STANDARDIZED ROYALTY DATA SET

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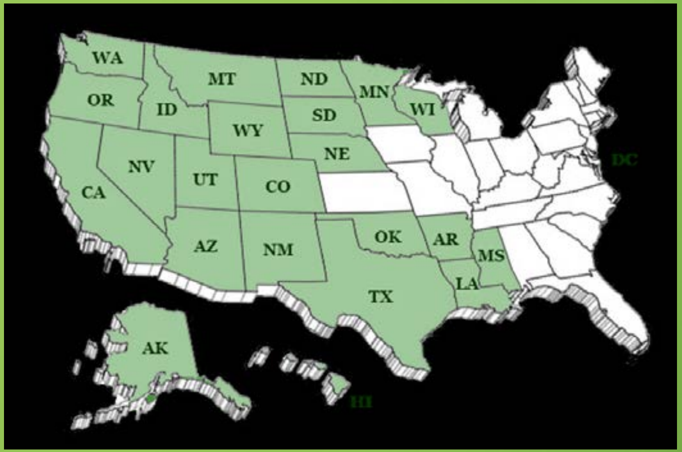
JANUARY 10 , 2017

PREMISE



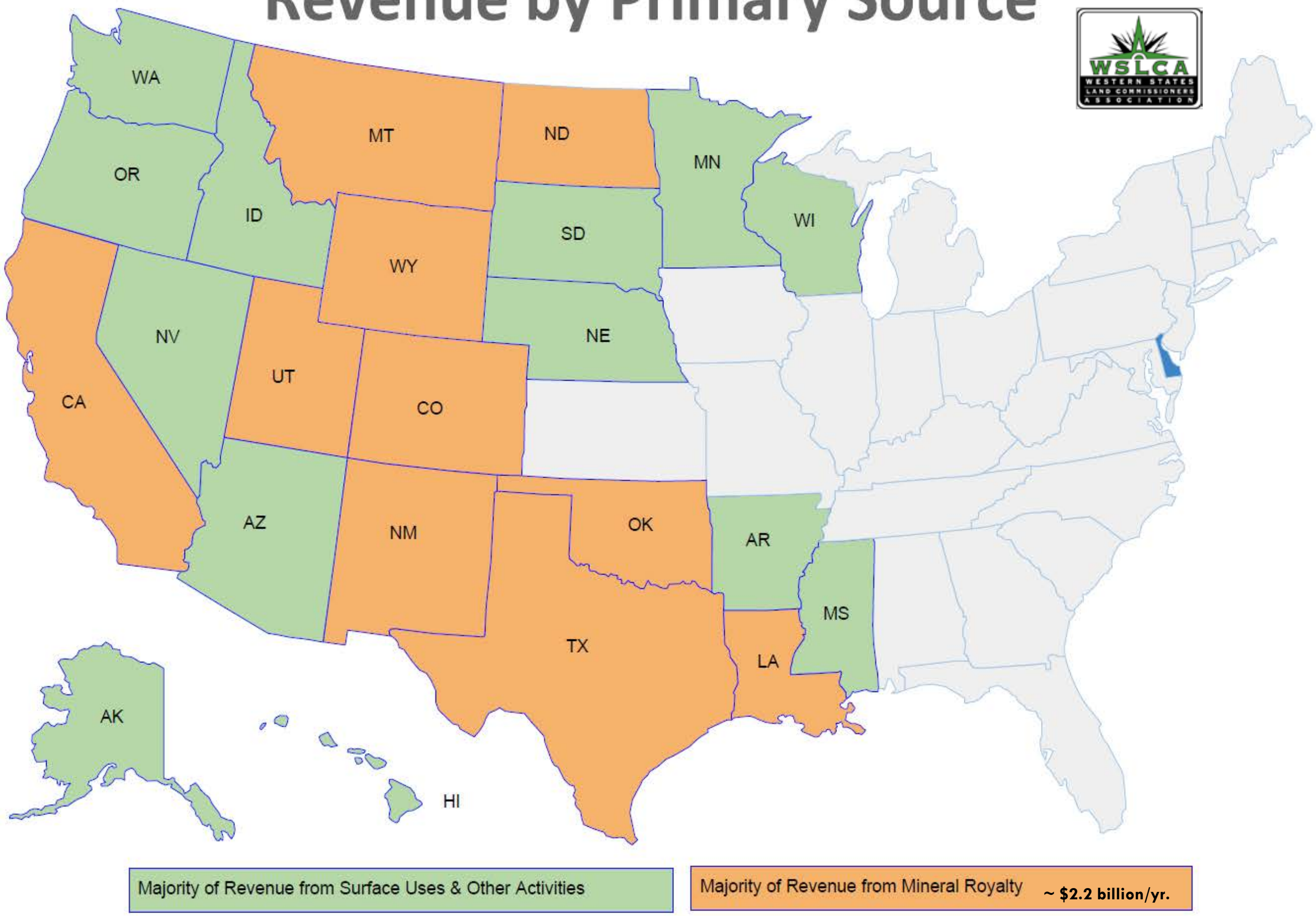
Problems

- The oil and gas industry reports on multiple forms for each State.
- Majority of States use different reports.

Solution

- Review State reports to identify minimum required fields
- Create a single system that will capture data fields required for all States, which each State can disseminate to meet their reporting requirements.
- **Industry interest and involvement is paramount!**

WSLCA State Revenue by Primary Source



BENEFITS-WSLCA

- Concise set of data
- Some states will get extra fields reported
- Timing-some states considering system updates
- Biggest impact will be to WSLCA as a whole and to the Industry
    - Especially if you (a state) is already getting the data you want.

INDUSTRY SUPPORT/BENEFIT

Work with industry to build a report that will be more efficient for all.

- Help them Help us.
- Uniform data entry for Multi-State reporters
- Vendor/Industry incentive to be engaged in development and progress
- **Industry interest and involvement is paramount!**

DEVELOPMENT

- Potential cost and time savings
- No duplication of efforts, common starting point
- Increased data confidence, accuracy, and cleanliness

SHARING OF AUDIT, IT, DATA

Easily produce key information for WSLCA as a whole.

- Detailed data set of available information (retained by states) of large oil and gas producing region(s)
    - Need to define parameters
- Provide WSLCA with information on 90% of revenues generated
- Comprehensive advocacy industry resource
    - Ability to speak out as Association for overall business, not State specific.

Potential Sharing of IT and Audit Resources

- States
- Industry Internal Audit
- IT programmers

STATE'S CHALLENGES

- Conversion/Development costs
- Time constraints on implementation
- Buy-in
- Budget concerns
- Unique State Laws (minimal concern)
- <u>Perceived waste of time and just more report changes</u>

Objectives of Standardized Royalty Data Set

1. Create a Standard form that all States can use (voluntary)
2. Meet the reporting requirements of all States
3. Improve the Data quality that States receive from industry
4. Save States time and money
5. Save the industry time and money
6. Use existing State's Royalty Systems, if possible

EXPLORATION

- 1 1/2 years of discussions
- Presentations at WSLCA/Royalty Conferences
  - San Antonio, Moab, Denver, Sandpoint, Rogers
- Reconciliation of Reports- Summer 2016
- Industry Outreach
  - Spring 2016 Survey
  - Focus calls with COPAS members
  - Presentation at COPAS National Conference in San Diego
  - COPAS newsletter- 1st Quarter 2017

STATE'S TENTATIVE REPORT RECONCILIATION

- Summary Fields
- Report-Property/Production Fields
- Report-Payment Fields

SUMMARY FIELDS

Reported once per report.

- Company ID
- Company Name
- Date Prepared
- Prepared By
- Telephone
- Email
- Payment Amount
- Check #
- Report #

TENTATIVE PROPERTY/PRODUCTION REPORT FIELDS

- API/Reporting ID/ Unit #
- Property Name
- Production Start
- Production End
- State Lease #
- Unitized or Non-unitized?
- Unit Tract #
- Tract Participation Factor
- Product Code
- API Gravity/ BTU

- Original Report (Y or N)
- Sale to Affiliated entity?
- Royalty Payer ID
- Oil in Kind (Y or N)
- Beginning Stock
- Gross Production
- Dispositions
- Ending Stock
- Comments

TENTATIVE PAYMENT REPORT FIELDS

- Total and State Gross Sales Volume
- Net Barrels Represent Entire Obligation
- Royalty Due Net Barrels
- Unit Value
- Total and State Gross Value
- Decimal Interest
- Tract Allocation
- Royalty Rate
- Royalty Due (prior deductions)*
- Deductions-Processing*
- Deductions-Gathering/Transport*
- Deductions-Other*
- Deductions-Other Type/Code*
- Royalty Due (net deductions)*

RECONCILIATION OF REPORT

- Not all states treat deductions the same
- Need to work on definition dictionary
- Report will change depending on further input and states that are involved
    - ✓ "Base model" is what has been presented

2016 INDUSTRY SURVEY RESULTS HIGHLIGHTS

Surveys addressed:

- Cost
- Training
- Implementation and Development
- Time
- System compatibility and maintenance

Short-term vs. Long-term

Full Survey responses available on request

General Survey Facts

- 80% report to more than one state
- 20% report to 6 or more states
- 89% report to the United States
- 41% report to 2 or more tribal entities

FOCUS CALLS WITH COPAS

- August 2016
- Introduce idea and gain input on the value of presenting to COPAS
- Spoke with Representatives from BP, QEP, Anadarko, Whiting, and Conoco Phillips

FOCUS CALLS WITH COPAS

- Industry's biggest concern- requiring additional data that is not currently reported
- Question of standardizing with tribes and ONRR
- Interested in specific states involved
- Industry participants like the project concept and feel with a significant number of states participating that long-term this would be a good solution.

FOCUS CALLS WITH COPAS

- In the long run, standardization should help:
  - Industry reporting
  - Government processing
  - Develop reporting tools (Data queries) for both sides.

- Easier to program and train staff
- Need a critical mass of states

COPAS NATIONAL CONFERENCE- OCTOBER 26 & 27

- During WSLCA's presentation:
  - No one grumbled
  - Some general questions, but no one really in the group was gun hoe or asking lots of questions.
  - I asked who was skeptical- 95% raised their hand (about 45 people)
  - I asked who was optimistic- 4 hands went up.
- First intro for most of audience

COPAS NATIONAL CONFERENCE- OCTOBER 26 & 27

- Questions/Comments raised
  - Needs to be easy to create in existing accounting systems
  - Concern of sharing data
  - Technical –(keep in mind during development)
    - Reporting management of different property levels –(well, unit, PUN)
    - Tract Participation vs. Tract Allocation
    - Multiple marketers

"From my perspective whatever can be done to simplify the processes and streamline them would help us immensely in the industry. Most of us wear many hats and have to cover many things so what you have said regarding standardization between states would be a big help and might allow us to pull reports with all data and then just break it down by state to upload or key in depending on the state…"

–Industry Revenue Accountant 1/5/2017

FORK IN THE ROAD

- States have to decide:
  - Abstain
  - Observer
  - Proactive

RESOLUTION

Resolution presented at the Arkansas Conference

- Organization Support solidified and common talking points between industry and states (whether all states participate or not, this is important)
- <u>Supporting</u> of idea, not <u>Adopting</u> of the reconciled report
    - i.e.- More work to come
- Resolution passed.

RESOLUTION

- Critical mass of state participation attainable
- States supporting continued development:
  - Idaho
  - New Mexico
  - North Dakota
  - Oklahoma
  - Texas
  - Utah
  - Wyoming

- Will begin next phase of detailed development
  - *Estimate* 1-2 years to develop

NEXT STEPS- INDUSTRY

- Recruit supportive industry counterparts to help develop the SRDS
  - How do we reach out to industry?
  - What is that critical mass for the industry?
    - How much does it vary from company to company?
  - Educate the industry
    - Origin- Idea of a SRDS came from industry during ND's work on its report
    - Benefit
    - Use of Shared Data
- Need to continually connect as a Strategic Initiative

NEXT STEPS- SRDS REPORT

- SRDS Committee (and Subcommittees) formation
- Further reporting fields discussion
  - May alter with states decision to participate
- Define fields
- Field formats
- Procedures/Governance of the SRDS
  - Data sharing
  - Open record

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