

H-3103-1 - FEES, RENTALS, AND ROYALTY

Synopsis of Rental and Royalty Schedules

A, B, C, and D

Prior to the Federal Onshore Oil and Gas Leasing Reform Act of December 22, 1987, four general rental and royalty rate schedules existed for calculating royalties on Federal public domain leases.

"A" SCHEDULE

Schedule "A" is applicable to noncompetitive leases issued subsequent to the 1946 Act. It provides for a 12 1/2 percent royalty on production. Competitive leases issued under the Federal Onshore Oil and Gas Leasing Reform Act (Reform Act) of December 22, 1987, also require a 12 1/2 percent royalty on production removed or sold.

"B" SCHEDULE

The Schedule "B" applicable to all leases issued between May 3, 1945, and August 8, 1946, and all competitive leases issued after the 1946 Act, except competitive leases issued under the Reform Act of 1987, carries a step-scale royalty of 12 1/2 percent to 25 percent on oil, and 12 1/2 percent or 16 2/3 percent on gas.

Leases issued between August 21, 1935, and May 3, 1945, also use a "B" royalty schedule, except that the maximum royalty rate for oil is 32 percent when daily production exceeds 2,000 barrels per day per well per calendar month.

"C" SCHEDULE

Prior to the June 17, 1988, regulation change, when a 20-year lease with a 5 percent royalty rate was exchanged or renewed, the "C" Schedule became applicable for royalties. The "C" schedule approved May 3, 1945, limited the step-scale royalty rates to 25 percent for oil. Prior to that date, the step-scale royalty under the "C" schedule was 32 percent when daily production exceeded 2,000 barrels per well per day. The "C" schedule has a royalty rate of 12 1/2 percent on gas when production does not exceed 5,000 Mcf per well per day per calendar month and 16 2/3 percent when production exceeds 5,000 Mcf per well per day. Under schedule "C" leases may be eligible for a 12 1/2 percent determination. The June 17, 1988, regulations now provide for a 12 1/2 percent royalty rate for renewal and exchange leases.

"D" SCHEDULE

When a 20-year lease with a royalty other than 5 percent was renewed or exchanged prior to June 17, 1988, the "D" schedule became applicable for royalties. This schedule provided a sliding-scale royalty on oil of 12 1/2 percent to 33 1/3 percent or 12 1/2 percent to 25 percent depending on the oil's gravity. The schedule "D" royalty rate on gas is either 12 1/2 percent or 16 2/3 percent and escalates to 16 2/3 percent when the lease production from all sources exceeds 3000 Mcf of gas per day. Well count is not a factor in determining the royalty rate for gas. The royalty rate for Section 18 leases for oil is 12 1/2 percent to 25 percent or 12 1/2 percent to 20 percent depending on the gravity of the oil. The same provisions exist for a 12 1/2 percent royalty determination as discussed above for schedule "C."

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Occasionally, an older lease may be found with royalty provisions other than those discussed above. Further, the royalty rate schedule attached to some exchange and renewal leases was inadvertently labeled as Schedule "D" when, actually, the royalty rate schedule was a "C." Accordingly, the royalty schedule attached to a specific lease should always be reviewed prior to making any royalty calculations. Additionally, several of the older unit agreements contain a provision that any 20-year lease committed to the unit shall continue in effect for the term of the unit. This has the effect of continuing the 5 percent royalty rate since a renewed or exchanged lease is not needed. The Bureau of Land Management will not issue a renewal or exchange lease when a lease is effectively committed to a producing unit. Most new unit agreements provide that the 5 percent royalty rate will cease at the end of 20 years and go to the rate that would be in effect if leases were renewed even though no renewal takes place.

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ROYALTY RATE SCHEDULE "B" - STEP SCALE

For leases (competitive, noncompetitive, exchange, and renewal) issued subsequent to the August 21, 1935, amendment, implemented by the regulations contained in the General Land Office (GLO) circular No. 1386, approved May 7, 1936, the royalty rate was based on the average production in barrels of oil per day per well per calendar month.

OVER	NOT OVER	ROYALTY RATE	OVER	NOT OVER	ROYALTY RATE	OVER	NOT OVER	ROYALTY RATE
0	50	12.5%	130	150	19%	450	500	26%
50	60	13%	150	200	20%	500	750	27%
60	70	14%	200	250	21%	750	1,000	28%
70	80	15%	250	300	22%	1,000	1,250	29%
80	90	16%	300	350	23%	1,250	1,500	30%
90	110	17%	350	400	24%	1,500	2,000	31%
110	130	18%	400	450	25%	2,000	-	32%

GLO Circular No. 1595, approved May 3, 1945, limited the step-scale royalty rates to 25 percent. This royalty rate schedule applied to all leases issued between May 3, 1945, and August 8, 1946, and for all competitive leases issued thereafter until the Leasing Reform Act of 1987.

OVER	NOT OVER	ROYALTY RATE	OVER	NOT OVER	ROYALTY RATE
0	50	12.5%	130	150	19%
50	60	13%	150	200	20%
60	70	14%	200	250	21%
70	80	15%	250	300	22%
80	90	16%	300	350	23%
90	110	17%	350	400	24%
110	130	18%	400	-	25%

Royalty on Gas

The royalty rate for gas under both schedules is 12½ percent when the average production does not exceed 5,000 Mcf gas per well per day per calendar month and 16 percent when the average production exceeds 5,000 Mcf of gas per well per day per calendar month. This royalty rate schedule was in the GLO Circular No. 1386.

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ROYALTY RATE SCHEDULE "C" - STEP SCALE

GLO circular No. 1476, approved August 5, 1940, provided a new royalty rate schedule for 5 percent leases that were renewed or exchanged. The new royalty rate was based on the average production in barrels of oil per well per day per calendar month.

OVER	NOT OVER	ROYALTY RATE	OVER	NOT OVER	ROYALTY RATE
0	110	12.5%	400	450	25%
110	130	18%	450	500	26%
130	150	19%	500	750	27%
150	200	20%	750	1,000	28%
200	250	21%	1,000	1,250	29%
250	300	22%	1,250	1,500	30%
300	350	23%	1,500	2,000	31%
350	400	24%	2,000	-	32%

GLO Circular No. 1395, approved May 3, 1945, limited the step-scale royalty rates to 25 percent. By regulation in 43 CFR 3100 (35 F.R. 9670, dated June 13, 1970), on and after August 8, 1946, the following royalty rate would apply to all 5 percent leases exchanged or renewed.

OVER	NOT OVER	ROYALTY RATE
0	110	12.5%
110	130	18%
130	150	19%
150	200	20%
200	250	21%
250	300	22%
300	350	23%
350	400	24%
400	-	25%

Royalty on Gas

The royalty rate for gas remained unchanged and is 12½ percent when the average daily production does not exceed 5,000 Mcf gas per well per day per calendar month, and 16% percent when the average production exceeds 5,000 Mcf of gas per well per day per calendar month.

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ROYALTY RATE SCHEDULE "D" - SLIDING SCALE

For leases issued under Section 18 of the MLA of 1920, the royalty rate is based on the barrels per day per well for the calendar month. The royalty rate was established by regulation and is contained in the General Land Office Circular No. 672 (Sec. 19(c)), approved March 11, 1920, as amended to October 29, 1920.

For oil 30° Baumé or over			For oil less than 30° Baumé		
On that portion		Royalty Rate	On that portion		Royalty Rate
Over	Not over		Over	Not over	
0	20	12½%	0	20	12½%
20	50	16½%	20	50	14½%
50	100	20%	50	100	16½%
More than 100		25%	More than 100		20%

For preferential right leases (other than 5% leases) issued under Section 14 of the MLA, established by regulation contained in the GLO Circular No. 672, Section 8. The following royalty rate schedule also applies to those leases issued pursuant to sections 19, 20, and competitive leases issued pursuant to Section 17.

For oil 30° Baumé or over			For oil less than 30° Baumé		
On that portion		Royalty Rate	On that portion		Royalty Rate
Over	Not over		Over	Not over	
0	20	12½%	0	20	12½%
20	50	16½%	20	50	14½%
50	100	20%	50	100	16½%
100	200	25%	100	200	20%
More than 200		33½%	More than 200		25%

Royalty on Gas

The royalty rate on gas is not based on well count but on the total volume of gas produced or allocated to a lease from all sources on a Mcf per day per calendar month basis. The royalty for less than 3,000 Mcf of gas per day per calendar month is 12½ percent and escalates to 16½ percent when the gas production is 3,000 Mcf or more of gas per day per calendar month. The royalty rate schedule was contained in the Operating Regulations, 1st Edition, April 1923.