Arkansas Oil, Gas and Mineral Overview

Commissioner of State Lands
John Thurston, Commissioner

Background

The Commissioner of State Lands (COSL) is one of seven elected constitutional officers in the state of Arkansas. Each commissioner is limited to serving two terms. The Minerals Division of the Commissioner's office acts as a pass-through channel by which state agencies are paid monthly royalties on the lands and mineral rights they own. COSL also works with state agencies to approve and facilitate all sand and gravel, oil and gas and brine leases in Arkansas.

Mineral Facts & Figures

- There are currently **<u>28</u>** active **<u>sand and gravel permits</u>** with nine (9) companies
    - FY 2012 Revenue: $121,064
    - FY 2013 Revenue: $55,331
    - FY 2014 Revenue: $55,881
    - FY 2015 Revenue: $43,183

- There are **<u>150</u>** active **<u>oil and gas leases</u>** in the state with 80 companies
    - FY 2012 Revenue: $762,082
    - FY 2013 Revenue: $1,523,406
    - FY 2014 Revenue: $1,948,573
    - FY 2015 Revenue: $1,062,464

- COSL also oversees (10) ten active brine leases, which produce negligible revenues

- As oil prices have decreased and remained low, many large producers have scaled back or ceased operations in Arkansas; some have sold off their wells to smaller operators

- As such, COSL has received a number of "assignment requests," to transfer wells from their current owners to another company's name

COLORADO
State Land Board
Department of Natural Resources

Colorado State Board of Land Commissioners
Oil, Gas, & Mineral Overview

Bill Ryan, Director

The Colorado State Board of Land Commissioners (SLB), established in 1876, manages approximately 2.8 million acres of surface estate and approximately 4 million acres of mineral estate.

Approximately 900,000 acres are leased for oil and gas exploration and production under 1764 leases, with 740 producing leases.

At the end of FY 2015 the balance in the Public School Permanent Fund was approximately $818 Million. Revenues for the last five years are as follows:

	Oil & Gas Royalty	Solid Minerals Royalty	Bonus
FY 2011	$32.8 million	$9.4 million	$62.6 million
FY 2012	$27.4 million	$4.9 million	$78.4 million
FY 2013	$46.9 million	$2.5 million	$53.2 million
FY 2014	$99 million	$2.2 million	$50 million
FY 2015	$104.4 million	$8.8 million	$50.4 million
FY 2016 est.	$71.2million	$6 million	$37 million

Currently 47% of revenues generated for the School Trust go into the Public School Permanent Fund, 50% of revenues generated go to the BEST (Building Excellent Schools Today) Program and 3% goes to State Land Board operations.

Current Royalty Audit Issues for the SLB

- Failure to report and/or pay royalty on vented and flared gas volumes
- Unallowable deductions taken when computing gas royalty, e.g. gathering, marketing and POP.
- Sales to affiliates and inherent valuation/price issues
- Missing volumes from royalty payments, especially initial production months, and volume discrepancies between royalty volume and production volume
- Smaller dimension stone reported as "fines" which are subject to a lower royalty rate
- Monitoring the financial health of some producers

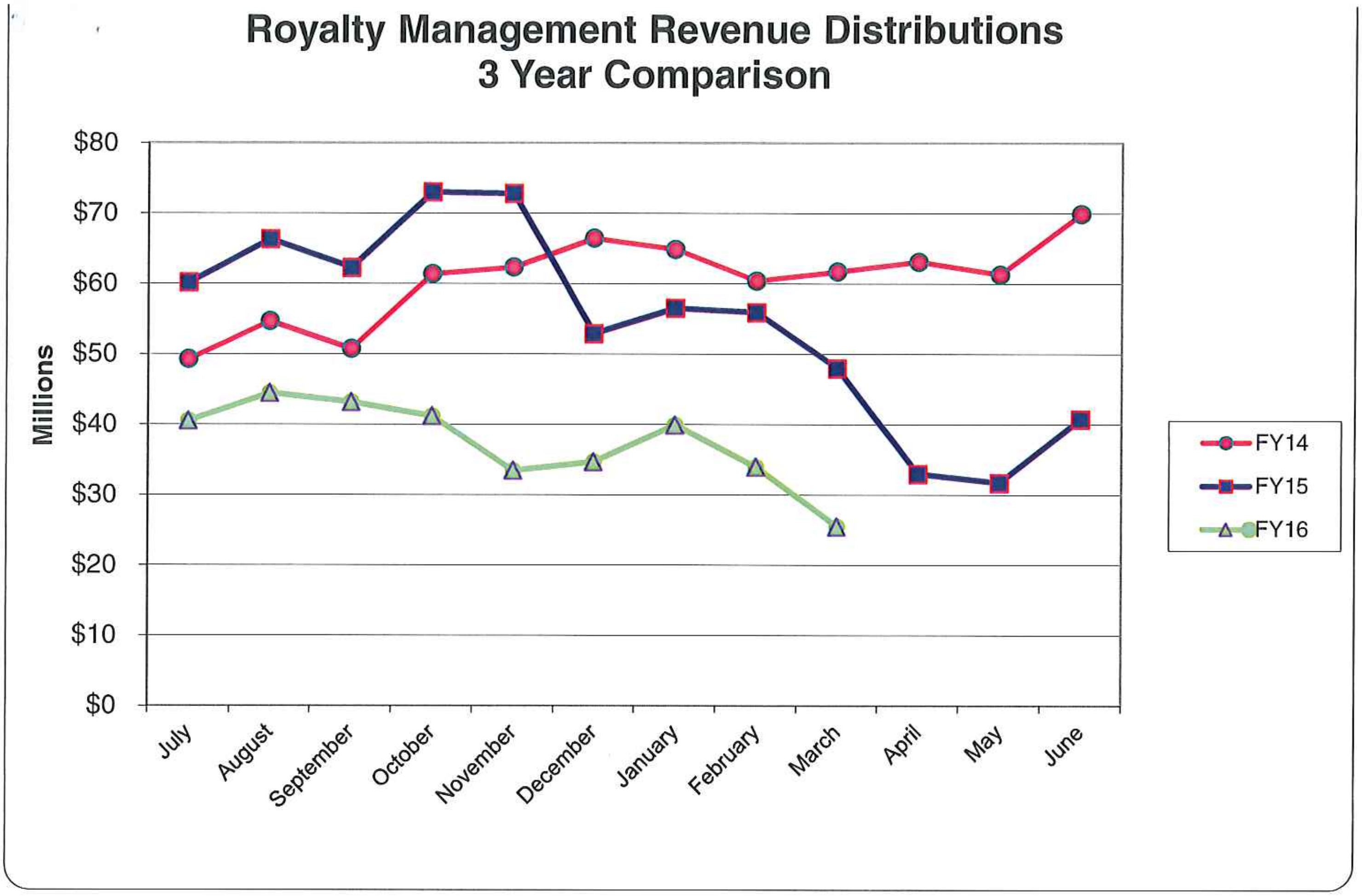
Current Oil and Gas Leasing Issues:

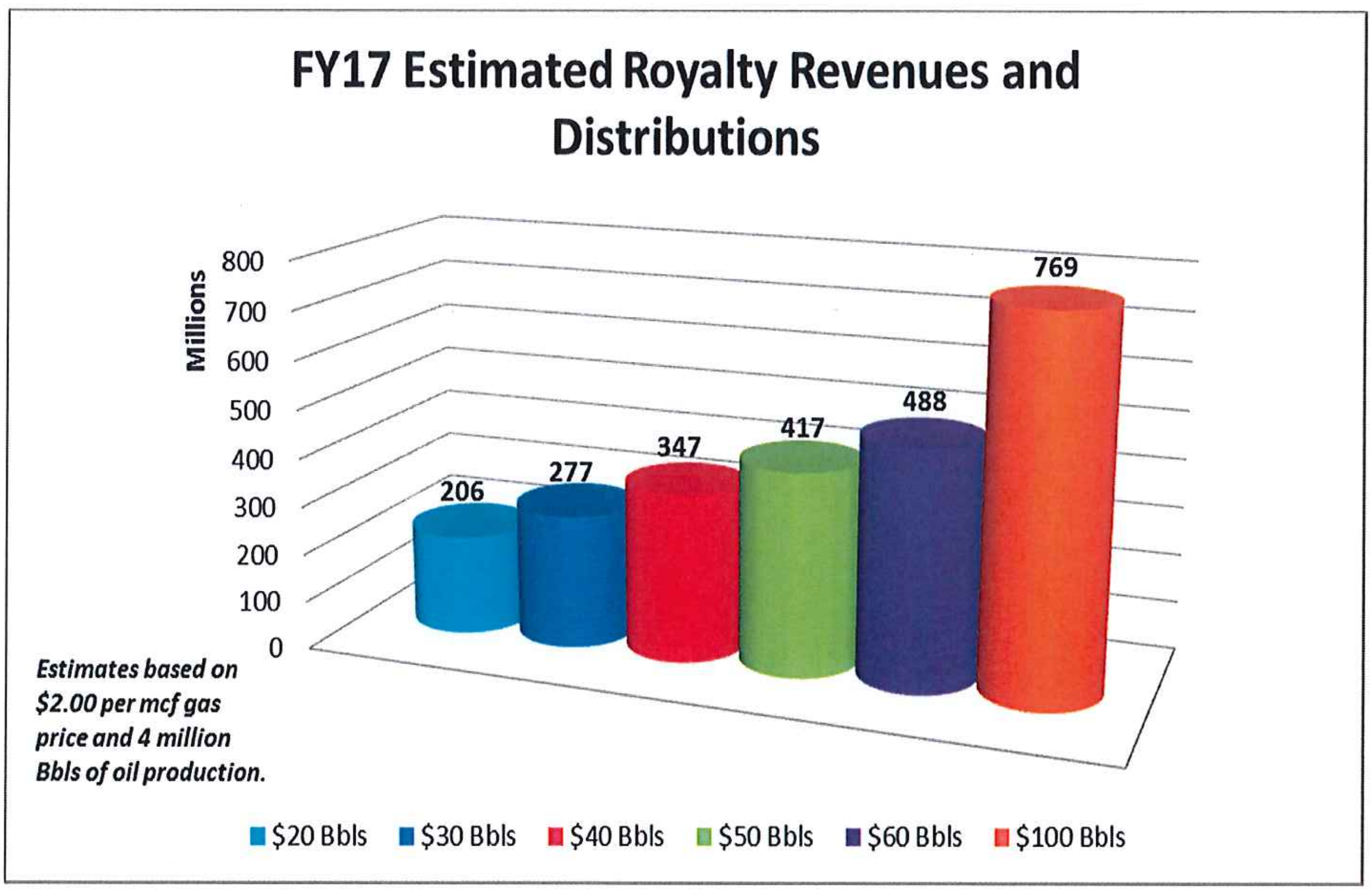
- Concerns and strategies for leases, wells, and equipment following bankruptcy
- Management of lease terminations due to non-payment of rent in the primary term
- May 2011 oil and gas leases are expiring and lease extension are at our discretion if we obtain a "market rate bonus." In practice, determining a market rate bonus is difficult so we have implemented a policy to allow for automatic 6th year extensions if the lessee pays 25% of the original bonus paid.
- Colorado Parks and Wildlife provides comments and restrictions about wildlife concerns that are not supported and difficult to challenge. Third party input on CPW recommendations is being considered.
- Determination of whether subsurface easements are necessary in situations where the state does not own the surface and a non productive wellbore crosses through state minerals
- Policy allows a well to be shut in for up to 5 years and in practice may extend longer. Long term shut ins are now subject to increased scrutiny for possible termination and the new lease limits the shut in period to three years.
- Impact mitigation for the Greater Sage Grouse in northwest Colorado and Lesser Prairie Chicken in eastern Colorado

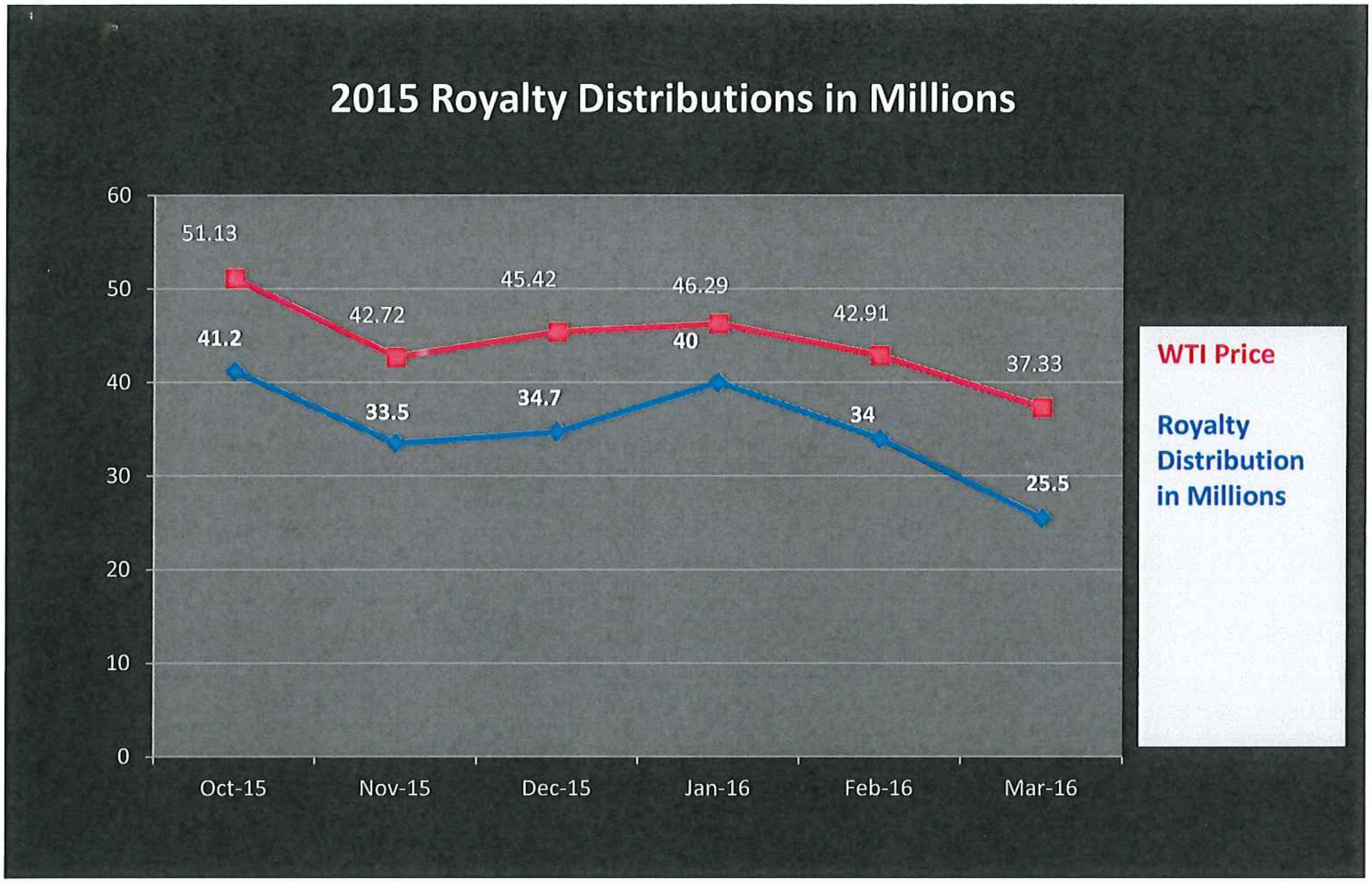
New Mexico State Land Office

Royalty Management Division

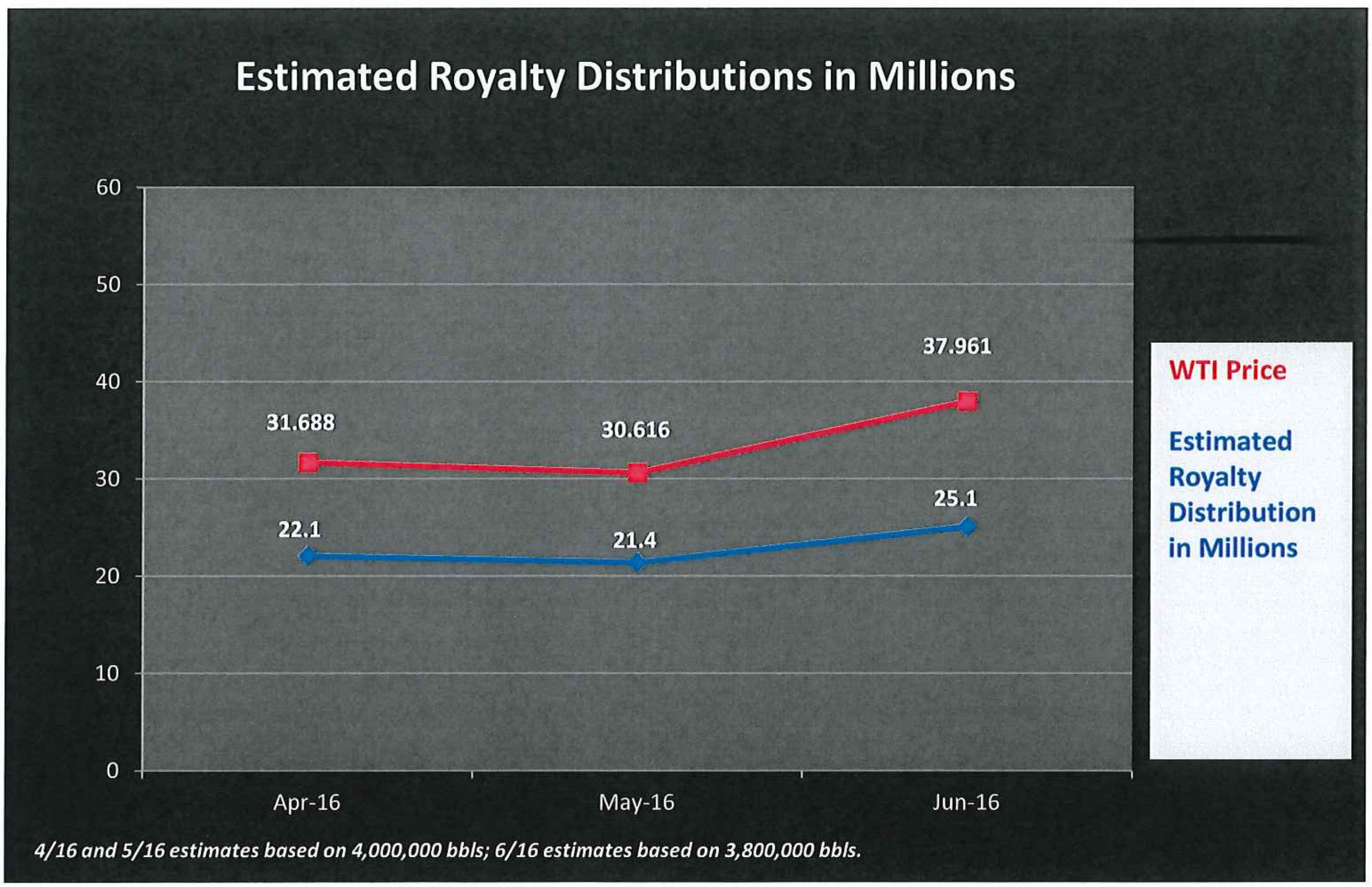
FY16 Update


Royalty Management Revenue Distributions
3 Year Comparison
$80
$70
$60
$50
$40
$30
$20
$10
$0
Millions
July
August
September
October
November
December
January
February
March
April
May
June
FY14
FY15
FY16


FY17 Estimated Royalty Revenues and Distributions
800
700
600
500
400
300
200
100
0
Millions
206
277
347
417
488
769
Estimates based on $2.00 per mcf gas price and 4 million Bbls of oil production.
$20 Bbls
$30 Bbls
$40 Bbls
$50 Bbls
$60 Bbls
$100 Bbls

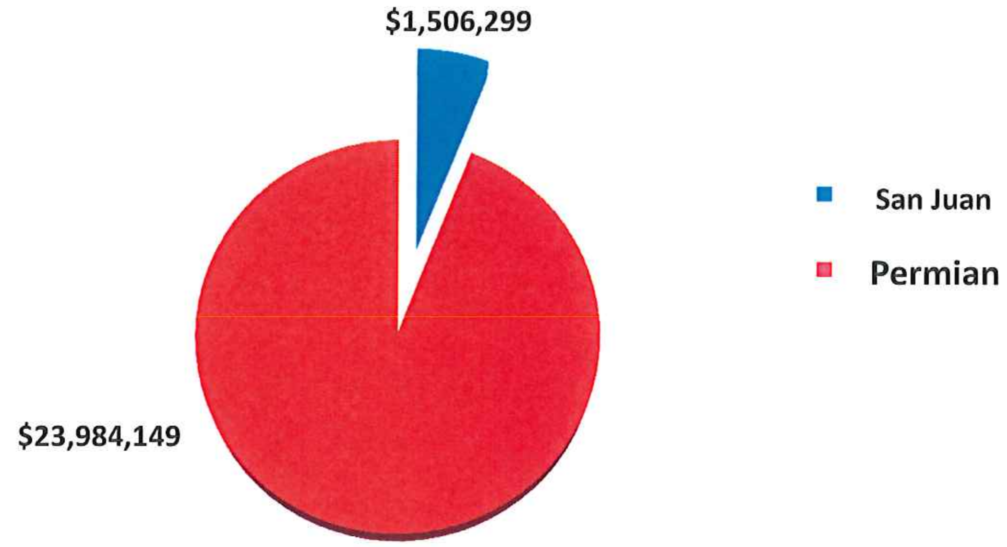


2015 Royalty Distributions in Millions
60
50
40
30
20
10
0
51.13
42.72
45.42
46.29
42.91
37.33
41.2
33.5
34.7
40
34
25.5
Oct-15
Nov-15
Dec-15
Jan-16
Feb-16
Mar-16
WTI Price
Royalty Distribution in Millions

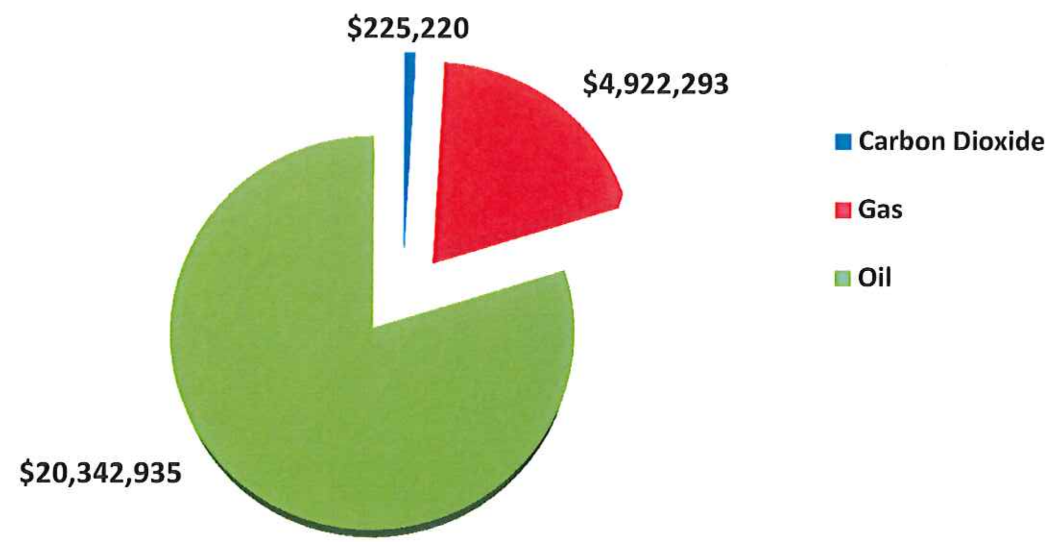


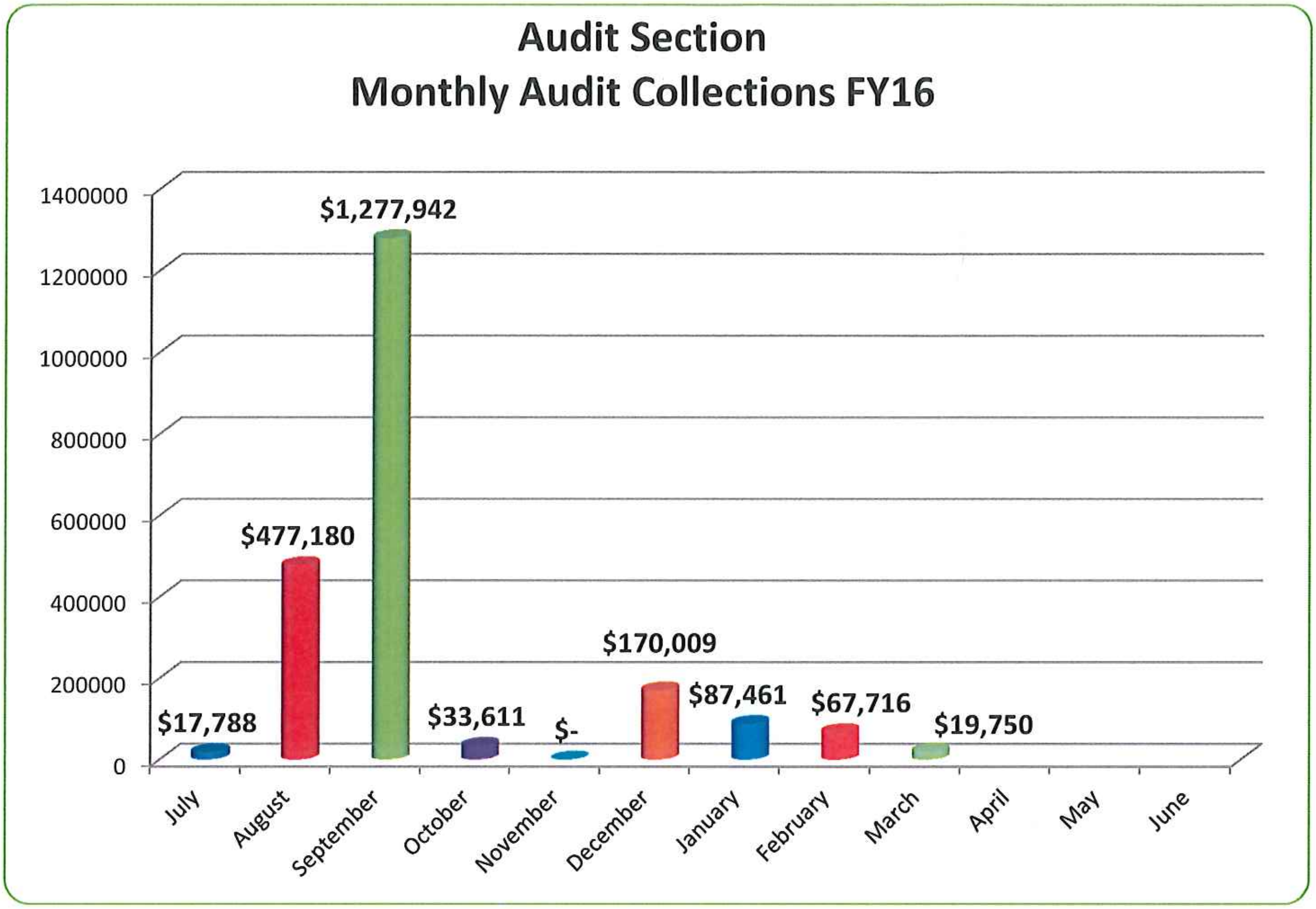
Estimated Royalty Distributions in Millions
60
50
40
30
20
10
0
31.688
30.616
37.961
22.1
21.4
25.1
Apr-16
May-16
Jun-16
WTI Price
Estimated Royalty Distribution in Millions
4/16 and 5/16 estimates based on 4,000,000 bbls; 6/16 estimates based on 3,800,000 bbls.

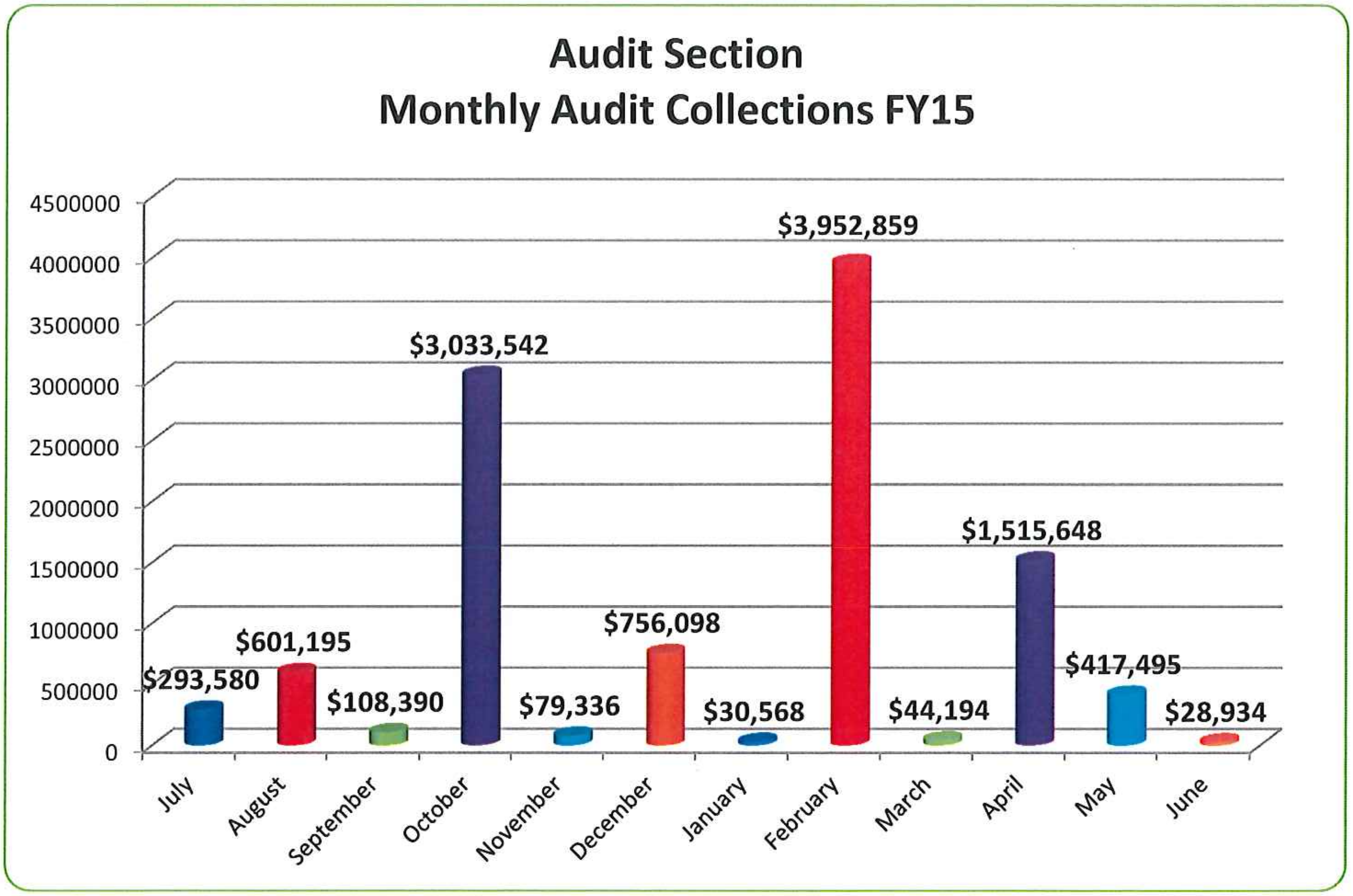
March 2016 Oil and Gas Royalty Distribution by Region



March 2016 Oil and Gas Royalty Distribution by Product




Audit Section
Monthly Audit Collections FY16
1400000
1200000
1000000
800000
600000
400000
200000
0
$1,277,942
$477,180
$170,009
$17,788
$33,611
$-
$87,461
$67,716
$19,750
July
August
September
October
November
December
January
February
March
April
May
June


Audit Section
Monthly Audit Collections FY15
4500000
4000000
3500000
3000000
2500000
2000000
1500000
1000000
500000
0
$3,952,859
$3,033,542
$1,515,648
$756,098
$601,195
$293,580
$108,390
$79,336
$30,568
$44,194
$417,495
$28,934
July
August
September
October
November
December
January
February
March
April
May
June

FY16 New Mexico Oil and Gas
Production Comparisons

Sales Date	Total Oil Production	State Royalty Oil Production	Trust Oil %
Jul-15	12,454,906	4,518,610	36.28%
Aug-15	12,763,199	4,617,706	36.18%
Sep-15	12,372,391	4,471,832	36.14%
Oct-15	12,506,970	4,871,814	38.95%
Nov-15	12,275,512	4,559,251	37.14%
Dec-15	11,072,528	4,077,983	36.83%
Jan-16	11,335,596	4,276,436	37.73%

Sales Date	Total Gas Production	State Royalty Gas Production	Trust Gas %
Jul-15	107,315,899	19,338,738	18.02%
Aug-15	110,707,967	20,042,320	18.10%
Sep-15	108,492,947	19,990,526	18.43%
Oct-15	110,759,734	20,400,855	18.42%
Nov-15	106,223,593	20,033,258	18.86%
Dec-15	100,277,620	17,581,303	17.53%
Jan-16	99,120,561	17,294,235	17.45%

North Dakota Oil, Gas & Mineral Overview

Department of Trust Lands
Lance Gaebe, Commissioner

The North Dakota Department of Trust Lands, established in 1889, manages approximately 2.6 million mineral acres dedicated to the permanent trusts and sovereign lands and 700,000 surface acres.

As of June 30, 2015, investments totaled $4.33 billion*
- $3.64 billion were permanent trust funds

Approximately 1/3rd of the total mineral acreage (839,000 out of 2.6 million acres) is leased for oil and gas exploration and production and currently has just over 5,437 active and producing properties operated by approximately 70 companies.

Total revenues from oil and gas lease bonus, rental, and royalties* deposited are as follows:

FY 2011 = $287 million	FY 2014 = $381 million
FY 2012 = $318 million	FY 2015 = $351 million
FY 2013 = $328 million	

Lignite is extracted from 5 mines with a total of 6,059 active mineral acres.

Regarding minerals and royalties, the Department is involved in 9 lawsuits, 8 of which relate to ownership of State minerals under the Missouri River. One lawsuit relates to an ownership issue on the Yellow Stone River. The Department holds approximately $140 million in bonuses and $40 million in royalties in escrow regarding disputed minerals.

<u>Current Royalty Audit Issues for the DTL:</u>
- Sales to affiliates and inherent valuation / price issues
    - Price is net of deductions with gross proceeds lease
    - Buy-sell agreements and use of wrong sales point
    - Unallowable deductions taken when computing oil and gas royalty, e.g. transportation
- Percent of proceeds percentage incorrect
- Gas taken in kind by operator not properly paid as the operator is purchasing gas to fill contracts and deducting from gross proceeds
- Operators not providing requested documents in a timely manner or incomplete requests

**Per the 61st Biennial Report (2013-2015)*

Oklahoma Oil and Gas Overview April, 2016

Commissioners of the Land Office
Harry Birdwell, Secretary

The Commissioners of the Land Office (CLO) manages 1.1 million mineral acres on behalf of Common and Higher Education for the State of Oklahoma. Currently the mineral estate is 41% leased. There are currently 5,594 active leases. In 1977 the CLO adopted a horizontal Pugh Clause which releases all non-producing formations at the end of primary term. In 1991 the Pugh Clause was modified again to allow the purchase of uphole rights for half of the original bonus. This allows the same acreage to be leased multiple times for different formations. The total bonus received since 1918 is $468,292,010.74. Since 2006 the total bonus received is $372,736,950.14.

Total Royalty Revenues for the past few years are as follows:
FY 2012 = $52.4 million
FY 2013 = $59.5 million
FY 2014 = $71.8 million
FY 2015 = $65.7 million

Current Royalty Audit Issues for Oklahoma:

- Remitters taking disallowed deductions from Oklahoma royalties, such as gathering, compression, dehydration.
- Remitters incorrectly labeling costs as "transportation" (which are deductible under certain conditions) that in fact are costs for disallowed deductions such as gathering, compression, etc.
- Some remitters still do not include the btu data on their check detail, despite the statutory requirement to do so.
- Incremental displacement of hydrocarbon-megawatts by alternate energy-megawatts (wind energy) is requiring audit staff to begin allocating training resources and time to this new field.

Texas Oil, Gas & Mineral Overview

General Land Office

George P. Bush, Commissioner

The Texas General Land Office, established in 1836, manages the mineral assets of approximately 13 million acres of land dedicated to the Permanent School Fund (PSF):

- Roughly 4,000,000 acres are submerged lands, including the bays, lakes, islands, bayous, and the Gulf of Mexico out to the Three Marine League Line (10.3570 miles);
- Approximately 1,000,000 acres are the beds of navigable rivers and creeks (estimated);
- State Fee Lands include 1,064,173 acres (State owns surface and minerals);
- Relinquishment Act Lands account for 6,322,795 acres (State sells surface but retains minerals with 50% of bonus, royalties, and rentals shared with surface owner for service as agent); and
- Free Royalty acreage totals 819,240 (State sells surface and minerals, but retains a royalty interest).

Approximately $1/6^{th}$ of the total PSF acreage (2.15 million out of 13 million acres, or 16.5%) is leased for oil and gas exploration and production and currently has just under 5,400 active and producing leases operated by approximately 680 companies.

Since inception, the Texas General Land Office has deposited more than $16.7 billion into the PSF. At the end of FY 2015, the PSF balance was approximately $33.8 billion [1]. Earnings from the PSF investments deposited in the Available School Fund are distributed to Texas Public School Districts. Total revenues from oil and gas lease bonus, rental, and royalties deposited to the Permanent School Fund are as follows:

FY 2011 = $526 million
FY 2012 = $368 million
FY 2013 = $379 million
FY 2014 = $617 million
FY 2015 = $573 million

Estimated Royalty Production associated with Permanent School Fund leases is as follows:

	Oil (in barrels)	Gas (in mmbtu)
FY 2011	1,482,140	38,453,596
FY 2012	1,697,656	27,423,405
FY 2013	2,058,515	27,758,564
FY 2014	2,667,951	31,422,446
FY 2015	4,325,104	39,272,004

As reported in the Annual Financial Report, the present value of estimated future Oil and Gas Royalties based on an independent reserve report was $2,141,676,506 on August 31, 2015. [2]

Current Royalty Issues for the GLO

- Failure to report and/or pay royalty on lease use, vented, flared, and flash gas volumes
- Unallowable deductions taken when computing oil and gas royalty, e.g. transportation
- Misallocation of oil, gas and NGLs to each lease when run through commingled facilities
- Failure to request authority to commingle the state's oil and gas production
- Gas Sales / Processing Agreements with Percent of Proceeds, Fees for Service, or a hybrid approach
- Distressed Energy Companies due to extended period of low oil prices and significant debt service

[1] As reported by the State Board of Education.
[2] This amount excludes the Hard Minerals.

Utah School and Institutional Trust Lands Administration Overview

Utah Trust Lands Administration

David Ure, Executive Director

In early 1994, the Utah School and Institutional Trust Lands Administration was created as an independent state agency to manage and develop trust land assets. The Utah Trust Lands Administration manages 3.4 million acres of land (surface and sub-surface) and an additional 1.1 million acres of mineral estate. SITLA generates revenue from the land portfolio through oil, gas, and mineral leases, rents and royalties; real estate development and sales; surface estate sales, leases, and easements.

Utah trust lands, unlike public lands, are held in private trust for the exclusive benefit of the Utah Permanent School Fund and other state institutions, including hospitals, teaching colleges, and universities. Since SITLA was established in 1994, the Utah Permanent School Fund has grown from $86 million to over $2 billion in 2015. The total revenues generated for the benefit of the PSF and other Utah beneficiaries are:

FY 2011	$121.7 million
FY 2012	$129.3 million
FY 2013	$106.4 million
FY 2014	$138.9 million
FY 2015	$109.2 million

The estimated royalty production associated with Utah Trust Land leases is:

	Oil&Cond (barrels)	Gas (mcf)
FY 2011	153,141	10,547,909
FY 2012	157,553	10,976,806
FY 2013	199, 964	14,724,329
FY 2014	279,027	11,777,292
FY 2015	305,817	10,753,278

Current Royalty Audit Issues

- Taking nonqualified expenses as gas processing allowance.
- Claiming processing allowance over the 66% threshold …
  some companies attempted to report negative NGL royalties.
- Failure to report skim oil, etc in water disposal pond operations.
- Amended royalty reports not filed timely after BLM changes in a Unit PA.

The Impact of Federal Land Policy on Utah's Trust Lands

In much of Utah, trust lands are interspersed among federal public lands managed by the U .S. Bureau of Land Management (BLM). Because SITLA and its lessees rely on surrounding federal lands for access and most mineral projects require a substantial land footprint to be economic, the availability of federal public lands is critical to the economic use of school trust lands. Federal land-management policy – particularly with regard to wilderness and other conservation designations – directly affects Utah's school trust.

Wyoming Oil, Gas & Mineral Overview

Office of State Lands and Investments

Billie Hunter, Royalty Compliance Supervisor

The Office of State Lands and Investments on behalf of the Wyoming Board of Land Commissioners, manages the mineral assets of approximately 3.5 million surface acres and 3.9 million mineral acres. Approximately 86% of the surface acres and 86% of the mineral acres are managed for the benefit of the public schools. In addition, there are approximately 9,000 acres of non-trust acquired land within the State allocated to various state agencies that benefit specific institutions and the public. The majority of revenues collected from the trust lands are deposited to the State Permanent Land Fund.

Approximately 33% of the mineral acreage (1.29 million out of 3.9 million acres) is leased for oil and gas exploration and production and currently has just over 3,347 active leases, 96 suspended leases, and 1,133 producing leases. Approximately 4% of the mineral acreage is leased for sodium/trona exploration and production with 48 active leases and 10 producing leases currently. Additionally, approximately 2% of the mineral acreage is lease for coal exploration and production with 112 active leases and 13 producing leases currently. All producing leases are operated by approximately 350 companies.

At the end of FY 2015, the Permanent Mineral Trust Fund exceeds 7 billion dollars[1]. Total revenues from oil and gas lease bonus, rental, and royalties deposited to the Permanent Mineral Trust Fund are as follows:

FY 2011 = $268 million
FY 2012 = $147 million
FY 2013 = $129 million
FY 2014 = $167 million
FY 2015 = $141 million

Total revenues from coal and hard mineral royalties deposited to the Permanent Mineral Trust Fund are as follows:

FY 2011 = $31 million
FY 2012 = $73 million
FY 2013 = $65 million
FY 2014 = $58 million
FY 2015 = $89 million

Estimated Royalty Production associated with Permanent Mineral Trust Fund leases is as follows:

	Oil (in barrels)	Gas (in mcf)
FY 2011	79,222,827	1,829,321,837
FY 2012	65,522,517	1,846,684,518
FY 2013	63,889,218	1,071,835,272
FY 2014	64,187,735	1,527,319,420
FY 2015	68,084,365	1,498,676,113

[1] As reported by the State Treasurer's Office.

Current Royalty Audit Issues for Wyoming

- Misallocation of oil and gas back to state lease from commingled facilities
- Failure to report and/or pay royalty on lease use, vented, flared, and flash gas volumes
- Unallowable deductions taken when computing oil and gas royalty, e.g. transportation
- Allocation of production back to state lease on full wellhead stream metering
- Sales to affiliates and inherent valuation / price issues

Current Tools to Aid in Compliance

- **Total Program Compliance Initiative (TPC)**

TPC is a communication tool used by the **Administrative Services Division Royalty Compliance Section**, the **Field Services Division** and the **Trust Land Management Division** program managers that conduct business with private industry. The goal of this initiative is to provide a simple and effective way for those managers to review company compliance with all agency programs prior to processing an action with the company. TPC is intended to enhance communication between program staff and industry to identify situations that may be rectified through cooperation. The **Administrative Services Division Royalty Compliance Section** uses TPC daily to monitor and record compliance of all companies that are required to report and/or pay royalties to the State of Wyoming. Additionally, the TPC tool is used to report compliance in regard to the receipt of interest, penalty, and minimum annual royalty payments. Companies are notified of non-compliance status via logging into an on-line application which is linked to the TPC tool.