

U. S. DEPARTMENT OF INTERIOR
MINERALS MANAGEMENT SERVICE

VALUATION OF OIL FROM FEDERAL AND INDIAN LEASES
ADVANCE NOTICE OF PROPOSED RULEMAKING
CRUDE OIL - ALTERNATIVE VALUATION BENCHMARKS

STATE OF OKLAHOMA
COMMISSIONERS OF THE LAND OFFICE RESPONSE

Federal Questions and State Responses

- I. Are there indices or other published prices that better reflect actual market value than oil postings?

Response: Yes. It is the opinion of this respondent that oil postings have little bearing on actual market value.

Example: A study of the high, low and average prices paid by Koch Oil, one of the largest purchasers of oil in Oklahoma and one of the most quoted posters, reveals that the price they actually pay **exceeds** their own posted price by an average of \$0.40 to \$0.50 per barrel.

With such premiums being routinely paid, the posted price has become irrelevant as a definer of market value.

- II. Where prices posted by individual companies differ considerably within the same field or area, how are these differences best reconciled?

Response: There appears to be little difference in the prices posted by purchasers of oil in the State of Oklahoma. A survey of the Crude Oil Price Bulletins furnished to this office indicates one company generally posts \$0.50 higher than others while the remainder consistently mirror one another. However, our research indicates premiums or bonuses are paid in addition to the posted prices. Since such premiums are being paid and since those who post prices have differing requirements for feed stock, pipeline capacity, etc., reconciliation may not be possible or necessary.

STATE OF OKLAHOMA RESPONSE CONTINUED

- III. Are there fixed "reference" prices against which quality, transportation and other adjustments can be made to develop reasonable royalty values (e.g., West Texas Intermediate)?

Response: The Crude Oil Advisory Committee for NYMEX has represented that "the NYMEX Division light, sweet crude oil futures contract is the most actively traded futures contract for a physical commodity, along with one of the most widely used crude oil price indices in the world".

- IV. Are spot prices of sufficient reliability and do they cover wide enough geographic areas to use as value bases?

Response: Spot prices which do not cover a wide area are not reliable enough to use as value bases. If a spot market is thin, it would be easily manipulated. However, the delivery site of the NYMEX Division light, sweet crude contract at Cushing, Oklahoma is sufficient in terms of trading volumes to provide price reliability.

- V. Do oil "futures" prices provide meaningful bases for royalty valuation?

Response: Yes, see above.

- VI. What alternative valuation method(s) best balance the needs to -

(a) reflect the market value of the oil as sold, exchanged, or otherwise disposed of and (b) maximize administrative efficiency for all concerned?

Response: (a) This respondent believes that NYMEX Intermediate Spot Prices at Cushing, Oklahoma (adjusted for location and quality) accurately reflect the true market value of the oil.
(b) This price is set daily by the operation of market forces and published daily in the Wall Street Journal, metropolitan newspapers and numerous other publications.

- VII. Would the use of alternative methods for valuing oil not sold under arms-length conditions impact the acceptability of posted prices for oil sold at arms-length?

Response: As previously implied, much of the oil sold at arms-length in Oklahoma is priced at above posting.

Kesh Oil Company Purchases
40.0-44.9 Degree Oil

LEGAL DESCRIPTION	PURCHASER	PURCHASED VOLUME	NET VOLUME	NET VALUE	GRAVITY	PRICE	KOCH POSTING
JULY 1995							
16 13 N 11 W	CADDO	KOCH	549.05	12.88	210.36	40.0	18.93
5 20 N 2 E	POTTAWATOMIE	KOCH	179.68	39.69	522.20	40.0	15.30
33 21 N 11 W	CADDO	KOCH	877.44	8.85	145.96	41.0	16.50
4 20 N 8 E	LINCOLN	KOCH	196.56	24.57	411.55	41.6	16.75 High 16.75
33 21 N 11 W	CADDO	KOCH	177.04	29.51	486.66	41.7	16.50
2 22 N 5 E	LINCOLN	KOCH	197.09	05.08	578.81	41.8	16.50
11 22 N 11 W	CADDO	KOCH	179.21	4.20	66.15	41.8	15.75
10 1 N 8 W	KINGFISHER	KOCH	164.93	5.15	82.59	42.0	16.02
10 1 N 10 W	CADDO	KOCH	118.88	14.84	230.24	42.0	15.52 Low 15.00
16 14 N 10 W	CANADIAN	KOCH	327.32	30.89	478.25	42.0	15.52
33 20 N 3 W	CLEVELAND	KOCH	3,095.16	368.90	8,275.71	42.5	16.22
33 20 N 21 W	BECKHAM	KOCH	7,557.01	32.79	509.61	44.5	15.54
						16.15	Avg 15.69
AUGUST 1995							
3 11 N 11 W	CADDO	KOCH	531.85	12.48	211.21	40.2	16.52
3 11 N 11 W	CADDO	KOCH	527.87	12.36	211.21	40.2	17.09 High 17.00
16 9 N 3 W	CLEVELAND	KOCH	2,359.45	294.93	5,021.56	41.0	17.03
8 11 N 11 W	CADDO	KOCH	176.32	4.13	68.19	41.5	16.50
96 10 N 10 W	CADDO	KOCH	114.84	14.36	234.42	41.8	16.33
33 11 N 10 W	CANADIAN	KOCH	316.72	28.69	484.88	41.8	16.33
33 10 N 11 W	CADDO	KOCH	353.34	58.89	1,001.18	42.0	17.00
33 10 N 21 W	BECKHAM	KOCH	7,557.24	30.71	501.46	44.8	16.33
33 10 N 21 W	BECKHAM	KOCH	7,557.24	2.08	84.01	44.8	16.33 Low 16.00
						16.90	Avg 16.33
SEPTEMBER 1995							
16 13 N 5 E	LINCOLN	KOCH	355.51	66.68	1,162.64	40.4	17.44 High 17.25
3 11 N 11 W	CADDO	KOCH	381.88	8.96	153.49	40.6	17.13
3 11 N 11 W	CADDO	KOCH	366.21	8.58	141.61	41.3	16.50 Low 15.50
33 11 N 10 W	CANADIAN	KOCH	286.80	27.08	448.09	41.8	16.55
96 10 N 10 W	CADDO	KOCH	104.72	13.09	218.63	41.8	16.55
33 10 N 11 W	CADDO	KOCH	182.15	30.36	508.50	41.9	16.75
						17.00	Avg 16.55
OCTOBER 1995							
3 11 N 11 W	CADDO	KOCH	360.93	8.47	139.78	40.0	16.50
9 9 N 3 W	CLEVELAND	KOCH	174.80	10.91	178.89	40.2	16.39
16 13 N 5 E	LINCOLN	KOCH	385.75	72.33	1,199.17	40.6	15.75
33 22 N 8 W	GARFIELD	KOCH	182.62	34.24	568.33	40.7	16.60 High 16.00
96 10 N 2 E	POTTAWATOMIE	KOCH	179.94	33.74	539.82	41.2	16.00
33 11 N 10 W	CANADIAN	KOCH	308.04	23.69	453.21	42.0	15.69 Low 15.25
96 10 N 10 W	CADDO	KOCH	111.69	13.96	219.11	42.0	15.69
33 10 N 11 W	CADDO	KOCH	181.35	30.23	498.71	42.1	16.50
8 11 N 11 W	CADDO	KOCH	176.66	4.19	65.96	42.3	15.75
						16.05	Avg 15.69