



United States Department of the Interior

OFFICE OF NATURAL RESOURCES REVENUE

P.O. Box 25165
Denver, Colorado 80225-0165

DEC 1 5 2010

Dear Reporter:

Subject: Reporting Changes for Reporting Beneficial Use and Buy-Back and Spilled/Lost Volumes, Offshore Royalty Relief Sales when FMP is Not Assigned, and Onshore Inventory Edit – Oil and Gas Operations Report (OGOR), Form MMS-4054

This letter supersedes our previous “Dear Reporter” letter dated April 21, 2009, concerning Buy-Back reporting. In addition, there are reporting changes for Spilled/Lost and Royalty Relief volumes, and an upgrade of the Onshore inventory edit.

The changes are effective beginning with the March, 2011 production month, due May 15, 2011. You will not be required to modify your reports for prior production months. However, if you need to modify prior OGORs for a different reason, you must follow these new procedures.

The following Disposition Codes (DC) are being added or the definition is changed:

Buy-Back Codes

- | | |
|----|---|
| 20 | Used on L/A–Native Production Only |
| 15 | Sales–Buy-Back–Measured–Royalty Not Due |
| 25 | Buy-Back Purchased for L/A Use |
| 26 | Buy-Back–Used on L/A |

Spilled or Lost Codes

- | | |
|----|---|
| 08 | Spilled and/or Lost–Avoidable–Royalty Due |
| 23 | Spilled and/or Lost–Unavoidable–Royalty Not Due |

Royalty Relief Code

- | | |
|----|--|
| 43 | Sales–Royalty Not Due–FMP Not Assigned |
|----|--|

Buy-Back Volumes – Examples Enclosed

In order to promote more accurate reporting of both beneficial use and Buy-Back volumes, the Office of Natural Resources Revenue (ONRR) has created new DCs to be used to identify non-native oil and gas volumes. Buy-Back volumes are considered any non-native oil or gas purchased off the lease or agreement (L/A) reporting entity used on or for the benefit of the reporting L/A operations. Since Buy-Back volumes that were produced on a different L/A and royalty was already paid on those volumes by the off-lease operator, the Buy-Back volumes are not considered native production. Therefore, royalty is not due for the month you purchased the Buy-Back.

- ***DC 20 – Used on L/A–Native Production Only***

This DC has been redefined. Report DC 20 only for native production used on or for the benefit of the L/A.

- ***DC 15 – Sales–Buy-Back–Measured–Royalty Not Due***

Report the Buy-Back volume which was intended for use on the L/A, but not actually used, then left the L/A through the Sales meter. Volume must be positive. For Offshore, report the portion of the Buy-Back volume that was measured by the Sales meter and resold to the pipeline. FMP required (Sales meter) for Offshore.

Note: If DC 15 is reported, the combined totals reported under DC 15 and DC 26 must equal (offset) DC 25.

- ***DC 25 – Buy-Back Purchased for L/A Use***

Report the entire Buy-Back oil/gas volume purchased as DC 25. The volume must be negative. If you purchase both oil and gas in the same report month, you must report two lines – one for oil and one for gas.

- ***DC 26 – Buy-Back–Used on L/A***

Report that portion of the Buy-Back oil/gas volume actually used on or for the benefit of the L/A. Volume must be positive.

Spilled/Lost

The ONRR has created DC 08 and redefined DC 23 to separate native production volumes that are avoidably and unavoidably lost from the L/A. The Bureau of Land Management (BLM) for Onshore and the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) for Offshore must determine whether or not the spill or loss was avoidable. Royalty is due on avoidably lost production.

- ***DC 08 – Spilled and/or Lost–Avoidable–Royalty Due***

Report all native oil and gas production that was spilled or lost and BLM or BOEMRE determined the loss was avoidable. You must report BTU Content for gas and API Gravity for oil. FMP is not required.

- ***DC 23 – Spilled and/or Lost–Unavoidable–Royalty Not Due***

Report all native oil and gas production that was unavoidably spilled or lost and considered by BLM or BOEMRE as not recoverable. Royalty is not due.

Royalty Relief Sales –FMP Not Assigned (Offshore Only)

For Offshore reporters who have test production on an approved Royalty Relief well or L/A where approved metering points (FMP) are not yet established by BOEMRE, you must use the new DC 43 as described below. Do not use DC 09 (Sales–Not Subject to Royalty–MEASURED) as DC 09 requires an FMP number and the new DC 43 does not.

- ***Disposition Code 43: Sales–Royalty Not Due–FMP Not Assigned***

Report any sold Royalty Relief oil and gas volumes; for example, test production volumes which do not yet have an assigned FMP. You must report BTU Content for gas and API Gravity for oil. When used as an Adjustment Code on OGOR-C, the volume must be negative.

Upcoming OGOR Inventory Edit – (Onshore Only)

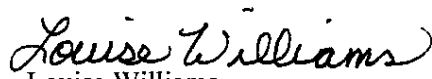
According to the Minerals Production Reporter Handbook, (Page 5-20), the requirement is the Beginning Inventory must equal the Ending Inventory submitted for the previous Production Month. However, the ONRR system currently handles the Onshore inventory edit as a "Warning" edit. The Onshore inventory edit will be changed to a "Fatal" edit requiring the inventories to match. If your OGOR inventories do not match, they will reject and you will be requested to resubmit the OGOR correctly.

API Gravity and BTU Content

Some operators have inquired about reporting the quality of the oil and gas sold or transferred. The API Gravity and BTU Content must be reported correctly according to guidelines found in the Minerals Production Reporter Handbook, page 5-14, which states for API Gravity, "Enter the number...as a decimal...corrected to 60° F, for example, enter 40.5." When reporting BTU Content, "Enter the BTU quality as a whole number...corrected for pressure and temperature to 14.73 psia and 60° F" (reported on a **dry gas basis**). The API Gravity and BTU Content must be determined and reported based on the location stated in the measurement approval correspondence.

If you have questions regarding these changes, please contact your ONRR company contact at 800-525-7922 or refer to the online listing of Error Correction contacts on our new website: <http://www.onrr.gov/FM/PDFDocs/operasgn.pdf>

Sincerely,


Louise Williams
Manager, Production Accounting
and Verification Services
Financial Management

Enclosures

Example 5-36 (A) Buy-Back Meter Installed After Point of Sale
(Buy-Back Volume is Less Than Sales Meter Volume)

Key Considerations:

- With BOEMRE or BLM approval, oil or gas is purchased (bought back) from the pipeline company and used on or for the benefit of the lease/agreement (L/A), for example fuel, gas-lift, and/or pigging.
- When the Buy-Back volume is less than the sales meter volume, that implies the production volume is greater than the total fuel (used on L/A) volume. Therefore, the total fuel volume is derived from native production. The remaining native production added to the Buy-Back volume will equal the volume measured at the Sales meter.

OGOR-A:

- Report all wells and total production for the L/A. Buy-Back oil/gas should **NOT** be included on the OGOR-A.

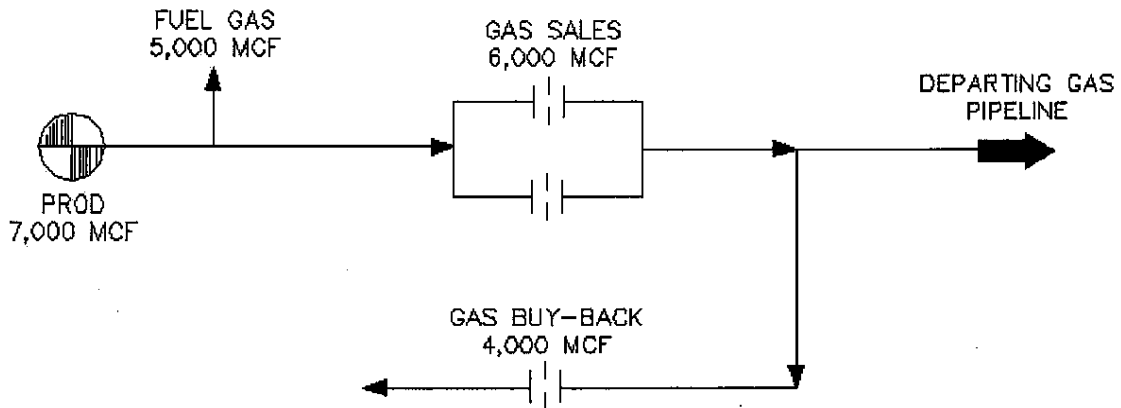
OGOR-B:

- Report the volume of oil/gas in which royalty is due using Disposition Code (DC) **01** (Sales–Subject to Royalty–Measured) or gas volume in which royalty is due using DC **11** (Transferred to Facility). The volume of oil/gas in which royalty is due is based on the volume measured by the Sales meter **minus** the volume measured by the Buy-Back meter.
- Report all native production used on or for the benefit of the L/A, such as fuel to operate production facilities on the L/A, using DC **20** (Used on L/A–Native Production Only).
- Report the Buy-Back oil/gas volume purchased from a pipeline or off-lease using DC 25 (Buy-Back Purchased for L/A Use). **Volume must be a negative number.**
- Report ALL of the Buy-Back oil/gas volume intended for L/A use, but left the L/A through the Sales meter, using DC 15 (Sales–Buy-Back–Measured–Royalty Not Due). The volume must offset the volume reported as DC 25. **Non-native production only. FMP required (Sales meter) for Offshore.**

Note: For Offshore, the gas volume statements/run tickets for each Sales meter **AND** Buy-Back meter must be submitted monthly to the appropriate BOEMRE Regional Office. The monthly gas volume statements/run tickets must be submitted even if the volume is zero.

Example 5-36 (A) Buy-Back Meter Installed After Point of Sale
 (Buy-Back Volume is Less Than Sales Volume)

Volume of gas measured by the Sales meter: 6,000 mcf
 Volume of gas measured by the Buy-Back meter: 4,000 mcf
 Volume of gas in which royalty is due: 2,000 mcf



Example 5-36 (A) Buy-Back Meter Installed After Point of Sale
(Buy-Back Volume is Less Than Sales Meter Volume)

OGOR Fact Sheet

Report Type	Original
Production Month	022011
MMS Operator Number	F2011
Operator Name	XYZ Company
Operator Lease/Agreement Number	OCS-G 6500
Operator Lease/Agreement Name	WC 24
MMS Lease/Agreement Number	0540065000
Agency Lease/Agreement Number	OCS-G 6500

OGOR-A Detail Information

Action Code	API Well No.	Producing Interval	Operator Well No.	Well Status Code	Days Produced	Production Volumes		
						Oil	Gas	Water
A	177090333100	S01	A9	11	31	30	2000	10
A	177090444600	S01	A16	11	31	70	2000	80
A	177090555900	S01	A5	11	31	<u>100</u>	<u>3000</u>	<u>30</u>
TOTAL Production						200	7000	120

OGOR-B Detail Information

Action Code	Disposition Code	Metering Point No.	Gas Plant No.	API Gravity	Btu Content	Production Volumes		
						Oil	Gas	Water
A	01	20050775402		45.2		200		
A	01	3017707K00A			1072		2000	
A	15	3017707K00A			1072		4000	
A	20						5000	
A	25						(4000)	
A	27							120
TOTAL Disposed						<u>200</u>	<u>7000</u>	<u>120</u>

Authorization Information (Completed on first page of each report.)

Contact Name	Harry Smith
Telephone Number	5042365600
Extension Number	
Authorizing Name	Harry Smith
Date	12152008
Comment	

Example 5-36 (B) Buy-Back Meter Installed After Point of Sale
 (Buy-Back Volume is Greater Than Sales Meter Volume)

Key Considerations:

- With BOEMRE or BLM approval, oil or gas is purchased (bought back) from the pipeline company and used on or for the benefit of the L/A (for example, fuel, gas-lift, and/or pigging).
- When the Buy-Back volume is greater than the sales volume, that implies the production volume is less than the total fuel volume. Therefore, a portion of the fuel volume is derived from the Buy-Back volume. The remaining portion of the Buy-Back volume is measured by the Sales meter and royalty is NOT due on this volume.

OGOR-A:

- Report all wells and total production for the L/A. Buy-Back gas should **NOT** be included on the OGOR-A.

OGOR-B:

- Report the Buy-Back oil/gas volume purchased from pipeline or off-lease using DC 25 (Buy-Back Purchased for L/A Use). **Volume must be a negative number.**
- Report all native oil/gas production used on or for the benefit of the L/A, such as fuel to operate production facilities on the L/A, using DC 20 (Used on L/A–Native Production Only).
- Report the portion of the Buy-Back oil/gas volume used on or for the benefit of the L/A using DC 26 (Buy-Back–Used on L/A). **Non-native production only.**
- Report the portion of the Buy-Back oil/gas volume not used that month and directed back through the Sales meter using DC 15 (Sales–Buy-Back–Measured–Royalty Not Due). **Non-native production only. FMP required (Sales meter) for Offshore.**

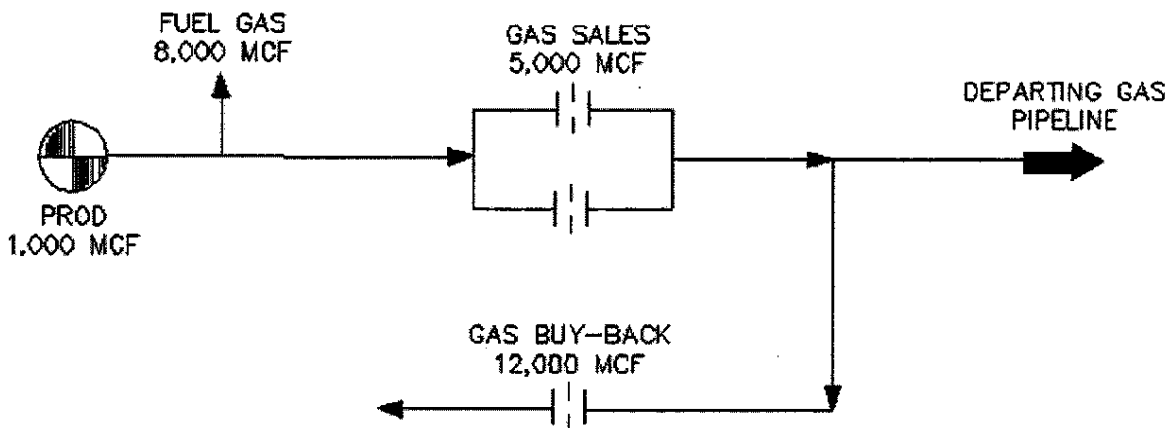
Note: The combined totals reported with DC 15 and DC 26 must equal (offset) DC 25.

- Enter a remark in the Comment field stating Buy-Back volume greater than sales volume.

Note: For Offshore, the gas volume statements/run tickets for each Sales meter **AND** Buy-Back meter must be submitted to the appropriate BOEMRE Regional Office. The monthly gas volume statements/run tickets must be submitted even if the volume is zero.

Example 5-36 (B) Buy-Back Meter Installed After Point of Sale
 (Buy-Back Volume is Greater Than Sales Meter Volume)

Volume of gas measured by the Sales meter:	5,000 MCF
Volume of gas measured by the Buy-Back meter:	12,000 MCF
Volume of gas used on L/A (Native production):	1,000 MCF
Volume of gas used on L/A (Buy-Back):	7,000 MCF



Example 5-36 (B) Buy-Back Meter Installed After Point of Sale
 (Buy-Back Volume is Greater Than Sales Meter Volume)

OGOR Fact Sheet

Report Type	Original
Production Month	102008
MMS Operator Number	F2011
Operator Name	XYZ Company
Operator Lease/Agreement Number	OCS-G 6500
Operator Lease/Agreement Name	WC 24
MMS Lease/Agreement Number	0540065000
Agency Lease/Agreement Number	OCS-G 6500

OGOR-A Detail Information

Action Code	API Well No.	Producing Interval	Operator Well No.	Well Status Code	Days Produced	Production Volumes		
						Oil	Gas	Water
A	177090333100	S01	A9	11	31	30	200	15
A	177090444600	S01	A16	11	31	70	500	80
A	177090555900	S01	A5	11	31	<u>100</u>	<u>300</u>	<u>30</u>
TOTAL Production						200	1000	125

OGOR-B Detail Information

Action Code	Disposition Code	Metering Point No.	Gas Plant No.	API Gravity	Btu Content	Production Volumes		
						Oil	Gas	Water
A	01	20050775402		45.2		200		
A	20						1,000	
A	25						(12,000)	
A	26						7,000	
A	15	3017707K00A					5,000	
A	27							
TOTAL Disposed						<u>200</u>	<u>1,000</u>	<u>125</u>

Authorization Information (Completed on first page of each report.)

Contact Name	Bob Wilson
Telephone Number	5042365600
Extension Number	
Authorizing Name	Bob Wilson
Date	12152008
Comment	Buy-Back volume greater than sales volume