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COMMENTS ON PROPOSED RULE ON REPORTING AND PAYING ROYALTIES ON FEDERAL LEASES (RIN 1012-AA02)

The Council of Petroleum Accountants Societies (COPAS) appreciates the opportunity to comment on the ONRR proposed rule on Reporting and Paying Royalties on Federal Leases that was published in the Federal Register on August 8, 2013 (pages 48343-48366). COPAS has been in existence for over 50 years and has over 3,800 members with 24 societies in the United States and Canada. Our members within the Revenue Committee have extensive experience with ONRR rules and royalty valuation, takes and/or entitlement issues, determining applicable deductions, adjustments, audits and other royalty matters on a regular basis, and have been providing comments to similar Federal Register Notices for decades. Therefore, we submit our comments to the ONRR to aid in the development of the new oil and gas valuation regulations.

We have considered all the items in the proposed rule and have no major objections to the proposed changes not discussed below. This letter is to document those items with which we have concerns.

- **§ 1202.152 – Standards for Reporting and Paying Royalties on Gas**
 - The proposed rule states that the volume and BTU are “subject to ONRR verification based on third party data.” This may not always be available in cases where the lessee owns the meter, gathering system, etc.

- **§ 1205.101 – How do I report and pay royalties?**
 - Clarifying question – On page 48347 where it says “Paragraph (b) would explain that if you are a lessee for more than one lease in a 100-percent Federal Agreement, you must allocate and report for each lease based on its allocated share.” Please confirm that this is requiring the company to report only on those leases in which they have an interest, and not on all leases in the Federal agreement whether they have an interest or not.

- If it is the intent of the proposed rule to require the company to allocate volumes and values to all leases in the Federal agreement whether they have any interest or not, we disagree with this change. In these situations companies report and pay royalties only on those leases in which they have working interest. If this causes problems with ONRR, then ONRR should consider requiring companies to pay royalties based on entitlements as is required for mixed agreements, versus requiring companies to request an exception to the reporting requirement of paying on takes.
 - Offshore Properties - When there is NOT an agreement involved, but multiple leases with different ownership and/or royalty rates flowing to a host platform going through the same pipeline, the gas needs to be reported on Entitlements. That is the only way the gas is all going to get reported on the correct lease.
- **§ 1205.103 – How do I determine my entitled volume in a mixed agreement?**
 - The proposed rule on page 48348 discusses how royalty in a mixed agreement where an owner elects not to participate in the drilling of a well, and says “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 proposed change contradicts both COPAS and industry practice. Although we agree that the non-consenting company does have liability for the royalties, the company/s that carry the non-consenting company is responsible for reporting and paying the royalties.
 - We strongly recommend that proposed rule be changed to recognize this practice referencing the fact that the company that went non-consent has delegated the payment and reporting of royalties to the carrying company/s for that well/s.
- **§ 1205.105 – How does a commingling approval affect my take volume?**
 - The proposed rule on page 48348 addresses how royalty would be paid on well completions that are down-hole commingled. Under the proposed rule, problems could occur where one completion of a multiple-completion well (that has different ownership for each completion) is a drill-block well and another completion is within a Participating Area. The PA well requires royalty payment basis on entitlements and the drill-block well is paid on takes. When this occurs, it is likely that the owner of the “stand-alone lease” (drill-block) completion does not take 100% of the production. Under the proposed rule it appears that the owners of the PA Agreement completion would have to pay royalty to the drill-block lease.
 - A better solution would be to have this section apply only to off-shore leases, and/or require everything in basins that have multiple formations be paid on entitlements.
- **§ 1205.202 – How do I request alternative reporting and payment for a 100-percent Federal Agreement?**
 - There needs to be a provision for grandfathering previously requested and approved alternative reporting. Lessees should not have to re-apply and pay the filing fee for something that has already been requested and approved.

- **§ 1205.207 – When must I stop using the approved alternative method for a 100-percent Federal agreement?**

- This section seems to imply that the determination of whether an agreement is 100% Federal is determined by the participating area and as the participating area expands or contracts, the agreement could change from 100% Federal to mixed or vice versa. As is the current practice, the full unit boundary should determine if the agreement is 100% Federal.

COPAS appreciates the opportunity to provide comments to this advanced notice of proposed rulemaking. If you have any questions regarding our comments, please contact me at (918) 661-4381.

Sincerely,



Robert O. Wilkinson
COPAS Revenue Committee Subcommittee Chairperson