

Lessee/Designee Data Base Management Plan  
September 16, 1998

This plan identifies the steps to be taken in completing the population of the Lessee Payor Update (LPU) -- the in-house term for lessee/designee -- data base and for future maintenance.

Summary

1. As of July 31, 1998, eighty percent of all payors initially contacted by MMS in January 1997 and subsequent months have either submitted lessee information or are no longer payors. MMS has ceased contacting payors and is working on confirmations from the lessees and operating rights owners.

2. Updates to the LPU data base in the foreseeable future will be made as follows:

- (a) lessees/operating rights owners in the confirmation process in step 1
- (b) designation forms completed by lessees/operating rights owners
- (c) case by case requests to payors for lessee/operating rights owner information

3. For onshore Federal leases, MMS and BLM are discussing a modification to the BLM's Automated Lease Management Record System (ALMRS) to include effective dated operating rights owner information. If this can be accomplished, MMS will be able to update the lessee portion of the LPU database from this source. Until this occurs, the updates to LPU to identify lessees and operating rights owners will be through the process outlined in item 2 above.

4. The Royalty Management Program within MMS will continue to acquire offshore operating rights information via the LPU data base and Offshore Minerals Management's Technical Information Management System (TIMS) database in the long term. Upon approval of the designation form, MMS will request the OCS offices for the offshore leases and the BLM for the onshore leases to attach this form to the approved operating rights transfer assignment for the operating rights owner to complete.

Background

On August 13, 1996, President Clinton signed into law the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA), amending the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) in several important ways. One of the most notable changes concerns who is responsible for making royalty and related payments on Federal leases.

RSFA establishes the owners of operating rights and/or lease record title (who are jointly defined as "lessees" under RSFA) as responsible for making royalty and related payments on a Federal

lease. It has been historically common under FOGPMA for the payor, as agent for the lessee, rather than the lessee, to make these reports and payments. Under RSFA when the payor remits royalties on behalf of the lessee, RSFA requires that the lessee designate the paying party as their designee for each lease. The payor designation requirement is effective for lease production beginning September 1, 1996.

Under RSFA, the operating rights owners on whose behalf payments are being made by the designated payors are primarily liable for payments to MMS. The owners of lease record title are secondarily liable.

#### Initial Population of the LPU Data Base

MMS has redirected efforts in the initial population of the LPU database from the manner originally planned -- seeking lessee information from all the payors. This work involved obtaining lessee/operating rights owner names and associated identifying information from the payors. MMS is now obtaining written confirmations from the lessees and operating rights owners as identified by the payors who have responded to the MMS requests.

The initial population of the data base began in January 1997 with issuance of the first Dear Payor letter requiring the payors to identify the owners of lease record title and owners of operating rights on the leases for which the payor pays royalty, rent, and minimum royalty. This action was taken because the BLM does not have information required such as effective dated owners of operating rights or information that would tie operating rights owners to a revenue source.

Data is being continuously added to the LPU as it is received from the *payors*. As of July 31, 1998, eighty (80) percent of the payors have either responded to MMS identifying themselves or another party as the designee or are no longer payors. Approximately 930 demand letters and 180 NONCs have been sent to the payors in order to gather lessee/designee data.

The remaining payors who have yet to respond to MMS could be targeted for issuance of Notices of Non-Compliance (NONC's) so that MMS could further pursue obtaining lessee/operating rights owner information. These payors, however, mostly constitute reporters of a small number of lines. MMS has decided that the designations for these properties can be handled on an exception basis in those instances when notifications are required. As a result, MMS is now redirecting its efforts to the second part of the data base development effort -- the confirmation phase.

This second part is to obtain written confirmations from the lessees/operating rights owners as identified by the payors. This work has been delayed due to efforts in obtaining the lessee/operating rights owner information. The confirmation constitutes the written designation (certification) as required by RSFA. MMS decided to redirect efforts to this phase in view of the elapsed time since the passage of RSFA and the need to complete the confirmation process. As

of July 31, 1998, approximately 5,700 confirmation requests have been mailed to lessees/operating rights owners. MMS estimates this as representing about 10 percent of all confirmations that will be obtained.

### Debt Collection Process

The debt collection process for delinquent federal bills will remain as presently administered. A bill is sent with a receivable notification letter explaining the reason for the bill and who to contact with questions to the payor. If MMS does not receive a response after 30 days of letter receipt, MMS sends a collection letter to the payor. If no response is received after 15 days, standard debt collection procedures will be followed. If the bill remains outstanding, MMS sends a demand to the operating rights owner if not previously provided a notice. If the operating rights owner(s) cannot be determined, a demand letter is sent to the lessee of record if not previously notified. The final step, if the bill remains unpaid, is to request the leasing agency to collect lease surety. This process applies to federal lease amounts due above the bill thresholds.

### Use of Designation Form (Form MMS-4426) for Making Designee Changes

A designation form has been developed and is awaiting OMB approval. The lessee will be required to sign and submit this form to MMS when designating another party to remit royalties on their behalf.

MMS has since modified the form and will resubmit it to OMB for approval after receiving the formal report and recommendations of the Royalty Policy Committee. The Royalty Policy Subcommittee questioned the need for the form to require lessees to identify MMS lease numbers, revenue sources, and payor codes. Initially MMS anticipated that the form would be jointly completed by the lessee and the payor. However, the subcommittee expressed concern over reporting burdens of industry, especially payors, in researching and providing information to lessees. Some payors stated that they would refuse to provide such information to lessees/operating rights owners because of these workload burdens. In view of these concerns, the completion of these fields will be optional. If the lessee/operating rights owner knows this information it would be helpful to provide the information. However, if these fields are not completed, MMS will accept the form.

MMS can translate the agency assigned lease number (i.e., Bureau of Land Management lease number), which the lessee would know, to the MMS lease number. The MMS lease number is necessary for financial accounting functions. However, this will not identify the revenue source.<sup>1</sup> Consequently, without revenue source level information, notifications on the lease will be sent to

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<sup>1</sup>A revenue source is an accounting subdivision of a lease. It is a source of production within a lease for which MMS expects to receive royalties.

all designated parties for the lease.

MMS also believes that this process should be used on a trial basis for a reasonable period of time. In the event that workloads necessitate more detailed information is needed in the designation phase, i.e. revenue source level information, MMS will reassess the process. In the meantime, the Designation Form will include fields for the MMS lease number, revenue source, and payor code but providing this information will be optional and the form will so indicate. When lessees/operating rights owners know this information it would be helpful to MMS in making the data base as complete as possible and in avoiding mailing unnecessary notices.

#### Notification of Lessee/Designees During Data Base Development

In order to process demands and bills, MMS is required by RSFA to notify the lessees/operating rights owners on the lease. When lessee/designee information is not available on the LPU database because no submission has been made from the payor/designees, the MMS first accesses BLMs land record system, ALMRS. MMS sends notices to all parties, both lessees of record and operating rights owners, identified by ALMRS regardless of applicability because BLM records are not effective dated. If operating rights owner information is not available through ALMRS and a demand to them is necessary, MMS requests BLM to manually search its records to identify the operating rights owners.

#### Current Cost of Implementing the LPU Data Base

Staff currently dedicated to loading the LPU Data Base are assigned to the Reference Data Branch of the Accounting and Reports Division. No staff have been hired; instead staff have been reassigned from other duties. Approximately \$250,000 in salary (supervisor, 2 reference data analysts and 5 reference data examiners part-time) are expended annually in loading data to the LPU database. Additionally, \$50,000 may be spent to improve the LPU database capabilities.

#### BLM Notification to Operating Rights Owners

On July 9, 1998, a BLM representative suggested that BLM incorporate into the operating rights transfers procedures a notice to the operating rights owner that they must notify the MMS of their designation. MMS and BLM have since agreed to the language for such a notice.

When operating rights ownership transfers from one owner to another, BLM will provide this notice to the new owner. The notice and Designation Form will contain language regarding the necessity for the designation information to be filed with MMS.

#### Process for Obtaining Offshore Operating Rights Owner Information

MMS acquires operating rights ownership information by accessing the MMS Technical

Information Management System (TIMS) database for offshore federal lease data. If the information is not available on the TIMS, MMS contacts the appropriate MMS-OCS office to collect the data.

The Royalty Management Program is working with its Offshore Minerals Management colleagues to develop a notice to send to new lessees/operating rights owners for designations to be filed with the Royalty Management Program. This will be similar to the notice jointly developed between MMS and BLM.

#### MMS Notification to Payors

In its normal course of business, MMS will include in its correspondence to payors and operators descriptive language explaining lessee/designee designations and a copy of the Designation Form.

#### LPU Maintenance Plan

MMS will continue to maintain a LPU database consisting of operating rights ownership data as well as designee data.

Upon completion of the initial population of the LPU Data Base with lessee and operating rights owner information as provided by the payor, MMS has no plan to go back to the payor community on a large scale to update this information. On an exception basis, there may be a need to contact and request information from an individual payor.

Once the Designation Form is approved, MMS will provide it to industry by paper copy and through the Internet, for submittal when a change occurs. New lessees and operating rights owners will use this form to designate their designees for each lease. BLM will provide its notice to lessees/operating rights owners when ownership transfers. The BLM notice will advise the new owners to contact MMS and file the Designation Form, if appropriate. Likewise, the MMS OCS offices will provide the Designation Form to new operating rights owners.

MMS is working in its reengineering efforts to eliminate the Payor Information Form (PIF). Until that occurs, MMS will revise the PIF with a block for the payor/lessee to check if they are one and the same. A Designation Form will not be required to be submitted to the MMS in this case.

MMS will continue to work with BLM to determine if operating rights data can be automated after the conversion of the ALMRS. This would reduce MMS dependence upon the payor to acquire lessee information.



As a lessee you are responsible for the payment of rent, minimum royalty, royalty and other payments on your lease. In accordance with the Royalty Simplification and Fairness Act(RSFA), you may designate another person to pay royalty on your behalf if you do not wish to make the payments yourself and if they agree. Often purchasers, operators or other lessees who market your production may be willing to accept your designation. **YOU SHOULD VERIFY THAT THE PARTY YOU ARE DESIGNATING IS REMITTING ROYALTY PAYMENT(S) ON YOUR BEHALF.**

#### ITEMS THAT ARE OPTIONAL

1. MMS Lease Number - usually a ten digit number that MMS converts from the Bureau of Land Management or Offshore Minerals Management assigned lease number, i.e, BLM Lease Number NM-12345 converts to MMS Lease Number 030-012345-0. **(OPTIONAL)**
2. Revenue Source Code - a three digit number that MMS assigns. It represents the source of production from which MMS expects to receive royalties. For example, a lease basis well. **(OPTIONAL)**
8. Payor Code - a five digit code assigned to the lessee who assumes an obligation to report and remit rental or royalty due on the lease. **(OPTIONAL)**
11. Payor Code - a five digit code assigned to the designee who assumes an obligation to report and remit rental or royalty due on the lease. **(OPTIONAL)**
12. Tax Identification Number(Designee) - a nine digit number that is your social security number(SSN) or employer identification number (EIN). **(OPTIONAL)**

#### ITEMS THAT ARE MANDATORY

3. OMM/BLM Agency Assigned Lease Number - an alpha- numeric number assigned to any contractor agreement issued or approved by the US under a mineral leasing law that authorizes exploration for, extraction of, or removal of oil and gas.
4. Product Code - (01) OIL (02) CONDENSATE (03) PROCESSED GAS (04) UNPROCESSED GAS  
(07) GAS PLANT PRODUCTS (25) GEOTHERMAL (99) OTHER
5. Responsibility Type - check box if you are authorizing payment for rent, minimum royalty, and/or royalty.
6. Effective Date - Date the designation begins.
7. Termination Date - Date the designation ends.
9. Tax Identification Number(Lessee) - a nine digit number that is your social security number(SSN) or employer identification number (EIN).
10. Lessee name, mailing address, Email address, telephone, and fax number - please print or type.
13. Designee name, mailing address, Email address, telephone number and fax number - please print or type
14. Check the box if you are lessee of record and/ or operating rights owner on this lease.
15. Signature - lessee of record or operating rights owner signature, and date of signing.

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