Dear Reporter:

Subject: Reporting Changes for Reporting Beneficial Use and Buy-Back and Spilled/Lost Volumes, Offshore Royalty Relief Sales when FMP is Not Assigned, and Onshore Inventory Edit — Oil and Gas Operations Report (OGOR), Form MMS-4054

This letter supersedes our previous “Dear Reporter” letter dated April 21, 2009, concerning Buy-Back reporting. In addition, there are reporting changes for Spilled/Lost and Royalty Relief volumes, and an upgrade of the Onshore inventory edit.

The changes are effective beginning with the March, 2011 production month, due May 15, 2011. You will not be required to modify your reports for prior production months. However, if you need to modify prior OGORs for a different reason, you must follow these new procedures.

The following Disposition Codes (DC) are being added or the definition is changed:

**Buy-Back Codes**
- 20 Used on L/A—Native Production Only
- 15 Sales—Buy-Back—Measured—Royalty Not Due
- 25 Buy-Back Purchased for L/A Use
- 26 Buy-Back—Used on L/A

**Spilled or Lost Codes**
- 08 Spilled and/or Lost—Avoidable—Royalty Due
- 23 Spilled and/or Lost—Unavoidable—Royalty Not Due

**Royalty Relief Code**
- 43 Sales—Royalty Not Due—FMP Not Assigned

**Buy-Back Volumes — Examples Enclosed**

In order to promote more accurate reporting of both beneficial use and Buy-Back volumes, the Office of Natural Resources Revenue (ONRR) has created new DCs to be used to identify non-native oil and gas volumes. Buy-Back volumes are considered any non-native oil or gas purchased off the lease or agreement (L/A) reporting entity used on or for the benefit of the reporting L/A operations. Since Buy-Back volumes that were produced on a different L/A and royalty was already paid on those volumes by the off-lease operator, the Buy-Back volumes are not considered native production. Therefore, royalty is not due for the month you purchased the Buy-Back.

- **DC 20 — Used on L/A—Native Production Only**
  This DC has been redefined. Report DC 20 only for native production used on or for the benefit of the L/A.
• DC 15 – Sales-Buy-Back-Measured-Royalty Not Due

Report the Buy-Back volume which was intended for use on the L/A, but not actually used, then left the L/A through the Sales meter. Volume must be positive. For Offshore, report the portion of the Buy-Back volume that was measured by the Sales meter and resold to the pipeline. FMP required (Sales meter) for Offshore.

Note: If DC 15 is reported, the combined totals reported under DC 15 and DC 26 must equal (offset) DC 25.

• DC 25 – Buy-Back Purchased for L/A Use

Report the entire Buy-Back oil/gas volume purchased as DC 25. The volume must be negative. If you purchase both oil and gas in the same report month, you must report two lines – one for oil and one for gas.

• DC 26 – Buy-Back–Used on L/A

Report that portion of the Buy-Back oil/gas volume actually used on or for the benefit of the L/A. Volume must be positive.

Spilled/Lost

The ONRR has created DC 08 and redefined DC 23 to separate native production volumes that are avoidably and unavoidably lost from the L/A. The Bureau of Land Management (BLM) for Onshore and the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) for Offshore must determine whether or not the spill or loss was avoidable. Royalty is due on avoidably lost production.

• DC 08 – Spilled and/or Lost–Avoidable–Royalty Due

Report all native oil and gas production that was spilled or lost and BLM or BOEMRE determined the loss was avoidable. You must report BTU Content for gas and API Gravity for oil. FMP is not required.

• DC 23 – Spilled and/or Lost–Unavoidable–Royalty Not Due

Report all native oil and gas production that was unavoidably spilled or lost and considered by BLM or BOEMRE as not recoverable. Royalty is not due.

Royalty Relief Sales – FMP Not Assigned (Offshore Only)

For Offshore reporters who have test production on an approved Royalty Relief well or L/A where approved metering points (FMP) are not yet established by BOEMRE, you must use the new DC 43 as described below. Do not use DC 09 (Sales–Not Subject to Royalty-MEASURED) as DC 09 requires an FMP number and the new DC 43 does not.

• Disposition Code 43: Sales–Royalty Not Due–FMP Not Assigned

Report any sold Royalty Relief oil and gas volumes; for example, test production volumes which do not yet have an assigned FMP. You must report BTU Content for gas and API Gravity for oil. When used as an Adjustment Code on OGOR-C, the volume must be negative.
Upcoming OGOR Inventory Edit – (Onshore Only)

According to the Minerals Production Reporter Handbook, (Page 5-20), the requirement is the Beginning Inventory must equal the Ending Inventory submitted for the previous Production Month. However, the ONRR system currently handles the Onshore inventory edit as a “Warning” edit. The Onshore inventory edit will be changed to a “Fatal” edit requiring the inventories to match. If your OGOR inventories do not match, they will reject and you will be requested to resubmit the OGOR correctly.

API Gravity and BTU Content

Some operators have inquired about reporting the quality of the oil and gas sold or transferred. The API Gravity and BTU Content must be reported correctly according to guidelines found in the Minerals Production Reporter Handbook, page 5-14, which states for API Gravity, “Enter the number...as a decimal...corrected to 60° F, for example, enter 40.5.” When reporting BTU Content, “Enter the BTU quality as a whole number...corrected for pressure and temperature to 14.73 psia and 60° F” (reported on a dry gas basis). The API Gravity and BTU Content must be determined and reported based on the location stated in the measurement approval correspondence.

If you have questions regarding these changes, please contact your ONRR company contact at 800-525-7922 or refer to the online listing of Error Correction contacts on our new website: http://www.onrr.gov/FM/PDFDocs/opersign.pdf

Sincerely,

Louise Williams
Manager, Production Accounting and Verification Services
Financial Management

Enclosures
Example 5-36 (A)  Buy-Back Meter Installed After Point of Sale
(Buy-Back Volume is Less Than Sales Meter Volume)

Key Considerations:

- With BOEMRE or BLM approval, oil or gas is purchased (bought back) from the
  pipeline company and used on or for the benefit of the lease/agreement (L/A), for
  example fuel, gas-lift, and/or pigging.
- When the Buy-Back volume is less than the sales meter volume, that implies the
  production volume is greater than the total fuel (used on L/A) volume. Therefore, the
  total fuel volume is derived from native production. The remaining native production
  added to the Buy-Back volume will equal the volume measured at the Sales meter.

OGOR-A:

- Report all wells and total production for the L/A. Buy-Back oil/gas should NOT be
  included on the OGOR-A.

OGOR-B:

- Report the volume of oil/gas in which royalty is due using Disposition Code (DC) 01
  (Sales–Subject to Royalty–Measured) or gas volume in which royalty is due using
  DC 11 (Transferred to Facility). The volume of oil/gas in which royalty is due is
  based on the volume measured by the Sales meter minus the volume measured by the
  Buy-Back meter.
- Report all native production used on or for the benefit of the L/A, such as fuel to
  operate production facilities on the L/A, using DC 20 (Used on L/A–Native Production
  Only).
- Report the Buy-Back oil/gas volume purchased from a pipeline or off-lease using
  DC 25 (Buy-Back Purchased for L/A Use). Volume must be a negative number.
- Report ALL of the Buy-Back oil/gas volume intended for L/A use, but left the L/A through
  the Sales meter, using DC 15 (Sales–Buy-Back–Measured–Royalty Not Due). The volume
  must offset the volume reported as DC 25. Non-native production only. FMP required
  (Sales meter) for Offshore.

Note: For Offshore, the gas volume statements/run tickets for each Sales meter AND Buy-Back
meter must be submitted monthly to the appropriate BOEMRE Regional Office. The monthly
gas volume statements/run tickets must be submitted even if the volume is zero.
Example 5-36 (A)  Buy-Back Meter Installed After Point of Sale  
(Buy-Back Volume is Less Than Sales Volume)

Volume of gas measured by the Sales meter: 6,000 mcf  
Volume of gas measured by the Buy-Back meter: 4,000 mcf  
Volume of gas in which royalty is due: 2,000 mcf
**Example 5-36 (A)  Buy-Back Meter Installed After Point of Sale**  
(Buy-Back Volume is Less Than Sales Meter Volume)

**OGOR Fact Sheet**

- **Report Type**: Original
- **Production Month**: 02/2011
- **MMS Operator Number**: F2011
- **Operator Name**: XYZ Company
- **Operator Lease/Agreement Number**: OCS-G 6500
- **Operator Lease/Agreement Name**: WC 24
- **MMS Lease/Agreement Number**: 0540065000
- **Agency Lease/Agreement Number**: OCS-G 6500

**OGOR-A Detail Information**

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**Authorization Information**  
(Completed on first page of each report.)

- **Contact Name**: Harry Smith
- **Telephone Number**: 5042365600
- **Extension Number**:  
- **Authorizing Name**: Harry Smith
- **Date**: 12/15/2008
- **Comment**:  

**TOTAL Disposed**  
200 7000 120

**TOTAL Production**  
200 7000 120
Example 5-36 (B)  Buy-Back Meter Installed After Point of Sale
(Buy-Back Volume is Greater Than Sales Meter Volume)

Key Considerations:

- With BOEMRE or BLM approval, oil or gas is purchased (bought back) from the
  pipeline company and used on or for the benefit of the L/A (for example, fuel, gas-
  lift, and/or pigging).
- When the Buy-Back volume is greater than the sales volume, that implies the
  production volume is less than the total fuel volume. Therefore, a portion of the fuel
  volume is derived from the Buy-Back volume. The remaining portion of the
  Buy-Back volume is measured by the Sales meter and royalty is NOT due on this
  volume.

OGOR-A:

- Report all wells and total production for the L/A. Buy-Back gas should NOT be
  included on the OGOR-A.

OGOR-B:

- Report the Buy-Back oil/gas volume purchased from pipeline or off-lease using
  DC 25 (Buy-Back Purchased for L/A Use). Volume must be a negative number.

- Report all native oil/gas production used on or for the benefit of the L/A, such as fuel
  to operate production facilities on the L/A, using DC 20 (Used on L/A—Native
  Production Only).

- Report the portion of the Buy-Back oil/gas volume used on or for the benefit of the
  L/A using DC 26 (Buy-Back—Used on L/A). Non-native production only.

- Report the portion of the Buy-Back oil/gas volume not used that month and directed
  back through the Sales meter using DC 15 (Sales—Buy-Back—Measured—Royalty Not
  Due). Non-native production only. FMP required (Sales meter) for Offshore.

  Note: The combined totals reported with DC 15 and DC 26 must equal (offset)
  DC 25.

- Enter a remark in the Comment field stating Buy-Back volume greater than sales
  volume.

Note: For Offshore, the gas volume statements/run tickets for each Sales meter AND Buy-
Back meter must be submitted to the appropriate BOEMRE Regional Office. The monthly gas
volume statements/run tickets must be submitted even if the volume is zero.
Example 5-36 (B)  Buy-Back Meter Installed After Point of Sale
(Buy-Back Volume is Greater Than Sales Meter Volume)

Volume of gas measured by the Sales meter: 5,000 MCF
Volume of gas measured by the Buy-Back meter: 12,000 MCF
Volume of gas used on L/A (Native production): 1,000 MCF
Volume of gas used on L/A (Buy-Back): 7,000 MCF
Example 5-36 (B)  Buy-Back Meter Installed After Point of Sale
(Buy-Back Volume is Greater Than Sales Meter Volume)

OGOR Fact Sheet

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Authorization Information (Completed on first page of each report.)

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