Indian Example—Unprocessed Gas Reporting (Non-Dedicated Contract) in an Index Zone with 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!

The lease and contracts for this example meet all the following conditions:

- ✓ The gas produced is from an **Indian** oil and gas lease located **within an index zone**.
- ✓ The lease contains a major portion provision (or provides for the Secretary to determine value) and requires accounting for comparison.
- ✓ Gas value for royalty purposes based on the **index price** under §1206.172(b)(2).
- ✓ The sales contract is for **unprocessed** gas and is **NOT** an arm's-length dedicated contract.
- ✓ 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 index areas on ONRR's website: Indian Gas Index Zone.

NOTE: As this example proceeds, "you" refers to the lessee or their designee as defined in §1206.20: "the person whom the lessee designates to report and pay the lessee's royalties for a lease."

This example addresses reporting and calculations for the following product code. 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

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:

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1. The gas is produced from an Indian lease in the Central Rocky Mountain (CRM) index zone.
2. The gas is valued as unprocessed gas (the contract provides for payment based on the $/MMBtu value of unprocessed gas).
3. The gas is eventually processed downstream before it enters a pipeline with an index point. NOTE: Gas that is never processed does not require dual accounting. *See* §1206.176(c).
4. The royalty rate is 18%.
5. The production month is January 2019 (as shown on the example statement).
6. The index price is the January 2019 price for Central Rocky Mountain found on ONRR.gov.
7. The lessee has NO ownership in the processing plant.
8. The volume-weighted-average Btu content, calculated from the statement, is 1046 Btu/Mcf.

This example walks you through the 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.

Locating the Indian Index Zone Price

Each month ONRR publishes natural gas prices for six Indian index zones as referenced in §1206.172. You can find the prices on the Indian Gas Index Zone web page.

Determining Dual Accounting

Many Indian leases require accounting for comparison, or "dual accounting." The following is one example of dual accounting language:

> *"… 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 text of your lease to be sure you meet all the provisions in it.

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There are two choices for dual accounting: actual and alternative. You make this election using the Form ONRR-4410 Part B. Section 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.*

Assume, for this example, that the lessee 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 royaltyvaluation@onrr.gov.

Alternative Dual Accounting under a Non-Dedicated Contract for Unprocessed Gas in an Index Zone

Under §1206.175(a), "[f]or unprocessed gas, you must pay royalties on the quantity and quality at the facility measurement point that BLM either allowed or approved." Under §1206.171, ONRR defines the point of royalty measurement as the facility measurement point. In this example, we will use "RMP" to represent the approved royalty measurement point.

Step 1:

- The regulations at §1206.173 governing alternative dual accounting provide the following equation:

Alternative dual accounting equation (Step 1):

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

Where:

$$V_{alt} = Value\ under\ the\ alternative\ dual\ accounting\ method$$
$$RMP = MMBtu\ at\ the\ approved\ royalty\ meter$$
$$IZP = Index\ zone\ price$$
$$I = Increment\ for\ alternative\ dual\ accounting$$

Step 2:

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
- For later reporting, you also need to locate the "Gross Wellhead Mcf" sales volume of 261.95 Mcf **(A)** on the statement.

Royalty Measurement Point MMBtu (Step 2):

$$RMP = 274.08\ MMBtu$$

Step 3:

Locate the index-zone price on the Indian Gas Index Zone Prices web page. In this example, assume the lease is in the Central Rocky Mountain index zone.

- The production month is January 2019
- The index-zone price is $3.98/MMBtu

Index-Zone Price (Step 3):

$$IZP = \$3.98/MMBtu$$

Step 4:



The increment is sometimes informally referred to as the "bump".

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.

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- 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 (274.08 MMBtu) **(B)** by the index zone price ($3.98/MMBtu) by 1 plus the increment (.0275)
- The alternative dual accounting value is $1,120.84

Alternative dual accounting value (Step 5):

$$V_{alt} = RMP \times IZP \times (1 + I)$$
$$V_{alt} = 274.08\ MMBtu \times \$3.98/MMBtu \times (1 + .0275)$$
$$V_{alt} = 274.08\ MMBtu \times \$3.98/MMBtu \times 1.0275$$
$$V_{alt} = \$1{,}120.84$$

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 ($1,120.84) by the royalty rate (18%)

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- The RVPA is $201.75

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

$$Alternative\ dual\ accounting\ RVPA = alternative\ dual\ accounting\ value \times royalty\ rate$$
$$Alternative\ dual\ accounting\ RVPA = \$1{,}120.84 \times 0.18$$
$$Alternative\ dual\ accounting\ RVPA = \$201.75$$

- When you value a gas product using the index zone price, you may not take a transportation allowance (§1206.172(d)(8))
- With no allowances, the RVLA will equal the RVPA
- The alternative dual accounting RVLA is $201.75

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

$$Alternative\ dual\ accounting\ RVLA = Alternative\ dual\ accounting\ RVPA$$
$$Alternative\ dual\ accounting\ RVLA = \$201.75$$

Here is what the final royalty reporting looks like:

PC	Sales Volume	Gas MMBtu	Sales Value	RVPA	TA	PA	RVLA
04	261.95	274.08	$1,120.84	$201.75			$201.75

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