

WYOMING OFFICE OF STATE LANDS AND INVESTMENTS

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POLICY

Effective Date
March 1, 2014

Royalty Free On-Lease Fuel Usage

This policy shall address the authorized use of lease fuel for operation on the land royalty free.

Wyoming State Oil and Gas leases approved prior to August 4, 2011, operate under the following lease language: Natural gas and oil actually used for operating purposes upon the land and, except as to the ultimate sale thereof, gas or liquid hydrocarbons returned to the sand for stimulating the production of oil or secondary recovery purposes shall be royalty free.

All Wyoming State Oil and Gas leases approved after August 4, 2011, operate under the following lease language: Natural gas and oil actually used for operating purposes on the lease and, except as to the ultimate sale thereof, gas and/or liquid hydrocarbons returned to the sand for stimulating the production of oil or secondary recovery purposes shall be royalty free. "Operating purposes on the lease" is defined as fuel used for production purposes, including running a pumping unit(s), operate well-head compression, operate initial separation equipment at the well for separation of oil, water and gas, and run tank heaters, not to exceed two percent (2%) of wellhead volume unless a greater amount is agreed to by LESSOR in writing. Operating purposes upon the lease specifically excludes any use beyond separation and storage tank heating and all procedures and processes specifically deemed as the cost of production under the laws of the State of Wyoming.

No greater than two percent (2%) of the monthly measured wellhead gas volume will be allowed for on lease fuel usage, in the aggregate, by well, unless a greater amount is agreed to by this Office for any lease approved after August 4, 2011. Further, all leases must have, wellhead gas volumes metered upon discharge/exit of the effluent from the separator/separation unit as to fuel used in the return to operations upon the land, e.g., metered in the aggregate for the separator, glycol pumps, etc.; and, must be metered as to volumes delivered downstream of the line tied to return use at that point downstream of the return line entry valve. Lessee/operator or its equipment provider must supply the manufacturers test fuel use guidelines for the separation or tank heater or glycol/methanol injection pumps at maximum throughput, i.e., on an hourly basis, how much gas/fuel is used to maintain operational fluid separation based on volume input; and, in the case of heaters and pumps, what fuel is consumed in one hour's use to fire the heater and/or pumps. If there is other manufacturer information regarding fuel consumption for the equipment in question, it will be considered when provided. Additionally, the number of days (24 hour periods) that the production consuming equipment is used monthly must be

provided to the Office in order to take the allowance. Drip condensate/crude used to fuel any pumping unit must be measured by a flow line totalizer meter between the stock tanks and pumping unit motor; or, by showing of the manufacturer's engine fuel consumption guidelines for the engine load speed based on hourly operation with total days running required in the form of report verifying engine fuel use on lease. If gas is used to run the engine on a pumping unit, then the operator must account for this fuel as for separator and pumps, heater(s) noted above, and, natural gas operations use manufacturer specifications provided. Meters and equipment must be sized as appropriate for volume throughput and delivery pressures to reflect in combination, accurate measurement based on contemporary flow conditions. On-lease fuel used to power water treatment facilities or other equipment not deemed beneficial as defined below will be royalty bearing.

This policy is in line with the United States Department of the Interior Geological Survey Conservation Division Notice to Lessees and Operators of Onshore Federal and Indian Oil and Gas Leases (NTL-4A) Royalty or Compensation for Oil and Gas Lost which defines beneficial purposes as follows:

"Beneficial purposes" shall mean that oil or gas which is produced from a lease, ... which is used on or for the benefit of that same lease, ... for operating or producing purposes such as (1) fuel in lifting oil or gas, (2) fuel in the heating of oil or gas for the purpose of placing it in a merchantable condition, (3) fuel in compressing gas for the purpose of placing it in a marketable condition, or (4) fuel for firing steam generators for the enhanced recovery of oil. Gas used for beneficial purpose shall also include that which is produced from a lease, ... which is consumed on or for the benefit of that same lease, ... (1) as fuel for drilling rig engines, (2) as the source of actuating automatic valves at production facilities, or (3) with the prior approval of the Supervisor, as the circulation medium during drilling operations. Where the produced gas is processed through a gasoline plant and royalty settlement is based on the residue gas and other products at the tailgate of the plant, the gas consumed as fuel in the plant operations will be considered as being utilized for beneficial purposes. In addition, gas which is produced from a lease, ... which, in accordance with a plan approved by the Supervisor, is reinjected into wells or formations subject to that same lease, ... for the purpose of increasing ultimate recovery shall be considered as being used for beneficial purposes; provided, however, that royalty will be charged on the gas used for this purpose at the time it is finally produced and sold.

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