

Updating Onshore Order 3 (43 CFR 3170, 3173) IOGCC Meeting



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Topics

Clarification of BLM intent concerning jurisdiction on private or state properties.

Why are changes required?

Purposed Rules part of a portfolio (formerly Orders 3, 4, and 5)

- 43 CFR 3170 - Onshore Oil and Gas Production: General
- 43 CFR 3173 - Requirements for Site Security and Production Handling
- 43 CFR 3174 – Measurement of Oil
- 43 CFR 3175 – Measurement of Gas (to be published)

Why are Changes Required?

- Current Orders are 25+ years old, do not address new technology, new industry standards, or gaps identified over the past 25 years.
- Recommendations from Royalty Policy Committee, Office of the Inspector General, and Government Accountability Office.
- The Department of the Interior Minerals program is designated a “High Risk” program (onshore and offshore).
- Need to ensure accurate measurement (quantity, quality), proper reporting, accountability and verifiability – able to document, defend production reports.

Background

- Royalty generated from Onshore Federal and Indian leases: \$3.5 billion/year.
- 3170 and 3173 (Order 3) published in the Federal Register for public comment on July 13, 2015.
- Public comment period extended from September 11 to October 8, 2015.
- 43 CFR 3174 (oil measurement) and 43 CFR 3175 (gas measurement) to be published for public comment later this year.

Purposed 43 CFR 3170

General

New 43 CFR 3170 contains:

Definitions and regulations that are common to planned updates of existing Order 3 (3173 - Site Security) Order 4 (3174 - oil measurement) and Order 5 (3175 - gas measurement)

Purposed 43 CFR 3173 Site Security

Significant updates/changes:

- Commingling requests and approvals.
- Off lease measurement requests and approvals.
- Formal method of identifying the point where the amount or value of the production removed or sold from a lease (Facility Measurement Point/FMP).
- Increased detail on site facility diagrams.

Purposed 43 CFR 3173 Site Security

Continued, significant updates/changes:

- Increased detail of seal records.
- Monthly inventory (on hand).
- Elimination of self inspection and security plan(s).
- Immediate assessments for select violations.

Commingling

Commingling, for production accounting and reporting purposes, means combining production:

1. From multiple leases, unit PAs, or CAs, or
2. Combining production from one or more leases, unit PAs, or
3. CAs

With the production from State, local governmental, or private properties, before the point of royalty measurement.

Commingling when used and managed appropriately is a beneficial tool to all parties.

In most instances commingling is associated with off-lease measurement.

Commingling

Concerns and Challenges associated with commingling:

- Method of determining allocation (periodic testing).
- Lack of jurisdiction/authority (including physical) over meters used to allocate production associated with private (FEE) or state properties.

Both directly impact the BLMs ability to ensure accurate measurement (quantity, quality), proper reporting, accountability and verifiability – and can contribute to high risk in determination of production accountability.

Commingling

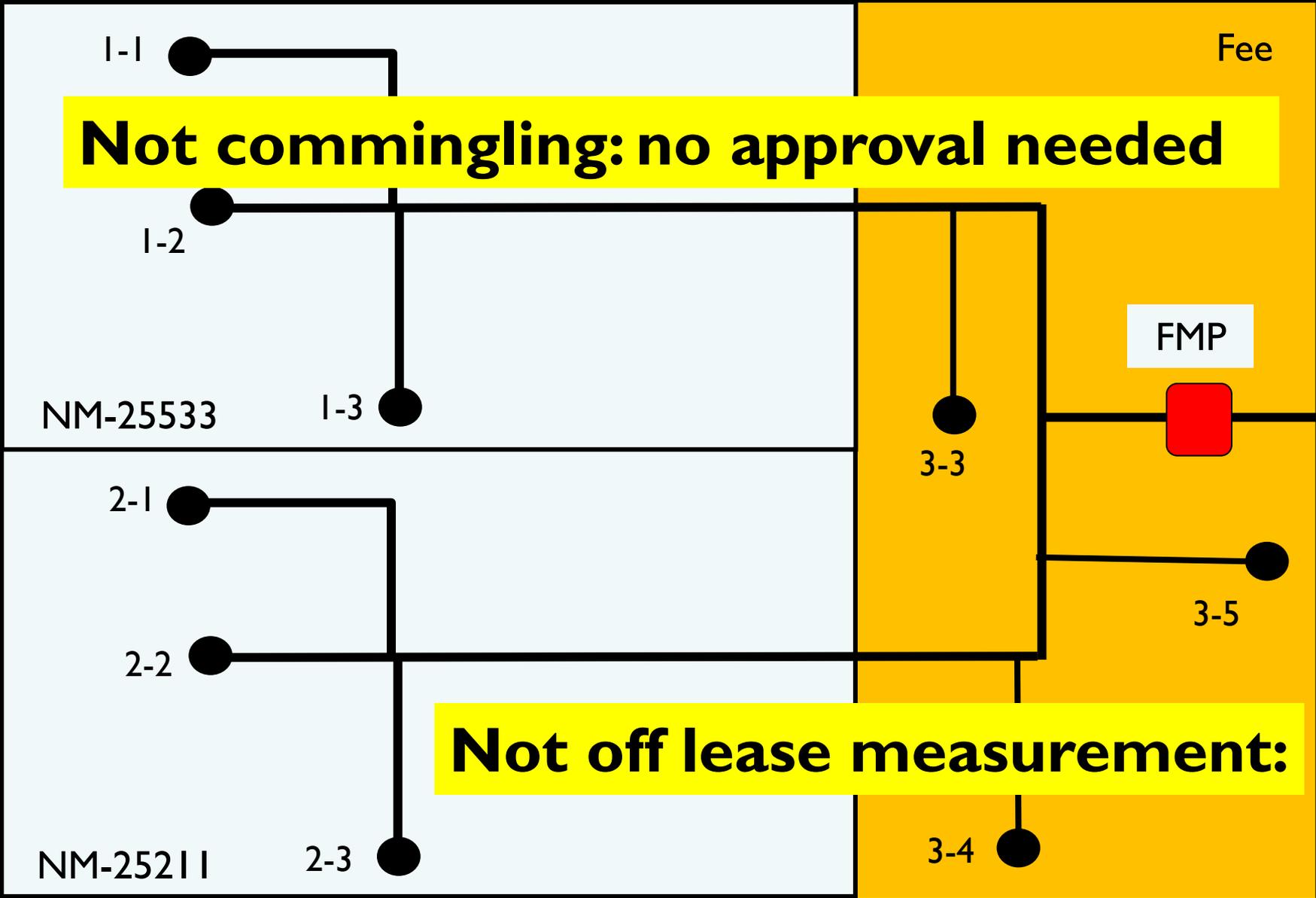
- Requires prior BLM approval.
- Existing commingling approvals will be reviewed by the BLM for compliance with the new regulations as part of the FMP process.
- Where the current approval is not in compliance with the new regulations, the BLM will work with operator(s) to obtain compliance before rescinding an old approval.

Fee

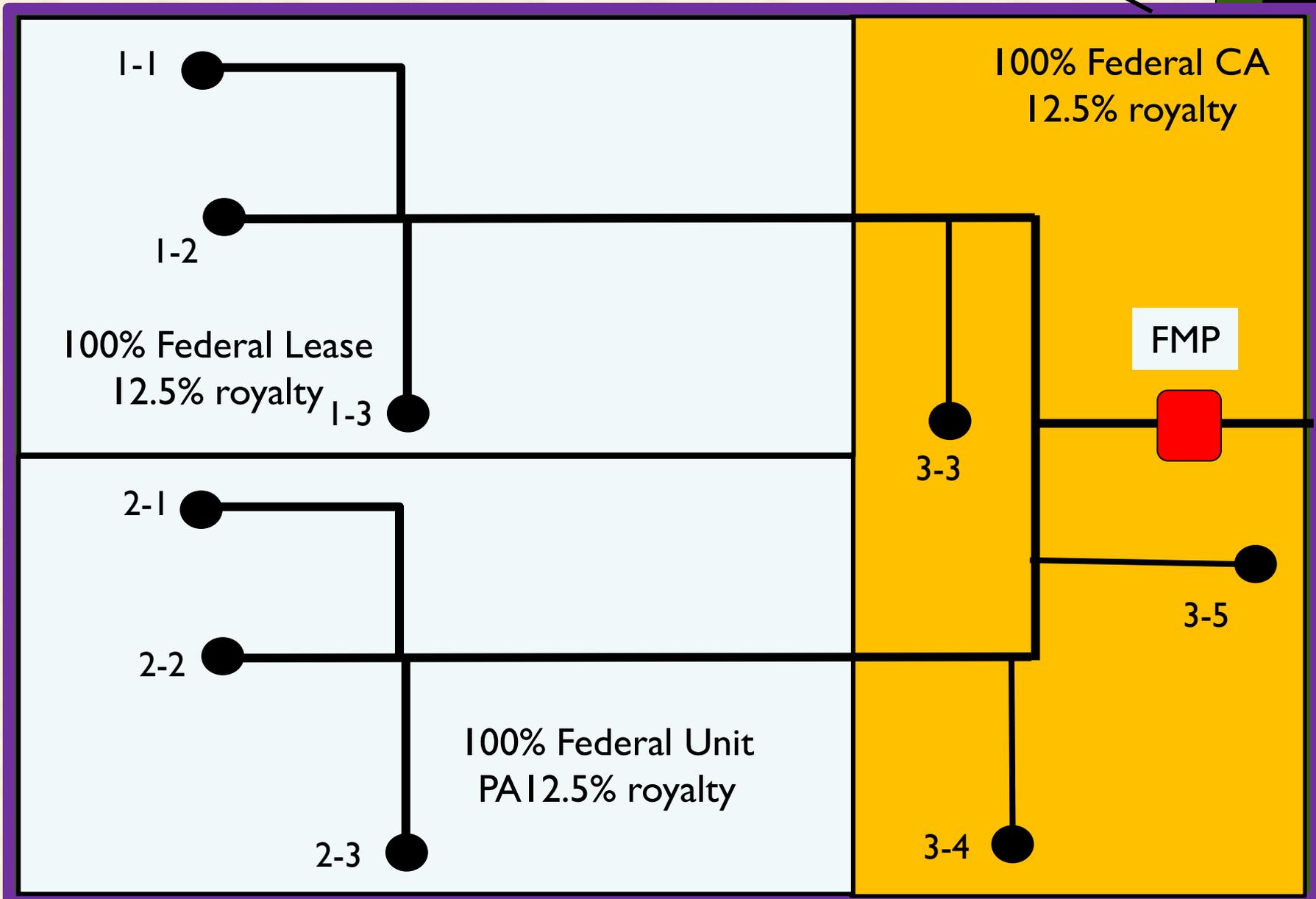
Not commingling: no approval needed

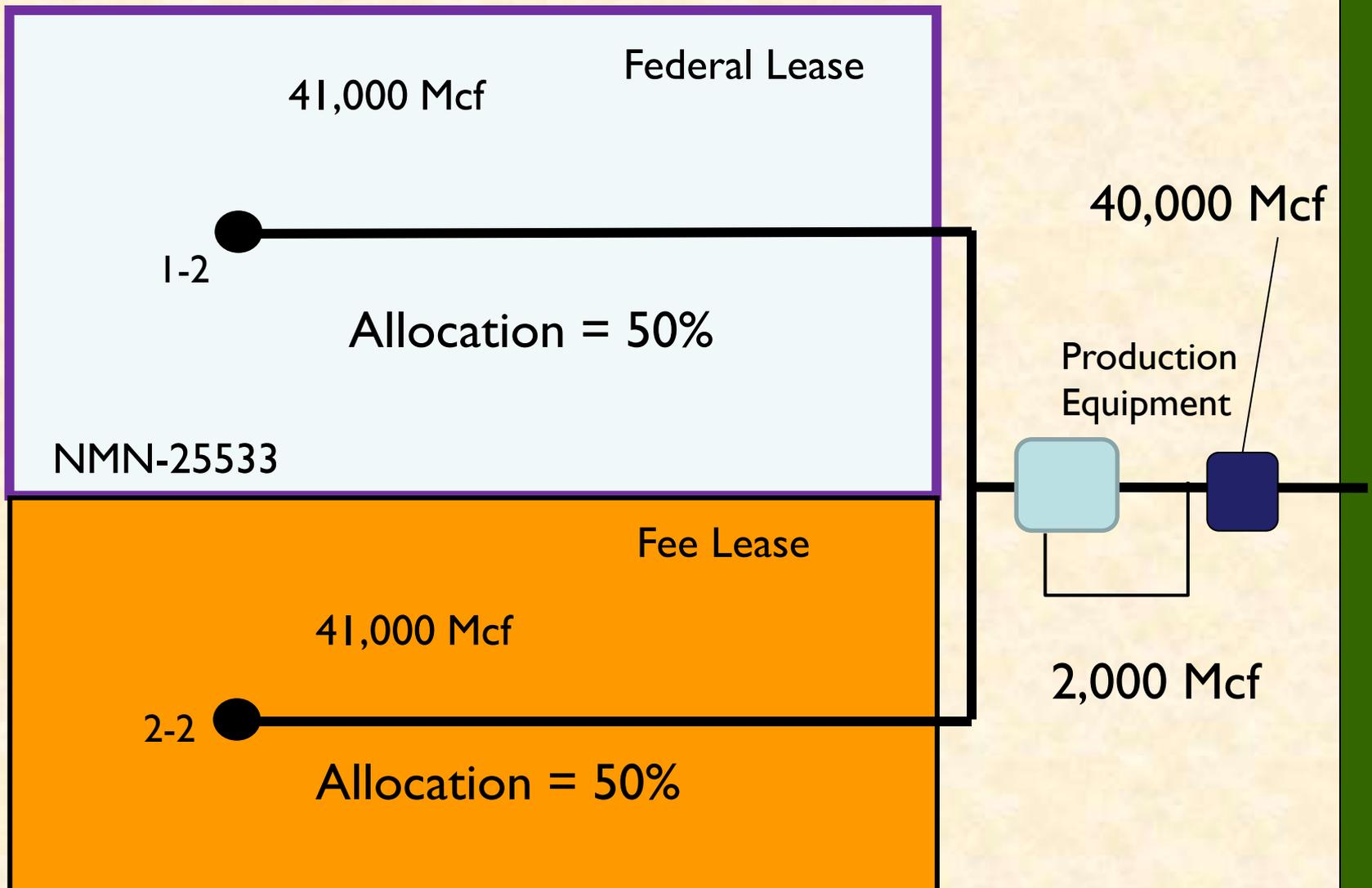
FMP

Not off lease measurement:



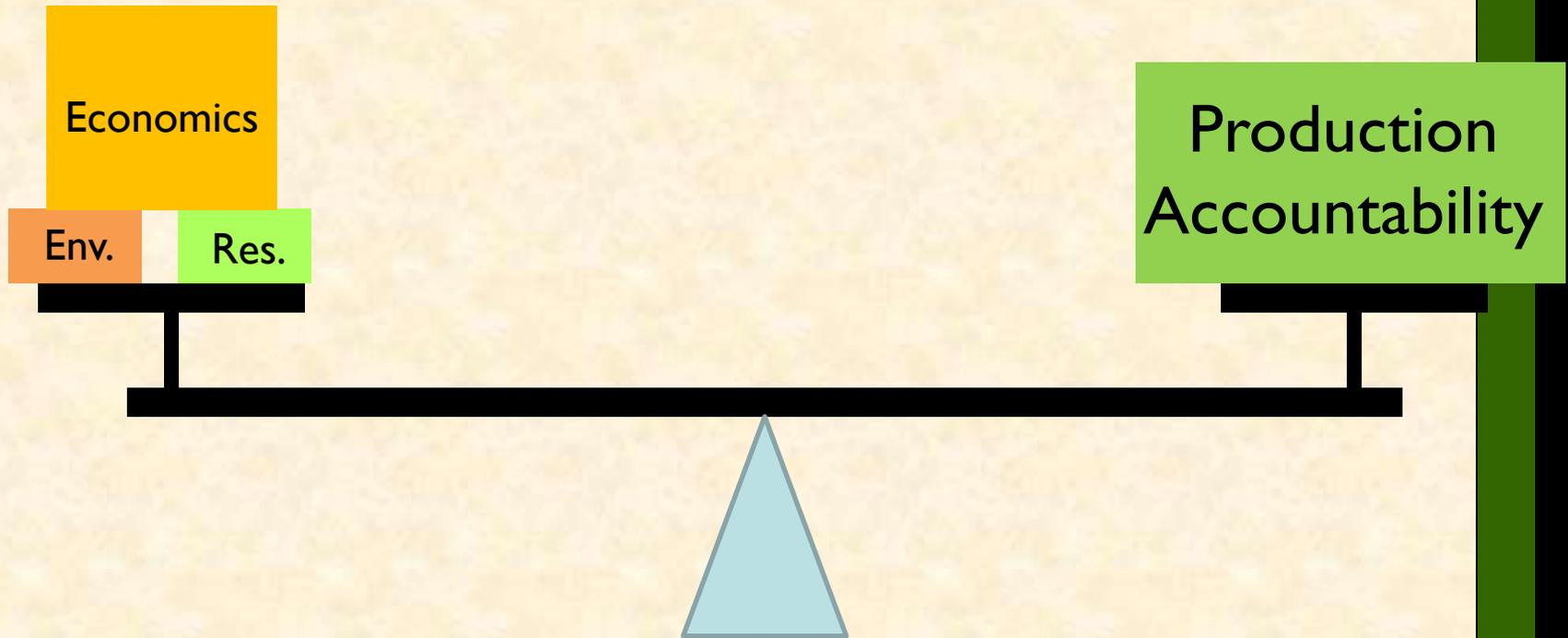
Commingling with no impact to production accountability or royalty





Commingling and off-lease measurement approvals DO NOT implicitly approve off-lease royalty free (beneficial) use!

Commingling



Achieve Production Accountability
Strike the Balance with other Resource Concerns

Off-lease Measurement

Off-lease measurement means measurement at an FMP that is not located on the lease, unit, or CA from which the production came.

Off-lease measurement that is NOT associated with commingling:

- Is generally identified early in the process of pre-leasing or Notice of Staking/Application for Permit to Drill.
- Requires prior approval.

Off-lease Measurement

- Existing off lease approvals will be reviewed by the BLM for compliance with the new regulations as part of the FMP process.
- Where the current approval is not in compliance with the new regulations, the BLM will work with operator(s) to obtain compliance before rescinding an old approval.

Facility Measurement Point (FMP)

FMP means a BLM-approved point where oil or gas produced from a Federal or Indian lease, unit, or CA is measured and the measurement affects the calculation of the volume or quality of production on which royalty is owed.

- Request submitted electronically to the BLM.
- For existing facilities, approximately 1/3 (high volume) due in first 9 months, the next (mid volume) in the months 10 – 18, and the last 1/3 (low volume) in months 18 – 27.
- For new facilities, prior to production leaving the lease.

FMP

- The assigned (unique) FMP number identifies type of production (oil, gas) and type of measurement (tank gauge, Coriolis, etc.), location (API; county and state codes), and a final 4 character section.
- The BLM will electronically notify the operator of the FMP number associated with the specific request.

Site Facility Diagrams

- Submitted electronically.
- Increased detail on equipment where royalty free (beneficial) use is claimed and reported by the operator.
- Operator certification that the diagram is accurate.

Monthly Inventory

- The proposed change will bring BLM regulations into conformity with ONRR reporting requirement to report “Beginning Inventory” and “Ending Inventory” on the Oil and Gas Operations Report (OGOR).
- Improve overall production verifiability/accountability and production handling.

43 CFR 3173

Eliminates References to:

- Self Inspection
- Site Security Plan

Immediate Assessments

- The Site Security rule identifies 10 new specific acts of noncompliance that would result in an immediate assessment.
- Are liquidated damages established to set lesser remedies in lieu of lease cancellation.
- Are Not civil penalties or punitive in nature.

Questions, Comments,

**Please submit substantive
comments during rulemaking**

Thank You