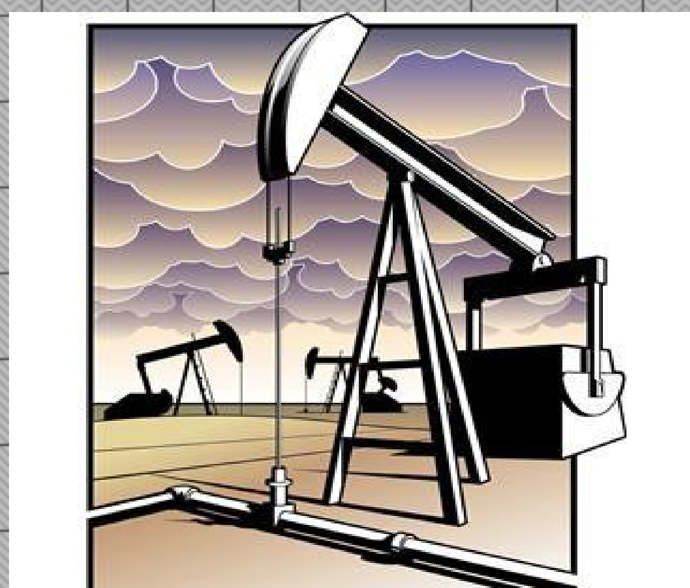
OIL & GAS REPORTS AND PAYMENTS MANUAL

REVISED March 2017



Texas General Land Office
George P. Bush
Commissioner

Contents

PRELIMINARIES

GENERAL INFORMATION

This manual is written to inform all General Land Office lessees, operators, and purchasers of the procedures governing oil and gas payments and reports. The manual is divided into five sections: Preliminaries, Royalties & Payments, Reporting Forms, Other Required Documents, and Electronic Reporting Agreement.

Reporting companies who submit web-based electronic reports should visit the General Land Office website at:

http://www.glo.texas.gov/energy-business/oil-gas/rrac/overview/index.html.

RIGHT TO REVISE PROCEDURES AND REGULATIONS

The General Land Office reserves the right to revise this manual.

REQUIREMENTS OF OTHER BOARDS

This manual pertains only to royalty payments and reporting to the General Land Office, and in no way restricts any additional requirements of the School Land Board or any other leasing board.

DISCLAIMER

This manual is designed for convenience of reference and is not a legal document. The original statutes, Texas Administrative Code (TAC), and oil & gas lease agreements should be consulted for all purposes of interpreting and applying the law.

The General Land Office implemented Texas Railroad Commission (RRC) level reporting effective April 2011 production year-month. It was done to enhance compliance checking and improve cross checking of payments to production reports.

SUMMARY OF ROYALTY REPORTING CHANGES

ROYALTY REPORTING AND CONTROL SYSTEM (RRAC)

Please refer to the section on 'Royalties & Payments'.

RRC LEVEL REPORTING

Production reporting on GLO-1/2s will be reported at the RRC ID level. For example, a GLO state lease has two gas wells and therefore two RRC Gas Well IDs on it. There will be a minimum of two GLO-2s filed each month, one for each RRC Gas Well ID on the lease. Two GLO-1s will also be filed if condensate is produced from these gas wells. If working interest owners are also filing for their portion of the royalties, they also will have to be registered in the Royalty Reporting & Control System (RRAC) for the RRC Gas Well IDs they are reporting on.

In short, if a working interest owner and operator filed individual reports by state lease # before, each party will file individual reports at the RRC level after implementation.

All reports will be designated as “Gross Production/Disposition Volume Reports” or “Non Gross Production/Disposition Volume Reports”. By definition, a Gross Production/Disposition Volume Report is required to account for all production and disposition volumes. A Non Gross Production/Disposition Volume Report will allocate royalty to individual GLO state leases. The Gross Production/Disposition Volume Report will also allow for operator royalty volumes attributable to the GLO state lease.

The old Unit Reports that included volume production and dispositions have been eliminated. The old Tract Reports have been eliminated and replaced with a methodology of each RRC level being allocated to each GLO state lease within the unit.

PRIOR PERIOD ADJUSTMENTS / AMENDMENTS (PPA) & LEGACY DATA

Please refer to the section on ‘Reporting Forms’ and the sub-section on ‘Production/Royalty Amendments’.

ROYALTIES & PAYMENTS

AFFIDAVIT FOR PRODUCTION/ROYALTY REPORTS (FORM GLO-RA 005)

BLANKET AUTHORIZATION NUMBER

Tex. Nat. Res. Code Ann. § 52.131 (c) (1) requires that all production/royalty reports be accompanied by an affidavit by the owner, manager or other authorized agent. The Blanket Authorization Production Royalty Reports Affidavit (Form GLO-RA 005 Revised 11-01-1999) assigns each company a Blanket Authorization Number (BAN) and is completed before a notary and returned to this office. Beginning September 2001 production month, all reports will reference this BAN, which eliminates the need to have each monthly report notarized.

Reporting companies will NOT be able to submit production/royalty reports GLO-1, GLO-2 and GLO-3, electronic unless this notarized affidavit is on file with the GLO. If you require any assistance, contact the RRAC Response Team at glo123@glo.texas.gov or call 512-463-6850. Please return the affidavits as soon as possible to:

Texas General Land Office
Attn: Minerals Review
P. O. Box 12873
Austin, TX 78711-2873

ROYALTY REPORTING AND CONTROL SYSTEM (RRAC)

The GLO has implemented the RRAC System, a mechanism to link the lease and RRC ID records. This mechanism is a "Reporting Control Record", whereby companies help the GLO establish what reports to expect, and the GLO works in conjunction with Industry to keep the records current. Instead of reporting at the GLO state lease level, companies will report at the combination GLO state lease #/RRC ID level, effective April 2011 production year-month.

RRAC will allow the GLO to provide companies access to a secure on-line portal with the ability to file their production reports (GLO-1/2s, which are "Royalty Due"), and to make remittance advices (GLO-3s, which are "Royalty Paid") online. In addition, the GLO-3 will be modified to allow payers to move funds around without having to make a payment. When fully implemented, companies will be able to log-in to this on-line portal, see what reports are missing, if any, and select what reports to file, based on production month and GLO state lease #/RRC ID combination. This system will provide more timely notification of missing reports, thereby reducing or eliminating document penalties.

A field "Override Code" has been added to allow the filing of reports outside the monthly reporting control record. The Override Code will have to be approved by and obtained from the GLO prior to filing and used for unusual reporting situations such as:

- One time oil sale; and
- Switch of purchasers during the middle of the production month.

PAYMENT OF ROYALTIES

DUE DATES

All oil and condensate royalty payments, reports, and required supporting documents must be received in the General Land Office on or before the fifth (5th) day of the second month succeeding the month of production. All gas royalty payments, reports, and required supporting documents must be received on or before the fifteenth (15th) day of the second month succeeding the month of production.

Royalty payments and reports are timely received if the reports are deposited with the United States Postal Service or a parcel delivery service at least one day before the due date, as evidenced by the postmark, postal meter stamp, or a receipt.

If a royalty payment or report is due on Sunday or a legal state or federal holiday, then the payment or report must be received the next calendar day which is not a Sunday or a holiday, or postmarked or stamped prior to the next calendar day which is not a Sunday or a holiday. If the 5th or 15th falls on a Saturday, reporting companies may not roll over to Monday or the next working day without incurring a late penalty.

FORM OF PAYMENT

Royalties and other sums of money due may be paid by cash, check, money order, or sight draft made payable to the Commissioner of the General Land Office. Payment also may be accepted by electronic funds transfer or in any manner that may lawfully be made to the state Comptroller. If interested in alternative payment methods, contact the General Land Office.

State regulations require payers who remit more than $25,000 in royalties annually to submit royalty payments electronically. If you think you qualify, please contact the Cash Management Division at 512-936-7495.

PAYMENT DOCUMENT

All royalty payments must be accompanied by a General Land Office Royalty Payment Document (GLO-3). The instructions for completing the GLO-3 form are addressed in the section on ‘Reporting Forms’.

RESPONSIBILITY FOR ROYALTY PAYMENTS

Lessees are responsible for ensuring that payments are made and that reports and supporting documents are filed in a proper and timely manner. As a matter of convenience, the General Land Office permits other parties to remit royalties on the lessee's behalf. This practice, however, in no way relieves the lessee of any statutory or contractual obligations concerning either the payment of royalties or the filing of reports (and supporting documents, if requested).

The lessee should be aware that the actions of its operators and purchasers may subject leases to delinquency penalties or forfeiture. It is therefore in the best interest of the lessees, operators, and purchasers to cooperate in responsibly discharging all obligations to each other and to the state.

Lessees should make all necessary arrangements with purchasers or other parties paying the royalty to provide for the use of the appropriate GLO state lease numbers and RRC ID when remitting royalties. Upon request, the GLO will aid purchasers in obtaining the proper GLO state lease numbers/RRC ID.

TAKE-IN-KIND (TIK) PROGRAM LEASES

A field on each of GLO-1 and GLO-2 reports will identify whether or not the lease is in the GLO's TIK program.

For gas volumes subject to GLO's In-Kind program, 100% of the transmission line volumes will be reported in the Disposition Volumes section.

- No transmission line entries will be required in the Valuation Accounting section.
- Royalty will be calculated for lease use, vented, and any other dispositions that require royalty to be paid in cash.

For crude oil and condensate volumes subject to the GLO's In-Kind program, 100% disposition volumes will be reported on the GLO-1. No entry will be required in the Royalty Due Net Barrels field.

Actual delivered volumes to the GLO and balancing issues are not accounted for on the GLO-1 and GLO-2 reports. They are also not handled by the separate TIK report administered by the GLO's State Energy Marketing Program (SEMP).

Upon request, operators will be required to submit monthly reports reflecting entitlement volumes, actual delivered volumes, monthly imbalances, and cumulative-to-date imbalances, all expressed in MMBTU volumes.

The SEMP group contact regarding TIK reports and other special reports is as follows:

Texas General Land Office, Room 840
State Marketing Energy Group
P. O. Box 12873
Austin, TX 78711-2873
Office: (512) 463-5042
Fax: (512) 475-1404

Note: The TIK designation on GLO-1 and GLO-2 reports has nothing to do with In-Kind arrangements among multiple working interests.

BASIS FOR COMPUTING ROYALTIES

VALUATION OF OIL, GAS & OTHER PRODUCTS FOR ROYALTY PURPOSES

The price or value on which royalty is to be paid should be determined in accordance with the terms of each individual lease agreement, the statutes, and the TAC.

Except as authorized by the lease agreement, no deduction may be made for severance taxes or for the costs of producing, processing, transporting, and otherwise making the oil, gas, and other products produced from the leased premises ready for sale or use. The typical state lease agreement and applicable statutes require that the lessee pay royalty on the gross production of the lease free of cost.

VOLUME SUBJECT TO ROYALTY

Royalties are due and payable on 100% of the lease's gross production unless the lease contains language exempting certain dispositions of oil and/or gas from payment of royalty.

As a matter of convenience during periods of regular sales, the General Land Office permits monthly oil royalties to be based on the number of barrels sold or otherwise disposed of in a given month rather than on the gross production as may be required by the lease. Unless the lessee is otherwise notified by the GLO, no royalties are due on lease stocks until they are sold or otherwise disposed of. The GLO reserves the right at any time to require that royalties be paid on gross production rather than on barrels sold. If there have been no sales from existing stocks for several months, royalties are due and must be paid on those existing stocks.

PLANT PRODUCTS

The volume and value of plant products subject to state royalty are calculated according to the appropriate state lease. In no case will the state accept less than the minimum percentage of value specified in the lease agreement.

If the lease does not specify how to calculate plant product royalties, then the royalties are calculated on the same volume and value for which settlement is being made to the producer under an arm's length contract negotiated by the producer and the processor.

MINIMUM ROYALTY

The General Land Office is not responsible for certifying that sufficient royalty has been received to eliminate the necessity of paying minimum royalties. Lessees should maintain adequate records concerning royalty status to determine if additional liability exists.

PENALTIES

DELINQUENT PAYMENTS & REPORTS

	Due Before 10/1/75 (Production prior to 8/1/75)	Due After 10/1/75 and Before 9/1/85 (Production 8/1/75 through 6/30/85)	Due After 9/1/85 (Production 7/1/85 through 12/31/09)	Due After 2/26/10 (Production 1/1/10 through present)
<u>PENALTY</u> (1) For delinquent royalty	None	The greater of 1% of the delinquent amount or $5.00 for each 30-day delinquency	(2) For delinquencies of 30 days or less, the greater of 5% of the delinquent amount or $25.00; for delinquencies of more than 30 days, the greater of 10% of the delinquent amount or $25.00	(2) For delinquencies of 30 days or less, the greater of 5% of the delinquent amount or $25.00; for delinquencies of more than 30 days, the greater of 10% of the delinquent amount or $25.00
For delinquent report, affidavit, or other document	None	$5.00 per document for each 30-day period of delinquency	$10.00 per document for each 30-day period of delinquency	$10.00 per document for each 30-day period of delinquency
<u>INTEREST</u> (2) For delinquent royalty	6% per year, simple; accrual begins 30 days after due date	6% per year, simple; accrual begins 30 days after due date	(3) 12% per year, simple; accrual begins 60 days after due date	(4) Prime plus 1% set on the first business day of each calendar year

(1) <u>31 TAC §9.51</u> (b) (3) (A)

(2) Penalties are not assessed in cases of title dispute as to the state's portion of the royalty or to royalty in dispute as to fair market value except when fraud is involved, in which case the fraud penalty is applicable. Penalty provisions are found at <u>Tex Nat. Res. Code Ann §52.131</u> (e) (f) (h).

(3) <u>Tex Nat. Res. Code Ann §52.131</u> (g)

(4) Per <u>31 TAC §9.51</u> (b) (3) (E), the interest rate on past due royalty is Wall Street Journal Prime plus 1%, to be adjusted annually.

A royalty payment that is not accompanied by the required royalty affidavit identifying the GLO lease number is delinquent, <u>31 TAC §9.51</u> (2) (B). The state’s power to forfeit a lease shall not be affected by the assessment or payment of any delinquency, penalty, or interest provided in <u>31 TAC §9.51</u> (b) (3) (D).

PARTIAL PAYMENT OF DELINQUENT ROYALTY

Partial payment of amounts assessed (delinquent royalties, penalty, and interest) will first be applied to unpaid penalty and interest and then to delinquent royalties. Penalty and interest accrue until the delinquent royalties are fully paid.

FIRST LIEN

The state has a statutory first lien on all oil and gas produced from leased areas to secure the payment of unpaid royalty or other sums of money that may become due.

FORFEITURE

Failure to pay royalties and other sums of money within thirty (30) days of the due date or the failure to file reports completed as prescribed by the General Land Office constitutes grounds for forfeiture. Forfeiture may also result as otherwise provided by statutes, TAC, or the lease provisions.

REPORTING FORMS

THE OIL AND CONDENSATE PRODUCTION/ROYALTY REPORT (GLO-1)

INTRODUCTION

The Oil and Condensate Production/Royalty Report (GLO-1) is used to report the monthly oil and condensate production on both non-unitized and unitized state leases, and broken down to the RRC ID level. The GLO-1 includes the volume and disposition of monthly oil and condensate production, as well as the value of disposed volumes and the corresponding royalty due.

The lease or unit operator or agent must file a GLO-1 each month for each state lease #/RRC ID combination. In addition, other parties may be required to file reports in certain situations. It is possible that other documents may be required by the General Land Office to verify production, disposition, and market value.

Each GLO-1 is reported at the RRC ID level. For instance, if a GLO state lease has two RRC Oil Lease IDs, there will be a minimum of two GLO-1 reports filed each month.

Failure to comply with the statutes, the TAC, and lease provisions subjects a lease to forfeiture, delinquency penalties, or both.

DUE DATES

Please see the 'Payment of Royalties' section.

CLASSIFICATION OF GLO-1 REPORTS

Each GLO-1 report will be designated as a **Gross Production/Disposition Volume** Report or **Non-Gross Production/Disposition Volume** Report.

The above classification of a GLO-1 report will allow efficient reporting of unitized leases, non-unitized leases, split stream sales, multiple working interest owner reporting, and allocations to multiple leases in a unit.

GROSS PRODUCTION/DISPOSITION VOLUME REPORTS

A Gross Production/Disposition Volume Report must be filed for each RRC ID.

The Gross Production/Disposition Volume Report will account for all production and disposition volumes for:

- Non-Unitized reports
- Unitized reports on the low numbered GLO state lease in the unit.

The Gross Production/Disposition Volume Report may also account for operator royalty volumes attributable to the GLO state lease.

The lessee or the assignee will be held responsible if 100% of the production and royalty bearing dispositions are not accounted for among all the reports filed on a RRC ID.

NON-GROSS PRODUCTION/DISPOSITION VOLUME REPORTS

The Non-Gross Production/Disposition Volume Report will only account for royalty dispositions and calculations attributable to the GLO state lease for:

- Multiple marketing arrangements
- Reports on unitized leases other than the low numbered GLO state lease in the unit
- Non-operators (working interest owners) reporting their interest in all non-unitized state leases and all state leases within the unit

NON-UNITIZED LEASES

When leases are non-unitized, either the lease operator markets all of the lease production or working interest owners separately market parts of the lease production.

If any non-sales dispositions have a royalty obligation, either the lease operator or the working interest owner must report the gross value and royalty attributable to these volumes. Non-sales dispositions that have a royalty obligation should be priced the same as sales dispositions.

EXAMPLE 1: THE LEASE OPERATOR MARKETS ALL OF THE LEASE PRODUCTION

The lease operator or agent must complete and file GLO-1 reports at the RRC ID level for each producing lease.

EXAMPLE 2: A WORKING INTEREST OWNER SEPARATELY MARKETS A PORTION OF THE LEASE PRODUCTION

Lease Operator Responsibility

The lease operator or agent files GLO-1 reports at the RRC ID level, indicating total state lease #/RRC ID production, non-sales dispositions, and the volume, gross value, and royalty attributable to the product marketed by the lease operator.

Working Interest Owner Responsibility

Each working interest owner or agent who separately markets a share of production from a non-unitized lease must file GLO-1 reports at the RRC ID level, that is based on the volume, gross value, and royalty attributable to the share of volume entitled to. No gross production volume is included on the working interest owner's report.

UNITIZED LEASES

When leases are grouped to operate as a unit, either the unit operator markets all of the unitized production, or the tract participants market their allocated shares of the unitized production. In either case, reporting procedures are the same.

Operator Responsibility

Unitized Report: The unit operator or agent must file GLO-1 reports at the RRC ID level on the low numbered GLO state lease in the unit, based on total unit production volumes and total unit disposition volumes, as well as the operator royalty volumes attributable to the GLO state lease. The operator marks this report a "Unitized Report" and indicates the unit number as provided by the GLO.

The unit operator or agent also files GLO-1 reports at the RRC ID level for each unitized tract from which the operator has marketed allocated production. These reports must include the tract's share of non-sale dispositions that carry a royalty obligation.

Non-Operator Responsibility

Each unit participant or agent who separately markets a portion of the unit production must file GLO-1 reports at the RRC ID level, on unitized leases for all state leases in the unit, from which the unit participant markets allocated production. The unit participant or agent marks this report a "Unitized Report" and indicates the unit number as provided by the GLO. This report must include the tract's share of non-sales dispositions that carry a royalty obligation.

Note: Regardless of the marketing arrangements, the GLO must receive a combination of Gross Production/Disposition Volume and Non-Gross Production/Disposition Volume reports for the entire unit.

HOW TO COMPLETE THE GLO-1 REPORT

The GLO-1 electronic template can be accessed on the agency website as given in the link below:

http://www.glo.texas.gov/energy-business/oil-gas/rrac/forms/index.html

If unable to download the GLO-1 template, please contact the RRAC Helpline at (512) 463-6850, or by email at glo123@glo.texas.gov.

The detailed instructions and business rules for filing the GLO-1 report can be accessed on the agency website as given in the link below:

http://www.glo.texas.gov/energy-business/oil-gas/rrac/forms/index.html.

THE GAS PRODUCTION/ROYALTY REPORT (GLO-2)

INTRODUCTION

The Gas Production/Royalty Report (GLO-2) is used to report the monthly production of gas and natural gas liquids/products on both non-unitized and unitized state leases, and broken down to the RRC ID level. The GLO-2 form is also used to report plant condensate. (Lease condensate is reported on the GLO-1 Oil and Condensate Production/Royalty Report.)

The lease or unit operator must file a GLO-2 each month for each state lease #/RRC ID combination. In addition, other parties may be required to file reports in certain situations. It is possible that other documents may be required by the General Land Office to verify production, disposition, and market value.

Each GLO-2 is reported at the RRC ID level. For example, if a GLO state lease has two gas wells and therefore two RRC Gas Well IDs on it, there will be a minimum of two GLO-2 reports filed each month, one for each RRC Gas Well ID.

Failure to comply with the statutes, the TAC, and lease provisions subjects a lease to forfeiture, delinquency penalties, or both.

DUE DATES

See the ‘Payment of Royalties’ section.

CLASSIFICATION OF GLO-2 REPORTS

Each GLO-2 report will be designated as a **Gross Production/Disposition Volume** Report or **Non-Gross Production/Disposition Volume** Report.

The above classification of a GLO-2 report will allow efficient reporting of unitized leases, non-unitized leases, split stream sales, multiple working interest owner reporting, and allocations to multiple leases in a unit.

GROSS PRODUCTION/DISPOSITION VOLUME REPORTS

A Gross Production/Disposition Volume Report must be filed for each RRC ID.

The Gross Production/Disposition Volume Report will account for all production and disposition volumes for:

- Non-Unitized reports
- Unitized reports on the low numbered GLO state lease in the unit.

The Gross Production/Disposition Volume Report may also account for operator royalty volumes attributable to the GLO state lease.

The lessee or the assignee will be held responsible if 100% of the production and royalty bearing dispositions are not accounted for among all the reports filed on a RRC ID.

NON-GROSS PRODUCTION/DISPOSITION VOLUME REPORTS

The Non-Gross Production/Disposition Volume Report will only account for royalty dispositions and calculations attributable to the GLO state lease for:

- Multiple marketing arrangements.
- Reports on unitized leases other than the low numbered GLO state lease in the unit.
- Non-operators (working interest owners) reporting their interest in all non-unitized state leases and all state leases within the unit.

NON-UNITIZED LEASES

When leases are non-unitized, either the lease operator markets all of the lease production or working interest owners separately market parts of the lease production.

If any non-sales dispositions have a royalty obligation, either the lease operator or the working interest owner must report the gross value and royalty attributable to these volumes. Non-sales dispositions that have a royalty obligation should be priced the same as sales dispositions.

EXAMPLE 1: THE LEASE OPERATOR MARKETS ALL OF THE LEASE PRODUCTION

The lease operator or agent must complete and file GLO-2 reports at the RRC Gas Well ID level for each producing lease.

EXAMPLE 2: A WORKING INTEREST OWNER SEPARATELY MARKETS A PORTION OF THE LEASE PRODUCTION

Lease Operator Responsibility

The lease operator or agent files GLO-2 reports at the RRC Gas Well ID level, indicating total state lease #/RRC Gas Well ID production, non-sales dispositions, and the volume, gross value, and royalty attributable to the product marketed by the lease operator.

Working Interest Owner Responsibility

Each working interest owner or agent who separately markets a share of production from a non-unitized lease must file GLO-2 reports at the RRC Gas Well ID level, that is based on the volume, gross value, and royalty attributable to the share of volume entitled to. No gross production volume is included on the working interest owner's report.

UNITIZED LEASES

When leases are grouped to operate as a unit, either the unit operator markets all of the unit production, or the tract participants market their allocated shares of the unit production. In either case, reporting procedures are the same.

Operator Responsibility

Unitized Report: The unit operator or agent must file GLO-2 reports at the RRC Gas Well ID level on the low numbered GLO state lease in the unit, based on total unit production volumes and total unit disposition volumes, as well as the operator royalty volumes attributable to the GLO state lease. The operator marks this report a "Unitized Report" and indicates the unit number as provided by the GLO.

The unit operator or agent also files GLO-2 reports at the RRC Gas Well ID level for each unitized tract from which the operator has marketed allocated production. These reports must include the tract's share of non-sale dispositions that carry a royalty obligation.

Non-Operator Responsibility

Each unit participant or agent who separately markets a portion of the unit production must file GLO-2 reports at the RRC Gas Well ID level, on unitized leases for all state leases in the unit, from which the unit participant markets allocated production. The unit participant or agent marks this report a "Unitized Report" and indicates the unit number as provided by the GLO. This report must include the tract's share of non-sales dispositions that carry a royalty obligation.

Note: Regardless of the marketing arrangements, the GLO must receive a combination of Gross Production/Disposition Volume and Non-Gross Production/Disposition Volume Reports for the entire unit.

GAS ROYALTY PAYMENTS ON ENTITLEMENT BASIS

Gas royalty payments are due on 100% of the lease gross production (or entitlement), as per Texas Administrative Code 31 TAC 9.51 § (b) (1) (B) (i) and (ii), which outlines the rules for gas and oil respectively. (This is not an issue for the GLO-1 report, as oil/condensate royalties are triggered on sale, consistent with GLO administrative policy.)

Therefore, gas royalties are due on the *Entitlement Volumes* as opposed to the *Net Volumes* taken as per balancing arrangements governing working interest owners.

The following clarifies the position of the GLO with respect to the practice of gas royalty payments based on *Net Volumes* taken:

- The state of Texas is not subject to over and under balancing arrangements governing working interests. Reports and royalty payments must be based on each working interest owner's entitlement in lease production rather than on the actual amount taken or sold by the working interest owner in any given month. In the case of units, reports and royalty payments must be based on each state lease's participation in unit production rather than on the actual amount taken or sold by a tract participant in any given month.

- Companies will **not** have to make historical volume amendments to determine their entitlement volumes, as long as the state was kept whole volumetrically. However, when pricing/valuation audits occur, the GLO will hold each participant responsible for the valuation of their respective entitlement volumes.

- Where the state is behind in terms of its entitlement volume (i.e., gross production less royalty exempt and royalty-deferred volumes), companies will have to make up these volumes immediately.

- Please be advised that eliminating the above imbalances will assist the GLO only with volumetric and other reconciliations, and is **not** to be construed as a final volumetric settlement. Companies are still subject to a compliance audit as authorized by statute.

HOW TO COMPLETE THE GLO-2 REPORT

The GLO-2 electronic template can be accessed on the agency website as given in the link below:

http://www.glo.texas.gov/energy-business/oil-gas/rrac/forms/index.html.

If unable to download the GLO-2 template, please contact the RRAC Response Team at (512) 463-6850, or by email at glo123@glo.texas.gov.

The detailed instructions and business rules for filing the GLO-2 report can be accessed on the agency website as given in the link below:

http://www.glo.texas.gov/energy-business/oil-gas/rrac/forms/index.html.

ROYALTY PAYMENT DOCUMENT (GLO-3)

INTRODUCTION

Each royalty check, money order, or bank draft must be accompanied by a Royalty Payment Document (GLO-3). This document shows a breakdown of the payment by state lease number(s)/RRC IDs and production month. (The state lease number is usually on the lease agreement or can be obtained from the GLO).

DUE DATES

See the 'Payment of Royalties' section.

FORM OF PAYMENT

Royalties and other sums of money due may be paid by cash, check, money order, or sight drafts made payable to the Commissioner of the Texas General Land Office. Payment is also accepted by electronic funds transfer or in any manner that may be lawfully made to the state Comptroller. If interested in alternative payment methods, contact the General Land Office.

HOW TO COMPLETE THE ROYALTY PAYMENT DOCUMENT GLO-3

The GLO-3 electronic template can be accessed on the agency website as given in the link below:

http://www.glo.texas.gov/energy-business/oil-gas/rrac/forms/index.html

The detailed instructions and business rules for filing the GLO-3 report can be accessed on the agency website as given in the link below:

http://www.glo.texas.gov/energy-business/oil-gas/rrac/forms/index.html

CHANGES TO THE GLO-3 REPORT EFFECTIVE APRIL 2011

Two new fields have been added to the GLO-3: Reporting Company Customer ID and RRC ID.

GLO-3s may be filed with a zero-net balance. For instance, if a GLO-3 is filed with the incorrect state lease #/RRC ID or production year-month, customers will be able to file a GLO-3 that moves funds to the correct state lease #/RRC ID and/or production year-month. Any amended payments resulting in a net balance greater than zero will have to be accompanied by a payment. **Note:** GLO-3s with a negative net balance will not be accepted.

PRODUCTION/ROYALTY AMENDMENTS

INTRODUCTION

The process for reporting amendments is explained in the subsequent sub-section.

NON-ROUTINE CREDITS (RELATED TO GLO-3)

Non-routine amendments are those that seek to change, on a lease basis, the originally reported royalties by $25,000 or more, or by 25% or more.

At least 30 days before taking a non-routine credit, the Financial Subsidiary Operations Division of the GLO must receive written notice of the lessee's intention to take the credit. The credit may be taken 30 days after the GLO receives notice, unless the agency has denied permission to take the credit.

Any non-routine credit improperly taken may not be used to offset royalty due on current reports. The improper application of credits will result in a current month delinquency and the assessment of associated penalties and interest.

All non-routine credits must be accompanied by supporting schedules detailing the makeup and the method of calculating the amounts requested.

PRIOR PERIOD ADJUSTMENTS/AMENDMENTS (PPA)

The amendment process has changed as a result of RRC ID reporting. Under the newly implemented system, the GLO has moved to a reverse and rebook process that more closely follows accounting convention. If a production report is to be amended, the reporting company files a reversal of the current report (the report being amended) and a new report with the correct information. Volumes and royalty calculations on the reversing report must be an exact opposite of the existing report. Customers and GLO staff will be able to see the full transactional history.

- Each report will be identified as an Original or Amended Report.
- Each original report will be assigned a unique “Report ID” upon acceptance.
- A reversing report showing negative volumes and royalty calculations will be submitted. This report must be the exact opposite of the original report, or it will not be accepted. This report will be identified as amended.
- A new report will be filed using the correct data. This will be a complete report and will be identified as amended.
- As a convenience, the “Report ID” field has been added. If the report ID is included in an amended report, the GLO will automatically create the reversing report.

PRIOR PERIOD ADJUSTMENTS/AMENDMENTS FOR LEGACY DATA

This change might significantly impact some companies. Post implementation, all reporting and PPAs will have to be filed on a RRC ID basis. What this means is, if a report was filed under the prior system (beginning from September 2001 production year-month through March 2011), and which had several RRC IDs rolled up to the state lease level, and if one of those RRC IDs needs to be amended, **the GLO will look for a reversal of the incorrect RRC ID and a rebooking of the correction on the same RRC ID.** It will not be necessary to file reversing reports and amended reports for each RRC ID rolled into the legacy report. If it is easier for the reporting company to reverse and rebook all of the RRC IDs individually, it will also be acceptable.

Using the earlier example of two gas wells on a single state lease, assume the reporting has been rolled up to the state lease level. After the switch to RRC level reporting, one of the RRC IDs needs to be amended for production numbers. This can be done by filing a report that reverses the volumes and royalty calculation for that RRC ID that was rolled up with the other RRC ID in the current report on file with the GLO, and filing a new report for that RRC level with the corrected numbers. Alternatively, if easier for the customer, both RRC IDs could be reversed individually and new RRC level reports filed. The goal is to keep all post-implementation data at the RRC ID level.

OTHER REQUIRED DOCUMENTS

DIVISION ORDERS

Division orders must be filed with the General Land Office. The GLO will acknowledge by letter the receipt of each division order. However, this letter will not in any way bind the state to the terms of the division order. Employees of the GLO are not authorized to sign or execute division orders, and no action of a GLO employee will bind the state to the terms of any division order.

Note: Please ensure that the division order shows 100% division of interest on Relinquishment Act Lease (RAL) wells.

WELL RECORDS

Written notice of all well operations must be submitted to the General Land Office by the lessee or the lessee's agent five (5) days before spud date, workover, re-entry, temporary abandonment, or plugging and abandonment of any well or wells. Well logs and copies of the following Railroad Commission forms must be filed within 15 days, including:

- W-1 (application for permit to drill, recomplete, or re-enter)
- W-2 (oil well completion)
- W-3 (plugging record)
- W-3A (notice of intention to plug and abandon)
- W-10 (oil well status)
- W-12 (inclination report)
- G-1 (gas well completion)
- G-5 and curve (gas well classification)
- G-10 (gas well status)
- P-4 (operator change)
- P-12 (pooling authority)
- P-17 (commingling)
- W-14 (disposing oil & gas waste)
- H-1/H-1A (fluid injection into productive reservoir)

At the time these forms are sent to the Railroad Commission, a copy should be sent to:

Texas General Land Office
Mineral Leasing Division – Energy Resources
Stephen F. Austin Building
1700 N. Congress Avenue
Austin, Texas 78701-1495

Additional records relating to lease operations may be required at any time, in accordance with the terms of the lease.

COMMINGLING OF PRODUCTION REQUESTS

On-lease commingling of state production does not require GLO approval. However, lessee shall obtain written permission from GLO before surface commingling state lease or state pooled-unit production with private lease production or before surface commingling oil and/or gas from two separate state leases and/or pooled state units. Lessee shall obtain written permission from GLO staff before down-hole commingling production from two or more intervals where the state's royalty interests differ between the proposed commingled intervals. The requirement to obtain GLO staff approval applies to all commingle-exception applications including new permits and amendments to existing permits. Send commingling requests to:

Texas General Land Office
Mineral Leasing Division – Energy Resources
Stephen F. Austin Building
1700 N. Congress Avenue
Austin, Texas 78701-1495

GAS CONTRACTS/PROCESSING AGREEMENTS

Each lessee must file with the General Land Office a copy of all contracts under which gas is sold or processed and all subsequent agreements or amendments to such contracts within thirty (30) days after entering into or making such contracts, agreements or amendments. Such contracts and agreements, when received in the GLO, are held in confidence unless otherwise authorized by the lessee.

Each gas contract, agreement, or contract amendment must be accompanied by a Gas Contract Brief (form GLO-5) completed in the form and manner prescribed by the GLO. All contracts, correspondence, or requests for Gas Contract Briefs should be directed to:

Texas General Land Office
Energy Resources
Stephen F. Austin Building, Room 840
1700 N. Congress Avenue
Austin, Texas 78701-1495

ELECTRONIC REPORTING AGREEMENT

TEXAS GENERAL LAND OFFICE ELECTRONIC REPORTING AGREEMENT

THIS ELECTRONIC REPORTING AGREEMENT (the "Agreement") is made as of ' ' _______________
by and between ___________________ (the "Remitter") with offices at ____________________ and Texas General Land Office (the "GLO") with offices at Austin, Texas (collectively, the "parties").

RECITALS

The parties desire to facilitate reports and other information exchanged by electronically transmitting and receiving data in agreed formats; and

The parties desire to assure that such transactions are legally valid and enforceable as a result of the use of available electronic technologies for the mutual benefit of the parties; and

The parties desire to enter into this Agreement to govern their relationship with respect to the electronic exchange of information using the Internet, also known as electronic reporting transactions.

THEREFORE the parties hereby agree as follows:

SECTION 1 - PREREQUISITES

1.1 Data Communications. Each party may electronically transmit to or receive from the other party any of the transaction sets listed in the Exhibit(s), as such Exhibit(s) may be revised (collectively "Documents"). The GLO may seek input on revision to the Exhibits, but the revisions are solely up to the discretion of the GLO. Any transmission of data which is not a Document, an electronic delivery mechanism error notification, or a time-stamp receipt response or record (collectively "Data Communications") shall have no force or effect between the parties. All Data Communications shall be transmitted in accordance with the most current published standards and guidelines set forth in the GLO web page.

1.2 Internet Service Providers

1.2.1 Data Communications will be transmitted electronically to each party as specified in the Exhibit(s) through any Internet Service Provider ("ISP") with whom either party may contract. Either party may modify its election to use, not use or change a Provider without notice to the other party.

1.2.2 Remitter shall be responsible for the costs of any ISP with whom it contracts. Remitter shall be responsible for services needed to carry out its responsibilities under this agreement.

1.2.3 Notwithstanding the acts or omissions of its ISP, for purposes of this Agreement, Remitter is responsible for transmitting, receiving, storing or handling Data Communications to the extent required to effectuate transactions pursuant to Section 2.

1.3 System Operations. Remitter, at its own expense, shall provide and maintain the equipment, software, services and testing necessary to transmit Data Communications to, and receive Data Communications from the GLO's Receipt Computer.

1.4 Security Procedures. Remitter shall use those security procedures in accordance with the most current published standards and guidelines set forth in the GLO web page. The manner in which user names and passwords are to be changed and/or exchanged will be specified in the standards and guidelines.

SECTION 2 - TRANSMISSIONS

2.1 Filing Deadlines.

2.1.1 The due dates for filing electronic reports under this Agreement are the same as those for the equivalent conventional paper-based filings. Such due dates are specified in TEX. NAT. RES. CODE § 52.131 and in the applicable regulations and rules of the TGLO. Remitter is subject to penalties for failure to ensure that TGLO receives an error-free file transmitted prior to 12:00 mid-night Central Standard Time on the due date, as indicated by the time that such file was uploaded to the TGLO.

2.1.2 Working hours for TGLO staff are Monday through Friday (except holidays), 8:00 AM to 5:00 PM, Central Standard Time. Remitters who file electronic reports outside of normal working hours do so at their own risk, as TGLO support is unavailable for potential obstacles to transmission, irrespective of the nature of the transmission difficulties. If transmission difficulties are encountered during normal working hours, the Remitter is required to promptly contact TGLO by telephone or electronic mail and resolve such difficulties. If the transmission difficulties are due to factors beyond the Remitter's immediate control, and the filing deadlines are about to be missed, the Remitter should contact the GLO for further instructions. The rules do not provide for relaxing the due date.

2.2 Proper Receipt. Documents shall not be deemed to have been properly received, and no Document shall fulfill any obligation, until accessible to the GLO at the GLO's Receipt Computer, as evidenced by the receipt by the Remitter of the HTTP response initiated by the GLO. The HTTP response shall specify the date and time of receipt of a Document at the receiving Internet server. No Document shall have any effect if the HTTP response is not received by sending party, or if the HTTP response indicates an error. The "Receipt Computer" shall be defined as the GLO's Uniform Resource Locator ("URL") which describes the protocols needed to access the resources and point to the appropriate Internet locations.

2.3 Response document. If the Response Document indicates an error, neither party shall rely on the Document or portion of the Document which is in error. The Remitter shall correct the errors and promptly retransmit the Document or applicable portion or otherwise contact the GLO. If the Response Document does not indicate any error, the Response Document shall constitute conclusive evidence a Document has been received in syntactically correct form.

2.4 Right to Further Inspection, Examination and Audit. All electronically submitted oil and gas production and royalty payment reports being filed in accordance with this Agreement are expressly subject to the further inspection, examination, audit and other rights of the TGLO, Attorney General and Governor or their representatives, under the laws of the state of Texas.

SECTION 3 - TERMS

3.1 Transaction Terms and Conditions. This Agreement is intended to facilitate Data Communications between the parties concerning the transactions related to oil and gas operations conducted pursuant to underlying written agreement(s) and the applicable rules, regulations and statutes. In the event of conflict between this Agreement and the subject underlying written agreement(s), the terms and conditions of the underlying agreement(s) and the applicable rules, regulations and statutes shall control.

3.2 Terms and Conditions of Reports and Other Information. In the absence of any other written agreement applicable to reports and other information transmitted pursuant to this Agreement, such reports and other information shall be subject to such additional terms and conditions as may be determined in accordance with the applicable rules, regulations and statutes.

3.3 Confidentiality. No information contained in any Document or otherwise exchanged between the parties shall be considered confidential, except to the extent provided by the applicable rules, regulations and statutes.

3.4 Validity: Enforceability

3.4.1 This Agreement has been executed by the parties to evidence their mutual intent to be bound by the terms and conditions set forth herein relating to the electronic transmission and receipt of Data Communications.

3.4.2 Any Document properly transmitted and received pursuant to this Agreement shall be considered to be a "writing" or "in writing"; and any such shall be deemed for all purposes (a) to have been "signed" and (b) to constitute an "original" when printed from electronic files or records established and maintained in the normal course of business.

SECTION 4 - MISCELLANEOUS

4.1 Term. This Agreement shall be effective as of the date first set forth above and shall remain in effect until terminated by either party with not less than 30 days prior written notice specifying the effective date of termination; provided, however, that written notice for purposes of this paragraph shall not include notice provided pursuant to an electronic reporting transaction; further provided, however, that any termination shall not affect the respective obligations or rights of the parties arising under any Documents or otherwise under this Agreement prior to the effective date of termination.

4.2 Severability. Any provision of this Agreement which is determined by any court having jurisdiction over this Agreement to be invalid or unenforceable will be ineffective to the extent of such determination without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such remaining provisions.

4.3 Entire Agreement. This Agreement and the Exhibit(s) constitute the complete agreement of the parties relating to the matters specified in this Agreement and supersede all prior representations or agreements, whether oral or written, with respect to such matters. No oral modification or waiver of any of the provisions of this agreement shall be binding on either party.

4.4 No Third Party Beneficiaries. This Agreement is solely for the benefit of, and shall be binding solely upon, the parties, their agents and their respective successors and permitted assigns. This Agreement is not intended to benefit and shall not be for the benefit of any party other than the parties hereto and no other party shall have any right, claim or action as a result of this Agreement.

4.5 Governing Law. T his Agreement shall be governed by and interpreted in accordance with the laws of Texas, excluding any conflict-of-law rules and principles of that jurisdiction which would result in reference to the laws or law rules of another jurisdiction.

4.6 Notices. All notices required or permitted to be given with respect to this Agreement shall be given by mailing the same postage prepaid, or given by fax or by courier, or by other methods specified in the Exhibit(s) to the addressee party at such party's address as set forth in the Exhibit(s). Either party may change its address for the purpose of notice hereunder by giving the other party no less than five days prior written notice of such new address in accordance with the preceding provisions.

4.7 Assignment. This Agreement may not be assigned or transferred by Remitter without the prior written approval of the GLO, including any assignment or transfer, whether by merger or otherwise, to a party's affiliate or successor in interest.

4.8 Waivers. No forbearance by the GLO to require performance of any provisions of this Agreement shall constitute or be deemed a waiver of such provision or the right thereafter to enforce it.

4.9 Counterparts. This Agreement may be executed in any number of original counterparts. All of which shall constitute one and the same instrument.

4.10 The undersigned for Remitter expressly states that he/she is authorized to execute this agreement on behalf of Remitter and is executing this Agreement with the intent to bind Remitter according to the terms thereof.

Each party has caused this Agreement to be properly executed on its behalf as of the date first above written.

Texas General Land Office	Remitter Name: ___________________________
Signature: __________________________	Signature: ________________________________
Name: ______________________________	Name: ___________________________________
Title: ____________________________	Title: ____________________________________

Financial Management
Financial Subsidiary Operations

EXHIBIT 1

TEXAS GENERAL LAND OFFICE
ELECTRONIC REPORTING AGREEMENT

DATED ___________________

Contact Information:

Remitter Name: ____

____

Street Address: ____

____

City: ____

State/Province/Commonwealth: ____

____

Zip/Postal Code: ____

____

Attention [Name, Title]: ____

Phone: ________________ Fax: ________________ Email Address: _______________________________

Texas General Land Office
1700 N Congress
Austin TX 78701-1495
Attention: Minerals Review
Phone: (512) 463-6850
Fax: (512) 475-2295
E-mail: glo123@glo.texas.gov

The undersigned do hereby execute this Exhibit pursuant to the Agreement attached and do hereby ratify said Agreement for all purposes set forth in this Exhibit.

Texas General Land Office	Remitter Name: _____________________________
Signature:__________________________	Signature: __________________________________
Name:________________________________	Name: ____
Title:_______________________________	Title: ______________________________________

THIS SECTION FOR GLO USE ONLY
Authorized Electronic Forms

GLO-1E _____
GLO-2E _____
GLO-3E _____

Blanket Authorization Number: