

Chapter 5

Interest for Federal and Indian Oil and Gas Leases

Introduction

Each month, the Office of Natural Resources Revenue (ONRR) Interest Exception Processing module assesses late payment interest for late paid receivables (royalties, rents, minimum royalties, invoices, etc.). Beginning in October of 2014, ONRR began calculating interest using a new methodology — Running Balance Method. We believe this method better reflects the time value of money and is supported by a decision from our Solicitor.

5.1 **Interest Liability**

We will assess interest for late payments received after the due date for Federal and Indian leases. We will also make assessments for insufficient estimate reporting, where the royalties reported exceed the current estimate balance for Federal and Indian leases. Interest is calculated using the published IRS corporate interest rate compounded daily for Federal oil and gas, and Indian oil and gas leases.

Effective January 2, 2000, for Indian leases located in non-index zones, late payment interest on any major portion true-up reporting will not begin to accrue until the published major portion true-up date.

5.2 Avoiding Late Payment Interest

To avoid late payment interest on royalties, rents, minimum royalty, advance royalty, deferred bonus transactions, and other monies due the Federal government or Indians, you must submit and pay timely, royalty documents, invoices, and other receivables requiring payment to ONRR.

NOTE

Current late payment interest rates are updated quarterly on the ONRR website at <http://onrr.gov/ReportPay/interest.htm>

5.3 Interest and Estimates

An estimate gives you an additional month to report and pay your actual royalties. The estimate can help reduce late payment interest charges. If sales data is not received timely to report to ONRR, an estimate will allow additional time to report without incurring interest charges. The estimate is set up at the lease level, and not by product code.

Insufficient Estimate Interest (Federal and Indian Oil and Gas)

You owe interest for insufficient estimates if actual royalties reported during the extended estimate period exceed the estimate you previously submitted for the lease. We define the extended estimate period as the time the due date is extended for a sales month, because of an estimate. For example, for the sales month of January 2017, royalties were due on February 28, 2017. If you previously had reported an estimate, the extended due date is March 31, 2017. The extended estimate period is one calendar month, in this case the month of March 2017.

We calculate insufficient estimate interest only on the insufficient portion for the number of days you actually use in the extended estimate period (the number of days in the extended estimate period or fewer if you report before the end of the extended estimate period). For example, suppose you have an estimate of \$100 on a lease for sales month January 2017. On March 20, 2017, you report royalties of \$300. You would owe insufficient estimate interest on \$200 (\$300 reported less \$100 estimate) for 20 days (March 1, 2017 through March 20, 2017 — the time used in the extended period).

NOTE

To get the benefit of the estimate, you must report within the extended period for both Federal and Indian leases. Reporting outside the estimate period does not get the benefit of the estimate.

EXAMPLE

This example shows how to calculate insufficient estimate interest based on the scenario just explained.

Assumptions:

You established an estimate for a lease for the January 2017 sales month.

Sales month	01/2017
Due date without an estimate	02/28/2017
Due date with an estimate	03/31/2017
Extended estimate period	03/01/2017 to 03/31/2017
Estimate amount filed	\$100
Royalty amount reported and paid	<u>\$300</u>
Estimate insufficiency	<\$200>
If royalties are reported and paid on 03/20/2017,	you pay 20 days' insufficient estimate interest on \$200.
If royalties are reported and paid on 03/31/2017,	you pay 31 days' insufficient estimate interest on \$200.
If royalties are reported and paid on 04/14/2017,	you pay 47 days' late payment interest on \$300.

Note: Reporting on April 14, 2017, is after the extended period and does not get the benefit of the estimate.

To avoid or minimize insufficient interest assessments:

- Establish an estimate equal to the highest historical sales for the lease, or
- Establish a lesser estimate that can be timely adjusted when you anticipate sales might exceed the estimate.

If you have an excessive estimate balance, you need to adjust those balances to reflect current production. If you are no longer paying on a lease that has an estimate balance, you should either move the estimate balance to another lease or reduce the estimate balance by taking a credit. You may also request a refund if you will no longer be reporting on the lease. If you have questions about your estimate balances, please contact your Royalty Reporting Error Correction Representative at the following web address:

<http://onrr.gov/ReportPay/PDFDocs/royassign.pdf>

5.4

Interest and Adjustment Reason Code 35 (ARC 35)

Late payment interest charges will not be assessed due to the formation, expansion, contraction, or termination of a Unit or Communization Agreement so long as retroactive royalties owed are received, by ONRR, by the end of the month following the month of approval by BLM, BIA, or BSEE.

You may use ARC 35 **one time** per the event referenced above.

Interest will be calculated from the end of the next month following the approval date of the letter from BLM, BIA, or BSEE if not reported/paid timely.

5.5

What Is the Running Balance Method

Effective October 2014, ONRR implemented a new interest billing module. This module calculates interest using a netting methodology for all reporting for a lease on the same royalty document or Form ONRR-2014. This is basically the Running Balance Method (RBM) and it only comes into play when multiple sales months are reported for a lease on the same Form ONRR-2014. Previously, interest was calculated from the royalty due date to the payment date for each sales month. Under the RBM, interest is calculated from the royalty due date to the next transaction for the lease (when multiple sales months are reported). ONRR believes this is a more efficient process and better represents the concept of interest equaling the time value of money. Interest invoices will still have three supporting reports: the Interest Schedule, the Estimate Detail Report, and the Late Payment Allocation Report (see Figures 5-1 through 5-5).

NOTE

Insufficient estimate calculations were not changed by the new Running Balance Method of calculating interest.

EXAMPLE

Assumptions:

ONRR received a Form ONRR-2014 on February 29, 2020, containing one lease.

Sales Month	Due Date	Royalties Reported
07/2018	08/31/2018	\$1,200.00
09/2018	10/31/2018	(\$900.00)
09/2019	10/31/2019	(\$2,000.00)
10/2019	11/30/2019	\$2,000.00

Net balance of all royalties reported on Form ONRR-2014 received on 02/29/2020 is \$300.00.

Old Method

Sales Month	Due Date	Royalty Reported	Interest Amount Due	Interest Calculation Period
07/2018	08/31/2018	\$1,200.00	\$99.77	Interest due 08/31/2018 to 02/29/2020
09/2018	10/31/2018	(\$900.00)	\$0.00	No Interest due
09/2019	10/31/2019	(\$2,000.00)	\$0.00	No Interest due
10/2019	11/30/2019	\$2,000.00	<u>\$25.04</u>	Interest due 11/30/2019 to 02/29/2020
Total Interest Due			<u>\$124.81</u>	

Net balance of all royalties reported on Form ONRR-2014 received on 02/29/2020 is \$300.00.

Running Balance – New Method

Sales Month	Due Date	Royalty Reported	New Balance	Interest Amount Due	Interest Calculation Period
07/2018	08/31/2018	\$1,200.00	\$1,200.00	\$10.07	Interest due 08/31/2018 to 10/31/2018
09/2018	10/31/2018	(\$900.00)	\$300.00	\$17.52	Interest due 10/31/2018 to 10/31/2019
09/2019	10/31/2019	(\$2,000.00)	(\$1,700.00)	\$0.00	Interest due 10/31/2019 to 11/30/2019
10/2019	11/30/2019	\$2,000.00	\$300.00	<u>\$4.10</u>	Interest due 11/30/2019 to 02/29/2020
Total Interest Due				\$31.69	

Net balance of all royalties reported on Form ONRR-2014 received on 02/29/2020 is \$300.00.

5.6

Calculating Interest

For interest you owe ONRR, calculate that interest from the due date of the sales month you are adjusting to the date we receive your payment.

Interest is compounded daily. The interest rate table is updated quarterly on our website at ONRR.gov. Your current representative's contact information is available on our website:

Federal contacts: <http://onrr.gov/ReportPay/PDFDocs/finserAssign.pdf>

Indian contacts: <http://onrr.gov/ReportPay/PDFDocs/FSIndianCoAssign.pdf>

We use the following formula to calculate interest:

$$I = A \left[\left(1 + \frac{R}{N} \right)^n - 1 \right]$$

I = Interest amount

A = Assessment amount

R = Interest rate in decimal form

N = Number of days in the year (365 or 366)

n = Number of days in the period (n is an exponent)

You can use this formula in a spreadsheet program, such as Excel, to calculate the interest you owe us.

Instructions on rounding and how to account for a time period containing changes in the interest rate are located on the ONRR.gov website at <http://onrr.gov/ReportPay/interest.htm>.

Figure 5-1 Interest Invoice

Please Remit To: ONRR using Pay.gov or another type of Electronic Funds Transfer.		U.S. Department of the Interior Office of Natural Resources Revenue		Page: FED01 Invoice No: 1 Invoice Date: INT100101010 Customer Number: 05/31/2019 Due Date: 44444 06/30/2019		
INVOICE				TOTAL AMOUNT DUE: 132.70		
Customer: AMBER NADARHO PO BOX 123321 DENVER CO 80231-34567						
						
For billing questions, please email JAKE.CALLWETHER@ONRR.GOV						
Description	Line	Document ID	PAD Number	Sales Date	Receipt Date	AMOUNT DUE:
	MMS Lease No. Agency Lease			Lease Name		
PLEASE INCLUDE THE CUSTOMER AND INVOICE NUMBERS ON YOUR ELECTRONIC PAYMENT SUBMISSION DATA.						
Interest on Estimate	1	ESTIMATE		01/2019	03/25/2019	6.06
	0540999990 OCS-G 99999					
Interest on Estimate	2	ESTIMATE		01/2019	03/25/2019	2.73
	0540909990 OCS-G 90999					
Interest on Royalty	3	ROY100000123	22198F31	09/2018	03/25/2019	1.90
	0540299990 OCS-G 29999					
Interest on Royalty	4	ROY100000123	22198F31	09/2018	03/25/2019	2.90
	0540399990 OCS-G 39999					
Interest on Royalty	5	ROY100000123	22198F31	09/2018	03/25/2019	118.07
	0540499990 OCS-G 49999					
Interest on Royalty	6	ROY100000123	22198F31	09/2018	03/25/2019	1.08
	0540599990 OCS-G 59999					

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Figure 5-2 Interest Schedule

U. S. Department of the Interior Office of Natural Resources Revenue														Page No. 1				
Interest Schedule - Prebill														Run Date 04/05/2019				
Report ID: ZEPRPT01														Run Time 06:30:15				
Business Unit: FED01 Invoice: INT100101010																		
Dist Code: 0 Customer: 44444 AMBER NADARKO																		
Bankruptcy Petition Date:																		
LINE	DOC ID	Lease No.	Sale Dt	Roy/Bill Lease Amt	Receipt Date	Ent Rsn	Est Ind	Due Date	Payment Date	Payment Amount	Principal Balance	Accumulated Assessment	From Dt.	To Dt.	Days	Int. Rate	Amount Due	
1		054099990	01/31/19	\$ 6,944.65	03/25/19	INTES	Y	02/28/19	03/25/19		\$ 2,944.65	\$ 2,944.65	02/28/19	03/25/19	25	0.03	\$ 6.06	
Total for Bill Line																	1	\$ 6.06
2		054099990	01/31/19	\$ 4,329.13	3/25/19	INTES	Y	02/28/19	03/25/19		\$ 1,329.13	\$ 1,329.13	02/28/19	03/25/19	25	0.03	\$ 2.73	
Total for Bill Line																	2	\$ 2.73
3	ROY100000123	054029990	09/30/18	\$ 460.21	03/25/19	LPROY	N	10/31/18	03/25/19		\$ 460.21	\$ 460.21	10/31/18	11/30/18	30	0.05	\$ 1.90	
			10/31/18	\$ (785.27)	03/25/19	LPROY	N	11/30/18			\$ (325.06)	\$ (325.06)	11/30/18	12/31/18	0	0.00	0.00	
			11/30/18	\$ (371.72)	03/25/19	LPROY	N	12/31/18			\$ (696.78)	\$ (696.78)	12/31/18	01/31/19	0	0.00	0.00	
			12/31/18	\$ (271.62)	03/25/19	LPROY	N	01/31/19			\$ (968.40)	\$ (968.40)	01/31/19	03/31/19	0	0.00	0.00	
Total for Bill Line																	3	\$ 1.90
4	ROY100000123	054039990	09/30/18	\$ 703.75	03/25/19	LPROY	N	10/31/18	03/25/19		\$ 703.75	\$ 703.75	10/31/18	11/30/18	30	0.05	\$ 2.90	
			10/31/18	\$ (1,200.82)	03/25/19	LPROY	N	11/30/18			\$ (497.07)	\$ (497.07)	11/30/18	12/31/18	0	0.00	0.00	
			11/30/18	\$ (568.45)	03/25/19	LPROY	N	12/31/18			\$ (1,065.52)	\$ (1,065.52)	12/31/18	01/31/19	0	0.00	0.00	
			12/31/18	\$ (415.35)	03/25/19	LPROY	N	01/31/19			\$ (1,480.87)	\$ (1,480.87)	01/31/19	03/31/19	0	0.00	0.00	
Total for Bill Line																	4	\$ 2.90
5	ROY100000123	054049990	09/30/18	\$ 1,703.98	03/25/19	LPROY	N	10/31/18			\$ 1,703.98	\$ 1,703.98	10/31/18	11/30/18	30	0.05	\$ 7.02	
			10/31/18	\$ 3,108.56	03/25/19	LPROY	N	11/30/18			\$ 4,812.54	\$ 4,819.56	11/30/18	12/31/18	31	0.05	\$ 20.51	
			11/30/18	\$ 2,667.51	03/25/19	LPROY	N	12/31/18			\$ 7,480.05	\$ 7,507.58	12/31/18	01/31/19	31	0.06	\$ 38.35	
			12/31/18	\$ 2,624.62	03/25/19	LPROY	N	01/31/19			\$ 10,104.67	\$ 10,170.55	01/31/19	03/25/19	53	0.06	\$ 88.99	
				\$ 10,104.67				03/25/19		\$ 7,784.19	\$ 2,320.48	\$ 2,475.35	03/25/19	03/31/19	6	0.06	\$ 2.44	
								03/31/16		\$ 2,320.48					0	0.06	\$ -	
Total for Bill Line																		\$ 157.31
6	ROY100000123	054059990	09/30/18	\$ 252.42	03/25/19	LPROY	N	10/31/18			\$ 252.42	\$ 252.42	10/31/18	11/30/18	30	0.05	\$ 1.04	
		054059990	10/31/18	\$ (430.70)	03/25/19	LPROY	N	11/30/18			\$ (178.28)	\$ (178.28)	11/30/18	12/31/18	0	0.05	0.00	
		054059990	11/30/18	\$ (203.87)	03/25/19	LPROY	N	12/31/18			\$ (382.15)	\$ (382.15)	12/31/18	01/31/19	0	0.06	0.00	
		054059990	12/31/18	\$ (148.98)	03/25/19	LPROY	N	01/31/19			\$ (531.13)	\$ (531.13)	01/31/19	03/31/19	0	0.06	0.00	
Total for Bill Line																	6	\$ 1.04
\$ 7,124.27																		
														Total of all Negative Bill Lines for Invoice INT100101010		0		
														Total of all Negative Bill Lines for Invoice INT100101010		\$7,124.27		
														Total of all Negative Bill Lines for Invoice INT100101010		\$7,124.27		

Figure 5-3 Estimate Exception Bill Details

Report ID: ZEPRT06		U. S. Department of the Interior Office of Natural Resources Revenue				Page No. 1			
Business Unit: FED01 Invoice: INT100101010		Estimate Exception Bill Details - Prebill				Run Date 04/05/2019			
Dist Code: 0 Customer: 44444 AMBER NADARKO						Run Time 06:30:15			
Contract	Sale Dt	Document	Line	Receipt dt	Prod Cd	Trans Cd	Royalty Amt	Estimate Amt	Variance
Line No.: 9		Lease No.: 0540999990							
Beginning Balance								4,000.00	
*** No Change ***									
Ending Balance 31-JAN-2019								4,000.00	
0540999990	07/31/2019	ROY100000123	00000135	03/25/2019	01	13	4,341.16		
0540999990	07/31/2019	ROY100000123	00000136	03/25/2019	01	13	-4,386.06		
0540999990	07/31/2019	ROY100000123	00000139	03/25/2019	04	01	394.55		
0540999990	07/31/2019	ROY100000123	00000133	03/25/2019	01	01	-131,077.49		
0540999990	07/31/2019	ROY100000123	00000134	03/25/2019	01	01	137,672.49		
Line Total								4,000.00	2,944.65
Line No.: 10		Lease No.: 0540909990							
Beginning Balance								3,000.00	
*** No Change ***									
Ending Balance 31-JAN-2019								3,000.00	
0540909990	07/31/2019	ROY100000123	00000140	03/25/2019	01	01	-81,710.64		
0540909990	07/31/2019	ROY100000123	00000141	03/25/2019	01	01	85,821.81		
0540909990	07/31/2019	ROY100000123	00000142	03/25/2019	01	13	2,706.18		
0540909990	07/31/2019	ROY100000123	00000143	03/25/2019	01	13	-2,734.17		
0540909990	07/31/2019	ROY100000123	00000146		04	01	245.95		
Line Total								3,000.00	1,329.13

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Figure 5-4 Late Payment Allocation (Payment Detail)

Report ID: ZEPFR103	U. S. Department of the Interior Office of Natural Resources Revenue		Page No. 3	
Business Unit: FED01	Invoice: INT100101010	Late Payment Allocation - Prebill		Run Date 04/05/2019
Dist Code: 0	Customer: 44444 AMBER NADARNO			Run Time 06:30:15
Document: R0Y100000123	FAD Number: XX0000X	Receipt Date: 03/25/2019	TOTAL AMOUNT:	\$2,320.48
Payment ID	Payment Date	Payment Amount	Total Payment per Date	Pay Seq Nbr
Spced <0 Lines	03/25/2019	\$9200.57	\$9200.57	1
1971	03/31/2019	\$2320.48	\$2320.48	2

