



Disclaimer

This presentation does not constitute formal valuation guidance and does not apply to any specific property, lease, or case. This presentation does not require that you perform any type of restructured accounting, any reporting, or recalculate and pay royalties. The guidance provided in this presentation is not an appealable decision, order, Notice of Noncompliance, or Civil Penalty Notice under 30 C.F.R. Part 1290 Subpart B (2014) or 30 C.F.R. Part 1241 (2014). If ONRR issues you an order, Notice of Noncompliance, or Civil Penalty Notice at a later date based on valuation guidance, your appeal rights will be provided at that time.



Office of Natural Resources Revenue

U.S. Department of the Interior

Indian Oil and Gas Valuation

Royalty Valuation | Consistent answers to complex questions

royaltyvaluation@onrr.gov



Valuation Regulations



National Archives and
Records Administration

30 CFR Part 1206

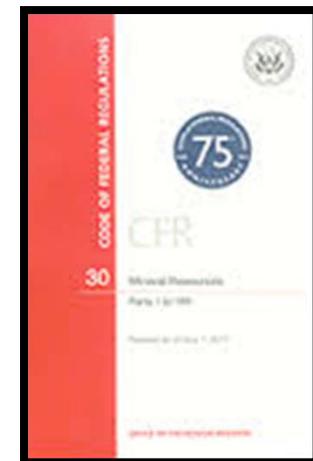
◆ Indian Oil: § 1206.50 - § 1206.62

◆ February 1, 2008

◆ Indian Gas: § 1206.170 - § 1206.181

◆ January 1, 2000

code of
federal regulations



Electronic Code of Federal Regulations:

<http://www.ecfr.gov/>



Outline

- ONRR Trust Responsibility
- General Valuation Principles
- Federal versus Indian Valuation
- Indian Gas: Index Zone Valuation
- Indian Gas: Non-Index Zone
- Indian Gas: Accounting for Comparison
- Indian Gas Allowances
- New Indian Oil Valuation Rule

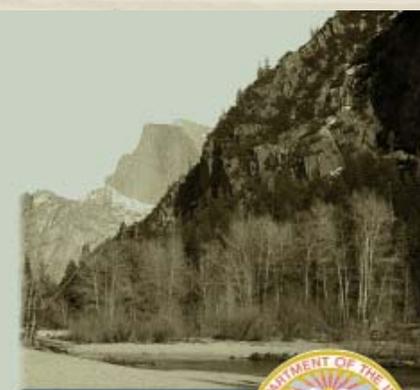




ONRR Trust Responsibility

Four agencies in the Department of the Interior share responsibility for the trust management and protection of Indian mineral interests

How can we help you? How can you contact us?



Office of Natural Resources Revenue (ONRR)



for questions about:

- ▶ Your oil, gas or solid minerals royalty payments
- ▶ How your royalties are calculated
- ▶ Auditing of mineral leases

You may call ONRR offices toll free at:
 Denver 1-800-982-3226
 Farmington 1-800-238-2839
 Oklahoma City 1-800-354-7015

Website: www.onrr.gov

Bureau of Indian Affairs (BIA)



for questions about:

- ▶ Land ownership and lease status
- ▶ Mineral Leasing
- ▶ Finalizing and approving Communitization Agreements (CA)
- ▶ Rights-Of-Way
- ▶ Probate

For BIA questions, please contact the BIA agency or tribal office having responsibility for your mineral properties.

Website: www.bia.gov

Bureau of Land Management (BLM)



for questions about:

- ▶ Permit approvals to drill or extract a mineral resource
- ▶ What happens in an inspection
- ▶ Frequency and results of onsite inspections
- ▶ Communitization review
- ▶ Lease production volumes
- ▶ Wells and other ownership that may affect your production
- ▶ Proper plugging of wells
- ▶ Official surveys of Indian lands

For BLM questions, please visit their website
 Website: www.blm.gov

Office of the Special Trustee for American Indians (OST)



for questions about:

- ▶ How to receive funds from your IIM account.
 - Direct Deposit
 - Debit Card
 - Check
- ▶ Privacy of your financial trust account
- ▶ Why it is important to update your address
- ▶ If funds in your account earn interest
- ▶ Trust Assets Information

You may call OST toll free at:
 Customer Service Line 1-888-678-6836

Website: www.ost.doi.gov

The ONRR, in conjunction with BIA and OST, provides revenue management services for mineral leases on American Indian lands.

Money collected for Indian mineral leases is returned

~~~~~ 100 % ~~~~~  
 to respective Indian tribes and individual Indian mineral owners.



# The Trust Doctrine

## Sources of the Trust Doctrine

*The trust doctrine defines the relationship between the United States and Indian Tribes.*

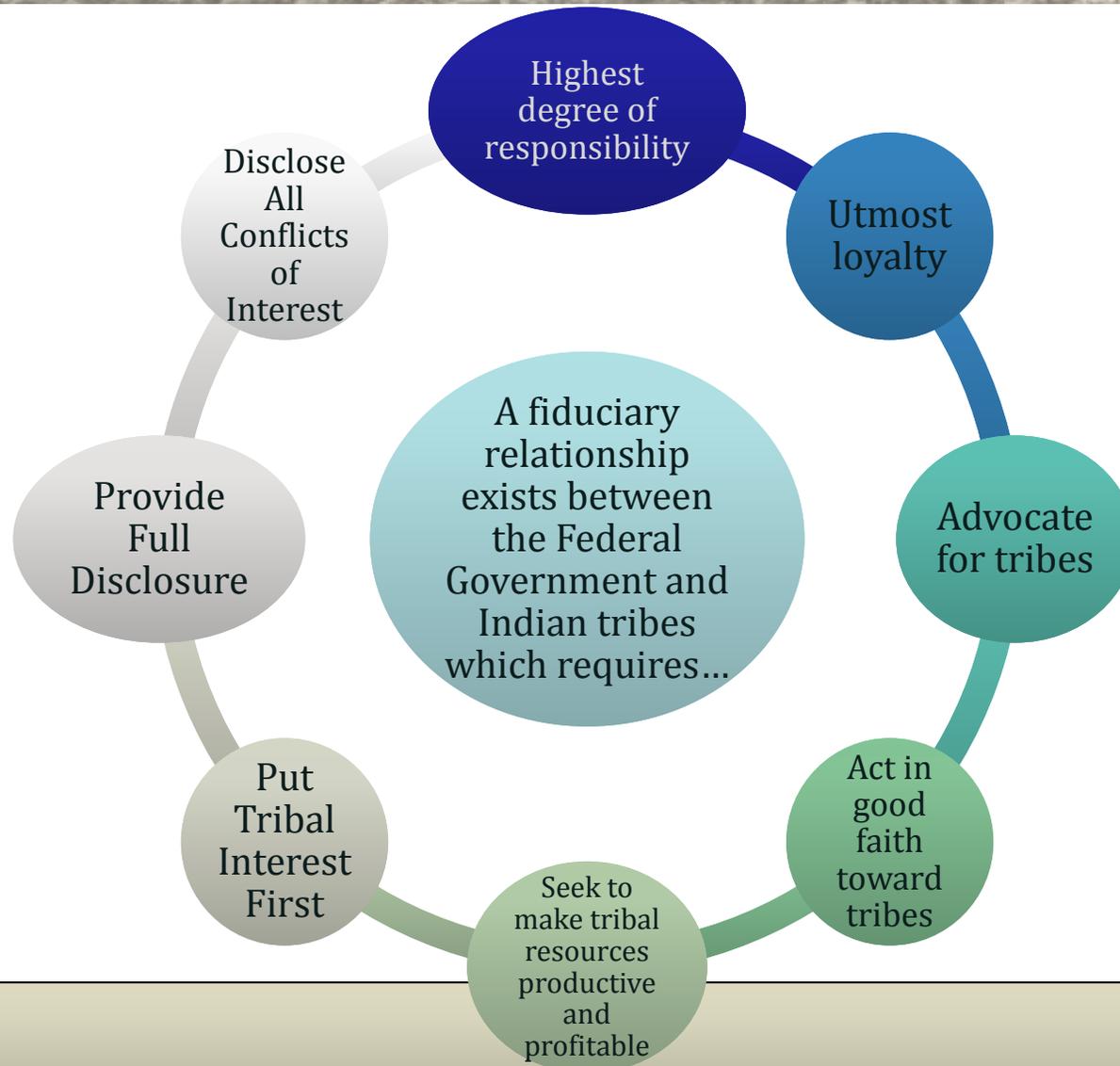
The doctrine is derived principally from:

- Law of Nations
- U.S. Constitution
- Treaties
- Statutes





# The Trust Responsibility & Fiduciary Relationship





# U.S. Department of the Interior Implementation of Trust Responsibility

Consult with tribes in determining how best to use or develop resources

Analyze all relevant information in determining how best to act in the interest of tribes

Implementation  
of Trust  
Responsibility

Make decisions based on the tribe's best interests

Provide accurate accounting of all transactions involving resources



# Outline

- ONRR Trust Responsibility
- **General Valuation Principles**
- **Federal versus Indian Valuation**
- Indian Oil Valuation
- Indian Gas: Index Zone Valuation
- Indian Gas: Non-Index Zone
- Indian Gas: Accounting for Comparison
- Allowances
- New Rule





# General Valuation Principles

*Please refer to Federal Valuation Training*

- Royalty is due on the quantity & quality of production as measured at the approved ***Royalty Settlement Point*** when it is severed from the lease
- Arm's-Length (ARMS) or Non-Arm's-Length (NARM)
- Gross proceeds
- Marketable condition (Unbundling)





# Federal versus Indian Valuation

## Federal Valuation

- Royalty Settlement Point
- ARMS vs. NARMS
- Gross Proceeds
- Marketable Condition
- Benchmarks
- Rare Dual Accounting
- Transportation & Processing Allowances

## Indian Valuation

- Royalty Settlement Point
- ARMS vs. NARMS
- Gross Proceeds
- Marketable Condition
- Benchmarks
- Dual Accounting
- Index Zone Valuation
- Lease specific Valuation
- Major Portion
- Allowance Forms for Transportation & Processing
- Transportation & Processing Allowances
- Dedicated contract valuation
- Safety net differential



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# Indian Gas Valuation

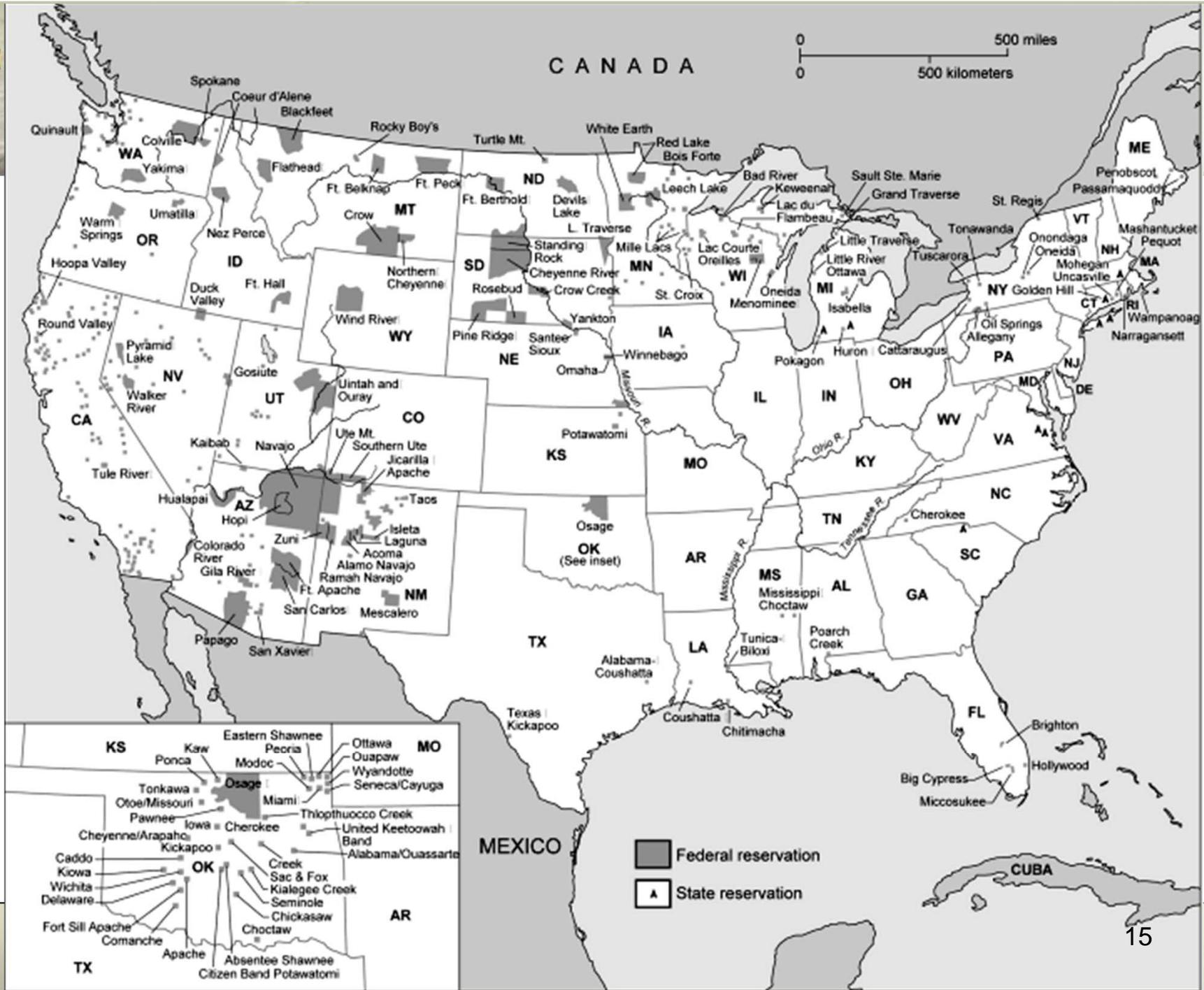
**30 CFR § 1206.170 - § 1206.181**





# Indian Gas Royalty Value

- Index Prices/Index Zone Areas
  - May NOT be reduced by transportation or processing allowances
- Major Portion Prices
  - Non-index zone areas
- Other royalty value situations
  - Gross proceeds, lease terms, settlements, tribal resolutions, treaties, statutes





# Index Zones | ONRR Designated Areas

## Index Zone

Central Rocky Mountains  
Northern Rocky Mountains  
San Juan Basin

Oklahoma Zones 1, 2, 3

## ONRR-Designated Area

Uintah and Ouray Reservation  
Wind River Reservation  
Jicarilla Apache Reservation  
Navajo Tribal Leases in the  
Navajo Reservation  
Southern Ute Reservation  
Ute Mountain Ute Reservation

Groups 1,2, and 3 are based  
on groups of counties in  
Oklahoma



# Index Zone Prices | onrr.gov



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Home > Valuation > **Monthly Prices For Index Zones**

### Indian Index Zones Natural Gas Prices

For reporters' convenience, each month ONRR publishes natural gas prices for six Indian Index Zones as referenced in 30 CFR § 1206.172. For a listing of the Index Zone Price Points used for the calculation, please reference the most recent notice published in Federal Register on June 23, 2011 (PDF)

#### Index Zones:

- CRM (Central Rocky Mountains)
- NRM (Northern Rocky Mountains)
- OK 1 (Oklahoma Zone 1) [View Counties](#)
- OK 2 (Oklahoma Zone 2) [View Counties](#)
- OK 3 (Oklahoma Zone 3) [View Counties](#)
- San Juan Basin
- East Texas (discontinued in April 2000)

- 2014

CRM NRM OK 1 OK 2 OK 3 San Juan Basin

#### 2014 :: Central Rocky Mountains (Ute Allotted and Tribal\*)

|          |        |           |        |
|----------|--------|-----------|--------|
| January  | \$4.09 | July      | \$4.14 |
| February | \$5.02 | August    | \$3.42 |
| March    | \$5.62 | September | \$3.54 |
| April    | \$4.11 | October   | \$3.52 |
| May      | \$4.24 | November  | \$     |
| June     | \$4.07 | December  | \$     |

\*Tribal became effective 8/01/10

+ 2013

+ 2012

+ 2011

+ 2010

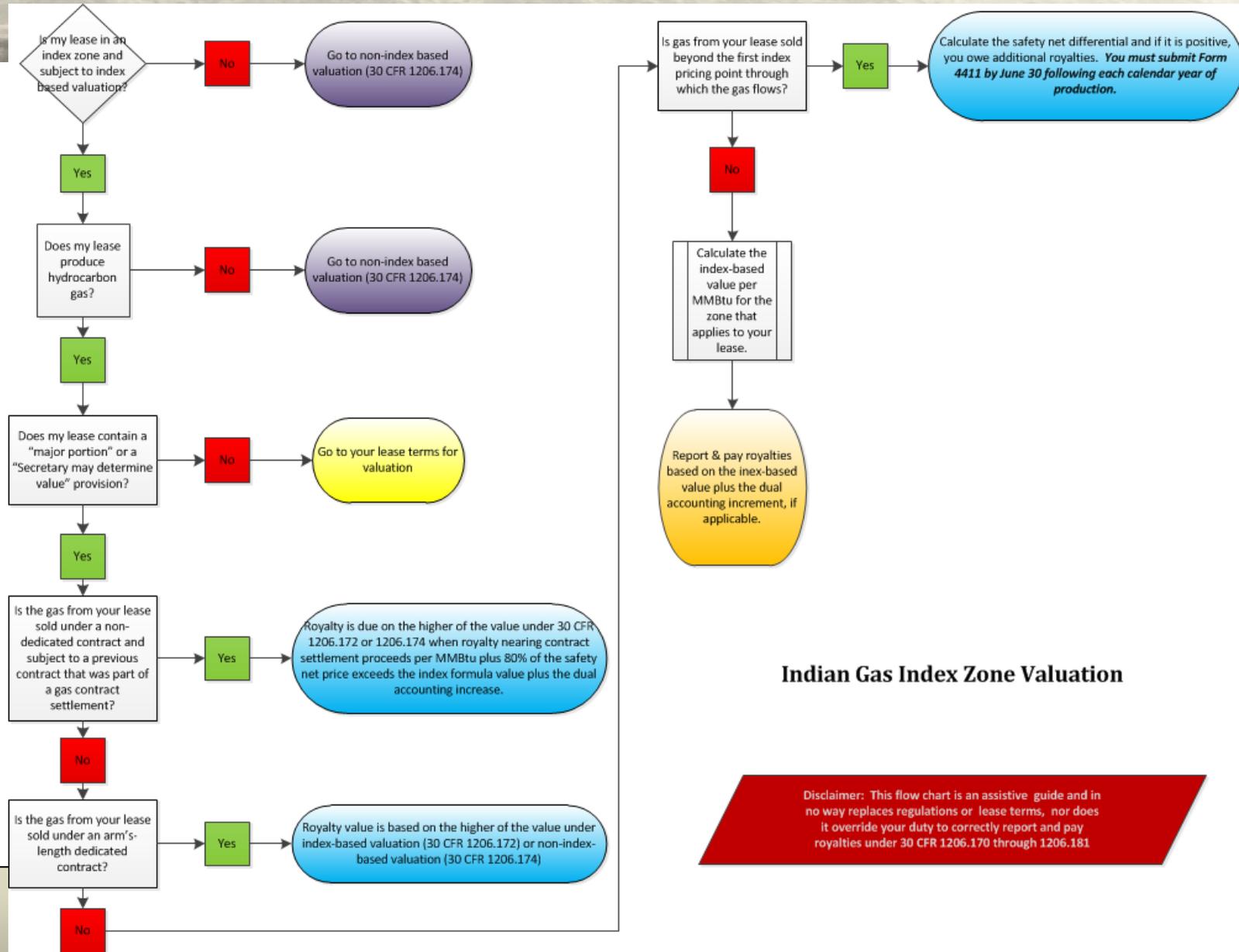


# Exclusion from Index Zone Valuation

- A Tribe may request ONRR to exclude some or all of its leases from valuation under the index method
- ONRR may exclude any Indian allotted leases from valuation under the index method
- ONRR will publish in the Federal Register a notice of its decision to exclude any Indian leases from an index zone



# Index Zone Valuation Flow Chart



## Indian Gas Index Zone Valuation

Disclaimer: This flow chart is an assistive guide and in no way replaces regulations or lease terms, nor does it override your duty to correctly report and pay royalties under 30 CFR 1206.170 through 1206.181



# Dedicated Sales Contracts

- In determining value, the lessee must:
  - determine gross proceeds under § 1206.174(b)
  - compare the value to the index-based value
  - pay royalties on the higher of the two values
- Dedicated gas sales typically occur before the index pricing point





# Safety Net Price



- Minimum value for royalty purposes of gas sold beyond the first index pricing point
- Calculated for each month of the calendar year and for each index zone where the lessee has an Indian lease. Due to ONRR by June 30 following each calendar year on Form MMS-4411, Safety Net Report
- For an index zone the safety net price is the volume-weighted average contract price per delivered MMBtu (under lessee's or affiliates' arm's-length contracts for the disposition of residue gas or unprocessed gas) produced from Indian leases in that index zone
- Contract price is not reduced for transportation
- ONRR may order the lessee to amend the safety net price within one year from the date the Safety Net Report (Form-4411) is due or is filed, whichever is later



# How to calculate the Safety Net Differential (SND)

- For each index zone, the safety net differential (SND) is equal to

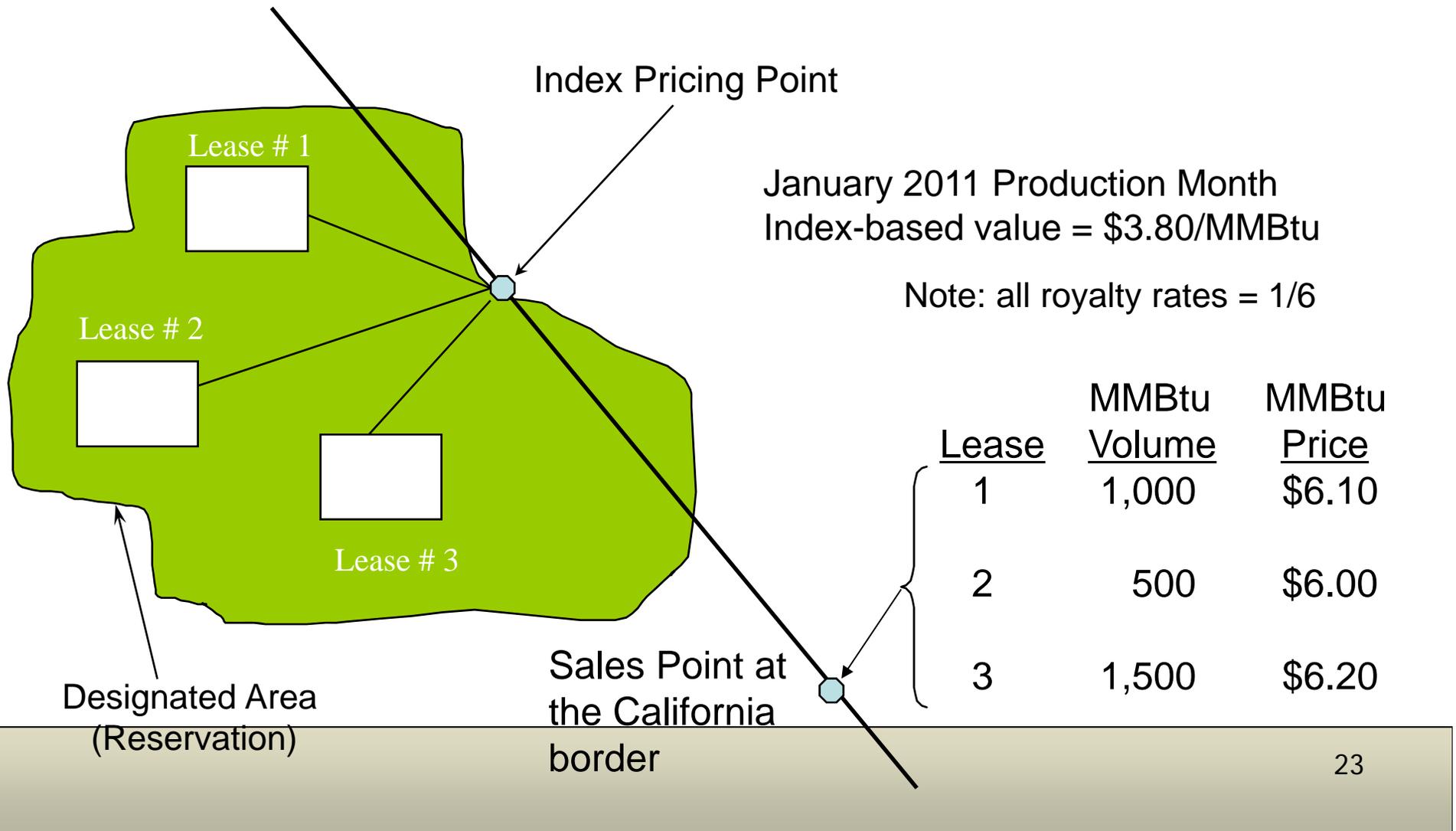
$$\text{SND} = [(0.80 \times S) - (1.25 \times I)]$$

where **S** is the safety net price and  
**I** is the index-based value

- If the safety net differential is positive, the lessee owes additional royalties



# Safety Net Example





# Safety Net Example

## Safety Net Price (**S**) Calculation

**S** = volume-weighted average contract price of arm's-length sales from your Indian leases in that index zone

$$\mathbf{S} = \frac{(1,000 \times \$6.10) + (500 \times \$6.00) + (1,500 \times \$6.20)}{(1,000 + 500 + 1,500)}$$

$$\mathbf{S} = \$6.14/\text{MMBtu}$$



# Safety Net Example

## Safety Net Differential (**SND**) Calculation

$$\begin{aligned}\text{SND} &= (0.80 \times S) - (1.25 \times \text{Index-based value}) \\ &= (0.80 \times \$6.14) - (1.25 \times \$3.80) \\ &= \$4.92 - \$4.75 \\ &= \$0.17/\text{MMBtu}\end{aligned}$$

*Lessee owes additional royalties because SND is positive*



# Safety Net Example

Calculation of Additional Royalties Owed:  
**SND** x Volume x Royalty Rate

$$\text{Lease 1} = \$0.17 \times 1,000 \times 1/6 = \$ 28.33$$

$$\text{Lease 2} = \$0.17 \times 500 \times 1/6 = \$ 14.17$$

$$\text{Lease 3} = \$0.17 \times 1,500 \times 1/6 = \$ \underline{42.50}$$

$$\textit{Total Additional Royalties Owed} = \$ 85.00$$



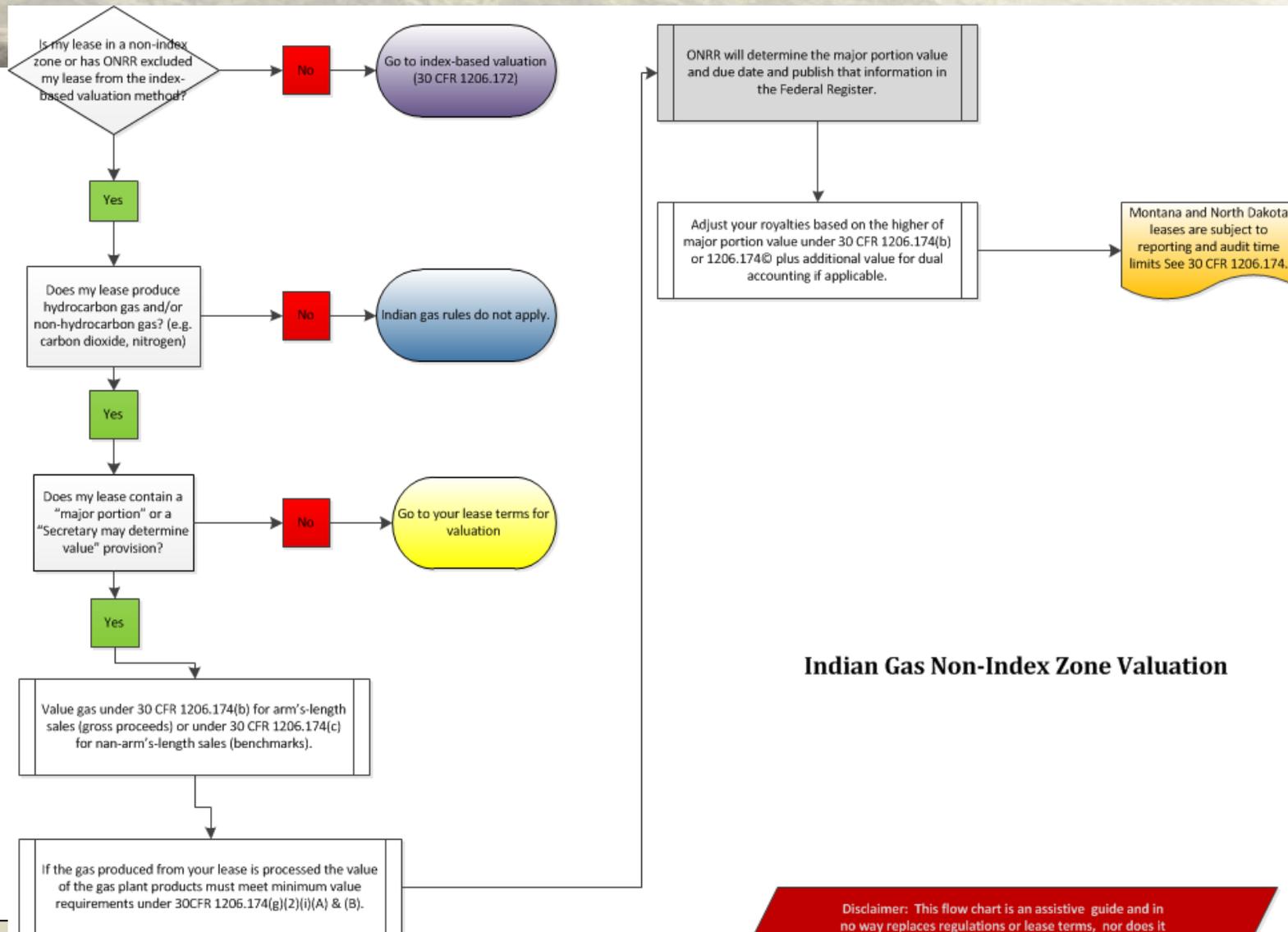
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# Non-Index Zone Valuation Flow Chart

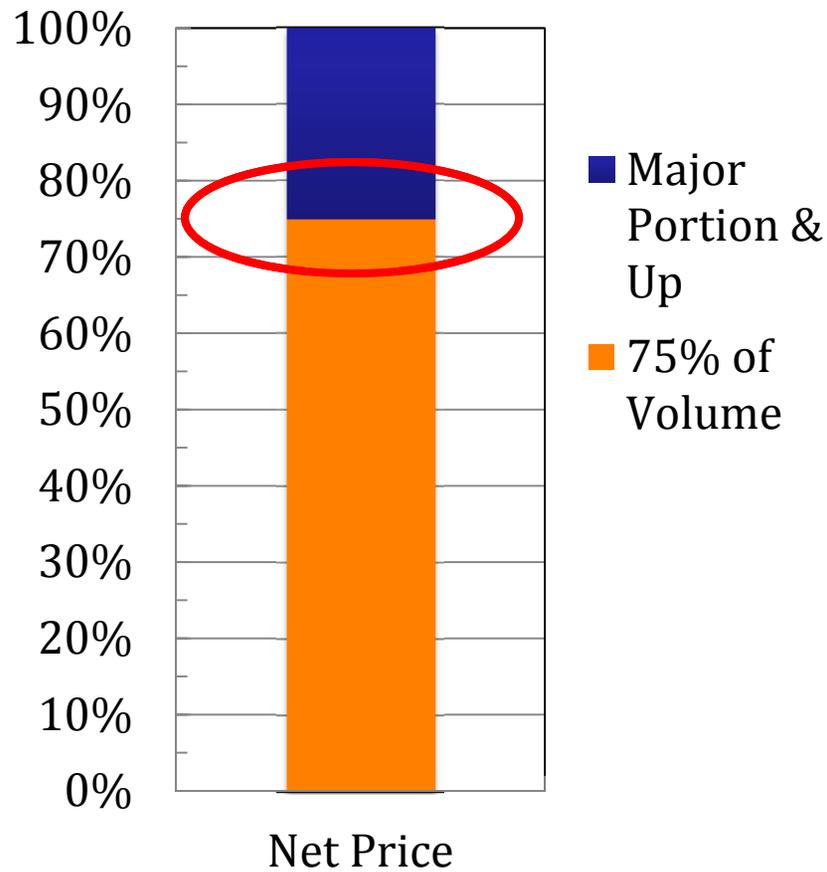


## Indian Gas Non-Index Zone Valuation

Disclaimer: This flow chart is an assistive guide and in no way replaces regulations or lease terms, nor does it override your duty to correctly report and pay royalties under 30 CFR 1206.170 through 1206.181



# Indian Gas | Major Portion



*The major portion value is that price at which 25 percent (by volume) of the gas (starting from the highest) is sold.*



# Indian Gas Major Portion



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Home > Valuation > Indian Major Portion Gas Prices

## Indian Major Portion Gas Prices

Major Portion Prices and Due Dates for Designated Areas Not Associated With An Index Zone

A A A

+ Alabama/Coushatta

- Blackfeet Reservation

00 01 02 03 04 05 06 07 08 09 10 11 12

### Blackfeet Reservation - 2012

| Month    | Prices* Due Dates | Month     | Prices* Due Dates |
|----------|-------------------|-----------|-------------------|
| January  | \$2.07 05/31/2014 | July      | \$1.90 05/31/2014 |
| February | \$1.84 05/31/2014 | August    | \$1.88 05/31/2014 |
| March    | \$1.56 05/31/2014 | September | \$1.91 05/31/2014 |
| April    | \$1.40 05/31/2014 | October   | \$2.68 05/31/2014 |
| May      | \$1.65 05/31/2014 | November  | \$2.90 05/31/2014 |
| June     | \$1.52 05/31/2014 | December  | \$2.75 05/31/2014 |

\* Prices are in \$/MMBtu

+ Fort Belknap Reservation

+ Fort Berthold Reservation

+ Fort Peck Reservation

+ Navajo Allotted Leases in the Navajo Reservation

+ Rocky Boys Reservation

+ Turtle Mountain Reservation

+ Ute Allotted Leases in the Uintah & Ouray Reservation

+ Ute Tribal Leases in the Uintah & Ouray Reservation



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# Dual Accounting

**A comparison between the unprocessed gas value and the processed gas value (residue gas, gas plant products, scrubber condensate) used in determining how royalties will be paid**

*§ 1206.176 - Dual Accounting*

*§ 1206.173 - Alternative Methodology*

*§ 1206.172, 1206.174, and 1206.52 - Actual Methodology*



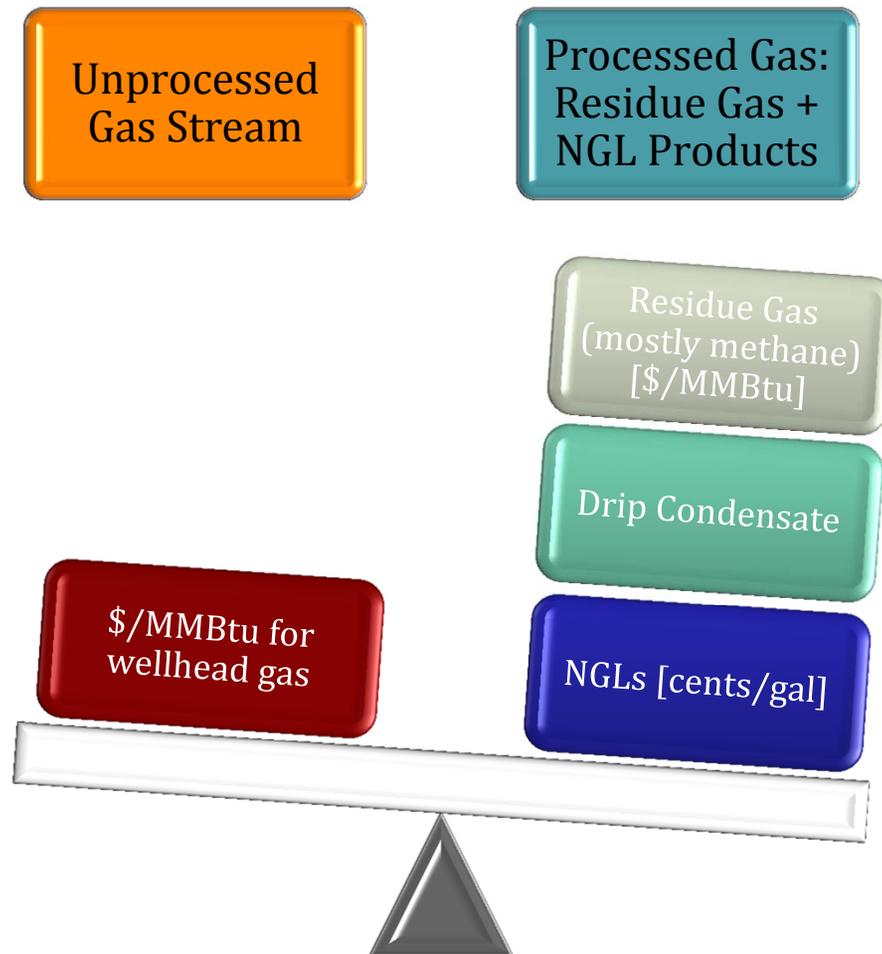
# Dual Accounting Requirement

Dual Accounting is performed when it is required by **lease terms** and **produced gas is processed.**

“...It is understood that in determining the value for royalty purposes of products ... and that royalty will be computed on the value of gas or casinghead gas, or on the products thereof (such as residue gas, natural gasoline, propane, butane, etc.), **whichever is the greater.**”

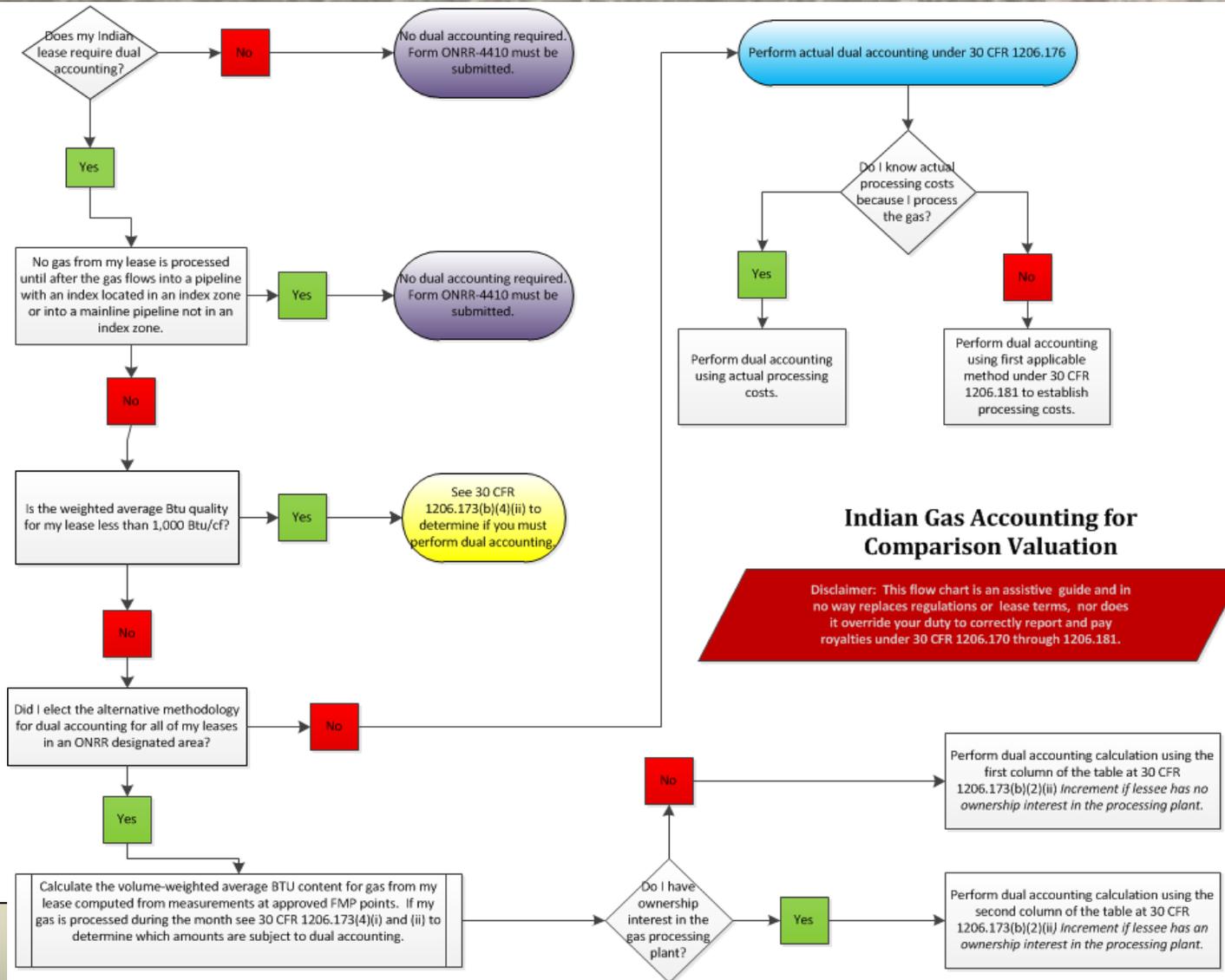


# Dual Accounting is a Comparison





# Accounting for Comparison Valuation Flow Chart





# Form ONRR-4410

<http://www.onrr.gov/ReportPay/PDFDocs/4410.pdf>

**7 CHECK THE REASON DUAL ACCOUNTING IS NOT REQUIRED:**

- Lease terms do not require dual accounting.
- None of the gas from the lease is ever processed.
- Gas has a Btu content of 1000 Btu's per cubic foot or less at the lease's measurement point(s).
- None of the gas from the lease is processed until after gas flows into a pipeline with an index located in an index zone.
- None of the gas from the lease is processed until after gas flows into a mainline pipeline not located in an index zone.



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# Indian Gas | Allowance Forms

## Arm's-Length

- No forms required
- Must submit transportation and processing contracts and all subsequent amendment(s) within 2 months of claiming allowance

**No  
Contract/Amendment  
= No Allowance**

## Non-Arm's-Length

- Form ONRR-4295 Gas Transportation Allowance Report
- Form ONRR-4109 Gas Processing Allowance Report
- Must submit actual cost data on allowance form within 3 months after the end of the allowance year or allowance period, whichever is sooner

**No Form =  
No Allowance**



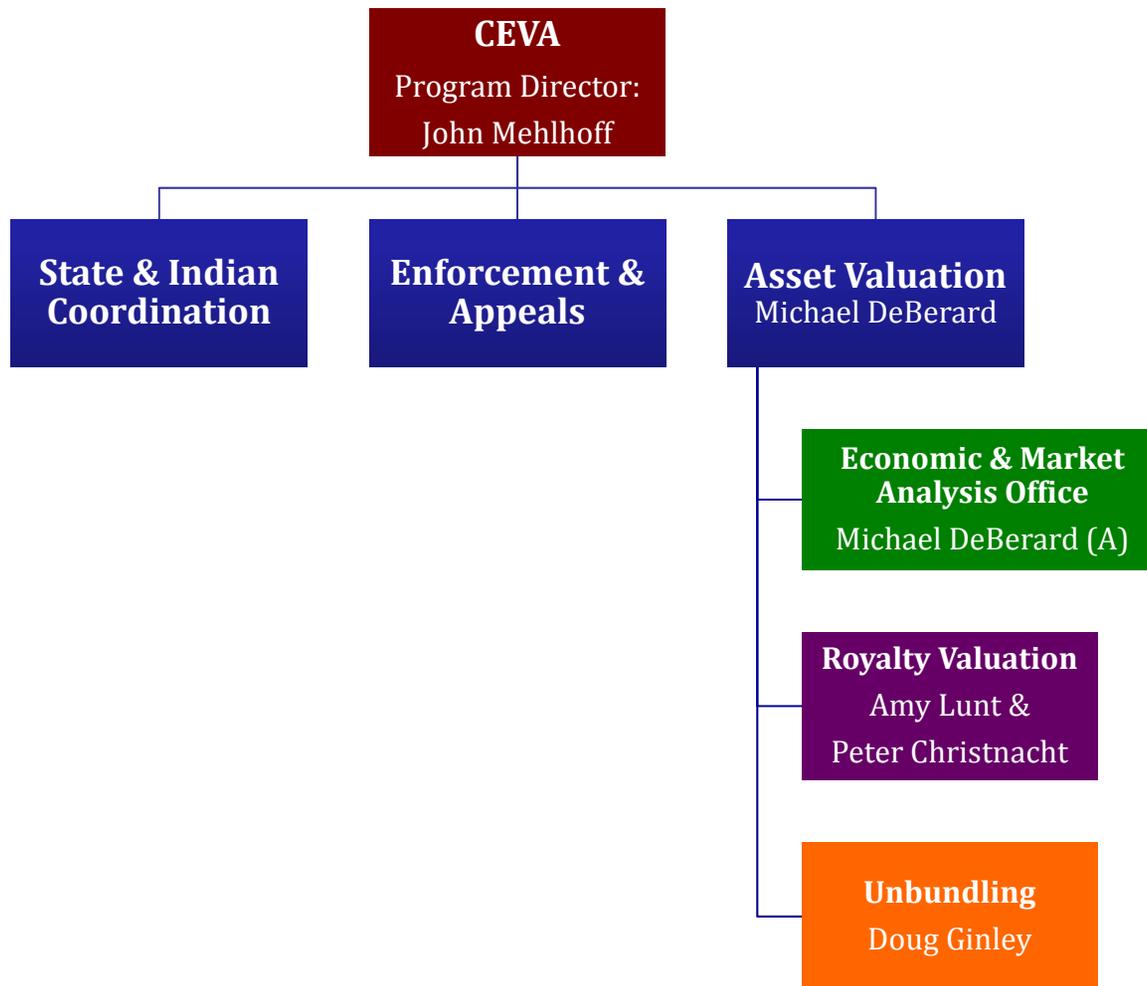
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- **New Indian Oil Valuation Rule**





# CEVA | Coordination, Enforcement, Valuation, & Appeals





- [RoyaltyValuation@onrr.gov](mailto:RoyaltyValuation@onrr.gov)
- [ONRRUnbundling@onrr.gov](mailto:ONRRUnbundling@onrr.gov)