United States Department of the Interior

OFFICE OF NATURAL RESOURCES REVENUE
P.O. Box 25165
Denver, Colorado 80225-0165

September 3, 2024

Subject: Gas Production and Drip Condensate Guidance

Dear Reporter:

The purposes of this letter are to:

- Identify common misreporting on the Oil and Gas Operations Report Part-B (OGOR-B) for gas that is sent to a gas processing facility.
- Explain what drip condensate is and why royalties are due on it.
- Explain how to value drip condensate for royalty purposes.
- Provide guidance to ensure proper reporting of drip condensate and proper payment of royalties.

Common OGOR-B Misreporting

When gas you produce from a Federal or Indian property is sent to a gas processing facility, you should report the gas on the OGOR-B using disposition code (DC) 11, "Transferred to Facility." Most Federal and Indian gas production should be reported using DC 11. Many operators incorrectly report using DC 01, "Sales – Royalty Due – Measured." You should only use DC 01 when you sell gas at the lease for a $/Mcf or $/MMBtu price and receive no compensation for processed products. Please review each gas sales situation and make sure you are using the correct disposition code on the OGOR-B.

The basis for Federal and Indian gas royalties is the quantity and quality of production as measured at the Bureau of Land Management (BLM) or Bureau of Safety and Environmental Enforcement (BSEE)-approved facility measurement point[1] (FMP). However, the valuation of that gas for royalty purposes is often based on the processed products, which includes the value of residue gas, gas plant products, drip condensate, and possibly other products. Drip condensate is one product that operators and lessees often overlook. The instructions in this letter will help ensure that drip condensate is reported on the OGOR-B correctly and that you accurately calculate drip condensate royalties.

What is Drip Condensate?

When natural gas is measured for royalty purposes at the BLM- or BSEE-approved FMP, it may contain heavier hydrocarbon components. These heavier components pass through the gas FMP as a vapor but condense to liquid in downstream pipelines or facilities. These liquid hydrocarbons are condensate.

Condensate[2] recovered from the gas pipeline or transportation facilities prior to a processing facility is often referred to as drip condensate but may also be referred to as pipeline condensate, retrograde

[1] FMP refers to the point at which royalty measurement occurs. This is also known as the royalty measurement point or the point of royalty settlement.
[2] Condensate is defined at 30 CFR 1206.20 (Federal) and 30 CFR 1206.171 (Indian).

condensate, drip liquid, or scrubber/pipeline drip. Drip condensate does not include natural gas liquids recovered through processing.[3] When condensate travels all the way to a gas plant and is recovered in the plant inlet separator, ONRR refers to it as plant inlet scrubber.

For onshore gas production, drip condensate is generally recovered in smaller quantities at compressor stations along gas pipelines. BLM approves gas FMPs on lease or off lease and does not require further measurement downstream of the FMP.

For offshore gas production, drip condensate is generally recovered in much larger quantities at separation facilities when the gas pipelines come onshore. BSEE approves gas FMPs on offshore platforms, but also approves onshore drip condensate FMPs for many offshore gas pipeline systems.

Drip Condensate Reporting

Production Reporting

When you transfer your gas to a gas processing plant downstream of the FMP and are required to pay royalties on processed gas[4], you should report the gas on the OGOR-B using DC 11,[5] and include the gas volume, Btu content, and the gas plant number.

When ONRR's regulations require you to value your gas as "processed gas," and drip condensate is recovered from the gas stream, you should report the barrels and API gravity of drip condensate allocable to the lease or agreement on the OGOR-B using DC 13 and DC 16. Report DC 13[6] as a negative volume and DC 16[7] as the same positive volume. This matching and offsetting of volumes ensures you report the correct volume on which royalty is due. The drip condensate volumes are not allocated to the well production on the OGOR-A.

Please see the Minerals Production Reporter Handbook, Chapter 5, for additional details. If you have production reporting questions, reach out to your production reporting contact. A list of production reporting contacts listed by company is located at https://onrr.gov/about/contact/production-contacts.

Royalty Reporting

You should report drip condensate in barrels using product code (PC) 05[8] on the Form ONRR-2014. Please see the Minerals Revenue Reporter Handbook, Chapter 4, for additional details. If you have royalty reporting questions, reach out to your royalty reporting contact. A list of royalty reporting contacts by company is located at https://onrr.gov/about/contact/royalty-contacts.

In situations where drip condensate is not sold in the month it is collected, you should submit royalties on an estimated basis and then report adjustments when you get a sales statement after the month of sales.

[3] Processing is defined at 30 CFR 1206.20 (Federal) and 30 CFR 1206.171 (Indian).
[4] See 30 CFR 1206.142 (Federal) and 30 CFR 1206 Subpart E (Indian).
[5] DC 11 is used to show production that is transferred to a facility. DC 12 may also be used to denote situations when production is transferred to a facility and some of the residue gas is returned to the lease or agreement after processing.
[6] DC 13 is used to show products that are returned to (or allocated to) the lease or agreement from a facility.
[7] DC 16 is used to show pipeline drip/retrograde/scrubber condensate production allocable to the lease or agreement.
[8] Condensate recovered on the lease or agreement should be reported on the Form ONRR-2014 using PC 02. Plant inlet scrubber should be reported using PC 06.

Drip Condensate Valuation

Federal Gas

When Federal processed gas is valued under 30 CFR 1206.142, the value of the processed gas is "the combined value of the residue gas and all gas plant products that you determine under this section ***plus the value of any condensate recovered downstream of the point of royalty settlement*** without resorting to processing." (Emphasis added)

Indian Gas

When calculating a processed gas value for Indian gas, you should include the value of drip condensate.[9] This includes, but is not limited to, situations such as:

- Calculating the processed gas value for actual dual accounting; or
- Calculating the gross proceeds of processed gas in a non-index-zone area; or
- Calculating the gross proceeds of processed gas in an index-zone area when gas is sold under an arm's-length dedicated contract.

Valuation

Drip condensate recovered from Federal gas is valued under the Federal oil valuation regulations at 30 CFR 1206 Subpart C. Drip condensate recovered from Indian gas is valued under the Indian oil valuation regulations at 30 CFR 1206 Subpart B. If you have valuation questions, please send an email to RoyaltyValuation@onrr.gov.

Various Contractual Arrangements

Some midstream service providers pay lessees for the drip condensate recovered from and allocable to the gas stream. Other midstream service providers retain the drip condensate as another source of revenue, or to offset the cost of their services. Regardless of the contractual arrangement, you should include the value of the drip condensate in your gross proceeds.[10] The regulatory requirements to pay royalties on drip condensate apply even if a lessee is not paid for the condensate.

If you can document that the drip condensate is retained as a fee in exchange for allowable transportation services, you may be eligible to include the allowable portion of the value of the retained drip condensate in your transportation allowance. As with claiming any allowance, you should document your allowable costs and retain all supporting information.

Compliance Activities

Consistent with 30 CFR 1217.50, ONRR will initiate and conduct compliance activities on Federal and Indian leases to ensure accurate reporting of production and timely and accurate payment of revenues due.

[9] See 30 CFR 1206.172(c)(2)(iii) and 30 CFR 1206.176(a)(1)(ii).
[10] See 30 CFR 1206.20 (Federal) and 1206.171 (Indian).

Guidance Information

This letter does not require any operator or lessee to perform any type of restructured accounting or require any lessee to recalculate and pay royalties. It is valuation guidance and general information for reporting and paying royalties on drip condensate. Nevertheless, if this letter causes an operator or lessee to discover an error in a previous report, 30 CFR 1210.30 requires the filing of an accurate and complete amended report within 30 days of the discovery of the error. The failure to correct inaccurate reporting may result in civil penalties under 30 CFR Part 1241.

This letter is not an appealable Decision, Order, Notice of Noncompliance, or Civil Penalty Notice under 30 CFR Part 1290 Subpart B or 30 CFR Part 1241. If, at a later date, ONRR issues you an Order, Notice of Noncompliance, or Civil Penalty Notice in accordance with the matters addressed in this letter, ONRR will provide the appeal rights at that time.

Please note that the citations refer to ONRR's current published regulations. If these regulations change, please use the most recent applicable version. For detailed regulatory language, please visit the https://ecfr.gov website and select Title 30 – Mineral Resources, Chapter XII: Office of Natural Resources Revenue, Department of the Interior.

If you have questions, or need valuation assistance, please contact ONRR's Royalty Valuation team at RoyaltyValuation@onrr.gov.

Sincerely,

RUTH WELCH

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Ruth Welch
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