

calculation and payment may be needed. We think that only about 50 of the approximately 800 Federal oil royalty payors would use the non-arm's-length provisions and thus might need to do some reprogramming. Using an estimated cost of \$5,000 for each such payor to do its reprogramming, the added one-time cost would be \$250,000.

(ii) Proposal of a Location Differential Under 206.112(c)(1)

We anticipate that, in a very few cases, companies may request approval of proposed differentials when less than 20 percent of the crude oil is transported or exchanged from the lease. These requests would have to: (1) Be in writing; (2) identify specifically all leases involved, the record title or operating rights owners of those leases, and the designees for those leases; (3) completely explain all relevant facts, including informing MMS of any changes to relevant facts that occur before MMS responds to their request; (4) include copies of all relevant documents; (5) provide the company's analysis of the issue(s), including citations to all relevant precedents (including adverse precedents); and (6) suggest the proposed differential. We estimate that there will be two such requests annually. We estimate the annual burden for these requests would be 660 hours (2×330), including record keeping. Based on a per-hour cost of \$50, we estimate the cost to industry is \$33,000.

B. State and Local Governments

This rule will not impose any additional burden on local governments. MMS estimates that States impacted by this rule may experience changes in royalty collections as indicated below:

(1) *Expected Increased Royalty Revenues*

States receiving revenues from offshore Outer Continental Shelf Lands Act Section 8(g) leases would share in a portion of the estimated additional \$4,303,913 to \$11,658,663 in royalties that would accrue annually from the "rest of the country" under the proposed valuation methodology. Based on each 8(g) State's share of total offshore royalties for FY 2001 and their 8(g) disbursement percentage, we estimate the States' 8(g) share to be between \$26,363 and \$71,119. Onshore

States would receive additional revenue of \$317,682.

The State of California would share in a portion of the estimated \$2,120,650 increase to \$2,120,650 decrease in royalties accruing from California. We estimate that royalties accruing to the State of California for onshore production would range from an increase of about \$524,317 to a decrease of about \$524,317. We further estimate that its 8(g) share would range from an increase of about \$53,692 to a decrease of about \$53,692. For Alaska we estimate that its 8(g) share would range from an increase of about \$157,680 to a decrease of about \$157,680, with no onshore impact. For the Rocky Mountain Region, we estimate an increase in the States' share of royalty revenues of about \$5,869 per year.

(2) *Expected Royalty Decreases—Increased Rate of Return and Inclusions of Line Loss, Quality Bank Administration Fees, Line Fill and Letters of Credit as Components of Allowance Costs*

We estimate that between \$33,785 and \$73,705 in additional transportation allowances may be deducted from the States' share of Federal royalties for OCS 8(g) leases. In addition, we estimate that between \$278,227 and \$491,891 may be deducted from the States' share of onshore Federal lease royalties.

C. Federal Government

Because many of the changes in the proposed rule are technical clarifications and others are relatively minor changes to the valuation mechanisms, the impacts to the Federal Government should be minimal, especially in administration.

(1) *Expected Royalty Increase—From Use of NYMEX Pricing*

The Federal Government would receive an estimated \$4,303,913, to \$11,658,663 in royalties each year from the "rest of the country," of which affected States would receive a portion. We estimate the Federal share of offshore royalties to be between \$3,642,186 and \$10,952,180 and the Federal share of onshore royalties at \$317,682. For California we estimate the range of royalty impacts to be from a decrease of \$1,542,630 to an increase of \$1,542,630 per year. For Alaska, we estimate the range of royalty impacts to

be from a decrease of \$426,320 to an increase of \$426,320 per year. For the Rocky Mountain Region, we estimate an increase in royalty revenues of about \$5,869 per year of the estimated additional \$11,738 in royalties accruing to production from the affected States.

(2) *Expected Royalty Decreases—Increased Rate of Return and Inclusions of Line Loss, Quality Bank Administration Fees, Line Fill and Letters of Credit as Components of Allowance Costs*

We estimate that between \$4,632,578 and \$10,106,490 per year in additional transportation allowances may be deducted from Federal OCS royalties and between \$278,227 and \$491,891 from onshore royalties.

(3) *Cost—Proposal of a Location Differential Under 206.112(c)*

We anticipate that companies may request approval of proposed differentials when they transport or exchange less than 20 percent of the crude oil from the lease. In processing these requests MMS would have to: (1) Respond in writing; (2) verify all leases involved the record title or operating rights owners of those leases, and the designees for those leases; (3) completely explain all relevant facts; (4) obtain copies of all relevant documents; (5) analyze the issue(s), including citations to all relevant precedents (including adverse precedents); and (6) potentially defend our determination. For the above written requests, we estimate that there will be two responses annually. We estimate that the annual burden for these requests is 660 hours (2×330), including record keeping. Based on a per-hour cost of \$50, we estimate the cost to the Federal Government is \$33,000.

D. Summary of Royalty Impacts and Costs to Industry, State and Local Governments, and the Federal Government.

In the table, a negative numbers means a reduction in payment or receipt of royalties or a reduction in costs. A positive number means an increase in payment or receipt of royalties or an increase in costs. For the purpose of calculation of the net expected change in royalty impact, we have assumed that the average for royalty increases or decreases would be the midpoint of the proposed range.