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New Royalty Valuation Recommendations

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On February 28, 2018, the Royalty Policy Committee (RPC) met in Houston to present recommendations for improving the Department of the Interior's (DOI) valuation of royalties from oil, gas, and coal produced on federal and Indian lands. The RPC is composed of federal, Indian, state, industry, and public interest representatives.¹

The complete recommendations from the RPC's three subcommittees are available on the DOI's website. The following recommendations are particularly noteworthy for companies with leasing and production activities on federal and Indian lands:

Fair Return and Value Subcommittee:

- Revise the Oil and Gas Payor Handbook. This would include the creation of new, separate handbooks for federal and Indian production, and updating the guidance to better address unbundling, the marketable condition rule, beneficial fuel use, and transportation allowances.
- Simplify the index pricing for federal gas, and consider whether index pricing should be optional or mandatory for lessees.
- Revise policies and regulations that address compression costs and the marketable condition rule.
- Amend the non-arm's-length coal valuation benchmarks to allow the lessee to value its coal based on the gross proceeds received from its non-arm's-length sale, so long as the proceeds are comparable to arm's-length sales of like-quality coal in the area of the mine.

Planning, Analysis, and Competitiveness Subcommittee:

- Reduce timelines for approvals of applications for permits to drill, rights-of-way, sundries, lease nominations, and unit agreement.
- Revise and simplify Onshore Orders 3, 4, and 5.
- Reduce the offshore oil and gas lease royalty rate from 18.75% to 12.5%.
- Conduct a lease sale as soon as practicable in Alaska's Arctic National Wildlife Refuge.
- Increase opportunities for offshore wind lease sales and revise the operating fees for offshore wind development.

Tribal Affairs Subcommittee:

- Amend the governing statutes and regulations so that Tribes can have more control over mineral leasing.
- Create authority for Tribes to act as primary regulators of natural gas flaring, rather than the Bureau of Land Management.

These recommendations must be approved by the full RPC before they will be submitted to Secretary Zinke for acceptance or rejection. That decision likely will occur later this year.

If you have any questions about these recommendations or the status of the RPC's review, please contact John Shepherd or Tina Van Bockern.

¹ See <https://www.doi.gov/rpc> for list of representatives.

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