



# United States Department of the

OFFICE OF THE SECRETARY

Washington, D.C. 20240

CERTIFIED MAIL--  
RETURN RECEIPT REQUESTED

SEP 29 1995

Re: Order to Perform--Data Required on Dual Accounting

Dear Sir or Madam:

The Secretary of the Interior has a trust responsibility to ensure compliance with Indian oil and gas lease terms and regulations. Regulations at 30 CFR 206.155 (1994) require that, where lease terms provide, dual accounting (accounting for comparison) must be performed to determine the value of natural gas production for royalty purposes. As a royalty payor on Indian leases, you must comply with any dual accounting requirements embodied in the lease terms. The Minerals Management Service (MMS) emphasized your obligation to properly determine and pay royalties on production from Indian leases in Dear Payor letters dated September 30, 1988; July 27, 1992; and February 2, 1993.

The MMS is reviewing whether companies have complied with the dual accounting requirements of Indian oil and gas leases. This review will assist MMS in ensuring that royalty payments are in compliance with applicable laws, regulations, directives, and lease terms. After this review, MMS may require a more comprehensive audit or other investigation of the company records.

For this review, dual accounting is defined as: A valuation method that compares the value of the gas as a single commodity (unprocessed gas) to the value of that same gas after processing (the combined values of the residue gas and gas plant products, less processing and transportation costs). Under MMS rules, you are required to pay royalty on the greater value determined by dual accounting or the gross proceeds accruing to the lessee. See 30 CFR 206.153(h). This review is authorized by Sections 103(a) and 107(a)(1) of the Federal Oil and Gas Royalty Management Act of 1982(a) (FOGRMA), 30 U.S.C. 1713(a) and 1717(a)(1), 30 CFR 212.50 and 212.51(a), and relevant lease terms.

To assist in this review, you are hereby ordered to do the following:

1. Complete and return the enclosed Special Report (Enclosure A) within 60 days after receipt of this order. List all Indian oil and gas leases for which your company had royalty payment responsibility during the period of January 1, 1990, to the present. Identify whether dual accounting was required under the lease terms. Indicate whether dual accounting was performed.
2. Complete and return the enclosed Declaration (Enclosure B) within 60 days after receipt of this order. The Declaration must be submitted by a knowledgeable and responsible officer (e.g. Chief Executive Officer, Chief Operating Officer, General Counsel). The Declaration provides for a company policy statement indicating whether dual accounting was performed on the Indian leases identified on the Special Report. Finally, the Declaration allows for a company to indicate that dual accounting is not required (e.g. gas from lease never processed), when applicable. If this condition is shown, a written explanation is required.
3. Mail information required in Enclosures A and B to:

Deputy Associate Director for Compliance  
Royalty Management Program  
Minerals Management Service  
P.O. Box 25165, Mail Stop 3600  
Denver, Colorado 80225-0165

A separate letter is being sent to each payor code with Indian leases on the MMS system. If your company receives multiple copies of this letter, submit only one response consolidating all payor codes.

This order is not in derogation of MMS's right, under existing statutes, regulations, and lease terms including those cited above, to require further documents, information, or answers to questions in the course of any audit of any specific lease or royalty payor.

Because this order is signed by an Assistant Secretary of the Department of the Interior, it is not subject to appeal to the Interior Board of Land Appeals (IBLA) and is the final action of the Department. Blue Star, Inc., 41 IBLA 333 (1979); Marathon Oil Co., 108 IBLA 177 (1989)

The MMS will vigorously enforce the dual accounting requirement where it is applicable on Indian leases. The MMS does recognize that payors sometimes have questions on the calculation for dual accounting. The MMS is willing to assist payors in assuring compliance with the dual accounting requirement.

If you have any questions, please call Mr. Kenneth Moyers of the MMS at (303) 231-3185.

Sincerely,

A handwritten signature in cursive script that reads "Bob Armstrong".

Bob Armstrong  
Assistant Secretary  
Land and Minerals Management

2 Enclosures



Enclosure B

OMB No. 1010-0097  
Expires August 31, 1997  
The Paperwork Reduction Act of 1980 (44  
U.S.C. 3501 et seq.) requires us to inform  
you that this information is being collected  
to determine if dual accounting requirements  
are being met in compliance with terms in  
Indian leases and with applicable regulat  
when calculating and paying royalties.

DUAL ACCOUNTING

DECLARATION OF \_\_\_\_\_ (Name of Payor)

1. My name is \_\_\_\_\_ I am currently  
employed by \_\_\_\_\_ (Company), \_\_\_\_\_ (City),  
\_\_\_\_\_ (State), as \_\_\_\_\_ (Title).

In this position, I am responsible for compliance with the regulations and orders of the Minerals Management Service (MMS). I am personally knowledgeable regarding the effort of the company to comply with the order of Assistant Secretary, Robert Armstrong, dated September 29, 1995 ("Armstrong order") covering dual accounting.

2. For the declaration, the term dual accounting is defined as: A valuation method that compares the value of the gas as a single commodity (unprocessed gas) to the value of that same gas after processing (the combined values of the residue gas and gas plant products, less processing and transportation costs). Under MMS rules, royalties shall be paid on the higher value determined by either (1) dual accounting or (2) gross proceeds accruing to the lessee.

Following reasonable investigation, a good-faith review of the company's files, and discussion with company personnel whom I believe to be familiar with calculating and paying royalties under the terms of Inc leases, I affirm the following statement on dual accounting.

**As a matter of company policy, personnel responsible for calculating and paying royalties under oil and gas leases on Indian tribal or allottee lands, for each month since January 1, 1990, to present:**

- Did perform Dual Accounting**  
 **Did not perform Dual Accounting**  
 **Verified that Dual Accounting is not required**  
**(Example: gas from lease is never processed)**

A listing of all Indian leases for the company and the status of each lease is shown on the Special Report provided with this Declaration.

Pursuant to 28 U.S.C. §1746, I declare under penalty of perjury that the foregoing is true and correct, to the best of my knowledge.

Executed on \_\_\_\_\_