



INDIAN VALUATION BASICS





AGENDA



- ONRR's Trust Responsibility
- Valuation Basics
 - Lease Terms
 - Product Codes
 - ONRR Royalty Equation
- Indian Gas Valuation
 - Index-Zone Valuation
 - Dual Accounting
 - Non-Index-Zone Valuation (Major Portion)
- Oil Valuation



INDIAN TRUST RESPONSIBILITIES



The Federal Indian trust responsibility is a legally enforceable fiduciary obligation on the part of the United States to protect tribal treaty rights, lands, assets, and resources, as well as a duty to carry out the mandates of Federal law with respect to American Indian and Alaska Native tribes and villages.



In several cases discussing the trust responsibility, the Supreme Court has used language suggesting that it entails legal duties, moral obligations, and the fulfillment of understandings and expectations that have arisen over the entire course of the relationship between the United States and the federally-recognized tribes.





ONRR TRUST RESPONSIBILITIES



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

Office of Natural Resources Revenue (ONRR)

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

You can call ONRR toll free at:
Denver 1-800-982-3226
Oklahoma 1-800-354-7015
Farmington 1-800-238-2839
Website: www.onrr.gov

Bureau of Indian Affairs (BIA)

- Land ownership and lease status
- Finalizing and approving Communitization Agreements (CAs)
- 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)

- 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.bia.gov

Office of the Special Trustee for American Indians (OST)

- 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 Asset Information

You can call OST toll free at:
1-888-678-6836
Website: www.doi.gov/ost

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 RESPONSIBILITY & FIDUCIARY RELATIONSHIP





CLICKER QUESTION!



How long have you been doing Indian related oil and gas royalty work?

- A. 0-2 years
- B. 2-5 years
- C. 5-10 years
- D. More than 10 years



CLICKER QUESTION!



What is the starting point for all Indian royalty valuation?

- A. The lease terms
- B. The regulations
- C. None of the above



Key Indian Lease Terms



- Secretarial Discretion (use ONRR's regulations)
 - “value” for the purposes hereof may, in the discretion of the Secretary, be calculated...
- Major Portion
 - “value” ... may ... be calculated on the basis of the highest price paid or offered (whether calculated on the basis of short or actual volume) at the time of production for the major portion [of production]
- Accounting for Comparison (Dual Accounting)
 - “... and that royalty will be computed on the value of [wellhead] gas ... or on the products thereof ... , whichever is the greater.



VALUATION REGULATIONS



30 CFR Part 1202

- Indian Oil: §§ 1202.100 - 1202.101
- Indian Gas: §§ 1202.550 - 1202.558

30 CFR Part 1206

- Indian Oil: §§ 1206.50 - 1206.65
 - Effective July 1, 2015
- Indian Gas: §§ 1206.170 - 1206.181
 - Effective January 1, 2000

Electronic Code of Federal Regulations:

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



National Archives and
Records Administration

code of
federal regulations





THE ROYALTY EQUATION AND VALUATION BASICS





ONRR ROYALTY EQUATION



Royalty due =

[volume x unit value x royalty rate] – [allowances x royalty rate]

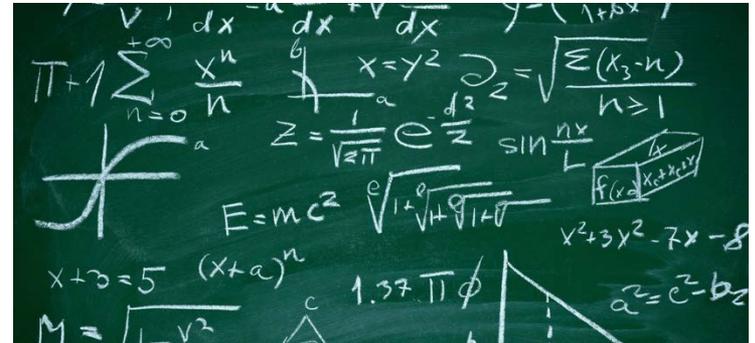
Oil example:

Volume sold = 100 bbl

Unit value = \$45/bbl

Royalty rate = 12.5%

Allowable transportation cost = \$1.00/bbl



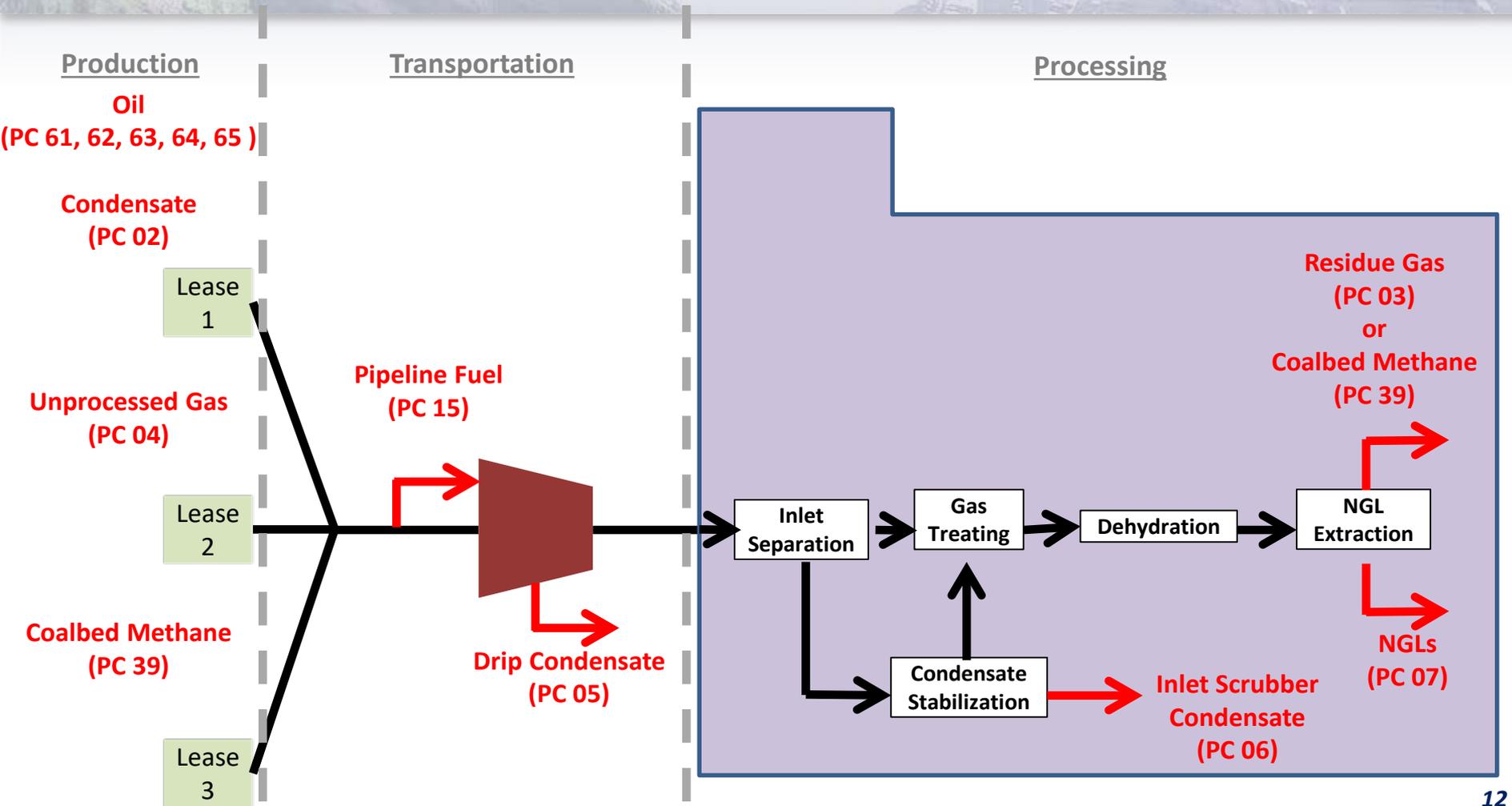
$$\text{Royalty Due} = (100 \text{ bbl} \times \$45/\text{bbl} \times .125) - (\$1/\text{bbl} \times 100 \text{ bbl} \times .125)$$

$$\text{Royalty Due} = (\$562.50) - (\$12.50)$$

$$\text{Royalty Due} = \$550.00$$

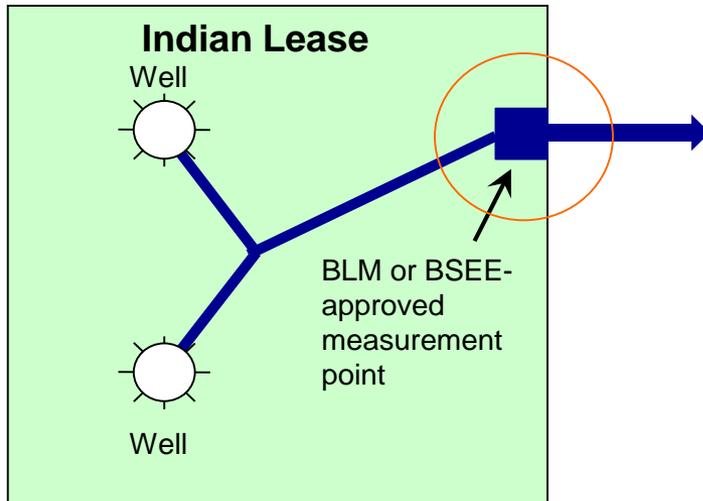


FORM ONRR-2014 COMMON PRODUCT CODES





VOLUME: THE BASIS FOR ROYALTY



Royalty is due on the quantity and quality of production as measured at the Bureau of Land Management (BLM)-approved royalty settlement point

Regs: 30 CFR §§ 1202.100, 1202.555, 1206.63, 1206.175



VOLUME: THE BASIS FOR ROYALTY



Oil reporting requirements

- Reported in barrels (42 gal)
- 60 degrees F
- Reported as clean barrels, adjusted for basic sediment and water (BS&W)

Gas reporting requirements

- Report using Mcf and MMBtu
- Adjust the Mcf to a pressure base of 14.73 psi
- Report using the **dry** heating value, unless the water vapor content has been measured, then use the “real” or “actual” heating value
- Report natural gas liquids (NGLs) using gallons

Regs: 30 CFR Part 1202, §§ 1202.101, 1202.558



CLICKER QUESTION!



Is the following statement true or false?

For Indian valuation, concepts like gross proceeds or marketable condition don't matter because value is always based on index-pricing.

A. True

B. False

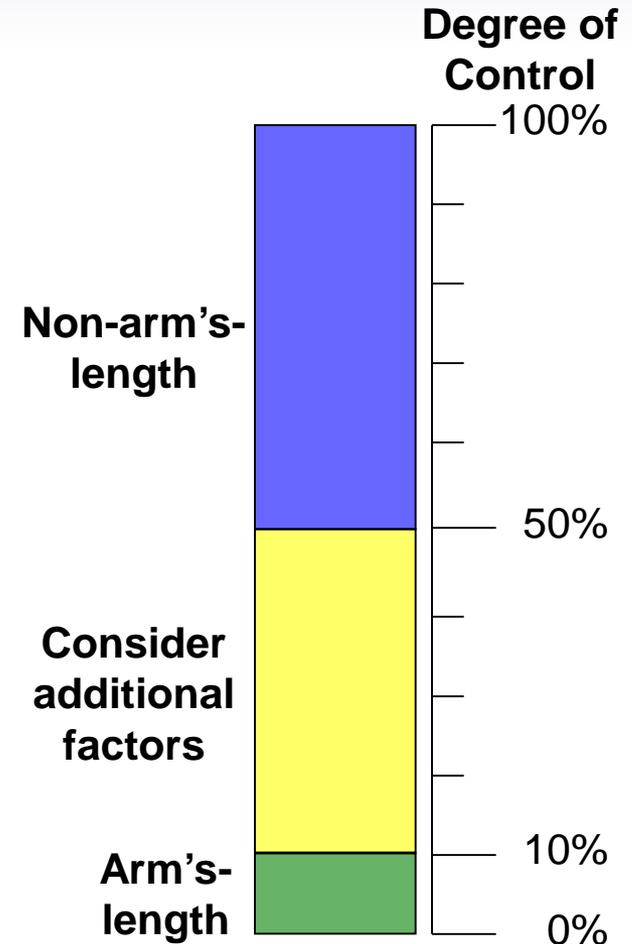


ARM'S LENGTH OR NON-ARM'S LENGTH?



Are the parties...

- Affiliated?
 - Does the entity control, is it controlled by, or is it under common control with another entity?
- Negotiating with opposing economic interests?
 - Factors outlined in *Vastar Resources, Inc.* 167 IBLA 17 (2005)
- Related by blood or marriage?



Regs: 30 CFR § 1206.51, 1206.171



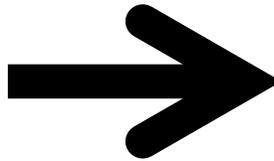
GROSS PROCEEDS



Gross proceeds means the total monies and other consideration accruing to an oil and gas lessee for the disposition of production.

You produce 25 MMBtu of gas from Indian land (not in an index-zone) that is adjacent to your back yard and sell it to your neighbor at arm's length for:

- \$20
- 5 chickens
- 1 goat



Regs: 30 CFR § 1206.51, 171



CLICKER QUESTION!



What are your gross proceeds (“*total monies and other consideration*”)?

A. \$20



B. \$20 and the market value of the 5 chickens and 1 goat



C. Comparable arm’s-length sales



MARKETABLE CONDITION



Marketable condition means lease products which are sufficiently free from impurities and otherwise in a condition that they will be accepted by a purchaser under a sales contract typical for the field or area.

Oil

- Separation
- Gathering
- Free of impurities (BS&W limit)

Gas

- Separation
- Gathering
- Compression
- Dehydration
- Sweetening

Regs: 30 CFR §§ 1206.55, 1206.171, 1206.174



MARKETABLE CONDITION



- Must place the production into marketable condition at no cost to the Indian lessor
- Cannot reduce royalties by transferring the costs to the purchaser for a lower sales value
- Gross proceeds should be increased to the extent they were reduced for costs associated with placing the production into marketable condition
- If the lessee meets or exceeds the marketable condition requirements, they may be able to deduct a portion of their costs

Regs: 30 CFR §§ 1206.55, 1206.174, 1206.178(f)(9)

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Unbundling



- The burden rests on the lessee to determine allowed and disallowed costs
- Unbundling involves:
 - Determining marketable condition for your gas
 - Separating transportation fees from processing fees
 - Applying an ONRR-generated UCA, if applicable



ALLOWANCES



Royalty due =

[volume x unit value x royalty rate] - [allowances x royalty rate]





Allowance Form/Contract Filing Requirements



Arm's-Length	Non-Arm's-Length
<ul style="list-style-type: none">• No forms required• Must submit transportation and processing contracts and all subsequent amendment(s) within 2 months of claiming allowance	<ul style="list-style-type: none">• Form ONRR-4110 Oil Transportation Allowance Report• 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 Contract or Form = No Allowance





ALLOWANCES



Transportation allowance means a deduction in determining royalty value for the reasonable, actual costs that the lessee incurs for moving:

- Oil, gas, or gas plant products to the point of sale or delivery off the lease, unit area, or communitized area
- When using an index-zone or major portion price, you should not take a transportation allowance
- The transportation allowance does not include gathering costs



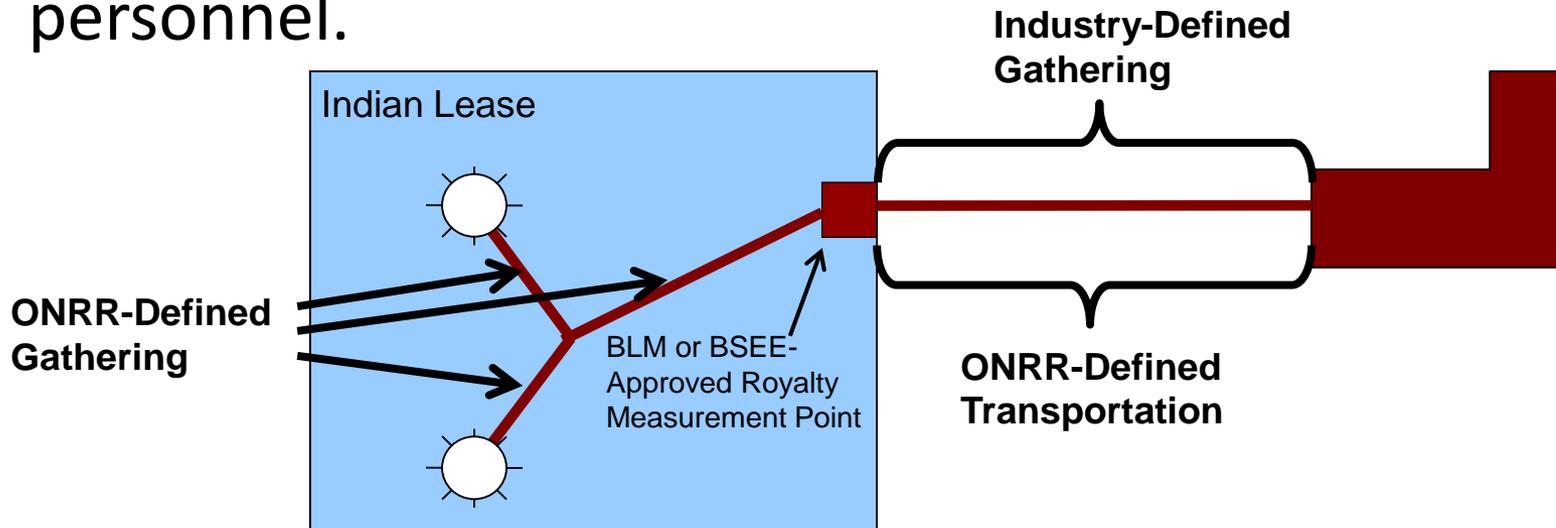
Regs: 30 CFR § 1206.51, 1206.171



GATHERING



Gathering means the movement of lease production to a central accumulation or treatment point on the lease, unit, or communitized area; or to a central accumulation or treatment point off of the lease, unit, or communitized area as approved by BLM operations personnel.



Regs: 30 § CFR 1206.51, 1206.171

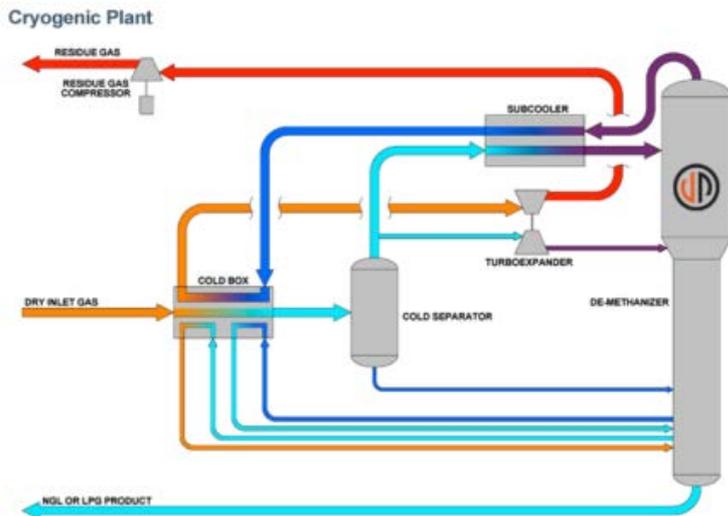


ALLOWANCES



Processing allowance means a deduction in determining royalty value for the reasonable, actual costs the lessee incurs for processing gas.

Processing means any process designed to remove elements or compounds (hydrocarbon and nonhydrocarbon) from gas, including absorption, adsorption, or refrigeration.



Regs: 30 CFR § 1206.171



ALLOWANCES



Arm's-Length

Based on contract charges

Non-Arm's-Length

Based on the lessee's or their affiliate's actual capital and operating costs

- Allowances should not include any costs associated with marketing or placing the production into marketable condition
- Allowable costs should be allocated across all the products being transported/processed
- May not deduct costs for moving lease production that is not royalty bearing
- May not deduct costs incurred for moving anything other than Indian production

Regs: 30 CFR §§ 1206.56 - 58, 1206.177-178, 1206.179 - 181

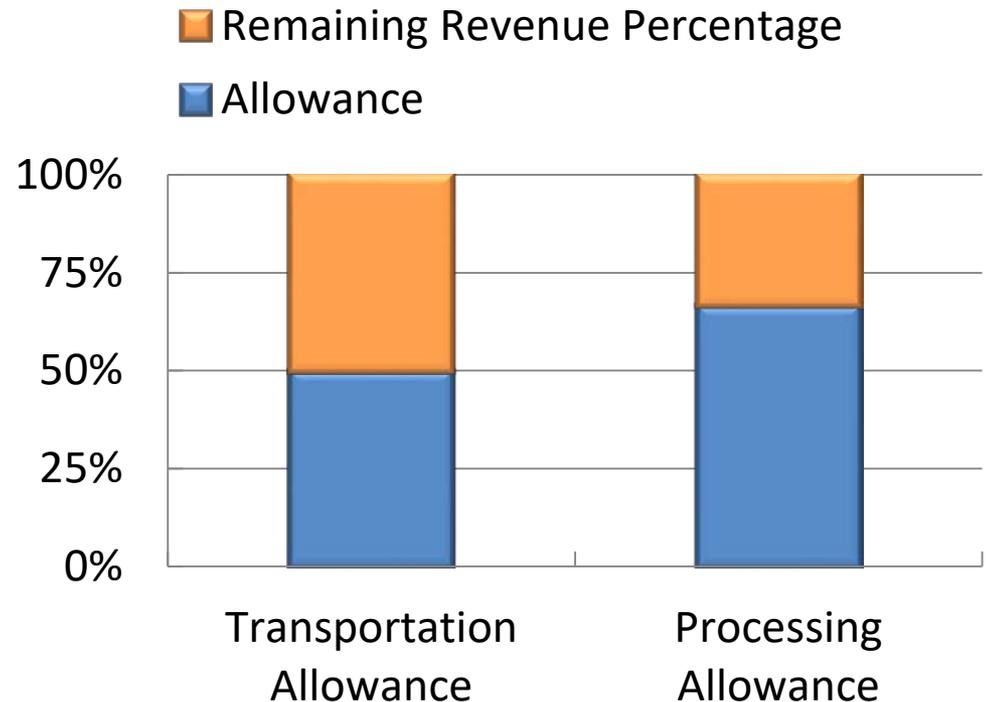


ALLOWANCES



Allowance Limits

- Limits based on the royalty value of each product
- 50% transportation
- 66 ²/₃% processing
- For gas plant products, the combination the of transportation and processing allowances cannot exceed 99% of the value of the product



Regs: 30 §§ CFR 1206.177, 1206.179



INDIAN GAS VALUATION



Industry Compliance



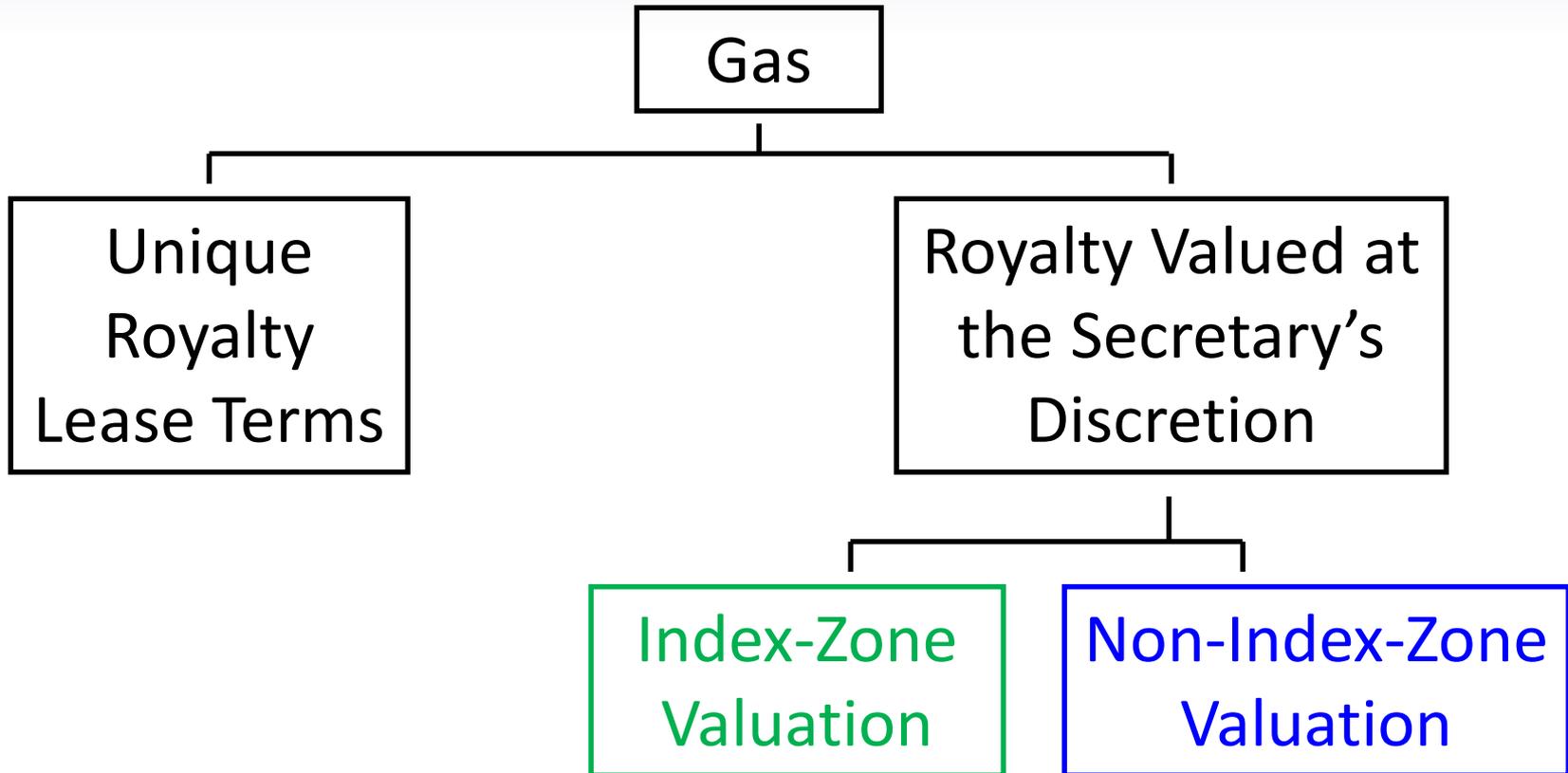
Accurate Revenues & Data



Professionalism & Integrity

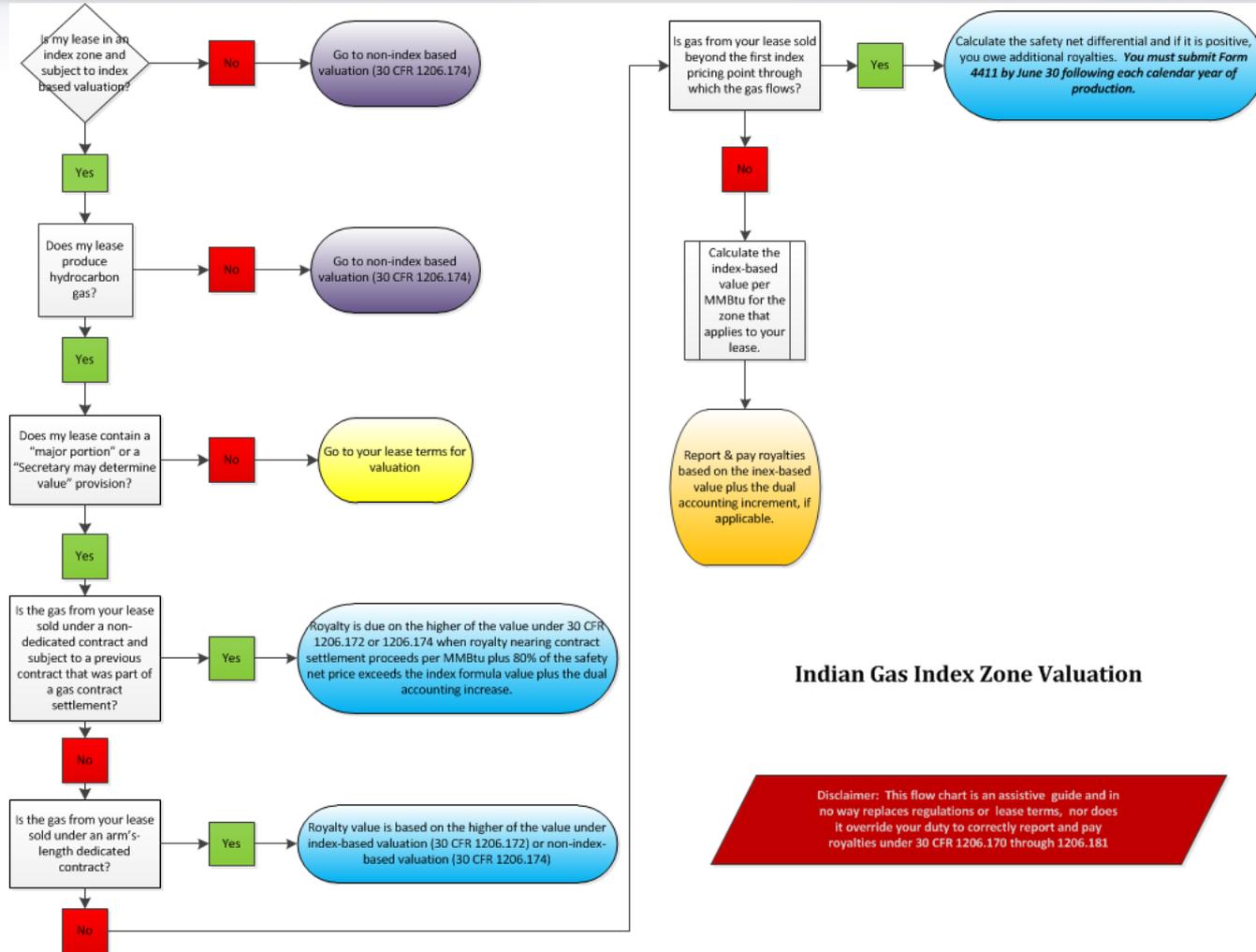


GAS VALUATION





INDEX-ZONE VALUATION FLOW CHART

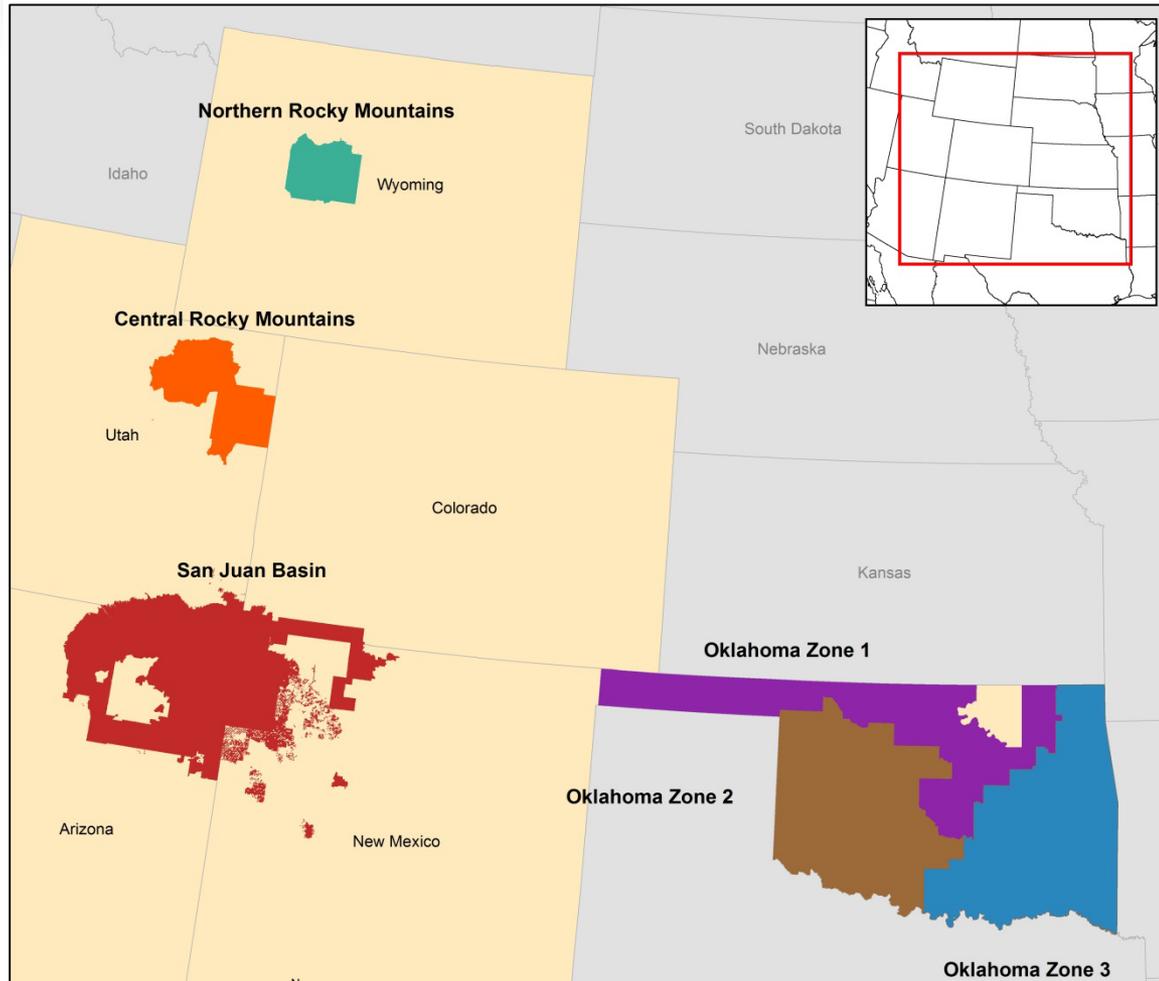


Indian Gas Index Zone Valuation

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.



INDEX ZONES





INDEX-ZONE RESOURCES



- List of tribes and counties in each index zone:
 - See *64 Federal Register 66771* – November 30, 1999
 - https://www.onrr.gov/Laws_R_D/FRNotices/PDFDocs/66771.pdf
- List of index-price points used in each index-zone price calculation:
 - See *76 Federal Register 37828* – June 28, 2011
 - https://www.onrr.gov/Laws_R_D/FRNotices/PDFDocs/37828.pdf



INDEX-ZONE PRICES



Indian Index Zones Natural Gas Prices

Indian Gas Index Zone

Indian Gas Major Portion

Indian Oil Major Portion

Federal Gas Index Option

NYMEX Oil Prices

Unbundling

Valuation Regulations

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](#).

2019

Showing Index Zone prices for 2019

* Prices are in \$/MMBtu

CRM	
Month	Price
January	\$3.98
February	\$3.08
March	\$3.64
April	\$2.22
May	\$1.69
June	\$1.74
July	\$1.71
August	\$1.75

NRM	
Month	Price
January	\$3.30
February	\$2.71
March	\$2.48
April	\$2.05
May	\$1.59
June	\$1.69
July	\$1.58
August	\$1.60

OK 1	
Month	Price
January	\$3.04
February	\$2.51
March	\$2.37
April	\$2.05
May	\$1.70
June	\$1.66
July	\$1.49
August	\$1.53

Questions?

If you have any questions regarding prices, please contact:

msarequests@onrr.gov

Updated Zone Prices

Corrected Indian Index Zone Prices

Index Zones:

CRM (Central Rocky Mountains)

NRM (Northern Rocky Mountains)

OK 1 (Oklahoma Zone 1)

- [View OK 1 Counties](#)

OK 2 (Oklahoma Zone 2)

- [View OK 2 Counties](#)

OK 3 (Oklahoma Zone 3)

- [View OK 3 Counties](#)

San Juan Basin

East Texas (discontinued in April 2000)



Index Zone Valuation



- The value of the gas (PCs 03, 04, 15, 39) is the index zone price unless:
 - You have an arm’s-length dedicated contract
 - You have to pay additional royalties under the safety net provision
 - You are valuing non-hydrocarbon gas
 - The lease is not in an index zone
 - The lease terms require a different valuation method



DUAL ACCOUNTING



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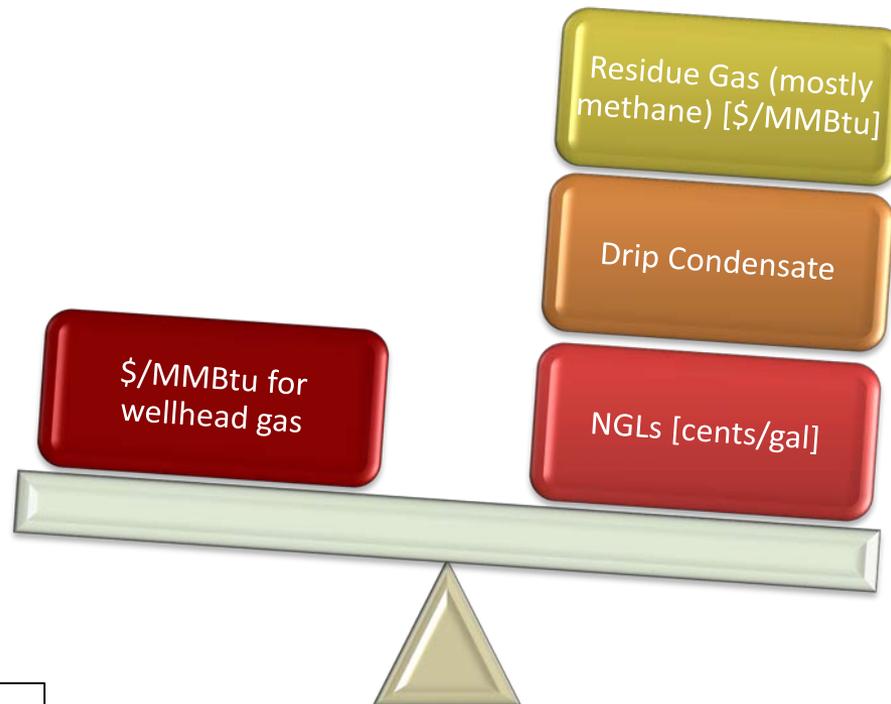


DUAL ACCOUNTING IS A COMPARISON



Unprocessed Value

Processed Value



Regs: 30 CFR § 1206.171



DUAL ACCOUNTING



- Required by lease terms
- Explained in the regulations
 - Alternative dual accounting (30 CFR § 1206.173)
 - Actual dual accounting (30 CFR § 1206.176)
- Lessees must file the form ONRR-4410 to:
 - Certify if they are exempt (Part A)
 - Elect their dual accounting method (Part B)

Regs: 30 CFR § § 1206.173, 1206.176

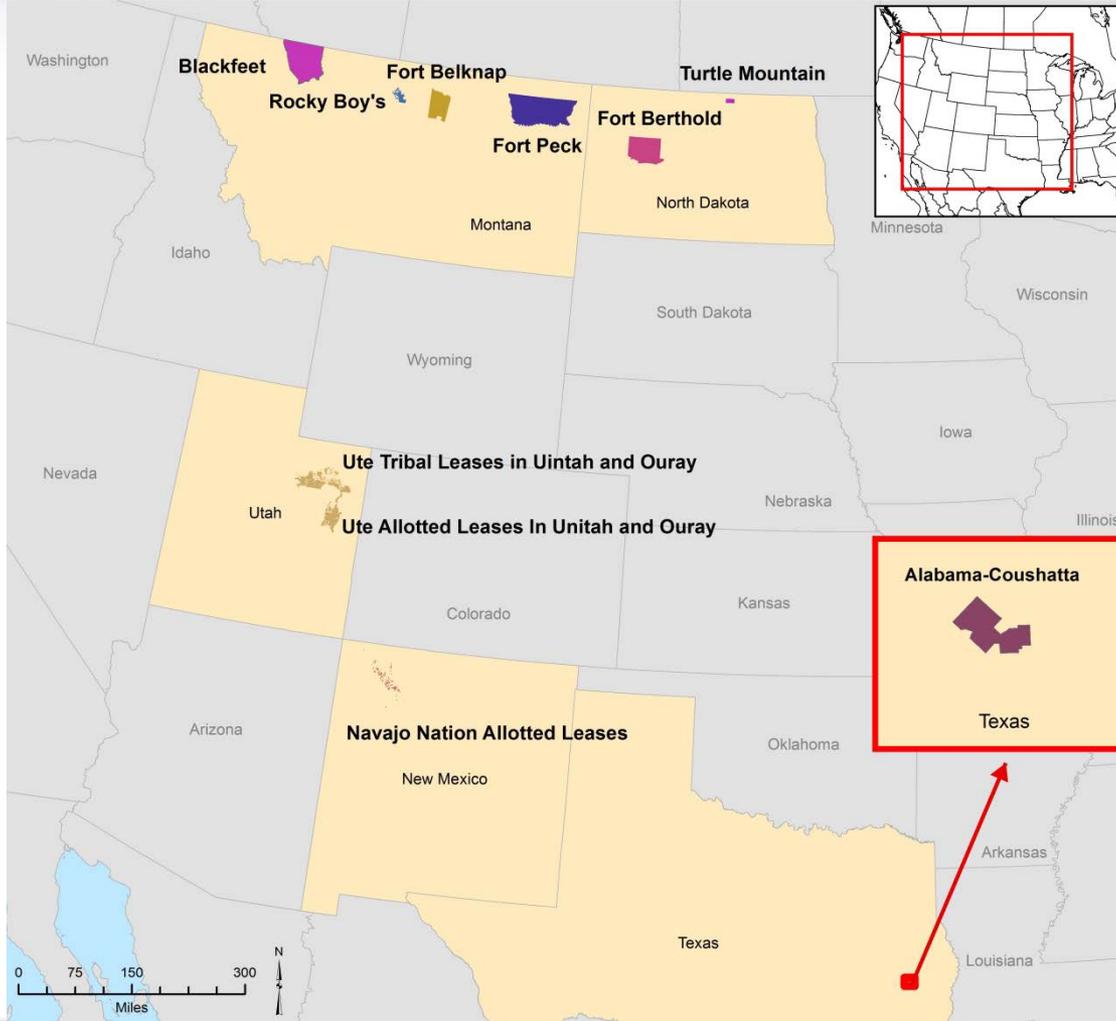


NON-INDEX ZONE VALUATION (MAJOR PORTION)





NON-INDEX-ZONE DESIGNATED AREAS





NON-INDEX-ZONE REPORTING



- Lessees initially report current month's value based on 30 CFR § 1206.174(b) or (c) (arm's-length or non-arm's-length valuation)
- For wellhead sales of unprocessed gas, report product code 04 on Form ONRR-2014
- For sales of processed gas, report product code 03 (residue) and 07 (NGLs) less applicable allowances
- About 18 months after initial reporting, ONRR calculates the major portion price



MAJOR-PORTION REPORTING ADJUSTMENTS



- ONRR notifies lessees of the major portion values and due dates in the *Federal Register* and with an e-blast
- If the sales price was less than the major portion price, the lessee must increase their royalties
- If the sales price was higher than the major portion price, the lessee does not adjust down
- When using the major portion price, you should not take a transportation allowance.

Regs: 30 CFR § 1206.174(a)(4)



MAJOR PORTION PRICES



Indian Major Portion Gas Prices

Indian Gas Index
Zone

Indian Gas Major
Portion

Indian Oil Major
Portion

Federal Gas Index
Option

NYMEX Oil Prices

Unbundling

Valuation Regulations

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

Please select a Designated Area

Fort Berthold Reservation

* Prices are in \$/MMBtu

Showing prices for **Fort Berthold Reservation**.

Date	Prices *	Due Dates
December, 2017	\$3.67	7/31/2019
November, 2017	\$2.67	7/31/2019
October, 2017	\$2.49	7/31/2019
September, 2017	\$2.55	7/31/2019
August, 2017	\$2.54	7/31/2019
July, 2017	\$2.38	7/31/2019
June, 2017	\$2.49	7/31/2019
May, 2017	\$2.54	7/31/2019
April, 2017	\$2.54	7/31/2019



INDIAN OIL VALUATION



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INDIAN OIL TERMS



NYMEX CMA: NYMEX Calendar Month Average (CMA)

- The average price of WTI crude for all trade days within a calendar month

Designated Area: An area ONRR identifies as unique based on both its location and crude type

- A location with two crude types would have two designated areas

LCTD: Location and Crude Type Differential

- Adjusts NYMEX price to account for transportation costs and crude types for each designated area

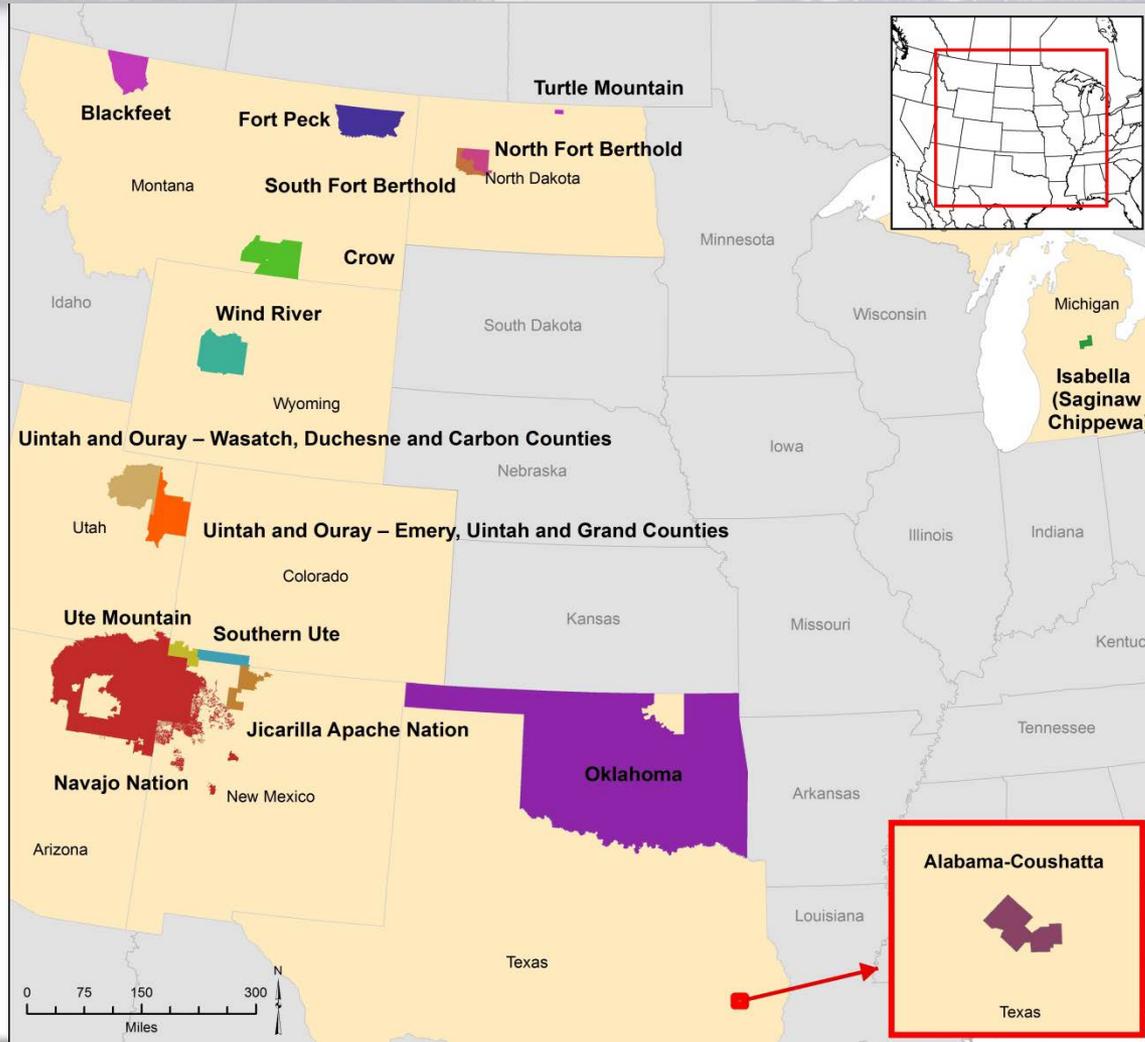
IBMP Price: Index-based major portion price

- The NYMEX price, adjusted by the LCTD, that represents approximately the 75% major portion for a designated area

Regs: 30 CFR § 1206.51



Indian Oil Major Portion Designated Areas





NEW REPORTING REQUIREMENTS



Do NOT use product code “01” anymore. Instead, use one of the following:

(61) – Sweet Crude
(62) – Sour Crude
(63) - Asphaltic

(64) – Black Wax
(65) – Yellow Wax
(02) – Condensate*

**Condensate is not a new product code, however ONRR will calculate an IBMP price for condensate in each designated area where condensate is reported*



SALES TYPE CODES



ARMS

- Arm's-Length Transactions

NARM

- Non-Arm's-Length Transactions

RIKD

- Royalty-In-Kind Deliveries

OINX

- ONRR Index Based Value

Codes assigned as needed





OIL VALUE FOR ROYALTY



For each designated area, the value of oil for royalty purposes would be **the higher of:**

1) Gross proceeds (less transportation allowances) value

or

2) Index-Based Major Portion (IBMP) price

- NYMEX CMA adjusted for a designated area-specific Location and Crude Type Differential (LCTD)
- Plus/minus roll (for Oklahoma only)
 - The roll is defined at 30 CFR § 1206.51

Regs: 30 CFR § 1206.52



IBMP PRICES



Secure | https://onrr.gov

An official website of the United States government Here's how you know!

Office of Natural Resources Revenue

U.S. Department of the Interior

- About
- Valuation
 - Pricing and Guidance
 - Federal Gas Index Option
 - Indian Gas Index Zone
 - Indian Gas Major Portion
 - Indian Oil Major Portion
 - NYMEX Oil Prices**
 - Unbundling
 - Valuation Regulations
- Reporting/Paying
- Compliance
- Indian Services

benefit of all Americans, ONRR... and verifies natural resou... to States, American Indi



IMBP PRICES



Indian Oil Index Based Major Portion (IBMP) Price

- Indian Gas Index Zone
- Indian Gas Major Portion
- Indian Oil Major Portion**
- Federal Gas Index Option
- NYMEX Oil Prices
- Unbundling
- Valuation Regulations

IBMP Prices

Each month ONRR calculates and publishes IBMP prices for Designated Areas as defined in amendments to the Indian Oil valuation regulations published on May 1, 2015 80 Fed. Reg. 24,794 [↗](#).

Please select a month and year..

Showing IBMP prices for July 2019.

[Product Codes](#)

⚠ Notice: New IBMP Price for Wind River PC 63

[Historical Wind River PC 63 Prices](#)

* Prices are in \$/bbl

Designated Area	02	61	62	63	64	65
Alabama/Coushatta	\$56.47	\$--	\$--	\$--	\$--	\$--
Blackfeet	\$--	\$39.78	\$50.94	\$--	\$--	\$--
Crow	\$--	\$--	\$--	\$43.69	\$--	\$--
Fort Peck	\$--	\$53.71	\$51.00	\$--	\$--	\$--
Jicarilla Apache	\$37.03	\$48.85	\$--	\$--	\$--	\$--
North Fort Berthold ↗	\$52.95	\$53.39	\$--	\$--	\$--	\$--
Oklahoma	\$56.53	\$56.49	\$54.51	\$--	\$--	\$--
Saginaw Chippewa	\$--	\$--	\$51.61	\$--	\$--	\$--
South Fort Berthold ↗	\$53.17	\$53.88	\$48.01	\$--	\$--	\$--
Southern Ute	\$42.50	\$--	\$--	\$--	\$--	\$--
The Navajo Nation	\$36.94	\$51.58	\$--	\$--	\$--	\$--



DEAR REPORTER LETTER



Dear Reporter Letter May 15th, 2015

<http://onrr.gov/PDFDocs/20150515.pdf> and

August 21, 2015 clarification

<http://www.onrr.gov/PDFDocs/20150821.pdf>





EXAMPLES



Industry Compliance



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Examples: IBMP Prices



Use these prices for the next two examples:

Designated Area	Product Codes					
	02	61	62	63	64	65
South Fort Berthold	\$ 37.07	\$ 41.56	\$36.89	\$	\$	\$
Uintah & Ouray - Duchesne County	\$ 39.55	\$	\$	\$	\$ 39.19	\$



EXAMPLE 1: ARM'S-LENGTH SALE OF 1000BBL



Given:

Sales Month	July 2015	Sales Price	\$42.50/bbl
Crude Type	Light Sweet	Lease Location	Ft. Berthold, S. of Missouri River
Transportation	\$5/bbl	Royalty Rate	1/8 (.125)

Determine:

Product Code → **61**

Sales Type Code → **OINX**

Gross Proceeds

less Transportation → **\$37.50**

IBMP Price → **\$41.56**

Sales Value → **1000 bbl * \$41.56 = \$41,560**

Royalty Due: **(1000 bbl * \$41.56 * 0.125) = \$5,195**

55



EXAMPLE 1: REPORTING ON THE 2014



Indian Oil Royalty Reporting

Prod Code	Sales Type Code	Sales Vol	Sales Value	Roy Val Before Allowances	Transport Allowance	Roy Val After Allowances
61	OINX	1,000 bbl	\$41,560	\$5,195	-	\$5,195



EXAMPLE 2: ARM'S-LENGTH SALE OF 1000BBL



Given:

Sales Month	July 2015	Sales Price	\$45.00/bbl
Crude Type	Black Wax	Lease Location	Uintah & Ouray, Duchesne County
Transportation	\$5/bbl	Royalty Rate	1/8 (.125)

Determine:

Product Code → **64**

Sales Type Code → **ARMS**

Gross Proceeds

less Transportation → **\$40.00**

IBMP Price → **\$39.19**

Sales Value → **1000 bbl * \$45.00 = \$45,000**

Royalty Due: → **(1000 bbl * \$45.00 * 0.125) – (1000 bbl * \$5.00 * 0.125) = \$5,000**



EXAMPLE 2: REPORTING ON THE 2014



Indian Oil Royalty Reporting

Prod Code	Sales Type Code	Sales Vol	Sales Value	Roy Val Before Allowances	Transport Allowance	Roy Val After Allowances
64	ARMS	1,000 bbl	\$45,000	\$5,625	\$625	\$5,000

Note: The transportation allowance should be reported separately, so we report the results from each of the parentheses on the previous slide and the total royalty due after allowances.



INDIAN OIL RULE CONTACTS



- Email Address:

RoyaltyValuation@onrr.gov

- Website:

<http://onrr.gov/Valuation/IndianOilBMP.htm>



QUESTIONS?



royaltyvaluation@onrr.gov





Course Feedback



Was the content of this course:

- A. way too easy?
- B. a little too easy?
- C. just right?
- D. a little too challenging?
- E. way too challenging?

