

Indian Example—Revised Processed Gas Reporting in Non-Index Zone (Major Portion) Using Actual Dual Accounting



The following is based on a sample statement. Statements may vary. Be sure to read carefully and contact royaltyvaluation@onrr.gov if you need further assistance!

For Indian leases not located in an index zone, which contain either a major portion provision or provide for the Secretary to determine value, ONRR’s regulations under 30 CFR 1206.174(a)(4)(ii) direct you to pay on the higher of either the value determined under §1206.174 (which you initially used to report and pay

royalties) or the major portion value. This example illustrates how you should calculate the value of your residue gas and pipeline fuel using the major portion value and how to revise your reporting when that value is higher than the initial reported value.

The lease and contracts for this example meet all the following conditions:

- ✓ The gas produced is from an **Indian** oil and gas lease **NOT** located within an index zone.
- ✓ The lease contains a major portion provision.
- ✓ Gas value for royalty purposes is based on the gross proceeds under an **arm’s-length contract** under §1206.174(b).
- ✓ The sales contract is for **processed** gas, i.e., it provides for payment based on the value of residue gas, natural gas liquids (NGLs), or other gas plant products (e.g., sulfur, carbon dioxide, etc.).
- ✓ The lessee completed initial reporting based on gross proceeds under §1206.174(b) for the sale of arm’s-length processed gas.
- ✓ ONRR published the major portion price.
- ✓ The lessee elected actual dual accounting to satisfy the “accounting for comparison” lease terms.

If you have any questions regarding whether this example applies to your situation, please contact royaltyvaluation@onrr.gov. You can find a map of major portion areas on ONRR’s website: [Indian Gas Major Portion Map](#).

This example addresses reporting and calculations for the following product codes. The **BLUE** letters refer to fields on the sample statement.

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Product:	Location in Statement:
PC 03 Residue Gas	"Net Residue Mcf" (G) and "Net Residue MMBtu" (H) in the statement's "Residue Settlement" section
PC 07 Natural Gas Liquids (NGLs)	"Allocated" NGLs (L) in the statement's "Component Settlement" section
PC 15 Pipeline Fuel	"Contractual Field Deducts Mcf" (C) and "Contractual Field Deducts MMBtu" (D) in the statement's "Wellhead Information" section

The assumptions below are for purposes of this example only. The assumptions provide the basis to show you how to perform the necessary calculations. Your situation may vary from these assumptions. Please contact royaltyvaluation@onrr.gov with your specific questions.

Assumptions for this example are the same as for the initial reporting, plus the following:

1. The gas is produced from an Indian lease on the Fort Peck Reservation in Montana (not in an index zone) and is subject to major portion.
2. The gas is valued as processed gas.
3. The gas is transported, processed, and sold under arm's-length contracts.
4. The reporter already conducted initial processed gas gross proceeds calculations and reported them on the Form ONRR-2014. See §1206.174(b).
5. The production month is January 2019 (as shown on the example statement).
6. The major portion value is the January 2019 price for Fort Peck found on ONRR.gov [Major Portion Prices](#).

This example walks you through the revised royalty calculation for Product Codes 03 and 15 and shows you how to complete the relevant fields on a sample Form ONRR-2014 after each step. This example only covers valuation-related fields in the order they appear on the Form ONRR-2014.

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You can find more information about product codes, complete instructions on filing the Form ONRR-2014, and other reporting topics in the [ONRR Reporter and Payor Handbooks](#).

Finally, this example builds from the Form ONRR-2014 numbers reported in the initial reporting example:

Form ONRR-2014							
PC	Sales Volume	Gas MMBtu	Sales Value	RVPA	Trans Allow	Proc Allow	RVLA
03	1,986.08	2,248.79	\$7,059.06	\$1,270.63			\$1,270.63
07	6,903.59		\$6,518.65	\$1,173.38	-\$42.50	-\$59.51	\$1,071.37
15	129.75	162.20	\$509.15	\$91.64			\$91.64

Major Portion Value Requirement

Revised reporting in a non-index zone is based on the published major portion value. ONRR notifies lessees of the major portion values and due dates in the *Federal Register*, as well as through ONRR’s electronic messaging system. You can find the prices on the [Indian Gas Major Portion](#) web page. Section 1206.174(a)(iv)(ii) explains how to fulfill the Major Portion requirement:

ONRR will determine the major portion value and notify you in the Federal Register of that value. The value of production for royalty purposes for your lease is the higher of either the value determined under this section which you initially used to report and pay royalties, or the major portion value calculated under this paragraph (a)(4). If the major portion value is higher, you must submit an amended Form ONRR-2014 to ONRR by the due date specified in the written notice from ONRR of the major portion value. Late-payment interest under § 1218.54 of this chapter on any underpayment will not begin to accrue until the date the amended Form ONRR-2014 is due to ONRR.

Major portion prices apply to unprocessed gas (Product Code 04), residue gas (Product Code 03), and, if applicable, pipeline fuel (Product Code 15).

Determining Dual Accounting

Many Indian leases require accounting for comparison, or “dual accounting” (ONRR added emphasis):

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*"... and that royalty will be computed on the value of gas or casinghead gas, or on the products thereof (such as residue gas, natural gasoline, propane, butane, etc.), **whichever is the greater.**"*

Dual accounting may not be the only requirement of your lease. Your reporting may also be subject to other requirements. Please read the complete details of your lease to be sure you meet all the provisions in it.

There are two calculation options for dual accounting – actual and alternative. You make this election using the Form ONRR-4410 Part B. Section 1206.173(a)(2)(ii) states:

You may elect to begin using the alternative methodology for dual accounting at the beginning of any month. The first election to use the alternative methodology will be effective from the time of election through the end of the following calendar year. Thereafter, each election to use the alternative methodology must remain in effect for 2 calendar years. You may return to the actual dual accounting method only at the beginning of the next election period or with the written approval of ONRR and the tribal lessor for tribal leases, and ONRR for Indian allottee leases in the designated area.

Dual Accounting Requirement

Assume, for this example, that the reporter chose actual dual accounting. If you need guidance on alternative dual accounting, refer to the Revised Processed Gas Reporting in a Non-Index Zone (Major Portion) Using Alternative Dual Accounting example.

Actual dual accounting for revising reporting in a non-index zone (major portion) requires you to compare and determine which is higher: the royalty value of the processed gas (including fulfillment of the major portion requirement) or the royalty value of the unprocessed gas. As there is no unprocessed sale, an unprocessed value is needed for the formula. Section 1206.174(c)(2) provides options for this value, in particular, "other reliable public sources of price or market information." ONRR finds the major portion value to be a reasonable value under this regulation and will use it to calculate the alternative dual accounting value in this example.

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Minimum Value Requirement

After completing your dual accounting, compare the resulting values to the adjusted processed gas gross proceeds to fulfill the minimum value of production requirement under §1206.174(g).

Step 1:

Compare the residue gas price from the statement (ensuring it is not reduced by costs to put the product into marketable condition) and the major portion price:

- Locate the residue gas price (RGP) (\$3.13905/MMBtu) (**J**) on the statement
- Locate the major portion price (MPP). As previously discussed, you can find the values on the [Indian Gas Major Portion](#) web page:
 - In this example, assume the lease is on the Fort Peck Reservation
 - The production month is January 2019
 - The major portion price is \$4.44/MMBtu
- The major portion price is higher. The residue gas reporting needs to be adjusted.

Higher of residue gas price or major portion price (Step 1):

$$RGP = \$3.13905/MMBtu$$

$$MPP = \$4.44/MMBtu$$

$$\$3.13905/MMBtu < \$4.44/MMBtu$$

Step 2:

Calculate the revised residue gas sales value using the major portion price:

- Multiply the residue gas sales MMBtu determined under Step 4 in the Initial Reporting for Processed Gas in a Non-Index Zone example (2,248.79 MMBtu) by the major portion price (\$4.44/MMBtu)
- The revised residue gas sales value is \$9,984.63

Revised PC 03 Residue Gas Sales Value (Step 2):

$$\text{Revised PC 03 sales value} = \text{residue sales MMBtu} \times \text{major portion price}$$

$$\text{Revised PC 03 sales value} = 2,248.79 \text{ MMBtu} \times \$4.44/MMBtu$$

$$\text{Revised PC 03 sales value} = \$9,984.63$$

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Step 3:

Calculate the revised residue gas sales royalty value:

- Multiply the residue gas sales value calculated in Step 2 (\$9,984.63) by the royalty rate (18%).
- Because there are no allowances for the major portion value, the RVPA and the RVLA are the same.
- The revised residue gas RVLA is \$1,797.23.

Revised PC 03 Residue Gas RVLA (Step 3):

Revised PC 03 RVLA = residue sales major portion value × royalty rate

$$\text{Revised PC 03 RVLA} = \$9,984.63 \times 0.18$$

$$\text{Revised PC 03 RVLA} = \$1,797.23$$

Step 4:

Calculate the revised pipeline fuel sales value using the major portion price:

- Since there was no sale of the pipeline fuel in the Initial Reporting Processed Gas, you valued the pipeline fuel as a no-sale situation under §1206.174(c)(2) and used the residue gas sales price to value like-quality gas. As the published major portion price (MPP) is higher than the residue gas sales price, it must be used to also adjust the pipeline fuel reporting.
- Multiply the pipeline fuel sales MMBtu determined under PC 15, Step 1 in the Initial Reporting for Processed Gas in a Non-Index Zone example (162.20 MMBtu) by the major portion price (\$4.44/MMBtu)
- The revised pipeline fuel sales value is \$720.17

Revised PC 15 Pipeline Fuel Sales Value (Step 4):

Revised PC 15 sales value = pipeline fuel sales MMBtu × major portion price

$$\text{Revised PC 15 sales value} = 162.20 \text{ MMBtu} \times \$4.44/\text{MMBtu}$$

$$\text{Revised PC 15 sales value} = \$720.17$$

Step 5:

Calculate the revised pipeline fuel sales royalty value:

- Multiply the pipeline fuel sales value calculated in Step 4 (\$720.17) by the royalty rate (18%).
- Because there are no allowances for the major portion value, the RVPA and the RVLA are the same.

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- The revised residue gas RVLA is \$129.63.

Revised PC 15 Pipeline Fuel RVLA (Step 5):

$$\text{Revised PC 15 RVLA} = \text{pipeline fuel major portion value} \times \text{royalty rate}$$

$$\text{Revised PC 15 RVLA} = \$720.17 \times 0.18$$

$$\text{Revised PC 15 RVLA} = \$129.63$$

The temporary Form ONRR-2014 lines for the revised value using the major portion price are:

Form ONRR-2014							
PC	Sales Volume	Gas MMBtu	Sales Value	RVPA	Trans Allow	Proc Allow	RVLA
03	1,986.08	2,248.79	\$9,984.63	\$1,797.23			\$1,797.23
07	6,903.59		\$6,518.65	\$1,173.38	-\$42.50	-\$59.51	\$1,071.37
15	129.75	162.20	\$720.17	\$129.63			\$129.63

Before those lines can be the official reporting on this lease, you must calculate the unprocessed value at the royalty measurement point using the major portion price and confirm that this revised reporting represents the highest Royalty Value Less Allowances (RVLA). As there is no unprocessed value in a processed gas sale, ONRR finds the major portion value to be a reasonable value (as discussed above, under §1206.174(c)(2)).

Step 6:

Calculate the MMBtu value at the royalty measurement point (RMP) using the major portion price:

- Multiply the RMP MMBtu (3,013 MMBtu) **(B)** by the major portion price (\$4.44)
- The RMP unprocessed value is \$13,377.72

Royalty Measurement Point Value with Major Portion Price (Step 6):

$$\text{RMP value} = \text{RMP MMBtu} \times \text{major portion price}$$

$$\text{RMP value} = 3,013 \text{ MMBtu} \times \$4.44/\text{MMBtu}$$

$$\text{RMP value} = \$13,377.72$$

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Step 7:

Calculate the RMP unprocessed RVPA and RVLA:

- When you value a gas product using the major portion value, you may not take a transportation allowance, because the calculated price is adjusted for these costs (61 FR 49899)
- With no allowances, the RVLA equals the RVPA
- Multiply the wellhead value calculated under Step 6 (\$13,377.72) by the royalty rate (18%)
- The RMP RVPA/RVLA is \$2,407.99

RMP Royalty Value Prior to Allowances and Less Allowances (RVPA/RLVA) (Step 7):

$$\text{RMP unprocessed RVPA/RVLA} = \text{RMP value} \times \text{royalty rate}$$

$$\text{RMP unprocessed RVPA/RVLA} = \$13,377.72 \times 0.18$$

$$\text{RMP unprocessed RVPA/RVLA} = \$2,407.99$$

Step 8:

Add the RVLAs from Steps 3 and 5 to the PC 07 RVLA from the Initial Processed Gas Reporting:

- The revised PC 03 RVLA from Step 3 is \$1,797.23
- The revised PC 15 RVLA from Step 5 is \$129.63
- The PC 07 NGL RVLA from the Initial Processed Gas Reporting is \$1,071.37
- The total RVLA for the processed products is \$2,998.23

Revised Processed Products RVLA (Step 8):

$$\text{Revised processed products RVLA} = \text{revised PC 03} + \text{revised PC 15} + \text{PC 07 NGLs}$$

$$\text{Revised processed products RVLA} = \$1,797.23 + \$129.63 + 1,071.37$$

$$\text{Revised processed products RVLA} = \$2,998.23$$

Step 9:

Compare the revised processed RVLA to the RMP unprocessed RVLA from Step 7

- The revised RVLA from Step 8 is \$2,998.23—this is the processed value
- The RMP value RVLA is \$2,407.99—this is the unprocessed value

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- The revised RVLA is the highest value

Compare values (Step 9):

Revised RVLA = \$2,998.23

RMP value RVLA = \$2,407.99

\$2,998.23 > \$2,407.99

Step 10:

Because the royalty value for the processed products calculated in Step 9 is higher, use those values to revise your reporting for the Form ONRR-2014. Back out the PC 03 and PC 15 lines, in their entirety, and report new PC 03 and PC 15 lines with the new values. You should not take any allowances for these lines because the value is based on the major portion price, which includes an adjustment for transportation. You do not need to change your PC 07 reporting.

On both the backed out and newly reported PC 03 and PC 15 lines, you should use adjustment reason code (ARC) 16. Do not use ARC 10, because the system will calculate interest back to the original production date rather than only to the major portion adjustment due date.

Adjustment reason code (ARC) (Step 10):

Adjustment reason code = 16

Here is what the final royalty reporting looks like:

Form ONRR-2014								
PC	ARC	Sales Volume	Gas MMBtu	Sales Value	RVPA	TA	PA	RVLA
03	16	-1,986.08	-2,248.79	-\$7,059.06	-\$1,270.63			-\$1,270.63
03	16	1,986.08	2,248.79	\$9,984.63	\$1,797.23			\$1,797.23
15	16	-129.75	-162.20	-\$509.15	-\$91.65			-\$91.65
15	16	129.75	162.20	\$720.17	\$129.63			\$129.63

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