

U.S. Department of the Interior
Bureau of Land Management

BLM Regulation: Commingling of Production

SPE Meeting - Houston May 2024





Disclaimer

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Learning objectives

- Bureau of Land Management's Jurisdiction & Responsibility
- BLM Commingling of Surface Production Rules
 - 43 CFR §§ 3173.14 and 3173.15



What is Department of Interior's role?

Ensure the American public, Indian tribes, and Indian allottees are fairly compensated through royalty payments in exchange for the production of our/their oil and gas.

What is the BLM's role?

Ensure the quantity and quality of oil and gas removed or sold from Federal and Indian leases is accurately measured and properly reported.



What is the Office of Natural Resources Revenue's (ONRR) role?

Ensure the value of oil and gas removed or sold from Federal and Indian leases used for royalty determination represents a fair market value.

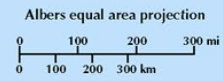
Collect, account for and disburse energy and mineral revenues.



BLM Jurisdiction and Responsibility

- 258 million acres of public land (BLM)
- 325 million acres of other federal land
- 60 million acres of Indian trust land
- 57 million acres of split estate

700 million acres





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Oil and Gas from Federal Land:

- 23,500 oil and gas leases capable of producing
- 12.4 million acres of oil and gas leases capable of producing
- 89,000 wells that are currently in production
- Oil and gas royalty Dec 2021 to Nov 2022: \approx \$ 9.3 Billion

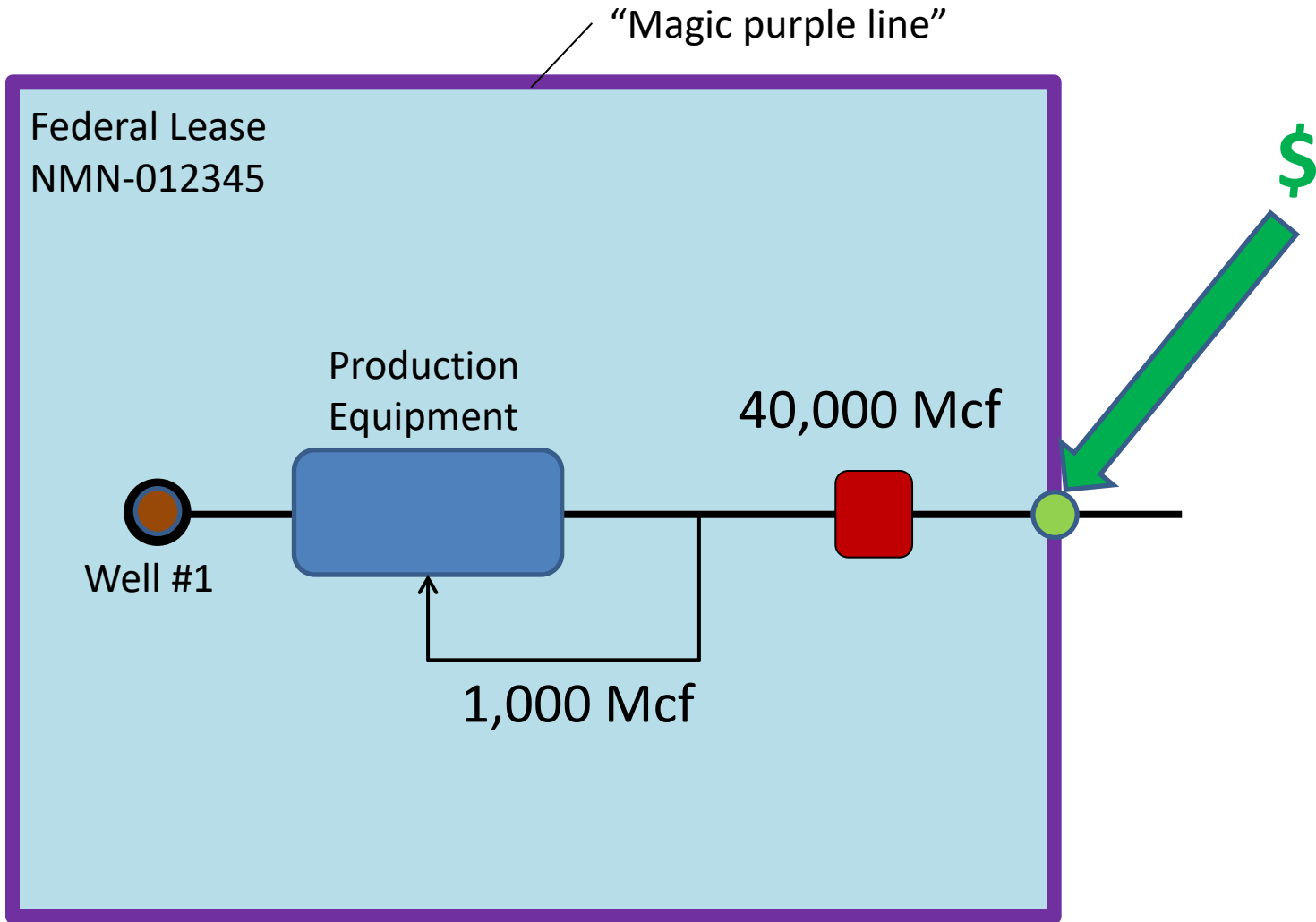


Mineral Leasing Act of 1920

Royalty is due on the amount or value of the production removed or sold from a lease

30 USC 226(b)

Royalty is due on the amount of value of the production removed or sold from a lease [unit Participating Area (unit PA), Communitization Agreement (CA)]



Magic purple line: It's where production becomes royalty bearing



What is Federal or Indian Commingling of Production?

§ § 3162.7-2 & 3162.7-3

- All measurement must be on the lease....
- ...must not be commingled with oil or gas originating from other sources...
- ...unless approved by the AO under the provisions of subpart 3173 of this title.



What are the other sources?

Uncommitted Federal/Indian
leases

Federal/Indian CA

Federal/Indian Unit PA

Anything with
a OGOR case
number (e.g.
NMN-12345))

State or Fee leases



What is Federal/Indian commingling?

Combining production from more than one lease, unit PA, or CA “prior to measurement”

OR

Combining production from one or more leases, unit PAs, or CAs with production from State, local governmental, or private properties that are outside the boundaries of those leases, unit PAs, or CAs “prior to measurement”



Commingling of Surface Production

§ 3173.14(a)

1. Commingling includes production from more than one lease, unit Participating Area (unit PA) or Communitization Agreement (CA) with 100% Federal mineral interest, same fixed royalty rate and, the same revenue distribution
2. Indian tribal lease, unit PA, or CA where each lease, unit PA, or CA is wholly owned by the same tribe and has the same fixed royalty rate
3. Federal unit PA or CA where each unit PA or CA has the same proportion of Federal interest, and which interest has the same fixed royalty rate and revenue distribution
4. Indian unit PA or CA where each unit PA or CA has the same proportion of Indian interests, and which interest is held by the same tribe and has the same fixed royalty rate



Commingling of Surface Production

§ 3173.14(b)

1. Federal or Indian lease, unit PA, or CA meets the definition of an economically marginal property
2. Average monthly production for preceding 12 months for each Federal or Indian lease, unit PA, or CA is less than 1,000 Mcf per month, or 100 bbl per month
3. CAA that includes Indian leases, unit PAs, or CAs authorized under tribal law or otherwise approved by the tribe
4. CAA covers downhole commingling from multiple formations that are covered by different leases, unit PAs, or CAs when the BLM has determined the commingling from these formations is an acceptable practice for the purpose of achieving maximum ultimate recovery and resource conservation
5. Overriding considerations to approve the commingling in the public interest notwithstanding potential negative royalty impacts from the allocation method



Commingling of Surface Production

§ 3173.15(c)

A proposed allocation agreement including an allocation methodology (including allocation of produced water), with an example of how the methodology is applied, signed by each operator of each of the leases, unit PAs, or CAs from which production would be included in the CAA



BLM Measurement Rules 43 CFR Part 3170

Subpart 3170 Onshore Oil and Gas Production: General

Subpart 3173 Requirements for Site Security and
Production Handling

Subpart 3174 Measurement of Oil

Subpart 3175 Measurement of Gas

Subpart 3178 Royalty-Free Use of Lease Production



BLM Measurement Rules

Facility measurement point (FMP) means a BLM-approved point where oil or gas produced from a Federal or Indian lease, unit PA, or CA is measured and the measurement affects the calculation of the volume or quality of production on which royalty is owed. FMP includes, but is not limited to, the approved point of royalty measurement and measurement points relevant to determining the allocation of production to Federal or Indian leases, unit PAs, or CAs. **However, allocation facilities that are part of a commingling and allocation approval under § 3173.15 or that are part of a commingling and allocation approval approved after July 9, 2013, are not FMPs.** An FMP also includes a meter or measurement facility used in the determination of the volume or quality of royalty-bearing oil or gas produced before BLM approval of an FMP under § 3173.12. An FMP must be located on the lease, unit, or communitized area unless the BLM approves measurement off the lease, unit, or CA. The BLM will not approve a gas processing plant tailgate meter located off the lease, unit, or CA, as an FMP.



BLM Measurement Rules

Under the current rule, multiphase meters may be used for allocation measurement in a commingling and allocation approval

Multiphase meters may not be used at Facility Measurement Points

Could this change in the future?

Yes, this requires rulemaking with public comment



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Questions ?