

Short Commercial about NARO



- What does this statement mean?
- Who are we?



The ONLY national organization representing, solely and without compromise, oil and gas royalty owners interests.

- NARO was founded in 1980
 - Due to Windfall Profits Tax
- We have grown into an educational/advocacy organization
- NARO has two “parts”
 - The Association a 501 c (6)
 - The NARO-Foundation a 501 c (3)

Direct Tax increase for Royalty Owners

- ❖ The Depletion Tax allowance, part of the law since the 1920s, will be taken away from Royalty Owners under the currently proposed budget



NARO State Chapters

Arkansas-NARO

NARO-Appalachia KY, OH, PA, TN, NY, WV

NARO-Rockies CO, MT, ND, NM, UT, WY

OK-NARO

NARO-Texas



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Annual Convention

Educational Opportunity for Mineral/Royalty Owners

Two days of seminars

2009 Was held in Las Vegas, NV October 1, 2, 3

2010 Will be in Pittsburgh, PA October 7, 8, 9

Mineral Management 101

Program Outline

- Ten Duties of Mineral Owners
- Four Major Events for Mineral Owners
 - Ownership
 - Leasing
 - Division Orders
 - The Royalty Check

10 Duties (Responsibilities) of Mineral Owners

1- KNOW what you own

2-KNOW what information you need and where to get it

3- KNOW what is going on in your area of interest

10 Duties (Responsibilities) of Mineral Owners

4-**KNOW** what the future impact the small print in the oil and gas lease/division order will have on your royalty payment

5-**KNOW** who has it (your lease, your well, your production)

10 Duties (Responsibilities) of Mineral Owners

6-**KNOW** what questions to ask and to whom to ask them

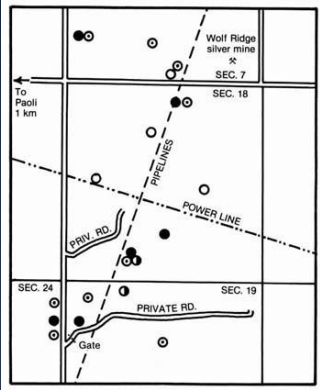
7-**KNOW** your limits

10 Duties (Responsibilities) of Mineral Owners

8-**KEEP** copies/originals of everything and organize it

9-**KNOW** that you must remain vigilant and **DO** something

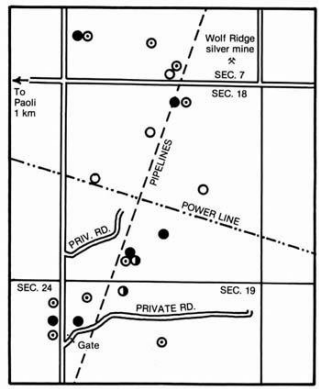
10-**PLAN**



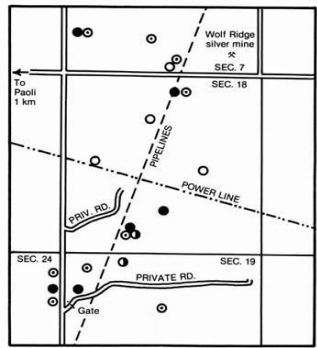
Types of Ownership

- **Non-Producing**
 - Mineral Ownership
- **Producing**
 - Overriding Royalty Ownership
 - Working Interest
 - Royalty Ownership

Mineral Ownership



- Rights of Mineral Ownership
 - Enter the land to explore, drill, produce and otherwise carry on mining activities.
 - Lease those ownership rights to another party.
 - Ownership exists in perpetuity. **EXCEPT Dormant**
 - The minerals sit “in place” until developed; most mineral owners cannot afford to drill a well.



Types of Ownership: Producing

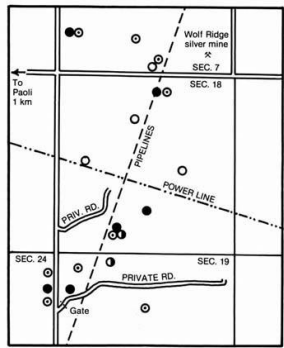
Working Interest (WI)

Investors in the well who share the actual costs incurred in drilling, completing and producing
Production income is distributed proportionately

Overriding Royalty Interest (ORRI)

Carved from the WI; non-cost bearing

Types of Ownership: Producing



- Royalty Ownership/Interest (RI)
 - Begins with Production
 - Ends with Production
 - Does not have to be owned by the “Mineral Owner” but it usually is
 - Is based on the fraction retained in the lease and your ownership
 - Gets you the checks in the mail



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Let's talk about natural gas

Royalty Owners believe the system needs TRANSPARENCY

What do we mean in seeking transparency?

Why do we want a transparent natural gas system?

Who will benefit from a transparent natural gas system?

According to EIA in 2007 452,768 gas wells in the U.S.

Most wells are in rural areas

Location of meters

Number of meters

Location of BTU sample

Location of price points

Where are Royalties and Taxes Paid?

SO WHAT?

Why Transparency?

If deductions are taken from royalty for transportation, known as post production costs and RO asks for justification or basis of the cost....guess what?

SO WHAT?

Most likely will be told by the producer that the contract with the pipeline is confidential and they cannot divulge

What is the result?????

Some of the cases

- OK has collected millions from underpayments, price manipulations and volume underreporting from at least 15 companies
- CO has recouped \$23 million in underpaid severance tax
- WY has conducted audits since 1981 and has collected millions
- AL found underpayment of royalty due the state from leases on state lands

Some of the cases

- Through court challenges private RO's have collected:

\$200 million in CO

\$405? million in WV

\$Tens of millions in OK

\$2 + million in AR

Royalty Owners Bill of Rights

- 1. Royalty owners have the right to be paid according to all terms contained in their lease contract and by law.
- 2. Royalty owners have the right to access information possessed by the operator or payor in order to verify correct payment according to their contract or by law.
- 3. Royalty owners have the right to seek redress if good faith negotiations to correct violations of lease terms fail.
- 4. Royalty owners have the right to be heard in matters regarding oil and gas energy policy, proposed legislation or regulatory issues which would positively or adversely affect their interests

How Many Royalty Owners?

- How many citizens are royalty owners, if you take our membership in each state as a percentage of a total and then multiply by the estimated 8.5 million royalty owners you get a rough idea of how many royalty owners live in each state.
- AK 13,600 AL 33,150 AR 255,000 AZ 144,500 CA 510,000 CO 654,500 CT 17,000 DC 17,000 DE 2,550 FL 161,500 GA 85,000 HI 8,330 IA 33,150 ID 35,700
- IL 76,500 IN 27,200 KS 147,900 KY 11,050 LA 125,800 MA 30,600 MD 35,700
- ME 5,525 MI 44,200 MN 47,600 MO 110,500 MS 39,100 MT 47,600 NC 67,150
- ND 24,650 NE 19,550 NH 13,600 NJ 47,600 NM 161,000 NV 44,200 **NY 127,500**
- OH 30,600 OK 1,691,500 OR 51,000 PA 119,000 RI 5,525 SC 22,100 SD 5,525
- TN 59,500 TX 2,975,000 UT 39,100 VA 85,000 VT 2,550 WA 39,100 WI 39,100
- WV 19,550 WY 30,600
- Total nationwide: 8,440,755.

Snap shot of Montana

- We estimate there are 40,000-50,000 individual royalty owners in Montana.
- With additional family members who are not listed but receive income
- And the thousands of tribal members that benefit from royalty income through their tribe
- Montana has a significant percentage of the state's population benefiting from oil and gas production

Montana

- In 2008 Montana had 31,552,407 barrels of oil produced, 119,571,834mcf of natural gas produced which paid **\$332,876,000 in taxes** to the state and local governments. Making a few assumptions and using averages we can calculate the royalty paid on Montana production to be **\$585,691,554 for oil and \$956,574,672 for natural gas**. These are dollars to Montana residents who spend and invest in their lives in Montana.

What else can the production do for you?

- Let's take a look at North Dakota
 - State is enjoying the development of the Bakken Shale with possibly 3-5 Billion Barrels of recoverable oil reserves
 - Also North Dakota is where

North Dakota

- North Dakota has shown its continuing commitment to encourage the development of its natural resources in various ways, including its passage of horizontal drilling incentives, tertiary CO₂ tax incentives, \$4 million for oil and gas research, the North Dakota Legacy fund, Sales Tax exemptions for gas pipelines, tax exemptions to capture flared gas for electrical generation, substantially increasing funding for its oil counties and its oil impact fund, etc

North Dakota

- Oil and gas revenues beyond 71 million dollars shall go into its Permanent Oil Tax Trust Fund (POTF/or/POTTFF)
- ND's oil and gas tax revenues have given it the ability to lessen the tax burden on its citizens and businesses across the board.
- Aside from funding K-12 education with oil and gas tax revenues, the state can also boast having the **best unemployment numbers in the country, 4.4%**

North Dakota

- The POTF is composed in such a way that it is examined every two years (AKA Biennium). A tentative budget status report for the 2009-2011 Biennium puts the amount that will go to the POTF at \$435,000,000. That is IN EXCESS of the 71 million in oil and gas revenue that goes to the general fund by default.

North Dakota

- Oil and gas revenue in ND has recently enabled the passage of across the board tax relief, which was issued via North Dakota Senate Bill 2199
- The law “transfers \$295 million from the permanent oil tax trust fund to the general fund for property tax relief and provides for \$80 million in individual income tax rate reductions and \$20 million in corporate income tax rate reductions

As summarized by the North Dakota Farmer's Union

- “The broad-based tax relief includes property tax relief through a reduction of 75 mills in the average property tax rate for property owners. The bill also creates a cap of 110 mills in exchange for the state allocation. **The allocation equates to a reduction of 15-18% and puts away over \$295 million for the next biennium for property tax relief.”**

“...individual income tax relief and corporate income tax relief was added to the final bill. The individual income tax relief reduces the rates from 2.1 to 1.84 in the lowest bracket and 5.54 to 4.86 in the highest bracket. The bill reduces the number of corporate income tax brackets from five to three, and reduces the lowest rate .5 percent; from 2.6 to 2.1 percent.”

North Dakota

- The way the POTF pie is sliced up may be a source of contention for some; but regardless of one's conclusions about the proper way to reinvest this revenue into the state, the fact remains that it would not exist to begin with were it not for the development of the state's energy resources.

New York Electricity Generation

• Energy Source	2007 Megawatt-hours	% of Total
• Natural Gas	45,633,631	31.3
• Nuclear	42,452,854	29.1
• Hydroelectric	25,252,555	17.3
• Coal	21,405,542	14.7
• Petroleum	8,195,109	5.6
• Other: Renewable*	2,775,054	1.9
• Other**	932,292	.6

- ** Includes: biogenic municipal solid waste, wood, black liquor, other wood waste, landfill gas, sludge waste, Ag byproducts, other biomass, geothermal, solar thermal, photovoltaic and wind.*
- *** Includes: non-biogenic municipal solid waste, batteries, chemicals, hydrogen, pitch, purchased steam, sulfur, tire-derived fuels and miscellaneous technologies.*

Let's be Honest

- Are you guys building any new nuclear plants?
- How about new dams for hydro?
- Coal- and oil-fired plants?

Still Honest

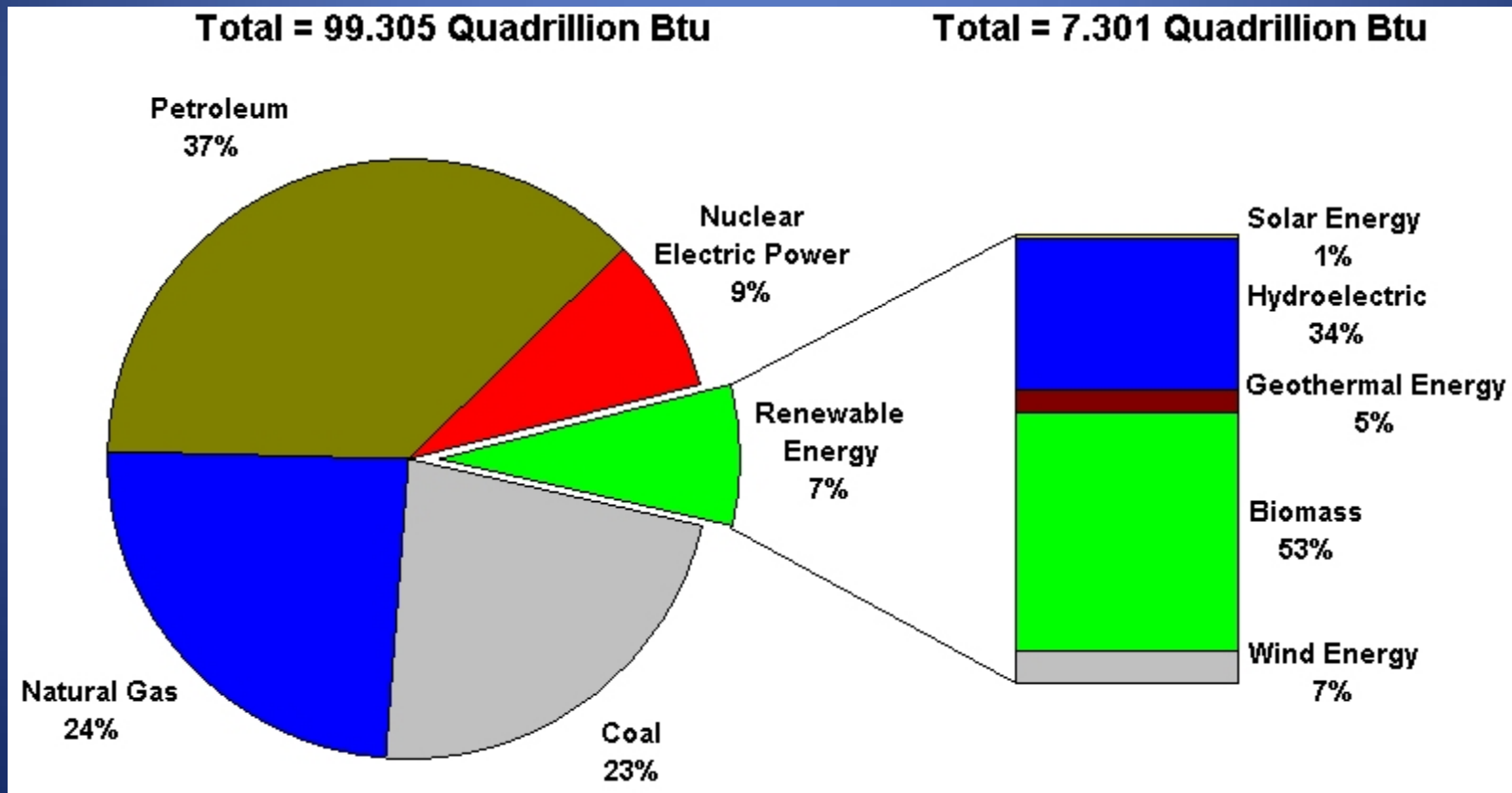
- Renewables
- You could burn a bunch more trees
- Put up more wind and solar, right?
 - Quadruple (FOUR TIMES) the number of windmills and solar panels in place today. You are now at 8% of your electric generation needs, and I hope the sun shines and the wind blows non-stop -- otherwise you will need a back up for that 8% (most likely using fossil fuels) or a mega storage system that does not yet exist.

Windfarms produced 'practically no electricity' during Britain's cold snap By Rowena Mason. Telegraph.co.uk

- Throughout this winter season (2009-2010), wind turbines in Britain have produced only 20% of their capacity due to lower than average wind resulting from a colder than average weather pattern
- They currently rely on wind for 5% of their total power
- Through EU agreements the British plan to increase their percentage of wind power to 25% over the next ten years
- If they had been reliant on wind for 25% of their demand during this winter, then the wind generation deficit wouldn't just be an eyebrow raising note of caution, it would be an outright crisis, with dramatic, real, and painful human costs.

Fossil fuels provide 84% of U.S Energy

Source Energy Information Administration
2008



Environmental Concerns

- Contaminate drinking water?
- Contaminate surface waters?
- Air pollution?
- Waste disposal?
- Surface disturbance including: roads, bridges etc.
- Noise pollution?
- Other?

Your Choice

- Do you want to have responsible development of an available and valuable New York natural resource; collect the associated taxes; employ New York people and keep the lights on?



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Web site with current NARO information

www.naro-us.org