code/selling arrangement, and an estimate of the allowance rate per unit that is anticipated for the year.

By the end of March following the allowance year, the payor must to submit the same forms as before but with additional data fields completed to indicate the actual costs experienced and the allowances actually taken on Forms MMS–2014 during the year. Also, several supplementary schedules representing details of actual costs must be submitted for non-arm's-length allowances.

The filing of the actual cost forms serves several purposes for MMS and the payor. The forms provide the actual costs incurred in transporting and/or processing production for the allowance year, together with the actual allowance deductions taken on the Form MMS–2014. The forms also satisfy the regulatory requirement to have an estimated cost allowance form on file for the succeeding allowance year.

The consequences of a payor's noncompliance with the forms filing requirements of the regulations are monetarily significant. Simply stated, if a payor takes an allowance deduction against royalty value on the Form MMS-2014 without a required allowance form on file, the payor is subject to loss of allowance and to late payment interest charges. The concept of the regulations is that a required form must be on file before the taking of an allowance; if a payor does not meet this requirement MMS considers the allowance to be lost by the payor. Consequently, the payor is directed to pay back the allowance and, after payback, is charged late payment interest associated with the lost allowance.

The current regulations provide for a grace period of three months that gives payors a window of time to comply with the forms filing requirements of the regulations without losing an allowance. The grace period permits lessees to retain allowances reported on a Form MMS-2014 for up to three months prior to the month that a required allowance form is filed with MMS. Though a payor will not experience a loss of allowance for the grace period, MMS will assess the payor a late payment interest charge from the Form MMS-2014 receipt date or due date (whichever is later) to the allowance form receipt date. By regulation, MMS may approve a grace period longer than three months upon a showing of good cause by the lessee.

In evaluating the effectiveness of its rules, particularly as they related to product valuation, MMS published in the June 17, 1992, **Federal Register**, a "Request for Information for

Improvements to Regulation" (57 FR 27008). MMS' request stated that the rules for product valuation were substantially modified in 1988 based on an effort started in January 1985 with the creation of the Royalty Management Advisory Committee. The request further stated that it had been several years since most of the regulations in 30 CFR Parts 201 through 243 were published, and public comments were requested to help MMS assess where improvements to rules could be made. The comment period closed August 17, 1992.

Many commenters felt that the allowance form filing requirements of the valuation regulations needed significant commentary as being in need of improvement. They expressed concerns about both the allowance form filing requirements and the regulatory sanctions for failure to comply with the allowance reporting requirements. Suggested recommendations ranged from refinements of existing forms to a wholesale elimination of allowance form filings because they serve no useful purpose. Regarding penalties for failure to timely file required allowance forms, commenters stated that the existing penalties were unduly harsh and that the "punishment" is not reflective of the "crime."

II. Findings and Conclusions of Allowance Study Group

Based on public comments and the over four years of experience MMS gained in administering the allowance requirement of the oil and gas valuation regulations, MMS formed a study group in April 1993, to evaluate the existing regulatory requirements for oil and gas allowances and formulate recommendations for improvement. The study group was comprised of participants from the Council of Petroleum Accounting Societies, the State and Tribal Royalty Audit Committee, and MMS. Consistent with its charter, the study group addressed the current regulatory requirements and practices of MMS related to oil and gas transportation and processing allowances. More specifically, the study group addressed the following topics as key aspects of the review:

- The need for and usefulness of the current regulatory requirements for allowance forms submission, including the information required on each form.
- The need for and equity of allowance payback and late payment interest charges for untimely filed forms.
- The need for regulatory approval thresholds; e.g., 50 percent

(transportation) and 662/3 percent (processing).

• Alternative approaches to administering allowances. The study group report was issued December 3, 1993. The report was subsequently endorsed by the Royalty Management Advisory Committee at its December 14, 1993, public meeting in Lakewood, Colorado. A copy of the study group report may be obtained by contacting the person identified in the "For Further Information Contact" section of this Notice.

The principal "Findings and Conclusions" of the study group are, by topic, as follows:

a. The Need for and Usefulness of the Current Regulatory Requirement for Allowance Forms Submission, Including the Information on Each Form

The study group found that the concept of requiring the filing of forms that contain information supplementary to that presented on the Form MMS-2014 was reasonable. However, the study group also found that the current approach to information filings is flawed in terms of the information on which the regulatory requirements focus. Although the current approach places substantial focus on "estimated" allowance filings that payors are required to submit to MMS prior to taking an allowance deduction on the Form MMS-2014, the most useful and accurate information is the actual cost information payors provide on required forms after the end of the allowance year. The study group concluded that MMS should maintain allowance information filing requirements to the extent that MMS, States, and Tribes use the information.

Furthermore, the study group concluded that MMS' administration of allowances should focus on actual data reported annually to MMS rather than the current focus on estimated allowance rates reported at the beginning of the allowance year. The study group concluded that it was necessary for MMS to continue its practice under current regulations of requiring the submission of an annual form notifying the agency of the payor's intent to take an allowance deduction from royalty value but that estimated allowance rates should not be required as a part of the information filing.

b. The Need for and Equity of Allowance Payback and Late Payment Interest Charges for Failure To File Forms

The study group found that while substantial compliance with forms filing requirements does exist, the penalty of