

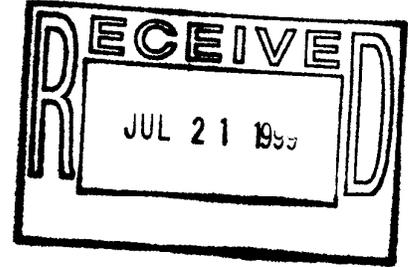
## Alaska Oil and Gas Association

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*Judith Brady, Executive Director*

July 19, 1999



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Re: Proposed agreement with MMS to perform  
royalty management audit functions

Dear Sirs:

The Alaska Oil and Gas Association (AOGA) has reviewed the State of Alaska's proposal to enter into an agreement with MMS to perform royalty management audit functions for onshore and offshore producing federal oil and gas, solid mineral, and geothermal leases in Alaska.

AOGA is a private, non-profit trade association. Its 18 member companies represent the majority of oil and gas exploration, production, transportation, refining and marketing activities in Alaska. Several of our member companies have direct experience with the MMS royalty audit function, federally delegated state audit functions and state royalty audit functions including Alaska.

AOGA wants the delegation of any royalty audit functions to the State of Alaska by the MMS to work in an efficient and streamlined manner. Therefore, listed below are some resource and process questions that we would like to have clarified prior to the delegation of authority. We believe these questions can be quickly resolved.

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## **Resources**

We recognize that the State of Alaska is agreeing in its request for delegation to be bound to:

Operate in compliance with all Federal laws, regulations, and Secretarial and MMS determinations and orders relating to calculating, reporting and paying mineral royalties and other revenues. 30 C.F.R. 227.200 (a)

In reviewing the request for authority and from our collective experience with state and federal audits, it is important to all involved that there are adequate resources allocated to the delegation of the audit function. We see from the application by the State of Alaska that they have provided for additional staff and other expenses including training to perform these functions. Understanding more about how this function will work within the State's current organization would be helpful to lessees.

There is a general concern over the differences in response time between MMS and the State. AOGA has the following specific concerns regarding the timing of audit reports:

- In the State's Delegation Proposal, they presented a Work Plan noting "Cycle audits will be performed on a three-year basis, with audits to be completed within one year of initiation". This is a shorter time frame than the State currently uses for its own audit processes.
- How will the acquisition of the MMS functions impact the State audits, if at all? In their Delegation Proposal, they plan to "utilize the in-house staff for review of all work performed under this delegation to insure compliance with generally accepted auditing standards and government auditing standards." We all need to ensure that there are no delays to State functions because of resource demands that might lead to delayed resolution and potentially to additional interest assessments against the lessee.

## **Training**

- What will be the extent and timing of training to fully understand the statutes, regulations, and policies that govern federal royalties? Training in the federal processes is especially important. The State itself has several valuation methodologies under its various settlement agreements and lease forms. Divergent applications of the governing laws and regulations could lead to greater disputes and more administrative burden.

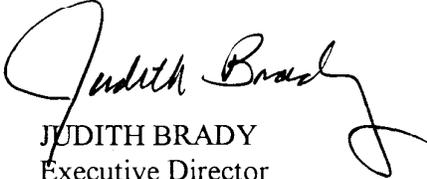
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**Process**

- The MMS has a policy position on obtaining information reported to the DOI: "When conducting audits of mineral revenues, the Department will make a good faith effort to obtain previously reported information from the respective offices of the Department prior to the issuance of an order for these records to a lessee or payor." How will the State have access to documents filed with DOI in order to prevent any duplication of effort?
- We want to understand how the federal FOIA and confidentiality laws and regulations will apply to audit materials in the State's possession so that confidential materials will remain confidential while allowing the public access to the materials they are entitled to see under these federal laws.
- MMS many times will utilize face-to-face meetings to answer questions and resolve issues prior to an Order being issued. This process seems to be a good vehicle for resolving many issues in a streamlined manner. Will the State adopt the same process? Do the resources contemplated provide for such meetings e.g. travel expenses? MMS issue letters are made available for discussion prior to the final Order. Will the State adopt the same process, at least in terms of allowing companies an opportunity to respond to an issue letter prior to the final Order and face-to-face meetings?
- In utilizing the MMS audit standards, will the State use the MMS sampling audit methods versus the 100% sampling methodology it currently uses for the State's properties? AOGA believes that the federal sampling methods are much more efficient and less burdensome on both the lessor and the lessee without compromising the effectiveness of the audit activity.

Thank you for your time in considering these resource and process questions. AOGA requests a meeting with the State and the MMS in order to create a delegated process that will work well for all involved.

Sincerely,

  
JUDITH BRADY  
Executive Director

JB:ts