Chapter 6
Adjustments, Recoupments, and Refunds

6.1 | Adjustments

Whenever you submit incorrect data on Form ONRR-2014, you must make subsequent adjustments to correct the information. **An adjustment is any correction made on Form ONRR-2014 to a previously reported line.** You make adjustments to:

- Pay additional monies,
- Recoup overpaid and overreported amounts, or
- Change information that has no effect on payments.

Adjustments, and the way they are reported, are affected by the lease type (Federal or Indian) and the time period involved.

NOTE	*Because of the complexity involved in making adjustments, we encourage you to contact us if you have questions. (For contact information, see Appendix A.)*

You must make adjustments within six years from the obligation due date. For example, you must make any adjustments to the September 2015 sales period before the last day of October 2021.

You can adjust overpayments and underpayments discovered during an audit if they exceed the six-year adjustment period only after a written notice is approved by the Secretary or the applicable delegated State.

Indian requirements.

You can make adjustments to a specific Indian lease for any sales month at any time on Form ONRR-2014 as long as the **net** effect is an increase or no change in the royalty value amount for that lease. If an adjustment results in a net negative royalty value amount, refer to the recoupment guidance beginning on page 6-7.

6.1.1   ***General Reporting Principles for Adjustments***

Adjustments generally require **two** entries on Form ONRR-2014:

1. The first entry reverses the incorrect line as accepted into the MRM financial accounting system.
2. The second entry reports the corrected data.

Both entries must include the appropriate adjustment reason code. You should select adjustment reason codes based on the reason for the adjustment or as otherwise instructed by ONRR. For a complete listing of adjustment reason codes, see Appendix F. To identify an acceptable adjustment reason code to use with each transaction code, see Chapter 4. You cannot use an adjustment reason code that is not listed for a specific transaction code without prior ONRR approval.

We do not allow single-line adjustments (net adjustments) unless we authorize them in advance. One exception is Estimated Royalty Payment, transaction code 03, which you adjust with a one-line net entry to increase or decrease the estimated balance using adjustment reason code 32.

NOTE

ONRR eliminated many previously valid adjustment reason codes. You can report the following adjustment reason codes for oil and gas leases: 10, 15, 16, 17, 32, 35, 49, and 71 and 72 for interest. You can report the following adjustment reason codes for geothermal leases: 25, 26 and 31.

6.1.2 | ## *Reporting Examples*

The following are examples of adjustments.

EXAMPLE

Price change.   This example shows how to make an adjustment due to a price change.

Assumptions:

- In December 2019, you determine that you incorrectly reported the royalty value on Form ONRR-2014 for lease number 049-001234-0 for the sales month of January 2019.

- You used an incorrect price to calculate the sales value and understated the royalty value. You initially reported 100 bbl of oil at $25.00 per bbl. The actual price is $30.00 per bbl.

- The royalty rate is 12 1/2 percent.

- You make the two-line adjustment on your December 2019 report.

- Use adjustment reason code 10 for the pricing adjustment. Include the $62.50 royalty increase with the remittance for this report.

The information reported on Form ONRR-2014 is shown on the following fact sheet.

Form ONRR-2014 Fact Sheet

Detail Line

	Original Line	Adjustment Line	Correcting Line
Line Number	**1**	**2**	**3**
API Well Number			
ONRR Lease Number	0490012340	0490012340	0490012340
ONRR Agreement Number			
Product Code	01	01	01
Sales Type Code	ARMS	ARMS	ARMS
Sales MO/YR	012019	012019	012019
Transaction Code	01	01	01
Adjustment Reason Code		10	10
Sales Volume	100.00	-100.00	100.00
Gas MMBtu			
Sales Value	2500.00	-2500.00	3000.00
Royalty Value Prior to Allowances	312.50	-312.50	375.00
Transportation Allowance Deduction			
Processing Allowance Deduction			
Royalty Value Less Allowances	312.50	-312.50	375.00
Payment Method Code	03	03	03

Payment Information

EFT Payments (PM3)	62.50
Total All Payments	62.50
Less Available Credits:	
Doc. ID	
Net Payment	62.50

EXAMPLE

Revised production allocation.   This example shows how to make an adjustment for revised production allocation. You have 30 days from the date of the BLM agreement approval letter to make your revisions. After the 30 days, adjustment reason code 35 will not be used and interest will be due.

Assumptions:

- You received notification in January 2020 that BLM expanded the unit participating area (PA) to include 100 percent of the acreage for lease number 049-001234-0 (the previously reported lease).

- The unit allocation increased from 12,000 Mcf to 18,000 Mcf.

- The gas heating value is 1075 Btu/cu. ft.

- The expansion was retroactive to October 2018.

- Enter the following two-line adjustment on your January 2020 report to reflect the revised production allocation for October 2018.

- Use adjustment reason code 35 to indicate the expansion of the unit PA. Include the $2,250.00 royalty increase with the report.

- You must also adjust any other affected sales months (not shown here).

- If other Federal and/or Indian leases are affected by the expansion of the PA, those leases will need to be adjusted as well (not shown here).

The information reported on Form ONRR-2014 is shown on the following fact sheet.

Form ONRR-2014 Fact Sheet

Detail Line

	Original Line	Adjustment Line	Correcting Line
Line Number	1	2	3
API Well Number			
ONRR Lease Number	0490012340	0490012340	0490012340
ONRR Agreement Number	891008899A	891008899A	891008899A
Product Code	04	04	04
Sales Type Code	ARMS	ARMS	ARMS
Sales MO/YR	102018	102018	102018
Transaction Code	01	01	01
Adjustment Reason Code		35	35
Sales Volume	12000.00	-12000.00	18000.00
Gas MMBtu	12900.00	-12900.00	19350.00
Sales Value	36000.00	-36000.00	54000.00
Royalty Value Prior to Allowances	4500.00	-4500.00	6750.00
Transportation Allowance Deduction			
Processing Allowance Deduction			
Royalty Value Less Allowances	4500.00	-4500.00	6750.00
Payment Method Code	03	03	03

Payment Information

C (PM3)	2250.00
Total All Payments	2250.00

Less Available Credits:

Doc. ID

Net Payment	2250.00

6.2 | **Recoupments and Refunds**

6.2.1 | *Recouping Overpayments*

A recoupment occurs whenever a payor reports an adjustment on Form ONRR-2014 that results in a net negative royalty value amount for the transaction.

6.2.1.1 | **Recoupment Situations**

- You overpaid on a Federal lease but did **not** overreport on Form ONRR-2014.

  You may use this credit toward the payment of the next amount due to the Federal lease. No reporting adjustments are necessary, but we encourage you to contact us for specific instructions. (For contact information, see Appendix A.)

- You overpaid on an Indian lease but did **not** overreport on Form ONRR-2014. Contact your accounts receivable representative for instructions (see Appendix A, Overpayments, Federal and Indian).

  You may use the credit **only** to reduce future payments to that specific tribal lockbox.

- You overreported **and** overpaid royalties on an Indian lease.

  You **must** submit an adjusting Form ONRR-2014 to generate a recoupable balance for the specific Indian lease(s) on which the error occurred. As future production takes place, you may recoup the overpayment against the royalties reported on the current Form ONRR-2014 for the specific lease(s).

6.2.1.2 | **How to Recoup Overpayments**

Indian Leases.   You do not have to obtain permission from ONRR to recoup overpayments on Indian leases.

You must make the following entries on Form ONRR-2014:

1. On the first line, reverse the original overpayment entry using the appropriate adjustment reason code.

2. On the second line, enter the correct volumes and/or values for the month the overpayment was made using the appropriate adjustment reason code.

3. On the third line, enter transaction code 50 for the recoupable balance. Enter the royalty value as a positive amount; that is, the difference between line 1 and line 2. Lines 1, 2, and 3 added together must equal zero. Enter line 3 with the same lease number and leave blank the product code and sales type code.

Tribal leases.   After you establish a recoupable balance (transaction code 50), you may recoup the overpayment on an Indian tribal lease as a credit against the current month's net revenues due on the same lease or, with written tribal approval, on rents or royalties due on other leases owned by the same tribe. Provide a copy of the written tribal approval to us. (For contact information, see Appendix A.) Follow these procedures each report month until the overpayment is recouped in full.

First, set up your recoupable balance by using transaction code 50. Then use transaction code 51 to recoup your overpayment. For Indian tribal leases, this line may not exceed **100 percent** of current revenue due for the lease. We define "current revenue" as:

*   Royalty owed for the current report month, **as well as**

*   All other lease revenue reported in the same month, such as annual rent and positive adjustments to previously reported sales months, **less**

*   Recoupment (transaction code 25) of the current lease year's advance rental payment.

Allotted leases.   After you establish a recoupable balance (transaction code 50), you may recoup the overpayment on an Indian allotted lease as a credit against the current month's net revenues due **only** on the lease on which you made the overpayment. Follow these procedures each report month until the overpayment is recouped in full.

First, set up your recoupable balance by using transaction code 50. Then, use transaction code 51 to recoup your overpayment. For Indian allotted leases, this line may not exceed **50 percent** of current revenue due for the lease. We define "current revenue" as:

*   Royalty owed for the current report month, **as well as**

*   All other lease revenue reported in the same month, such as annual rent and positive adjustments to previously reported sales months, **less**

*   Recoupment (transaction code 25) of the current lease year's advance rental payment.

Federal oil and gas leases. For Federal sales periods **after** August 1996, you can recoup net negative adjustments provided the adjustment is reported within six years from the obligation due date.

> **EXAMPLE**

Recoupment on Indian leases (transaction codes 50 and 51). This example shows how to establish a recoupable balance and take the recoupment against the current month's royalties.

Assumptions:

- You reported and paid royalties of $1,000.00 on Indian allotted lease number 518-000995-0 for September 2019.

- When examining your records, you realized that the correct royalties were $100.00. The net result is a $900.00 overpayment on the lease.

- The current royalties you must report and pay for November 2019 sales for this lease are $150.00.

- The **first fact sheet** shows the proper reporting procedures to use to establish the recoupable balance and take the recoupment against the current month's royalties.

- Calculate your recoupment by adding lines 1 – 4 and multiplying the sum by 50 percent.

  (-$1000.00 + $100.00 + $900.00 + $150.00 = $150.00 × 50% = $75.00)

- You established a $900.00 recoupable balance and recouped $75.00 against the November 2019 royalties. Your recoupable balance is now $825.00.

- The **second fact sheet** shows how you should report the current month's rent and royalty and the procedure for recouping the remaining $825.00 from future reporting periods.

- Calculate your recoupment by adding lines 1 – 3 and multiplying the sum by 50 percent.
  ($100.00 + $160.00 + $900.00 = $1160 × 50% = $580.00)

- You now have a remaining recoupable balance of $245.00 ($825.00 - $580.00 = $245.00). Continue recouping this balance against future net revenues reported until the entire recoupable balance is depleted.

The information reported on Form ONRR-2014 is shown on the following fact sheets.

Form ONRR-2014 Fact Sheet

Detail Line

Line Number	1	2	3	4	5
API Well Number					
ONRR Lease Number	5180009950	5180009950	5180009950	5180009950	5180009950
ONRR Agreement Number					
Product Code	01	01		01	
Sales Type Code	ARMS	ARMS		ARMS	
Sales MO/YR	092019	092019	092019	112019	112019
Transaction Code	01	01	50	01	51
Adjustment Reason Code	10	10			
Sales Volume	-266.75	26.75	0	40.00	0
Gas MMBtu					
Sales Value	-8000.00	800.00	0	1200.00	0
Royalty Value Prior to Allowances	-1000.00	100.00	900.00	150.00	-75.00
Transportation Allowance Deduction					
Processing Allowance Deduction					
Royalty Value Less Allowances	-1000.00	100.00	900.00	150.00	-75.00
Payment Method Code	05	05	05	05	05

Payment Information

Checks to ONRR for BIA (PM5)	75.00
Total All Payments	75.00
Less Available Credits: Doc. ID	
Net Payment	75.00

Form ONRR-2014 Fact Sheet

Detail Line

Line Number	1	2	3	4
API Well Number				
ONRR Lease Number	5180009950	5180009950	5180009950	5180009950
ONRR Agreement Number				
Product Code		01	04	
Sales Type Code		ARMS	ARMS	
Sales MO/YR	122019	122019	122019	122019
Transaction Code	05	01	01	51
Adjustment Reason Code				
Sales Volume		42.67	2400.00	
Gas MMBtu			2640.00	
Sales Value		1280.00	7200.00	
Royalty Value Prior to Allowances	100.00	160.00	900.00	-580.00
Transportation Allowance Deduction				
Processing Allowance Deduction				
Royalty Value Less Allowances	100.00	160.00	900.00	-580.00
Payment Method Code	05	05	05	05

Payment Information

Checks to ONRR for BIA (PM5)	580.00
Total All Payments	580.00
Less Available Credits: Doc. ID	
Net Payment	580.00

6.2.2

Requesting a Refund on Federal Oil and Gas Leases

A refund occurs whenever ONRR directs the U.S. Treasury to issue funds to a payor for an overpayment in accordance with the Debt Collection Improvement Act of 1996.

The following guidelines apply if you overpaid a Federal lease and cannot recoup the overpayment.

You must request a refund within six years of the due date of the lease obligation. If you request a refund after this period, the reason must be based on the audit extension reason stipulated by the Royalty Simplification and Fairness Act of 1996 (RSFA).

Notify us by telephone, fax, or in writing of your refund request. (For contact information, see Appendix A.)

Include the following:

- A brief explanation of how the overpayment occurred.

- A request for a specific amount.

- Your taxpayer identification number (TIN) or Social Security Number (SSN) if you are an individual. ONRR must include this number on all check or wire payments made by the U.S. Treasury.

- A properly completed Form ONRR-2014 that reverses the originally reported overpayment and then reports the correct data. The net difference represents the amount of your refund request.

If you did not report the overpayment on Form ONRR-2014, provide a copy of the check or wire transfer information to help us identify your overpayment.

The Debt Collection Improvement Act of 1996 also requires recipients of Federal payments to receive all payments electronically unless the recipient certifies that they do not have an account at a financial institution. In order to process your refund electronically, we need:

- Payor name

- Your bank name, city, and State; Your 9-digit American Banking Association (ABA) number;

- Your bank account number and account type (c-checking or s-savings); and

- Your TIN.

If you do not have an account at a financial institution that can receive electronic payments, state this in your written refund request.

We will notify you in writing when your request is approved or denied.

6.2.3

Recovering Overpayments on Indian Leases

Indian leases. ONRR cannot refund payments that are distributed to an Indian allottee or tribe.

Tribal. If the lease still produces and you are the current payor, you can recoup the overpayment by following the recoupment guidelines on page 6-8. If you are not the current payor, you can ask the current royalty payor to recoup the overpayment on your behalf. Contact us for specific instructions to recover your overpayment this way. (For contact information, see Appendix A.) If the current payor refuses, you can request a refund directly from the tribe. If the lease expired or terminated, you can request a refund from the tribe.

Allotted. If the lease still produces and you are the current payor, you can recoup the overpayment by following the recoupment guidelines on page 6-8. If you are not the current payor, you can ask the current royalty payor to recoup the overpayment on your behalf. Contact us for specific instructions to recover your overpayment this way. (For contact information, see Appendix A.) If the current payor refuses to recoup the overpayment, you will not be refunded the overpayment. If the lease expired or terminated, you cannot recover the overpayment.