CONCEPT PAPER FOR THE INDIAN OIL VALUATION NEGOTIATED RULEMAKING COMMITTEE

Traditional ONRR-Calculated Major Portion Methodology

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Concept

- Consistent with Indian lease terms, value would be based on the higher of:
  - The lessee's or its affiliate's arm's-length gross proceeds, OR
  - An ONRR-calculated major portion value.
- Following the end of a calendar year, ONRR would calculate and publish monthly major portion values for each field or reservation using values reported on Form MMS-2014 for oil produced from leases in that field or on that reservation. The major portion value could be either:
  - The price at which 25% by volume of the oil starting from the top is sold, OR
  - The price at which 50% by volume of the oil starting from the bottom is sold.
- If the monthly major portion value is higher than the value initially reported by the lessee for that month, the lessee must submit amended Form MMS-2014's by the due date set by ONRR.
- In order to ensure that the ONRR-calculated major portion values are for like-quality oil, ONRR would need to collect API gravity and crude oil type information by lease or make a determination that all of the oil from a field or area is of the same API gravity and crude oil type.

Example of Major Portion Calculation (50% + 1 from the bottom)

Assume for Field or Area A that ONRR would calculate a major portion price at the 50^{th} percentile plus one barrel (starting at the bottom) for each month in 2010 using lessees' reported gross proceeds. Specifically, ONRR would:

- Calculate the unit price, normalized for API gravity and crude oil type, and net of any transportation reported for each royalty line each month.
- Array all royalty lines for each month from highest price (starting at the top) to lowest price (at the bottom) along with the associated sales volume.
- Start from the bottom, and sum the sales volumes until the 50^{th} percentile by volume is reached, and determine the unit price associated with the 50^{th} percentile plus one barrel for that field or area for each month.

January 2010 Major Portion Calculation (50% + 1 from the bottom)

Sales Volume	Sales Value - Transportation	Normalized Price	% of Total Volume
250 bbls	$19,062.50	$76.25	100.00%
150 bbls	$11,325.00	$75.50	85.51%
125 bbls	$9,375.00	$75.00	76.81%
175 bbls	$13,125.00	$75.00	69.57%
300 bbls	$22,500.00	$75.00	59.42%
110 bbls	$8,222.50	$74.75	42.03%
225 bbls	$16,762.50	$74.50	35.65%
100 bbls	$7,450.00	$74.50	22.61%
200 bbls	$14,850.00	$74.25	16.81%
90 bbls	$6,682.50	$74.25	5.22%
Total 1725 bbls			

Example of Major Portion Calculation (25% + 1 starting at the top)

- Assume for Field or Area A that ONRR would calculate a major portion price at the 25th percentile (starting at the top) for each month in 2010 using lessees' reported gross proceeds. Specifically, ONRR would:
  - Calculate the unit price, normalized for API gravity and crude oil type, and net of any transportation reported for each royalty line each month.
  - Array all royalty lines for each month from highest price (starting at the top) to lowest price (at the bottom) along with the associated sales volume.
  - Start from the top, and sum the sales volumes until we reached the 25th percentile by volume, and determine the unit price associated with the 25th percentile for that reservation for each month.

January 2010 Major Portion Calculation (25% + 1 starting at the top)

Sales Volume	Sales Value - Transportation	Normalized Price	% of Total Volume
250 bbls	$19,062.50	$76.25	14.49%
150 bbls	$11,325.00	$75.50	23.19%
125 bbls	$9,375.00	$75.00	30.44%
175 bbls	$13,125.00	$75.00	40.58%
300 bbls	$22,500.00	$75.00	57.97%
110 bbls	$8,222.50	$74.75	64.35%
225 bbls	$16,762.50	$74.50	77.39%
100 bbls	$7,450.00	$74.50	83.19%
200 bbls	$14,850.00	$74.25	94.78%
90 bbls	$6,682.50	$74.25	100.00%
Total 1725 bbls			

Comparison of the Gross Proceeds Value v. ONRR-Calculated Major Portion Value

Assume for January 2011:

- A lessee's gross proceeds for production from a lease in Field or Area A is $74/barrel
- The ONRR-calculated major portion value for Field or Area A is $75/barrel

For January 2011 production,

- The lessee would initially report and pay on its gross proceeds ($74/barrel).
- After ONRR calculates and publishes the major portion value for Field or Area A for January 2010 (sometime in 2011 or 2012), the lessee would submit a prior period adjustment (PPA) to amend its Form MMS-2014 to reflect the major portion value ($75/barrel).