



Office of Natural Resources Revenue

New Indian Oil Rule

- ✓ Major Portion
- ✓ The Old Rule
- ✓ Indian Oil Negotiated Rulemaking Committee
- ✓ The New Rule
- ✓ Calculating the IBMP Price
- ✓ Payor Stuff

Karl Wunderlich
Asset Valuation

Industry Compliance

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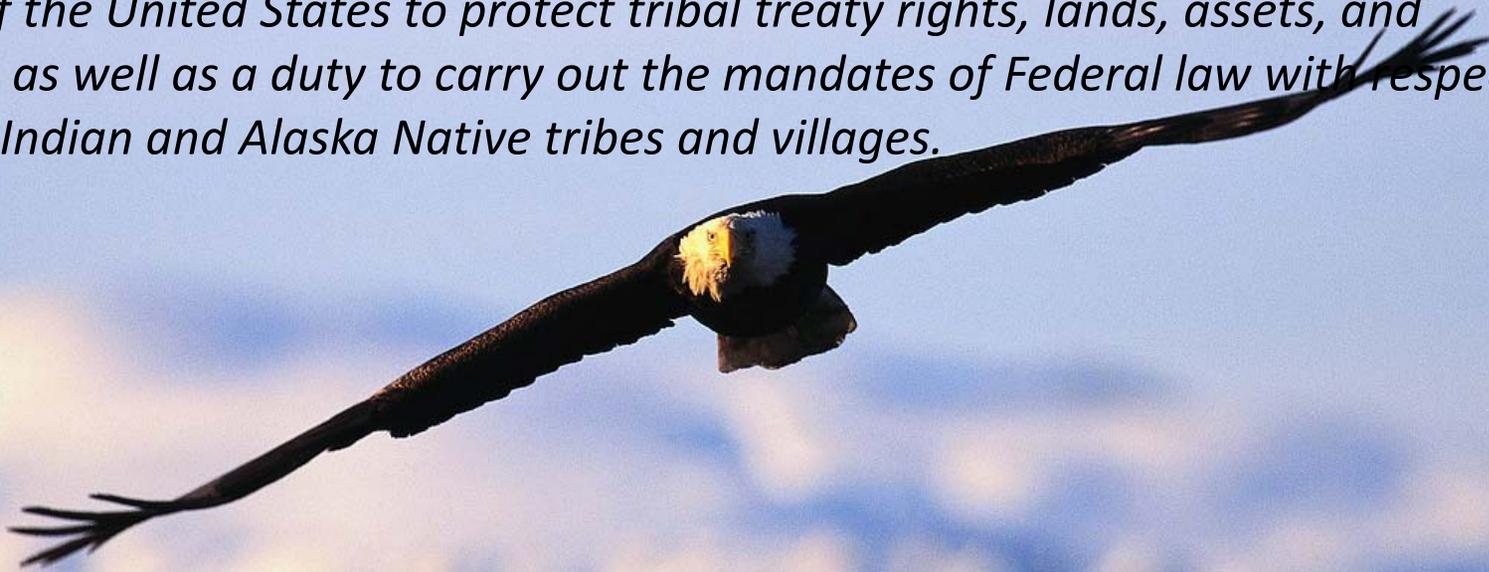
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Why Do We Have an Indian Oil Rule?

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



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

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Major Portion

Royalty value is based on the major portion price.

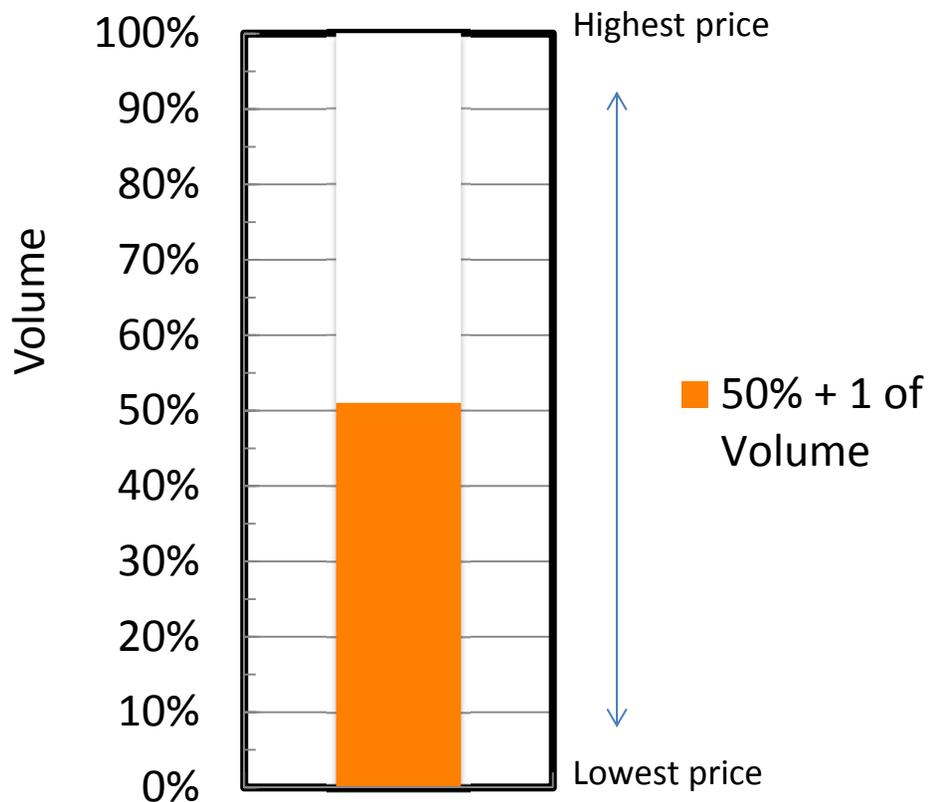
- Essentially a price floor designed to ensure Indian lessors receive royalties based on a value representing the *major portion* of oil of similar quality and location

30 CFR§1206.54

*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 ...”*



Oil Major Portion (the old way)



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



The Old Rule

- Former Indian Oil Valuation rule was published in December 2007
 - Just technical amendments
- Major portion provision unchanged since the 1988 rule
- 2007 rule proposed to convene a negotiated rulemaking to address the major portion provision of the rule



Indian Oil Negotiated Rulemaking Committee

- Established under the Federal Advisory Committee Act of 1973 (FACA*) to advise ONRR on the calculation of major portion
- Membership included members from oil producing tribes, Indian mineral owner associations, industry, BIA, and ONRR
- Charter signed by Secretary Salazar on December 1, 2011
- Committee concluded its work on September 17, 2013
- [http://www.onrr.gov/Laws R D/IONR/](http://www.onrr.gov/Laws_R_D/IONR/)

*FACA was established to provide advice to the President or agencies or officers of the Federal Government. FACA committees do not make decisions, regulations, policies, etc.



What's New in the New Rule??

- Published May 1, 2015, effective for July production/August reporting
- New Terms
- New Product Codes
- New Sales Type Code
- New Major Portion
- Easier Reporting

Note: All leases are still subject to audit



New Indian Oil Terms

NYMEX CMA: NYMEX calendar month average

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

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

- An area with two crude types would have two designated areas.

LCTD: Location and Crude Type Differential

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

IBMP Price: Index-based major portion price

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



New Product Codes

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

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

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

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



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Sales Type Codes

ARMS

- Arm's-length transactions

NARM

- Non-arm's-length transactions

RIKD

- Royalty-in-kind deliveries

OINX

- Oil valued on an index price

Codes assigned as needed

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Committee Agreement re: Major Portion

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

1) Index-Based Major Portion (IBMP) value

- NYMEX CMA adjusted for a designated area-specific Location and Crude Type Differential (LCTD)
- Plus/minus roll (for Oklahoma only)
 - The roll is defined at 30 CFR 1206.101

Or,

2) Gross proceeds value



Index-Based Major Portion (IBMP) Value

- ONRR will calculate the IBMP value using the NYMEX Calendar Month Average (CMA) for each designated area - adjusted for a Location and Crude Type Differential (LCTD)

$(\text{NYMEX CMA Price}) \times (1 - \text{LCTD})$

Or,

Oklahoma only = $(\text{NYMEX CMA Price} \pm \text{Roll}) \times (1 - \text{LCTD})$

- ONRR will publish the IBMP values for each designated area and crude oil type on its website, <http://www.onrr.gov/valuation/IndianOilIBMP.htm>
 - ✓ IBMP prices published by the 10th of the month for reporting at the end of the month
 - ✓ Using estimates gains an additional 30 days to report. Contact your “Reporter Contact” person for help setting up an estimate



Initial Location and Crude Type Differential (LCTD)

- $LCTD = (\text{Average monthly NYMEX CMA for last 12 months}) - (\text{Average monthly MP price for last 12 months})$
- Ensures that the IBMP price closely reflects a 25th percentile (from the top) major portion value of a particular crude type within the applicable designated area
- ONRR will monitor the LCTD for each designated area on a monthly basis to ensure tribes continue to receive approximately a 25th percentile (from the top) major portion value (+/- 3%)



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Calculating a Major Portion Price (75%)

Calculating MP for any given month, designated area, and crude type

<u>Lease Number</u>	<u>Payor/Lessee</u>	<u>Sales Volume</u>	<u>Cumulative Volume</u>	<u>Percent of Volume</u>	<u>Value</u>
LEASE 1	Company A	3,900	3,900	7.80%	\$86.26
LEASE 2	Company B	3,700	7,600	15.20%	\$85.23
LEASE 3	Company C	4,300	11,900	23.80%	\$84.31
LEASE 4	Company D	3,200	15,100	30.20%	\$83.10
LEASE 5	Company E	1,660	16,760	33.52%	\$82.90
LEASE 6	Company F	3,000	19,760	39.52%	\$81.00
LEASE 7	Company G	4,200	23,960	47.92%	\$80.25
LEASE 8	Company H	3,200	27,160	54.32%	\$79.80
LEASE 9	Company I	6,500	33,660	67.32%	\$79.10
LEASE 10	Company J	3,940	37,600	75.20%	\$78.05
LEASE 11	Company K	7,000	44,600	89.20%	\$78.00
LEASE 12	Company L	5,400	50,000	100.00%	\$77.50
	Total	50,000			

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Calculating the Initial LCTD for a Designated Area

Month	NYMEX CMA	25% MP from the Top	Differential
2014-July	\$89.58	\$75.75	\$13.83
August	\$89.74	\$76.22	\$13.52
September	\$102.98	\$89.04	\$13.94
October	\$110.04	\$96.33	\$13.71
November	\$101.36	\$87.40	\$13.96
December	\$96.29	\$82.43	\$13.86
2015-January	\$97.34	\$83.10	\$14.24
February	\$86.34	\$72.22	\$14.12
March	\$85.61	\$71.65	\$13.96
April	\$86.43	\$72.52	\$13.91
May	\$97.16	\$85.04	\$12.12
June	\$98.58	\$86.58	\$12.00
Average	\$95.12	\$81.52	\$13.60

$$\text{LCTD} = (\$13.60/\$95.12) = 0.1430 \text{ or } 14.30\%$$



Using the LCTD to Determine the IBMP Price

July 2015 is the first month the rule is in effect:

Month	NYMEX CMA	LCTD	IBMP Value (1-0.1430)*NYMEX CMA
July	\$100.32	14.30%	\$85.97

- If the lessee’s gross proceeds less transportation for July 2015 is \$86.50/bbl,
 - ✓ the lessee would report and pay royalties on **\$86.50/bbl** – their gross proceeds value
- If the lessee’s gross proceeds less transportation for July 2015 is \$85.50/bbl,
 - ✓ the lessee would report and pay royalties on **\$85.97/bbl** – the IBMP value for July 2015



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DOI Office of the Secretary

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Home > Valuation > **Indian Oil Index Based Major Portion (IBMP) Price**

Indian Oil Index Based Major Portion (IBMP) Price

2015 IBMP Sales Price

A A A

Add a short description of what this information is here.

Select Month: **Chart Data:** You are currently viewing the results for **January**.

Show entries

Table Search:

Designated Area	Product Codes					
	02	61	62	63	64	65
Alabama/Coushatta	\$47.18	\$	\$	\$	\$	\$
Blackfeet	\$	\$	\$38.96	\$	\$	\$
Crow	\$	\$	\$	\$34.81	\$	\$
Fort Berthold North of the Little Missouri River	\$40.96	\$42.43	\$43.37	\$	\$	\$
Fort Berthold South of the Little Missouri River	\$37.07	\$41.56	\$36.89	\$	\$	\$
Fort Peck	\$	\$40.35	\$38.55	\$	\$	\$
Jicarilla Apache	\$40.87	\$40.46	\$	\$	\$	\$
Oklahoma	\$46.29	\$46.78	\$43.78	\$	\$	\$
Saginaw Chippewa	\$	\$	\$37.26	\$	\$	\$
Southern Ute	\$40.60	\$	\$	\$	\$	\$
The Navajo Nation	\$40.21	\$46.32	\$	\$	\$	\$
Turtle Mountain	\$	\$41.97	\$	\$	\$	\$
Uintah and Ouray - Duchesne County	\$38.10	\$37.07	\$	\$36.42	\$38.43	\$
Uintah and Ouray - Uintah and Grand Counties	\$39.55	\$	\$	\$	\$42.19	\$

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Ensuring the IBMP Remains a Proxy of a 75% MP (+/-3%)

A little review.....

- Remember that the IBMP price is calculated using a differential based on MP values from prior months
- And those MP prices were determined using unique arrays of cumulative volumes and associated prices

So what happens if those volumes change?

- The volumes reported as OINX may no longer allow the current LCTD to represent the 75% MP



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How ONRR Adjusts the LCTD

- ONRR will monitor the reported monthly oil volumes for gross proceeds sales (non-OINX) and adjust the LCTD 10% if necessary

Scenario 1

- Reported Gross Proceeds Sales Volumes are below 22% of total volume
- Increase the LCTD by 10%

Scenario 2

- Reported Gross Proceeds Sales Volumes are between 22% - 28% of total volume
- LCTD does not change

Scenario 3

- Reported Gross Proceeds Sales Volumes are above 28% of total volume
- Decrease the LCTD by 10%



Adjusting the LCTD – *Scenario 1*

- If monthly oil gross proceeds sales volumes (non-OINX) fall below 22% of total volume, we will increase the LCTD by 10% every month until volumes are back between 22% - 28%
- In the table on the following slide, the percent of volume, not reported as OINX, is less than 22%, which triggers a modification to the LCTD
- We will adjust the LCTD upward by 10% ($14.30\% \times 1.10$)
- The next month's LCTD will be 15.73%
- The next month's IBMP value will equal the month's NYMEX CMA multiplied by $(1 - 0.1573)$ or 84.27%



Differential adjustment when ARMS sales volume for the current month falls below 22% of the total monthly sales volume

Lease	Sales Volume	Unit Price	Sales Type Code	Cumulative Volume	Percent of Volume
1	220	86.50	ARMS	220	9.02%
2	275	86.25	ARMS	495	20.29%
3	400	85.97	OINX	895	36.68%
4	425	85.97	OINX	1,320	54.10%
5	370	85.97	OINX	1,690	69.26%
6	400	85.97	OINX	2,090	85.66%
7	350	85.97	OINX	2,440	100.00%
	2,440				



Adjusting the LCTD – *Scenario 3*

- If monthly oil gross proceeds sales volumes (non-OINX) are above 28%, we will decrease the LCTD by 10% every month until volumes are back between 22% - 28%
- In the table on the following slide, the percent of volume not reported as OINX is greater than 28%, which triggers a modification to the LCTD
- We will adjust the LCTD downward by 10% ($14.30\% \times 0.9$)
- The next month's LCTD will be 12.87%
- The next month's IBMP value will equal the month's NYMEX CMA multiplied by (1 minus 0.1287) or 87.13%



Differential adjustment when ARMS sales volume for the current month is above 28% of total monthly sales volume

Lease	Sales Volume	Reported Price	Sales Type Code	Cumulative Volume	Percent of Volume
1	230	86.50	ARMS	230	11.06%
2	275	86.25	ARMS	505	24.28%
3	175	86.00	ARMS	680	32.69%
4	250	85.97	OINX	930	44.71%
5	425	85.97	OINX	1,355	65.14%
6	325	85.97	OINX	1,680	80.77%
7	400	85.97	OINX	2,080	100.00%
	2,080				



Benefits to Indians and Industry

Industry

- Reduce accounting and administrative costs
- Eliminate prior period adjustments
- Reduce reporting burden

Tribes and Allottees

- Greater Transparency
- Early Certainty
- 75% Major Portion



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So, what do you - the payor - have to do?

I am an accountant

not a magician



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New Product Codes

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

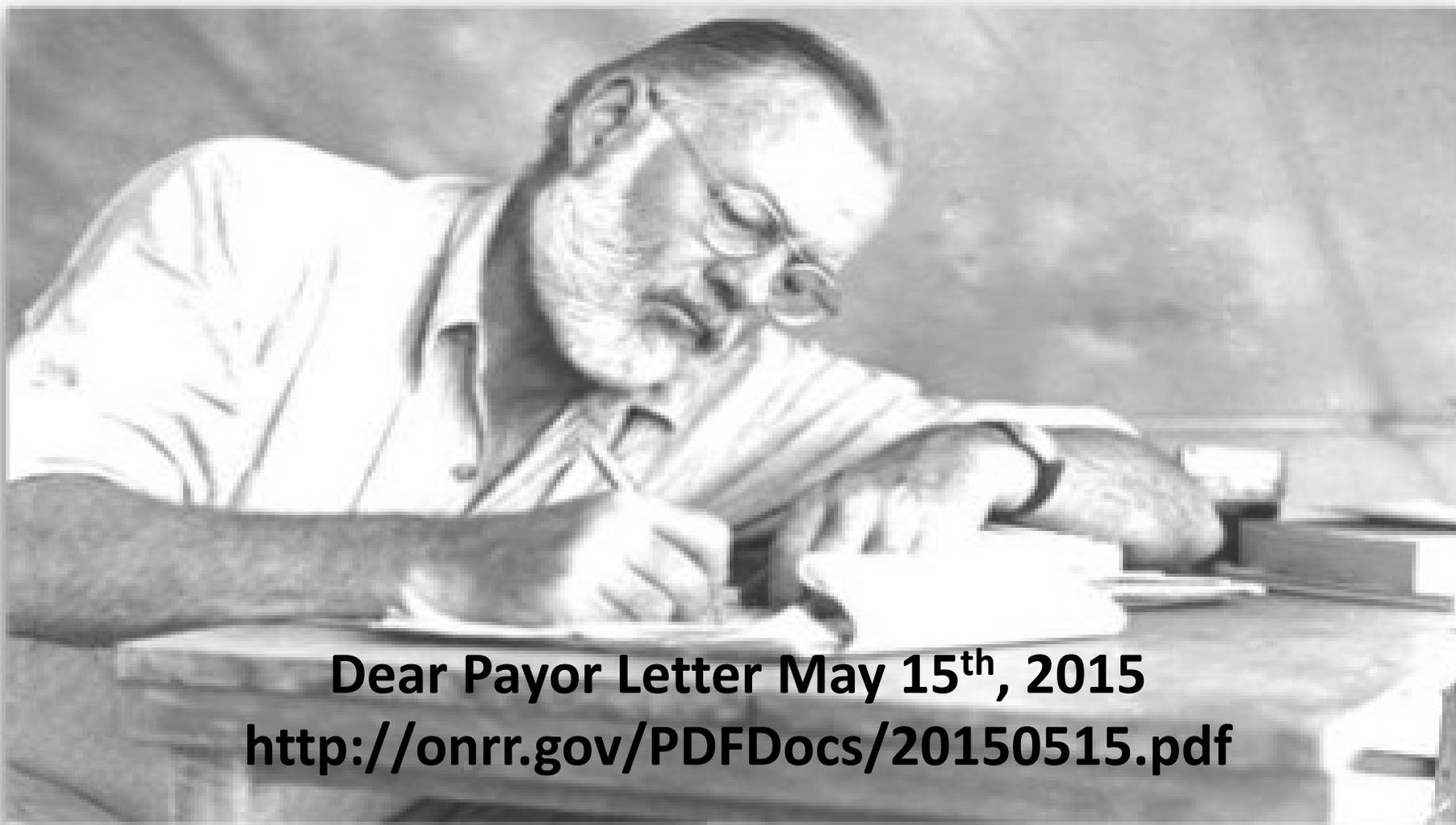
(61) – Sweet Crude
(62) – Sour Crude
(63) - Asphaltic

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

**Condensate is not a new product code, however a formula price will be calculated for each designated area where condensate is reported*



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Dear Payor Letter May 15th, 2015
<http://onrr.gov/PDFDocs/20150515.pdf>

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Indian Oil Index Based Major Portion (IBMP) Price

2015 IBMP Sales Price

A A

Select Month: July

Chart Data: You are currently viewing the results for July.

Show 20 entries

Table Search:

Designated Area ▲	Product Codes					
	02 ▼	61 ▼	62 ▼	63 ▼	64 ▼	65 ▼
Alabama/Coushatta	\$47.18	\$--	\$--	\$--	\$--	\$--
Blackfeet	\$--	\$--	\$38.96	\$--	\$--	\$--
Crow	\$--	\$--	\$--	\$34.81	\$--	\$--
Fort Belknap	\$--	\$--	\$--	\$--	\$--	\$--
Fort Berthold North of the Little Missouri River ↗	\$40.96	\$42.43	\$43.37	\$--	\$--	\$--
Fort Berthold South of the Little Missouri River ↗	\$37.07	\$41.56	\$36.89	\$--	\$--	\$--
Fort Peck	\$--	\$40.35	\$38.55	\$--	\$--	\$--
Jicarilla Apache	\$40.87	\$40.46	\$--	\$--	\$--	\$--
Oklahoma	\$46.29	\$46.78	\$43.78	\$--	\$--	\$--
Rocky Boy's	\$--	\$--	\$--	\$--	\$--	\$--
Saginaw Chippewa	\$--	\$--	\$37.26	\$--	\$--	\$--
Southern Ute	\$40.60	\$--	\$--	\$--	\$--	\$--
The Navajo Nation	\$40.21	\$46.32	\$--	\$--	\$--	\$--
Turtle Mountain	\$--	\$41.97	\$--	\$--	\$--	\$--
Uintah and Ouray - Duchesne County	\$38.10	\$37.07	\$--	\$36.42	\$38.43	\$--
Uintah and Ouray - Uintah and Grand Counties	\$39.55	\$--	\$--	\$--	\$42.19	\$--
Ute Mountain Ute	\$40.03	\$37.53	\$--	\$--	\$--	\$--
Wind River	\$41.14	\$38.65	\$38.77	\$--	\$--	\$--

\$-- Denotes no prices for product code.



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Ex. 1: Arm's Length Sale of 1000bbl

Given:

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

Determine:

Product Code → **61**

Sales Type Code → **OINX**

Gross Proceeds

less Transportation → **\$37.50**

Price for Royalty Purposes → **\$41.56**

Royalty Due: → **$(1000\text{bbl} * \$41.56 * 0.125) = \underline{\underline{\$5,195}}$**



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Ex. 2 (your turn!): Arm's Length Sale of 1000bbl

Given:

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

Determine:

Product Code → **64**

Sales Type Code → **ARMS**

Gross Proceeds

less Transportation → **\$40.00**

Price for Royalty Purposes → **\$40.00**

Royalty Due: → **$(1000\text{bbl} * \$40.00 * 0.125) = \underline{\underline{\$5,000}}$**



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Ex. 3: Arm's Length Sale of 1000bbl

Given:

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

Determine:

Product Code → **63**

Sales Type Code → **ARMS**

Gross Proceeds

less Transportation → **\$37.50**

Price for Royalty Purposes → **\$37.50**

Royalty Due: → **$(1000\text{bbl} * \$37.50 * 0.125) = \underline{\underline{\$4,687.50}}$**



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Transportation Form Filing

Arm's-Length

- No more Form-4110!!
- You MUST submit a copy of your arm's length transportation contract within 2 months of claiming allowance on ONRR - 2014

Non-Arm's-Length

- Still MUST file 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



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Contacts

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OR

ONRRIndianOilRuleQuestions@onrr.gov





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Questions?

