DEPARTMENT OF THE INTERIOR

Minerals Management Service

30 CFR Parts 206 and 208

RIN 1010–AC09

Establishing Oil Value for Royalty Due on Federal Leases, and on Sale of Federal Royalty Oil

AGENCY: Minerals Management Service, Interior.

ACTION: Notice of proposed rulemaking.

SUMMARY: This rule will modify the valuation procedures for both arm's-length and non-arm's-length crude oil transactions, establish a new MMS form for collecting value differential data, and amend the valuation procedure for the sale of Federal royalty oil. These changes will decrease reliance on oil posted prices and assign a value to crude oil that better reflects market value.

DATES: Comments must be submitted on or before March 25, 1997.

ADDRESSES: Mail written comments, suggestions, or objections regarding the proposed rule to: Minerals Management Service, Royalty Management Program, Rules and Procedures Staff, P.O. Box 25165, MS 3101, Denver, Colorado, 80225–0165, courier address is Building 85, Denver Federal Center, Denver, Colorado 80225, or e:Mail David__Guzy@smtp.mms.gov. MMS will publish a separate notice in the Federal Register indicating dates and locations of public hearings regarding this proposed rulemaking.

FOR FURTHER INFORMATION CONTACT: David S. Guzy, Chief, Rules and Procedures Staff, telephone (303) 231–3432, FAX (303) 231–3194, e:Mail David__ Guzy@smtp.mms.gov, Minerals Management Service, Royalty Management Program, Rules and Procedures Staff, P.O. Box 25165, MS 3101, Denver, Colorado, 80225–0165.

SUPPLEMENTARY INFORMATION: The principal authors of this proposed rule are David A. Hubbard of RMP and Peter Schaumberg of the Office of the Solicitor in Washington, D.C.

I. Introduction

On December 20, 1995, MMS published an Advance Notice of Proposed Rulemaking about possible changes to the rules for royalty valuation of oil from Federal and Indian leases (60 FR 65610). The intent was to decrease reliance on oil posted prices and to develop valuation rules that better reflect market value.

MMS used various sources of information to develop the proposed rule. In addition to comments received on the Advance Notice of Proposed Rulemaking, MMS attended a number of presentations by: crude oil brokers and refiners, commercial oil price reporting services, companies that market oil directly, and private consultants knowledgeable in crude oil marketing. MMS' deliberations were aided greatly by a wide range of expert advice.

The Department of the Interior's (Department) practice is to give the public an opportunity to participate in the rulemaking process. Anyone interested may send written comments, suggestions, or objections regarding this proposed rule to the location cited in the **ADDRESSES** section of this preamble. We will post public comments after the comment period closes on the Internet at http://www.rmp.mms.gov or contact David S. Guzy, Chief, Rules and Procedures Staff, telephone (303) 231–3432, FAX (303) 231–3194.

Because of the different terms of Indian leases and the Federal government's Indian trust responsibility, MMS decided to develop separate rules for Indian oil valuation. MMS will publish those proposed regulations separately.

Finally, the Department's Royalty Policy Committee (RPC) recommended that RMP ''establish a study group to review the Federal oil RIK program and explore all options for improving the reporting, billing, and MMS administration of the program.'' The proposed amendment to 30 CFR Part 208 is responsive to this recommendation.

II. General Description of the Proposed Rule

The proposed rulemaking would add more certainty to valuation of oil produced from Federal lands and eliminate any direct reliance on posted prices. It retains the concept that for arm's-length sales, gross proceeds generally would be royalty value, but its application would be limited. Because of the frequency of oil exchange agreements, reciprocal deals between crude oil buyers and sellers, and other factors where the real consideration for the transaction could be hidden, arm's-length contract prices would be used as royalty value only by producers who do not also purchase crude oil.

MMS expects a large portion of Federal oil production to be valued as if not sold under an arm's-length contract because most Federal oil is disposed of under exchange agreements or sales to affiliated refiners. For oil the lessee does not sell under an arm's-length contract, but sells or transfers oil to an affiliate who later sells it at arm's-length, this proposal provides the lessee the following options to value the oil for a 2 year period:

(1) the arm's-length resale price (provided that, as described above, neither the lessee nor its affiliate also purchases oil), or

(2) depending on location of production, the monthly average of the New York Mercantile Exchange (NYMEX) or Alaska North Slope (ANS) prices with appropriate adjustments for location and/or quality (hereafter location/quality) differentials.

For all other non-California or non-Alaska oil production, if the lessee or its affiliate refines or otherwise disposes of the oil non-arm's-length, the lessee would apply a monthly average NYMEX price adjusted for location and/or quality. For oil production, in California and Alaska, if the lessee or its affiliate refines or otherwise disposes of the oil non-arm's-length, the lessee would apply a monthly average of spot prices for Alaska North Slope oil delivered in California, adjusted for location quality (For purposes of the preamble and the proposed regulatory changes, oil produced from Federal leases in California refers to oil produced from Federal leases either onshore or offshore California. Oil produced from Federal leases in Alaska refers to oil produced from Federal leases either onshore or offshore Alaska).

Adjustments for location quality against the index values are limited to these components:

(1) A location and/or quality differential between the index pricing point (for example, West Texas Intermediate at Cushing, Oklahoma) and the appropriate market center (for example, Light Louisiana Sweet at St. James, Louisiana, or Wyoming Sweet at Guernsey, Wyoming), calculated as the difference between the average monthly spot prices published in an MMS-approved publication for the respective locations;

(2) A rate either published by MMS or contained in the lessee's arm's-length exchange agreement representing location quality differentials between the market center and major aggregation points for oil from various sources; and

(3) As determined under the existing allowance rules, the actual transportation costs from the aggregation point to the lease. However, if oil flows to the market center, the actual transportation costs from the market center to the lease.

Calculation of differentials could vary if the lessee takes its production directly to its own refinery and the movement in no way approximates movement through an aggregation point to a market center.

MMS would calculate and publish the rate from the market center to major aggregation points based on specific information it would collect on a new form: Form MMS–4415, Oil Location Differential Report. This form is attached to this notice of proposed rulemaking as Appendix A. MMS requests commenters to provide comments on this form according to the information under the Paperwork Reduction Act in part IV, Procedural Matters, of this notice.

MMS may publish an Interim Final Rule while it further evaluates the methodology in this proposed rule. This approach would provide the flexibility to do a revision after the first year without a new rulemaking. We are asking for your comments on this approach to implementing the new oil valuation regulations. MMS will also during the first six months after the effective date of this rule verify that the values determined by this rule are replicating actual market prices. Comments on how best to perform this analysis are also requested.

In the next section, we describe the major regulatory changes proposed in this rulemaking. The proposed changes for valuing production are substantive. But some sections, particularly those involving transportation allowances, remain mostly the same. Also, to clarify and simplify the rules, MMS is incorporating many changes that are not substantive but are an effort to implement concepts of *plain English*.

III. Section-by-Section Analysis

30 CFR Part 206

MMS proposes to amend part 206, Subpart C—Federal Oil as described below. Some of the provisions would be largely the same as in the existing rules, but would be rewritten for clarity.

Section 206.100 Purpose and Scope

This section's contents would remain the same except for clarifications. MMS rewrote it in plain English to improve clarity.

Section 206.101 Definitions

MMS would retain most of the definitions in § 206.101, many of those retained were rewritten to reflect *plain English*. New definitions to support the revised valuation procedures are proposed for: *Aggregation point, Crude oil call, Designee, Exchange agreement, Index pricing, Index pricing point, Location differential, Market center, MMS-approved publication, NYMEX, Quality differential,* and *Sale.* The definition of *Allowance* would be amended. We will discuss the new and amended definitions below where they appear in the regulatory text.

The proposed rule would remove the definitions of *Marketing affiliate, Net-back method, Oil shale, Posted price, Processing, Selling arrangement* and *Tar sands* because they no longer relate to how most crude oil is marketed and to the structure of the proposed rules. The definition of *Lessee* would be revised to reflect the new definition in the *Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA),* H.R. 1975, Public Law No. 104–185, 110 Stat. 1700. The new definition of *Lessee* is: any person to whom the United States issues an oil and gas lease or any person to whom operating rights in a lease have been assigned. The definition of *Like-quality lease products* also would be revised under a new definition of *Like-quality oil* to support the new valuation procedures. We will discuss this definition below where it appears in the regulatory text.

Section 206.102 How do I calculate royalty value for oil?

This section would explain how lessees must calculate the value of oil production for royalty purposes. It is the principal valuation section of the proposed rules.

The proposal states that *lessees and designees,* defined terms, must use these valuation provisions. Under the *Federal Oil and Gas Royalty Management Act of 1982,* 30 U.S.C. 1701 *et seq*., as recently amended by the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996, Pub L. 104–185, only *lessees* are liable to MMS for royalties. *Lessee* includes record title owners and operating rights owners. The Royalty Simplification and Fairness Act also provides that lessees may designate a *designee* to report and pay royalties on their behalf. Therefore, these proposed valuation rules apply to lessees and designees.

We propose to revise this section to reflect major changes in valuing oil not sold under an arm's-length contract. Valuation of production sold under arm's-length contracts would essentially stay the same, but the number of transactions considered to be actual sales at arm's-length would be limited, as explained further below.

Paragraph (a) How do I value oil sold under an arm's-length sales contract? Proposed paragraph (a) would replace existing paragraph (b) and retain the concept that if you sell oil under an arm's-length contract, the royalty value is the gross proceeds accruing to you. But several limitations would apply:

First, if the oil sales contract doesn't reflect all actual consideration you receive directly or indirectly, MMS could require royalty valuation under the non-arm's-length index pricing provisions discussed below, or the total consideration you received, whichever is greater.

Second, if MMS finds that your gross proceeds under the arm's-length contract don't reflect the reasonable value of production because of misconduct by or between the contracting parties, or because you otherwise breached your duty to market to the mutual benefit of yourself and the lessor, MMS would require you to value your oil under the index pricing provisions discussed below.

However, MMS is proposing to limit applicability of the provision allowing you to pay royalty based on your gross proceeds from an arm's-length sale. Even if you sell at arm's-length, MMS would require you to value your oil production under the index pricing provisions discussed below if you or your affiliate also purchased *any* crude oil from an unaffiliated third party in the United States during the two years preceding the production month. If your only oil purchases were from your affiliate, this provision is not triggered. However, such purchases are not at arm's-length, thus they cannot be valued under this section.

MMS is proposing this limitation because of concerns that multiple dealings between the same participants, while apparently at arm's-length, may be suspect concerning the contractual price terms. Just as with exchange agreements (discussed later), a producer may have less incentive to capture full market value in its sales contracts if it knows it will have reciprocal dealings where it may be able to buy oil at less than market value. Several MMS consultants reinforced the notion that as long as the two parties maintain *relative* parity in value of oil production traded, the *absolute* contract price in any particular transaction has little meaning.

MMS would also like comments on an alternative proposal. Under this alternative, MMS would accept your arm's-length contract price paid by your purchaser or its affiliates as value unless during the two years preceding the production month you or your affiliate bought oil, gas, or any other goods or services from that same purchaser. MMS did not make this the principal proposal because there was a concern that it would be too difficult for a company to determine whether it bought from the same party (or its affiliates) during the two years preceding the production month. Commenters should address the alternative proposal and MMS's concerns about the difficulty of application.

Due to the widespread use of exchange agreements and frequent reciprocal sales among companies—particularly major integrated firms—MMS expects that a relatively small volume of Federal oil production would be valued using the arm's-length gross proceeds method. In fact, MMS considered requiring all production to be valued as if not sold at arm's length. But the presence of true arm's-length sales, especially by independent producers with no reciprocal purchases or trades, convinced MMS to propose that the gross proceeds provision be kept for such circumstances.

Also, MMS would state clearly that you may not use gross proceeds to value oil you dispose of under an exchange agreement. The limitation applies even if the exchange otherwise is arm's-length. Therefore, you must use the index pricing provisions to value the oil.

An *Exchange agreement* is defined in the proposed rules as an agreement by one person to deliver oil to another person at a specified location in exchange for reciprocal oil deliveries at another location. Such agreements may be made because each party has crude oil production closer to the other's refinery or transportation facilities than to its own, so each may gain locational advantages. Exchange agreements may or may not specify prices for the oil involved and frequently specify dollar amounts reflecting location, quality, or other differentials. Buy/sell agreements, which specify prices to be paid at each exchange point and may appear to be two separate sales within the same agreement, are considered exchange agreements. Transportation agreements are purely to accomplish transportation. They specify a location differential for moving oil from one point to the other, with redelivery to the first party at the second exchange point. They are not considered exchange agreements.

The reason MMS would not accept the contract price for oil subject to an exchange agreement is that the prices stated in an exchange agreement may not reflect actual value. For example, if the market value of oil were $20 per barrel (bbl), the two parties to the exchange each could price their oil at $18 bbl. The parties can insure that each remains whole by using a location/quality differential in the agreement. MMS' consultants also supported this view.

Also, this paragraph would provide that if your oil production is subject to a crude oil call, even if you sell it under an arm's-length sales contract, you must value it under the index pricing provisions.

A Crude oil call is defined as the right of one person to buy all or part of a second person's oil production from an oil and gas property, where that right is a condition of sale or farmout of that property from the first person to the second, or results from other transactions between them. The price basis may be specified in advance. As with multiple dealings between two parties, MMS would presume that the price of oil sold under arm's-length contracts subject to crude oil calls is suspect. This is because the sale terms may be liberal to the property buyer in return for a favorable product purchase price by the property seller.

MMS also is proposing to add a paragraph (5) to clarify how pre-payments made to reduce or buy down the purchase price of oil to be produced in later periods would be treated under the gross proceeds provisions. In such a circumstance, you must allocate the pre-payment over the production whose price the payment reduces and account for the payment as part of the proceeds for that production when the production occurs.

By way of illustration, assume that purchaser and seller agree to renegotiate a sales contract and reduce the price for future production of one million bbl. As part of the renegotiation, Purchaser makes a payment of $1 million. Seller would be required to attribute one dollar to each barrel produced thereafter and include the additional dollar in the gross proceeds at the time each bbl is produced until the one million bbl. threshold is reached.

Paragraph (b) What else must I do if I value oil under an arm's-length contract? Proposed paragraph (b) includes several of the provisions of the existing rules, but rewritten and reordered for clarity. These provisions replace part or all of current paragraphs (b)(1)(i), (b)(2), and (j), and state that:

(1) You must be able to show that your contract is at arm's length, and is a *Sale* (defined term);

(2) MMS may require certification that the arm's-length contract provisions include all consideration to be paid by the buyer; and

(3) Value determined by contract terms will be based on the highest price a prudent lessee may legally receive. If you don't take proper or timely action to get your entitled prices/benefits, you must pay royalties on the entitled amounts. But if you make timely, reasonably documented application for a price increase or benefit allowed under your contract and the purchaser refuses, you will not owe additional royalties until or unless you receive the additional monies or consideration. This provision would not permit you to avoid royalty obligations where a purchaser doesn't pay, or pay timely, for a quantity of oil.

Paragraph (c) How do I value oil not sold under an arm's-length contract? Proposed paragraph (c) would replace the ordered benchmarks under existing paragraph (c). The current benchmarks rely heavily on posted and contract prices. Since many contract prices are tied to postings, the influence of posted prices is magnified. MMS is proposing a different valuation approach because market conditions have changed. Moreover, the widespread use of exchange agreements and reciprocal sales as well as difficulties with relying on posted price, cast additional doubt on the usefulness of many apparent arm's-length sales prices as a good measure of market value. Given the mounting evidence that posted prices frequently do not reflect value in today's marketplace, the proposed valuation standards do not rely at all on postings. Instead, after consulting various crude oil pricing experts and considerable deliberation, MMS proposes the following procedures:

Under paragraph (c)(1), if you sell or transfer your oil to an affiliate and either the affiliate or another affiliate disposes of oil under an arm's-length sales contract, you have a choice of valuation methods. The first choice would be to value it like an arm's-lengths sale under paragraph (a) and use gross proceeds for your affiliate's arms-length sales. However, the limitations in paragraph (a) apply as well. For example, if you or your affiliate purchased oil from an unaffiliated third party in the United States during the two year period preceding the production month, you cannot use the gross proceeds valuation method.

The second choice would be to use the index pricing method in paragraph (c)(2), which is the method that applies to all other non-arm's-length transactions. We explain the details of that method below.

When you make your election to use either the gross proceeds methods or the index pricing method, you would be required to apply the same election to value all oil that is produced from all your Federal leases that is subject to paragraph (c)(1) (*i.e.* where your affiliate sells the oil at arm's length). You may not use gross proceeds for some leases and index pricing for others. This is intended to prevent lessees and designees from choosing the method that would be to their advantage on a lease-by-lease basis.

The election to use gross proceeds or index pricing could be changed. You may change your election on January 1 of the second year after the rule is effective and on January 1 of each second year thereafter. If new sales arrangements are made during the election period that would come under paragraph (c)(1) for valuation purposes, your existing election would apply. If you had not previously made an election, because you did not have any production subject to valuation under paragraph (c)(1), you could make the election when you start reporting the new sales arrangement.

If neither you nor your affiliate disposes of the oil under an arm's-length sales contract, then you would be required to value your oil under paragraph (c)(2). This would include situations where you or your affiliate refines or otherwise disposes of the oil. It also would include all exchange transactions, even if the exchange is arm's length.

The index pricing method you would use under paragraph (c)(2) would depend upon whether your leases are in California or Alaska. For leases not in California or Alaska, the royalty value would be the average of the daily NYMEX futures settle prices for the Domestic Sweet Crude Oil contract for the prompt month. The prompt month is the earliest month for which futures are traded on the first day of the production month. You would adjust the NYMEX price for location/quality differentials and transportation costs, which are addressed later in § 206.105(c).

Attached Appendix B is an example of the NYMEX-based index pricing method. Assume that the production month is September 1996. The prompt month would then be October 1996, the prompt month in effect on September 1. In this instance, October 1996 oil futures are traded on the NYMEX from August 21, 1996, through September 20, 1996. The average of the daily NYMEX futures settle prices for the October 1996 prompt month (determined by averaging the daily prices for 8/21 to 9/20) is $23.13 per bbl. This price would be adjusted for location/quality differentials and transportation (discussed later) to determine the proper oil value for September production.

MMS searched for indicators to best reflect current market prices and settled on NYMEX for several reasons. It represents the price for a widely traded domestic crude oil (West Texas Intermediate at Cushing Oklahoma), and there is little likelihood that any particular participant in NYMEX trading could impact the price. Also, NYMEX prices were regarded by many of the experts MMS consulted to be the best available measure of oil market value. The most difficult problem, as will be discussed in more detail below, would be to make appropriate location and quality adjustments when comparing the NYMEX crude with the crude produced. Other indicators MMS considered included spot prices as tabulated by various publications and the *P-plus* market. The P-plus assesses premiums over posted prices to reflect oil market value on any given day. Spot prices offer the advantage that they are published for several different locations and might involve somewhat less difficult location and quality adjustments. MMS is proposing NYMEX prices primarily because they are perceived to best reflect current domestic crude market value on any given day and the minimal likelihood that any one party could influence them.

MMS also considered timing of NYMEX application. Since the prompt month changes around the 21st of any given production month, two different prompt months exist during the production month. MMS decided to use the prompt month in effect on the first day of the production month. This would result in the current month's production being valued at the nearest month's futures price. Although it is a futures price, it would reflect the market's assessment of value during the production month. MMS found this preferable to using a one-month-earlier futures price, where the price would apply to deliveries in the production month but would be determined in an earlier time period. The daily closing NYMEX prices are widely available in most major newspapers and various other publications.

MMS requests comments on each of the following, and any other related issues you may want to address:

- Use of market indicators (indices) to determine royalty value under paragraph (c)(2),
- Use of NYMEX as the index value, and possible alternatives, and
- Selection of the proper prompt month.

MMS is proposing a different procedure for California and Alaska production largely because of the geographical isolation of these markets. The distance from the mid-continent markets would lead to great difficulties in making meaningful adjustments from the NYMEX price. MMS believes that a more localized market indicator would better represent royalty value. Several spot prices are published for different types of California crude oil at different locations, as well as *P-plus* prices. But none of these prices attaches to large enough volumes for MMS to recommend that they apply as royalty value. The ANS spot prices, on the other hand, represent large volumes of oil delivered into the California market and used as refinery feedstock. Also, several of the experts who gave presentations to MMS recommended use of adjusted ANS spot prices as the best indicator of value for California and Alaska production. You would adjust these ANS prices for location/quality differentials or transportation costs under § 206.105(c).

Attached as Appendix C is an example of the index pricing method utilizing ANS spot prices for California production. Assume that the production month is September 1996 and that *Platt's Oilgram* is an MMS-approved publication. For the October 1996 spot sales delivery month, spot sales prices are assessed from August 26, 1996, through September 25, 1996. The daily mean spot price assessments for the month are averaged to arrive at the ANS price basis, in this case $21.25 per bbl. This price would be adjusted for location/quality differentials and transportation (discussed later) to determine the proper value for your oil.

MMS requests comments on each of the following, and any other related issues you may want to address:

- Use of a different market indicator for California and Alaska than for the rest of the country,
- Use of ANS spot prices as the indicator of oil market value, and
- Possible alternative market indicators for California and Alaska.

MMS recognizes that markets change and that the NYMEX prices or the ANS spot prices may either become unavailable or no longer represent a reasonable basis for royalty value. For example, the lifting of export restrictions on ANS production and the decline of that production may substantially reduce the impact of ANS crude on the California market.

Under paragraph (c)(3), if MMS determines that an index no longer is available or that it no longer represents a reasonable value, MMS will, by rule, amend paragraph (c)(2) to establish a substitute method.

Proposed paragraph (c)(4) states that MMS periodically would publish in the Federal Register a listing of MMS-approved publications for determining the appropriate NYMEX or ANS prices. *MMS-approved publication* is a defined term that would mean any publication on this list (or those on the list discussed later for determining location differentials). The criteria MMS would consider in determining acceptability would include, but not be limited to, whether the publications:

- are frequently used by buyers and sellers,
- are frequently referenced in purchase or sales contracts,
- use adequate survey techniques, including development of spot price estimates based on daily surveys of buyers and sellers of ANS crude oil, and
- are independent from MMS, other lessors, and lessees.

The first two criteria reflect the importance of publications used in ongoing oil marketing. The third reflects the importance of the publication's survey procedures in assessing spot price levels, because the proposed California and Alaska valuation procedure depends on ANS spot prices. The last factor requires that the publication be unbiased by the interests of anyone involved. MMS requests comments on specific publications that should be approved for use in applying these rules.

Proposed paragraph (c)(5) would provide that publications could petition MMS to become an acceptable publication.

Proposed paragraph (c)(6) would provide that MMS will specify which tables in the publications must be used to determine index prices.

In addition to comments on the index-based valuation procedures discussed above, MMS requests specific comments on alternative valuation techniques based on local market indicators. MMS believes that today's oil marketing is driven largely by the NYMEX market. Also, the proposed rules should promote certainty for all involved. But the location/quality adjustments needed to derive lease value using NYMEX would involve considerable administrative effort for all involved. MMS requests suggestions on ways to value Federal oil production based on market indicators in the vicinity of the lease, with the following in mind:

(1) The methods should not rely on posted prices unless they account for the difference between postings and market value.

(2) The methods must account for value differences related to quality and location.

(3) The methods must be widely applicable and flexible enough to apply nationwide.

(4) Most importantly, the methods must reflect the general concepts of fair market value—the agreed-upon cash price between willing and knowledgeable buyers and sellers if neither were under undue pressure.

Paragraph (d)—What else must I do if I value oil under paragraph (c)? Proposed paragraph (d) includes the same content as existing paragraph (e)(1), but rewritten for clarity. We did modify the paragraph on your obligation to place oil in marketable condition at no cost to the Federal Government to clarify that it includes a duty to market the oil. This is consistent with several Interior Board of Land Appeals decisions construing this rule. *See Walter Oil and Gas Corporation,* 111 IBLA 260 (1989).

Paragraph (e)—What other general responsibilities do I have under this section? Proposed paragraphs (e)(1), (e)(2), and (e)(3) include the same content as existing paragraphs (i), (d), and (f), respectively, but are rewritten for clarity and rearranged for a more logical grouping.

Paragraph (f) May I ask MMS to determine value? Proposed paragraph (f) includes the same content as existing paragraph (g), but is rewritten for clarity.

Paragraph (g) How do value redeterminations relate to audit periods? Proposed paragraph (g) includes the content of existing paragraph (k), but is rewritten for clarity.

Paragraph (h) Does MMS protect information I provide? Proposed paragraph (h) includes the content of existing paragraph (l), but is rewritten for clarity.

Deletion of existing paragraphs (e)(2) and (h). MMS proposes to delete existing paragraph (e)(2), which requires lessees to notify MMS if they determine value under existing paragraphs (c)(4) or (c)(5). Since MMS proposes to delete those paragraphs, paragraph (e)(2) no longer would apply.

MMS also proposes to delete paragraph (h), which says royalty value will not be less than the lessee's gross proceeds, less applicable allowances. This clause would have little meaning given the proposed royalty valuation revisions. For those arm's-length situations where the lessee is not required to value its production at an index price, value would already be the lessee's gross proceeds. And under either proposed index valuation procedure—California/Alaska or rest-of-country—the derived value would be a proxy for gross proceeds. MMS requests specific comments on deletion of paragraph (h).

Section 206.103 Point of royalty settlement

This section would not be changed.

Section 206.104 Transportation allowances and other adjustments—general

Paragraph (a) What transportation allowances are permitted when I value production based on my gross proceeds? Proposed paragraph (a) is similar to paragraph (a) of the present rule, but would apply only when you value your production based on gross proceeds. The proposed paragraph would be rewritten to reflect clarity.

Paragraph (b) What transportation allowances and other adjustments apply when I value production based on index pricing? Proposed new paragraph (b) would state that if you value oil based on index pricing (NYMEX or ANS spot pricing) under Section 206.102(c)(2), MMS will allow certain transportation costs and other adjustments to value. We discuss those costs and adjustments below under § 206.105(c).

Paragraph (c) Are there limits on my transportation allowance? Proposed paragraphs (c)(1) and (c)(2) include the substance of existing paragraphs (b)(1) and (b)(2) respectively, but rewritten for clarity and to reflect plain English. The proposed paragraphs also would specify the point where the 50-percent-of-value limitation would be calculated if you value oil based on index pricing.

Paragraph (d) How must I allocate transportation costs? Proposed paragraph (d) is essentially the same as existing paragraph (c).

Paragraph (e) What additional payments may I be liable for? Proposed paragraph (e) is existing paragraph (d) rewritten for clarity.

Section 206.105 Determination of transportation allowances

Paragraph (a) would not be changed.

Paragraph (b) would be changed by deleting paragraph (b)(5). The existing paragraph (b)(5) allows a lessee to apply for an exception from the requirements that it compute actual costs of transportation and use a Federal Energy Regulatory Commission (FERC) or State approved tariffs. MMS believes that the use of actual costs is fair to lessees and that the existing requirement to use a FERC approved tariff is no longer a viable alternative since FERC ruled that it lacks jurisdiction to enforce the Interstate Commerce Act with respect to oil pipelines located wholly on the Offshore Continental Shelf. See Oxy Pipeline, Inc., 61 FERC ¶ 61,051 (1992) and Bonito Pipe Line Company, 61 FERC ¶ 61,050 (1992).

Paragraph (c) What adjustments and transportation allowances apply when I use index pricing? Proposed paragraph (c)(1) describes allowable transportation cost deductions and mandatory adjustments to index prices where you value your oil based on index pricing under § 206.102(c)(2). The allowable adjustments and deductions would reflect the location/quality differentials and transportation costs associated with value differences between oil produced at the lease and oil at the index pricing point. Although location differentials would reflect differences in value of oil at different locations, they are not transportation cost allowances. In fact they may increase a value rather than decreasing it as do transportation allowances. Quality differentials would reflect differences in the value of oil due to different API gravities, sulfur content, etc. Location differentials generally also encompass quality differentials. Proposed paragraph (c)(1) identifies the specific adjustments and allowances that may apply to your production. Proposed paragraphs (c)(2) and (c)(3) identify which of those adjustments and allowances would apply to you in different circumstances. The possible adjustments and allowances are:

(1) A location/quality differential to reflect the difference in value between crude oils at the index pricing point (for example, West Texas Intermediate at Cushing, Oklahoma) and the appropriate market center (for example, Light Louisiana Sweet at St. James, Louisiana) (proposed paragraph (c)(1)(i)). *Index pricing point* is the physical location where a given price index such as NYMEX or ANS spot prices is established. For NYMEX, that location is Cushing, Oklahoma. For ANS, that location is either Los Angeles or San Francisco. *Market center* would be defined as a major destination point for crude oil sales, refining, or transshipment. As used here, market centers are locations where trade publications provide crude oil spot price estimates. The market center that you would use is the point where oil produced from your lease or unit ordinarily would flow if not disposed of at an earlier point.

For any given production month, the market center-index pricing point location/quality differential would be the difference between the average spot prices for the respective locations as published in an MMS-approved publication. (MMS-approved publications as used here are discussed below.) The purpose of this differential is to derive a NYMEX price at the market center by adjusting the NYMEX price at the index pricing point to the general quality of crude typically traded at the market center, and otherwise to reflect location/quality value differences at the appropriate market center.

Attached as Appendices D and E are examples of how the average of the daily spot prices are calculated for the index pricing point (Cushing, OK) and an OCS market center (St. James, LA), respectively. The value difference between the two spot price averages is the location differential between the index pricing point and the market center.

Assume that *Platt's Oilgram* is an MMS-approved publication. For the October 1996 delivery month, spot sales prices are assessed from August 26, 1996, through September 25, 1996. The average of the daily (mean) spot price assessments for the month is utilized to calculate the location differential. In this instance, the average price for Cushing is $23.46 per bbl. and the average price for St. James is $23.68 per bbl. Since the St. James price is $.22 per bbl. higher than the Cushing price, the $.22 per bbl. would be added to the NYMEX-based price (or a deduction would be made if the St. James price were lower than the Cushing price).

(2) An express location/quality differential under your arm's-length exchange agreement that includes a clearly identifiable location/quality differential for the crude oil value difference between the market center and the aggregation point (proposed paragraph (c)(1)(ii)).

Aggregation point would mean a central point where production from various leases or fields is aggregated for shipment to market centers or refineries—including, but not limited to, blending and storage facilities and connections where pipelines join. The aggregation point to which oil produced from your lease or unit ordinarily flows would be the aggregation point involved in this differential. In the many cases that MMS expects will involve such agreements, the differential stated in the agreement should reflect actual value differences resulting from differences in location and quality between crude oils at the aggregation point and the associated market center.

(3) A location/quality differential that MMS would publish annually that you would use if you do not dispose of production under an arm's-length exchange agreement that contains an express differential as described above (proposed paragraph (c)(1)(iii)). MMS would publish this differential for each aggregation point and an associated market center. MMS would also classify pipeline terminations at refining centers as aggregation points. An aggregation point may be associated with more than one market center. As discussed in more detail below, MMS periodically will publish in the Federal Register a list of market centers and associated aggregation points. The differential would represent crude oil value differences due to location and quality factors. MMS would acquire the information needed to calculate these differentials specific from exchange agreement data provided by lessees and their affiliates on a new reporting form (Form MMS–4415) discussed below. You would apply the differential on a calendar production year basis. This means you would apply it for the *reporting* months of February through the following January.

(4) Either your actual transportation costs from the lease to the aggregation point as determined under § 206.105 (proposed paragraph (c)(1)(iv)) or actual transportation costs from the lease to the market center (proposed paragraph (c)(1)(v)). MMS is not proposing to change the existing methods to calculate transportation allowances. The allowance would terminate at the aggregation or market center point whichever is applicable to your situation as part of the total adjustment to derive an index price based value at the lease.

The purpose of these adjustments and allowances is to reflect value differences for crude oil production of different qualities and at different locations to derive value at the lease. The location differentials between the index pricing point and the market center, and between the market center and the aggregation point, would not necessarily reflect transportation alone. They would represent the overall market assessment of the different relative values of similar crude oil delivered at different locations. Only the actual transportation costs from the lease to the aggregation point or market center would represent pure transportation costs.

Alternatives for methods other than location/quality differentials include using index values with no location adjustments to picking a specific percentage deduction from the index value to generically reflect location differentials. A variation of the latter would be to develop percentage or absolute dollar deductions for different geographical zones. In addition to specific comments on the proposed method of adjusting index values, MMS requests suggestions on alternative methods.

Proposed paragraph (c)(2) specifies which of the adjustments and allowances described above apply to you in various situations if your lease is not located in California or Alaska. If you dispose of your production under an arm's-length exchange agreement and the agreement has an express location/

quality differential to reflect the difference in value between the aggregation point for your lease and an associated market center, then you would use three of the four possible adjustments and allowances. Specifically, you would use the market center-index pricing point location/quality differential under paragraph (c)(1)(i), the aggregation point-market center differential specified in your exchange agreement under paragraph (c)(1)(ii), and the actual transportation costs from the lease to the aggregation point under paragraph (c)(1)(iv).

Attached as Appendix F is an example of a NYMEX-based royalty computation for OCS Louisiana production. The procedures for calculating the NYMEX price and index pricing point/market center location differential have been discussed above and are illustrated at Appendices B, D, and E.

The deduction to the NYMEX-based price for the location/quality differential between the market center and aggregation point will be the actual exchange agreement differential or an MMS-published differential. (For the purposes of this example, (Appendix F) we used $.40 per bbl.)

The transportation allowance deduction from the NYMEX-based price will be the cost of transport between the lease and aggregation point. (For the purposes of this example, (Appendix F) we used $.90 per bbl.).

If you do not move lease production through a MMS-identified aggregation point to a MMS-identified market center, but instead move it directly to an alternate disposal point (for example, your own refinery), then you would use only two of the adjustments and allowances. You would use the market center-index pricing point location/quality differential under paragraph (c)(1)(i) and the actual transportation costs from the lease to the alternate disposals point under paragraph (c)(1)(iv). In this event, the alternate disposal point is the aggregation point for purposes of that paragraph. The market center for purposes of paragraph (c)(1)(iv) is the market center nearest the lease where there is a published spot price for crude oil of like quality to your oil. *Like-quality oil* would mean oil with similar chemical, physical, and legal characteristics. For example, West Texas Sour and Wyoming Sour would be like-quality, as would West Texas Intermediate and Light Louisiana Sweet.

For example, a Wyoming Sour crude producer might transport its oil directly to a refinery in Salt Lake City without accessing any defined aggregation points or market centers. In this case West Texas Sour crude at Midland, Texas, might represent the crude oil/market center combination nearest to the oil produced. The market center-index pricing point location/quality differential under paragraph (c)(1)(i) would then be the difference in the spot price between West Texas Intermediate at Cushing, Oklahoma, and West Texas Sour at Midland, Texas as published in an MMS-approved publication. In addition to that adjustment, the producer would be entitled to an allowance for the actual transportation costs from the lease in Wyoming to Salt Lake City. MMS has determined that this method is the best way to calculate the differences in value between the lease and the index pricing point due to location, quality, and transportation when the production is not actually moved to a market center.

In all other situations, you would use the market center-index pricing point location/quality differential (paragraph (c)(1)(i)), the MMS-published aggregation point-market center location/quality differential under paragraph (c)(1)(iii), and the actual transportation costs from the lease to the aggregation point (paragraph (c)(1)(iv)). These adjustments and allowances cover all location, quality, and transportation differences in value between the lease and the index pricing point.

Proposed paragraph (c)(3) specifies which of the adjustments and allowances apply to you in various situations if your lease is located in California or Alaska. In this context, the index pricing point (where ANS crude is delivered in Los Angeles or San Francisco) would be synonymous with the market center. The allowable adjustments would still be the reasonable location/quality differentials and transportation allowances associated with value differences between production at the lease and the index pricing point. But since the index pricing point and market center would coincide, there would be no differential applicable between those two points. Thus, if you dispose of your production under an arm's-length exchange agreement and the agreement has an express location/quality differential to reflect the difference in value between the aggregation point for your lease and an associated market center, then you would use the aggregation point-market center differential specified in your exchange agreement under paragraph (c)(1)(ii), and the actual transportation costs from the lease to the aggregation point under paragraph (c)(1)(iv). If you move your oil directly to a market center then you would use the actual transportation costs from the lease to the market center under paragraph (c)(1)(v).

Attached as Appendix G is an example of an ANS-based royalty computation for onshore California production. The procedure for calculating the ANS price has been discussed above and is illustrated at Appendix C.

The deduction to the ANS-based price for the location/quality differential between the market center (Los Angeles using ANS spot prices) and aggregation point will be the actual exchange agreement differential or an MMS-published differential. (For the purposes of this example, (Appendix G) we used $4.78 per bbl.)

The transportation allowance deduction from the ANS-based price will be the cost of transport between the lease and aggregation point. (For the purposes of this example (Appendix G) we used $.20 per bbl.)

If you do not move lease production through a MMS-identified aggregation point to a MMS-identified market center, but instead move it directly to an alternate disposal point (for example, your own refinery), then you would use the actual transportation costs from the lease to the alternate disposal point under paragraph (c)(1)(iv). (Again, the alternate disposal point is the aggregation point for purposes of that paragraph.) In addition, you would use a location/quality differential calculated as the difference between the average spot prices for the production month in a MMS-approved publication at the aggregation point nearest the lease for which spot prices for like-quality crude oil are published and the published spot prices or ANS crude oil at the associated market center/index pricing point. For example, for Midway-Sunset production, the nearest location/quality combination might be Kern River crude. Then the difference between the ANS and Kern River spot prices as published in an MMS-approved publication would be the differential. For leases in California or Alaska, this represents the most accurate calculation of the differences in value between the lease and the index pricing point due to location, quality, and transportation when the production is not actually moved to a market center/index pricing point.

In all other situations in California or Alaska, you would use the MMS-published aggregation point-market center/index pricing point location/quality differential under paragraph (c)(1)(iii), and the actual transportation costs from the lease to the aggregation point (paragraph (c)(1)(iv)). These adjustments and allowances cover all location, quality, and transportation differences in value between the lease and the index pricing point for leases in California.

Proposed paragraph (c)(4) states that if a MMS calculated differential does not apply to a lessee's oil due to location and quality differentials, the lessee must request MMS in writing to calculate a location and quality differential that applies to its oil. Conditions for an exception would include:

(1) The lessee must deliver to MMS its written request for an MMS calculated differential within 30 days after MMS publishes its annual listing of location differentials;

(2) The lessee must provide clear evidence demonstrating why the published differential(s) does not adequately reflect its circumstances;

(3) If the lessee does not request an exception within 30 days after MMS publishes its annual listing of location differentials, MMS will calculate such a differential when it receives the lessee request or when it determines that the MMS-calculated differential does not apply to the lessee's oil. MMS will then bill for additional royalties and interest due. MMS will not refund any overpayments made due to failure to timely request MMS to calculate a differential; and

(4) MMS cannot unilaterally change any of its calculated differentials after it has published them in the Federal Register.

MMS would insert paragraph (c)(5) to note that it would periodically publish a list of MMS-acceptable publications in the Federal Register. This paragraph would also specify the criteria for acceptability; they are very similar to the criteria listed at 206.102(c)(5) for publications used in index pricing.

Proposed paragraph (c)(6) would allow any publication to petition MMS to add them to the list of acceptable publications.

Proposed paragraph (c)(7) would state that MMS would reference the specific tables in individual publications that lessees must use to determine location differentials.

Proposed paragraph (c)(8) states that MMS would periodically publish in the Federal Register a list of aggregation points and market centers. MMS would monitor market activity and, if necessary, add or modify market centers or aggregation points. MMS would consider the following factors and conditions in specifying market centers and aggregation points:

(i) Points where MMS-approved publications publish prices useful for index purposes;

(ii) Markets served;

(iii) Pipeline and other transportation linkage;

(iv) Input from industry and others knowledgeable in crude oil marketing and transportation;

(v) Simplification; and

(vi) Other relevant matters.

MMS would initially consider the following as Market Centers:

Cushing, OK
Empire, LA
Guernsey, WY
Los Angeles/San Francisco, CA
Midland, TX
St. James, LA

Where Cushing, Oklahoma is used as a market center, the index pricing point and market center would coincide. Los Angeles and San Francisco are two other market centers that also represent index pricing points. In those two cases, there would be no differential between the index pricing point and market center. Los Angeles and San Francisco are listed together because MMS believes the ANS spot price generally is identical at both locations.

Appendix H is a list of aggregation points MMS has initially selected to publish differentials under (3) above. MMS requests specific comments on the initial list of market centers and aggregation points, including suggested additions, deletions and other modifications.

(d) Reporting requirements. MMS would redesignate existing paragraph (c) as (d). Existing paragraphs (c)(1) and (c)(2) (i), (ii), and (iii) would otherwise remain the same. MMS would delete paragraph (d)(2)(iv) consistent with the previous change to delete the use of FERC or State approved tariffs.

(3) What information must I provide to support index pricing deductions, and how are they used? Proposed paragraph (d)(3) would be added to require lessees and their affiliates to submit a new form to MMS annually. Proposed Form MMS–4415, Oil Location Differential Report, would capture location differentials in all exchange agreements or other oil disposal contracts. MMS would use these data to calculate location differentials between market centers and aggregation points. MMS would publish these differentials annually for lessees to use in royalty reporting. MMS has included a copy of proposed Form MMS–4415 as Attachment A to these proposed regulations.

Information submitted on the new form would cover all of the lessee's and its affiliate's crude oil production, and not just information related to Federal or Indian lease production. Reporting duplicate information would not be required (e.g. identical locational/quality differential between the same point). All Federal and Indian lessees (or their affiliates as appropriate) would initially submit Form MMS–4415 no later than two months after the effective date of this reporting requirement, and then by October 31 of the year this regulation takes effect and by October 31 of each succeeding year. However, if October 31 of the year this regulation takes effect is less than six months after the effective date of this reporting requirement, the second submission of the Form MMS–4415 would be by October 31 of the succeeding year. The reporting requirement would take effect before the effective date of the rule. Early submittal of this information would allow MMS to publish the representative market center-aggregation point location differentials in the Federal Register by the effective date of the final regulation. Then MMS would publish location differentials by January 31 of all subsequent years. MMS would publish differentials for different qualities/grades of crude oil if the data are sufficient and if multiple differentials are appropriate for the area. Each year following the year this regulation became effective, lessees would use the new published differentials beginning with January production royalties reported in February.

MMS requests comments on Form MMS–4415 (See Appendix A), including:

- Its layout and information requested,
- Frequency and timing of submittal, frequency and timing of MMS's calculations and publication of differentials, and
- All other relevant comments.

Remainder of Section 206.105

MMS proposes no changes to existing paragraphs (d) and (e) except to redesignate them as paragraphs (e) and (f).

In addition to redesignating paragraph (f) as (g), MMS proposes to remove the reference to FERC or State approved tariffs to be consistent with the proposed deletion of paragraph 206.105(b). MMS proposes no change to existing paragraph (g) except to redesignate it as paragraph (h).

Section 206.106 Operating allowances.

MMS proposes no changes to Section 206.106.

Proposed change to 30 CFR 208.4(b)(2).

MMS currently sells RIK crude oil to small refiners under the provisions of 30 CFR 208. The RIK program is popular, but has been criticized for several of its procedures. Much of the criticism stems from the fact that MMS prices the crude oil sold to small refiners at the values reported by the entities providing the in-kind crude oil (producers). These values are reported on Form MMS–2014, and are subject to later adjustments. This method is onerous to the producers and creates risk for the small refiners.

The Royalty Policy Committee (RPC) provided three possible improvement options for the oil RIK program, as follows:

- Eliminate reporting on the Form MMS–2014;
- Establish product value in the RIK contract; and
- Bill entitled volumes from the Form MMS–3160, Monthly Report of Operations.

The RPC gave the following reason for its recommendations: The current method of administering the Federal oil RIK program is time-consuming and burdensome on producers, small refiners, and MMS. The administrative burden includes reconciling what volumes the small refiner actually took, what value to assign the small refiner volumes, who is to pay for what volumes, and who owes for what volumes.

MMS' proposal would tie RIK valuation to the index pricing provisions of 30 CFR 206.102(c)(2). MMS believes that changing the oil RIK valuation procedure as proposed would provide a cornerstone for a revised oil RIK program. In particular, the changes would provide certainty in pricing and would simplify reporting for producers. However, MMS realizes that the proposed change is significant, and requests comments on the proposal. In particular, MMS requests comments from crude oil producers and small refiners as to the impacts of the proposal on them. In addition, MMS requests comments from interested parties as to whether this proposed method of valuation would meet the fair market value definition of the Outer Continental Shelf (OCS) Lands Act.

IV. Procedural Matters

The Regulatory Flexibility Act

The Department certifies that this rule will not have significant economic effect on a substantial number of small entities under the Regulatory Flexibility Act (5 U.S.C. § 601 *et seq*.). This proposed rule would amend regulations governing the valuation for royalty purposes of crude oil produced from Federal leases. These changes would modify the valuation methods in the existing regulations. Small entities are encouraged to comment on this proposed rule.

Unfunded Mandates Reform Act of 1995

The Department of the Interior has determined and certifies according to the Unfunded Mandates Reform Act, 2 U.S.C. § 1502 *et seq*., that this rule will not impose a cost of $100 million or more in any given year on local, Tribal, or State governments, or the private sector.

Executive Order 12630

The Department certifies that the rule does not represent a governmental action capable of interference with constitutionally protected property rights. Thus, a Takings Implication Assessment need not be prepared under Executive Order 12630, Government Action and Interference with Constitutionally Protected Property Rights.

Executive Order 12988

The Department has certified to the Office of Management and Budget that this proposed rule meets the applicable civil justice reform standards provided in Sections 3(a) and 3(b)(2) of this Executive Order.

Executive Order 12866

The Office of Management and Budget has determined this rule is a significant rule under this Executive Order 12866 Section 3(f)(4). Which states: ''Raise novel legal or policy issues arising out of legal mandates, the President's priorities, or the principles set forth in this Executive Order.'' The Department's analysis of these proposed revisions to the oil valuation regulations indicate these changes will not have a significant economic effect, as defined by Section 3(f)(4) of this Executive Order.

Paperwork Reduction Act

This proposed rule contains a collection of information which has been submitted to the Office of Management and Budget (OMB) for review and approval under section 3507(d) of the Paperwork Reduction Act of 1995. As part of our continuing effort to reduce paperwork and respondent burden, MMS invites the public and other Federal agencies to comment on any aspect of the reporting burden. Submit your comments to the Office of Information and Regulatory Affairs, OMB, Attention Desk Officer for the Department of the Interior, Washington, D.C. 20503. Send copies of your comments to: Minerals Management Service, Royalty Management Program, Rules and Procedures Staff, P.O. Box 25165, MS 3101, Denver, Colorado, 80225–0165; courier address is: Building 85, Denver Federal Center, Denver, Colorado 80225; e:Mail address is: David__Guzy@smtp.mms.gov.

OMB may make a decision to approve or disapprove this collection of information after 30 days from receipt of our request. Therefore, your comments are best assured of being considered by OMB if OMB receives them within that time period. However, MMS will consider all comments received during the comment period for this notice of proposed rulemaking.

The information collection is titled Oil Location Differential Report. Part of the valuation of oil not sold under arm's-length contracts rely on price indices that lessees may adjust for location differences between the index pricing point and the lease. Federal lessees and their affiliates would be required to give MMS information on the location differentials included in their various oil exchange agreements and sales contracts. From these data MMS would calculate and publish representative location differentials for lessees use in reporting royalties in different areas. This process would introduce certainty into royalty reporting.

Rules establishing the use of Form MMS–4415 to report oil location differentials are at proposed 30 CFR 206.105(d)(3). Information provided on the forms may be used by MMS auditors and the Valuation and Standards Division (VSD).

MMS estimates the annual reporting burden to be approximately 32,000 hours. There are approximately 2,000 royalty payors on Federal and Indian leases. The MMS subject matter experts estimate that on average, these payors would have about 64 exchange agreements and sales contracts from which data would need to be extracted. This annual filing as required by 30 CFR 206.105(d)(3) could require about one-quarter hour per report to extract the data from individual exchange agreements and sales contracts. Only a minimal recordkeeping burden would be imposed by this collection of information. Based on $25 per hour, the annual industry cost is estimated to be $800,000.

In compliance with the requirement of Section 3506(c)(2)(A) of the Paperwork Reduction Act of 1995, MMS is providing notice and otherwise consulting with members of the public and affected agencies concerning collection of information in order to solicit comment to: (a) evaluate whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility; (b) evaluate the accuracy of the agency's estimate of the burden of the proposed collection of information; (c) enhance the quality, utility, and clarity of the information to be collected; and (d) minimize the burden of the collection of information on those who are to respond, including through the use of automated collection techniques or other forms of information technology.

The Paperwork Reduction Act of 1995 provides that an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

National Environmental Policy Act of 1969

We have determined that this rulemaking is not a major Federal action significantly affecting the quality of the human environment, and a detailed statement under section 102(2)(C) of the National Environmental Policy Act of 1969 (42 U.S.C. § 4332(2)(C)) is not required.

List of Subjects in 30 CFR Parts 206 and 208

Coal, Continental shelf, Geothermal energy, Government contracts, Indians-lands, Mineral royalties, Natural gas Petroleum, Public lands—mineral resources, Reporting and recordkeeping requirements.

Dated: December 30, 1996.

Bob Armstrong,

Assistant Secretary—Land, Minerals Management.

For the reasons set out in the preamble, 30 CFR parts 206 and 208 are proposed to be amended as follows:

PART 206—PRODUCT VALUATION

1. The authority citation for Part 206 continues to read as follows:

Authority: 5 U.S.C. 301 *et seq.*; 25 U.S.C. 396 *et seq.*, 396a *et seq.*; 2101 *et seq.*; 30 U.S.C. 181 *et seq.*; 351 *et seq.*; 1001 *et seq.*; 1701 *et seq.*; 31 U.S.C. 9701.; 43 U.S.C. 1301 *et seq.*, 1331 *et seq.*, and 1801 *et seq.*

Subpart C—Federal Oil

2. Sections 206.100 through 206.102 are revised to read as follows:

§ 206.100 What is the purpose of this subpart?

(a) This subpart applies to all oil produced from Federal oil and gas leases onshore and on the Outer Continental Shelf (OCS). It explains how lessees and designees must calculate the value of production for royalty purposes consistent with the mineral leasing laws, other applicable laws, and lease terms.

(b) This subpart does *not* apply in three situations. The statute, settlement agreement, or lease provision will govern, if the regulations in this subpart are inconsistent with:

(1) A Federal statute;

(2) A settlement agreement between the United States and a lessee resulting from administrative or judicial litigation; or

(3) An express provision of an oil and gas lease subject to this subpart.

(c) MMS may audit and adjust all royalty payments.

§ 206.101 Definitions.

The following definitions apply to this subpart:

Aggregation point means a central point where production is aggregated for shipment to market centers or refineries. It includes, but is not limited to, blending and storage facilities and connections where pipelines join. Pipeline terminations at refining centers also are classified as aggregation points. MMS periodically will publish in the Federal Register a list of aggregation points and associated market centers.

Area means a geographic region at least as large as the limits of an oil and/or gas field in which oil and/or gas lease products have similar quality, economic, and legal characteristics.

Arm's-length contract means a contract or agreement between independent, nonaffiliated persons with opposing economic interests regarding that contract. Two persons are affiliated if one person controls, is controlled by, or is under common control with another person. Based on the instruments of ownership of the voting securities of an entity, or based on other forms of ownership: ownership over 50 percent constitutes control; ownership of 10 through 50 percent creates a presumption of control; and ownership of less than 10 percent creates a presumption of noncontrol. MMS may rebut this presumption if it demonstrates actual or legal control, as through interlocking directorates. MMS may require the lessee to certify the percentage of ownership or control. Aside from the percentage ownership criteria, contracts between relatives, either by blood or by marriage, are not arm's-length contracts. To be considered arm's-length for any production month, a contract must satisfy this definition for that month, as well as when the contract was executed.

Audit means a review, conducted under generally accepted accounting and auditing standards, of royalty payment compliance activities of lessees, designees or other persons who pay royalties, rents, or bonuses on Federal leases.

BLM means the Bureau of Land Management of the Department of the Interior.

Condensate means liquid hydrocarbons (normally exceeding 40 degrees of API gravity) recovered at the surface without processing. Condensate is the mixture of liquid hydrocarbons resulting from condensation of petroleum hydrocarbons existing initially in a gaseous phase in an underground reservoir.

Contract means any oral or written agreement, including amendments or revisions, between two or more persons, that is enforceable by law and that with due consideration creates an obligation.

Crude oil call means the right of one person to buy, at its option, all or a part of the second person's oil production from an oil and gas property. This right generally arises as a condition of the sale or farmout of that property from the first person to the second, or as a result of other transactions between them. The price basis may be specified when the property is sold or farmed out.

Designee means the person the lessee designates to report and pay the lessee's royalties for a lease.

Exchange agreement means an agreement where one person agrees to deliver oil to another person at a specified location in exchange for oil deliveries at another location. Exchange agreements may or may not specify prices for the oil involved. They frequently specify dollar amounts reflecting location, quality, or other differentials. Exchange agreements include ''buy/sell'' agreements, which specify prices to be paid at each exchange point and may appear to be two separate sales within the same agreement. Exchange agreements do not include ''transportation'' agreements, whose principal purpose is transportation.

Field means a geographic region situated over one or more subsurface oil and gas reservoirs and encompassing at least the outermost boundaries of all oil and gas accumulations known within those reservoirs, vertically projected to the land surface. State oil and gas regulatory agencies usually name onshore fields and designate their official boundaries. MMS names and designates boundaries of OCS fields.

Gathering means the movement of lease production to a central accumulation or treatment point on the lease, unit, or communitized area, or to a central accumulation or treatment point off the lease, unit, or communitized area that BLM or MMS approves for onshore and offshore leases, respectively.

Gross proceeds means the total monies and other consideration accruing for the disposition of oil produced. Gross proceeds includes, but is not limited to the examples discussed in this definition. Gross proceeds include payments for services such as dehydration, measurement, and/or gathering which the lessee must perform at no cost to the Federal Government. It also includes the value of services, such as salt water disposal, that the producer normally performs but that the buyer performs on the producer's behalf. Gross proceeds also includes, but is not limited to, reimbursements for harboring or terminaling fees. Tax reimbursements are part of the gross proceeds even though the Federal royalty interest may be exempt from taxation. Monies and all other consideration a seller is contractually or legally entitled to, but does not seek to collect through reasonable efforts, are also part of gross proceeds.

Index pricing means using NYMEX futures prices or Alaska North Slope (ANS) crude oil spot prices for royalty valuation.

Index pricing point means the physical location where an index price is established in an MMS-approved publication.

Lease means any contract, profit-share arrangement, joint venture, or other agreement issued or approved by the United States under a mineral leasing law that authorizes exploration for, development or extraction of, or removal of oil or gas products—or the land area covered by that authorization, whichever the context requires.

Lessee means any person to whom the United States issues an oil and gas lease, an assignee of all or a part of the record title interest, or any person to whom operating rights in a lease have been assigned.

Like-quality oil means oil with similar chemical, physical, and legal characteristics.

Load oil means any oil used in the operation of oil or gas wells for wellbore stimulation, workover, chemical treatment, or production purposes. It does not include oil used at the surface to place lease production in marketable condition.

Location differential means the value difference for oil at two different points.

Market center means a major point MMS recognizes for oil sales, refining, or transshipment. Market centers generally are locations where MMS-approved publications publish oil spot prices.

Marketable condition means oil sufficiently free from impurities and otherwise in a condition a purchaser will accept under a sales contract typical for the field or area.

Minimum royalty means that minimum amount of annual royalty the lessee must pay as specified in the lease or in applicable leasing regulations.

MMS-approved publication means a publication MMS approves for determining NYMEX or ANS prices, or determining location differentials.

Net profit share (for applicable Federal leases) means the specified share of the net profit from production of oil and gas as provided in the agreement.

Netting means reducing the reported sales value to account for transportation instead of reporting a transportation allowance as a separate line on Form MMS–2014.

NYMEX means the New York Mercantile Exchange.

Oil means a mixture of hydrocarbons that existed in the liquid phase in natural underground reservoirs, remains liquid at atmospheric pressure after passing through surface separating facilities, and is marketed or used as a liquid. Condensate recovered in lease separators or field facilities is considered oil.

Outer Continental Shelf (OCS) means all submerged lands lying seaward and outside of the area of lands beneath navigable waters as defined in Section 2 of the Submerged Lands Act (43 U.S.C. 1301) and of which the subsoil and seabed appertain to the United States and are subject to its jurisdiction and control.

Person means any individual, firm, corporation, association, partnership, consortium, or joint venture (when established as a separate entity).

Quality differential means the value difference between two oils due to differences in their API gravity, sulfur content, viscosity, metals content, and other quality factors.

Sale means a contract between two persons where:

(1) The seller unconditionally transfers title to the oil to the buyer. The seller may not retain any related rights such as the right to buy back similar quantities of oil from the buyer elsewhere;

(2) The buyer pays money or other consideration for the oil; and

(3) The parties' intent is for a sale of the oil to occur.

Section 6 lease means an OCS lease subject to section 6 of the Outer Continental Shelf Lands Act, as amended, 43 U.S.C. 1335.

Spot price means the price under a spot sales contract where:

(1) A seller agrees to sell to a buyer a specified amount of oil at a specified price over a specified period of short duration;

(2) No cancellation notice is required to terminate the sales agreement; and

(3) There is no obligation or implied intent to continue to sell in subsequent periods.

Transportation allowance means a deduction in determining royalty value for the reasonable, actual costs of moving oil to a point of sale or delivery off the lease, unit area, or communitized area. The transportation allowance does not include gathering costs.

§ 206.102 How do I calculate royalty value for oil?

This section explains how lessees and designees must calculate the value of oil production for royalty purposes. The value of oil produced from leases subject to this subpart is the value calculated under this section less applicable allowances determined under this subpart.

(a) *How do I value oil sold under an arm's-length sales contract?* If you have an arm's-length contract for the sale of your oil, the value is the gross proceeds accruing to you.

(1) Paragraphs (a)(2), (a)(3), (a)(4), (a)(5) and (a)(6) of this section contain exceptions to this section.

(2) The royalty value you report is subject to MMS' monitoring, review, and audit. MMS may examine whether your oil sales contract reflects the total consideration actually transferred either directly or indirectly from the buyer to you. If it does not, then MMS may require that you value the oil sold under that contract under paragraph (c)(2) of this section or the total consideration, whichever is greater.

(3)(i) MMS will provide you an opportunity to submit written information justifying the royalty value, if MMS determines that the value under this paragraph (a) does not reflect the reasonable value of the production due to either:

(A) Misconduct by or between you and the other contracting party; or

(B) Breach of your duty to market the oil for the mutual benefit of yourself and the lessor.

(ii) If you cannot justify the value to MMS' satisfaction, MMS will require that you value the oil under paragraph (c)(2) of this section.

(4) You may not use this paragraph (a) to value oil disposed of under an exchange agreement or for production that is subject to crude oil calls. Use paragraph (c)(2) of this section to value this oil production.

(5) Your gross proceeds include payments made to reduce or *buy down* the purchase price of oil to be produced in later periods. You must allocate such payments over the production whose price the payment reduces and account for the payment as proceeds for the production as it occurs.

(6) Even if you have an arm's-length contract for the sale of your oil, you must value your oil under paragraph (c)(2) of this section instead of this paragraph if you or any of your affiliates purchased crude oil from an unaffiliated third party in the United States in the 2-year period preceding the production month.

(b) *What else must I do if I value oil under an arm's-length sales contract?* (1) You must be able to demonstrate that your contract is an arm's-length sales contract.

(2) MMS may require you to certify that your arm's-length contract provisions include all of the consideration the buyer must pay, either directly or indirectly, for the oil.

(3) You must base value on the highest price you can receive through legally enforceable claims under your contract. If you fail to take proper or timely action to receive prices or benefits you are entitled to, you must pay royalty at a value based upon that obtainable price or benefit. If you make timely application for a price increase or benefit allowed under your contract but the purchaser refuses, and you take reasonable documented measures to force purchaser compliance, you will owe no additional royalties unless or until you receive monies or consideration resulting from the price increase or additional benefits. This paragraph (b) will not permit you to avoid your royalty payment obligation where a purchaser fails to pay, pays only in part, or pays late. Any contract revisions or amendments that reduce prices or benefits to which you are entitled must be in writing and signed by all parties to your arm's-length contract.

(c) *How do I value oil not sold under an arm's-length sales contract?* This paragraph (c) explains how to value oil not sold under an arm's-length sales contract, or any other oil production you may not value under paragraph (a) of this section. Use the first of paragraphs (c)(1), (c)(2), or (c)(3) of this section that applies to you:

(1) If you sell or transfer your oil production to an affiliate and either that affiliate or another affiliate disposes of the oil under an arm's-length sales contract, value is either:

(i) The gross proceeds accruing to your affiliate under its arm's-length sales contract using the same rules as paragraph (a) of this section; or

(ii) The value according to paragraph (c)(2) of this section. If you elect to use this paragraph (c)(1)(ii) to value your oil, you must make the same election to value all oil that is produced from all your leases and is subject to this paragraph (c)(1). You may not use paragraph (c)(1)(i) of this section for some leases and this paragraph (c)(1)(ii) for other leases. However, you may change your election on January 1 the second year after the effective date of the final rule and January 1 every 2 years after that.

(2) If neither you nor your affiliate disposes of the oil under an arm's-length sales contract, use this paragraph (c)(2) to value the oil:

(i) For production from leases not in California or Alaska, value is the average of the daily NYMEX futures settle prices (Cushing, Oklahoma) for the Domestic Sweet crude oil contract for the prompt month. The prompt month is the earliest month for which futures are traded on the first day of the month of production. You must adjust the NYMEX prices for applicable location and quality differentials and you may adjust it for transportation costs under § 206.105(c) of this subpart.

(ii) For production from leases in California or Alaska, value is the average of the daily mean Alaska North Slope (ANS) spot prices for the month of production published in an MMS-approved publication (see paragraph (c)(4) of this section). You must adjust the spot prices for applicable location and quality differentials and you may adjust it for transportation costs under § 206.105(c) of this subpart.

(3) MMS will monitor the index prices in paragraph (c)(2) of this section. If MMS determines that NYMEX or ANS spot prices are unavailable or no longer represent reasonable royalty value, MMS will, by rule, amend paragraph (c)(2) of this section to establish a substitute valuation method.

(4) MMS periodically will publish in the Federal Register a list of acceptable publications based on certain criteria, including but not limited to:

(i) Publications buyers and sellers frequently use;

(ii) Publications frequently mentioned in purchase or sales contracts;

(iii) Publications which use adequate survey techniques, including development of spot price estimates based on daily surveys of buyers and sellers of ANS crude oil; or

(iv) Publications independent from MMS, other lessors, and lessees.

(5) Any publication may petition MMS to be added to the list of acceptable publications.

(6) MMS will reference the tables you must use in the publications to determine the associated index prices.

(d) *What else must I do if I value oil under paragraph (c) of this section?* If you determine the value of your oil production under paragraph (c) of this section, you must retain all data relevant to the determination of royalty value. Recordkeeping requirements are found at 30 CFR 207.5. MMS may review and audit such data, and MMS will direct you to use a different value if it determines that the reported value is inconsistent with the requirements of this section.

(e) *What other general responsibilities do I have under this section?* (1) You must place oil in marketable condition and market the oil for the mutual benefit of the lessee and the lessor at no cost to the Federal Government unless otherwise provided in the lease agreement or this section. If you establish value under this section as your gross proceeds, then you must increase value to the extent your gross proceeds are reduced because the purchaser, or any other person, provides certain services you normally would be responsible to perform to place the oil in marketable condition or to market the oil.

(2) If MMS determines that you have not properly determined value, you must pay the difference, if any, between the royalty payments you made and those that are due based upon the value MMS establishes. You must also pay interest on the difference computed under 30 CFR 218.54. If you are entitled to a credit, MMS will provide instructions for taking that credit.

(f) *May I ask MMS to determine value?* You may ask MMS to determine value. Propose a value determination method to MMS and use that value for royalty payments until MMS issues a value determination. You must submit all available data relevant to your proposal. MMS will promptly determine the proper procedure based upon your proposal and any additional information MMS deems necessary. In making a value determination, MMS may use any of the valuation criteria this subpart authorizes. In its determination letter, MMS will tell you the period for which the determination applies. After MMS issues its determination, you must make any needed adjustments under paragraph (e)(2) of this section.

(g) *How do value redeterminations relate to audit periods?* No review, reconciliation, monitoring, or other like process that results in MMS redetermining your oil royalty value will be considered final or binding on the Federal Government until MMS formally closes the audit period. However, if MMS directs you to compute royalties in a manner inconsistent with applicable lease terms or regulations, closing of the audit period does not forclose MMS from correcting the error and collecting any royalties due.

(h) *Does MMS protect information I provide?* Certain information you submit to MMS to support valuation proposals, including transportation allowances, is exempt from disclosure under Federal law. MMS will keep confidential, under applicable laws and regulations, any data you submit that is privileged, confidential, or otherwise exempt. All requests for information about determinations made under this part must be submitted under the Freedom of Information Act regulation of the Department of the Interior, 43 CFR part 2.

3. Section 206.104 is revised to read as follows:

§ 206.104 Transportation allowances and other adjustments—general.

(a) *What transportation allowances are permitted when I value production based on my gross proceeds?* Where you value oil under § 206.102 of this subpart based on gross proceeds from a sale at a point off the lease, unit, or communitized area, and the movement of the oil is not gathering, MMS will allow a deduction for your reasonable, actual costs to:

(1) Transport oil from an onshore lease to the point off the lease under § 206.105 (a) or (b), as applicable. However, for onshore leases, you may not take a transportation allowance for transporting oil taken as Royalty-In-Kind (RIK); or

(2) Transport oil from an offshore lease to the point off the lease under § 206.105 (a) or (b), as applicable. For oil taken as RIK, you may take a transportation allowance for your reasonable, actual costs to transport that oil to the delivery point specified in the contract between the RIK oil purchaser and the Federal Government.

(b) *What transportation allowances and other adjustments apply when I value production based on index pricing?* If you value oil under § 206.102(c)(2) of this subpart, MMS will allow a deduction for certain costs associated with transporting oil as provided under § 206.105(c).

(c) *Are there limits on my transportation allowance?* (1) Except as provided in paragraph (c)(2) of this section, your transportation allowance deduction may not exceed 50 percent of the value of the oil at the point of sale or aggregation point, as applicable, as determined under § 206.102 of this subpart. You may not use transportation costs incurred to move a particular volume of production to reduce royalties owed on production on which those costs were not incurred.

(2) You may ask MMS to approve a transportation allowance deduction in excess of the limitation in paragraph (c)(1) of this section. You must demonstrate that the transportation costs incurred were reasonable, actual, and necessary. Your application for exception (using Form MMS–4393–Request to Exceed Regulatory Allowance Limitation) must contain all relevant and supporting documentation necessary for MMS to make a determination. You may never reduce the royalty value of any production to zero.

(d) *Must I allocate transportation costs?* You must allocate transportation costs among all products produced and transported as provided in § 206.105 of this subpart. You must express transportation allowances for oil as dollars per barrel.

(e) *What additional payments may I be liable for?* If MMS determines that you underpaid royalties because you took an excessive transportation allowance, then you must pay any additional royalties, plus interest under 30 CFR 218.54. You also could be entitled to a credit with interest if you understated your transportation allowance. If you take a deduction for transportation on Form MMS–2014 by improperly netting the allowance against the sales value of the oil instead of reporting the allowance as a separate line item, MMS may assess you an amount under § 206.105(d) of this subpart.

4. Section 206.105 is amended by revising the section heading, removing paragraph (b)(5), by redesignating paragraphs (c) through (g) as paragraphs (d) through (h), adding a new paragraph (c), and by revising newly redesignated paragraphs (d)(3) and (g) to read as follows:

§ 206.105 Determination of transportation allowances and other adjustments.

* * * * *

(c) *What adjustments and transportation allowance apply when I use index pricing?* (1) When you use index pricing to calculate the value of production, under § 206.102(c)(2), you must adjust the index price for the reasonable location/quality differentials (mandatory) and transportation costs (optional) to reflect value differences between the lease and the index pricing point. The adjustments and transportation allowances that might apply to your production are listed in paragraphs (c)(1)(i) through (v) of this section. See paragraphs (c)(2) through (c)(3) of this section to determine which adjustments and transportation allowances you must use based on how you dispose of your production and where your leases are located. These adjustments and transportation allowances are:

(i) A location differential to reflect the difference in value of crude oils at the index pricing point and the appropriate market center. For any production month, the location differential is the difference between the average spot prices for that month for the respective crude oils at the index pricing point and at the market center. Use MMS-approved publications to determine average spot prices.

(ii) An express location/quality differential under your arm's-length exchange agreement that reflects the difference in value of crude oil at the aggregation point and the market center.

(iii) A location/quality differential that MMS will publish annually based on data MMS collects on Form MMS–4415. MMS will calculate that differential using a volume-weighted average of the differentials reported on Form MMS–4415 for the previous reporting year. MMS may publish separate rates for various crude oil qualities that are identified separately on Form MMS–4415 (e.g. sweet vs. sour or gravity ranges). MMS will publish differentials that reflect both a location differential based on the market center/aggregation point pairs and a quality differential based on the type of crude oil. MMS will publish these differentials in the Federal Register by the effective date of the final regulation and by January 31 of all subsequent years. You must use MMS-published rates on a calendar year basis—apply them to January through December production reported February through the following January.

(iv) Actual transportation costs from the aggregation point to the lease determined under this section.

(v) Actual transportation costs from the market center to the lease determined under this section.

(2) If your lease is not located in California or Alaska, use the applicable paragraph of paragraphs (c)(2)(i) through (iv) of this section to determine which adjustments and transportation allowances apply to your production:

(i) If you dispose of your production under an arm's-length exchange agreement and that exchange agreement has an express location differential to reflect the difference in value between the aggregation point for your lease and the associated market center, use paragraphs (c)(1)(i), (ii), and (iv) of this section to determine your adjustments and transportation allowance.

(ii) If you do not move lease production through a MMS-identified aggregation point to a MMS-identified market center, but move it directly to an alternate disposal point (for example, your own refinery), use paragraphs (c)(1) (i) and (iv) of this section. In this situation, the market center for purposes of paragraph (c)(1)(i) of this section is MMS-identified market center nearest the lease where there is a published spot price for crude oil of like quality to your oil. You must use the spot price for the like-quality oil. The aggregation point for purposes of paragraph (c)(1)(iv) of this section is the alternate disposal point.

(iii) If you move your oil directly to a MMS-identified market center index pricing point, deduct the actual transportation costs to that market center under (c)(1)(v) of this section.

(iv) In all other situations, use paragraphs (c)(1) (i), (iii), and (iv) of this section.

(3) If your lease is located in California or Alaska, the index pricing point (Los Angeles or San Francisco) is the same as the market center. Use the applicable paragraphs of paragraphs (c)(3) (i) through (iv) of this section to determine which adjustments and transportation allowances apply to your production.

(i) If you dispose of your production under an arm's-length exchange agreement and that agreement has an express location differential to reflect the difference in value between the aggregation point for your lease and the associated market center, use paragraphs (c)(1) (ii) and (iv) of this section to determine your adjustments and transportation allowances.

(ii) If you do not move lease production through a MMS-identified aggregation point to a MMS-identified market center, but move it directly to an alternate disposal point (for example, your own refinery), use paragraph (c)(1)(iv) of this section. For purposes of paragraph (c)(1)(iv) of this section only, the aggregation point is the alternate disposal point. In addition, use a location/quality differential calculated as the difference between the average of the published spot price for the production month in a MMS-approved publication at the aggregation point nearest the lease for which spot prices for like-quality crude oil are published and the published spot prices for ANS crude oil at the associated market center/index pricing point.

(iii) If you move your oil directly to a MMS-identified market center, deduct the actual transportation costs to that market center under paragraph (c)(1)(v) of this section.

(iv) In all other situations, use paragraphs (c)(1) (iii) and (iv) of this section.

(4) If an MMS-calculated differential under paragraph (c)(1)(iii) of this section does not apply to your oil, either due to location or quality differences, you must request MMS to calculate a differential for you.

(i) After MMS publishes its annual listing of location/quality differentials, you must file your request in writing with MMS for an MMS-calculated differential.

(ii) You must provide clear evidence demonstrating why the published differential does not adequately reflect your circumstances.

(iii) If you do not file a request for an MMS-calculated differential within 30 days after MMS publishes its annual listing of location differentials, MMS will calculate such a differential when it receives your request or when it discovers that the MMS-calculated differential under paragraph (c)(1)(iii) of this section does not apply to your oil. MMS will bill you for any additional royalties and interest due. MMS will not refund any overpayments you made due to your failure to timely request MMS to calculate a differential for you.

(iv) File your request at the following address: Minerals Management Service, Royalty Management Program, Valuation and Standards Division, P.O. Box 25165, Mail Stop 3150, Denver, CO 80225–0165.

(5) For the differentials referenced in paragraphs (c)(1)(i) and (c)(3)(ii) of this section, periodically MMS will publish in the Federal Register a list of acceptable publications. MMS' acceptance decision will be based on criteria which include but are not limited to:

(i) Publications buyers and sellers frequently use;

(ii) Publications frequently mentioned in purchase or sales contracts;

(iii) Publications which use adequate survey techniques, including development of spot price estimates based on daily surveys of buyers and sellers of crude oil; or

(iv) Publications independent from MMS, other lessors, and lessees.

(6) Any publication may petition MMS to be added to the list of acceptable publications.

(7) MMS will specify the tables you must use in the publications to determine the associated location differentials.

(8) Periodically, MMS will publish in the Federal Register a list of aggregation points and the associated market centers. MMS will monitor market activity and, if necessary, add to or modify the list of market centers and aggregation points and will publish such modifications in the Federal Register. MMS will consider the following factors and conditions in specifying market centers and aggregation points:

(i) Points where MMS-approved publications publish prices useful for index purposes;

(ii) Markets served;

(iii) Pipeline and other transportation linkage;

(iv) Input from industry and others knowledgeable in crude oil marketing and transportation;

(v) Simplification; and

(vi) Other relevant matters.

(d) *Reporting requirements—(1) Arm's-length contracts.*

* * * * *

(3) *What information must I provide to support index pricing adjustments, and how are they used?* You must submit information on Form MMS–4415 related to all your and your affiliates' crude oil production, and not just information related to Federal lease production. All Federal lessees (or their affiliates, as appropriate) must initially submit Form MMS–4415 no later than 2 months after the effective date of this reporting requirement, and then by October 31 of the year this regulation takes effect and by October 31 of each succeeding year.

* * * * *

(g) *Actual or theoretical losses.* Notwithstanding any other provision of this subpart, for other than arm's-length contracts, no cost shall be allowed for oil transportation which results from payments (either volumetric or for value) for actual or theoretical losses.

* * * * *

PART 208—SALE OF FEDERAL ROYALTY OIL

5. The authority citation for Part 208 is revised to read as follows:

Authority: 5 U.S.C. 301 *et seq.*; 30 U.S.C. 181 *et seq.*, 351 *et seq.*, 1701 *et seq.;* 31 U.S.C. 9701; 43 U.S.C. 1301 *et seq.*, 1331 *et seq.*, and 1801 *et seq.*

6. Section 208.4(b)(2) is revised to read as follows:

§ 208.4 Royalty oil sales to eligible refiners.

* * * * *

(b) * * *

(2) Effective with sales of royalty oil for the first full production month after the effective date of this rule, the sales price of all royalty oil from onshore and OCS leases will be the value determined under 30 CFR 206.102 (c)(2), regardless of whether oil produced from the lease is or would be valued for royalty purposes on that basis. MMS will calculate and provide that value to the buyer. For royalty oil from OCS leases only, the price will include associated transportation costs to the designated delivery point, if applicable.

* * * * *

Note: The following Appendices will not appear in the Code of Federal Regulations.

BILLING CODE 4310–MR–P

Appendix A to Peamble of Oil Valuation Rule

OMB 1010-
Expires

Oil Location Differential Report

Payor Name: ____________________ Payor Code ______
Address: ____________________ Reporting Period: __________ 19 ___ to
City, State ______________ Zip ________ __________ 19 ___

1. Contract Party Name	____________________ MMS Payor Code (if available) ______	
2. Contract Type and I.D.	☐ Buy/Sell, ☐ Non-Cash Exchange, ☐ Sale subject to balancing, Contract Number ____________	
3. Contract Term	Effective Date: ____/____/____ (MM/DD/YY) Initial Term: ________ (Months) Expiration Terms: ☐ month-to-month extensions, ☐ fixed duration	
	Oil You Sold or Transferred	**Oil You Received**
4. Title Transfer Location	☐ MMS Lease Number ____-________-__ ☐ Market Center ________ ☐ Aggregation Point ________ ☐ Other ________ Cost of transporting from lease to title transfer point ______.____ $/bbl. Describe cost ________	☐ MMS Lease Number ____-________-__ ☐ Market Center ________ ☐ Aggregation Point ________ ☐ Other ________ Cost of transporting from lease to title transfer point ______.____ $/bbl. Describe cost ________
5. Volume Terms	☐ All Available (________ Est. B/D) ☐ Fixed (________ Fixed B/D)	☐ All Available (________ Est. B/D) ☐ Fixed (________ Fixed B/D)
6. Crude Quality	API Gravity: ______ API Sulfur Content ______ %	API Gravity: ______ API Sulfur Content ______ %
7. Pricing Terms	☐ **Posted Price** Posting Company Name(s) ________ Poster's Crude Type/Designation ________ Premium/Deduct to Posting: ______ $/BBL ☐ **Formula Price (Describe)** ________ ☐ **Fixed Price** ________ $BBL ☐ **Other (Describe)** ________	☐ **Posted Price** Posting Company Name(s) ________ Poster's Crude Type/Designation ________ Premium/Deduct to Posting: ______ $/BBL ☐ **Formula Price (Describe)** ________ ☐ **Fixed Price** ________ $BBL ☐ **Other (Describe)** ________
8. Quality Adjustments	API Gravity Adjustments: ☐ No Deductions ☐ Deemed ____ °API, ______ $/BBL ☐ Actual ____ °API, ______ $/BBL Sulfur or other Quality Adjustments: Description: ________ Adjustments: ________ $/BBL	API Gravity Adjustments: ☐ No Deductions ☐ Deemed ____ °API, ______ $/BBL ☐ Actual ____ °API, ______ $/BBL Sulfur or other Quality Adjustments: Description: ________ Adjustments: ________ $/BBL

Have you received any other consideration, in any form, for the sale or purchase of this crude oil, either at this location or at any other location? (☐ Yes, ☐ No). If Yes, Explain: ____________________

Authorized Signature ____________________ **and Date** __________

Form MMS-4415 (12/96)

BILLING CODE 4310–MR–C

Instructions for Completing Form MMS–4415 Oil Location Differential Report

This form's purpose is to collect value differential data for exchanged oil, whether the exchange takes place at the lease or downstream of the lease. These differentials may be related to quality, volume, or location. MMS will use this information to value Federal oil—see 30 CFR 206.105(d)(3). For each contract where oil is exchanged between non-affiliated parties, fill out the requested information on a separate Form MMS–4415. Attach additional sheets if necessary. Do not include production subject to call rights where another party has the right to purchase oil at some redefined price basis or to match other purchase offers.

Company (Payor) Information

Fill out your company name (whether lessee or affiliate), address, and zip code. If additional forms are needed to provide the required information, the address may be omitted from subsequent forms provided that the cover form containing the address is attached.

Write in your MMS payor code on each form submitted.

Write in the reporting period this form covers.

1. Contract Party Name: Write the name of the party you contracted with to transfer your oil. If that party has an MMS payor code, write it in the space provided (if known).

2. Contract Type: Check the appropriate box to indicate the contract type. [Buy/Sell is an exchange where monetary value is assigned to settle both transactions in the exchange. Non-Cash Exchange is a transaction where no monetary value is assigned to either transaction in the exchange; instead, a dollar amount is assigned to the difference between the two values. Sales Subject to Balancing are transactions tied to an overall exchange agreement (either expressed or implied) where volumes purchased and sold by each party are in balance.] Also, fill in the Contract Number that would allow a third party to clearly identify the document.

3. Contract Term: Fill in the date the contract started and its initial term in months. Check the expiration term that applies.

4. Title Transfer Location: Check the appropriate box to indicate where you transferred title to your oil and where you took title to oil you received under the exchange. If title transferred at an MMS lease, write in the 10-digit MMS lease number. If the contract applies to production from multiple Federal leases, attach a separate sheet identifying them. Otherwise, check the appropriate box and enter the location that title transferred.

Fill in the cost ($/barrel) of transporting oil you produced from the production location to the point where title transfers. If the contract so specifies (or this information is known to you) fill in this information for oil you receive or sell. Describe the terms (i.e. starting location, ending location) involved in the transportation of the oil. Use MMS aggregation points (if available) or State, Section/Township/Range if not an MMS aggregation point. Where oil traverses more than one aggregation point be sure to include all segments of the transportation route. Do not include the cost of gathering. Attach a separate sheet, if needed, to adequately describe the transportation.

5. Volume Terms: Fill in the volume in barrels per day of oil sold or transferred. If the contract states that all available oil will be purchased, write in the estimated barrels per day of oil (sold/received). Otherwise, write in the fixed volume (sold/received) specified in the contract.

6. Crude Quality: Fill in the API Gravity of the oil you sold and the oil you received to the nearest tenth of a degree. Fill in the Sulfur Content of the oil you sold or transferred to the nearest tenth of a percent.

7. Pricing Terms:

Posted Price Basis: If the contract references a posted price, write in the name(s) of the company or companies posting(s) and the crude oil referenced in the posting(s). List any premium (+) or deduction (−) to the referenced price(s).

Formula Price: If the contract uses a formula to determine price, completely describe the method used.

Fixed Price: If the price is set through the duration of the contract, list the price per barrel.

Other: Fully describe the method used if it is not covered under any of the above pricing provisions.

8. Quality Adjustments:

API Gravity: Check the appropriate box. If the gravity is deemed, write the deemed API gravity to the nearest tenth of a degree and any corresponding price adjustment from the contract. If an actual reference gravity is used to make an adjustment, write the gravity to the nearest tenth of a degree and the corresponding price adjustment from the contract.

Sulfur or Other Adjustment: Write any other adjustment(s) specified in the contract and the $/barrel adjustment(s).

The Paperwork Reduction Act of 1995 requires us to inform you of the following: (a) this information is being collected to aid the Minerals Management Service in its efforts at determining a fair value of oil for royalty calculation purposes from which location differentials can be calculated and published for lessees' use in reporting loyalties; (b) the burden to complete this report is estimated at one-quarter hour; (c) comments on the accuracy of this burden estimate or suggestions on reducing this burden should be directed to the ICCO, MS 2053, MMS, 381 Elden Street, Herndon, VA 20170–4817; (d) this collection of information is mandatory and responses are considered proprietary (5 U.S.C. 552); and (e) an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

Appendix B to Preamble of Oil Valuation Rule

NYMEX Index Price Basis, Non-California Oil Production, September 1996 Production and Sale.

NYMEX trade date	NYMEX delivery (Prompt) month	NYMEX daily close
Aug–21–96	Oct. 1996	$21.72
Aug–22–96	Oct. 1996	22.30
Aug–23–96	Oct. 1996	21.96
Aug–26–96	Oct. 1996	21.62
Aug–27–96	Oct. 1996	21.56
Aug–28–96	Oct. 1996	21.71
Aug–29–96	Oct. 1996	22.15
Aug–30–96	Oct. 1996	22.25
Sept–03–96	Oct. 1996	23.40
Sept–04–96	Oct. 1996	23.24
Sept–05–96	Oct. 1996	23.44
Sept–06–96	Oct. 1996	23.85
Sept–09–96	Oct. 1996	23.73
Sept–10–96	Oct. 1996	24.12
Sept–11–96	Oct. 1996	24.75
Sept–12–96	Oct. 1996	25.00
Sept–13–96	Oct. 1996	24.51
Sept–16–96	Oct. 1996	23.19
Sept–17–96	Oct. 1996	23.31
Sept–18–96	Oct. 1996	23.89
Sept–19–96	Oct. 1996	23.54
Sept–20–96	Oct. 1996	23.63

NYMEX Average Price for September 1996 Prod.—$23.13.

Appendix C to Preamble of Oil Valuation Rule

ANS Spot Index Price Basis, California Oil Production, September 1996 Production and Sale.

ANS spot trade date	ANS spot delivery month	Final ANS spot assess. (mean)
Aug–26–96	Oct. 1996	$19.55
Aug–27–96	Oct. 1996	19.49
Aug–28–96	Oct. 1996	19.68
Aug–29–96	Oct. 1996	20.16
Aug–30–96	Oct. 1996	20.23
Sept–03–96	Oct. 1996	21.43
Sept–04–96	Oct. 1996	21.19
Sept–05–96	Oct. 1996	21.39
Sept–06–96	Oct. 1996	21.70
Sept–09–96	Oct. 1996	21.57
Sept–10–96	Oct. 1996	21.95
Sept–11–96	Oct. 1996	22.45
Sept–12–96	Oct. 1996	22.88
Sept–13–96	Oct. 1996	22.21
Sept–16–96	Oct. 1996	20.85
Sept–17–96	Oct. 1996	20.99
Sept–18–96	Oct. 1996	21.54
Sept–19–96	Oct. 1996	21.24
Sept–20–96	Oct. 1996	21.42
Sept–23–96	Oct. 1996	21.55
Sept–24–96	Oct. 1996	21.81
Sept–25–96	Oct. 1996	22.16

ANS Average Spot Price for September 1996 Prod.—$21.25.

Appendix D to Preamble of Oil Valuation Rule

WTI Spot Price, Market Center: Cushing, OK, September 1996 Production and Sale.

Cushing WTI spot trade date	Cushing WTI spot delivery month	Final cushing WTI spot assess. (mean)
Aug–26–96	Oct. 1996	$21.60
Aug–27–96	Oct. 1996	21.54
Aug–28–96	Oct. 1996	21.73
Aug–29–96	Oct. 1996	22.21
Aug–30–96	Oct. 1996	22.28
Sept–03–96	Oct. 1996	23.48
Sept–04–96	Oct. 1996	23.24
Sept–05–96	Oct. 1996	23.44
Sept–06–96	Oct. 1996	23.85
Sept–09–96	Oct. 1996	23.72
Sept–10–96	Oct. 1996	24.10
Sept–11–96	Oct. 1996	24.70
Sept–12–96	Oct. 1996	25.15
Sept–13–96	Oct. 1996	24.51
Sept–16–96	Oct. 1996	23.15
Sept–17–96	Oct. 1996	23.29
Sept–18–96	Oct. 1996	23.84
Sept–19–96	Oct. 1996	23.54
Sept–20–96	Oct. 1996	23.72
Sept–23–96	Oct. 1996	23.85
Sept–24–96	Oct. 1996	24.50
Sept–25–96	Oct. 1996	24.71

Cushing WTI Avg Spot Price for September 1996—$23.46.

Appendix E to Preamble of Oil Valuation Rule

Light Louisiana Sweet (LLS) Spot Price, Market Center: St. James, LA, September 1996 Production and Sale.

LLS spot trade date	LLS spot delivery month	Final LLS spot assess. (mean)
Aug–26–96	Oct. 1996	$21.88
Aug–27–96	Oct. 1996	21.84
Aug–28–96	Oct. 1996	22.01
Aug–29–96	Oct. 1996	22.51
Aug–30–96	Oct. 1996	22.57
Sept–03–96	Oct. 1996	23.82
Sept–04–96	Oct. 1996	23.55
Sept–05–96	Oct. 1996	23.79
Sept–06–96	Oct. 1996	24.22
Sept–09–96	Oct. 1996	24.10
Sept–10–96	Oct. 1996	24.47
Sept–11–96	Oct. 1996	25.06
Sept–12–96	Oct. 1996	25.48
Sept–13–96	Oct. 1996	24.82
Sept–16–96	Oct. 1996	23.42
Sept–17–96	Oct. 1996	23.57
Sept–18–96	Oct. 1996	24.06
Sept–19–96	Oct. 1996	23.50
Sept–20–96	Oct. 1996	23.67
Sept–23–96	Oct. 1996	23.66
Sept–24–96	Oct. 1996	24.29
Sept–25–96	Oct. 1996	24.61

St. James LLS Avg Spot Price for September 1996—$23.68.

Appendix F to Preamble of Oil Valuation Rule

NYMEX-based Oil Royalty Computation, Non-California Oil Production, OCS-Louisiana, Market Center: St. James, LA, September 1996 Production and Sale.

NYMEX Average Close Price		$23.13
Cushing/Market Center Location Differential:		
WTI Cushing Average Spot Price	$23.46	
St. James Average Spot Price	23.68	
St. James over (under) WTI Cushing		.22
Market Center/Aggregation Point Location and Quality Differential (Exchange Agreement):		
Transportation and Quality Differential from OCS Aggregation Point to St. James		(.40)
Transportation Allowance:		
Transportation costs from OCS lease to Aggregation Point		(.90)
Royalty Value per barrel		22.05

Appendix G to Preamble of Oil Valuation Rule

ANS-based Oil Royalty Computation, California Oil Production, Onshore

California: Midway-Sunset, Market Center: Los Angeles, CA, September 1996 Production and Sale.

ANS Average Spot Price	$21.25
ANS/Aggregation Point Location and Quality Differential (Exchange Agreement):	
Transportation and Quality Differential from Onshore Aggregation Point—Midway-Sunset to Los Angeles	(4.78)
Transportation Allowance:	
Transportation costs from CA lease to Aggregation Point—Midway-Sunset	(.20)
Royalty Value per barrel	16.27

Appendix H to Preamble of Oil Valuation Rule

State	Station location	County/Offshore location
AL	Marion Corp. Connection	Mobile.
AL	Mobile	Mobile.
AL	Saraland Terminal	Mobile.
AL	Ten Mile Point Terminal	Mobile.
CA	Coalinga	Fresno.
CA	Belridge	Kern.
CA	Fellows	Kern.
CA	Kelley	Kern.
CA	Leutholtz Jct.	Kern.
CA	Pentland	Kern.
CA	Midway	Kern.
CA	Station 36-Kern River	Kern.
CA	Newhall	Los Angeles.
CA	Sunset	Los Angeles.
CA	Cadiz	San Bernadino.
CA	Avila	San Luis Obispo.
CA	Gaviota Terminal	Santa Barbara.
CA	Lompoc	Santa Barbara.

State	Station location	County/Offshore location
CA	Sisquoc Jct.	Santa Barbara.
CA	Filmore	Ventura.
CA	Rincon	Ventura.
CA	Ventura	Ventura.
CA	Junction	(County Unknown).
CA	Lake	(County Unknown).
CA	Rio Bravo	(County Unknown).
CA	Santa Paula	(County Unknown).
CA	Signa	(County Unknown).
CA	Stewart	(County Unknown).
CO	Denver	Adams.
CO	Cheyenne Wells Station	Cheyenne.
CO	Iles	(County Unknown).
CO	Sterling	Logan.
CO	Fruita	Mesa.
CO	Rangley	Rio Blanca.
KS	Humbolt-Williams P.L.	Allen.
KS	Augusta	Butler.
KS	Eldorado	Butler.
KS	Harper's Ranch	Clark.
KS	Arkansas City	Cowley.
KS	McPherson Sta.	McPherson.
KS	Caney	Montgomery.
KS	Laton Sta.	Osborne.
KS	Herndon Station	Rawlings.
KS	Rawlings Sta.	Rice.
KS	Lyons Station	Sedgwick.
KS	Valley Center	Thomas.
KS	Bemis St.	(County Unknown).
KS	Broome St.	(County Unknown).
KS	Towlanda	(County Unknown).
LA	Brown Sta.	Caddo.
LA	Clifton Ridge	Calcasieu.
LA	Conoco Jct.	Calcasieu.
LA	Lake Charles	Calcasieu.
LA	Pecan Grove	Calcasieu.
LA	Rose Bluff	Calcasieu.
LA	Texaco Jct.	Calcasieu.
LA	Grand Chenier Term.	Cameron.
LA	Hainesville Sta.	Claiborne.
LA	Maryland	East Baton Rouge.
LA	Bayou Fifi	Jefferson.
LA	Grand Isle	Jefferson.
LA	Bay Marchand Term.	Lafourche.
LA	Bayou Fourchon	Lafourche.
LA	Clovelly	Lafourche.
LA	Clovelly Storage Dome	Lafourche.
LA	Elmers Jct.	Lafourche.
LA	Fourchon Terminal	Lafourche.
LA	Golden Meadow	Lafourche.
LA	Larose Barge Terminal	Lafourche.
LA	Pass Fourchon P.L.	Lafourche.
LA	Blk. 28 Tie-in	Offshore East Cameron.
LA	Blk. 23	Offshore Eugene Island.
LA	Blk. 51 B Platform	Offshore Eugene Island.
LA	Blk. 188 A Structure	Offshore Eugene Island.
LA	Blk. 259	Offshore Eugene Island.
LA	Blk. 316	Offshore Eugene Island.
LA	Blk. 337 Subsea Tie-in	Offshore Eugene Island.
LA	Blk. 361	Offshore Eugene Island.
LA	Texas P.L. Subsea Tie-in	Offshore Eugene Island.
LA	Blk. 17	Offshore Grand Isle.
LA	Blk. 42—Chevron P.L.	Offshore Main Pass.
LA	Blk. 42L	Offshore Main Pass.
LA	Blk. 69 B Plat.	Offshore Main Pass.
LA	Blk. 77 (Pompano P.L. Jct.)	Offshore Main Pass.
LA	Blk. 144 Structure A	Offshore Main Pass.
LA	Blk. 298 Plat. A	Offshore Main Pass.
LA	Blk. 299 Platform	Offshore Main Pass.
LA	Blk. 28	Offshore Ship Shoal.
LA	Blk. 154	Offshore Ship Shoal.
LA	Blk. 169	Offshore Ship Shoal.
LA	Blk. 203 Subsea Tie-in	Offshore Ship Shoal.
LA	Blk. 208	Offshore Ship Shoal.

State	Station location	County/Offshore location
LA	Blk. 208 B Structure	Offshore Ship Shoal.
LA	Blk. 208 F	Offshore Ship Shoal.
LA	Ship Shoal Area	Offshore Ship Shoal.
LA	Blk. 6	Offshore South Marsh Island.
LA	Blk. 10—Structure A	Offshore South Marsh Island.
LA	Blk. 58A	Offshore South Marsh Island.
LA	Blk. 139	Offshore South Marsh Island.
LA	Blk. 139 Subsea Tap Valve Connect	Offshore South Marsh Island.
LA	Blk. 207—Light House Point A	Offshore South Marsh Island.
LA	Blk. 268—Platform A	Offshore South Marsh Island.
LA	Blk. 55	Offshore—South Pass.
LA	Blk. 13 (Wesco P.L. Subsea Tie-in)	Offshore—South Pelto.
LA	Blk. 35 Platform D	Offshore—S. Timbalier.
LA	Blk. 52 Plat. A	Offshore—S. Timbalier.
LA	Blk. 172 Plat. D	Offshore—S. Timbalier.
LA	Blk. 196 Exxon P.L. System Tie-in	Offshore—S. Timbalier.
LA	Blk. 300	Offshore—S. Timbalier.
LA	Blk. 255	Offshore Vermilion.
LA	Blk. 265 Platform A	Offshore Vermilion.
LA	Blk. 350	Offshore Vermilion.
LA	Blk. 30	Offshore—West Delta.
LA	Blk. 53	Offshore—West Delta.
LA	Blk. 53 Plat. B	Offshore—West Delta.
LA	Blk. 53B—Chevron P.L.	Offshore—West Delta.
LA	Blk. 53B Plat. Gulf Refining Co.	Offshore—West Delta.
LA	Blk. 83	Offshore—West Delta.
LA	Alliance Refinery	Plaquemines.
LA	Empire Terminal	Plaquemines.
LA	Main Pass	Plaquemines.
LA	Main Pass Blk. 69	Plaquemines.
LA	Ostrica Term.	Plaquemines.
LA	Pelican Island	Plaquemines.
LA	Pilottown	Plaquemines.
LA	Romere Pass	Plaquemines.
LA	South Pass Blk. 60A	Plaquemines.
LA	South Pass Blk. 27	Plaquemines.
LA	Onshore facil.	Plaquemines.
LA	South Pass Blk. 24	Plaquemines.
LA	South Pass Blk. 24 Onshore Plat.	Plaquemines.
LA	Southwest Pass Sta.	Plaquemines.
LA	West Delta Blk. 53	Plaquemines.
LA	West Delta Rec'vg Sta.—Onshore	Plaquemines.
LA	Dehli	Richland.
LA	Chalmette	St. Bernard.
LA	Norco (Shell Refinery)	St. Charles.
LA	St. James	St. James.
LA	Bayou Sale	St. Mary.
LA	Burns Term.	St. Mary.
LA	Charenton	St. Mary.
LA	South Bend	St. Mary.
LA	Caillou Island	Terrebonne.
LA	Caillou Island Fld.	Terrebonne.
LA	Gibson Term.	Terrebonne.
LA	Erath	Vermilion.
LA	Forked Island	Vermilion.
LA	Mermentau River Station	Vermilion.
LA	Anchorage	West Baton Rouge.
LA	Grand Lake Terminal	(County Unknown).
LA	Twin Island Terminal	(County Unknown).
LA	Lakeside Terminal	(County Unknown).
LA	Bayou Penchant Terminal	(County Unknown).
LA	Gibbstown Terminal	(County Unknown).
LA	Bluewater Terminal	(County Unknown).
LA	Cocodrie Terminal	(County Unknown).
MI	Bay City	Bay.
MI	Montcalm	Carson City.
MI	Lewiston	Crawford.
MI	Kalamazoo	Fulton Takeoff.
MI	Alma	Gratiot.
MI	St. Clair	Marysville.
MI	Monroe	Samaria Sta.
MI	Ingham	Stockbridge.
MI	Detroit	Wayne.
MI	Ogemaw	West Branch.

State	Station location	County/Offshore location
MS	Liberty	Amite.
MS	Mayersville	Issaquena.
MS	Pascogoula	Jackson.
MS	Soso	Jones.
MS	Lumberton	Lamar.
MS	Purvis	Lamar.
MS	Collierville Station	Marshall.
MT	Silver Tip Station	Carbon.
MT	Alzada	Carter.
MT	Richey Station	Dawson.
MT	Baker	Fallon.
MT	Cut Bank Station	Glacier.
MT	Bell Creek Station	Powder River.
MT	Poplar Station	Roosevelt.
MT	Billings	Yellowstone.
MT	Laurel	Yellowstone.
MT	Clear Lake Sta.	(County Unknown).
ND	Fryburg Station	Billings.
ND	Tree Top Station	Billings.
ND	Lignite	Burke.
ND	Alexander	McKenzie.
ND	Keene	McKenzie.
ND	Killdear	Dunn.
ND	Mandan	Morton.
ND	Tioga	Ramberg.
ND	Ramberg	Williams.
ND	Thunderbird Refinery	Williams.
ND	Tioga	Williams.
ND	Trenton	Williams.
NM	Jal	Lea.
NM	Lovington	Lea.
NM	Ciniza	McKinley.
NM	Bisti Jct.	San Juan.
NM	Navajo Jct.	San Juan.
TX	Carson Station	Archer.
TX	Holliday	Archer.
TX	Fullerton	Andrews.
TX	Buccaneer Term.	Brazoria.
TX	Sweeney Sta.	Brazoria.
TX	Mont Belvieu	Chambers.
TX	Crane	Crane.
TX	Ranger	Eastland.
TX	Caproch Jct.	Ector.
TX	Odessa	Ector.
TX	North Cowden	Ector.
TX	Wheeler	Ector.
TX	El Paso	El Paso.
TX	Missouri City Jct.	Fort Bend.
TX	Winnsboro	Franklin.
TX	Worthham	Freestone.
TX	Pearsall Sta.	Frio.
TX	Texas City	Galveston.
TX	Roberts	Glasscock.
TX	Covey Station	Grayson.
TX	Bumpus Sta.	Gregg.
TX	Kilgore St.	Gregg.
TX	Longview	Gregg.
TX	Longview Mid-Valley	Gregg.
TX	Sabine Sta. Amoco P.L.	Gregg.
TX	Mobil Jct.	Hardin.
TX	Sour Lake	Hardin.
TX	Baytown	Harris.
TX	Exxon Jct.	Harris.
TX	Genoa Jct.	Harris.
TX	Houston	Harris.
TX	Pasadena	Harris.
TX	Webster	Harris.
TX	Hillsboro	Hill.
TX	Big Spring	Howard.
TX	Phillips Hutchinson	Howard.
TX	Jacksboro Sta.	Jack.
TX	Beaumont	Jefferson.
TX	Lucas	Jefferson.
TX	Nederland	Jefferson.

State	Station location	County/Offshore location
TX	Port Arthur	Jefferson.
TX	Port Neches	Jefferson.
TX	Sabine Pass	Jefferson.
TX	Mexia Jct.	Limestone.
TX	Midland	Midland.
TX	Colorado City Station	Mitchell.
TX	McKee	Moore.
TX	Corsicanna	Navarro.
TX	American Petrofina	Nueces.
TX	Corpus Christi	Nueces.
TX	Harbor Island	Nueces.
TX	Beaver Station	Ochiltree
TX	Blk. 474—Inters. Seg. III, III–7	Offshore—High Island.
TX	Blk. A–571	Offshore—High Island.
TX	End Segment II	Offshore—High Island.
TX	End Segment III—10	Offshore—High Island.
TX	End Segment III—10 (Blk. 547)	Offshore—High Island.
TX	End Segment III—6	Offshore—High Island.
TX	Irran Sta.	Pecos.
TX	Kemper	Reagan.
TX	Mason Jct.	Reeves.
TX	Rufugio Sta.	Rufugio.
TX	Midway	San Patricio.
TX	Eldorado	Scheicher.
TX	Basin Station	Scurry.
TX	Colorado City	Scurry.
TX	Ft. Worth	Tarrant.
TX	Merkel	Taylor.
TX	Tye	Taylor.
TX	McCamey	Upton.
TX	Mesa Sta.	Upton.
TX	Burkburnett	Wichita.
TX	KMA—Total P.L.	Wichita.
TX	Wichita Falls	Wichita.
TX	Halley	Winkler.
TX	Hendrick/Hendrick-Wink	Winkler.
TX	Keystone	Winkler.
TX	Wink	Winkler.
TX	South Bend	Young.
TX	Channel View Jct.	(County Unknown).
TX	Clear Creek Sta.	(County Unknown).
TX	Oyster Lake Term.	(County Unknown).
TX	Queens Jct.	(County Unknown).
TX	Spacek Sta.	(County Unknown).
TX	Jolly Jct.	(County Unknown).
TX	Nettleton Sta.	(County Unknown).
TX	Trent Sta.	(County Unknown).

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