WHAT IS IN A PUN
ROYALTY REPORTING TO THE NMSLO
WHAT IS A PUN

PUN is an acronym for Production Unit Number. This is a unique 7 digit reporting ID for the New Mexico State Land Office (NMSLO).

NMSLO is the only entity that still uses PUN as a reporting requirement.
### PUN BUSINESS RULES

<table>
<thead>
<tr>
<th>Property Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>- All wells within the same PUN will have the same property name</td>
</tr>
<tr>
<td>- Wells with section numbers or their well numbers in their name will result in multiple puns</td>
</tr>
<tr>
<td>- Utilize OCD’s recommendation of having State Com, Fed Com, Unit or Unit Com in wells that are associated with agreements</td>
</tr>
<tr>
<td>- The simpler the better</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Property ID</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The wells will need the same property ID as assigned by OCD</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pool</th>
</tr>
</thead>
<tbody>
<tr>
<td>- To be assigned the same PUN they must be producing from the same formation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Agreement Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>- All wells within the same PUN will have the same agreement number if applicable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OGRID</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Wells that have the same PUN will have the same operator</td>
</tr>
</tbody>
</table>
**PUN BUSINESS RULES**

**Property Name**
- All wells within the same PUN will have the same property name

**Property ID**
- The wells will need the same property ID as assigned by OCD
- NMSLO utilizes the information filed with OCD to determine the Property ID
- If the wells are to be grouped together it is necessary to verify that this number is consistent

**Pool**
- To be assigned the same PUN they must be producing from the same formation

**Agreement Number**
- All wells within the same PUN will have the same agreement number if applicable

**OGRID**
- Wells that have the same PUN will have the same operator
PUN BUSINESS RULES

Property Name
- All wells within the same PUN will have the same property name

Property ID
- The wells will need the same property ID as assigned by OCD

Pool
- To be assigned the same PUN they must be producing from the same formation
- Different producing formations will have a different PUN
- This helps NMSLO keep track of royalties per formation
- A well producing from multiple formations will have multiple PUNs associated with it

Agreement Number
- All wells within the same PUN will have the same agreement number if applicable

OGRID
- Wells that have the same PUN will have the same operator
PUN BUSINESS RULES

Property Name
• All wells within the same PUN will have the same property name

Property ID
• The wells will need the same property ID as assigned by OCD

Pool
• To be assigned the same PUN they must be producing from the same formation

Agreement Number
• All wells within the same PUN will have the same agreement number if applicable
• Even with the same agreement number, if one of the other rules is not followed there can be multiple PUNs issued

OGRID
• Wells that have the same PUN will have the same operator
PUN BUSINESS RULES

**Property Name**
- All wells within the same PUN will have the same property name

**Property ID**
- The wells will need the same property ID as assigned by OCD

**Pool**
- To be assigned the same PUN they must be producing from the same formation

**Agreement Number**
- All wells within the same PUN will have the same agreement number if applicable

**OGRID**
- Wells that have the same PUN will have the same operator
- Wells with different operators will have unique PUNs
- If a company purchases wells they can utilize the existing PUN as long as they purchase all wells associated with the PUN
PUN RELATIONSHIPS

STATE A
- Well #1
- Operator: CC Oil
- Pool: Wolfcamp
- Property ID: 34013
- Agreement #: N/A

STATE A
- Well #2
- Operator: CC Oil
- Pool: Wolfcamp
- Property ID: 34013
- Agreement #: N/A

STATE A
- Well #3
- Operator: CC Oil
- Pool: Wolfcamp
- Property ID: 34013
- Agreement #: N/A

STATE A
- Well #4
- Operator: CC Oil
- Pool: Wolfcamp
- Property ID: 34013
- Agreement #: N/A

All wells will have the same PUN
PUN RELATIONSHIPS

STATE A #1
- Well #1
- Operator: CC Oil
- Pool: Wolfcamp
- Property ID: 34013
- Agreement #: N/A

STATE A #2
- Well #2
- Operator: CC Oil
- Pool: Wolfcamp
- Property ID: 34014
- Agreement #: N/A

STATE A #3
- Well #3
- Operator: CC Oil
- Pool: Wolfcamp
- Property ID: 34015
- Agreement #: N/A

STATE A #4
- Well #4
- Operator: CC Oil
- Pool: Wolfcamp
- Property ID: 34016
- Agreement #: N/A

All wells will have a different PUN
PUN RELATIONSHIPS

STATE A

- Well #1
  - Operator: CC Oil
  - Pool: Wolfcamp
  - Property ID: 34013
  - Agreement #: N/A

STATE A

- Well #2
  - Operator: CC Oil
  - Pool: Delaware
  - Property ID: 34013
  - Agreement #: N/A

STATE A

- Well #3
  - Operator: CC Oil
  - Pool: Wolfcamp
  - Property ID: 34013
  - Agreement #: N/A

STATE A

- Well #4
  - Operator: CC Oil
  - Pool: Wolfcamp
  - Property ID: 34013
  - Agreement #: N/A

Well #2 will have its own PUN
Wells #1, #3, #4 will have the same PUN
Wells #1 and #2 will have the same PUN

Wells #3 and #4 will have the same PUN
PUN RELATIONSHIPS

**STATE A**
- Well #1
- Operator: CC Oil
- Pool: Wolfcamp
- Property ID: 34013
- Agreement #: 348689

**STATE A**
- Well #2
- Operator: CC Oil
- Pool: Wolfcamp
- Property ID: 34013
- Agreement #: 348689

Wells #1 and #2 will have the same PUN

**STATE A COM**
- Well #3
- Operator: CC Oil
- Pool: Wolfcamp
- Property ID: 34017
- Agreement #: 348689

**STATE A COM**
- Well #4
- Operator: CC Oil
- Pool: Wolfcamp
- Property ID: 34017
- Agreement #: 348689

Wells #3 and #4 will have the same PUN
PUN LEASE RELATIONSHIP

**PUN**
- Can have many leases associated with a PUN
- PUNs are unique based on NMSLO PUN business rules
- Leases are not an equal split and have their own reporting percentage within the PUN

**LEASE**
- Based on the leases inside the PUN boundaries
- Can have multiple PUNs attached to a Lease
- Leases identify the beneficiaries whom the royalties belong to
- It is necessary to report to all leases tied to the PUN
The NMSLO classifies errors made in reporting into three categories:

- **Non-Critical Errors**: Do not generate notices, but *may* trigger an account review or audit.

- **Critical Errors**: *Will* generate assessment/credit notices, or will cause detail lines and the associated revenue allocation to suspend, or may cause detail lines to reject.

- **Reject Errors**: Credit detail line errors that *will* cause the line to be rejected and *will* generate assessment notices.
COMMON REPORTING ERRORS

Non-Critical Errors

**Missing volumes**
All detail lines require MCF or BBL volumes.

**Incorrect Pressure Base**
NM Standard Pressure Base = 15.025.

**Not Reporting Notices on a Return**
Payment for assessments being made, or credits being used, but not reported on a return.

**Amended Returns with no change to volumes or values**
Backouts/reversals and rebooks are identical to historical reporting.

Volumes will appear underreported against C115 reporting. May trigger an audit.

Payment will sit unapplied on account and notices will remain outstanding until matched via a return, or return may be underpaid without credit matched to return.

Full-month amendments are not required. Only detail lines with changes to volumes/values should be submitted.
COMMON REPORTING ERRORS

Critical Errors

**Invalid Gross Proceeds**
Gross proceeds is 0, but there is a value reported in royalty paid.

**Computational Error**
Incorrect calculation of royalty due on a specific detail line.

**V0 Leases**
Should be set up exactly at 16.667% or .16667 to match ONGARD calculation.

**State Net Interest (SNI)**
Wells that include different land ownership types have an SNI ≠ 100%. Royalty reporting must be adjusted.

**PUN/Lease Combination Does Not Exist**
Lines reported with this error will go into suspense.

**Credits Claimed**
Credit line entries are greater than debit line entries previously submitted for the same sales period, PUN & lease.

**Negative Net Proceeds**
Report 0 for negative gross proceeds, or deductions equal to gross proceeds for negative net proceeds.
### COMMON REPORTING ERRORS

#### Critical Errors

<table>
<thead>
<tr>
<th>PUN</th>
<th>LEASE</th>
<th>SEQ</th>
<th>MTH</th>
<th>YR</th>
<th>PRD</th>
<th>TRN</th>
<th>ARM</th>
<th>OIL Vol</th>
<th>GAS Vol</th>
<th>NGL</th>
<th>BTU</th>
<th>GRS PROC</th>
<th>TRNSP</th>
<th>MKT</th>
<th>PROC</th>
<th>ROY PAID</th>
</tr>
</thead>
<tbody>
<tr>
<td>VB</td>
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<td>70</td>
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<td>Y</td>
<td>0</td>
<td>1005</td>
<td>1714</td>
<td>0</td>
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<td>0</td>
<td>0</td>
<td>366</td>
<td>62</td>
<td>62</td>
</tr>
</tbody>
</table>

**Invalid Gross Proceeds**

Gross proceeds is 0, but there is a value reported in royalty paid.

These lines will generate a computational notice if not corrected prior to processing. Computational notices must be cleared through an amended return by reversing the line EXACTLY as originally reported and then reporting the line correctly. Amendments submitted to clear computational notices must be submitted separately from other amended reporting or new sales period reporting.
Critical Errors

<table>
<thead>
<tr>
<th>PUN</th>
<th>LEASE</th>
<th>SEQ</th>
<th>MTH</th>
<th>YR</th>
<th>PRD</th>
<th>TRN</th>
<th>ARM</th>
<th>IND</th>
<th>OIL VOL</th>
<th>GAS VOL</th>
<th>NGL</th>
<th>BTU</th>
<th>GRS</th>
<th>PROCD</th>
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<th>MKT</th>
<th>PROC</th>
<th>ROY PAID</th>
<th>ROY COMP</th>
<th>Diff</th>
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<tbody>
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<td>4562</td>
<td>7</td>
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<td></td>
<td></td>
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</tr>
</tbody>
</table>

These lines will generate both a computational assessment¹ and a computational credit². Computational notices must be cleared through an amended return by reversing the line EXACTLY as originally reported and then reporting the line correctly. Amendments submitted to clear computational notices must be submitted separately from other amended reporting or new sales period reporting.

**ONGARD Royalty Calculation:** \((\text{Gross Proceeds} - \text{Deductions}) \times \text{Royalty Rate \%}\)
COMMON REPORTING ERRORS

Critical Errors

<table>
<thead>
<tr>
<th>PUN</th>
<th>LEASE</th>
<th>SEQ</th>
<th>OIL VOL</th>
<th>GAS VOL</th>
<th>NGL</th>
<th>BTU</th>
<th>GRS PROC</th>
<th>TRNSP</th>
<th>MKT</th>
<th>PROC</th>
<th>ROY PAID</th>
<th>ROY COMP</th>
<th>Diff</th>
<th>Roy % Paid</th>
</tr>
</thead>
<tbody>
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<td>8200</td>
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<tr>
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<td>456623</td>
<td>456632</td>
<td>9</td>
<td>16.6667%</td>
</tr>
</tbody>
</table>

**V0 Leases**
Should be set up exactly at 16.667% or .16667 to match ONGARD calculation.

This minor difference in the royalty percentage will generate a computational notice. Computational notices must be cleared through an amended return by reversing the line EXACTLY as originally reported and then reporting the line correctly. Amendments submitted to clear computational notices must be submitted separately from other amended reporting or new sales period reporting.

5 Digits
COMMON REPORTING ERRORS

Critical Errors

State Net Interest (SNI)
Wells that include different land ownership types have an SNI ≠ 100%. Royalty reporting must be adjusted.

MultiplyVolumes,GrossProceeds, andDeductionsby the % inPUN, then calculate royalties due.

Example: October 2023 Sales - Volume 2,654 BBLs, Gross Proceeds $228,392

<table>
<thead>
<tr>
<th>PUN</th>
<th>LEASE</th>
<th>SEQ</th>
<th>PRD</th>
<th>TRN</th>
<th>ARM</th>
<th>OIL VOL</th>
<th>GAS VOL</th>
<th>NGL</th>
<th>BTU</th>
<th>GRS PROC</th>
<th>TRNSP</th>
<th>MKT</th>
<th>PROC</th>
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<td>114196</td>
<td>0</td>
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<td>0</td>
<td>14275</td>
</tr>
</tbody>
</table>

2,654 * 50% $228,392 * 50%

114,196 * 12.5% royalty rate
COMMON REPORTING ERRORS

Critical Errors

Credits Claimed
Credit line entries are greater than debit line entries previously submitted for the same sales period, PUN & lease.

An invalid backout where credits are greater than debits will result in a rejected credit line. Rejected credit lines generate remittance assessments and interest assessments. Use the Royalty Reported Detail History information in your online filing account to ensure that your credit lines match your historical reporting.
COMMON REPORTING ERRORS

Critical Errors

**Example 1, Negative Gross Proceeds: -$1,557**

<table>
<thead>
<tr>
<th>PUN</th>
<th>LEASE</th>
<th>SEQ</th>
<th>MTH</th>
<th>YR</th>
<th>PRD</th>
<th>TRN</th>
<th>ARM</th>
<th>IND</th>
<th>OIL</th>
<th>GAS</th>
<th>NGL</th>
<th>BTU</th>
<th>GRS PROCD</th>
<th>TRNSP</th>
<th>MKT</th>
<th>PROC</th>
<th>ROY PAID</th>
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</thead>
<tbody>
<tr>
<td>1391568</td>
<td>00</td>
<td>3427</td>
<td>8</td>
<td>2020</td>
<td>4</td>
<td>51</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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</tr>
</tbody>
</table>

**Example 2, Gross Proceeds: $1,557, Processing Deductions $3,000 = Negative Net Proceeds**

<table>
<thead>
<tr>
<th>PUN</th>
<th>LEASE</th>
<th>SEQ</th>
<th>MTH</th>
<th>YR</th>
<th>PRD</th>
<th>TRN</th>
<th>ARM</th>
<th>IND</th>
<th>OIL</th>
<th>GAS</th>
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<th>BTU</th>
<th>GRS PROCD</th>
<th>TRNSP</th>
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<th>ROY PAID</th>
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<tr>
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<td>3427</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Negative Net Proceeds**

Report 0 for negative gross proceeds, or deductions equal to gross proceeds for negative net proceeds.
ROYALTY REPORTING BEFORE A PUN

Navigate to the Royalty PUN Inquiry website at: http://web.slo.state.nm.us/Applications/RoyaltyPunInquiry/Default.aspx and use the API Pool Inquiry to determine if a PUN has been assigned to the well. If no PUN has been assigned, report the detail line using the last seven digits of the well’s API number as the PUN.

Example: Well 30-025-50335. PUN Attached is blank in search. Use PUN 2550335 for royalty reporting until a PUN is assigned.
ROYALTY REPORTING BEFORE A PUN

If the lease is unknown, please contact the Compliance Bureau at royaltycompliance@slo.state.nm.us for assistance, or if the PUN or lease is inactive. Reporting to dummy leases ie: 99-9999 is not allowed.

The Land Office is unable to distribute the funds to the appropriate beneficiary when royalty is reported with an invalid PUN and/or lease number. Royalty reported with invalid PUN and/or lease will be suspended until the remitter submits the correct PUN and/or lease.

Each month, a each remitter with suspended lines will be emailed a Suspended Detail Line Report. A correction must be submitted in a subsequent report or cleared online as soon as the correct PUN or lease number is obtained.

Contact us for PUN/lease info!

When a new PUN is assigned, that should be the ONLY thing that needs to be corrected to clear lines out of suspense.
ROYALTY REPORTING AFTER A PUN

Once a PUN has been assigned, new royalty reporting must be made to the new PUN, and all existing suspense for the well needs to be cleared from your account. Royalty Detail Suspense Lines can be cleared in several ways:

PREFERRED OPTION 1: Online filing website. Log on to the following website and select the activity ‘Royalty Suspense’:
https://secure.slo.state.nm.us/OnlineFiling/OSCOntlinePortal/Login.aspx

OPTION 2: Respond to your Suspense Notice, making corrections on the Excel spreadsheet provided, and email it back to Compliance with your written approval. Compliance staff will clear it and inform you when it is done.

OPTION 3: Submit an amended return to reverse line items out.
Remitters must submit an amended return to clear items if the original line entry has generated a computational error. Amended returns must be submitted separately from the current return.
ACCURACY IN REPORTING

• Volumes are verified against C115 filings with OCD
  • Disposition volumes are used
  • OCD and NMSLO filing requires 15.025 pressure base

• Reporting proper product codes
  • 1 – Oil
  • 3 – Process Gas
  • 4 – Unprocessed Gas
  • 7 – Natural Gas Liquids
    • Must include NGL Gallons when reporting
    • Must include MCF volume when reporting

<table>
<thead>
<tr>
<th>Product Code</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Oil</td>
</tr>
<tr>
<td>2</td>
<td>Oil Condensate</td>
</tr>
<tr>
<td>4</td>
<td>Unprocessed Gas</td>
</tr>
<tr>
<td>3</td>
<td>Processed (Residue) Gas</td>
</tr>
<tr>
<td>7</td>
<td>Gas Plant Products</td>
</tr>
<tr>
<td>17</td>
<td>Carbon Dioxide Gas (CO2)</td>
</tr>
</tbody>
</table>
PRODUCT CODE 7 MCF REPORTING

- Product Code 7 MCF reporting = Wellhead MCF – Residue MCF
  - Reported at 15.025 pressure base
  - WH from Settlement Statements

- This is not MCF Equivalents or BOE
ALLOWABLE DEDUCTIONS

• CONOCOPHILLIPS COMPANY v. LYONS (2012)
  • Supreme Court of New Mexico.
  • CONOCOPHILLIPS COMPANY and Burlington Resources Oil & Gas Company, L.P., Plaintiffs–Appellees, v. Patrick H. LYONS, Commissioner of Public Lands of the State of New Mexico, Defendant–Appellant.
  • No. 32,624.
  • Decided: August 24, 2012
ALLOWABLE DEDUCTIONS

• Allowable
  • Post production costs to make the product merchantable

• Non Allowable
  • New Mexico Gas Processors Tax
  • Low Volume Fees
  • Penalties
  • Marketing fees
  • Any other costs not incurred to make product merchantable
SO YOU’VE BEEN SELECTED FOR AN AUDIT

WHAT TO REMEMBER
AUDIT

It is not a question of how to avoid an audit. It is a question of when you will be audited.

NMSLO is required to audit 80% of royalties in a 5 year time cycle.

The goal of audit is for the verification that royalties have been submitted correctly. This forces the audit team to focus on remitter education. To ensure that royalties are submitted the first time correctly.
HOW TO MINIMIZE THE AUDIT SCOPE

• Ensure proper reporting of volumes
  • The audit team conducts a risk assessment of the properties operated and remitted on by a company
  • Remember to put in your MCF volumes for product code 7s
  • Variances in C115 volumes to reported volumes is an audit concern

• Ensure all leases are reported to
  • The audit team reviews historical reporting to ensure that all leases in a PUN are reported to
  • Reporting to incorrect leases is an audit concern

• Ensure gross value is reported correctly and not a net value
  • Reporting a net value will result in a low price per MCF. This is an audit concern
COMPLIANCE ACTIVITY

**Account Reviews & Collections**
Assessments and Computational Notices must be cleared within 30 days to keep an account in good standing. Billing statements are available in Online Filing.

**PUN and Suspense**
PUNs are issued and emailed to operators weekly, and suspense notices are sent out monthly for review and action.

**Advance Royalty Deposit**
Annual calculation for all large royalty remitters who’s average monthly royalty payments are greater than $25,000. Notices sent out in June and adjustments due by July 25th.

**Refunds**
Credits and unapplied payments are all eligible for refund and require a full compliance review prior to refund. Download and submit the Notice of Intent to Request Claim for Refund.
FREQUENTLY UTILIZED LINKS

- [https://www.nmstatelands.org/](https://www.nmstatelands.org/)  
  - New Mexico State Land Office Home Page

- [http://web.slo.state.nm.us/Applications/RoyaltyPunInquiry/](http://web.slo.state.nm.us/Applications/RoyaltyPunInquiry/)  
  - PUN Inquiry screen used to research wells/leases/PUN assignments/Beneficiary

- [https://secure.slo.state.nm.us/OnlineFiling/OSCOOnlinePortal/Login.aspx](https://secure.slo.state.nm.us/OnlineFiling/OSCOOnlinePortal/Login.aspx)  
  - Online filing portal

  - Royalty Filing Forms and Instructions
THANK YOU!

EBACA@SLO.STATE.NM.US; CCANO@SLO.STATE.NM.US

HTTP://WWW.NMSTATELANDS.ORG