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Rule offers accounting relief for marginal properties

The Department of the Interior's Minerals Management Service (MMS) published new regulations today in the Federal Register designed to promote production from "marginal" oil and gas properties while reducing administrative costs to lease holders and to the Federal government.

The final rule, termed "Accounting and Auditing Relief for Marginal Properties," establishes how lessees and their designees can obtain accounting and auditing relief for production from Federal oil and gas leases that qualify as "marginal" properties. A marginal property is defined as having average daily well production of less than 15 barrels of oil equivalent (BOE) per well per day, or 1,000 BOE per property per year.

"This new rule encourages lease holders to continue production from marginal properties by offering relief in terms of administrative and other reporting," said Lucy Querques Denett, Associate Director of Minerals Revenue Management. It provides, Denett added, "another incentive for lessees to continue recovering all oil and gas resources from a marginal property."

The new rule is being implemented in compliance with the Federal Oil and Gas Royalty Simplification and Fairness Act (RSFA), originally signed into law in 1996. In simple terms, the rule provides specific relief that lease holders of "marginal" properties can now report and make royalty payments on an annual basis rather than on a monthly basis. The rule also provides for other forms of accounting and auditing relief that lessees may request.

Eliminating the monthly reporting requirements is expected to reduce the administrative costs incurred by lessees or their designees in providing monthly royalty reports, and reduce the government's costs associated with processing thousands of monthly reports for such small production volumes. That, in turn, provides an incentive for lessees to continue production from marginal properties instead of abandoning those properties before all oil and gas resources have been recovered.

The Federal Register notice specifies that if the marginal property is located on Federal onshore lands, states where the production occurs – and which share in royalty receipts – must concur before the relief will be granted. If the marginal property is located in the Outer Continental Shelf in Federal waters, the Federal government can approve the reporting relief.

Copies of the Federal Register notice are available at:

<http://a257.g.akamaitech.net/7/257/2422/06jun20041800/edocket.access.gpo.gov/2004/04-20560.htm>

The Minerals Management Service is the Federal bureau in the U.S. Department of the Interior that manages the nation's oil, natural gas and other mineral resources on the Outer Continental Shelf in Federal offshore waters. The bureau also collects, accounts for, and disburses mineral revenues from Federal and American Indian lands. MMS disbursed more than \$8 billion in 2003 and more than \$135 billion since it was created in 1982. Nearly \$1 billion from those revenues go into the Land and Water Conservation Fund annually for the acquisition and development of state and Federal park and recreation lands.

www.mms.gov