



IN REPLY
REFER TO

United States Department of the Interior

MINERALS MANAGEMENT SERVICE

Royalty Management Program

P.O. Box 5760

Denver, Colorado 80217-5760



RPD/RRPB
Mail Stop 3123

APR 14 1993

Dear Payor:

Incorrect reporting of sales and royalty data by payors to the Minerals Management Service (MMS) has been addressed in three previous payor letters:

The March 14, 1988, letter clarified how to report sales quantity and sales value when paying royalties.

The June 12, 1991, letter notified payors of assessment actions for incorrectly reporting sales and/or royalty information.

The January 22, 1992, letter clarified reporting requirements regarding "Takes vs. Entitlements".

This letter reemphasizes why this information must be reported correctly and identifies the enforcement actions MMS uses to encourage and promote accurate reporting.

Erroneous reporting of sales quantity, sales value, and royalty information results in a variety of problems which affect our data base and are costly to correct. In addition, erroneous reporting impairs the ability of MMS to provide accurate reports to royalty recipients as required by the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA). These reports are provided to 27 States, 29 Indian tribes, approximately 29,000 individual Indian allottees, and various Federal surface management agencies. The reports are required by law to contain detailed information including sales quantities, sales values, and royalty rates.

The following general definitions are critical to understanding and complying with MMS' requirements for properly reporting sales and royalty data. Please refer to the MMS Oil and Gas Payor Handbook, Volume 2, Chapter 2, for greater detail about reporting this data.

Sales Quantity is the portion of the monthly product volume for which you have responsibility for paying and reporting to MMS.

Sales Value is the dollar value of the Sales Quantity.

Royalty Quantity is the Sales Quantity multiplied by royalty rate specified in the lease.

Royalty Value is the Sales Value multiplied by the royalty rate specified in the lease.

The mathematical relationship between this information presented below illustrates the importance of reporting correctly. Please note that any reporting errors made by payors will affect the unit value and royalty rate calculations MMS makes to evaluate the reasonableness of the unit prices reported by payors and to verify royalty rates.

$$\frac{\text{Sales Value}}{\text{Sales Quantity}} = \frac{\text{Royalty Value}}{\text{Royalty Quantity}} = \text{Price Per Unit}$$

$$\frac{\text{Royalty Value}}{\text{Sales Value}} = \frac{\text{Royalty Quantity}}{\text{Sales Quantity}} = \text{Royalty Rate}$$

The MMS currently requires payors to correct erroneously reported sales and royalty information. Payors will be assessed up to \$10 per line whenever erroneously reported sales quantities and/or sales values cause MMS to calculate an inaccurate royalty rate. If the errors are not corrected, a bill for collection for any underpaid royalties--based on the reported sales data--will be issued. Repeated misreporting may result in a Notice of Noncompliance for an intentional violation.

The MMS continues to use all available enforcement actions in order to ensure that sales and royalty data--as well as other information--is accurately reported by payors. The MMS relies on the following assessments and penalties to encourage compliance with established reporting requirements:

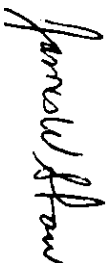
1. Assessing interest for additional royalties when underpayments occur.
2. Assessing up to \$10 per line for erroneous reports. The assessment will be a flat \$10 per line beginning in June 1993.
3. Issuing Notices of Noncompliance and Penalty Notices in accordance with Section 109 of FOGRMA as implemented at 30 CFR 241.51 and 30 CFR 241.20 (1992).

Continued reporting of erroneous information may result in a Notice of Noncompliance for intentional violation as provided for by 30 CFR 241.51. This regulation provides for such notice where the payor "knowingly or willfully fails to submit or submits false, inaccurate, or misleading data to the MMS in support of a royalty, rental, bonus, or other payment. . ." The penalty for intentional violations can be as high as \$10,000 per violation for each day such violation continues.

As in the past, MMS will continue to provide payors with proper reporting and paying guidance through MMS training seminars, the MMS Oil and Gas Payor Handbook, the MMS Solid Mineral Payor Handbook, various letters, and personal telephone assistance.

We appreciate your continued cooperation and ongoing efforts in this matter, If you have any questions regarding the above or on any other reporting or paying issues, please call your Royalty Reporting and Payments Branch Representative at 1-800-525-0309.

Sincerely,

A handwritten signature in black ink, appearing to read "James W. Shaw". The signature is written in a cursive, flowing style.

James W. Shaw
Associate Director
for Royalty Management