

SECTION I. NPSL REPORTING REQUIREMENTS OVERVIEW

A. OVERVIEW:

The following overview describes the format, coding, and procedures for the State of Alaska, Department of Natural Resources, Division of Oil and Gas (DO&G) NPSL filing. More detailed instructions for each of the schedules and supplemental reporting listed below that must be filed in meeting lease and regulatory requirements can be found in other instructions on our public website located at <http://dog.dnr.alaska.gov/Royalty/ReportingInstructions.htm>.

The NPSL Report filing standardizes oil and gas royalty reporting and payments for all lessees. A complete NPSL Report filing consists of all the following parts as applicable to each Accounting Unit:

1. Current-Production-Month Reporting:
 - a. NPSL Volume Value Report : VV Report
 - b. NPSL Account Report: AC Report
 - c. NPSL Petroleum Production Tax Lease Allowance Report: PT Report
 - d. Royalty and NPSL Payment Summary Report: S1 Report
 - e. NPSL Supplemental Reports
2. Prior Production Month Revisions:
 - a. Revisions to any of the above reports that are necessary to correct previously filed reports or supplemental reports.
3. NPSL Payment(s):
 - a. Payment as a lump sum for all NPSL leases.

Information for the VV report listed in 1. (a) Above is organized by Product Groups as described in the VV reporting instructions. Report Oil and NGL Product Groups production data first and/or report Gas Products Group data below that on the VV Report. Cross-reference NPSL Payment Summary Reports with AC Payments using a Control Number as described in your **myAlaska** site.

Contact the Royalty Accounting Section at 269-8800 or via email at DNROGRoyaltyFiling@alaska.gov and request your **myAlaska** user logon and password. Do not set up a **myAlaska** account on your own. All new **myAlaska** accounts for the purposes of conducting business with DO&G must be prescreened and set up by DO&G. Royalty payments and corresponding Royalty and NPSL Payment Summary Reports must include complete payments and corresponding Royalty Valuation Reports as described in the other royalty accounting instructions on our public web site.

Each lessee must file, monthly, all schedules required for the Current-Production-Month for each active lease in which they have lease ownership. According to 11 AAC 83.245 each lessee must file all reports required for the current production month for each NPSL Lease in which they have ownership no later than 60 days following the end of each month.

A single lessee may file and pay for all lessees in a Lease. However, all lessees in the Lease must formally agree in writing to this reporting and payment arrangement. In addition, the Commissioner of the Department of Natural Resources, hereafter referred to as the Commissioner, must approve this arrangement in writing.

NOTE: According to all lease agreements, it is the ultimate responsibility of each lessee to ensure that their oil and gas royalty and net-profit-share reporting and payment obligations are met on each of their leases, regardless of any operating or payment agreements in effect.

All NPSL Reports will be filed electronically and consist of real numbers which may not have formulas. Electronically filed reports must follow the guidelines set forth in the Electronic Filing Instructions.

If the original filing is illegible, i.e. none of or most of the files could not be read by DO&G, refile the entire original filing.

All payments must be submitted electronically using Automated Clearing House (ACH) payment procedures. All ACH payments must be in CCD+ format with an addenda record reporting the Control Number described in these instructions.

B. NPSL VOLUME VALUE REPORT (VV) REPORTING REQUIREMENTS:

The Net-Profit-Share Volume/Value (VV) Report includes production activity for the NPSL as it applies to individual "Accounting Units" that occur on the lease. Use this report to file information about oil and gas quantities produced and sold, selling and cost values for those volumes by "Selling Arrangement" as well as the abandonment costs for the associated volumes. Use the VV report to file "Current-Production-Month" detail and for filing revisions to prior "Production Months." When the NPSL is included within more than one "Accounting Unit," a separate VV Report must be filed for each "Accounting Unit" in which the lease is included.

The information and the codes used on a VV Report may vary from one lease to another and from one "Accounting Unit" to another because some information requirements may vary according to the "Products" produced and the operational activities conducted within an individual lease or "Accounting Unit." The examples found at the end of these instructions are generic examples of VV Reports and are not definitive examples for every lessee in every lease in every "Accounting Unit."

The report is organized into "Report Header Data" and "Report Detail Data." The "Report Header Data" provides specific non-repetitive information about the reporter, the type of report ('Oil Report' or 'Gas Report'), and the production location and period. The "Report Detail Data" provides detailed data on volumes, values, and amounts. Each line is one record; each column represents a specific data item.

Accounting Unit:

An "Accounting Unit" is any "Lease Operation," "Tract Operation," or "Participating Area" that constitutes a single production, financial and reporting entity. DO&G assigns "Accounting Unit" designations for any operation from which petroleum "Product" is produced for any length of time. DO&G identifies "Accounting Units" as "Active" or "Inactive" based on whether a lessee produces or has produced "Oil," "Gas," or associated substances from the "Accounting Unit." DO&G considers "Accounting Units" with intermittent production in "Active Status," even during periods of no production. An "Accounting Unit" remains "Active" until the "Accounting Unit" is "Abandoned."

Report quantities as follows:

1. All 'Oil Report' (BLS), 'Gas Report' (MCF), or other quantities are to be rounded to the second decimal place (round 2nd decimal up one if the 3rd decimal is five or higher) or per applicable agreement with the State.
2. All negative numbers must be preceded by a minus (-) sign.

Report dates in exactly the following format.

1. Report Month-Day-Year formats as 'mm/dd/yyyy'.

File complete revisions of original VV Reports following the same rules as for the original report. A complete report must include all the Products and Dispositions reported on the original filing. If Product/Dispositions reported on the previous report are no longer assigned production on the revised report, that Product/Disposition must be reported on the revision with zero production assigned to it. Reporting in this manner reverses previous allocations of production to that Product/Disposition. Report any new or additional Products or Dispositions with the appropriate Allocation of production. Make corrections or additions as necessary to report a complete allocation of all quantities produced from the Accounting Unit for the Production Month revised.

C. NET-PROFIT-SHARE LEASE ACCOUNT (AC) REPORTING REQUIREMENTS:

The Net-Profit-Share Lease Account (AC) Report includes revenue and cost activity for the NPSL in total. The AC Report contains three sections corresponding to the three NPSL accounts for which data is reported. The three accounts are the:

Development Account (DV),
Net Profit Payment Account (NP), and
Production Revenue Account (PR).

The "Development Account" portion of the AC Report contains data on development cost beginning balances, costs for exploration, construction, rents, licenses, drilling and development related expenses. The "Net-Profit Payment Account" portion contains data on the net profit rate for the lease and the amount of the net profit payment that is due. The "Production Revenue Account" portion contains data on production revenue, taxes, credits and administrative and operating costs as they affect production revenue balances. Reporting on the AC Report includes breakouts of items that are unique to the entire lease and those items that are specific to an "Accounting Unit."

Accounting Unit:

An "Accounting Unit" is any "Lease Operation," "Tract Operation," or "Participating Area" that constitutes a single production, financial and reporting entity. DO&G assigns "Accounting Unit" designations for any operation from which a petroleum product is produced for any length of time. DO&G identifies "Accounting Units" as "Active" or "Inactive" based on whether a lessee produces or has produced oil, gas, or associated substances from the "Accounting Unit." DO&G considers "Accounting Units" with intermittent production in "Active Status" even during periods of no production. Once an "Accounting Unit" becomes "Active" it remains "Active" until the "Accounting Unit" is "Abandoned."

Report all royalty Quantities with their associated Values and Amounts by their unique groupings of Product/Disposition/Lease Type/Selling Arrangement combinations. When Product-Disposition-Lease Type combinations are valued under different valuation methods (Selling Arrangements), for example, when the same Product/Disposition/Lease Type is sold under multiple contracts, details of Quantity, Value, and Amount must be reported for each contracted sale. Information must be sufficient to clearly describe how to derive the total royalty amount paid.

Data Formats:

Report Rates and Amounts as follows:

- a. Rates must not be larger than 100%. Report all "Rates" to the fifth decimal place as a percentage by rounding the fifth decimal up one if the sixth decimal is five or higher.

For example:

A rate of 3% should be formatted as a percent to show 3.00000%

A rate of 16.6% should be formatted as a percent to show 16.60000%

- b. All negative numbers must be preceded by a minus (-) sign.
- c. Report all amounts to the nearest U.S. cent.

Report dates in exactly the format Month-Day-Year as "MM/DD/YYYY."

D. NET-PROFIT-SHARE LEASE PETROLEUM PRODUCTION TAX LEASE ALLOWANCE REPORT (PT) REPORTING REQUIREMENTS:

The Net-Profit-Share Lease Production Tax Lease Allowance Report (PT Report) includes production allowance and credit calculations used in conjunction with the Net-Profit-Share Lease Account Report (AC Report).

The PT Report must be filed beginning with the April 2006 Production Month reporting. It must be filed along with the NPSL Account (AC) Report and must also be filed any time a revision is filed on a past Production Month beginning with the April 2006 Production Month forward. Revision numbers must remain in sync with the AC Report once the PT Report is filed.

The PT Report has nine sections or calculations for allowances and credits. These nine sections are:

- A. Petroleum Production Tax Lease Allowance Net Revenue Calculation (PTR)
- B. Qualified Capital Expenditure Credit Calculation (QCC)
- C. Loss Carry Forward Calculation (LCF)
- D. Tax Based On Price Index Liability (TBP)
- E. Petroleum Production Tax Lease Allowance Before Credits Calculation (PTB)
- F. Small Producer Credit (SPC)
- G. Petroleum Production Tax Lease Allowance Calculation (PTL)
- H. Loss Carry Forward Credit Against Production Revenue Account (LCC)
- I. Petroleum Production Tax Development Account Credits (PPC)

Data Formats:

Quantities, Rate/Other, and Amounts:

These items are required no matter what electronic format is chosen to submit the report. Report as follows:

- c. Round all "Oil" (BBL), "Gas" (MCF), or other quantities to the second decimal place (round 2nd decimal up one if the 3rd decimal is five or higher) or per valid applicable agreement with the State.
- d. Report all "Values" to the fifth decimal place rounding the fifth decimal up one if the sixth decimal is five or higher.
- e. Rates must not be larger than 100%. Report all "Rates" to the fifth decimal place as a percentage by rounding the fifth decimal up one if the sixth decimal is five or higher.

For example:

A rate of 3% should be formatted as a percent to show 3.00000%

A rate of 16.6% should be formatted as a percent to show 16.60000%

- f. All negative numbers must be preceded by a minus (-) sign.
- g. Report all "Amounts" to the nearest U.S. cent.

Dates:

Report dates in exactly the following format.

Report Month-Day-Year formats as "MM/DD/YYYY."

E. ROYALTY AND NPSL PAYMENT SUMMARY REPORT (S1) REPORTING REQUIREMENTS:

A lessee must file a Royalty and NPSL Payment Summary Report (S1) whenever a lessee makes a payment to the State of Alaska for oil and gas royalties and net profit share payments. Report payment summary information on a Royalty and NPSL Payment Summary Report as described in detail in the Royalty and NPSL Payment Summary Report Instructions. A copy of a blank form is included in those instructions. The information and the codes used may vary from one lessee to another because the information requirements vary according to products and operational activities within each Lease. The example found in those instructions is a generic example of a Royalty and NPSL Payment Summary Report and is not a definitive example for every lessee in every Lease.

A Royalty and NPSL Payment Summary Report must be filed for each payment made by a lessee. For example, if a lessee pays with a single payment for all Leases that they participate in for the Current-Production-Month, a Royalty and NPSL Payment Summary Report must be filed with that payment. If a lessee chooses to make separate payments for each Lease they participate in during a Current-Production-Month, a separate Royalty and NPSL Payment Summary Report must be filed for each payment the lessee makes.

Payments must be paid and reported as follows:

1. Report all negative numbers by preceding them with a minus (-) sign.
2. Make payment amounts to the nearest U.S. cent.
3. Report dates in exactly the following format.

Report Month-Day-Year formats as 'mm/dd/yyyy'.

F. ROYALTY SUPPLEMENTAL REPORTS

Lessees must file supplemental report data electronically whenever possible. The following supplemental information should be included with your NPSL Report:

NPSL Report Filings:

- 1) Copies of sales invoices should be attached to support values and amounts reported for any Product sold or removed from the Lease through lessee contracts with specific purchasers.
- 2) Data to support the lessees value calculation in accordance with lessee's lease, settlement, or other agreements. Supporting documentation may include, but are not limited to such items as market basket calculations, posted prices, quality adjustments, tariffs, marine costs, etc.

Payment Summary Filings:

- 1) Any information or schedules needed to support the electronic fund transfer, federal wire transfer, or check payment.

Lessees may obtain specific instructions or directions from the DO&G if they are uncertain as to what to include.

F. NPSL REPORT FILING DEADLINE:

The NPSL Report Filing is due in accordance with regulation, 11 AAC 83.245.

G. NPSL REPORT FILING ADDRESS

Each lessee will become a designated electronic reporter when a joint State Electronic Commerce Agreement is completed and signed by both parties. The Electronic Commerce Agreement will specify the requirements, understandings, and formats to which the State and the lessee agree to process an electronic Royalty Report filing with DO&G.

In the absence of a signed Electronic Commerce Agreement, fax the paper Royalty Report filing to:

907-269-8939
State of Alaska
Department of Natural Resources
Division of Oil and Gas
ATTN: Royalty Accounting

Mail a signed original to:

State of Alaska
Department of Natural Resources
Division of Oil and Gas
ATTN: Royalty Accounting
550 West 7th Avenue, Suite 800
Anchorage, Alaska 99501-3560

H. PAYMENT REQUIREMENTS AND DEADLINE:

These NPSL Reporting Instructions describe how to provide supporting documentation for lessee payments for NPSL reports. In addition, these instructions include the specific procedures for making NPSL payments. Procedures for submitting NPSL Report filings and procedures for making electronic payments are two distinct processes. Lessees must take extra care in following the correct procedure for either submitting NPSL Report filings or making payments as the case may be.

All payments must be submitted electronically using Automatic Clearing House (ACH) payment procedures. All ACH payments must be in CCD+ format with an addenda record reporting the Control Number described in the Electronic Payment Instructions.

Notification of a payment must be faxed to the Department of Revenue, Treasury Division two business days (48 hours) prior to the time you plan to make payment. A copy of the notification and more detailed instructions are the Electronic Payment Instructions.

Questions or phone contact with the Treasury Division concerning specific payment transactions can be directed to:

State of Alaska
Department of Revenue, Treasury Division
Cash Management
P.O. Box 110406
Juneau, AK 99811-0406

Telephone: (907) 465-2360
Fax: (907) 465-4019