Indian Example—Initial Unprocessed Gas Reporting (Arm's-Length Sale) in Non-Index Zone (Major Portion)

For Indian leases not located in an index zone, 30 CFR 1206.174(a)(4)(i) requires a lessee to initially value unprocessed gas under the appropriate paragraph of section §1206.174. For unprocessed gas sold under an arm's-length contract, these regulations direct lessees to value the gas for royalty purposes based on the lessee's gross proceeds. This example illustrates how you should calculate royalties for reporting for leases not in an index zone.

> 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!

Important Note on Reporting Leases NOT in an Index Zone:
Leases not in an index zone require at least two, and possibly three, calculations: 1) initial calculations and reporting based on gross proceeds, as shown in this example, and 2) comparing the gross proceeds value to the major portion value which will be published at a later date, and if necessary, 3) adjusting your reporting. After the publication of the major portion price, you will need to complete this comparison as well as any required dual accounting.

This example applies when you meet all of the following circumstances:

- You value gas produced from an Indian oil and gas lease NOT located within an index zone.
- Your lease contains a major portion provision or provides for the Secretary to determine value.
- You initially value your gas for royalty purposes based on the gross proceeds under an **arm's-length contract** under §1206.174(b).
- Your sales contract provides for payment on unprocessed gas.

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.

Products/Items:	Location in Statement:
PC 04 Unprocessed Gas	"Gross Wellhead Mcf" **(A)** and "Gross Wellhead MMBtu" **(B)** in the statement's "Wellhead Information" section
Sales Unit Price	"Price Per MMBtu" **(C)** in the statement's "Wellhead Settlement" 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 any specific questions.

Assumptions for this example:

1. The gas is produced from an Indian lease not in an index zone and is subject to major portion.
2. The gas is valued as unprocessed gas (the sales contract provides for payment based on the $/MMBtu value of unprocessed gas).
3. The "Compressor Fuel" **(D)** and "System Fuel" **(E)** deductions are 100% disallowed because they are costs to place the product in marketable condition.
4. The price per MMBtu shown on the statement is the actual contract price. The statement price does not include any deductions or netted fees from the purchaser to place gas into marketable condition on the lessee's behalf.
5. The gas is sold under an arm's-length sales contract.
6. The royalty rate is 18%.

This example walks you through the initial royalty calculation and reporting for Product Code 04 and completes relevant fields on a sample Report of Sales and Royalty Remittance Form (Form ONRR-2014). This example covers only 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.

PC 04 – Unprocessed Gas

Royalty is due on the full quantity and quality of unprocessed gas measured at the royalty measurement point (RMP) (see §1206.175(a)).

Step 1:

Determine the gas sales volume and heat content (gas MMBtu):

- Identify the royalty-bearing gas volume and heat content measured at the royalty meter:
  - In this example, the sample statement includes "Gross Wellhead Mcf" (volume) **(A)** and "Gross Wellhead MMBtu" (heat content) **(B)** measured at the RMP
  - Do not use the "Total Settled MMBtu." That is not the full amount measured at the RMP because of the deductions of "Compressor Fuel" **(D)** and "System Fuel" **(E)**. In our assumptions, we noted that these deductions are 100% disallowed because they are costs of placing the product in marketable condition.
- The sales volume is 261.95 Mcf and the gas MMBtu is 274.08 MMBtu

Step 2:

Calculate the gas sales value:

- Multiply the gas MMBtu determined under Step 1 (274.08 MMBtu) **(B)** by the gas sales price ($1.50930/MMBtu) **(C)**
- The gas sales price may not be reduced by any costs of placing the gas into marketable condition under §1206.174(h)
- The total gas sales value is $413.67

! Gas should be reported at 14.73 psi. See the *Oil and Gas Indian Payor Handbook* Section 2.4.3 for more information.

PC 04 Gas Sales Value (Step 2):

$$PC\ 04\ sales\ value = gas\ MMBtu\ \times\ gas\ sales\ price$$

$$PC\ 04\ sales\ value = 274.08\ MMBtu\ \times\ \$1.50930/MMBtu$$

$$PC\ 04\ sales\ value = \$413.67$$

Step 3:

Calculate the Royalty Value Prior to Allowances (RVPA):

- Multiply the gas sales value found under Step 2 ($413.67) by the royalty rate (18%)

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 RVPA is $74.46

PC 04 Royalty Value Prior to Allowances (RVPA) (Step 3):

$$PC\ 04\ RVPA = sales\ value\ \times\ royalty\ rate$$

$$PC\ 04\ RVPA = \$413.67\ \times\ 0.18$$

$$PC\ 04\ RVPA = \$74.46$$

Step 4:

Calculate the Royalty Value Less Allowances (RVLA):

- In this example, we assume there are no transportation costs so the lessee may not take any allowances
- When no allowances are taken, the RVPA and RVLA are the same
- The RVLA is $74.46

You may take a transportation allowance on PC 04 for your reasonable, actual, transportation costs under 30 CFR §§1206.177-178

PC 04 Royalty Value Less to Allowances (RVLA) (Step 4):

$$PC\ 04\ RVLA = PC\ 04\ RVPA$$

$$PC\ 04\ RVLA = \$74.46$$

Here is what the initial royalty reporting looks like:

Form ONRR-2014 Royalty Report							
PC	Sales Volume	Gas MMBtu	Sales Value	RVPA	TA	PA	RVLA
04	261.95	274.08	$413.67	$74.46			$74.46

Step 5:

For leases in a non-index zone (major portion), initial reporting is only the first step in the process.

- After ONRR publishes the major portion price, you must compare the unprocessed sales price to the major portion price to fulfill the major portion requirement in your lease. You **also** need to complete any required dual accounting.
- If you elected **alternative dual accounting** for your unprocessed gas, view the [Revised Unprocessed Gas in a Non-Index Zone (Major Portion) Using Alternative Dual Accounting example]. You may elect alternative dual accounting using the ONRR Form-4410 Part B.

- If you elected **actual dual accounting** for your unprocessed gas, you must use §1206.181 to establish processing costs when neither you nor someone acting on your behalf processes the gas. Under §1206.181, you must use the first applicable of the four given methods to establish processing costs for dual accounting purposes. Please also be mindful of the additional regulatory requirements in this section (§§1206.176, 179, 180). Collectively, all of these obligations must be satisfied in order to use actual dual accounting. For assistance in ensuring you meet all these obligations, please contact Royalty Valuation at royaltyvaluation@onrr.gov.
- If you believe you are **exempt from dual accounting** for your unprocessed gas (*see* §§1206.176(c)-(e)), you still need to fulfill the major portion provision of your lease. If you need assistance with this comparison, please contact Royalty Valuation at royaltyvaluation@onrr.gov. An ONRR Form-4410 Part A needs to be filed for each lease you believe to be exempt.

Indian Unprocessed Gas Example Statement

Lease & Contract Information

System Name	Lease Name	Lease Number	Allocation Decimal	State	Contract Number	Contract Pressure Base	Contract BTU Condition
						14.73	D

Operator Nm:
Operator ID:
Ctr Pty Nm:
Ctr Pty ID:

Settlement Summary

Accounting Month	Production Month	Gross Value	Fees & Adjustments	Net Value
01/2019	01/2019	$374.43	$0.00	$ 374.43

Wellhead Information

	MCF	MMBTU
Gross Wellhead	(A) 261.95	(B) 274.08
(D) Compressor Fuel	18.00	19.00
(E) System Fuel	6.00	7.00
Net Delivered	237.95	248.08

Wellhead Settlement

Total Settled MMBTU	Contract Percentage	Customer's MMBTU	Price Per MMBTU	Gross Value
248.08	100%	248.08	(C) $ 1.50930	$374.43

Fees & Adjustments

	Basis	Rate ($)	Value ($)
Total:			$0.00