

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

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 major portion value and how to revise your reporting when that value is higher than the initial reported value.



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!

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 **alternative dual accounting** to satisfy the “accounting for comparison” lease provision.

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.

Product:	Location in Statement:
PC 03 Residue Gas	“Net Residue Mcf” (G) and “Net Residue MMBtu” (H) in the statement’s “Residue

This example serves as guidance for determining value for royalties and is not an appealable decision or order under 30 CFR Part 1290, Subpart B. If ONRR issues you an order to pay additional royalties or assesses civil penalties under 30 CFR Part 1241 at a later date based on this guidance, your appeal rights will be provided at that time. While this example is not appealable, ONRR may use this guidance in conducting audits and as a basis for demanding additional royalties.

Product:	Location in Statement:
	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](#).
7. The producer has no ownership in the processing plant.
8. The volume-weighted-average Btu content is 1226 Btu/Mcf.

This example only covers valuation-related fields in the order they appear on the Form ONRR-2014. 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](#).

This example serves as guidance for determining value for royalties and is not an appealable decision or order under 30 CFR Part 1290, Subpart B. If ONRR issues you an order to pay additional royalties or assesses civil penalties under 30 CFR Part 1241 at a later date based on this guidance, your appeal rights will be provided at that time. While this example is not appealable, ONRR may use this guidance in conducting audits and as a basis for demanding additional royalties.

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

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

Major Portion 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):

*"... 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.

This example serves as guidance for determining value for royalties and is not an appealable decision or order under 30 CFR Part 1290, Subpart B. If ONRR issues you an order to pay additional royalties or assesses civil penalties under 30 CFR Part 1241 at a later date based on this guidance, your appeal rights will be provided at that time. While this example is not appealable, ONRR may use this guidance in conducting audits and as a basis for demanding additional royalties.

There are two calculation choices for dual accounting – actual and alternative. You make this election using the Form ONRR-4410 Part B. §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—Alternative

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

Alternative dual accounting takes an unprocessed value and “bumps” that value to provide for a processed value. For processed gas, 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.

Alternative dual accounting for revising reporting in a non-index zone (major portion) requires you to use the measurement at the **approved royalty measurement point** in the dual accounting equation (NOT the residue gas volume) as it represents the unprocessed gas Mcf and MMBtu. For this example, the “Gross Wellhead Mcf” **(A)** and “Gross Wellhead MMBtu” **(B)** meet this requirement.

Minimum Value Requirement

After completing the dual accounting equation, compare the resulting value to the sum of the processed gas gross proceeds calculated in the Initial Reporting for Processed Gas in a Non-Index Zone (Major Portion) example to fulfill the minimum value of production requirement under §1206.174(g).

This example serves as guidance for determining value for royalties and is not an appealable decision or order under 30 CFR Part 1290, Subpart B. If ONRR issues you an order to pay additional royalties or assesses civil penalties under 30 CFR Part 1241 at a later date based on this guidance, your appeal rights will be provided at that time. While this example is not appealable, ONRR may use this guidance in conducting audits and as a basis for demanding additional royalties.

Step 1:

Alternative dual accounting requires an unprocessed gas price (UGP). As there is no unprocessed price in a processed gas sale, ONRR finds the major portion value to be a reasonable value (as discussed above, under §1206.174(c)(2)). Additionally, using this value fulfills the major portion requirement. You can find the prices 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

Unprocessed gas price/Major Portion price (Step 1):

$$UGP = MPP$$

$$MPP = \$4.44/MMBtu$$

$$UGP = \$4.44/MMBtu$$

Step 2:

- The regulations at §1206.173 for alternative dual accounting, use the following equation:

Alternative dual accounting equation (Step 2):

$$V_{alt} = RMP \times UGP \times (1 + I)$$

Where:

$$V_{alt} = \text{Value under the alternative dual accounting method}$$

$$RMP = \text{MMBtu at the approved royalty meter}$$

$$UGP = \text{Unprocessed gas price}$$

$$I = \text{Increment for alternative dual accounting}$$

Step 3:

Identify the MMBtu at the approved royalty measurement point (RMP):

- In this example, the "Gross Wellhead MMBtu" **(B)** is 3,013 MMBtu

Royalty Measurement Point MMBtu (Step 3):

$$RMP = 3,013 \text{ MMBtu}$$

This example serves as guidance for determining value for royalties and is not an appealable decision or order under 30 CFR Part 1290, Subpart B. If ONRR issues you an order to pay additional royalties or assesses civil penalties under 30 CFR Part 1241 at a later date based on this guidance, your appeal rights will be provided at that time. While this example is not appealable, ONRR may use this guidance in conducting audits and as a basis for demanding additional royalties.

Step 4:

Identify the increment (I) you need to use for the calculation (see §1206.173(b)(2)(ii) for the published copy of the chart below). The applicable Btu is the volume-weighted-average Btu for the property computed from measurements at the facility measurement point(s) for gas production from the lease (§1206.173(b)(3)). The increment also depends on whether or not you own an interest in the plant.

- The statement shows that the Btu content is 1226 Btu/Mcf, calculated based on the regulations at §1206.173(b)(3)
- Assume no plant ownership
- The increment is .0975

Increment (Step 4):

$$I = .0975$$

Btu Range	No Plant Ownership	Yes Plant Ownership
1001 to 1050	.0275	.0375
1051 to 1100	.0400	.0625
1101 to 1150	.0425	.0750
1151 to 1200	.0700	.1225
1201 to 1250	.0975	.1700
1251 to 1300	.1175	.2050
1301 to 1350	.1400	.2400
1351 to 1400	.1450	.2500
1401 to 1450	.1500	.2600
1451 to 1500	.1550	.2700
1501 to 1550	.1600	.2800
1551 to 1600	.1650	.2900
1601 to 1650	.1850	.3225
1651 to 1700	.1950	.3425
1701+	.2000	.3550

Step 5:

Calculate the alternative dual accounting value:

- Multiply the RMP MMBtu (3,013 MMBtu) **(B)** by the unprocessed gas price (\$4.44/MMBtu) by 1 plus the increment (.0975)
- The alternative dual accounting value is \$14,682.05

This example serves as guidance for determining value for royalties and is not an appealable decision or order under 30 CFR Part 1290, Subpart B. If ONRR issues you an order to pay additional royalties or assesses civil penalties under 30 CFR Part 1241 at a later date based on this guidance, your appeal rights will be provided at that time. While this example is not appealable, ONRR may use this guidance in conducting audits and as a basis for demanding additional royalties.

Alternative dual accounting value (Step 5):

$$V_{alt} = RMP \times UGP \times (1 + I)$$

$$V_{alt} = 3,013 \text{ MMBtu} \times \$4.44/\text{MMBtu} \times (1 + .0975)$$

$$V_{alt} = 3,013 \text{ MMBtu} \times \$4.44/\text{MMBtu} \times 1.0975$$

$$V_{alt} = \$14,682.05$$

Step 6:

Calculate the Royalty Value Prior to Allowances (RVPA) and the Royalty Value Less Allowances (RVLA) of the alternative dual accounting value:

- Multiply the alternative dual accounting value calculated under Step 5 (\$14,682.05) by the royalty rate (18%)
- The RVPA is \$2,642.77

Alternative dual accounting Royalty Value Prior to Allowances (RVPA) (Step 6a):

$$\begin{aligned} \text{Alternative dual accounting RVPA} \\ = \text{alternative dual accounting value} \times \text{royalty rate} \end{aligned}$$

$$\text{Alternative dual accounting RVPA} = \$14,682.05 \times 0.18$$

$$\text{Alternative dual accounting RVPA} = \$2,642.77$$

- When you value a gas product using the major portion value, you may not take a transportation allowance, because the calculated value is adjusted for these costs (61 FR 49899)
- With no allowances, the RVLA will equal the RVPA
- The alternative dual accounting RVLA is \$2,642.77

Alternative dual accounting Royalty Value Less Allowances (RVLA) (Step 6b):

$$\text{Alternative dual accounting RVLA} = \text{Alternative dual accounting RVPA}$$

$$\text{Alternative dual accounting RVLA} = \$2,642.77$$

Step 7:

Compare the alternative dual accounting RVLA calculated in Step 6 to the total RVLA of the gross proceeds from the Initial Reporting for Processed Gas in a Non-Index Zone (Major Portion) example:

- The alternative dual accounting RVLA from Step 6 is \$2,642.77

This example serves as guidance for determining value for royalties and is not an appealable decision or order under 30 CFR Part 1290, Subpart B. If ONRR issues you an order to pay additional royalties or assesses civil penalties under 30 CFR Part 1241 at a later date based on this guidance, your appeal rights will be provided at that time. While this example is not appealable, ONRR may use this guidance in conducting audits and as a basis for demanding additional royalties.

- The total RVLA of the gross proceeds from all three products in the Initial Reporting example is \$2,433.64
- The alternative dual accounting value is higher and needs to be reported.

Compare values (Step 7):

$$V_{alt} RVLA = \$2,642.77$$

$$Total\ gross\ proceeds\ RVLA = PC\ 03\ RVLA + PC\ 07\ RVLA + PC\ 15\ RVLA$$

$$Total\ gross\ proceeds\ RVLA = \$1,270.63 + \$1,071.37 + \$91.64$$

$$Total\ gross\ proceeds\ RVLA = \$2,433.64$$

$$\$2,642.77 > \$2,433.64$$

Step 8:

Because the calculated alternative dual accounting value is higher than the initial gross proceeds, you need to report an adjustment reason code (ARC) of 16 on both the reversed lines and the new line. If you report using an ARC of 10, ONRR will calculate interest back to the original production date rather than only to the major portion adjustment due date. Because alternative dual accounting results in the reporting of unprocessed gas, the revised reporting will be for Product Code 04 **only**. As this is the case, you will also need to locate the "Gross Wellhead Mcf" sales volume of 2,458 Mcf **(A)** on the statement.

Adjustment reason code (ARC) (Step 8):

$$Adjustment\ reason\ code = 16$$

Here is what the final royalty reporting looks like:

Form ONRR-2014 Royalty Report								
PC	ARC	Sales Volume	Gas MMBtu	Sales Value	RVPA	TA	PA	RVLA
03	16	-1986.06	-2,248.79	-\$7,059.06	-\$1,270.63			-\$1,270.63
07	16	-6,903.59		-\$6,518.65	-\$1,173.38	\$42.50	\$59.51	-\$1,071.37
15	16	-129.75	-162.20	-\$509.15	-\$91.64			-\$91.64
04	16	2,458	3013	\$14,682.05	\$2,642.77			\$2,642.77

This example serves as guidance for determining value for royalties and is not an appealable decision or order under 30 CFR Part 1290, Subpart B. If ONRR issues you an order to pay additional royalties or assesses civil penalties under 30 CFR Part 1241 at a later date based on this guidance, your appeal rights will be provided at that time. While this example is not appealable, ONRR may use this guidance in conducting audits and as a basis for demanding additional royalties.