

## Minerals Management Service, Interior

## § 204.1

independent CPA according to § 203.81(c).

[63 FR 2618, Jan. 16, 1998, as amended at 67 FR 1880, Jan. 15, 2002]

### Subpart C—Federal and Indian Oil [Reserved]

### Subpart D—Federal and Indian Gas [Reserved]

### Subpart E—Solid Minerals, General [Reserved]

### Subpart F—Coal

#### § 203.250 Advance royalty.

Provisions for the payment of advance royalty in lieu of continued operation are contained at 43 CFR 3483.4.

[54 FR 1522, Jan. 13, 1989]

#### § 203.251 Reduction in royalty rate or rental.

An application for reduction in coal royalty rate or rental shall be filed and processed in accordance with 43 CFR group 3400.

[54 FR 1522, Jan. 13, 1989]

### Subpart G—Other Solid Minerals [Reserved]

### Subpart H—Geothermal Resources [Reserved]

### Subpart I—OCS Sulfur [Reserved]

## PART 204—ALTERNATIVES FOR MARGINAL PROPERTIES

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AUTHORITY: 30 U.S.C. 1701 *et seq.*

SOURCE: 69 FR 55088, Sept. 13, 2004, unless otherwise noted.

### Subpart A—General Provisions

#### § 204.1 What is the purpose of this part?

This part explains how you as a lessee or designee of a Federal onshore or Outer Continental Shelf (OCS) oil and gas lease may obtain prepayment or accounting and auditing relief for production from certain marginal properties. This part does not apply to production from Indian leases, even if the Indian lease is within an agreement that qualifies as a marginal property.

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**§ 204.2 What definitions apply to this part?**

*Agreement* means a federally approved communitization agreement or unit participating area.

*Barrels of oil equivalent (BOE)* means the combined equivalent production of oil and gas stated in barrels of oil. Each barrel of oil production is equal to one BOE. Also, each 6,000 cubic feet of gas production is equal to one BOE.

*Base period* means the 12-month period from July 1 through June 30 immediately preceding the calendar year for which you take or request marginal property relief. For example, if you request relief for calendar year 2006, your base period is July 1, 2004, through June 30, 2005.

*Combined equivalent production* means the total of all oil and gas production for the marginal property, stated in BOE.

*Designee* means the person designated by a lessee under 30 CFR 218.52 to make all or part of the royalty or other payments due on a lease on the lessee's behalf.

*Producing wells* means only those producing oil or gas wells that contribute to the sum of BOE used in the calculation under § 204.4(c). Producing wells do not include injection or water wells. Wells with multiple zones commingled downhole are considered as a single well.

*Property* means a lease, a portion of a lease, or an agreement that may be a marginal property if it meets the qualification requirements of § 204.4.

*State concerned (State)* means the State that receives a statutorily prescribed portion of the royalties from a Federal onshore or OCS lease.

**§ 204.3 What alternatives are available for marginal properties?**

If you have production from a marginal property, MMS and the State may allow you the following options:

(a) *Prepay royalty.* MMS and the State may allow you to make a lump-sum advance payment of royalties instead of monthly royalty payments for the remainder of the lease term. See Subpart B for prepayment of royalty requirements.

(b) *Take accounting and auditing relief.* MMS and the State may allow various accounting and auditing relief options to encourage you to continue to produce and develop your marginal property. See Subpart C for accounting and auditing relief requirements.

**§ 204.4 What is a marginal property under this part?**

(a) To qualify as a marginal property eligible for royalty prepayment or accounting and auditing relief under this part, the property must meet the following requirements:

If your lease is . . .	Then . . .	And . . .
(1) Not in an agreement .....	The lease must qualify as a marginal property under paragraph (b) of this section.	
(2) Entirely or partly committed to one agreement.	The entire agreement must qualify as a marginal property under paragraph (b) of this section.	Agreement production allocable to your lease may be eligible for relief under this part. Any production from your lease that is not committed to the agreement also may be eligible for separate relief under paragraph (a)(4) of this table.
(3) Entirely or partly committed to more than one agreement.	Each agreement must qualify separately as a marginal property under paragraph (b) of this section.	For any agreement that does qualify, that agreement's production allocable to your lease may be eligible for relief under this part. Any production from your lease that is not committed to an agreement also may be eligible for separate relief under paragraph (a)(4) of this table.
(4) Partly committed to an agreement and you have production from the part of the lease that is not committed to the agreement.	The part of the lease that is not committed to the agreement must qualify separately as a marginal property under paragraph (b) of this section.	

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(b) To qualify as a marginal property for a calendar year, the combined equivalent production of the property during the base period must equal an average daily well production of less than 15 barrels of oil equivalent (BOE) per well per day calculated under paragraph (c) of this section.

(c) To determine the average daily well production for a property, divide the sum of the BOE for all producing wells on the property during the base period by the sum of the number of days that each of those wells actually produced during the base period. If the property is an agreement, your calculation under this paragraph must include all wells included in the agreement, even if they are not on a Federal onshore or OCS lease.

### **§ 204.5 What statutory requirements must I meet to obtain royalty prepayment or accounting and auditing relief?**

(a) MMS and the State may allow royalty prepayment or accounting and auditing relief for your marginal property production if MMS and the State jointly determine that the prepayment or accounting and auditing relief is in the best interests of the Federal Government and the State to:

- (1) Promote production;
- (2) Reduce the administrative costs of MMS and the State; and
- (3) Increase net receipts to the Federal Government and the State.

(b) At any time, if MMS and the State determine that either prepayment or accounting and auditing relief no longer meets the criteria in paragraph (a) of this section, MMS, with the State's concurrence, may discontinue any prepayment or accounting and auditing relief options granted for production from any marginal property.

(1) MMS will provide you written notice of the decision to discontinue relief.

(i) If you took the cumulative reports and payments relief option under § 204.202, your relief will terminate at the end of the calendar year in which you received the notice.

(ii) If you were approved for prepayment relief under subpart B of this part or other relief under § 204.203, MMS's

notice will tell you when your relief terminates.

(2) MMS's decision to discontinue relief is not subject to administrative appeal.

### **§ 204.6 May I appeal if MMS denies my request for prepayment or other relief?**

If MMS denies your request for prepayment relief under Subpart B of this part or other relief under § 204.203, you may appeal under 30 CFR part 290.

## **Subpart B—Prepayment of Royalty [Reserved]**

## **Subpart C—Accounting and Auditing Relief**

### **§ 204.200 What is the purpose of this subpart?**

This subpart explains how you as a lessee or designee may obtain accounting and auditing relief for your Federal onshore or OCS lease production from a marginal property. The two types of accounting and auditing relief that you can receive under this subpart are cumulative reports and payment relief (explained in § 204.202) and other accounting and auditing relief appropriate for your property (explained in § 204.203).

### **§ 204.201 Who may obtain accounting and auditing relief?**

(a) You may obtain accounting and auditing relief under this subpart:

(1) If you are a lessee or a designee for a Federal lease with production from a property that qualifies as a marginal property under § 204.4;

(2) If you meet any additional requirements for specific types of relief under this subpart; and

(3) Only for the fractional interest in production from the marginal property for which you report and pay royalty. You may obtain relief even if the other lessees or designees for your lease or agreement do not request relief.

(b) You may not obtain one or both of the relief options specified in this subpart on any portion of production from a marginal property if:

(1) The marginal property covers multiple States; and

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(2) One of the States determines under § 204.208 that it will not allow the relief option you seek.

### **§ 204.202 What is the cumulative royalty reports and payments relief option?**

(a) The cumulative royalty reports and payments relief option allows you to submit one royalty report and payment annually for production during a calendar year. You are eligible for this option only if the total volume produced from the marginal property (not just your share of the production) is 1,000 BOE or less during the base period.

(b) To use the cumulative royalty reports and payments relief option, you must do all of the following:

(1) Notify MMS in writing by January 31 of the calendar year for which you begin taking your relief. See § 204.205(a) for what your notification must contain;

(2) Submit your royalty report and payment in accordance with 30 CFR 218.51(g) by the end of February of the year following the calendar year for which you reported annually, unless you have an estimated payment on file. If you have an estimated payment on file, you must submit your royalty report and payment by the end of March of the year following the calendar year for which you reported annually;

(3) Use the sales month prior to the month that you submit your annual report and payment under paragraph (b)(2) of this section on your Report of Sales and Royalty Remittance, Form MMS–2014, for the entire previous calendar year's production for which you are paying annually. (For example, for a report in February use January as your sales month, and for a report in March use February as your sales month, to report production for the entire previous calendar year for which you are paying annually);

(4) Report one line of cumulative royalty information on Form MMS–2014 for the calendar year, the same as if it were a monthly report; and

(5) Report allowances on Form MMS–2014 on the same annual basis as the royalties for your marginal property production.

(c) If you do not pay your royalty by the date due in paragraph (b) of this section, you will owe late payment interest determined under 30 CFR 218.54 from the date your payment was due under this section until the date MMS receives it.

(d) If you take relief you are not qualified for, you may be liable for civil penalties. Also you must:

(1) Pay MMS late payment interest determined under 30 CFR 218.54 from the date your payment was due until the date MMS receives it; and

(2) Amend your Form MMS–2014 to reflect the required monthly reporting.

(e) If you dispose of your ownership interest in a marginal property for which you have taken relief under this section (or if you are a designee who reports and pays royalty for a lessee who has disposed of its ownership interest), you must:

(1) Report and pay royalties for the portion of the calendar year for which you had an ownership interest; and

(2) Make the report and payment by the end of the month after you dispose of the ownership interest in the marginal property. If you do not report and pay timely, you will owe interest determined under 30 CFR 218.54 from the date the payment was due under this section.

### **§ 204.203 What is the other relief option?**

(a) Under this relief option, you may request any type of accounting and auditing relief that is appropriate for production from your marginal property, provided it is not prohibited under § 204.204 and meets the statutory requirements of § 204.5. Examples of relief options you could request are:

(1) To report and pay royalties using a valuation method other than that required under 30 CFR part 206 that approximates royalties payable under that part 206; and

(2) To reduce your royalty audit burden. However, MMS will not consider any request that eliminates MMS's or the States' right to audit.

(b) You must request approval from MMS under § 204.205(b), and receive approval under § 204.206 before taking relief under this option.

**§ 204.204 What accounting and auditing relief will MMS not allow?**

MMS will not approve your request for accounting and auditing relief under this subpart if your request:

- (a) Prohibits MMS or the State from conducting any form of audit;
- (b) Permanently relieves you from making future royalty reports or payments;
- (c) Provides for less frequent royalty reports and payments than annually;
- (d) Provides for you to submit royalty reports and payments at separate times;
- (e) Impairs MMS's ability to properly or efficiently account for or distribute royalties;
- (f) Requests relief for a lease under which the Federal Government takes its royalties in kind;
- (g) Alters production reporting requirements;
- (h) Alters lease operation or safety requirements;
- (i) Conflicts with rent, minimum royalty, or lease requirements; or
- (j) Requests relief for production from a marginal property located in whole or in part in a State that has determined that it will not allow such relief under § 204.208.

**§ 204.205 How do I obtain accounting and auditing relief?**

(a) To take cumulative reports and payments relief under § 204.202, you must notify MMS in writing by January 31 of the calendar year for which you begin taking your relief.

(1) Your notification must contain:

(i) Your company name, MMS-assigned payor code, address, phone number, and contact name; and

(ii) The specific MMS lease number and agreement number, if applicable.

(2) You may file a single notification for multiple marginal properties.

(b) To obtain other relief under § 204.203, you must file a written request for relief with MMS.

(1) Your request must contain:

(i) Your company name, MMS-assigned payor code, address, phone number, and contact name;

(ii) The MMS lease number and agreement number, if applicable; and

(iii) A complete and detailed description of the specific accounting or auditing relief you seek.

(2) You may file a single request for multiple marginal properties if you are requesting the same relief for all properties.

**§ 204.206 What will MMS do when it receives my request for other relief?**

When MMS receives your request for other relief under § 204.205(b), it will notify you in writing as follows:

(a) If your request for relief is complete, MMS may either approve, deny, or modify your request in writing after consultation with any State required under § 204.207(b).

(1) If MMS approves your request for relief, MMS will notify you of the effective date of your accounting or auditing relief and other specifics of the relief approved.

(2) If MMS denies your relief request, MMS will notify you of the reasons for denial and your appeal rights under § 204.6.

(3) If MMS modifies your relief request, MMS will notify you of the modifications.

(i) You have 60 days from your receipt of MMS's notice to either accept or reject any modification(s) in writing.

(ii) If you reject the modification(s) or fail to respond to MMS's notice, MMS will deny your relief request. MMS will notify you in writing of the reasons for denial and your appeal rights under § 204.6.

(b) If your request for relief is not complete, MMS will notify you in writing that your request is incomplete and identify any missing information.

(1) You must submit the missing information within 60 days of your receipt of MMS's notice that your request is incomplete.

(2) After you submit all required information, MMS may approve, deny, or modify your request for relief under paragraph (a) of this section.

(3) If you do not submit all required information within 60 days of your receipt of MMS's notice that your request is incomplete, MMS will deny your relief request. MMS will notify you in writing of the reasons for denial and your appeal rights under § 204.6.

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(4) You may submit a new request for relief under this subpart at any time after MMS returns your incomplete request.

### **§ 204.207 Who will approve, deny, or modify my request for accounting and auditing relief?**

(a) If there is not a State concerned for your marginal property, only MMS will decide whether to approve, deny, or modify your relief request.

(b) If there is a State concerned for your marginal property that has determined in advance under § 204.208 that it will allow either or both of the relief options under this subpart, MMS will decide whether to approve, deny, or modify your relief request after consulting with the State concerned.

### **§ 204.208 May a State decide that it will or will not allow one or both of the relief options under this subpart?**

(a) A State may decide in advance that it will or will not allow one or both of the relief options specified in this subpart for a particular calendar year. If a State decides that it will not consent to one or both of the relief options, MMS will not grant that type of marginal property relief.

(b) To help States decide whether to allow one or both of the relief options specified in this subpart, for each calendar year MMS will send States a Report of Marginal Properties by October 1 preceding the calendar year.

(c) If a State decides under paragraph (a) of this section that it will or will not allow one or both of the relief options in this subpart during the next calendar year, within 30 days of the State's receipt of the Report of Marginal Properties under paragraph (b) of this section, the State must:

(1) Notify the Associate Director for Minerals Revenue Management, MMS, in writing, of its intent to allow or not allow one or both of the relief options under this subpart; and

(2) Specify in its notice of intent to MMS which relief option(s) it will allow or not allow.

(d) If a State decides in advance under paragraph (a) of this section that it will not allow one or both of the relief options specified in this subpart, it may decide for subsequent calendar

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years that it will allow one or both of the relief options in this subpart. If it so decides, within 30 days of the State's receipt of the Report of Marginal Properties under paragraph (b) of this section, the State must:

(1) Notify the Associate Director for Minerals Revenue Management, MMS, in writing, of its intent to allow one or both of the relief options allowed under this subpart during the next calendar year; and

(2) Specify in its notice of intent to MMS which relief option(s) it will allow.

(e) If a State does not notify MMS under paragraph (c) or (d) of this section, the State will be deemed to have decided not to allow either of the relief options under this subpart for the next calendar year.

(f) MMS will publish a notice of the State's intent to allow or not allow certain relief options under this section in the FEDERAL REGISTER no later than 30 days before the beginning of the applicable calendar year.

### **§ 204.209 What if a property ceases to qualify for relief obtained under this subpart?**

(a) A marginal property must qualify for relief under this subpart for each calendar year based on production during the base period for that calendar year. The notice or request you provided to MMS under § 204.205 for the first calendar year that the property qualified for relief remains effective for successive calendar years if the property continues to qualify.

(b) If a property is no longer eligible for relief for any reason during a calendar year other than the reason under § 204.210 or paragraph (c) of this section, the relief for the property terminates as of December 31 of that calendar year. You must notify MMS in writing by December 31 that the relief for the property has terminated.

(c) If you dispose of your interest in a marginal property during the calendar year, your relief terminates as of the end of the sales month in which you disposed of the property. Report and pay royalties for your production using the procedures in § 204.202(e).

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### **§ 204.210 What if a property is approved as part of a nonqualifying agreement?**

If the Bureau of Land Management (BLM) or MMS's Offshore Minerals Management (OMM) retroactively approves a marginal property that qualified for relief for inclusion as part of an agreement that does not qualify for relief under this subpart, the property no longer qualifies for relief under this subpart then:

(a) MMS will not retroactively rescind the marginal property relief for production from your property under § 204.211;

(b) Your marginal property relief terminates as of December 31 of the calendar year that you receive the BLM or OMM approval of your marginal property as part of a nonqualifying agreement; and

(c) For the calendar year in which you receive the BLM or OMM approval, and for any previous period affected by the approval, the volumes on which you report and pay royalty for your lease must be amended to reflect all volumes produced on or allocated to your lease under the nonqualifying agreement as modified by BLM or OMM. Report and pay royalties for your production using the procedures in § 204.202(b).

(d) If you owe additional royalties based on the retroactive agreement approval and do not pay your royalty by the date due in § 204.202(b), you will owe late payment interest determined under 30 CFR 218.54 from the date your payment was due under § 204.202 (b)(2) until the date MMS receives it.

### **§ 204.211 When may MMS rescind relief for a property?**

(a) MMS may retroactively rescind the relief for your property if MMS determines that your property was not eligible for the relief obtained under this subpart because:

(1) You did not submit a notice or request for relief under § 204.205;

(2) You submitted erroneous information in the notice or request for relief you provided to MMS under § 204.205 or in your royalty or production reports; or

(3) Your property is no longer eligible for relief because production increased,

but you failed to provide the notice required under § 204.209(b).

(b) MMS may rescind relief for your property if MMS decides to take royalty in kind.

### **§ 204.212 What if I took relief for which I was ineligible?**

If you took relief under this subpart for a period for which you were not eligible, you:

(a) May owe additional royalties and late payment interest determined under 30 CFR 218.54 from the date your additional payments were due until the date MMS receives them; and

(b) May be subject to civil penalties.

### **§ 204.213 May I obtain relief for a property that benefits from other Federal or State incentive programs?**

You may obtain accounting and auditing relief for production from a marginal property under this subpart even if the property benefits from other Federal or State production incentive programs.

### **§ 204.214 Is minimum royalty due on a property for which I took relief?**

(a) If you took cumulative royalty reports and payment relief on a property under this subpart, minimum royalty is still due for that property by the date prescribed in your lease and in the amount prescribed therein.

(b) If you pay minimum royalty on production from a marginal property during a calendar year for which you are taking cumulative royalty reports and payment relief, and:

(1) The annual payment you owe under this subpart is greater than the minimum royalty you paid, you must pay the difference between the minimum royalty you paid and your annual payment due under this subpart; or

(2) The annual payment you owe under this subpart is less than the minimum royalty you paid, you are not entitled to a credit because you must pay at least the minimum royalty amount on your lease each year.

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### § 204.215 Are the information collection requirements in this subpart approved by the Office of Management and Budget (OMB)?

OMB has approved the information collection requirements contained in this subpart under 44 U.S.C. 3501 *et seq.*, and assigned OMB control number 1010-0155. See 30 CFR part 210 for details concerning your estimated reporting burden and how you may comment on the accuracy of the burden estimate.

## PART 206—PRODUCT VALUATION

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