

## § 1206.113

near Artesia, New Mexico. Further, assume that the lessee transports the oil to Roswell, New Mexico, and then exchanges the oil to Midland, Texas. Assume the lessee refines the oil received in exchange at Midland. Assume that the NYMEX price is \$30.00/bbl, adjusted for the roll; that the WTI differential (Cushing to Midland) is  $-.10$ /bbl; that the lessee's exchange agreement between Roswell and Midland results in a location and quality differential of  $-.08$ /bbl; and that the lessee's actual cost of transporting the oil from Artesia to Roswell is  $$.40$ /bbl. In this example, the royalty value of the oil is  $\$30.00 - \$.10 - \$.08 - \$.40 = \$29.42$ /bbl.

(2) *Example.* Assume the same facts as in the example in paragraph (1), except that the lessee transports and exchanges to Midland 40 percent of the production from the lease near Artesia, and transports the remaining 60 percent directly to its own refinery in Ohio. In this example, the 40 percent of the production would be valued at  $\$29.42$ /bbl, as explained in the previous example. In this example, the other 60 percent also would be valued at  $\$29.42$ /bbl.

(3) *Example.* Assume that a Federal lessee produces crude oil from a lease near Bakersfield, California. Further, assume that the lessee transports the oil to Hynes Station, and then exchanges the oil to Cushing which it further exchanges with oil it refines. Assume that the ANS spot price is  $\$20.00$ /bbl, and that the lessee's actual cost of transporting the oil from Bakersfield to Hynes Station is  $$.28$ /bbl. The lessee must request approval from ONRR for a location and quality adjustment between Hynes Station and Long Beach. For example, the lessee likely would propose using the tariff on Line 63 from Hynes Station to Long Beach as the adjustment between those points. Assume that adjustment to be  $$.72$ , including the sulfur and gravity bank adjustments, and that ONRR approves the lessee's request. In this example, the preliminary (because the location and quality adjustment is subject to ONRR review) royalty value of the oil is  $\$20.00 - \$.72 - \$.28 = \$19.00$ /bbl. The fact that oil was exchanged to Cushing does

## 30 CFR Ch. VII (7-1-14 Edition)

not change use of ANS spot prices for royalty valuation.

[69 FR 24978, May 5, 2004]

### § 1206.113 How will ONRR identify market centers?

ONRR periodically will publish in the FEDERAL REGISTER a list of market centers. ONRR will monitor market activity and, if necessary, add to or modify the list of market centers and will publish such modifications in the FEDERAL REGISTER. ONRR will consider the following factors and conditions in specifying market centers:

- (a) Points where ONRR-approved publications publish prices useful for index purposes;
- (b) Markets served;
- (c) Input from industry and others knowledgeable in crude oil marketing and transportation;
- (d) Simplification; and
- (e) Other relevant matters.

### § 1206.114 What are my reporting requirements under an arm's-length transportation contract?

You or your affiliate must use a separate entry on Form ONRR-2014 to notify ONRR of an allowance based on transportation costs you or your affiliate incur. ONRR may require you or your affiliate to submit arm's-length transportation contracts, production agreements, operating agreements, and related documents. Recordkeeping requirements are found at part 1207 of this chapter.

### § 1206.115 What are my reporting requirements under a non-arm's-length transportation arrangement?

(a) You or your affiliate must use a separate entry on Form ONRR-2014 to notify ONRR of an allowance based on transportation costs you or your affiliate incur.

(b) For new transportation facilities or arrangements, base your initial deduction on estimates of allowable oil transportation costs for the applicable period. Use the most recently available operations data for the transportation system or, if such data are not available, use estimates based on data for similar transportation systems. Section 1206.117 will apply when you

amend your report based on your actual costs.

(c) ONRR may require you or your affiliate to submit all data used to calculate the allowance deduction. Recordkeeping requirements are found at part 1207 of this chapter.

**§ 1206.116 What interest applies if I improperly report a transportation allowance?**

(a) If you or your affiliate deducts a transportation allowance on Form ONRR-2014 that exceeds 50 percent of the value of the oil transported without obtaining ONRR's prior approval under § 1206.109, you must pay interest on the excess allowance amount taken from the date that amount is taken to the date you or your affiliate files an exception request that ONRR approves. If you do not file an exception request, or if ONRR does not approve your request, you must pay interest on the excess allowance amount taken from the date that amount is taken until the date you pay the additional royalties owed.

(b) If you or your affiliate takes a deduction for transportation on Form ONRR-2014 by improperly netting an allowance against the oil instead of reporting the allowance as a separate entry, ONRR may assess a civil penalty under 30 CFR part 1241.

[73 FR 15890, Mar. 26, 2008]

**§ 1206.117 What reporting adjustments must I make for transportation allowances?**

(a) If your or your affiliate's actual transportation allowance is less than the amount you claimed on Form ONRR-2014 for each month during the allowance reporting period, you must pay additional royalties plus interest computed under § 1218.54 of this chapter from the date you took the deduction to the date you repay the difference.

(b) If the actual transportation allowance is greater than the amount you claimed on Form ONRR-2014 for any month during the allowance form reporting period, you are entitled to a credit plus interest under applicable rules.

**§ 1206.119 How are royalty quantity and quality determined?**

(a) Compute royalties based on the quantity and quality of oil as measured at the point of settlement approved by BLM for onshore leases or BSEE for offshore leases.

(b) If the value of oil determined under this subpart is based upon a quantity or quality different from the quantity or quality at the point of royalty settlement approved by the BLM for onshore leases or BSEE for offshore leases, adjust the value for those differences in quantity or quality.

(c) Any actual loss that you may incur before the royalty settlement metering or measurement point is not subject to royalty if BLM or BSEE, as appropriate, determines that the loss is unavoidable.

(d) Except as provided in paragraph (b) of this section, royalties are due on 100 percent of the volume measured at the approved point of royalty settlement. You may not claim a reduction in that measured volume for actual losses beyond the approved point of royalty settlement or for theoretical losses that are claimed to have taken place either before or after the approved point of royalty settlement.

[65 FR 14088, Mar. 15, 2000, as amended at 69 FR 24979, May 5, 2004]

**§ 1206.120 How are operating allowances determined?**

BOEMRE may use an operating allowance for the purpose of computing payment obligations when specified in the notice of sale and the lease. BOEM will specify the allowance amount or formula in the notice of sale and in the lease agreement.

**Subpart D—Federal Gas**

SOURCE: 53 FR 1272, Jan. 15, 1988, unless otherwise noted.

**§ 1206.150 Purpose and scope.**

(a) This subpart is applicable to all gas production from Federal oil and gas leases. The purpose of this subpart is to establish the value of production for royalty purposes consistent with the mineral leasing laws, other applicable laws and lease terms.