



United States Department of the Interior

MINERALS MANAGEMENT SERVICE

Washington, DC 20240

CVD/FCB
Mail Stop 3672

MAR 31 1997

Dear Payor:

On August 13, 1996, President Clinton signed into law the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA). This act amended the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) in several ways.

Some of the more significant changes involve interest issues. The RSFA requires the Minerals Management Service (MMS) to pay interest on Federal onshore and offshore oil and gas overpayments. We will pay interest on overpayments made on or after February 13, 1997, for production months September 1996 and later. The RSFA does not apply to production months before September 1996.

In addition, RSFA allows you to report interest on royalty overpayments and underpayments at the same time you report royalty adjustments. The RSFA interest provisions do not apply to solid mineral, geothermal, or Indian leases.

How will MMS implement the interest requirements of RSFA?

Because of extensive computer reprogramming, we will implement the interest provisions of RSFA in two phases. Phase one will enable MMS to calculate and pay interest on overpayments and is targeted for completion by the end of April 1997. We will meticulously review interest calculations and start issuing Interest Statements by the end of May 1997. Phase two will allow you to calculate and report interest on your Report of Sales and Royalty Remittance (Form MMS-2014) and is targeted for completion in September 1997.

How will MMS calculate interest for royalty overpayments and underpayments?

We will calculate both overpayment and underpayment interest from the due date of the sales month being adjusted to the day we receive your payment or recoupment. If you have an estimated payment on file for a lease, we will extend the initial sales month due date 1 month. We will calculate interest using the rates established by the Internal Revenue Code, 26 U.S.C. 6621(a)(1) and (2) (Supp. 1987). Interest will be compounded daily. The interest rate for overpayments will be 1 percentage point less than the interest rate for underpayment.

How will I be notified of interest I owe MMS, or interest MMS owes me?

Beginning in May 1997, instead of the current interest bills, we will send Interest Statements. The statement will show the interest for each lease and sales month adjusted on your Form MMS-2014. The statement will contain totals for interest that MMS owes you, and for interest you owe MMS. It will also include a total showing the net difference between interest owed and owing. A letter will accompany each statement to explain the options available when MMS owes you interest.

Are there any limitations on overpayment interest?

Yes. The MMS will not pay interest on excessive overpayments made for the sole purpose of receiving interest. The law defines an excessive overpayment as the amount by which the total overpayments for a given report month exceed 10 percent of the royalties paid that month, excluding payments for demands for obligations determined to be due as a result of judicial or administrative proceedings or agreed to be paid for settlement agreements.

Many payors have excessive estimate balances and need to review and adjust those balances to reflect current production (see the Oil and Gas Payor Handbook, Volume II, Chapter 3, Section 3.5). If you have questions on your estimate balances, contact the Reports Branch at (800) 525-0309.

How will I report interest on my Form MMS-2014?

After our computer reprogramming is completed in September 1997, you may report interest on both overpayments and underpayments on the same Form MMS-2014 on which you report your royalty adjustments. Report your interest by lease and sales month/year. We will revise the payor handbook to include interest reporting instructions.

If you report interest, you must report both underpayment and overpayment interest. We will verify any interest reported, reconcile any discrepancies, and notify you of the differences on the Interest Statement.

What if I do not report interest on my Form MMS-2014?

If you do not report interest on your Form MMS-2014, MMS will conclude that you are claiming an interest reporting hardship. We will then calculate the interest and notify you of any interest owed or owing on the Interest Statement.


Can I still cross-lease net?

You may use cross-lease netting for interest purposes only for production months before January 1997. Cross-lease netting was established to allow interest-free adjustments when production from one lease was incorrectly reported on another lease. The MMS will now pay interest on overpayments and charge interest on underpayments, thus removing the need for cross-lease netting.

What if I have questions?

If you have questions on any of the above information, please call Mr. Dale Petersen, Compliance Verification Division, Financial Compliance Branch, at (800) 433-9801.

Sincerely,



Lucy R. Querques
Associate Director for
Royalty Management