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**Industry Royalty Reporting Questions**
**And Minerals Management Service (MMS) Responses**
**December 2002**

MMS has prepared this document to respond to industry questions in regard to reporting on the revised Form MMS-2014 which was implemented October 1, 2001. It will be periodically updated as new questions are received, as responses become available, and as information changes or becomes immaterial.

"Reporter" is a generic term for all entities that report information to MMS. When we say reporter, we also include payor and operator. We use "you" and "reporter" interchangeably. We use the terms "MMS" and "we" interchangeably.

## 2014 Data Elements and Reporting Requirements

### Report Month

**Where do I report the Report Month on the new Form MMS-2014?**

Response: There is no longer a field for Report Month. However, the Minerals Revenue Management financial system will calculate the report month by the receipt date of your Form MMS-2014. When our system calculates the report month, it will include documents received through the 10$^{th}$ of the month as the current processing month. For example, the due date is July 31 and your report is received August 6; the report month will be 072001. This is how the Report Month will be determined; it has nothing to do with how interest is calculated. Interest due is calculated by the receipt date of your payment not your report, with the exception of estimates.

### Federal/Indian Report Indicator

**How does MMS propose handling Federal and Indian portions within a single lease and unit, e.g. 002-029657-0 is split between CIRI and Federal tracts? We suggest using the 11th digit of the lease number to distinguish between the two tracts.**

Response: The Cook Inlet Region Incorporated (CIRI) leases are jointly owned by CIRI and the Federal Government. Report CIRI and Federal portions of the lease to MMS on separate Forms MMS-2014. Use Payment Method (PM) code 2 to report the CIRI portion, and enter I in field 3. Use PM 1 or 3 to report the Federal share, and enter F in field 3.

### Payor Assigned Document Number

**Will we be required to override our Payor Assigned Document Number with an MMS GBIL or other invoice number?**

Response: We do not anticipate a requirement to override your Payor Assigned Document (PAD) Number with an MMS GBIL or other invoice number. However, our Compliance and Asset Management groups may request defined PAD numbers to track specific documents. For example, as part of our compliance tracking processes, we may require the use of the Reference Result ID No. from our Compliance Tracking System (CTS) in the PAD field. The purpose is to connect the royalties with the audit case on CTS, thereby ensuring proper monitoring and closure.

API Well Number

**Are the CIRI or Muskogee tribes asking for reporting by API well number? These are the only two tribal agencies we currently have. Is the MMS planning to require reporting by API well number on any lease that we currently pay royalties on? Our current thought is to add the field to our manual override process but not incorporate the field in any automated conversion processing. However, if the MMS will be requiring API well number reporting with the first reporting month under the new system then we may wish to reexamine our decision.**

Response: No. At this time, there are no requirements by any tribe for API Well level reporting. However, we do encourage you to include the API Well number in your new system modifications to prepare for future requirements. We cannot guarantee that the API Well number will not be required, by one or more Tribes, after October 2001.

**When will the MMS post on their web site the Indian lands and offshore deep water wells under royalty relief that require API well level reporting?**

Response: Currently there are no properties that require API Well level reporting. Please see response to Question above.

**Will MMS post the API well numbers with the appropriate Lease/Agreement on the Internet?**

Response: No. This is not practical due to numerous well changes initiated by company drilling, plugging, and unitization/communitization actions that occur each month.

Lease Number

**When will the MRM provide industry with the listing of MRM lease numbers and agreement numbers? Also, will MRM provide each payor with a cross-reference of their Accounting Identification (AID) Numbers to the MRM Lease/ Agreement Number?**

Response: A listing that cross-references the Bureau of Land Management (BLM)/Offshore Minerals Management (OMM) lease and agreement numbers to the associated MMS converted lease and agreement numbers is available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then click Cross-Referenced Lease and Agreement Number Lists).

You can also access a cross-reference table of MMS AID numbers to the associated MMS agreement number at this website.

We will not provide cross-reference tables at a payor level.

**Why does MMS have 11 digits for the lease number?**

Response: We have defined this data element as 11 digits to accommodate future reporting scenarios such as a change in the Bureau of Land Management/Bureau of Indian Affairs/Offshore Minerals Management lease numbering methodology. When reporting a lease that has only 10 digits, the 11$^{th}$ digit should be a blank or space.

**Where royalty decimals (royalty rate) are different, can industry use the 11th digit in the lease number to differentiate?**

Response: No. MMS will use the 11$^{th}$ digit to accommodate future reporting scenarios. Also, the lease number must match the lease number stored in our database. Each royalty rate must be reported on a separate line. However, if you report a sliding/step scale lease, the different royalty rates within the sliding scale rate should be rolled up and reported on one line.

Agreement Number

**Is the "agreement number" currently what we see on the AFS/PAAS letters?**

Response: Agreement numbers are shown on the AFS/PAAS exceptions, depending on the source of the exception. The Bureau of Land Management (BLM) for onshore and Indian lands, or the Offshore Minerals Management (OMM) for offshore lands approves agreements. Each agreement is assigned a unique identifying number.

MMS converts most of the assigned BLM/OMM agreement numbers to a slightly different number for entry into our database. This MMS converted agreement number is what you will report on the Form MMS-2014. A cross reference table of the BLM/OMM agreement numbers to the associated MMS converted agreement numbers is available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then click Cross-Referenced Lease and Agreement Number Lists).

**When reporting royalties based on production allocated from an agreement, do I need to report both the lease and agreement number?**

Response: Yes. The agreement number should be reported in block 9 of the new Form MMS-2014 for those leases that have royalty-bearing production allocated from an agreement. In addition, report the lease number in block 7.

**In what form should agreement numbers be reported?**

Royalty reporters must use the MMS converted agreement number.

Production reporters may use either the MMS-assigned number or the Bureau of Land Management/Offshore Minerals Management agency-assigned number.

**How should the agreement number be formatted?**

Response: The agreement number consists of three parts:

Prefix = 3 characters, left justified
Serial No. = 6 characters, right justified
Suffix = 2 characters, left justified

Following are some examples of the required format for agreement numbers.

| Agency Agreement # | MMS Converted Agreement # |
| --- | --- |
| WYW192003B | W(sp)(sp)192003B(sp) |
| NMNM34567A | NM(sp)(sp)34567A(sp) |
| NMNM92323 | NM(sp)(sp)92323(sp)(sp) |
| 140800016793A | 891006793A(sp) |
| NCR54 | 6910000540(sp) |
| CO050A2085C | 65985C1040(sp) |
| UTU60786A | U(sp)(sp)(sp)60786A(sp) |

Note: The agreement number must be reported in upper case.

**When will the MMS Agreement numbers be available?**

Response: A cross reference table of agency assigned (Bureau of Land Management/Offshore Minerals Management) agreement numbers to the associated MMS agreement number is available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then click Cross-Referenced Lease and Agreement Number Lists).

**If a lease participates in more than one agreement, each agreement number must be reported on a separate report line. Does this also include overlapping agreements?**

Response: When we use the term “overlapping” agreement, we are usually referring to a communitization agreement (CA) that is wholly or partially contained within a unit participating area (PA).

If royalties attributable to a CA are wholly contained within a PA, report on the allocation schedule for the PA. Therefore, the lines you report on the Form MMS-2014 are for the appropriate PA lease numbers and unit PA number.

If the CA is only partially contained within the PA, report only the royalties attributable to the portion within the PA on the appropriate PA lease numbers and unit PA number. Report the royalties attributable to the portion outside of the PA on the appropriate CA lease numbers and CA number.

Product Code

**What exactly is the definition for inlet scrubber? Is retrograde to be reported under product code "05" as before? What are the differences between product codes "05" & "06"?**

Response: The basic difference between the two products is the point of collection.

Retrograde, or drip that is collected on the pipeline or at a separation facility (usually not owned or operated by the plant operator) that is located prior to a gas plant, is reported as Product Code 05. Normally, producers receive an allocation report from the operator of the separation facility separate from any allocation statement they might receive from the operator of the gas plant. This is limited to liquids recovered in a system approved by Offshore Minerals Management as retrograde systems.

Condensate, recovered at the inlet to a gas plant, is reported as Product Code 06. Generally, there is a separator at the inlet to the plant that is owned by the plant and reported on the plant statement. The retrograde is collected at a different point and not included on the plant statement.

**What is the unit of measure for product codes 05 and 06?**

Response: The unit of measure for Product Codes 05 and 06 is barrels.

**Can MRM change the wording for PC 05 to read just "drip" vs. "drip or scrubber?"**

Response: No. We cannot change the description of a code without creating a new code.

<u>Sales Type Code</u>

**What is the definition of the Percentage of Proceeds "POP" sales type codes?**

Response: MMS defines a Percentage of Proceeds (POP) contract as: A contract for the sales of gas prior to processing in which the value of the wet, unprocessed gas is based on a percentage of the proceeds the purchaser receives for the sale of residue gas and gas plant products attributable to processing the lessee's gas. See the *Oil and Gas Payor Handbook – Volume III,* page 4-50 for additional information on Percentage of Proceeds Contracts.

Use APOP for an arms-length (AL) POP. Use NPOP for a non-arms's-length (NAL) POP. However, for gas production sold under a POP contract <u>and</u> produced from <u>Indian</u> leases located in an index zone, you must use a Sales Type Code (STC) of OINX.

**NOTE (Indian leases):** On August 10, 1999, MMS published the new Indian Gas Valuation Rule and amended the regulations governing the valuation of natural gas produced from Indian leases. Under the amended gas regulations, effective January 2000, you will report gas sold under POP contracts in non-index zones as a sale of processed gas under both AL and NAL conditions. Reporting requirements for POP contracts depend on whether or not you elect actual or alternative dual accounting. For detailed information, refer to the upcoming Dear Payor letter that will address the new reporting requirements for natural gas produced from Indian properties and sold under a POP contract. We will post it on our website at: http://www.mrm.mms.gov (click Reporting Information, click Dear Payor/Reporter Letters, then select the appropriate Dear Reporter Letter).

**When will I report Sales Type Code OINX?**

Response: Use OINX to report Federal lease oil production that is valued based on index. Use OINX to report Indian lease gas production that is valued based on index regardless of contract type (percentage of proceeds, non-arm's-length, etc.).

**Can the oil index sales type code "OINX" be changed to "INDX"? This will allow it to be used for oil and gas.**

Response: No. The Sales Type Code (STC) will remain "OINX"; however, the description for STC OINX will be changed to read Index. Use STC OINX when pricing is based on an Index for Federal and Indian oil and gas leases.

**If Sales Type Code is APOP then Product Code must be 04?**

Response:
Federal Leases - Yes. Report Product Code 04 if the Sales Type Code is APOP. Please see the *Oil and Gas Payor Handbook, Volume III*, beginning on page 4-50 for information on percentage of proceeds contracts.
Indian Leases - On August 10, 1999, MMS published the new Indian Gas Valuation Rule and amended the regulations governing the valuation of natural gas produced from Indian leases. Under the amended gas regulations, effective January 2000, you will report gas sold under POP contracts in non-index zones as a sale of processed gas under both arm's-length and non-arm's-length conditions. Reporting requirements for POP contracts depend on whether or not you elect actual or alternative dual accounting. For detailed information, refer to the upcoming Dear Payor letter that will address the new reporting requirements for natural gas produced from Indian properties and sold under a POP contract. We will post it on our website at: http://www.mrm.mms.gov (click Reporting Information, click Dear Payor/Reporter Letters, then select the appropriate Dear Reporter Letter).

**When would industry ever report a NPOP sales type code?**

Response: In situations where gas is sold under a non-arm's-length percentage of proceeds contract.

**If Sales Type Code is NPOP then Product Code must be 03, 06, 07, 09, 17, or 19?**

Response: Yes, for Product Code (PC) 03. Report Sales Type Code (STC) POOL for PC 07. Typically, the value of PCs 06, 09, 17, and 19 are not addressed in a POP contract; therefore, you will not report STC NPOP for these products (report STC ARMS or NARMS). Please see the *Oil and Gas Payor Handbook, Volume III*, beginning on page 4-50 for information on percentage of proceeds contracts.

**Many companies report for themselves as well as other working interest owners. Example: Company A sells their production to an affiliate (non-arm's-length) and the**

**working interest owner(s) has asked Company A to sell their share to the affiliate also (arm's-length). Today Company A reports both the sale to its affiliate and the working interest owner's sale under one selling arrangement for spot sales. Under the new reporting requirements, will Company A have to report two separate lines. Company A realizes that would be the technically correct way to report. However, if they have to report two lines many companies will stop reporting/selling for the small working interest owners and this would be a problem for the smaller companies in terms of getting reasonable prices for small volumes. Can they report both sales under NAL sales type code?**

Response: Yes. The determining factor in whether you report a separate Sales Type (STC) is the disposition of the production. If an operator/designee markets production on behalf of a working interest owner, then the operator/designee would value that production based on how the operator/designee disposes of it (AL, NAL, pooled, etc.) and would report only one STC.

On the other hand, if the working interest owner markets and sells its own production, but chooses not to pay its own royalties, the operator/designee would value the production based on how the working interest owner disposes of it (AL, NAL, pooled, etc.). In this case, the operator/designee would have to report two STCs, one for its sales and one for the working interest owner's sales.

Some sample scenarios are shown below:

| Scenario | Scenario | Appropriate Sales Type Code | Rationale |
|---|---|---|---|
| 1 | Owner A markets Owner B's production on behalf of Owner B. Owner A reports and pays Owner B's royalty. Owner A and its purchaser are affiliated. | NARM | Owner A would value Owner B's production based on how Owner A disposes it. Owner A is affiliated with the purchaser; therefore MMS would consider the sale of Owner B's production non-arm's-length. |
| 2 | Owner B markets and sells it own production. Owner A reports and pays Owner B's royalty. Owner B and its purchaser are NOT affiliated. | ARMS | Owner A would value Owner B's production based on how Owner B disposes it. Owner B is NOT affiliated with the purchaser; therefore MMS would consider the sale of Owner B's production arm's-length. |

| | | | |
|---|---|---|---|
| 4 | Owner A markets its production to its affiliate. Owner B markets its production to a non-affiliated party. Owner A reports and pays Owner B's royalty. | Owner A = NARM<br>Owner B = ARMS | Owner A would value its production based on how they dispose of it. Owner A is affiliated with its purchaser; therefore Owner A reports as non-arm's-length. Owner B is NOT affiliated with the purchaser; therefore assuming there is opposing economic interests, MMS would consider the sale of Owner B's production arm's-length. Owner A would be required to report the ARMS and NARM on separate lines on the 2014. |

**How does the MMS define Arm's Length and Non-Arm's Length sales type codes? Should the code show the relationship of the parties to the contract or should the code refer to the nature of the contract itself? We (industry) had planned to use the parties to the contract as the easiest method to define these codes. Thus a buy/sell or exchange contract between Chevron and Exxon, for example, would have been reported as an arm's length sale. It was pointed out that some buy/sell or exchange contracts might be considered non arm's length even where the parties to the contract were arm's length.**

Response: Contracts can only be at arm's-length (AL) under our valuation rules if the parties (1) are not affiliated (that is, they don't exhibit control over one another) <u>and</u> (2) have opposing economic interests regarding the contract. Thus, the answer to the question "Should the code show the relationship of the parties to the contract or should the code refer to the nature of the contract itself?" is "both". To use the example cited, it's indeed possible that an exchange between Chevron and Exxon might be considered non-arm's-length (NAL). This could happen if, for example, even though one doesn't exert control over the other, they had some separate dealings that influenced the terms of the exchange--meaning they didn't have opposing economic interests regarding the exchange contract.

The punch line is that just because two entities are separate doesn't necessarily mean the <u>transaction</u> is at AL. Thus, the transaction itself should determine whether the Sales Type Code is AL or NAL. (Note: under the new Federal oil valuation rule, exchange agreements don't qualify as sales--see the "Sale" definition at 30 CFR 206.101.)

If you have any questions about whether your sales contract is AL or NAL, you should request a valuation determination from MMS.

**Under the Federal oil valuation rule, if a company has an arm’s-length affiliate resale or an arm’s-length sale after one or more arm’s-length exchanges for 3 months and then sells their production in a different way where there is no affiliate or exchange, does the 2-year election stop?**

Response: Yes. On a property basis. The new Federal oil valuation rule states that if you sell or transfer your oil to an affiliate and that affiliate sells the oil under an arm's-length (AL) contract, you may elect to use either index or the affiliate's AL sale to value your production.  You must make the same election for all of your production from the same unit, communitization agreement, or lease.  So, if there is no longer an affiliate resale, the 2-year period stops for all of your production from that property.   The same holds true for the 2-year election for AL exchange agreements.

**What is the definition of the Sales Type Code “Pool”?**

Response:  If you aggregate your volumes in pools and then sell or exchange your product under multiple contracts, to comply with the new Sales Type Code in a pooling situation, you would determine value by computing a weighted average of the prices for all arm’s-length and non-arm’s-length sales at all downstream sales outlets.

**What if a company doesn't sell their production during the month it is produced, but instead puts it into storage?  What if the gas goes into storage after it is sold into a POOL?**

Response:  Royalties are due 1 month following the month that production is sold or removed from the lease.  So, if production is removed from the lease but not sold, you will report Sales Type Code (STC) NARM.   If gas is first sold into a pool and then stored, you will report STC POOL.

**How will Industry determine the correct Sales Type Code when every month the mixture of contracts changes? Does MRM expect them to do resource intense research every month to determine the mixture?**

Response:  Report Sales Type Code POOL for gas that is sold into a pool and has a mixture of arm's-length and non-arm's-length contracts.

**Will MRM require companies to break out NGL's (as one product) into arm’s-length and non-arm’s-length Sale Type Codes? What sales type code should industry use to report NGLs? POOL?**

Response:  No.  However, the new Minerals Revenue Management system requires that a Sales Type Code (STC) be reported for all Transaction Code 01 lines, regardless of the product code (PC).  Therefore, report STC POOL for PC 07, even though we understand that NGL's are not sold into a pool.  At this time, we do not plan to modify our system to not require a STC for PC 07.

**Is a new sales type code going to be added for the oil valuation settlements that are occurring?**

Response:  Sales Type Codes (STC) will be assigned as future valuation agreements are established.  As we reach these agreements, we will communicate the STC to the company involved.  These STC will be numbered AG01, AG02, etc.

**Payor A has a specific settlement with MMS to prospectively value their production in a certain way.  That way does not fit with any of the available Sales Type Codes. What should they use?**

Response:  See answer to question above.

**When making adjustments to periods prior to October 1, 2001, will companies have to adjust the dummy Sales Type Code to the correct Sales Type Code**

Response:  When you report adjustments for sales months prior to October 2001 (regardless of the reason for the adjustment), you do not have to include correction of the Sales Type Code (STC) from the dummy STC (Z999 or Z700) to a current valid STC.

**Will MRM allow companies to report a dummy Sales Type Code for some time period after October 1, 2001, and NOT require them to retroactively correct it?**

Response:  We will allow you to report a dummy Sales Type Code (STC) for up to 6 months after conversion - through March 31, 2002.  However, we will require corrections as identified below:

Onshore Leases - We must have the correct STC populated from October 2001 sales month forward.  We are currently working with companies to make these corrections. Generally we request that you report all of your own corrections to ensure accurate information is maintained in your system.  However, in some cases, we will prepare the Form MMS-2014 to correct the STC for you (mostly Indian leases).

Offshore leases - You do not need to correct the STC retroactive to the October 2001 sales month.

**What about adjusting Sales Type code for periods after October 1, 2001, when the only thing wrong is the Sales Type Code:**

Response:
Onshore Leases – As of the October 2001 sales month, if you discover that the Sales Type Code (STC) is reported incorrectly, you should submit an adjustment with the correct STC. If your system prohibits correction on only the STC, then notify Minerals Revenue Management, Onshore Compliance and Asset Management, of the correct STC for the applicable sales month and lease, and we will prepare the Form MMS-2014 to correct the STC for you.  However, generally we request that you report all of your own corrections to ensure accurate information is maintained in your system.

Offshore Leases - No retroactive correction is necessary.

**Is it possible to stage the implementation of the sales type code?**

Response:   The Minerals Revenue Management's Compliance and Asset Management groups are willing to work with you individually to correctly report your Sales Type Codes as soon as possible.   For onshore leases, any staged implementation will focus first on Indian leases.

**Why is Sales Type Code (STC) required on TCs 11 and 15 and 37-42? These have nothing to do with sales?**

Response: You should report Transportation Allowances (TC 11) and Processing Allowances (TC15) on the same line as your Royalty (TC 01). However, the Minerals Revenue Management's new financial system will allow you to report these transactions as separate lines on the Form MMS-2014. In this case, you will report the same STC as on the associated royalty due line. We anticipate eliminating separate lines of reporting for TC 11 and 15 at some point in the future.

We do <u>not require</u> you to report a Sales Type Code in conjunction with the following Transaction Codes (TC):

| | | |
|---|---|---|
| TC 06 | TC 31 | TC 39 |
| TC 10 | TC 37 | TC 40 |
| TC 13 | TC 38 | TC 42 |

**If a Company reports a STC for a Transaction Code that does not require a STC to be reported, will the line reject?**

Response: If you report through Inovis Incorporated, our Electronic Service Provider, new enhancements were installed to not allow you to enter a Sales Type Code (STC) for those Transactions Codes (TC) that do not require a STC.

If you report EDI or paper, Minerals Revenue Management does not have an edit to reject the line if you report a STC for a TC that does not require a STC.

<u>Sales Month</u>

No questions.

<u>Transaction Code</u>

**If Transaction Code is 02, 03, 04, 05, 12, 13, 14, 16, 17, 18, 19, 25, 50, or 51 then the Sales Volume, Sales Value, Transportation Allowance Deduction and Processing Allowance Deduction must be zero?**

Response: Yes. With the exception of Transaction Codes 18 and 19 (they both require a Sales Volume).

**If Transaction Code is 02, 03, 04, 05, 16, 17, 18, 19, or 25 then the API Well Number, MMS Agreement Number, Product Code and Sales Type Codes must be blank?**

Response: Yes. Add Transaction Codes 50, 51, and 52.

**When would a TC 06 be required to report RIK deliveries with no cash payment?**

Response: Strategic Petroleum Reserve or future Royalty in Kind (RIK) scenario. Also, there are Navajo Nation RIK Indian leases.

**What is the distinction and usage between Transactions 06 & 08?**

Response: In the past, Transaction Code (TC) 06 was used to report royalties related to the Small Refiner Program and the Strategic Petroleum Reserve. As of December 2000, TC 06 is no longer used to report original royalties due under these programs (with the exception of Navajo Nation Royalty in Kind (RIK) leases).

TC 08 is currently used to report Federal RIK scenarios; however, this transaction code is for Minerals Revenue Management use only.

**If Transaction Code is 06 (or 08) then Payment Method must be 4?**
**(TC 08 is yet to be defined.)**

Response: Correct. Add Transaction Code (TC) 60. TC 08 is now defined to report Federal Royalty in Kind scenarios. Both TC 08 and 60 are for Minerals Revenue Management use only.

**If Royalty Value Less Allowances is less than zero and if Adjustment Reason Code is blank then Transaction code must be 12, 25, or 51?**

Response: Correct. Add Transaction Codes 11, 15, 22, and 42.

**Under what circumstances do you use Transaction 11 for original reporting post 10/2001?**

Response: As of October 1, 2001, we encourage you to report transportation deductions for in-value leases on the Transaction Code (TC) 01 royalty due line. We will work with you to phase in this correct reporting of allowances.

When an operator is required to deliver Royalty in Kind production to a delivery point away from the lease, they are allowed to deduct their actual, reasonable costs of moving this production from the lease to the delivery point. You would report these allowable transportation costs on a separate line of reporting using a TC 11.

**On TC 11 (transportation allowance) lines will industry have the same dollar amount in the Transportation Deduction field as the Royalty Value less Allowances field?**

Response: Yes.

**Are TC 11's to be used only for RIK?**

Response: No. Transaction Code (TC) 11 can also be used for in-value leases. However, as of October 1, 2001, we encourage you to report transportation deductions for in-value leases on the TC 01 royalty due line. We anticipate eliminating (for in-value leases) separate lines of reporting for TC 11 and TC 15 at some point in the future. We will work with you to phase in this correct reporting of allowances.

**If Transaction Code is 11 or 15 then Sales Volume, Gas MMBtu Sales Value and Royalty Value Prior to Allowances must be zero?**

Response: Correct

**If Royalty Value Prior to Allowances is zero, then Transaction Code must be 11, 15, 39, or 60?**

Response: Royalty Value Prior to Allowances is an optional field.

**We infer from MMS's comment to blocks 15 and 17 that if the record is allowance only then the sales volume and value should be zero. Is this correct?**

Response: This question refers to Enclosure 2 of our Dear Reporter letter dated September 19, 2000. The answer is yes. You should not report a Sales Volume, Gas MMBtu, or Sales Value if reporting only an allowance. For more information by transaction code, see our website at: [http://www.mrm.mms.gov](http://www.mrm.mms.gov) (click Reporting Information, click Royalty Reporting Information, then click Data Elements by Transaction Code).

**Will industry report TC 20 to report "no sales"?**

Response: Transaction Code 20 is a valid code for solid mineral leases only. If any of your oil and gas leases have "no sales," do not include these leases on your Form MMS-2014. Inovis Incorporated, the Minerals Revenue Management's (MRM) Electronic Service Provider, will not allow you to send blank lines. If you report by EDI or paper, the lines will be deleted once they reach the new MRM system. If all of your oil and gas leases have "no sales," do not transmit the Form MMS-2014. However, you will report "no sales" as shut-in on your production reports (OGOR).

**What is the difference between TC 31 and future valuation agreement codes anticipated to be used by CAM?**

Response: Transaction Code 31 covers royalties due on gas contract settlement payments. Normally, the settlements reported under this transaction are between lessees and purchasers.

Future valuation settlement agreements between Minerals Revenue Management (MRM) and you will be reported as a unique future settlement Sales Type Code identified by MRM.

**If Royalty Value Less Allowances equals zero then Transaction Code must be 39 (or 60)? (TC 60 is yet to be defined.)**

Response: Transaction Code (TC) 39 requires a "Royalty Value Less Allowances (RVLA)" if allowances are reported. If no allowance is taken, then "RVLA" will be blank. The requirements for TC 60 were not previously defined; however, TC 60 will now be used to report the new Strategic Petroleum Reserve project to begin April 2002 for internal MMS reporting only. "RVLA" will be blank for both TC 41 and TC 60.

**TC 41 - why is there no royalty value? Some companies will have to pay royalties even though qualified for royalty relief so what TC are they to use if TC 41 has no royalty value? What payment method code is used on TC 41? Is API well number required for TC 41?**

Response: You will use Transaction Code (TC) 41 to report royalty free volumes on offshore leases that qualify for royalty relief under the Outer Continental Shelf Deep Water Royalty Relief Act (Act) of 1995. While a lease qualifies for royalty relief under the Act, no royalty is due, therefore there is no Royalty Value reported for TC 41. When a lease no longer qualifies for royalty relief under the Act, royalties are reported using TC 01.

The Payment Method used should be the same as that used on other TC 01 lines on the same document. At this time, the API well number is not a required field for TC 41. However, at a future date, it may become a required field.

**Transaction Code "52" is the code to be used for recoupment of minimum royalty paid in advance. What Navajo leases apply to this transaction code?**

Response: The Navajo leases listed below are subject to Minimum Royalty Paid in Advance:
525-007471-0
525-007472-0
525-007473-0
525-008376-0
525-008377-0

Adjustment Reason Code

**Why did MMS delete the ARCs for price, royalty rate and volume? Did MMS replace them with something other ARC(s)?**

Response: At the request of industry, we consolidated the Adjustment Reason Codes (ARC) wherever possible. Many of the current ARCs are used to identify reporting in response to specific MMS exception processing routines. Many of these individual routines will be consolidated within our new compliance function and any resulting MMS-initiated compliance adjustments should be reported using ARC 17.

Unless otherwise instructed by us, report volume, value, and royalty rate adjustments using ARC 10 - Adjustment.

**Most of the adjustment reason codes we commonly use were deleted. Should we make the default adjustment reason code = 10 or is the plan to leave this field blank unless the adjustment meets the criteria for an adjustment reason code?**

Response: You must report the Adjustment Reason Code (ARC) that properly identifies the reason for the adjustment. All adjustment lines require an ARC. Our Dear Reporter letter dated September 19, 2000, states that ARC 10 is only used for adjustments that do not require another specific ARC. Example: If you adjust the value and we did not request you to do so nor did we instruct you to report the adjustment using a specific ARC, then you will report the adjustment lines using ARC 10.

**Sometimes, as part of the Royalty Error Correction process, Industry is instructed to report a reversing line with an adjustment reason code 27, to ensure that the reversing line rejects. Since adjustment reason code 27 will not be valid as of October 2001, and cannot be used to report electronically, what will MMS tell Industry to do to get the reversing line to reject?**

Response: We will request that you use an invalid Adjustment Reason Code (ARC) for the Transaction Code (TC) reported. If you report TC 03, use ARC 10. For all other TCs, use ARC 32.

**When we make adjustments to records reported prior to the new system, what should be entered in the API Well Number field? Can we leave it blank or null for both the reversing and new records?**

Response: Currently there are no properties that require API well level reporting. Therefore, leave this field blank when adjusting lines reported prior to implementation of the new system.

**What should industry report in place of the Selling Arrangement Code on a prior period adjustment (PPA) backout line? The fact that the MMS says they are being deleted implies that these codes would not be available for future use at all. Are they intending to give us a new 'bogus' code for the backout lines similar to the use of a 'Z999' Sales type code for historical data?)**

Response: A valid Sales Type Code is required when reporting Transaction Codes 01, 11, 12, 14, 15, 41, 53, and 54, as described below.

**Sales months prior to October 2001:**
For Prior Period Adjustment (PPA) backout lines for sales months prior to October 2001, report Selling Arrangement (SA) Codes 770-779 (Percentage of Proceeds contracts) as STC Z700. Report all other SA Codes as STC Z999, except for SA 000, which you will report with blanks or spaces in the STC field.

For re-entry lines for sales months prior to October 2001, report the same STC as on the PPA backout line.

**Sales months October 2001 forward:**
Onshore Leases – As of the October 2001 sales month, if you discover that the Sales Type Code (STC) is reported incorrectly, you should submit an adjustment with the correct STC. If your system prohibits correction on only the STC, then notify Minerals Revenue Management, Onshore Compliance and Asset Management, of the correct STC for the

applicable sales month and lease, and we will prepare the Form MMS-2014 to correct the STC for you. However, generally we request that you report all of your own corrections to ensure accurate information is maintained in your system.

Offshore Leases - No retroactive correction is necessary.

**When we make adjustments to records reported prior to the new system what should be entered in the Sales Type Code field? Can we leave it blank or null for both the reversing and new records?**

Response:
**Sales months prior to October 2001:**
You are not required to include a correction for the Sales Type Code (STC) from the "dummy" STC to the correct STC.

**Sales months October 2001 forward:**
Onshore Leases - As of the October 2001 sales month, if you discover that the Sales Type Code (STC) is reported incorrectly, you should submit an adjustment with the correct STC. If your system prohibits correction on only the STC, then notify Minerals Revenue Management, Onshore Compliance and Asset Management, of the correct STC for the applicable sales month and lease, and we will prepare the Form MMS-2014 to correct the STC for you. However, generally we request that you report all of your own corrections to ensure accurate information is maintained in your system.

Offshore Leases - No retroactive correction is necessary.

**When we make adjustments to records reported prior to the new system and transactions were originally reported on more than one selling arrangement, can we combine records originally reported with different selling arrangements into one reversal record?**

Response:
Federal Leases: Yes. As long as the reported lease number, revenue source code, product code, sales month, transaction code, and payment method were identical on the original lines. However, do not combine lines for Percentage of Proceeds (POP) contracts (Z700) with non-POP contracts (Z999).

Indian Leases: No. You must adjust (reverse) each line separately.

**After conversion to the new form - what if the gas MMBtu on the reversing line doesn't match the original line? What data elements have to match when reversing and rebooking lines?**

Response: The Minerals Revenue Management royalty processing function does not compare the reversing line entries to the original line entries for either the new or old Form MMS-2014. However, our Compliance and Asset Management groups will perform downstream edits for proper reporting of adjustments, royalty rate, pricing, etc. For proper reporting, the reversing line must match the original line and both lines must include an adjustment reason code.

**When we make adjustments to records reported prior to the new system what should be entered in the Gas MMBtu Sales Volume field?  Can we leave it blank or null for both the reversing and new records?**

Response:  No.  This information cannot be left blank.  Gas MMBtu is required when reporting any line with a Product Code of 03, 04, 12, 15, 16, or 39.  Populate the Gas MMBtu field using the formula: Sales Quantity  X Quality Measurement  =  Gas MMBtu. Ex: 500MCF x 1.100 MMBtu/ Mcf = 550 MMBtu.  We expect you to determine and report the correct Gas MMBtu information on all lines.  If you did not report a gas MMBtu on your original line, you can populate the gas MMBtu field on your reversing line by using the same figure you reported in your sales quantity.  However, you do need to report the correct gas MMBtu on your new line entry.

**How does MMS expect industry to report adjustments for estimated to actual allowance amounts?  We anticipate that MRM would want us to reverse the entire record and rebook a new line with the Allowance Deduction and Royalty Value Less allowance changed.  The sales fields and Royalty Value Prior to Allowances would be filled in but unchanged except for sign.**

Response:  Yes.  We prefer this option as explained below.

**When we make adjustments to records reported prior to the new system with transportation and processing allowances, should the reversal combine all three original records?**

Response:  When making adjustments, we see at least two possible options:

Option One:  You can reverse all three original lines (Royalty Due, Transaction Code (TC) 01; Transportation Allowance, TC 11; and Processing Allowance, TC 15) and report one new combined TC 01 line with the corrected data.  **MRM prefers this option.**

Option Two:  You can continue to retain all three lines separately in your system and reverse only the applicable TC 01, 11, or 15 line.  The problem we see with this second option is that it forces you to continue to maintain three lines of data rather than only one.

<u>Sales Volume</u>

**If Sales Volume is not zero then Sales Value must not be zero?**

Response:  Correct, with two exceptions.  Transaction Code (TC) 18 and TC 19 Gas Storage Agreements (Injection and Withdrawal Fee) both require Sales Volume but no Sales Value.

<u>Gas MMBtu</u>

**How is the Gas MMBtu calculated?**

Gas MMBtu is Sales Volume multiplied by the gas Btu heating value at a standard pressure base of 14.73 psia, a standard temperature base of 60 degrees Farenheit, and same degree of water saturation.
Ex: 500 Mcf x 1.100 MMBtu/Mcf = 550 MMBtu (500 x 1.100 = 550)

**If Gas MMBtu is not zero, then Product Code must be 03, 04, 12, 15, or 16?**

Response: Correct. Add Product Code 39.

**If Product Code is 03, 04, 12, 15, or 16 and if Sales Volume is not zero then Gas MMBtu must not be zero?**

Response: Correct. Add Product Code 39.

**New MMBtu volumes (100% amount) and clarify if this is the MMBtu as measured at the wellhead (and than would then tie to the Btu factor and associated MMBtu computed volume on the MMS OGOR-B or is this the actual "sales" (pipeline) MMBtu associated with the revenue valuation of the associated gas transaction?**

Response: For reporting on Form MMS-2014, you are responsible to pay royalties on the quantity and quality as measured at the point of settlement. You will use either the wellhead MMBtu (wet), or if your gas is processed, you will then use the residue MMBtu (dry). Volumes reported on OGOR-B are measured in MCF not MMBTU. However, the Btu heating value reported on OGOR-B may possibly be the same Btu heating value used to calculate the gas MMBtu on the Form MMS-2014. In most cases, if the production is reported from a lease, the Btu heating value reported on OGOR-B will match the Btu heating value used to calculate the gas MMBtu reported on the Form MMS-2014. However, if the production is reported from an agreement, you may, for example, have multiple Facility Measurement Points and therefore various quality measurements. You will then report a weighted average on OGOR-B, whereas on the Form MMS-2014, you will report the leases within the agreement on separate lines and use the Btu heating value associated with that production to calculate the gas MMBtu.

<u>Transportation and Processing Allowance Deductions</u>

**If you report both an AL and NAL allowance on a lease, should the allowance be reported on separate lines? For example, report the AL allowance on the royalty due line and report the NAL allowance on a separate line?**

Response: No. The Sales Type Code (STC) is assigned to the transaction reported on the royalty due line, not the allowance contract. Therefore, you will report the allowance on the royalty due line and use the STC that is appropriate for that line.

**If Transportation Allowance Deduction is not zero then Product Code must be 01, 02, 03, 04, 05, 06, 07, 09, 12, 17, 18, 19, or 20? Product Code 18 is eliminated?**

Response:  Correct.

**If Processing Allowance Deduction is not zero, then Product Code must be 07, 09, 17, or 19?**

Response:  Correct, with one exception.  Product Code 03 can, in limited circumstances, qualify for a processing allowance.  You can apply to MMS for an extraordinary cost allowance.  See the *Oil and Gas Payor Handbook-Volume III* and 30 CFR 205.158 for detailed information on this subject.

**Should industry report the allowance fields with a negative sign or are the fields recognized as a deduction?**

Response:  Report your Transportation and Processing Allowances with a negative (-) sign.

<u>Royalty Value Less Allowances</u>

**If Royalty Value Less Allowances is less than zero then Sales Volume, Gas MMBtu, Sales Value, Royalty Value Prior to Allowances, Transportation Allowance Deduction and Processing Allowance Deduction must all be less than or equal to zero?**

Response:  The answer depends on what you are reporting.  If you reverse an original line that includes a transportation and processing allowance deduction, your allowances will be positive since these fields were reported as a negative on your original line.  The other fields mentioned above will be less than zero.

**If Royalty Value Less Allowances is greater than zero then Sales Volume, Gas MMBtu, Sales Value, Royalty Value Prior to Allowances, Transportation Allowance Deduction and Processing Allowance Deduction must all be greater than or equal to zero?**

Response:  The <u>Royalty Value Prior to Allowances is not a required field.</u>  It may be completed or left blank, in which case the Minerals Revenue Management will calculate and populate the field.  Royalty Value Less Allowances is mandatory.   Transportation and Processing Allowance Deduction fields are expected to be negative values (i.e., less than zero unless reversing the original entry) and entered only if applicable.

<u>Payment Information</u>

**If Federal/Indian Indicator flag is F then Payment Method must be 1, 3, 4, (or 6)? (PM 6 is currently undefined.)**

Response:  Correct, with one exception.  You will use Payment Method 4 for Indian leases only.

**Does the MMS have a set of Indian Agency/Tribe/Allottee "Payment Codes" that a Payor is required to utilize when remitting Indian royalties electronically?  If so, who**

**can I talk to at MMS to see about getting those codes provided for incorporation into our MMS 2014/payment product?**

Response: We no longer encourage you to use a 5-character code (such as ANDAL). We would, however, like you to include the 3-digit Indian Agency Distributee Code on your electronic payments for Indian leases. The electronic payment guidance, including these codes, is available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Electronic Reporting/Payment Contact Information, then click U.S. Treasury FEDWIRE Deposit System).

**If Payment Method is 4 then Transaction Code must be 06 (or 08)? (TC 08 is yet to be defined.)**

Response: Correct. Add Transaction Code (TC) 60. TC 08 is now defined to report Federal Royalty in Kind scenarios. Both TC 08 and 60 are for Minerals Revenue Management use only.

**If Payment Method is 4 then Transportation Allowance Deduction and Processing Allowance Deduction must be zero?**

Response: Correct

**"Net Payment for this Report". Should this be net for payment method 3 or net for all payment methods?**

Response: "Net Payment for this Report" is the net payment for Payment Methods 1, 3, and 5, less any credits that the reporter is using (maximum of 3) to pay the Form MMS-2014. Report your actual cash payment.

**On the new MMS Form 2014 under Payment Information there are lines for "Less Available Credits" and three lines for "Doc ID" . Is this the area where I would key in any dollar amounts for which we receive credits on interest bills that were submitted to Marathon via GBIL statements? Currently, once I get permission from the MMS to take a credit, I report such interest credits on a hand form 2014 and send it in with my transmittal letter and mag tape.**

Response: This question refers to the three lines labeled Doc. ID in the Payment Information block of the Form MMS-2014. Yes, you are correct. Report the Doc ID with a negative (-) sign.

**DOC ID TOTAL 1, 2, & 3. Should sign be negative or positive for reductions to the payment? Since the field title doesn't say deduction I would assume that the sign for payment reductions would be negative?**

Response: Report the Doc ID with a negative (-) sign.

## Electronic Reporting

**Did Peregrine change their name?**

Response: Yes. The Minerals Revenue Management's Electronic Service Provider has changed their name a few times: Harbinger, then Peregrine, and now Inovis Incorporated. The customer contacts and work requirements remain the same.

**How do I contact MMS's electronic service provider?**

Please contact Inovis Incorporated at 734-878-1299, if you need to register for electronic reporting.

If you are currently a registered reporter who has received your Registration Information Sheet and you have questions about re-registering, please read the registration information carefully since many of your questions are addressed there. You should also review the *Read Me First* and *Quick Start Sheet* accompanying the new forms. Inovis Incorporated will be glad to take your call once you have determined your question is not addressed elsewhere.

If you have questions about the new reporting forms once they are installed, please refer to the online "Help" feature. Simply put your cursor in the problem field and click on Help.

Another source of form information is the CD-ROM that was mailed to MMS reporters containing both reporter handbooks. These handbooks are also available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Handbooks & Manuals, then click the appropriate handbook).

If your question cannot be answered through the online Help or the handbook(s), please call your Minerals Revenue Management (MRM) Company Representative directly or call 800-525-0309, ext. 3088. Please do not call Inovis Incorporated Customer Support with questions on proper codes, formatting, or data.

CSV and ASCII record layouts are available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, click Electronic Reporting Information, then select the appropriate file). You may also contact your MRM company representative with specific questions.

If you are experiencing technical difficulties while installing the updated forms, please call Inovis Incorporated Customer Support at 1-800-406-6056. Ignore the request for a 9-digit customer number. An Inovis Incorporated representative will be with you shortly.

**Where do we find Inovis electronic reporting enhancements?**

Inovis Incorporated enhancements, effective May 31, 2002, are available on our website at:

http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then click Enhancements which is located under the heading Electronic Reporting Information).

**How long will we able to use the old electronic Form MMS-2014 format?**

Effective January 1, 2003, Inovis Incorporated will no longer accept old electronic MMS forms (i.e., 2014, 3160, or 4054 (OGOR). You will only be able to submit the new 2014, OGOR, and PASR formats from this day forward.

**I have heard there will be changes to the Pro-client electronic reporting option, what are they?**

Effective January 2003, the HX Pro Client will change to a total Web-based application. This change will eliminate the need for us to provide you with software that resides on your desktop computer or send you e:mail messages or a CD-ROM with new forms attached. We will be able to make such changes on our host server, thereby ensuring that all reporters use the same software version. You will continue to access the Internet and use our Electronic Commerce Service Provider, Inovis Incorporated, to send your completed report(s). This change is compatible with all operating systems including Macintosh. More information is available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Dear Payor/Reporter Letters, then select the appropriate Dear Reporter Letter).

**Is there a limit to the number of lines per document that industry can submit electronically to MMS?**

Response: Yes. There is a limit to the amount of lines that the new Minerals Revenue Management (MRM) system can handle per document. Each document cannot exceed 50,000 detail lines. If you find that you a have document that will exceed the limit, please contact your MRM Royalty Representative for assistance. A contact list is available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then click Royalty Error Correction Company Assignments which is located under the heading Contact Information).

**What kind of confirmation can the reporter expect?**

Effective November 1, 2001, many of our procedures changed when our new financial system came into place. The manual process MRM used to review documents prior to entering our system is now eliminated. All reports go directly into the system. The Transmittal Letters, originally used as part of the manual reviewing process, are no longer required. Therefore, you will receive your confirmation for the three electronic reporting options as follows:

EDI File: Your company will receive a "997 acknowledgement" from Accenture, an agent for Minerals Revenue Management (MRM), once MRM receives and processes your file. If you do not receive an acknowledgement within a timely period, contact MRM Customer Support at 877-256-6260 to confirm receipt of your file.

Pro Client Submission **(effective January 2003, this option will no longer be available)**: You will find a receipt confirmation in your in-basket. This confirmation may not appear immediately. Select the "get/send mail" option 15 to 30 minutes after transmission to receive your confirmation.

Web Base: There is no actual confirmation; however, the status on the Document List will show the document was "Sent, Date, and Time".

**What editing will be performed by Inovis Systems before the reports are sent to MMS?**

Response: Minerals Revenue Management's (MRM) electronic commerce vendor edits:

- Validate format requirements for each data element. For example, a numeric field (such as transaction code) will be validated to assure that only numeric characters are reported.
- Validate reported codes to assure that only valid codes are reported. The edits will not determine if you selected the appropriate code, only that it is a valid code.

Inovis Incorporated enhancements, effective May 31, 2002, are available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then click Enhancements which is located under the heading Electronic Reporting Information).

Subsequent editing will be performed by MRM's financial system once the data is received from Inovis Incorporated.

**How does a company report when the Internet is down?**

There may be short-term outages when trying to report your royalty/production data electronically on the web. If this happens:

Do:

- Send your report electronically once the system is available.
- Submit your payment timely even if you are unable to transmit your report (be sure to include the Payor Code and PAD No. on the payment remittance).

Do Not:

- Hold your payment.
- Send MRM a hard copy of your electronic submission; we cannot process screen prints or faxes.

**What are the exceptions to the electronic reporting requirement (many small operators/payors are not aware of any changes)?**

Response: There are two exceptions to our electronic reporting requirement. You do not have to report electronically if you:

1. Report only rent, minimum royalty, or other annual obligations on Form MMS-2014 or;

2. Are a small business as defined by the U.S. Small Business Administration, and do not have a computer or resources to purchase a computer, or contract with an electronic reporting service, nor access to a computer at a local library or other public facility.

**Does industry have to request an exception for hardship? By when?**

Response: Yes. You must request an exception to electronic reporting in writing to the following address (see the response above for the only two exceptions to electronic reporting): Mr. Ralph Spencer, Minerals Management Service, Minerals Revenue Management, P.O. Box 25165, Denver, Colorado 80225-0165. You must submit a request as soon as possible after you are contacted by Inovis Incorporated personnel regarding conversion to electronic reporting, but in no case longer than 3 months following this contact.

## GENERAL QUESTIONS

**How does industry update their addresses in the MRM database (letters going to wrong or outdated address/person)?**

Response: You will update contact and address information by indicating the change in the trailer section of the electronic Form MMS-2014 (complete all fields). You may also contact us by telephone or in writing to request an address change. A contact list is available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then click Royalty Error Correction Company Assignments which is located under the heading Contact Information).

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If your address is outside of the United States, contact us by telephone or in writing to request an address change. Since our system cannot update an address change outside of the United States from the trailer section of the electronic Form MMS-2014, we must manually update our records.

**How will MRM efforts be handled when there are multiple contacts in each company; e.g., oil vs. gas, volume vs. allowances, etc.?**

Response: The new Minerals Revenue Management's system displays one contact for each of the following areas: 2014 Reporting, Courtesy Notice, Indian Over Recoupment, Production Reporting, FIN Bills, Interest, Compliance, Debt Collection, and (1) other. If you have a number of contacts within one area, please provide us a primary contact name and number to direct the workload to the appropriate co-worker(s) within your company.

**When will the MRM resident auditors be reduced/eliminated?**

Response:  We have no plans to eliminate resident auditors.  While our compliance strategy is now property-based, we still need to audit the records of individual companies who have interests in those properties.

**Since AFS/PAAS exceptions are discontinued, what is the new process?**

Response:  There will no longer be an AFS/PAAS process to compare the volume between the royalty and production reports in the new world.  As of October 1, 2001, a new compliance strategy will begin.  This new process will address volume, royalty rate, allowances, and value together.  We will look more globally at the variances rather than each separate line of reporting.  Our expectation is that you will initially receive an issue letter (in some situations a more informal process may be used prior to an issue letter).  You can then respond.  If a response is not received, an order will be sent.

**Is MRM discontinuing issuing the automated bills and notifications for allowance exceptions?**

Response:  Yes.

## Reporter Handbook

**How can I access the Reporter Handbook?**

Response:  The internet version of the Minerals Revenue Reporter Handbook is available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Handbooks & Manuals, then select the appropriate manual).

## Historical Data

**Can MMS provide a comparison of the old 2014 to the new (similar to what we provided them on the 3160 to OGOR)?**

Response:  The information is available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then click Historical Data Conversion Document).

**Do you have a table for the conversion of the Selling Arrangement to the Sales Type Code so industry will know what code to use when reporting adjustments?**

Response:  We are converting all Percentage of Proceeds Selling Arrangements (SA) to Z700.  All other SA (except 000) will be converted to Z999.  Information regarding conversion of historical data is posted on our website at: http://www.mrm.mms.gov  (click Reporting Information, click Royalty Reporting Information, then click Historical Data Conversion Document).

**If industry reported on a POP contract prior to implementation of the specific POP selling arrangements, will MRM convert those to Z700?**

Response: No. We have no way to distinguish those lines. The selling arrangements on those lines will be converted to Z999.

**Will there be separate edits for lines reported 1) for prior periods; e.g., no MMBtu reported or 2) for lines reported on the old 2014 during the grace period?**

Response: No. We will not have separate edits in place. When adjusting previously reported lines, populate the Gas MMBtu field using the formula: Sales Quantity X Quality Measurement = Gas MMBtu. Ex: 500MCF x 1.100 MMBtu/ Mcf = 550 MMBtu. We expect you to determine and report the correct Gas MMBtu information on all lines. If you did not report a gas MMBtu on your original line, you can populate the gas MMBtu field on your reversing line by using the same figure reported in your sales quantity. However, you do need to report the correct gas MMBtu on your new line entry.

We have developed the ability in our new financial system to receive Form MMS-2014 data in the old format after October 1, 2001. However, we expect your reports to be in the new Form MMS-2014 format as of October 1, 2001. A "grace period" will only be allowed for specific reporters case by case. We will convert any Form MMS-2014 lines reported in the old format to the new Form MMS-2014 format as shown in our "Historical Data Conversion Document" available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then click Historical Data Conversion Document).

We will monitor all reporting as of October 1, 2001. If you are using the old format, you will be contacted and converted to the new format ASAP.

**We're considering whether we need to retain our own history tables. In the past we've rarely requested MMS-2014 history reports from the MMS. Do other companies rely on the MMS as their primary source for historical MMS-2014 data? Are there any plans for instituting a charge for this service? Do you see a problem if there are frequent requests for data of this nature?**

Response: We encourage you to maintain historical data in your own systems. Currently, some companies do request historical information from us for a variety of reasons. If the request involves an extensive period of time and large amounts of data, we may charge the requestor to provide the data. We will attempt to provide data when requested; however, we do not have the staff to respond to frequent and numerous requests for data.

You have access to specific data, including royalty and production information, via the Internet. As well, upon written request by industry, we will provide historical data during a limited time, at no charge, on a Compact Disk (CD). We will provide the historical data one time only to the original reporters of the data. For more information, refer to the Federal Register "Notice of Availability for Historical Royalty and Production Data" issued April 2002 on our website at: http://www.mrm.mms.gov (click Laws & Regulations, click Federal Register Notices, then select the appropriate 2002 notice). Also, refer to MMS's "Dear Reporter" letter dated October 22, 2001, for detailed instructions on how to complete the required System Access Request Form on our website at: http://www.mrm.mms.gov (click Reporting Information, click Dear Payor/Reporter Letters, then select the appropriate Dear Reporter Letter).

**When companies buy out an entire company or just a property, they need the historical data. COPAS suggested requiring the acquiring company to send a written request to MMS to identify the specific data and time frame they need.**

Response: We encourage you to obtain historical data from each other. When acquisitions occur, the acquiring company should request historical data from the seller and not MMS. We will provide historical data during a limited time, one time only, and upon written request to the original reporters of the data. For more information, refer to the Federal Register "Notice of Availability for Historical Royalty and Production Data" issued April 2002 on our website at: http://www.mrm.mms.gov (click Laws & Regulations, click Federal Register Notices, then select the appropriate 2002 Notice). Also, refer to MMS's "Dear Reporter" letter dated October 22,2001, for detailed instructions on how to complete the required System Access Request Form on our website at: http://www.mrm.mms.gov (click Reporting Information, click Dear Payor/Reporter Letters, then select the appropriate Dear Reporter Letter).

**On the agenda item "MRM Historical Data Conversion" it is stated that the MRM plans to provide criteria to map from old to new reports by February 28, 2001. Does this mean industry would be provided the specs that will enable industry to know how the historical data will be converted?**

Response: The Industry Historical Data Conversion Document for the Report of Sales and Royalty Remittance Form MMS-2014 can be found at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then click Historical Data Conversion Document).

**How will industry get its converted data after 10/2001? Do they have to request it?**

Response: MMS will provide "converted" data for sales months **prior** to 10/2001, one time only at no charge. To obtain the historical data via CD, send a written request to MMS. For more information, please see the Federal Register "Notice of Availability for Historical Royalty and Production Data" issued April 2002 on our website at: http://www.mrm.mms.gov (click Laws & Regulations, click Federal Register Notices, then select the appropriate 2002 Notice).

You will obtain historical data for sales months **after** October 2001 via the Internet, refer to MMS's Dear Reporter letter dated October 22, 2001, for detailed instructions on how to complete the required SARF form for access to your data. For more information, see our website at: http://www.mrm.mms.gov (click Reporting Information, click Dear Payor/Reporter Letters, then select the appropriate Dear Reporter Letter).

**Will the data be provided/requested by payor code? What is the status on the legality of providing converted data for periods prior to taking over a property/company?**

Response: Yes. The data must be requested and will be provided by Payor Code.

We are fully aware of the necessity of protecting proprietary data. Data will not be released to anyone, other than the original reporter, unless the requestor demonstrates a legal right to that data. We will provide the converted data by payor code for companies who merge as long as it legally demonstrates complete ownership. Therefore, companies that show partial mergers will not receive historical data due to its proprietary nature, as dual ownership exists.

**When will the data be converted? Will blocks of data be converted at different times?**

Response: All data was converted at the same time during October 2001.

**Would the converted data be provided free?**

Response: Yes. We will provide this converted data to you, one time only, at no charge.

However, we encourage you to maintain historical data in your own systems. Currently, some companies do request historical information from us for a variety of reasons. If the request involves an extensive period of time and large amounts of data, we may charge the requestor for providing the data. We will attempt to provide data when requested; however, we do not have the staff to respond to frequent and numerous requests for data.

**How far back will the data be converted?**

Response: All data reported to MMS' Auditing and Financial System (AFS) will be converted. Data reported to the predecessor system, the Royalty Accounting System (RAS) cannot be converted. The first sales months reported to AFS ranged from 9/81 through 12/83, depending on when the former RAS Accounting Office was converted to AFS.

**Can MMS provide the data conversion rules now? Industry is concerned that they won't have the converted data in time to make the necessary changes in order to adjust properly.**

Response: A translation document that shows Minerals Revenue Management's logic for conversion of historical data to the new reporting formats can be found at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then click Historical Data Conversion Document).

**Can industry get one last 930R/929P (reference data) report prior to conversion to the new system on October 1, 2001?**

Response: No. The information provided in the 930R/929P will not be current or accurate by October 1, 2001. See the Dear Reporter letter dated May 2001, Elimination of the Payor Information Form (PIF) on our website at: http://www.mrm.mms.gov (click Reporting Information, click Dear Payor/Reporter Letters, then select the appropriate Dear Reporter Letter).

## Record Layout and File Specifications

**When can we expect the specifications?**

Response: We assume you are referring to the EDI mapping changes and CSV/ASCII layouts. These are included with our "Dear Payor" Letter dated September 19, 2000. You can view this letter on our website at: http://www.mrm.mms.gov (click Reporting Information, click Dear Payor/Reporter Letters, then select the appropriate Dear Reporter Letter).

Additionally, the most current CSV/ASCII record layouts, information concerning conversion of previously submitted (historical) data, and edit information is available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then select the appropriate file).

**The paper 2014 shows a split line with part of the record on one line and the remaining fields on a second line. Will the electronic file industry submits have a split line on two records or will the records continue to be on one line as now?**

Response: No. You do not have to report a split line. The detail line on the EDI, CSV and ASCII layouts is one line. The Report Header, Report Trailer and Payment Trailer on the CSV and ASCII will be separate lines.

**We expect that the specifications when issued will address the field size and/or codes for all of the new fields. Also we expect that the specifications will let us know of any new or deleted codes for any currently existing fields. We hope that the definitions for any codes in current use will not be changed under the new format. For example, transactions defined as transaction code 01 should still be transaction code 01, adjustments defined as adjustment reason code 02 should still be adjustment reason code 02, etc.**

Response: Where practical, we tried not to redefine existing codes. However, please note that Transaction Code 13 was redefined to "Quality Bank and Gravity Bank Adjustment" and Adjustment Reason Code (ARC) 10 was redefined as "Adjustment" and should be used for all adjustments that do not require a unique ARC. All codes were included with the Dear Payor Letter dated September 19, 2000. You can view the Dear Payor Letter on our website at: http://www.mrm.mms.gov (click Reporting Information, click Dear Payor/Reporter Letters, then select the appropriate Dear Reporter Letter).

Updated information is available at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then select the appropriate file).

Also, see the section on ARCs within this Question and Answer document.

**We also expect the specifications will address the changes to EDI format.**

Response: The revised *Electronic Data Interchange Handbook* is available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Handbooks & Manuals, then select the appropriate handbook).

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**Will you provide us with specifications for any error checking you expect from us?**

Response: A spreadsheet showing transaction code specific edits is available on our website at: http://www.mrm.mms.gov (click Reporting Information, click Royalty Reporting Information, then click Data Elements by Transaction Code).

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## Royalty-In-Kind (RIK)

**Will industry have to report a Sales Type Code for royalty-in-kind properties?**

As of the October 2001sales month, the Minerals Revenue Management RIK Office will prepare all Form MMS-2014s related to RIK sales. Therefore, we will populate the Sales Type Code (STC) with “RIKD” for those RIK sales. Purchasers of RIK oil or gas will submit appropriate payments related to its RIK purchasers; however, will not report information related to these purchases on the Form MMS-2014.

In certain cases, we may direct the operator to transport our royalty volumes to a point away from the royalty facility measurement point (FMP). In those cases, the operator may deduct its actual, reasonable costs for that transportation on the Form MMS-2014 using a Transaction Code (TC) 11.

The operator may also deduct any negative quality bank adjustments incurred by moving the production from the royalty FMP to the specified delivery point away from the royalty FMP on the Form MMS-2014 using a TC 13. If the operator receives any positive quality bank adjustments while moving the production from the royalty FMP to the specified delivery point away from the royalty FMP, those monies are considered part of gross proceeds and are therefore royalty bearing. Operators must report positive quality bank adjustments on the Form MMS-2014 using TC 13.

When reporting a TC 11 or TC 13 on the Form MMS-2014 on RIK properties, the RIK STC “RIKD” is optional.

**Is there an edit to detect when a reporter is incorrectly reporting and paying in-value when the lease has been designated as Royalty-In-Kind (RIK)?**

On occasion, you may inadvertently report and pay royalties in value on a property that is taken-in-kind. In those cases, Minerals Revenue Management, in conjunction with the Offshore Compliance and Asset Management Office, will notify you of any misreporting of royalties in value on Royalty in Kind properties.

## Royalty Rate

**What we are attempting to test is to see if the royalty rate is correct. However we don't want false alarms. So we would multiply the sales value times the royalty rate.**

**The answer should be within $1.00 of the royalty value. We don't care if the amount is off by a few cents since those errors could be due to rounding.**

Response: Correct. (Sales Value x Royalty Rate = Royalty Value Prior to Allowances).

**Is there an imputed royalty rate that industry should use? Will MRM have edits that apply a royalty rate (possibly by MMS Lease Number and Product Code) to re-compute Royalty Value before Allowances based upon the reported Gross Value? Can a user, who takes half the volumes from a lease, merely use a royalty rate that is half the normal rate (say 6.25% on a normal 12.5% lease) and apply it to the true 100% volumes?**

Response: No. We have edits that compare the reported Royalty Value Prior to Allowances to the result of the reported Sales Value x the royalty rate for the lease. Example: If you take half of the volume from a lease, you will calculate and report this portion in the Sales Volume field on the Form MMS-2014 and not reduce the royalty rate. Then, report the result of (Sales Value x the royalty rate for the lease) as Royalty Value Prior to Allowances. The Sales Value reported will be the value associated with the amount you removed and sold.

**How does MMS propose handling different royalty rates within a single lease and unit, e.g. 065-051174-0 has a sliding/step scale and a 12.5% fixed royalty rate tracts. We suggest using the 11th digit of the lease number to distinguish between the two tracts.**

Response: We expect two royalty lines to be reported. Both lines will show the same lease number; however, each line will contain volumes and values applicable to the different royalty rates. We require one line for the sliding scale rate and one line for the 12.5 percent rate. Different royalty rates within the sliding scale rate should be rolled up and reported on one line.

**Does MRM automatically generate royalty rate exception letters? If yes, will these also be stopped as with AFS/PAAS letters?**

Response: We have not generated automated royalty rate exception letters or bills for a number of years. We continue to review royalty rate exceptions for all properties; however, we manually research these exceptions before any letters are sent out. This review includes all the stripper oil properties through at least the production month of June 2001. We will use the new compliance system to review royalty rate reporting after November 1, 2001.

## <u>System Testing</u>

**Can industry test with/through Inovis at anytime?**

Response: No. Inovis Incorporated does not have a test environment available for general use by industry. Once the software is received, you can become familiar with the functionality and features of the software and perform all functions except actually "sending" the file. We will make every effort to work with you to quickly identify and resolve reporting errors.

## Valuation

**Calculation Method will be eliminated from the new Form MMS-2014. Per MMS guidelines, we are required to report major portion dual accounting with a required calculation method of "4" or"5" when reporting adjustment reason code "16." Is this no longer a requirement?**

Response: Per MMS Dear Payor Letter dated December 1, 1999, if you are required to perform dual accounting, you must elect to perform either actual dual accounting, under 30 CFR § 206.176 (64 FR 43506), with a required calculation method code of "04"; or the alternative methodology for dual accounting, under 30 CFR § 206.173 (64 FR 43506). with a required calculation method code of "05".

Yes, it is still a regulatory requirement to make an election for dual accounting when dual accounting is required. Effective October 1, 2001, the Calculation Method data element was eliminated from the Form MMS-2014. Therefore, you will not report a calculation method of 04 or 05 on the new Form MMS-2014. However, you must continue to use adjustment reason code "16" to report major portion/dual accounting adjustments for leases located only in non-index zones.

To collect this additional data for either actual or alternative dual accounting, you will make your election on the Form MMS-4410 now titled "Accounting for Comparison (Dual Accounting)". The new form includes Part A "Certification For Not Performing Dual Accounting" and Part B "Election to Perform Actual Dual Accounting or Alternative Dual Accounting". The form can be found on our website at: http://www.mrm.mms.gov (click Reporting Information, click Production & Royalty Forms, click Royalty Reporting Forms, then select Form MMS-4410).

**What is the definition of an aggregation point?**

Response: 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. A location that has the characteristics described above may be considered an aggregation point even if it is not included in MMS's published list of aggregation points.