ONRR Overview and Updates

Presented by:
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Petroleum Accountants Society of Oklahoma
February 11-12, 2015
Outline of Presentation

- Background and Disbursements
- Highlights from FY 2014
- Recently Proposed and Final Regulations
- ONRR Video Production Team
Vision: ONRR’s vision is to be recognized as a world-class natural resources revenue management program, setting the standard for accountability and transparency

Mission: ONRR’s mission is to collect, disburse, and verify Federal and Indian energy and other natural resource revenues on behalf of all Americans

- Dallas
- Denver
- Farmington
- Ft. Berthold
- Houston
- Oklahoma City
- Tulsa
- Washington D.C.
FY 2014 Disbursements -- $13.4 Billion

- $ 7.3 Billion to the U.S. Treasury
- $ 895.3 Million to the Land & Water Conservation Fund
- $ 150 Million to the Historic Preservation Fund
- $ 1.77 Billion to the Reclamation Fund
- $ 2.2 Billion to 35 States
- $ 1.1 Billion on behalf of 34 Indian tribes and approximately 30,000 individual Indians
FY 1982-2014 Cumulative Mineral Lease Revenue Disbursement ~ $270.8 Billion

Cumulative Mineral Lease Revenue Disbursement (1982 - 2014)

- Historic Preservation Fund: $4.5 billion
- Land & Water Conservation Fund: $28.84 billion
- Reclamation Fund: $26 billion
- American Indian Tribes & Allottees: $10.39 billion
- State Share (Offshore): $3.84 billion
- State Share (Onshore): $33.33 billion
- U.S. Treasury: $163.96 billion

Note: rounding may affect totals

- Since 1982, ONRR has distributed $270.8 billion in revenues from onshore and offshore lands to the Nation, states, and American Indians.

- The ONRR distribution to the U.S. Treasury is one of the Federal government’s greatest sources of non-tax income.
FY 2014 Highlights

Financial Management and Indian Trust

- Achieved clean CFO Audit of ONRR’s FY 2014 financial statements with no findings
- Disbursed 99.5% of Federal and Indian revenues on time
- Transferred 100% of American Indian revenues received and identified to OST within one business day of receipt
- Provided lease distribution data to BIA for 99.7% of royalties by the first semi-monthly distribution
- Accounted for $1.1 billion of mineral revenues from Indian lands
- At the request of the Director of the Bureau of Indian Affairs, presented a proposal to BIA for ONRR to perform the accounting and compliance functions for the Osage Nation in Oklahoma
FY 2014 Highlights

Compliance

○ ONRR’s audit program received a clean peer review conducted by an independent CPA firm and closed 509 audits and 557 Compliance Reviews

○ ONRR completed compliance work on nearly 70% of more than 3,400 payors and operators

○ Data Mining collected $37 million in additional revenues in FY 2014, and collected over $80 million since 2010

Production Verification

○ Spearheading DOI efforts to improve the oil and gas production measurement inspection program and address concerns cited in GAO’s High Risk report

○ In FY 2014, the Oil and Gas Operations Report (OGOR) cumulative error rate reached an all-time low of 1.22%, with June 2014 dipping to a never-before-seen low of 0.88%; a significant improvement from historical error rates that results in increased data accuracy for all downstream auditing efforts
Question: Over the fiscal years of 2013, 2014, and 2015 (planned), what were the number of completed audits, compliance reviews, and data mining exceptions?

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015 (Planned)</th>
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</thead>
<tbody>
<tr>
<td>Audits</td>
<td>579</td>
<td>509</td>
<td>180</td>
</tr>
<tr>
<td>Compliance Reviews</td>
<td>780</td>
<td>557</td>
<td>450</td>
</tr>
<tr>
<td>Data Mining Exceptions</td>
<td>35,776</td>
<td>29,120</td>
<td>29,000+</td>
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Note: ONRR is implementing an Operations Management Tool to track and monitor all of our compliance activities. Starting in 2015, we implemented a new business process for counting completed compliance reviews and audits which results in a lower aggregate case count for the same amount of compliance work.
In December 2011, DOI established the Indian Oil Valuation Negotiated Rulemaking Committee to advise on a rulemaking to address Indian Oil Valuation as it relates to the major portion requirement in Indian oil leases.

- Balanced membership from Industry, Indian Tribes and Allottees, and the Federal government.
- Committee reached agreement on an index-based formula for meeting the major portion lease requirement.
- Comment period ended August 18, 2014.
  - Total of 15 comments (2 from industry, 3 from industry trade groups or associations, 3 from Indian Tribes, 4 from individual Indian mineral owners, and 3 from unassociated individuals).
  - Majority of commenters expressed support for the rule.
- Final rule targeted for publication on May 1; effective June 30, 2015.
# Indian Oil Valuation Regulation – Committee Members

## Federal
- Bruce Loudermilk, BIA
- John Barder, ONRR
- Don Sant / Theresa Walsh Bayani, ONRR
- Paul Tyler, ONRR

## Industry
- Kevin Barnes, COPAS
- Daniel Riemer, API
- Dee Ross, Chesapeake Energy
- Robert Thompson, III WEA
- Jack Vaughn, Peak Energy
- Patrick Flynn, Resolute

## Tribal
- Roger Birdbear, Ft. Berthold Landowners Association
- Marcella Giles, OILMAN
- Manuel Myore, Ute Tribe
- Perry Shirley, Navajo Nation
- Claire Ware, Shoshone/Arapaho Tribes
- Grinnell Day Chief, Blackfeet Nation
- Alan Taradash, Jicarilla Apache Nation

## Designated Federal Official
- Deborah Gibbs Tschudy, ONRR
New Indian Oil Product Codes

- March 31, 2014, Dear Reporter Letter informed payors of new Indian oil product codes to be reported on the ONRR-2014 beginning with June 2014 sales month (warning edit)
  - 61 (Sweet)
  - 62 (Sour)
  - 63 (Asphaltic)
  - 64 (Black wax)
  - 65 (Yellow wax)

- Fatal edit starting with September 2014 sales
Federal Oil & Gas Valuation – Proposed Regulations

- Existing regulations for Federal gas valuation have not been updated significantly since 1988; Federal oil valuation regulations updated in 2000 and 2004

- On January 6, 2015, ONRR published a proposed rulemaking for Federal Oil and Gas Valuation; comment period closes on March 9, 2015

- Primary goals of the proposed rulemaking are to:
  1) provide greater simplicity, certainty, clarity, and consistency in production valuation,
  2) decrease ONRR’s costs to ensure compliance,
  3) decrease industry’s compliance costs, and
  4) provide more timely certainty to ONRR and industry that companies have paid every dollar due
Federal Oil & Gas Valuation Proposed Regulations - Key Provisions

- Proposed changes would not alter the underlying principles of the current regulations
  - The proposed rule reaffirms that, for purposes of determining royalty, the value of oil and gas produced from Federal leases is determined at or near the lease and that gross proceeds from arm’s-length contracts are the best indication of market value

- For Federal gas sold under non-arm’s-length or no-sale situations, ONRR proposes to eliminate current benchmarks and replace them with an option to value the gas based on:
  1) the first arm’s-length-sale price, or
  2) an index price less a fixed transportation allowance of 5% for OCS sales and 10% for all other areas, but not by less than 10 cents per MMBtu or more than 30 cents per MMBtu
The proposal includes a new “default provision” for Federal oil and gas that codifies and strengthens the Secretary’s discretion for ONRR to exercise its authority in cases involving:

1) misconduct,
2) a lessee breaching its duty to market by selling its oil or gas at a value that is unreasonably low, or
3) situations where ONRR cannot determine whether the lessee properly valued its oil.

Under the proposed rule, ONRR would consider gas not sold or disposed of under an arm’s-length contract before processing as “processed gas.” Examples include gas sold under POP contracts, percentage-of-index contracts, casing head gas contracts, and contracts with any such variations of payment based on volumes or value of gas plant products.
Clarification of Appeal Procedures


- ONRR received 3 comments on the proposed rule (1 oil and gas producer, 1 Indian tribe, and 1 trade association).

- ONRR published the final rule on October 16, 2014, with an effective date of November 17, 2014.

- The rule:
  1) Removes ambiguity regarding the ONRR definition of an Order and which ONRR correspondence are appealable orders,
  2) Clarifies the timing of appeals of orders to perform restructured accounting, and (60 days for Federal oil and gas leases), and
  3) Clarifies the finality of orders that the recipient has not paid or appealed.

The rule would amend the ONRR civil penalty regulations to:
- Apply the regulations to all mineral leases, including solid mineral and geothermal leases, and agreements for offshore energy development,
- Adjust civil penalty amounts for inflation,
- Clarify and simplify the existing regulations for issuing notices of noncompliance and civil penalties, and
- Provide notice that we will post matrices for civil penalty assessments on our Website.

ONRR received 21 comments (13 from individual companies, 7 from industry associations, 1 from a Tribe).

ONRR plans to publish a final rule by December 2015.
Amendments to ONRR's Service of Official Correspondence

- On August 23, 2013, ONRR published the direct final rule amending ONRR’s Service of Official Correspondence regulations at 30 CFR 1218

- The rule allows ONRR to serve official correspondence using any electronic method of delivery that keeps information secure and provides for a receipt of delivery, or, if there is no receipt, the date of delivery otherwise documented

- ONRR received 11 comments (3 from industry associations, 7 from individual companies, and 1 anonymous commenter)

- ONRR’s current electronic method for service of official correspondence is MessageWay

- Some commenters expressed concern over the risks involved with electronic mail (MessageWay) and the ability to respond on time
On August 8, 2013, ONRR published a proposed rulemaking to implement section 6(d) of the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996. The comment period ended October 7, 2013.

The new regulations at 30 CFR Parts 1202, 1205, and 1210 would prescribe when a Federal lessee must report and pay royalties on the volume of oil and gas it takes from a lease or on the volume to which it is entitled based on its ownership interest in the lease.

ONRR received four comments (2 from industry associations, 1 from a consulting service, and 1 from an oil and gas producer).
- Industry response to the rule was mostly favorable.

ONRR plans to publish the final rule by October 2015.
ONRR’s Video Production Team creates high quality training videos for industry payors and reporters

**Completed Videos:**
- EMARF Series
- Pay.gov
- Top 6 OGOR Edits

**Videos in production:**
- PASR Overview
- OGOR Overview
- 2014 Overview
- eCommerce Overview
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