

RPC Fair Return and Value (Valuation) Subcommittee Meeting Summary
Wednesday, January 31, 2018, 3:00 pm – 4:00 pm

- 1) Welcome and Roll Call**
- 2) DOI Updates**
- 3) Workgroup Updates and Recommendations**
- 4) Other Items and Wrap Up**

Welcome and Roll Call

DOI Updates

- February 7th is the deadline to turn in background materials and presentations for the RPC meeting on February 28th.
- For travel, IAH airport is the closest option.
- On February 27th:
 - Breakout rooms will be available in the morning if groups want to meet.
 - Subcommittee meetings will take place from 1-5pm. RPC Staff is trying to stagger these meetings
- On February 28th, the RPC will meet from 9-5. A full agenda is forthcoming.

Workgroup Updates and Recommendations

The Co-Director asked representatives from each workgroup to provide an update on its activities and any proposed recommendations that it would like to raise at the RPC meeting on February 28th. Two workgroups – the Oil and Gas Payor Handbook Workgroup and the Audit Workgroup - will share general information at the meeting. Three workgroups – the Index Pricing Workgroup, the Marketable Conditions Workgroup, and the Coal Benchmarks Workgroup – will offer recommendations at the meeting.

- Oil and Gas Payor Handbook Workgroup: At the RPC meeting, will provide information and convey appreciation that ONRR is moving forward with this.
- Audit Workgroup: For the RPC meeting, will consider a joint presentation to outline concerns with the audit process and steps taken by ONRR to address those concerns.
- Index Pricing Workgroup will offer the following recommendation:
 - Pursue rulemaking to define and simplify index price rules. Key factors to be addressed by this rule would be:
 - A standardized average single (per defined geographic area) price acceptable to both industry and DOI/ONRR
 - Calculated (by ONRR) from generally accepted index price publications or other acceptable market-sensitive source
 - Apply price to wellhead (or royalty measurement point) MMBTUs
 - Incorporate reasonable geographically sensitive transportation deductions
 - Apply price to all Federal gas sales types
 - Additional factors to consider in the rulemaking process:
 - Should the utilization of the price be mandatory or optional by payors?

- Should the “bump” approach of Indian Alternate dual accounting be utilized?
- Marketable Conditions Workgroup will offer the following recommendation:
 - Amend 30 CFR 1202.151(b) to read: "A reasonable amount of residue gas shall be allowed royalty free for operation of the processing plant, but no allowance shall be made for expenses incidental to marketing, except as provided in 30 CFR part 1206. In those situations where a processing plant processes gas from more than one lease, only that proportionate share of each lease's residual gas necessary for the operation of the processing plant shall be allowed royalty free."
- Coal Benchmarks Workgroup will offer the following recommendation:
 - Amend 30 CFR 1202.257(c)(2)(i) to allow coal lessees to value coal sold in non-arm's length transactions in relation to the lessees arm's length sales.
 - Issue a Secretarial Order or 'Dear Payor' letter stating that a coal lessee using its own arm's length sales is the preferred methodology for valuation of non-arm's length sales under 30 CFR 1202.257(c)(2)(iv).
 - Add language to the Solid Minerals Reporter Handbook indicating that under 30 CFR 1202.257(c)(2)(iv) the preferred methodology for valuing a coal lessee's non-arm's length sales is by using the lessees arm's length sales.

Other Items and Wrap up

- Issue of whether cooperative agreements that allow audit work to be delegated to states and tribes are being fully utilized will be raised with the Tribal Energy Subcommittee.
- The next subcommittee call will be Wednesday, February 7th, from 3:00-4:00.

Attendees:

Matthew Adams, CloudPeak, Subcommittee Co-Director
 Stella Alvarado, Anadarko
 Kwame Awuah-Offei, MO University of Science and Technology
 John Barder, DOI, ONRR
 Brian Bex, Navajo Nation
 Rowena Cheremiah, Navajo Nation
 Representative Drew Darby, TX House of Representatives
 Tucker Davis, DOI
 Roderick Eggert, CO School of Mines
 Amy Lunt, DOI, ONRR
 Jennifer Malcolm, DOI, ONRR
 Greg Morby, Chevron
 Pat Noah, Conoco Phillips
 Bonnie Robson, DOI, ONRR
 Daniel Rusz, Wood Mackenzie
 Chris Stolte, DOI
 Deirdre McCarthy Gallagher, Facilitator