



U.S. Department of Interior

Office of Natural Resources Revenue (ONRR)

ONRR Overview and Updates

Presented by:

Deborah Gibbs Tschudy, Deputy Director

Petroleum Accountants Society of Oklahoma

February 11-12, 2015



Industry Compliance



Accurate Revenues & Data



Professionalism & Integrity



Outline of Presentation

- Background and Disbursements
- Highlights from FY 2014
- Recently Proposed and Final Regulations
- ONRR Video Production Team

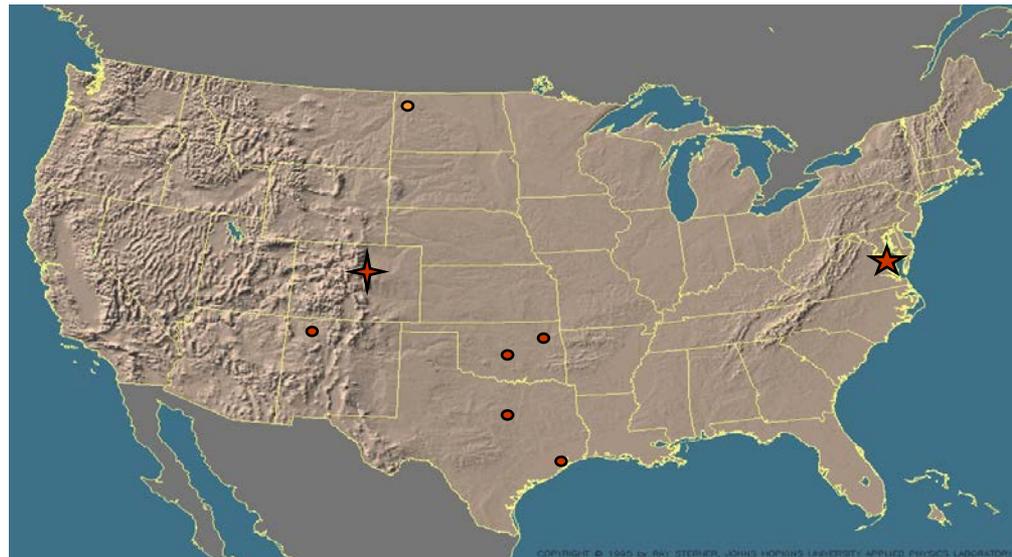




ONRR: Who We Are

Vision: ONRR's vision is to be recognized as a world-class natural resources revenue management program, setting the standard for accountability and transparency

Mission: ONRR's mission is to collect, disburse, and verify Federal and Indian energy and other natural resource revenues on behalf of all Americans

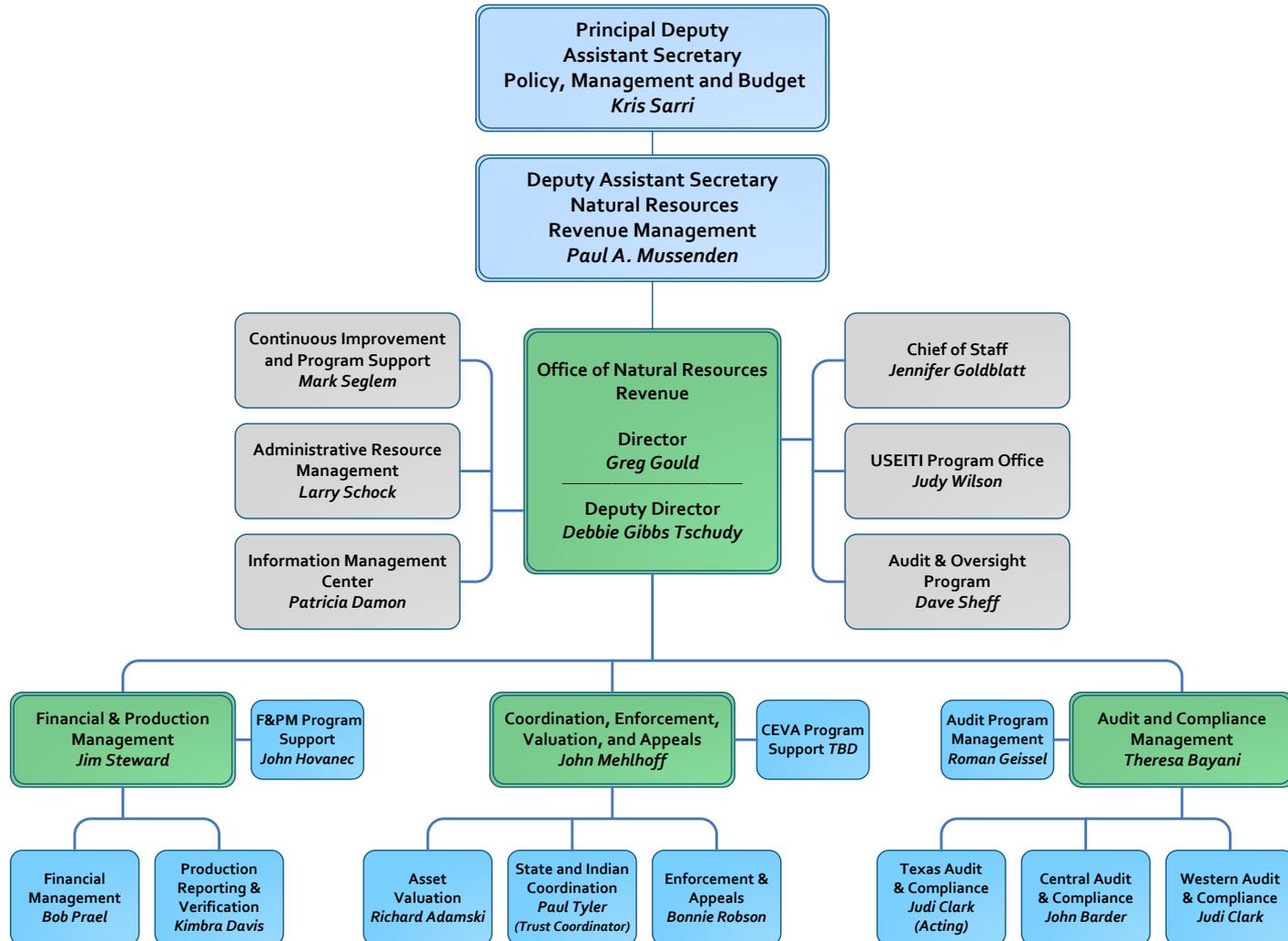


- Dallas
- ★ Denver
- Farmington
- Ft. Berthold

- Houston
- Oklahoma City
- Tulsa
- ★ Washington D.C.



ONRR Organization





FY 2014 Disbursements

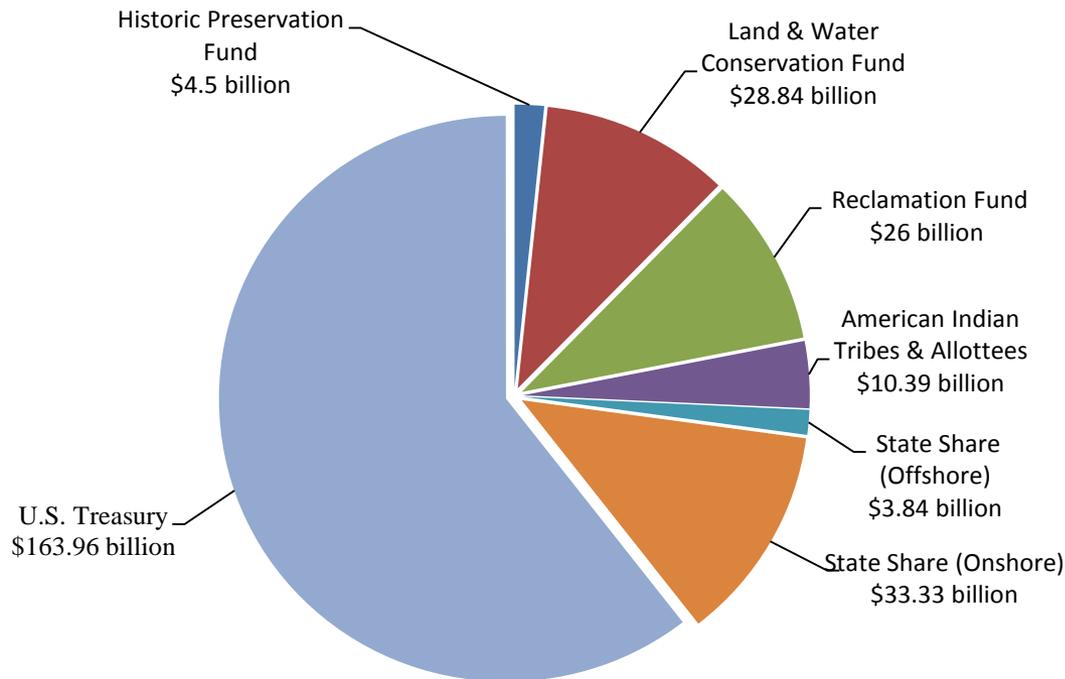
FY 2014 Disbursements -- \$13.4 Billion

- \$ 7.3 Billion to the U.S. Treasury
- \$ 895.3 Million to the Land & Water Conservation Fund
- \$ 150 Million to the Historic Preservation Fund
- \$ 1.77 Billion to the Reclamation Fund
- \$ 2.2 Billion to 35 States
- \$ 1.1 Billion on behalf of 34 Indian tribes and approximately 30,000 individual Indians



FY 1982-2014 Cumulative Mineral Lease Revenue Disbursement ~ \$270.8 Billion

Cumulative Mineral Lease Revenue Disbursement (1982 - 2014)



Note: rounding may affect totals

- Since 1982, ONRR has distributed \$270.8 billion in revenues from onshore and offshore lands to the Nation, states, and American Indians
- The ONRR distribution to the U.S. Treasury is one of the Federal government's greatest sources of non-tax income



FY 2014 Highlights



Financial Management and Indian Trust

- Achieved clean CFO Audit of ONRR's FY 2014 financial statements with no findings
- Disbursed 99.5% of Federal and Indian revenues on time
- Transferred 100% of American Indian revenues received and identified to OST within one business day of receipt
- Provided lease distribution data to BIA for 99.7% of royalties by the first semi-monthly distribution
- Accounted for \$1.1 billion of mineral revenues from Indian lands
- At the request of the Director of the Bureau of Indian Affairs, presented a proposal to BIA for ONRR to perform the accounting and compliance functions for the Osage Nation in Oklahoma



FY 2014 Highlights

Compliance

- ONRR's audit program received a clean peer review conducted by an independent CPA firm and closed 509 audits and 557 Compliance Reviews
- ONRR completed compliance work on nearly 70% of more than 3,400 payors and operators
- Data Mining collected \$37 million in additional revenues in FY 2014, and collected over \$80 million since 2010

Production Verification

- Spearheading DOI efforts to improve the oil and gas production measurement inspection program and address concerns cited in GAO's High Risk report
- In FY 2014, the Oil and Gas Operations Report (OGOR) cumulative error rate reached an all-time low of 1.22%, with June 2014 dipping to a never-before-seen low of 0.88%; a significant improvement from historical error rates that results in increased data accuracy for all downstream auditing efforts





Audits, Compliance Reviews, and Data Mining

Question: Over the fiscal years of 2013, 2014, and 2015 (planned), what were the number of completed audits, compliance reviews, and data mining exceptions?

	2013	2014	2015 (Planned)
Audits	579	509	180
Compliance Reviews	780	557	450
Data Mining Exceptions	35,776	29,120	29,000+

Note: ONRR is implementing an Operations Management Tool to track and monitor all of our compliance activities. Starting in 2015, we implemented a new business process for counting completed compliance reviews and audits which results in a lower aggregate case count for the same amount of compliance work.



Indian Oil Valuation Regulation

- In December 2011, DOI established the Indian Oil Valuation Negotiated Rulemaking Committee to advise on a rulemaking to address Indian Oil Valuation as it relates to the major portion requirement in Indian oil leases
- Balanced membership from Industry, Indian Tribes and Allottees, and the Federal government
- Committee reached agreement on an index-based formula for meeting the major portion lease requirement
- Proposed Rule published June 19, 2014
- Comment period ended August 18, 2014
 - Total of 15 comments (2 from industry, 3 from industry trade groups or associations, 3 from Indian Tribes, 4 from individual Indian mineral owners, and 3 from unassociated individuals)
 - Majority of commenters expressed support for the rule
- Final rule targeted for publication on May 1; effective June 30, 2015



Indian Oil Valuation Regulation – Committee Members

Federal

- ✓ Bruce Loudermilk, BIA
- ✓ John Barder, ONRR
- ✓ Don Sant / Theresa Walsh Bayani, ONRR
- ✓ Paul Tyler, ONRR

Industry

- ✓ Kevin Barnes, COPAS
- ✓ Daniel Riemer, API
- ✓ Dee Ross, Chesapeake Energy
- ✓ Robert Thompson, III WEA
- ✓ Jack Vaughn, Peak Energy
- ✓ Patrick Flynn, Resolute

Tribal

- ✓ Roger Birdbear, Ft. Berthold Landowners Association
- ✓ Marcella Giles, OILMAN
- ✓ Manuel Myore, Ute Tribe
- ✓ Perry Shirley, Navajo Nation
- ✓ Claire Ware, Shoshone/Arapaho Tribes
- ✓ Grinnell Day Chief, Blackfeet Nation
- ✓ Alan Taradash, Jicarilla Apache Nation

Designated Federal Official

Deborah Gibbs Tschudy, ONRR



New Indian Oil Product Codes

- March 31, 2014, Dear Reporter Letter informed payors of new Indian oil product codes to be reported on the ONRR-2014 beginning with June 2014 sales month (warning edit)
 - 61 (Sweet)
 - 62 (Sour)
 - 63 (Asphaltic)
 - 64 (Black wax)
 - 65 (Yellow wax)
- Fatal edit starting with September 2014 sales



Federal Oil & Gas Valuation – Proposed Regulations

- Existing regulations for Federal gas valuation have not been updated significantly since 1988; Federal oil valuation regulations updated in 2000 and 2004
- On January 6, 2015, ONRR published a proposed rulemaking for Federal Oil and Gas Valuation; comment period closes on March 9, 2015
- Primary goals of the proposed rulemaking are to:
 - 1) provide greater simplicity, certainty, clarity, and consistency in production valuation,
 - 2) decrease ONRR's costs to ensure compliance,
 - 3) decrease industry's compliance costs, and
 - 4) provide more timely certainty to ONRR and industry that companies have paid every dollar due



Federal Oil & Gas Valuation Proposed Regulations - Key Provisions

- Proposed changes would not alter the underlying principles of the current regulations
 - The proposed rule reaffirms that, for purposes of determining royalty, the value of oil and gas produced from Federal leases is determined at or near the lease and that gross proceeds from arm's-length contracts are the best indication of market value

- For Federal gas sold under non-arm's-length or no-sale situations, ONRR proposes to eliminate current benchmarks and replace them with an option to value the gas based on:
 - 1) the first arm's-length-sale price, or
 - 2) an index price less a fixed transportation allowance of 5% for OCS sales and 10% for all other areas, but not by less than 10 cents per MMBtu or more than 30 cents per MMBtu



Federal Oil & Gas Valuation Proposed Regulations - Key Provisions

- The proposal includes a new “default provision” for Federal oil and gas that codifies and strengthens the Secretary’s discretion for ONRR to exercise its authority in cases involving:
 - 1) misconduct,
 - 2) a lessee breaching its duty to market by selling its oil or gas at a value that is unreasonably low, or
 - 3) situations where ONRR cannot determine whether the lessee properly valued its oil
- Under the proposed rule, ONRR would consider gas not sold or disposed of under an arm’s-length contract before processing as “processed gas.” Examples include gas sold under POP contracts, percentage-of-index contracts, casing head gas contracts, and contracts with any such variations of payment based on volumes or value of gas plant products



Clarification of Appeal Procedures

- On July 22, 2013, ONRR published a proposed rulemaking to amend the appeals regulations at 30 CFR 1290 and 43 CFR 4
- ONRR received 3 comments on the proposed rule (1 oil and gas producer, 1 Indian tribe, and 1 trade association)
- ONRR published the final rule on October 16, 2014, with an effective date of November 17, 2014
- The rule:
 - 1) removes ambiguity regarding the ONRR definition of an Order and which ONRR correspondence are appealable orders,
 - 2) clarifies the timing of appeals of orders to perform restructured accounting, and (60 days for Federal oil and gas leases), and
 - 3) clarifies the finality of orders that the recipient has not paid or appealed



Amendments to Civil Penalty Regulations

- On May 20, 2014, ONRR published a proposed rulemaking amending the civil penalty regulations at 30 CFR 1241; comment period closed on July 21, 2014
- The rule would amend the ONRR civil penalty regulations to:
 - Apply the regulations to all mineral leases, including solid mineral and geothermal leases, and agreements for offshore energy development,
 - Adjust civil penalty amounts for inflation,
 - Clarify and simplify the existing regulations for issuing notices of noncompliance and civil penalties, and
 - Provide notice that we will post matrices for civil penalty assessments on our Website
- ONRR received 21 comments (13 from individual companies, 7 from industry associations, 1 from a Tribe)
- ONRR plans to publish a final rule by December 2015



Amendments to ONRR's Service of Official Correspondence

- On August 23, 2013, ONRR published the direct final rule amending ONRR's Service of Official Correspondence regulations at 30 CFR 1218
- The rule allows ONRR to serve official correspondence using any electronic method of delivery that keeps information secure and provides for a receipt of delivery, or, if there is no receipt, the date of delivery otherwise documented
- ONRR received 11 comments (3 from industry associations, 7 from individual companies, and 1 anonymous commenter)
- ONRR's current electronic method for service of official correspondence is MessageWay
- Some commenters expressed concern over the risks involved with electronic mail (MessageWay) and the ability to respond on time



Takes vs. Entitlements

- On August 8, 2013, ONRR published a proposed rulemaking to implement section 6(d) of the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996. The comment period ended October 7, 2013
- The new regulations at 30 CFR Parts 1202, 1205, and 1210 would prescribe 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
- ONRR received four comments (2 from industry associations, 1 from a consulting service, and 1 from an oil and gas producer)
 - Industry response to the rule was mostly favorable
- ONRR plans to publish the final rule by October 2015



Video Production Team Initiative

ONRR's Video Production Team creates high quality training videos for industry payors and reporters

Completed Videos:

- EMARF Series
- Pay.gov
- Top 6 OGOR Edits

Videos in production:

- PASR Overview
- OGOR Overview
- 2014 Overview
- eCommerce Overview





Video Production Team Video





Contact Us

Deborah Gibbs Tschudy

Deputy Director

PO Box 25165

MS-61000B

Denver Federal Center, Bldg 85

Denver, CO 80225

deborah.gibbstschudy@onrr.gov

<http://www.onrr.gov>