



Office of Natural Resources Revenue

U.S. Department of the Interior

Indian Oil and Gas Valuation

Royalty Valuation | Consistent answers to complex questions

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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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Valuation Regulations



National Archives and
Records Administration

30 CFR Part 1206

◆ Indian Oil: § 1206.50 - § 1206.62

◆ February 1, 2008

◆ Indian Gas: § 1206.170 - § 1206.181

◆ January 1, 2000



Electronic Code of Federal Regulations:

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

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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



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ONRR Trust Responsibility

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

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

Office of Natural Resources Revenue (ONRR)

for questions about:

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

You may call ONRR offices toll free at:
 Denver: 1-800-982-3226
 Washington: 1-800-526-2839
 Oklahoma City: 1-800-354-7015

Website: www.onrr.gov

Bureau of Indian Affairs (BIA)

for questions about:

- Land ownership and lease status
- Mineral Leasing
- Finalizing and approving Communication Agreements (C-A)
- 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
- ▶ Wells and other ownership that may affect your production
- ▶ Proper plugging of wells
- ▶ Official surveys of Indian lands

For BLM questions, please visit their website

Website: www.blm.gov

Office of the Special Trustee for American Indians (OST)

for questions about:

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

You may call OST toll free at Customer Service Line 1-888-476-6536

Website: www.ost.doi.gov

The ONRR, in conjunction with BIA and OST, provides revenue management services for mineral leases on American Indian lands. Money collected for Indian mineral leases is returned **100 %** to respective Indian tribes and individual Indian mineral owners.



The Trust Doctrine

Sources of the Trust Doctrine

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

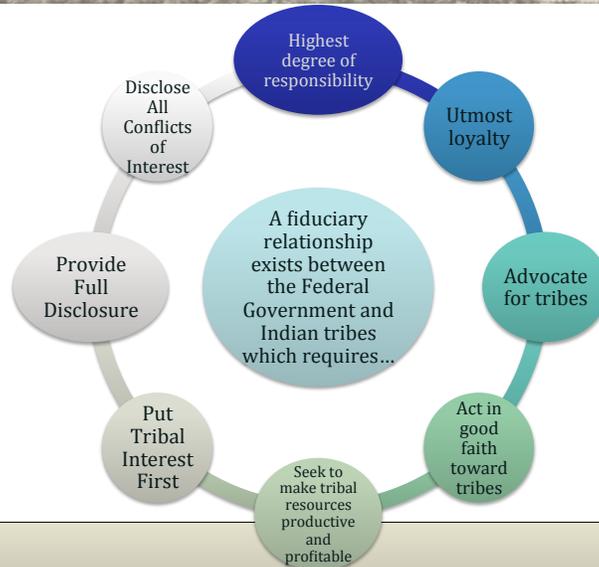
The doctrine is derived principally from:

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





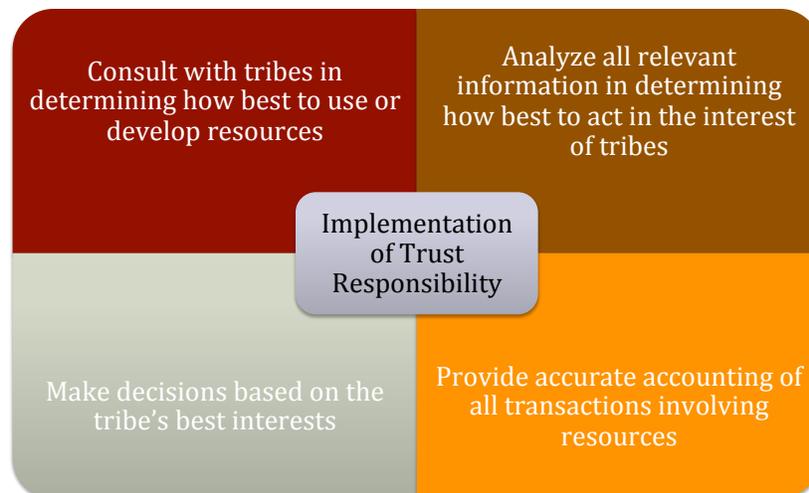
The Trust Responsibility & Fiduciary Relationship



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



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General Valuation Principles

Please refer to Federal Valuation Training

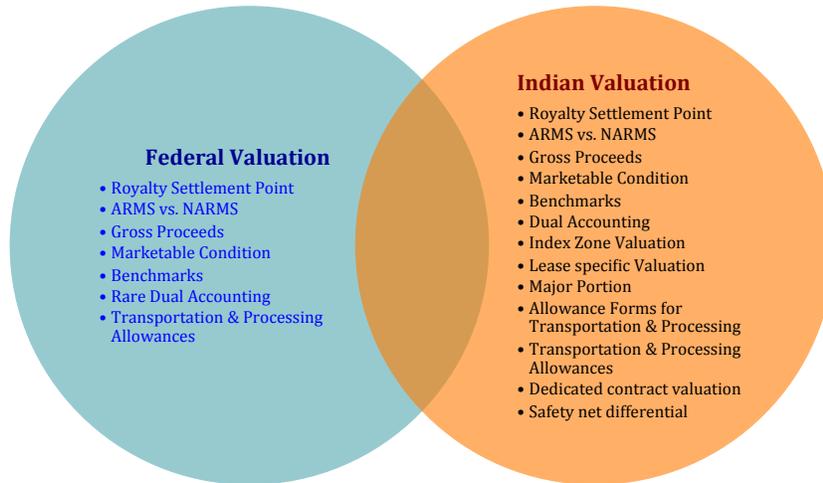
- Royalty is due on the quantity & quality of production as measured at the approved **Royalty Settlement Point** when it is severed from the lease
- Arm's-Length (ARMS) or Non-Arm's-Length (NARM)
- Gross proceeds
- Marketable condition



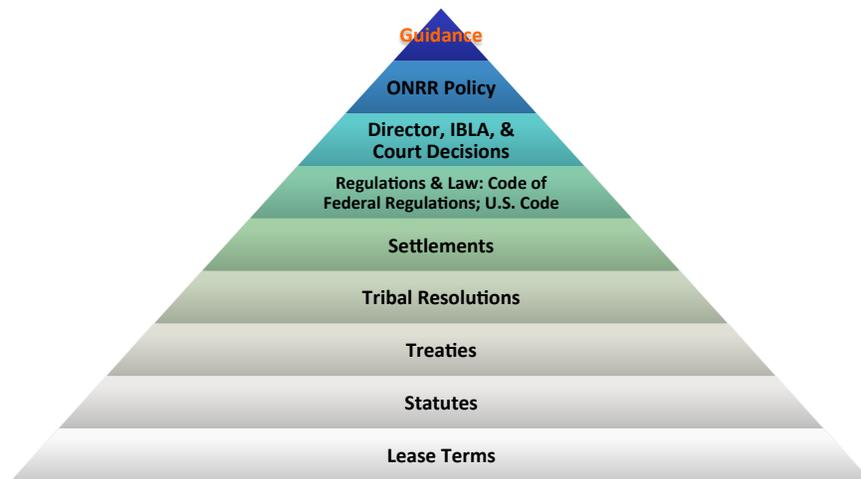
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Federal versus Indian Valuation



The Many Elements of Indian Mineral Valuation





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Indian Oil Valuation

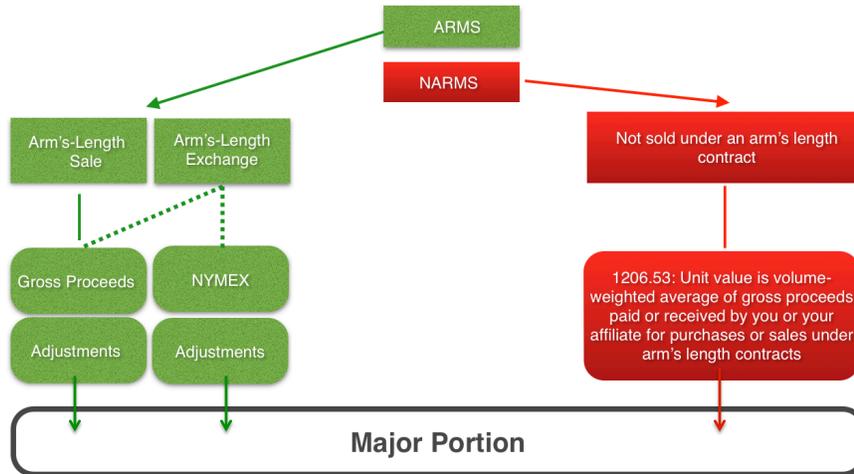
30 CFR § 1206.50 - § 1206.62



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Indian Oil Valuation



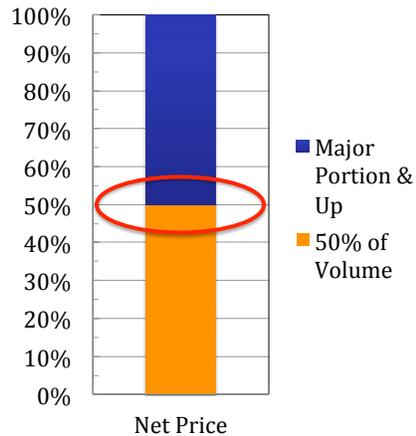
Major Portion

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 ...”



Major Portion



- Major portion will be calculated using like-quality oil sold under arm's-length contracts from the same field each month
- 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

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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

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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
- 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
- Director may establish alternative valuation method if result is unreasonable

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Indian Gas Valuation

30 CFR § 1206.170 - § 1206.181



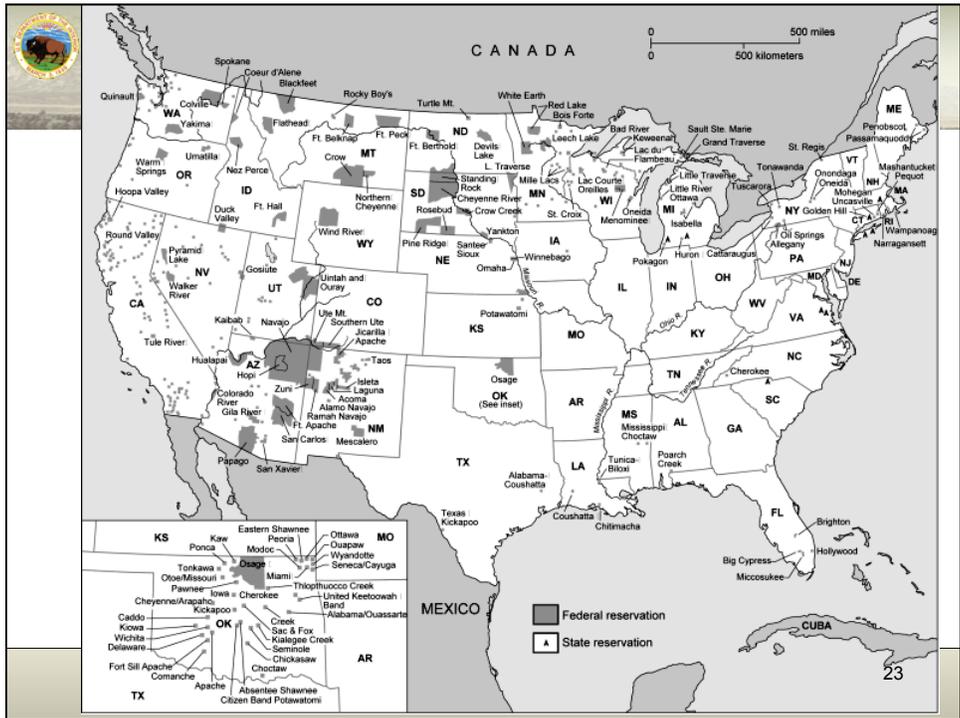
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Indian Gas Royalty Value

- 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

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Index Zones | ONRR Designated Areas

<p><u>Index Zone</u> Central Rocky Mountains Northern Rocky Mountains San Juan Basin</p> <p>Oklahoma Zones 1, 2, 3</p>	<p><u>ONRR-Designated Area</u> Uintah and Ouray Reservation Wind River Reservation Jicarilla Apache Reservation Navajo Tribal Leases in the Navajo Reservation Southern Ute Reservation Ute Mountain Ute Reservation</p> <p>Groups 1,2, and 3 are based on groups of counties in Oklahoma</p>
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The screenshot shows the ONRR website's 'Monthly Prices For Index Zones' page. The main heading is 'Indian Index Zones Natural Gas Prices'. Below this, there is a note for reporters' convenience and a list of index zones: CRM (Central Rocky Mountains), NRM (Northern Rocky Mountains), OK 1 (Oklahoma Zone 1), OK 2 (Oklahoma Zone 2), OK 3 (Oklahoma Zone 3), San Juan Basin, and East Texas (discontinued in April 2000). A navigation bar for 2014 is shown with 'CRM' selected. The main data table is titled '2014 :: Central Rocky Mountains (Ute Allotted and Tribal*)' and contains the following monthly price data:

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	\$

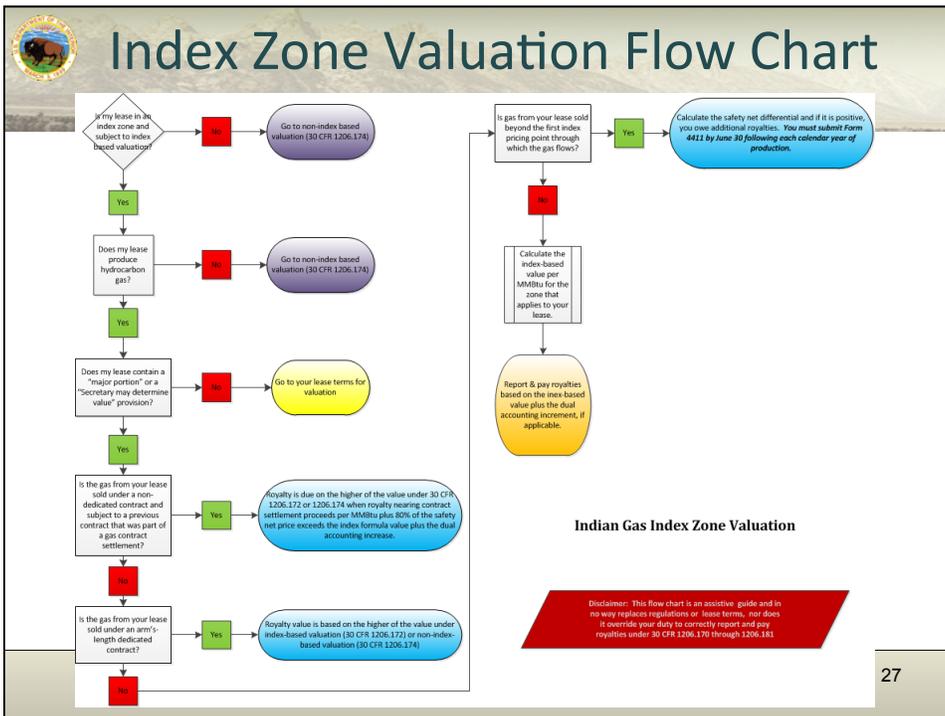
A note below the table states: '*Tribal became effective 8/01/10'. Navigation links for years 2013, 2012, 2011, and 2010 are visible at the bottom of the page.

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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

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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

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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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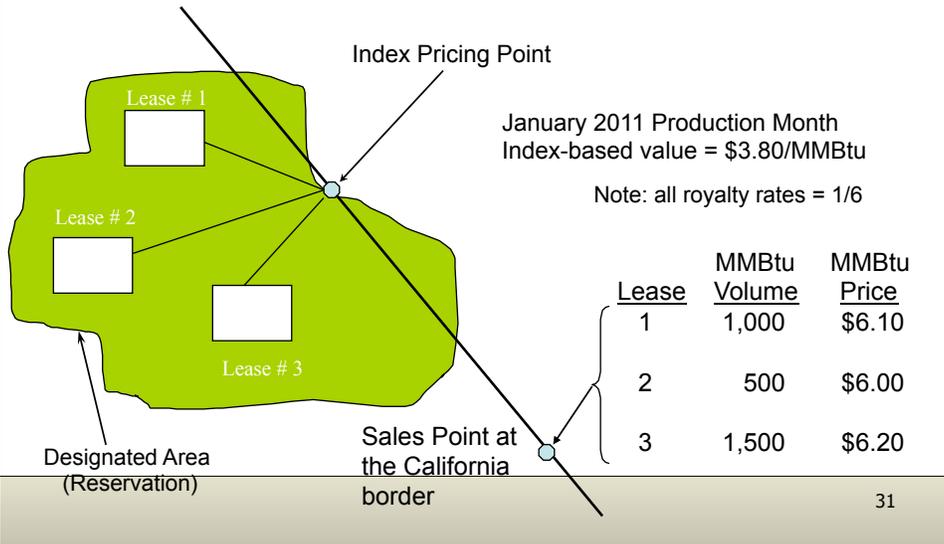
How to calculate the Safety Net Differential (SND)

- 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

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Safety Net Example



Safety Net Example

Safety Net Price (S) Calculation

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

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

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



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

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Safety Net Example

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

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

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

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

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

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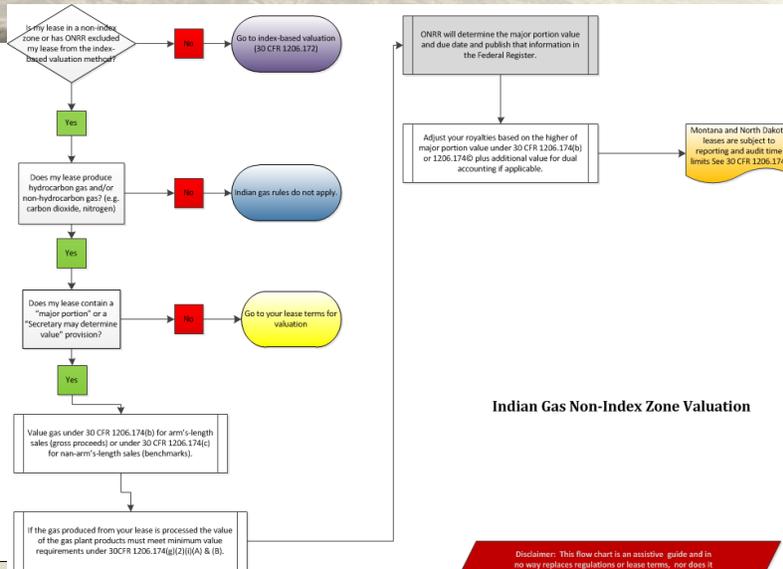


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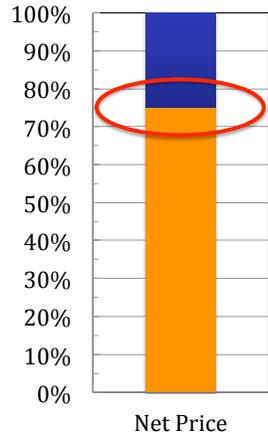


Non-Index Zone Valuation Flow Chart





Indian Gas | Major Portion



■ Major Portion & Up
■ 50% of Volume

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

Office of Natural Resources Revenue
DOI Office of the Secretary

ONRR VALUATION REPORTING/PAYING COMPLIANCE INDIAN SERVICES
ABOUT US PRICING & GUIDANCE RESOURCES ENFORCEMENT & APPEALS ALLOTTEES & TRIBES

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

Alabama/Coushatta

Blackfeet Reservation

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

Blackfeet Reservation - 2012

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

* Prices are in \$/MMBtu

- Fort Belknap Reservation
- Fort Berthold Reservation
- Fort Peck Reservation
- Navajo Allotted Leases in the Navajo Reservation
- Rocky Boys Reservation
- Turtle Mountain Reservation
- Ute Allotted Leases in the Uintah & Ouray Reservation
- Ute Tribal Leases in the Uintah & Ouray Reservation



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Dual Accounting

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

§ 1206.176 - Dual Accounting

§ 1206.173 - Alternative Methodology

§ 1206.172, 1206.174, and 1206.52 - Actual Methodology

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Dual Accounting Requirement

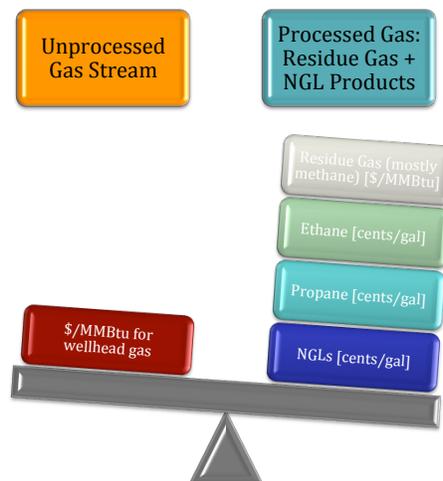
Dual Accounting is performed when it is required by **lease terms** and **produced gas is processed**.

“...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.**”

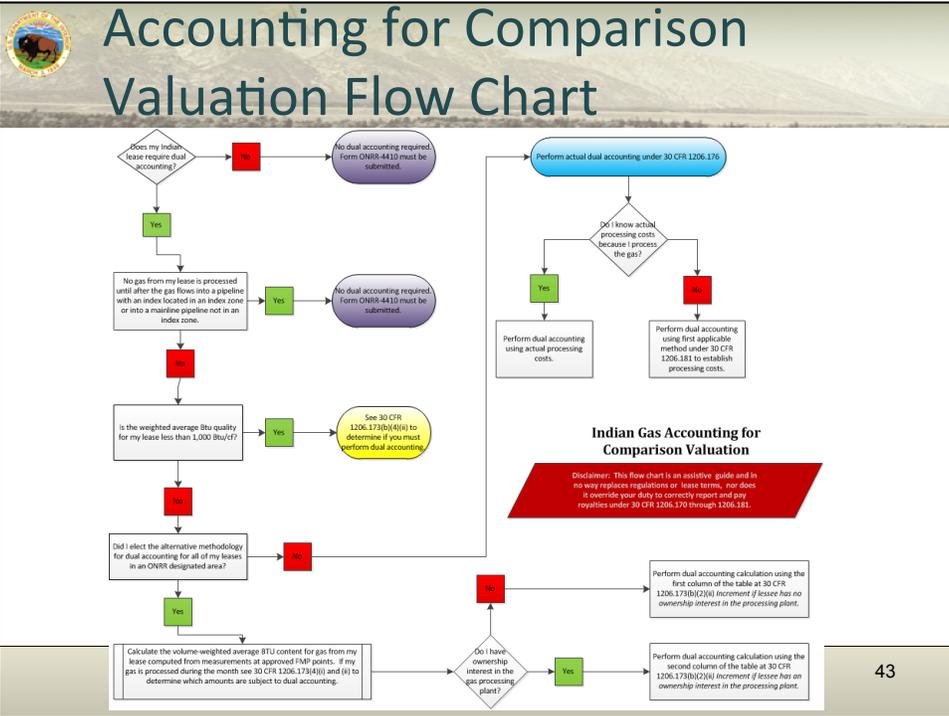
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Dual Accounting is a Comparison



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Form ONRR-4410

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

7 CHECK THE REASON DUAL ACCOUNTING IS NOT REQUIRED:

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

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Indian Gas | Allowance Forms

Arm's-Length

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

**No Contract/
Amendment =
No Allowance**

Non-Arm's-Length

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

**No Form =
No Allowance**



CEVA | Coordination, Enforcement, Valuation, & Appeals

