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Ms. Rhea Suh
Assistant Secretary – Policy, Management and Budget
Department of the Interior
1849 C Street NW
Washington, DC 20240

Re: Comments on ONRR Proposed Regulation *Reporting and Paying Royalties on Federal Leases*, RIN 1012-AA02

Submitted via: <http://www.regulations.gov>

Dear Assistant Secretary Suh,

On August 8, 2013, the Office of Natural Resources Revenue (ONRR) issued a proposed regulation, entitled *Reporting and Paying Royalties on Federal Leases (RIN 1012-AA14)*, (hereinafter “the Rule”) which prescribes when a Federal lessee must report and pay royalties on the volume of oil and gas it takes from a lease or on the volume to which it is entitled based on its ownership interest in the lease. The American Petroleum Institute (API), on behalf of its member companies, offers the following comments to the proposed regulation.

The API is a national trade association that represents over 500 members involved in all aspects of the oil and natural gas industry, including the exploration and production of both onshore and offshore federal resources. The U.S. oil and natural gas industry supports 9.2 million U.S. jobs and more than 7.5 percent of the U.S. economy. The industry has paid more than 150 billion dollars in royalty revenues to the federal treasury.

API member companies are committed to continued compliance with royalty regulations consistent with the mineral leasing statutes. They have reviewed the proposed regulation and generally agree with the majority of the proposed changes. However, there are a few areas of concern that they would like to express below.

One area of concern involves non-consenting owners. Section 1205.103 addresses how to determine entitled volume in a mixed agreement. However, the discussion of this section in the Preamble on page 48348 states that where “...you chose not to participate in the drilling of the only well drilled on the agreement (non-consent well)...Despite the fact that you do not receive production for a period of time, you must report and pay royalties on the full volume allocated to



your Federal lease under the agreement allocation schedule.” This provision is a significant change from current industry practice. Although the non-consenting company does have liability for the royalty payment, typically the company that is carrying the non-consenting company pays the royalty burdens within the agreement. This proposed change to now have the non-consenting company report and pay royalties will increase the complexity of reporting and is a significant departure from current industry practice – a practice accepted by ONRR until now – where the carrying party pays the burdens resulting from non-consenting parties. We recommend that the practice of having the carrying company make the royalty payment continue.

Another area of concern is commingling approvals. Section 1205.105 discusses how a BSEE or BLM commingling approval will affect a company’s take volume. Concern was expressed by API member companies that they could have one completion of a multiple-completion well (with different ownership for each completion) that is a drill-block well and another completion that is within a Participating Agreement (PA). The PA well would require royalty payment based on entitlements while the drill-block well would require payment based on takes. However, it is possible that the owner of the “stand-alone lease” (drill-block) completion would not take 100% of the production, and with this proposed rule, the PA owners would have to pay royalty to the stand-alone, drill-block lease. ONRR may want to consider applying this section of the proposed rule only to offshore leases or require everything in basins that have multiple formations to pay on entitlements.

Thank you for your time and attention. As always, API hopes to work with the ONRR in its efforts to improve and strengthen the royalty collection program. Please accept these comments on behalf of API and its members and contact me (kennedy@api.org, 202-682-8260) if additional information is needed.

Sincerely,

A handwritten signature in black ink that reads "Emily Kennedy".

Emily Kennedy
Policy Advisor, Upstream