



United States Department of the Interior

OFFICE OF NATURAL RESOURCES REVENUE

P.O. Box 25165
Denver, Colorado 80225-0165

JUN 13 2019

Dear Reporter:

On March 29, 2019, the U.S. District Court for the Northern District of California¹ vacated Office of Natural Resources Revenue's (ONRR's) Repeal of the Consolidated Federal Oil & Gas and Federal & Indian Coal Valuation Reform rule.² By vacating the repeal, the Court reinstated the Consolidated Federal Oil & Gas and Federal & Indian Coal Valuation Reform rule (2016 Rule), which had an effective date of January 1, 2017.³ Accordingly, **all federal oil and gas lessees and all federal and Indian coal lessees, should recalculate royalties under the 2016 Rule for oil, gas, and coal production from January 1, 2017, forward.** Lessees should resubmit amended royalty reports, pay any underpaid royalties (or take a credit for overpaid royalties), and then prospectively report and pay under the provisions outlined in the 2016 Rule.

Because lessees may need time to modify their royalty reporting systems and submit amended royalty reports, ONRR expects lessees to submit corrected reporting and royalty payment for all production from and after January 2017, no later than January 1, 2020.

At this time, ONRR is evaluating its options with respect to additional rulemaking in light of the current Order which reinstates the 2016 Rule. This includes ONRR's ongoing commitment to offer greater simplicity, certainty, clarity, and consistency in product valuation for mineral lessees and mineral revenue recipients. ONRR will also continue, in furtherance of the Secretary's trust responsibilities and in alignment with applicable lease terms, to ensure that Indian mineral lessors receive every dollar due. Additionally, ONRR endeavors to decrease industry's cost of compliance and ONRR's cost to ensure industry compliance, as well as providing early certainty to industry and to ONRR that royalties are paid correctly.

Resources

In order to assist our stakeholders with the transition to the 2016 Rule, ONRR is providing multiple resources in the coming months, including the text of the 2016 Rule, dear reporter letters explaining the changes in the 2016 Rule, training, and guidance.

¹ See Order re Cross-Motions for Summary Judgment, Dkt No. 72, *California v. DOI*, Case No. C 17-5948 SBA (N.D. Calif.).

² See Repeal of 2016 Rule, 82 FR 36934 (August 7, 2017)

³ See 2016 Rule, 81 FR 43338 (July 1, 2016)

2016 Rule Document

Refer to 81 FR 43338 for the preamble and regulatory text of the 2016 Rule. The 2016 Rule document is also available on the ONRR website at:

https://www.onrr.gov/Laws_R_D/FRNotices/PDFDocs/43338.pdf. **Please also refer to the 2016 Rule for the correct regulatory language until ONRR updates the Code of Federal Regulations.**⁴

Dear Reporter Letters

ONRR provided Dear Reporter Letters covering the high-level changes to the regulations for oil and gas and coal lessees.

- Federal Oil and Gas Lessees (September 13, 2016)
<https://www.onrr.gov/about/PDFDocs/20160913.pdf>
- Federal and Indian Coal Lessees (October 5, 2016)
<https://www.onrr.gov/about/PDFDocs/20161005.pdf>

Valuation Guidance

If you have questions regarding the application of the 2016 Rule for a specific situation, please contact ONRR Royalty Valuation at royaltyvaluation@onrr.gov for assistance.

Training

ONRR will offer training sessions on the 2016 Rule for oil and gas and coal lessees.

In these trainings, we will:

- Cover basic valuation principles at an introductory to intermediate level, including topics such as gross proceeds, affiliation, and allowances
- Discuss changes to the valuation regulations in detail, including topics such as the default provision, index-based valuation, first arm's-length sales, and processed gas
- Highlight changes to reporting, including the use of product codes and sales type codes
- Provide examples for calculating royalties
- Be available to answer questions

ONRR requires registration for all training sessions, and will be offering the sessions at no charge to attendees. Attendance is on a first-come, first-serve basis and will be limited. Please note that the federal oil and gas and federal and Indian coal trainings are held separately and that these training sessions will focus solely on federal oil and gas and federal and Indian coal valuation. ONRR will provide training sessions in Building 85 on the Denver Federal Center at the following times:

⁴ After ONRR updates the regulations, please use the most recent applicable version of the Code of Federal Regulations, which can be found online by selecting Title 30 – Mineral Resources, Chapter XII (1200) at <http://ecfr.gpoaccess.gov>.

Federal Oil and Gas Lessees

Monday, August 19, 2019
8:30 AM – 4:30 PM

Denver Federal Center
Kipling Street and West Alameda Avenue
Building 85 Auditorium
Denver, Colorado 80225

Federal and Indian Coal Lessees

Tuesday, August 20, 2019
8:00 AM – 12:00 PM

Denver Federal Center
Kipling Street and West Alameda Avenue
Building 85, Mesa Verde Room
Denver, Colorado 80225

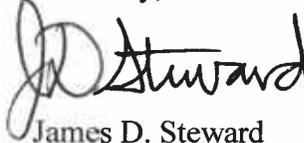
To register, please contact Ms. Kimberly Jackson by email at kimberly.jackson@onrr.gov or by phone at (303) 231-3449.

Guidance Information

This letter is not an appealable decision, order, Notice of Noncompliance, or Civil Penalty Notice under 30 CFR Part 1290 Subpart B (2019) or 30 CFR Part 1241 (2019). If ONRR issues you an order, Notice of Noncompliance, or Civil Penalty Notice at a later date in accordance with the matters addressed in this letter, we will provide your appeal rights at that time.

Please note this letter and the letters referenced within refer to ONRR regulations that were made applicable by Court order.

Sincerely,



James D. Steward
Deputy Director