2. Because the lessee does not know the costs that the seller of the 8,000 bbl incurred to transport that volume to the refinery, that volume will not be included in the volume-weighted average price calculation. Further assume that the gravity adjustment scale provides for a deduction of $0.02 per 1/10 degree API gravity below 34°. Normalized to 23.5° (the gravity of the oil being valued under this section), the prices of each of the volumes that the refiner purchased that are included in the volume-weighted average calculation are as follows:

<table>
<thead>
<tr>
<th>Volume (bbl)</th>
<th>Gravity °</th>
<th>Price ($)</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000 bbl</td>
<td>24.5</td>
<td>$34.50</td>
<td>(1.0° difference over 23.5° = $0.20 deducted).</td>
</tr>
<tr>
<td>9,000 bbl</td>
<td>23.0</td>
<td>33.35</td>
<td>(0.5° difference under 23.5° = $0.10 added).</td>
</tr>
<tr>
<td>4,000 bbl</td>
<td>22.0</td>
<td>33.30</td>
<td>(1.5° difference under 23.5° = $0.30 added).</td>
</tr>
</tbody>
</table>

3. The volume-weighted average price is 
\[
\frac{10,000 \text{ bbl} \times 34.50 \text{ bbl}}{23,000 \text{ bbl}} + \frac{9,000 \text{ bbl} \times 33.35 \text{ bbl}}{23,000 \text{ bbl}} + \frac{4,000 \text{ bbl} \times 33.30 \text{ bbl}}{23,000 \text{ bbl}} = 33.84 \text{ bbl}.
\]
That price will be the value of the oil produced from the lease and refined prior to an arm’s-length sale, under this section.

(c) If you value oil under this section, ONRR will allow a deduction, under §§1206.56 and 1206.57, for the reasonable, actual costs:

(1) That you incur to transport oil that you or your affiliate sell(s), which is included in the weighted-average price calculation, from the lease to the point where the oil is sold; and

(2) That the seller incurs to transport oil that you or your affiliate purchase(s), which is included in the weighted-average cost calculation, from the property where it is produced to the point where you or your affiliate purchase(s) it. You may not deduct any costs of gathering as part of a transportation deduction or allowance.

(d) If paragraphs (a) and (b) of this section result in an unreasonable value for your production as a result of circumstances regarding that production, the ONRR Director may establish an alternative valuation method.

(e) You must also comply with §1206.54.

§1206.55 What are my responsibilities to place production into marketable condition and to market the production?

You must place oil in marketable condition and market the oil for the mutual benefit of yourself and the Indian lessor at no cost to the lessor, unless the lease agreement provides otherwise. If, in the process of marketing the oil or placing it in marketable condition, your gross proceeds are reduced because services are performed on your behalf that would be your responsibility, and if you valued the oil using your or your affiliate’s gross proceeds (or gross proceeds received in exchange) under §1206.52, you must increase value to the extent that your gross proceeds are reduced.

[72 FR 71241, Dec. 17, 2007]