Indian Example—Revised Unprocessed Gas Reporting (Arm's-Length Sale) in Non-Index Zone (Major Portion) Using Alternative 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 to fulfill the major portion requirement, complete the dual accounting requirement, and pay royalties on the highest value.

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) and requires you to account for comparison.
- ✓ You value your gas for royalty purposes based on the published major portion value under §1206.174(a)(4)(ii) and will use this price in the accounting for comparison.
- ✓ Your contract provides for payment on **unprocessed** gas.
- ✓ You completed your initial reporting based on your gross proceeds under §1206.174(b) for the sale of arm's-length unprocessed gas.
- ✓ ONRR published the major portion value for your area and time period of interest.
- ✓ You elected **alternative dual accounting** to satisfy your "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 code. The **BLUE** letters refer to fields on the sample statement.

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.

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 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 Berthold Reservation in North Dakota (not in an index zone) and is subject to major portion.
2. The gas is valued as arm's-length unprocessed gas (based on the $/MMBtu value).
3. The reporter already conducted initial unprocessed gas gross proceeds calculations and reported them on the Form ONRR-2014. *See* §1206.174(b).
4. The production month is January 2019 (as shown on the example statement).
5. The major portion value is the January 2019 price for Fort Berthold found on ONRR.gov Major Portion Prices.
6. The producer has no ownership in the processing plant.
7. The gas is eventually processed downstream. (NOTE: Gas that is *never* processed does not require dual accounting. *See* §1206.176(c).)
8. The volume-weighted-average Btu content, based on the statement, is 1046 Btu/Mcf.

This example walks you through the revised royalty calculation for Product Code 04 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. 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 Royalty Report								
PC	Sales Volume	Gas MMBtu	Sales Value	Sales Type Code	RVPA	Trans Allow	Proc Allow	RVLA
04	261.95	274.08	$413.67	ARMS	$74.46			$74.46

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.

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 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.

Alternative dual accounting takes an unprocessed value and "bumps" that value to provide for a processed value. This requires you to take the highest value for unprocessed gas (whichever value fulfilled the major portion requirement), multiply by an increment, and multiply by the royalty measurement point volume to find a total value for the gas.

Minimum Value Requirement

After completing the dual accounting equation, compare the resulting value to the sum of the unprocessed gas gross proceeds (the arm's-length contract value of PC 04) calculated in the Initial Reporting for Unprocessed

Gas in a Non-Index Zone (Major Portion) example to fulfill the minimum value of production requirement under §1206.174(g).

Step 1:

- To fulfill the major portion requirement, determine which is higher between the gas sales price received and the major portion price.
- Locate the the gas sales price (GSP) on the statement ($1.50930/MMBtu) **(C)**
- Locate the major portion price (MPP). You can find the prices on the Indian Gas Major Portion web page:
    - In this example, assume the lease is on the Fort Berthold Reservation
    - The production month is January 2019
    - The MPP is $3.48/MMBtu
- The major portion price is higher than the gas sales price and will be used in the alternative dual accounting equation.

Find higher unprocessed value (Step 1):

$$GSP = \$1.50930/MMBtu$$

$$MPP = \$3.48/MMBtu$$

$$\$1.50930/MMBtu < \$3.48/MMBtu$$

$$Unprocessed\ gas\ price\ (UGP) = \$3.48/MMBtu$$

Step 2:

- To fulfill the dual accounting requirement, the regulations at §1206.173 governing alternative dual accounting, use the following equation:

Alternative dual accounting equation (Step 2):

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

Where:

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

$$RMP = MMBtu\ at\ the\ approved\ royalty\ meter$$

$$UGP = Unprocessed\ gas\ price$$

$$I = Increment\ for\ alternative\ dual\ accounting$$

Step 3:

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

- In this example, the gross MMBtu **(B)** at the royalty measurement point is 274.08 MMBtu

Royalty Measurement Point MMBtu (Step 3):
$RMP = 274.08\ MMBtu$

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 royalty measurement point(s) for gas production from the lease (§1206.173(b)(3)). The increment also depends on whether or not you have plant ownership interest.

- In this example, assume the weighted average Btu content is 1046 Btu/Mcf, calculated based on the regulations at §1206.173(b)(3)
- Assume no plant ownership
- The increment is .0275

Increment (Step 4):
$I = .0275$

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 (274.08 MMBtu) **(B)** by the unprocessed gas value ($3.48/MMBtu) by 1 plus the increment (.0275)

- The alternative dual accounting value is $980.03

Alternative dual accounting value (Step 5):

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

$$V_{alt} = 274.08\ MMBtu \times \$3.48/MMBtu \times (1 + .0275)$$

$$V_{alt} = 274.08\ MMBtu \times \$3.48/MMBtu \times 1.0275$$

$$V_{alt} = \$980.03$$

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 ($980.03) by the royalty rate (18%)
- The RVPA is $176.41

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

$$Alternative\ dual\ accounting\ RVPA = alternative\ dual\ accounting\ value \times royalty\ rate$$

$$Alternative\ dual\ accounting\ RVPA = \$980.03 \times 0.18$$

$$Alternative\ dual\ accounting\ RVPA = \$176.41$$

- When you value a gas product using the major portion value, you may not take a transportation or processing allowance, because the calculated price is adjusted for these costs (61 FR 49899)
- With no allowances, the RVLA will equal the RVPA
- The alternative dual accounting RVLA is $176.41

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

$$Alternative\ dual\ accounting\ RVLA = Alternative\ dual\ accounting\ RVPA$$

$$Alternative\ dual\ accounting\ RVLA = \$176.41$$

Step 7:

To fulfill the minimum value of production requirement, compare the alternative dual accounting RVLA calculated in Step 6 to the total RVLA of the gross proceeds from the Initial Reporting for Unprocessed Gas in a Non-Index Zone (Major Portion) example:

- The alternative dual accounting RVLA from Step 6 is $176.41

- The RVLA for the unprocessed gas in the Initial Reporting example is $74.46
- The alternative dual accounting RVLA is higher at $176.41. Therefore, you should report the higher value.

Compare values (Step 7):

$$V_{alt}\ RVLA = \$176.41$$

$$Total\ gross\ proceeds\ RVLA = \$74.46$$

$$\$176.41 > \$74.46$$

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 line 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 due date.

Adjustment reason code (ARC) (Step 8):

$$Adjustment\ reason\ code = 16$$

The product code, sales volume, gas MMBtu, and sales type code do not change. Here is what the final royalty reporting looks like:

Form ONRR-2014 Royalty Report									
PC	ARC	Sales Volume	Gas MMBtu	Sales Value	Sales Type Code	RVPA	TA	PA	RVLA
04	16	-261.95	-274.08	-$413.67	ARMS	-$74.46			-$74.46
04	16	261.95	274.08	$980.03	ARMS	$176.41			$176.41

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