations thereunder, if a taxpayer is an eligible nondealer, the term *engaged in trade or business within the United States* does not include effecting transactions in derivatives for the taxpayer's own account, including hedging transactions within the meaning of § 1.1221–2.

(b) *Definitions*—(1) *Eligible nondealer.* For purposes of this section, an *eligible nondealer* is a person that is not a resident of the United States and is not, at any place (domestic or foreign), nor at any time during that person's taxable year, any of the following—

(i) A dealer in stocks or securities as defined in § 1.864–2(c)(2)(iv)(*a*);

(ii) A dealer in commodities as that term is used in § 1.864–2(d); or

(iii) A person that regularly offers to enter into, assume, offset, assign or otherwise terminate positions in derivatives with customers in the ordinary course of a trade or business, including regularly holding oneself out, in the ordinary course of one's trade or business, as being willing and able to enter into either side of a derivative transaction.

(2) *Derivative.* For purposes of this section, the term *derivative* includes—

(i) An interest rate, currency (as defined in paragraph (b)(3) of this section), equity, or commodity (as the term is used in section 864(b)(2)(B) and § 1.864–2(d)) notional principal contract (as the term is used in section 475(c)(2)); or

(ii) An evidence of an interest, or a derivative financial instrument (including any option, forward contract, short position and any similar financial instrument), in any—

(A) Commodity (as the term is used in section 864(b)(2)(B) and § 1.864–2(d));

(B) Currency (as defined in paragraph (b)(3) of this section);

(C) Share of stock (as the term is used in § 1.864–2(c)(2));

(D) Partnership or beneficial ownership interest in a widely held or publicly traded partnership or trust;

(E) Note, bond, debenture, or other evidence of indebtedness; or

(F) Notional principal contract described in paragraph (b)(2)(i) of this section.

(3) *Limitation.* For purposes of this section, the term *currency* is limited to currencies of a kind customarily dealt in on an organized commodity exchange.

Michael P. Dolan,

Deputy Commissioner of Internal Revenue.

[FR Doc. 98–15452 Filed 6–11–98; 8:45 am]

BILLING CODE 4830–01–P

DEPARTMENT OF THE INTERIOR

Minerals Management Service

30 CFR Chapter II

Review of Existing Regulations

AGENCY: Minerals Management Service (MMS), Interior.

ACTION: Review of regulations; request for comment.

SUMMARY: MMS has been performing annual reviews of its significant regulations and asking the public to participate in these reviews since 1994. The purpose of the reviews is to identify and eliminate regulations that are obsolete, ineffective, or burdensome. In addition, the reviews are meant to identify essential regulations that should be revised because they are either unclear, inefficient, or interfere with normal market conditions. As MMS moves towards performance based regulations, we are looking at ways to offer regulatory relief to industry for exceptional performance. We request your comments and suggestions with respect to which regulations could be more performance based and less prescriptive.

The purpose of this document is twofold. First, we want to provide the public an opportunity to comment on MMS regulations that should be eliminated or revised, or could be more performance based. Second, we are providing a status update of the actions MMS has taken on comments previously received from the public in response to documents published March 1, 1994, March 28, 1995, May 20, 1996, and April 24, 1997. We will only include in this document status updates on comments which have not been closed/implemented in the four previous status update documents listed above.

DATES: Written comments must be received by August 11, 1998.

ADDRESSES: Mail written comments to Department of the Interior; Minerals Management Service; Mail Stop 4230; 1849 C Street NW; Washington, DC 20240; Attention: Bettine Montgomery, MMS Regulatory Coordinator, Policy and Management Improvement.

FOR FURTHER INFORMATION CONTACT: Bettine Montgomery, Policy and Management Improvement, telephone: (202) 208–3976; Fax: (202) 208–4891; and E-Mail: Elizabeth.Montgomery@mms.gov.

SUPPLEMENTARY INFORMATION: MMS began a review of its regulations in early 1994 under the directives contained in the President's Executive Order 12866. The Executive Order calls for periodic regulatory reviews to ensure that all significant regulations are efficient and effective, impose the least possible burden upon the public, and are tailored no broader than necessary to meet the agency's objectives and Presidential priorities.

We invited the public to participate in the regulatory review. The invitation was sent out via different media, namely a **Federal Register** document dated March 1, 1994 (59 FR 9718); MMS and independent publications; and public speeches by MMS officials during that time.

MMS received approximately 40 public comments which were almost equally divided between its Royalty Management and Offshore Minerals Management Programs. We acknowledged the comments in a July 15, 1994 (59 FR 36108), document and set forth our planned actions to address the comments, along with an estimated timetable for these actions.

In the **Federal Register** notices published March 28, 1995 (60 FR 15888); May 20, 1996 (61 FR 25160); and April 24, 1997 (62 FR 19961), MMS: (a) asked for further public comments on its regulations, and (b) provided a status update of actions it had taken on the major public comments received to date. We received 10 responses from the 1995 document; 5 responses from the 1996 document; and 2 responses from the 1997 document. A number of the commentators expressed appreciation for our streamlining efforts and responsiveness to suggestions from our regulated customers.

This document updates the MMS planned actions and related timetables on the major comments received to date. It also solicits additional comments from the public concerning regulations that should be either eliminated or revised, or could be more performance based. Since some of the public responses received in response to prior documents contained comments on very specific and detailed parts of the regulations, this document does not address every one received. For information on any comment submitted which is not addressed in this document, please contact Mrs. Montgomery at the number and location stated in the forward sections of this document.

MMS regulations are found at Title 30 in the Code of Federal Regulations. Parts 201 through 243 contain regulations applicable to MMS's Royalty Management Program; Parts 250 through 282 are applicable to MMS's Offshore Minerals Management; and Part 290 is applicable to Administrative Appeals.

Status Report

The following is a status report by program area on the comments MMS has received, to date, on its regulations.

A. Offshore Minerals Management (OMM) Program

OMM is currently reviewing the following 14 sections of OMM regulations:

1. Regulations Governing Conservation of Resources and Diligence (30 CFR 250, Subpart A.)

Comments Received—(a) ''Revise Determination of Well Producibility to make wireline testing and/or mud logging analysis optional * * *.'' (b) ''* * * consider comments from the 11/30/95 MMS sponsored workshop to formulate policy for granting SOP (suspension of production) approvals based on host capacity delays, non-contiguous unitization, and market conditions/economic viability.''

Action Taken or Planned—For (a) above, a proposed rule, ''Postlease Operations,'' revising Subpart A was published on February 13, 1998 (63 FR 7335). This revision addresses the determination of well producibility process, and the public is invited to comment on this and all areas of the proposed rule. The comment period closes on July 17, 1998. For (b) above, MMS did consider the comments from the 11/30/95 workshop on granting suspensions of production when preparing the proposed rule.

Timetable—The projected publication date for a final rule is April 1999.

2. Revision of the Process for Incorporating Codes and Standards by Reference (30 CFR 250.1, Subpart A)

Comments Received—''* * * review individual documents when changed and recommend adoption or rejection to reduce confusion as to the standard that should be used.''

Action Taken or Planned—On November 26, 1996 (61 FR 60019), MMS published a final rule that updated over 50 documents incorporated by reference. In the preamble of the rule, MMS discussed its new policy for incorporating documents into the regulations. This will result in a much quicker and more efficient process for incorporating documents. If MMS determines that the changes to documents are minor, result in safety improvements or represent new industry standard technology, and do not impose undue costs on the affected parties, MMS will incorporate the new edition with a final rule published in the **Federal Register**. This will keep the number of out-of-date documents incorporated by reference to a minimum. This also means that a new edition becomes effective without public comment.

Timetable—Completed.

3. Regulations Applicable to Directional Surveys (30 CFR 250.51, Subpart D)

Comments Received—''Revise directional survey requirements to allow

a composite measurement-while-drilling directional survey to be acceptable * * *.''

Action Taken or Planned—MMS is rewriting the regulations governing Oil and Gas Drilling Operations, found in 30 CFR Part 250, Subpart D, in plain English. During this rewrite, MMS is making appropriate revisions to the regulations. Updating the requirements for directional survey requirements is one of the revisions planned for this rewrite.

Timetable—We plan to publish a Notice of Proposed Rulemaking this fall.

4. Regulations Applicable to Blowout Preventer (BOP) Testing and Maintenance Requirements (30 CFR 250.56 and 250.57, Subpart D)

Comments Received—''Revise BOP testing regulations to allow for less frequent and shorter tests. Allow 14 day BOP test interval vs. current 7-day interval.''

Action Taken or Planned—MMS published a proposed rule to amend the regulations governing the testing requirements for BOP systems used in drilling and completion operations in the **Federal Register** on July 15, 1997 (62 FR 37819). The rule proposed to allow a lessee up to 14 days between BOP pressure tests. We made the decision to allow the extended testing time frame based on a completed study of BOP performance by an engineering consulting firm. The study concluded that no statistical difference in failure rates existed between BOP's tested as required, every 7 days, and those tested between an 8 to 14-day interval. The new testing time frame applies to drilling, sidetrack, and completion activities, but not to workover activities since they were not examined in the performance study. MMS has made minor revisions to the rule based on the five sets of comments on the proposed rule, and we published the final rule on June 1, 1998 (63 FR 29604).

Timetable—Completed.

5. Approval and Reporting Processes for Well-Completion Operations (30 CFR 250.83)

Comments Received—''* * * a recompletion operation requires that a Well Summary Report MMS–125 be filed within 30 days. Much of this data is repetitious of data previously submitted on the Sundry Notice MMS–124. The process could be changed to provide only data that has changed.''

Action Taken or Planned—We will study this process to decide whether or not to change reporting requirements through rulemaking.

Timetable—Ongoing.

6. Safety System Design and Installation (30 CFR 250.122)

Comments Received—Safety System Design and Installation (30 CFR 250.122)—''We believe that the (Safety and Environmental Management Program) SEMP/RP 75 Performance Measure process of alternative compliance for operators who voluntarily implement RP 75 and have ''good'' performance should allow those operators to periodically update drawings and other documents of production safety system installations and routine modifications instead of receiving required MMS approval of these documents before any modifications are performed (Comment #14 of our July 17, 1996 letter). This is one example of the alternative compliance process that we suggest.''

Action Taken or Planned—This comment expresses an interest for regulatory relief in exchange for ''compliance'' with API RP75. This industry standard captures the essence of SEMP. On August 13, 1997, the MMS published a **Federal Register** notice on SEMP (62 FR 43345). This notice publicly relayed our intent to continue collaborative efforts with the U.S. offshore oil and gas industry to promote the non-regulatory (i.e., voluntary) adoption of SEMP; it simultaneously relayed our intent to increasingly focus on operator performance in the field. This decision was made after extensive review of the industry's actions to adopt RP75. We have seen important strides made in the development of SEMP programs by the majority of OCS operators. We have, however, still not seen widespread implementation of these programs on offshore installations. In the most recent SEMP notice, we asked senior company officers to notify MMS when they had ''fully'' implemented SEMP at the field level. In our view, ''fully'' means that an operator has developed their SEMP plan and has implemented it at enough of their offshore installations to commence continuous improvement efforts (e.g., SEMP audits). At the end of April 1998, we had received such notifications from only five OCS operators. This fact leads us to conclude that SEMP is not yet broadly implemented at the field level. Therefore, any requests for regulatory relief in exchange for SEMP implementation will need to be made to MMS on an ad hoc basis by operators who are prepared to demonstrate, and have the MMS verify, both the extent of their SEMP implementation and their field-level performance.

MMS has begun the process of revising 30 CFR Part 250, Subpart H. The process changes suggested above will be considered internally during preparation of the Notice of Proposed Rulemaking.

Timetable—MMS expects the Notice of Proposed Rulemaking for a revised 30 CFR Part 250, Subpart H, to be published for comment in the fall of 1998.

7. Regulations Applicable to Production on the Outer Continental Shelf (OCS) (30 CFR Part 250, Subpart H)

Comments Received—Production Safety System Testing and Records (30 CFR 250.124)—''OOC (Offshore Operators Committee) is very much interested in working with MMS on a research project beginning in 1997 to consider appropriate leak rate tolerances for critical safety devices (Comment #11 of our July 17, 1996 letter) as well as testing frequencies of accurate and reliable new generation safety devices (Comment #13 of our July 17, 1996 letter).''

Action Taken or Planned—MMS has initiated a research project with Southwest Research Institute which will investigate the question of leak rate tolerances for critical safety devices. First results from the study should become available in the fall of 1998. MMS has also initiated the rulemaking process to revise all of subpart H. As part of this process, testing frequencies for safety devices will be discussed internally. Any proposed changes to testing frequencies will appear in the Notice of Proposed Rulemaking for subpart H.

Timetable—MMS expects the Notice of Proposed Rulemaking for a revised subpart H to appear in the **Federal Register** this fall.

8. Regulations Governing Safety and Pollution Prevention Equipment (SPPE) (30 CFR Part 250.126, Subpart H)

Comments Received—(a) *Quality Assurance (30 CFR 250.126)*—''We encourage MMS to eliminate unnecessary record keeping requirements (Comment #16 of our July l7, 1996 letter) as proposed in the December 18, 1996, **Federal Register** notice 61 FR 66639. However, we strongly object to eliminating functional noncertified SPPE that is currently in service for any reason other than hot work or remanufacture as explained in our February 14, 1997, comments on the proposal at 61 FR 66639.'' (b) ''Revise regulations governing Safety Valves to increase time between test and allowable leakage rates.''

Action Taken or Planned—For (a) above, revised quality assurance requirements were published as a

Notice of Final Rulemaking in the **Federal Register** on August 8, 1997 (62 FR 42669). To reduce paperwork, the new rule eliminated the need for companies to update their list of noncertified SPPE. It also eliminated the detailed reporting requirements regarding the installation and failure of certified equipment. The final rule requires replacement of noncertified SPPE only when the noncertified SPPE requires offsite repair, remanufacturing, or hot work, such as welding. This allows operators to continue using noncertified SPPE provided the equipment works properly, and when necessary, requires only minor repairs. Once noncertified SPPE requires offsite repair, manufacturing, or hot work, it may not be used on the OCS.

For (b) above, as discussed under Item No. 7, MMS contracted with Southwest Research Institute in September 1997 to study leakage rates for surface and subsurface safety valves.

Timetable—The Southwest Research Institute will complete the study in the fall of 1998.

9. Regulations Regarding Construction and Removal of Platforms and Structures (30 CFR 250, Subpart I)

Comments Received—(a) ''Modify platform design wave return period calculation by placing a cap of 100 years on the field life calculation * * *.'' (b) ''Adopt API RP2A (20th edition) Section 14, Surveys, in its entirety * * *.'' (c) ''Revise site clearance requirements * * *.'' (d) ''Revise requirements for placing protective domes over well stubs * * *,'' etc.

Action Taken or Planned—For (a), (c), and (d) above, the proceedings for the International Workshop on Offshore Lease Abandonment and Platform Disposal held in April 1996 were published in 1997. We will be considering the comments we received from the proceedings in drafting a proposed rule on decommissioning. For (b) above, NTL98–4N was issued on March 4, 1998. It contains interim guidance for applying ''Simplified Fatigue Analysis'' Procedure from American Petroleum Institute (API) Recommended Practice 2A (RP2A), Planning, Designing, and Constructing Fixed Offshore Platforms, Nineteenth Edition (August 1, 1991), and Twentieth Edition (July 1, 1993), and its supplement 1 (February 1, 1997).

Timetable—For (a), (c), and (d) above, MMS plans to draft a rule on decommissioning by December 1998. For (b) above, ongoing.

10. Regulations Applicable to Pipelines and Pipeline Rights-of-Way (30 CFR 250, Subpart J)

Comments Received—Revise regulations to avoid duplication of requirements between the Department of the Interior (DOI) and the Department of Transportation (DOT). The following comments were submitted on the proposed rule on regulating pipelines which was published October 2, 1997 (62 FR 51614):—Commentators raised concerns about the Notice of Proposed Rulemaking involving technical issues affecting the applicability of the rule to producer-operated pipelines. The pipelines were either previously subject to DOT regulation under terms of the former 1976 Memorandum of Understanding between DOI and DOT, or cross into State waters without first connecting to a transporting operator's pipeline on the OCS as described in the 1996 Memorandum of Understanding.

Action Taken or Planned—As stated in our previous Notice, ''Reviewing Existing Regulations'' (April 24, 1997), a Memorandum of Understanding on the pipeline issue between DOI and DOT became effective December 10, 1996, and was published in the **Federal Register** on February 14, 1997 (62 FR 7037). Since then, we have published a proposed rule on October 2, 1997 (62 FR 51614) clarifying regulatory jurisdiction of the pipelines. MMS is now proceeding with a final rule that will clarify and resolve the technical issues raised during the comment period on the proposed rule.

Timetable—We plan to publish the Notice of Final Rulemaking incorporating comments on the proposed rule by mid-summer.

11. Allocation Meter Facility Requirements (30 CFR 250.180(e))

Comments Received—''We suggest that the regulations be revised to recognize the use of liquid turbine meters and the inability to physically make adjustments to these types of meters, and to clarify that samples should be taken proportional to flow to reflect present industry practice.''

Action Taken or Planned—MMS published a proposed rule, ''Oil and Gas Production Measurement, Surface Commingling, and Security,'' on February 26, 1997 (62 FR 8665), that addressed this comment. The final rule was published May 12, 1998 (63 FR 26361), and will be effective June 29, 1998.

Timetable—Completed.

12. Model Unit Agreement (30 CFR 250.194)

Comments Received—''In several instances within the Model Unit Agreement language, the defined terms are not used when it seems appropriate. We recommend that the defined terms be used to avoid confusion when reviewing the agreements.''

Action Taken or Planned—On July 3, 1996 (61 FR 28525), MMS published a final rule which removed the Model Unit Agreement from the Code of Federal Regulations. We have no plans to revise the Agreement at this time. A final rule on Unitization was published on February 5, 1997 (62 FR 5329), and was effective March 7, 1997.

Timetable—Completed.

13. Shallow Hazards Requirements (NTL No. 83–3)

Comments Received—''* * * revise (Notice to Lessees) NTL No. 83–3 which relates to shallow hazards requirements. Industry has requested that MMS allow use of navigational positioning equipment in lieu of buoying pipelines.''

Action Taken or Planned—We are revising NTL No. 83–3 and are in the process of developing guidance for navigational positioning equipment technology. In the revised NTL, industry may still use buoying, but if they choose not to use buoying, the NTL will require the use of state-of-the-art navigational systems. This will assure the accuracy and safety of anchoring operations in the vicinity of pipelines.

Timetable—Ongoing.

14. Regulations Applicable to Production Safety System Training (30 CFR 250.214, Subpart O)

Comments Received—In response to a June 10, 1997, workshop on the development of a performance based training rule, MMS received a variety of comments from the oil and gas industry and MMS accredited training schools. These comments include: (a) ''Continue to implement the current Subpart O training system.'' (b) ''Develop a dual training system incorporating elements from both a performance based program and MMS's current system.'' (c) ''Companies may neglect training under a performance based system.'' (d) ''MMS should use caution when changing from the current prescriptive training system * * *'' (e) ''* * * use of a written MMS test may cause employees stress that would lead to poor performance on the exams.'' (f) ''* * * hands-on simulator testing is an excellent and realistic means of gauging performance. * * * MMS may not have the expertise or

equipment to properly conduct simulator tests.'' (g) ''Hands-on testing should only be conducted onshore, not offshore.'' (h) ''How will MMS react to a company that does not train its employees but has a good safety record * * *.'' (i) ''This may not be the right time to move towards a performance system because of the increase in OCS activity and the shortage of trained and experienced workers.''

Activity Taken or Planned—MMS has prepared a proposed rule on a performance based training program which relies on industry to design its training needs. We would monitor the program through tests and audits. In developing the rule, we took into consideration the comments received in the June 10, 1997, workshop.

Timetable—We plan to publish the Notice of Proposed Rulemaking for comment by late summer.

B. Royalty Management Program (RMP)

RMP is reviewing regulations in the following 12 subject areas:

1. Statute of Limitations and Record Retention

Comments Received—''Statute of limitations is unclear.''—''Establish a reciprocal 5-year statute of limitations from the date an obligation becomes due.''—''Absence of a record retention program creates some confusion. Regulations should require record retention to coincide with the 5-year statute of limitations.''

Action Taken or Planned—The Federal Oil and Gas Royalty Simplification and Fairness Act (Act) was signed into law on August 13, 1996. The Act contains language to implement a 7-year statute of limitations for MMS processes. We are changing processes, developing implementation plans, and preparing regulatory changes to comply with the requirements of the Act.

Timetable—Ongoing.

2. Interest on Overpayments

Comment Received—''Interest accrual should be equitable between the agency and industry.''

Action Taken or Planned—The Act provides for the payment of interest on overpayments for oil and gas leases on Federal lands. On March 31, 1997, we issued a Dear Payor letter about the Act's provisions involving interest issues. We issued another Dear Payor letter on October 1, 1997, explaining interest calculations and interest reporting requirements. MMS is designing system changes to implement the requirements of the Act and preparing regulations to be published.

Timetable—A Notice of Rulemaking providing for interest on overpayments and underpayments will be published for comment in 1998.

3. Interest Assessments

Comments Received—''A de minimis provision should be established for the assessment of interest.''—''* * * MMS should enhance their existing interest assessment system to allow for the offsetting of prior period adjustments made on the MMS Form 2014 before calculating applicable interest.''

Action Taken or Planned—The Act not only provides for the payment of interest on overpayments for oil and gas leases on Federal lands, but allows industry to calculate the correct interest assessment. Also, the Act allows interest that has accrued on overpayments to be applied to reduce underpayments. We have included billing thresholds in our interest system to prevent bills for de minimis amounts. In May 1997, we started sending interest statements instead of interest bills, and the statements contain totals for interest that MMS owes and for interest owed to MMS. MMS is implementing system changes to conform with the requirements of the Act and preparing regulations.

Timetable—As noted under Item 2, Timetable, a Notice of Rulemaking for comment on payment of interest will be published in 1998.

4. Gas Valuation

Comments Received—(a) ''Define gross proceeds more equitably and clearly in this ever changing gas marketing environment.'' (b) ''It is important that the Federal Gas Valuation Rule final rule not discriminate against producers which are affiliated with marketing companies and are party to non-arms-length contracts.'' (c) ''Extend the elimination of processing and transportation allowance forms to oil.'' (d) ''* * *commends the MMS on their use of negotiated rulemaking process to address the valuation of gas. Rule should result in administrative cost savings for all parties.'' (e) ''If the Takes vs. Entitlements policy stays in effect, MMS should strictly enforce reporting on actual quantities taken for all industry participants.'' (f) ''Eliminate Transportation and Processing Allowance Forms for Indians.''

Action Taken or Planned—For (c) above, a final rule revising the valuation regulations governing allowances was published in the **Federal Register** on February 12, 1996 (61 FR 5448). This rule eliminated most allowance forms filing requirements for oil, gas, and coal produced from Federal leases.

For (a) above, on December 16, 1997, MMS published a final rule clarifying what deductions may be taken from gross proceeds for the costs of transportation under Federal Energy Regulatory Commission (FERC) Order No. 636. The rule was effective February 1, 1998 (63 FR 65753). For (a), (b), and (d) above, the Federal Gas Valuation proposed rule was published in the **Federal Register** on November 6, 1995 (60 FR 56007), and the comment period closed on February 5, 1996. In light of the comments received from 44 entities, on May 21, 1996, MMS reopened the public comment period and asked for public comment on five options for proceeding with further rulemaking (61 FR 25421). The reopened public comment period closed August 19, 1996. MMS reconvened the Federal Gas Valuation Negotiated Rulemaking Committee on June 12–14, 1996, and asked the Committee to provide input into the five options.

MMS performed a cost benefit analysis on three viable options for proceeding with gas valuation regulations. Given the results of the cost benefit analysis ($20 million annual loss in royalties) and changes occurring in the gas market, MMS withdrew the proposed rulemaking on April 22, 1997 (62 FR 19536). MMS is developing a framework for offshore gas valuation and will conduct workshops to obtain constituent input. We will work with the States to develop an onshore perspective.

For (e) above, the Act contains language requiring ''takes'' reporting for stand alone leases and agreements containing 100 percent Federal leases. The Act also requires ''entitlements'' reporting for so-called mixed agreements (agreements containing Federal, State, Indian, and/or fee leases) with an exception to use ''takes'' reporting for marginal properties. We are changing processes, developing implementation plans, and preparing regulatory changes to comply with the requirements of the Act.

For (f) above, a proposed rule developed by the Indian Gas Valuation Negotiated Rulemaking Committee was published on September 23, 1996 (61 FR 49894). The Indian Valuation Negotiated Rulemaking Committee was reconvened on March 26, 1997. This rule addressed the valuation for royalty purposes of natural gas produced from Indian leases. The rule proposes to reduce substantially the transportation and allowance reporting forms for gas from Indian leases. The proposed rule would add a methodology to calculate

the major portion value and an alternative methodology for dual accounting as required by Indian lease terms. The proposed rulemaking would simplify and add certainty to the valuation of production from Indian leases.

Timetable—We plan to publish a Notice of Proposed Rulemaking for comment on takes vs. entitlements early in 1999. We plan to publish a Notice of Final Rulemaking on Valuation of Gas From Indian Leases in 1998.

5. Reporting Procedures and Threshold

Comments Received—''Eliminate or streamline MMS Form 2014 reporting.''

—''Report prior period adjustments on a ''net'' basis.''

—''Change estimated payment from lease level to payor level.''

—''Assess interest at the payor level—for the Indian leases on the basis of each Indian Tribe.''

—''Eliminate Payor Information Form (PIF) Filings. This is an unnecessary and costly reporting requirement.''

—''MMS should modify the regulations and system tolerances/thresholds so that only those exceptions that are cost beneficial for MMS to pursue are generated.''

—''Set thresholds or tolerances for regulations to save costs to both MMS and industry. (Example: Invoices are sent for less than $1.00.)''

—''MMS should not implement regulations until its systems are programmed to handle the new regulations.''

—''* * *the prompt implementation of the recommendations of the Royalty Policy Committee Audit and Royalty Reporting and Production Accounting Subcommittees will achieve those simplification and streamlining goals * * *.''

Action Taken or Planned—Building upon the Royalty Policy Committee's earlier study, the RMP Reengineering Team (Team) analyzed current information reporting requirements to determine the data necessary for future RMP processes. The Team identified opportunities for easing reporting burden, avoiding data duplication, decreasing error rates, and increasing processing efficiency. The Team developed 32 reporting changes that are in their report titled ''Preliminary Design Concepts of the RMP Reengineering Team.'' If these changes are implemented, they will significantly reduce the volume of lines reported and processed, minimize errors and related error correction workload, simplify reporting, and lower costs for both reporters and RMP. The Team's changes generally incorporate or exceed the Royalty Policy Committee's recommendations.

In addition to our reengineering work, we continue to pursue shorter range reporting improvements not requiring significant system changes. For example, the Payor Information Form MMS–4025 is being streamlined to eliminate numerous data fields. Also, many production reporting changes are being implemented where redundant or unnecessary data collection is identified. We will continue to review and revise our billing thresholds and assessment policies to reduce administrative costs.

On April 14, 1998 (63 FR 17133), we published a proposed rule requesting that all reports be submitted electronically by December 31, 1998. Electronic submission significantly reduces the amount of time necessary for a company to complete the monthly reports and MMS processing time, since no manual entry is required.

Timetable—Ongoing.

6. Refunds Due to Industry Which Are Controlled by Section 10 of the OCS Lands Act

Comments Received—''Section 10 refund requirements should be eliminated. The refund process used for onshore properties should be established for offshore properties.''

—''* * * we would urge the MMS to facilitate elimination of the Section 10 recoupment procedures in its entirety. The current practice is administratively burdensome and not cost effective for the industry or MMS.''

—''Eliminate documentation requirements for refund requests over $250M (million); and/or increase this threshold to $500M; raise the refund request limit to $5M. Exempt pure accounting adjustments for items such as production date adjustments and incorrect AID (Accounting Identification) numbers; exempt unit revisions because these revisions are often made more than 2 years after the date of production; establish a time limit on MMS for review of a refund request to expedite the process; and overpayments on OCS properties should be allowed to be offset against any OCS underpayment.''

Action Taken or Planned—The Act repeals the Section 10 refund procedures of the OCS Lands Act. On November 25, 1996, we mailed a Dear Payor letter with guidelines on refund procedures. We are presently developing a proposed rule implementing the new refund procedures.

Timetable—Ongoing.

7. Electronic Data Exchange

Comments Received—''* * * MMS (should) continue their ongoing effort to exchange data by electronic means rather than hard copy thereby enabling the industry to adjust the data elements to integrate with each company's systems.''

Action Taken or Planned—We continue to encourage the exchange of data electronically. Our Reporter and Payor Training sessions stress the benefits of electronic reporting and provide reporters and payers with options for reporting by electronic data interchange, diskette, or magnetic tape. On April 22, 1997 (62 FR 19497), we published a final rule specifying how payments are made for mineral royalties, rentals, and bonuses that requires all payments to be made electronically to the extent it is cost effective and practical. We also published on April 8, 1998 (63 FR 17133), a proposed rule to require reporters to submit royalty and production reports electronically. Another way we publicize electronic reporting is on the MMS/Royalty Management Program Internet website.

Timetable—Reporter and Payor Training sessions are planned for the summer of 1998. We will work towards publishing a Notice of Final Rulemaking on Electronic Reporting in 1999.

8. Parameters for Identifying Improper MMS Form 2014 Adjustments

Comments Received—''The MMS currently inquires as to any variances between any Form 2014 adjustments and its original Form 2014 entry that exceed $1.00, which is an insignificant amount. It is suggested that the MMS's review should be relevant to the amount of the adjustment such as a given percentage.''

Action Taken or Planned—At this time, MMS does not plan to make changes in this procedure. We need to ensure accuracy and integrity in the accounting systems, and retain precise records for the auditors. In our reengineering effort, we are looking at streamlined reporting for short- and long-term benefits for MMS and industry.

Timetable—Ongoing.

9. Publish Final Rules Expeditiously

Comments Received—(a) ''* * * primary recommendation is the expeditious completion and publication of pending final rules, for example, the proposed rules on administrative offset and limitations on credit adjustments, and the proposed rule on payor liability.

* * * Certainly, publication of the final federal (and Indian) gas valuation rule should be facilitated to the maximum extent possible.'' (b) '' * * * it would be extremely beneficial for MMS to publish its proposed rule implementing the Federal Energy Regulatory Commission's (FERC) Order 636 as soon as possible because of its impact on and relationship to the federal gas valuation rule.''

Action Taken or Planned—For (a) above, we are in the process of finalizing the Indian gas valuation rule. As for the final **Federal Register** (62 FR 19536) that withdrew the proposed rule because of changes occurring in the gas market. MMS is developing a framework for offshore gas valuation and will conduct workshops to obtain constituent input. We will work with the States to develop an onshore perspective.

New language in the Act will cause a number of changes in the Payor Liability rule and the Administrative Offset and Limitations on Credit Adjustments rule. We are working to incorporate the effects of the Act in these rules.

For (b) above, the final rule implementing FERC Order 636 was published on December 16, 1997 (62 FR 65753).

Timetable—Ongoing.

10. The Appeals Process

Comments Received—''Current appeals process is too long.''

Action Taken or Planned—The Act imposed a 33-month time frame for the Department of the Interior to decide appeals involving royalties on Federal oil and gas leases. This deadline does not apply to appeals on royalties involving Indian leases and Federal leases for minerals other than oil and gas.

On October 28, 1996 (61 FR 55607), MMS published a proposed rule establishing a 16-month deadline for MMS to decide all appeals to the Director, including Indian leases and appeals for royalties on minerals other than oil and gas. After MMS's decision, the appellants can further appeal to the Interior Board of Land Appeals. The comment period for this proposed rule ended on March 27, 1997.

The Royalty Policy Committee, a Federal Advisory Committee reporting to the Secretary, established a subcommittee of State, Indian, and industry representatives to study the appeals process. The Royalty Policy Committee reported its recommendations to the Secretary in March 1997, and the Secretary accepted the recommendations, with minor changes, in September 1997. The Department now is preparing a revised proposed rule to implement these recommendations.

Timetable—We plan to issue a revised Notice of Proposed Rulemaking on the Administrative Appeals Process by late 1998, and a Notice of Final Rulemaking in 1999.

11. Valuation of Coal From Federal Leases

Comments Received—''* * * [A]mending this section to allow the use of the lessee's arm's length contracts to support the value for a nonarm's-length contract would make this section more effective and also eliminate the need to use third-party proprietary information in many instances.'' ''* * * [T]he use of the lessee's arm's-length contracts is the best evidence of the comparable value of any nonarm's-length sales by the lessee.''

Action Taken or Planned—The Royalty Policy Committee's Coal Subcommittee is reviewing issues related to coal valuation, and we will use the Royalty Policy Committee's recommendations to make improvements to the coal royalty valuation and reporting procedures and associated regulations.

Timetable—Ongoing.

12. Other MMS/Royalty Management Program Regulatory Actions

This past year we published proposed rules that would amend the valuation of oil produced from Federal and Indian leases and held a number of public meetings to receive input on the proposals. After analyzing the comments received, we plan to issue final rules in late 1998.

The Act expanded the authorities and responsibilities that the Secretary of the Interior may delegate to the States. To implement this, we published a final rule on August 12, 1997 (62 FR 43076), for Delegation of Royalty Management Functions to the States.

We invite you to comment on our existing regulations and also the actions we have taken in response to comments and enacted legislation. And, we invite you to stay further informed on many of the topics discussed in this status report by visiting the MMS Internet Website at www.mms.gov.

Cynthia Quarterman,

Director, Minerals Management Service

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ENVIRONMENTAL PROTECTION AGENCY

40 CFR Part 52

[SIPTRAX NO. PA108–4073b; FRL–6107–5]

Proposed Approval and Promulgation of Air Quality Implementation Plans; Pennsylvania; Source Specific Control Measures and a Revised Episode Plan for USX Clairton in the Liberty Borough PM–10 Nonattainment Area

AGENCY: Environmental Protection Agency (EPA).

ACTION: Proposed rule.

SUMMARY: EPA proposes to approve the State Implementation Plan (SIP) revision submitted by the State of Pennsylvania for the purpose of establishing control measures at USX's Clairton Coke Works in Clairton, Pennsylvania and enhancing the Allegheny County Health Department's (ACHD) episode plan by requiring that USX develop and maintain a source-specific episode plan subject to ACHD approval. In the Final Rules section of this **Federal Register**, EPA is approving the State's SIP revision as a direct final rule without prior proposal because the Agency views this as a noncontroversial SIP revision and anticipates no adverse comments. A detailed rationale for the approval is set forth in the direct final rule and the technical support document for this rulemaking. If no adverse comments are received in response to this proposed rule, no further activity is contemplated in relation to this proposed rule. If EPA receives adverse comments, it will publish a document informing the public that the direct final rule did not take effect and EPA will address all public comments received in a subsequent final rule based on this proposed rule. EPA will not institute a second comment period on this action. Any parties interested in commenting on this action should do so at this time.

DATES: Comments must be received in writing by July 13, 1998.

ADDRESSES: Comments may be mailed to Makeba Morris, Chief, Technical Assessment Branch, Mailcode 3AP22, U.S. Environmental Protection Agency, Region III, 841 Chestnut Building, Philadelphia, Pennsylvania 19107. Copies of the documents relevant to this action are available for public inspection during normal business hours at the Air Protection Division, U.S. Environmental Protection Agency, Region III, 841 Chestnut Building, Philadelphia, Pennsylvania 19107; the Air and Radiation Docket and