

Summary: Oil and Gas Company Agreed to Administrative Settlement of Unpaid Federal Royalties

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The OIG investigated allegations that an oil and gas production company improperly claimed transportation allowances that reduced its royalty obligations associated with Federal mineral leases in New Mexico.

We substantiated the allegations and found that the company submitted inaccurate royalty reports to the Office of Natural Resources Revenue (ONRR) and claimed improper transportation allowances to reduce its mineral royalty obligations associated with field fuel volumes. Our investigation found the company claimed excessive transportation allowances to avoid paying mineral royalties based on its belief that regulations permitted it to suspend royalty obligations during the pendency of a broad appeal to the Interior Board of Land Appeals that addressed ONRR's application of particular regulations. In particular, based on its then pending appeal, the company reduced its royalty payments associated with over 1,000 leases for approximately 34 months. We analyzed the company's mineral reporting and royalty obligations based on its reported field fuel volumes for the affected leases and production period. Our analysis showed that, if the company lost its then pending appeal, it would owe ONRR unpaid mineral royalties with a combined royalty value prior to allowances of over \$15 million.

We reported our investigative findings to the Office of the Solicitor and ONRR, and, on March 23, 2021, the Department reached a settlement with the oil and gas production company to resolve this matter and other outstanding violations ONRR had previously identified. The settlement required the company to correct its mineral reporting to ONRR and pay additional mineral royalties owed. This administrative settlement resolved the company's appeals, resulted in the recovery of unpaid mineral royalties, and addressed our investigative findings.

This is a summary of an investigative report we issued to the ONRR Director.

