(ii) The Form MMS–4398 will be effective for a reporting period beginning the month that the lessee is first authorized to deduct a transportation allowance and will continue until the end of the calendar year.

(iii) After the Form MMS-4398 reporting period, the lessee must file a page one and all supporting schedules of Form MMS-4110 which show actual transportation costs within 3 months after the end of the reporting period, unless MMS approves a longer period.

(iv) Non-arm's-length contract or nocontract transportation allowances which are in effect at the time these regulations become effective will be allowed to continue until such allowances terminate. For the purposes of this section, only those allowances that have been approved by MMS in writing shall qualify as being in effect at the time these regulations become effective.

(v) Upon request by MMS, the lessee shall submit all data used to prepare its Form MMS–4110. The data shall be provided within a reasonable period of time, as determined by MMS.

(vi) MMS may establish, in appropriate circumstances, reporting requirements which are different from the requirements of this section.

(vii) If the lessee is authorized to use its FERC-approved or State regulatory agency-approved tariff as its transportation cost in accordance with paragraph (b)(5) of this section, it shall follow the reporting requirements of paragraph (c)(1) of this section. * * * * * * *

(5) A lessee is required to file a new Form MMS-4110 if adjustments are made to actual non-arm's-length transportation allowances on Form MMS-2014.

(d) Interest charges and assessments for incorrect or late reports and failure to report. MMS shall levy assessments and interest charges in accordance with the table below. MMS will determine interest rates in accordance wit 30 CFR 218.202.

If a lessee * * *	The assessment is * * *	Plus interest calculated * * *
Files an inaccurate or Late Form MMS-4398	\$10 per allowance line required on Form MMS-4398.	
Deducts a transportation allowance on Form MMS-2014 without com- plying with requirements for actual cost reporting on Form MMS- 4292.	An amount equal to 10 percent of the total allowance amount de- ducted on Forms MMS–2014 during the year.	From the date that Form MMS- 4398 was due until the date that the form was received.
Takes a transportation allowance on Form MMS–2014 by improperly netting the allowance against the sales value of the product instead of reporting the allowance as a separate line item on Form MMS–2014 as required by paragraph (c)(4) of this section.	An amount equal to 20 percent of the total allowance amount net- ted on Form MMS-2014.	From the end of the month in which Form MMS–2014 contain- ing the netted allowance was submitted to the date MMS dis- covers the netted amount.
Erroneously reports a transportation allowance that results in an underpayment of royalties.		On the amount of the underpayment.

* * * * * * Subpart D—Federal and Indian Gas

3. Section 206.157 is proposed to be amended by revising paragraphs (a)(1)(i), removing paragraph (a)(5), revising paragraphs (b)(1), (c)(1)(i) through (iv), (c)(2)(i), (ii), and (iii), removing paragraph (c)(2)(iv), redesignating paragraphs (c)(2)(v) through (viii) as paragraphs (c)(2)(v) through (viii), revising newly designated paragraphs (c)(2) (iv) through (vii), adding paragraph (c)(5) and revising paragraph (d) to read as follows:

§206.157 Determination of transportation allowances.

(a) * * *

(1)(i) For transportation costs incurred by a lessee pursuant to an arm's-length contract, the transportation allowance shall be the reasonable, actual costs incurred by the lessee for transporting the unprocessed gas, residue gas and/or gas plant products under that contract, except as provided in paragraphs (a)(1)(ii) and (iii) of this section, subject to monitoring, review, audit, and adjustment. The lessee will have the burden of demonstrating that its contract is arm's-length. Such allowances shall be subject to the

provisions of paragraph (f) of this section. Before any transportation allowance deduction may be taken on Form MMS-2014, Report of Sales and Royalty Remittance, the lessee must file a Form MMS-4398, Notice of Intent To Take Oil and Gas Transportation and Processing Allowances, in accordance with paragraph (c)(1) of this section. After the Form MMS-4398 reporting period, the lessee must file a Form MMS-4295, Gas Transportation Allowance Report, in accordance with paragraph (c)(1) of this section. * * * *

(b) * * *

(1) If a lessee has a non-arm's-length transportation contract or has no contract, including those situations where the lessee performs transportation services for itself, the transportation allowance will be based upon the lessee's reasonable actual costs as provided in this paragraph. All transportation allowances deducted under a non-arm's-length or no contract situation are subject to monitoring, review, audit, and adjustment. Before any transportation deduction may be taken on Form MMS-2014, the lessee must file a Form MMS-4398, Notice of Intent To Take Oil and Gas Transportation and Processing

Allowances, in accordance with paragraph (c)(2) of this section. For the actual transportation allowance incurred after the Form MMS–4398 reporting period, the lessee must file a Form MMS–4295 in accordance with paragraph (c)(2) of this section. MMS will monitor the allowance deductions to ensure that deductions are reasonable and allowable. When necessary or appropriate, MMS may direct a lessee to modify its actual transportation allowance deduction.

- * * *
- (c) * * *
- (1) * * *

(i) With the exception of those transportation allowances specified in paragraph (c)(1)(v) and (vi) of this section, the lessee must file a Form MMS-4398 for transportation allowances for each calendar year by the due date of the first sales month in which a transportation allowance is reported on Form MMS-2014. A Form MMS-4398 received by the end of the month that Form MMS-2014 is due will be considered timely received.

(ii) The Form MMS–4398 will be effective for a reporting period beginning the month that the lessee is first authorized to deduct a transportation allowance and will