

Minutes  
Oil & Gas Valuation Subcommittee  
April 26, 2005 – Meeting  
1:00 (12:00 MST) -3:00 p.m. CST (ended 3:30 CST)

**Participants:** Dan Riemer (USOGA), Harold Kemp (Wyoming), Mary Williams (MMS), Lisa Crothers (IPAA), Richard Adamski (MMS), Bob Wilkinson (COPAS), Mary Ann O'Malley (BP), Mike Coney (API), Valdean Severson (New Mexico), David Darouse (Louisiana), Tom Shipps (Southern Ute), Carla Wilson (IPAMS), Geoff Gordon (Colorado); Roger Good (IBM); Dimitri Seletzky (ChevronTexaco); Linda Gilmore (BP); Jim Morris (MMS); Todd Druse (Ute Mountain Ute); Mike Geesey (Wyoming); Perry Shirley (Navajo)

**Membership:** Official members are: Dan Riemer – Chair (USOGA), Harold Kemp – Vice- Chair (Wyoming), Valdean Severson (New Mexico), Perry Shirley (Navajo), David Darouse (Louisiana), Tom Shipps (Southern Ute), Lisa Crothers (IPAA), Gary Paulson (NGSA), Mike Coney (API), Carla Wilson (IPAMS)

MMS staff: Mary Williams and Richard Adamski

**Approval of Minutes:** The members approved the minutes of the March 2 meeting and they will be posted to the MMS website at:  
[http://www.mrm.mms.gov/Laws\\_R\\_D/RoyPC/RoyPC.htm](http://www.mrm.mms.gov/Laws_R_D/RoyPC/RoyPC.htm).

**Adopt the Meeting Agenda:** The agenda was adopted by all members.

**Discussion of Action Items from March 2:** Dan read through the actions items and progress made since the last meeting.

**Charter Discussion:** The Charter was adopted by all members after a discussion and change agreed upon as follows. Valdean initiated a discussion of language that provided that the official to whom the sub-committee reports is the Director, MMS. Valdean raised the question of “who really looks at the sub-committee reports that go forward.” After discussing the point, the members agreed to change the Charter to read that “the sub-committee reports to the Royalty Policy Committee” because they review the sub-committee reports.

**Oil Valuation Discussion:** Dan put together a questionnaire and made phone calls to constituents to see how industry was coping with the issue of determining oil differentials. He found that:

- The majority of independents sell production arm's-length at the lease and calculating weighted average exchange differentials is not an issue for them, and those that do exchange to Cushing have minimal transactions and they have found a way to calculate a weighted average exchange differential.

- For integrated producers, preliminary indications are that one company was having extreme difficulty determining differentials and 5 companies either have MMS approved tendering programs, or have petitioned MMS for alternative valuation procedures or the majority of their Federal oil volumes are included in the RIK Program so calculating weighted average exchange differentials is not required.

Action Item: Dan wants to gather more data by revising the questionnaire and putting together a decision tree matrix that shows when to use published WTI differentials v. actual weighted average exchange differentials between market centers and Cushing, and when to use index v. actual Cushing sales.

**Determining value when AL records are not available:** Dan asked Harold to give an overview of Wyoming issues on records (first purchaser reports).

Harold:

- Went to new electronic reporting system..
- Has been working with COPAS.
- ex. Wants contracts /prices used to generate the weighted-average price in a pool.
- Data received will be available for auditors to use in audits

Valdean – There seems to be nothing explicit in the regulations governing how to determine product value if you cannot get the arm’s-length prices that were used in arm’s-length transactions.

Action Item: Check valuation methodology under the regulations if there is no source documentation for arm’s-length prices used in arm’s-length transactions.

**Gas Valuation:** The members had no comments on the Final Federal Gas Valuation Rule, which became effective on June 1, 2005, although lessees are having difficulty determining their affiliate pipeline company’s weighted average cost of service.

**CORLA – Panel Discussion:** How can index prices be utilized and be revenue neutral? Dan raised the supposition, “Could index prices work, as a basis for valuation?” Tom suggested the possibility of using index prices, in conjunction with some sort of safety net, as in the Indian Gas Rule.

Action Items: Make list of questions about what goes into reporting of index prices and concerns/issues from all members. Send in prior to next meeting.

Overview of Indian gas rule

Provide members with FERC website on what is included in index price.

Dan will update the RPC on the sub-committee’s progress at the RPC’s meeting in New Orleans, LA on May 26.

<b>RPC Oil and Gas Valuation Subcommittee – Action Items</b>		
Item	Responsibility	Response
1. Poll industry constituents for complex/burdensome examples of oil differentials	Dan	See 3/2/05 minutes – but will continue to gather information.
2. Determine MMS policy on determining value in arm's-length transactions when no records are available	Mary	No contract – use of the benchmarks, no records penalty, continuing to research no documents and use of benchmarks
3. Make list of questions about what goes into reporting of index prices and concerns/issues. Send in prior to next meeting.	All members	
4. Overview of Indian gas rule	Perry/Dan	
5. Provide members with FERC website on what is included in index price.	Mary	
6. Prepare matrix for index shows when to use: WTI differentials v. actual exchange differentials and when to use index v. actual Cushing sales.	Dan	