

Understanding Royalty Rates for Oil and Gas Leases

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Mineral Leasing Act of 1920

Leasing Federal lands for the exploration for and production of

Coal

Phosphate

Oil

Oil Shale

Natural Gas

Collect Royalties

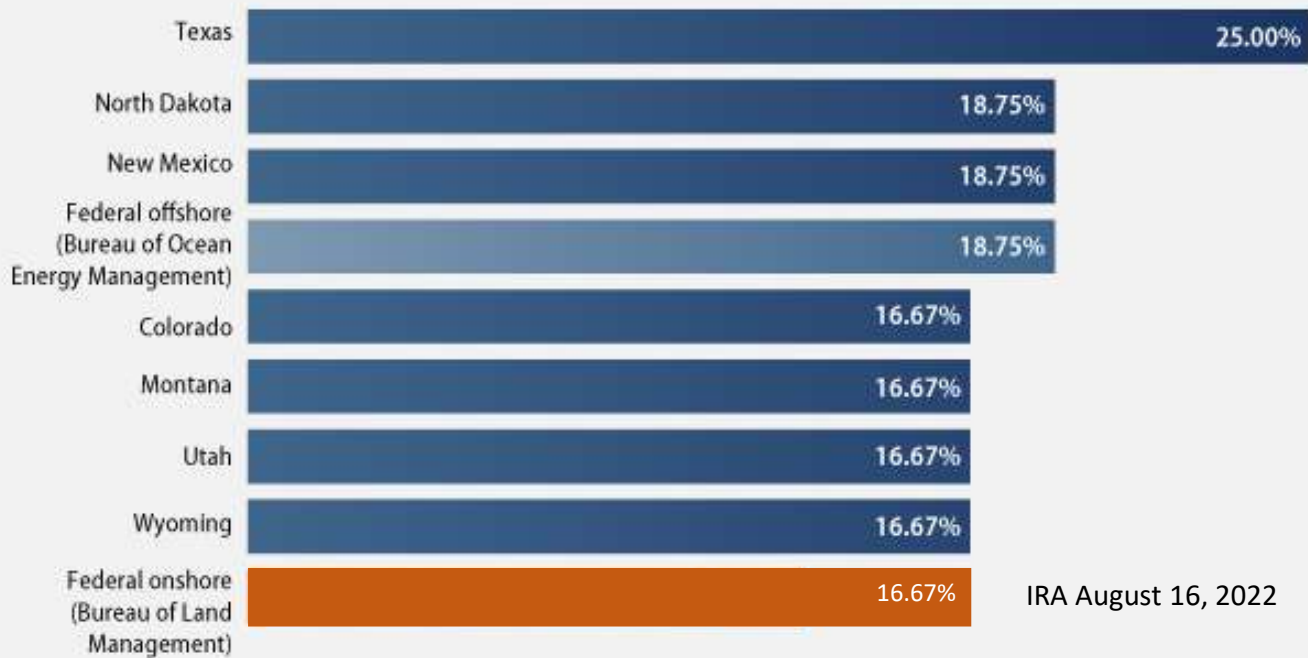
Coal – 5 cents / ton

Phosphate – 2%

Oil and Gas – 12.5% (1/8)

FIGURE 1

Comparing federal and state royalty rates for oil and gas extraction



IRA August 16, 2022

Source: Center for Western Priorities, "A Fair Share: The Case for Updating Federal Royalties" (2013), available at westernpriorities.org/wp-content/uploads/2013/07/A-Fair-Share.pdf.

Bureau of Land Management

Formed in 1946 to

Sustain the health, diversity, and productivity of the public lands for the use and enjoyment of present and future generations

Housed within the Department of the Interior

Oversees

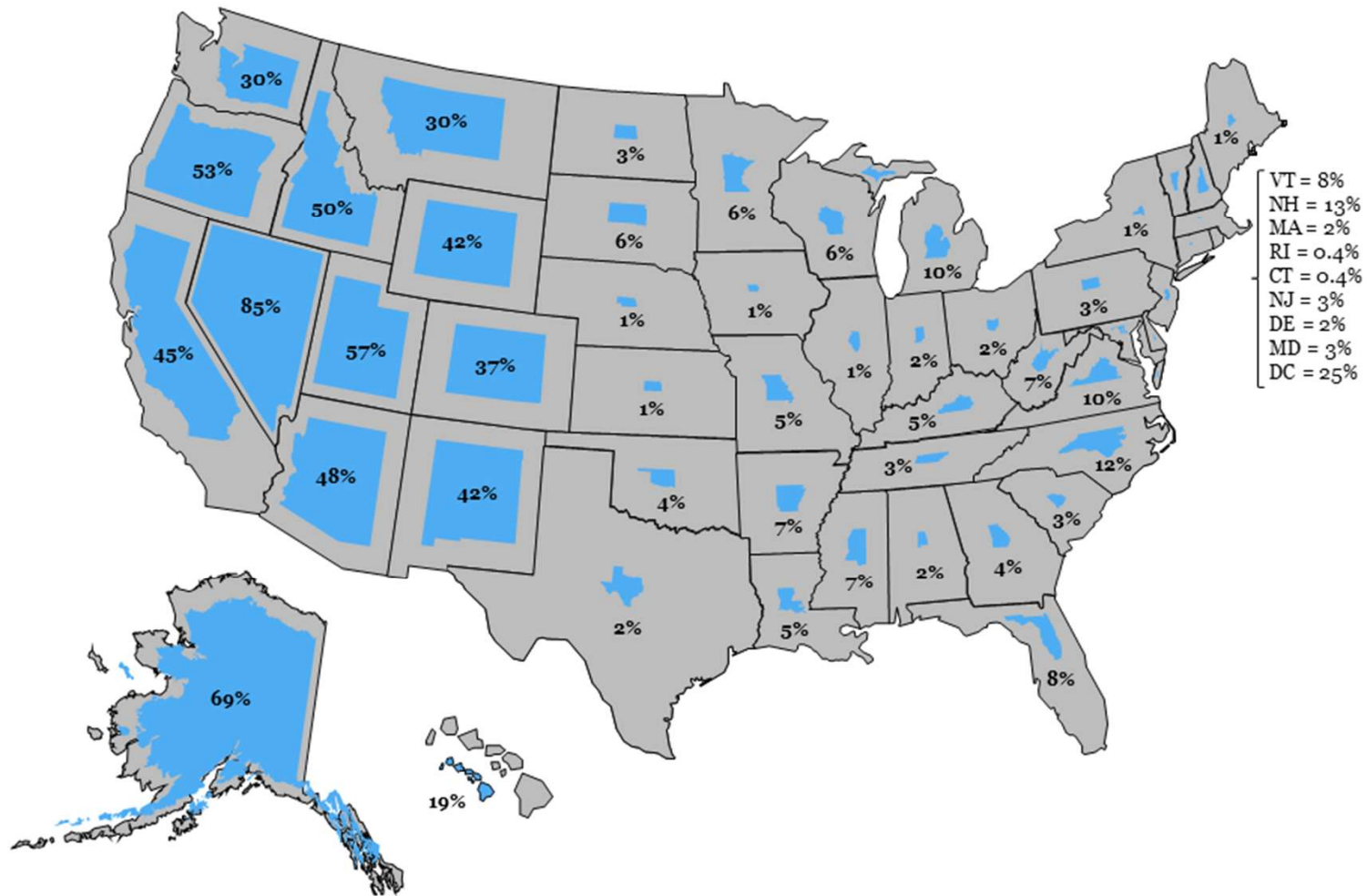
10% of the Nations land

and

1/3 of the Nations minerals

Collects and audits royalty payments

Portion of each state that is federal land



The Federal Land Policy and Management Act of 1976

Public lands are managed in a manner that will protect the quality of scientific, scenic, historical, ecological, environmental, air and atmospheric, water resource, and archeological values

The United States receives fair market value of the use of the public lands and their resources unless otherwise provided for by statute

Royalty Policy Committee (RPC)

“This Royalty Policy Committee (Committee) is a discretionary committee established under the authority of the Secretary of the Interior (Secretary) and regulated by the Federal Advisory Committee Act (FACA). The purpose of this FACA is to ensure that the public has knowledge of and an opportunity to participate in meetings between Federal agencies and groups that an agency either has established, or manages and controls for the purpose of obtaining group advice and recommendations regarding the agency’s operations or activities.”

Membership

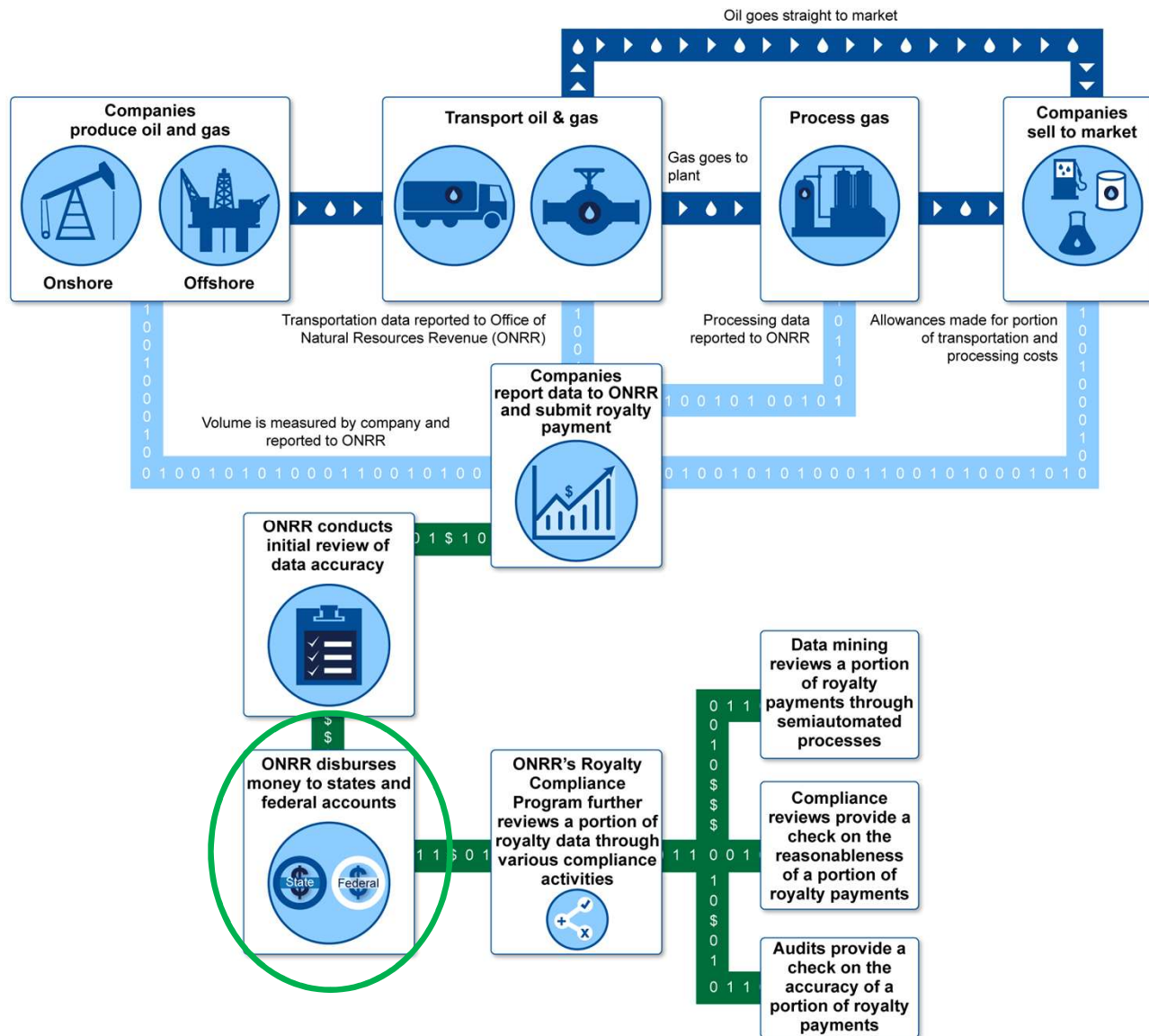
- Six members representing the Governors of States that receive more than \$10,000,000 annually in royalty revenues from onshore and offshore Federal leases
- Four members representing Indian Tribes
- Six members representing various mineral and/or energy stakeholders in Federal and Indian royalty policy
- Four members representing academia and public interest groups

Charge to the RPC

Ensuring a fair return to US citizens

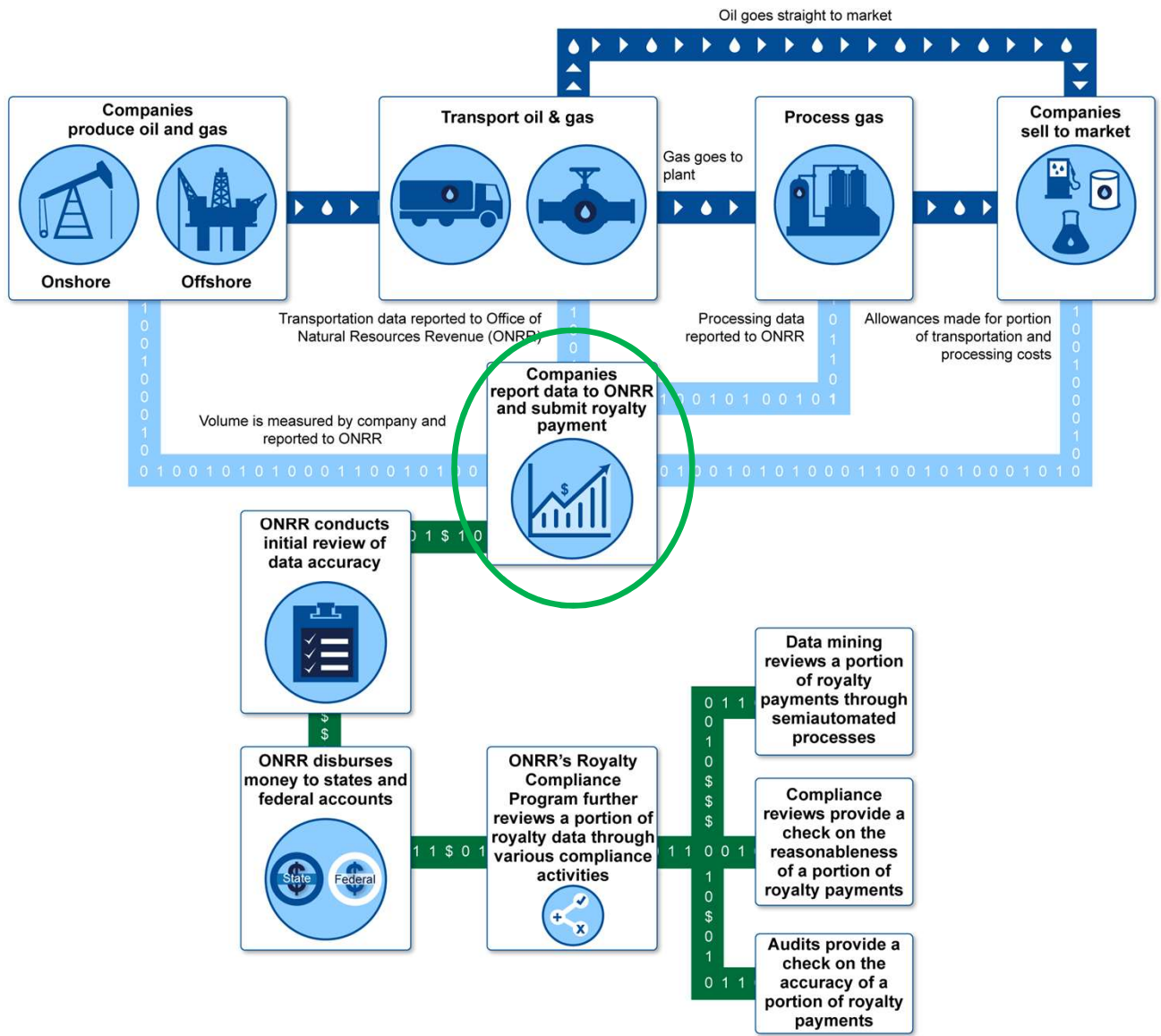
Developing policies that are not punitive and
move the country towards prosperity

Simplifying royalty process



BLM Payments

[BLM Payments to States](#)



Payer's Handbook

The Minerals Revenue Reporter Handbook (payer's handbook) provides instructions and examples to assist reporters in preparing the Report of Sales and Royalty Remittance (Form ONRR-2014), which is required by the Office of Natural Resources Revenue (ONRR) for reporting and paying revenues due on Federal and Indian oil, gas, and geothermal leases.

(a short 324 pages)

Transaction code 10. This example shows how to report and pay a compensatory royalty **agreement**. A well located on fee land is draining **unleased Indian land**. The payor of the compensatory royalty agreement reports and pays royalties based on **100 percent** of the value of the product multiplied by the **drainage factor** multiplied by the royalty rate. The fee land lessee has no obligation to ONRR.

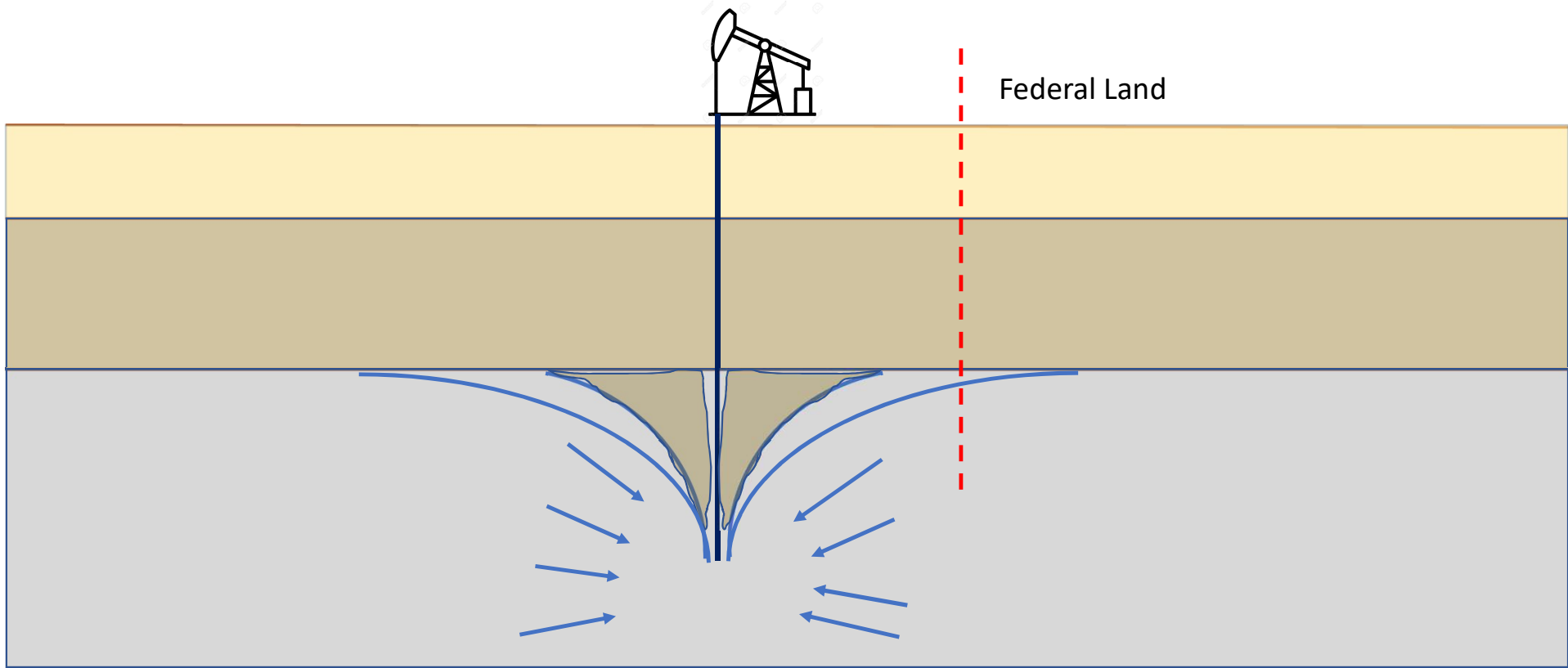
Assumptions:

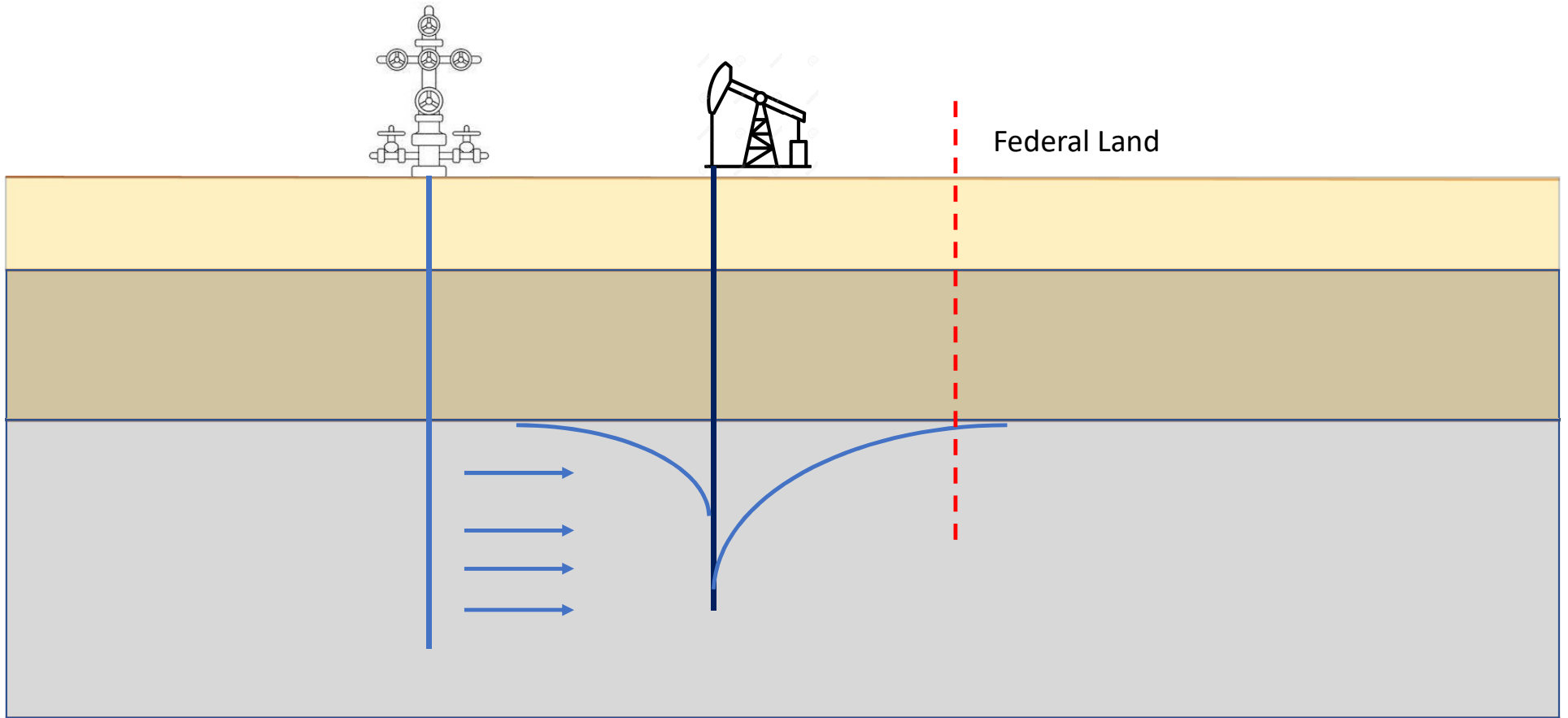
- The ONRR-converted lease number is 889-000355-0.
- Your sale occurred in October 2019.
- The product is **unprocessed (wellhead) gas**, product code 04. You produced and sold 3,000 Mcf. The **gas heating value** is 1,200 Btu/cu ft. You sold 3,600 MMBtu. The contract price is **\$3.00/MMBtu**.
- The **drainage factor** is 15 percent.
- The **royalty rate** is 20 percent.
- You pay by EFT to ONRR.

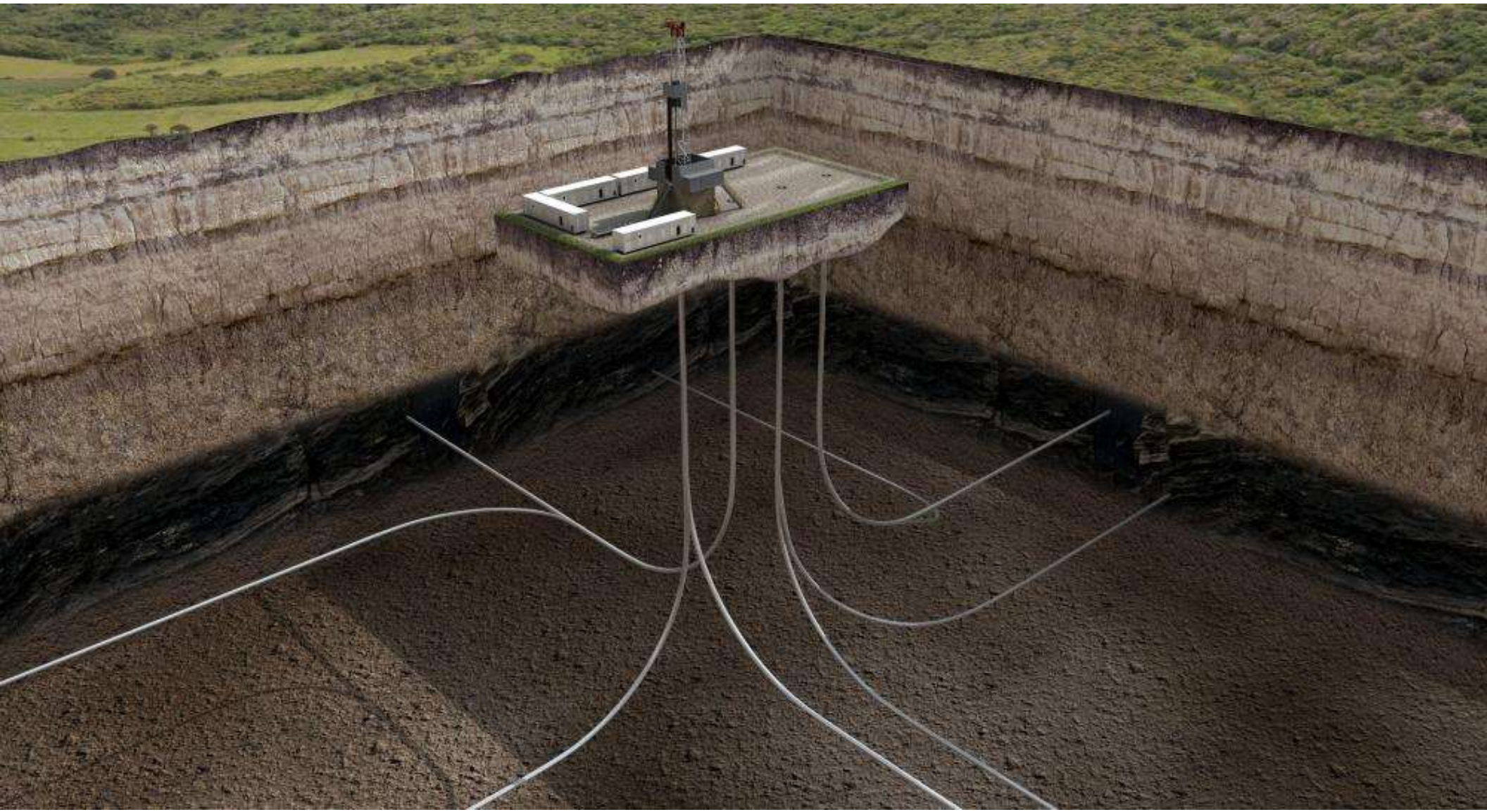
Royalty value calculation:

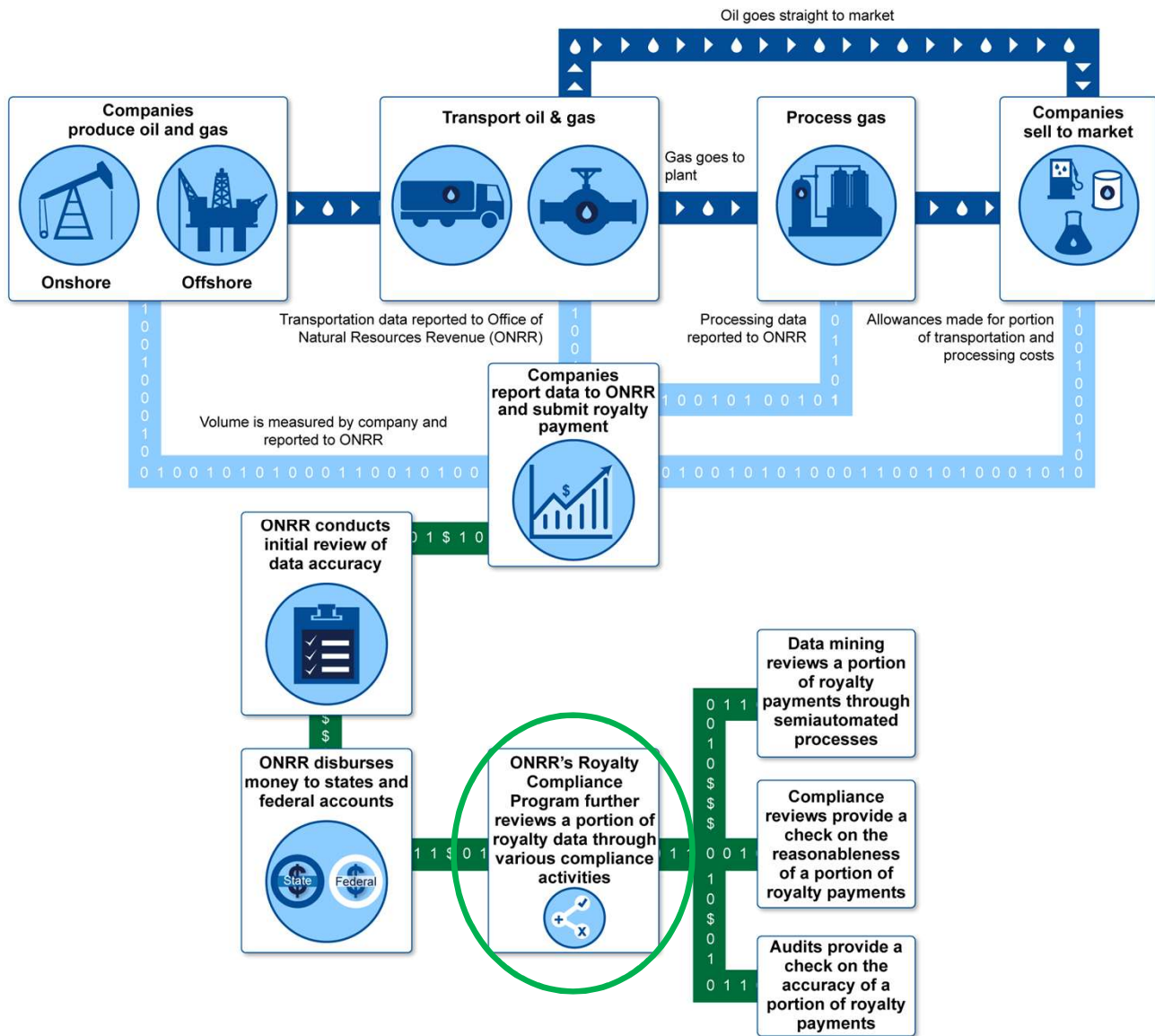
sales volume x drainage factor x Btu factor x price x royalty rate = royalty value

$$3,000 \text{ Mcf} \times 0.15 \times 1.200 \text{ MMBtu/Mcf} \times \$3.00/\text{MMBtu} \times 0.20 = \$324.00$$





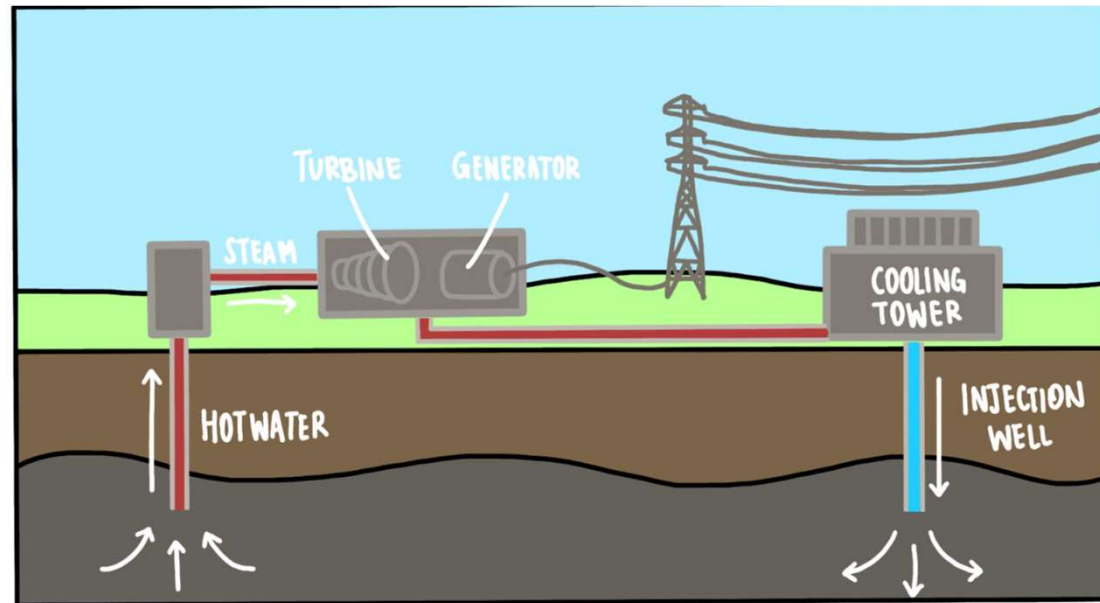




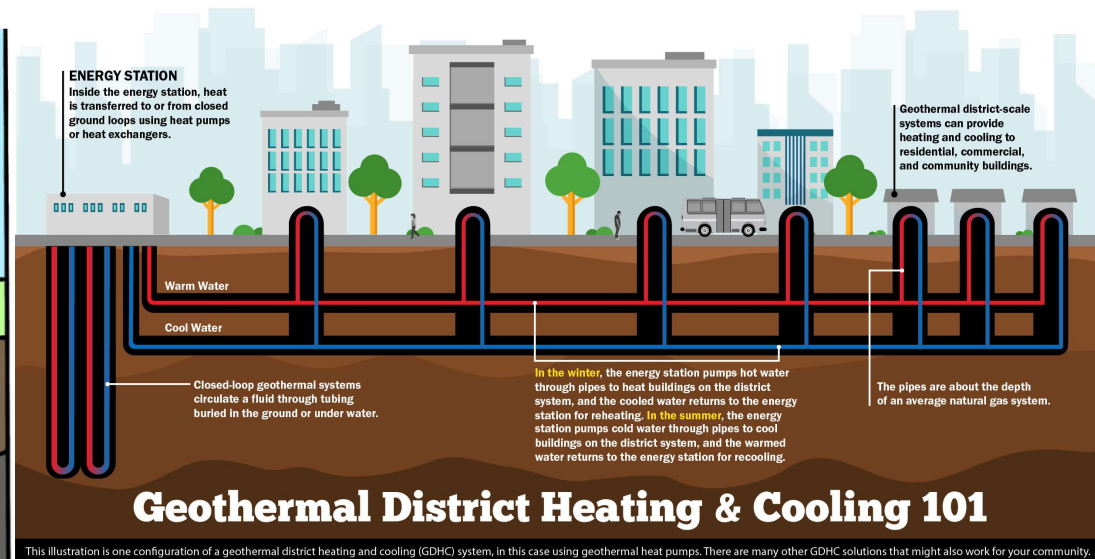
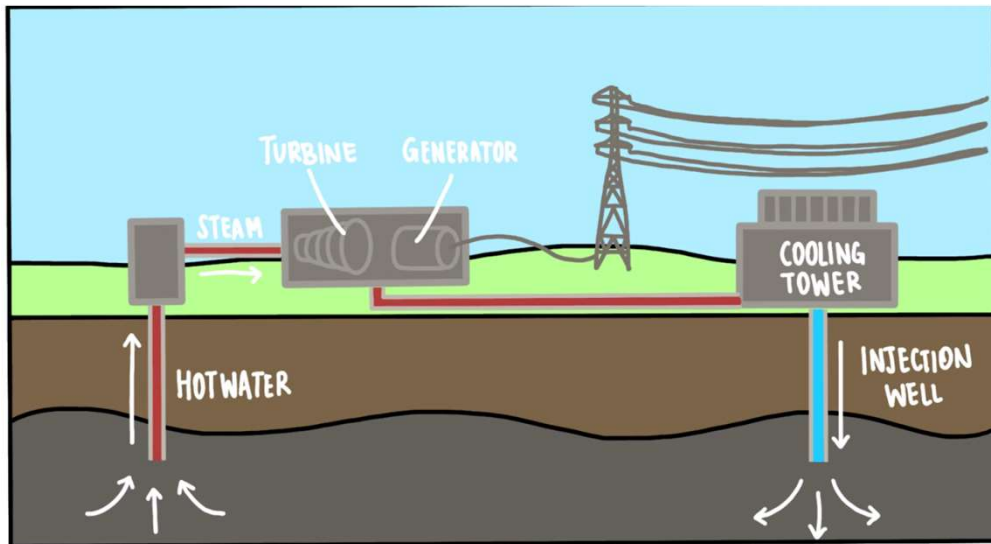


As a result of an injunction imposed by the Court in *WORC v. Bernhardt*, 18-cv-139 (D. Mont.), the Department of the Interior may neither use nor rely upon any advice or recommendations of the RPC in any Departmental actions.

Other Sources of Energy



Other Sources of Energy



Backup Slides

- Ensuring fair market return for resources produced on Federal and Indian lands, and determining whether to establish royalty payments for additional resources
- Review renewable energy operating fees to create harmonization onshore and offshore
- Assess the economics of present and future royalty rates
- Assess the economic models and analysis used by the Department
- Review international royalty rates and best practices elsewhere
- Evaluate different leasing programs, price-based royalties, and other arrangements
- Evaluate how our activities impact employment figures
- Look for ways to increase competition