



UNITED STATES
DEPARTMENT OF THE INTERIOR
Office of the Secretary

February 8, 2011

Ms. Wendy M. Payne, CPA, CGFM
Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Department of Interior (DOI) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft of Technical Bulletin 2011-1, *Accounting for Federal Natural Resources Other than Oil and Gas*.

The following responses to questions posed in the Exposure Draft were compiled from comments received from DOI's Bureau of Land Management (BLM) and Office of Natural Resources Revenue (ONRR) solid minerals experts and Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) financial reporting experts.

Q1

This proposed technical bulletin would explicitly apply the requirements of SFFAS 38, *Accounting for Federal Oil and Gas Resources*, to all federal natural resources under lease, contract or other long-term agreement and reasonably estimable as of the reporting date (see paragraphs...). The Board believes that explicitly applying SFFAS 38 to all federal natural resources is preferable to remaining silent and relying on preparers and auditors to follow the hierarchy of generally accepted accounting principles and apply SFFAS 38 to other federal natural resources through analogy. The Board believes that being explicit will result in more complete, consistent, and useful reporting of federal natural resources. **Do you agree or disagree with the Board's decision? Please explain the reason for your position in as much detail as possible.**

We agree that explicitly applying SFFAS 38 to all federal natural resources is preferable to remaining silent, and that this will result in more complete, consistent, and useful reporting of federal natural resources. The clarification of appropriate accounting treatment for natural resources other than oil and gas, such as coal, will be beneficial, and will also help to ensure consistent treatment in the future, should a determination be made to record an estimated asset value in the financial statements. Clarification of the treatment for renewable natural resources will likewise help resolve questions and will result in more complete and consistent reporting.

ONRR solid minerals experts believe that of the non oil and gas natural resources, only coal reserves and revenues are material enough to be subject to the reporting requirements at this time. Other non oil and gas resources could of course be added, if they become material.

Some BLM respondents also agreed that providing explicit directions for mineral resources other than oil and gas is a good idea. They indicated however, that the guidance document refers to generic “resource” values. The term “resource” carries an implicit meaning in solid minerals. Generally, a “resource” is equal to all the mineral in the authorization and does not account for mining efficiency or unavoidable losses. As such, if a resource value is used, it will always be greater than the amount mined. If at the end of the authorization it is desired to have the “resource” exactly balance the amount mined, the BLM needs to be using reserve values.

Other BLM experts expressed concern however, in regards to non-coal solid mineral leases. They did not think the determination of the remaining reserve value on potassium, sodium, etc. leases was “reasonably estimable,” since the definition of “reserve” at any particular time is dependent on wildly varying criteria, such as commodity price. Additionally, the BLM does not have or collect any “reserve” or “resource” information for mineral materials. BLM does not independently collect reserve data and applicants/purchasers are not required to collect or provide such data, nor does the BLM have funding or staffing to evaluate this massive amount of data if it were collected. Mineral materials that are sold now would technically be considered undiscovered recoverable or non-recoverable resources. Sales are made on the speculative presumption that the materials applied for (specific commodities) exist at the sale site in the quantity requested. Applicants are required to pay for the amounts authorized by contract unless they can show that the specified quantity of mineral material is not available within the authorized contract area. Unlike leases, contracts for mineral materials are issued for specific commodities, for a fixed quantity, under fixed contract terms (durations). There are no “royalties”. Materials are sold at in-place fair market value price. Most contracts are short-term, ranging from days to a maximum of ten years. The Bulletin would require collection or estimation of theoretical “reserve” information that would be difficult to obtain, as it is specific to sale sites that are typically small that have locations that cannot be reliably predicted, and could involve almost any Federal land. For example, in FY2010, the vast majority of contracts (2,446) had a duration of 90 days or less; a smaller number (351) were intermediate terms (1 day to five years), and a much smaller number (13) had longer terms (up to 10 years). There were 185 free use permits to government agencies and non-profit organizations. Further analysis will be required.

Q2a

Appendix B: Federal Natural Resources is a listing of various categories/types of natural resources. It is intended as a general guide to the universe of natural resources that were considered during development of this technical bulletin (see Appendix B).

Which categories/types of federal natural resources, if any, result in annual receipts and/or collections that would be material to a federal reporting entity over the life of the related lease, contract, or other long-term agreement?

Based upon a preliminary analysis, coal is the predominate natural mineral resource other than oil and gas that would be expected to result in annual receipts that would be material to the Department of Interior over the life of the related leases. Estimates of the undiscounted value of other minerals generating receipts through the Office of Natural Resources Revenue (ONRR) indicate they may be immaterial in aggregate to the Department. However, further and more detailed analysis will be required. Also, it is likely that a similar type of analysis would be required for CFO auditors, to demonstrate that they are, indeed, immaterial. This will of course, be an additional significant effort, and could become an annual requirement.

BLM has identified the 3 categories below, some of which will also require a detailed analysis to determine their potential materiality to the Department.

- Leasable Minerals (royalty and rental)
- Locatable Minerals (holding fees on public lands and royalty and rental on acquired lands)
- Mineral Materials (royalty and rental)

BLM experts further identified potential royalties, rentals, and bonus bids derived from the leasing of non-coal solid minerals such as potassium, sodium, phosphate, and hardrock minerals on acquired lands (under Section 402 of Reorganization Plan No. 3 of 1946). Mineral materials, under the Materials Act of 1947 as amended, are essentially all common variety earth materials unless they are specifically identified as either leasable minerals or locatable minerals (which can include uncommon varieties of mineral materials). Mineral materials revenues include an in-place price and land rental for surface uses. The contracted materials price is adjusted or reappraised at least once every two years. Mineral material commodity categories include sand, gravel, stone, pumice, cinders, clay, calcium, caliche, soil, abrasives, and nonprecious gemstones. As stated above, further analysis will be required.

Q2b

Are there any categories/types of federal natural resources omitted from the listing in Appendix B which result in annual receipts and/or collections that would be considered material to a federal reporting entity over the life of the related lease, contract, or other long-term agreement? If so, please explain.

Appendix B appears to be a fairly comprehensive list.

BLM experts, however, also indicate that the category of “Leasable Minerals (Solid)” should also include, “hardrock minerals on acquired land”. Minerals such as copper, lead, zinc, gold, etc., which are locatable when found on public domain lands, are leasable when found on acquired federal land. For example, the lead/zinc mines in the Mark Twain National Forest, Missouri, mine from Federal solid mineral leases issued by the BLM, and pay very substantial royalties.

Q2c

Are there any categories/types of federal natural resources that a federal agency currently recognizes as an asset on the face of the balance sheet/ statement of financial position? If so, please explain.

None are presently recognized by the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) or the Office of Natural Resources Revenue (ONRR), nor did BLM identify any.

Q3

This proposed technical bulletin applies the same valuation guidance contained in SFFAS 38 for federal oil and gas proved reserves to all federal natural resources under lease, contract or other long-term agreement and reasonably estimable as of the reporting date (see paragraphs 23 through 27). **Do you agree or disagree that the valuation guidance is sufficient? Please explain the reasons for your position in as much detail as possible.**

DOI agrees that the valuation guidance is reasonably sufficient, and provides adequate latitude in developing and selecting the most appropriate method to estimate the value of specific types of natural resources.

However, developing an effective valuation methodology will involve much work and collaboration. ONRR solid mineral experts indicate that, for example, coal proven reserves reported by EIA are reported at too high of a level and do not provide a difference between coal reserves leased by BLM and those not leased. The EIA proven reserves incorporate Federal, State and Fee or private reserves into their estimated numbers. A new process could potentially be developed that would establish a recoverable reserve baseline at the federal lease level from data currently available. Once this is established, depletion of these recoverable reserves could potentially be monitored, and the adjusted values computed. However, this will at least initially be a significant effort requiring a great deal of collaboration, and will require resources and staff to maintain annually.

BLM also notes that basing an estimated value on remaining proven reserves is acceptable. However, the question posed above asserts that this guidance is provided in paragraphs 23 through 27. BLM respondents strongly suggest that a reference to using proven reserves (recoverable reserves for coal) be provided someplace in the document. Additionally, developing the data for the analysis is currently beyond the capability of the BLM. There is no reference to proved reserves. Production varies with the economy and is not readily predictable. New operation/sale locations are common. Most operations are small and extremely short term. The valuation guidance for oil & gas is not applicable or readily translatable to other mineral materials. The nature of the resource and the demand is different. Ultimately, developing a valuation methodology will be a significant undertaking.

Q4a

Please comment specifically on the reasonableness of the proposed technical bulletin from each of the following three perspectives:

Cost – Considering the preparer and audit perspective, would any federal agency incur significant costs to implement the requirements of this proposed technical bulletin? Please explain the reason for your position in as much detail as possible.

Significant audit costs could be incurred by providing information to the auditor that confirms “immateriality” and “completeness” especially if information is not centrally available.

ONRR solid minerals experts have indicated that an efficient and reasonably accurate model could be developed, and once developed, could be repeatedly applied to estimating quantity and value specifically for coal. Thus the cost for this aspect of the requirements would not be expected to be prohibitive, however additional resources and system modification would be required to develop, populate and maintain the required tracking and reporting system. For the final RSI disclosures, a process can likewise be developed to allocate revenue and accruals to complete the required schedules. While not simplistic or easy, this could be done and once developed, is expected to also be repeatable and reasonably efficient, such that an overly significant cost would not be anticipated. BLM however, does anticipate significant additional cost. This will require a formal data request from field offices to report the pertinent data on a per lease or contract basis. This data will then need to be compiled in the Washington Office so that proprietary data is not released. In some cases significant research may be required to discover all applicable records that are needed to reply, and it would take substantial staff time to develop the data needed for such analysis. The geologic data necessary for these requirements does not exist, and would have to be generated, followed by development of hypothetical mining and reclamation plans for all possible commodities and sites on Federal lands. The BLM cannot predict where actual demand would occur, nor the actual prices for materials. Even if investigations were limited to existing disposal sites, the workload for identifying “reserves” would be enormous. Current revenues are based on actual appraised prices. The Bulletin requires speculative projections of the present value of unknown, unpredictable revenue streams of substantially variable durations for a multitude of commodities. However, materiality will require further analysis.

Q4b

Timing – Considering that the proposed requirements would be reported in RSI, is a fiscal year 2012 implementation date reasonable? Please explain the reason for your position in as much detail as possible.

No, we do not believe that a fiscal year 2012 implementation date is reasonable, primarily due to the 1-year delayed implementation date of SFFAS 38. Based upon this, and the complexities involved in developing an appropriate valuation method that all subject matter experts can agree upon, a later implementation date would better provide adequate time to accomplish these important efforts. Manual systems and processes will need to be developed, and staff resources dedicated to this work.

BLM indicates that the initial reporting in the first year will be difficult and time consuming to establish records and reporting procedures. A year advance notice would be helpful to establish reporting procedures and to complete any necessary data gathering in advance. In any case, they anticipate difficulty in the first year. Gathering mineral materials deposit data would vastly exceed program funding and staff capabilities. BLM does not have the necessary equipment to generate geologic data, nor could it develop mining plans for every possible location, and it cannot predict the location of future

public demand to identify economically minable commodity sites. An efficient methodology will need to be carefully developed, and will require additional time to do so.

Q4c

Benefits – Considering the user perspective (internal as well as external), would the benefits of this proposed technical bulletin outweigh the costs of implementation? Please explain the reason for your position in as much detail as possible.

Yes, DOI generally does believe that the benefits of clarifying guidance, ensuring consistency and complete reporting and accounting, and helping to enhance the users' understanding of this new requirement applicable to other natural resources, outweigh the costs of implementation. This will become especially important if a decision is made to capitalize oil, gas and other natural resources such as coal in the future, since other Standards such as SFFAS 7 would also be revised. This guidance helps ensure that users have the information they need to appropriately account for or disclose these other natural resources where applicable. It also provides a very helpful listing of those for which the requirements would not apply.

However some BLM respondents expressed their belief that the costs and workload would exceed benefit to the BLM, the purchasers or permittees, or other external parties, and that this Bulletin would impose these costs and workload to result in hypothetical estimates.

Appendix A, Figure 1

BLM experts suggest that it does not add value to provide resource information for lands that have been withdrawn from leasing. If the lands are withdrawn, there most likely has been no exploration and any subsurface mineral estimation would necessarily be excessively speculative. Further, if the lands are already withdrawn from leasing, then there is no way to know how much mineral might be there because it can never be leased or placed under contract. If the mineral cannot be placed under contract, its economic value is effectively zero. Additionally, BLM again questions the terminology "under contract but not conveyed". The contract is the instrument of conveyance. This appears contradictory and perhaps clarification would be beneficial.

Appendix D, **Undiscovered Resources**

The BLM does not assess undiscovered resources for coal.

Appendix D, **Discovered Resources**

Some of the BLM respondents expressed that generally, there will be no information for any withdrawn area because if the area is withdrawn, no leasing action can occur. And there is additional confusion regarding the definition for "under contract but not conveyed". BLM respondents indicate this would evidently only include the narrow time frame between acceptance of an offer for a lease and the actual issuance of the lease, a time period of about three months. Because the lease is the conveyance, all leases already issued would seem to be excluded. As well, all pending lease applications are assumed to fall included under the "Planned to be offered" category. Only the resource amount would be reported, which should be readily available. However, under the "Other" category in Figure 1 and as defined in Appendix D, BLM is unsure if they would be required to report all Federal coal reserves that are: 1) not withdrawn;

2) not under contract; and 3) not planned to be offered. This is a global reserve estimate. The BLM does not have this value and it would be excessively expensive to achieve a reliably reportable value. Any methodology would need to be carefully determined and agreed upon by subject matter experts.

Appendix D, **Proved Reserves**

BLM respondents indicate that specifically for minerals other than oil and gas, the common usage is “proven reserves.” They also suggest the following alliteration:

For minerals other than oil and gas, the proven reserve proprietary information; The proven reserve is the estimated quantity that geological data and engineering analysis indicate with reasonable certainty to be potentially recoverable in future years from known deposits under specified economic and operating conditions and that are under contract for development at the time of the analysis. The reportable quantity proven reserves is calculated by adding the reserves under lease at the end of the prior reporting year to reported reserves revisions, adjustments, modifications, or new leasing completed during the reporting year, and subtracting estimated production during the reporting year.

Additional Comments:

The comment period is too short and should be extended to allow Agencies a more complete review. Furthermore, SFFAS No. 29, Footnote 17 states, “The Board presently has an active project to address standards for natural resources, for which the Board is considering developing individual standards for each type of natural resource separately. To begin the project, the Board will be addressing oil and gas resources. The framework for the oil and gas resource phase of the project will be used as a model when addressing the other types or logical sets of natural resources (e.g., timber, grazing land, solid leasable minerals) in subsequent phases of the project.” It is unclear how and which Agencies were involved in the subsequent phase of the project to allow sufficient input into the draft of Technical Bulletin 2011-1.

Recommend that the Table in Appendix B: Federal Natural Resources include whether the resources are considered “renewable” or non-renewable” or a statement that the determination of status is up to the preparer.

The term “federal natural resources” used throughout this document is confusing especially if the reader misses the exclusion of renewable natural resources and electromagnetic spectrum as stated in Paragraph 14.

Recommend that information required in Paragraph 29.f. remain as RSI. Recommend that the Board consult with Agencies before determining whether the information will transition to basic information as financial statement recognition or note disclosure.

The auditing of the information Agencies would present to satisfy the reporting requirements of Paragraph 29.f. is concerning. The information is likely subjective and

might cause conflict between the preparer and the auditor. The Agency might have to prove that “materiality” and “completeness” tests were performed; especially if the Board transitions the information from RSI to basic. For example, the table in Appendix B lists “Mineral Materials” as “sand, gravel, and stones.” Great Sand Dunes National Park and Preserve contains “sand.” It is unclear how reporting the existence of sand in this national park or others would be considered important to the financial statement reader. The reader would be better served by going to the National Park website to learn more vs. depending on narrative information presented in an Agency Financial Report.

Conclusion

In closing, we would again like to thank the FASAB for offering us the opportunity to provide comments to this important Technical Bulletin. It is clear that many significant issues remain to be resolved. We plan that with the additional time allotted through a delayed implementation to coincide with the SFFAS 38 implementation, this significant challenge can be met.

Sincerely,

/s/

Edward King
Acting Deputy Director
Office of Financial Management
US Department of the Interior
(202) 208-3425