



United States Department of the Interior

OFFICE OF NATURAL RESOURCES REVENUE

P.O. Box 25165
Denver, Colorado 80225-0165

FEB 22 2017

Subject: Stay of the Consolidated Federal Oil & Gas and Federal & Indian Coal Valuation Reform Final Rule

Dear Reporter:

The Office of Natural Resources Revenue (ONRR) published the Consolidated Federal Oil & Gas and Federal & Indian Coal Valuation Reform Final Rule (2017 Valuation Rule) on July 1, 2016.¹ The 2017 Valuation Rule took effect on January 1, 2017, with first reports due on February 28, 2017. On December 29, 2016, several petitioners filed separate petitions challenging the rule in U.S. District Court for the District of Wyoming.² In light of the pending litigation, ONRR has decided to postpone the effective date of the 2017 Valuation Rule until the litigation is resolved pursuant to Section 705 of the Administrative Procedure Act, 5 U.S.C. 705. ONRR will publish a Federal Register notice to this effect as soon as possible.

Federal and Indian Lessees should continue to value, report, and pay royalties under the rules that were in effect prior to January 1, 2017. This applies to the January 2017 production month reports due on February 28, 2017, and continues until the litigation is resolved and ONRR provides notice of the result.

ONRR has prepared a Frequently Asked Questions (FAQ) document to help affected Federal and Indian lessees navigate the stay process. The FAQ document will be posted on ONRR's website at www.onrr.gov as soon as possible.

ONRR understands that some lessees have already converted their accounting systems to comply with the 2017 Valuation Rule. ONRR also understands that it may be difficult to reconvert those systems to report and pay royalties under the prior rules by the February 28, 2017 deadline. As such, ONRR provides the following interim guidance on how to report and pay royalties in light of the postponement.

- Lessees should report and pay royalties under the prior rules as soon as possible to avoid potential misreporting and royalty underpayments.

¹ See 81 FR 43338 – July 1, 2016

² *Cloud Peak Energy, Inc. v. United States Dep't of the Interior*, Case No. 16CV315-F (D. Wyo.); *American Petroleum Inst. V. United States Dep't of the Interior*, Case No. 16CV316-F (D. Wyo.); *Tri-State Generation and transmission Ass'n, Inc., Basin Electric Power Cooperative, and Western Fuels-Wyoming, Inc., v. United States Dep't of the Interior*, Case No. 16CV319-F (D. Wyo.)

- Lessees that have not converted their accounting systems to comply with the 2017 Valuation Rule should continue reporting and paying royalties under the prior rules.
- Lessees that are able to convert their accounting systems to report and pay royalties under the prior rules by the February 28, 2017, deadline should report and pay royalties under the prior rules.
- Lessees that cannot convert their accounting systems to report and pay January 2017 production month royalties under the prior rules before the February 28, 2017, deadline should report and pay royalties as their accounting system allows by February 28, 2017. ONRR will not assess a civil penalty for any reporting issue that results from the postponement of the 2017 Valuation Rule as long as the lessee corrects the reporting issue by August 31, 2017. ONRR will also work with affected lessees to correct their reporting. Lessees should convert their accounting systems to report and pay royalties under the prior rules as soon as possible to avoid royalty underpayments.

If you have questions about the status of the 2017 Valuation Rule or the effect of this stay, please visit ONRR's website at www.onrr.gov.

Sincerely,

A handwritten signature in blue ink that reads "J D Steward". The signature is written in a cursive style with a large initial "J" and "D".

James D. Steward
Deputy Director