In connection with the upcoming July 1, 2020 deadline[1] by which all federal oil and gas reporters and payors have been instructed to complete their submission of corrected reporting and payment in compliance with the Consolidated Federal Oil & Gas and Federal & Indian Coal Valuation Reform, 81 Fed. Reg. 43,338 (July 1, 2016) (the "**2016 Valuation Rule**"), the following tables list and explain the various valuation changes encompassed by the 2016 Valuation Rule that federal oil and gas reporters and payors need to be aware of:

Federal Oil Valuation Changes under 2016 Valuation Rule			
	Topic	**ONRR Explanation**	**Regulation(s)**
1	*Rescission of Subsea Transportation Allowances*	"In this final rule, any movement of bulk production from the wellhead to a platform offshore is gathering and not transportation. ONRR changed the definition of the term 'gathering' . . . to rescind the May 20, 1999[] 'Guidance for Determining Transportation Allowances for Production from Leases in Waster Depth Greater Than 200 Meters.' (Deep Water Policy). The Deep Water Policy allowed lessees to deduct certain costs associated with moving bulk production from the seafloor to the first platform." 81 Fed. Reg. at 43,340 (left-hand column); *see also* 81 Fed. Reg. at 43,343 (middle column).	30 C.F.R. §§ 1206.20, 1206.110
2	*Elimination of Transportation Allowances in Excess of 50% Cap*	"In this final rule, we eliminated the regulation allowing us to approve transportation allowances in excess of 50 percent of the value of a lessee's oil production. Under this final rule, any prior approvals terminate on the date when this rule becomes final." 81 Fed. Reg. at 43,343 (middle column).	30 C.F.R. § 1206.110

[1] This deadline was proposed by the Office of Natural Resources Revenue (the "**ONRR**") in a non-binding November 20, 2019 Dear Reporter Letter, signed by the then- Deputy Director James D. Steward, available at https://www.onrr.gov/PDFDocs/dear-reporter-letter-20-Nov-19.pdf. *See Devon v. Kempthorne*, 551 F.3d 1030, 1039-41 (D.C. Cir. 2008). On June 10, 2020, during the ONRR's "Processed Gas Reporting Training," ONRR Representative Chris Carey stated the agency is not looking to impose civil penalties on federal reporters and payors who have not fully completed their submission of corrected reporting and payment in compliance with the 2016 Valuation Rule and suggested federal reporters and payors in that situation keep track of efforts made toward compliance in order to show progress and good faith to get into full compliance.

Federal Oil Valuation Changes under 2016 Valuation Rule			
	Topic	**ONRR Explanation**	**Regulation(s)**
3	*Elimination of Netting of Transportation Factor*	"Previously, ONRR allowed lessees to net transportation from their gross proceeds when the lessees' arm's-length contract reduced the price of the oil by a transportation factor. In this final rule, we eliminated this provision and, instead, require lessees to report such costs as a separate entry on Form ONRR-2014." 81 Fed. Reg. at 43,344 (left-hand column); *see also* 81 Fed. Reg. at 43,345 (left-hand and right-hand columns).	30 C.F.R. §§ 1206.110, 1206.113, 1206.115
4	*Elimination of Non-Arm's-Length Pipeline Loss Allowances*	"In this final rule, . . . ONRR eliminated the provision that allows lessees to deduct the costs of pipeline losses, both actual and theoretical, under non-arm's-length transportation situations." 81 Fed. Reg. at 43,345 (left-hand column).	30 C.F.R. § 1206.112
5	*Reduction of BBB Bond Rate*	"ONRR reduced the multiplier on any remaining undepreciated capital costs from 1.3 to 1.0 times the Standard & Poor's BBB bond rate." 81 Fed. Reg. at 43,345 (middle column).	30 C.F.R. § 1206.112
6	*Requirement of Written Arm's-Length Contracts*	"In this final rule, a lessee or its affiliate must have all of its contracts, contract revisions, or amendments in writing and signed by all the parties to those contracts, revisions, or amendments. Where the lessee does not have a written contract, ONRR may use the default provision to determine value." 81 Fed. Reg. at 43,342 (left-hand column); *see also* 81 Fed. Reg. at 43,345 (left-hand column).	30 C.F.R. §§ 1206.104, 1206.105

Federal Gas Valuation Changes under 2016 Valuation Rule			
	Topic	**ONRR Explanation**	**Regulation(s)**
7	*Rescission of Subsea Transportation Allowances*	"ONRR added a new provision stating that you may not take a transportation allowance for the movement of gas produced on the OCS from the wellhead to the first platform. This addition, along with the changes to the definition of gathering, rescinds the Deep Water Policy." 81 Fed. Reg. at 43,352 (left-hand column).	30 C.F.R. § 1206.152

Federal Gas Valuation Changes under 2016 Valuation Rule			
	Topic	**ONRR Explanation**	**Regulation(s)**
8	*Elimination of Transportation Allowances in Excess of 50% Cap*	"ONRR eliminated the regulation allowing us to approve transportation allowances in excess of 50 percent of the value of a lessee's gas production. Any prior approvals will terminate on the date when the rule becomes final." 81 Fed. Reg. at 43,352 (left-hand column).	30 C.F.R. § 1206.152
9	*Elimination of Processing Allowances in Excess of 66 2/3%*	"We eliminated the regulation allowing us to approve processing allowances in excess of 66 2/3 percent of the value of a lessee's gas production. Any prior approvals will terminate on the date when the rule becomes final." 81 Fed. Reg. at 43,353 (left-hand column).	30 C.F.R. § 1206.159
10	*Elimination of Extraordinary Processing Allowances*	"We eliminated the provision that allows a lessee to request an extraordinary processing cost allowance. We previously allowed lessees to deduct processing costs up to 99 percent of the value of the gas plant products extracted and up to 50 percent of the value of the residue gas. This final rule also terminates the two existing extraordinary processing cost allowance approvals." 81 Fed. Reg. at 43,353 (middle column).	30 C.F.R. § 1206.159
11	*Elimination of Netting of Transportation Factor*	"Previously, ONRR allowed lessees to net transportation from their gross proceeds when the lessees' arm's-length contract reduced the price of the gas by a transportation factor. We eliminated this provision and, instead, require lessees to report such costs as a separate entry on Form ONRR-2014." 81 Fed. Reg. at 43,352 (left-hand column); *see also* 81 Fed. Reg. at 43,352 (middle column), 43,353 (left-hand column).	30 C.F.R. §§ 1206.152, 1206.153, 1206.155
12	*Elimination of Non-Arm's-Length Pipeline Loss Allowances*	"[W]e eliminated the provision that allows lessees to deduct the costs of pipeline losses, both actual and theoretical, under non-arm's-length transportation situations." 81 Fed. Reg. at 43,352 (right-hand column).	30 C.F.R. § 1206.154
13	*Reduction of BBB Bond Rate*	"We reduced the multiplier on any remaining undepreciated capital costs from 1.3 to 1.0 times the Standard & Poor's BBB bond rate." 81 Fed. Reg. at 43,352 (right-hand column).	30 C.F.R. § 1206.154

Federal Gas Valuation Changes under 2016 Valuation Rule			
	Topic	**ONRR Explanation**	**Regulation(s)**
14	*Requirement of Written Arm's-Length Contracts*	"We added a new provision stating that we will determine transportation allowances if lessees do not have a written contract for the arms'-length transportation of gas." 81 Fed. Reg. at 43,352 (middle column).	30 C.F.R. §§ 1206.104, 1206.152
15	*Elimination of Use of FERC or State Regulatory-Approved Tariff*	"[I]n this final rule, we deleted, "or ONRR approves your use of a FERC or State regulatory-approved tariff as an exception from the requirement to calculate actual costs[.]" 81 Fed. Reg. at 43,352 (middle column); *see also* 81 Fed. Reg. at 43,352 (right-hand column).	30 C.F.R. §§ 1206.153, 1206.154
16	*Elimination of Boosting Compression Cost Allowances*	"[W]e specify that the costs of boosting residue gas are not allowable costs of transportation." 81 Fed. Reg. at 43,352 (middle column).	30 C.F.R. § 1206.153
17	*Elimination of Non-Arm's-Length Valuation Benchmarks*	"In this final rule, ONRR eliminated the non-arm's-length valuation benchmarks and requires lessees to value gas production based on how they sell their gas (such as using (1) the first arm's-length sale prices, (2) optional index prices, or (3) volume weighted average of the values established under this paragraph for each contract for the sale of gas produced from that lease). . . . [I]f you sell or transfer your Federal gas production to your affiliate, or some other person at less than arm's-length, and that person or their affiliate then sells the gas at arm's-length, you will base your royalty value on the other person's (or their affiliate's) gross proceeds under the first arm's-length contract. . . . [I]f you sell or transfer your Federal residue gas and gas plant products to your affiliate, or some other person at less than arm's-length, and that person or its affiliate then sells the residue gas and gas plant products at arm's-length, royalty value will be the other person's (or its affiliate's) gross proceeds under the first arm's-length contract. However, two exceptions apply: (1) Lessees may elect to use the index-pricing option . . ., or (2) we decide to value your gas under the default valuation provision[.]" 81 Fed. Reg. at 43,346 (left-hand column), 43,349 (left-hand and middle columns).	30 C.F.R. §§ 1206.141, 1206.142

Federal Gas Valuation Changes under 2016 Valuation Rule			
	Topic	**ONRR Explanation**	**Regulation(s)**
18	*Index-Based Valuation Option*	"ONRR added . . . an index-price valuation method that a lessee may elect to use[.] . . . ONRR based the method on publicly[]available index prices, less a specified deduction to account for processing and transportation costs. This valuation method also applies to certain 'no contract' situations[.] . . . The index-based option provides a lessee with a valuation option that is simple, certain, and avoids the requirements to unbundle fees and 'trace' production. This is applicable when there are numerous non-arm's-length sales prior to an arm's-length sale. . . . [T]he lessee may choose to value its gas only in an area that has an active index pricing point published in an ONRR-approved publication. The lessee may elect to value its gas under this paragraph, making that election binding on the lessee for two years. ONRR will post a list of approved publications at www.onrr.gov." 81 Fed. Reg. at 43,346 (middle column); *see also* 81 Fed. Reg. at 43,349 (middle column).	30 C.F.R. §§ 1206.141, 1206.142
19	*No-Sale, Affiliate Sale then Use, Fuel Use, and No-Written Contract Situations*	"[I]f you have no written contract or no sale of gas subject to this section, and there is an index pricing point for the gas, then you must value your gas under the index-pricing provisions . . . unless ONRR values your gas[.] . . . We intended this provision to address situations including, but not limited to, when (1) the lessee sells its gas to an affiliate, and the affiliate uses the gas in its facility; (2) the lessee sells its gas to an affiliate, the affiliate resells the gas to another affiliate of either the lessee or itself, and that affiliate uses the gas in its facility; (3) the lessee uses the gas as fuel for its other leases in the field or area; or (4) the lessee delivers gas to another person as payment for an overriding royalty interest that the other person holds." 81 Fed. Reg. at 43,348 (left-hand column); *see also* 81 Fed. Reg. at 43,350 (right-hand column).	30 C.F.R. §§ 1206.141, 1206.142

Federal Gas Valuation Changes under 2016 Valuation Rule			
	Topic	**ONRR Explanation**	**Regulation(s)**
20	*Valuation of Gas Sold under POP or POI Contracts as Processed Gas*	"[W]here a lessee sells its gas before processing[, the lessee] must base their royalty payments on any constituent products, resulting from processing, such as residue gas, NGLs, sulfur, or carbon dioxide. This final rule requires lessees to value POP contracts, percentage-of-index contracts, and contracts with any variations of payment based on volumes or the value of those products as processed gas." 81 Fed. Reg. at 43,348 (middle column).	30 C.F.R. § 1206.142
21	*Valuation of Keepwhole Contracts as Processed Gas*	"[T]he lessee must value gas processed under a 'keepwhole' contract as processed gas. . . . [W]e define the term 'keepwhole contract' as a processing agreement under which the processor compensates the lessee by delivering to the lessee a quantity of residue gas (after processing) that is equivalent to the quantity of gas the processor received (prior to processing), normally based on heat content, less gas used as plant fuel and gas that is unaccounted for and/or lost. The lessee does not receive NGLs under these contracts. . . . This provision clarifies that a lessee must value gas processed under a keepwhole contract as processed gas. That is, royalty is based on 100 percent of the value of residue gas, 100 percent of the value of gas plant products, plus the value of any condensate recovered downstream of the point of royalty settlement prior to processing, less applicable transportation and processing allowances." 81 Fed. Reg. at 43,348-49.	30 C.F.R. §§ 1206.20, 1206.152
22	*Removal of Regulatory Dual Accounting Requirement*	"We removed the requirement to perform accounting for comparison for gas produced from Federal leases from the final rule. We agree that the gas valuation method under § 1206.142 renders accounting for comparison for Federal gas production unnecessary. Should significant changes in the gas market occur in the future, we will revisit the need for Federal dual accounting in a future rulemaking. Further, § 1206.140(c) recognizes the primacy of lease terms over regulations and, should the terms of a lease require dual accounting, lessees are clearly subject to the dual accounting requirement." 81 Fed. Reg. at 43,352 (left-hand column); *see also* Fed. Reg. at 43,345 (left-hand column), 43,351 (right-hand column).	30 C.F.R. §§ 1206.141, 1206.151