

Chapter 2

Basic Reporting Principles

This chapter covers basic reporting information and instructions for ONRR royalty reporters. You should carefully follow these reporting instructions to avoid delays in acceptance of reports and payments. Additional instructions for reporting geothermal royalties are in the Geothermal Payor Handbook.

If you have questions about these instructions, please contact Reference and Reporting Management. (For contact information, see Appendix A.)

2.1

Sources of Production from which ONRR Expects to Receive Royalties

Lease production: You must report all production produced, removed from, or allocated to the lease premises. We expect royalties on 100 percent of the lease production. If the Federal/Indian mineral ownership percentage is less than 100 percent, we expect royalties on that percentage. Report royalties using the ONRR-converted lease number.

Unitized participating area (PA) production: You must report any production allocated among leases within an established unit PA. We expect to receive royalties for each Federal and Indian lease participating in the PA based on the PA allocation schedule. Report a separate line on Form ONRR-2014 for each lease/agreement combination in the PA.

Communitized production: A communitization agreement (CA) allows companies to develop and operate separate tracts of land that could not operate independently in conformity with an established State well-spacing program. We expect to receive royalties based on the CA allocation schedule. Report a separate line on Form ONRR-2014 for each lease/agreement combination in the CA.

Compensatory royalty: You must report compensatory royalty from any Federal or Indian lease when directed by the Bureau of Land Management (BLM) or Bureau of Ocean Energy Management (BOEM).

- Unleased Federal or Indian land (**agreements**) — BLM or BOEM requires a compensatory royalty **agreement** for unleased Federal or Indian land when a well located on adjacent land drains the Federal or Indian land. If BLM or BOEM determines that the parcel of land cannot

be leased, a compensatory royalty agreement is established. **We account for the compensatory royalty by assigning it an agreement number that is reported on Form ONRR-2014 using the lease number field.**

- Leased Federal or Indian land (**assessments**) — BLM or BOEM assesses compensatory royalties when adjacent land drains a Federal or Indian lease. If the lessee elects not to drill a protective well or enter into a CA with the owner of the lands containing the offending well, BLM or BOEM assesses the royalty on the product drained from the Federal or Indian leases. **You must report this assessment on Form ONRR-2014 using the assessed lease number and transaction code 10.**

Reporting ONRR lease and agreement numbers: Every line that you report on the Form ONRR-2014 must include the ONRR-converted lease number.

You must report:

- The agreement number and the lease number when you report sales related to a lease's allocated production from an agreement, and
- Each lease and agreement number combination on a separate report line if the lease participates in more than one agreement.

For ONRR-converted lease and agreement numbers, see Appendix B. We also post ONRR-converted agreement numbers and corresponding lease numbers on our website listed in Appendix A.

2.2

When Form ONRR-2014 Is Required

Submit a Form ONRR-2014 if you assume responsibility for reporting and paying the following:

- Royalties on production from Federal or Indian leases and agreements
- Rent (Federal non-terminable and Indian producing leases) or minimum royalty
- Royalties on the sale of test production from the initial lease well before the lease is classified as capable of producing
- Fees on a gas storage agreement
- Royalties on compensatory royalty agreements or assessments against Federal or Indian lands
- Well fees if stated in the lease terms

2.3

Leases Reported to ONRR

NOTE

Do not combine Federal and Indian leases on the same report. A separate report is required for each land type.

Federal leases: Report Federal production to ONRR for the following situations:

- Producing mineral leases on public domain, acquired, and military lands, regardless of the Federal agency administering the surface activities
- All Outer Continental Shelf (OCS) leases (after the first year's advance rental and bonus payment are paid to ONRR)
- Leases receiving an allocation from producing units or CAs
- Leases subject to subsurface storage agreements
- Easements for directional drilling agreements
- Lands subject to compensatory royalty agreements or assessments

Indian leases: Indian leases are those leases owned by any individual Indian or Alaska Native, Indian tribe, band, nation, pueblo, community, rancheria, colony, or other tribal group. These persons or individuals own lands or interest in the minerals, and title to these rights is either held in trust or subject to restriction against alienation by the United States.

You must report to ONRR for the following situations:

- All producing leases, permits, or contracts on Indian tribal and allotted lands
- Leases receiving an allocation from producing units or CAs
- Lands subject to compensatory royalty agreements or assessments

Cook Inlet Region, Incorporated (CIRI): CIRI leases are jointly owned by CIRI and the Federal Government. Report CIRI and Federal portions of the lease to ONRR on separate Form ONRR-2014s. Use payment method (PM) code 2 (PM2) to report the CIRI portion, and enter **I** in field 3, Federal/Indian Report Indicator. Use PM1 or PM3 to report the Federal share and enter **F** in field 3.

2.4

Indian Leases Not Reported to ONRR

The following Indian leases are not reported to ONRR:

- Rentals on nonproducing Indian leases not committed to producing units
- The 27.16186 percent Ute Distribution Corporation (UDC) portion of any lease held jointly by UDC and the Northern Ute Tribe
- Leases, or portions of leases, in which the Bureau of Indian Affairs (BIA) has relinquished supervision

2.5

Authorized Reporting Formats

We now require most reporters to submit data electronically. (See Electronic Reporting, Final Rule, 64 FR 38116, July 15, 1999, at our website listed in Appendix A.)

For instructions on electronic reporting, see Chapter 3.

If you are not required to report electronically, you can print copies of Form ONRR-2014 from our website listed in Appendix A. Photocopies must be 8 1/2 inches long by 14 inches wide.

2.6

Record Retention Requirement

You are required to report to ONRR electronically. This does not change the requirements under 30 CFR, Part 1212.50, which states that all Federal and Indian Records must be retained for a period of 6 years after the records are generated, unless the record holder is notified in writing that records must be maintained for a longer period.

2.7

Payment Requirements

Payments are authorized by 30 CFR 1218.50.

We do not accept cash payments.

NOTE

Include your five-digit ONRR-assigned payor code and an eight-digit PAD number on all payments and reports. Assign a unique PAD number to each separate Form ONRR-2014. Your payor code and PAD number must match on your report and corresponding payment.

NOTE

Electronic payments are cost effective and practical. ONRR will send Notice of Potential Enforcement Action letters to reporters/payors who do not pay electronically. Failure to make payments electronically may subject you to civil penalties as authorized by 30 CFR Part 1241.

Electronic payments: Our regulations require the use of electronic funds transfer (EFT), such as Automated Clearing House (ACH) or Fedwire or Pay.gov, to the extent it is cost-effective and practical for payment of **any** royalty liability. For information or assistance with electronic payments, see Appendix A for contact information.

Before using any of the ONRR pay.gov payment types, please provide your bank the appropriate agency identification number(s) to authorize ACH debits. This will ensure payments you submit are not rejected by your bank. A rejected payment is the same as a returned payment or non-payment.

<u>Agency Identification No.</u>	<u>Pay.gov ACH Payment Type</u>
1417000101	Online Rental Payments (eCommerce “Rental Information”)
1417000102	ONRR Renewable Energy Non-Competitive Leasing Acquisition fees
1417000103	ONRR Royalty and Invoice Payments
1417000104	ONRR Renewable Energy Initial Rental Payments
1417000105	ONRR Oil and Gas Initial ROW/RUE Rental Payments

Detailed instructions, including examples, for all EFT payment types are on the ONRR website “Payments” page at www.onrr.gov/reportpay/payments.htm. If you have questions about how to make an EFT payment after reading the instructions on that page, please call the appropriate points of contact, all of

whom are identified by topic.

If you are not required to use EFT, use one of the payment documents outlined in 30 CFR 1218.51.

2.8

Due Dates for Reports and Payments

Royalties: Form ONRR-2014s and related payments are due to ONRR by 4:00 p.m. Mountain Time on or before the last day of the month following the month the product was sold or removed from the lease unless lease terms state that royalties are due otherwise. For example, the report(s) and payment(s) for products sold or removed during November 2014 are due by 4:00 p.m. on December 31, 2014. If you receive your royalty information late, you can set up an estimate. Royalties will then be due the last day of the second month following the month you sold or removed the product from the lease. For more information on estimates, see Chapter 4.

Rentals: Online rentals, reports (if applicable) and payments for rentals are due to ONRR by 4:00 p.m. Mountain Time on or before the lease anniversary date.

Minimum royalties: Reports and payments for minimum royalties are due to ONRR by 4:00 p.m. Mountain Time on or before the last day of the month and year of the lease year, regardless of whether there is an estimate established on the lease.

NOTE

If the last day of the month falls on a weekend or Federal holiday, send us the report and payment by 4:00 p.m. Mountain Time the next business day.

NOTE

We credit Form ONRR-2014 reports and payments when we actually receive them at one of the appropriate addresses listed in Appendix A. The receipt date is the date we receive the document; the postmark does not apply.

2.9

Report Acceptance

ONRR accepts the financial information contained on reports and payments as correct, subject to a compliance review. Do not send supporting documentation with your reports and payments unless we specifically request it. If requested, indicate the contact person who asked for the information on all supporting documentation.

2.10

Reporting Royalties on Leases within the State of Oklahoma

If you report Federal and Indian oil and gas leases committed to units or CAs within the State of Oklahoma, you do not use special procedures in reporting and paying royalties. Follow the standard procedures as outlined in this handbook to report royalties due on production allocated to each lease under a pooling agreement.

2.11

Takes or Entitlements—Definitions and Examples

Two methods exist to report sales for Federal and Indian leases and agreements: Takes or Entitlements.

- **Takes:** Report and pay royalties based on the portion of the total production that you sold or removed from the lease or from the lease/agreement combination.

Lease-basis production

To calculate the takes sales volume, multiply the total production sold or removed from the lease by the Federal and/or Indian mineral ownership interest in the lease.

$$\begin{array}{r} \text{total takes} \\ \text{volume} \end{array} \quad \times \quad \begin{array}{r} \text{Federal and/or} \\ \text{Indian mineral} \\ \text{ownership interest} \end{array} \quad = \quad \begin{array}{r} \text{takes sales} \\ \text{volume} \end{array}$$

Agreement-basis production (See 100-percent Federal Agreements under “Federal leases and agreements.”)

Report your takes volume in the sales volume field for your lease(s) in the agreement.

$$\begin{array}{r} \text{total} \\ \text{Agreement} \\ \text{takes volume} \end{array} \quad = \quad \begin{array}{r} \text{takes sales} \\ \text{volume} \end{array}$$

- **Entitlements:** Report and pay royalties based on your ownership share of the volume of production sold or removed from the agreement allocated to your lease under the approved allocation schedule.

Agreement-basis production

To calculate the entitled sales volume, multiply the total agreement production sold or removed from the agreement by:

- The tract allocation of the lease,
- the Federal and/or Indian mineral ownership interest in the lease, and
- your company’s working interest in the lease.

$$\begin{array}{rcccccc}
 \text{total} & & & & \text{Federal} & & & & \\
 \text{agreement} & \times & \text{tract} & \times & \text{and/or} & \times & \text{company} & = & \text{entitled} \\
 \text{production} & & \text{allocation} & & \text{Indian} & & \text{working} & & \text{sales} \\
 \text{volume} & & & & \text{mineral} & & \text{interest} & & \text{volume} \\
 & & & & \text{ownership} & & & & \\
 & & & & \text{interest} & & & &
 \end{array}$$

Federal leases and agreements: The Federal Oil and Gas Royalty Simplification and Fairness Act (RSFA) of 1996 clarified and standardized volume reporting requirements on Federal leases and agreements as explained below. The following volume reporting requirements are effective as of sales month September 1996.

- Report **Takes** for:
 - Lease-basis production — production occurring on the lease that is not allocated to an agreement.
 - 100-percent Federal agreements — contain only Federal leases having the same fixed royalty rate and royalty distribution; that is, all revenue is distributed to the same State or surface management agency.
- Report **Entitlements** for a mixed agreement; that is, any agreement that does not qualify as a 100-percent Federal agreement as defined above.

For 100-percent Federal agreements, you may obtain permission to report and pay using an alternative method of reporting and payment if:

- All lessees contractually agree to an alternative method of royalty reporting and payment,

- the lessees submit such alternative method to the Secretary or the delegated State for approval, and
- the lessees make payments in accordance with such approved alternative method so long as such method does not reduce the amount of the royalty obligation.

Indian leases and agreements:

- **Takes:** All lease-basis production is reported as takes.
- **Entitlements:** All agreement production is reported as entitlements. This is true for agreements having allotted, tribal, or a mixture of Federal and Indian leases.

For Indian leases and agreements, you may obtain permission to report and pay by using other methods if:

- You submit your request to us in writing, and
- the method is acceptable to us and all parties involved in reporting and paying royalties on a particular lease or on a lease/agreement combination, and
- we receive 100 percent of the royalties due, properly reported each month.

We reserve the right to review all arrangements and to require retroactive adjustments and reporting based on Entitlements, if appropriate.

Examples: The following examples show how to allocate sales for these situations:

- One lease with multiple payors (Takes)
- One 100-percent Federal agreement with multiple leases and multiple payors (Takes)
- One mixed agreement (not a 100-percent Federal agreement) with multiple leases and multiple payors (Entitlements)

Example

One lease with multiple payors (Takes). This example shows how to report sales based on the actual volume of production sold or removed from a Federal onshore lease with multiple payors.

Assumptions:

Lease 048-111111-0 is a Federal onshore lease. During the month, 80 barrels (bbl) of oil were sold or removed from the lease. The following companies have assumed reporting and payment responsibilities.

Payor	Lease Number	Lease Type	Volume removed or sold (bbl)	Tract allocation percentage	Federal and/or Indian mineral ownership interest percentage	Company working interest percentage	Price \$/bbl	Royalty rate percentage
Able Oil Company	048-111111-0	Federal	50	NA	100	50	18.00	12 1/2
David Oil Company	048-111111-0	Federal	30	NA	100	25	18.00	12 1/2
Zebra Oil Company	048-111111-0	Federal	0	NA	100	25	NA	12 1/2
Total volume produced			80					

Because this is lease-basis production, each company reports and pays royalties based on the actual volume of production sold or removed from the lease. Because Zebra Oil Company took no production, a Form ONRR-2014 is not required.

Royalty value calculation:

$$\text{sales volume} \times \text{price} \times \text{royalty rate} = \text{royalty value}$$

Able Oil Company

$$50 \text{ bbl} \times \$18.00/\text{bbl} \times 0.125 = \$112.50$$

David Oil Company

$$30 \text{ bbl} \times \$18.00/\text{bbl} \times 0.125 = \$67.50$$

The information reported on Form ONRR-2014 is shown on the following fact sheets.

Form ONRR-2014 Fact Sheet

Identification/Authorization Information

Payor Name: Able Oil Company

Detail Line	
Line Number	1
API Well Number	
ONRR Lease Number	0481111110
ONRR Agreement Number	
Product Code	01
Sales Type Code	ARMS
Sales MO/YR	102019
Transaction Code	01
Adjustment Reason Code	
Sales Volume	50.00
Gas MMBtu	
Sales Value	900.00
Royalty Value Prior to Allowances	112.50
Transportation Allowance Deduction	
Processing Allowance Deduction	
Royalty Value Less Allowances	112.50
Payment Method Code	03

**Form ONRR-2014
Fact Sheet**

Identification/Authorization Information

Payor Name: David Oil Company

Detail Line	
Line Number	1
API Well Number	
ONRR Lease Number	0481111110
ONRR Agreement Number	
Product Code	01
Sales Type Code	ARMS
Sales MO/YR	102019
Transaction Code	01
Adjustment Reason Code	
Sales Volume	30.00
Gas MMBtu	
Sales Value	540.00
Royalty Value Prior to Allowances	67.50
Transportation Allowance Deduction	
Processing Allowance Deduction	
Royalty Value Less Allowances	67.50
Payment Method Code	03

Example

100-percent Federal agreement with multiple leases and multiple payors (Takes). This example shows how to report sales based on the actual volume of production sold or removed from an agreement with multiple Federal onshore leases and multiple payors.

Assumptions:

Leases 049-111111-0, 049-222222-0, and 049-333333-0 are Federal onshore leases within a 100-percent Federal unit, agreement number 892-111111-0; and each lease shares in the unitized production. During the month, 375 bbl of oil were sold or removed from the unit. The following companies have assumed reporting and payment responsibilities.

Payor	Lease Number	Lease Type	Volume removed or sold (bbl)	Tract allocation percentage	Federal and/or Indian mineral ownership interest percentage	Company working interest percentage	Price \$/bbl	Royalty rate percentage
Able Oil Company	049-333333-0	Federal	0	10	100	25	NA	12 1/2
David Oil Company	049-111111-0	Federal	250	60	100	25	22.00	12 1/2
Zebra Oil Company	049-222222-0	Federal	125	30	100	50	22.00	12 1/2
Total volume produced			375					

Because the production is attributable to a 100-percent Federal agreement, each company reports and pays royalties based on what they took of the production sold or removed from the lease. Lease 049-333333-0 did not take any production; therefore, Able Oil Company will not report on the Form ONRR-2014.

Royalty value calculation:

$$\text{sales volume} \times \text{price} \times \text{royalty rate} = \text{royalty value}$$

David Oil Company

$$250 \text{ bb} \times \$22.00/\text{bbl} \times 0.125 = \$687.50$$

Zebra Oil Company

$$125 \text{ bbl} \times \$22.00/\text{bbl} \times 0.125 = \$343.75$$

The information reported on Form ONRR-2014 is shown on the following fact sheets.

**Form ONRR-2014
Fact Sheet**

Identification/Authorization Information

Payor Name: David Oil Company

Detail Line	
Line Number	1
API Well Number	
ONRR Lease Number	0491111110
ONRR Agreement Number	8921111110
Product Code	01
Sales Type Code	ARMS
Sales MO/YR	102019
Transaction Code	01
Adjustment Reason Code	
Sales Volume	250.00
Gas MMBtu	
Sales Value	5500.00
Royalty Value Prior to Allowances	687.50
Transportation Allowance Deduction	
Processing Allowance Deduction	
Royalty Value Less Allowances	687.50
Payment Method Code	03

Form ONRR-2014 Fact Sheet

Identification/Authorization Information

Payor Name: Zebra Oil Company

Detail Line

Line Number	1
API Well Number	
ONRR Lease Number	0492222220
ONRR Agreement Number	8921111110
Product Code	01
Sales Type Code	ARMS
Sales MO/YR	102019
Transaction Code	01
Adjustment Reason Code	
Sales Volume	125.00
Gas MMBtu	
Sales Value	2750.00
Royalty Value Prior to Allowances	343.75
Transportation Allowance Deduction	
Processing Allowance Deduction	
Royalty Value Less Allowances	343.75
Payment Method Code	03

Example

Mixed agreement (not a 100-percent Federal agreement) with multiple leases and multiple payors (Entitlements).

This example shows how to report sales based on the percentage of working interest or operating rights ownership with an approved agreement allocation schedule for a mixed agreement with multiple leases and multiple payors.

Assumptions:

Leases 048-000123-0, 607-012900-0, and 048-000178-0 are within the Dover CA, agreement number 894-000001-0. During the month, 200 bbl of oil were sold or removed from the CA. The following companies have assumed reporting and payment responsibilities.

Payor	Lease Number	Lease Type	Volume removed or sold (bbl)	Tract allocation percentage	Federal and/or Indian mineral ownership interest percentage	Company working interest percentage	Price \$/bbl	Royalty rate percentage
Baker Oil Company	048-000123-0	Federal	60	50	100	100	22.00	12 1/2
Charlie, Inc.	607-012900-0	Indian	30	40	100	100	22.00	20
Delta Ltd.	048-000178-0	Federal	110	10	100	100	22.00	16 2/3
Total volume produced			200					

Because the CA is a mixed agreement with Federal and Indian leases, each company will report and pay royalties based on the volume of production sold or removed from the agreement allocated to the company's lease under the approved allocation schedule, no matter who takes the production.

Royalty value calculation:

$$\text{sales volume} \times \text{tract allocation} \times \text{price} \times \text{royalty rate} = \text{royalty value}$$

Baker Oil Company

$$200 \text{ bbl} \times 0.50 \times \$22.00/\text{bbl} \times 0.125 = \$275.00$$

Charlie, Inc.

$$200 \text{ bbl} \times 0.40 \times \$22.00/\text{bbl} \times 0.20 = \$352.00$$

Delta Ltd.

$$200 \text{ bbl} \times 0.10 \times \$22.00/\text{bbl} \times 0.166667 = \$73.33$$

The information reported on Form ONRR-2014 is shown on the following fact sheets.

Form ONRR-2014 Fact Sheet

Identification/Authorization Information

Payor Name: Baker Oil Company

Detail Line	
Line Number	1
API Well Number	
ONRR Lease Number	0480001230
ONRR Agreement Number	8940000010
Product Code	01
Sales Type Code	ARMS
Sales MO/YR	102019
Transaction Code	01
Adjustment Reason Code	
Sales Volume	100.00
Gas MMBtu	
Sales Value	2200.00
Royalty Value Prior to Allowances	275.0
Transportation Allowance Deduction	
Processing Allowance Deduction	
Royalty Value Less Allowances	275.00
Payment Method Code	03

**Form ONRR-2014
Fact Sheet**

Identification/Authorization Information

Payor Name: Charlie, Inc.

Detail Line

Line Number	1
API Well Number	
ONRR Lease Number	6070129000
ONRR Agreement Number	8940000010
Product Code	01
Sales Type Code	ARMS
Sales MO/YR	102019
Transaction Code	01
Adjustment Reason Code	
Sales Volume	80.00
Gas MMBtu	
Sales Value	1760.00
Royalty Value Prior to Allowances	352.00
Transportation Allowance Deduction	
Processing Allowance Deduction	
Royalty Value Less Allowances	352.00
Payment Method Code	05

Form ONRR-2014 Fact Sheet

Identification/Authorization Information

Payor Name: Delta Ltd.

Detail Line

Line Number	1
API Well Number	
ONRR Lease Number	0480001780
ONRR Agreement Number	8940000010
Product Code	01
Sales Type Code	ARMS
Sales MO/YR	102019
Transaction Code	01
Adjustment Reason Code	
Sales Volume	20.00
Gas MMBtu	
Sales Value	440.00
Royalty Value Prior to Allowances	73.33
Transportation Allowance Deduction	
Processing Allowance Deduction	
Royalty Value Less Allowances	73.33
Payment Method Code	03