



Office of Natural Resources Revenue

U.S. Department of the Interior

Federal Oil and Gas Valuation

Royalty Valuation | Consistent answers to complex questions

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Good morning. My name is Amanda Garrison. I am one of the team members in the Royalty Valuation office.

Our team was assembled to centralize the valuation function. In the past, valuation determinations and guidance requests went to the various audit teams. Now those requests come to our group. Kind of like one stop shopping. When you contact us with a question, we review the relevant facts of your situation and apply the regulations and established precedent appropriately.

We are a diverse group. On our team we have geologists, engineers, physical scientists, and Mineral Revenue Specialists

Let me introduce you to some of my colleagues, this is the RV supervisor Amy Lunt, Megan Petko, and

A few things before we get started

- I will be going over the core principles of Federal Oil and Gas Valuation. Then my supervisor Amy Lunt will continue and go over the rest of the training
- Pretty much everything that I am about to tell you is in the CFR. This is just a very brief overview. Feel free to contact us with specific questions.



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.

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As you read over this disclaimer, please remember that all reporting is subject to audit

While you are looking this over, I think this is a good place to test out the clickers that you have.

I would like to know if anyone in the office is:

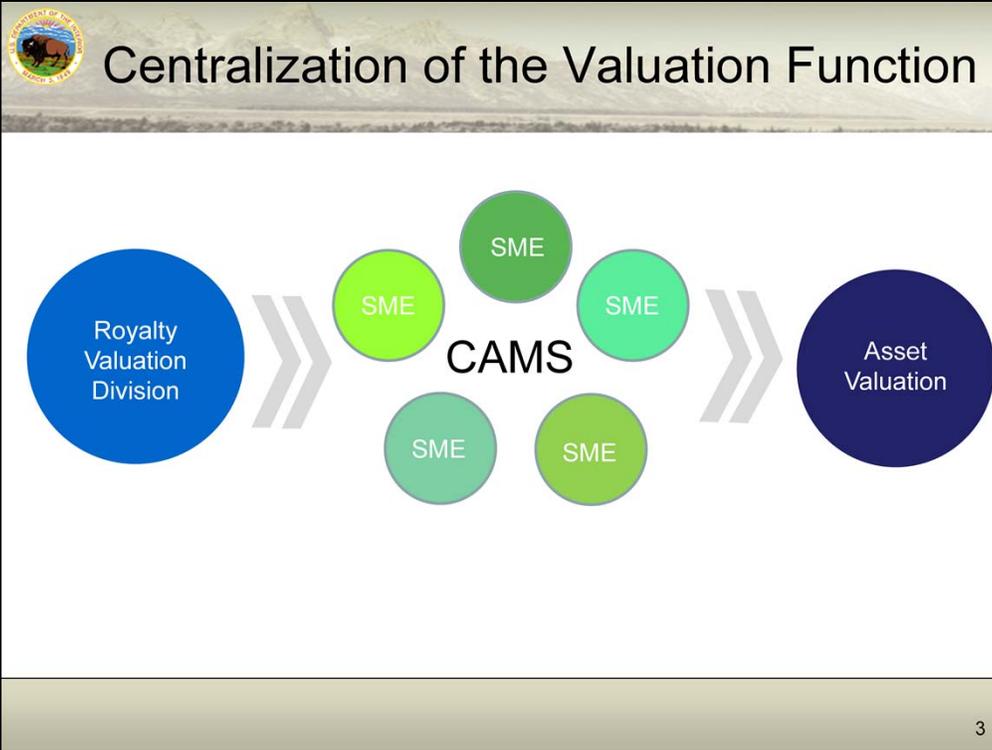
Press A if we have any industry representatives

Press B if we have any first-timers

Press C if we have any onshore reporters

Press D if we have any offshore reporters

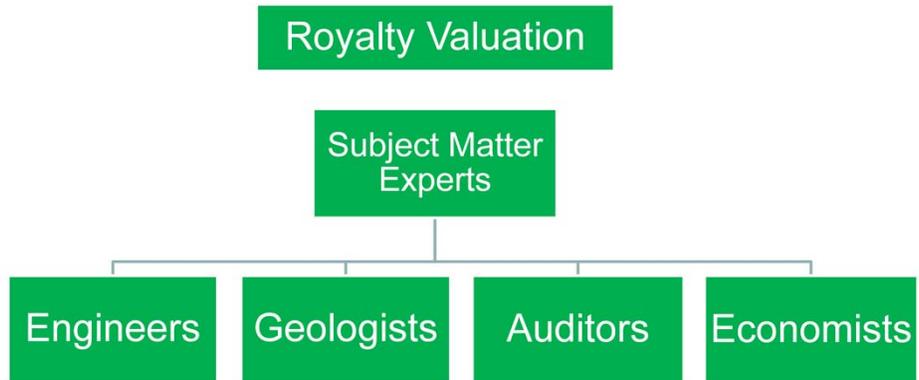
Press E if we have any members of the press

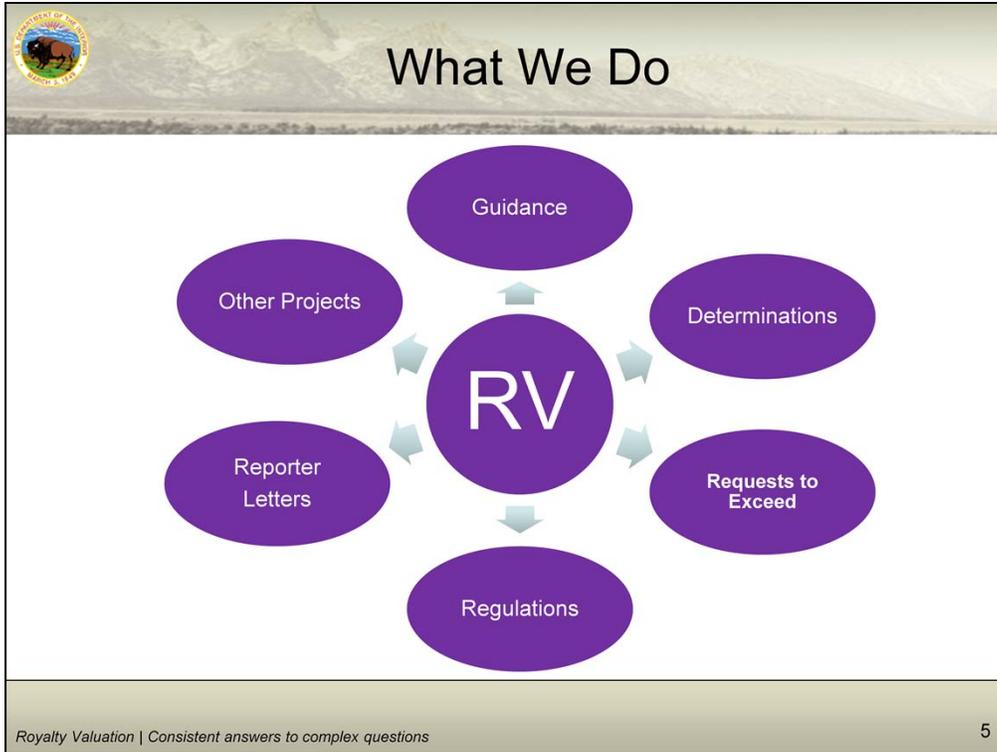


Since the reorganization of compliance functions into MRM in 2000, valuation determinations previously centralized within MRM have been handled separately by Offshore CAM, Federal Onshore CAM, Indian CAM, and Solid Minerals and Geothermal CAM. The result has been inconsistent interpretations of MRM's valuation regulations, guidance, and policies. Recentralizing these decisions into the Asset Valuation Group helped to correct these weaknesses and provided more consistent and accurate guidance.



Who is Royalty Valuation?





Other projects such as provide training, provide technical expertise, and manage valuation issues between multiple groups within ONRR and DOI.



Benefits of Guidance

- Supported by Regulations and Case Law
- Cites Lease terms, Regulations, Appeals, Court cases, IBLA decisions and Policy Documents
- All written guidance is reviewed by peer groups and supervisors
- Consistent
- May fix issues before an audit



Valuation Regulations

30 CFR Part 1206

◆ Federal Oil: § 1206.100 - § 1206.120

◆ Federal Gas: § 1206.150 - § 1206.160

Electronic Code of Federal Regulations:

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



National Archives and
Records Administration

**code of
federal regulations**



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The ecf website is your best resource. Of course if you know the citation you need, you can always google it.

Everything that we are going over today can be found in the CFR. We are going over a very brief overview. There are many layers in our valuation guidance. We look at lease terms, regs, laws, court decisions, IBLA decisions, and so on.



Outline

- ONRR Royalty Equation
- General Valuation Principles
- Sales Type Codes
- Oil Valuation
- Gas Valuation
- Allowances
- Contracts
- Bundled Costs
- Fuel



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(Hand out RV cards)

My goal today is to introduce you to some of the valuation topics we encounter. I will be going over the ONRR Royalty Equation and General Valuation Principles. My supervisor Amy will be going over the rest of the topics:

As you are reading the topics we will be discussing, my colleagues will be handing out our business card. This is one of the most important takeaways from this training. If you have any questions, please feel free to contact us. We monitor our inbox constantly.



ONRR Royalty Equation



Royalty Due =

[Volume x Unit Value x Royalty Rate] - Allowances

Oil Example:

Volume Sold = 100 bbl

Unit Value = \$90/bbl

Royalty Rate = 12.5%

Allowable Transportation Cost = \$1.00/bbl



$$[100 \text{ bbl} * \$90/\text{bbl} * 0.125] - [\$1.00/\text{bbl} * 100 \text{ bbl} * 0.125] = \$1,112.50$$

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This is how ONRR approaches the the royalty due. This is the equation we use in calculating what royalty is due.

We use unit value instead of price because the contract price is not the value.

We are going to go over a very simple example. I promise it is not rocket science.

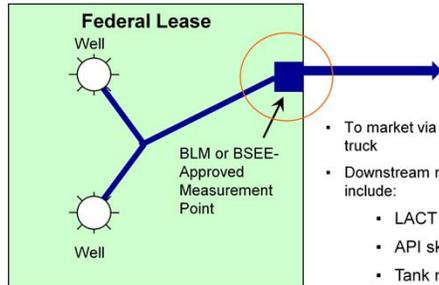


General Valuation Principles

- 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



Royalty Measurement Point



- To market via pipeline, rail, or truck
- Downstream metering can include:
 - LACT meter
 - API skid
 - Tank measurements
 - Custody transfer point
 - Plant inlet
 - Refinery inlet
 - Storage inlet

Royalty is due on the quantity & quality of production severed from the lease as measured at the BLM or BSEE approved Royalty Settlement Point

Gas Quality Information

- The “dry” heating value must be used unless water vapor content has been determined
- If the actual water vapor was determined, the “real” or “actual” heating value of the gas stream must be used

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Royalty is due on quantity & quality of production severed from the lease as measured at the BLM or BSEE approved royalty measurement point

We use Royalty Settle Point and Royalty measurement point interchangeably

This is where the volumes come from that you report on.



Arm's-Length or Non-Arm's-Length?

Are the parties...

- Independent?
- Unaffiliated?
 - Determined by degree of control
- Acting with opposing economic interests?



Relation by blood or marriage is automatically a non-arm's length relationship

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It is extremely important to us whether or not the relationship between parties is Arm's-Length. If it is arm's-length, we generally assume that the contract reflects fair market value and we accept it. If the relationship is non-arm's-length, however, that's when we need to investigate it further.

For example, say you are selling your house. You are looking to get the best price possible. If you are selling it to someone that found your house on zillow, they will probably be looking for a price less than what you are asking. We can assume that this transaction will represent a fair market value **because both parties have opposing economic interest.**

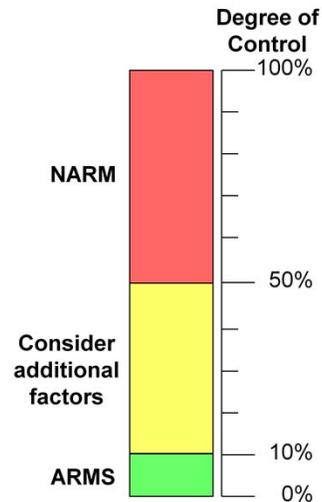
But say you are selling your house to your parents or a close friend. You will probably give them a better deal and it might not necessarily reflect the true market value. So we would have to look into that.

Also, any relationship by blood or marriage is automatically considered a non-arm's length relationship.



Affiliation

- Affiliation
 - Entity controls, is controlled by, or is under common control with another entity
- Control
- Opposing Economic Interests
 - Factors outlined in *Vastar Resources, Inc.* 167 I.B.L.A 17 (2005)
 - See paragraph 2 on page 497



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We determine if the relationship is ARMS vs NARMS by ownership and affiliation. The bar is color coded and you will see this theme throughout the presentation. If there is more than 50% ownership, we assume the relationship to be non-arm's-length and it is in red.

If it is less than 10%, we assume it to be arm's-length and will be colored green.

If it is between 10 and 50%, then additional factors need to be considered. There are regulations outlined at which factors need to be considered. The factors can be found in the Vastar Resources. The Vastar IBLA case provides a very good discussion on examining elements to determine opposing economic interests. If you are interested, see paragraph 2 on page 497. As an FYI, the case starts on page 477.



Gross Proceeds

Gross Proceeds – “the total monies and other consideration” the lessee receives for disposition of production.

- Value can never be less than gross proceeds accruing to lessee
- Gross proceeds includes:
 - Reimbursements
 - taxes
 - Production-related costs
 - Value of certain services
- Let’s look at an example...



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Gross proceeds means, “everything you get in return for selling your oil to someone”

Certain items that often get overlooked that should be counted towards your gross proceeds are:

- Reimbursements for taxes or production-related costs
- Value for certain services – conditioning of the product, or marketing are examples.

Do we have any payors from New Mexico?

- New Mexico gas processor’s tax is an allowable deduction based on New Mexico RTD policy memo

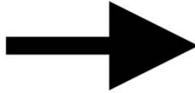
Let’s look at one example and determine what our gross proceeds are...



Gross Proceeds Example

You produce 1 barrel of oil from federal land that is adjacent to your backyard and sell it to your neighbor for:

- \$20
- 5 chickens
- 1 goat





Gross Proceeds Example

What are your “*total monies and other consideration*”?

A. \$20



B. The chickens and the goat



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



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This is where we will use our clickers to answer. Everyone select the answer that you believe is correct.

The correct answer is C

Ok, now lets say that the next day, your neighbor invites you over for dinner. He makes you a nice T-bone steak with all the fixings. Does that count as “other consideration?”

Using you clickers again, click A if you think the answer is yes, Click B if you think no, Click C if you think maybe.

The correct answer is maybe.

We'd probably look to see if you frequently go over for dinner, or if this just started happening since you've been selling your oil. Might be, might not be...



Marketable Condition

- Lessee is responsible for placing production in marketable condition at no cost to the lessor
- Common costs include:
 - Oil: separation; free of impurities
 - Gas: gathering; compressing; sweetening; and dehydrating
- Cannot reduce royalties by transferring the costs on to the purchaser for a lesser sales value
- Add to proceeds if sold in less than marketable condition



ONRR defines “gathering” more specifically than industry. For ONRR, gathering means moving production to a central accumulation point. Industry, however, uses the term gathering when referring to any movement up to the main transmission pipeline.

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My final topic with you before I turn it over to Amy is Marketable Condition. I am sure that you have heard enough about it already. But we are mentioning it again because it's very important

The lessee has an obligation to place their production in a condition that a purchaser will accept under a sales contract typical for that area. You must do this at NO cost to the tax payers of the United States.

An Everyday example of marketable conditions – say you want to buy a new Toyota 4-Runner with certain specs. Regardless of where you buy it, it should be pretty much the same. Now, if someone is selling one that hasn't been painted yet, it's not in “marketable condition.” You may still buy it and then paint it yourself, but you would buy it for cheaper. If the car salesman was paying royalties, he would have to pay on the value of a painted new 4-Runner.

The last note about gathering will be discussed in greater detail when we talk about transportation allowances. Basically, ONRR defines gathering as moving production to a central accumulation point.



Outline

- ~~ONRR Royalty Equation~~
- ~~General Valuation Principles~~
- Sales Type Codes
- Oil Valuation
- Gas Valuation
- Allowances
- Contracts
- Bundled Costs
- Fuel



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(Hand out RV cards)

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Sales Type Codes

- Value is established at the time production is sold or removed from lease
- How product is sold or removed dictates the sales type code (STC)
- Multiple sales methods – multiple lines
- Relates to *sales* contract, **NOT** transportation or processing contract

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Hi, I'm Amy Lunt, and I'll be giving you the rest of the Federal oil and gas payor training today. We're going to start with SALES type codes. The most important thing to remember is that SALES type codes describe the sale of the product, NOT the transportation or processing.



Sales Type Codes

- 4-digit alpha-numeric code
- **Required** for the following transaction codes:
 - TC 01, 11, 12, 14, 15, 41, 53, 54
- **Optional** for the following transaction codes:
 - TC 06, 10, 13, 31, 37, 38, 39, 40, 42
- **Not required** for rent, minimum royalty, other annual obligations, or any other transaction codes

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There are certain transaction codes that require a sales type code, others are optional. You don't need them for certain transaction codes, including ones for rent, minimum royalty, etc b/c those don't reflect an actual sale.

The code is always a 4-digit alpha-numeric code.



Sales Type Codes

ARMS	• Arm's-length transactions
NARM	• Non-arm's-length transactions
POOL	• Pooled sales, both ARMS and NARM. Includes NGLs derived from pooled gas
RIKD	• Royalty-in-kind deliveries
OINX	• For Federal oil valued based on index price
APOP	• ARMS percentage-of-proceeds contract
NPOP	• NARM percentage-of-proceeds contract
Codes assigned as needed	• Other codes will be added as future valuation agreements are negotiated with individual companies

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Here are the main sales type codes that are used.

One note, is that we can assign codes as needed for things like future valuation agreements.



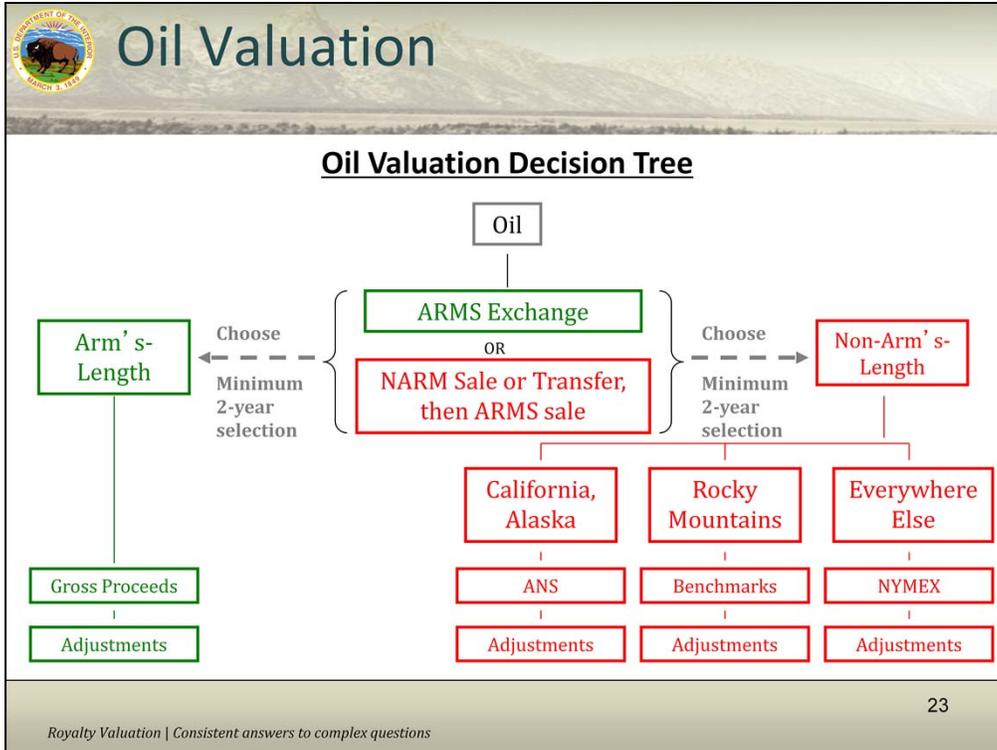
Federal Oil Valuation

30 CFR § 1206.100 - § 1206.120

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Ok, lets talk more specifically about how to value your oil. Here's the regulations, which contain pretty much everything I will tell you.



Here's how we think about valuing oil.

First, is it arm's-length or non-arm's-length? Does your affiliate sell the oil at arm's-length?

For ARMS, we look at what the gross proceeds should be. And then consider any deductions or adjustments that might be necessary.

If NARM, where is it located? Then we apply the appropriate valuation method – ANS, Benchmarks, or NYMEX. And adjust as appropriate.

Some additional details: If you have an ARMS exchange, or a NARM sale or transfer to an affiliate who then sells ARMS, you may elect to value under the ARMS or NARM method. Whatever you choose, it must be for a minimum of 2 years.



Oil Valuation | Arm' s-Length

- Generally accept **gross proceeds** under ARMS sales contracts
- If you **sell or transfer oil** to affiliate and affiliate sells ARMS, may use either ARMS or NARM rules--must use election for 2 years
- If you sell under **ARMS exchange agreement(s)**, may use either ARMS or NARM rules--must use election for 2 years

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If your sales occur arm' s-length, we generally accept the gross proceeds of that sale.

If you sell or transfer your oil to an affiliate, and that affiliate then sells arm' s-length, you can use either arm' s-length or non-arm' s-length rules, but you must use the elected method for at least 2 years. The same rule applies if you sell under arm' s-length exchange agreements.

The reason for the 2 year limit is to prevent you from choosing the method that allows you to pay the minimum royalty from month to month.



Oil Valuation | Non-Arm's-Length

Three Regions	Valuation Methodology
California or Alaska 	ANS average spot price
Rocky Mountain Region <ul style="list-style-type: none"> • MT, ND, SD, WY, CO*, & UT* 	Valuation benchmarks
Rest of the Country <ul style="list-style-type: none"> • Other states • Outer Continental Shelf (OCS) • *Four Corners region of CO & UT 	NYMEX with the roll

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If you dispose of your oil under non-arm's-length contracts, the method is different depending on the location.

If your lease is in CA or AK, you use the ANS average spot price from an ONRR approved publication

If your lease is in the Rocky Mountain Region, which includes MT, ND, SD, WY, and parts of CO and UT, then you follow a series of benchmarks. Which I will go through on the next slide.

If you have leases in CO or UT that are in the 4-corners region, then you value it according to the rules for the rest of the country, which also includes all other states and the OCS. The reason is that the 4 corners region has different (better) access to markets than the rest of the rocky mtn region. If you are in this region, you use the NYMEX with the roll.

When using ANS and NYMEX, you must choose a publication and stick with it for at least 2 years. You can also adjust the price for location and quality differentials, and transportation costs.

Does anyone know why the 4-corners region is not included with the other Rocky Mountain States? Because... :Crude oil produced from these areas typically is exchanged or sold in midcontinent markets for which dependable index prices are published.”



Oil Valuation | Non-Arm's-Length

Rocky Mountain Region Benchmarks



- ONRR-approved tendering program
- Average of ARMS sales/purchases in field or area
 - 2 years
- Cushing WTI NYMEX price without the roll adjusted for location and quality
 - 2 years
- ONRR-approved alternative

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Four benchmarks for the rocky mountain region.

1. tendering programs approved by ONRR, which means a producers' offer of a portion of its crude oil produced from a field or area for competitive bidding, regardless of where the production is offered or sold. Does anyone have one? That is a trick question, because to my knowledge, there are no approved tendering programs out there.
2. volume-weighted average of nearby arm's-length sales or purchases for similar quality oil under similar contract terms. The total volume sold or purchased must exceed 50% of you and your affiliates production from federal and non-federal leases in the same field.
3. Value is the NYMEX price at Cushing (without the roll) adjusted for location and quality.
4. If you find you cannot value your production on any of the above, you may propose an alternative method of valuation. It must be in writing and explain all the relevant facts.

If you pick the average of arm's-length prices in the field or area, or the NYMEX pricing, you must stay with that method for 2 years. You must also stay with the same ONRR-approved publication for 2 years for if you pick the NYMEX method.



Oil Valuation - Adjustments

When value is determined using NYMEX or ANS Spot Prices, you may adjust for:

- Value between lease and market center
 - Transport costs or exchange differential (cannot take both)
- Value between market center and Cushing (for NYMEX)
 - Exchange differential or published differentials
- Quality - use exchange agreements or quality banks at the market center. If there are none, use:
 - Gravity tables in pricing bulletins
 - Sulfur differential of 5¢ per 0.1 percent



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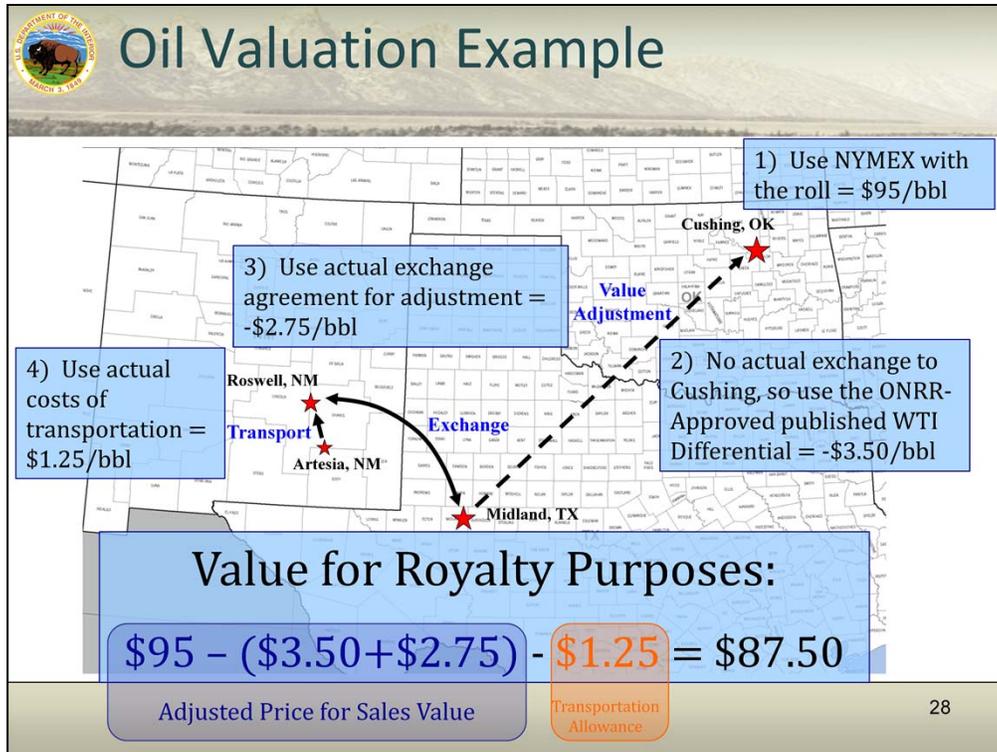
Because you are basing your price on oil that is of a certain quality in a certain location, we allow you to adjust the value for your production. You can adjust between:

- The lease and the market center
- The market center and Cushing (for NYMEX)

And then you can adjust for gravity and sulfur. If you have exchange agreements, or the market center has a quality bank, use that. Otherwise, use the values posted in an approved publication.

Obviously, you cannot deduct (or get credited for) something more than once. So, if your exchange agreement accounts for gravity and sulfur, you cannot adjust again with the bulletins.

Let's look at an example...



Ok, so you produce oil in Artesia, NM,
 Then you transport it to Roswell, NM
 Next, you exchange that oil NON-ARM' S-LENGTH for oil in Midland, TX.
 When you calculate the value, you then adjust for value between Cushing and Midland, b/c you are using the NYMEX price.

So, we' ll start off and work backwards:

1. The NYMEX at Cushing, with the roll, is \$95.
2. The published value adjustment between Midland and Cushing is -\$3.50.
3. The adjustment between Roswell and Midland can be based on what is in the exchange agreement, which is -\$2.75
4. So, now you have your unit price.
5. Lastly, you may deduct the transportation costs from Artesia to Roswell, which are \$1.25.
6. So, when you calculate your sales value, you will deduct the \$3.50 and \$2.75. Then you will deduct the \$1.25 from the transportation allowance.



Oil Valuation | Publications

- Publications must be approved by ONRR
- Criteria for selection in 30 CFR § 1206.104
- Announced in the *Federal Register*, June 13, 2000, page 37043
 - Platt's Oilgram Price Report
 - Petroleum Argus Americas Crude
 - Bloomberg Oil Buyers Guide Petroleum Price Supplement

platts

argus

Bloomberg

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Publications must be approved by ONRR.

The most recent approvals were in 2000.

Some of the criteria used in determining which publications are approved to use are:

- Publications buyer and sellers frequently use or that are frequently used in purchase of sales contracts
- Publications independent from ONRR



Federal Gas Valuation

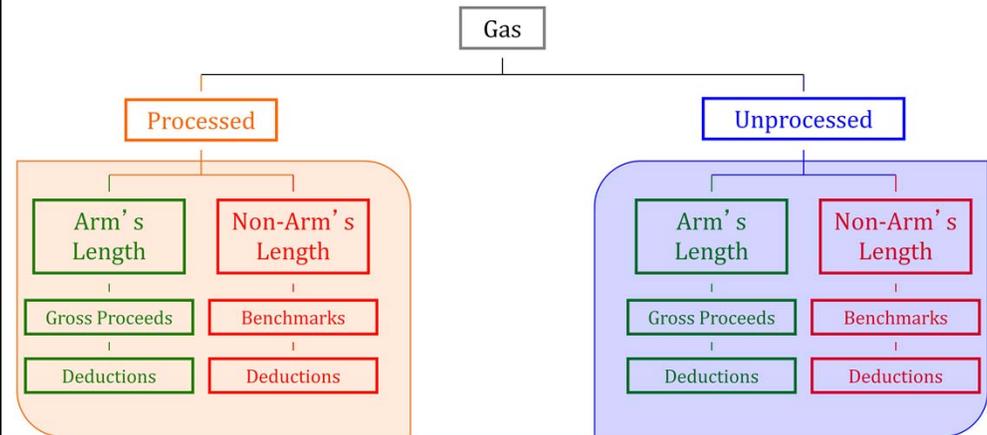
30 CFR § 1206.150 - § 1206.160

Ok, moving on to how to value natural gas



Gas Valuation

Gas Valuation Decision Tree



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So, for gas, the first things we think about are:

1. Is the gas sold before or after it has been processed? Or is the gas ever processed?
2. Is the sale arm's or non-arm's-length?
3. Then we determine the gross proceeds for the sale.
4. And then see if there are any allowable deductions for transportation or processing costs.



Definition of Processing

30 CFR § 1206.151 (Definitions)



Processing means any process designed to remove elements or compounds (hydrocarbon and nonhydrocarbon) from gas, including absorption, adsorption, or refrigeration. Field processes which normally take place on or near the lease, such as natural pressure reduction, mechanical separation, heating, cooling, dehydration, and compression are not considered processing. The changing of pressures and/or temperatures in a reservoir is not considered processing.

So if the first thing you need to know is whether or not the gas is processed, it's important to know what ONRR means when we say processing. How many people reporting in Bakken – processing is not always a plant – it can be a J-T skid in the field

Reservoir changes are referring to retrograde condensate



Gas Valuation | Processed vs. Unprocessed



Processed

- Gas that is processed
- Gas that is sold ARMS prior to processing, but rights to processed gas are reserved or exercised
- Any gas not covered under the unprocessed rules



Unprocessed

- Gas that is not processed
- Gas that is processed, but sold ARMS prior to processing and no rights to processed gas are reserved or exercised

Unfortunately, figuring out whether gas is processed or not is not as simple as you'd think. Here are some rules of thumb.



Gas Valuation | Royalty



Processed

- **Royalty is paid on:**
 - Residue gas value
 - Gas plant products value
 - Condensate value recovered downstream of the royalty settlement point and prior to processing
- **Less allowable deductions:**
 - Transportation
 - Processing



Unprocessed

- **Royalty is paid on:**
 - Unprocessed gas volume at the approved royalty measurement point (x) unit price
- **Less allowable deductions:**
 - Transportation



Gas Valuation | ARM vs. NARM

Value for Arm's-Length Contracts

- Generally accept gross proceeds

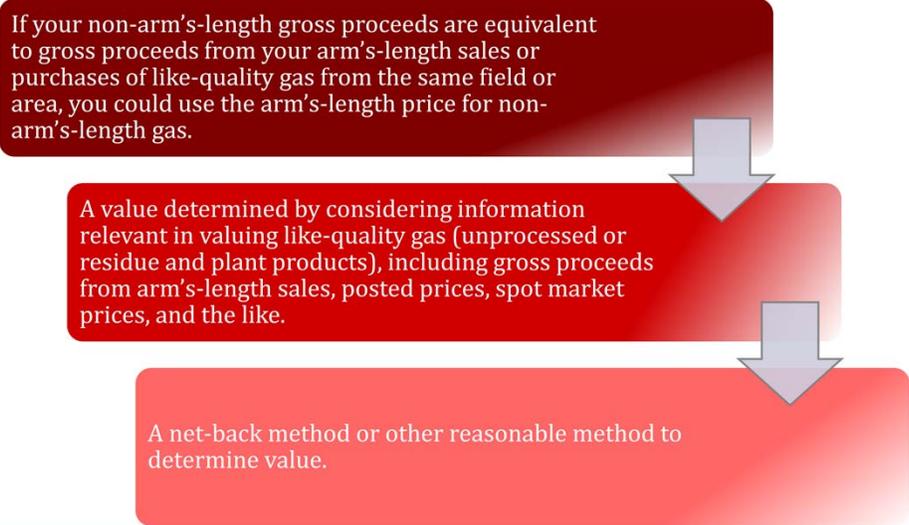
Value for Non-Arm's-Length Contracts

- First Applicable of 3 ordered benchmarks
- ***Dual Accounting:*** If you or your affiliate process your gas and then sell the residue gas under a non-arm's-length contract, you must perform dual accounting under 30 CFR § 1206.155.

So, if the contract is arm's-length, we generally accept gross proceeds

Lastly, did you know that you may have to perform dual accounting for a federal property!? You must do this if you or your affiliate process your gas and then sell the residue gas under a non-arm's-length contract.

 Gas Valuation | NARM | 3 Benchmarks



If your non-arm's-length gross proceeds are equivalent to gross proceeds from your arm's-length sales or purchases of like-quality gas from the same field or area, you could use the arm's-length price for non-arm's-length gas.

A value determined by considering information relevant in valuing like-quality gas (unprocessed or residue and plant products), including gross proceeds from arm's-length sales, posted prices, spot market prices, and the like.

A net-back method or other reasonable method to determine value.

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If the contract is non-arm's-length, we use a series of 3 benchmarks.

Briefly, the benchmarks are:

- If your non-arm's-length gross proceeds are equivalent to gross proceeds from your arm's-length sales or purchases of like-quality gas from the same field or area, you could use the arm's-length price for non-arm's-length gas.
- A value determined by considering information relevant in valuing like-quality gas (unprocessed or residue and plant products), including gross proceeds from arm's-length sales, posted prices, spot market prices, and the like.
- A net-back method or other reasonable method to determine value.



Transportation & Processing Allowances

$$\text{Royalty Due} = [\text{Volume} \times \text{Price} \times \text{Royalty Rate}] - \text{Allowances}$$



Make a distinction now between appropriate royalty price/gross proceeds and now moving into allowable vs. non-allowable transportation & processing allowances



Netting

- *Netting* means the deduction of an allowance from the sales value by reporting a net sales value, instead of correctly reporting the deduction as a separate entry on Form MMS-2014.

When is it ok to net?

- A. Never.
- B. When you have an arm's-length POP Contract
- C. When you have a transportation factor.
- D. Periodically when the urge strikes.

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[read slide]



Transportation & Processing Allowances

Arm's-Length Contracts	Non-Arm's-Length Contracts
<ul style="list-style-type: none"> Based on actual costs (contract charges) 	<ul style="list-style-type: none"> Based on lessee's actual operating and capital costs for the pipeline or plant Rate of return for O&G <i>Transportation</i> allowances = 1.3 * Standard & Poor's BBB Bond Rate For Gas Processing, = 1 * BBB Bond Rate

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Ok, moving on to allowances.

Transportation allowances are always based on your actual costs of transportation. If arm's-length, it is what you get charged for transportation – be careful there are no marketing fees or any other non-allowable costs included in your invoice. If you transport non-arm's-length, your allowance is based on your actual capital and O&M costs. For capital costs, your rate of return is based on 1.3 x BBB Bond Rate.

For processing, the same concepts apply, but you can only deduct actual costs of processing. But for capital costs on non-arm's-length processing, you only get 1 x BBB Bond Rate.

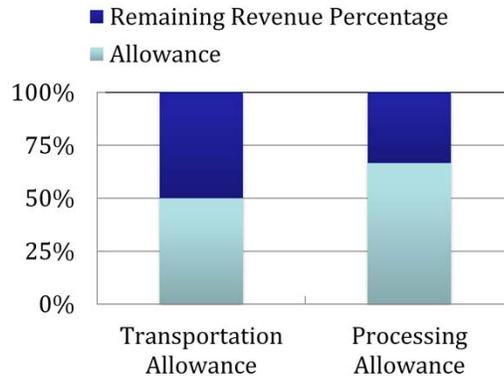
Really harp on the idea of “reasonable, actual costs...”



Transportation & Processing Allowances

Allowance Limits

- 50% transportation
- 66 ²/₃% processing
- May request exception from ONRR
- *Combination of transportation and processing allowance cannot exceed 99% of the value of the product*



ONRR defines "gathering" more specifically than industry. For ONRR, gathering means moving production to a central accumulation point. Industry, however, uses the term gathering when referring to any movement up to the main transmission pipeline.

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These limits are for a percentage of the royalty value of a product. For example, if you sell residue gas, NGLs, and condensate, you must break out your transportation costs for each product. Then compare the transportation expense to the revenue for each product. It is actually in your best interest to do so, b/c it allows you to deduct more.

If your costs are greater than the limits, you may request an exception to exceed the limit. Just fill out the form and send it in with all of the information we would need to make a decision.

ONRR does not require the filing of allowance forms if allowances are less than the limits.

You only need to fill out forms if you want to exceed a limit, you don't need to if you are less than the limit.

Talk about the difference in definitions for 'gathering' used by industry and ONRR.



Oil Transportation | Allowable Charges

ARMS Line Loss: actual or theoretical	Line Fill	Quality bank administration fees	NARMS Line Loss: actual only
ARMS only: Cost of a letter of credit	Fees paid for loading or unloading	Transfer fees paid to a hub operator	
ARMS only: Fees paid for required short-term storage (less than 30 days)	ARMS only: Fees paid to pump oil to another carrier's system or vehicle as required by a tariff	Payment for volumetric deduction to cover shrinkage	



Gas Transportation | Examples of Specific Charges

Allowed

Unused firm demand costs

ARMS only: Costs of securing a letter of credit

ARMS Line loss fees (in volume or value): actual or theoretical loss

NARM Line loss fees (in volume or value): actual loss only

Disallowed

Fees paid to brokers

Fees paid to scheduling service providers

Internal Costs

Not comprehensive, just a sampling FYI.

I should clarify... on the third bullet, for arm's length, you may deduct line losses whether they are actual or theoretical. For non-arm's-length, you may only deduct actual line loss.



Gas Transportation | Non-Arm's-Length Exception

Non-Arm's-Length exception to calculating actual costs.

You may request an exception if:

- You meet two criteria:
 1. Transportation system must have a tariff filed with FERC
 2. Third parties are paying prices to ship their gas
- With ONRR approval, you may deduct the lesser of:
 - The tariff amount, OR
 - The volume-weighted-average of third party prices

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Royalty Valuation | Consistent answers to complex questions

There is 1 exception to calculating your actual costs for non-arm's-length transportation: and you must submit a request to do so.

[read slide]



OCSLA Section 6 Leases

The State of Louisiana and Texas issued oil and gas leases for submerged offshore lands prior to the enactment of the Outer Continental Shelf Lands Act (OCSLA) (43 U.S.C. § § 1331 *et seq*) (Aug. 7, 1953).

The OCSLA provides that the outer continental shelf lands are in the Federal domain and thus subject to Federal oil and gas leasing.

However, Section 6 of the OCSLA (43 U.S.C. § 1335), essentially provides that existing leases issued by Louisiana and Texas would be maintained as Federal leases and are subject to the original provisions as provided on the state lease forms. We now generally refer to these as “Section 6 leases.”

Because of the unique nature of these lease forms and their interpretation, please contact our office for guidance.



Royalty Valuation | Consistent answers to complex questions

Does anyone report on any Offshore Section 6 leases?

[read slide]

The State of Louisiana and Texas issued oil and gas leases for submerged offshore lands prior to the enactment of the Outer Continental Shelf Lands Act (OCSLA) (43 U.S.C. § § 1331 *et seq*) (Aug. 7, 1953).

The OCSLA provides that the outer continental shelf lands are in the Federal domain and thus subject to Federal oil and gas leasing.

However, Section 6 of the OCSLA (43 U.S.C. § 1335), essentially provides that existing leases issued by Louisiana and Texas would be maintained as Federal leases and are subject to the original provisions as provided on the state lease forms. We now generally refer to these as “Section 6 leases.”

Because of the unique nature of these lease forms and their interpretation, please contact our office for guidance.



Coalbed Methane

- Unique reporting requirements on the OGOR & 2014 reports
- Key Resources
 - *Amoco Production Co. v. Watson* (D.C Cir. 2005) (See pgs 12-19 for a good discussion on CBM marketable condition)
 - *Devon Energy Corp - October 9, 2003 Valuation Determination* (upheld in *Devon Energy Corp. v. Kempthorne*, 551 F.3d 1030 (D.C. Cir. 2008))
 - 30 CFR § § 1206.152(i) and 1206.153(i)
 - Current Dear Reporter Letter dated Oct 4, 2005
 - <http://www.onrr.gov/FM/PDFDocs/20051004.pdf>
 - ONRR *Minerals Revenue Reporter Handbook*
 - <http://www.onrr.gov/FM/PDFDocs/RevenueHandbook.pdf>

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Royalty Valuation | Consistent answers to complex questions

Does anyone here report on Coalbed Methane?

Ok, Coalbed Methane. Still gas, but it has to be handled somewhat uniquely. Generally, coalbed methane is produced at very low pressures, so it takes a lot of compression to get it up to pipeline specs. It also contains a lot of CO₂, commonly several % points, so it usually needs to be treated to remove the CO₂. Lastly, CBM, as the name implies, is often pure methane, with few heavier hydrocarbons. Because of this, it is rarely economical to try to extract NGLs.

The Amoco decision provides a good discussion on what constitutes marketable condition for CBM

The Devon decision is also very informative – especially when considering what costs are allowable for CBM production, transportation, and processing.

Marketable condition requirements

30 CFR § § 1206.152(i) and 1206.153(i)

Services necessary to put gas in marketable condition

Gathering

Dehydration

CO₂ removal

Compression

Amoco Production Co. v. Watson (D.C Cir. 2005) (See pgs 12-19 for a good discussion on CBM marketable condition)

Devon Energy Corp - October 9, 2003 Valuation Determination (upheld in *Devon Energy Corp. v. Kempthorne*, 551 F.3d 1030 (D.C. Cir. 2008))

Marketable Condition (cont' d)

Devon Decision

Where typical market is at or near the field, purchasers dictate marketable condition

When typical market is not in the field (See 30 CFR § 1206.151), marketable pressure is the pressure necessary for the gas to enter the line which is must enter...

Two key factors from Devon are:

Marketable Condition (cont' d)

Devon Decision

Where typical market is at or near the field, purchasers dictate marketable condition

When typical market is not in

the field (See 30 CFR § 1206.151), marketable pressure is the pressure necessary for the gas to enter the line which is must enter...

If CO₂ is *not* being recovered and sold separately, value methane as unprocessed gas.

If CO₂ *is* being recovered and sold separately, then value as processed gas.

Value as ARMS or NARM

Eligible for a transportation allowance

Processing allowance only if you
sell the CO₂

Must unbundle fees

As I mentioned, we require CBM to
be reported somewhat differently
from normal processed or
unprocessed gas. The 2005 Dear
Reporter Letter is extremely
detailed and helpful – and the
Reporter Handbook is a good
reference as well.

Unique reporting requirements on
the OGOR and 2014 reports

Current Dear Reporter Letter dated Oct 4, 2005 – very good, detailed guidance

<http://www.onrr.gov/FM/PDFDocs/20051004.pdf>

ONRR Minerals Revenue Reporter Handbook

<http://www.onrr.gov/FM/PDFDocs/RevenueHandbook.pdf>



Coalbed Methane Random Quiz

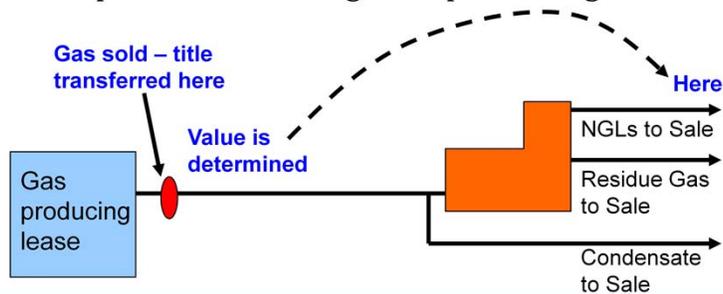
- Is Coalbed Methane Ever Processed?
- A. Yes
- B. No
- C. This is a trick question!
- D. What about the Fruitland Coal Fm.?



Percentage-of-Proceeds (POP) Contracts

For ONRR, a POP contract is a contract:

1. For the sale of gas,
2. Prior to processing,
3. Value is based on a percentage of the purchaser's proceeds resulting from processing



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Royalty Valuation | Consistent answers to complex questions

How does ONRR define a “POP Contract?”

[read slide]

For example:

- You have a lease that produces gas. The gas is transported to a gas plant. Prior to processing, condensate is removed and sold. After processing, NGLs and Residue Gas is sold as well.
- Gas is sold here, prior to processing.
- However, value is determined here – after processing.

You receive a percentage of the proceeds from processing.

POP is a sales contract not a processing contract, a narrow definition that does not always mean that Gas Plant statements that say “POP” are not always within the ONRR definition



POP Contracts | Arm's-Length

- Federal Arm's-Length (**APOP**) royalties are based on the **greater of**:
 - Gross Proceeds under the POP contract, **or**
 - Value of 100 % of the residue gas attributable to the property
- **APOP** Contract Transportation Costs
 - If there are charges in your **APOP** sales contract related to transportation, they may be deducted from your gross proceeds, and should not be claimed as allowances.
 - However, the royalties paid may not be less than 100% of the value of the residue gas

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Royalty Valuation | Consistent answers to complex questions

You calculate your royalties based on your gross proceeds according to your POP contract, which is some calculation based on the value of residue gas, NGLs, and maybe condensate. If there are charges in your contract for transportation, you should net those in your sales value, and not deduct them as a transportation allowance. However, under no condition can you pay less than 100% of the value of the residue gas.



POP Contracts | Non-Arm's-Length

- Federal Non-Arm's-Length (**NPOP**) royalties are based on processed gas proceeds, sum of:
 - Residue gas value
 - Gas plant products value
 - Condensate value recovered downstream of royalty settlement point and prior to processing
 - Less applicable allowances*
- *You must report your affiliate's reasonable, actual costs of transportation and processing separately.**

[read slide]



Keep Whole Contracts

Producer X Delivers
1000 MMBtus to
Processor Y's Gas Plant



Producer X Receives
1000 MMBtus at the
Plant Outlet



Residue +
Makeup
Gas to
Producer X

In Exchange for Processing and/or other
Services, Processor Y Keeps all NGLs
Recovered from Producer X's Gas

NGLs to
Processor
Y Sales

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Keep Whole Contracts

- Valued and reported as **Processed Gas**
- Royalty also due on condensate recovered by service provider prior to processing
- Processing costs are:
 - ✚ Value of any NGL's kept by the processor, less
 - ✖ Value of make-up residue gas provided by processor
 - Processing may include the cost of make-up gas paid for by the producer





What is Unbundling?

- **Unbundling = the process of taking a gas transportation and/or processing fee and determining the *allowed* and *disallowed* costs for Royalty Reporting and Payment. Includes:**
 - **Determining marketable condition**
 - **Separating the Gathering/Transportation Fees from Processing Fees**
 - **Applying the appropriate Unbundling Cost Allocations (UCAs)* to the fees you are charged for transportation, gathering, compression, dehydration, treatment, and processing**

**Note: A UCA is the percent of a fee that is allowable (there will likely be a different percentage for Transportation and Processing)*



What is Expected of Industry

- Properly Report and Pay Royalties
- Correctly calculate **transportation** and **processing** allowances
 - Option 1 – Take no allowance
 - Option 2 - Unbundle
 - Calculate your own UCAs
 - Use ONRR UCAs if available



Applying the Unbundling Cost Allocations (UCAs) ("Understanding" the Disclaimer)

The ONRR Unbundling website can be found at:

<http://www.onrr.gov/unbundling/default.htm>

To enter the website, you must read the Disclaimer and then **select** the **"I Understand"** box

ONRR Unbundling

DISCLAIMER FOR ONRR UNBUNDLING WEBSITE

Non-Arm's-Length Agreements

Lessees transporting and processing Federal and Indian natural gas under **non-arm's-length agreements** are obligated to comply with the regulations for claiming allowances for transportation and processing costs, including 30 C.F.R. § 1206.157(b) and § 1206.159(b) (*Federal*) and 30 C.F.R. § 1206.178(b) and § 1206.180(b) (*Indian*). In this case, lessees must base their transportation and processing allowance on their reasonable actual costs and may not use the values posted on this website.

Arm's-Length Agreements

Lessees transporting and processing Federal and Indian natural gas under **arm's-length agreements** are obligated to comply with the regulations for claiming allowances for transportation and processing costs, including 30 C.F.R. § 1206.157(a) and § 1206.159(a) (*Federal*) and 30 C.F.R. § 1206.178(a) and § 1206.180(a) (*Indian*). When a lessee pays a bundled rate under an arm's-length contract, the lessee must unbundle that rate in order to comply with the regulations. A lessee may use the Unbundling Cost Allocations (UCAs) posted on this website as a means of unbundling.

ONRR provides the UCAs on this website based on the best information available to ONRR at the time of publication. If ONRR receives more accurate information, then ONRR will update and modify the UCAs. You may use these UCAs **as estimates** for later time periods until such time as ONRR provides updated information. When ONRR updates or modifies information you may be subject to additional royalty obligations, or a credit, and associated interest under the provisions at 30 CFR 1206.156(d) (for transportation allowances) and 1206.158(e) (for processing allowances). When ONRR updates the UCAs for a specific year you should adjust previously submitted royalty lines only for that specific year. Do not change previously reported data until ONRR publishes actual values. You should use the most recent UCAs as estimates for future reporting months.

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Applying the Unbundling Cost Allocations (UCAs) (ONRR Unbundling website)

The ONRR Unbundling website can be found at:

<http://www.onrr.gov/unbundling/default.htm>

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DOI Office of the Secretary

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Home > **Unbundling**

Unbundling Information

How to use the published Unbundling Cost Allocations (UCAs)

Example:

1. ONRR publishes UCAs for 2010.
2. You use 2010 UCAs to estimate 2011, 2012, and 2013.
3. ONRR publishes UCAs for 2011 and 2012.
4. You replace estimated values for 2011 and 2012 (there is no change for 2013).
5. You use 2012 (most current) UCAs for future reporting period estimates.

Reporter Letters

- Royalty on Gas Used or Lost Along a Pipeline Prior to the Point of Sale (pdf) — (8/8/2013)
- Guidance on Valuing Gas for Royalty Purposes — Transportation Systems and Processing Plants - Onshore Federal Leases (pdf) — (10/6/2010)
- Guidance on Valuing Gas for Royalty Purposes — Manzanares Gas System, San Juan Basin, New Mexico (pdf) — (10/7/2009)

For assistance or questions please send an e-mail to: onrrunbundling@onrr.gov

System/Plants Table

Show 10 entries

Name with Document Link	Type	Operator	Location	Doc Date
San Juan Conventional Transportation System - Ignacio Plant (pdf)	Trans/Plant	Williams	NM	01/21/2014
Manzanares Transportation System (pdf)	Trans	Williams	NM	11/25/2013
San Juan (Blanco) Plant (pdf)	Plant	CononcoPhillips	NM	10/18/2013

QUICK LINKS

- Unbundling Home
- Methodology
- E-Blasts and Updates

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An Example of the Unbundling Process (Identify Data Needs)

More detailed information is available on the ONRR Unbundling website

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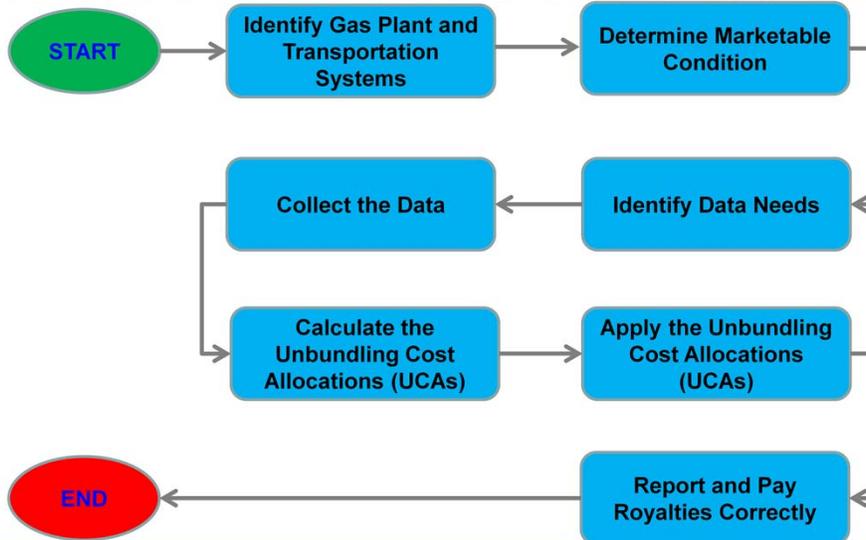
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QUICK LINKS
[Unbundling Home](#)
[Methodology](#)
[E-Blasts and Updates](#)



The Unbundling Process





Communications | ONRR Mailbox

Mailbox Exclusively for Questions and Requests
Regarding Unbundling

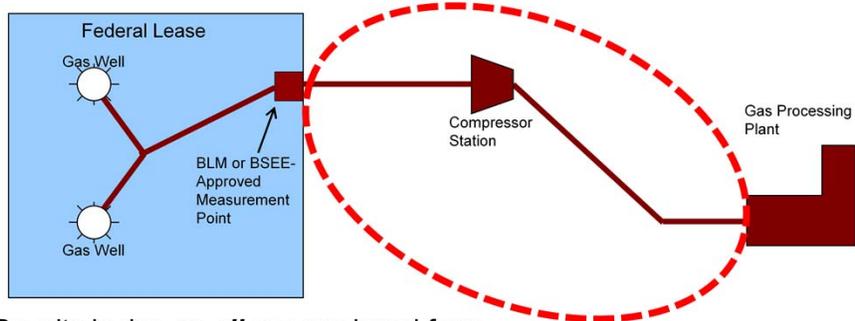
onrrunbundling@onrr.gov



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Gas Used or Lost Along a Pipeline: Understanding the Issue



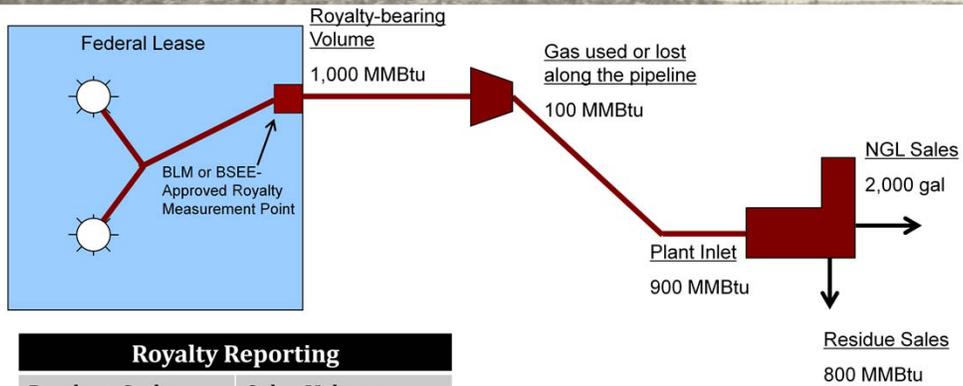
Royalty is due on **all** gas produced from a Federal lease, except:

- Beneficial use (gas used on lease)
- A reasonable amount of residue gas used to operate a gas plant

Federal Gas
30 CFR 1202.150(a) and (b)(1), 30 CFR 1202.151(b)
Indian Gas
30 CFR 1202.555



Gas Used or Lost Along a Pipeline: An Example



Royalty Reporting	
Product Code	Sales Volume
03	800 MMBtu
07	2,000 gal
15	100 MMBtu

The allowable portion of gas used or lost may be included in the transportation allowance.



Gas Used or Lost Along a Pipeline: Key Points

- Royalty has always been due on 100 percent of the volume measured at the approved royalty measurement point
- The cost of allowable fuel may be included in the transportation allowance
- Using PC 15 is the only new requirement
- **Resources:**
 - <http://onrr.gov/DearRep.htm>
 - <http://onrr.gov/PDFDocs/Field-Fuel-Valuation-and-Reporting.pdf>
 - <http://onrr.gov/ReportPay/training/default.htm>
 - <http://onrr.gov/About/PDFDocs/ChrisCareyCOPASFieldFuelPresentationFIMAL20131216.pdf>



Plant Fuel

From the reporter letter:

When the plant reduces your residue allocation for gas used in the plant, you should add the disallowed portion of gas used in the plant to your residue (PC 03) volume and value when paying royalty.

Total Fuel used = 140 MMBtu

Disallowed Fuel = 40 MMBtu



Residue Sales

1,000 MMBtu

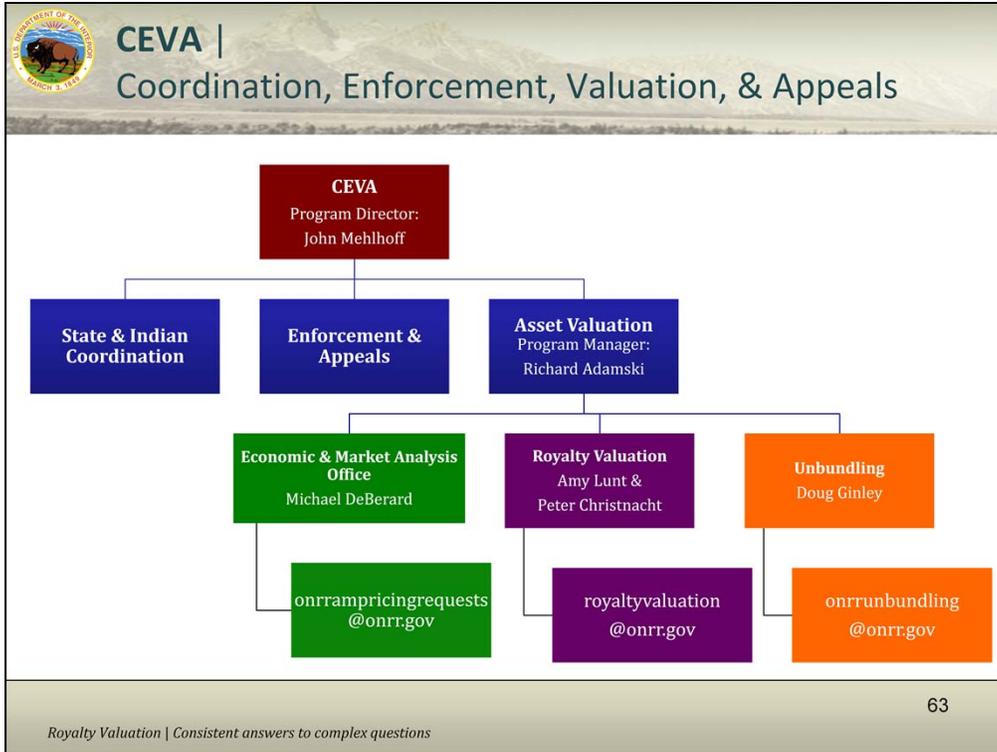
Multiple Choice Question

The residue gas sales MMBtu reported on the ONRR form 2014 should be:

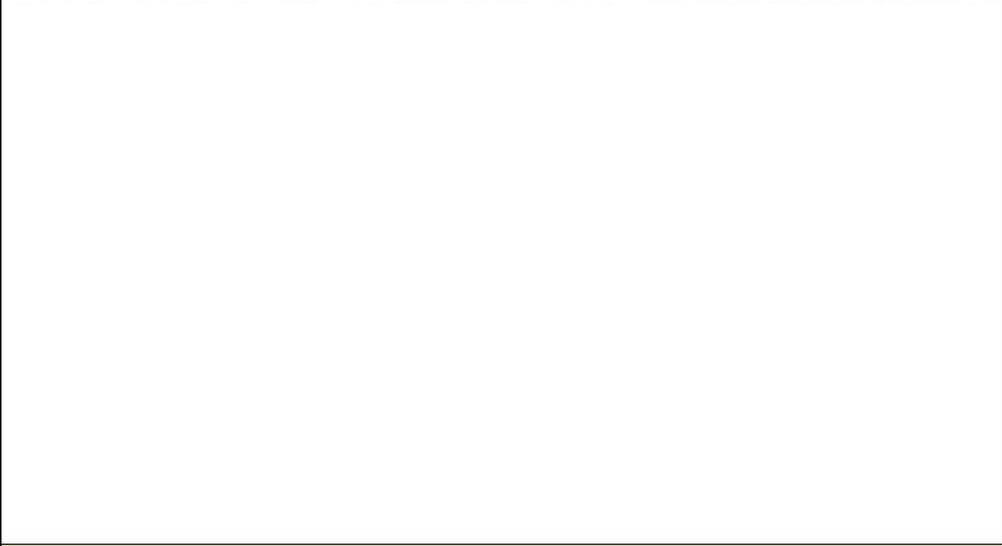
- A) 1,000 MMBtu
- B) 1,040 MMBtu**
- C) 1,140 MMBtu

Royalty Reporting

Prod Code	Sales Volume
03	1,040 MMBtu



Ok, thanks for your time! You should know that we now have a valuation office. For the last 10 years, valuation roles were dispersed within the organization, but we've consolidated them for more consistent guidance. Here is our leadership.





Bundled Costs

- A single rate for several services:
 - Gathering
 - Transporting
 - Compressing
 - Treating
 - Processing
- Deductions only allowed for:
 - Cost to transport royalty-bearing gas
 - Cost to process royalty-bearing gas
- What is not allowed? – Devon Decision
 - Gathering – movement from the wellhead to the approved royalty settlement point
 - Treating to reach marketable condition
 - Compression to reach marketable condition
 - Costs to remove non-royalty-bearing substances

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Recently this has become a pretty big issue. Service providers sometimes charge a single rate that includes services that are both allowable (Transportation and Processing) and non-allowable (Gathering, Compression, Treating).

With that said, if at all possible, **AVOID ENTERING INTO BUNDLED CONTRACTS!!!** It will make the royalty-paying part of your job miserable. But if you do, here's some guidelines:

The Devon Decision looked at this issue in a lot of detail and determined, among other things, that the following services are **NOT** deductible costs:

- Gathering – which is movement of gas from the wellhead to the approved royalty settlement point
- Treating to reach marketable condition – commonly dehydration
- Compression to reach marketable condition – which I'll talk more about in a few slides
- Costs to remove non-royalty-bearing substances – namely, CO₂



Unbundling Costs

How do I un-bundle fees?

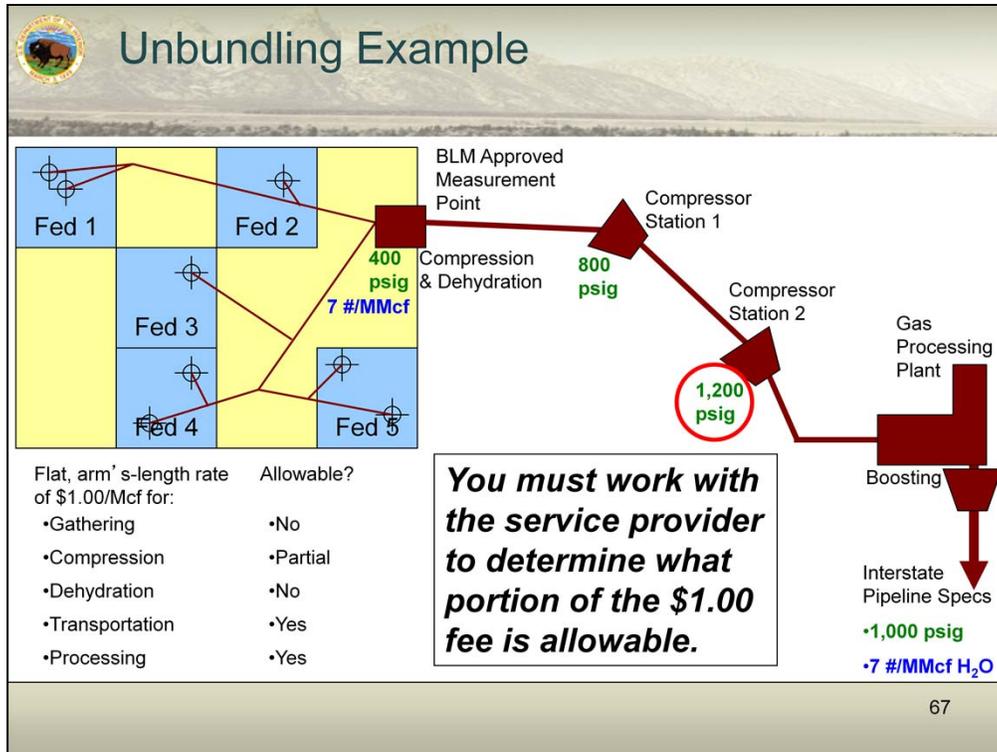
- Determine what costs are allowable for processing and/or transportation
- Follow the gas as it moves through the pipe
 - Gathering: wellhead to the approved measurement point – not deductible
 - Allowable transportation costs: pipe, maintenance, operation, and compression to maintain pressure
 - Allowable processing costs: extraction royalty-bearing products - usually NGLs (CO₂ only if marketed)

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When trying to unbundle a contract, you must determine which costs are allowable – namely, they must be for either transportation or processing.

The easiest way is to follow the gas as it moves through the pipe – try to determine where marketable condition is met and which elements are deductible.

Lets work through an example.



Order of appearance:

1. Leases
2. Wells
3. Gathering system, BLM measurement point, compression & dehy
4. Transportation, compressors, plant, export P/L
5. Psi and #/MMcf
6. Flat rate for various services
7. Allowable?
8. Walk through each one
9. You must work...



Unbundling Costs

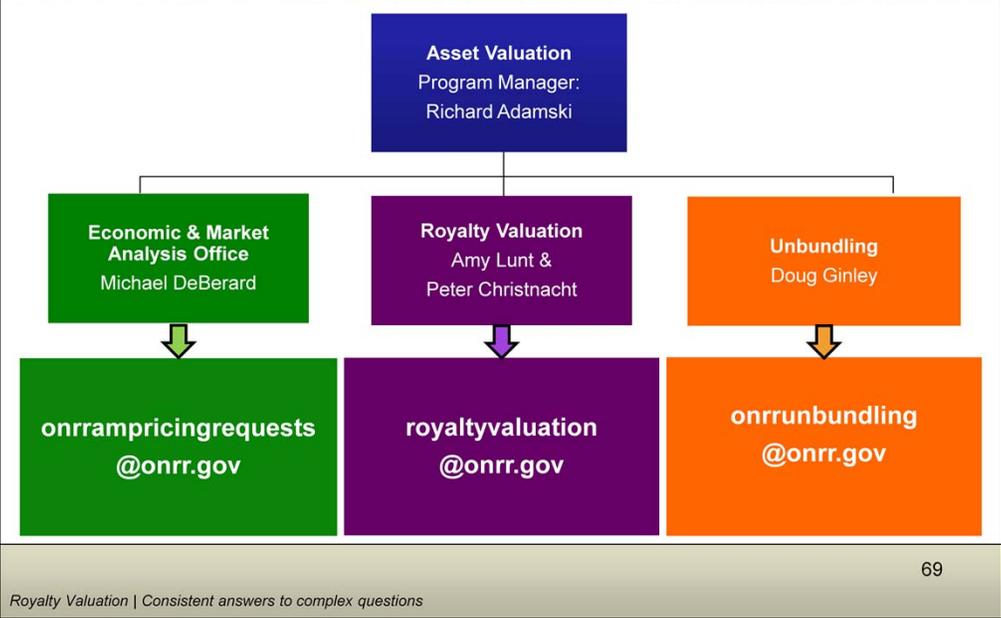
- ONRR is working to make unbundling information available to payors
- Oct 6, 2010 Dear Reporter Letter
 - Good discussion on unbundling
 - Outlines how we determine allowable costs
- Unbundling website
 - <http://www.onrr.gov/Unbundling/default.htm>
 - Allowable percentages
 - Example calculations

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Essentially, if you cannot determine what portion of the fee is allowable, then none of it is allowable. Another difficulty is determining exactly when marketable condition is met.



Asset Valuation Contact Information





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



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.

Gauge the audience: federal employees; industry representatives; first-timers; onshore reporters; offshore reporters; members of the press



Valuation Regulations

30 CFR Part 1206

◆ Indian Oil: § 1206.50 - § 1206.62

◆ February 1, 2008

◆ Indian Gas: § 1206.170 - § 1206.181

◆ January 1, 2000



National Archives and
Records Administration

code of
federal regulations



Electronic Code of Federal Regulations:

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

3

Here are the Valuation Regs. Prior to Oct 31, 2010, they were in part 206. When MMS split into two bureaus, we broke out our regulations into their own chapter. We did but keep it simple by just adding a “1” in front of everything.

They are also available online. If you know the citation, just plug it into GOOGLE. If you don't, it's a bit trickier to find the appropriate regulation. Feel free to call us.



Outline

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



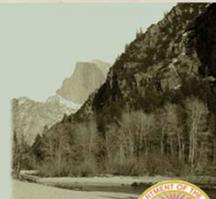
My goal today is to introduce you to some of the valuation topics we encounter



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 1-800-962-3226
 Farmington 1-800-235-2836
 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 Communication 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
- ▶ Communication review
- ▶ Lease production volumes
- ▶ Wills 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



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Law of Nations: During colonization, the British and many of the colonies treated Indian tribes as sovereign nations holding title to their lands and entered into treaties with the tribes recognizing their title.

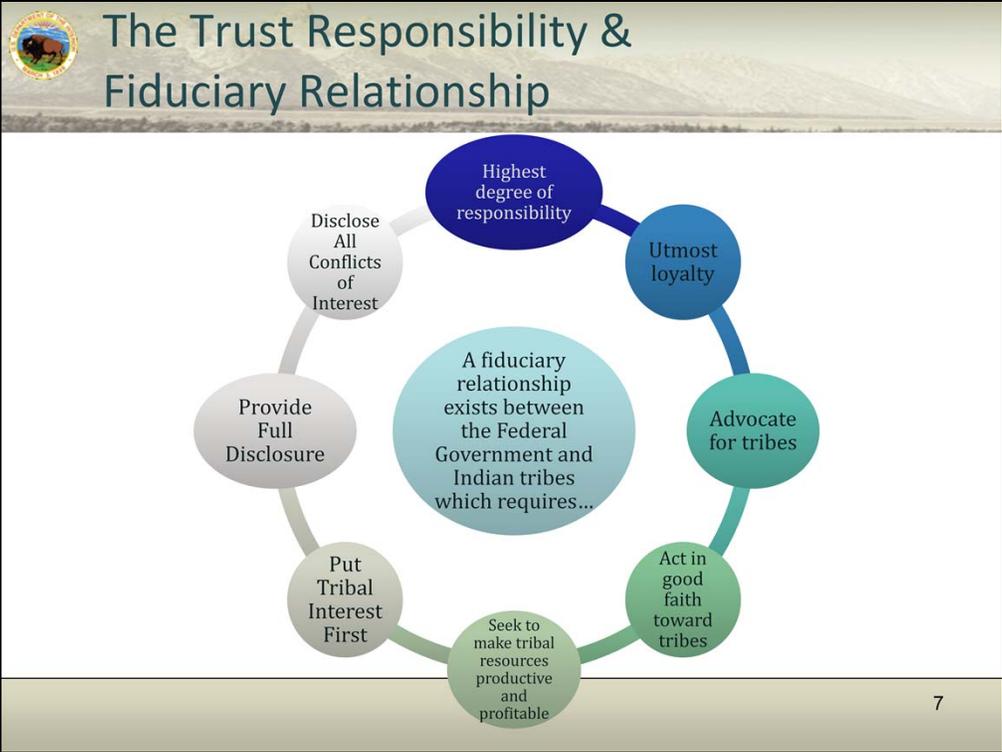
- Early Supreme Court decisions defined the relationship between Indian tribes and the Federal Government. Johnson v. McIntosh (1823) Cherokee Nation v. Georgia (1831) Worcester v. Georgia (1832)

- These decisions acknowledge the sovereignty of Indian tribes, while at the same time acknowledging the obligation to protect the interests of Tribes, and defining the nature of Indian property interests

The Constitution establishes the primacy of federal authority over Indian affairs and both defines and limits that power

Treaties & Agreements: Recognition of title Acknowledgment of the protection of the US Specific rights secured – beneficial ownership of land, hunting and fishing rights, water rights, federal services like health and education services Other sources – congressionally approved agreements, executive orders

Specific Statutes: fiduciary duties necessarily arise when the gov't. assumes control or supervision over tribal trust assets



*The federal government must support and encourage tribal self-government and economic prosperity, and protect tribes and their interests. The federal government has an obligation to ensure tribal resources are managed in a manner that promotes Indian interests.*



## 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



My goal today is to introduce you to some of the valuation topics we encounter



## 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)



10

There are a few general valuation principles:

1. What type of relationship do the parties have?
2. What are your “gross proceeds” and what does that even mean?
3. You cannot deduct costs to place production into marketable condition. What costs are these, and how is marketable condition determined?
4. Royalty is due when production is removed from the lease
5. It is due on the quantity and quality of production when it is removed
  1. There are small exceptions to this when deductions are taken for line loss or fuel use. But, the volume and sales value should be based on this.
  2. \*Took out quality because of duty to place in marketable condition

### Common Reporting Errors:

Missing agreement numbers

Unprocessed vs. processed gas

Netting transportation allowances

Reporting Btu/cf instead of MMBtu

Adjustments to old periods – fatal error now



# 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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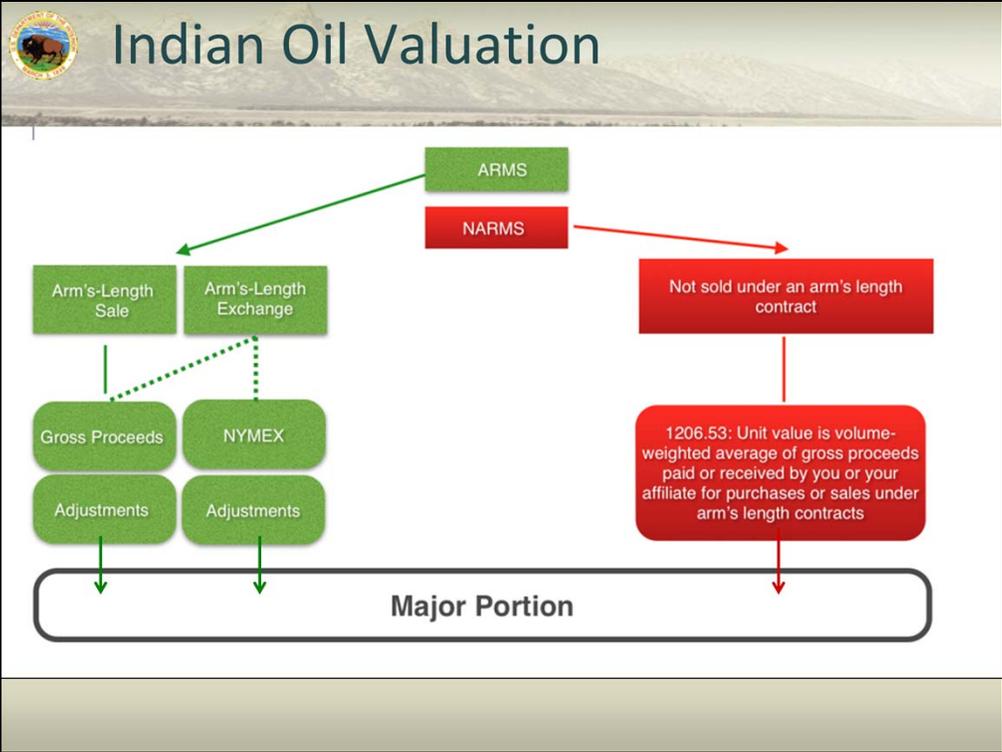
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# Indian Oil Valuation

30 CFR § 1206.50 - § 1206.62





ARMS: Lessee must prove that its contract prices is arm's length; generally accept gross proceeds under ARMS contracts



## Major Portion

**Royalty value** is based on the major portion price.

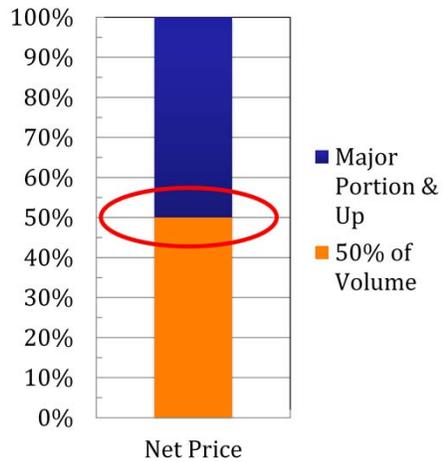
Value, “for the purposes hereof may, in the discretion of the Secretary, be calculated on the basis of the highest price paid or offered ... at the time of production for the **major portion** of the oil of the same gravity, and gas, and /or natural gasoline, and ... produced and sold from the field where the leased lands are situated ...”

15

1206.54 How do I fulfill the lease provision regarding valuing production on the basis of the major portion of lik-wuality oil



## Major Portion



- Major portion will be calculated using like-quality oil sold under arm's-length contracts from the same field each month or area if applicable
- Oil production arrayed from highest price to lowest price at bottom
- The major portion is that price at which 50% by volume plus one barrel of oil (starting from the bottom) is sold



## Indian Oil Transportation Allowance Forms

### Arm's-Length

- Form-4110
- Schedule 1
- Actual Costs
- Must be filed prior to or at the same time as reporting allowance on Form ONRR-2014

### Non-Arm's-Length

- Form-4110 with estimated costs
- Must be filed prior to or at the same time as reporting the allowance on Form ONRR-2014
- Must submit Form-4110 with actual costs within 3 months from the end of the calendar year the allowance was taken

**No Form = No Allowance**

17

Ok, moving on to allowances.

Transportation allowances are always based on your actual costs of transportation. If arm's-length, it is what you get charged for transportation – be careful there are no marketing fees or any other non-allowable costs included in your invoice.



## Indian Oil Transportation Allowances

### Arm's-Length

- Reasonable, actual costs to transport oil
- Allowances may **NOT** include costs of placing production in marketable condition or gathering (Unbundling)
- ONRR can establish value based on relevant matters

### Non-Arm's-Length

- Reasonable, actual costs to transport oil included in the weighted-average price/cost calculation
- Allowances may **NOT** include costs of placing production in marketable condition or gathering (Unbundling)
- Director may establish alternative valuation method if result is unreasonable

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Ok, moving on to allowances.

Transportation allowances are always based on your actual costs of transportation. If arm's-length, it is what you get charged for transportation – be careful there are no marketing fees or any other non-allowable costs included in your invoice.



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# Indian Gas Valuation

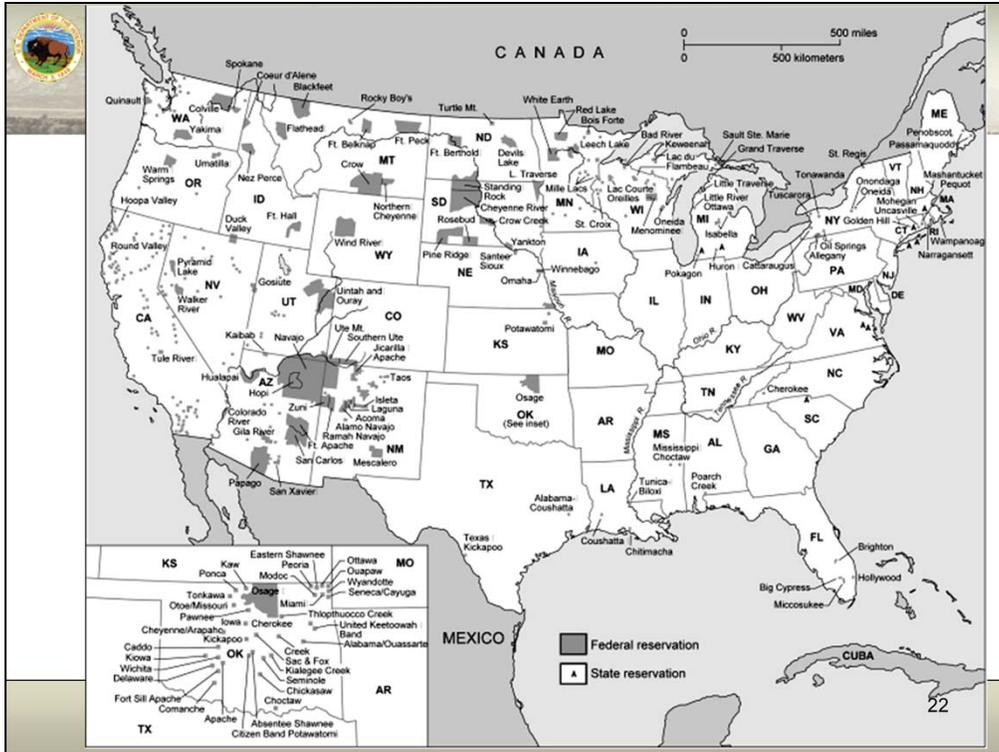
**30 CFR § 1206.170 - § 1206.181**





## 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, statues



This map identifies the designated Federal and State Indian reservation lands.



## 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

25

Although it seldom happens, both Tribal and Allotted leases may be excluded from **index valuation**.

**Bullet #1: Refers to the exclusion of Tribal leases:**

- Tribal leases may be excluded, but must remain in effect for at least **1** year.
- The wording in the regs is somewhat unclear, but if the Tribe wants only some of their leases excluded, the leases must be able to be grouped by separate fields within the reservation.
- Opting tribal leases in or out of index valuation requires a **Tribal resolution**.

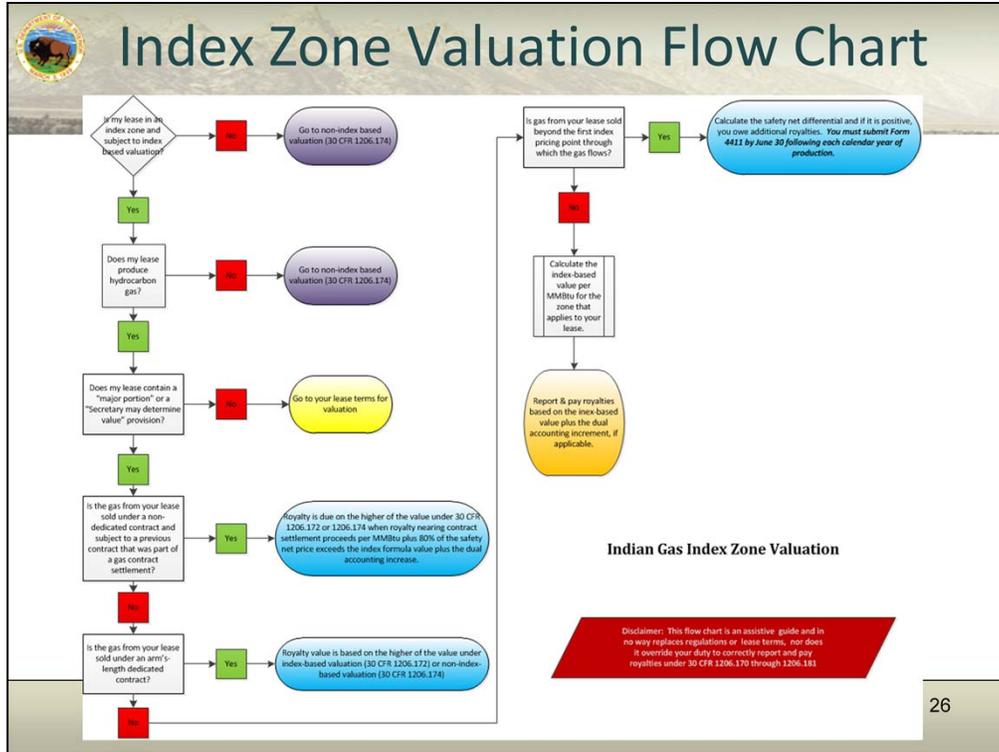
**Bullet #2: Refers to the exclusion of Allotted leases:**

- ONRR can exclude Allotted leases at any time.
- If any Allotted lease is excluded, then all Allotted leases in the same field will be excluded.

Excluded leases will be subject to **non-index zone valuation, Section 206.174**.

**Bullet #3: Refers to how ONRR gives the public constructive notice on**

**lease exclusions.**



2 safeguards in the rule regarding index zone valuation –  
 Special valuation for dedicated contracts  
 Safety net price



## 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



27

### 1st safeguard - **Arm's-Length Dedicated Contract**

#### **READ definition**

A **dedicated contract** is defined in the rule as a contractual commitment to deliver gas production (or a specified portion of production) from a lease or a well, when that production is specified in a sales contract **AND** that production must be sold pursuant to that contract.

#### **Bullet #1:**

Under bullet #1 ... If a Payor has a dedicated contract, then the royalty share is based on the higher of the **gross proceeds** under the contract or the **index-based value**.

#### **Bullet #2:**

#### **READ bullet**

**Example:** Producer with 10 wells each producing 1,000 MCFD; for the month, 300,000 Mcf. All of the **gas is dedicated—dedicated under the contract ... and must be sold **exclusively** to the Purchaser.**



## 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

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### 2nd safeguard – **Safety Net Price (S)**

#### **Bullet #1 :**

If the sale of gas from an Indian lease occurs downstream of the first **IPP**, then the minimum value, for royalty purposes, is the value based on the **SND**.

---

#### **Bullet #2**

The **S** is reported to ONRR on Form 4411, **aka** Safety Net Report.

The 4411 is due to ONRR on June 30<sup>th</sup> following each calendar year.



## 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

29

Here's the formula used to calculate **SND**.

### Bullet #1:

The **SND** is equal to 80% of the **S** minus 125% of the index-based value.

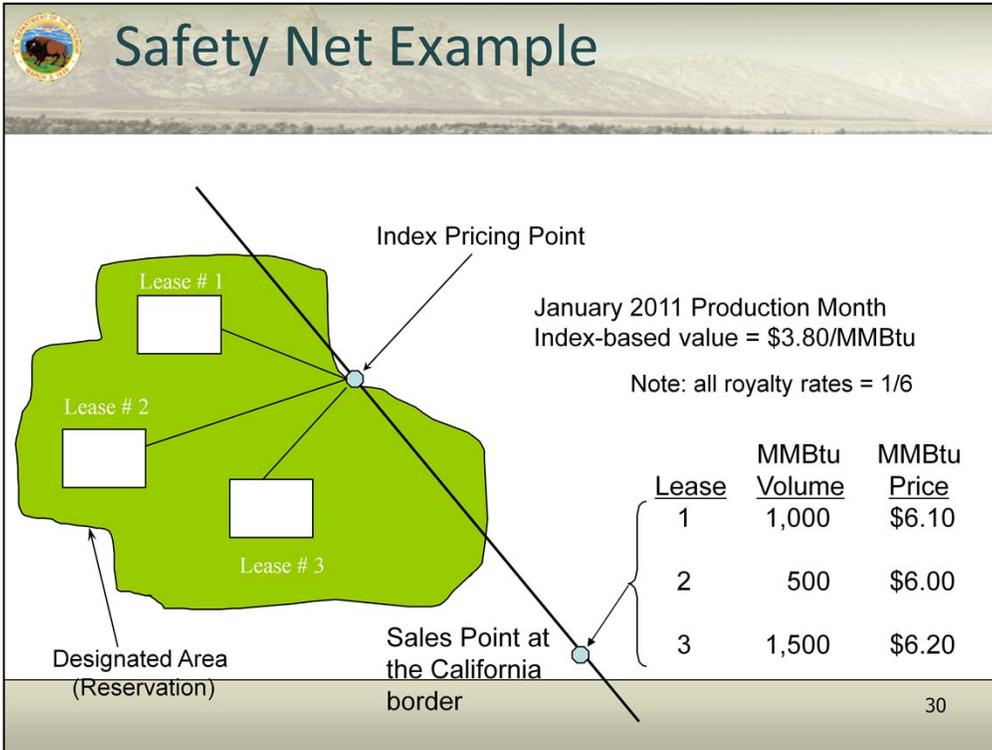
The **SND** is a **price/MMBtu** that is in addition to the index-based value which was used in the calculation for paying royalties.

### Bullet #2:

If the **SND** is **positive** ... THEN

1. Additional royalties are owed ... and
2. An amended 2014 will need to be filed.

If the **SND** is **negative** ... THEN no additional royalties are due.



- **3** leases which have production that is being sold at the California border.
- This represents a **sale of gas beyond** the first **IPP**.

**READ details**

1. The MMBtu volumes delivered and the contract prices for the **3** leases are shown at the bottom right.
2. The royalty rate for all of the leases is 1/6.
3. The **index-based value** for the production month of January 2011 is \$3.80/MMBtu.



## 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

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

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

31

The first step in determining the **SND** is to calculate the **safety net price**.

#### **READ S = ...**

It's the volume-weighted average contract price of the downstream sales from the Indian leases in the index zone.

#### **READ equation**

The **S** is \$6.14/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*

32

Here again is the formula used to calculate the **SND**.

**READ equation**

Since, the **SND** is **positive**, the Lessee will owe additional royalties.



## Safety Net Example

Calculation of Additional Royalties Owed:

**SND** x Volume x Royalty Rate

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

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

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

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

33

Now that we know the **SND**, we can apply this to the lease volumes and royalty rates to calculate **Total Additional Royalties Owed**.

**READ equations**

**V = (volume) ... MMBtus sold from the lease**

**R = Royalty rate.**

An amended 2014 report would be submitted for each lease.

Due on June 30<sup>th</sup> of the following calendar year.

-----  
**If the Safety Net Price is Negative, will additional royalties be due?**

**Raise your Hand!**

**QUESTIONS UP TO THIS POINT?**

-----  
**ANY QUESTIONS UP TO THIS POINT?**

**TIME: \_\_\_\_\_**

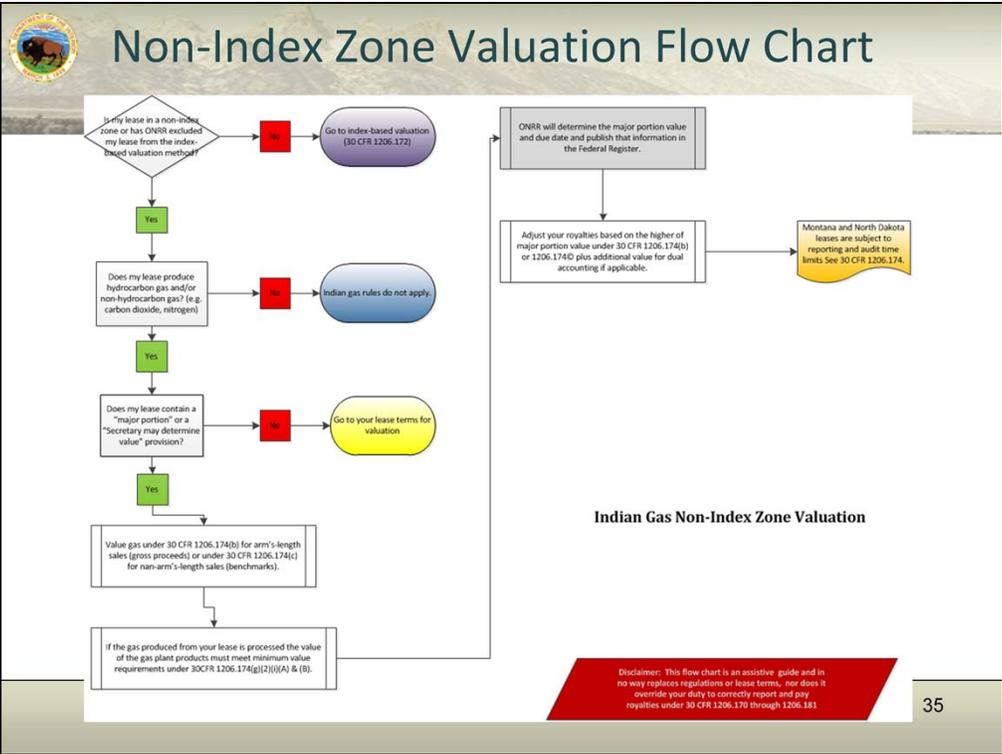


## Outline

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

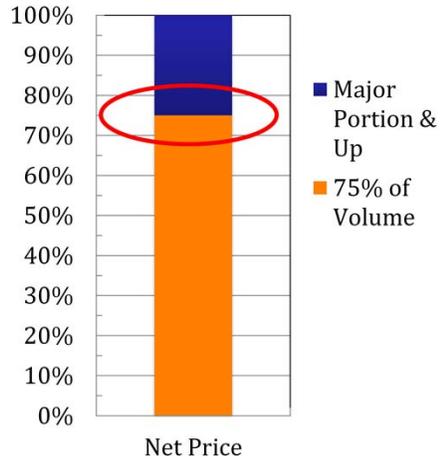


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# Indian Gas | Major Portion



*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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- **Indian Gas: Accounting for Comparison**
- Indian Gas Allowances
- New Rule

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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*

39

NGL's from Gas - Processing Economics

Gas Plant Profitability Metric – “Frac Spreads”

The gas plant equivalent of a refinery “crack spread”

Measure of gross profitability for gas plants

Calculated as the difference between the

revenue from sales of NGL's contained in a gas

stream as liquid and their value if left in the gas

pipeline and sold at gas prices



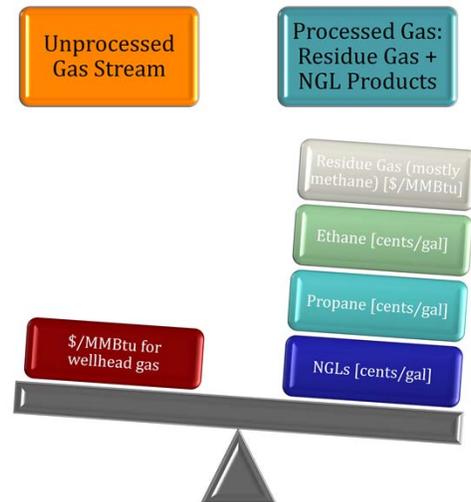
## Dual Accounting Requirement

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.**”



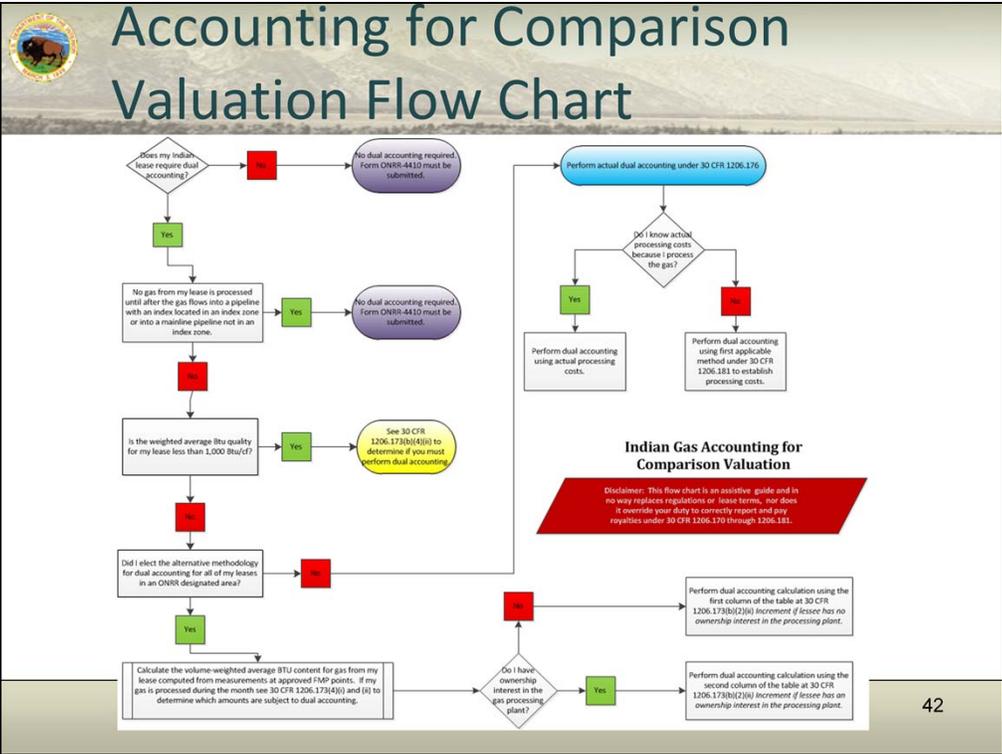
## Dual Accounting is a Comparison

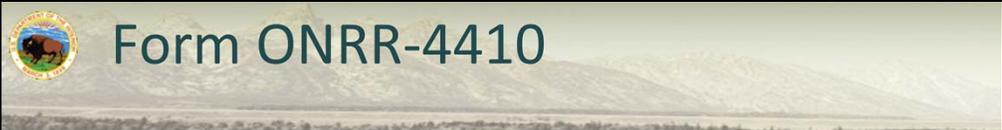


41

Again, it is a comparison between the unprocessed and processed gas values.

And, royalties are to be paid on “whichever is the greater.”





<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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Talk through the two parts of the form and what they mean  
 There are two parts to dual accounting

**Bullet 1:**

Part A – is used to certify that the Lessee is exempt from performing **DA**.

**Bullet 2:**

Part B - is completed when **DA** is required. Here, lessees elect to perform either the alternative methodology of **DA** or actual DA.

**INFORMATIONAL:**

Previously, **DA** elections were made using the “**Calc Method**” field (15) on the old Form MMS-2014.

**Calc Method Codes – 04 (Dual Accounting); 05 – (Percent of Increase)**

Our “Dear Payor” letter of July 8, 2002 notified Payors of the change from the **Form MMS-2014 to the Form MMS-4410**.

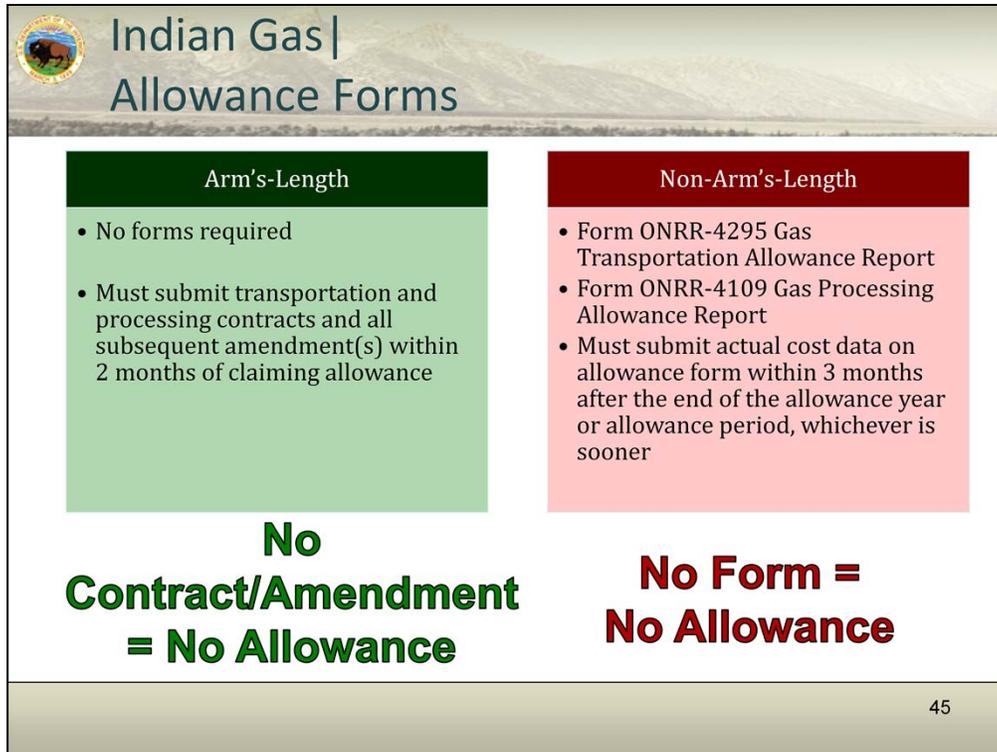


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**Indian Gas | Allowance Forms**

| Arm's-Length                                                                                                                                                                                               | Non-Arm's-Length                                                                                                                                                                                                                                                                                                        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• No forms required</li> <li>• Must submit transportation and processing contracts and all subsequent amendment(s) within 2 months of claiming allowance</li> </ul> | <ul style="list-style-type: none"> <li>• Form ONRR-4295 Gas Transportation Allowance Report</li> <li>• Form ONRR-4109 Gas Processing Allowance Report</li> <li>• Must submit actual cost data on allowance form within 3 months after the end of the allowance year or allowance period, whichever is sooner</li> </ul> |
| <p align="center"><b>No Contract/Amendment = No Allowance</b></p>                                                                                                                                          | <p align="center"><b>No Form = No Allowance</b></p>                                                                                                                                                                                                                                                                     |

45

Indian index-zone prices may not be reduced by transportation or processing allowances

All other Indian gas

Allowances for AL contracts based on actual costs

Allowances for NAL contracts

Based on lessee's operating and capital costs for the pipeline or plant

Indian Gas, Non-Index zone  
transportation allowance alternative =  
10% (not to exceed \$0.30/MMBtu)



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- **New Indian Oil Valuation Rule**



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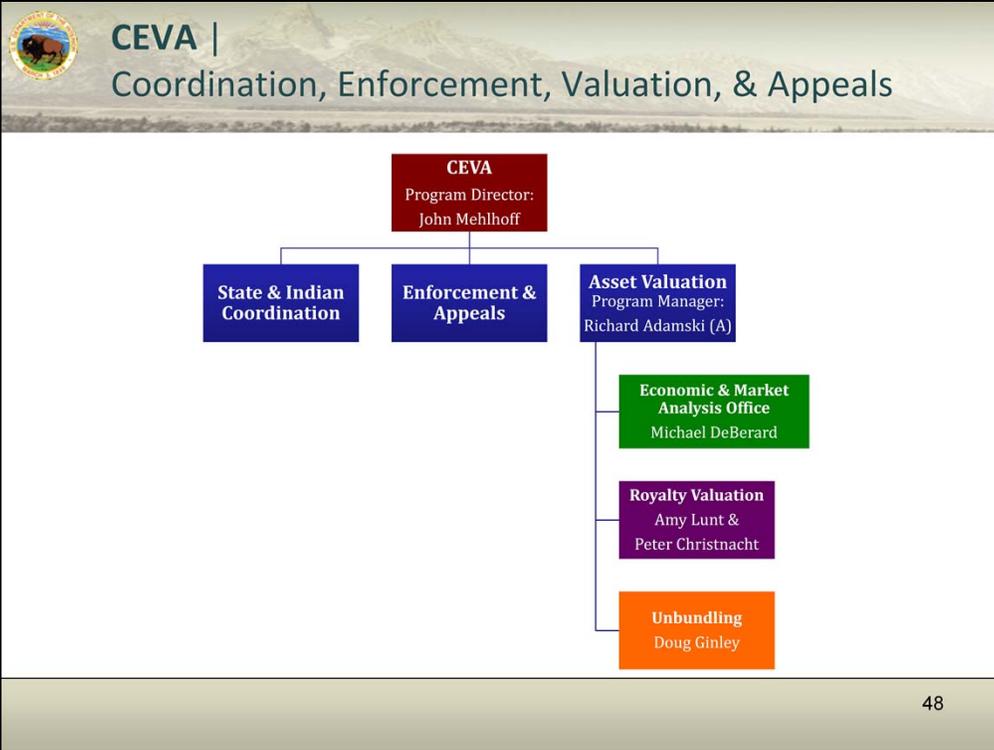
## Indian Oil Valuation Rule

- Target publication date early summer
- Rules generally effective 60 days after publication
- For additional information see:
  - Proposed Rule  
[http://www.onrr.gov/Laws\\_R\\_D/FRNotices/PDFDocs/35102.pdf](http://www.onrr.gov/Laws_R_D/FRNotices/PDFDocs/35102.pdf)
  - March 31, 2014, Dear Reporter Letter  
<http://www.onrr.gov/PDFDocs/20140331.pdf>

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Several points regarding the new Indian rule that is working its way through the regulatory process. The rule has been signed by Kris Sarri, the acting assistant secretary for Policy, Management and Budget. It is currently in the Office of Management and Budget. They have up to 90 days to complete their work. Following their review, the final rule would be published in the Federal Register and would become effective on the 1<sup>st</sup> of the month, 60 days after publication. ONRR's target for publication is May 1<sup>st</sup>. Should that date be met, the new rule would be effective on July 1, 2015.

One of the benefits of this new rule is it will provide you more certainty and simplicity in pricing. You will no longer have to report your production with estimates and then submit prior period adjustments. The zone prices will be posted each month and you will be able to see which price is greater, yours or the posted price, and report based on that.



Thanks for your time! Here is an overview of our leadership.



- [Royaltyvaluation@onrr.gov](mailto:Royaltyvaluation@onrr.gov)
- [onrrunbundling@onrr.gov](mailto:onrrunbundling@onrr.gov)

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If you have questions about valuation or unbundling, this is how you contact us. Thanks again for your time. Are there any final questions?

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Fax: 303-231-3372

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Office of Natural Resources Revenue (ONRR)

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 Vacant (202) 513-xxxx

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**Deputy Director**  
*Debbie Gibbs Tschudy* (303) 231-3301  
*Christina Mathers* (303) 231-3429

**Financial & Production Management**  
*Jim Steward* (303) 231-3715  
*Ellie Arden* (303) 231-3523

**FPM Program Support**  
*John Hovanec* (303) 231-3312

**Data Services and Statistical Reporting**  
*Mitch Parker* (303) 231-3140

**Financial Management**  
*Bob Prael* (303) 231-3217  
*Christina Lynch* (303) 231-3309

**FM Systems Team**  
*Barbara Lambert* (303) 231-3289

**Production Reporting & Verification**  
*Kimbra Davis* (303) 231-3514  
*Kerri Gallant* (303) 231-3154

**Program Support**  
*Lydia Barder* (303) 231-3570

**Accounting Services**  
*Paul Knuever* (303) 231-3316  
*Stephanie Varns* (303) 231-3680

**Financial Services**  
*Hans Meingast* (303) 231-3382  
*Stephanie Varns* (303) 231-3680

**Reporting & Solid Mineral Services**  
*LeeAnn Martin* (303) 231-3313  
*Britney Alvarez* (303) 231-3958

**Data Mining Services**  
*Lorraine Corona* (303) 231-3671  
*Jesse Campbell* (303) 231-3890

**Onshore Production Reporting**  
*Louise Williams* (303) 231-3439  
*Lisa Reimer* (303) 231-3544

**Production Inspection and Verification**  
*Ken Stamper* (303) 231-3042

**Offshore Production Reporting**  
*Susan Long* (303) 213-3079  
*Aaron Lindquist* (303) 231-3020

**General Ledger**  
*Vacant* (303) 231-xxxx

**Accounts Payable-Federal**  
*Joe Muniz* (303) 231-3103

**Accounts Payable-Indian**  
*Marvin Hamsher* (303) 231-3123

**Team 1 – Fed AR & Billing**  
*Mary Mitchell* (303) 231-3379

**Team 2 – Fed AR & Billing**  
*Megan Mueller* (303) 231-3239

**Team 3 – Ind AR & Billing**  
*Kim Bearden* (303) 231-3574

**Team 4 – Fed AR & Billing**  
*James Caldwell* (303) 231-3314

**Team 5 – Debt Collection**  
*Julie Barcelona* (303) 231-3206

**Reference Data Team 1**  
*Gos Phelps* (303) 231-3370

**Reference Data Team 2**  
*Candace Merrell* (303) 231-3517

**Royalty Error Correction**  
*Mary Dietrick* (303) 231-3318

**Solid Minerals Team 1**  
*Minnie O'Quinn* (303) 231-3343

**Solid Minerals Team 2**  
*Michael Anspach* (303) 231-3618

**Volume Comparison Team 1**  
*Vacant* (303) 231-xxxx

**Volume Comparison Team 2**  
*Glen Reese* (303) 231-3160

**Volume Comparison Team 3**  
*Dena Delgado* (303) 231-3161

**Volume Comparison Team 4**  
*Leroy Ussery* (281) 987-6820

**Adjustment Monitoring**  
*Donna Hogan* (303) 231-3148

**Reporting Analysis Team**  
*Allen Vigil* (303) 231-3098

**Onshore Team 1**  
*Sonny Betancourt* (303) 231-3628

**Onshore Team 2**  
*Luke Lundmark* (303) 231-3532

**Onshore Team 3**  
*Vacant* (303) 231-xxxx

**Meter Inspection Support**  
*Vacant* (303) 231-xxxx

**Offshore Team 1**  
*Vicky Stallford* (303) 231-3388

**Offshore Team 2**  
*Susan Long (Acting)* (303) 231-3079

# Financial Services Manager

Hans Meingast x3382

## Financial Services Staff Accountants

- Hannah Bade (Refunds) x3373
- Thomas (Tom) Anthony x3708



# Financial Services Contact Lists

## •Federal

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

## •Indian

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



# Accountants

**Federal Team 1 Supervisor: Mary Mitchell x3379**

- Niki Alomia x3417
- Bethany Hartman x3021
- Cara Hills x3745
- Kush Mirchandani x3535
- Jonathan Nash [Jonathan.Nash@onrr.gov](mailto:Jonathan.Nash@onrr.gov)
- Noel Rivera [Noel.Rivera@onrr.gov](mailto:Noel.Rivera@onrr.gov)
- Pola Vigil x3428



# Accountants

**Federal Team 2 Supervisor: Megan Mueller x3239**

- Patrick Camargo x3989
- Jamie Hamlin x3200
- Alberta Lopez x3295
- Ron Marshall x3181
- Cherise Rahmaan x3489
- Ryan Winges x3171



# Accountants

**Federal Team 4 Supervisor: James Caldwell x3314**

- Lu Croisant x3451
- John O'Donoghue x3122
- Deane LeBet x3223
- Edmond Osei x3359
- Laura Sauter x3166
- Danielle Tempel x3545
- Kristina Woolums x3197



# Accountants

**Indian Team 3 Supervisor: Kim Bearden x3574**

- Corine Billingsley x3443
- Karen Jeffers x3406
- Karla McCrary x3767
- Diana Ohlsson x3371
- Jennifer Stephens x3596
- Joanne Taylor x3822



# Financial Services

## We are responsible for Exception Processing:

- Late Paid Receivables
- Unpaid or Underpaid Lease Term Obligations
- Inspection Fees for Offshore Operations

## Other Invoice Types:

- Civil Penalties for failure to comply with ONRR reporting and payment requirements or Liquidated Damages for failure to comply with payment requirements, and violations of BSEE rules and regulations for offshore operations.
- Fishermen's Contingency Fund.



# Financial Services(cont)

- **Payment Matching:**
  - Receivables (Form ONRR-2014, Invoices, etc.) without payments
  - Payments without receivables
- **Refund Processing:**
  - Contact your accountant or Hannah Bade (ext 13373) to get process started



# FINANCIAL SERVICES EXCEPTION PROCESSING

## RECEIVABLES

FORM ONRR-2014  
INVOICE  
COURTESY NOTICE

## PAYMENT RECEIVED

Pay.gov  
WIRE/ACH  
CHECK  
LOCKBOX

## FINANCIAL TERM DATABASE

LEASE STATUS, DUE DATES, ETC

ESTIMATE DATABASE  
COMPANY GETS ADD'L  
30 DAYS TO REPORT  
AND PAY

IDENTIFY EXCEPTION  
INT, FIN, IOR, OTH

GENERATE PREBILL  
REVIEW AND ISSUE  
INVOICE IF VALID



# Exception Processing

## Types of Invoices

### Interest

**INT**

- Late payment interest
- Overpayment Interest (Fed Oil & Gas only)
- Insufficient estimate interest
- Oversufficient estimate interest (Fed Oil & Gas only)

### Financial Term

**FIN**

Rent/Minimum Royalty

### Indian Overrecoupment

**IOR**

100% Tribal; 50% Allotted

### Other Invoices

**OTH**

Liquidated Damages, Inspection Fees, Civil Penalties, etc.



# INTEREST

## LATE-PAYMENT (Federal & Indian)

Interest Exception Processing (EP) reviews fully paid closed documents to determine if paid late:

- **All late-paid Form ONRR-2014 lines**

- Reviews Data Base for estimate by lease sales month/year;
- Records receipt date of the Form ONRR-2014 and inserts due date for each line/lease (additional 30 days if estimate filed).
- Compares due date for each line/lease to receipt date of the applied payment(s) to determine if paid late.



# INTEREST LATE-PAYMENT(cont) (Federal & Indian)

## – All late-paid invoices

- IOR Invoices

Due date is the date of over-recoupment (not the due date of the invoice).

- FIN Invoice

Due date is determined from the anniversary date of the lease (not the due date of the invoice).

- INT and OTH invoices

Due date is the same as the due date of invoice

## – All late-paid Courtesy Rent Notices (Federal Oil & Gas Leases only) will no longer be issued in the near future (see [Online Rentals](#))

- Due date of rent (usually 1<sup>st</sup> of the month)



# How Multiple Payments Affect Late Payment Interest Calculation

- Payments with different receipt dates are prorated over all Form ONRR-2014 lines.
  - Interest is calculated from the due date to the paid date of the prorated amount.
- Payments cannot be applied to a specific line on Form ONRR-2014; payments are prorated to each line.
- Payments are only applied to a specific item if the document contains just one line
- Payments with the same receipt date netted together
- Interest is calculated based on the receipt date for each payment, compared to the due date of each line.

# New Interest Calculations

1. Effective October 2014, ONRR implemented a new interest billing module.
2. This module calculates interest using a netting methodology for all reporting for a lease on the same royalty document.
3. Only comes into play when multiple sales months are reported for a lease.
4. New Interest is calculated from the royalty due date to the next transaction for the lease (when multiple sales months are reported).



# *New Interest Calculations(CONT.)*

5. ONRR believes this is a more efficient process and better represents the concept of interest equaling the time value of money.

6. Interest invoices will still have three supporting reports: The Interest Schedule, The Estimate Detail Report, and The Late Payment Allocation Report



# Old Interest Calculations

*(Federal Oil & Gas Only)*

| <u>Sales Month</u> | <u>Due Date</u> | <u>RV</u> |                               | <u>Amt</u>      |
|--------------------|-----------------|-----------|-------------------------------|-----------------|
| 08/2011            | 09/30/11        | \$1,200   | Int due 09/30/11 to 02/28/14  | \$ 90.11        |
| 09/2011            | 10/31/11        | (\$ 900)  | Int owed 10/31/11 to 02/15/14 | \$ 42.24        |
| 09/2012            | 10/31/12        | (\$2,000) | Int owed 10/31/12 to 02/15/14 | \$ 55.86        |
| 09/2013            | 10/31/13        | \$2,000   | Int due 10/31/13 to 02/28/14  | <u>\$150.19</u> |
|                    |                 |           |                               | <u>\$142.20</u> |

*\$300.00 payment made 02/28/2014*

*\$142.20 is the interest owed under the old method.*

# New Interest Calculations

*(Federal Oil & Gas Only)*

## Running Balance

| Lease Type      | Federal       |                          |                            |               |                                          |                                |                                       |                                            |                     | roy/bill lease amt |
|-----------------|---------------|--------------------------|----------------------------|---------------|------------------------------------------|--------------------------------|---------------------------------------|--------------------------------------------|---------------------|--------------------|
| Start of Period | End of Period | Number of Days in Period | Number of Days in the Year | Interest Rate | Beginning Principal and Interest Balance | Interest Amount for the Period | Ending Principal and Interest Balance | Additional Principal Amount for the Period | Cumulative Interest |                    |
| 10/1/2011       | 10/31/2011    | 31                       | 365                        | 3.00%         | \$1,200.00                               | \$3.06                         | \$1,203.06                            | \$1,200.00                                 | \$3.06              |                    |
| 11/1/2011       | 12/31/2011    | 60                       | 365                        | 3.00%         | \$303.06                                 | \$1.50                         | \$304.56                              | (\$900.00)                                 | \$4.56              |                    |
| 1/1/2012        | 10/31/2012    | 304                      | 366                        | 3.00%         | \$304.56                                 | \$7.68                         | \$312.24                              |                                            | \$12.24             |                    |
| 11/1/2012       | 12/31/2012    | 60                       | 366                        | 2.00%         | (\$1,687.76)                             | (\$5.54)                       | (\$1,693.30)                          | (\$2,000.00)                               | \$6.70              |                    |
| 1/1/2013        | 10/31/2013    | 303                      | 365                        | 2.00%         | (\$1,693.30)                             | (\$28.35)                      | (\$1,721.65)                          |                                            | (\$21.65)           |                    |
| 11/1/2013       | 2/28/2014     | 119                      | 365                        | 3.00%         | \$278.35                                 | \$2.74                         | \$281.09                              | \$2,000.00                                 | (\$18.91)           |                    |

*ONRR owes you \$18.91*

# Old Interest Calculations

## *Indian Lease*

| <u>Sales Month</u> | <u>Due Date</u> | <u>RV</u> |                              | <u>Amt</u>      |
|--------------------|-----------------|-----------|------------------------------|-----------------|
| 08/2011            | 09/30/11        | \$1,200   | Int due 09/30/11 to 02/28/14 | \$ 90.11        |
| 09/2011            | 10/31/11        | (\$ 900)  | Int not paid on Indian       |                 |
| 09/2012            | 10/31/12        | (\$2,000) | Int not paid on Indian       |                 |
| 09/2013            | 10/31/13        | \$2,000   | Int due 10/31/13 to 02/28/14 | <u>\$150.19</u> |
|                    |                 |           |                              | <u>\$240.30</u> |

***\$300.00 payment made 02/28/2014***

*\$240.30 is the interest owed under the old method.*

## New Interest Calculations (Indian and Solid Mineral Leases) Running Balance

| Lease Type      | Indian        |                          |                            |               |                                          |                                |                                       | roy/bill lease amt                         |                     |
|-----------------|---------------|--------------------------|----------------------------|---------------|------------------------------------------|--------------------------------|---------------------------------------|--------------------------------------------|---------------------|
| Start of Period | End of Period | Number of Days in Period | Number of Days in the Year | Interest Rate | Beginning Principal and Interest Balance | Interest Amount for the Period | Ending Principal and Interest Balance | Additional Principal Amount for the Period | Cumulative Interest |
| 10/1/2011       | 10/31/2011    | 31                       | 365                        | 3.00%         | \$1,200.00                               | \$3.06                         | \$1,203.06                            | \$1,200.00                                 | \$3.06              |
| 11/1/2011       | 12/31/2011    | 60                       | 365                        | 3.00%         | \$303.06                                 | \$1.50                         | \$304.56                              | (\$900.00)                                 | \$4.56              |
| 1/1/2012        | 10/31/2012    | 304                      | 366                        | 3.00%         | \$304.56                                 | \$7.68                         | \$312.24                              |                                            | \$12.24             |
| 11/1/2012       | 12/31/2012    | 60                       | 366                        | 2.00%         | (\$1,687.76)                             | \$0.00                         | (\$1,687.76)                          | (\$2,000.00)                               | \$12.24             |
| 1/1/2013        | 10/31/2013    | 303                      | 365                        | 2.00%         | (\$1,687.76)                             | \$0.00                         | (\$1,687.76)                          |                                            | \$12.24             |
| 11/1/2013       | 2/28/2014     | 119                      | 365                        | 3.00%         | \$312.24                                 | \$3.07                         | \$315.31                              | \$2,000.00                                 | \$15.31             |
|                 |               |                          |                            |               |                                          |                                |                                       |                                            |                     |

*\$15.31 is the interest owed under the new method.*

# MULTIPLE PAYMENTS WITH DIFFERENT RECEIPT DATES

## Old Allocation Process

1 ROYALTY LINE FROM A DOCUMENT TOTALLING \$100,000

| Sales Month | Due Date         | Amount  |
|-------------|------------------|---------|
| 05/2014     | 07/31/2014 (est) | \$6,000 |

### THREE PAYMENTS WERE APPLIED

|                             |                 |               |
|-----------------------------|-----------------|---------------|
| 11/15/2013                  | \$30,000        | = 3/10 or 30% |
| 04/30/2014                  | \$60,000        | = 6/10 or 60% |
| 07/31/2014                  | <u>\$10,000</u> | = 1/10 or 10% |
| (Total amount of Form 2014) | \$100,000       |               |

### ALLOCATION OF 3 PAYMENTS TO THIS ONE ROYALTY LINE

|         |   |     |               |                    |            |
|---------|---|-----|---------------|--------------------|------------|
| \$6,000 | X | 30% | \$1,800       | Prorated paid date | 11/15/2013 |
| \$6,000 | X | 60% | \$3,600       | Prorated paid date | 04/30/2014 |
| \$6,000 | X | 10% | <u>\$ 600</u> | Prorated paid date | 07/31/2014 |
|         |   |     | \$6,000       |                    |            |

# MULTIPLE PAYMENTS WITH DIFFERENT RECEIPT DATES

## New Allocation Process

### 3 ROYALTY LINES FROM FORM ONRR-2014 TOTTALLING \$100,000

| <u>Sales Month</u> | <u>Due Date</u> | <u>Amount</u> |
|--------------------|-----------------|---------------|
| 05/2014            | 06/30/2014      | \$6,000       |
| 07/2014            | 08/31/2014      | \$2,100       |
| 09/2014            | 10/31/2014      | \$1,900       |

### THREE PAYMENTS WERE SUBMITTED

| <u>Paid Date</u>                         | <u>Amount</u>    |
|------------------------------------------|------------------|
| 06/11/2014                               | \$ 6,500         |
| 08/31/2014                               | \$ 10,000        |
| 11/25/2014                               | \$ 83,500        |
| <b>(Total amount for Form ONRR-2014)</b> | <b>\$100,000</b> |

### PAYMENT ALLOCATION UTILIZING RUNNING BALANCE

| <u>Sales Month</u> | <u>Royalty</u> | <u>Payment Date</u> | <u>Amount</u> | <u>Balance</u> |
|--------------------|----------------|---------------------|---------------|----------------|
| 05/2014            | \$6,000        | 06/11/2014          | \$6,000       | \$ 500         |
| 07/2014            | \$2,100        | 06/11/2014          | \$ 500        | \$ 0           |
| 07/2014            | \$1,600        | 08/31/2014          | \$10,000      | \$8,400        |
| 09/2014            | \$1,900        | 08/31/2014          | \$ 1,900      | \$6,500        |

\*This example reflects the first two payments only.

# Cross-Lease Netting (reported on the wrong lease and need to adjust)

- No cross-lease netting allowed on Indian allotted leases
- Cross-lease netting allowed on Indian Tribal leases
- **Cross-lease netting is allowed on Federal Oil & Gas leases. See 30 CFR 1218.54 (e) & 1218.42 (b).**



# Adjustment Reason Code 35 (ARC 35)

- Adjust volumes and values as required as a result of the formation, expansion, contraction, or termination of the Participating Area of a Unit or Communitization Agreement.
- **You may use ARC 35 ONE TIME per above referenced event.**
- Interest will be calculated from the end of the next month following the approval date of the letter from BLM, BIA, or BSEE if not reported/paid timely.



# ROYALTY SIMPLIFICATION AND FAIRNESS ACT OF 1996 (RSFA)

- Federal Oil & Gas onshore and offshore leases are subject to RSFA

## Key Provisions:

- Interest paid to customers on overpayments
- Customers can report their own interest
- ONRR will issue 1099-INT for interest paid to the customer
- Indian, Solid and Geothermal leases are not subject to RSFA

# OVERPAYMENT INTEREST

## Federal Only

Federal net negative adjustments  
(overpayment lines)

Oversufficient Estimates

Note: A net negative interest invoice can be used as a credit (same as a payment).



# INSUFFICIENT ESTIMATE INTEREST

(Federal & Indian Oil & Gas Leases)

- Royalty received during 2nd month after production.
- Insufficiency calculated at lease level.
- Interest billed on the insufficient portion only.
- Interest charged for time used in extended estimate period.



# INSUFFICIENT ESTIMATE EXAMPLE

(Federal & Indian Oil & Gas Leases)

|                              |                          |
|------------------------------|--------------------------|
| Sales Month/Year             | 01/31/2014               |
| Due date without an estimate | 02/28/2014               |
| Due date with an estimate    | 03/31/2014               |
| Extended estimate period     | 03/01/2014 to 03/31/2014 |

- Interest charged for time used in extended estimate period

|                         |              |
|-------------------------|--------------|
| Estimate on file        | \$100        |
| Royalty reported & paid | <u>\$300</u> |
| Insufficient Estimate   | \$200        |



# INSUFFICIENT ESTIMATE EXAMPLE

## (Federal & Indian Oil & Gas Leases)

- If reported on 03/21/2014  
Customer pays 21 days interest on \$200
- If reported on 03/31/2014  
Customer pays 31 days interest on \$200
- If reported on 04/16/2014  
Customer pays 47 days late payment interest on \$300



**(Reporting is after extended period and does not get the benefit of the estimate)**

# INTEREST INVOICES (Federal Oil & Gas Leases)

## Over sufficient Estimate Interest

- For over sufficient estimate balances, **ONRR pays customer for the entire month instead of time used in extended estimate period.**



# Oversufficient Estimate Example

## (Federal Only)

|                              |                          |
|------------------------------|--------------------------|
| Sales Month/Year             | 01/2014                  |
| Due date without an estimate | 02/28/2014               |
| Due date with an estimate    | 03/31/2014               |
| Extended estimate period     | 03/01/2014 to 03/31/2014 |

- For oversufficient estimate balance ONRR pays for the entire extended estimate period.

|                           |                |
|---------------------------|----------------|
| Estimate on file          | \$300          |
| Royalty reported and paid | <u>\$100</u>   |
| Oversufficient Estimate   | \$200 or \$300 |



# Oversufficient Estimate Example (Federal Only)

- If reported on 03/21/2014
  - ONRR pays 31 days interest on \$200
- If reported on 03/31/2014
  - ONRR pays 31 days interest on \$200
- If reported on 04/16/2014
  - ONRR pays 31 days interest on \$300
  - Customer pays 47 days late payment interest on \$100



# INTEREST FORMULA

$$I = A \left[ \left( 1 + \frac{R}{N} \right)^n - 1 \right]$$

**I = Interest Amount**

**A = Assessment Amount**

**R = Interest Rate in decimal format**

**N = Number of days in the year  
(365 or 366)**

**n = Number of days in the period  
(n is an exponent)**



# INTEREST TABLE AND OTHER INFO CAN BE FOUND AT:

<http://www.onrr.gov/ReportPay/Interest.htm>

Has formula, interest rates, examples,  
explanations, etc.



Please Remit To:  
ONRR using Pay.gov or another electronic type

U. S. Department of the Interior  
Office of Natural Resources Revenue

**Customer:**

XYZ Oil & Gas Company  
Attn: Dave David  
P. O. Box 34560  
Denver, CO 80202-4560

Page: FED01  
Invoice No: 1  
Invoice Date: INT100000100  
Customer Number: 05/31/14  
Due Date: 44444  
06/30/2003

# INVOICE

**TOTAL AMOUNT DUE: 2,509.33**

For billing questions, please call 1-800-433-9801 EXT 3613

| Description                                                                                                                                                                         | Line          | Document ID  | PAD Number | Sales Date | Receipt Date | Amount Due |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|--------------|------------|------------|--------------|------------|
|                                                                                                                                                                                     | MMS Lease No. | Agency Lease |            | Lease Name |              |            |
| PLEASE READ THE LETTER ENCLOSED WITH THIS INTEREST STATEMENT. IT EXPLAINS HOW YOU CAN APPLY THE AMOUNT OF INTEREST MMS OWES YOU TO ANOTHER ROYALTY OBLIGATION, OR REQUEST A REFUND. |               |              |            |            |              |            |
| Interest on Estimates                                                                                                                                                               | 1             | ESTIMATE     |            | 01/2014    | 03/28/2014   | (9.31)     |
|                                                                                                                                                                                     | 0540106050    | OCS-G 10605  |            |            |              |            |
| Interest on Estimates                                                                                                                                                               | 2             | ESTIMATE     |            | 01/2014    | 03/28/2014   | 9.03       |
|                                                                                                                                                                                     | 0540106550    | OCS-G 10655  |            |            |              |            |
| Interest on Royalty                                                                                                                                                                 | 3             | ROY100000123 |            | 11/2013    | 04/15/2014   | 1,505.18   |
|                                                                                                                                                                                     | 0540012550    | OCS-G 1255   |            |            |              |            |
| Interest on Royalty                                                                                                                                                                 | 4             | ROY100000123 |            | 12/2013    | 04/15/2014   | 862.87     |
|                                                                                                                                                                                     | 0540012550    | OCS-G 1255   |            |            |              |            |
| Interest on Royalty                                                                                                                                                                 | 5             | ROY100000123 |            | 11/2013    | 04/15/2014   | 479.44     |
|                                                                                                                                                                                     | 0540012550    | OCS-G 1255   |            |            |              |            |
| Interest on Royalty                                                                                                                                                                 | 6             | ROY100000123 |            | 12/2013    | 04/15/2014   | 280.73     |
|                                                                                                                                                                                     | 0540012550    | OCS-G 1255   |            |            |              |            |
| Interest on Royalty                                                                                                                                                                 | 7             | ROY100000155 |            | 09/2012    | 12/31/2014   | (618.61)   |
|                                                                                                                                                                                     | 0540001250    | OCS-G 0125   |            |            |              |            |

**SUBTOTAL**

**2,509.33**

TOTAL AMOUNT DUE:

2,509.33

INT

Original

**DO NOT SUBMIT A FORM ONRR-2014**

Repor ZEP RPT01

U.S. Department of the Interior  
Office of Natural Resources Revenue

Page No. 1  
Run Date 12/19/2014  
Run Time 15:16:05

Interest Schedule - Invoice

Business Unit: FED01 Invoice: INT100000000  
Dist Code: 0 Customer: 12345 Oil & Gas Company, Inc.  
Bankruptcy Petition Date: Unique Finding Identifier:

| Line Nbr            | Reference Doc ID | Lease No.  | Pre Ptn | Sale Dt.  | Roy/Bill Lease Amt | Receipt Date | Ass Cd | Est Ind | Due Date   | Payment Date | Payment Amount | Principal Balance | Accumulated Assessment | From Dt.   | To Dt.     | Days | Int Rate | Amount Due |
|---------------------|------------------|------------|---------|-----------|--------------------|--------------|--------|---------|------------|--------------|----------------|-------------------|------------------------|------------|------------|------|----------|------------|
| 1                   | ROY100000000     | 1112222223 |         | 8/31/2011 | 1,200.00           | 2/15/2014    | LPROY  | N       | 9/30/2011  |              |                | 1,200.00          | 1,200.00               | 9/30/2011  | 10/31/2011 | 31   | 0.0300   | 3.06       |
|                     |                  |            |         | 9/30/2011 | -900.00            | 2/15/2014    | LPROY  | N       | 10/31/2011 |              |                | 300.00            | 303.06                 | 10/31/2011 | 12/31/2011 | 61   | 0.0300   | 1.52       |
|                     |                  |            |         |           |                    |              |        |         |            |              |                | 304.58            | 304.58                 | 1/1/2012   | 10/31/2012 | 304  | 0.0300   | 7.68       |
|                     |                  |            |         | 9/30/2012 | -2,000.00          | 2/15/2014    | LPROY  | N       | 10/31/2012 |              |                | -1,700.00         | -1,687.73              | 10/31/2012 | 12/31/2012 | 61   | 0.0200   | -5.64      |
|                     |                  |            |         |           |                    |              |        |         |            |              |                | -1,693.37         | -1,693.37              | 1/1/2013   | 10/31/2013 | 303  | 0.0200   | -28.35     |
|                     |                  |            |         | 9/30/2013 | 2,000.00           | 2/15/2014    | LPROY  | N       | 10/31/2013 |              |                | 300.00            | 278.29                 | 10/31/2013 | 12/31/2013 | 61   | 0.0300   | 1.40       |
|                     |                  |            |         |           |                    |              |        |         |            |              |                | 279.68            | 279.68                 | 2/1/2014   | 2/28/2014  | 58   | 0.0300   | 1.34       |
|                     |                  |            |         |           |                    |              |        |         | 2/28/2014  |              | 300.00         | 0.00              | 0.00                   | 2/28/2014  | 2/28/2014  | 0    | 0.0000   | 0.00       |
| Total for bill Line |                  |            |         |           |                    |              |        |         |            |              |                |                   |                        |            |            |      | 1        | -18.98     |

|                                              |              |        |
|----------------------------------------------|--------------|--------|
| Total of all Negative Bill Lines for Invoice | INT100000000 | -33.98 |
| Total of all Positive Bill Lines for Invoice | INT100000000 | 15.00  |
| Total Interest for Invoice                   | INT100000000 | -18.98 |

Report ID: ZEPPT01

U.S. Department of the Interior  
Office of Natural Resources Revenue

Page No. 2  
Run Date 12/19/2014  
Run Time 15:16:05

Late Payment Allocation - Prebill

Business Unit: FED01

Invoice: INT100000000

Dist Code: 0

Customer: 12345 Oil & Gas Company, Inc.

Document: ROY100000000

PAD Number: XXXXXX

Receipt Date: 02/15/2014

Total Amount: \$300.00

| Payment ID    | Payment Date | Payment Amount | Total Payment Per Date | Pay Seq Nbr |
|---------------|--------------|----------------|------------------------|-------------|
| Rptd <0 Lines | 2/15/2014    | \$2900.00      | \$2900.00              | 1           |
| 121314        | 2/28/2014    | \$300.00       | \$300.00               | 2           |

Report ID: ZEPRPT01

U.S. Department of the Interior  
Office of Natural Resources Revenue

Page No. 2  
Run Date 12/19/2014  
Run Time 15:16:05

Late Payment Allocation - Prebill

Business Unit: FED01

Invoice: INT100000000

Dist Code: 0

Customer: 12345

Oil & Gas Company, Inc.

Document: ROY100000000

PAD Number: XXXXXX

Receipt Date: 02/15/2014

Total Amount:

\$300.00

| Bill Nbr | Line | Lease      | Doc Line/<br>Item Line | Geo Ind | Nst Ind | Man Flag | Sales Date | TC | ARC | Due Date        | Est Ind | Int Ind | Accepted Amount | Allocated Amount | Pay Seq Nbr |
|----------|------|------------|------------------------|---------|---------|----------|------------|----|-----|-----------------|---------|---------|-----------------|------------------|-------------|
|          | 1    | 1112222223 | 1                      | N       | N       | N        | 08/2011    | 01 | 00  | 09/30/2011      | N       |         | \$1,000.00      | \$1,000.00       | 1           |
|          | 1    | 1112222223 | 8                      | N       | N       | N        | 08/2011    | 01 | 10  | 09/30/2011      | N       |         | \$200.00        | \$200.00         | 1           |
|          |      |            |                        |         |         |          |            |    |     | Subtotal:       | Y       |         | \$1,200.00      | \$1,200.00       |             |
|          | 1    | 1112222223 | 2                      | N       | N       | N        | 09/2011    | 01 | 00  | 10/31/2011      | N       |         | -\$500.00       |                  |             |
|          | 1    | 1112222223 | 5                      | N       | N       | N        | 09/2011    | 01 | 10  | 10/31/2011      | N       |         | -\$400.00       |                  |             |
|          |      |            |                        |         |         |          |            |    |     | Subtotal:       | Y       |         | -\$900.00       |                  |             |
|          | 1    | 1112222223 | 3                      | N       | N       | N        | 09/2012    | 01 | 00  | 10/31/2012      | N       |         | -\$1,200.00     |                  |             |
|          | 1    | 1112222223 | 7                      | N       | N       | N        | 09/2012    | 01 | 10  | 10/31/2012      | N       |         | -\$800.00       |                  |             |
|          |      |            |                        |         |         |          |            |    |     | Subtotal:       | Y       |         | -\$2,000.00     |                  |             |
|          | 1    | 1112222223 | 4                      | N       | N       | N        | 09/2013    | 01 | 00  | 10/31/2013      | N       |         | \$1,700.00      |                  |             |
|          | 1    | 1112222223 | 6                      | N       | N       | N        | 09/2013    | 01 | 10  | 10/31/2013      | N       |         | \$300.00        | \$1,700.00       | 1           |
|          |      |            |                        |         |         |          |            |    |     | Subtotal:       | Y       |         | \$2,000.00      | \$300.00         | 2           |
|          |      |            |                        |         |         |          |            |    |     | Total:          |         |         | \$300.00        | \$2,000.00       |             |
|          |      |            |                        |         |         |          |            |    |     | Document Total: |         |         | \$300.00        | \$3,200.00       |             |

# eINVOICE

- Provides electronic versions of Interest Invoices and associated reports
- Customers with access to the Data Warehouse have eInvoice available to them.
- **FIN, IOR, and OTH are NOT Available in electronic versions at this time.**

\*Refer to the Oil & Gas Reporter Training Book 2 for additional info for eInvoice at: <http://www.onrr.gov/ReportPay/training/files/Book-2.pdf>



# Online Rental Payments

- On Jan. 5, 2015 we launched a new tab on the eCommerce Reporting website called “Rental Information.”
- Rental payments can now be paid online through this process.
- A “Dear Payor” letter has or will be mailed to your company explaining these changes & why.

<http://www.onrr.gov/PDFDocs/Web-Based-Reporting-Letter.pdf>

- FAQ eCommerce Online Rental

[http://www.onrr.gov/ReportPay/PDFDocs/eCommerce\\_Online\\_Rental\\_FAQ.pdf](http://www.onrr.gov/ReportPay/PDFDocs/eCommerce_Online_Rental_FAQ.pdf)

- Please refer to the eCommerce User Guide, page 72 for detailed Information at:

[https://onrrreporting.onrr.gov/Help/eCommerce\\_Reporting\\_Website\\_User\\_Guide.pdf](https://onrrreporting.onrr.gov/Help/eCommerce_Reporting_Website_User_Guide.pdf)

## Important to remember:

- If you’ve recv’d a FIN Bill use Pay.gov because your Rent is already late.
- For timely rental payments use the Online Rental Payment Process.



# FINANCIAL TERMS INVOICES (FIN)

## (LEASE CONTRACT FINANCIAL PROVISIONS — Rent, Minimum Royalty, etc.)

- Balance due already late when invoice issued. Interest generated when payment is received.
  - Please do not submit Form ONRR-2014 if you have a correct invoice.
  - If you need to make a correction: (Reversing/correcting entries still need Form ONRR-2014.)
  - Customer Should
    - Reference Invoice Number and Customer ID
- Electronic Payment



# NONTERMINABLE LEASES

(Rent, Advance Rent, Minimum Royalty, Right-of-Way, Right-of-Use & Easement, Well Fee, Storage Fee)

- **Exception Processing for FIN Invoices:**
  - Compares amount due to amount paid
  - Generates Financial exception for non-payment or underpayments



# NONTERMINABLE LEASES(cont)

- **Rent**
  - Due annually by the first day of the lease year.
- **Advance Rent**
  - Due annually by the first day of the lease year.
  - Report & pay even if it will be recouped.
- **Minimum Royalty**
  - Due annually by the last day of the lease year when not met by production
  - Not billed until three months after the due date to give time for additional royalties to be reported.



# NONTERMINABLE LEASES (cont)

- **Right-of-Way, Right-of-Use & Easement**
  - Invoices sent out in November
  - Due annually by January 1
  - Not reported on Form ONRR-2014
- **Well Fee**
  - Reported on Form ONRR-2014
  - Due quarterly or annually
- **Storage Fee**
  - Reported on Form ONRR-2014
  - Due annually



# TERMINABLE LEASES

(Automatically terminate if rent is not paid by the due date)

- **Exception Processing:**
  - Compares amount due to amount paid
  - Determines underpayment
  - If nominally deficient (partially paid) it generates a FIN Invoice for underpayments within a specified range.



# When lease is terminated for underpayment

- ONRR reports under or unpaid terminable lease to BLM.
- BLM terminates lease(s) and responds to customer inquiries.
- Customer's appeal rights are with BLM, not ONRR (43 CFR)



# FIN Invoice can be adjusted if:

- **Database Incorrect**
  - Customer responsibility has changed.
  - Due date is incorrect.
- **Timing**
  - Payment not posted to lease account balance.
  - Line on Form ONRR-2014 is rejected.
  - Payment received but not Form ONRR-2014.



**Please Remit To:**

ONRR using Pay.gov or another type of Electronic Funds Transfer

**U. S. Department of the Interior  
Office of Natural Resources Revenue**

Page: FED01  
1  
Invoice No: FIN100000100  
Invoice Date: 02/14/2015  
Customer Number: 12345  
Due Date: 03/31/2015

**Customer:**

ABC Oil & Gas Company  
Attn: Dave David  
P. O. Box 34560  
Denver, CO 80202-4560

**INVOICE**

**TOTAL AMOUNT DUE: 55,588.98**

For billing questions, please call 1-800-433-9801X3613

| Description                                        | Line<br>MMS Lease No. | Orig Due Dt<br>Agency Lease | Obligation Amount<br>Lease Name | Total Payment | Amount Due       |
|----------------------------------------------------|-----------------------|-----------------------------|---------------------------------|---------------|------------------|
| AMOUNT(S) ASSESSED IN ACCORDANCE WITH LEASE TERMS. |                       |                             |                                 |               |                  |
| Underpaid Minimum Royalty                          | 1<br>0550008320       | 02/28/2014<br>OCS 0832      | 15,000.00                       | 2,611.02      | 12,388.98        |
| Underpaid Rent                                     | 2<br>0540185700       | 12/01/2014<br>OCS-G 18570   | 43,200.00                       | 0.00          | 43,200.00        |
| <b>SUBTOTAL:</b>                                   |                       |                             |                                 |               | <b>55,588.98</b> |
| <b>TOTAL AMOUNT DUE</b>                            |                       |                             |                                 |               | <b>55,588.98</b> |

**DO NOT SUBMIT A FORM ONRR-2014**  
**YOU CANNOT PAY USING ONLINE RENTALS PORTAL**

# INDIAN OVERRECOUPMENT INVOICES (IOR)

- **All Form ONRR-2014 lines must be accepted.**
- **System generates bill line when an exception is found.**
- **Interest implications.**
- **Payment Method 2 will generate letter instructing how to make payment.**



# INDIAN OVERRECOUPEMENTS IOR INVOICES

## Tribal

If recoup more than 100% of the  
current revenue

## Allotted

If recoup more than 50% of the current  
revenue



# WHAT IS CURRENT REVENUE?

- Royalty due for current report month.
- All other revenue (i.e. annual rental, net positive adjustments) reported in the same month, less allowances and any tax credits.
- Recoupment of current lease year's advance rental payment (TC 25). Usually a negative amount but could be either.



# WHAT IS A NEGATIVE ADJUSTMENT?

- All net negative adjustments to previously reported sales months (TC 01, 05, 11, 12, 14, and 15)
- Recoupment of a prior year's rent



# TRIBAL LEASE EXERCISE

|                     | <u>Sales</u><br><u>Mo/Yr</u> | <u>TC</u> | <u>Revenue</u><br><u>Amount</u> |
|---------------------|------------------------------|-----------|---------------------------------|
| Current Royalty     | 02/2010                      | 01        | \$300.00                        |
| Recoupable Rent     | 02/2010                      | 25        | <u>-180.00</u>                  |
| Net Revenue         |                              |           | \$120.00                        |
| Negative Adjustment | 01/2010                      | 01        | <u>-120.00</u>                  |
| Report Total        |                              |           | <u>\$ 0.00</u>                  |



**No Exception Generated**

# ALLOTTED LEASE EXERCISE

|                 | <u>Sales</u><br><u>Mo/Yr</u> | <u>TC</u> | <u>Royalty</u><br><u>Value</u> |
|-----------------|------------------------------|-----------|--------------------------------|
| Current Revenue | 02/2010                      | 01        | \$300.00                       |
| Recoupable Rent | 02/2010                      | 25        | <u>-180.00</u>                 |
| Net Revenue     |                              |           | \$120.00                       |

**Can Recoup 50% of Net Revenue**      \$ 60.00



# ALLOTTED LEASE EXERCISE

| <u>Sales</u><br><u>Mo/Yr</u> | <u>Royalty</u><br><u>Adjustments</u> | <u>TC</u> | <u>Current</u><br><u>Revenue</u> |
|------------------------------|--------------------------------------|-----------|----------------------------------|
| 11/2009                      | \$-150.00                            | 01        |                                  |
| 12/2009                      | \$ -50.00                            | 01        |                                  |
| 01/2010                      | \$200.00                             | 01        |                                  |
| 02/2010                      |                                      | 01        | \$ 300.00                        |
| 02/2010                      |                                      | 25        | <u>\$-180.00</u>                 |
|                              | <u>\$ 0.00</u>                       |           | \$-120.00                        |

# ALLOTTED LEASE EXERCISE

| <u>Sales</u><br><u>Mo/Yr</u> | <u>Royalty</u><br><u>Adjustments</u> | <u>TC</u> | <u>Current</u><br><u>Revenue</u> |
|------------------------------|--------------------------------------|-----------|----------------------------------|
| 11/2009                      | \$-150.00                            | 01        |                                  |
| 12/2009                      | \$ -50.00                            | 01        |                                  |
| 01/2010                      | <del>\$ 200.00</del>                 | 01        | \$ 200.00                        |
| 02/2010                      |                                      | 01        | \$ 300.00                        |
| 02/2010                      | <hr/>                                | 25        | <u>\$-180.00</u>                 |
|                              | <del>0.00</del>                      |           | <del>\$ 120.00</del>             |
|                              | \$-200.00                            |           | \$ 320.00                        |

# ALLOTTED LEASE EXERCISE ANSWER

|                     |            |
|---------------------|------------|
| Current revenue     | \$ 320.00  |
| Allotted lease      | <u>50%</u> |
| Available to recoup | \$ 160.00  |
| Recoupment taken    | \$-200.00  |
| Overrecoupment      | \$-40.00   |

## **A \$40.00 Exception is Generated**

Once the IOR invoice is paid, ONRR's system establishes a recoupable balance (TC 50), which then can be recouped against future royalties with a TC 51.

U. S. Department of the Interior  
Office of Natural Resources Revenue

Page: IND01  
1  
Invoice No: IOR100000100  
Invoice Date: 04/14/2005  
Customer Number: 12345  
Distributee Code: 550  
Due Date: 05/31/2005

**Customer:**

ABC Oil & Gas Company  
Attn: Dave David  
P. O. Box 34560  
Denver, CO 80202-4560

**INVOICE**

**TOTAL AMOUNT DUE: 40.00**

For billing questions, please call 1-800-433-9801 EXT 3613

| Description                                                                                                             | Line          | Sales Date   | Document ID      | Receipt Date | PAD Number | Amount Due |
|-------------------------------------------------------------------------------------------------------------------------|---------------|--------------|------------------|--------------|------------|------------|
|                                                                                                                         | MMS Lease No. | Agency Lease | Lease Name       |              |            |            |
| ASSESSMENT FOR REPORTING OR PAYMENT VIOLATION. PLEASE REMIT ON OR BEFORE THE INVOICE DUE DATE TO AVOID FURTHER CHARGES. |               |              |                  |              |            |            |
| Allottee Recoupment                                                                                                     | 1             | 02/2005      | ROY100000444     | 03/31/2005   |            | 40.00      |
|                                                                                                                         | 5090033330    | 52013        |                  |              |            |            |
|                                                                                                                         |               |              | <b>SUBTOTAL:</b> |              |            | 40.00      |
| <b>TOTAL AMOUNT DUE:</b>                                                                                                |               |              |                  |              |            | 40.00      |

IOR

Original

**DO NOT SUBMIT A FORM ONRR-2014**

U. S. Department of the Interior  
Office of Natural Resources Revenue

Report ID: ZIORRPT

Indian Recoupment Detail

Page No. 1  
Run Date 04/14/2005  
Run Time 15:26:45

INVOICE: IOR100000100      PAYOR: 12345 ABC Oil & Gas Company      DISTRIBUTION CODE: 550      TOTAL EXCEPTION: \$40.00

BILL LINE#: 1      ASSESSMENT CODE: RA      DESCRIPTION: Allottee Recoupment      TRIBAL/ALLOTTED: A      BILL LINE EXCEPTION: \$40.00

LEASE: 5090033330      LEASE ANN: 31-JAN-2004

| LINE NBR       | PROD CD | SALES DT    | TC | ARC | EST REL | PAY METH | DOC ID       | PAD NUM | RECEIPT DATE | ROYALTY VALUE | REVENUE AMT   | NEG ADJ AMT    | RCPD AMT    | RCPABLE AMT |
|----------------|---------|-------------|----|-----|---------|----------|--------------|---------|--------------|---------------|---------------|----------------|-------------|-------------|
| 0              | 04      | 30-NOV-2004 | 01 | 10  |         | 05       | ROY100000444 |         | 31-MAR-2005  | -150.00       | 0.00          | -150.00        | 0.00        | 0.00        |
| 0              | 04      | 31-DEC-2004 | 01 | 10  |         | 05       | ROY100000444 |         | 31-MAR-2005  | -50.00        | 0.00          | -50.00         | 0.00        | 0.00        |
| 0              | 04      | 31-JAN-2005 | 01 | 10  |         | 05       | ROY100000444 |         | 31-MAR-2005  | 200.00        | 200.00        | 0.00           | 0.00        | 0.00        |
| 0              | 04      | 28-FEB-2005 | 01 |     |         | 05       | ROY100000444 |         | 31-MAR-2005  | 300.00        | 0.00          | 0.00           | 0.00        | 0.00        |
| 0              |         | 28-FEB-2005 | 25 |     |         | 05       | ROY100000444 |         | 31-MAR-2005  | -180.00       | 120.00        | 0.00           | 0.00        | 0.00        |
| <b>TOTALS:</b> |         |             |    |     |         |          |              |         |              |               | <b>320.00</b> | <b>-200.00</b> | <b>0.00</b> | <b>0.00</b> |

\*\*\* End of Report \*\*\*

# Questions?



# OTH INVOICES

## 4 Types

- **Liquidated Damages**
- **Civil Penalties**
- **Fisherman's Contingency Fund**
- **Inspection Fee for Offshore Leases**



# Liquidated Damages

## 30 CFR 1218.41

- Amount not to exceed \$250 for each payment that fails to include adequate information.



# CIVIL PENALTIES

## 30 CFR 1241.50-80

- **Notice of Noncompliance**
  - \$500 per day (1st 40 days)
  - \$5000 per day (after 40 days)
- **Intentional Violation**
  - \$10,000 per day



# CIVIL PENALTIES – OCS

## 30 CFR 1250.1400 -1409

- **Notices of Incidents of Noncompliance**
  - \$25,000 per day
- **Appeal rights are with BSEE (30 CFR 290, Subpart A)**



# APPEALS

## 30 CFR 1290

We may be able to solve the problem without a formal appeal.



**CALL ANALYST  
FIRST!!**

# APPEALS

- Submit notice to address in ONRR invoice/order stating intent to appeal
- Notice due within 30 days from your receipt of ONRR invoice or order and should include:
  - **ONRR invoice/order number**
  - **Dollar amount appealed**
- 30 additional days to submit Statement of Reasons (60 days for audit related appeals)

To:  
Office of Natural Resources Revenue  
Attn: Senior Appeals Coordinator  
P O Box 25627  
Denver, CO 80225-0627



# ONRR APPEALS PROCESS

- ONRR Dockets Appeal and sends acknowledgement letter to the appellant
- ONRR reviews appeal; if resolved closes appeal, if not sent to Appeals Division
- Appeals Division analyzes legal issues and prepares draft decision
- Policy and Management Improvement (PMI) issues decision
- Appellant can then appeal to IBLA, then the courts



# APPEAL SURETY

## 30 CFR 1243

- **Payment may be suspended**
  - If you submit a timely appeal and you provide an acceptable surety:
    - For Indian invoices greater than \$1,000
    - For Federal demands greater than \$10,000 (or you may self bond)



**For surety questions please call  
Kim Werner at 303-231-3801**

# PAYMENT REQUIREMENTS

30 CFR 1218.50-51

Timing of Payments

How to make payments

(See Oil & Gas Reporter Training Book 1)

<http://www.onrr.gov/ReportPay/training/files/Book-1.pdf>



# ONRR PAYMENT INSTRUCTIONS

## –All REPORTING

- <http://www.onrr.gov/ReportPay/payments.htm>

## –Indian Leases and Fund Codes

- <http://www.onrr.gov/ReportPay/payments.htm>



# TYPES OF PAYMENTS

- Pay.gov
- Wire
- Automated Clearing House (ACH)
- Check—Ok for rent or hardship situations
- (TPAY) some tribal payments
- Credits (Please notify analyst before use of credits)

**(WE STRONGLY SUGGEST SENDING EMAIL/FAX TO YOUR ACCOUNTANT EXPLAINING HOW YOUR PAYMENTS/CREDITS ARE TO BE APPLIED)**



# ONRR Pay.gov

- What payments can I make here?
  - Royalty
  - Invoice
  - Right-of-Way/Right-of-Use & Easement Rental Payments  
**(Note: Regular Online Rental Payments are made through eCommerce portal)**
- What information will I need (see form for more detail)?
  - Payor Code
  - Payor Assign'd Doc. No.-Royalty
  - Invoice Number – Invoices
  - Indian – Distributee Codes
  - Businesss Unit – Federal or Indian



[https://www.pay.gov/FormServer/DOI/help/DOI\\_MMS\\_RoyaltyPayment\\_help\\_v2.pdf](https://www.pay.gov/FormServer/DOI/help/DOI_MMS_RoyaltyPayment_help_v2.pdf)

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MAKE A PAYMENT FIND AN AGENCY ONLINE HELP

**Alert Message** (effective 08/14/2014): Attention overseas Pay.gov users: If you are trying to register or make a payment on our site and do not see a location for your military address in the state pull down list, please select the District of Columbia, or DC. The military locations will be added in our next patch release.

## Welcome to Pay.gov

Pay.gov is the convenient and fast way to make secure electronic payments to Federal Government Agencies. Many common forms of payment are accepted, including credit cards, debit cards, and direct debit.

Click on a link below or use the search box above to get started.

[Make a Payment](#)



### I NEED TO PAY

Select one of the options below to see a list of forms and agencies that fall into that category.

- ★ [LOAN PAYMENT](#)
- ★ [MEDICAL EXPENSE](#)
- ★ [FINE, VIOLATION, OR PENALTY](#)
- ★ [FOIA REQUEST](#)
- ★ [DEBT](#)
- ★ [NATIONAL PARK SERVICE](#)
- ★ [TRAINING OR CONFERENCE](#)
- ★ [MAKE A DONATION OR CONTRIBUTION](#)

### COMMON PAYMENTS

Pay.gov processes payments for hundreds of Federal government agencies, the most common of which are listed below.

- DEPARTMENT OF VETERAN AFFAIRS**
  - ▶ [VA Medical Care Copayment](#)
- SMALL BUSINESS ADMINISTRATION (SBA)**
  - ▶ [View all SBA forms](#)
- DEPARTMENT OF DEFENSE**
  - ▶ [Out of Service Debt Account Information](#)
- UNITED STATES COURTS**
  - ▶ [Payment of Violation Notice](#)
- UNITED STATES COAST GUARD**

Internet | Protected Mode: On 100%

**INSERT ONRR AND CLICK SEARCH  
THIS WILL TAKE YOU DIRECTLY TO THE ONRR PAY.gov WEB PAGE**

For the best website experience, please use Internet Explorer 9 or higher, Chrome, Firefox, or Safari.

Sort by | Relevance

### Agency

- Interior (DOI):  
Policy Mgmt and Budget (PMB)  
Office of Natural Resources Revenue (4)

#### ONRR Acquisition Fees and Renewable Energy Payments

Use this form to pay BOEM acquisition fees for renewable energy noncompetitive leasing activities.

**Form Number:** ONRRRenewable Energy  
**Agency:** Interior (DOI): Policy Mgmt and Budget (PMB) Office of Natural Resources Revenue

[View all forms for this agency](#)

[Continue to the Form](#)

#### ONRR Oil and Gas Initial ROW/RUE Rental Payments

Use this form to pay your Initial Rentals for Offshore ROW/RUE.

**Form Number:** ONRR Initial Rent RR  
**Agency:** Interior (DOI): Policy Mgmt and Budget (PMB) Office of Natural Resources Revenue

[View all forms for this agency](#)

[Continue to the Form](#)

#### ONRR Renewable Energy Initial Rental Payments

Use this form to remit payment for the first year's rental amount on an OCS renewable energy lease.

**Form Number:** ONRRRenewEnergyInitialRental  
**Agency:** Interior (DOI): Policy Mgmt and Budget (PMB) Office of Natural Resources Revenue

[View all forms for this agency](#)

[Continue to the Form](#)

#### ONRR Royalty and Invoice Payments

Use this form to remit payment for a Form MMS-2014 and any ONRR invoice.

**Form Number:** ONRR Royalty Invoice  
**Agency:** Interior (DOI): Policy Mgmt and Budget (PMB) Office of Natural Resources Revenue



**Contact:** Pay.gov Customer Service

**Email:** [Click to email](#)

**Phone:** 800-624-1373 or 216-579-2112

# Pay.gov Form



**United States Department of the Interior  
Office of Natural Resources Revenue**

## **Royalty/Invoice Payment Form**

*\*Required Field*

[Click for Instructions](#)

\*Business Unit:

F (Federal Payment)

\*Payor Code:

\*Payor Name:

\*Payment Type:

Royalty Payment

\*PAD or Invoice Number:

\*Total Amount Paid:

Submit Data

Clear all data below PAD or Invoice Number

# Web address for Pay.gov Form/ Instructions

Available at:

<http://www.onrr.gov/ReportPay/payments.htm>

- Pay.gov FAQ, Instructions and Examples

**www.pay.gov**



# What are the advantages?

- Available 24/7
- Direct debit authorization must be received before 8:55 P.M. Eastern Time if settlement is to occur as early as the next day—except for Federal Holidays and weekends
- Instant email confirmation
- If user registers at website, has ability to see all payment submissions
- No costs to payors



# CHECKS

## FEDERAL EXAMPLE

|                                |               |
|--------------------------------|---------------|
| Name                           | Check #       |
| Address                        | Date _____    |
| City and State, Zip            |               |
| Pay to the Order of _____      | \$ _____      |
| \$ _____                       | _____ Dollars |
| <b>Cust. ID</b>                | Signature     |
| <b>PAD/Invoice #</b>           | _____         |
| <b>Federal Indicator (Fed)</b> |               |

Pay to the order of: **Office of Natural Resources Revenue**



Check comments:

**Cust ID** \_\_\_\_\_

**PAD No.** \_\_\_\_\_

**Federal**

# CHECKS

## INDIAN ALLOTTED EXAMPLE

|                                     |            |
|-------------------------------------|------------|
| Name                                | Check #    |
| Address                             | Date _____ |
| City and State, Zip                 |            |
| Pay to the Order of _____           | \$ _____   |
| \$ _____                            | Dollars    |
| <b>Cust. ID</b>                     | Signature  |
| <b>PAD/Invoice #</b>                |            |
| * _____ Agency/Area (allotted)      |            |
| <b>Indian Indicator (I)</b>         | _____      |
| <b>Fund Code (Distributee Code)</b> |            |

Pay to the order of: Department of the Interior, Office of Natural Resources Revenue, **BIA Agency**

Check comments: Cust ID \_\_\_\_\_

PAD No. \_\_\_\_\_

\* \_\_\_\_\_ Agency/Area (allotted)

Indian

Fund Code (Distributee Code)



# CHECKS

## INDIAN TRIBAL EXAMPLE

|                                     |            |
|-------------------------------------|------------|
| Name                                | Check #    |
| Address                             | Date _____ |
| City and State, Zip                 |            |
| Pay to the Order of _____           | \$ _____   |
| \$ _____                            | Dollars    |
| <b>Cust. ID</b>                     | Signature  |
| <b>PAD/Invoice #</b>                |            |
| * _____ Tribe                       |            |
| <b>Indian Indicator (I)</b>         | _____      |
| <b>Fund Code (Distributee Code)</b> |            |

Pay to the order of: Department of the Interior, ONRR for BIA

Check comments: Cust ID \_\_\_\_\_

PAD No. \_\_\_\_\_

\* \_\_\_\_\_ Tribe

Indian

Fund Code (Distributee Code)



# Wire/ACH Example

- Format Example

## Federal

12345\*12345678\*F\*\*

12345\*INT123456789\*F\*\*

## Indian

12345\*12345678\*I\*123\*

12345\*INT123456789\*I\*123\*

## Rent Obligation-Courtesy Notice

44444\*0540123450\*F\*\*



# Submitting Wire/ACH Payments

- Submit a single WIRE/ACH transaction for each item you remit for automated matching
- Prepare a separate report and payment for your Federal and Indian leases
- Each Indian Fund (DC) Code requires a separate WIRE/ACH payment



# TRIBAL LOCKBOX PAYMENTS (TPAYS)

|                                      |           |
|--------------------------------------|-----------|
| Name                                 | Check #   |
| Address                              | Date----- |
| City and State Zip                   |           |
| <i>Pay to the Order of</i> -----     |           |
| \$-----Dollars                       |           |
| Cust. ID                             | Signature |
| Pad/Invoice #                        | -----     |
| Indian Indicator (I)                 |           |
| Indian Fund Code (Distributtee Code) |           |



**Mail or fax a copy of the check or electronic payment information to your accountant if requested.**

# DEBT COLLECTION

- **Federal Debt Collection Follow-up**
  - Invoice is issued or a Royalty Document is received
  - Demand to Payor (DTP) issued 10 days from receipt of Form ONRR-2014 or due date of Invoice
  - Potential Treasury Referral (PTR) issued 10 days from due date of invoice
  - Notice of Demand (NOD) issued 30 days from due date of invoice or receipt date of Form ONRR-2014
  - To Dept. of Treasury 120 days from due date of the invoice or receipt date of the Form ONRR-2014.



# DEBT COLLECTION

- **INDIAN DEBT COLLECTION FOLLOW-UP**

- DTP issued 20 day from receipt of Form ONRR-2014 or due date of Invoice.
- Potential Treasury Referral Letter 30 days from due date of invoice.
- To Dept. of Treasury 120 days from due date of invoice or receipt date of Form ONRR-2014.

Note: Can refer Indian debt sooner but must be at Treasury at 120 days



# DEBT COLLECTION

**Note: Effective October 1, 2014 we changed from 180 to 120 days for Treasury referral.**

**Reminder: There is a \$436.00 fee for each item referred to Treasury**



# **e-Statement of Account**

**Financial Reports—Customer**

**Financial Reports--Accounts  
Receivable**

**History Reports---Industry Reports  
Pages**



# Office of Natural Resources Revenue

[FAQs and Refund Info](#) [Logout](#)

## e-Statement of Account Search Page

\* Required

\*Customer ID:   Customer ID Lookup Tool

\* Federal/Indian Account:  Federal  
 Indian

\* Open/Closed Items:  Open  
 Closed

Item ID/Payment #:  (The "%" character can be used as a wildcard)

Start Date:   (mm/dd/yyyy)

End Date:   (mm/dd/yyyy)

# Office of Natural Resources Revenue

As of 8/19/2014 12:10:40 PM (EST)

[Return to Search](#)

[Logout](#)

[FAQs and Refund Info](#)

## Federal Statement of Account - Open Items

ABC Company

Customer ID: 01234

To send instructions to your designated contact, click the "Add/View" button and submit annotation.

[Export](#)

| Entry Type                   | Accounting/<br>Issue Date | Item ID/ Payment # | Amount Remaining     | Original<br>Amount | Dist Code | Hold Code | Document #/ Payment Reference | # of<br>Ann. | Most Recent Annotation                          | Annotation<br>History    |
|------------------------------|---------------------------|--------------------|----------------------|--------------------|-----------|-----------|-------------------------------|--------------|-------------------------------------------------|--------------------------|
| PYMT                         | 11/30/2009                | 097228             | (\$589.16)           |                    |           |           |                               |              |                                                 | <a href="#">Add/View</a> |
| PYMT                         | 12/29/2009                | 098027             | (\$416.90)           |                    |           |           |                               |              |                                                 | <a href="#">Add/View</a> |
| PYMT                         | 2/1/2010                  | 098757             | (\$158.10)           |                    |           |           |                               |              |                                                 | <a href="#">Add/View</a> |
| PYMT                         | 3/30/2010                 | OA-CHK100027:      | (\$296.03)           | (\$296.03)         |           |           | DUPPMTINT100052542            | 2            | Therefore, check 100027 is a duplicate payment. | <a href="#">Add/View</a> |
| PYMT                         | 3/7/2011                  | OA-CHK108442:      | (\$8,634.25)         | (\$8,634.25)       |           |           | PDRNT-TERMINATED LEASES       |              |                                                 | <a href="#">Add/View</a> |
| PYMT                         | 12/16/2011                | OA-CHK117581:      | (\$6,612.00)         | (\$6,612.00)       |           |           | RNT100333173                  |              |                                                 | <a href="#">Add/View</a> |
| PYMT                         | 12/10/2012                | OA-CHK130330:      | (\$6,552.00)         | (\$6,552.00)       |           |           | TERMMN111414/5                |              |                                                 | <a href="#">Add/View</a> |
| <b>Total of Above Items:</b> |                           |                    | <b>(\$23,258.44)</b> |                    |           |           |                               |              |                                                 |                          |

**Above Item Totals by Entry Type**

|       |                      |
|-------|----------------------|
| INV   | \$0.00               |
| PYMT  | (\$23,258.44)        |
| ROYAL | \$0.00               |
| <hr/> |                      |
|       | <b>(\$23,258.44)</b> |

There are no suspended items for selected parameters.

## 8. How do I add an Annotation?

1. Use the Search screen to find the Item or Payment ID that you would like to annotate. To find all items meeting the Search Criteria, leave the Item ID field blank.

### Minerals Management Service Minerals Revenue Management

[FAQs and Refund Info](#)

Logout

#### e-Statement of Account Search Page

**\* Required**

\*Customer ID:   Customer ID Lookup Tool

\*Federal/Indian Account:  Federal  
 Indian

\*Open/Closed Items:  Open  
 Closed

Item ID/Payment #:  (The "%" character can be used as a wildcard)

Start Date:   (mm/dd/yyyy)

End Date:   (mm/dd/yyyy)

Search

2. Once the item is found, the most recent annotation will display on this screen (See A). Click on the Add/View button (See B) to either view the annotation history, or to add an additional annotation.

2. Once the item is found, the most recent annotation will display on this screen (See A). Click on the Add/View button (See B) to either view the annotation history, or to add an additional annotation.

**Minerals Management Service**  
Minerals Revenue Management

As of 8/17/2009 10:06:29 AM (EST) Return to Search Logout [FAQs and Refund Info](#)

**Federal Statement of Account - Open Items**  
LAKE ENERGY CO

Customer ID: TESTZ To send instructions to your designated contact, click the "Add/View" button and submit annotation. Export

| Entry Type | Accounting/ Issue Date | Item ID/ Payment # | Amount Remaining | Original Amount | Dist Code | Hold Code | Document #/ Payment Reference | # of Ann. | Most Recent Annotation | Annotation History    |
|------------|------------------------|--------------------|------------------|-----------------|-----------|-----------|-------------------------------|-----------|------------------------|-----------------------|
| INV        | 12/11/2009             | FIN 100034687      | \$400.00         | \$400.00        | BEH       |           | FIN100034687                  | 3         | This is correct        | <span>Add/View</span> |

A

B

3. Type the Annotation in the block provided. Click on the [Submit] button to record the annotation. Once it is submitted, the annotation cannot be changed. An Annotation notification will be sent immediately to your servicing accountant.

https://esoa.orn.gov/esoa/pages/Refund-FAQ.pdf - Windows Internet Explorer

https://esoa.orn.gov/esoa/pages/Refund-FAQ.pdf

### Minerals Management Service Minerals Revenue Management

As of 8/17/2009 10:32:47 AM (EST) [Return to Statement](#) [Logout](#)

Customer ID: testz [FAQs and Refund Info](#)

#### Annotation History - Item ID ( FINXXXXXX ) LAKE ENERGY CO

**Item Information:**

| Entry Type | Accounting/ Issue Date | Item ID/ Payment # | Amount Remaining | Dist Code | Hold Code | Document #/Payment Reference |
|------------|------------------------|--------------------|------------------|-----------|-----------|------------------------------|
| BEV        | 12/11/2009             | FINXXXXXX          | \$400.00         |           | BEH       | FINXXXXXX                    |

**Add Annotation:** (127 character limit)

**Annotation History:**

| Date Submitted | User ID | Annotation      |
|----------------|---------|-----------------|
| 8/7/2009       | aloman  | This is correct |

## 9. How do I delete Annotations?

Once you hit the [Submit] button, you cannot delete annotations. You could add another annotation explaining your error, or call the servicing accountant.

# FEDERAL STATEMENT OF ACCOUNT OPEN ITEMS DESCRIPTIONS

- **Entry Type Explanations**

ROYAL = Payor Assigned Document Number (PAD) of Form ONRR-2014

INV = The ONRR-generated invoice number

PYMT = Check, ACH, TPAY or Wire number

OA = Portion of payment not applied to receivable Form ONRR-2014, invoice, etc.



# FEDERAL STATEMENT OF ACCOUNT OPEN ITEMS DESCRIPTIONS

OA = Portion of payment not applied to  
receivable

|           |                |                 |
|-----------|----------------|-----------------|
| 1/14/2014 | CHK70017       | (\$1,790.00)    |
| 1/31/2014 | Form ONRR-2014 | <u>1,110.00</u> |
| 1/14/2014 | OA-CHK70017    | (\$ 680.00)     |

Assigned number of original check (or wire) preceded by  
payment type.



# FEDERAL STATEMENT OF ACCOUNT

## OPEN ITEMS DESCRIPTIONS

- **AMOUNT REMAINING** = Unpaid amount of a receivable or the current unused amount of a payment
- **ORIGINAL AMOUNT**= The original amount of the receivable or payment
- **DIST. CODE (INDIAN ONLY)** = Indian distribution code (Fund Code) for the Tribe/Allottee
- **HOLD CODE** = Receivable/Payment in hold status (appeal, bankruptcy, sent to Dept. of Treasury for collection, etc.)
- **ANNOTATIONS** = Your instructions to us regarding disposition of listed items

# Questions?

