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Due Dates for State Royalty Payments

The purpose of this manual is to provide all companies that pay royalty to the State of Louisiana (payors) with detailed procedures and guidelines for preparing and submitting royalty reports to the Office of Mineral Resources. The State Mineral & Energy Board is charged under Chapter 2, Title 30, Section 121 and subsequent sections of the Louisiana Revised Statutes, with the responsibility of leasing State lands and water bottoms for development and production of oil, gas, and other minerals and to supervise State lands under lease. As part of this directive, the State Mineral & Energy Board is obligated to audit all royalty payments made to the State. In order for the Mineral & Energy Board to discharge this responsibility, payors must comply with the reporting requirements contained in this manual.

Mineral royalties payable to the State of Louisiana must be reported by the payor on a monthly basis. Royalty reports and payment are due in the Office of Mineral Resources by the 25th (postmark date) of the month following disposition of oil, and the 25th (postmark date) of the 2nd month following disposition of gas and plant products. The Office of Mineral Resources has the authority to collect interest and penalties from a lessee when royalty payments are made (postmarked) after the acknowledged due date. This authority comes from 1) the lease form, 2) Mineral Code (Title 31) and 3) LA R.S. 30: 136. Late payment of royalties will be assessed interest and penalties in accordance with applicable statutes as outlined in Appendix A of this manual.

When acreage/title is disputed on state leased lands or water bottoms, and a concursus proceeding has not been filed, the payor should request approval of the State Mineral and Energy Board (Board) to escrow disputed royalty. Such requests should be submitted to the Petroleum Lands Division Director. Upon approval of the Board, such deposits must be made into an interest-bearing escrow account at an FDIC insured financial institution doing business in Louisiana. The authority to escrow royalty payments shall be for no more than 90 days unless otherwise authorized by the Board or by a Court of competent jurisdiction. Memorandum state royalty reports (SR-9) must be submitted monthly to the Petroleum Lands Division with statements of deposit for escrowed funds. When funds are deposited in authorized escrow, or on deposit with the court for concursus proceedings, no penalty for late payment is assessed on such royalty amounts on deposit and interest is assessed at the rate earned on such deposit accounts.

All hard copy royalty reports should be submitted with the word **ROYALTIES** clearly identified on the outside of the envelope to the following address:

Office of Mineral Resources
Mineral Income Division
P.O. Drawer 2827
Baton Rouge, LA 70821-2827

Royalties paid by check should accompany the report and be made payable to the Office of Mineral Resources. When necessary to timely pay royalty due the State, a royalty check may be submitted without the accompanying report. In no event should the report (either in hard copy or electronic form) be submitted later than ten days from submission of the check or wire transfer. Reports submitted later than ten days after the royalty check or wire transfer will be subject to penalties under R.S. 30:136.

REQUIREMENTS FOR PAYMENT OF STATE ROYALTIES

SECTION 1

The submission of royalty reports and payment for amounts determined to be due the State resulting from audits conducted by the Office of Mineral Resources must be submitted under separate cover from the normal monthly state royalty report. Failure to do so could result in the payor not being credited with payment for the audit.

Royalty Payments by Bank Wire or ACH Transfer

We strongly encourage all payors to send their monthly royalty obligation via bank wire or ACH transfer. Your bank can give you the particulars for either. Effective January 1, 2007, Act 519 of the 2006 Regular Legislative Session became law. Act 519 states in part, ***“A payor of royalty whose total monthly payment is fifty thousand dollars (\$50,000.00) or more shall pay the royalty payment by electronic wire transfer”***. Any royalty payments totaling \$50,000.00 that are made by check will be returned to the payor. Furthermore, a company may be subject to a late payment penalty if their payment is not received via electronic wire transfer by the monthly payment deadline. The information required to transfer royalties is as follows:

For Bank Wire:

ABA Number:	Please call Shaunda at (225) 342-4964
Bank Name:	J. P. Morgan Chase Bank N.A.
Account Name:	St. of La. Dept. Natural Resources
Account Number:	Please call Shaunda at (225) 342-4964
Reference for Bank (RFB):	Office of Mineral Resources
Amount:	
Payor Number:	

For ACH Transfer:

ABA Number:	Please call Shaunda at (225) 342-4964
Bank Name:	J. P. Morgan Chase Bank N.A.
Account Name:	St. of La. Dept. Natural Resources
Account Number:	Please call Shaunda at (225) 342-4964
Reference for Bank (RFB):	Office of Mineral Resources
Amount:	
Payor Number:	

When royalties are paid by wire transfer submission of the State Royalty Report, either in hard copy or in electronic form, should coincide as closely as possible with the wire of funds and in no case be later than ten days after the date of the wire transfer. State Royalty Reports submitted later than ten days after the wire transfer of royalties will be subject to penalties under LA R.S. 30:136.

Payor Information

New payors must provide the Mineral Income Division with the information listed below prior to the first payment of royalty.

Payor Code
 Company Name
 Street Address
 City, State and ZIP Code
 County/Parish
 Company contact, phone number and fax number
 E-Mail Address

The forms provided on the next two pages of this section specify the information required. Be sure to include addresses and/or company contacts for both oil and gas/plant departments if they are different. New payors must submit both forms, the first to provide basic company information and the second to provide information as to the specific properties for which royalty is being paid.

Changes to the above information must be sent to the Mineral Income Division promptly to insure accurate processing of the royalty data.

The current payor is responsible for notifying the Mineral Income Division when a change of payor(s) on a property is to occur. Such notice must be made prior to the change and should be furnished on the form entitled payor change request (Page 5 of this Section)

LESSEE/PAYOR INFORMATION SHEET

PAYOR CODE _____

COMPANY NAME _____

OIL DEPARTMENT

STREET ADDRESS _____

CITY AND STATE _____ ZIP CODE _____

COUNTY/PARISH _____

DESIGNATED COMPANY CONTACT _____

TELEPHONE NUMBER _____

FAX NUMBER _____

E-MAIL ADDRESS _____

GAS/PLANT PRODUCTS DEPARTMENT

STREET ADDRESS _____

CITY AND STATE _____ ZIP CODE _____

COUNTY/PARISH _____

DESIGNATED COMPANY CONTACT _____

TELEPHONE NUMBER _____

FAX NUMBER _____

E-MAIL ADDRESS _____

SIGNATURE _____ DATE _____

REQUIREMENTS FOR PAYMENT OF STATE ROYALTIES

SECTION 1

Department of Natural Resources
Office of Mineral Resources
Fax# 225 342-4527

Revised Date: 10/19/2005

Payor Notification Form

Part A

Property Type (check one) ☐ New Property ☐ Transfer from Another Payor
(must complete Part B)

Payor Code of New Payor

New Payor's Name _____
Mailing Address _____
City and Zip _____

Part B

Payor Code of Previous Payor (if applicable)

Previous Payor's Name _____
Mailing Address _____
City and Zip _____

Field Code	Field Name	LUW Code	LUW Name	Payor Percent*	Payor Decimal**	Product***	Effective Date

* Enter the percent of the property decimal for which you are responsible.

**Enter the decimal that you will be paying.

***Only include the codes for the products on which you are paying royalty. (Oil 1, Gas 2, Plant Product 5)

Note: Unless you provide us with the volume factor percentage, your property will be set up on an Entitlement Basis. Please provide the volume factor information in the comments section.

Comments _____

Requested By: Printed Name

Date Submitted: _____

Primary Contact Information

Phone # _____

Fax # _____

E-Mail _____

DNR Action Taken

Payor Register

The SONRIS Payor Register (example on Page 7 of this Section) indicates the payor decimal to be used for paying and reporting royalties to the State of Louisiana. Payor Registers are sent to the payor of record when a new property (LUW Code) is set up by the Mineral Income Division of the Office of Mineral Resources, or when a change to an existing property is made. The Payor Register is sent to payor companies so that the company and this Office can agree on the decimal interest to be reported on the State Royalty Report (Form SR). If your company has assumed responsibility for paying royalty to the State and you have not received Payor Registers from this Office, please contact the Mineral Income Division at (225) 342-4543.

Upon receipt of the Payor Register(s), please review it carefully. Consider the volume which your company as the payor will report on the State Royalty Report. When you receive the Payor Register the volume factor will indicate 100% or a factor of 1. If your company will be reporting less than 100% of the total LUW production, please indicate on the Payor Register the correct volume factor. The volume factor is the payor company designated percentage of the total (100%) property (LUW Code) disposition volume to which the payor is entitled and on which the payor will report royalties paid to the state. The summarized volume of all the line entries reported for a property and disposition date must equal the agreed upon percentage (volume factor) of the total property volume.

Return, within thirty working days, one copy of the SONRIS Payor Register for each product, signed and dated either approved or disapproved, to the address stated below.

Office of Mineral Resources
Mineral Income Division
P.O. Drawer 2827
Baton Rouge, LA 70821-2827

If you disagree with any acreage figures, computations, or the final decimal on the Payor Register, please return the Payor Register with sufficient documentation to allow us to resolve the discrepancy. Failure to resolve any discrepancies will likely result in rejected entries on your SR Reports (Monthly Report of Minerals Subject to State Royalties).

REQUIREMENTS FOR PAYMENT OF STATE ROYALTIES

SECTION 1

Louisiana Department of Natural Resources (DNR)

SONRIS/2000

Payor Register

Report run on: Oct 21, 2002 2:16 PM

<i>Field</i>	8735 - STUARDS BLUFF	<i>Payor</i>	0001	ABC OIL COMPANY	<i>Product</i>	10	Oil	
<i>Luw</i>	600159 D RA SUA;SL 4909	<i>Effective Date</i>	06/01/1997		<i>Volume Factor</i>		1.0000000	
<i>Lease</i>	<i>Unit</i>	<i>Tract</i>	<i>Payor</i>	<i>Production</i>	<i>Payment</i>	<i>Factored</i>	<i>Factored</i>	
<i>Num</i>	<i>Tract Num</i>	<i>Acreage</i>	<i>Decimal Payment</i>	<i>Percent</i>	<i>Payor Decimal</i>	<i>Production Payment</i>		
4310		6.772	0.0021145	0.0000000	1.0000000	0.0021145		0.0000000
4909		570.239	0.1165446	0.0000000	1.0000000	0.1165446		0.0000000
Totals:		577.125	0.1186824			0.1186591		0.0000000
Unit Acreage:		880.719						

<i>Luw Code</i>	<i>Lease Num</i>	<i>Unit Tract</i>	<i>Num</i>	<i>Deduction Code</i>	<i>Deduct Decimal</i>
600159	4310			1 OIL TRANSPORTATION	0.0021145
600159	4310			3 GAS TRANSPORTATION	0.0021145
600159	4310			5 GAS COMPRESSION	0.0021145
600159	4909			1 OIL TRANSPORTATION	0.1165446
600159	4909			3 GAS TRANSPORTATION	0.1165446
600159	4909			5 GAS COMPRESSION	0.1165446
Sum Deduct Decimal:					0.1186591

Gathering is allowed only by special lease amendment.

Note: If the payor decimal(s) listed above is/are correct, please sign and date approved. If not, please indicate not approved and supply supporting documents.

Approved:_____

Date:_____

Not Approved:_____

Date:_____

Reporting Sequence**Report Identification**

Segregate all state royalty reports (Form SR) by product type and indicate on each form the kind of product being reported by inserting the proper code in the space provided for the SR form number.

- 1 = Oil
- 2 = Gas
- 3 = Sulphur
- 4 = Salt
- 5 = Plant Products

Field Header

Each SR report is to be subdivided by fields. Fields should be arranged in numerical order using the field codes assigned by the Office of Conservation (OOC). Enter a Field Header by placing the field name in the "Office of Conservation Name" column. Enter the OOC code for this field in the "Field Code" column. A Field Header should be repeated on each page if more than one page is required for a single field.

Detail Line Item

Line items being reported under each field header should be arranged in OOC code sequence. **Report Total**

Each product type reported must include a total of royalty paid as the last entry in the "Amount Paid" column of the report.

Reporting Level - Office of Conservation LUW Code

The level for reporting volumes and royalties to the State Mineral Board is the same level used to report production to the Office of Conservation. The property codes assigned by Conservation are entered in the "LUW Code" column of the SR forms to identify the lease, unit, or well being reported. Effective with January, 2001 reporting, the Office of Conservation eliminated separate reporting of gas wells and required the reporting of gas production on a lease basis.

GENERAL CODING GUIDELINES

SECTION 2

Compressors, drip points, and scrubber units are assigned codes in the 800000 series. These codes are not to be used in reporting royalty to the State. The volumes are to be allocated to the lease, unit, or well level and reported as a single line item under the respective codes using the product code 12 (or 51 if the facility is located at the plant).

All Reporting

- 1 All codes entered should be right justified in each column (i.e., codes should be entered in right-most positions in the column).
- 2 All amounts entered should be right justified and must comply with decimal placements specified in the Detail Coding Guidelines that follow.
- 3 It is desirable to skip a line before and after each field header.
- 4 If a number is negative, it should be entered in brackets.
- 5 All company prepared forms must have the same format as the SR form contained in this manual. If it is desirable to insert additional information for payor internal use, this information should be entered in the Department of Conservation name column or at the bottom of the form.

DETAILED CODING GUIDELINES

SECTION 3

The following instructions are intended to provide an explanation of SR form completion requirements. The numbered items listed below correspond to the numbers on the sample State Royalty report on Page 13.

- | | |
|---------------------------|---|
| 1. SR Form Number | Using the following codes to indicate the product being reported. Only one product can be reported on a single SR form.

1 = oil
2 = gas
3 = sulphur
4 = salt
5 = plant products
9 = suspended royalties |
| 2. Payor Code | Insert the four digit/alpha payor code assigned to your company. |
| 3. Payor Name & Address | Enter your complete company name and address. |
| 4. Page Number | Number the pages in ascending order in each product report. |
| 5. Report Date | Insert the eight digit date (MM/DD/YYYY) showing the date the report was submitted (i.e. 01/25/2010). |
| 6. Office of Conservation | Enter the name for the appropriate field and LUW (lease, unit, or well) as assigned by the Office of Conservation. |
| 7. Field Code | Enter the four digit code assigned to the field by the Office of Conservation. |
| 8. LUW Code | Enter the six digit code assigned by the Office of Conservation to the lease, unit, or well being reported.
Note: When reporting other products (sulphur, salt, etc.) use the Mineral Board state lease number. |
| 9. Well Indicator (WI) | Enter a "W" if the LUW code represents a gas well serial number; otherwise, leave blank. |
| 10. Disposition Date | Enter the six digit date (MoYr) for the calendar month in which the disposition (sale) of the product was made. (e.g., 012010) |
| 11. Decimal Type (DT) | Indicate the type of royalty payment as follows:
1 = regular royalty
2 = production payment
3 = special deduction decimal & special circumstances
4 = royalty held in suspense (Separate SR forms should be used for these entries.)
5 = cross lateral unit (online royalty reporting is required for CLU entries) |

DETAILED CODING GUIDELINES

SECTION 3

12. Input Code (IC)	Indicate the code for the type of entry being reported. 0 = original entry 2 = prior period adjustment (Adjusting entry to correct an original entry accepted by SONRIS; must not be used for an original entry reported late.)
13. Product Code	Enter the two digit code to designate the product as follows: Oil: 10 = crude oil or condensate 12 = field scrubber liquids Gas: 20 = nonprocessed gas 21 = processed gas 29 = field use gas Other Minerals: 30 = sulphur 40 = salt Plant Products: 50 = plant products 51 = plant scrubber liquids
14. Product Detail	Insert the following according to the type of product being reported:
Oil or Condensate: Gravity	Enter the gravity rounded to one decimal place.
Gas: Transporter Code BTU	Enter the four digit Office of Conservation code assigned to the transporter of gas from the field. Enter the actual BTU content per MCF where a BTU variation increases or decreases the contract base price or regulated price.
Other Products: Plant Products:	Leave blank. Plant Code Enter the four digit Office of Conservation plant code for the plant where the products were extracted.
Lease Shares %	Enter the three digit decimal that represents the portion of the total plant products allocated to lease subject to state royalty.

DETAILED CODING GUIDELINES

SECTION 3

15. Price Enter the gross price received for the product.
- | Product | Unit | Decimal Places |
|----------------|----------------|----------------|
| Oil | BBL | Four |
| Gas | MCF (@ 15.025) | Five |
| Plant Products | BBL | Four |
- For other minerals such as sulphur or salt, enter the royalty price specified in the lease agreement, unless a royalty percentage is specified, in which case report full price received and use the state royalty interest specified in the lease.
16. Payor Volume Enter the volume for each product as shown below.
- Oil - barrels Oil volume should be reported to two decimal places.
 - Gas - MCF Gas volumes should be reported in whole numbers.
 - Other Products - tons Report the volume to two decimal places.
 - Plant Products - barrels **Plant products must be reported in barrels, not MCF or gallons.**
Report the volume to two decimal places.
17. Severance Tax Enter the amount of severance tax paid to the Louisiana Department of Revenue and Taxation for the reported volume.
18. Deduction Code Insert the code(s) used to designate the type of deduction(s) taken. See Section 5 for deduction reporting.
19. Deduction Amount Insert the amount(s) deducted.
20. Net Value Insert the net value of the product (gross value less severance tax and deductions). Note: Royalties are paid on gross value for some production payments and for all field use gas situations.
21. State Decimal Insert the seven digit fixed decimal approved by the State Mineral Board for royalty payments for each OOC code and product as reflected on your payor register. (See Section 1 for information regarding payor registers.)
22. Amount Paid Insert the amount of royalties due the State: net value times state decimal.

SECTION 3

Page No. 4

Payor Name: _____ Address: _____ City, State, & Zip: _____ Report Date: _____

[illegible]

13

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Online reporting is a secure web based application. The resolution, approved on April 11, 2012, requires that all royalty payors remitting more than \$25,000 in the previous calendar year, must exclusively use Online SR reporting for all reports effective October 25, 2012 (see Appendix F – Page 55). This will include SRs submitted as the result of a field audit. Users may log on to the website,

http://sonlite.dnr.state.la.us/sundown/cart_prod/olde_dnr?pformtype=SR

for a detailed tutorial, set up their user account, and begin filing through the online process.

The online reporting system has three user options:

1) Data Entry

The user keys the SR data into the online system. This option is viable for smaller payors without many lines of data.

2) Excel Upload

The user uploads the SR information from their excel file. The excel file must be a standard excel version of the “Monthly Report of Minerals Subject to State Royalty - ONLINE”. This template is available on our website,

<http://dnr.louisiana.gov/index.cfm?md=pagebuilder&tmp=home&pid=403>

The excel upload should be the choice of the majority of payors using the online reporting system.

3) Text Upload

The user uploads the SR information in the same way as the excel upload except that it is a text file. The format of the text file is on the following pages.

The data on the file must be ASCII text and each record must be followed by CR/LF (Carriage Return/Line Feed). Each file can only contain one type of product.

The submitted data will be approved by Mineral Income staff after review. The approved state royalty reports are available for review via the Document Access System on our website,

<http://ucmwww.dnr.state.la.us/ucmsearch/busfunctions.aspx>

Contacts for the IS Division can be obtained from the DNR website through the SONRIS link.

RECORD DATA LAYOUT

RECORD NAME: SR OIL

Item No.	Data Name	Alpha or Numeric	Signed?	Relative Location	Number of Positions	Decimals	Comments
1	SR Form Number	AN		1	3		SR1
2	Payor Code	AN		4	4		
3	Field Code	N		8	4		
4	Record Type	N		12	1		"2" For Detail
5	Report Date	N		13	8		MMDDCCYY
6	LUW Code	N		21	6		
7	Well Indicator	N		27	1		
8	Disposition date	N		28	6		MMCCYY
9	Decimal Type	N		34	1		
10	Input Code	N		35	1		
11	Production Code	N		36	2		
Product Detail for Oil							
12	Filler	N		38	4		
13	Oil Gravity	N		42	5	1	
14	Oil Price	N		47	6	2	
15	Oil Volume	N	Y	53	12	2	
16	Severance Tax	N	Y	65	10	2	
17	Deduction Position 1	N		75	1		
18	Deduction Amount 1	N	Y	76	10	2	
19	Deduction Position 2	N		86	1		
20	Deduction Amount 2	N	Y	87	10	2	
21	Deduction Position3	N		97	1		
22	Deduction Amount 3	N	Y	98	10	2	
23	Deduction Position 4	N		108	1		
24	Deduction Amount 4	N	Y	109	20	2	
25	Net Value	N	Y	119	11	2	
26	State Decimal	N		130	8	7	
27	Amount Paid	N	Y	138	10	2	
28	LUW Name	AN		148	33		
29	Payor Name	N		181	30		
30	Payor Address	AN		211	30		

RECORD DATA LAYOUT

RECORD NAME: SR GAS

Item No.	Data Name	Alpha or Numeric	Signed?	Relative Location	Number of Positions	Number of Decimals	Comments
1	SR Form Number	AN		1	3		SR1
2	Payor Code	AN		4	4		
3	Field Code	N		8	4		
4	Record Type	N		12	1		"2" For Detail
5	Report Date	N		13	8		MMDDCCYY
6	LUW Code	N		21	6		
7	Well Indicator	N		27	1		
8	Disposition date	N		28	6		MMCCYY
9	Decimal Type	N		34	1		
10	Input Code	N		35	1		
11	Production Code	N		36	2		
Product Detail for Oil							
12	Transporter Organization	N		38	4		
13	Gas BTU	N		42	5		
14	Gas Price	N		47	6	5	
15	Gas Volume	N	Y	53	12		
16	Severance Tax	N	Y	65	10	2	
17	Deduction Position 1	N		75	1		
18	Deduction Amount 1	N	Y	76	10	2	
19	Deduction Position 2	N		86	1		
20	Deduction Amount 2	N	Y	87	10	2	
21	Deduction Position3	N		97	1		
22	Deduction Amount 3	N	Y	98	10	2	
23	Deduction Position 4	N		108	1		
24	Deduction Amount 4	N	Y	109	20	2	
25	Net Value	N	Y	119	11	2	
26	State Decimal	N		130	8	7	
27	Amount Paid	N	Y	138	10	2	
28	LUW Name	AN		148	33		
29	Payor Name	N		181	30		
30	Payor Address	AN		211	30		

RECORD DATA LAYOUT

RECORD NAME: SR PP

Item No.	Data Name	Alpha or Numeric	Signed?	Relative Location	Number of Positions	Number of Decimals	Comments
1	SR Form Number	AN		1	3		SR1
2	Payor Code	AN		4	4		
3	Field Code	N		8	4		
4	Record Type	N		12	1		"2" For Detail
5	Report Date	N		13	8		MMDDCCYY
6	LUW Code	N		21	6		
7	Well Indicator	N		27	1		
8	Disposition date	N		28	6		MMCCYY
9	Decimal Type	N		34	1		
10	Input Code	N		35	1		
11	Production Code	N		36	2		
Product Detail for Oil							
12	Plant Organization ID	N		38	4		
13	Plant Products Lease	N		42	5	2	
14	Plant Products Price	N		47	6	2	
15	Plant Products Volume	N	Y	53	12	2	
16	Severance Tax	N	Y	65	10	2	
17	Deduction Position 1	N		75	1		
18	Deduction Amount 1	N	Y	76	10	2	
19	Deduction Position 2	N		86	1		
20	Deduction Amount 2	N	Y	87	10	2	
21	Deduction Position3	N		97	1		
22	Deduction Amount 3	N	Y	98	10	2	
23	Deduction Position 4	N		108	1		
24	Deduction Amount 4	N	Y	109	20	2	
25	Net Value	N	Y	119	11	2	
26	State Decimal	N		130	8	7	
27	Amount Paid	N	Y	138	10	2	
28	LUW Name	AN		148	33		
29	Payor Name	N		181	30		
30	Payor Address	AN		211	30		

This section covers the specific reporting requirements for each product. The resolution approved on April 11, 2012, requires production to be reported by well serial number and LUW for all new leases as well as any amendments beginning January 1, 2013 (see Appendix G – pages 56 – 57).

Oil (Crude and Condensate)

1. Report volumes and values for field scrubber liquids and oil separately.
2. Allocate the volumes of field scrubber liquids to the LUW code(s) for the lease, unit, or well from which the gas was produced. Do not report the field scrubber liquids under the 800000 code assigned by the Office of Conservation to the field scrubber or compressor unit.
3. Report the actual gravity or the weighted average gravity if the property includes multiple wells with varying gravities. If no gravity is reported, the highest gravity will be assumed for price verification.
4. The price reported must be the gross price actually received for the oil sold.
5. The deductions taken for oil transportation must be broken out for each product code.

Gas (Natural and Casinghead)

Sales Gas

Gas volumes from each producing property (LUW Code) must be reported on separate line entries with the appropriate product code (s) which is/are applicable to the property. The volume of gas reported must be in MCF at a pressure base of 15.025 psi, the same basis on which volumes are reported to the Office of Conservation. The price reported must be the gross price actually received for the gas sold.

Lease or Field Use Gas

Only lease or field use gas is reported using product code 29. The responsibility for payment of royalty for field use gas will be audited for compliance with the provisions of the lease. The price reported for field use gas will be audited in relation to the prices of gas sold under contract in the same field and/or area.

For unitized properties where the state participates by virtue of multiple state leases, and the lease provisions are not consistent in requiring royalty payments on field use gas, a decimal Type Code 3 Special Circumstances must be used.

Important Note: All State of Louisiana leases on the 1930 and later lease forms require the payment of royalty on gas utilized for lease or field operations. The majority of leases under the 1921 (1928) lease form do not require royalty on lease or field use gas. Please see Appendix C for the various royalty clauses in existing State Leases.

Gas Deductions

Deductions must be reported against the specific gas volume to which the deductions apply. Deductions are audited for reasonableness on an average cost per MCF basis. Deductions that are consolidated and reported against a single line entry will fail the reasonableness test. See Section 6 for an explanation of deduction reporting.

BTU Content

The BTU Content per MCF must be reported for gas entries where a BTU variation increases or decreases the contract base price.

Severance Tax on Plant Fuel and Shrinkage

Severance tax levied by and paid to the Severance Tax Division of the Department of Revenue and Taxation on gas used in the processing plant for fuel and shrinkage should be added to severance tax paid of the processed (product code 21) sales tax and reported as such.

Plant Products

Determination of the Lease Share Percentage (%), the related volume to be reported, and the reported price are the key factors for reporting on Form SR-5 the royalties due the State for liquids extracted and/or fractionated in gas plants. Each of these factors is discussed below.

Lease Share Percentage (%)

The payor's lease share % may be determined in compliance with the State Mineral & Energy Board Guidelines for Payment of Royalty on Processed Gas from State Leases (Appendix D). Under the guidelines, a distinction is made between lessees who own an interest in the gas plant and lessees who do not own an interest in the gas plant. This distinction is summarized as follows:

1. If the lessee does not own an interest in the plant, the payor should report the lease share % as the percentage of the total (100%) products volume and value which is returned to the lessee under the processing agreement and for which the payor is responsible for paying royalties to the State.
2. If the lessee owns an interest in the gas plant, the lease share % is determined on the profitability of the gas plant. The percentage can be calculated in accordance with the above mentioned guidelines, subject to audit. When the lessee owns an interest in the plant, and the lessee is processing gas from both federal and state leases in the plant, the lessee shall allocate back to its state lease(s) for royalty purposes not less than the percentage of liquids the lessee allocated back to its federal lease(s).

Volume

The composite volume of liquid components extracted and/or fractionated in the gas plant and allocated back to the lease must be reported as a single line entry using product code 50. Plant scrubber liquids must be reported as a separate line entry using product code 51.

Price

The aggregate gross price per barrel of the plant products will be reported. In no case should the total royalty on residue gas plus liquids extracted be less than the royalty which would have been payable on unprocessed gas (keep whole). Keep whole value should be added to the regular plant products value.

Processing Fee

In those cases where the cost of gas processing is met by a unit fee charged to the lessee rather than by retention of products by the plant owner, the State royalty report should be filled out as follows:

Lease Share%	Lease share is 100%
Volume	Volume is 100% of the products.
Processing Fee	Report the fee as a deduction using Deduct Code 8

Other Products

When reporting sulphur or salt, enter the state lease number in the "LUW Code" column. If the lease agreement specifies a royalty price, enter this price in the "Price" column. Determine Amount Paid as follows: Royalty Price X Volume (in tons) = Amount Paid. If a royalty percentage is specified in the lease agreement, report the full price, volume, and value received. Determine amount paid by multiplying the net value by the royalty decimal.

Deductions

In accordance with the provisions of the lease form, lease amendment, and/or unitization agreements, certain deductions may be allowed in computing state royalty. The State Mineral Board has over the years recognized the applicability of certain deductions under most of its lease forms.

1. Oil and Gas Transportation:
Reasonable transportation costs for oil and gas are allowed under most lease forms when the product is delivered from the field to a point of delivery outside the field in which the production occurred. Any transportation of the production within the field boundaries is considered gathering and is never allowed. No transportation is allowed in cases where the sales or delivery point is within the field boundary.
2. Gas Compression:
Reasonable gas compression charges are allowed under most lease forms where gas must be compressed for insertion into a sales line. These charges may not be taken for compression of gas for gas lift operations or for mere movement of the product within the field.
3. Other Deductions:
Other costs may be allowed when the facts of any particular case reveal that such costs are unusual or extraordinary in nature and are necessary to obtain a market for the production in question. These costs must specifically be approved by the State Mineral Board.
4. Taxes and Fees:
Severance tax paid to the Department of Revenue by the Lessee on behalf of the State as an owner of production is deductible in computing State royalty. Other taxes and fees are not deductible.
See Appendix C for the royalty clauses in existing leases and Appendix D for State Mineral Board guidelines and policy resolutions.

If applicable, deductions must be reported showing the deduction code and amount. Multiple deductions for the same LUW Code must be listed separately with their appropriate code. The following is a list of deduction codes to be used:

DEDUCTION CODE LIST

<u>Type of Deduction</u>	<u>Code</u>
OIL	
Transportation	1
GAS	
Transportation	3
Compression	5
PLANT PRODUCTS	
Processing Fee	8
UNLEASED ACREAGE	
Operating Expenses	9

Special Deduction Decimal

Special reporting requirements are necessary when the State's interest in a property is made up of multiple state leases that have conflicting lease provisions for deductions. A separate line item using a special deduction decimal attributable to only the state lease(s) that allow the deduction must be used. This line item must have a "3" in "Decimal Type" and no volume or severance tax is entered. The deduction code and amount should be entered in the "DC" and "Deductions Amount" columns and the same amounts reported as a credit in "Net Value". The special deduction decimal is used to calculate the credit in "Amount Paid".

Production Payments**Additional Consideration Arising From Lease Contract**

If the lease contract specifies additional consideration as an additional royalty, it must be reported as a separate line item for each LUW code and product and paid on gross value only. A code "2" should be entered in the "DT" (Decimal Type) column and the appropriate production payment decimal shown in the "State Decimal" column.

Operating Agreements

Payments for Operating Agreements are also considered production payments and must be reported with a code "2" as the decimal type. However, operating agreement interests are paid on net value, not gross as stated above.

Unleased Acreage

This section applies to the situation where the State, as a landowner or mineral interest owner, has productive acreage which is unleased due to cancellation of a lease or because the property has never been leased. The operator of the unit must provide the following information to the State on a monthly basis:

1. Detailed statement of all well completion costs
2. Detailed monthly operating expenses, including copies of invoices
3. Monthly revenues

NOTE: Monthly statements must be furnished both prior to and after well cost payout. The operator retains 100% of the proceeds attributable to the State's acreage until recoupment of the State's proportionate share of the reasonable tangible and intangible expenses of drilling, completing, equipping and operating the well. After such expenses have been recovered, the operator must report on the appropriate SR Form and remit to the State the proceeds attributable to its acreage less the current operating expenses.

After well cost payout, operating expenses should be reported on the SR Form in the deduction column using a deduction code "9".

Since only unleased acreage participates in operating expenses, the special deduction decimal must be used to report deductions for operating expenses if leased state acreage is also involved in the property.

Prior Period Adjustments and/or Recoupment Requests

Payors must submit a written request for all credit adjustments over the amount of \$25,000. Such requests should be submitted to the Mineral Income Division Director and include detailed worksheets and 3rd PARTY DOCUMENTATION to support their requests. Board approval must be given the payor prior to taking such credit adjustments on the SR report. See Appendix B of this manual for statutory authority and State Mineral and Energy Board policy on credit adjustments.

Credit adjustments that pre-date the most recent closed audit period will not be accepted. In the absence of a date for the most recent closed audit period, the most recent audit start date will be the reference point. Adjustments that fall before these dates will be rejected. See Appendix of this manual for the State Mineral and Energy Board policy.

Prior period adjustments are used to adjust entries accepted by SONRIS for a prior disposition month. An adjustment will be combined with all previous entries having the same coding block and the net effect validated as if it were a single, original entry. The different types of prior period adjustments are listed below.

Adjusting Entries (Net Adjustments)

Adjustments to royalty can be the result of adjustments to gravity, BTU content, lease share %, price, volume, severance tax, deductions, or net value. Only the coding block and the data that is being adjusted should be shown in the adjusting entry. Adjustments to more than one disposition period must never be combined into one adjusting entry.

Reclassification Entries

Adjustments to reclassify a coding block field on a previously submitted entry must be made using two reclassification entries. The first entry is made using input code "2" to adjust the original coding block. The second entry to the new coding block is made using an input code "0" (this is the "original" entry for this coding block). The following is a list of the coding block fields.

Field Code	Well Indicator	Decimal Type	Transporter Code
LUW Code	Disposition Date	Product Code	Plant Code

Additionally, two entries are required for all adjustments to a prior period due to a change in or correction of the State's decimal.

Refer to the end of Appendix D, page 53.

Cross-Lateral Units

Payors must submit royalty payments for long lateral hydrofracturing technologies which extend into more than one unit (hereafter referred to as cross-lateral units or CLUs) using the Online Royalty Reporting System. Guidance for online reporting is included in Section 5 of this manual. See Appendix E of this manual for State Mineral and Energy Board policy on cross-lateral unit royalty reporting.

Entries for CLUs must be coded as Decimal Type (DT) 5 and include the well serial number in the designated column of the online SR report. Royalty payment for volumes produced under a CLU should be allocated and reported by the participating LUW codes at the percentages established by the Office of Conservation. Decimals reported for CLU entries should match the decimals for each reported LUW code.

Refer to the end of Appendix E, page 54

Q. *Is royalty due on gas used in field or lease operations?*

A. In a majority of the cases, yes. Most State of Louisiana leases require the payment of royalty on gas utilized for lease or field operations. See section 5 and Appendix C of this publication for further explanation.

Q. *Is royalty due on vented or flared gas?*

A. Depends on the lease and reasonableness of the gas volumes that are vented or flared during normal operations. However, gas that is vented or flared after utilization for gas lift is royalty bearing.

Q. *Is royalty due on flash gas?*

A. Gas "flashed" from oil is royalty bearing when the recovery occurs prior to the point of sale.

Q. *Is royalty due on gas loss in the line?*

A. The lessee is responsible for maintaining equipment and lines within the field and any excessive loss is subject to question as to whether the loss was unavoidable or a result of poor field management. Additionally, the state will not share in line loss deductions which reduce sales revenue on contracts with third parties

Q. *What deductions or costs may be taken in computing state royalty?*

A. The State Mineral Board has over the years recognized the applicability of certain deductions under most of its lease forms. Generally, they include reasonable transportation costs for oil and gas when the product is delivered from the field to a point of delivery outside the field in which the production occurred and reasonable gas compression charges where gas must be compressed for insertion into a sales line. In addition, the lawful amount of severance tax allocable to royalties and paid to the Department of Revenue may be deducted from royalty payments. See Section 5 of the publication for further explanation. See Appendix C for royalty clauses in existing state leases.

Q. *Are the oilfield site restoration fees levied under R.S. 30:87 deductible in computing State royalty?*

A. No. LA R.S. 30:87(E) provides that "The fees provided for in Subsections A and B of this Section shall be borne by the responsible parties and not by the royalty and overriding royalty owner." Other types of fees that may be levied by the State are also not deductible in computing State royalty.

Q. *Can I deduct and how do I deduct severance taxes charged on fuel and shrinkage in a gas processing plant?*

A. Even though fuel and shrinkage are not royalty bearing, severance taxes charged on these items may be deducted in computing gas royalty. Add the severance taxes paid for fuel and shrinkage to the severance tax for the sales gas.

Q. *What is the statute of limitations on State royalty?*

A. There is no statute of limitation on State royalty. Civil Code Article 3494 provides -The following actions are subject to a liberative prescription of three years:

- (1) An action for the recovery of compensation for services rendered, including payment of salaries, wages, commissions, tuition fees, professional fees, fees and emoluments of public officials, freight, passage, money, lodging, and board;
- (2) An action for arrearages of rent and annuities;
- (3) An action on money lent;
- (4) An action on an open account; and

- (5) An action to recover underpayments or overpayments of royalties from the production of minerals, provided that **nothing herein applies to any payments, rent, or royalties derived from state-owned properties (emphasis added).**

Q. *Will I be excused from interest and penalties on late State royalty payments because the State has not executed a division order?*

A. Execution of a Division Order has never been required by the State Mineral & Energy Board or any existing State Lease form as a prerequisite to the payment of royalty. Title 31, Section 138.1. of the Louisiana Revised Statutes provides that:

1. A division order may not alter or amend the terms of the oil and gas lease.
2. The execution of a division order is not a condition precedent to receiving payment from a lessee.

The lessee shall not withhold royalty payments because his lessor has not executed a division order. The State Mineral & Energy Board will, however, execute Division Orders prepared by payor companies on the State approved form.

Q. *What is a volume factor and how is it used in computing State royalty?*

A. Where a payor company reports and pays royalty on less than 100% of the total LUW production, the volume factor designates the percentage of the total (100%) property (LUW Code) volume to which the payor is entitled and on which the payor will report royalties paid to the state. Since the calculation of property decimal assumes that the payor will report 100% of the LUW volume, the volume factor is used to adjust the payor decimal to account for the difference between the LUW volume and the volume the payor will report. The payor company must inform the Office of Mineral Resources via the payor register the percentage of volume which will be reported on the State royalty report. All partners must pay using the same method. Once the method (use of a volume factor) is chosen, it must continue to be used.

Interest rates and computation –

In all cases royalty on oil shall be paid by the 25th of each month for disposition from the previous month, while royalty on gas and plant products shall be paid by the 25th of the second month following disposition. Payments postmarked after the due date will be assessed interest in accordance with R.S. 31: 137 through 141 and R.S. 30:136. Interest is calculated from the due date until the date the payment was received (postmarked). Simple legal interest applies to due dates prior to May 25, 1993. After May 25, 1993, interest is compounded monthly.

The legal interest rate is set annually by the Louisiana Office of Financial Institutions. For a list of legal interest rates for the appropriate time periods access the website for the Office of Financial Institutions at www.ofi.state.la.us.

Please note that the 1962 and 1966 lease forms fix 6% at the interest rate for royalty.

Penalties

Failure to pay or the underpayment of mineral royalty is also subject to a penalty (R.S. 30:136.B(3)) of 2% a month up to a total of 24% of the unpaid amount. This penalty applies to payments which became due after March 15, 1983. For payments with due dates between March 16, 1983 and May 25, 1993, a grace period is applicable and the penalty is applied 180 days after the due date of the late royalty payment. For payments with due dates after May 25, 1993 the grace period is 60 days. The amount of the penalty is also subject to interest.

Act No. 267 of the 1993 Regular Legislative Session, effective May 25, 1993, changed the provisions of R.S. 30:136 regarding penalties and additionally authorized the imposition of additional penalties as follows:

- 1 For the late payment of state royalty, a penalty of 10% of the amount due, not to exceed \$1,000.00.
- 2 For the incorrect completion of forms required by the Office of Mineral Resources to be filed in conjunction with the payment of royalties, a penalty of 5% (five percent) of the amount paid, up to a maximum of \$500.

Statutory Authority

LA R.S. 31

§§137. Nonpayment of royalties; notice prerequisite to judicial demand

If a mineral lessor seeks relief for the failure of his lessee to make timely or proper payment of royalties, he must give his lessee written notice of such failure as a prerequisite to a judicial demand for damages or dissolution of the lease.

§§138. Required response of lessee to notice

The lessee shall have thirty days after receipt of the required notice within which to pay the royalties due or to respond by stating in writing a reasonable cause for nonpayment. The payment or nonpayment of the royalties or stating or failing to state a reasonable cause for nonpayment within this period has the following effect on the remedies of dissolution and damages.

§§138.1. Division order; precedence of lease; penalties for failure to pay royalties due

- A. For the purposes of this Article, a "division order" is an instrument setting forth the proportional ownership in oil or gas, or the value thereof, which division order is prepared after examination of title and which is executed by the owners of the production or other persons having authority to act on behalf of the owners thereof.
- B. A division order may not alter or amend the terms of the oil and gas lease. A division order that varies the terms of the oil and gas lease is invalid to the extent of the variance, and the terms of the oil and gas lease take precedence.
- C. The execution of a division order is not a condition precedent to receiving payment from a lessee. The lessee shall not withhold royalty payments because his lessor has not executed a division order.
- D. If the lessee fails to pay royalties solely because his lessor has not executed a division order as defined in this Article, the court shall award as damages double the amount of royalties due, legal interest on that sum from the date due, and reasonable attorney's fees. However, if the lessor fails to supply the name, address, and tax identification number upon written request of the lessee, the lessee's failure to pay royalties shall be deemed reasonable.

§§139. Effect of payment in response to notice

If the lessee pays the royalties due in response to the required notice, the remedy of dissolution shall be unavailable unless it be found that the original failure to pay was fraudulent. The court may award as damages double the amount of royalties due, interest on that sum from the date due, and a reasonable attorney's fee, provided the original failure to pay royalties was either fraudulent or willful and without reasonable grounds. In all other cases, such as mere oversight or neglect, damages shall be limited to interest on the royalties computed from the date due, and a reasonable attorney's fee if such interest is not paid within thirty days of written demand therefor.

§§140. Effect of nonpayment in response to notice or failure to state cause therefor

If the lessee fails to pay royalties due or fails to inform the lessor of a reasonable cause for failure to pay in response to the required notice, the court may award as damages double the amount of royalties due, interest on that sum from the date due, and a reasonable attorney's fee regardless of the cause for the original failure to pay royalties. The court may also dissolve the lease in its discretion.

§§141. Dissolution not a favored remedy

In a case where notice of failure to pay royalties is required, dissolution should be granted only if the conduct of the lessee, either in failing to pay originally or in failing to pay in response to the required notice, is such that the remedy of damages is inadequate to do justice.

LA R.S. 30

§§136. Funds, disposition and appropriation of; penalties

- B. (1) Any form required by the Department of Natural Resources or the office of mineral resources to be filed in conjunction with the payment of any sum, other than bonuses, rentals, or shut-in payments, which has been incorrectly completed in any part, and which error results in the inability of any agency, or subdivision thereof, to carry out any of its statutory or regulatory duties in a timely manner, unless corrected in full prior to the payment due date, shall render the royalty payor subject to a penalty of five percent of the total sum due or paid, not to exceed five hundred dollars, as liquidated damages. The whole or any part of the penalty set forth herein may be waived by the secretary of the Department of Natural Resources.
- (2) The failure to pay or the underpayment of all sums other than bonuses, rentals, or shut-in payments, for whatever cause, shall subject the lessee, his successor or assigns, to a penalty of ten percent of the total sum due not to exceed one thousand dollars, which penalty shall be assessed, and owing on the day following the date payment was due, and shall be deemed liquidated damages. The whole or any part of the penalty set forth herein may be waived by the secretary of the Department of Natural Resources.
- (3) When notice is given of the incorrect completion of any required form, or demand for payment is made for failure to pay or underpayment, or sixty days has elapsed from the date payment was due with the correctly filled out form, an additional penalty of two percent of the total sum then due shall accrue beginning on the sixty-first day and on each thirty-day period thereafter, or fraction thereof, up to a maximum of twenty-four percent in additional penalty. The penalty therein provided shall be in addition to interest at the legal rate compounded monthly. Both the penalty and interest shall accrue to principal and interest accumulated at the end of each thirty-day period, or fraction thereof, also without necessity of further notice and shall be in addition to all other remedies available under law, including those prescribed in R.S. 31:137 through 141. In the event the State Mineral Board finds, subject to judicial review, that a substantial and justiciable controversy exists as to whether any such royalties are legally due, it shall defer the commencement of the accrual of the aforesaid penalty until the controversy is resolved by amicable agreement or by final decree of any court of competent jurisdiction. The whole or any part of the penalties set forth hereinabove may be waived by the State Mineral Board.

Waiver of Penalties**State Mineral Board RESOLUTION of April 12, 1995**

On motion of Mr. McNamara, seconded by Mr. Dailey, the following Resolution was offered and adopted:

WHEREAS, the State Mineral Board, under LA. R. S. 30:136, may assess to payors of State royalty a penalty for the late payment of royalty, and additionally may waive all or part of the assessed penalty for cause; and

WHEREAS, the Board, dissatisfied with the handling of requests for waiver of penalties assessed on late payments of royalty under LA. R. S. 30:136 did in April, 1994 abolish the policy established in 1989 by a prior Board regarding same, and has, since that time, handled requests for waiver on a case-by-case basis; and

WHEREAS, the Board does now wish to establish a policy which will ensure consistency in the handling of waiver requests, ease the administrative burden on the staff and industry, and assure that penalties for late payment of royalty are fairly assessed and timely collected;

THEREFORE BE IT RESOLVED, that the Board will continue to consider on a case-by-case basis requests for waiver of penalty for penalties assessed in the amount of \$10,000 or more; and

BE IT FURTHER RESOLVED, that for penalties assessed in amounts under \$10,000, the authority to waive the penalty is delegated to the Assistant Secretary for the Office of Mineral Resources or his designee; and

BE IT FURTHER RESOLVED, that the Assistant Secretary for the Office of Mineral Resources or his designee may waive penalty amounts under \$10,000 in whole for cause, or in part in accordance with the following:

75% reduction in penalty on royalty amounts outstanding up to 3 (three) years

50% reduction in penalty on royalty amounts outstanding up to 6 (six) years

0% reduction in penalty on royalty amounts outstanding over 6 (six) years.

Waiver of Penalty on Audits

Any request for waiver of penalties associated with amounts determined to be due the State resulting from audits conducted by the Office of Mineral Resources will only be considered by the Board after the agreed upon royalty and interest is paid and the supporting state royalty reports are submitted to the Office of Mineral Resources.

Waiver of Penalty on State Royalty Reports and Payments

Any request for waiver of penalties associated with amounts determined to be due the State resulting from submission of the monthly state royalty reports and royalty payments and review of such reports and payments conducted by the Office of Mineral Resources will only be considered by the Board, or the Board's designee, after the assessed interest is paid and a formal waiver request has been submitted to the Mineral Income Division Director with documentation to support the request.

Statutory Authority**LA R.S. 30**

§§136. Funds, disposition and appropriation of; penalties

(2) Overpayments or underpayments of sums other than bonuses, rentals, or shut-in payments, may be corrected in the following manner: An underpayment will be made up at a later date upon proper notification by the board to the lessee, and overpayments may be offset, compensated for, or recovered from royalty thereafter accruing to the state of Louisiana as authorized under the provisions of R.S. 30:137 and R.S. 30:138. The board may adopt rules in accordance with the Administrative Procedure Act providing for the assessment of fees to recover the costs associated with the processing of requests submitted by lessees or royalty payors for the reimbursement of overpayments. The failure or delay of the board to take any action or perform any function with respect to any payment shall not affect the validity of any payment made or tendered.

State Mineral Board RESOLUTION of December 12, 1990

On motion of Ms. Goodman, seconded by Mr. Johns, the following Resolution was offered and adopted:

WHEREAS, the Office of Mineral Resources Mineral Income Division staff spends considerable time processing and auditing refund or recoupment requests from payor companies; and

WHEREAS, the amount of staff time and resources spent on these requests reduces the total staff and time available for performing audit functions aimed at revenue generation; and

WHEREAS, the State Mineral Board has expressed its desire to initiate a processing fee for recoupment requests to compensate the State for the amount of resources expended in auditing and processing these requests; and

WHEREAS, the Board has by legislation received authority to impose fees for processing recoupment requests and has published its intent to impose these fees and has allowed for public comment in accordance with the Administrative Procedures Act;

THEREFORE BE IT RESOLVED, that recoupment requests received on or after January 1, 1991 will be subject to a processing fee of thirty five dollars (\$35) per hour for the amount of staff time spent in processing and auditing the request; and

BE IT FURTHER RESOLVED, that a copy of this Resolution be distributed to all parties currently paying royalties to the State, to all State lessees, and disseminated to all other interested parties.

State Mineral Board RESOLUTION of April 11, 2007

On motion of Segura, seconded by Becnel, the following Resolution was offered and adopted:

WHEREAS, the Mineral Board has previously adopted resolutions pertaining to the payment of royalties and recoupments or adjustments; and

WHEREAS, such resolutions have been amended, cancelled or superseded by new resolutions in order to provide policies to meet changing conditions; and

WHEREAS, the staff has advised that a significant number of routine errors in reporting royalty payments are for recoupments or adjustments that amount to \$25,000 or less, and that these royalty adjustments are to LUW codes, LUW codes within the same field, or adjustments between gas royalty and plant products royalty; and

WHEREAS, the staff has also advised that these recoupments or adjustments account for the majority of staff time spent in auditing recoupment requests; and

WHEREAS, in recognition that the Mineral Income Division has limited staff to address all audit needs, and time can be more productively utilized in performing continuing audits rather than auditing recoupment requests; and

WHEREAS, the staff recommends that the Director of the Mineral Income Division or persons designated by the Director be authorized to allow adjustments based on calculation or related errors amounting to \$25,000 or less to LUW codes for the same disposition date and product type, adjustments between LUW codes within the same field amounting to \$25,000 or less for the same disposition date and product type, and adjustments between gas royalty payments and plant products royalty payments amounting to \$25,000 or less for the same disposition date; all such adjustments subject to audit;

THEREFORE, BE IT RESOLVED, that the Director of the Mineral Income Division or persons designated by the Director be authorized to allow adjustments based on calculation or related errors amounting to \$25,000 or less to LUW codes for the same disposition date and product type, adjustments between LUW codes within the same field amounting to \$25,000 or less for the same disposition date and product type, and adjustments between gas royalty payments and plant products royalty payments amounting to \$25,000 or less for the same disposition date, subject to audit; and

BE IT FURTHER RESOLVED, that the Board maintains its policy not to consider adjustments based on title.

1921 Lease Form (referred to as 1928 Lease Form) - State Leases 50 through 214

III

If in the exercise of the right herein granted, oil be produced on said premises in paying quantities, then the Lessee shall deliver to the Lessor as royalty, free of expense:

One-eighth of the oil produced and saved from all wells. In estimating the royalty payments, the average daily production for the calendar month shall be taken as a basis; delivery to be made in tanks with connections by the Lessor provided, or into any pipe line that may be connected to the well or wells.

One-eighth of the net proceeds derived from the sale of gas, provided however, that the minimum royalty on each gas well shall be not less than \$200.00 per year.

One-eighth of the sulphur, salt and other minerals produced and saved.

...(Remainder of clause deals with Bonus, Rental and Primary Term)...

IV

If any of the oil produced from said premises, be found to contain water or sediment in such quantities as not to be suitable for pipe-line run, then the Lessee obligates itself to treat the said oil free of expense to the Lessor, so that the royalty to the State, shall be marketable oil.

NOTE: State Leases 50, 188, 199, and 200 by inclusion in the State/Texaco Global Settlement Agreement now specifically provide that royalty is due on gas utilized.

1930 Lease Form - State Leases 249 through 356

1938 Lease Form - State Leases 367 through 458

III

Should oil, gas and/or other minerals be produced in paying quantities on the premises hereunder, than the said Lessee shall deliver to Lessor, as royalty, free of expense:

_____ of all oil produced and saved, delivery of said oil to be understood as made when same has been received by the first purchaser thereof. Or Lessee may, in lieu of said oil delivery, and at its option, pay to Lessor sums equal to the value thereof on the premises; provided that the price paid Lessor for said oil shall not be less than the average posted Pipe-line price then current for oil of a like grade or quality.

_____ of all gas produced and utilized, delivery of said gas to be understood as made when same has been received by the first purchaser thereof. Or Lessee may, in lieu of said gas delivery, and at its option, pay to Lessor sums equal to the value thereof at the well; provided that the price paid Lessor for said gas shall not be less than the average price then current of gas of like character or quality.

_____ per long ton of all sulphur produced and saved.

_____ ton of all potash produced and saved.

_____ of any and all minerals not specifically mentioned, said royalties to be delivered or paid as is the accepted custom in such matters.

1940 Lease Form - State Leases 476 through 516

1942 Lease Form - State Leases 517 through 1624

III

Should sulphur, potash, oil, gas and/or other liquid hydro-carbon mineral be produced in paying quantities on the premises hereunder, the said Lessee shall deliver to Lessor as royalty, free of expense:

_____ of all oil produced and saved, including distillate or other liquid hydro-carbons, delivery of said oil to be understood as made when same has been received by the first purchaser thereof. Or Lessee may, in lieu of said oil deliver, and at its option, pay to Lessor sums equal to the value thereof on the premises; provided no deductions or charges shall be made for gathering or transporting said oil to the purchaser thereof, or loading terminal, nor shall any deductions whatsoever be made chargeable to Lessor; provided further, that the price paid Lessor for said oil shall not be less than the average posted pipe-line or loading terminal price then current for oil of like grade or quality.

_____ of all gas produced and saved or utilized, delivery of said gas to be understood as made when same has been received by the first purchaser thereof. Or Lessee may, in lieu of said gas deliver, and at its option, pay to Lessor sums equal to the value thereof at the well; provided no gathering or other charges are made chargeable to Lessor; provided further, that the price paid Lessor for said gas shall not be less than the average then current for gas of like character or quality delivered to the pipe line purchaser in that field. (Remainder of paragraph deals with provisions for "Lieu Royalty" on a shut-in gas well).

_____ per long ton for all sulphur produced and saved.

_____ per ton for all potash produced and saved.

_____ of any and all other liquid or gaseous hydro-carbon minerals not specifically mentioned, said royalties to be delivered or paid as is the accepted custom in such matters.

1948 Lease Form - State Leases 1625 through 3836

6. Lessee shall deliver to Lessor as royalty, free of cost of production:

_____ of all oil, including distillate and other liquid hydrocarbons, produced and saved at the well by ordinary production methods, delivery to be understood as made when same has been received by the first purchaser thereof. Or Lessee may, in lieu of said delivery and at Lessee's option, pay to Lessor sums equal to the value thereof on the premises. The price paid Lessor shall not be less than the average posted pipe line price in the same field or loading terminal price in the same field than current for oil, including distillate or other liquid hydrocarbons of like grade or quality.

_____ of all gas produced and saved or utilized, delivery of said gas to be understood as made when same has been received by the first purchaser thereof. Or Lessee may, in lieu of said gas delivery, and at Lessee's option, pay to Lessor sums equal to the value thereof at the well; provided that the price paid Lessor for said gas shall not be less than the average price then current for gas of like character or quality delivered to the pipe line purchaser in that field. (Remainder of paragraph deals with provisions for "Lieu Royalty" on a shut-in gas well).

_____ per long ton for all sulphur produced and saved.

_____ per ton for all potash produced and saved.

for any and all other liquid or gaseous hydrocarbon minerals not specifically mentioned herein, said royalties to be delivered or paid as is the accepted custom in such matter.

6. Lessee shall deliver to Lessor as royalty, free of cost of production:

_____ of all oil, including condensate and other liquid hydrocarbons, produced and saved at the well by ordinary production methods, delivery to be understood as made when same has been received by the first purchaser thereof. Or Lessee may, in lieu of said delivery and at Lessee's option, pay to Lessor sums equal to the value thereof at the well when produced. The price paid Lessor shall not be less than the average posted pipe line price in the same field or loading terminal price in the same field than current for oil, including condensate or other liquid hydrocarbons, of like grade or quality.

_____ of all gas produced and saved or utilized, delivery of said gas to be understood as made when same has been received by the first purchaser thereof. Or Lessee may, in lieu of said gas delivery, and at Lessee's option, pay to Lessor sums equal to the value thereof at the well; provided that the price paid Lessor for said gas shall not be less than the average price then current for gas of like character and quality delivered to the pipe line purchaser in that field..

It is recognized that in addition to condensate and other liquid hydrocarbons separated from gas in the field by ordinary production methods, as to which Lessor shall receive royalty as above provided, Lessee may extract liquid hydrocarbons or otherwise process gas either at the well or in the fields, or beyond the field, either itself or by contract with third parties. No charge shall be made by Lessee for separation of any condensate or other liquid hydrocarbons by ordinary production methods in the field. It is provided, however, that should Lessee enter into a bona fide arms-length contract for the extraction of liquid hydrocarbons from gas or for the manufacture of gasoline or other products from gas in a plant located in the field or having a direct pipeline connection with the field, the royalty on gas above provided for shall be based on the current market value at the plant of the products so extracted or processed, after deducting the proportionate part of the reasonable cost of extracting or manufacturing such products; and it is provided that if Lessee shall have contracted with others for the extraction or processing of gas in said plant under a bona fide arms-length contract, the proportionate charge to be borne by Lessor shall be the same as that provided in said contract, and in the event of the existence of several contracts with varying charges, the proportionate share shall be the average thereof. In all of the cases provided for above, Lessor shall also be entitled to the royalties stipulated herein on Lessee's share of the residue gas sold or otherwise disposed of after plant extraction or processing.

...(Next 3 Paragraphs deal with provisions for "Lieu Royalty" on a shut-in gas well)...

_____ per long ton for all sulphur produced and saved.

_____ per ton for all potash produced and saved.

_____ for any and all other liquid or gaseous hydrocarbon minerals not specifically mentioned herein, said royalties to be delivered or paid as is the accepted custom in such matters.

The first payment of royalty shall be made within 120 days following commencement of production from, or allocation of production to the lease premises. Thereafter, royalty on oil, including condensate and other liquid hydrocarbons produced and saved at the well by ordinary production methods shall be paid by the 25th of each month for production of the previous month; and royalty on gas, including liquids or other products extracted or processed from gas other than by ordinary production methods, and on sulphur, potash and other liquids or gaseous hydrocarbon minerals not specifically mentioned shall be paid on or before the 25th day of the second month following that in which produced or extracted or processed. Whenever Lessee is unable to make payments within the period so provided because of adverse claims, disputes, litigation or other circumstance involving the title of Lessor or the extent of interest of Lessor, or whenever circumstances are such as to prevent Lessee from making payments within said periods, despite reasonable and diligent effort, Lessee shall not be required to make payments within said periods. Otherwise, any royalty payment not made within the period so provided shall bear interest at the rate of six

percent per annum, beginning as of the date by which such payment should have been made and running until paid. The foregoing provisions for the payment of interest shall be in lieu of any right of Lessor to cancel the lease for non-payment of royalties, except in case of any deliberate and wrongful failure or refusal to pay such royalties after they become due as provided for above, in which event

Lessee shall still not be in default until Lessee shall have been notified in writing by Lessor of such failure or refusal and Lessee shall then have failed to make the requisite payment or payments within sixty days from the date of receipt of such written notice.

1966 Lease Form - State Leases 4856 through 5558

6. Lessee shall pay to Lessor as royalty:

(a) _____ of the value, as hereinafter provided, of all oil, including condensate or other liquid hydrocarbons, produced and saved or utilized by methods considered ordinary production methods at the time of production. The value of such oil shall not be less than the average price for oil of like grade and quality posted for the field in which this lease is situated. If there is no price posted for the field in which this lease is situated, the value of such oil shall be not less than the average of prices posted for oil of like grade and quality for the three fields nearest to the field in which this lease is situated for which such prices are posted. If Lessee enters into an oil sales contract which, at the time of execution, provides for a price equal to or in excess of the appropriate average price referred to in the two preceding sentences, the price payable under the terms of the contract at the time such oil is run shall be the value of such oil, even though the appropriate average changes during the life of the contract; however, any such contract must have been prudently negotiated under the circumstances existing at the time of execution. If Lessee is unable, after diligent effort, to sell such oil for a price equal to or in excess of the appropriate average price and Lessee consequently negotiates a contract to sell such oil to an independent party at a lesser price, the value of such oil for the duration of any such contract (but not in excess of one year) shall be the price received by Lessee under such contract.

Lessee shall not make any deduction whatsoever for the cost of any operation, process, facility, or other item considered to be a production function or facility, at the time such oil is run. Without limiting the foregoing sentence and without regard to classification as production costs or otherwise, the following costs are not to be deducted from the value of production: (1) costs incurred for gathering or transporting production in the field; (2) costs incurred for handling, treating, separating, or in any way processing production to make it marketable by methods considered ordinary at the time such oil is run; (3) the cost of storage on the lease or in the field. The performance of any producing function or any function mentioned in clauses (2) and (3) of the foregoing sentence at a commingled facility in or outside the field in which this lease is situated shall not make the cost of any such function deductible.

If Lessee delivers such oil at a point outside the field in which this lease is situated, Lessee may deduct from the value of such oil the actual costs of transportation from the field to the point of delivery by means of facilities belonging to an independent party. If such transportation is by means of facilities owned by one other than an independent party, Lessee may deduct the actual cost of such transportation, but only if such cost is no greater than the fair value of the services performed; if actual cost is greater than fair value, the fair value shall determine the amount deductible; however, if the facilities used are regulated as a common carrier by a state or federal regulatory agency, the authorized tariff chargeable for the services rendered and paid by Lessee shall be deemed the fair value of such services. If such transportation is by means of any facilities owned by Lessee, Lessee may deduct from the value of production a reasonable sum for such services, computed as follows: the amount deductible shall include only (1) the direct cost of operation and maintenance, including cost of labor, direct supervision, fuel, supplies, ordinary repairs, and ad valorem taxes; and (2) depreciation of the facility computed over the estimated life of the field.

If Lessee receives any compensation for any function or process for which Lessee is responsible to Lessor without right to deduct costs, including, but not limited to, (1) handling, gathering, or transporting such oil, or (2) treating or processing such oil by ordinary methods to make it marketable, the amount of such compensation shall be added to the value of such oil when computing royalties. If Lessee is deducting costs for any functions for which he is also receiving compensation, deductions may be made only to the extent that they are in excess of any such compensation.

(b) _____ of the value as hereinafter provided, of all gas, including casinghead gas, produced and saved or utilized by methods considered ordinary production methods at the time of production. When such is sold by Lessee to an independent party under an arms' length contract prudently negotiated under the facts and circumstances existing at the time of its execution, the value of

such gas and of gas utilized by Lessee shall be the price received by Lessee for such gas under the contract. If the purchaser is not an independent party by the contract would have been considered prudently negotiated under the facts and circumstances existing at the time of its execution if made with an independent party, then the value of the gas shall be the price received by Lessee under the contract; if the contract would not have been considered prudently negotiated if made with an independent party, the value of such gas shall be its fair value at the time of production but not less than the average of the prices paid for gas of like kind and quality from the field from which such gas is being produced, or if no gas is being sold from that field, the average of prices paid for gas of like kind and quality in the three nearest fields in which gas of like kind and quality is being sold, all comparisons to be with contracts made in the same market (either interstate or intrastate) and for the sale of similar quantities of gas. In all other cases the value of such gas shall be the average stated in the last clause of the preceding sentence.

Except as expressly permitted herein, Lessee shall not make any deduction whatsoever for the cost of any operation, process, facility, or other item considered to be a producing function at the time such gas is produced. Without limiting the foregoing sentence and without regard to classification as production costs or otherwise, the following costs are not to be deducted from the value of production: (1) costs incurred for gathering or transporting production in the field; (2) costs incurred for dehydrating, decontaminating, or in any way processing production to make it marketable by methods considered ordinary at the time such gas is produced. The performance of any producing function or any function mentioned in clauses (2) of the foregoing sentence at a commingled facility in or outside the field in which this lease is situated shall not make the cost of any such function deductible. Without regard to classification as production costs or otherwise, Lessee may deduct costs incurred for compression of gas at a point in or adjacent to the field for insertion into a purchaser's line or into a line owned by Lessee or a carrier for transportation to a point of delivery outside the field.

If Lessee delivers such gas at a point outside the field in which this lease is situated, Lessee may deduct from the value of such gas a reasonable sum for transportation from the field to the point of delivery by means of facilities belonging to an independent party, not in excess of actual cost. If such transportation is by means of facilities owned by one other than an independent party, Lessee may deduct the actual cost of such transportation, but only if such cost is no greater than the fair value of the services performed; if actual cost is greater than fair value, the fair value shall determine the amount to be deducted. If such transportation is by means of any facilities owned by Lessee, Lessee may deduct from the value of production a reasonable sum for such services, computed as follows: the amount deductible shall include only (1) the direct cost of operation and maintenance, including cost of labor, direct supervision, fuel, supplies, ordinary repairs, and ad valorem taxes; and (2) depreciation of the facility computed over the estimated life of the field.

If Lessee receives any compensation for any function or process for which Lessee is responsible to Lessor without right to deduct costs, including, but not limited to, (1) gathering or transporting such gas or (2) dehydrating, decontaminating, or in any way processing production to make it marketable, the amount of such compensation shall be added to the value of such gas when computing royalties. If Lessee is deducting costs for any functions for which he is also receiving compensation, deductions may be made only to the extent that they are in excess of any such compensation.

(c) In addition to the separation of condensate or other liquid hydrocarbons from gas by ordinary production methods (as to which Lessor shall receive royalties above provided and for which separation no charge may be made by Lessee), gas produced hereunder, including casinghead gas, may be processed in a gasoline or other extraction plant in or serving the field, and products may be recovered therefrom either directly by Lessee or under contracts executed by Lessee. If Lessee enters into a contract for the processing of gas with an independent party or parties under which such party or parties retain in kind a portion of the products recovered from or attributed to such gas as consideration for processing, Lessee shall pay the royalty provided for gas in paragraph 6(b) based on the value, as hereinafter determined, of Lessee's share of such products under such contract. In all other cases Lessee shall pay the royalty provided for gas in paragraph 6(b) based on the value, as hereinafter determined, of the total products recovered, after deducting therefrom the costs of processing as specified below.

The value of such products (or Lessee's share thereof) in the cases above provided shall be the price or prices received by Lessee if sold under a contract or contracts prudently negotiated under the facts and circumstances existing at the time of execution

with an independent party or parties. If such products are not sold to an independent party but are sold under a contract which would have been considered prudently negotiated if executed with an independent party, the value of such products (or Lessee's share thereof) shall be the price or prices received by Lessee. If such products are not sold to an independent party under a prudently negotiated contract or are sold to one other than an independent party under a contract which would not have been considered prudently negotiated if executed with an independent party, the value of the products shall be their fair market value at the plant at the time sold. The value of any such products (or Lessee's share thereof) not sold under any contracts shall be the fair market value at the plant for such products, or if no products are being sold at the plant, the average of the market values for like products of the same grade and quality at the three nearest plants at which such products are being sold.

When the cost of processing is not met by retention by the processor of a share of the products or in any other case in which Lessee is to deduct from the value of such products the cost of processing, the charges shall be determined as follows. If the gas is processed by an independent party or parties under a contract prudently negotiated under the facts and circumstances existing at the time of execution, the charges deducted shall be those provided in such contract. In all other cases, including processing by those other than an independent party or parties and those in which Lessee itself or in conjunction with others owns the plant, the charges should be determined by contract between Lessee and Lessor. In the absence of such a contract the charges to be deducted shall include only the proportionate part of : (1) the direct cost of operating and maintaining the plant, computed annually, including cost of labor and on site supervision, materials, supplies, and ordinary repairs; (2) plant fuel and shrinkage; (3) depreciation of the plant computed over the life or lives of the field or fields served by the plant, or by such other method as is agreed upon by Lessor and Lessee; and (4) ad valorem taxes.

In all of the cases provided for in this paragraph, Lessor shall be entitled to the royalty for gas provided in paragraph (b) of this Article based on the value of Lessee's share of the residue gas sold or otherwise disposed of after processing.

- d) ...deals with provisions for "Lieu Royalty" on a shut-in gas well...
- e) per long ton of all sulphur produced and saved.
- f) per ton for all potash produced and saved.
- g) of any and all other liquid or gaseous hydrocarbon minerals not specifically mentioned herein, said royalties to be delivered or paid as is the accepted custom in such matter.
- h) In all cases, Lessor's royalty shall be calculated and paid after deduction of all severance or production taxes.
- i) The first payment of royalty shall be made within 120 days following commencement of production from, or allocation of production to the lease premises. Thereafter, royalty on oil, including condensate and other liquid hydrocarbons produced and saved at the well by ordinary production methods shall be paid by the 25th of each month for production of the previous month; and royalty on gas, including liquids or other products extracted or processed from gas other than by ordinary production methods, and on sulphur, potash and other liquids or gaseous hydrocarbon minerals not specifically mentioned shall be paid on or before the 25th day of the second month following that in which produced or extracted or processed. Whenever Lessee is unable to make payments within the period so provided because of adverse claims, disputes, litigation or other circumstance involving the title of Lessor or the extent of interest of Lessor, or whenever circumstances are such as to prevent Lessee from making payments within said periods, despite reasonable and diligent effort, Lessee shall not be required to make payments within said periods. In the event any royalty payment is not correctly or timely made, such royalty payment or unpaid portion thereof shall bear interest at the rate of six per cent per annum, beginning as of the date by which such payment should have been made and running until paid. The foregoing provisions for the payment of interest shall be in lieu of any right of Lessor to cancel the lease for nonpayment or incorrect payment of royalties, except in case of any deliberate and wrongful failure or refusal to pay such royalties after they become due as provided for above.
- j) For all purposes of this Article 6 "independent party" means a company, firm, or other business unit which is not: (1) a direct part of Lessee's corporate or other business structure; (2) a wholly owned or actually controlled subsidiary corporation or other

business unit of Lessee; (3) a parent corporation of Lessee; or (4) a wholly owned or actually controlled subsidiary of Lessee's parent corporation.

1966 Lease Form - State Leases 5559 through 6892

6. Lessee shall pay to Lessor as royalty (unless Lessor elects to take in kind the portion due it as royalty, the option so to do being expressly reserved herein pursuant to Act 599 of 1970):

Paragraphs 6(a) through 6(j) same as above.

1975 Lease Form - State Leases 6893 through 10329

6. Unless Lessor elects to take in kind all or any part of the portion due Lessor as royalty on minerals produced and saved hereunder, which option is hereby expressly reserved by Lessor pursuant to L.R.S. 30:127 A.4., and which is to be exercised by written notice by Lessor to Lessee at any time and from time to time while this lease is in effect and either prior or subsequent to acceptance by Lessor of royalties other than in kind, it being understood that nothing contained in this lease or in the rider attached hereto shall ever be interpreted as limiting or waiving said option, Lessee shall pay to Lessor as royalty:

Paragraphs 6(a) through 6(h) same as 1966 Lease Form.

(i) The first payment of royalty shall be made within one hundred twenty (120) days following commencement of production from, or allocation of production to the leased premises, except that in the case of any production from or allocable to the leased premises, which has occurred prior to the date of but which is deemed to be covered by this lease, Lessee hereby agrees to pay Lessor's royalty on all such prior production within one hundred twenty (120) days from the date of this lease. Thereafter, royalty on oil, including condensate or other liquid mineral, produced and saved at the well by ordinary production methods shall be paid by the 25th of each month for production of the previous month; and royalty on gas, including liquids or other products extracted or processed from gas other than by ordinary production methods, and on sulphur, potash, and other liquid or gaseous hydrocarbon minerals not specifically mentioned shall be paid on or before the 25th day of the second month following that in which produced or extracted or processed. In the event any royalty payment is not correctly or timely made, the remedies provided by L.S.A.:R.S. 31:137 through 142 relative to notice, damages, interest, attorney fees, and dissolution shall be applicable.

(j) For all purposes of this Article 6 "independent party" means a company, firm, or other business unit which is not: (1) a direct part of Lessee's corporate or other business structure; (2) a wholly owned or actually controlled subsidiary corporation or other business unit of Lessee; (3) a parent corporation of Lessee; or (4) a wholly owned or actually controlled subsidiary of Lessee's parent corporation.

1981 Lease Form - State Leases 10329 through 16855

6. Unless Lessor elect to take in kind all or any part of the portion due lessor as royalty on minerals produced and saved hereunder, which option is hereby expressly reserved by Lessor pursuant to L.R.S. 30:127 C and which is to be exercised by written notice by Lessor to Lessee at any time and from time to time while this lease is in effect and either prior or subsequent to acceptance by Lessor of royalties other than in kind, it being understood that nothing contained in this lease or in the rider attached hereto shall ever be interpreted as limiting or waiving said option, Lessee shall pay to Lessor as royalty:

(a) _____ of the value, as hereinafter provided, of all oil, including condensate or other liquid mineral, produced and saved or utilized by methods considered ordinary production methods at the time of production. The value of such oil shall not be less than the average price for oil of like grade and quality posted for the field in which this lease is situated. If there is no price posted for the field in which this lease is situated, the value of such oil shall be not less than the average of prices posted for oil of like grade and quality for the three fields nearest to the field in which this lease is situated

for which such prices are posted. If Lessee enters into an oil sales contract which, at the time of execution, provides for a price equal to or in excess of the appropriate average price referred to in the two preceding sentences, the price payable under the terms of the contract at the time such oil is run shall be the value of such oil, even though the appropriate average changes during the life of the contract; however, any such contract must have been prudently negotiated under the circumstances existing at the time of execution. If Lessee is unable, after diligent effort, to sell such oil for a price equal to or in excess of the appropriate average price and Lessee consequently negotiates a contract to sell such oil to an independent party at a lesser price, the value of such oil for the duration of any such contract (but not in excess of one year) shall be the price received by Lessee under such contract.

Lessee shall not make any deduction whatsoever for the cost of any operation, process, facility, or other item considered to be a production function or facility at the time such oil is run. Without limiting the foregoing sentence and without regard to classification as production costs, or otherwise, the following costs are not to be deducted from the value of production: (1) costs incurred for gathering or transporting production in the field; (2) costs incurred for handling, treating, separating, or in any way processing production to make it marketable by methods considered ordinary at the time such oil is run; and (3) the cost of storage on the lease or in the field. The performance of any producing function or any function mentioned in clauses (2) and (3) of the foregoing sentence at a commingled facility in or outside the field in which this lease is situated shall not make the cost of any such function deductible.

If Lessee delivers such oil at a point outside the field in which this lease is situated, Lessee may deduct from the value of such oil the actual costs of transportation from the field to the point of delivery by means of facilities belonging to an independent party. If such transportation is by means of facilities owned by one other than an independent party, Lessee may deduct the actual cost of such transportation, but only if such cost is no greater than the fair value of the services performed; if actual cost is greater than fair value, the fair value shall determine the amount deductible; however, if the facilities used are regulated as a common carrier by a state or federal regulatory agency, the authorized tariff chargeable for the services rendered and paid by Lessee shall be deemed the fair value of such services. If such transportation is by means of any facilities owned by Lessee, Lessee may deduct from the value of production a reasonable sum for such services, computed as follows: the amount deductible shall include only (1) the direct cost of operation and maintenance, including cost of labor, direct supervision, fuel, supplies, ordinary repairs, and ad valorem taxes; and (2) depreciation of the facility computed over the estimated life of the field.

If Lessee receives any compensation for any function or process for which Lessee is responsible to Lessor without right to deduct costs, including, but not limited to, (1) handling, gathering, or transporting such oil, or (2) treating or processing such oil by ordinary methods to make it marketable, the amount of such compensation shall be added to the value of such oil when computing royalties. If Lessee is deducting costs for any functions for which he is also receiving compensation, deductions may be made only to the extent they are in excess of any such compensation.

(b) _____ of the value as hereinafter provided, of all gas, including casinghead gas, produced and saved or utilized by methods considered as ordinary production methods at the time of production. When such gas is sold by Lessee to an independent party under an arms' length contract prudently negotiated under the facts and circumstances existing at the time of its execution, the value of such gas and of gas utilized by Lessee shall be the price received by Lessee for such gas under the contract. If the purchaser is not an independent party but the contract would have been considered prudently negotiated under the facts and circumstances existing at the time of its execution if made with an independent party, then the value of the gas shall be the price received by Lessee under the contract; if the contract would not have been considered prudently negotiated if made with an independent party, the value of such gas shall be its fair value at the time of production but not less than the average of the prices paid for gas of like kind and quality from the field from which such gas is being produced, or if no gas is being sold from that field, the average of prices paid for gas of like kind and quality in the three nearest fields in which gas of like kind and quality is being sold, all comparisons to be with contracts made in the same market

(either interstate or intrastate) and for the sale of similar quantities of gas. In all other cases the value of such gas shall be the average stated in the last clause of the preceding sentence.

Except as expressly permitted herein, Lessee shall not make any deduction whatsoever for the cost of any operation, process, facility, or other item considered to be a producing function at the time such gas is produced. Without limiting the foregoing sentence and without regard to classification as production costs or otherwise, the following costs are not to be deducted from the value of production: (1) costs incurred for gathering or transporting production in the field; or (2) costs incurred for dehydrating, decontaminating, or in any way processing production to make it marketable by methods considered ordinary at the time such gas is produced. The performance of any producing function or any function mentioned in clause (2) of the foregoing sentence at a commingled facility in or outside the field in which this lease is situated shall not make the cost of any such function deductible. Without regard to classification as production cost or otherwise, Lessee may deduct costs incurred for compression of gas at a point in or adjacent to the field for insertion into a purchaser's line or into a line owned by Lessee or a carrier for transportation to a point of delivery outside the field. If Lessee delivers such gas at a point outside the field in which this lease is situated, Lessee may deduct from the value of such gas a reasonable sum for transportation from the field to the point of delivery by means of facilities belonging to an independent party, not in excess of actual cost. If such transportation is by means of facilities owned by one other than an independent party, Lessee may deduct the actual cost of such transportation, but only if such cost is no greater than the fair value of the services performed; if actual cost is greater than fair value, the fair value shall determine the amount to be deducted. If such transportation is by means of any facilities owned by lessee, lessee may deduct from the value of production a reasonable sum for such services, computed as follows: the amount deductible shall include only (1) the direct cost of operation and maintenance, including cost of labor, direct supervision, fuel, supplies, ordinary repairs, and ad valorem taxes; and (2) depreciation of the facility computed over the estimated life of the field.

If Lessee receives any compensation for any function or process for which Lessee is responsible to Lessor without right to deduct costs, including but not limited to, (1) gathering or transporting such gas or (2) dehydrating, decontaminating, or in any way processing production to make it marketable, the amount of such compensation shall be added to the value of such gas when computing royalties. If Lessee is deducting costs for any functions for which he is also receiving compensation, deductions may be made only to the extent they are in excess of any such compensation.

(c) In addition to the separation of condensate or other liquid mineral from gas by ordinary production methods (as to which Lessor shall receive royalties above provided and for which separation no charge may be made by Lessee), gas produced hereunder, including casinghead gas, may be processed in a gasoline or other extraction plant in or serving the field, and products may be recovered therefrom either directly by Lessee or under contracts executed by Lessee. If Lessee enters into a contract for the processing of gas with an independent party or parties under which such party or parties retain in kind a portion of the products recovered from or attributed to such gas as consideration for processing, Lessee shall pay the royalty provided for gas in paragraph 6(b) based on the value, as hereinafter determined, of Lessee's share of such products under such contract. In all other cases Lessee shall pay the royalty provided for gas in paragraph 6(b) based on the value, as hereinafter determined, of the total products recovered, after deducting therefrom the costs of processing as specified below.

The value of such products (or Lessee's share thereof) in the cases above provided shall be the price or prices received by Lessee if sold under a contract or contracts prudently negotiated under the facts and circumstances existing at the time of execution with an independent party or parties. If such products are not sold to an independent party but are sold under a contract which would have been considered prudently negotiated if executed with an independent party, the value of such products (or Lessee's share thereof) shall be the price or prices received by Lessee. If such products are not sold to an independent party under a prudently negotiated contract or are sold to one other than an independent party under a contract which would not have been considered prudently negotiated if executed with an independent party, the value of the products shall be their fair market value at the plant at the time sold. The value of any such products (or Lessee's share thereof) not

sold under any contracts shall be the fair market value at the plant for such products, or if no products are being sold at the plant, the average of the market values for like products of the same grade and quality at the three nearest plants at which such products are being sold.

When the cost of processing is not met by retention by the processor of a share of the products or in any other case in which Lessee is to deduct from the value of such products the cost of processing, the charges shall be determined as follows. If the gas is processed by an independent party or parties under a contract prudently negotiated under the facts and circumstances existing at the time of execution, the charges deducted shall be those provided in such contract. In all other cases, including processing by those other than an independent party or parties and those in which Lessee itself or in conjunction with others owns the plant, the charges should be determined by contract between Lessee and Lessor. In the absence of such a contract the charges to be deducted shall include only the proportionate part of (1) the direct cost of operating and maintaining the plant, computed annually, including cost of labor and on-site supervision, materials, supplies, and ordinary repairs; (2) plant fuel and shrinkage; (3) depreciation of the plant computed over the life or lives of the field or fields served by the plant, or by such other method as is agreed upon by Lessor and Lessee; and (4) ad valorem taxes.

In all of the cases provided for in this paragraph, Lessor shall be entitled to the royalty for gas provided in paragraph (b) of this Article based on the value of Lessee's share of the residue gas sold or otherwise disposed of after processing.

- d) ...deals with provisions for "Lieu Royalty" on a shut-in gas well...
- e) any and all other liquid or gaseous minerals in solution and produced with oil or gas and saved or utilized, which are not specifically mentioned herein, said royalties to be delivered or paid when marketed or utilized as is the accepted practice in such matters.
- f) In all cases, Lessor's royalty shall be calculated and paid after deduction of all severance or production taxes.
- g) The first payment of royalty shall be made within one hundred twenty (120) days following commencement of production from, or allocation of production to the leased premises, except that in the case of any production from or allocable to the leased premises, which has occurred prior to the date of but which is deemed to be covered by this lease, Lessee hereby agrees to pay Lessor's royalty on all such prior production within one hundred twenty (120) days from the date of this lease. Thereafter, royalty on oil, including condensate or other liquid mineral, produced and saved at the well by ordinary production methods shall be paid by the 25th of each month for production of the previous month; and royalty on gas, including liquids or other products extracted or processed from gas other than by ordinary production methods, or other liquid or gaseous mineral not specifically mentioned shall be paid on or before the 25th day of the second month following that in which produced or extracted or processed. In the event any royalty payment is not correctly or timely made, the remedies provided by L.A.R.S. 31:137 through 142 relative to notice, damages, interest, attorney fees, and dissolution shall be applicable, except that interest shall be payable thereon until paid without any requirement for prior written notice by Lessor to Lessee.

(h) For all purposes of this Article 6 "independent party" means a company, firm, or other business unit which is not: (1) a direct part of Lessee's corporate or other business structure; (2) a wholly owned or actually controlled subsidiary corporation or other business unit of Lessee; (3) a parent corporation of Lessee; or (4) a wholly owned or actually controlled subsidiary of Lessee's parent corporation.

2000 Lease Form – State Leases 16856 to present

6. Unless Lessor elect to take in kind all or any part of the portion due lessor as royalty on minerals produced and saved hereunder, which option is hereby expressly reserved by Lessor pursuant to L.R.S. 30:127 C and which is to be exercised by written notice by Lessor to Lessee at any time and from time to time while this lease is in effect and either prior or subsequent

to acceptance by Lessor of royalties other than in kind, it being understood that nothing contained in this lease or in the rider attached hereto shall ever be interpreted as limiting or waiving said option, Lessee shall pay to Lessor as royalty:

(a) _____ of the value, as hereinafter provided, of all oil, including condensate or other liquid mineral, produced and saved or utilized by methods considered ordinary production methods at the time of production. The value of such oil shall not be less than the average price for oil of like grade and quality posted for the field in which this lease is situated. If there is no price posted for the field in which this lease is situated, the value of such oil shall be not less than the average of prices posted for oil of like grade and quality for the three fields nearest to the field in which this lease is situated for which such prices are posted. If Lessee enters into an oil sales contract which, at the time of execution, provides for a price equal to or in excess of the appropriate average price referred to in the two preceding sentences, the price payable under the terms of the contract at the time such oil is run shall be the value of such oil, even though the appropriate average changes during the life of the contract; however, any such contract must have been prudently negotiated under the circumstances existing at the time of execution. If Lessee is unable, after diligent effort, to sell such oil for a price equal to or in excess of the appropriate average price and Lessee consequently negotiates a contract to sell such oil to an independent party at a lesser price, the value of such oil for the duration of any such contract (but not in excess of one year) shall be the price received by Lessee under such contract.

Lessee shall not make any deduction whatsoever for the cost of any operation, process, facility, or other item considered to be a production function or facility at the time such oil is run. Without limiting the foregoing sentence and without regard to classification as production costs, or otherwise, the following costs are not to be deducted from the value of production: (1) costs incurred for gathering or transporting production in the field; (2) costs incurred for handling, treating, separating, or in any way processing production to make it marketable by methods considered ordinary at the time such oil is run; and (3) the cost of storage on the lease or in the field. The performance of any producing function or any function mentioned in clauses (2) and (3) of the foregoing sentence at a commingled facility in or outside the field in which this lease is situated shall not make the cost of any such function deductible.

If Lessee delivers such oil at a point outside the field in which this lease is situated, Lessee may deduct from the value of such oil the actual costs of transportation from the field to the point of delivery by means of facilities belonging to an independent party. If such transportation is by means of facilities owned by one other than an independent party, Lessee may deduct the actual cost of such transportation, but only if such cost is no greater than the fair value of the services performed; if actual cost is greater than fair value, the fair value shall determine the amount deductible; however, if the facilities used are regulated as a common carrier by a state or federal regulatory agency, the authorized tariff chargeable for the services rendered and paid by Lessee shall be deemed the fair value of such services. If such transportation is by means of any facilities owned by Lessee, Lessee may deduct from the value of production a reasonable sum for such services, computed as follows: the amount deductible shall include only (1) the direct cost of operation and maintenance, including cost of labor, direct supervision, fuel, supplies, ordinary repairs, and ad valorem taxes; and (2) depreciation of the facility computed over the estimated life of the field.

If Lessee receives any compensation for any function or process for which Lessee is responsible to Lessor without right to deduct costs, including, but not limited to, (1) handling, gathering, or transporting such oil, or (2) treating or processing such oil by ordinary methods to make it marketable, the amount of such compensation shall be added to the value of such oil when computing royalties. If Lessee is deducting costs for any functions for which he is also receiving compensation, deductions may be made only to the extent they are in excess of any such compensation.

(b) _____ of the value as hereinafter provided, of all gas, including casinghead gas, produced and saved or utilized by methods considered as ordinary production methods at the time of production. When such gas is sold by Lessee to an independent party under an arms' length contract prudently negotiated under the facts and circumstances existing at the time of its execution, the value of such gas and of gas utilized by Lessee shall be the price received by Lessee for such gas

under the contract. If the purchaser is not an independent party but the contract would have been considered prudently negotiated under the facts and circumstances existing at the time of its execution if made with an independent party, then the value of the gas shall be the price received by Lessee under the contract; if the contract would not have been considered prudently negotiated if made with an independent party, the value of such gas shall be its fair value at the time of production but not less than the average of the prices paid for gas of like kind and quality from the field from which such gas is being produced, or if no gas is being sold from that field, the average of prices paid for gas of like kind and quality in the three nearest fields in which gas of like kind and quality is being sold, all comparisons to be with contracts made in the same market (either interstate or intrastate) and for the sale of similar quantities of gas. In all other cases the value of such gas shall be the average stated in the last clause of the preceding sentence.

Except as expressly permitted herein, Lessee shall not make any deduction whatsoever for the cost of any operation, process, facility, or other item considered to be a producing function at the time such gas is produced. Without limiting the foregoing sentence and without regard to classification as production costs or otherwise, the following costs are not to be deducted from the value of production: (1) costs incurred for gathering or transporting production in the field; or (2) costs incurred for dehydrating, decontaminating, or in any way processing production to make it marketable by methods considered ordinary at the time such gas is produced. The performance of any producing function or any function mentioned in clause (2) of the foregoing sentence at a commingled facility in or outside the field in which this lease is situated shall not make the cost of any such function deductible. Without regard to classification as production cost or otherwise, Lessee may deduct costs incurred for compression of gas at a point in or adjacent to the field for insertion into a purchaser's line or into a line owned by Lessee or a carrier for transportation to a point of delivery outside the field.

If Lessee delivers such gas at a point outside the field in which this lease is situated, Lessee may deduct from the value of such gas a reasonable sum for transportation from the field to the point of delivery by means of facilities belonging to an independent party, not in excess of actual cost. If such transportation is by means of facilities owned by one other than an independent party, Lessee may deduct the actual cost of such transportation, but only if such cost is no greater than the fair value of the services performed; if actual cost is greater than fair value, the fair value shall determine the amount to be deducted. If such transportation is by means of any facilities owned by lessee, lessee may deduct from the value of production a reasonable sum for such services, computed as follows: the amount deductible shall include only (1) the direct cost of operation and maintenance, including cost of labor, direct supervision, fuel, supplies, ordinary repairs, and ad valorem taxes; and (2) depreciation of the facility computed over the estimated life of the field.

If Lessee receives any compensation for any function or process for which Lessee is responsible to Lessor without right to deduct costs, including but not limited to, (1) gathering or transporting such gas or (2) dehydrating, decontaminating, or in any way processing production to make it marketable, the amount of such compensation shall be added to the value of such gas when computing royalties. If Lessee is deducting costs for any functions for which he is also receiving compensation, deductions may be made only to the extent they are in excess of any such compensation.

(c) In addition to the separation of condensate or other liquid mineral from gas by ordinary production methods (as to which Lessor shall receive royalties above provided and for which separation no charge may be made by Lessee), gas produced hereunder, including casinghead gas, may be processed in a gasoline or other extraction plant in or serving the field, and products may be recovered therefrom either directly by Lessee or under contracts executed by Lessee. If Lessee enters into a contract for the processing of gas with an independent party or parties under which such party or parties retain in kind a portion of the products recovered from or attributed to such gas as consideration for processing, Lessee shall pay the royalty provided for gas in paragraph 6(b) based on the value, as hereinafter determined, of Lessee's share of such products under such contract. In all other cases Lessee shall pay the royalty provided for gas in paragraph 6(b) based on the value, as hereinafter determined, of the total products recovered, after deducting therefrom the costs of processing as specified below.

The value of such products (or Lessee's share thereof) in the cases above provided shall be the price or prices received by Lessee if sold under a contract or contracts prudently negotiated under the facts and circumstances existing at the time of execution with an independent party or parties. If such products are not sold to an independent party but are sold under a contract which would have been considered prudently negotiated if executed with an independent party, the value of such products (or Lessee's share thereof) shall be the price or prices received by Lessee. If such products are not sold to an independent party under a prudently negotiated contract or are sold to one other than an independent party under a contract which would not have been considered prudently negotiated if executed with an independent party, the value of the products shall be their fair market value at the plant at the time sold. The value of any such products (or Lessee's share thereof) not sold under any contracts shall be the fair market value at the plant for such products, or if no products are being sold at the plant, the average of the market values for like products of the same grade and quality at the three nearest plants at which such products are being sold.

When the cost of processing is not met by retention by the processor of a share of the products or in any other case in which Lessee is to deduct from the value of such products the cost of processing, the charges shall be determined as follows. If the gas is processed by an independent party or parties under a contract prudently negotiated under the facts and circumstances existing at the time of execution, the charges deducted shall be those provided in such contract. In all other cases, including processing by those other than an independent party or parties and those in which Lessee itself or in conjunction with others owns the plant, the charges should be determined by contract between Lessee and Lessor. In the absence of such a contract the charges to be deducted shall include only the proportionate part of (1) the direct cost of operating and maintaining the plant, computed annually, including cost of labor and on-site supervision, materials, supplies, and ordinary repairs; (2) plant fuel and shrinkage; (3) depreciation of the plant computed over the life or lives of the field or fields served by the plant, or by such other method as is agreed upon by Lessor and Lessee; and (4) ad valorem taxes.

In all of the cases provided for in this paragraph, Lessor shall be entitled to the royalty for gas provided in paragraph (b) of this Article based on the value of Lessee's share of the residue gas sold or otherwise disposed of after processing.

d) If at any time or times (during or after the primary term) there is on the leased premises a well or wells capable of producing gas in paying quantities, which fact has been duly verified and confirmed in accordance with Lessor's requirements for proof thereof, but gas is not being used or marketed therefrom because of the lack of a reasonable market or marketing facilities or governmental restrictions and if this lease is not then being otherwise maintained by separate operations or production, this lease shall, nevertheless, remain in full force and effect for a period of ninety (90) days after cessation of such production or such operations or the shutting in of such well. If, on or before the expiration of the ninety (90) day period, production or operations shall not have been commenced or resumed, Lessee in order to maintain the lease in force thereafter, shall commence semi annual payments to the Lessor at the rate and in the manner provided hereinbelow and thereby maintain the lease in full force and effect during the periods covered by such payments, however if the ninety (90) day period should expire during the first year of the primary term or during any year for which a rental has previously been paid, the initial payment hereunder shall not be required until the next anniversary date of the lease. The first payment, if made, shall be tendered on or before the expiration of the ninety (90) day period or the appropriate anniversary date, as the case may be, and shall maintain this lease for six (6) months, commencing from the expiration of the ninety (90) day period or the anniversary date. Subsequent payments shall be made at six (6) month intervals thereafter (herein referred to as "shut-in payment dates"). Unless additional payment periods are earned as hereinafter provided, Lessee's right to make such payments shall continue for six (6) semi-annual periods (The total of which is herein called "initial payment period"). Each semi-annual payment shall be at the rate of twenty-five dollars (\$25.00) per acre for the number of acres then covered by this lease, but no payment shall be less than five hundred dollars (\$500.00). Each payment shall maintain this lease in full force and effect for a period of six (6) months, and during each period for which a payment has been made, it shall be considered that gas is being produced hereunder for all

purposes hereof, but especially under the provisions of Article 2, 4, 7, and 9, however, if the provision so of this paragraph 6(d) are in conflict with those of any other articles hereof, the provisions of this paragraph shall be controlling.

If on any shut in payment date, actually drilling operations are being conducted on or actual production of oil, gas or other liquid or gaseous mineral in paying quantities is being obtained from the leased premises, no shut-in payment shall be due until the next shut-in payment date, however, the running of the initial payment period shall not be suspended or interrupted, and the same shall be true of any extension of that periods by additional shut-in periods earned as hereinafter provided.

The initial payment period may be extended in the following manner Lessee may ear two (2) additional six (6) month shut-in payment periods beyond the initial payment period for each additional well drilled or completed after completion of the shut-in well on which the initial shut-in payment was made (Whether such additional wells are dry holes, producers, or shut-in wells). To qualify as a well "completed" after the first shut-in well, the completion must be in another hole, and no more than one completion will be counted for head additional hole regardless of the number of sands in any such hole. The aggregate additional periods (hereinafter referred to as "additional periods") so earned shall not exceed a total of six (6). The first of any additional periods shall commence from the date on which the initial payment period would have expired in the initial payment period, thus extended, shall continue to run from that date, regardless whether Lessee is actually required to make any additional payments. The Board and Lessee may be mutual agreement provided for further six (6) periods (hereinafter called "further periods") beyond the initial payment period of nay extension thereof.

If the end of the initial payment period falls within the primary term of this lease and at a time when there is a remaining rental date which would permit Lessee to maintain this lease by payment of rentals, Lessee may commence or resume the payment of rentals on the next anniversary date of this lease or may maintain this lease by any other means permitted under paragraphs 4(a) and 4(c). If the end of the initial payment period or any extension thereof falls within the last year of the primary term, it shall be considered that production has ceased under the terms of paragraph 4(a), and no rental shall be due for the remainder of the primary term. If the end of the initial payment period, any extension thereof, or any further period falls on or after the expiration date of the primary term and there are no operations or actual production sufficient to maintain this lease under the provisions of paragraphs 4(b) and 4 (c), this lease shall terminate.

The provision of this paragraph shall be applicable to any well with gas/oil ration such that the Commissioner of Conservation will not permit its operation without use or sale of the gas.

Tender or acceptance of a shut-in payment or payments shall not free Lessee of any obligation to develop this lease as a prudent operator or to exercise efforts to obtain a market for the gas so discovered.

- e) _____ of any and all other liquid or gaseous minerals in solution and produced with oil or gas and saved or utilized, which are not specifically mentioned herein, said royalties to be delivered or paid when marketed or utilized as is the accepted practice in such matters.
- f) In all cases, Lessor's royalty shall be calculated and paid after deduction of all severance or production taxes.
- g) The first payment of royalty shall be made within one hundred twenty (120) days following commencement of production from, or allocation of production to the leased premises, except that in the case of any production from or allocable to the leased premises, which has occurred prior to the date of but which is deemed to be covered by this lease, Lessee hereby agrees to pay Lessor's royalty on all such prior production within one hundred twenty (120) days from the date of this lease. Thereafter, royalty on oil, including condensate or other liquid mineral, produced and saved at the well by ordinary production methods shall be paid by the 25th of each month for production of the previous month; and royalty on gas, including liquids or other products extracted or processed from gas other than by ordinary production methods, or other liquid or gaseous mineral not specifically mentioned shall be paid on or before the 25th day of the second month following that in which produced or extracted or processed. In the event any royalty payment is not correctly or timely made, the remedies provided by L.A.R.S. 31:137 through 142 relative to notice, damages, interest, attorney fees, and dissolution

shall be applicable, except that interest shall be payable thereon until paid without any requirement for prior written notice by Lessor to Lessee.

(h) For all purposes of this Article 6 "independent party" means a company, firm, or other business unit which is not: (1) a direct part of Lessee's corporate or other business structure; (2) a wholly owned or actually controlled subsidiary corporation or other business unit of Lessee; (3) a parent corporation of Lessee; or (4) a wholly owned or actually controlled subsidiary of Lessee's parent corporation.

**State Mineral & Energy Board Resolution Adopting
Guidelines for Payment of Royalty on Processed Gas From State Leases
December 9, 1970**

WHEREAS, the Audit Division is in need of minimum standards by which to audit the correctness of royalty payments on plant products tendered to the State of Louisiana; and

WHEREAS, problems of interpretation of such standards will from time to time arise; and

WHEREAS, on motion of Mr. Woods, seconded by Mr. Sherrouse, the following Resolution was offered and adopted:

BE IT RESOLVED, that the standards or guidelines attached hereto and made a part hereof are approved by the Louisiana State Mineral Board for use by its auditing staff in making its comprehensive study of plant products and processed gas royalty payments, such standards to serve as minimum standards in the performance of the auditing function.

BE IT FURTHER RESOLVED, that compliance with these minimum standards by any lessee of the State is not intended to bind or estop any lessee of the State or to bind or estop the State in the event of future dispute or litigation concerning the legal meaning or interpretation of any of the lease forms covered under the attached standards.

BE IT FURTHER RESOLVED, that use of these minimum standards by the audit division is a matter of administrative convenience and that lessees, in making royalty payments according to these standards, will be free of any necessity to make any special appearance or showing before the Louisiana State Mineral Board concerning the correctness of royalty payments.

BE IT FURTHER RESOLVED, that in the event the Audit Division discovers any instances in which lessees are not accounting for royalty payments according to the attached standards, the pertinent information shall be referred to the Royalty Accounting Committee for its consideration and disposition.

BE IT FURTHER RESOLVED, that the Royalty Accounting Committee be and it is hereby authorized to interpret and apply the attached standards to the various fact situations as they arise and to direct the Audit Division staff concerning procedures to be followed in applying the Committees' interpretations of the standards.

BE IT FURTHER RESOLVED, that these guidelines shall be effective January 1, 1971. At this time it is anticipated that all companies submitting royalties on plant products will base their payments on the percentages set forth in the guidelines. If it is found, on the first bi-annual review, that something less than the percentage set forth in the guidelines has been paid by any State lessee, the State Mineral Board contemplates retroactive adjustment for this two year period.

GUIDELINES FOR PAYMENT OF ROYALTY ON PROCESSED GAS FROM STATE LEASES

These guidelines are for the audit staff of the State Mineral Board as a guide for their use in determining whether the State's lessees are tendering royalty on plant products and residue gas in a manner considered satisfactory by the Board. It is intended that tendered payments that are found to be consistent with these guidelines may be accepted without further review on the part of the Royalty Accounting Committee or the Board.

1. In all cases where gas from State leases is processed royalty should be tendered in 100% of the volume of the residue gas. Residue gas is defined as: all plant source gas delivered by a producer for processing, less shrinkage due to liquid extraction, fuel required for plant equipment necessary for liquid extraction, flare gas, and unavoidable losses.

2. When the State's lessee is having the gas processed under a processing agreement by a plant in which the lessee owns no interest royalty should be tendered on 100% of the products or value thereof as the case may be which are returned to the lessee under the processing agreement.

3. Except as provided in Paragraph 4 hereof, when the State's lessee owns an interest in the plant, and is having the gas processed therein, then initially an allocation of not less than 40% of the value of the liquids extracted should be allocated back to the lease for royalty purposes.

The initial 40% figure should be revised upward or downward bi-annually depending on the annual percentage of net return of the plant determined as hereinafter provided. If such net return is 15% to 20%, then the minimum of 40% should remain unchanged. If net return should increase above 20% or decrease below 15%, the minimum acceptable allocation back to the lease shall be as follows:

For each full percent increase in net return percentage above 20%, the 40% base would be increased by 1/2%. For each full percent decrease in net return percentage below 15%, the 40% base would be decreased by 1/2%.

4. When the State's lessee owns an interest in the plant, and such lessee is processing gas from both its federal and state leases in such plant, then notwithstanding anything to the contrary in Paragraph 3 hereof, such lessee shall allocate back to its state lease(s) for royalty purposes the same percentage of liquids such lessee allocates back to its federal lease(s).

5. In no case should total royalty on residue gas and liquids extracted be less than the royalty which would be payable at the lease on the unprocessed gas.

6. Plant net return for use as provided in Paragraph 3 hereof is to be calculated as follows:

- A= Proceeds realized at tail gate of plant for liquid products (after fractionation fee is such is based on the fractionator's retaining a portion of the liquids)
 - B= Plant direct operating cost. (This would include cost of transporting plant fuel and shrinkage and any other out-of-pocket expenses directly associated with plant operations including ad valorem, and all other applicable taxes.) It would also include fractionation when based on a dollar fee or done as part of the overall plant operations.
 - C= Overhead – 25% of B
 - D= Value Allocated suppliers (percentage of proceeds from liquids (A) returned to leases – amount should be calculated using base percentage allowed State – as if that percentage applied to all leases delivering to the plant – actual settlement bases should be ignored.
 - E= Depreciation of Capital Expenditure less salvage value. (Depreciation is to be calculated in accordance with generally accepted accounting practice. Investment to be depreciated is the total capital investment in the plant less all previous depreciation allowed or allowable to the date that the guidelines become effective.
 - F = Federal income tax applicable to plant operations calculated using statutory corporate income tax rate which is now 48%. $F = 48\% \times [A - (B + C + D + E + G)]$
 - G = State Income Tax. $G = [A - (B + C + D + E)] \times \text{applicable \% under State Law.}$
- NET RETURN = $A - (B + C + D + E + F + G)$

NET RETURN/A = Annual percentage return

7. The reporting requirements and forms to be used are shown in the attachment.
8. Where there are several co-owners of a processing plant, a consolidated or plant report is not expected. Each State lessee having gas processed in any such plant shall separately report its net return from the plant, it being recognized that this may vary with lessees because of variance in plant product prices.
9. (a) These guidelines shall not be applicable in cases where a specific agreement relating to processing specific gas through a specific plant is made between the State and its lessee. In such cases the agreement shall control as to the proper payment of royalty.
- (b) These guidelines shall be applicable temporarily to gas produced under the 1966 lease form until experience as to such form has been accumulated. If hereafter it is determined by the State that it is necessary to terminate the applicability of those guidelines to gas under the 1966 forms any new instructions issued to the staff will be prospective from their date of issue and notice thereof to the State's lessees.

ON MOTION of Ms. Surprenant, seconded by Mr. Caldwell, the Louisiana State Mineral Board adopted the following resolution:

WHEREAS, certain lessees of the State of Louisiana have requested a clarification of the Louisiana State Mineral Board's policy, presently and historically, with respect to a deduction of cost of transporting gas from the well to an off-lease sales delivery point:

BE IT RESOLVED that:

(1) The 1942 State Lease Form provides in part as follows:

Should sulphur, potash, oil, gas and/or other liquid hydrocarbon mineral be produced in paying quantities on the premises hereunder, then the said lessee shall deliver to lessor as royalty, free of expenses: _____ of all gas produced and saved or utilized, delivery of said gas to be understood as made when same has been received by the first purchaser thereof. Or lessee may, in lieu of said gas delivery, and at its option, pay to lessor sums equal to the value thereof at the well, provided no gathering or other charges are made chargeable to lessor; provided further that the price paid lessor for said gas shall not be less than the average price then current for gas of like character or quality delivered to the pipe line purchaser in that field.

(2) Where the lessee sells gas at the well in arm's length transactions, the policy of the Mineral Board with respect to the quoted lease royalty provision is presently, and historically has been, to accept such sales as evidence of "value thereof at the well" and no deduction is allowed for transportation beyond the lease, or for "gathering or other charges."

(3) However, where gas is sold by the lessee in an arm's length transaction at a delivery point away from the lease, the policy of the Mineral Board with respect to the quoted lease royalty provision is presently, and historically has been, to take transportation costs (but not "gathering or other charges") into account in determining value at the well. In practice, gross sales proceeds of arm's length transactions at the sales delivery point less reasonable transportation costs are generally accepted by the Board as a correct determination of value at the well for royalty payment purposes.

(4) Where gas is not sold by the lessee in an arm's length transaction, and prices at a point away from the lease are referred to for evidence of value, the policy of the Mineral Board with respect to the quoted lease royalty provision is presently, and historically has been, to take transportation costs (but not "gathering or other charges") into account in determining value at the well. In practice, prices at gas market centers less reasonable transportation costs are generally accepted by the Board as a correct determination of value at the well for royalty payment purposes.

AUDIT COMMITTEE

ON MOTION of Mr. Segura, seconded by Mr. Sanders, the following Resolution was offered and adopted:

WHEREAS, the Mineral Board has previously adopted resolutions pertaining to the payment of royalties and recoupments or adjustments; and

WHEREAS, such resolutions have been amended, cancelled or superseded by new resolutions in order to provide policies to meet changing conditions; and

WHEREAS, the Office of Mineral Resources conducts field audits of all major payors of royalty on a periodic basis; and

WHEREAS, a field audit includes inspecting third party documents to determine the accuracy of royalty payments; and

WHEREAS, audit findings include both royalty underpayments and overpayments; and

WHEREAS, the staff recommends that the Office of Mineral Resources are authorized to reject any and all adjustments based on calculation or related errors, when those adjustments pre-date the most recent closed audit period, or in the absence of a date for the most recent closed audit period, the acceptable period defaults to the most recent audit start date;

THEREFORE, BE IT RESOLVED, that the Office of Mineral Resources is authorized to reject any and all adjustments based on calculation or related errors in the event that the adjustment or error occurred prior to the end date of a closed audit period or the start date of an audit in the absence of a closed audit period; and

BE IT FURTHER RESOLVED, that the Board maintains its policy not to consider adjustments based on title.

CERTIFICATE

I hereby certify that the above is a true and correct copy of a Resolution adopted at a meeting of the Louisiana State Mineral and Energy Board in the City of Baton Rouge, Louisiana on the 14th day of July, 2010, pursuant to due notice, at which meeting a quorum was present, and that said Resolution is duly entered in the Minute Books of said Louisiana State Mineral and Energy Board and is now in full force and effect.

LOUISIANA STATE MINERAL AND ENERGY BOARD

RESOLUTION

LOUISIANA STATE MINERAL AND ENERGY BOARD

AUDIT COMMITTEE

ON MOTION of Mr. Segura, seconded by Mr. Sanders, the following Resolution was offered and adopted:

WHEREAS, upon authorization by the Commissioner of Conservation, in certain circumstances, operators may utilize long lateral hydrofracturing technologies which cross the boundary of one or more units to produce hydrocarbons;

WHEREAS, all royalties derived from the production of hydrocarbons from such authorized long lateral hydrofracturing technologies utilized within these wells shall be reported to the Office of Mineral Resources ("OMR");

THEREFORE BE IT RESOLVED, that any and all royalties derived from the utilization of authorized long lateral hydrofracturing technologies, which extend into more than one unit must be presented and paid separately for each unit; and

BE IT FURTHER RESOLVED, that all royalties shall be reported to OMR utilizing the Department of Natural Resources Online Royalty Reporting System and all royalty reports shall be submitted in "Excel" ("xls") format.

CERTIFICATE

I hereby certify that the above is a true and correct copy of a Resolution adopted at a meeting of the Louisiana State Mineral and Energy Board in the City of Baton Rouge, Louisiana on the 13th day of July, 2011, pursuant to due notice, at which meeting a quorum was present, and that said Resolution is duly entered in the Minute Books of said Louisiana State Mineral and Energy Board and is now in full force and effect.



LOUISIANA STATE MINERAL AND ENERGY BOARD

RESOLUTION

LOUISIANA STATE MINERAL AND ENERGY BOARD

AUDIT COMMITTEE

ON MOTION of Mr. Segura, seconded by Mr. Sanders, the following Resolution was offered and adopted:

WHEREAS, the Louisiana State Mineral and Energy Board has, by prior resolutions dated November 21, 1963, June 11, 1969 and April 12, 1972, authorized the Mineral Income Division of the Office of Mineral Resources to prepare and implement revisions to the form entitled "Monthly Report of Minerals Subject to State Royalties" ("Form SR"); and

WHEREAS, it has been determined that Form SR may need further revision at the present time to accommodate technological advancements and system changes and implementation; and

WHEREAS, The Audit Committee recommends and approves further revision of Form SR as necessary; and

WHEREAS, the staff recommends that the Office of Mineral Resources may require all payors remitting royalty payments in excess of \$25,000.00 annually for the previous calendar year to submit Form SR exclusively using the Office of Mineral Resources Online State Royalty Reporting System;

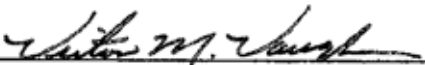
WHEREAS, the staff recommends that the Office of Mineral Resources implement mandatory Online State Royalty Reporting for Form SR submitted in conjunction with a deadline on and thereafter October 25, 2012;

WHEREAS, the staff recommends that failure of a payor to remit Form SR online as set forth by Louisiana State Mineral and Energy Board Resolution be considered incorrect reporting;

THEREFORE, BE IT RESOLVED, that the Office of Mineral Resources is authorized to require all Forms SR for state royalty payments made by a single payor in excess of \$25,000.00 in the previous calendar year be submitted using the Office of Mineral Resources Online State Royalty Reporting System.

CERTIFICATE

I hereby certify that the above is a true and correct copy of a Resolution adopted at a meeting of the Louisiana State Mineral and Energy Board in the City of Baton Rouge, Louisiana on the 11th day of April, 2012, pursuant to due notice, at which meeting a quorum was present, and that said Resolution is duly entered in the Minute Books of said Louisiana State Mineral and Energy Board and is now in full force and effect.



LOUISIANA STATE MINERAL AND ENERGY BOARD

RESOLUTION

LOUISIANA STATE MINERAL AND ENERGY BOARD

LEGAL AND TITLE CONTROVERSY COMMITTEE

ON MOTION OF Mr. Arnold, duly seconded by Ms. Smith, the following Resolution was adopted by the Board, to-wit:

WHEREAS, the Office of Mineral Resources is the steward of the State's mineral and royalty interest; in particular, the Geological and Engineering Division is tasked with the evaluation of oil and gas potential utilizing individual well and reservoir performance on or affecting leased and unleased State owned land and water bottoms, and the Mineral Income Division is mandated to accurately and timely perform audits of those producing properties associated with State Mineral Leases and Operating Agreements, and

WHEREAS, the Mineral Income Division of the Office of Mineral Resources has historically had difficulty performing audits from production reports reported by LeaseUnitWell (LUW) code, which may include wells under the same code with no production attributable to a State mineral lease, or may include production from a well which is attributable to more than one State mineral lease, and

WHEREAS, the Geological and Engineering has likewise had difficulty in evaluating oil and gas potential, as well as well and reservoir performance, when production is reported by LUW code which, again, may include multiple wells under the same LUW code, and

WHEREAS, State mineral lessees reporting production to the Production Audit Division of the Office of Conservation and to the Mineral Income Division of the Office of Mineral Resources (available to the Geological and Engineering Division as well) on a Well Serial Number basis, as well as a LUW code basis, would greatly enhance to ability of the Mineral Income Division to perform its requisite audit functions in a more accurate, as well as more timely, manner, and

WHEREAS, an amendment to the present State and State Agency mineral lease form requiring the mineral lessee to report production from or attributable to the lease on a Well Serial Number basis as well as a LUW code basis in the only practical method of accomplishing this effect at the present, and to make it more effective, requiring any mineral lessee desiring to amend his lease or leases for any reason to include the language requiring said lessee to report production from or attributable to his lease by Well Serial Number and LUW code.

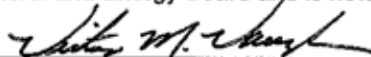
NOW THEREFORE, BE IT RESOLVED, the Board hereby authorizes the staff to add the following language to the State lease form, to-wit:

"Lessee shall report all production of hydrocarbons and associated liquid or gaseous minerals from, or attributable to, this lease to the Production Audit Division of the Office of Conservation and to the Mineral Income Division of the Office of Mineral Resources by appropriate SR forms containing both LeaseUnitWell (LUW) code and, beginning January 1, 2013, well serial number. Failure to report production as herein specified shall be deemed "improper reporting" which shall subject Lessee to the penalty specified therefor."

BE IT FURTHER RESOLVED, and the Board hereby adopts this as a policy, that any State mineral lessee desiring to amend a State mineral lease for any reason, in addition to including any other required language, must add the above language on reporting production from or attributable to the amended lease.

CERTIFICATE

I hereby certify that the above is a true and correct copy of a Resolution adopted at a meeting of the Louisiana State Mineral and Energy Board in the City of Baton Rouge, Louisiana, on the 11th day of April, 2012, pursuant to due notice, at which meeting a quorum was present, and that said Resolution is duly entered in the Minute Books of said Louisiana State Mineral and Energy Board and is now in full force and effect.


LOUISIANA STATE MINERAL AND ENERGY BOARD