

WYOMING OFFICE OF STATE LANDS AND INVESTMENTS

122 West 25th Street
Cheyenne, WY 82002
Phone: 307.777.7331
Fax: 307.777.3524
slfmail@wyo.gov



MATTHEW H. MEAD
Governor

BRIDGET HILL
Director

POLICY

Effective Date
March 1, 2014

Mineral Reporting Policy

The following information is intended to augment published information on royalty reporting and payment, and answer frequently asked questions. If you find your question is unanswered, please call (307) 777-6641, or e-mail us at billie.hunter@wyo.gov.

eRMA2 will accept ASCII filing of amended report lines for prior period royalty adjustments in any current month's royalty report being filed. All current month and/or amended reporting resulting in a payment obligation to the State (check/ACH) will require identification of the eRMA2 reference number on the remittance advice such that there is no question as to the intent of the submitting party. As a matter of payer convenience, one check may be used to pay (account for) both a current month and amended periods.

It should be noted that no prior period adjustments may be submitted for any period six (6) years or older from the month the prior period adjustment is to be submitted. Submissions of prior period adjustments must be for time dates of six (6) years or less from the date of production.

The MR10 and MR 20 reports are the required royalty accounting reports for reporting oil and gas, with additional MR series reports required for lease and unit operator reporting for hydrocarbons, MR 40 and 50 for lease operators reporting oil and gas respectively, and, MR41 and 51 for unit/unit participating area and communitization agreement operators. The MR30 should be used for solid mineral lease reporting. These are the superseding document number designations for those royalty reports described in Chapter 18, Section 15 Royalty Reporting of the Rules of the Board of Land Commissioners.

All MR10, MR40, and MR41 reports are required to be submitted no later than the last day of the month following the production month. Royalty payments for the MR10 reports are due no later than the last business day of the month following the production month. Interest will accrue on any payment received after the deadline addressed above pursuant to W.S. 30-5-303. Interest will be calculated based on the receipt date of the payment (note the Office of State Lands and Investments does not receive mail on weekends or holidays). Once the interest assessment has been calculated and the balance has reached a minimum of \$100.00, the company will be notified via certified mail. The company will have thirty (30) days from receipt of the assessment to pay the outstanding interest amount. Penalties will accrue for any report received after the deadline addressed

above, any incomplete report, and any missing report as allowed by W.S. 30-5-303. A complete reporting includes a separate report for each PSA and Product Code for each lease on which the company is required to report. If a company fails to report on any PSA or Product Code for which they are responsible, a penalty will accrue. Penalties will accrue the first day of the second month following production if the report was not received on time. Once the penalty assessment has been calculated and the balance has reached a minimum of \$100.00, the company will be notified via certified mail. The company will have thirty (30) days from receipt of the assessment to pay the outstanding penalty amount. Reports are required each month from the time of well completion until the last well has been plugged and abandoned (zero reports) regardless of whether or not there were sales or production.

All MR20, MR50, and MR51 reports are required to be submitted no later than the last day of the second month following the production month. Royalty payments for the MR20 reports are due no later than the last business day of the second month following the production month. Interest will accrue on any payment received after the deadline addressed above pursuant to W.S. 30-5-303. Interest will be calculated based on the receipt date of the payment (note the Office of State Lands and Investments does not receive mail on weekends or holidays). Penalties will accrue for any report received after the deadline addressed above, any incomplete report, and any missing report as allowed by W.S. 30-5-303. A complete reporting includes a separate report for each PSA and Product Code for each lease on which the company is required to report. If a company fails to report on any PSA or Product Code for which they are responsible, a penalty will accrue. Penalties will accrue the first day of the third month following production if the report was not received on time. Reports are required each month from time a well is completed until the last well has been plugged and abandoned (zero reports) regardless of whether or not there have been sales or production.

Office accounting reporting requirements of the Board of Land Commissioner's rules have been in place for many years, as has the trailing language of paragraphs (a) and (b) of Chapter 18, Section 15, regarding the supplying of support media. The MR is the office's remittance accounting document, and must be filed. It should also be clear that the support media filing requirement regarding sales is not waived by submission of the remittance advices and above described reports. In this regard, W.S. 36-6-101(o) addresses the requirement for all documentation required of lessees in addition to Section 1 of the State Oil and Gas Lease.

Monthly checks and royalty reports which do not match in terms of royalties due for the same production month, will be considered potentially incorrect but will not be rejected. Submitters will be contacted by the auditor on staff working with the submitting company's records after any discrepancy is reconciled and an amended report and/or additional payment, may be required and must be resolved in the 10 business day cycle ensuing after submission and receipt of the amendment.

The eRMA2 system is set on a pre-filing basis, such that it calculates a royalty due based on the submitting parties' volume and value data for a particular lease under a particular production sharing arrangement (PSA) for the particular sales period, (i.e., accounts for products, royalty rate, tract allocations), and the total royalty due is the amount that should be reflected on the check for the corresponding royalty due.

Once a lease requires royalty reporting for any production and royalties, the required reports must be filed monthly regardless of production or sales until the lease is permanently abandoned (zero reports).

If there are multiple lease "operators" on an individual State lease, and one is not filing for the entire operated State property as a whole, then each operator is required to report via MR 40 and/or 50 operator reports as applicable, on sales volumes which are attributable to those parties' accountable interests. The reporting company number will assist in the office's delineation of production responsibilities. If a single operator is

reporting for the property in total, the volume must be reported correctly, since most operators are not going to know more than their own values.

When a report is prepared for which any line is shown as incorrect and “non-submitable,” the submitter will receive an automatic notice the line is in quarantine.

If accounts within a company need to be adjusted, industry reporters and payers will not be charged a penalty or interest where money is simply moved from one lease, through an amended filing, to another lease previously reported in an original filing as the result of a change in a unit participating area re-structuring (tract allocations) or initiation of a communitization agreement. If reports and payments were not submitted prior to BLM approval of the unit participation or communitization agreement, interest will accrue at 18% annum. No additional or special charges will be made for unit revision situations where the unit change is completed no later than thirty (30) days after the date of change/revision approval. This could mean a unit revision would be effective retroactive back one or two years, with the approval date being noticed a date two years after the effective date to which it was “retroactive”. As long as those revisions were reflected in reporting and payment or credit requested within thirty (30) days of the approval, interest of 18% annum will not be due. To avoid interest all together, the company may choose to escrow the funds as approved by the Wyoming Attorney General Office. Interest earned on the escrow account would be turned over to the Office of State Lands and Investments in lieu of the 18% annum interest charge. This is only available when the bottom hole of the producing well(s) is not located on State Trust Land.

All prior period adjustment support media must be submitted, along with the support media being supplied for the current sales period.

Penalties will accrue per lease for any late or missing royalty report pursuant to W.S. 30-5-303.

The State’s royalty accounting system will now accept negative numbers/negative royalties. When amendments are submitted, these must be in a net difference clearly identified as an amendment.

Supporting documentation is required for every report submitted from an operator of unitized/communitized lands containing State lease participation, as well as by operators of non-unitized/communitized State leases. Since this documentation will generally be “hard-copy,” we are allowing a maximum of ten (10) calendar days for receipt in our office, from the due date of the corresponding report to which it is matched, and thirty (30) calendar days for support of amended reporting. Again, like the payment, the support media must describe the particular report it supports. This must be broken out by supported property as a header at each break in multiple lease/unit support documents. This is an allowance of ten (10) calendar days, wherein currently, these items have been required at the time of the report. If the State’s lease is not embraced in a unit or CA, then the lease operator/lessee will be required to file the support documentation for the particular lease property. Support media is required to be submitted on a monthly basis any time production or sales have occurred.

Where there are no first purchaser arms-length non-affiliated purchase statements supporting volumes and values attributable to State’s interest production sold at a point where no further consideration exists (i.e., no reciprocity agreements between buyer and seller under buy-sells, volume exchanges affecting value), the office accept documents that trace the production from State leases to the sales point, be that a plant tailgate, market pipeline interconnect or other arrangement such as production marketing pools. Support media will be used to validate deductions taken against gross sales value.

An “internal document” replacing an arms-length first purchase statement is allowed where no other first purchaser documentation exists. The reporter must provide a notarized statement that such a statement is

accurate; and, the replacement document must reflect the third party sales location, where sales are out of affiliate and pool sales transactions. The sale to an affiliate should reflect the affiliate's name and the price received in an arms-length, non-reciprocal sale to a bonafied third party purchaser. Sold volumes and values should also be shown for all similar sales in the same month to all purchasers of volumes attributable to that affiliate's sales portfolio. This would be the same for pooled sales, to assure that the volume sold and values used for said volumes are reflective of market value and that sales are apportioned such that a weighted average is always the true weighted average for all sales from the affiliate or pool.

When providing pipeline run statements or gas plant settlement statements, the Lease numbers shall be written on the face of the documents, pursuant to the State Oil and Gas Lease.

When the supporting documentation provided represents the total well production or volumes sold and the state's volume is only a portion, the operator's report shall reflect the full product volume(s) leaving the lease or unit or pooled area boundary. Where the operator does not have any basis for knowing any other sharing working interests' sales prices, unless selling for that working interest, then the operator must provide its pricing/valuation information and information related to any deductions it takes. The royalty reports will then be compared to this information to assure that all volumes and pricing and deductions for the entire package are correct.

Transportation and/or processing deductions can be supported by copies of gas plant or pipeline transportation statements or invoices, showing the volumes of gas processed and sold as products and/or gas moved the deduction amount and the value due the service provider. These documents must reflect the State lease numbers. This information can be as presented by the specific service provider, or noted on the face of the forms sent in support of the gas processing or gas movement. If the facility for which specific deductions are being taken is owned by the producer or a producer affiliate, internal documents reflecting the reasonable actual costs of processing and/or transportation, including tariff verification and any rebates or reimbursements related to the initial charges, must be provided.

The remitter may provide backup information to establish the weighted average cost, (i.e., a schedule that can be audited), for the same gas on which a weighted average price is acceptable, reflecting movement of only those volumes in the pool. For example, internally generated documents could reflect the sales point and volume/value for each sale from the pool where State gas can physically be sold, by purchasers with transportation costs related to this pool reflected in the same manner for the same volumes sold.

If services are being charged reflecting "bundled fee" services, which may contain elements that are deductible for royalty purposes the reporter must require the service provider to parse out the charges on a unit of charge basis. The reporter can provide this information as a onetime number. The allowed deduction amount will be confirmed with the party requesting the deduction.

In lieu of the above described third party support media, reporters may submit the required monthly support media using the approved template which can be found on the office website.

Hard Mineral Interest Assessments

All MR30 reports are required to be submitted no later than the last day of the month following the production month. All royalty payments for any hard mineral sales are due no later than the last business day of the month following the month of production. Hard minerals are defined as any non-liquid or non-gaseous natural resource removed from State Trust Lands. Hard minerals include, but are not limited to, Bentonite, Coal, Leonardite, Zeolite, Uranium, Trona, and Sand and Gravel.

To ensure the State Trust Land beneficiaries are kept whole for any late payments received, interest will be assessed on all late payments. Interest will be calculated based on the receipt date of the payment. (Note the Office of State Lands and Investments does not receive mail on weekends or holidays). Hard mineral interest payments will be assessed monthly.

On a monthly basis, staff will run a report that shows all past due payments for hard mineral royalties. Staff will use this report, together with the Treasurer's Annual Yield Rate to calculate the amount of interest due. The Treasurer's Annual Yield Rate is the amount of interest earned on the royalties paid during the prior fiscal year. The interest calculation is as follows: the royalty payment (\$1,000) multiplied by the number of days late (20) multiplied by the Treasurer's Annual Yield Rate (.0325) divided by 365 days (i. e. $\$1000 \times 20 \times 0.0325/365 = \1.78).

Once the interest assessment has been calculated and the balance has reached a minimum of \$100.00, the company will be notified via certified mail. The company will have thirty (30) days from receipt of the assessment to pay the outstanding interest amount.

Trona Reporting Requirements

Pursuant to Chapter 20 of the Rules and Regulations of the Board of Land Commissioners, royalty for State trona sodium is 6% of the gross sales value of the soda ash and sodium by-products sold. The Board's rules require lessees to submit copies of original arms-length sales transaction documents showing the quantity, quality, and value of products sold, including all volumes sold through affiliates. The lease states that the reporter/lessee will show the amount of all ore mined and removed and other pertinent information as may be requested. The sales of trona/sodium are equated to bulk soda ash values and royalties are paid on a weighted average sales price per ton of that bulk product.

Electronic filing (form MR30) in the State of Wyoming's eERM2 system is required when the lease becomes producing. Royalties are due and payable by the last business day of the month following production.

The Office of State Lands and Investments requires the submission of the following to assure appropriate valuation and royalty payment.

For all producing leases, the cubic feet and tonnage of ore mined and removed shall be recorded and reported on a monthly basis by lease. The quality of the ore in terms of percentage of soda ash content for the State lease(s) shall be documented. Raw tons of ore and processed tons of soda ash as inventory shall be shown for the mine on a monthly basis and shall include beginning mine inventory, amount mined, amount shipped, and ending inventory.

A sales invoice to purchasers of all products sold (i.e., product type/classification, volume and value), to include affiliate sales, must be provided. All non-arm's length sales must be valued at the bulk price valuation established for each product classification. All secondary products that are sold must be converted to bulk soda ash value and royalty must be paid on that bulk valuation price, (i.e., the conversion factor must be shown, sales volumes of products must be equated back to the volumes of soda ash used to make the product and the soda ash must be valued at the weighted average price for high purity bulk sales). If secondary products can be traced through the manufacture and sales scheme, the Office will potentially allow payment for affiliate sales of these secondary products with a processing and transportation allowance as applicable.

If prices are Fare on Board (FOB) destination, the reasonable actual cost of arm's length transportation is deductible. If any price FOB contains a transportation factor, that amount must be documented and the arm's length transportation costs provided through invoice of the shipping company containing all such costs with reference to an invoice trace.

Coal Reporting Requirements

As set forth in Chapter 19 of the Rules and Regulations of the Board of Land Commissioners, the royalty for surface-mined coal is twelve and one-half percent (12 ½%) of gross mine realization and eight percent (8%) of gross mine realization on underground-mined coal. Royalty shall be payable on the gross value at the mine on all coal mined. Gross value for the purpose of royalty calculation means the unit sale or contract price times the number of units sold. In calculating gross value, the sales price shall be prima facie evidence of such gross value. No deduction shall be allowed for fees, taxes, assessments or similar levies imposed by the State of Wyoming, its political subdivisions, any other state or federal government, nor for the expense of mining, processing and loading the coal in merchantable condition at the mine ready for shipment. If the coal is not sold and valued at the mine, transportation from the mine to the point of sale or delivery may be deducted in determining value. In the event there is no sale of the coal or the Board of Land Commissioners determines that the sales price does not truly reflect the value of the coal, it may make its own determination of value and require that royalties be paid on the basis of the value determined by the Board.

Electronic filing (form MR30) in the State of Wyoming's eERM2 system is required when the lease becomes producing. Royalties are due and payable by the last business day of the month following production.

The Office of State Lands and Investments requires the submission of the following to assure appropriate valuation and royalty payment.

Each MR30 must be accompanied by sworn monthly statements showing in tons the amount of all coal mined, accompanied by the mine weights, and other information as may be required by the Office of State Lands and Investments.

The lessee shall attach to the support documents for the reporting month, copies of the original arms-length sales transaction showing the quantity, quality, and value of coal sold, including all lease volume sales through affiliate companies. All transportation shall be noted, together with beginning and ending inventory.

Bentonite Reporting Requirements

As set forth in Chapter 22 of the Rules and Regulations of the Board of Land Commissioners, the royalty for bentonite shall be based on the terms of the particular lease agreement, subject to all state royalty statutes and rules, and shall be based on the total consideration received for state production. A per ton royalty will be paid on all bentonite mined and removed from the state's lease land. The royalty rate per ton will be based on the current year annual weighted average bulk sales price per ton, Fare On Board the loadout facility. Estimated monthly royalty payments will be made using the prior year weighted average bulk sales price. A royalty payment or credit adjusted for the current year's bulk selling price will be due on March 31st of the subsequent year.

Electronic filing (form MR30) in the State of Wyoming's eERM2 system is required when the lease becomes producing. Royalties are due and payable by the last business day of the month following production.

The Office of State Lands and Investments requires the submission of the following to assure appropriate valuation and royalty payment.

Each MR30 must be accompanied by copies of the original arms-length sales transaction documents showing the quantity, quality, and value of products sold, including all lease volume sales through affiliate companies. Monthly statements showing in tons the amount of all bentonite mined, accompanied by the mine weights must also be supplied.

Uranium Reporting Requirements

Royalties for uranium shall be based on the terms of the particular lease agreement, subject to all state royalty statutes and rules and shall be based on the total consideration received for state production.

Electronic filing (form MR30) in the State of Wyoming's eERM2 system is required when the lease becomes producing. Royalties are due and payable by the last business day of the month following production.

The Office of State Lands and Investments requires the submission of the following to assure appropriate valuation and royalty payment.

Each MR30 must be accompanied by copies of original arm's length sales transaction documents showing the quantity, quality, and value of products sold, including all lease volume sales through affiliate companies must be submitted monthly proving the figures used for royalty purposes. All documents that pertain to and/or support the calculation of the uranium content in the report area must be submitted to the State Land office at the time of filing the MR30.

Limestone/Dolemite Reporting Requirements

As set forth in Chapter 24, Leasing of Metallic & Non-metallic Rocks & Minerals, of the Rules and Regulations by the Board of Land Commissioners, royalties for Limestone/Dolemite shall be based on the terms of the particular lease agreement, subject to all state royalty statutes and rules and shall be based on the total consideration received for state production.

Electronic filing (form MR30) in the State of Wyoming's eERM2 system is required when the lease becomes producing. Royalties are due and payable by the last business day of the month following production.

The Office of State Lands and Investments requires the submission of the following to assure appropriate valuation and royalty payment.

Support for the figures submitted on the MR30 report must consist of a copy of original arms-length sales transaction documents showing the quantity, quality, and value of limestone/dolemite sold, including all lease volume sales through affiliate companies.

Sand and Gravel, Borrow Material, and Rip-Rap Rock Reporting Requirements

As set forth in Chapter 25 of the Rules and Regulations of the Board of Land Commissioners, the royalty for sand and gravel, borrow material and rip-rap rock shall be based on the terms of the particular lease agreement,

subject to all state royalty statutes and rules, and shall be based on the total consideration received for state production.

Electronic filing (form MR30) in the State of Wyoming's eERM2 system is required when the lease becomes producing. Royalties are due and payable by the last business day of the month following production.

The Office of State Lands and Investments requires the submission of the following to assure appropriate valuation and royalty payment.

Support documents showing the number of truck loads and capacity of beds and /or the number of backhoe buckets used to extract the material or a weight ticket from a scale must be submitted to the Office of State Lands and Investments to verify the production and reporting of royalty with each monthly report. If necessary a lease may be surveyed to verify production.

Invoicing Threshold

On a monthly basis, mineral producers operating on State Trust Lands will report royalties owed to the State via the electronic Royalty Mineral Accounting 2 system (eRMA2). These reports are electronically recorded in the Leasing and Royalty Compliance System (LARCS) as accounts receivable. On occasion, the mineral producers will not remit full payment of these royalties, which will leave a portion of the accounts receivable unpaid. Generally, these unpaid accounts receivables are minimal amounts, ranging from one cent (\$0.01) to One Hundred dollars (\$100.00).

These accounts receivable cannot be waived as previously determined by the Attorney General Office and discussed during the December 6, 2012 State Board of Land Commissioners meeting. However, OS LI staff has received approval to hold these royalty accounts receivable on the system until the balance due reaches a minimum balance (on each account) of \$100.00 before issuing an official invoice to the mineral producer. It seems that invoicing any balance due of less than One Hundred dollars (\$100.00) is not an efficient use of State or industry resources.

Additionally OS LI has received approval from the Board to not generate interest on any royalty accounts receivable under One Hundred dollars (\$100.00) *held on account* as the mineral producer will not be invoiced for the debt each month.

Additionally OS LI will not issue official invoices for any interest or penalties on account until the balance has reached a minimum of One Hundred dollars (\$100.00).

<u>Effective Date:</u> March 1, 2014	<u>Revision/Review Date:</u> May 1, 2014
<u>Summary of Revision/Review:</u> To be completed in 2019	<u>Supersedes Existing Policy:</u> Any policy and/or documentation prior to May 1, 2014