



NOIA ANNUAL MEETING

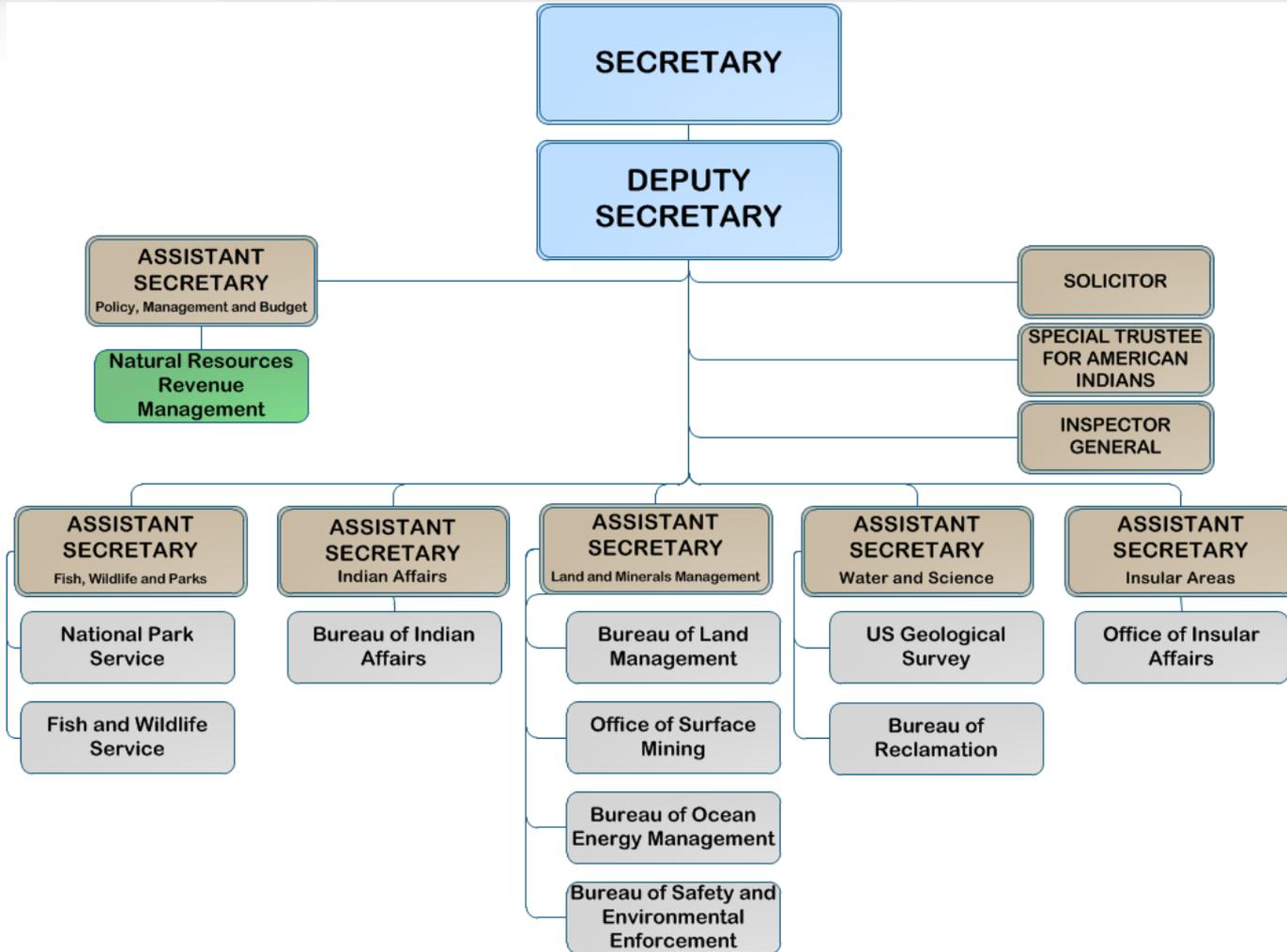
OFFSHORE BONDING & ROYALTIES PANEL

Director Gregory J. Gould
Office of Natural Resources Revenue
April 21, 2016





The Department of the Interior





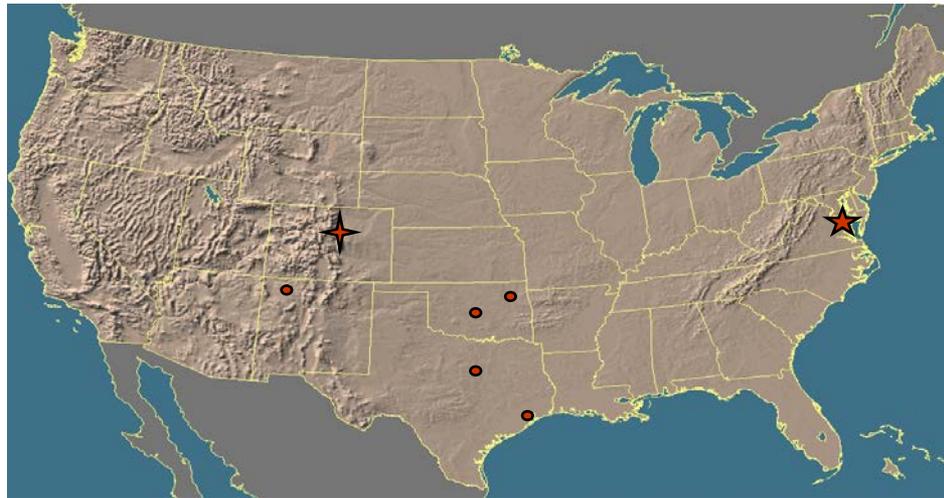
The Office of Natural Resources Revenue



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

Vision: ONRR's vision is to be recognized as a world-class natural resources revenue management program, setting the standard for accountability and transparency.

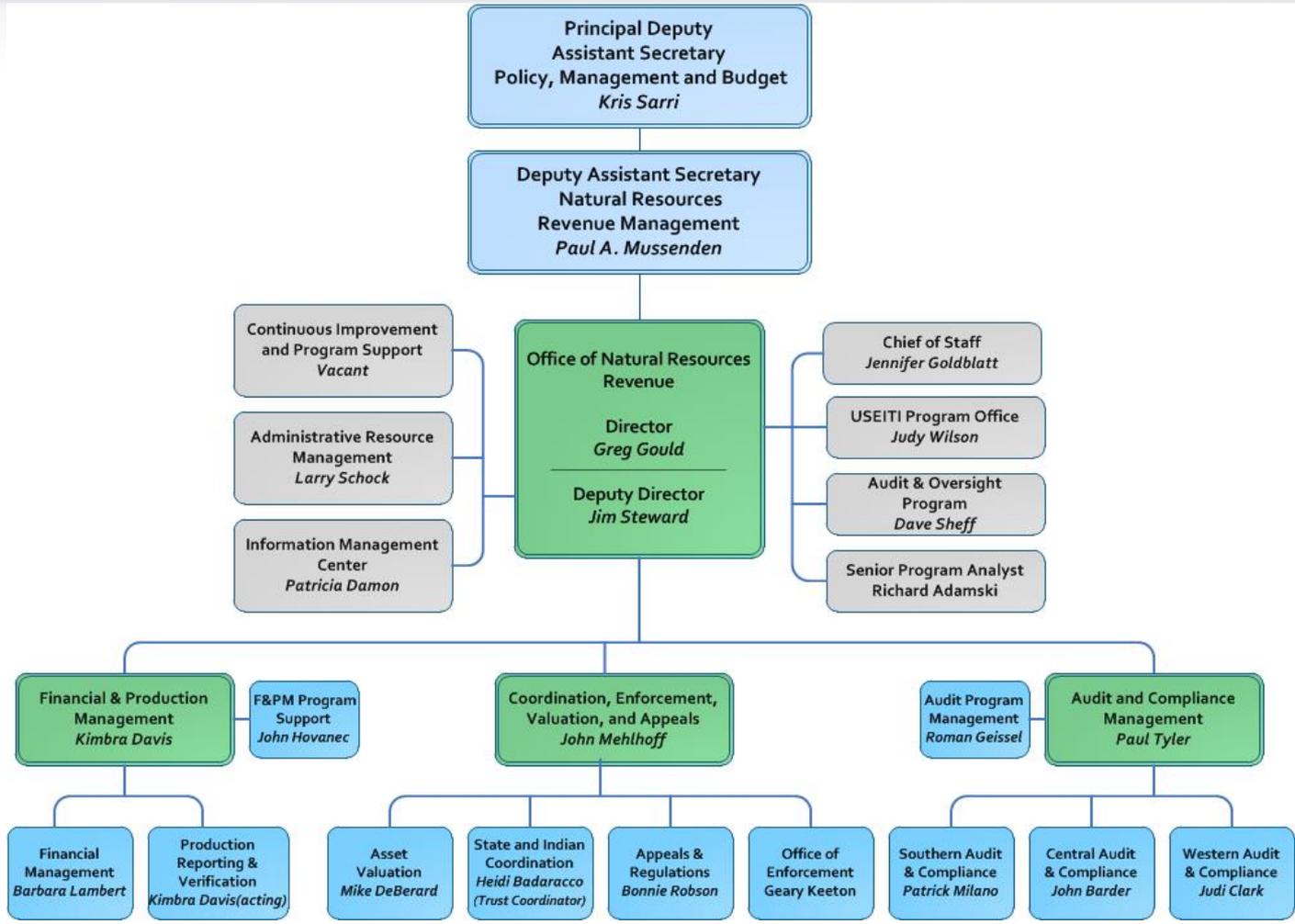
- Dallas, TX
- ★ Denver, CO
- Farmington, NM



- Houston, TX
- Oklahoma City, OK
- Tulsa, OK
- ★ Washington, DC



The ONRR Organization





Proposed Valuation Regulations



- The Consolidated Federal Oil & Gas and Federal & Indian Coal Valuation Reform Proposed Rule was published on January 6, 2015.
 - The proposed rule offers greater simplicity, certainty, clarity, and consistency in product valuation for mineral lessees and mineral revenue recipients.
 - The proposed rule does not alter the underlying principles of the current royalty valuation regulations.
- ONRR received comments from over 300 commenters along with about 190,000 form letters and/or petition signatories.
 - The comments and positions on oil and gas valuation were polarized.
 - The oil and gas industry generally agreed that gross proceeds from arm's-length contracts are the best indication of market value.



Proposed Federal Oil and Gas Provisions



Valuing Arm's-Length Sales:

- The best indicator of value, for royalty purposes of oil & gas produced from Federal leases, is the gross proceeds from arm's-length contracts.

Valuing Non-Arm's-Length Sales:

- **Federal Oil:** valuation methodology for non-arm's-length sales is working; ONRR did not propose major changes to oil valuation methodologies.
- **Federal Gas:** the proposed rule eliminates the existing three (3) prioritized benchmarks and provides valuation options consistent with current market practices:
 - Gross proceeds under the affiliate's first arm's-length sale with applicable allowances; or
 - Election to use an index price.



Proposed Federal Oil and Gas Provisions



Transportation Allowances:

- Disallows transportation allowances greater than 50% of the value of oil or gas and terminates existing approvals for exceeding the 50% limit.
- Arm's-length transportation allowances must be reported on Form ONRR-2014 as costs rather than a single transportation factor.

"Default" Provision:

- Addresses valuation situations where circumstances result in the Secretary's inability to reasonably determine the correct value of production.
- Codifies the Secretary's authority to determine the value of production for royalty purposes and specifically enumerates the when, where, and how the Secretary will use that discretion.

Cost of Capital

- The current rate will be reduced from 1.3 to 1.0 times the S&P BBB bond rate.



Proposed Federal Oil and Gas Provisions



- The May 20, 1999, MMS Associate Director Memo “Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters”:
 - Allowed deduction of costs to move bulk production from the subsea manifold to the platform where the oil and gas first surface; and
 - Is inconsistent with the regulatory definition of “gathering” and legal decisions interpreting that term.

- The proposed regulatory changes:
 - Rescind the 1999 Memo;
 - Clarify the meaning of gathering;
 - Provide a more consistent application of the regulations; and
 - Still allow offshore lessees to deduct considerable transportation costs to move oil and gas from the offshore platform to onshore markets.



Next Steps



- The Department of the Interior sent the final version of its proposed Consolidated Federal Oil & Gas and Federal & Indian Coal Valuation Reform Rule to the White House Office of Information and Regulatory Affairs (OIRA) for review and consideration.
- The Department remains committed to updating and modernizing its regulatory framework for valuation of these products by publishing the final rule in the *Federal Register* this year.



Unbundling



- The process of taking gas transportation and/or processing fees and determining the allowed and disallowed costs for royalty reporting and payment.
- The lessee must place production in marketable condition at no cost to the federal government (30 C.F.R. § 1206.151).
- Lessees have three options for claiming allowances:
 1. Take zero allowances;
 2. Unbundle the transportation and processing systems; or
 3. Use Unbundling Cost Allocations (UCAs) when provided by ONRR.



Unbundling Cost Allocations



➤ UCAs are available online at www.ONRR.gov/unbundling

System/Plants Table

Show entries

Table Search:

Name with Document Link	Type	Operator	Location	Doc Date
Eunice Gas Plant (PDF)	Plant	Enlink	LA	03/23/2016
Neptune Gas Plant (PDF)	Plant	Enterprise	LA	01/16/2016
North Terrebonne Gas Plant (PDF)	Plant	Enterprise	LA	09/30/2015
Stingray Gas Plant (PDF)	Plant	Targa	LA	09/30/2015
Yscloskey Gas Plant (PDF)	Plant	Targa	LA	09/16/2015

➤ This fiscal year, ONRR is working to calculate UCAs for the following gas processing plants:

- Toca
- Larose
- Venice
- Mobile Bay (Williams)
- Sea Robin



Standardized UCAs



- ONRR plans to begin development in FY 2017:
 - Based on gas plant location and gas processing technology
 - Arms-length producers may elect to use a standardized UCA in lieu of unbundling a plant when a UCA does not exist.
- Benefits:
 - Reduces the data request burden for industry;
 - Provides an alternative to the expense of unbundling;
 - All arm's-length payors would have a UCA available; and
 - Reduces the time and money spent by producers and ONRR on audits and compliance reviews.



Implementing EITI



The Extractive Industries Transparency Initiative (EITI) is a global standard to promote open accountable management of natural resources.



- Supported by a coalition of **governments, companies, and civil society** working together.
- The Global EITI Standard requires the disclosure of taxes and other payments made by oil, gas, and mining companies to governments via an annual EITI Report.
- The U.S. Open Government Partnership National Action Plan includes the U.S. commitment to implement EITI.
- The first USEITI Annual Report was published December 2015.
- The USEITI Data Portal is the first ever fully online EITI Report.



2015 USEITI Annual Report



Report by the Numbers

USEITI Unique Aspects



100% of DOI in-scope revenue unilaterally disclosed by DOI in online report



12 extractive industries local community case studies



Publicly available data from 18 states with significant extractive industries



5 Multi-Stakeholder Group members representing Indian tribes and interests from civil society and government

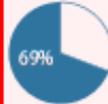


Over 70 cross-sector collaboration meetings in 2015

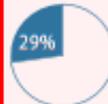
Company Participation, Reporting, and Reconciliation Results



45 companies asked to report



31 companies out of those 45 reported and reconciled \$8.5 billion in DOI revenue



12 out of a maximum of 41 applicable companies reported \$190 million in corporate income taxes



100% of 17 material variances have been explained

Extractive Industries' Revenue in the United States



1st USEITI Report



In 2013, \$12.64 billion Department of the Interior (DOI) revenue for extraction on federal lands



In 2013, \$11.8 billion* in corporate income tax receipts from Mining and Petroleum and Coal Products Manufacturing industries



*Sample-based calculation from US Internal Revenue Service Statistics of Income, "Tax Stats — Returns of Active Corporations — Table 1," access the historical data here: <http://www.irs.gov/uac/SOI-Tax-Stats-Re-urns-of-Active-Corporations-Table-1>



Reporting for USEITI



USEITI The United States Extractive Industries Transparency Initiative

Reporting Template

General Information (line 1)			
Corporate Entity Name			
Entity Type			
Period for Reporting	7/1/2015 - 12/31/2015		
Reported Payments (line 2)			
Government Payee	Revenue Stream	Reference or Reporting Location	Reported Paid (line 2)
DATE	Quantity	Table C-1	
	Value	Table C-2	
	Revenue	Table C-3	
	Other Revenues		
	Offshore Production Fees		
	Oil Revenue		
Voluntary Disclosure (line 3)			
Domestic and First Year Rentals			
Lease Fees			
Royalties			
Tax Payment Reconciliation (line 4)			
Are we willing to participate in reconciliation of our corporate tax payments. (Please indicate Yes, No, or N/A)	Yes No		
Additional Supporting Information (line 5)			
Are we attaching further information to assist you in reconciling the payments made to the records of the relevant payee?	Yes No		
Company Contact Information (line 6)			
Please provide contact information for someone within your company who we can contact with following questions:			
Name:			
Title/Position:			
Management Sign Off (line 7)			
I acknowledge for and on behalf of the company listed that the completed reporting form is a complete and accurate			
Name:			
Title/Position:			

8821 Tax Information Authorization

Form 8821 (Rev. March 2015)

Information about Form 8821 and its instructions is at www.irs.gov/Form8821.

Do not sign this form unless all applicable lines have been completed.
Do not use Form 8821 to request copies of your tax returns or to authorize someone to represent you.

1 Taxpayer information. Taxpayer must sign and date this form on line 7.

Taxpayer name and address: _____ Taxpayer identification number(s): _____
Daytime telephone number | Plan number (if applicable): _____

2 Appointee. If you wish to name more than one appointee, attach a list to this form. Check here if a list of additional appointees is attached:

Name and address: _____ CAF No.: _____
PTIN: _____
Telephone No.: _____
Fax No.: _____
Check if new: Address Telephone No. Fax No.

3 Tax information. Appointee is authorized to inspect and/or receive confidential tax information for the type of tax, form, period, and specific matters you list below. See the line 3 instructions.

Type of Tax Information Income, Equipment, Personal, Estate, State, or Child Penalty, Sec. 2002B Payments, etc.	Tax Form Number (1040, 941, 720, etc.)	Year(s) or Period(s)	Specific Tax Matters

4 Specific use not recorded on Centralized Authorization File (CAF). If the tax information authorization is for a specific use not recorded on CAF, check this box. See the instructions. If you check this box, skip lines 5 and 6.

5 Disclosure of tax information (you must check a box on line 5a or 5b unless the box on line 4 is checked):

a If you want copies of tax information, notices, and other written communications sent to the appointee on an ongoing basis, check this box.

b Note. Appointees will no longer receive forms, publications, and other related materials with the notices. If you do not want any copies of notices or communications sent to your appointee, check this box.

6 Retention/revocation of prior tax information authorizations. If the line 4 box is checked, skip this line. If the line 4 box is not checked, the IRS will automatically revoke all prior Tax Information Authorizations on file unless you check the line 6 box and attach a copy of the Tax Information Authorizations that you want to retain.

To revoke a prior tax information authorization(s) without submitting a new authorization, see the line 6 instructions.

7 Signature of taxpayer. If signed by a corporate officer, partner, guardian, executor, receiver, administrator, trustee, or party other than the taxpayer, I certify that I have the authority to execute this form with respect to the tax matters and tax periods shown on line 3 above.

IF NOT COMPLETE, SIGNED, AND DATED, THIS TAX INFORMATION AUTHORIZATION WILL BE RETURNED.
DO NOT SIGN THIS FORM IF IT IS BLANK OR INCOMPLETE.

Signature: _____ Date: _____
Print Name: _____ Title (if applicable): _____

For Privacy Act and Paperwork Reduction Act Notice, see Instructions. Cat. No. 15106P Form 8821 (Rev. 3-2015)

- Company participation and disclosure for USEITI is voluntary.
- Reporting is highly encouraged by the USEITI MSG in order for the U.S. to achieve compliance
- Company level reported revenue data for CY 2013-2015 is available at: <https://useiti.doi.gov/explore/federal-revenue-by-company/2015/>
- The reporting period is open from May 1 - August 21, 2016.
- Reporting templates available online at: <https://www.doi.gov/eiti/public-engagement>



2016 In Scope Companies



Alpha Natural Resources, Inc.
Anadarko Petroleum Corporation
Apache Corporation
Arch Coal, Inc.
Arena Energy, LLC
BHP Billiton LTD
BOPCO, LP
BP America
Chevron Corporation
Cimarex Energy Co.
Cloud Peak Energy Resources, LLC
Concho Resources, Inc.
ConocoPhillips
Continental Resources, Inc.

Devon Energy Corporation
Encana Corporation
Energy XXI
ENI Petroleum
EOG Resources, Inc.
EPL Oil & Gas, Inc.
ExxonMobil
Fieldwood Energy LLC
Freeport-McMoRan Inc.
Hess Corporation
Jonah Energy
Linn Energy, LLC
LLOG Exploration Company LLC
Marathon Oil Company

Murphy Oil USA Inc.
Noble Energy, Inc.
Oxy USA, Inc.
Peabody Energy Corporation
QEP Resources, Inc.
Red Willow Offshore, LLC
Shell E&P Company
Statoil Gulf of Mexico
Stone Energy Corporation
Talos Energy LLC
Ultra Resources Inc.
W&T Offshore, Inc.
WPX Energy, Inc.



Additional Resources



- Valuation Regulations
 - http://onrr.gov/Laws_R_D/
 - royaltyvaluation@onrr.gov
- Unbundling Information
 - <http://onrr.gov/unbundling/>
 - onrrunbundling@onrr.gov
- USEITI Data Portal
 - <https://useiti.doi.gov/>
 - useiti@ios.doi.gov
- General Information
 - <http://onrr.gov/>