

Hidden Gems

OF

ROYALTY COMPLIANCE

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**TODAY I  
WOULD LIKE  
TO DISCUSS  
WITH YOU...**



**Who Is the ONRR?**



**ONRR Production Reporting Overview**



**ONRR Royalty Reporting Overview**



**Key context and examples of State  
Royalty Reporting**



**Some Perspective on Audit Preparation**



**The Hidden Gems of Royalty Compliance**



COMPLIANCE

**J E O P A R D Y !**

# WHO IS THE ONRR?

Operating as a unit of the United States Department of the Interior, The Office of Natural Resources Revenue (ONRR) manages and ensures full payment of revenues for the development of the Nation's energy and natural resources on the Outer Continental Shelf and onshore Federal and Indian lands.



**ONRR**  
**FEDERAL & INDIAN**  
**ROYALTY**

# ONRR OVERVIEW

- ◆ **Collected \$9.6B in 2021**  
already at \$7B in 1Q 2022
- ◆ **Royalty Report Due Date:**  
4pm MT on or before the  
last day of the month  
following production  
month
- ◆ **Statute of Limitations:** 6  
yrs. from due date



# KEY ONRR CONCEPTS

LEASE  
TERMS

OGOR  
PRODUCTION  
REPORT

FORM 2014  
ROYALTY  
REPORT

PPC  
ALLOWANCES

DUTY TO  
MARKET AND  
UNBUNDLING

INDEX  
PRICING

MAJOR  
PORTION

# ONRR PRODUCTION REPORTING: THE OGOR AND THE PASR

- Reports due monthly – By 6:00 pm on the 15th day of the second month following month of production
- OGOR-A accounts for all production and injection data on a lease/agreement by well and producing interval, including well status.
- OGOR-B accounts for the total disposition of lease/agreement production for each product produced and reported on the OGOR-A. (includes sales, transfers, and lease/agreement use)
- The purpose of the Production Allocation Schedule Report (PASR), Form ONRR4058, is to provide allocation information for Federal offshore production commingled prior to measurement for royalty determination. The PASR also corroborates data on the operations reports submitted by OCS lease operators.



# ONRR ROYALTY REPORTING: THE ONRR-2014

- Reports due monthly – By 4:00 pm on the last working day of the month following month of production
- The ONRR regulations provide for the ability of payors to file an “estimate” transaction to act as a “deposit” equal to one month’s royalty payment at a lease/agreement level to obtain an extra month needed to calculate products.

# ONRR ROYALTY REPORTING: THE ONRR-2014

The form ONRR-2014 is required from companies responsible for reporting and paying:

- Royalties on production from Federal or Indian leases and agreements
- Rent or minimum royalties due on Federal or Indian leases
- Royalties on the sale of test production from the initial lease well before the lease is classified as capable of producing
- Fees on a gas storage agreement
- Royalties on compensatory royalty agreements or assessments against Federal or Indian lands
- Well fees if stated in the lease terms

# ONRR FEDERAL ROYALTY VALUATION

- Valuation requirements can be found Beginning at CFR 30 ; Chapter XII; Subchapter A; Part 1206
- Generally based on Gross Proceeds
- Specific instruction for arms-length vs affiliate sales
- Limitations and other specific requirements on common post-production costs such as transportation and processing
- Excludes disallowed costs like dehydration, marketing fees, etc
- Includes common sales contract reimbursements such as certain fees or severance taxes

# DUTY TO MARKET AND THE UNBUNDLING REQUIREMENT

**Cost of Marketable Condition not chargeable to royalty owner**

**Typical costs disallowed: Dehy, Compression, CO2 Removal, Marketing Fees**

**Burden of Proof lies with the Producer**

**Requirement is on both Producer-owned and 3<sup>rd</sup> Party Charges**

**ONRR has 31 published UCAs (unbundling cost allocation)**


**Payors may elect zero deduct in lieu of UCA**



# NATIVE AMERICAN VALUATION



Lease or Contract terms supersede regulations



Index zone pricing if lease is in a published index zone and has a major portion provision or allows the Secretary to determine



Major Portion = the highest price paid or offered at the time of production for the major portion of the product in the same designated area



Some leases contain Dual Accounting language

# KEY REFERENCES

- **ONRR Revenue Handbook:**  
[Minerals Revenue Reporter Handbook \(onrr.gov\)](#)
- **Code of Federal Regulations Title 30#1200:**  
[eCFR :: Title 30 of the CFR -- Mineral Resources](#)
- **ONRR Website:**  
[Office of Natural Resources Revenue \(onrr.gov\)](#)



# State Royalty

## A BASIC OVERVIEW

# STATE ROYALTY COMPLIANCE BASICS

- State Royalty Compliance is dictated first by Lease terms and then defined by regulation.
- Actual valuation and reporting requirements vary significantly by state. As with all regulatory reporting it is critical to gather and understand the unique requirements and expectations of your assigned entity.
- Many states do not recognize an applicable Statute of Limitations. As a result it's possible to have audits that span decades and industry often seeks to settle entire periods of disagreements to gain closure.



# EXAMPLE ONE – NEW MEXICO STATE LAND OFFICE

- Historically had multiple State Lease Forms with differing royalty rates.
- Volumes and values are reported at the lease level thus the reported numbers are often less than the producing properties total production.
- Royalties are to be paid on either Takes or Entitlement basis depending on the structure of the property (agreement or single lease) and the State's participation (100% or mixed)
- Monthly reporting is required and is due on or before the 25<sup>th</sup> calendar day of the second month following the production month.
- An Advance Royalty Payment equal to one month's royalty is required. The State will adjust the amount required annually based on the previous 12 month's royalty due.
- Most particular twist? All dollars have to be rounded to the nearest whole dollar.

# EXAMPLE TWO – TEXAS GENERAL LAND OFFICE

- Has the designation of being the most difficult of the State Royalty reporting requirements.
- Royalty rates can be higher than typical in other states with rates of 20% and 25% being common.
- Operators must provide production information as well as royalty bearing sales and associated values. This reporting includes non-sales dispositions.
- Unless expressly stated in the lease or agreement, typical post-production costs like transportation and processing are not allowed.
- Royalties are due on 100% of lease production regardless of actual disposition. Exceptions allowed only where the lease terms specifically allow.
- Oil and Condensate royalty is due on or before the 5<sup>th</sup> day of the 2<sup>nd</sup> month after production. Gas royalties are due on or before the 15<sup>th</sup> day of the second month after production.
- Where multiple payors are present (as in WI TIK) Royalties must be reported on entitlement basis.

# TIDBITS ABOUT OTHER STATE ROYALTIES

- Wyoming State Royalty is due 30 days after the month of production for oil and condensate and 60 days after the month of production for gas.
- Oklahoma State Royalties do not have a special report, rather there are specific Check Stub Detail requirements. Post Production costs are typically not deductible.
- Louisiana State Royalties are due for oil on the 25<sup>th</sup> of the month following production month and for gas on the 25<sup>th</sup> of the second month after production. Oddly, the state royalties are NOT exempt from production taxes.



Audits

**BE PREPARED**



# THE BEST DEFENSE IS A GREAT OFFENCE

- Insert yourself into the Revenue Accounting valuation at the beginning
- Establish key reporting controls focused on compliance in valuation and reporting
- Maintain key information in a common repository
- Where regulation is not specific enough for your circumstance, document the considerations and decisions made and store in a conspicuous place in your common repository
- Always wear an auditor's hat!



Show me the gems  
**HIDING IN PLAIN SIGHT**

# THE TRULY HIDDEN GEMS OF ROYALTY COMPLIANCE

- Knowledge
- Effective cross-functional alignment
- Expertise
- Maintaining documentation
- Partner with your agency contacts
- Establish and maintain positive relationships at every level between your company and the agency
- Always reflect that compliance is your desire and corporate goal

# THANK YOU!

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