Federal Accounting Standards Advisory Board

December 3, 2009

Memorandum

To: Members of the Board

From: Julia E. Ranagan, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Natural Resources – Tab **C**[1]

OVERALL MEETING OBJECTIVE

The purpose of the 75-minute session on Wednesday is to review and approve the enclosed pre-ballot draft Statement of Federal Financial Accounting Standards (SFFAS) 38, *Accounting for Federal Oil and Gas Resources*, so that staff can provide a ballot draft on Thursday.

SPECIFIC MEETING OBJECTIVES

Staff would specifically like to receive the board's (1) response to five issues raised by Messrs. Granof and Steinberg and presented by staff on pages 4 through 12; and (2) approval to provide a ballot draft on Thursday.

BRIEFING MATERIAL

The following documents are attached to this transmittal memorandum:

- **Attachment 1** – A staff discussion paper of the issues raised by board members on the draft pre-ballot draft SFFAS provided on November 10, 2009, via email
- **Attachment 2** – Natural Resources History of Project and Key Decisions

In addition, the following enclosure is included following this transmittal memorandum:

- **Appendix 1** – Marked Pre-Ballot Draft of SFFAS 38, *Accounting for Federal Oil and Gas Resources*[2]

[1] The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

[2] Very minor edits that were thought to improve the document (i.e., commas instead of semicolons, capitalization, etc,) or conform to other standards for consistency were not marked.

In an effort to cut down on the amount and cost of duplicate material that is provided for each meeting, the following materials that have been provided in the past will be available at the board table in an individual binder for each member (as was done at previous board meetings):

- ❑ Task Force Discussion Paper, *Accounting for the Natural Resources of the Federal Government*, issued June 2000
- ❑ Original ED, *Accounting for Federal Oil and Gas Resources*, issued May 2007
- ❑ Comment Letters on Original ED
- ❑ Field Test Questionnaire Responses (in color to mark differences)
- ❑ Comparison of ED to Field Test Questionnaire Responses (in color to mark differences)
- ❑ Revised ED, *Accounting for Federal Oil and Gas Resources*, issued July 2009
- ❑ Comment Letters on Revised ED

You may electronically access all of the briefing material at http://www.fasab.gov/meeting.html (the reference material is located at http://www.fasab.gov/pdffiles/tabfnr_reference.pdf).

NEXT STEPS

December 2009 Meeting

- ☑ Provide draft pre-ballot draft to members for comment via email prior to the meeting.
- ☑ Provide pre-ballot draft with second distribution of briefing materials (see Appendix 1).
- ❑ Finalize wording on Wednesday, December 16th.
- ❑ Provide ballot draft SFFAS 38 to members on Thursday, December 17th.

January 2010

- ❑ Transmit proposed SFFAS 38 to sponsors.

April 2010

- ❑ Issue final SFFAS 38 after sponsor review.
- ❑ Issue exposure draft of Technical Bulletin extending the requirements to all natural resources (finalize by December 2010).

February 2014

- ❑ Put project back on the agenda after two audit years
- ❑ Invite DOI representatives and others, if applicable, to speak with the board about their experience implementing SFFAS 38

BACKGROUND

At the October 21, 2009, meeting, the majority of the board voted to (1) require that the information in the proposed standard on accounting for federal oil and gas resources be reported as required supplementary information (RSI) for three years, and (2) after experimentation with RSI the board would decide whether the asset value should be recognized in the financial statements or disclosed in the notes. The board will use the experience gained by the U.S. Department of the Interior and others during the RSI period to inform their decision regarding financial statement recognition versus note disclosure. The board unanimously agreed to broaden the acceptable alternative measurement methods during the RSI phase to allow for greater flexibility in development of a valuation methodology. The board deferred the application of the proposed standard on oil and gas to other types of natural resources to a technical bulletin to be developed by staff immediately following the issuance of the standard on oil and gas.

See Attachment 2 for a timeline history of the project and key decisions since its original inception in May 1995.

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If you require additional information or wish to suggest another alternative not considered in the staff paper, please contact me as soon as possible. Ideally, I would be able to respond to your request for information or develop more fully the alternative you wish considered in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202.512.7377 or by e-mail at ranaganj@fasab.gov.

Attachments 1 and 2
Appendix 1

ISSUES FOR DISCUSSION

Staff received comments on the draft pre-ballot draft from Messrs. Granof, Showalter, and Steinberg. Staff incorporated the majority of the members' comments into the enclosed pre-ballot draft (see marked changes at Appendix 1). Staff believes the following comments are issues that might warrant additional discussion by the entire board:

Issue 1: Ending Period for RSI – To be explicit or not to be explicit?

At the October 21, 2009, meeting, the majority of the board voted to (1) require that the information in the proposed standard on accounting for federal oil and gas resources be reported as required supplementary information (RSI) for three years, and (2) after experimentation with RSI the board would decide whether the asset value should be recognized in the financial statements or disclosed in the notes. The board will use the experience gained by the U.S. Department of the Interior during the RSI period to inform their decision regarding financial statement recognition versus note disclosure.

Staff communicated this intent through the following paragraphs:

6. The standards are effective as RSI for periods beginning after September 30, 2011. Earlier implementation is encouraged. [from Introduction section, pg. 2]

31. The standards are effective as RSI for periods beginning after September 30, 2011. Earlier implementation is encouraged. [from Standards section, pg. 9]

A37. Concerning the proved oil and gas reserves from federal oil and gas resources, the Board believes that both the quantity and the estimated federal royalty share would be reliable. Thus, in this case, since the quantity of the estimated federal proved oil and gas reserves can be reliably estimated and converted to monetary terms (estimated federal royalty share), the Board believes the estimated federal royalty share of proved oil and gas reserves should be presented as basic information. However, members would like to have more information on the reliability of the valuation methodology before it makes a final decision on whether the information should be recognized on the face of the financial statements or disclosed in the notes to the financial statements. Therefore, the Board has decided to require the information to be reported in a schedule of estimated federal oil and gas petroleum royalties in RSI for three years. Before the end of the three-year period, the Board will make a determination as to whether the information will transition to basic as financial statement recognition or note disclosure. [from Basis for Conclusions (BfC), pg. 20]

A76. After deliberating the comments received on the revised exposure draft, the majority of the Board voted to require the information as RSI for three years and then put the project back on the agenda after two years to decide whether the asset would be recognized in the financial statements or disclosed in the notes. The Board plans to utilize the experience gained by DOI during the RSI period to inform their decision regarding financial statement recognition versus note disclosure. [from BfC, pg. 32]

Mr. Steinberg commented that "Page 35 of the [minutes] reveals that six members voted the information should be presented for 3 years as RSI, and then a decision would be made as to whether the information should be presented in the financial statements or notes. Paragraphs A37 and A76 confirm that. The reason I (and I assume others) voted that way is a belief that stating the information would move to basic in three years would keep the pressure on the preparers to develop the systems and data bases. Not specifying this in the standard means that the pressure is removed and that the Board has to re-expose in 3 years. Moreover, keeping the presentation as RSI is less of a requirement than even the three persons in the minority voted for. I believe the standards has to say that 'the proposed standards are effective as RSI for periods beginning after September 30, 2011; and that sometime during the ensuing three years, the Board will decide whether for periods beginning after September 30, 2014, the information should be presented in the financial statements or footnotes.'"

Staff believes there are three possible outcomes that may reasonably result from revisiting this standard: (1) transition to basic information as financial statement recognition; (2) transition to basic information as note disclosure; or (3) permanent reporting as RSI.

At the October board meeting, Mr. Steinberg stated that the board would not need to re-expose in three years if the standard explicitly states that the information would transition to basic information in three years. However, staff would argue that during the three-year RSI period, the experience gained by Interior might provide new information not previously available to respondents of the original or revised EDs. It is quite possible that the board would need to re-expose a requirement to transition the information to basic in order to fulfill due process and provide respondents with the opportunity to comment in light of any new information provided by Interior. Therefore, staff does not believe that avoiding re-exposure is likely.

At the October board meeting and in his comment above, Mr. Steinberg stated that the board needs to be more explicit in order to keep the pressure moving on the preparers to develop the necessary systems and data bases. Interior has reviewed a copy of the draft pre-ballot draft and staff has specifically spoken with the field test team lead about the board's intent; there is no misunderstanding on Interior's part about the intent of the board. However, double-entry bookkeeping is not a requirement for RSI or note disclosure; the Treasury standard general ledger (SGL) does not provide accounting general ledger accounts or account transactions for transactions or events that do not result in financial statement recognition (see further discussion of this in Issue 3 below). Therefore, staff believes it is not at all likely that Interior would incur the expense to update its systems until the information is actually required as financial statement recognition and the required accounts and account transactions are added to the SGL.

In addition, staff provided more flexible effective date language because it is conceivable that Interior might need more time to provide feedback to the board or the board might need more time to finish a standard that requires the transition to basic information, especially considering that re-exposure is likely in light of due process requirements. By staff's estimation, the earliest the board would discuss the project would be at the February 2014 board meeting, after two years of audited RSI, which is only approximately six months before the end of the third year as RSI. Furthermore, based on feedback from DOI, the board might decide that the information is more appropriately reported as RSI indefinitely (the third possible outcome of this standard in addition to transitioning to basic information as financial statement recognition or note disclosure). Therefore, in staff's opinion, the effective date should be flexibly worded to avoid the board having to take action simply to extend the RSI period for another one or two years or indefinitely.

Staff Recommendation: Staff believes it is important to flexibly word the effective date paragraph so as not to necessitate further action by the board until it is prepared to take action. However, to address Mr. Steinberg's concern that the intent of the board be more prominently displayed in the front of the standard, staff added the following footnote to the effective date paragraph (paragraph 6):

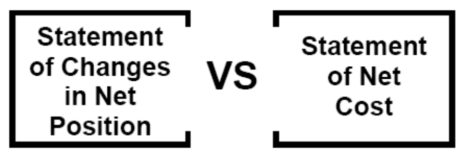
> It is the Board's intent that the information required by this Statement transition to basic information after being reported as RSI for a period of three years. The Board plans to make a determination as to whether the information will transition to basic information as financial statement recognition or note disclosure prior to the conclusion of the three-year RSI period.

Staff believes the proposed footnote communicates the board's intent in a straight-forward manner without unreasonably constraining the board's flexibility. Staff does not recommend any further changes to the effective date paragraphs.

Do you agree with staff's recommendation to add a footnote to the first effective date paragraph in the introduction section to communicate the board's intent?

Issue 2: How about mentioning that current revenue reporting will not change?

Since the draft SFFAS is not requiring that an asset be recognized on the balance sheet, depletion expense will not be recognized on the statement of net cost. Therefore, exchange revenue will continue to be recognized on the statement of changes in net position in accordance with the provisions of SFFAS 7, rather than as exchange revenue on the statement of net cost.



Mr. Steinberg commented that "the revenues from oil and gas are exchange revenues but reported on the Statement of Changes in Net Position rather than the Statement of Net Cost because of the absence of a cost against which to offset the revenues. Reporting the oil and gas revenues as RSI means that they will continue to be reported on the Statement of Changes in Net Position rather than the Statement of Net Cost. Cannot that be addressed somehow in the document?"

Staff Recommendation: Staff agrees that it would be helpful to mention that oil and gas revenue will continue to be recognized in conformance with the requirements of SFFAS 7. Staff added the following footnote to par. 9:

> SFFAS 7 requires federal entities to report custodial activity and recognize exchange revenue as a financing source on the statement of changes in net position, rather than the statement of net cost, if there are virtually no costs incurred in earning the revenue.

In addition, staff added the following par. to the Basis for Conclusions (BfC):

> A38. The Board acknowledges that royalties from federal oil and gas leases will continue to be recognized on the statement of changes in net position with non-exchange revenue rather than on the statement of net cost with other exchange revenue as long as the information is reported as RSI. The Board continues to believe that presentation of revenues arising from federal oil and gas leasing activities as exchange revenue would assist users in understanding how the government's efforts and accomplishments were financed. The current practice of combining revenue derived from the sale of assets with revenues derived from taxation or other non-exchange sources may obscure the fact that costs were incurred to generate the revenues—the federal government exchanged proved reserves for a future stream of royalty payments. However, as noted above, the members would like to have more information before it makes a final decision.

Do you agree with staff's addition of the footnote to par. 9 and par. A38 in the BfC?

Issue 3: Where did the journal entries go? What about double-entry bookkeeping?

Since the board directed staff to change the focus of the standard from basic information to RSI, staff deleted the illustrative journal entries from Appendix B.

Mr. Steinberg commented "I still do not understand how reliable records can be maintained without double entry bookkeeping. The suggested journal entries in the earlier draft guided practitioners on how to keep the records, and thus be able to report the information, regardless of whether it would be in the financial statements, footnotes, or RSI. How can those suggested journal entries be made available to the preparers/auditors if not to help them present the information now, at least to be able to prepare to present it as basic information three years out?"

The Department of the Treasury does not create or maintain standard general ledger (SGL) accounts or account transactions for transactions that do not roll up into a basic financial statement. For example, in Transmittal Letter No. S2 07- 02 transmitting the SGL for 2007 reporting, a note to the crosswalks states as follows:

> **Note:** OMB Circular No. A-136, "Financial Reporting Requirements" (Form and Content), dated June 29, 2007, states that the Statement of Financing is no longer a basic statement but rather a schedule, "Reconciliation of Net Cost of Operations to the Budget," in the notes to the Financial Statements. Preparers of financial statements may refer to OMB Circular No. A-136, revised July 24, 2006, for Statement of Financing guidance by accessing the OMB Web site at http://www.whitehouse.gov/omb/circulars/a136/a136_revised_2006.pdf. The USSGL TFM T/L S2 06-02 Statement of Financing crosswalk provides guidance in preparing the OMB schedule, Reconciliation of Net Cost of Operations to the Budget (see the USSGL Web site at http://www.fms.treas.gov/ussgl/selection_page.html).

In other words, as soon as the Statement of Financing became a schedule rather than a basic financial statement, the Treasury SGL ceased to maintain the crosswalk.

Federal entities maintain data for notes and schedules through a variety of means, including Excel spreadsheets, feeder systems, and hard copy records. There is no requirement for double-entry bookkeeping for transactions and events that are not recognized on the face of the basic financial statements. Therefore, as mentioned in Issue 1, staff believes it is not at all likely that Interior would incur the expense to update its systems until the information is actually required as financial statement recognition and the required accounts and account transactions are added to the Treasury SGL.

Staff Recommendation: Staff recommends that the illustrative journal entries continue to be excluded from the current document. Staff believes it would be confusing and unnecessary to maintain the entries in a document that only requires reporting as RSI. If the board requires the information to be recognized on the face of the financial statements at some point in the future, the entries could be incorporated into the implementation guidance at that time.

Do you agree with staff's recommendation to exclude illustrative journal entries from the current document?

Issue 4: Illustrations – Are X's enough?

Staff populated the illustrative schedules of estimated federal oil and gas petroleum royalties asset value and royalties to be distributed to others with "x's" rather than actual or estimated dollar amounts.

Mr. Granof commented that "I hope that you'll be using numbers instead of xxx. I find that numbers (especially if they are realistic) add meaning in a way that x's do not. And you do use numbers in the narrative (p. 37)."

Schedule of Estimated Federal Oil and Gas Petroleum Royalties
Asset Value as of September 30, 20X3

Offshore	Region 1	Region 2	Region 3	Region 4	Region 5	Total
Dry Gas	xxx	xxx	xxx	xxx	xxx	x,xxx
Wet Gas	xxx	xxx	xxx	xxx	xxx	x,xxx
NGPLs	xxx	xxx	xxx	xxx	xxx	x,xxx
Oil	xxx	xxx	xxx	xxx	xxx	x,xxx
Lease Condensate	xxx	xxx	xxx	xxx	xxx	x,xxx
Total Estimated Petroleum Royalties Asset Value – *Offshore*	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Onshore	Region 1	Region 2	Region 3	Region 4	Region 5	Total
Dry Gas	xxx	xxx	xxx	xxx	xxx	x,xxx
Wet Gas	xxx	xxx	xxx	xxx	xxx	x,xxx
NGPLs	xxx	xxx	xxx	xxx	xxx	x,xxx
Oil	xxx	xxx	xxx	xxx	xxx	x,xxx
Lease Condensate	xxx	xxx	xxx	xxx	xxx	x,xxx
Total Estimated Petroleum Royalties Asset Value – *Onshore*	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Total Estimated Petroleum Royalties Asset Value – *Offshore and Onshore*	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx

Some of the narrative and schedules in Appendix B do contain hypothetical numbers. However, staff has reservations about populating the asset value and royalties to be distributed to others schedules with numbers for a variety of reasons, not the least of which is the inherent volatility in the value from year to year. Hypothetical estimates may be misleading to readers of the final standard. Furthermore, Interior has not determined what the regions will be because the regions used by Offshore Energy Minerals Management, the Bureau of Land Management, and the Energy Information Administration are different; the field test team has informed FASAB staff that a common denominator among the regions will need to be identified. The field test team did not calculate a regional asset value during its field test. Therefore, staff has no "realistic" data with which to populate the schedules. In addition, a previous concern regarding illustrative amounts was that sometimes clearly immaterial amounts may be presented, which is contrary to the materiality principles.

FASAB has not always populated illustrations with actual or estimated dollar amounts, particularly when there is significant uncertainty as to what the actual numbers might be. For example, SFFAS 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*, populated the illustrative basic financial statement, "Long-Term Fiscal Projections for the U.S. Government" with "x's" rather than numbers.

Staff Recommendation: Staff recommends that the schedules remain populated with "x's" to avoid confusion between illustrative and actual presentations. Furthermore, for consistency and to avoid similar confusion, staff recommends populating all other illustrative presentations in Appendix B with "x's" as well. If this recommendation is adopted for the oil and gas standards, it would be applied to all other standards going forward.

Do you agree with staff's recommendation to populate all illustrative presentations in Appendix B with "x's" instead of hypothetical dollar amounts since realistic estimates are not available and hypothetical amounts may be misleading?

Issue 5: The Million Dollar Question: What to do with fiduciary activities?

The issue of whether or not to require reporting of estimated petroleum royalties for fiduciary oil and gas resources has been an unresolved issue since the original ED was issued in May

2007. The respondents to the revised ED were divided on their support of fiduciary disclosures (see responses to the question on fiduciary activities excerpted below).

DISAGREE

GAO Response

We continue to have concerns about the costs versus the benefits of accumulating, preparing, and auditing information reported in the schedule of fiduciary activities. Requiring the Federal entities to disclose the value of oil and gas reserves for fiduciary activities will incur additional preparation and audit costs and result in information that is inconsistent with information currently reported to beneficiaries of these fiduciary activities. In addition, it will reflect only the value of reserves for which the entity has fiduciary responsibility, which may not represent all reserves owned by beneficiaries. For example, it would place a heavy burden on the Federal Government to put a value on what beneficiaries own. Therefore, for these reasons and the reasons discussed in the ED, such natural resources should be excluded from reporting as assets on the schedule of fiduciary net assets. Instead, fiduciary reporting of natural resources should consist of appropriate narrative describing the general nature and extent of such resources.

Bert Edwards Response

This is the ED requirement that I have the greatest concern with. Even though SSFAS 31 requires assets held in a fiduciary capacity to be reported, neither FASB (banks, investment companies, etc.) nor GASB generally require valuation of non-monetary assets. All 50 states and DC have adopted the principles of the Uniform Principal and Income Act, which provides guidance on fiduciaries. A few states already had incorporated the provisions of the Act in their laws prior to the first issuance of the Act, which is now in a second revised version. The Act is very clear that fiduciaries are responsible for assets received by them, i.e. initial transfer of assets, assets purchased during the trust existence, etc. Fiduciaries are not responsible for the value of non-cash assets or even monetary assets not received (e.g., dividends and interest payments due, but not received), although they will normally report the value of readily marketable securities and disclose the non-receipt of investment returns. Residences and real estate improvements, land and forestry holdings, other assets are merely disclosed, but only rarely valued; in my consultations with commercial bank trust officials, almost all ask a depositor of non-monetary assets to waive any responsibility for current valuations due to the cost of such recurring appraisals. Requiring USG fiduciary funds (probably limited to Interior's two Indian Trust Funds) to record discounted value of proven reserves on land interests owned by individual Indians and Tribes will likely double the work of Interior. Further and importantly, there is no legal or fiduciary obligation of the USG to pay beneficiaries of the two Indian Trusts for such future discounted O & G royalties until they are received in cash. Currently - and for at least two years - Interior has regularly reported (1) land holdings and (2) "encumbrances" (i.e., surface and subsurface leases, rights-of-way, etc. on such holdings) in quarterly (individual Indians) and monthly (Tribes) fiduciary reports. This is what a private-sector fiduciary would do under the Act. These land holdings and any value for O & G (but excluding present value of surface farming and grazing leases, coal and other subsurface minerals) as well as monetary equivalent holdings are not the assets of the USG. While I am not an expert on commercial bank trust functions, I understand that their disclosures of asset holdings is limited to monetary equivalents and excludes non-monetary assets held in trust. Thus, I disagree with the ED in this respect since there is no explanation in the ED as to why FASAB would depart from the fiduciary practice in the private sector, which in almost all other respects requires all assets and liabilities to be recorded in the financial statements.

DoD Response

DoD does not concur with the proposal to report Fiduciary Natural Resource Assets. DoD does not see a benefit to this disclosure, since the data would be too summarized to provide meaningful information to fiduciary beneficiaries. However, since DoD does not have Fiduciary Natural Resource assets to report under this standard, the cost of developing that information cannot be estimated.

AGREE

AGA FMSB Response

The FMSB agrees from the viewpoint of maintaining consistency with SFFAS 31 and existing systems should make the cost benefit a moot point. However, we believe only those within DOI can provide the in-depth information or justification as to why the cost/benefit analysis would override providing the transparency to the individual Indians and Indian tribes who most benefit from disclosure of the information.

GWSCPA FISC Response

FISC supports the current ED, which requires that assets, including oil and gas resources, which are held in a fiduciary capacity be reported in accordance with the provisions of SFFAS No. 31 using the valuation methods contained in the current ED (subject to the comments made in our answers to questions 3 and 4 above). Although we appreciate the concerns regarding cost-benefit considerations, comparability in reporting is vital, and inconsistently applied measurement methods for equivalent assets would be confusing to a reader of the financial statements.

However, one of our members disagreed with this response. One member expressed concerns that there is no explanation in the ED as to why FASAB would depart from the private sector's recording of non-monetary assets held in trust, in accordance with the Uniform Principal and Income Act (the Act), which provides guidance on fiduciaries. According to this member, the Act is very clear that fiduciaries are responsible for assets received by them, but are not responsible for the value of non-cash assets (although they will normally report the value of readily marketable securities). Residences and real estate improvements, land and forestry holdings, and other assets are merely disclosed, but only rarely valued. Requiring U.S. government fiduciary funds to record the discounted value of proven reserves would be in conflict to practices under the Act and at odds with comparable fiduciaries outside of the United States Government.

DOI Response

As with onshore proved reserves under federal domain, there is no authoritative published quantity information regarding oil and gas resources managed by Interior on behalf of individual Indians or Indian tribes. However, a similar method for estimating onshore proved reserves under federal domain could potentially be employed to estimate an asset value for this category of oil and gas reserves. Like the onshore federal value, it would be an estimate, subject to significant fluctuation and based upon numerous assumptions. Sufficient disclosure would be required to help readers understand amounts presented and their relationship to royalties ultimately received. By applying a similar methodology to the federal domain category, consistency could be fairly readily achieved.

SFFAS 31, *Accounting for Fiduciary Activities*, par. 12, states that "Fiduciary assets may include assets other than cash, e.g., real or personal property held temporarily pending disposition, or held long-term in a fiduciary capacity." There does not seem to be disagreement over whether natural resources on trust lands meet the definition of fiduciary assets. The issue of whether the disclosures would be cost-beneficial had been the primary concern raised until one of the respondents to the revised ED (Bert Edwards) questioned the appropriateness of requiring fiduciaries to value non-monetary assets based on the principles of the Uniform Principal and Income Act[3] adopted by most states as well as private sector practices.

There are no Financial Accounting Standards Board (FASB) Statements, Accounting Principles Board (APB) Opinions or the like that deal with trust and estate specific accounting principles.[4] What exists is on the lowest rung of the GAAP hierarchy. Within this category, the (rather limited) resources are (1) the Fiduciary Accounting Principles and the Model Trustee's Account as presented by the National Fiduciary Accounting Standards Committee and (2) courses sponsored by the American Institute of Certified Public Accountants (AICPA) on the subject of fiduciary accounting.[5]

The 1983 report of the Fiduciary Accounting Standards Committee contains six Fiduciary Accounting Principles (FAP). Under FAP III, 3.1 states, "The first account for a decedent's estate or a trust should detail the items received by the fiduciary and for which he is responsible."[6] One person may read this sentence and think that a fiduciary need only report on assets of the trust that are **both** received by the fiduciary **and** for which he is responsible. If this were the case, the federal government is not responsible for, and would not report or value, the royalties on the production of fiduciary oil and gas resources until they are received by the fiduciary.

However, in the context of the full report (see next paragraph), it would seem more appropriate to interpret that the fiduciary should report on items that are received as well as items that the fiduciary is responsible for, whether or not they have been received (i.e., leases).

FAP III states "A fiduciary account shall contain sufficient information to put the interested parties on notice as to all significant transactions affecting administration during the accounting period…The presentation of the information in an account shall allow an interested party to follow the progress of the fiduciary's administration of assets during the accounting period without reference to an inventory or earlier accounting that is not included in the current account."[7]

If the federal government were only responsible for collecting and disbursing the royalties, it would seem acceptable to leave its fiduciary reporting responsibility on a cash basis. However, since the federal government is responsible for administering the leases on the Indian lands and negotiating the royalties to be earned, it would seem that its fiduciary reporting responsibilities would extend to that leasing activity since that very definitely involves the administration of assets on behalf of others.

[3] Available online at http://www.law.upenn.edu/bll/archives/ulc/upaia/2000final.htm; last accessed November 25, 2009.
[4] GASB standards provide limited guidance on accounting for fiduciary activities. GASBS 34 — *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* par. 107, states "financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans." Par. 106 notes that required financial statements for fiduciary funds are the statement of fiduciary net assets and the statement of changes in fiduciary net assets (see GASBS 34, pars. 69-73 and 106-107).
[5] From "A Primer on the Uniform Principal and Income Act: How Accounting Affects Trust and Estate Beneficiaries" by David Keene, CPA; available online at http://www.leimberg.com/freeResources/truArticles/primerOnUniformPrincipal.asp#_ftn25; last accessed November 25, 2009.
[6] National Fiduciary Accounting Standards Project, 1983 Report of Fiduciary Accounting Standards Committee; http://www.aopc.org/NR/rdonlyres/50DCD4D9-8C1D-4596-8F28-8230204DD1DB/0/NatlFiduciaryAcctgStdsRpt.pdf; last accessed November 25, 2009.
[7] Ibid.

Furthermore, staff questions if an analogy can be made to private sector practices. Staff believes there would not be a similar scenario in private trusts because the land to be leased would either (a) already have been transferred to the trust or (b) would have been purchased by the trust. Either way, it would be an asset received by the trust. In the case of tribal lands, there is no such land purchase already accounted for on the books.

In its response to the revised ED, Interior did not object to valuing fiduciary oil and gas resources. Therefore, since the removal of the fiduciary oil and gas resource disclosure requirements would require an exception to the requirements of SFFAS 31, staff does not believe that there is a legal or cost-beneficial reason not to require similar reporting for fiduciary oil and gas resources.

Staff Recommendation: Staff recommends that the board require similar reporting for fiduciary oil and gas resources. The three-year RSI experimentation period can also be used to determine if there should be different reporting for fiduciary oil and gas resources after the transition period. Alternatively, since accountability is the most important objective for fiduciary oil and gas resources, the Board could require that Interior report the nature and quantity of fiduciary oil and gas resources, but not require that they be valued.

Do you agree with staff's recommendation to require similar reporting for fiduciary oil and gas resources?

Natural Resources

History of Project and Key Decisions

May 1995 - Present

May 1995 - Natural resources identified as a high priority project. Former executive director (Ron Young) announced that staff would begin developing an issue paper.

July 1995 - Staff presented first issue paper; board requested more background information, including a review of relevant FASB standards.

September 1995 - Staff provided board members with an informational paper on FASB SFAS 19, 25, 69 and 89.

November 1995 - SFFAS 6, *Accounting for Property, Plant, and Equipment* issued; only addressed surface land area, excludes natural resources due to complex issues involved.

January 1996 - Staff provided board members with a paper that listed federal agencies and their responsibilities for natural resources; an updated set of issues; and, the type of information on natural resources currently available.

April 1996 - The board determined that stocks of game, fisheries, and wildlife habitat would be excluded from the scope of the standard. Also, board decided it is only interested in reporting information about natural resources contained on federal lands. Staff was directed to prepare a hierarchy of disclosure standards for all traditional natural resources, excluding timber. Staff was directed to prepare separate requirements for timber.

May 1996 - SFFAS 7, *Accounting for Revenue and Other Financing Sources* issued; excluded royalty revenue from SoNC even though exchange because there is no offsetting depletion expense. This remains an exception to the recognition of exchange revenue on the SoNC (along with the auction of the radio spectrum).

May 1996 (contd.) - Staff presented the board with possible reporting requirements for a natural resources standard and proposed four categories of natural resources: (1) natural resources extracted, produced, and sold by a federal entity; (2) quantifiable lease program natural resources; (3) non-quantifiable lease program natural resources; and (4) timber. Concerned with relevance and reliability, the board decided to create a task force to study the kinds of natural resources information currently available and to provide options for framing relevant information to be reported in federal financial reports.

June 1996 - SFFAS 8, *Supplementary Stewardship Reporting*, issued; only addressed surface land area, excluded natural resources from stewardship reporting due to complex issues involved.

September 1996 - Board approved formation of natural resources task force and related "Charge to Task Force" memorandum, noting that reporting a source of the country's wealth and its potential wealth for the future was important. Schuyler Lesher appointed as chair of task force. Executive Director Ron Young retired September 30, 1996.

January 1997 - Natural resources task force held its first meeting. The task force was made up of accountants, economists, geologists, and program experts from various federal entities and the private sector.

April 1997 - The task force chair presented revised scope of task force charge, stating that the project would include those extractable natural resources owned by the federal government or under federal stewardship and the electromagnetic spectrum, where a commercial market exists for the resource. This includes economic mineral resources (e.g., oil, gas, coal, gold, silver, sand, clay, gravel, etc) and the following renewable resources: timber, forage, and water for which the federal government owns the rights.

October 1997 - Mr. Lesher presented the board with an update of the task force activities since January 1997, including natural resources addressed and the current view of natural resource "stages" (stocks and flows): conveyed/sold; available for sale; not available for sale; and unknown/undiscovered resources. The specific natural resources addressed within the scope of the project are: timber; outer continental shelf oil and gas resources; leasable minerals (e.g., oil, gas, coal, oil shale, geothermal resources, gilsonite, phosphate, potassium, potash, sodium); locatable minerals (e.g., gold, silver, nickel); mineral materials (e.g., sand, stone, gravel, pumice, and other volcanic stone, clay and rock); grazing rights; electromagnetic spectrum; and water rights. Mr. Lesher said the task force expected to have preliminary recommendations by December.

January 1998 - The task force chair presented a preliminary draft of a natural resources fact-finding paper. While the outline of the paper identified nine major sections, the paper addressed only three of the sections. Mr. Lesher said the task force expected to complete work on the remaining sections of the fact-finding paper in about 6 weeks.

Natural Resources

History of Project and Key Decisions

May 1995 - Present

April 1998 - Task force presented a revised paper that included a discussion on the general reporting principles, including asset reporting, accounting and reporting for revenue, and accounting and reporting for costs. The revised paper also contained a section on the impact of the proposed changes on current FASAB standards and a discussion on Indian natural resource assets held by the federal government in trust for Indian tribes and individuals.

October 1998 - FASAB staff continued to work with the task force to issue a final task force report. Several more meetings were held to discuss open issues such as whether natural resource exchange revenue that is collected without incurring matching costs should be reported in the Statement of Net Cost or as custodial revenue.

March 1999 - Natural Resources Task Force Draft Report issued from Mr. Lesher to the CFO Council and PCIE Members for comment. Comments were requested by May 3, 1999.

June 2000 - FASAB issues Discussion Paper "*Accounting for the Natural Resources of the Federal Government*" prepared by the FASAB Natural Resources Task Force. The report recommended stewardship reporting as the primary mechanism for reporting information on natural resources. Although the task force believed that the value of natural resources available for sale was important, it concluded that the balance sheet was not the most reliable or effective way to accomplish such reporting due to uncertainty over quantity and market price. Minority comments included in Appendix B of the report state that "resources used for remunerative purposes should be reported on the balance sheet and Statement of Net Cost." The full report is available at http://www.fasab.gov/pdffiles/natresrpt.pdf

December 2000 - The board voted to eliminate the category RSSI - required supplementary stewardship information.

[Project deferred to address other issues]

October 2002 - After reviewing and discussing a revised project plan presented by staff, the board approves work to commence on the current natural resources project.

December 2002 - Staff presented a revised project plan based on prior board discussions. Staff also provided summarized comments received from several members since the October meeting, noting that these comments leaned toward recognition of natural resources as an asset. The board agreed that staff would develop standards for oil and gas first and then apply the framework to other types of natural resources.

February 2003 - Staff presented a revised project plan that included the integration of possible revisions to the current FASAB reporting objectives. The board directed staff to begin developing an ED with a BfC.

April 2003 - Staff provided a draft skeletal exposure draft and concluded that, although oil and gas meet FASAB's working definition of "asset," the resources do not meet the recognition criteria because they cannot be reliably measured. The board asked staff to continue their research on current reporting practices as well as options for measuring the oil and gas resources and come back to the board for discussion.

June 2003 - The board asked staff to look at how the proposed recognition of oil and gas resource collections and disbursements would affect an entity's Statement of Custodial Activities and prepare pro forma disclosures that could be included in entity financial reports. Staff was also asked to research the pros and cons for capitalizing oil and gas assessments (an assessment is an estimate of undiscovered oil and gas resources on the basis of geologic knowledge and theory to exist outside of known accumulations).

October 2003 - Staff presented revised proposed disclosure requirements for board review. The board directed staff to remove disclosure requirements for total number of leases and non-producing leases and reasons leases are non-producing, concluding that the information was not useful. Staff was also asked to obtain assessment cost information from MMS and provide it to the board.

December 2003 - Staff informed the board that MMS does not track assess-ment costs separately from other resource evaluation (RE) costs. In addition, total RE costs are immaterial in comparison to annual bonus bid, rent, and royalty collections. Staff sought approval of proposed oil and gas disclosures with no asset recognition due to the various uncertainties involved in measurability. The board directed staff to pursue capitalization of the anticipated production stage revenue stream, which included researching accounting literature that deals with long-term contracting and leasing in relation to measurement and recognition criteria. This was the board direction even though staff had initially concluded that quantities from expected oil and gas production were not estimable, due to the unpredictability of the economy, business decisions by the producers, and the advancement, or lack of it, in technology.

March 2004 - Staff explained that previously, the EIA did not distinguish between the quantity of proved reserves from lands under federal jurisdiction and the quantity of proved reserves from other lands. However, the EIA was then tasked with the requirement to provide this information in its September 2004 reports. Therefore, because this information would be available, staff proposed that an estimated value for proved oil and gas reserves from lands under federal jurisdiction might be capitalized. The board received information on measurability of proved reserves from MMS and EIA experts via a conference call. The board agreed that staff should explore the possibility of capitalizing a value for proved oil and gas reserves and consider disclosing information about other classifications of oil and gas resources.

July 2004 - Staff presented a proposed valuation methodology and financial statement disclosures using current market value. The board requested an expanded discussion on alternative measurement attributes. In addition, the board requested that guidance be sought from the auditors to identify any potential barriers to auditing proved reserves.

August 2004 - Staff presented a draft ED that proposed using current market value. The ED explained that net present value was eliminated from consideration as a measurement attribute because the period of time over which the money could be earned is not determinable, thereby inhibiting selection of an appropriate discount rate. The board decided to use the average wellhead price to value cash inflows from oil and gas resources instead of current market value because the wellhead price is what the royalty payment is based on. The wellhead price, which is calculated by EIA, is the value for oil and gas at the mouth of the well and is considered to be the sales price to the initial purchaser without the addition of any other costs, such as transportation and insurance. The board also decided to change the title of the proposed standards from "Reporting Requirements for Federal Oil and Gas Resources" to "Accounting for Federal Oil and Gas Resources." Staff provided members with a copy of the "Society of Petroleum Engineers (SPE) Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information."

December 2004 - Staff presented a revised BfC that included a discussion on many of the questions raised by members at the August 2004 meeting. Members requested additional research and explanation in a number of areas, including a detailed description of "average wellhead price," reliability of EIA proved oil and gas reserve quantities, accounting entries, disclosures, pros and cons of using the discounted cash flow methodology, average time over which oil and gas is extracted from a producing well, and whether bonus bids are proportionate to the value of the federal government's royalty share.

March 2005 - Staff presented another revised BfC to the board members in which staff had proposed using the national average wellhead price. The board asked staff to research whether it would be better to use the average wellhead price for each field. The board also asked staff to perform more research on whether the amount should be discounted. All members, excepts Messrs. Reid and Farrell agreed that information on undiscovered resources should be reported as RSI. Board members decided that the term "estimated Federal royalty share" should be changed to "estimated petroleum royalties."

August 2005 - Staff provided EIA and DOI responses to a number of open questions from the March meeting. In addition, a representative from EIA and a representative from DOI attended the meeting and responded to various member questions. The representatives recommended that the calculation for valuing the estimated petroleum royalties be straightforward and manageable. Staff was directed to continue developing the ED.

October 2005 - Staff provided a paper that described the valuation of the federal asset "estimated petroleum royalties" that was based on national average prices and royalty rates. The board agreed with the staff proposed formulas except Mr. Torregrosa indicated that regional average prices and royalty rates should be used, especially for future revenue streams that had been identified for sale. Board members agreed that a requirement should be added in the standards to address royalty streams identified for sale.

January 2006 - Staff presented a draft ED that included estimated quantity, price, and royalty rate information on a regional basis rather than at a national level. This was deemed to provide a more representative valuation. Staff also addressed future royalty rights held for sale in the revised ED. The board

March 2006 - The board reviewed a revised draft ED and provided comments, including requesting that staff draft several questions for respondents that cover the level of information requested to be disclosed in the footnotes or displayed as RSI; the challenges posed by the use of the present value measurement attribute for measuring estimated petroleum royalties; and the use of reserves classified as proved, probable, and possible to calculate the value of the federal government's estimated petroleum royalties for capitalization on the balance sheet, instead of using only the proved reserves as proposed in the ED. The board also requested that staff research the royalty relief program and provide additional information at the next meeting.

July 2006 - The board reviewed a revised draft ED that included an alternative view from CBO that fair value should be used to value the federal government's natural resources instead of the proposed valuation methodology. There were no objections from board members to include the CBO alternative view in the ED. The board also decided to calculate the value of natural gas plant liquids (NGPL) separately from oil and lease condensate. This was the result of an issue raised by CBO that the average price per barrel of NGPL was significantly lower than the average price per barrel of oil and lease condensate. Board members also agreed with CBO's recommendation that the dry (processed) gas price would be used in calculating the value of estimated petroleum royalties for gas as opposed to the wet (unprocessed) gas price. This issue was raised because the proposed standards specified that proved reserves of natural gas would be measured as pipeline quality. The dry (processed) gas is the pipeline-quality gas that has had the liquids removed.

March 2007 - Staff presented the board with a ballot ED; however, several more clarifying changes were requested to be made to the draft, including that a question on cost/benefit considerations be included in the Request for Comments and a more robust discussion about the current and proposed asset and liability definitions be added. The board asked staff to make the changes discussed and circulate another pre-ballot draft.

September 2007 - Since the board received a request for the comment period to be extended and only one comment letter had been received, the board agreed to extend the comment period until January 11, 2008. Staff was asked to make a concerted effort to reach out to groups and experts to respond.

provided a number of comments on the revised ED, including a request that pro forma accounting transactions, pro forma financial statements, and a discussion of the timing of the transactions be included.

May 2006 - The board reviewed a revised draft ED and an issue paper on the royalty-free production of oil and gas. Board members agreed that a requirement would be added in the ED to report the annual estimated value for royalty relief as RSI. In addition, they agreed that a question would be added to the request for comments section of the ED pertaining to this requirement. Board members also agreed to staff's recommendation that RSI reporting be required for technically recoverable resources as a whole versus delineating between unproved and undiscovered resources as that information was not readily available. Staff suggested that it begin working on coal for the next phase of the natural resources project. However, the board directed staff to look at a group of mining materials to try to come up with a standard which has similar principles for a group of mining materials.

November 2006 - The board asked staff to insert a question addressing the regional disclosure information in the Request for Comments section and to add text in the BfC addressing concerns regarding the proposed disclosures. The board also tentatively agreed that a liability exists and should be recognized for the estimated petroleum royalties which the government is obligated to distribute to others in accordance with authoritative laws and regulations.

January 2007 - The board reviewed the revisions to the ED that incorporate the recognition of a liability and clarify the questions for respondents and approved the circulation of a pre-ballot draft prior to the next meeting.

May 2007 - An exposure draft entitled *Accounting for Federal Oil and Gas Resources* was issued for public comment on May 21, 2007. Comments on the proposals presented in the ED were requested by September 21, 2007. The board requested that the proposal be field tested during the comment period.

February 2008 - Eight comment letters were received through February 4, 2008. Based on the nature of the responses, the board concluded that a public hearing was not necessary but may elect to follow up on the individual responses as needed. Long-time FASAB project manager Rick Wascak retired.

Natural Resources
History of Project and Key Decisions
May 1995 - Present

June 2008 - The board rejected staff's proposal to develop a comprehensive standard on all natural resources and directed staff to continue with the development of a final standard on oil and gas. Staff will invite DOI to appear before the board to discuss their alternative proposal from the fieldwork testing including why they requested an even lower level of detail than was prescribed in the standard as well as their thoughts on what a less prescriptive standard would mean to them and how it might apply to other resources under their domain. In addition, staff will research the reason the board decided to look at one resource at a time, review current SEC requirements, find out how the private sector currently reports private reserves, obtain revenue numbers on the different types of natural resources, and attempt to make contact with EIA to find out if and when another report on proved reserves under federal lands will be published.

February 2009 - Due to the board's primary focus on long-term projections and social insurance, the natural resources project was not discussed at the February meeting.

June 2009 - The board approved a pre-ballot draft revised ED. The members then approved a ballot draft submitted via email following the June meeting.

October 2009 - The majority voted to (1) require that the information in the proposed standard be reported as RSI for three years, and (2) after experimentation with RSI, the board will decide whether the asset value should be recognized in the financial statements or disclosed in the notes. Board will use the experience gained by DOI and others during the RSI period to inform their decision. Board unanimously agreed to broaden the acceptable alternative measurement methods during the RSI phase to allow for greater flexibility in development of a valuation methodology. Board deferred application to other types of natural resources to a technical bulletin to be developed by staff immediately following the issuance of the standard on oil and gas.

October 2008 - After hearing from the DOI representatives regarding their experience during field testing of the May 2007 ED, the board members directed staff to draft a principles-based ED for their consideration.

December 2008 - The board members unanimously supported continuing efforts to issue an ED. The members directed staff to retain the scope of the ED as oil and gas only, preserve the level of detail in the draft ED, delete the formula in the previously exposed ED (quantity X price X royalty rate), and keep the effective date as drafted (three year phase-in from RSI to basic with a date certain). Staff will incorporate those changes and address additional issues (fiduciary reporting, liability classification, component entity RSI, reporting for other commodities, showing gains and losses on the component entity SoNC, and reporting changes in assumptions) while working towards a pre-ballot revised ED for the April 2009 meeting.

April 2009 - The board voted to limit the valuation flexibility to either the proposed present value approach (using a risk-free discount rate) or a method for measuring fair value that is consistent with FAS 157, *Fair Value Measurements*. Members reaffirmed their previous decision to transition to basic after a period of three years as RSI.

July 2009 - A revised exposure draft entitled *Accounting for Federal Oil and Gas Resources* was issued for public comment on July 6, 2009. Comments on the proposals presented in the revised ED were requested by September 8, 2009.

Tab C – Appendix 1

Pre-Ballot Draft SFFAS 38
Accounting for Federal Oil and Gas Resources

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Federal Accounting Standards Advisory Board

Accounting for Federal Oil and Gas Resources

Statement of Federal Financial Accounting Standards 38

April 5, 2010

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- "Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."
- "Mission Statement: Federal Accounting Standards Advisory Board", Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: www.fasab.gov.

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Summary

This standard requires the value of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves to be reported in a schedule of estimated federal oil and gas petroleum royalties. In addition, this standard requires the value of estimated petroleum royalty revenue designated for others to be reported in a schedule of estimated federal oil and gas petroleum royalties to be distributed to others. These schedules are to be presented in required supplementary information as part of a discussion of all significant federal oil and gas resources under management by the entity.

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Comment: Staff deleted the term "integrated" per comment from Granof: What's an integrated discussion? We use it several times in the statement but I'm not sure how an integrated discussion differs from one that is nonintegrated. I think that the word can readily be dropped without changing the meaning of the requirements.

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Table of Contents

Introduction

Purpose

1. Statements of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*; 8, *Supplementary Stewardship Reporting*; and 29, *Heritage Assets and Stewardship Land*, establish standards related to federal lands, but specifically exclude natural resources from the scope of those standards. Extensive **federal oil and gas resources**[1] exist on public lands throughout the country and on the **Outer Continental Shelf** (OCS). Currently, federal financial reporting does not provide information about the quantity or value of these assets.

2. The Board believes that federal oil and gas resources represent federal assets and accounting for and reporting information about these assets would enhance accountability for and stewardship over assets of the federal government.

3. This Statement provides for a more complete accounting for oil and gas resources available to the federal government. Accounting for the federal government's **royalty** share of **proved reserves** as an asset and reporting information on that asset as required supplementary information (RSI) would provide transparency regarding the value and changes in value of these significant assets and result in information that contributes to meeting federal financial reporting objectives.

Materiality

4. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Effective Date

5. The standards are effective as RSI for periods beginning after September 30, 2011.[2] Earlier implementation is encouraged.

[1] Terms defined in Appendix D: Technical Terms or the Glossary are shown in **bold-face** the first time they appear.

[2] It is the Board's intent that the information required by this Statement transition to basic information after being reported as RSI for a period of three years. The Board plans to make a determination as to whether the information will transition to basic information as financial statement recognition or note disclosure prior to the conclusion of the three-year RSI period.

Comment: Staff deleted paragraph on estimation methodology per comment from peer review that it is duplicated in par. 15 and for consistency with other standards.

Deleted: Estimation Methodology¶
<#>The Board believes that the detailed estimation methodology for valuing federal oil and gas resources should be developed by federal entities. In an environment heavily affected by changes in prices, technological advancements, economic and operating conditions, and known geological, engineering, and economic data, estimation methodologies may need to be regularly updated to reflect these changing conditions.¶
¶

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Comment: Staff added footnote 2 per the following comment from Steinberg: Page 35 of the notes reveals that six members voted the information should be presented for 3 years as RSI, and then a decision would be made as to whether the information should be presented in the financial statements or notes. Paragraphs A37 and A76 confirm that. The reason I (and I assume others) voted that way is a belief that stating the information would move to basic in three years would keep the pressure on the preparers to develop the systems and data bases. Not specifying this in the standard means that the pressure is removed and that the Board has to re-expose in 3 years. Moreover, keeping the presentation as RSI is less of a requirement than even the three persons in the minority voted for. I believe the standards has to say that "the proposed standards are effective as RSI for periods beginning after September 30, 2011; and that sometime during the ensuing three years, the Board will decide whether for periods beginning after September 30, 2014, the information should be presented in the financial statements or footnotes."

Standards

Scope

6. This Statement applies to federal entities that report information about federal oil and gas resources in general purpose federal financial reports, including the consolidated financial report of the U.S. Government (CFR), in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board* (FASB).

7. This Statement articulates a general principle that should guide preparers of general purpose federal financial reports in accounting for federal oil and gas resources.

8. Federal lands contain a variety of natural resources other than oil and gas proved reserves that are not specifically addressed by this Statement. This Statement does not require or preclude entities from reporting information about other types of federally-owned natural resources; however, this Statement should be considered in conjunction with SFFAS 7, *Accounting for Revenue and Other Financing Sources,* when applying SFFAS 34 to other types of federally-owned natural resources.[3]

Definitions

9. Definitions in paragraphs 10 and 11 are presented first in the accounting standards because they are new technical terms not previously defined in federal accounting standards.

Comment: This sentence became footnote 1 per comment from peer review to bold first use of terms earlier.

Deleted: Other terms shown in **boldface type** the first time they appear in this document are presented in either Appendix D: Technical Terms or the Glossary.

10. **Federal oil and gas resources**: **Oil** and **gas** resources over which the federal government may exercise sovereign rights with respect to exploration and exploitation and from which the federal government has the authority to derive revenues for its use. Federal oil and gas resources do not include resources over which the federal government acts as a fiduciary for the benefit of a non-federal party.

11. **Regional estimated petroleum royalties**: Regional **estimated petroleum royalties** means the estimated end-of-period value of the federal government's royalty share of proved oil and gas reserves from federal oil and gas resources in each **region**.

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[3] SFFAS 7, par. 45, requires federal entities to report custodial activity and recognize exchange revenue as a financing source on the statement of changes in net position, rather than the statement of net cost, if there are virtually no costs incurred in earning the revenue.

Accounting and Reporting of Federal Oil and Gas Resources by Component Entities

Schedule of Estimated Federal Oil and Gas Petroleum Royalties

12. Extensive federal oil and gas resources exist on public lands throughout the country and on the Outer Continental Shelf (OCS). These resources will provide economic benefits to the federal government through revenue from leasing activities and the collection of royalties on production. The federal government controls access to these resources.

13. Federal oil and gas resources are made up of two primary components – reserves and **undiscovered resources**. Reserves can be further defined as either proved or unproved while undiscovered resources can be further defined as either recoverable or non-recoverable. See *Figure 1 – Components of Federal Oil and Gas Resources* in the basis for conclusions for an illustration of the universe of federal oil and gas resources and a further breakdown of its components.

14. The value of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves should be reported in a schedule of estimated federal oil and gas petroleum royalties by the component entity that is responsible for collecting royalties. This schedule should be presented in RSI as part of a discussion of all significant federal oil and gas resources under management by the entity.

15. The Board believes that the detailed estimation methodology for valuing federal oil and gas resources should be developed by federal entities. In an environment heavily affected by changes in prices, technological advancements, economic and operating conditions, and known geological, engineering, and economic data, estimation methodologies may need to be regularly updated to reflect these changing conditions.

16. The estimates that are developed should approximate the **present value** of future federal royalty receipts on proved reserves known to exist as of the reporting date. The estimates should be based on the best information

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Comment: Staff deleted the term "integrated" per comment from Granof (see comment on page i).

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Comment: Staff deleted the footnote based on the following comment from Granof: I have no idea what this footnote means. I certainly don't think that we want to imply that any estimate is acceptable (even if there is no basis for it) as long as it doesn't cross the materiality line. That would allow agencies to make the most favorable estimate as long as the "error" is not material to the financial statements as a whole.

Comment: Deleted footnote text: Estimates that do not lead to material misstatements are acceptable without guidance from the Board.

Deleted: [4]

available at fiscal year-end, or as close to the fiscal year-end as possible.

17. Discount rates as of the reporting date for present value measurements of federal oil and gas resources should be based on interest rates on **marketable Treasury securities** with maturities consistent with the cash flows being discounted.

18. The entity's estimates should reflect its judgment about the outcome of events based on past experience and expectations about the future. Estimates should reflect what is reasonable to assume under the circumstances. While the entity's own assumptions about future cash flows may be used, the entity should review assumptions used generally in the federal government as evidenced by sources independent of the reporting entity, for example, those used by the Bureau of Economic Analysis for the National Income and Product Accounts. If the entity's own assumptions do not reflect data that are consistent with sources independent of the reporting entity, an explanation of why the entity's own assumptions are preferred should be provided.

19. The value of the federal government's estimated petroleum royalties should be computed based on the calculation of federal oil and gas proved reserves on a regional basis. For purposes of these standards, the regions used in determining and reporting regional amounts or factors should be collaboratively developed by all the component entities involved in federal oil and gas resource activities. Regions used in calculating regional estimated petroleum royalties and in applying these standards should be consistent and aligned with regions used internally by the component entities in administering federal oil and gas resource activities.

20. The estimates of future federal royalty receipts on proved reserves known to exist as of the reporting date should be divided further by commodity and type (e.g., wet gas, **dry gas**, oil and **lease condensate**, onshore, offshore, etc.) and calculated separately if material differences would otherwise result. Each of the individual calculations should be reported separately and summed together to arrive at the federal government's total estimated petroleum royalties.

21. The preferred measurement method for valuing the federal government's estimated petroleum royalties is the present value of future federal royalty receipts on proved reserves using a risk-free discount rate as described in paragraph 16; however, alternative methods for measuring **fair value** or current price may be acceptable if it is not reasonably possible to estimate present value of future federal royalty receipts on proved reserves using the

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Comment: Staff changed term "explained" to "provided" based on the following comment from Granof and Showalter: The original said "an explanation…be explained."

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Comment: Staff added "region" to terms defined in Appendix D per the following comment from Granof: Would it be helpful to provide some examples (maybe even standards) as to what constitutes a region. I, for one, have no idea as to what constitutes a region. Can a region be all the leases off the California coast or should it be something smaller than that. Perhaps "region" can simply be added to the definitions in the appendix.

Comment: Staff changed term "market-based" to "alternative" per the following comment from Granof: Isn't the method described in pars. 17 – 19 a "market-based" method? After all, the present value of the receipts must incorporate an estimate of a price per barrel (current or future) which presumably is based on some market price. It certainly is not an historical cost-based method.

Deleted: market-based

Deleted: other methods for measuring methodology described in paragraphs 16 through 18.[5]

22. Once established, the estimation methodology should be consistently followed and explained in the financial reports. If environmental or other changes would provide for the development of an improved methodology, the nature and reason for the change in methodology, as well as the effect of the change, should be explained.

Schedule of Estimated Federal Oil and Gas Petroleum Royalties to be Distributed to Others

23. The majority of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves are distributed to state governments, other federal agencies, and the general fund of the U.S. Treasury in accordance with legislated allocation formulas. The legislated allocation formulas constitute a present obligation[6] of the component entity that is responsible for collecting royalties to provide assets to another entity, and the underlying legislation identifies the conditions under which these distributions will be made.

24. The value of estimated federal oil and gas petroleum royalty revenue designated for others should be reported in a schedule of estimated petroleum royalties to be distributed to others by the component entity that is responsible for collecting royalties. This schedule should be presented in RSI by type of entity as part of a discussion of all significant federal oil and gas resources under management by the entity.

25. The value of the revenue to be distributed to others should be estimated based on the portion of the royalty share of the federal proved oil and gas reserves designated to be distributed to others. For example, the average annual share of the revenue distributed to others over the preceding twelve (12) months may be an acceptable basis for estimating petroleum royalties to be distributed. Other methodologies may also be acceptable.

[5] Calculating the present value of future federal royalty receipts employs the use of a number of estimates including estimating when the proved reserves will be produced over time, future oil and gas prices, and the possibility and extent of royalty-free production. Unforeseen circumstances may result in situations where it is not possible for the entity to reasonably estimate the present value of future federal royalty receipts. In these situations, it may be possible to estimate current price. Current price, sometimes referred to as a "fresh-start" or "remeasured" price, is a general term for various attributes measured as of a financial statement date subsequent to the period of initial recognition, including replacement price, market price, and settlement price.

[6] The term obligation is used in this Statement with its general meaning of a duty or responsibility to act in a certain way. It does not mean that an obligation of budgetary resources is required for a liability to exist in accounting or financial reporting or that a liability in accounting or financial reporting is required to exist for budgetary resources to be obligated.

Comment: Steinberg: The last sentence of footnote [5] defines current price but doesn't address how current price can be used to report a value. I think the latter type of information would be more useful for the footnote. [Staff did not propose any changes because the standard prescribes present value but does not specifically describe how present value can be used to report a value.]

Comment: Staff deleted the term "integrated" based on comment from Granof (see pg. i).

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Annual Valuation of Estimated Petroleum Royalties and Petroleum Royalties to be Distributed to Others

26. The estimated petroleum royalties asset value and petroleum royalties to be distributed to others should be valued at the end of each fiscal year.

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Fiduciary Oil and Gas Resources

27. Fiduciary activities are defined in SFFAS 31, *Accounting for Fiduciary Activities*. Information consistent with the requirements of paragraphs 12 through 26 of this document should be presented as RSI for fiduciary activities. No additional disclosures or RSI are required by this Statement.

Component Entity Reporting Requirements

28. The component entity responsible for collecting royalties should provide the following as narrative to the schedules presented as RSI:

a. A concise statement explaining how the management of federal oil and gas resources is important to the overall mission of the entity.

b. A brief description of the entity's stewardship policies for federal oil and gas resources. The stewardship policies for federal oil and gas resources should describe the guiding principles established to: assess the oil and gas resource areas; offer those resources to interested developers; sell and assign **leases** to winning bidders; administer the leases; collect bonuses, **rents**, royalties, and **royalty-in-kind**; and distribute the collections consistent with statutory requirements, prohibitions, and limitations governing the entity.

c. A narrative describing future royalty rights identified for sale, if applicable. The narrative should provide the value of the rights identified for future sale, the location of the **field**(s) involved in the future sale, and the best estimate of when the rights would be sold. The calculated value reported for future royalty rights identified for sale should be based on the specific field to be sold and consistent with the valuation requirements of paragraph 21.

d. A narrative describing and a display showing revenue reported by category for the reporting period should be presented for offshore and onshore revenues for the following categories: royalty revenue for oil and gas; rent revenue; **bonus bid** revenue for leases; and total revenue from all the above categories.

e. A narrative describing and a display showing:

(1) the quantity of oil and gas at the end of the reporting period;

(2) the average of the Regional Average **First Purchase Prices** for oil and the average of the Regional Average **Wellhead Prices** for gas for the reporting period; and,

(3) the average **royalty rate** for oil and gas for the reporting period.

f. A narrative describing the estimation methodology used to calculate the value of the federal government's estimated petroleum royalties. At a minimum, the narrative explanation should include a "plain English" explanation of the measurement method (e.g., present value) and the significant assumptions incorporated into the estimate (e.g., discount rates used to calculate present value, production decline curve, portion of proved reserves under federal lands, future oil and gas prices, inflation rates, etc).

g. A reference to the source reports used to calculate the value of the federal government's estimated petroleum royalties.

h. A narrative describing and a display showing the **sales volume**, the **sales value**, the royalty revenue, and the **estimated value for royalty relief** produced from federal oil and gas resources for the reporting period. To the extent that regional information is available and would contribute to understanding, the information for each region should be provided.

i. A narrative describing other significant federal oil and gas resources under management by the entity that are not addressed by this Statement because they are not currently under lease (e.g., coastal plain of the Arctic National Wildlife Refuge). The narrative should be sufficient to enable the financial statement reader to gain an understanding of the full extent of federal oil and gas resources under management by the entity.

Consolidated Financial Report (CFR) of the United States Government Reporting Requirements

29. The governmentwide entity should provide the following information related to federal oil and gas resources in RSI as part of a discussion of all significant federal oil and gas resources under management by the federal government:

a. A concise statement explaining the nature and valuation of federal oil

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Comment: Staff deleted the term "integrated" based on comment from Granof (see pg. i).

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and gas resources.

b. A narrative describing and a display showing:

(1) the quantity of oil and gas at the end of the reporting period;

(2) the average of the Regional Average First Purchase Prices for oil and the average of the Regional Average First Wellhead Prices for gas for the reporting period;

(3) the average royalty rate for oil and gas for the reporting period;

(4) the asset value for oil and gas by the commodities and types identified for use in calculating the federal government's total estimated petroleum royalties for the reporting period (see paragraph 20); and,

(5) the value of estimated petroleum royalties at the end of the reporting period.

c. A reference to specific agency reports for additional information about federal oil and gas resources.

Effective Date

30. The standards are effective as RSI for periods beginning after September 30, 2011. Earlier implementation is encouraged.

The provisions of this Statement need not be applied to immaterial items.

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Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement–not the material in this appendix–should govern the accounting for specific transactions, events, or conditions.

Project History

A1. The project began with the formation of a task force to conduct research. The task force produced a discussion paper in June 2000 entitled *Accounting for the Natural Resources of the Federal Government* (see http://www.fasab.gov/pdffiles/natresrpt.pdf to access the report). In 2002, the Board resumed active consideration of the issues raised by the task force after a deferral to address other issues.

A2. The Board was interested in determining whether values for federal natural resources, or some surrogate, should be capitalized and reported on the balance sheet. The Board members believed that capitalizing federal natural resources could increase accountability for their management and improve the comprehensiveness, relevance, and consistency of federal financial statements. The Board members agreed to address each type of natural resource (e.g., fluid leasable minerals such as oil and gas, solid leasable minerals such as coal and timber, etc.) in separate phases. Federal oil and gas resources were addressed first because of the literature available in other domains, the extensive historical information on federal lease programs and royalty collections, and the large amount of revenue received in exchange for federal oil and gas resources.

A3. The Board indicated that the pertinent questions were (1) what, if anything, should be recognized as an asset; and, (2) what is the source and reliability of quantity information. They believed the source and the reliability of the information would have a bearing on where information should be reported.

A4. The extractive industries' activities for oil and gas can be divided into two categories—upstream activities (exploration and production activities) and downstream activities (transportation, refining, and marketing activities). Upstream activities can be divided into the following phases:

a. Prospecting[7]

b. Acquisition of mineral rights

c. Exploration

d. Appraisal and evaluation

e. Development

f. Production

A5. Downstream activities take place after the production phase of the upstream activities through to the point of sale and can be divided into the following phases:

a. Supply and trading

b. Shipping

c. Refining

d. Storage and distribution

e. Marketing and retail

A6. The national assessment of federal oil and gas resources performed by the federal government is similar to the prospecting phase of the extractive industries' upstream activities. It is the only activity performed by the federal government that is similar to the extractive industries' activities.

A7. The Board noted that, based on discussions about oil and gas lease activities in the private sector, new models for accounting and reporting on the federal government's oil and gas activities would be needed because the current federal model is incomplete and federal activities are not similar to private sector activities.

A8. The Board released two exposure drafts (EDs) to solicit comments on its proposed requirements for accounting for federal oil and gas resources. The original ED, *Accounting for Federal Oil and Gas Resources,* was released on May 21, 2007. A revised ED by the same name was released on July 6, 2009. The board considered the comments received on the two EDs and

[7] Prospecting usually involves researching and analyzing an area's historic geologic data and carrying out topographical, geological, and geophysical studies.

related field testing in reaching its current position.

Accounting for Other Types of Natural Resources

A9. Federal lands contain a variety of natural resources that are not specifically addressed by this Statement, including coal, gold, and silver, as well as timber and grazing rights. Originally, the Board intended to address each category of resources in separate phases as noted in paragraph A2. Although in principle a broader application was desirable to several Board members, the majority believes that the Board has already devoted a substantial amount of time to the oil and gas standard and developing additional guidance for the other types of resources would significantly delay implementation of a broad standard. Therefore, because federal oil and gas resources represent the most significant portion of all federal natural resources, the majority of members felt it was important to begin recognizing them as soon as possible.

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A10. Nonetheless, the majority of the members believe that the substance of the standards developed for federal oil and gas resources may serve as a good analogy for other categories of federal natural resources.[8] Therefore, while this Statement does not specifically address other types of federal natural resources, the Board believes that this Statement should be considered when applying SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, to other types of federal natural resources. As a result, while not explicitly encouraging agencies to recognize other categories of natural resources, the Board included paragraph 8 to explicitly state that this Statement does not require or preclude entities from reporting information about other types of federally-owned natural resources; however, members believe this Statement should be considered in conjunction with SFFAS 7, *Accounting for Revenue and Other Financing Sources*, when applying SFFAS 34 to other types of federally-owned natural resources.

Comment: Steinberg: I am not sure what this means, and thus why the comment is necessary. [Staff note: the reference to SFFAS 7 was added in response to a comment by DOI that an explicit reference to SFFAS 7 should be made to guide preparers and auditors and make them aware that the custodial provisions of SFFAS 7 still apply when there is no significant cost incurred to earn exchange revenue.]

A11. The Board directed staff to apply the requirements of this Statement to other types of natural resources through the issuance in the future of a technical bulletin.

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Overview of Federal Oil and Gas Resources

A12. *Figure 1, Components of Federal Oil and Gas Resources*, presented after paragraph A26 identifies the universe of federal oil and gas resources (total resources). Total resources incorporate “original in-place” resources, that is,

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[8] SFFAS 34, Paragraph 7.

resources in the earth before human intervention. The components are those used in the industry. Information is available in varying degrees and with varying reliability for each component. The components are first separated into “undiscovered resources” and “reserves.” Generally, undiscovered resources are not under lease, while reserves are under lease.

Undiscovered Resources

A13. The first major component of total resources is undiscovered resources. The undiscovered resources component is divided into the following subcomponents:

a. **undiscovered non-recoverable resources**

b. **undiscovered recoverable resources**

(1) **undiscovered conventionally recoverable resources**

(2) **undiscovered economically recoverable resources**.

A14. Each component and subcomponent can be further divided between onshore and offshore resources. Onshore resources consist of resources on federal lands. Offshore resources consist of resources on the Outer Continental Shelf (OCS). This division between onshore and offshore resources is important operationally because the source and volume of information varies.

A15. There is no information available on undiscovered non-recoverable resources. These resources are not addressed or included in any type of assessment. Undiscovered non-recoverable resources are referred to as resources that are beyond conventional technologies to be estimated and are not assessed. However, in the realm of “original in-place” resources they may exist.

A16. Information on the two subcomponents of undiscovered recoverable resources is available for offshore oil and gas resources. This information is based on national assessments performed by the Minerals Management Service (MMS) approximately every five years, with updates on a yearly basis for certain geographic locations. The assessment considers recent geophysical, geological, technological, and economic information and uses a geologic **play** analysis approach for resource appraisal. Information on undiscovered conventionally recoverable resources and undiscovered economically recoverable resources is provided in the MMS assessment.

A17. For the onshore portion of undiscovered recoverable resources, the U.S. Geological Survey (USGS) formerly conducted national assessments. The last comprehensive national assessment was completed by the USGS in 1995, and since 2000 the USGS has been re-assessing **basins** of the U.S. that are considered to be priorities for the new assessment rather than assessing all of the basins of the U.S. As each basin is re-assessed, the assessment results are added to the assessment tables, and these new values replace the assessment results from 1995. The USGS assessment provides information on undiscovered conventionally recoverable resources but not on undiscovered economically recoverable resources like the MMS does.

A18. Under existing Federal Accounting Standards Advisory Board (FASAB) accounting standards, there are no requirements to provide or present information about the undiscovered resource components in the financial statements. Information about **technically recoverable resources** was gathered and maintained by the Energy Information Administration (EIA) in the past. However, EIA no longer reports on the technically recoverable resources under federal lands. Therefore, as there is no reliable source for this type of information, federal reporting on onshore and offshore undiscovered recoverable resources is not required.

Reserves

A19. The second major component of total resources is **reserves**. The reserves component is divided into the following subcomponents as follows:

a. **unproved reserves**

(1) **unproved possible reserves**

(2) **unproved probable reserves**

b. proved reserves

(1) **proved undeveloped reserves**

(2) **proved developed reserves**

(a) **proved developed non-producing reserves**

(b) **proved developed producing reserves**

A20. Under existing FASAB accounting standards, there are no requirements to provide or present information about the unproved reserves components in the financial statements.

A21. Under the accounting standards proposed in the original ED, information about onshore and offshore unproved reserves would be included in the technically recoverable resources and reported as RSI. However, as noted in par. A18, although information about technically recoverable resources was gathered and maintained by the EIA in the past, EIA no longer reports on the technically recoverable resources under federal lands. Therefore, as there is no reliable source for this type of information, federal reporting on unproved reserves is not required.

A22. Quantitative information in relation to onshore and offshore proved reserves, including new discoveries, production, and **adjustments** is submitted to the EIA by oil and gas well operators once a year. The due date for operators to submit the information is April 15 for activities from the preceding calendar year.

A23. Under existing accounting standards, the bonus bid, rent (collected on the lease until oil and gas production begins), and royalty revenue (collected on production) are accounted for as a custodial activity (i.e., an amount collected for others) by MMS, the collecting entity. The collections and their distribution are reported on MMS's statement of custodial activities. Component entities receiving a distribution and the CFR of the United States government recognize the revenue as a financing source in their respective statement of changes in net position or statement of operations and changes in net position.

A24. In addition to the above existing accounting standards, this Statement requires that the estimated federal royalty share of proved reserves be reported in RSI as estimated petroleum royalties by the component entity that is responsible for collecting royalties. The portion of the estimated petroleum royalty revenue designated to be distributed to others should also be reported in RSI.

A25. This Statement also requires that information on the quantity and consumption of proved reserves, including the sales volume, the sales value, the amount of royalty revenue, and the estimated value for royalty relief be provided as RSI.

A26. On the following page, *Figure 1 – Components of Federal Oil and Gas Resources* provides a summary of the information presented in the preceding paragraphs. The shaded boxes in the figure represent the availability of information as follows:

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No quantity information available	
Technically recoverable resources quantity information provided by EIA at the national level[9]	
Proved reserves quantity information provided by EIA at the national level[10]	

The terms in Figure 1 are defined in Appendix D: Technical Terms under the subheading Definitions of Resource and Reserve Components and Subcomponents.

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[9] Quantity information is currently only published at the national level; segregated information on the quantity of oil and gas resources under federal lands is not available.
[10] See footnote 9.

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Figure 1 – Components of Federal Oil and Gas Resources

<table>
<tr><td>Accounting Standards</td><td colspan="8">Components of Federal Oil and Gas Resources</td></tr>
<tr><td rowspan="5"></td><td colspan="3">Undiscovered Resources</td><td colspan="5">Reserves</td></tr>
<tr><td rowspan="2">Undiscovered Non-Recoverable Resources</td><td colspan="4">Technically Recoverable Resources</td><td colspan="3" rowspan="2">Proved Reserves</td></tr>
<tr><td colspan="2">Undiscovered Recoverable Resources</td><td colspan="2">Unproved Reserves</td></tr>
<tr><td rowspan="2"></td><td>Undiscovered Conventionally Recoverable Resources</td><td>Undiscovered Economically Recoverable Resources</td><td>Unproved Possible Reserves</td><td>Unproved Probable Reserves</td><td>Proved Undeveloped Reserves</td><td colspan="2">Proved Developed Reserves</td></tr>
<tr><td colspan="2"></td><td colspan="3"></td><td>Proved Developed Non-Producing Reserves</td><td>Proved Developed Producing Reserves</td></tr>
<tr><td>Existing Accounting Standards</td><td colspan="3"></td><td colspan="5">Bonus bid, rent, royalty revenue accounted for as custodial activity by the component entity and recognized as a financing source on the CFR and component entity statement of operations and changes in net position</td></tr>
<tr><td>New Accounting Standards</td><td></td><td colspan="2"></td><td colspan="5">Bonus bid, rent, royalty revenue accounted for as custodial activity by the component entity and recognized as a financing source on the CFR and component entity statement of operations and changes in net position
Asset value and revenue designated to be distributed to others reported as required supplementary information (RSI)
Information on the quantity and consumption of proved reserves, including the sales volume, sales value, the amount of royalty revenue, and the estimated value for royalty relief reported as RSI</td></tr>
</table>

Conceptual Aspects of Federal Oil and Gas Resources as an Asset for Estimated Petroleum Royalties and a Liability for the Portion of Revenue to be Distributed to Non-Federal Entities

Recognition Criteria

A27. Statement of Federal Financial Accounting Concepts (SFFAC) 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, states that to be recognized as an element of the financial statements, an item must (a) meet the definition of an element of the financial statements and (b) be measurable. The term measurable means that a monetary amount can be determined with reasonable certainty or is reasonably estimable.[11]

A28. Measurement may require the use of estimates and approximations as well as an assessment, in a manner consistent with the attribute being measured, of the probability that future inflows or outflows of economic benefits or services will result from the item. Recognition decisions also incorporate the results of assessments of the materiality and benefit versus cost of recognizing the item measured. Thus, it is possible that an item that meets the basic recognition criteria would not be recognized due to measurement, materiality, or cost-benefit considerations.[12]

Consideration of Asset Recognition or Disclosure

A29. Recognition of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves as an asset was considered by the Board based on SFFAC 5, paragraphs 18 through 35.

A30. An asset for federal accounting purposes is a resource that embodies economic benefits or services that the federal government controls.[13]

A31. To meet the definition of an asset of the federal government, a resource must possess two characteristics. First, it must embody economic benefits or services that can be used in the future. Second, the government must control access to the economic benefits or services and, therefore, can obtain them and deny or regulate the access of other entities.[14]

[11] SFFAC 5, par. 5.
[12] SFFAC 5, par. 7.
[13] SFFAC 5, par. 18.
[14] SFFAC 5, par. 22.

A32. First, the Board established which federal oil and gas resources were being considered. *Figure 1 – Components of Federal Oil and Gas Resources* presents the federal oil and gas resources that were considered. The two major components are "undiscovered resources" and "reserves." All of the federal oil and gas resources qualify as federal government assets because the government can obtain economic benefits and regulate the access of other entities as provided under federal law.

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A33. Since all federal oil and gas resources controlled by the federal government are assets, the Board's next step was to decide whether the federal oil and gas resources "asset" should be recognized on a federal component entity balance sheet. As noted in paragraph A27 above, the second criterion for recognition is that the asset "…be measurable."

A34. Estimates of the quantity of technically recoverable oil and gas resources were available through EIA in the past. With this quantity information, a monetary measure was technically feasible and, therefore, the asset qualified for consideration for recognition. However, the Board does not believe that the information is sufficiently reliable to be recognized in a cost-beneficial manner.

A35. The EIA information on other than proved reserves is derived from sporadic and incomplete national assessments and annual submissions by oil and gas producers. This makes it particularly uncertain. In addition, since these reserves are not currently under lease, determining the royalty share may be misleading since it is a current value measure but the underlying asset may be restricted and production may never occur. For those resources that are not restricted, production may occur but the timing and amount of royalties are very uncertain. Thus, applying the same measurement technique to other than proved reserves may not result in a value that represents what it purports to represent. Therefore, federal oil and gas resources not yet in the "proved reserves" category would not be recognized on the federal balance sheet due to concerns regarding reliability of the proposed measure.

A36. SFFAC 1, *Objectives of Federal Financial Reporting*, provides the following with respect to reliability:

> 160. Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent. To be reliable, financial reporting needs to be comprehensive. Nothing material should be omitted from the information necessary to represent faithfully the underlying events and conditions, nor should anything be

included that would likely cause the information to be misleading to the intended report user. Reliability does not imply precision or certainty, but reliability is affected by the degree of estimation in the measurement process and by uncertainties inherent in what is being measured. Financial reporting may need to include narrative explanations about the underlying assumptions and uncertainties inherent in this process. Under certain circumstances, a properly explained estimate provides more meaningful information than no estimate at all.

A37. Concerning the proved oil and gas reserves from federal oil and gas resources, the Board believes that both the quantity and the estimated federal royalty share would be reliable. Thus, in this case, since the quantity of the estimated federal proved oil and gas reserves can be reliably estimated and converted to monetary terms (estimated federal royalty share), the Board believes the estimated federal royalty share of proved oil and gas reserves should be presented as basic information. However, members would like to have more information on the reliability of the valuation methodology before it makes a final decision on whether the information should be recognized on the face of the financial statements or disclosed in the notes to the financial statements. Therefore, the Board has decided to require the information to be reported in a schedule of estimated federal oil and gas petroleum royalties in RSI for three years. Before the end of the three-year period, the Board will make a determination as to whether the information will transition to basic as financial statement recognition or note disclosure.

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A38. The Board acknowledges that royalties received from federal oil and gas leases will continue to be recognized on the statement of changes in net position with non-exchange revenue rather than on the statement of net cost with other exchange revenue as long as the asset value is reported as RSI and not recognized in the financial statements with a corresponding depletion expense. The Board continues to believe that presentation of revenues arising from federal oil and gas leasing activities as exchange revenue would assist users in understanding how the government's efforts and accomplishments were financed. The current practice of combining revenue derived from the sale of assets with revenues derived from taxation or other non-exchange sources may obscure the fact that costs were incurred to generate the revenues—the federal government exchanged proved reserves for a future stream of royalty payments. However, as noted above, the members would like to have more information before it makes a final decision.

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Measurement Attributes and Methods Considered

A39. The FASAB's projects to reexamine and expand its conceptual framework include a project on measurement attributes (i.e., the aspect of an item that is measured, such as, for example, its historical cost or replacement cost) for reporting purposes. This project follows logically from SFFAC 5, which states that an item's being measurable is a criterion for recognition in the financial statements but does not address measurement attributes or measurement methods.

A40. As is true of other components of an expanded conceptual framework, the project on measurement attributes is expected to result in a concepts statement for the future guidance of, primarily, the Board itself. The statement may include definitions and a discussion of the features of different measurement attributes and methods as well as other concepts that should assist the Board in developing future standards. While the project on measurement attributes is underway, the Board will select the measurement attributes for each standard under deliberation based on available definitions.

A41. Concerning the dollar amount to be reported for the estimated federal royalty share of proved reserves, the Board considered various measurement attributes and methods, including the following:

a. Historical cost (historical proceeds) – The amount of cash, or its equivalent, paid to acquire an asset, commonly adjusted after acquisition for amortization or other allocations.

b. Fair value –The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

c. Net realizable (settlement) value – The total non-discounted amount of cash, or its equivalent, into which an asset is expected to be converted in due course of business less direct costs, if any, necessary to make that conversion. The net realizable value requires a reasonable estimate of future flows (receipts and costs) associated with converting assets to cash.

d. Present (or discounted) value of future cash flows – The present or discounted value of future cash inflows into which an asset is expected to be converted in due course of business less present values of cash outflows necessary to obtain those inflows.

A42. After deliberating on the above attributes and methods, the Board decided that defining a measurement attribute in terms that are common to the oil and gas industry would be the best approach. Therefore, the Board proposed to use a regional average first purchase price for oil and lease condensate, a regional average first purchase price for **natural gas plant liquids** (NGPLs), and a regional average wellhead price for gas to value federal estimated petroleum royalties. This measurement approach was included in the May 2007 ED.

A43. Also included in the May 2007 ED was an alternative view from the Board member representing the Congressional Budget Office, expressing the view that fair value is the appropriate basis for valuing federal oil and gas resources. At the time, the other Board members had rejected fair value because of the lack of current transactions between market participants involving the sale of the federal royalty share for proved oil and gas reserves.

A44. In conjunction with the comment period on the May 2007 ED, the Board requested that the proposal be field tested by the U.S. Department of the Interior (DOI). After reviewing the results of the field testing performed by DOI (see paragraphs A59 through A66) and talking with DOI representatives (see paragraphs A67 and A68) about the alternative methodology that it developed, the Board determined that the estimates that are developed should approximate the present value of future federal royalty receipts on proved reserves known to exist as of the reporting date. The estimates should be based on the best information available at fiscal year-end, or as close to the fiscal year-end as possible. In addition, discount rates as of the reporting date for present value measurements of federal oil and gas assets and liabilities should be based on interest rates on marketable Treasury securities with maturities consistent with the cash flows being discounted.

A45. While present value is typically considered to be a method for measuring fair value, the present value measurement approach required by this standard is based on an entity-specific discount rate, specifically the interest rates on marketable Treasury securities, and does not consider the price that market participants demand for bearing the uncertainty inherent in the cash flows (i.e., neither the cash flows nor the discount rate is adjusted for a market risk premium). A typical fair value measurement (e.g., Statement of Financial Accounting Standards (SFAS) 157, *Fair Value Measurements*[15]) is determined based on the assumptions that market participants would use in pricing the asset. A measurement that does not include an adjustment for the market risk premium would not represent a fair value measurement since market participants would include one in pricing the petroleum royalties. Therefore, the present value measurement approach required by this standard is not a market-based fair value measure.

[15] FASB Accounting Standards Codification™ (ASC) 820-10.

A46. There is some concern that DOI may not be able to implement and/or obtain a favorable audit opinion on the present value methodology that it proposed as a result of its field testing. To permit additional flexibility in the measurement methods for valuing federal estimated petroleum royalties, the Board has also determined that market-based methods for measuring fair value or other methods for measuring current price will be acceptable. Fair value incorporates the effects of uncertainty that are inherent in the cash flows expected in the future from oil and gas activities, including the effects of the additional return demanded by market participants to assume the risk of that uncertainty. Therefore, the standard provides for a measurement method that is based on either (1) the present value of future federal royalty receipts on proved reserves known to exist as of the reporting date using a risk-free discount rate without incorporating market risk, (2) market-based methods for measuring fair value, or (3) other methods for measuring current price.

Asset Valuation Methodology

A47. The Board believes that the detailed estimation methodology for valuing federal oil and gas resources should be developed by federal entities. In an environment heavily affected by changes in prices, technological advancements, economic and operating conditions, and known geological, engineering, and economic data, estimation methodologies may need to be regularly updated to reflect these changing conditions. Sources of information that were once available to preparers may be replaced or become obsolete. On the other hand, new and more reliable data sources may become available. Permitting the preparers flexibility in developing an estimation methodology that keeps pace with the environment will prevent the accounting standards from becoming outdated.

A48. EIA has been used as the source of information on proved reserves data in the past and may prove to continue to be the appropriate source for such information in the future. However, the Board has chosen not to explicitly designate EIA as the source of information; an explicit designation of the source of information would prevent the preparer from fully complying with the standards if the source were no longer available at some point in the future.

Use of Regional Data to Value the Federal Asset "Estimated Petroleum Royalties"

A49. The Board believes that the most relevant, reliable, and cost-beneficial measurement of "estimated petroleum royalties" would be obtained by using regional information. The Board believes this approach would provide conservative, representative regional values of estimated petroleum royalties without having to calculate the value on a field-by-field basis. The Board believes it would not be practicable to make calculations on a field-by-field basis. There are more than 60,000 leases maintained by DOI with approximately 115,000 producing wells.

Consideration of Liability Recognition or Disclosure

A50. Recognition of royalty distributions to non-federal entities as a liability was considered by the Board based on SFFAC 5 paragraphs 36 through 48.

A51. A liability is a present obligation[16] of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.[17]

A52. A liability of the federal government has two essential characteristics. First, a liability constitutes a present obligation to provide assets or services to another entity. Second, either a law or an agreement or understanding between the government and another entity identifies conditions or events that will determine when the obligation will be settled.[18]

A53. Paragraph 14 requires that the component entity responsible for collecting royalties report the value of the federal government's estimated petroleum royalties in a schedule of estimated federal oil and gas petroleum royalties. The value of the estimated petroleum royalties would be based on the royalty share of the federal oil and gas resources classified as "proved reserves." In addition to the royalties that the component entity collects on proved reserves that are produced, it also collects lease sale and rent revenue from federal government oil and gas leases. The component entity distributes nearly all of these proceeds to others (e.g., the general fund of the U.S. Treasury, other federal agencies, and state governments) in accordance with legislated allocation formulas. The component entity also receives a very small portion of the revenue collected to fund its operations. The amount used to fund its operations is legislated by Congress as part of the component entity's annual appropriation. For example, the amount received by the component entity was approximately one percent (1%) of annual revenues collected in 2006.[19]

Comment: Showalter: Can this be updated to be more current? [Staff response: 2006 is the last year that MMS prepared standalone financial statements.]

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A54. The Board believes that in addition to presenting a schedule of the estimated petroleum royalties to be received, the component entity responsible for

[16] The term obligation is used in this Statement with its general meaning of a duty or responsibility to act in a certain way. It does not mean that an obligation of budgetary resources is required for a liability to exist in accounting or financial reporting or that a liability in accounting or financial reporting is required to exist for budgetary resources to be obligated.
[17] SFFAC 5, par. 39.
[18] SFFAC 5, pars. 41 through 48.
[19] The one percent was derived by dividing [Note 23. Custodial Distributions to MMS, Revenues to Fund Operations] by [Total Revenue on the Statement of Custodial Activity] for 2006.

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collecting royalties should also present a schedule of the estimated petroleum royalties to be distributed to others because nearly all of the revenue from royalties, lease sales, and rent are ultimately distributed to others (e.g., the general fund of the U.S. Treasury, other federal agencies, and state governments).

Future Rights to Royalty Streams Identified for Sale

A55. When rights to a future royalty stream are identified to be sold, the value of those rights should be reported in RSI as "future royalty rights identified for sale." Reporting the approximate value at the balance sheet date alerts the reader to the pending sale and the potential value of the asset to be sold.

A56. The value of the future royalty rights identified for sale is based on the specific field identified for sale. Because the fields are known, this provides a more field specific value for the rights identified to be sold.

Original Exposure Draft

A57. The original ED, *Accounting for Federal Oil and Gas Resources*, was issued May 21, 2007 with comments requested by September 21, 2007. However, because the Board received a request for the comment period to be extended and because few responses had been received, the Board agreed to extend the comment period until January 11, 2008.

A58. Eight comment letters were received on the original ED. The following points present a high-level summary of the comments received:

a. The majority of respondents agreed with the overall concept of recognizing an asset for the federal government's natural resources and a liability for the related royalty revenues designated to be distributed to others.

b. Two of the eight respondents stated that standards on federal natural resources should include all federal natural resources and not be limited to only oil and gas resources.

c. One of the eight respondents commented on the complex nature of the original ED.

d. No respondents supported the use of the probabilistic method of estimation as proposed in the alternative view of the original ED.

e. Two respondents supported the use of present value or fair value with discounting (similar to the alternative view proposal) instead of the valuation method as proposed in the original ED that utilizes the average first purchase or wellhead price.

f. The majority of respondents agreed that the numerous disclosures proposed in the original ED appeared excessive and might not pass a cost/benefit test.

g. There was general support for royalty relief disclosures.

h. Of the five respondents that directly addressed the question on fiduciary disclosures, four stated that the cost of such disclosures would outweigh any perceived benefits.

i. The majority of respondents supported the recommendation for more limited disclosures in the CFR. However, one respondent stated that because natural resources are sovereign assets, the major disclosures would more appropriately appear in the CFR and not agency financial statements.

Field Testing

A59. In addition to the comment letters received on the original ED, the Board also considered the results of a field test of the proposed standards performed by a DOI field test team. The field test team consisted of MMS Offshore Minerals Management Economics and Resource Evaluation experts and petroleum engineers; Bureau of Land Management petroleum engineers and resource evaluation experts; and MMS Custodial Reporting Branch senior accountants with expertise in financial reporting.

A60. Field tests are part of FASAB's due process and help FASAB to establish effective standards. Participating federal entities volunteer to go through the exercise of "implementing" the proposed standards as if they were in place and then provide feedback to FASAB regarding the process. Field tests can proactively identify potential problems related to the implementation of proposed standards and allow FASAB to gather valuable information about implementation costs.

A61. The field test team presented the Board with a number of significant considerations, including the lack of availability of quantity information on proved reserves under federal lands. The original ED had proposed that the valuation of federal oil and gas resources be based on information to be provided by EIA on quantity of proved reserves under federal lands. However, this information has not been made available as of the date of the revised ED, and does not appear to be forthcoming.

A62. In addition to the reliance on proved reserves data required to be provided by EIA, the field test team noted a number of other concerns, including:

a. the desire to divide proved reserves by type of commodity (e.g., **crude oil**, lease condensate, and natural gas) and compute the asset value separately;

b. the need to develop a methodology for determining what portion of all proved reserves fall under federal domain;

c. the need to exclude royalty relief volumes and estimate the value of commodities received in kind and delivered to the Department of Energy to fill the Strategic Petroleum Reserve;

d. the effect of intermediate production between the effective date of the reserves estimate and the effective date of the booked value;

e. the effect of estimates such as the royalty accrual and prior year production adjustments made in the current year;

f. how to distinguish between long and short-term liabilities for the associated liability for revenue distributions to others;

g. appropriate treatment of interest payments related to oil and gas or commodities other than oil and gas once the custodial provisions are deleted from SFFAS 7 (paragraphs 45, 275, and 277);

h. the impact of material intragovernmental transactions and eliminations on the year-end reporting process; and,

i. the need to revise all, or almost all, of the existing posting models in the accounting system.

A63. The field test team also completed a field test questionnaire using a present value approach. This questionnaire included many of the same concerns as noted in paragraphs A61 and A62 above. In addition, the present value approach also incorporated present value calculations for factors such as the present value of royalties received over time, estimates of future gas prices, transportation allowances, and discount and inflation rates.

A64. In both estimates (the ED view as well as the present value view), the field test team used share of production as a proxy for share of proved reserves. One of the members expressed concerns about the use of production as a proxy for underlying reserves because it assumes (1) the same percentage of reserves are brought to market each year from all locations (or at least, on average between federal and non-federal) and (2) too much year to year variance in production patterns makes underlying reserve estimates fluctuate by an equal amount.

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A65. Staff asked an oil and gas analyst at the Congressional Budget Office for his thoughts on the methodology. He responded that he understands the concern with the first assumption because it is likely that not the same fraction of reserves will be accessed in each year. However, he stated that averaging between federal and non-federal would control for some of that variance, though it is not possible to know just how much. He stated that this simplifying assumption is fairly reasonable given the approximate nature of the analysis. The analyst noted that with the second assumption, the variance might be eliminated or reduced by using a moving average rather than a year-to-year measure. For example, a 5-year or 10-year moving average of total federal production over total production would control some of the yearly differences between federal and non-federal.

A66. The field test questionnaires were extremely useful in helping the Board develop the standards proposed in the revised ED.

Discussion with DOI Representatives

A67. In addition to the Board's consideration of the comment letters received and the field test questionnaires, three members of the field test team and two representatives from DOI's Office of the Secretary met with the Board at the October 23, 2008, meeting to discuss issues raised in its comment letter on the original ED and the related field test questionnaires.

A68. At that meeting, DOI representatives indicated that they would be open to having less detailed implementation guidance in the standards if they were given a longer implementation period (two to three years) with a phase-in from RSI to basic information, and the ability to return to FASAB for implementation guidance if a reasonable methodology could not be agreed to by the auditors.

Revised Exposure Draft

A69. The revised ED, *Accounting for Federal Oil and Gas Resources*, was issued July 6, 2009, with comments requested by September 8, 2009.

A70. Upon release of the revised ED, notices and press releases were provided to The Federal Register, *FASAB News, The Journal of Accountancy, AGA Today, the CPA Journal, Government Executive, the CPA Letter, Government Accounting and Auditing Update*, the CFO Council, the Council of Inspectors General on Integrity and Efficiency, the Financial Statement Audit Network, and committees of professional associations generally commenting on exposure drafts in the past.

A71. This broad announcement was followed by direct mailings or e-mails of the revised ED to:

a. Relevant congressional committees: Senate Committee on Energy and Natural Resources, Senate Committee on Finance, Senate Committee on Indian Affairs, House Committee on Financial Services, and House Committee on Natural Resources;

b. Public interest groups and think tanks: National Congress of American Indians (NCAI), national and regional; Alliance to Save Energy; Brookings Institution; Cato Institute; Center on Budget and Policy Priorities; Citizens Against Government Waste; The Concord Coalition; The Heritage Foundation; National Parks Conservation Association (NPCA); Natural Resources Defense Council (NRDC); OMB Watch; Resources for the Future (RFF); Sierra Club; Urban Institute; and World Resources Institute (WRI);

c. Respondents to the prior ED (or their successors);

d. Agencies that manage and/or account for federal natural resources: DOI; Department of Agriculture (USDA), Deputy CFO; USDA Forest Service; and DOI Bureau of Land Management;

e. The Oil and Gas Industry: World Petroleum Council (WPC), American Petroleum Institute (API), Society of Petroleum Engineers (SPE), and Ryder Scott Company; and,

f. Other: DOI, Office of the Special Trustee (OST); Energy Information Administration (EIA); Department of Energy, Deputy CFO; Securities and Exchange Commission; U.S. Geological Service (USGS); and KPMG (DOI's financial statement audit partner).

A72. In addition, the ED was publicized during the FASAB Update session at the Financial Statement Audit Network monthly meeting on July 21, 2009, and at the Department of the Treasury's 19th Annual Government Financial Management Conference on August 5, 2009.

A73. To encourage responses, reminder notices were sent to the FASAB Listserv and each of the above individuals/organizations on August 20, 2009.

Comment Letters

A74. Nine comment letters were received from the following sources:

	FEDERAL (Internal)	NON-FEDERAL (External)
Users, academics, others		2
Auditors	1	
Preparers and financial managers	6	

A75. The following provides a high-level summary of the comments received on the revised ED:

a. The majority of respondents agreed that federal entities should be provided with flexibility in developing the asset valuation estimation methodology. DOI also agreed with the provision of flexibility with the caveat that a more detailed implementation guide be developed.

b. The majority of respondents agreed with the board's selection of present value of future federal royalty receipts on proved reserves known to exist as of the reporting date as the preferred measurement method. DOI also agreed with the preferred measurement method but noted that the proposed valuation from their field test questionnaire was based upon OMB's economic assumptions about future Treasury marketable security rates.

c. Half of the respondents agreed with the board's proposal to permit an alternative market-based fair value measurement consistent with FASB SFAS 157, *Fair Value Measurement*, if it is not reasonably possible to estimate using present value. One of the respondents disagreed with the use of fair value based on SFAS 157 because the oil and gas market is so volatile. DOI also agreed with the provision of an alternative measurement method but disagreed with the use of fair value based on SFAS 157 because they do not think the asset should be measured at a market exit price[20] since it is extremely unlikely that the asset would ever be sold.

d. The majority of respondents agreed that federal entities should be permitted to change their methodology for valuing the federal

[20] Exit price is the price that would be received to sell an asset or paid to transfer a liability (FASB ASC 820-10-20).

government's estimated petroleum royalties if environmental or other changes would provide for the development of an improved methodology. One respondent disagreed on the basis that it could impair the government's ability to prepare consolidated financial statements for the federal government.

e. The majority of respondents agreed that it would be appropriate to provide guidance regarding reporting gains and losses from changes in assumptions and selecting the discount rates similar to that provided in SFFAS 33. DOI also agreed with the provision of guidance on reporting gains and losses with the caveat that a more detailed implementation guide be developed.

f. Half of the respondents agreed with the disclosure requirements for oil and gas fiduciary activities. Two respondents disagreed because they have cost/benefit concerns. One respondent disagreed partly because of cost/benefit concerns and partly because fiduciaries are generally not required by other standards-setters to value non-cash assets. DOI agreed with the disclosures and indicated that the information could be fairly readily reported.

g. All of the respondents agreed with the three-year phase-in of information from RSI to basic information. However, as discussed more in number A75i below, the majority of respondents would prefer that, following the three-year phase-in period, the information be presented as basic information in the notes rather than recognized on the face of the financial statements.

h. There was not a consistent view among respondents regarding application of the standard to other types of natural resources. Two of the respondents agreed with the inclusion of paragraph 8 relating to other types of natural resources. One respondent did not believe that the ED provided enough detail to form a response. Another respondent preferred that FASAB explicitly require agencies to use valuation, accounting, and financial reporting methods consistent with the provisions of the final standard for all types of natural resources. Another respondent—DOI—provided some clarifying language that they believed would help fill a void in guidance that could lead to potentially inaccurate or inconsistent reporting.

i. The majority of respondents agreed with the alternative view contained in the July 2009 revised ED, which proposed that, following the three-year transition period as RSI, the value of federal oil and gas resources and annual changes be disclosed as basic information in the notes, rather than recognized on the face of the financial statements. One respondent disagreed with the alternative view in the revised ED because they supported the eventual presentation of all natural resources on the face of federal financial statements. Another respondent disagreed with the alternative view in the revised ED on the basis that the quantity and value of oil and gas resources and related revenues and depletion expenses would be material to the financial statements of the entities reporting those items; therefore, the omission or misstatement of that information makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced.

Board Approval

A76. This statement was approved by [to be updated]. The written ballots are available for public inspection at the FASAB's offices.

Appendix B: Illustrations

PLEASE NOTE: The examples in this Appendix are illustrative only; they do not represent authoritative guidance. Illustrations are not provided for all requirements.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Estimated Federal Oil and Gas Petroleum Royalties
Asset Value as of September 30, 20X3

Offshore	**Region 1**	**Region 2**	**Region 3**	**Region 4**	**Region 5**	**Total**
Dry Gas	xxx	xxx	xxx	xxx	xxx	x,xxx
Wet Gas	xxx	xxx	xxx	xxx	xxx	x,xxx
NGPLs	xxx	xxx	xxx	xxx	xxx	x,xxx
Oil	xxx	xxx	xxx	xxx	xxx	x,xxx
Lease Condensate	xxx	xxx	xxx	xxx	xxx	x,xxx
Total Estimated Petroleum Royalties Asset Value – *Offshore*	**x,xxx**	**x,xxx**	**x,xxx**	**x,xxx**	**x,xxx**	**x,xxx**
Onshore	**Region 1**	**Region 2**	**Region 3**	**Region 4**	**Region 5**	**Total**
Dry Gas	xxx	xxx	xxx	xxx	xxx	x,xxx
Wet Gas	xxx	xxx	xxx	xxx	xxx	x,xxx
NGPLs	xxx	xxx	xxx	xxx	xxx	x,xxx
Oil	xxx	xxx	xxx	xxx	xxx	x,xxx
Lease Condensate	xxx	xxx	xxx	xxx	xxx	x,xxx
Total Estimated Petroleum Royalties Asset Value – *Onshore*	**x,xxx**	**x,xxx**	**x,xxx**	**x,xxx**	**x,xxx**	**x,xxx**
Total Estimated Petroleum Royalties Asset Value – *Offshore and Onshore*	**xx,xxx**	**xx,xxx**	**xx,xxx**	**xx,xxx**	**xx,xxx**	**xx,xxx**

Comment: Granof: I hope that you'll be using numbers instead of xxx. I find that numbers (especially if they are realistic) add meaning in a way that x's do not. And you do use numbers in the narrative (p. 37).

Schedule of Estimated Federal Oil and Gas Petroleum Royalties
Asset Value as of September 30, 20X2

Offshore	**Region 1**	**Region 2**	**Region 3**	**Region 4**	**Region 5**	**Total**
Dry Gas	xxx	xxx	xxx	xxx	xxx	x,xxx
Wet Gas	xxx	xxx	xxx	xxx	xxx	x,xxx
NGPLs	xxx	xxx	xxx	xxx	xxx	x,xxx
Oil	xxx	xxx	xxx	xxx	xxx	x,xxx
Lease Condensate	xxx	xxx	xxx	xxx	xxx	x,xxx
Total Estimated Petroleum Royalties Asset Value – *Offshore*	**x,xxx**	**x,xxx**	**x,xxx**	**x,xxx**	**x,xxx**	**x,xxx**

Onshore	Region 1	Region 2	Region 3	Region 4	Region 5	Total
Dry Gas	xxx	xxx	xxx	xxx	xxx	x,xxx
Wet Gas	xxx	xxx	xxx	xxx	xxx	x,xxx
NGPLs	xxx	xxx	xxx	xxx	xxx	x,xxx
Oil	xxx	xxx	xxx	xxx	xxx	x,xxx
Lease Condensate	xxx	xxx	xxx	xxx	xxx	x,xxx
Total Estimated Petroleum Royalties Asset Value – *Onshore*	**x,xxx**	**x,xxx**	**x,xxx**	**x,xxx**	**x,xxx**	**x,xxx**
Total Estimated Petroleum Royalties Asset Value – *Offshore and Onshore*	**xx,xxx**	**xx,xxx**	**xx,xxx**	**xx,xxx**	**xx,xxx**	**xx,xxx**

Schedule of Estimated Federal Oil and Gas Petroleum Royalties to be Distributed to Others as of September 30		
	20X3	**20X2**
U.S. Department of the Interior		
Minerals Management Service	xxx	xxx
Bureau of Reclamation	xxx	xxx
National Park Service Conservation Funds	xxx	xxx
Bureau of Land Management	xxx	xxx
Fish and Wildlife Service	xxx	xxx
Other Federal Agencies		
Department of the Treasury	x,xxx	x,xxx
Department of Energy	xxx	xxx
Department of Agriculture	xxx	xxx
Department of the Commerce	xxx	xxx
Indian Tribes and Agencies	xxx	xxx
States and Others	xxx	xxx
Total Estimated Petroleum Royalties to be Distributed to Others	**xx,xxx**	**xx,xxx**

Management of Federal Oil and Gas Resources

The Minerals Management Service (MMS) plays an integral part in the implementation of the President's national energy policy (NEP). The NEP is a comprehensive strategy designed to secure America's energy future by reducing dependence on foreign sources, increasing domestic fossil fuel production, improving energy conservation efforts, and developing alternative and renewable energy sources. The MMS is responsible for managing the nation's oil and natural gas resources on the Outer Continental Shelf (OCS) and the mineral revenues from the OCS and federal lands. The MMS management process can be broken down into six essential analysis components: pre-leasing, post-leasing and pre-production, production and post-production, revenue collection, fund disbursement, and revenue compliance.

Stewardship Policies for Federal Oil and Gas Resources

The MMS's responsibilities as stewards of the physical oil and gas resources on the OCS begin when the MMS conducts pre-leasing analysis activities, which include the assessment of oil and gas resources that may be offered for lease. Following the pre-leasing assessment, the MMS develops a plan for offering those resources to developers. In the case of oil and gas development, this planning process is designed to consider both the environmental and economic concerns of the nation by providing opportunities for input from the public, the private sector, states, and Congress. The MMS conducts public planning processes for each individual lease sale.

Once a sale is completed, the MMS evaluates the bids to ensure that the government will receive fair market value. The evaluation determines whether the bid can be accepted and a lease issued. Once a lease is assigned to a winning bidder, the MMS begins post-leasing and pre-production activities. These activities include a permitting and approval process for all exploration, development, and production activities proposed by the lease operators. MMS staff inspects each operation in order to confirm that all activities are conducted in an environmentally and physically safe manner. Similar inspections also occur during the production and post-production activities to help ensure the federal government is receiving accurate royalties from production and facilities are decommissioned in a manner that protects the environment.

Once a lease is in place, the federal government's share of production from both offshore and onshore operations may be recovered as royalty-in-value (RIV) or royalty-in-kind (RIK). Federal oil and gas leasing laws and lease terms provide the government with the option of receiving production royalty payments either in money ("in value") or oil and gas production ("in kind"). Through royalty revenue collection and fund disbursement, the MMS achieves optimal value by ensuring that all revenues from federal oil and gas leases are efficiently, effectively, and accurately collected, accounted for, and disbursed to states, other federal component entities, and the U.S. Treasury. The MMS also performs revenue compliance activities to ensure the federal government has received fair market value and that companies comply with applicable laws, regulations, and lease terms.

Through this mineral asset management process, the MMS serves as a leading mineral asset manager for the federal government, the states, and the American people.

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Comment: Staff defined what "in value" and "in kind" means based on comment from Steinberg: Shouldn't the footnote define these terms?

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Future Royalty Streams Identified for Sale

Future royalty streams from two specific oil fields have been identified to be sold.

The estimated value of the future royalty stream identified to be sold from field number one in the Gulf of Mexico is $5,305,000 based on the following calculation: The royalty stream from 1,000,000 barrels are to be sold at a $42.44 sale price per barrel per field number one first purchase price for oil with a 12.5 percent royalty rate for field number one.

The estimated value of the future royalty stream identified to be sold from field number two in the Gulf of Mexico is $3,244,688 based on the following calculation: The royalty stream from 750,000 barrels are to be sold at a $34.61 sale price per barrel per field number two first purchase price for oil with a 12.5 percent royalty rate for field number two.

The future royalty streams are expected to be sold sometime during the next fiscal year.

Revenue Reported by Category
Fiscal year 20X3

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	Federal Offshore	Federal Onshore	Total
Dry Gas Royalty	$912,006,336	$180,664,834	$1,092,671,170
Wet Gas Royalty	608,004,224	120,443,221	728,447,445
NGPLs Royalty	340,110,343	150,120,157	490,230,500
Oil Royalty	1,533,420,963	360,992,354	1,894,413,317
Lease Condensate Royalty	170,380,107	40,110,262	210,490,369
Subtotal	$3,563,921,973	$852,330,828	$4,416,252,801
Rent	$193,273,613	$46,588,068	$239,861,681
Bonus Bid	2,000,000	0	2,000,000
Subtotal	$195,273,613	$46,588,068	$241,861,681
Total	**$3,759,195,586**	**$898,918,896**	**$4,658,114,482**

Revenue Reported by Category
Fiscal year 20X2

	Federal Offshore	Federal Onshore	Total
Dry Gas Royalty	$xxx	$xxx	$xxx
Wet Gas Royalty	xxx	xxx	xxx
NGPLs Royalty	xxx	xxx	xxx
Oil Royalty	xxx	xxx	xxx
Lease Condensate Royalty	xxx	xxx	xxx
Subtotal	$x,xxx	$x,xxx	$x,xxx
Rent	$xxx	$xxx	$xxx
Bonus Bid	xx	xx	xx
Subtotal	$x,xxx	$x,xxx	$x,xxx
Total	**$xx,xxx**	**$xx,xxx**	**$xx,xxx**

The above tables of revenue reported by category presents royalty revenue for dry gas, wet gas, natural gas plant liquids (NGPLs), oil and lease condensate, as well as rent revenue and bonus bid revenue, by offshore leases and by onshore leases for the current and prior reporting periods. In addition, totals for the dry and wet gas royalty revenue categories, NGPLs royalty revenue category, oil and lease condensate royalty revenue categories, the rent revenue category, and the bonus bid revenue category are reported, with a total for all revenue reported.

Estimated Petroleum Royalties
End of Fiscal Year 20X3

	Quantity	Purchase Price ($)	Royalty Rate (%)
Dry Gas (Mcf)	60,106,760,000,000	$4.86/Mcf	14.57%
Wet Gas (Mcf)	40,050,099,000,000	$4.17/Mcf	15.36%
NGPLs (Bbl)	2,347,450,000	$23.00/Barrel	9.5%
Oil (Bbl)	11,555,200,000	$40.56/Barrel	13.58%
Lease Condensate (Bbl)	1,999,000,000	$29.62/Barrel	15.32%

Estimated Petroleum Royalties
End of Fiscal Year 20X2

	Quantity	Purchase Price ($)	Royalty Rate (%)
Dry Gas (Mcf)	62,136,560,000,000	$3.86/Mcf	12.57%
Wet Gas (Mcf)	36,850,189,000,000	$3.27/Mcf	13.36%
NGPLs (Bbl)	2,568,450,000	$19.00/Barrel	8.5%
Oil (Bbl)	15,775,200,000	$35.56/Barrel	11.58%
Lease Condensate (Bbl)	2,434,050,000	$28.72/Barrel	13.32%

The tables above provide the quantity, purchase price, and royalty rate by category of estimated petroleum royalties at the end of the current and prior reporting periods.

Federal Regional Oil and Gas Sales Information

The tables on the following pages reflect sales volume, sales value, royalty revenue earned, and estimated value for royalty relief information for fiscal year 20XX.

Sales volume represents the quantity of a mineral commodity sold during the reporting period. Sales value represents the dollar value of the mineral commodity sold during the reporting period. Royalty revenue earned represents a stated share or percentage of the value of the mineral commodity produced.

Royalty relief is the reduction, modification, or elimination of any royalty payment due to promote development, increase production, or encourage production of marginal resources on certain leases or categories of leases. The estimated value for royalty relief is an approximated calculation of royalty relief. The estimated value for royalty relief is calculated based on a formula developed by the Department of the Interior.

The sales volume, sales value, royalty revenue earned, and the estimated value for royalty relief are presented on a regional basis. The information is presented on a regional basis to provide users of the financial statements with the regional variances in the prices of oil and gas for decision-making purposes, to reflect the amount of royalty relief granted and to forecast future royalty revenue.

Federal Regional Oil and Gas Information
FY 20XX Dry Gas Information

Region	Sales Volume (Mcf)	Sales Value ($)	Royalty Revenue Earned ($)	Estimated Value for Royalty Relief ($)
[Region 1]	2,820,297,636	$8,161,055,268	$1,255,956,036	N/A
[Region 2]	2,990,091,438	7,332,690,510	1,160,614,092	N/A
[Region 3]	3,061,900,800	7,730,776,248	1,227,181,134	4,050,100,000
[Region 4]	2,820,571,608	6,207,015,132	989,578,278	N/A
[Region 5]	2,794,906,254	4,592,374,578	719,037,468	N/A
Totals	14,487,767,736	$34,023,911,736	$5,352,367,008	$4,050,100,000

FY 20XX Wet Gas Information

Region	Sales Volume (Mcf)	Sales Value ($)	Royalty Revenue Earned ($)	Estimated Value for Royalty Relief ($)
[Region 1]	1,880,198,424	$5,440,703,512	$837,304,024	N/A
[Region 2]	1,993,394,292	4,888,460,340	773,742,728	N/A
[Region 3]	2,041,267,200	5,153,850,832	818,120,756	N/A
[Region 4]	1,880,381,072	4,138,010,088	659,718,852	N/A
[Region 5]	1,863,270,836	3,061,583,052	479,358,312	N/A
Totals	9,658,511,824	$22,682,607,824	$3,568,244,672	N/A

FY 20XX Natural Gas Plant Liquids (NGPLs) Information

Region	Sales Volume (Bbl)	Sales Value ($)	Royalty Revenue Earned ($)	Estimated Value for Royalty Relief ($)
[Region 1]	504,907,460	$7,182,415,240	$1,055,380,640	N/A
[Region 2]	455,613,460	5,737,146,080	822,800,200	N/A
[Region 3]	562,808,260	10,272,610,500	1,470,661,910	3,250,000,000
[Region 4]	453,335,320	8,912,195,960	1,345,077,330	N/A
[Region 5]	399,821,380	7,290,095,980	1,108,931,700	N/A
Totals	2,376,485,880	$39,394,463,760	$5,802,851,780	$3,250,000,000

FY 20XX Oil Information

Region	Sales Volume (Bbl)	Sales Value ($)	Royalty Revenue Earned ($)	Estimated Value for Royalty Relief ($)
[Region 1]	329,433,210	$4,582,678,473	$704,949,183	N/A
[Region 2]	367,540,578	5,668,272,774	851,585,139	N/A
[Region 3]	108,743,022	1,888,925,796	194,883,831	N/A
[Region 4]	4,592,851,200	11,596,164,372	1,840,771,701	N/A
[Region 5]	4,504,591,476	9,153,028,584	1,740,921,138	N/A
Totals	9,903,159,486	$32,889,069,999	$5,333,110,992	N.A

FY 20XX Lease Condensate Information

Region	Sales Volume (Bbl)	Sales Value ($)	Royalty Revenue Earned ($)	Estimated Value for Royalty Relief ($)
[Region 1]	36,603,690	509,186,497	78,327,687	N/A
[Region 2]	40,837,842	629,808,086	94,620,571	N/A
[Region 3]	12,082,558	209,880,644	21,653,759	N/A
[Region 4]	510,316,800	1,288,462,708	204,530,189	N/A
[Region 5]	500,510,164	1,017,003,176	193,435,682	N/A
Totals	1,100,351,054	$3,654,341,111	$592,567,888	N/A

Appendix C: Abbreviations

ASC	FASB Accounting Standards Codification™
Bbl	Barrels
CFR	Consolidated Financial Report
DOI	Department of the Interior
ED	Exposure Draft
EIA	Energy Information Administration
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
Mcf	Thousand Cubic Feet
MMS	Minerals Management Service
OCS	Outer Continental Shelf
NGPLs	Natural Gas Plant Liquids
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFAS	Statement of Financial Accounting Standards
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States
USGS	U.S. Geological Survey

Appendix D: Technical Terms

The terms explained in Appendix D have technical meanings within the oil and gas industry and will be permanently retained with this standard for context.

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Definitions of Resource and Reserve Components and Subcomponents

Provided below are definitions used by federal entities to describe oil and gas resource and reserve components and subcomponents.[21]

Deleted: The source of these definitions is OCS Report MMS 2003-050 unless otherwise noted.

Undiscovered Resources

Resources estimated from broad geologic knowledge or theory and existing outside of known fields or known accumulations are undiscovered resources. Undiscovered resources can exist in untested prospects on unleased acreage, or on undrilled lease acreage, or in known fields. In known fields, undiscovered resources occur in undiscovered **pools** that are controlled by distinctly separate structural features or stratigraphic conditions.

The Mineral Management Service (MMS) and the U.S. Geological Survey (USGS) formerly conducted national assessments of undiscovered oil and gas resources together. The former was responsible for the offshore while the latter was responsible for onshore and state waters. The last such assessment was in 1995. MMS updates their assessment approximately every five years in accordance with DOI's five-year leasing program, with the last update in 2006.[22] Since 1995, the USGS has not conducted an overall update for onshore and state waters, but has conducted assessments updates on a basin or area level.

The assessment considers recent geophysical, geological, technological, and economic information and uses a geologic play analysis approach for resource appraisal.

Undiscovered resources are **hydrocarbons** estimated on the basis of geologic knowledge and theory to exist outside of known accumulations. They are presumed to

Deleted: Undiscovered Resources¶
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[21] Unless otherwise noted, the definitions in this section were adapted from (1) the OCS Report, Estimated Oil and Gas Reserves, Gulf of Mexico, December 31, 2000, MMS 2003-050; available online at https://www.gomr.mms.gov/PDFs/2003/2003-050.pdf; last accessed December 2, 2009 and (2) the OCS Report, Estimated Oil and Gas Reserves Pacific Outer Continental Shelf as of December 31, 1997, MMS 99-0023; available online at http://www.mms.gov/omm/pacific/offshore/oil-gaspdfs/99-0023.pdf; last accessed December 2, 2009.

[22] MMS Assessment of Undiscovered Technically Recoverable Oil and Gas Resources of the Nation's Outer Continental Shelf, 2006 (MMS 2006 Assessment); available online at http://www.mms.gov/revaldiv/PDFs/2006NationalAssessmentBrochure.pdf; last accessed December 2, 2009.

occur in unmapped and unexplored areas. The speculative and hypothetical resource categories comprise undiscovered resources. Undiscovered resources are classified as either undiscovered non-recoverable resources or undiscovered recoverable resources.

- Undiscovered Non-Recoverable Resources

The portion of undiscovered petroleum-initially-in-place quantities not currently considered to be recoverable. A portion of these quantities may become recoverable in the future as commercial circumstances change, technological developments occur, or additional data are acquired.

- Undiscovered Recoverable Resources

An assessment provides estimates of undiscovered recoverable resources in two categories for federal offshore oil and gas resources. However assessments for federal onshore oil and gas resources provide information for only one, the undiscovered, conventionally recoverable resources. Both are described below:

1. Undiscovered, conventionally recoverable resources: The portion of the hydrocarbon potential that is producible, using present or reasonably foreseeable technology, without any consideration of economic feasibility.[23]

2. Undiscovered, economically recoverable resources: The portion of the undiscovered conventionally recoverable resources that is economically recoverable under imposed economic scenarios.

Reserves

In accordance with the Society of Petroleum Engineers (SPE), the World Petroleum Congresses (WPC), and the American Association of Petroleum Geologists (AAPG), the definition for "reserves" and the following explanatory paragraphs are presented as follows:[24]

> Reserves are those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data.

[23] MMS Assessment of Undiscovered Technically Recoverable Oil and Gas Resources of the Nation's Outer Continental Shelf, 2003 Update; available online at http://www.mms.gov/revaldiv/PDFs/2003NationalAssessmentUpdate.pdf; last accessed December 2, 2009.
[24] WPC/SPE/AAPG Petroleum Reserves Definitions – 1997; available online at http://www.spe.org/spe-site/spe/spe/industry/reserves/Petroleum_Reserves; last accessed December 2, 2009.

The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either 1) unproved or 2) proved.

Unproved Reserves

After a lease qualifies under Title 30, Section 250.115/116 of the Code of Federal Regulations, the MMS Field Naming Committee reviews the new producible lease to assign it to an existing field or, if the lease is not associated with an established geologic structure, to a new field. Regardless of where the lease is assigned, the reserves associated with the lease are initially considered to be unproved reserves. Unproved reserves are based on geologic or engineering information similar to that used in estimates of proved reserves, but, technical, contractual, economic, or regulatory uncertainties preclude such reserves from being classified as proved.

Unproved reserves may be divided into two subclassifications, possible and probable, which are similarly based on the level of uncertainty.

> Unproved possible reserves are less certain than unproved probable reserves and can be estimated with a low degree of certainty, which is insufficient to indicate whether they are more likely to be recovered than not. **Reservoir** characteristics are such that a reasonable doubt exists that the project will be commercial. After a lease qualifies under Title 30, Section 250.115/116 of the Code of Federal Regulations, the reserves associated with the lease are initially classified as unproved possible.

> Unproved probable reserves are less certain than proved reserves and can be estimated with a degree of certainty sufficient to indicate they are more likely to be recovered than not. Reserves in fields for which a schedule leading to a Development and Production Plan (DPP) has been submitted to the MMS have been classified as unproved probable.

Proved Reserves

Proved reserves can be estimated with reasonable certainty to be recoverable under current economic conditions, such as prices and costs prevailing at the time of the estimate. Proved reserves must either have facilities that are operational at the time of the estimate to process and transport those reserves to market or a commitment or reasonable expectation to install such facilities in the future. Proved reserves can be subdivided into undeveloped and developed.

> Proved undeveloped reserves are classified proved undeveloped when a relatively large expenditure is required to install production and/or transportation facilities, a commitment by the operator is made, and a timeframe to begin production is established. Proved undeveloped reserves are reserves expected to be recovered from (1) yet undrilled wells, (2) deepening existing wells, or (3) existing wells for which a relatively large expenditure is required for recompletion.

Proved developed reserves are classified as proved developed when the reserves are expected to be recovered from existing wells (including reserves behind pipe). Reserves are considered developed only after necessary production and transportation equipment have been installed or when the installation costs are relatively minor. Proved developed reserves are subcategorized as producing or non-producing. This distinction is made at the reservoir level and not at the field level.

- Any developed reservoir in a developed field that has not produced or has not had sustained production during the past year is considered to contain proved developed non-producing reserves. This category includes reserves contained in non-producing reservoirs, reserves contained behind-pipe, and reservoirs awaiting well workovers or transportation facilities.

- Once the first reservoir in a field begins production, the reservoir is considered to contain proved developed producing reserves, and the field is considered on production. If a reservoir had sustained production during the last year, it is considered to contain proved developed producing reserves.

End of the terms in Figure 1 that are defined under the subheading **Definitions of Resource and Reserve Components and Subcomponents**

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Other Definitions

Adjustments: The quantity which preserves an exact annual reserves balance within each State or State subdivision. These adjustments are the yearly changes in the published reserve estimates that cannot be attributed to the estimates for other reserve change categories because of the survey and statistical estimation methods employed. For example, variations as a result of changes in the operator frame, different random samples or imputations for missing or unreported reserve changes, could contribute to adjustments.[25]

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Basin: A depression in the Earth's surface that collects sediment (loose, uncemented pieces of rock or minerals).[26]

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[25] Energy Information Administration, U.S. Crude Oil, Natural Gas, and Natural Gas Liquids Reserves 2007 Annual Report, Glossary (EIA 2007 Annual Report Glossary); available online at http://www.eia.doe.gov/oil_gas/natural_gas/data_publications/crude_oil_natural_gas_reserves/cr.html; last accessed December 2, 2009.

[26] The USGS "Geologic Glossary"; available online at http://www.nature.nps.gov/Geology/usgsnps/misc/glossaryAtoC.html; last accessed December 2, 2009.

Bonus Bid: Leases issued in areas known to contain minerals are awarded through a competitive bidding process. A bonus bid, as used in this Statement, represents the cash consideration paid to the United States by the successful bidder for a mineral lease. The payment is made in addition to the rent and royalty obligations specified in the lease.[27]

Deleted: amount successfully bid to win the rights to a lease

Crude Oil: A mixture of hydrocarbons that exists in the liquid phase in natural underground reservoirs and remains liquid at atmospheric pressure after passing through surface separating facilities. Crude oil may also include: 1) small amounts of hydrocarbons that exist in the gaseous phase in natural underground reservoirs but are liquid at atmospheric pressure after being recovered from oil well gas in lease separators, and that subsequently are commingled with the crude oil stream[28] without being separately measured; and, 2) small amounts of nonhydrocarbons produced with the oil.[29]

Dry Gas: The actual or calculated volumes of natural gas which remain after: 1. The liquefiable hydrocarbon portion has been removed from the gas stream (i.e., gas after lease, field, and/or plant separation) 2. Any volumes of nonhydrocarbon gases have been removed where they occur in sufficient quantity to render the gas unmarketable.[30]

Estimated Petroleum Royalties: The estimated end-of-period value of the federal government's royalty share of proved oil and gas reserves from federal oil and gas resources.

Estimated Production: The volumes of oil and gas that are extracted or withdrawn from reservoirs during the report year.

Estimated Value for Royalty Relief: The estimated value for royalty relief is the calculated approximation of royalty relief based on a formula developed by DOI.

Comment: Staff note: moved definition of royalty relief out of this definition and into its own definition based on comment from GAO.

Deleted: Existing statutes authorize the Minerals Management Service (MMS) to grant royalty relief to operators on the production of oil and gas resources from federal oil and gas leases. Royalty relief is the reduction, modification, or elimination of any royalty to operators to promote development, increase production, or encourage production of marginal resources on certain leases or categories of leases.

Deleted: the Department of the Interior

Extensions: The reserves credited to a reservoir because of enlargement of its proved area. Normally the ultimate size of newly discovered fields, or newly discovered reservoirs in old fields, is determined by wells drilled in years subsequent to discovery. When such wells add to the proved area of a previously discovered reservoir, the

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[27] Glossary of Mineral Terms, Minerals Revenue Management, Minerals Management Service, U.S. Department of the Interior (MRM Glossary of Mineral Terms); available online at http://www.mrm.mms.gov/Stats/pdfdocs/glossary.pdf; last accessed December 2, 2009.
[28] A crude oil stream is crude oil produced in a particular field or a collection of crude oils with similar qualities from fields in close proximity, which the petroleum industry usually describes with a specific name, such as West Texas Intermediate (EIA-182 Domestic Crude Oil First Purchase Report Instructions; available online at http://www.eia.doe.gov/pub/oil_gas/petroleum/survey_forms/eia182i.pdf; last accessed December 2, 2009).
[29] EIA 2007 Annual Report Glossary.
[30] EIA Glossary, available at http://www.eia.doe.gov/glossary/; last accessed December 1, 2009.

increase in proved reserves is classified as an extension.[31]

Federal Oil and Gas Resources: Oil and gas resources over which the federal government may exercise sovereign rights with respect to exploration and exploitation and from which the federal government has the authority to derive revenues for its use. Federal oil and gas resources do not include resources over which the federal government acts as a fiduciary for the benefit of a non-federal party.

Field: An area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same general geological structural feature and/or stratigraphic trapping condition. There may be two or more reservoirs in a field that are separated vertically by impervious strata, laterally by local geologic barriers, or by both. The area may include one lease, a portion of a lease, or a group of leases with one or more wells that have been approved as producible.[32]

Deleted: Federal Jurisdiction: defined under accepted principles of international law. The seaward limit is defined as the farthest of 200 nautical miles seaward of the baseline from which the breadth of the territorial sea is measured or, if the continental shelf can be shown to exceed 200 nautical miles, a distance not greater than a line 100 nautical miles from the 2,500-meter isobath or a line 350 nautical miles from the baseline.¶
¶

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First Purchase Price: The actual amount paid by the first purchaser for crude oil as it leaves the lease on which it was produced.[33] A "first purchase" constitutes a transfer of ownership of crude oil during or immediately after the physical removal of the crude oil from a production property for the first time.

Gas: A mixture of hydrocarbon compounds and small quantities of various nonhydrocarbons existing in the gaseous phase or in solution with crude oil in natural underground reservoirs at reservoir conditions.[34]

Hydrocarbon: An organic chemical compound of hydrogen and carbon in the gaseous, liquid, or solid phase. The molecular structure of hydrocarbon compounds varies from the simplest (methane, a constituent of natural gas) to the very heavy and very complex.[35]

Lease: Any contract, profit-share arrangement, joint venture, or other agreement issued or approved by the United States under a mineral leasing law that authorizes exploration for, extraction of, or removal of oil or gas.[36]

Deleted: "Lease," as used in this Statement, means a

Lease Condensate: A mixture consisting primarily of pentanes and heavier hydrocarbons which is recovered as a liquid from natural gas in lease or field separation facilities. This category excludes natural gas plant liquids, such as butane and propane,

[31] EIA 2007 Annual Report Glossary.
[32] MMS OCS Estimated Oil and Gas Reserves Gulf of Mexico, December 31, 2005 (MMS 2009-022); available online at http://www.gomr.mms.gov/PDFs/2009/2009-022.pdf; last accessed December 2, 2009.
[33] Adapted from Form EIA-182 Domestic Crude Oil First Purchase Report Instructions.
[34] EIA 2007 Annual Report Glossary.
[35] EIA Glossary.
[36] 30 U.S.C. §1702 (5).

which are recovered at downstream natural gas processing plants or facilities.[37]

Natural Gas Plant Liquids (NGPLs): Those hydrocarbons in natural gas that are separated as liquids at natural gas processing plants, fractionating and cycling plants, and, in some instances, field facilities. Lease condensate is excluded. Products obtained include ethane; liquefied petroleum gases (propane, butanes, propane-butane mixtures, ethane-propane mixtures); isopentane; and other small quantities of finished products, such as motor gasoline, special naphthas, jet fuel, kerosene, and distillate fuel oil.[38]

Net of Sales and Acquisitions[39]: The net change in the quantity of reserve estimates, either positive or negative, as a result of reserves gained through purchase and deducted through sale during the report year.

New Discoveries in Old Fields: The volumes of proved reserves of crude oil, natural gas, and/or natural gas liquids discovered during the report year in new reservoir(s) located in old fields.[40]

New Field Discoveries: The volumes of proved reserves of crude oil, natural gas and/or natural gas liquids discovered in new fields during the report year.[41]

Oil: See Crude Oil.

Outer Continental Shelf (OCS): All submerged lands seaward and outside the area of lands beneath navigable waters. Lands beneath navigable waters are interpreted as extending from the coastline 3 nautical miles into the Arctic Ocean, the Atlantic Ocean, the Pacific Ocean, and the Gulf of Mexico, excluding the coastal waters off Texas and western Florida. Lands beneath navigable waters are interpreted as extending from the coastline 3 marine leagues into the Gulf of Mexico off Texas and western Florida.[42]

Play: A group of pools that share a common history of hydrocarbon generation, migration, reservoir development, and entrapment.[43]

Pool: A discovered or undiscovered accumulation of hydrocarbons, typically within a single stratigraphic interval.[44]

[37] EIA 2007 Annual Report Glossary.
[38] EIA Glossary.
[39] Acquisitions are the volume of proved reserves gained by the purchase of existing fields or properties, from the date of purchase or transfer (EIA 2007 Annual Report Glossary).
[40] EIA 2007 Annual Report Glossary.
[41] Ibid.
[42] MRM Glossary of Mineral Terms.
[43] MMS 2006 Assessment.
[44] Ibid..

Deleted: A mixture of hydrocarbons that exists in the liquid phase in natural underground reservoirs and remains liquid at atmospheric pressure after passing through surface separating facilities.

Deleted: The federal Government administers the submerged lands, subsoil, and seabed lying between the seaward extent of the **States' jurisdiction** and the seaward extent of **federal jurisdiction**

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Proved Reserves: For crude oil and gas, proved reserves are the estimated quantities that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. For lease condensate and natural gas plant liquids, proved reserves are the estimated quantities demonstrated with reasonable certainty to be recoverable in future years in conjunction with the production of proved gas reserves, under existing economic and operating conditions.[45] The total quantity of proved reserves is calculated by adding the quantity of reserves reported as **revisions and adjustments**, **net of sales and acquisitions**, total recoveries and deducting **estimated production** during the report year.[46]

Deleted: which

Region: The term region or regional refers to the geographic area or areas for which estimated petroleum royalties are calculated.[47]

Regional Estimated Petroleum Royalties: Regional estimated petroleum royalties means the estimated end-of-period value of the federal government's royalty share of proved oil and gas reserves from federal oil and gas resources in each region.

Rent: Annual payments, normally a fixed dollar amount per acre, required to preserve the rights to a lease while the lease is not in production. A rent schedule is established

Deleted: Rent, as used in this Statement, are a

[45] EIA 2007 Annual Report Glossary.
[46] For a more detailed explanation of proved reserves and its components, see the section of Appendix D titled Definitions of Resource and Reserve Components and Subcomponents.
[47] For example, offshore federal oil and gas resources have typically been classified into regions such as: Alaska Region – the Federal Outer Continental Shelf Alaska; Pacific Region – the Federal OCS Pacific (Washington, Oregon, and California); Gulf of Mexico (GOM) Region – the Federal OCS Gulf of Mexico (Texas, Louisiana, Mississippi, Alabama, and GOM portion of Florida); and Atlantic Region – the Federal OCS Atlantic portion of all East Coast States.

For onshore federal oil and gas resources, the U.S. Department of Energy typically divides the United States into regions, which are referred to as Petroleum Administration for Defense Districts (PADD), for planning purposes. The result is a geographic aggregation of the 50 States and the District of Columbia into five Districts, with PADD I further split into three sub-districts, as follows:

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- PADD I (East Coast): PADD IA (New England) – Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont; PADD IB (Central Atlantic) – Delaware, District of Columbia, Maryland, New Jersey, New York, and Pennsylvania; and, PADD IC (Lower Atlantic) – Florida, Georgia, North Carolina, South Carolina, Virginia, and West Virginia.
- PADD II (Midwest) – Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, and Wisconsin.
- PADD III (Gulf Coast) – Alabama, Arkansas, Louisiana, Mississippi, New Mexico, and Texas.
- PADD IV (Rocky Mountain) – Colorado, Idaho, Montana, Utah, and Wyoming.
- PADD V (West Coast) – Alaska, Arizona, California, Hawaii, Nevada, Oregon, and Washington.

at the time a lease is issued.[48]

Reservoir: A porous and permeable underground formation containing an individual and separate natural accumulation of producible hydrocarbons (oil and/or gas) which is confined by impermeable rock or water barriers and is characterized by a single natural pressure system.[49]

Revisions: Changes to prior year-end proved reserves estimates, either positive or negative, resulting from new information other than an increase in proved acreage (extension). Revisions include increases of proved reserves associated with the installation of improved recovery techniques or equipment. They also include correction of prior report year arithmetical or clerical errors and adjustments to prior year-end production volumes to the extent that these alter reported prior year reserves estimates.[50]

Revisions and Adjustments: The net change in the quantity of reserve estimates, either positive or negative, as a result of adding changes reported as revisions and adjustments during the report year.

Royalty: Any payment based on the value or volume of production which is due to the United States on production of oil or gas from the Outer Continental Shelf or federal lands, or any minimum royalty owed to the United States under any provision of a lease.[51]

Deleted: Royalty, as used in this Statement, means a

Royalty-In-Kind: A program operated under the provisions of the Mineral Leasing Act of 1920 and the Outer Continental Shelf Lands Act of 1953. The federal government, as lessor, may take part or all of its oil and gas royalties "in kind" (a volume of the commodity) as opposed to "in value" (money). Under the oil royalty-in-kind program, the government sells oil at fair market value to eligible refiners who do not have access to an adequate supply of crude oil at equitable prices.[52]

Deleted: The Minerals Management Service conducted a gas royalty-in-kind pilot program in 1995, entering into contracts to sell selected Gulf of Mexico natural gas by competitive bid to gas marketers. Two additional oil and gas pilot programs began in 1998, and a third gas pilot program began in 1999.

Royalty Rate: A proportionate interest in the production value of mineral deposits due the lessor from the lessee in accordance with a lease agreement.[53]

Royalty Relief: Existing statutes authorize MMS to grant royalty relief to operators on the production of oil and gas resources from federal oil and gas leases. Royalty relief is the reduction, modification, or elimination of any royalty to operators to promote

48 MRM Glossary of Mineral Terms.
49 EIA 2007 Annual Report Glossary.
50 Ibid.
51 Adapted from 30 U.S.C. § 1702 (14).
52 MRM Glossary of Mineral Terms.
53 Ibid.

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Deleted: Ibid.

development, increase production, or encourage production of marginal resources on certain leases or categories of leases.[54]

Sales Value: The proceeds received for the sale of a product. Sales value is calculated by multiplying the sales volume by unit price.

Sales Volume: The volume, or quantity, of the product that is sold. The sales volume is measured in thousand cubic feet (Mcf) for gas and in barrels (Bbl) for oil.

Technically Recoverable Resources: The term used to describe the total quantity of undiscovered recoverable resources and unproved reserves. Proved reserves are not included in the estimated quantity of technically recoverable resources.

Wellhead Price: The value of the purchased natural gas at the mouth of the well. In general, the wellhead price is considered to be the sales price obtainable from a third party in an arm's length transaction. Posted prices, requested prices, or prices as defined by lease agreements, contracts, or tax regulations should be used where applicable.[55]

Deleted: Sales: The volume of proved reserves deducted from an operator's total reserves when selling an existing field or property, during the calendar year.¶
¶

Deleted: States' Jurisdiction is defined as follows:¶
<#>Texas and the Gulf coast of Florida are extended 3 marine leagues (9 nautical miles) seaward from the baseline from which the breadth of the territorial sea is measured. ¶
<#>Louisiana is extended 3 imperial nautical miles (imperial nautical mile = 6080.2 feet) seaward of the baseline from which the breadth of the territorial sea is measured. ¶
<#>All other States' seaward limits are extended 3 nautical miles (approximately 3.3 statute miles) seaward of the baseline from which the breadth of the territorial sea is measured.¶
¶

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Deleted: Total Discoveries: The total quantity of additional discovered reserves which is calculated by adding the quantity of reserves reported as a result of **extensions**, the quantity of reserves reported as a result of **new field discoveries**, and the quantity of reserves reported as a result of **new discoveries in old fields** during the report year.¶
¶

[54] 43 U.S.C. § 1337(a).
[55] EIA Glossary.

Appendix E: Glossary

Fair Value: Value determined by bona fide bargain between well-informed buyers and sellers, usually over a period of time; the price for which a property, plant and equipment item can be bought or sold in an arm's length transaction between unrelated parties; value in a sale between a willing buyer and a willing seller, other than in a forced or liquidation sale; an estimate of such value in the absence of sales or quotations.

Deleted: PP&E

Marketable Treasury Securities: Debt securities, including Treasury bills, notes, and bonds, that the U.S. Treasury offers to the public and are traded in the marketplace. Their bid and ask prices are quoted on securities exchange markets.

Present Value: The value of future cash flows discounted to the present at a certain interest rate (such as the reporting entity's cost of capital), assuming compound interest.

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