United States Department of the Interior

OFFICE OF NATURAL RESOURCES REVENUE
P.O. Box 25165
Denver, Colorado 80225-0165

MAY 1 5 2015

Subject: New Requirements Found in the Indian Oil Valuation Amendments, Effective July 1, 2015

Dear Reporter:

This "Dear Reporter" letter addresses the new requirements found in the Indian Oil Valuation Amendments, effective July 1, 2015, (except leases on the Osage Indian Reservation, Osage County, Oklahoma) and includes instructions regarding:

- How to calculate and report the value of your Indian oil production for royalty purposes on the Report of Sales and Royalty Remittance (Form ONRR-2014)
- Where to submit transportation allowance contracts and forms

On May 1, 2015, the Office of Natural Resources Revenue (ONRR) amended the regulations governing the valuation of oil produced from Indian leases, 80 Fed. Reg. 24,779, 24,794 (May 1, 2015). ONRR also published new reporting requirements for Indian oil valuation, found in 30 C.F.R. § 1210.61. These amendments add certainty and simplicity to the major portion provision in the February 1, 2008, Indian oil valuation regulations. In addition, the amendments ensure that Indian lessors receive maximum revenues from their oil production and improve the accuracy of royalty payments at the time the royalties are due.

The February 1, 2008, Indian oil valuation rules did not change the previous regulations' major portion provision, which ONRR adopted in 1988. However, the rulemaking for the February 1, 2008 rule resulted in a recommendation that the Secretary of the Interior (Secretary) establish a rulemaking committee to negotiate a rule that would revise the major portion provision of the Indian oil valuation regulations. In 2011, the Secretary established the Indian Oil Valuation Negotiated Rulemaking Committee (Committee). The Committee included representatives from ONRR, Tribes, individual Indian mineral owners, and industry.

These new Indian oil valuation amendments represent the agreement reached by the Committee in the negotiated rulemaking. The new amendments simplify the valuation of oil produced from Indian lands and enable lessees to contemporaneously comply with the major portion provisions found in most Indian leases.

Under the amended Indian oil regulations, if your lease has either a major portion provision or language providing the Secretary with the discretion to determine value, you must value your oil based on the higher of (1) your gross proceeds that you calculated under 30 C.F.R. § 1206.52 or § 1206.53; or (2) an Index Based Major Portion (IBMP) price for your lease's crude type and designated area. ONRR calculates and posts the IBMP price for each crude type and designated area on its webpage at http://www.onrr.gov/Valuation/IndianOilIBMP.htm.

The enclosure below contains information explaining the new valuation and reporting requirements beginning with production month **July 2015.**

Audit Information

Consistent with 30 C.F.R. § 1217.50, ONRR will initiate and conduct audits of Indian leases to ensure accurate reporting of royalties and timely and accurate payment of revenues due.

Training Information

ONRR will be hosting payor training throughout the summer and fall. ONRR will send out information on training dates and locations as they become available.

Guidance Information

This letter does not require you to perform any type of restructured accounting nor require you to recalculate and pay royalties. It is merely valuation guidance and general information for reporting and paying royalties on Indian oil.

This letter is not an appealable decision, order, Notice of Noncompliance, or Civil Penalty Notice under 30 C.F.R. Part 1290 Subpart B (2013) or 30 C.F.R. Part 1241 (2013). If ONRR issues you an order, Notice of Noncompliance, or Civil Penalty Notice at a later date in accordance with the matters addressed in this letter, we will provide your appeal rights at that time.

Please note that the citations refer to ONRR's current published regulations. If these regulations change, please use the most recent applicable version. For detailed regulatory language, please visit http://ecfr.gpoaccess.gov and select Title 30 – Mineral Resources, Chapter XII (1200).

If you have questions or need other assistance, please send electronic mail messages to mailbox ONRRIndianOilRuleQuestions@onrr.gov. If you have valuation questions regarding the amended Indian Oil Regulations, please call Ms. Elizabeth Dawson at (303) 231-3653, Mr. Karl Wunderlich at (303) 231-3663, or Mr. John Barder at (303) 231-3702. If you have any questions on how to report on the Form ONRR-2014, please call your royalty reporting representative at 1-800-525-0309.

Sincerely,

John J. Mehlhoff
Program Director
Coordination, Enforcement, Valuation & Appeals

Enclosure

I. MAJOR PORTION

A. Does the new regulation at 30 C.F.R. § 1206.54 apply to me?

ONRR adopted the Indian oil valuation amendments to expand and clarify the major portion requirement found in the previous regulations. The major portion provision applies to (1) all Indian leases that contain a major portion provision (with the exception of leases on the Osage Indian Reservation, Osage County, Oklahoma); and (2) all Indian leases that provide that the Secretary of the Interior may establish value (with the exception of leases on the Osage Indian Reservation, Osage County, Oklahoma).

B. How do I know if my Indian lease is in a Designated Area?

To implement this rule, the Office of Natural Resources Revenue (ONRR) designated areas for the purpose of calculating location and crude type differentials that it will use to calculate the IBMP price. Generally, ONRR established designated areas by reservation boundaries, including any off-reservation allotments or dependent Indian communities, where location and crude types are similar to each other. On June 14, 2014, ONRR published a list of the designated areas ONRR will use to implement this rule. Those designated areas are shown in the table below:

Designated Area	Description
North Fort Berthold	All lands within the Fort Berthold Reservation boundary, including any off-reservation allotments or dependent Indian communities north of the Little Missouri River, including the Turtle Mountain public domain lease lands north of the Little Missouri River that the Fort Berthold Agency of the Bureau of Indian Affairs (BIA) administers
South Fort Berthold	All lands within the Fort Berthold Reservation boundary, including any off-reservation allotments or dependent Indian communities south of the Little Missouri River, including the Turtle Mountain public domain lease lands south of the Little Missouri River that the Fort Berthold Agency of the BIA administers
Uintah & Ouray	The reservation boundary, including any off-reservation allotments or dependent Indian communities located within Uintah and Grand Counties, Utah
Uintah & Ouray (Duschesne)	The reservation boundary, including any off-reservation allotments or dependent Indian communities located within Duchesne County, Utah
Oklahoma	One statewide area encompassing all oil production on trust lands, excluding Osage county

Fort Peck	The reservation boundary, including any off-reservation allotments or dependent Indian communities, including all lands within the Fort Peck Reservation boundary and the Turtle Mountain public domain lease lands administered by the Fort Peck Agency of the BIA
Fort Belknap	The reservation boundary, including any off-reservation allotments or dependent Indian communities, including all lands within the Fort Belknap Reservation boundary and the Turtle Mountain public domain lease lands administered by the Fort Belknap Agency of the BIA
Turtle Mountain	The reservation boundary, including any off-reservation allotments or dependent Indian communities, including all lands within the Turtle Mountain Reservation and the Turtle Mountain public domain lease lands administered by the Turtle Mountain Agency of the BIA
Blackfeet	The reservation boundary, including any off-reservation allotments or dependent Indian communities
Crow	
Jicarilla Apache	
Isabella (Saginaw Chippewa)	
Navajo	
Ute Mountain Ute	
Wind River	
Alabama/Coushatta	
Southern Ute	
Rocky Boy's	

79 Fed. Reg. 35102, 35103 (Jun. 14, 2014).

C. How do I determine my crude type?

To accurately calculate the IBMP price, ONRR must use like quality oil. ONRR relies on lessees to report the type of oil produced from their Indian leases. The crude type is based on, among other things, API gravity and sulfur content. Through the negotiated rulemaking process, the Committee determined there were five types of crude on Indian lands – Sweet, Sour, Asphaltic, Black Wax, and Yellow Wax. These crude types are in addition to condensate. The new rule requires all Indian lessees to report the crude type produced as one of these five crude oil types. Typically, your oil sales contract will indicate what type of crude oil your lease produces.

D. How do I determine the value of my Indian oil when 30 C.F.R. § 1206.54 applies to me?

The first step is to calculate your gross proceeds, which has not changed under the new Indian oil valuation amendments. Under 30 C.F.R. § 1206.52, if you sell your oil under an arm's-length contract, the value of your Indian oil is the gross proceeds accruing to you under that arm's-length contract, less applicable allowances. Under 30 C.F.R. § 1206.53, if you sell your oil under a non-arm's-length contract, the value of your oil is the volume-weighted average of the gross proceeds paid or received by you or your affiliate, including your refining affiliate, for purchases or sales under arm's-length contracts, less applicable allowances.

The second step is to compare your gross proceeds, calculated in the first step, with the IBMP price for the same crude type and designated area that ONRR published on its website for the same production month. If your per barrel gross proceeds price is higher than the IBMP price, report and pay royalties on your gross proceeds. If the IBMP price is higher than your per barrel gross proceeds price, report and pay royalties on the IBMP price.

For example, for production that occurred in July 2015, your calculation of gross proceeds resulted in a value of $85 per barrel. For that same production month, in August 2015, ONRR published the IBMP price for your crude type and designated area at $83 per barrel. Under this example, you would report and pay royalties on $85 per barrel. If, however, you calculated your gross proceeds and you determined the value to be $81 per barrel for production month July 2015, and ONRR's published IBMP price for your crude type and designated area was $83 per barrel, you would report and pay royalties based on $83 per barrel.

E. How do I report under the new major portion rule?

Beginning with production month July 2015, you must report and pay royalties on the higher of (1) your gross proceeds calculated under 30 C.F.R. § 1206.52 or § 1206.53; or (2) the IBMP price for your crude type and designated area.

- Report on one of the following product codes depending on the crude type of the oil your lease produces:

    1. **Condensate (02)**
    2. **Sweet (code 61)**
    3. **Sour (code 62)**
    4. **Asphaltic (code 63)**
    5. **Black Wax (code 64)**
    6. **Yellow Wax (code 65)**

- If you are reporting on your **gross proceeds**, report the "Sales Type Code" as any code except OINX (e.g., ARMS, NARM, etc.)

- If you are reporting on the **IBMP price**, report the "Sales Type Code" as OINX

ESTIMATES: ONRR anticipates publishing all IBMP prices for each product code for each designated area by the middle of the month where Form ONRR-2014 would be due at the end of the month. If this is not enough time to complete your reporting by the end of the month based on your accounting systems, ONRR suggests you create estimates for your Indian leases that will give you an additional 30 days to pay and report accurately. If you create estimates, please ensure that your estimates are sufficient. Interest will be charged on insufficient estimates.

EDITS: ONRR will implement edits that will reject all Form ONRR-2014 lines with a price below the published IBMP price. At first, this edit will be a "warning" edit. ONRR anticipates the edit will change to a "fatal" edit for production month October 2015.

II. NON-MAJOR PORTION LEASES

The major portion provision applies to (1) all Indian leases that contain a major portion provision (with the exception of leases on the Osage Indian Reservation, Osage County, Oklahoma); and (2) all Indian leases that provide that the Secretary of the Interior may establish value (with the exception of leases on the Osage Indian Reservation, Osage County, Oklahoma). If your lease does not have the language required in (1) and (2), 30 C.F.R. § 1206.54 is not applicable to your lease and you must value your Indian oil production under 30 C.F.R. § 1206.52-53, 55-65 (2015). However, you must still report your crude oil type, as provided in 30 C.F.R. § 1210.61 (2015).

III. TRANSPORTATION ALLOWANCES

A. When and where must I submit copies of my arm's-length transportation and processing contracts?

If your transportation contract is arm's-length, you will no longer have to submit the Oil Transportation Allowance Report (Form ONRR-4110). However, you must submit to ONRR a copy of your arm's-length transportation contract(s) and all later amendments to the contract(s) within two (2) months of claiming the allowance on Form ONRR-2014.

You must send the contract(s) to Western Audit and Compliance at the following address:

Office of Natural Resources Revenue
Western Audit and Compliance
P.O. Box 25165, MS 62520B
Denver, CO 80225-0165

B. Must I still file transportation allowance forms if I have a non-arm's-length contract or no contract?

If your transportation contract is non-arm's-length under 30 C.F.R. § 1206.58, you must submit actual cost information to support the allowance to ONRR on Form ONRR-4110 within three (3) months after the end of the twelve-month period for which the allowance applies. You must send the allowance forms to the above address.