



State of Louisiana
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF MINERAL RESOURCES
STATE MINERAL AND ENERGY BOARD

TO: State Mineral Board Members

FROM: Rachel Newman, CPA *RN*
Audit Director
Mineral Income Division

DATE: April 11, 2012

Audit Committee Meeting Agenda

A meeting of the Audit Committee of the State Mineral and Energy Board will be held on Wednesday, April 11, 2012, following the Nomination and Tract Committee Meeting, in the LaBelle Room, First Floor, LaSalle Building, located at 617 North Third Street, Baton Rouge, Louisiana.

Items on the agenda are as follows:

1. A penalty waiver request from Castex Energy, Inc. for a penalty in the amount of \$79,054.92 which was billed for late payment of royalty. Castex Energy, Inc. paid the state a total of \$234,688.58 in late royalty for the disposition dates of January 2006 through October 2006. The payment was received on March 1, 2012. This billing was not related to a field audit. Castex Energy, Inc. was billed and paid \$99,213.71 in interest charges.
2. A request to place Louisiana Delta Oil Company, LLC on demand for interest and penalty on late oil royalty payments.
3. A request to place Vista Resources, LLC on demand for interest and penalty on late oil, gas, and plant royalty payments.
4. A recoupment request from XTO Energy, Inc. for an overpayment in the amount of \$87,013.39. The state lease numbers involved are 12806, 15683, 17674, 17675 and 17942. For the sales months of February and October 2011, XTO Energy, Inc. paid oil royalties based on estimated volume and values.
5. A recoupment request from XTO Energy, Inc. for an overpayment in the amount of \$65,540.01. The state lease numbers involved are 01450, 01451, 1451LS, 16563 and 16564. For the sales months of May and December 2011, XTO Energy, Inc. paid royalties based on estimated volume and values.

6. A request for the State Mineral and Energy Board to adopt a Resolution to require all payors remitting royalty payments in excess of \$25,000 annually for the previous calendar year to submit state royalty reports exclusively using the Office of Mineral Resources Online State Royalty Reporting System.
7. Staff report to the committee that the election for April 2012 gas royalty is to be paid on a processed basis at the Discovery Plant at Larose and the Sea Robin Plant at Henry per the terms of the State Texaco Global Settlement Agreement.

The Committee may discuss matters it desires pursuant to R.S. 42:7(A)(1)(b)(ii) as well as Executive Session matters pursuant to R.S. 42:6.1(A)(2) and R.S. 42:6.1(A)(6).

Audit Committee Agenda Recommendations
April 11, 2012

1. A penalty waiver request from Castex Energy, Inc. for a penalty in the amount of \$79,054.92 which was billed for late payment of royalty.

Recommendation - On March 1, 2012 Castex Energy, Inc. paid the state a total of \$234,688.58 in late royalty for the disposition dates of January 2006 through October 2006. This payment was not related to a field audit.

Castex Energy, Inc. submitted payment late because they were unaware the royalty originally paid to the state was incorrect. Interest in the property is currently held by another Royalty owner. On December 5, 2011, the current royalty owner and the state were alerted by certain overriding royalty interest owners of a Voluntary Unit Agreement dated December 14, 2005. The state subsequently notified Castex Energy, Inc. of the error on prior payments. Castex Energy, Inc. made every effort to correct the error in a timely manner. Castex Energy, Inc. was billed and paid \$99,213.71 in interest charges on March 19, 2012.

In accordance with the Penalty Waiver Protocol, the staff is recommending no penalty be waived because the royalty was outstanding for more than six (6) years. The amount owed the state remains \$79,054.92.

It is the policy of the Office of Mineral Resources to treat all items submitted on a single state royalty report as a whole. In determining the outstanding royalty period for late payments, the earliest disposition date on the report is used as the measure. Penalty Protocol allows a 75% percent reduction for royalty outstanding three years or less, a 50% reduction for royalty outstanding six years or less and no reduction for royalty outstanding more than six years. Castex' state royalty report was submitted on March 1, 2012. The total royalty outstanding more than six years on this report is \$982.19. This includes royalty due for the month of February 2006.

2. A request to place Louisiana Delta Oil Company, LLC on demand for interest and penalty on late oil royalty payments.

Recommendation - Staff is requesting authority to place Louisiana Delta Oil Company, LLC on demand for interest and penalty on late oil royalty payments. On July 25, 2011 the Office of Mineral Resources received late oil royalty payments from Louisiana Delta Oil Company, LLC in the amount of \$201,661.40 for production from November 2010 through May 2011 in late royalty. Total interest and penalty charges due are \$4,378.30. Several attempts have been made by staff to contact representatives from Louisiana Delta Oil Company, LLC to try to resolve the outstanding billings but none have been successful. The Attorney General's Office is in agreement with this request.

3. A request to place Vista Resources, LLC on demand for interest and penalty on late oil, gas, and plant royalty payments.

Recommendation - Staff is requesting authority to place Vista Resources, LLC on demand for interest and penalty on late oil, gas, and plant royalty payments. On July 22, 2011, the Office of Mineral Resources received late oil, gas, and plant royalty payments from Vista Resources, LLC totaling \$12,248.45 for production in December 2005 through May 2011. Total interest and penalty charges due are \$3,368.86. Several attempts have been made by staff to contact representatives from Vista Resources, LLC to try to resolve the outstanding billings but none have been successful. The Attorney General's Office is in agreement with this request.

4. A recoupment request from XTO Energy, Inc. for an overpayment in the amount of \$87,013.39.

Recommendation - The state lease numbers involved are 12806, 15683, 17674, 17675 and 17942. For the sales months of February and October 2011, XTO Energy, Inc. paid oil royalties based on estimated volumes and values which resulted in an overpayment. The staff has reviewed the documentation and confirmed an overpayment was made and recommends that XTO Energy, Inc. is allowed to recoup this overpayment from future royalties.

5. A recoupment request from XTO Energy, Inc. for an overpayment in the amount of \$65,540.01.

Recommendation - The state lease numbers involved are 01450, 01451, 1451LS, 16563 and 16564. For the sales months of May and December 2011, XTO Energy, Inc. paid oil and gas royalties based on estimated volumes and values which resulted in an overpayment. The staff has reviewed the documentation and confirmed an overpayment was made and recommends that XTO Energy, Inc. is allowed to recoup this overpayment from future royalties.

6. A request for the State Mineral and Energy Board to adopt a Resolution to require all payors remitting royalty payments in excess of \$25,000 annually for the previous calendar year to submit state royalty reports exclusively using the Office of Mineral Resources Online State Royalty Reporting System.

In October 2009, the Mineral Income Division implemented an online State Royalty Reporting system, whereby payors could upload and submit SR reports monthly. The system is designed with specific controls in place that prevent the user from submitting incorrect reports. When errors are noted, the system notifies the user and/or rejects the report. The upfront validation is key to reduce manual auditing for Royalty Reporting Auditors each month. All paper SR reports must be manually keyed into the database increasing the rate of error and time to process. At present, approximately 30% of all royalty payors use the online reporting system. Staff asks adoption of the resolution to capture all major payors to the state of Louisiana which will greatly reduce the time taken to audit, enter and process reports each month freeing auditors to concentrate on other Royalty Reporting audit issues.

AUDIT COMMITTEE

ON MOTION of _____, seconded by _____, the following Resolution was offered and adopted:

WHEREAS, the Louisiana State Mineral and Energy Board has, by prior resolutions dated November 21, 1963, June 11, 1969 and April 12, 1972, authorized the Mineral Income Division of the Office of Mineral Resources to prepare and implement revisions to the form entitled "Monthly Report of Minerals Subject to State Royalties" ("Form SR"); and

WHEREAS, it has been determined that Form SR may need further revision at the present time to accommodate technological advancements and system changes and implementation; and

WHEREAS, The Audit Committee recommends and approves further revision of Form SR as necessary; and

WHEREAS, the staff recommends that the Office of Mineral Resources may require all payors remitting royalty payments in excess of \$25,000.00 annually for the previous calendar year to submit Form SR exclusively using the Office of Mineral Resources Online State Royalty Reporting System;

WHEREAS, the staff recommends that the Office of Mineral Resources implement mandatory Online State Royalty Reporting for Form SR submitted in conjunction with a deadline on and thereafter October 25, 2012;

WHEREAS, the staff recommends that failure of a payor to remit Form SR online as set forth by Louisiana State Mineral and Energy Board Resolution be considered incorrect reporting;

THEREFORE, BE IT RESOLVED, that the Office of Mineral Resources is authorized to require all Forms SR for state royalty payments made by a single payor in excess of \$25,000.00 in the previous calendar year be submitted using the Office of Mineral Resources Online State Royalty Reporting System.

CERTIFICATE

I hereby certify that the above is a true and correct copy of a Resolution adopted at a meeting of the Louisiana State Mineral and Energy Board in the City of Baton Rouge, Louisiana on the 11th day of April, 2012, pursuant to due notice, at which meeting a quorum was present, and that said Resolution is duly entered in the Minute Books of said Louisiana State Mineral and Energy Board and is now in full force and effect.

BOBBY JINDAL
GOVERNOR



SCOTT A. ANGELLE
SECRETARY

State of Louisiana
DEPARTMENT OF NATURAL RESOURCES
OFFICE OF MINERAL RESOURCES
STATE MINERAL AND ENERGY BOARD

March 26, 2012

VIA FAX AND MAIL

Mr. J. Mike Vines
Chevron
Gulf of Mexico
100 Northpark Blvd, Room S2278A
Covington, LA 70433

RE: Attachment "C" of GSA
Paragraph VIII, E.

Dear Mr. Vines:

Per the terms of the State/Texaco Global Settlement Agreement, the State elects to be paid on a **processed** gas basis for its royalty gas at the Discovery Plant at Larose and Sea Robin Plant at Henry for the production month April 2012.

If you have any questions, please feel free to call Mr. Jason Titone at (225) 342-0096.

Sincerely,

OFFICE OF MINERAL RESOURCES

A handwritten signature in black ink, appearing to read "Rachel Newman, CPA", written over a horizontal line.

Rachel Newman, CPA
Mineral Income Division Director

RN/jt

cc: Steve Ferrell, Hilcorp Energy Company
Jacqui Moore, Hilcorp Energy Company
Jason Titone