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Armand Southall
Regulatory Specialist, ONRR
P.O. Box 25165, MS 61030A
Denver, CO 80225

Re: American Petroleum Institute Comments on Proposed Rule to Amend Indian Oil Valuation Regulations, RIN-1012-AA15

Submitted via: http://www.regulations.gov

Dear Mr. Southall:

On June 19, 2014, the Office of Natural Resources Revenue ("ONRR") issued a Proposed Rule entitled "Indian Oil Valuation Amendments."[1] This rule would amend the valuation of oil produced from Indian leases, specifically by amending the requirements for major portion valuation. These proposed changes represent recommendations of the Indian Oil Valuation Negotiated Rulemaking Committee ("the Committee").

The American Petroleum Institute ("API") is a national trade association that represents over 600 members involved in all aspects of the oil and natural gas industry, including the exploration and production of both onshore and offshore resources. The U.S. oil and natural gas industry supports 9.8 million U.S. jobs and more than 8 percent of the U.S. economy. The industry has paid more than $150 billion in royalty revenues to the federal treasury.

API members would like to provide comments to the changes currently under consideration by ONRR presented under Section IV of the proposed rule, entitled *Other Possible Changes ONRR May Consider*. The changes under consideration by ONRR outlined in this section were not discussed by the Committee.

In Section IV, ONRR indicates that it is considering not requiring filing of the transportation allowance form ONRR–4110, Oil Transportation Allowance Report. Instead, the lessee would have to submit to ONRR copies of its arm's-length transportation contract(s) and any amendments thereto within 2 months after the lessee reported a transportation allowance on its Form ONRR–2014. As this is consistent with the current regulations for Indian Gas Valuation, API supports this change.

[1] 79 Fed. Reg. 35,107 (June 19, 2014).

ONRR has also indicated that it is considering eliminating transportation factors from the regulations. Currently, 30 CFR § 1206.57(a)(5) allows lessees to reduce their gross proceeds where their arm's-length transportation contract includes a provision reducing the applicable price by a transportation factor. Under the current rule, lessees report their gross proceeds net of the transportation factor on their Form ONRR–2014. Eliminating the ability to net an arm's-length transportation fee would require lessees to report these transportation fees as a transportation allowance. API does not support this proposal because it would not be consistent with the regulations for Indian Gas and Federal Oil and Gas.[2] These regulations state that "ONRR will not consider the transportation factor to be a transportation allowance." This proposed change would also be a major recording change as the pricing information is typically accounted for on a net basis within a company's system. Additionally, the transportation factors used for oil often include both a location and a quality differential, and it may not be possible to separate this factor between the two differentials.

Finally, ONRR has also stated that it would like to remove the exception to the 50-percent limitation on transportation allowances. Under the current regulations, a company may request an exception to the rule that transportation allowances cannot exceed 50-percent of the value of the oil at the point of sale. API members do not support the elimination of the capability to request approval to exceed the 50-percent limitation on transportation allowances for Indian Oil. Again, this would not be consistent with the regulations for Indian Gas and Federal Oil and Gas. Although no company has requested to do so previously, a situation could develop where it would exceed the 50-percent limit.

Thank you for your time and attention. As always, API hopes to work with the ONRR in its efforts to improve and strengthen the royalty collection program. Please accept these comments on behalf of API and its members and contact me (kennedye@api.org, 202-682-8260) if additional information is needed.

Sincerely,

Emily Kennedy

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[2] 30 CFR § 1206.178(a)(5), § 1206.110(g), and § 1206.157(a)(5) respectively.