INSTRUCTION MANUAL FOR REPORTING OIL & GAS ECONOMIC PROFILE FORM

STATE OF NEW YORK

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For this publication and others please check our website at
http://www.tax.ny.gov/research/property/valuation/oilgas/index.htm

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INSTRUCTIONS FOR COMPLETING THE OIL AND GAS ECONOMIC PROFILE FORM (RP 7019)

It is important to recognize that the income, expense and cost data reported to ORPTS is confidential information.

Please report oil economic data separately from gas economic data whenever possible. If a well or group of wells is producing both oil and gas please indicate that under "Well Type".

The number of economic profile forms completed and submitted depends upon various conditions. Please submit a separate report for each significant condition below:

1. Time Frame (***ALL*** information should be within the year ending date at the top of the form or calendar year. Please specify the year ending for the information submitted, if <u>different</u> from calendar year.)
2. Well Type (oil, gas, or both)
3. Production Type (stripper, other or enhanced)
4. Field Age
5. Well Depth
6. Geographic Location (each city, town or village)

<u>SECTION I - Producer Information</u> - A glossary of terms to refer to is on page 4.

This section is completed by entering the following data (see example below):

Company Name:	Enter the name of your company
Address:	Enter address of company
Representative:	Enter name of person filing the report
Phone Number:	Enter phone number of representative
Formation:	Enter the formation the wells are located in
Average Well Age:	Enter the Average age of wells on the report
Average Well Depth:	Enter the Average depth of wells on the report
County Name:	County that wells are located in
Town/City:	Town that wells are located in

SECTION II - Well Type and Royalty Information

WELL TYPE and/or PRODUCTION TYPE - Check the box of the appropriate well type and production type. This is important because different production types have different expenses.

Well Type: Enter Gas, Oil or Gas & Oil.

Production Type (for oil wells): Enter Stripper Wells, Other Wells or Enhanced Recovery Wells.

Royalties: Enter the dollar amount and percentage of gross income for land owner royalties and overriding royalties, if any. Also enter the total royalty amount and percentage of gross income.

SECTION III - Production and Gross Income Information

Quantity of Wells: Provide a quantity of wells relating to the information on this form.

Total Production: Enter the total yearly production per MCF or BBL for the well(s) reported on this form. This amount should coincide with the "Operator's Annual Production Report" filed with the NYS Department of Environmental Conservation.

Total Gross Income: Enter the total annual revenue received before **any** deductions.

SECTION IV –Expense Information
This section details expenses incurred from operating expenses, capital investments, depletion, depreciation, dry hole costs, and reserves for abandonment.

Total Operating Expenses (loe's): Annual costs incurred at the well or cost related to running the field and necessary to maintain the production of income from operation of the oil or gas property.

The operating expenses are very difficult to estimate; therefore, it is necessary to request operator/owners to submit actual operating expenses for further analysis and study. These expenses may vary due to pressure and depth of well.

The initial drilling and developmental costs are not a part of the operating expenses because they are considered a one-time capital cost and not an annual cost like operating expenses.

Depletion: Enter company reported data or 15% of overall average dollars per MCF minus royalties will be calculated for depletion.

Depreciation: The capitalized costs incurred for the drilling of the well and related equipment allocated over the estimated life of the well. These costs are classified as long-term investments, and are not charged to current operations. Some examples are casings, wellhead fittings, pumping units, tanks, meters, pipelines and installation, drilling, logging and fracing. Costs that are capitalized should not be duplicated again in operating expenses.

Dry Hole Costs: The cost of drilling dry holes encountered in developing a productive field or an economic unit, and does not allow for the cost of drilling dry holes during exploration.

Reserve for Abandonment: Enter the monies reserved for abandonment and well plugging.

Upon completion, please sign and return the Economic Profile Form(s) #7019 and any additional sheets or comments to the following address:

NEW YORK STATE DEPARTMENT OF TAXATION AND FINANCE
OFFICE OF REAL PROPERTY TAX SERVICES
OIL AND GAS UNIT, ATTN: JEREMY KERGEL
BUILDING 8A, W.A. HARRIMAN STATE CAMPUS
ALBANY NY 12227

GLOSSARY OF TERMS
(in alphabetical order)

BARREL (BBL): 42 U.S. gallons of oil.

BOOK DEPRECIATION: An allowance for the recapture of tangible assets having a useful life of one year or more.

CAPITALIZED COSTS FOR NEW AND EXISTING WELLS: The dollar amount for the cost to drill new wells and maintain existing wells ***amortized annually over the estimated service life of the well(s)***. These costs are classified as long-term investments, and are not charged to current operations. Some examples are casings, wellhead fittings, pumping units, tanks, meters, pipelines and installation, drilling, logging and fracing. Costs that are capitalized should not be duplicated again in operating expenses.

DEPLETION: Depletion accounts for the reduction in the value of a property as the resource is removed or extracted.

DRY HOLE COSTS: The cost of drilling dry holes encountered in developing a productive field or an economic unit, and does not allow for the cost of drilling dry holes during exploration.

ENHANCED RECOVERY WELLS: These are oil wells using secondary recovery methods including the fluid injection process. The operating expenses for this process are significantly higher than the operating expenses for the primary recovery method.

ECONOMIC PROFILE: A net cash flow analysis of a financial summary of an average or typical oil or gas unit based on average or typical income and expense items of one or more economic units pertaining to one or more producers.

ECONOMIC LIFE: The economic life of an oil or gas well or field can be determined by attaining the production decline rate, the price of petroleum, and the future annual operating costs. Using these three items, the economic life is equal to the economic limit of a petroleum property as a function of the production rate at the time that the operating cost per barrel becomes equal to the gross income per barrel. For example, if a well costs $5,000 per year to operate or $14 per day, and produces oil that is worth $15.00 a barrel, it will reach its economic limit/life as production declines to 0.9 barrels a day.

JOINT VENTURE WELLS: Wells owned under a partnership with more than one company.

MCF: One thousand cubic feet of gas.

TOTAL OPERATING EXPENSES: These are the day-to-day expenses necessary to maintain the production of gas or oil. Some examples of operating expenses are labor, material and supplies, utilities, rental equipment, waste water disposal, compression services, secondary recovery, transportation, engineering costs and supervision.

Do not add taxes to expenses because they are already accounted for in the discount rate used in the calculation of the unit of production values. A factor of seventeen and one-half percent is added to the Federal Reserve Discount Rate to develop the interest rate to discount the net cash flow to account for risk, non-liquidity, management, intangible drilling cost, and real property and income taxes.

OPERATOR'S GROSS INCOME: This is the total annual revenue paid by the buyers to the producer before any deductions.

OTHER WELLS: Wells utilizing only pumping equipment to recover the oil. The annual production of the field is typically more than 3,650 barrels per year.

PRODUCTION: The volume extraction of oil or gas from the land in commercially marketable quantities. This amount should coincide with the "Operator's Annual Production Report" filed with the NYS Department of Environmental Conservation.

STRIPPER WELLS: Stripper wells produce oil and gas at a rate of less than 10 barrels per day of oil or 60,000 cubic feet per day of natural gas.

TOTAL ROYALTY: This includes both land owner royalties and overriding royalty interests.

Land Owner's Royalty - The landowner's share of oil or gas production free of the expenses of production. Royalties may be paid in kind, or in the monetary equivalent of the amount of oil and gas representing the royalties. The royalty amount is (generally, frequently or most commonly) 1/8th of production, but it can be <u>any</u> fractional amount of production.

Overriding Royalty Interests (ORRI) - A fractional interest in the gross production of oil and gas under a lease, in addition to the usual royalty paid to the lessor, free of any expense for exploration, drilling, development, operating, marketing and other costs incidental to the production and sale of oil and gas produced from the lease. It is an interest carved out of the lessee's share of the oil and gas, ordinarily called the working interest, as distinguished from the owner's reserved royalty interest as described above.