

It Takes Two to Tango – Federal Relief for Marginal Wells from ONRR Accounting and Auditing Requires State Buy-in

By Jacob Everhart

Each year, the Office of Natural Resources Revenue (ONRR) allows states to determine whether they want to participate in a royalty reporting simplification process, benefiting leaseholders of marginal wells.

The process includes ONRR providing a list of qualifying marginal federal oil and gas properties to the states receiving a portion of federal royalties from those properties. This report is issued on or before October 1 of each calendar year. Each state then decides whether to participate in one or both of two relief options, or to refrain from participating entirely. The results of each state's decision are published in the Federal Register on an annual basis, no later than 30 days before the beginning of the applicable calendar year.

Under the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (30 U.S.C. § 1726) and 30 C.F.R. Part 1204 Subpart C, ONRR and states can relieve the lessee of a *marginal* federal oil and gas property from certain reporting, accounting, and auditing requirements. Under 30 C.F.R. §§ 1204.202 and 1204.203, ONRR may authorize two relief options: (1) the cumulative royalty reports and payments relief option and (2) the “other” requested relief option.

To qualify for option one – the cumulative royalty reports and payments relief option – the lessee's properties must produce 1,000 barrels-of-oil-equivalent (BOE) or less per year for the base reporting period beginning July 1, 2023, through June 30, 2024. This option allows a lessee or designee to submit only one royalty report and payment during a calendar year. If granted, annual reporting relief will begin on January 1, 2025, with the annual report and payment due February 28, 2026. If the lessee or designee has an estimated payment on file with ONRR, the payment due date is March 31, 2026.

To qualify for option two – the “other” requested relief option – the combined equivalent production of the marginal properties during the base period must equal an average daily well production of less than 15 BOE per well per day, as calculated under 30 C.F.R. § 1204.4(c). This option allows a lessee or designee to request any type of appropriate marginal property accounting and auditing relief that meets the requirements under § 1204.5 and is not prohibited under § 1204.204.

For 2025, the states nominated as follows:

State	Option 1 - Cumulative royalty report and payment relief (less than 1,000 BOE per year)	Option 2 - “Other” accounting and auditing relief (less than 15 BOE per well per day)
AL	No	No
AR	No marginal properties in state	Yes
CA	No	No
CO	No	No
KS	No	No
LA	Yes	Yes
MT	No	No
NE	Yes	Yes
NV	Yes	Yes
NM	No	Yes
ND	Yes	Yes
OK	Yes	Yes
SD	Yes	Yes
UT	No	No
WY	Yes	No

For more information on how to obtain marginal well relief, contact Bret Sumner, Theresa Sauer, or Jacob Everhart.