

Chapter 15: Sale and Operation of Oil and Gas Leases

385:15-1-1. Purpose

The rules of this chapter establish the procedures to lease oil and gas mineral interests on school lands and other public lands managed by the Land Office.

385:15-1-2. Definitions

The following words or terms, when used in this Chapter, shall have the following meaning, unless the context clearly indicates otherwise:

"Affiliate" means any party with whom the lessee has a financial relationship that results in either the lessee or the other party having control over the other or the lessee and other party being under common control of a third-party.

"Alternate Performance Payments" means any payments received by a lessee from a purchaser as an alternative to delivery of production, or as a prepayment for future delivery of production, or indexed to production, or for access to reserves.

"Average published spot price" means the average of actual sales derived from one or more valid publications publishing bidweek prices (or if bidweek prices are not available, first of the month prices) within the State of Oklahoma.

"Barrel" means 42 (US) gallons at 60° F. at atmospheric pressure.

"Day" means twenty-four (24) consecutive hours. For accounting purposes, a day begins at 7:00 A.M. and ends at 7:00 A.M. the following day.

"Gas" means all natural gas produced from school lands or lands pooled therewith (including casinghead gas) and all of its constituent elements, including but not limited to sulfur contained in the gas, helium, natural gasoline, condensate, distillate, butanes, propanes, and all other gaseous or vaporous substances which are hydrocarbons as the same may exist at the surface under normal atmospheric pressures and at normal ambient temperatures, and all other gaseous or vaporous hydrocarbons condensed, absorbed, or separated out of or from the gas after it leaves the lands, including without limitation flared or vented gas.

"Gross proceeds" means the value, total amount of money, and/or credit derived from production or rights thereto without any deductions, reductions, or setoffs.

"Land Office" means the State of Oklahoma *ex rel.* Commissioners of the Land Office.

"Lease" or **"oil and gas lease"** means an oil and gas lease issued by the Land Office.

"Leased premises" means the tract of school land subject to an oil and gas lease.

"Lessee" means the successful bidder or assignee awarded a leasehold interest to mineral rights by an oil and gas lease. To the extent that the lessee designates a third-party to comply any requirement of the lease or the rules and regulations of the Land Office, the third-party designee shall comply with the requirements of the lease and the rules and regulations of the Land Office.

"Notice of Sale" means a notice of oil and gas lease sale published by the Land Office.

"Oil" means any hydrocarbons produced from school lands or lands pooled therewith, capable of being produced in liquid form at the well by ordinary production method, including, without limitation, condensate, distillate and other liquid hydrocarbons.

"Operator" means any person that controls, manages, or directs the exploration, drilling, or the payment of royalties for oil and gas on school lands.

"Pipeline" means interstate pipelines, intrastate pipelines, or similar transmission lines downstream of a processing plant.

"Plug" means the closing off, in a manner prescribed by the Corporation Commission, all oil, gas, and water bearing formations in any producing or non-producing wellbore.

"Production and Marketing Infrastructure" means any oil and gas gathering lines, midstream lines, electric lines, pipelines, and other facilities related to the production and marketing of oil and gas.

"School lands" means school lands and other public lands managed by the Land Office.

"Well information" means detailed and correct drilling and production records maintained by the lessee or operator of a well, including, but not limited to, (1) authorizations for expenditure (AFE)s; (2) daily drilling reports transmitted by email; (3) cumulative hard copies of daily drilling and completion reports for each well drilled within ten days of the final report or at any time upon the Land Office's request; (4) all logging surveys, wireline tests, drillstem test charts, core analysis, title opinions, or other third party information that may be run or prepared; (5) potential test or completion reports filed with the Oklahoma Corporation Commission; (6) plugging records, if completed as a dry hole or if subsequently abandoned; (7) executed and recorded copies of the lease; and (8) all geological, geophysical, engineering, and other technical information or exhibits filed with or presented to the Oklahoma Corporation Commission in connection with any spacing, pooling, or increased density applications including such applications pursuant to which any well is drilled on the lands.

385:15-1-3. Awards and tabulations

Awards and tabulations resulting from the public auction process shall be posted on the Land Office's official website and presented to the Board at the next regular meeting for ratification.

385:15-1-4. Lands available for leasing

- (a) The Land Office may offer any unleased tracts of school lands for oil and gas leasing through the public auction process.
- (b) Interested persons may request that particular tracts of school lands be offered for oil and gas leasing by submitting a written request containing the contact information of the requestor and the complete legal description of the tracts requested.

385:15-1-5. Newspaper advertising requirement [REVOKED]

385:15-1-6. Public auction process

The public auction process for school land oil and gas lease sales shall be as follows:

- (1) **Notice of Sale.**
 - (A) The Land Office shall publish a Notice of Sale in the manner prescribed by law prior to conducting a public auction for school land oil and gas leases.
 - (B) The Notice of Sale shall list each tract offered for leasing separately.
 - (C) The Notice of Sale shall specify the tract number and legal description for each tract offered for leasing.
 - (D) The Notice of Sale shall specify the date and time of the sale and the date and time bidding will be closed.
- (2) **Oil and gas lease sales.**

- (A) The Land Office shall utilize the standard lease form to offer a tract for leasing except in a special oil and gas lease sale. The Land Office may alter the standard lease form to offer a tract for leasing in a special oil and gas lease sale.
 - (B) Bidders shall submit a separate sealed bid for each tract sought. Each bid shall identify the tract number and legal description for the tract sought.
 - (C) Except as otherwise provided in this section, the Land Office shall lease each tract offered for leasing to the highest responsible bidder.
 - (D) The Land Office shall not consider drilling contracts or production payments when reviewing bids, except if consideration of drilling contracts or production payments is applicable to a special oil and gas lease sale.
 - (E) The Land Office shall reject all bids less than \$5.00 per acre, except if consideration of bids less than \$5.00 per acre is applicable to a special oil and gas lease sale.
 - (F) The Land Office may reject any and all bids. The Land Office shall not provide justification for rejecting a bid.
- (3) **Special oil and gas lease sales.**
- (A) The Land Office may conduct special oil and gas lease sales to offer non-standard lease terms or make special considerations.
 - (B) The Land Office shall mark notices of special oil and gas lease sales, "Notice of Special Oil and Gas Lease Sale."
 - (C) The Land Office shall list non-standard lease terms or special considerations in the Notice of Special Oil and Gas Lease Sales.
 - (D) The Notice of Special Oil and Gas Lease Sales shall otherwise conform to the requirements of a Notice of Sale provided in this section.
- (4) **Electronic bidding.**
- (A) Sealed bids for each tract offered shall be submitted electronically in the manner designated by the Secretary.
 - (B) The Secretary shall post electronic bidding procedures on the Land Office website.
 - (C) Subject to other applicable laws, the Secretary may select a designee to manage the electronic bidding process for the Land Office.
 - (D) The designee selected by the Secretary may impose a surcharge on the winning bid not to exceed two percent (2%) of the winning bid or a fee determined by resolution of the Board.
- (5) **Time of sale.** The Land Office shall not accept bids submitted after bidding is closed, as specified in the Notice of Sale.
- (6) **Deposit required.**
- (A) Bidders shall remit a deposit not less than twenty-five percent (25%) of the total amount bid to the Land Office or its designee when submitting a bid.
 - (B) Successful bidders shall remit the remaining seventy-five percent (75%) of the total amount bid to the Land Office or its designee within thirty (30) days following the Land Office's acceptance of the successful bid.
 - (C) The Land Office or its designee shall refund deposits submitted by unsuccessful bidders within forty-five (45) days following the Land Office's acceptance of a successful bid.

- (7) **Assignment of bids.** Bidders shall not assign their rights to bids for oil and gas leases.
- (8) **Bids are final.** Bids shall be final when submitted by a bidder. The Land Office shall not permit a bidder to withdraw or alter a sealed bid to correct an error or for any other purpose.
- (9) **Award.** The Land Office shall award a lease to the successful bidder within sixty (60) days following the auction.
- (10) **Responsibilities of bidder after award.** Within thirty (30) days of the Land Office's award of a lease, the successful bidder shall:
- (A) execute and return the oil and gas lease to the Land Office; and
 - (B) remit the balance of money owed for lease bonus, delay rental, or performance fee to the Land Office.
- (11) **Extension.** The successful bidder may submit a written request for an extension of time to execute and return the oil and gas lease and remit the balance of money owed. The Land Office may grant a reasonable extension, in writing, for good cause shown.

385:15-1-7. Advertising deposit [REVOKED]

385:15-1-8. Lease terms [REVOKED]

385:15-1-9. Performance fee and bond

- (a) Successful bidders awarded oil and gas leases by the Land Office shall pay a performance fee of \$1.00 per net mineral acre leased.
- (b) Performance fees paid with the award or assignment of an oil and gas lease shall be deposited into the Land Office Performance Fee Escrow Account.
- (c) The Secretary may apply funds from the Land Office Performance Fee Escrow Account to recover unpaid royalties, plug wells, and/or restore the surface when the lessee is unavailable to pay damages or a damage award against the lessee is otherwise uncollectable.
- (d) Payment of the performance fee shall not relieve or shield a lessee of liability under the oil and gas lease nor limit the legal or equitable remedies available to the Land Office to enforce the terms of the oil and gas lease against the lessee.
- (e) The Land Office shall retain any performance bonds previously posted for the same purpose as the Land Office Performance Fee Escrow Account until the associated oil and gas lease is either released or cancelled. The performance bond, if any, shall be applied to unpaid royalties, plugging, or surface damages before any funds from the Land Office Performance Fee Escrow Account are applied such damages. The performance bond or some portion thereof, as appropriate, shall be returned to the lessee upon the release or cancellation of the oil and gas lease and the resolution of any damage claims by the Land Office.

385:15-1-10. Lease award [REVOKED]

385:15-1-11. Lease cancellation procedure [REVOKED]

385:15-1-12. Lease operator forms for bonding purposes [REVOKED]

385:15-1-13. Release of lease

Upon payment of all liabilities and damages including, but not limited to, unpaid royalties, well plugging, and surface restoration, a lessee may surrender an oil and gas lease by filing a formal release with the Land Office. However, if the oil and gas lease has been recorded with a County Clerk, the lessee shall record a release thereof in the county prior to filing a release with the Land Office.

385:15-1-14. Seismograph permits

(a) The Land Office may issue a non-exclusive seismic exploration permit allowing seismic exploration for oil, gas, and other minerals, as follows:

- (1) The applicant seeking the seismic exploration permit shall submit an application in a form designated by the Land Office.
- (2) The applicant seeking the seismic exploration permit shall remit an application fee.
- (3) The applicant seeking the permit shall remit a per net mineral acre fee to conduct seismic exploration.

(b) The seismic exploration permit shall allow the applicant to conduct seismic exploration for a period that does not exceed ninety (90) days.

(c) The seismic exploration permit shall not prohibit or delay the Land Office from conducting a public auction for the lease of minerals underlying the tract of land permitted.

(d) The seismic exploration permittee shall pay the surface lessee and/or the Land Office, as applicable, damages caused by seismic operations.

385:15-1-15. Production and marketing infrastructure easements

(a) **Easements.** Except as provided in subsection (b), all production and marketing infrastructure and pipelines on or crossing school lands shall require and be subject to an easement granted by the Land Office.

(b) **Construction.** Oil and gas lessees may authorize operators, purchasers of oil and gas, and utility companies furnishing electricity for lease operations to construct production and marketing infrastructure necessary for operation of oil and gas wells without an easement granted by the Land Office. Lessee shall remain liable for any such construction and the removal of all production and marketing infrastructure and restoration of surface area, unless such construction is covered by an easement from the Commissioners of the Land Office.

385:15-1-16. Subordination of oil and gas lease to mortgage [REVOKED]

385:15-1-17. Leases on lands under certificate of purchase [REVOKED]

385:15-1-18. Forms available on website [REVOKED]

385:15-1-19. Copies of records [REVOKED]

385:15-1-20. Bond requirements

(a) **Performance bond for oil and gas leases.** Successful bidders awarded oil and gas leases by the Land Office shall not be required to post a performance bond. Performance bonds previously posted shall remain effective until released by the Land Office.

- (b) **Performance bond for saltwater disposal agreements.** A performance bond in the amount of Ten Thousand Dollars (\$10,000) shall be posted for each saltwater disposal agreement.
- (c) **Release of bond.** Performance bonds shall be released upon written request of the lessee or bonding company after all contracts covered thereby are satisfactorily terminated, as determined by the Land Office.
- (d) **Underwriter requirements.** All surety bonds must be made by a company authorized to do business in the State of Oklahoma.
- (e) **Performance bond, liability, and interest.** Performance bonds shall not be a substitute for liability or liability limits but merely serve as minimal security for the debts and obligations. The person posting the performance bond shall not be entitled to interest while the performance bond is held by the Land Office.

385:15-1-21. Assignment of oil and gas leases

- (a) **Assignments.** Each request for consent and approval of an assignment of oil and gas lease shall be accompanied by a fully executed copy of the assignment, payment of an application fee to be established by resolution of the Board, and payment of a performance fee of ten cents (\$0.10) per net mineral acre. No assignment of an oil and gas lease on school lands will be valid or vest any interest in the assignee until the Land Office provides written consent to the assignment.
- (b) **Assignment forms.** Assignments of oil and gas leases may be made on any assignment form in general use in the oil and gas industry and, with proper consent on a form required by the Land Office, may convey lesser interests in the lease, including fractional interests, term interests, and horizontal interests.
- (c) **Accompanying agreements.** Assignments presented for approval which are subject to other agreements, upon request of the Land Office, shall be accompanied by a copy of such other agreement.
- (d) **Assignments of overriding royalties.** Assignments, reservations, or grants of overriding royalty interests do not require approval of the Land Office.
- (e) **Outstanding financial obligations.** The Land Office may require payment of any outstanding financial obligations or liabilities of the assignor before providing consent to an assignment. If the outstanding obligations or liabilities are not paid, the Land Office may allow, in writing, the assignee to assume the outstanding financial obligations or liabilities of the assignor.

385:15-1-22. Well installation and maintenance requirements

- (a) **Depth.** Production and marketing infrastructure carrying gaseous or liquid substances shall be buried and maintained at a minimum depth of three (3) feet below the surface.
- (b) **Identification of well.** Within thirty (30) days after the completion of a producing oil or gas well, a sign shall be posted showing the name and A.P.I. number of the well and the legal description of the lease.
- (c) **Surface casing.** All wells drilled for oil, gas, or saltwater disposal, shall set surface casing below all freshwater strata, and shall be cemented from bottom to top.
- (d) **Enclosures of well property.** Upon demand by Land Office all saltwater tanks, oil tanks, and other lease installations shall be enclosed with earthen dikes sufficient to protect the lease

from damage by leakage or overflow. The oil and gas lessee shall erect and maintain substantial gates or cattle guards on all entrances to the lease or any subdivision thereof.

(e) **Saltwater disposal well applications.** Saltwater, other than that produced from the leased lands, shall not be disposed in wells on school lands except by written agreement with the Land Office. Applications for saltwater disposal agreements shall be accompanied by a plat showing the location of all wells from which the saltwater is produced and the amount of saltwater and oil produced by each well.

(f) **Plugging requirements.** The lessee shall securely plug all dry or abandoned wells in the manner required by the rules and regulations of the Oklahoma Corporation Commission and the laws of the State of Oklahoma.

(g) **Care of surface.** The lessee shall maintain all installations in a neat and workmanlike manner. The lessee shall remove all equipment or supplies not needed in day to day operation of the lease. Irrespective of other operational wells on the leased premises, the lessee shall immediately plug any dry, exhausted, or abandoned well when production of oil or gas from that well permanently ceases. The lessee shall immediately repair any damages caused by lease operations to terraces, waterways, or any other soil conservation practice.

(h) **Removal of equipment and restoration of surface after lease termination.** Upon termination of a lease, the lessee shall restore surface area; remove any casing, production facilities or equipment; and plug any well or wells on said lease within ninety (90) days unless an extension of time is granted in writing by the Land Office. Any material not removed within ninety (90) days shall be forfeited to the State. An inspection will be made ninety (90) days after termination of the lease and an inspection fee of One Hundred Dollars (\$100.00) shall be charged to the lessee if the surface restoration is incomplete. Additional inspections shall be conducted at thirty (30) day intervals until surface restoration is complete. An additional inspection fee of One Hundred Dollars (\$100.00) shall apply to each additional inspection.

385:15-1-23. Measurement standards for oil and gas removal

Measurement standards for oil and gas removal shall be as follows:

(1) **Oil tanks and tank batteries.**

(A) Oil shall be gauged in tanks located on the leased premises.

(B) Tanks shall be properly set, free from leakage, sufficiently gas tight, and maintained to preserve the full gravity of the oil, and to prevent evaporation losses.

(C) The lessee shall be accountable for all oil lost by leakage, overflowing, or for other reasonably preventable reasons.

(D) Oil produced from more than one lease may be stored in a common tank battery only with written approval of a common tank battery agreement by the Land Office.

(E) Lessee requests for approval of a common tank battery shall be accompanied by proof of settlement for surface damages with the Land Office's surface lessee, if applicable, and payment of a common tank battery approval fee to be set by resolution of the Board.

(2) **Oil tank requirements.**

(A) All tanks shall be strapped to a full 100 percent of their capacity and individual tank tables shall be prepared and submitted.

- (B) Tank strapping shall be measured and calibrated using American Petroleum Institute Standards for measuring, sampling, and testing crude oil.
- (C) The lessee shall supply the Land Office with a certified copy of the original strapping showing the tank number, make, and size.
- (D) Any tank moved bodily, taken down and reset, or altered in any way that might change the capacity thereof; shall be treated as a new tank and lessee shall assign a new number.
- (E) When lessee prepares new tank tables or assigns new numbers to old tanks, reference to prior tank tables or tank numbers shall be provided to the Land Office.
- (3) **Oil measurement.**
- (A) Oil shall be measured by gauge pole or measuring line marked and numbered in full standard feet, inches, and fractions thereof and in a clearly legible manner. Numbering for measurements shall start from the base of said line or pole.
- (B) Measurements of oil depth shall be taken consistently from the same gauge or thief hole in the tank deck. The floor of the tank directly under the point of measurement shall be level and free from obstructions.
- (C) Oil shall be measured from the tank floor to the top surface of the liquid level.
- (D) Oil measurement readings shall be recorded to the nearest one-quarter inch.
- (E) Oil shall not be measured by automatic custody transfer without prior approval of the Commission in writing.
- (F) Bottoms and solids removed from tanks shall be measured by first measuring from the tank floor to the top surface of the liquid level immediately prior to removal and immediately after removal. Both measurements shall be supplied to the Land Office, upon request, with a copy of disposal invoices. Bottoms and solids removed without sufficient evidence of disposal shall be considered marketable production and lessee shall pay a royalty on such volumes as if sold under the terms of the lease.
- (4) **Oil temperature.** Oil temperature shall be taken at the same time oil is measured. The temperature shall be representative of the average temperature of the entire body of oil from the tank bottom to the top of the liquid surface. The temperature in tanks with a capacity less than 500 barrels shall be taken by suspending a standard thermometer for at least five minutes, at a point not less than twelve inches from the side of the tank, and midway between the tank bottom and the top surface of the oil.
- (5) **Oil sample.** The observed A.P.I. gravity and hydrometer temperature shall be taken in a sample representative of the merchantable body of the oil and shall be taken and recorded at the time of measurement. Samples shall be tested for gravity from a sealed sample and not by an unsealed (open vapor) hydrometer.
- (6) **Instruments of measurement.** All instruments used in determining temperature, A.P.I. gravity, water, and sediment shall be of a standard make, of reputable manufacture, accurately calibrated, and in good working order.
- (7) **Oil gravity and volume.** The observed gravity and the observed volume of oil shall be corrected to the standard of 60 degrees Fahrenheit consistent with National Standard of Petroleum Tables.
- (8) **Run tickets.** Run tickets shall be legible, properly executed at the time measurements are taken, and shall contain all information necessary to complete final

calculations. Lessee shall furnish the original run tickets or a carbon copy to the Land Office, upon request.

(9) **Gas metering.** Gas of all kinds shall be subject to royalty and shall be measured by a meter approved for general use by the oil and gas industry. All measurements shall be adjusted to conform to the Standard Gas Measurement Act.

(10) **Gas measurement.** Tests to determine the approximate natural gas liquid and non-hydrocarbon gas content of gas delivered to plants processing natural gas liquids and non-hydrocarbon gas shall be provided by the lessee at the request of the Land Office to check plant efficiency and to obtain an equitable basis for allocating the natural gas liquid and non-hydrocarbon gas output of any processing plant.

385:15-1-24. Oil and gas royalty price computation

(a) **Marketable condition and sale.** Lessee shall place oil, gas, recoverable natural gas liquids, and non-hydrocarbon gas in a marketable condition. Lessee shall pay all direct and indirect costs incurred to place the oil, gas, recoverable natural gas liquids, and non-hydrocarbon gas in a marketable condition. Lessee shall market and sell such oil, gas, recoverable natural gas liquids, and non-hydrocarbon gas products at no cost to the Land Office.

(1) Oil recovered by mechanical separators shall be deemed to be in a marketable condition only after the oil products are separated, treated, dehydrated and placed into a storage tank or other facility for delivery to a purchaser or refinery and without cost to the Land Office.

(2) Gas delivered to a gas plant for processing shall be deemed to be in a marketable condition only after the gas products meet the location, quality, and pressure specifications for transmission by an interstate pipeline for sale to an independent, non-affiliated, third-party purchaser.

(3) Gas sold at the wellhead or gas that is not delivered to a gas plant for processing shall be deemed to be in a marketable condition only after the gas products meet the location, quality, and pressure specifications for transmission into an interstate pipeline for sale to an independent, non-affiliated, third-party purchaser.

(4) Natural gas liquids shall be deemed to be in a marketable condition only after the natural gas liquid products have been either:

(A) recovered at a processing plant and separated and fractionated into discrete products (e.g., ethane, propane, butane, and natural gasoline) and placed into a storage tank or other facility for delivery to a purchaser, or

(B) recovered at a processing plant and sold at the tailgate of the plant to an independent, non-affiliated, third-party purchaser without further separation and fractionation into discrete products, provided the royalties due and payable thereon to the Land Office shall be based upon the gross proceeds received for such product, including any credit or payments received by lessee based on any further downstream processing.

(5) In the event the gas stream contains commercial quantities of non-hydrocarbon gas, such non-hydrocarbon gas shall be deemed to be in a marketable condition only after the non-hydrocarbon gas products have been recovered, separated, treated, purified and otherwise placed in a form and condition suitable for commercial sale, exchange, and use.

(b) **Royalty.** Lessee shall pay the Land Office a royalty consisting of a fractional share (defined by the lease) of proceeds for any and all substances, including, but not limited to oil, gas, recoverable natural gas liquids, and non-hydrocarbon gas products; as follows:

(1) **Deductions.**

(A) Royalties shall be computed free and clear of all deductions for production costs, post-wellhead costs, marketing costs, and other direct or indirect costs, including without limitation, all costs, charges, expenditures, or fees incurred for gathering, compressing, pressurizing, treating, dehydrating, separating, processing, fractionating, storing, transporting, marketing, and other costs incurred to convert oil, gas, recoverable natural gas liquids, and non-hydrocarbon gas into a marketable condition.

(B) Any and all reductions to the sales price received by lessee for any post-production services provided by the purchaser or any other party prior to the oil, gas, recoverable natural gas liquids, and non-hydrocarbon gas products being placed into a marketable condition shall be added back to the sales price to determine the gross proceeds for royalty payment purposes.

(2) **Royalty computation for oil.**

(A) Non-affiliate sales: Royalties for oil shall be computed on the greater of:

- (i) the price received by the lessee for oil sold or disposed of through an arm's length transaction from an independent, non-affiliated, third-party purchaser for the product in marketable condition, including all bonuses, premiums, allowances or other consideration of any nature received by lessee;
- (ii) the highest posted field price; or
- (iii) the average published spot price.

(B) Affiliate Sales: Royalties for oil shall be computed on the index price for West Texas Intermediate at Cushing, Oklahoma prevailing on the dates the oil is sold or disposed of through any transaction other than by an arm's length transaction, including any oil sold or transferred by lessee to itself or an affiliate of lessee.

(C) Lack of Records: Royalties for oil shall be computed on the index price for West Texas Intermediate at Cushing, Oklahoma prevailing on the dates the oil is sold or disposed of through any transaction in which the lessee cannot produce records of an arm's length transaction, including, but not limited to monthly production reports and third-party purchase statements.

(3) **Royalty computation for gas.**

(A) Non-affiliate sales: Royalties for gas shall be computed on the greater of:

- (i) the total value received by the lessee through an arm's length transaction from an independent, non-affiliated, third-party purchaser for the product in marketable condition, including all bonuses, premiums, allowances, alternate performance payments, or other consideration of any nature received by lessee for gas;
- (ii) the highest price any lessee enforces under a similar sales contract in the wellbore; or
- (iii) the gross proceeds that would be received if the gas had sold at the average published spot price without deduction for taxes, compression,

treatment, dehydration, metering, gathering, or other charges necessary or desirable for the delivery of gas into interstate pipelines.

(B) Affiliate sales: Royalties for gas shall be computed on the highest price paid in the State of Oklahoma by any purchaser for like kind and quality gas for any gas that is sold or disposed of other than by an arm's length transaction, including, any gas sold or transferred by lessee to itself or an affiliate of lessee.

(C) Lack of Records: Royalties for gas shall be computed on the highest price paid in the State of Oklahoma by any purchaser for like kind and quality gas for any gas that is sold or disposed of and the lessee cannot produce records of the arm's length transaction, including, any gas sold or transferred by lessee to itself or an affiliate of lessee.

(4) **Royalty computation for natural gas liquids and non-hydrocarbon gas.**

(A) Non-affiliate sales: Royalties for natural gas liquids or non-hydrocarbon gas shall be computed on the price received by the lessee through an arm's length transaction from an independent, non-affiliated, third-party purchaser for the product in marketable condition, including all bonuses, premiums, allowances or other consideration of any nature received by lessee for natural gas liquids or non-hydrocarbon gas.

(B) Affiliate sales: Royalties for natural gas liquids or non-hydrocarbon gas shall be computed on the highest market price, including any premium associated therewith, then prevailing on the dates the natural gas liquids or non-hydrocarbon gas are sold or disposed of, in the same processing plant for production of similar chemistry and quality (or if there is no such price then prevailing in the same processing plant, then in the nearest processing plant in which there is such a prevailing price) for any natural gas liquids or non-hydrocarbon gas sold or disposed of other than by an arm's length transaction, including any natural gas liquids or non-hydrocarbon gas sold or transferred by lessee to itself or an affiliate of lessee.

(C) Lack of records: Royalties for natural gas liquids or non-hydrocarbon gas shall be computed on the highest market price, including any premium associated therewith, then prevailing on the dates the natural gas liquids or non-hydrocarbon gas are sold or disposed of, in the same processing plant for production of similar chemistry and quality (or if there is no such price then prevailing in the same processing plant, then in the nearest processing plant in which there is such a prevailing price) for any natural gas liquids or non-hydrocarbon gas sold or disposed of and the lessee cannot produce records of the arm's length transaction, including, but not limited to monthly production reports and third-party purchase statements.

(c) **Percentage of proceeds sales.** When any processing plant, gas purchaser, or other party retains a percentage of the sales proceeds, or a volumetric share of oil, gas, recoverable natural gas liquids, and non-hydrocarbon gas as compensation for services and returns a percentage of the sales proceeds to the lessee, the lessee shall pay royalties on the sales proceeds returned to lessee and shall also pay royalties on the full value of the sales proceeds or volumetric share retained by the processing plant, gas purchaser, or other party. The royalty due to Land Office

shall be based upon one hundred percent (100%) of gas at the total value received for delivery into interstate pipelines.

385:15-1-25. Monthly production reports

On or before the last day of the month following the month of production, the lessee shall file a monthly report of oil, gas, recoverable natural gas liquids, and non-hydrocarbon gas produced and sold from the leased premises. Lessee shall file the monthly report using a paper or electronic form provided by the Land Office.

385:15-1-26. Purchase statements

- (a) Lessee shall provide third-party purchase statements for oil and gas to the Land Office.
- (b) Third-party purchase statements for oil and gas shall be submitted electronically in a .pdf format with the following naming convention: YYYYMM-WELLNAME-API NUMBER. The year (YYYY) and month (MM) used in the file name shall reflect the sales month.
- (c) Electronic files of third-party purchase statements shall be submitted to the Land Office not later than sixty (60) days after the referenced oil and gas sale is final.
- (d) Each submission containing electronic files of third-party purchase statements shall include the name, company affiliation, and telephone number of the sender.

385:15-1-27. Notice of intent to drill or recomplete

Lessee shall file a notice of intention to drill or recomplete any well for oil and gas with the Land Office prior to the commencement of operations. The notice of intent shall include the location of the well, the name and A.P.I. number of the well, the approximate date operations will begin, and the estimated depth of the well.

385:15-1-28. Notice of intent to plug oil and gas well; plugging report

- (a) **Notice of intent to plug oil and gas well.** Lessee shall file a notice of intention to plug with the Land Office not less than five (5) days prior to plugging any producing oil or gas well on a form prescribed by the Oklahoma Corporation Commission.
- (b) **Plugging reports.** Lessee shall file a copy of the plugging record with the Land Office not less than thirty (30) days after the completion of plugging operations.

385:15-1-29. Lessee's annual summary of operations [REVOKED]

385:15-1-30. Special reports

The Land Office may request special reports describing production or operation of oil and gas leases. The lessee shall promptly furnish the Land Office with any special reports requested.

385:15-1-31. Well Information

- (a) Lessee shall file a completion report with the Land Office within thirty (30) days after completion or recompletion of any well. Completion reports shall be on a form prescribed by the Oklahoma Corporation Commission and shall be signed by the lessee or lessee's representative.

(b) Lessee shall furnish a copy of any electric logs or other well records upon demand by the Land Office.

385:15-1-32. Deposit and fee schedule [REVOKED]

385:15-1-33. Electronic funds transfer

The Land Office may accept payments of fees, royalties, or other financial obligations by electronic funds transfer.

385:15-1-34. Royalty check detail

(a) Prior to the sales month, January 2023, lessees shall, at the lessee's discretion, submit royalty check detail data in a paper format consistent with the technical instructions provided by the Land Office or in an electronic format using the spreadsheet template provided by the Land Office and consistent with the technical instructions provided by the Land Office.

(b) Beginning the sales month, January 2023 and for each sales month thereafter, lessees shall submit royalty check detail data in an electronic format using the spreadsheet template provided by the Land Office and consistent with the technical instructions provided by the Land Office.
