



Susan Combs Texas Comptroller of Public Accounts

NATURAL GAS TAX GUIDE JULY 2009



Dear Fellow Taxpayer:

As steward of the state's finances, the Texas Comptroller's office serves every citizen in the state. We are committed to ensuring accountability and fairness in the collection of state taxes, and we make every effort to provide clarification on our state tax laws.

In an effort to provide you with helpful information on the Texas tax structure, we have compiled this *Natural Gas Tax Guide*. This guide contains a great deal of information on natural gas tax reports. An essential part of our state tax structure, in fiscal 2008, natural gas tax revenues totaled \$2.7 billion, accounting for 6.5 percent of total state tax revenues.

If you have questions, please call us toll-free at (800) 252-1384 or direct in Austin at (512) 463-4600. Our staff of trained tax professionals will help answer your questions honestly, fairly and quickly. We are always at your service.

Sincerely,
Susan Combs



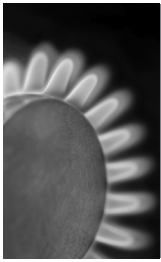


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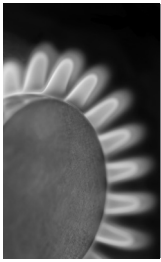
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General Information

ESTABLISHING A NATURAL GAS TAX ACCOUNT

Natural gas producers and purchasers can establish a tax account with the Comptroller's office by filing a Crude Oil and Natural Gas Tax Questionnaire Form (#AP-134). This application must be submitted by every person (sole owner, partnership, corporation or other organization) who produces and/or purchases crude oil and/or natural gas. An example of the application form #AP-134 is on Page 2 and instructions are on Page 3. Any questions regarding this application can be answered by calling toll free, nationwide at (800) 531-5441, ext. 3-4455. The Austin telephone number is (512) 463-4455.

MONTHLY TAXPAYERS WHO FILE PAPER REPORTS

The natural gas reports are identified by the description on the top, left-hand corner of the report and by the transaction code located on top of Page 1 in block "a." Taxpayers who are both producers and purchasers are required to file producer and purchaser reports separately. Whenever a producer is purchasing its own gas, the producer must report lease data only on the producer report using its own taxpayer information including name on line 12 and number on line 13.

The Comptroller's office produces preprinted, tax-report information for supplemental pages from taxpayer data reported on the previous three tax returns. The preprinted information changes in the following situations:

- If no data is reported on a preprinted lease or if a lease report contained errors in the previous three consecutive months, the preprinted information in lines 1 through 13 of the supplemental pages will be dropped from future monthly preprinted forms.
- A new lease will be added to the monthly preprinted report form after it has been reported and processed correctly for three consecutive months.

Even if a lease had no production, to prevent preprinted information in lines 1 through 13 of the producer report from being dropped, taxpayers must report zero amounts in blocks 14 through 24. To retain data in lines 1 through 12 of the purchaser report, taxpayers must report zero amounts in blocks 14 through 22.

General Information



AP-134
 (Rev. 1-07/13)

CRUDE OIL AND NATURAL GAS TEXAS TAX QUESTIONNAIRE

T Code ■ **00990**

Tax type/Reason code ■ | | | **2** | **0**

• PLEASE READ INSTRUCTIONS

• TYPE OR PRINT

• DO NOT WRITE IN SHADED AREAS

1. Legal name of owner

DBA (Operating name)

2. Mailing address

Phone (Area code & number)

City State ZIP Code County

3. Comptroller taxpayer number

4. Federal Employer's Identification number

 1

5. Social Security number if sole owner

 2

6. Do you now have a taxpayer number for reporting

Texas tax OR a Texas Vendor Identification number? YES NO If yes, enter taxpayer number

7. Are you a subsidiary or division of another company? YES NO

OR name

8. Type of ownership (Check one)

Sole owner

Partnership

Other (Explain)

Texas corporation

Charter number

Charter date

Foreign corporation
 (Non-Texas)

State

Charter number

Texas Certificate of Authority number

Date

Limited Partnership

State

Identification number

9. Identification of owners: sole owner, all general partners or principal corporation officers (Attach additional sheets, if necessary.)

Name (First, middle initial, last)

Social Security number

 - -

Title

Home address (Street and number)

City

State

ZIP code

Name (First, middle initial, last)

Social Security number

 - -

Title

Home address (Street and number)

City

State

ZIP code

Name (First, middle initial, last)

Social Security number

 - -

Title

Home address (Street and number)

City

State

ZIP code

10. Check the type of reports you will file, and enter the month and year of your first sales and/or purchases.

Beginning year and month

Crude Oil Purchaser (Monthly)

Crude Oil Producer

Natural Gas Purchaser (Monthly)

Natural Gas Producer (Annual): Average monthly tax liability will be **under** \$200/month or **under** \$2400.00/year

Natural Gas Producer (Monthly): Average monthly tax liability will be **over** \$200/month or **over** \$2400.00/year

Natural Gas Cycling

SUCCESSOR LIABILITY: If you purchased an existing business or business assets, complete items 11-14. If you did not, skip to item 15.

11. Trade name

Taxpayer number

12. Legal name of former owner (First, middle initial, last)

Phone (Area code & number)

Former owner's Texas taxpayer number (If known)

13. Address of former owner (Street & number, city, state & ZIP code)

14. Check each of the following items you purchased: Inventory Corporate Stock Equipment Real estate Other assets

(Back of Form #AP-134)

TEXAS TAX QUESTIONNAIRE CRUDE OIL AND NATURAL GAS



SUSAN COMBS • COMPTROLLER OF PUBLIC ACCOUNTS

INSTRUCTIONS FOR COMPLETING TEXAS TAX QUESTIONNAIRE FOR CRUDE OIL AND NATURAL GAS

WHO MUST SUBMIT THIS APPLICATION -

This application must be submitted by every person (sole owner, partnership, corporation or other organization) who produces and/or purchases crude oil and/or natural gas.

WHO TO CONTACT FOR ASSISTANCE -

If you have any questions concerning this application, filing tax returns or any other tax-related matter, call 1-800-252-1384 toll free nationwide, or call 512/463-4600.

GENERAL INSTRUCTIONS -

- Please write only in white areas.
- When entering a Social Security Number, Federal Employer's Identification (FEI) number, Texas Taxpayer number or Vendor Identification Number, do not enter dashes.
- Disclosure of your social security number is required and authorized under law, for the purpose of tax administration and identification of any individual affected by applicable law. 42 U.S.C. §405(c)(2)(C)(i); Tex. Govt. Code §§403.011 and 403.078. Release of information on this form in response to a public information request will be governed by the Public Information Act, Chapter 552, Government Code, and applicable federal law.

SPECIFIC INSTRUCTIONS -

- Item 1 - SOLE OWNER:** Enter first name, middle initial and last name.
PARTNERSHIP: Enter the legal name of the partnership.
CORPORATION: Enter legal name exactly as it is registered with the Secretary of State.
OTHER ORGANIZATION: Enter the title of the organization.
- Item 2 -** Enter complete mailing address where you wish to receive mail from the Comptroller of Public Accounts. If you wish to receive mail at a different address for other taxes, attach a letter with other addresses.
- Item 3 -** Enter your Comptroller taxpayer number.

Item 4 - Enter the Federal Employer's Identification (FEI) Number assigned to your business by the Internal Revenue Service.

Item 5 - Enter Social Security Number only if this is a sole owner.

Item 6 - If you have both a Texas Taxpayer and Vendor Identification Number, enter only the first eleven digits of the Vendor Identification Number.

Item 8 - OTHER ORGANIZATION: Explain the type of organization. Examples: Social club, Independent School District, Family Trust, Joint Venture. NOTE: For Joint Venture list the managing partner (or the partner acting as the authorized agent for the venture) and the names of two other principal partners. Principal partners are those having the largest claim to a share of the venture's profits under the terms of the Joint Venture Agreement. A copy of the Joint Venture Agreement must be filed with this questionnaire if the agreement is available.

TEXAS CORPORATION: Enter Charter Number assigned by the Secretary of State and date of the charter.

FOREIGN CORPORATION (Chartered out-of-Texas): Enter the state in which business is incorporated and Charter Number AND Texas Certificate of Authority Number and date.

LIMITED PARTNERSHIP: Enter state in which partnership is registered and identification number.

Item 9 - PARTNERSHIP: Enter information for all partners. If a partner is a corporation, enter the Federal Employer's Identification (FEI) Number of the corporation.

CORPORATION or OTHER ORGANIZATION: Enter the information for the principal officers (president, secretary, vice-president).

Item 10 - CRUDE OIL PRODUCERS: If the taxes are not paid by the purchaser, please call us for permission to file monthly.

NATURAL GAS PRODUCERS: If average monthly tax liability is less than \$200 or an accumulated liability per year is \$2,400 or less, then reports must be filed annually.

15. SIGNATURES Sole owner, all general partners or corporation president or authorized representative must sign. *(Attach additional sheets, if necessary.)*

Texas Railroad Commission P-5 number

Date of application for P-5 number

I (We) declare that the information in this document is true and correct to the best of my (our) knowledge and belief.

Type or print name of sole owner, partner or officer

Type or print name of partner or officer

Type or print name of partner or officer

Sole owner, partner or officer

Partner or officer

Partner or officer

sign here ▶
sign here ▶
sign here ▶

Complete this application and mail to:
COMPTROLLER OF PUBLIC ACCOUNTS
 111 E. 17th Street
 Austin, Texas 78774-0100

Field office

E.O. ACID

Date

You have certain rights under Chapters 552 and 559, Government Code, to review, request, and correct information we have on file about you. Contact us at the address or toll-free number listed on this form.

ANNUAL (PRODUCER) TAXPAYERS

Producers with an average monthly tax liability of less than \$200 per year have the option of filing their producer's natural gas report annually or monthly. If a producer's tax liability reaches \$2,400 within a year, it is required to file monthly.

Annual producers going out of business are required to file an annual report by the 20th of the second month after ceasing production. The last report, commonly called the "final" report, must indicate all taxable and nontaxable production from the beginning of the year through the last day of production.

Preprinted data on natural gas reports for annual filers is based on the previous year's report. Data reported by a corresponding purchaser will cause lease information to preprint on the producer's report.

FILING NATURAL GAS REPORTS

All active natural gas taxpayers must file either annual or monthly reports even if no taxable production or purchases occurred. If no activity occurs during a reporting period, Page 1 of the report form must be submitted and indicate "NOTHING TO REPORT" in block "j." This will keep the Comptroller's office from issuing a delinquency notice.

It is the taxpayer's responsibility to notify the Comptroller's office of a change in reporting status. For example, a status change would include a company name change, taxpayer number change, change from sole owner to partnership, merger or acquisition and change to inactive status. Whenever a producer or purchaser submits a "final" report, the Comptroller's office must be notified in writing via a letter indicating:

- effective date;
- new owner(s), in the event of a sale or transfer of property; and
- address of new owner(s), if available.

FILING METHODS FOR NATURAL GAS TAXPAYERS

The Comptroller's office offers natural gas taxpayers two filing methods:

1. **Paper** – Reports are blank or preprinted. The original and amended report forms for natural gas tax

producers and purchasers are on the Comptroller's Web site at <http://www.window.state.tx.us/taxinfo/taxforms/11-forms.html>.

2. **Electronic** – Monthly and amended reports can be filed over the Internet using the Texas Comptroller's Electronic Tax Filing Data Entry Program, called PETRO, on a personal computer. The PETRO software calculates the tax due and formats the report in an electronic data interchange (EDI) format. The report is sent to the Comptroller's office via the Internet at <http://www.window.state.tx.us/taxinfo/etf/transmittedi.html>.

REPORTS FILED ELECTRONICALLY

Effective Jan. 1, 2008, Senate Bill 377, taxpayers paying the state of Texas \$50,000 or more during the preceding fiscal year are required by law to transmit electronically the tax report data to the Comptroller's office. Businesses can request a waiver from the electronic reporting requirement by contacting the Electronic Reporting Section at (800) 442-3453 or (512) 463-3630.

Preprinted report forms will not be generated to taxpayers who are required to transmit data electronically. A 5 percent penalty may be assessed on the "Tax Due Amount" if a taxpayer does not comply with the electronic reporting requirement. Businesses can request a waiver from the electronic reporting requirement by contacting the Electronic Reporting Section at (800) 442-3453.

Natural gas taxpayers can use the Electronic Reporting program using the EDI software to meet this reporting requirement. For more information on the electronic reporting programs access the Comptroller's office Web site at: <http://www.window.state.tx.us/services/>

The advantages of electronic reporting include:

- free software
- ability to import data from *Excel*, *Lotus 1-2-3*, or *Quattro Pro*
- direct internet links to upload and/or download data
- available 24 hours a day
- reduction of paperwork
- elimination of postage costs, and
- automatic calculation of tax due.

TAX PROFESSIONALS FILING EDI

Tax professionals must be pre-approved by the Comptroller's office before filing via the EDI Tax Reporting system. They must have a federal identification number (FIN) or a Texas taxpayer number. Once approved, tax professionals are issued a WebFile number to access the system and a transmitter number to be entered into the EDI file to identify the submitter. To begin the approval process you must call the Comptroller's office at (800) 442-3453 or (512) 463-3630.

Consultants or any person/entity filing on behalf of a Natural Gas or Crude Oil taxpayer must have a valid Limited Power of Attorney on file with the Comptroller's Office. A special Web Inquiry number which is an 8-character, alphanumeric code that begins with "WT", will be assigned and used to access the EDI system and also view reports and data on your clients account. To obtain the "WT" number, contact the Comptroller's office at (800) 531-5441, ext. 3-4455.

REGISTRATION

When the EDI system is used for the first time, a taxpayer or taxpayer representative must register with an 11-digit Texas taxpayer number. You will be asked for information to establish that you are the taxpayer or representative for whom you are filing reports. During the registration process you will be required to create a Personal Identification Number (PIN), which will be used for future logins to the system.

APPROVAL REQUIRED

Taxpayers and tax professionals must successfully complete the testing and approval process set out by rule of the Comptroller's office. For testing purposes, taxpayers will be required to enter their taxpayer number and WebFile number to get started. Tax professionals will be required to enter the taxpayer number and WebFile number for each taxpayer for whom they will be transmitting test data. In the future when you use this system, you will need to log on with an 11-digit Texas taxpayer number and a PIN.

SYSTEM REQUIREMENTS

Minimum system requirements:

- 166Mhz PC
- Windows NT, XP, 2000 and 2003

- 32 MB RAM
- 20 MB of hard drive space
- mouse, and
- internet access

FREE DATA ENTRY SOFTWARE

Taxpayers and tax professionals can file their taxes using the Comptroller's free software for the crude oil and natural gas taxes. Tour of the software is available at the following Web site: <http://www.window.state.tx.us/taxinfo/etf/edidemo/>

CONFIRMATION OF EDI FILING

EDI filers transmitting reports to the Comptroller's office will receive a confirmation number upon completion of filing. This provides the taxpayer a receipt for electronically filed returns and payments, offering the same benefits as certified mail without the cost. A confirmation e-mail also is sent.

EDI MAPS

Software developers can download the EDI maps for the ANSI ASC X12 813 transaction set for writing tax-filing software. Taxpayers can also download the Texas EDI maps for creating their own electronic reports or using EDI translation software. The Federation of Tax Administrators offers information about use of the 813 transaction set by other states for electronic tax filing. A "Quick Reference Guide" is available on the Comptroller's Web site: <http://www.window.state.tx.us/taxinfo/etf/96-998.pdf>

DUE DATES OF NATURAL GAS TAX REPORTS AND PAYMENTS

Producer and Purchaser Monthly Filers:

Original report and tax payment are due on the 20th day of the second month following the month of production.

Producer Annual Filers:

Original report and tax payment are due on February 20th of the following year.

If the due date falls on a Saturday, Sunday, or a legal holiday, the report and tax payment is due the next business day. Legal holidays are defined by the Texas Legislature. Holidays may change from one year to the next or due to legislative changes.

General Information

Statute of Limitations

The statute of limitation for filing natural gas tax reports is four years prior to, or on, the due date of a report period.

NATURAL GAS TAX PAYMENT BY ELECTRONIC FUND TRANSFER (EFT)

Effective Jan. 1, 2008, Senate Bill 377 requires natural gas taxpayers paying more than \$10,000 in a fiscal year to use the Comptroller's office Electronic Funds Transfer (EFT) process to transmit their payments. Information on how to submit payments electronically is found on the Comptroller's Web site: <http://www.window.state.tx.us/taxinfo/etf/96-590.pdf>

Electronic filers must comply with established report due dates indicated on the next page. Approved electronic tax filers can make their payments using the EDI payment option or continue to make their payments by Electronic Funds Transfer (EFT) or by check if you are not a mandatory EFT payor.

If you transmit your tax payment with your report, you will need to transmit the file before **2:30 p.m.** (CT) the last banking business day before the due date. Your returns without payments must be transmitted by 11:59 p.m. (CT) on the due date. Any return transmitted after this time will be considered late and appropriate penalties will be assessed. For your convenience, the EDI system operates 24 hours a day. Below are the due dates for EDI payments for 2008.

TEXNET, the State of Texas Financial Network, is designed as a method to receive EFT payments from taxpayers. All taxpayers required by law to remit payments via EFT must use TEXNET to remit these payments.

Crude oil and natural gas tax filers voluntarily remitting payments via EFT and filing electronically through EDI may use the payment feature in EDI to pay via TEXNET or may pay via check.

AUTOMATED CLEARING HOUSE (ACH) OPTIONS

ACH Debit authorizes the state to debit your account and credit the state's bank account. ACH Debit transactions can be transmitted via TEXNET, WebEFT and EDI. ACH Credit authorizes your financial institution to debit your account and credit the state's bank account. ACH Credit transactions can be transmitted to TEXNET.

ACH DEBIT OPTIONS AND DEADLINES

The following are various ACH Debit options for mandatory EFT payments and mandatory electronic filing.

- To make a crude oil and/or natural gas payment, use any of the following:
 - EDI (tax return and feature to pay via TEXNET): www.window.state.tx.us
 - TEXNET Internet (payment only): <https://texnet.cpa.state.tx.us>
 - TEXNET telephone (payment only): (800) 636-4003

NOTE: The payment deadlines comply with U.S. banking timelines.

Natural gas taxpayers using the EFT process must comply with the payment deadlines. A penalty of five percent (5%) may be assessed on the "NET AMOUNT" of each "NON-EFT" payment. For more information on this payment requirement and the Electronic Fund Transfer process, access the Comptroller's office Web site at: www.window.state.tx.us. Businesses may seek a waiver of penalty assessments by faxing a written request to (512) 475-0387 or mailing a request to:

The Comptroller of Public Accounts
Electronic Reporting Section
P.O. Box 13528
Austin, TX 78711-3528

INFORMATION ON REPORTING

The natural gas production tax is a tax on the production of natural gas in the state of Texas and is described in Chapter 201 of the Texas Tax Code. The tax is also referred to as a severance tax on natural gas or occupation tax on the occupation of producing natural gas.

All natural gas produced and “saved” in the state of Texas is taxable. The term “saved” indicates gas produced or recovered from the successful drilling of a well and is ei-

ther sold or used by the producer for lease operations or donated to other parties for other uses. As a result, the tax report requires the reporting of raw gas sold and gas used for lease operations.

All gas volumes should be reported in MCF (1,000 cubic feet) at a pressure base of 14.4 pounds plus four ounces (14.65 pounds absolute), as indicated in Section 91.052 of the Texas Natural Resources Code.

TAX CODE

TITLE 2: State Taxation

SUBTITLE I: Severance Taxes

CHAPTER 201: Gas Production Tax

SUBCHAPTER A: General Provisions

§201.001 Definitions

- (1) **“Casinghead gas”** means gas or vapor indigenous to an oil stratum and produced from the stratum with oil.
- (2) **“Condensate”** means liquid hydrocarbon that is or can be recovered from gas by a separator, but does not include liquid hydrocarbon recovered from gas by refrigeration or absorption and separated by a fractionating process.
- (3) **“First purchaser”** means a person who purchases gas from a producer.
- (4) **“Gas”** means natural gas, casinghead gas, or other gas taken from the earth or water, whether produced from a gas well or a well also producing oil, distillate or condensate or both, or other products.
- (5) **“Producer”** means a person who takes gas from the earth or water, a person who owns, controls, manages, or leases a gas well, or a person who owns an interest, including a royalty interest, in gas or its value, whether the gas is produced by the person owning the interest or by another on his behalf by lease, contract, or other arrangement.
- (6) **“Production”** or **“gas produced”** means the gross amount of gas taken from the earth or water as determined by meter readings that show 100 percent of the gas taken expressed in cubic feet.
- (7) **“Royalty interest”** means an interest in mineral rights in a producing leasehold in the state, but does not include the interest of the person having the management and operation of a well.
- (8) **“Sour gas”** means gas with more than 1-1/2 grains of hydrogen sulfide per 100 cubic feet or more than 30 grains of sulphur per 100 cubic feet.
- (9) **“Subsequent purchaser”** means a person who purchases gas from a person other than the producer of the gas.
- (10) **“Sweet gas”** means gas other than sour gas or casinghead gas.

General Information

NATURAL GAS VOLUME CONVERSION FORMULAS

The following are the natural gas volume conversion formulas used to convert MCF to MMBTU or MMBTU to MCF.

To convert MCF to MMBTU, use the following formula:

$$\frac{\text{BTU}}{1,000} \times \text{MCF} = \text{MMBTU}$$

Example:

$$\frac{992 \text{ BTU}}{1,000} \times 6,216 \text{ MCF} = 6,166 \text{ MMBTU}$$

To convert MMBTU to MCF, use the following formula:

$$\frac{\text{MMBTU}}{\text{BTU}} \times 1,000 = \text{MCF}$$

Example:

$$\frac{6,166 \text{ MMBTU}}{992 \text{ BTU}} \times 1,000 = 6,216 \text{ MCF}$$

All gas produced is taxable, except for the following conditions:

1. Gas injected into the earth in this state, unless sold for such purpose.
2. Gas produced from oil wells with oil and lawfully vented or flared.
3. Gas used for lifting oil, unless sold for such purpose. (Gas used in motors to pump oil is taxable, as is gas used in prime movers for gas lift operations.)

NOTE: Gas produced and disposed of in a nontaxable manner, as outlined in 1, 2 or 3 above, must not be reported.

4. Gas produced from a well that qualifies for a legislative exemption.
5. Governmental exemptions. See Rule 3.14 for Natural Gas Production Tax on the next page.

GENERAL RULES TO DETERMINE TAXABLE VALUE OF NATURAL GAS

1. If the gas is sold for cash at or near the well-head, the taxable value is the producer's gross receipts. Reimbursement for severance tax should not be included.

2. If the consideration for the sale of the gas includes a portion or all of the products and/or residue of the gas, then the gross value of the gas shall be all things of value received.
3. Marketing costs incurred by the producer after normal lease separation may be deducted from the gross receipts to determine the net taxable value. Costs incurred in producing the gas are not deductible.
4. Raw gas used on the lease shall have the same taxable value as gas sold. Available residue gas returned and used on the lease shall have the same value the producer would have received had it been sold.

The following conditions may apply:

- If gas is being produced and used on a lease from which there are no gas sales, use the prevailing market value of comparable gas in the same general area.
- If no comparable gas, use the county average published by the Comptroller's office on the web: http://www.window.state.tx.us/taxinfo/nat_gas/county_avg.htm

TAX RATE AND MARKET VALUE

The tax rate is 7.5 percent (or 0.075) of the market value of the gas, which is produced and saved. The market value of gas is its value at the mouth of the well from which it is produced. When gas is sold for cash only, the tax shall be computed on the producer's gross cash receipts.

Often times there is no market for the gas at the mouth of the well due to, either the location of the well, or the condition of the gas. The costs incurred in getting the gas to the market are deductions from the gross cash receipts and are referred to as marketing costs.

TAX ON LIQUID HYDROCARBONS

A 7.5 percent (or 0.075) tax is imposed on each producer based upon the market value of liquid hydrocarbons recovered from gas produced in the state by a producer.

TAX ON CONDENSATE

A 4.6 percent (or 0.046) tax is imposed on each producer based upon the amount of condensate recovered from gas produced in the state by a producer.

Condensate means liquid hydrocarbons that are, or can be, recovered from gas by a separator. This includes drip

TEXAS ADMINISTRATIVE CODE**TITLE 34:** Public Finance**PART 1:** Comptroller of Public Accounts**CHAPTER 3:** Tax Administration**SUBCHAPTER B:** Natural Gas**RULE §3.14 Exemption of Certain Interest Owners from Gas Occupation Taxes**

- (a) Mineral and/or royalty interests owned by the federal government and its subdivisions and the State of Texas and its subdivisions are not subject to the gas occupation tax.
- (1) Subdivisions of the federal government include, but are not limited to, the following:
- (A) the Federal Land Bank;
 - (B) the Department of the Interior;
 - (C) the Bureau of Land Management; and
 - (D) the Army Corps of Engineers.
- (2) Subdivisions of the State of Texas include, but are not limited to, the following:
- (A) Texas cities, towns, and villages;
 - (B) Texas counties;
 - (C) Texas independent and common school districts; and
 - (D) Texas public colleges and universities.
- (b) The tax on production from properties with an ownership interest exempt from tax, such as state royalty, shall be due from the nonexempt interest owners in the same proportion that the nonexempt owners share the net proceeds (wellhead value) from the sale of the production.
- (c) For example, 10,000 MMBTU (million British thermal units) are sold for \$2.00 per MMBTU or \$20,000 gross proceeds. There is a state royalty interest (exempt from tax) paid on gross proceeds and the working interest (not exempt from tax) has incurred \$5,000 transportation and processing fee.

Source Note: The provisions of this §3.14 adopted to be effective April 18, 1983, 8 TexReg 1072.

gas, compressor or dehydrator liquids if the producer of the gas receives a value for the liquids or if the liquids are returned to the producer.

Since condensate is produced in conjunction with natural gas, it is taxed under the natural gas tax statutes. The tax rate, however, is the same for condensate as the tax rate for crude oil. As is the case with crude oil, trucking charges are allowed as a deduction from the taxable value. Other types of marketing costs are not allowed as a deduction.

If a purchaser recovers the liquids and the producer does not receive any value for the liquids, they are not taxable.

OIL-FIELD CLEAN-UP REGULATORY FEE ON GAS

The tax rate one-thirtieth (1/30) of one cent (or .000333) for each thousand cubic feet (MCF) of the gas produced was imposed through Aug. 31, 2001, or the August 2001 report period. An increase to the oil field clean-up regulatory fee to one-fifteenth (1/15) of one cent (.000667) for each MCF of gas produced was imposed effective Sept. 1, 2001, or the September 2001 report period.

General Information

This fee does not apply to condensate (CN) or residue gas (RS) if the residue volume has been reported as part of raw gas (RG) or products (PR), exempt interests or high cost gas produced only through Aug. 31, 2003. Effective Sept. 1, 2003, the Natural Resources Codes was amended by House Bill 3442 to ensure that the oil field clean-up fee is not exempt from the exemptions for high cost gas

(reduced tax rate), incremental production, co-production projects, enhanced oil recovery projects, two and three year inactive wells, TERRA and flared gas.

TAX REIMBURSEMENT

The following is Rule 3.18 and it relates to tax reimbursement.

TEXAS ADMINISTRATIVE CODE

TITLE 34: Public Finance

PART 1: Comptroller of Public Accounts

CHAPTER 3: Tax Administration

SUBCHAPTER B: Natural Gas

RULE §3.18 Tax Reimbursement

(a) Definitions.

(1) **Contract** – A signed written agreement between two parties for the sale and purchase of natural gas.

(2) **Tax Reimbursement** – A payment that a purchaser of gas makes to a producer for the purpose of reimbursing the producer for Texas severance taxes that are due under Tax Code, Chapter 201.

(b) If gas is sold for cash only, then tax shall be computed on the producer's gross cash receipts. If a purchaser reimburses a producer for severance tax, then the reimbursement is not part of the producer's gross cash receipts and is not subject to severance tax.

(c) Requirements to Establish Tax Reimbursement.

(1) The amount of the tax reimbursement must be separately stated in the contract, check stub and/or purchaser statement. For example, the contract might specifically state a price per MCF or MMBTU to be paid to the producer by the purchaser for the gas and state an additional amount to be paid per MCF or MMBTU for severance tax reimbursement; or

(2) A written contract between the parties must contain an express statement identifying part of the purchaser's payment to the producer as severance tax reimbursement that is due on the gas. Contracts or other documents that merely state that "all taxes" are included are not specific enough to establish that the purchaser has made a severance tax reimbursement. The total amount shown on such documents will be presumed to be the producer's gross receipts without tax reimbursement. Either party may overcome the presumption by using the purchaser's records to show that severance tax reimbursement was included in the total payment made to the producer. When the total price the purchaser paid to the producer includes severance tax reimbursement, the taxable value for that gas is computed by dividing the sum of one plus the tax rate into the sum of the total receipts minus marketing costs.

Source Note: The provisions of this §3.18 adopted to be effective January 1, 1976; amended to be effective February 21, 1978, 3 TexReg 476; amended to be effective May 2, 1979, 4 TexReg 1417; amended to be effective April 7, 2002, 27 TexReg 2534.

INFORMATION FOR NATURAL GAS REPORTS

The natural gas tax reports require information to be reported at by lease level. The lease name shown on the reports should correspond to the lease name shown on the Railroad Commission Proration Schedule.

The lease identification number reported to the Comptroller's office consists of three different fields, which are:

1. **LEASE TYPE** – The “lease type” is identified by one of the following number:
 - 1 (one) indicates lease is classified as an oil reservoir.
 - 2 (two) indicates lease is classified as a gas reservoir.
2. **COUNTY CODE** – The county code consists of three-digit number designated by the Comptroller's office for each county in Texas. The county code list is in the Reference section of this book. If the lease overlaps a county line, the county where the purchase meter is located should be reported on the natural gas tax report.
3. **LEASE NUMBER** – The Railroad Commission assigns a six-digit identification number for each gas lease that is tied to a well or a five-digit identification number for each oil lease that is tied to one or more wells. These lease identification numbers are reported on the natural gas tax report and consist of one of the following:
 - five-digit lease identification number assigned to an oil lease, plus a preceding zero.
 - six-digit gas well completion number.
 - two-digit “R3” code and four-digit identification number assigned to a plant or drip station by the Texas Railroad Commission.

Check-Digit: The check-digit in line 7 of the producer and purchaser report is no longer part of the lease identification number and it mostly used for key entry purposes. No edits are in place for the check-digit field. If a different or incorrect digit is reported, no report error will be generated.

New or acquired properties must be written on the report with the county name and county code, drilling permit number and lease name. The Comptroller's office will

research the lease number on the Railroad Commission's records. If the new lease is found, the lease information will be added to the Comptroller's lease records. The new lease will then be added to the preprinted paper report forms after the lease information is corrected on the prior report periods.

EXPLANATIONS AND EXAMPLES OF “ON LEASE” AND “OFF LEASE”

Gas is considered an “off lease sale” when delivery of the gas to the purchaser is made away/off the lease. If the purchaser takes delivery of the gas off the lease, then the purchaser is required to withhold and remit the tax. However, if the purchaser takes delivery of gas at a common point meter and the gas is from more than one lease, then that transaction is considered an off-lease sale. In those cases, the purchaser is not required to withhold or remit the tax. The purchaser is then taking title to the gas away from the lease.

The total lease production should be reported for each secondary taxpayer report detail line if the secondary numbers are for multiple purchasers that take delivery of the gas on the lease where the gas is produced. If the producer is selling to multiple purchasers and the gas sales are off-lease transactions, the producer will add all of the sales and report one volume and one value and list the producer's taxpayer number in the secondary block.

When a producer is reporting the gas sold as an “off lease sale”, the producer must always mark “yes” on the natural gas tax original and amended report in Line 11 because a producer will always be liable for the tax.

Examples of “On Lease” Deliveries:

- Producers must report the actual purchaser when gas is taken by the purchaser on the lease.
- The purchaser is a gas processing plant and the plant's gathering system extends to the leases in the area.
- The purchaser is a gas pipeline and the pipeline connection is near the separator on the lease.
- The purchaser is a spot market purchaser. The contract between the producer and the spot market purchaser calls for the gas delivery to be made through the existing pipeline connection on the lease.
- The producer contracts with a gas processing plant to process the produced gas for liquids (after lease separation). The plant pays the producer for the gas

General Information

products in accordance with the processing agreement, and the plant's gathering system extends to the leases in the area served.

- The purchaser is an end user located out of Texas but has arranged for transportation. The contract between the producer and the purchaser calls for delivery of the gas to be made through the existing pipeline connection on the producer's lease.

Examples of "Off Lease" Delivery:

- The plant processes the gas and delivers the residue to the producer's designated purchaser at the tailgate of the plant. The purchaser is not the plant operator; therefore, the residue sale is off the lease.
- The purchaser is a local distribution company (LDC) located out of state. The contract between the LDC and the producer requires the producer to deliver the gas into the pipeline facilities of Company A located in Bee County, Texas. These facilities are not on the producer's lease, so the producer contracts with another pipeline to carry the gas from the producer's lease to the Bee County interconnect facility.
- The purchaser is a local distribution company (LDC) located out of state. The contract between the LDC and the producer requires the producer to deliver the gas directly to the city gate of the out of state LDC.
- The producer has two adjoining gas leases, lease A and lease B. There is a dehydrator on lease B and a pipeline connection near the dehydrator. The producer runs the production from both leases through the dehydrator and sells the gas to the purchaser owning the connection on lease B.

DRIP GAS, COMPRESSOR AND DEHYDRATOR LIQUIDS

Drip gas, compressor and dehydrator liquids are taxable if the producer of the gas from which the liquids were separated receives a value for the liquids or if the liquids are returned to the producer.

If the liquids are recovered by a purchaser and the producer does not receive any value for the liquids, they are not taxable.

Examples:

- Producer "A" operates a gas lease. The gas from the lease runs through a dehydrator belonging to the producer. Some liquids fall out of the gas and are run

into the lease condensate storage tank. These liquids are taxable and should be reported as lease condensate, commodity CN-4 by both the producer and the purchaser.

- Producer "A" operates two adjoining gas leases. The gas from both leases runs through a dehydrator belonging to the producer. Some liquids fall out of the gas at the dehydration facility and are stored in a stock tank at the plant site where they are occasionally sold to an area purchaser. These liquids are taxable and should be reported as condensate, commodity CN-4 by both producer and purchaser. On the original and amended report, the lease name should be indicated on Line 1; the lease number on Line 7 should indicate: R3 and the last four digits of the assigned Texas Railroad Commission lease number.
- Purchaser "C" has a gas conditioning facility on their gas transmission line. Some gas liquids are recovered at this facility and are sold as condensate. All of the gas going through the treating plant has been purchased by "C" and none of the revenue from the liquids is disbursed to the producers of the gas. The liquids are not taxable and should not be reported.
- Company "A" operates a gas gathering and treating facility. Company "A" contracts with several gas producers in the area to perform gas gathering and treating services. Company "A" does not purchase the gas. Company "A" recovers and sells compressor and/or dehydrator liquids and, in accordance with the terms of the service contract with the producer, disburses the revenue to the producers. The liquids are taxable. The purchaser should withhold and send to the Comptroller's office the tax on these liquids.

Any person purchasing liquids at gas treating facilities or at pipeline drip stations should contact the Comptroller's office if there is any question as to whether the tax is due.

SPECIAL AND/OR UNUSUAL SITUATIONS

Reporting Summary Items

In unusual situations, the Comptroller's office will consider granting a taxpayer permission to report minor adjustments covering several reporting periods in lieu of completing an amended report for each period involved.

A taxpayer must first contact the Tax Policy Division at the Comptroller's office for permission.

Example of An Unusual Situation:

A purchaser has made a contract settlement payment to the producer for an extended period of time. The additional value cannot be allocated back to each well and production. The following is required by the Tax Policy Division:

1. a summary schedule that includes the adjustments by each report period,
2. lease type, county, and lease identification number(s), and
3. a cover letter explaining the unique circumstances.

VOLUNTARY DISCLOSURE AGREEMENTS

Policy

The Texas Comptroller of Public Accounts is committed to promoting taxpayer compliance. In an effort to accomplish this objective, a Voluntary Disclosure Agreement (VDA) is available to taxpayers who want to comply with our tax laws. Standard written agreements will be made available for all taxes administered by our agency to which we can enter into such agreements.

In our commitment to fairness in the administration of our taxes, we adhere to the following general guidelines:

- Liabilities due to failure to collect taxes and/or file the applicable reports will be limited to reports due four years from the initial taxpayer contact date.
- All taxes that were actually collected by the seller need to be remitted (i.e., there is no four-year limitation on tax collected not remitted).
- Statutory penalties will be waived.
- Interest will be waived on taxes voluntarily disclosed and paid that were not collected.
- Agreements will be offered to taxpayers who have not been contacted regarding an audit either verbally or in writing.
- Agreements will not be offered to taxpayers who are under investigation regardless of whether or not they have been notified about the investigation.

Process

Initial Taxpayer Contact. A company representative initiates the process on behalf of their anonymous client by

contacting the Business Activity Research Team (BART) in writing at:

Texas Comptroller of Public Accounts
 Business Activity Research Team
 P.O. Box 13003
 Austin, Texas 78711-3003
 (800) 688-6829
 fax: (512) 305-9918

The following information must be provided:

- The type of entity (i.e., corporation, partnership, etc.)
- A brief description of the company's business including its specific activities in Texas.
- Date the company began business and date the company began business activities in Texas.
- Disclosure of the tax type (i.e., sales, franchise, etc.) for which an Agreement or Agreements is/are requested and specify any taxes that the corporation is already set up for in Texas.
- Whether the company has been contacted by the Texas Comptroller of Public Accounts.
- Whether the company has collected, but not remitted, any Texas tax.
- An estimate of the amount of taxes due.
- Any additional information or extenuating circumstances to support the request.

Processing the Voluntary Disclosure Agreement

- Once a determination is made that the taxpayer has complied with our program guidelines, preliminary approval will be obtained from the Deputy Comptroller to enter into a VDA.
- A VDA will be prepared and sent to the company representative with the appropriate tax applications and Texas Nexus Questionnaire (TNQ) for completion and return within thirty (30) days.
- Upon receipt of the signed VDA and package of the appropriate tax applications and completed TNQ from the taxpayer, BART will perform an initial review process to determine if the taxpayer has been contacted regarding an audit or investigation that might disqualify them from entering into a VDA. The VDA, after verification of no audit or investigation, is signed and executed by the Manager of Audit.
- The executed VDA is returned to the taxpayer with the applicable reporting forms. The tax data and payment of the voluntarily disclosed taxes are due back to the BART group within 60 days.

General Information

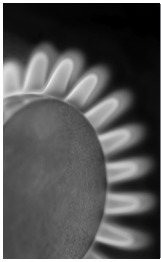
Information for Voluntary Disclosure Agreements

- The Comptroller of Public Accounts reserves the right to deny the waiver of penalty and/or interest or to void the agreement if a taxpayer does not adhere to our program policies and procedures.
- Disclosure periods remain open to future audit.
- Any potential problems regarding full payment of the disclosed taxes should be included in the “initial taxpayer contact” letter, along with any request for payment agreement.
- The Comptroller may change these policies and procedures at any time.
- As a result of House Bill 1840 of the 77th Legislative Session, the Comptroller may waive penalty and interest imposed on certain delinquent unclaimed property. Taxpayers who meet the appropriate criteria can now enter into a VDA with our agency.

Multistate taxpayers who wish to approach a number of states simultaneously may wish to use the services of the National Nexus Program of the Multistate Tax Commission, <http://www.mtc.gov/Nexus.aspx?id=534>.

For more information on Voluntary Disclosure Agreements, call toll free (800) 688-6829 or write to this address:

Texas Comptroller of Public Accounts
Business Activity Research Team
P.O. Box 13003
Austin, Texas 78711-3003



Natural Gas Tax Reports

Monthly Producer Tax Report

GENERAL INFORMATION

- This report must be accompanied by all Lease Detail Supplement pages (Form #10-163). It is recommended to complete the supplement pages first, before completing the Report Totals and Tax Computation page.
- This report form is available on the Comptroller's Web site: <http://www.window.state.tx.us/taxinfo/taxforms/11-forms.html>
- Do not report corrections from a previous report period on this report. The "Amended Natural Gas Tax – Producer Report (Form #10-169 and #10-173) must be filed to correct previously reported data or to report data omitted from your original report form.
- This page must include a signature and printed name.
- Do not write in shaded areas.
- For assistance in completing this form, call the Crude Oil and Natural Gas Tax Section at (800) 531-5441, ext. 3-4455 or e-mail the section at: congtax@cpa.state.tx.us

WHO MUST FILE?

- Every producer whose natural gas tax account is established and is authorized by the Comptroller must file this report either monthly or annually, depending on the amount of taxes paid in a calendar year.

- As long as a producer is in business, this report must be filed even if the producer sold no gas in any production period. Producers who have nothing to report for a specific report period must mark the box in item "j" of this page. Returning the Lease Detail Supplement Form (#10-163) page is not required when a producer has nothing to report.
- Producers required to file this report must report all taxable disposition of natural gas even if the purchaser is paying the tax.

WHEN TO FILE?

- If the due date falls on a Saturday, Sunday or legal holiday, the next business day will be the due date for the following types of filers:
 1. **Monthly Filers:** This report must be filed or postmarked on or before the 20th of the second month following the month of production.
 2. **Annual Filers:** This report must be filed on or before February 20th of the following year.

SPECIFIC INFORMATION

Item c: Taxpayer Number

Enter your 11-digit taxpayer number assigned by the Comptroller's office.

Item e: Filing Period

- **Monthly Filers:** Enter the month and year for the report period. Example: March 2007
- **Annual Filers:** Enter the year only for the report period: Example 2007

Item 1: Total Net Taxable Value of Condensate

Enter the total amount of all net taxable values of condensate from Line 22 of the Lease Detail Supplement page(s). Enter dollars and cents.

Item 2: Tax Due on Condensate:

Enter the tax due amount on condensate by multiplying the net taxable value on condensate reported in Item 1 on this page by 0.046 (or 4.6%). Enter dollars and cents.

Item 3: Total Net Taxable Value of Gas

Enter the total net taxable values of gas for all commodities in Line 22 of the Lease Detail Supplement page(s). Do not include values that correspond with high cost gas exemption "Type 05" leases and condensate values. Enter dollars and cents.

Item 4: Tax Due on Gas

Enter the tax due amount on gas by multiplying the net taxable values of gas in Item 3 of this page by 0.075 (or 7.5%). Enter dollars and cents.

Item 5: Taxable Regulatory Fee Volume

- Leases are subject to the regulatory fee whenever approved legislative exemptions include "Yes" as being liable for tax for raw gas, lease use and product commodities. The exception is leases that are approved for the reactivated orphan well exemption are not subject to the regulatory fee. Enter whole numbers.
- Enter the sum of your volume of all leases reported in Line 16 of the Lease Detail Supplement page(s) that includes the commodities of raw gas (RG), Lease use (LU), and products (PR) less the total of all the governmental royalty volumes reported in Line 19.

- Include volumes for residue (RS) unless the residue volume is included as part of the plant products or raw gas volume. Only include leases marked "Yes" as liable for tax due in Line 18.

Item 6: Regulatory Fee Due

Enter the regulatory fee due amount by multiplying the volume in Item 5 of this page by 0.000667. Enter dollars and cents.

Item 7: Tax Due on Exemption Type 5

Enter the sum of all the reduced tax due amounts reported with high cost gas exemption "Type 05" leases in Line 24 of the Lease Detail Supplement page(s). Enter dollars and cents.

Item 8: Total Tax and Fee Due

Enter the total tax and fee due amount by adding the amounts indicated in Items 2, 4, 6 and 7 of this page. Enter dollars and cents.

Item 9: Credits

Enter a credit amount only if using a credit from another report period to offset the liability in this report period. In order to process the transfer of credit, the "Credit Transfer Form for Natural Gas Tax" (Form #10-147), must be signed and submitted.

Item 10: Net Amount Due

Enter the net amount due by subtracting Item 8 from Item 9 of this page. Enter dollar and cents.

Item 11: Penalty and Interest

- If a payment is 1-30 days late, a 5 percent penalty is assessed on the tax balance due.
- If a balance is remaining after 30 days, an additional 5% penalty is assessed on the tax balance due.
- Interest begins to accrue on the 61 day after the due date of a report period.
- The interest rate varies annually. For current interest rate information, call the Comptroller toll-free at (877) 447-02837 or visit our Web site at: www.window.state.tx.us/taxinfo/int_rate.html

Item 12: Total Amount Due and Payable

Add the amounts in Item 10 and Item 11. Make the amount in Item 12 payable to "State Comptroller".



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• SEE INSTRUCTIONS ON BACK.

Page _____ of _____

Texas Report of Natural Gas Tax
-- PRODUCER LEASE DETAIL SUPPLEMENT --

c. Taxpayer number d. Filing period

e. Taxpayer name



f.

HP

1. Lease name (as recorded with the Railroad Commission)

2. County of production

3. Commodity (Use the alpha codes listed in the instructions.)

4. Commodity code (Numeric)..... ■

5. Lease type OIL 1 GAS 2

6. County code ■

7. Lease number..... Check digit

8. Is Item 7 a drilling permit number? YES 1 NO 2

9. Exemption type ■

10. API number ■

11. Is this an off-lease sale?..... YES 1 NO 2

12. Purchaser's name

13. Purchaser taxpayer number ■

14. Total lease volume ■

15. Is tax reimbursement included in calculating the value on this lease? YES 1 NO 2

16. Your volume ■

17. Value of your volume \$ ■

18. Are you liable for the tax? YES 1 NO 2

If "NO" in Item 18, do not complete Items 19 thru 24.

19. Governmental royalty volume ■

20. Governmental royalty value \$ ■

21. Marketing cost \$ ■

22. Net taxable value \$ ■

Items 23 and 24 for Exemption Type 05 leases only.

23. Reduced tax rate for Type 05 ■

24. Tax due on Type 05 \$ ■

1. Lease name (as recorded with the Railroad Commission)

2. County of production

3. Commodity (Use the alpha codes listed in the instructions.)

4. Commodity code (Numeric)..... ■

5. Lease type OIL 1 GAS 2

6. County code ■

7. Lease number..... Check digit

8. Is Item 7 a drilling permit number? YES 1 NO 2

9. Exemption type ■

10. API number ■

11. Is this an off-lease sale?..... YES 1 NO 2

12. Purchaser's name

13. Purchaser taxpayer number ■

14. Total lease volume ■

15. Is tax reimbursement included in calculating the value on this lease? YES 1 NO 2

16. Your volume ■

17. Value of your volume \$ ■

18. Are you liable for the tax? YES 1 NO 2

If "NO" in Item 18, do not complete Items 19 thru 24.

19. Governmental royalty volume ■

20. Governmental royalty value \$ ■

21. Marketing cost \$ ■

22. Net taxable value \$ ■

Items 23 and 24 for Exemption Type 05 leases only.

23. Reduced tax rate for Type 05 ■

24. Tax due on Type 05 \$ ■

1. Lease Name (as recorded with the Railroad Commission) Enter the lease name as recorded with the Texas Railroad Commission.

2. County of production

Enter the county as recorded with the Texas Railroad Commission. If the lease overlaps a county line, the county where the purchase meter is located should be shown.

3. Commodity

Enter the two-digit alpha code for the type of commodity reported on the lease identified in lines 1 and 7.

RG - Raw Gas – Report sale or purchase of raw gas, unprocessed gas from an oil well, or gas well gas.

LU - Lease Use – Report all gas produced and used to run equipment on the lease regardless of whether it is for oil well, gas well gas or residue gas. The lease use commodity must also include miscellaneous sales of gas to persons not normally engaged in purchasing gas for resale.

When a producer reports the lease use (LU) commodity, the producer must always be shown as the purchaser in lines 12 and 13 and must mark “Yes” in Line 18 as being liable for the tax. The lease use commodity should never be reported on a purchaser report.

CN - Condensate – Report the taxable disposition and purchase of all condensate from a gas well, actual or theoretical. Condensate is the liquid hydrocarbon, or high gravity oil that is, or can be, removed from gas by a separator. It does not include absorption and separated by a fractionating process.

- Report CN-4 only when reporting a gas lease (Type “2”). It should be reported in barrels, rounded to the nearest whole barrel.
- CN-4 cannot be reported as an off-lease sale.
- CN-4 is the only commodity that cannot be reported as an oil well, type “1”, or any approved exempt code types “3, 4, 5, 6, 7, 8” or “9”.
- Oil production from a well classified as type “1” must be reported on the *Texas Monthly Report of Taxable Crude Oil*.

RS - Residue Gas - Gas that has been processed and the liquids removed by a processing plant. Residue

gas should only be reported when the purchaser of the products is different. If a processing plant takes title to both commodities for products and residue, report as RG-1 indicating the plant operator as the purchaser.

PR - Products - Liquid hydrocarbons extracted from a gas stream at a plant. Use the products commodity only when the purchasers of the products and residue are different. Do not use gallons extracted or shrinkage volume. Enter the total inlet volume to the processing plant as the volume (i.e., the raw gas volume delivered to the extraction plant).

4. Commodity code

Enter the 2-digit alpha code for the type of commodity reported on the lease identified in lines 1 and 7.

Numeric Commodity Code	Alpha Commodity Code
1	RG
3	LU
4	CN
5	RS
6	PR

5. Lease type

Enter the number for the designated lease type:

- 1 - oil lease
- 2 - gas lease

Note: Do not enter an exempt lease type for this item. Item 9 is now used to identify exemptions.

6. County code

Enter the Comptroller’s office 3-digit code for the county shown in Line 2. A list of county codes is available on Comptroller’s Web site at: <http://www.window.state.tx.us/taxinfo/taxforms/10-codes.html>

7. Lease number

Enter the identification number assigned by the Texas Railroad Commission for the lease shown in Line 1.

The Texas Railroad Commission assigns separate completion numbers to gas reservoirs. Therefore, the number assigned to the property becomes the

lease identification number used to report volumes and values to the Comptroller's office. The lease identification number is reported on the natural gas tax report consists of one of the following:

- five-digit lease identification number assigned to an oil lease, plus a preceding zero;
- six-digit gas well completion number;
- two-digit "R3" code and four-digit identification number assigned to a plant or drip station by the Texas Railroad Commission.

Report each well separately when reporting multiple wells within one lease where only one or more wells qualify for an exemption.

Enter the check digit. The check digit is a mathematically calculated check digit used by the Comptroller's office.

NOTE: The check-digit in Line 7 of the producer and purchaser report is no longer part of the lease identification number and it mostly is used for key entry purposes. No edits are in place for the check-digit field. If a different or incorrect digit is reported, no report error will be generated.

Drilling Permit Number: When reporting volumes and values on a lease not yet assigned by the Railroad Commission, use the drilling completion number assigned to the lease until the Railroad Commission assigns a lease number. To use the drilling permit number, complete item 8.

8. Is item 7 a drilling permit number?

- If a lease number has not been assigned yet and Item 7 is a Railroad Commission assigned drilling permit number, check "Yes."
- If Item 7 is a Railroad Commissioned lease number, check "No."

This feature was added to reduce the number of reporting errors.

9. Exemption type

Enter the number for the designated exemption type, if applicable:

- **03** – approved two-year inactive lease (beginning Sept. 1, 1997 or 9709)
- **04** – approved flared/released gas lease (beginning Sept. 1, 1997 or 9709)

- **05** – approved high-cost lease with reduced rate (beginning Sept. 1, 1996 or 9609)
- **06** – approved high-cost gas lease (beginning Sept. 1, 1991 or 9109. This exemption ended Aug. 31, 2001.)
- **07** – approved three-year inactive well (beginning Sept. 1, 1991 or 9109. This exemption ended Feb. 28, 2006.)
- **08** – approved co-production (beginning Sept. 1, 1993 or 9309. This exemption ended Aug. 31, 2001.)
- **09** – approved incremental production gas lease (beginning Sept. 1, 1997 or 9709. This exemption was suspended 0012, but was reinstated 0106, then suspended again effective 0303).
- **11** – qualifying low-producing gas well (beginning Sept. 1, 2005 or 0509).
- **12** – reactivated orphaned well (beginning Jan. 1, 2006 or 0601)

10. API number

Enter the last 8-digits of the American Petroleum Institute (API) number assigned by the Texas Railroad Commission to each well that qualifies for a well-level exemption. The API number is only required for the following well-level exemptions:

- two-year inactive well exemption (Type "03"),
- three-year inactive well exemption (Type "07"), and
- reactivated orphan well exemption (Type "12").

If the API number is required, the correct API number must be entered or the exemption will be disallowed and the lease entry will be changed to a taxable entry.

If there are multiple exempt wells for a lease, the production must be allocated to each individual exempt API number on the lease. To do this, a lease entry must be reported for each individual exempt well.

11. Is this an off-lease sale?

- On sales where delivery is made off the lease, check "Yes" and leave line 12 or 13 blank.
- If the sale is an on-lease sale, check "No" and complete lines 12 and 13.

12. Purchaser's name

Enter the name of the first purchaser, if delivery is made on the lease. When reporting a sale to yourself

or Lease USE (LU-3) commodity code, enter your producer name.

For an off-lease sale, leave this line blank and check “Yes” in Line 11.

13. Purchaser taxpayer number

For delivery made on the lease, enter the taxpayer number of the purchaser/processor whose name is shown in Line 12.

For an off-lease sale, leave this line blank and check “Yes” in Line 11. A taxpayer number search engine is located on the Comptroller’s Web site: http://www.window.state.tx.us/taxinfo/nat_gas/index.html

14. Total Lease Volume

Line 10 should be completed by the physical operator (i.e., operator of record listed with the Railroad Commission) and reflect **100 percent** of the commodity being reported.

- Report total volume of gas produced (M.C.F.) when reporting raw gas as commodity code: RG 1.
- Report total volume used (M.C.F.), when reporting lease use as commodity code: LU 3.
- Round the total volume up to the nearest whole barrel, when reporting condensate as commodity code CN 4.
- Report the inlet volume (M.C.F.) to the plant, when reporting products as commodity code PR 6.
- Report the volume of gas (M.C.F.) actually sold under the contact, when reporting residue as commodity code RS 5.

NOTE: If a processing plant takes title to both products and residue commodities, **DO NOT** report products and residue as separate transactions. Report the raw gas as the commodity.

15. Is tax reimbursement included in calculating the value on this lease?

- If the value reported in Line 17 is adjusted for tax reimbursement, check “Yes.”
- If the value reported in Line 17 is not adjusted for tax reimbursement, check “No.”

16. Your Volume

Producers who report as operators, should report the production being sold under their own contract.

Non-operators taking their production in-kind should report their share of the production being sold under their own contract.

- Report total volume of gas produced (M.C.F.) when reporting raw gas as commodity code: RG 1.
- Report total volume used (M.C.F.), when reporting lease use as commodity code: LU 3.
- Round the total volume to the nearest whole barrel, when reporting condensate as commodity code CN 4.
- Report the inlet volume (M.C.F.) to the plant, when reporting products as commodity code PR 6.
- Report the volume of gas (M.C.F.) actually sold under the contact, when reporting residue as commodity code RS 5.

17. Value of your volume

Enter the entire value associated with the volume indicated in Line 16. This is usually referred to as the “contract price.” Cost reimbursement from the gas purchaser should be included.

Tax Reimbursement from the gas purchaser should not be included.

18. Are you liable for the tax?

Check this box to show if you are responsible for paying tax on this lease.

- If “Yes”, complete lines 19 through 24.
Producers must always mark “Yes” in Line 18 when one of the following conditions occurs:
 - report the lease use commodity in lines 3 and 4,
 - mark “Yes” to an off-lease sale in Line 11,
 - report themselves as purchaser in lines 12 and 13.
- If “No,” do not complete lines 19 through 24.

19. Governmental royalty volume

Enter the volume of gas not subject to tax because of a governmental exempt status, such as a city, town or village government in Texas, a county government in Texas, an independent school district or common school district in Texas, public (state owned) colleges and universities in Texas, or political subdivisions of the Federal government. (See Rule §3.14.)

DO NOT enter volumes associated with exemption types approved for a legislative tax exemption.

20. Governmental royalty value

Enter the value of gas reported in Line 19. (See Rule §3.14.)

DO NOT enter value associated with lease types approved for a legislative tax exemption.

21. Marketing cost

Enter actual marketing costs incurred. Ascertaining the producer’s actual marketing costs and subtracting these costs from the producer’s gross cash receipts from the sale of the gas shall determine the “market value at the mouth of the well”.

Marketing costs are allowable expenses incurred by the producer in getting the gas from the wellhead to market. They include the following:

- cost for **compressing** the gas sold;
- cost for **dehydrating** the gas sold;
- cost for **sweetening** the gas sold; and
- cost for **delivering** the gas sold.

See allowable marketing costs for more detailed information on Comptroller’s Web site: http://www.window.state.tx.us/taxinfo/nat_gas/ap116.htm

22. Net taxable value

Enter the sum of Line 17 less lines 20 and 21 in Line 22. Net taxable values on the original report form may never be less than zero.

Enter zero for the following legislative exemptions:

- 2-year inactive (Type “03”)
- flared and released (Type “04”)
- 3-year inactive (Type “07”), and
- reactivated orphaned well (Type “12”).

For high cost gas exemption (Type “05”), enter the sum of Line 17 less lines 20 and 21 and proceed to lines 23 and 24.

For incremental production (Type “09”), enter 50 percent of the sum of Line 17, less lines 20 and 21. **NOTE:** Leases reported with a Type “09” must also have a baseline volume and value reported under a Type “1.”

For qualifying low producing gas leases (Type “11”), enter the taxable value based on the price of gas for the applicable credit.

Price Conditions

Gas from qualified wells becomes eligible for different levels of exemption from natural gas severance tax based upon the Comptroller-certified average price for the reporting month.

Average Taxable Gas Price	Exemption
More than \$3.50	No Exemption
Over \$3 to \$3.50	25 Percent Credit
Over \$2.50 to \$3	50 Percent Credit
\$2.50 or Less	100 Percent Credit

The Comptroller-certified average price of gas to be used in these calculations will be posted in the Texas Register on the Comptroller’s Web site. When the average price falls within one of the categories listed above, gas will be allowed the corresponding level of exemption for that reporting month.

23. Reduced tax rate for Type 05

Enter the 3-digit reduced tax rate for the approved high cost gas exemption Type “05” lease indicated in Line 7.

24. Tax due on Type 05

For high cost gas exemption Type “05”, enter the TAX DUE amount. This amount is the net taxable value amount reported in Item 22 times the tax rate reported in Item 23.

Amended Producer Tax Report

GENERAL INFORMATION

- This report must be accompanied by all Lease Detail Supplement pages (Form #10-173). It is recommended to complete the supplement pages first, prior to completing the Report Totals and Tax Computation page.
- This report form is available on the Comptroller's Web site: <http://www.window.state.tx.us/taxinfo/taxforms/11-forms.html>
- To amend more than one report period, taxpayers are required to file a separate amended report for each individual report period.
- This page must include a signature and printed name.
- Do not write in shaded areas.
- For assistance in completing this form, call the Crude Oil and Natural Gas Tax Section at (800) 531-5441, ext. 3-4455 or e-mail the section at congtax@cpa.state.tx.us.



AMENDMENT



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a. ■ 49190

You have certain rights under Chapters 552 and 559, Government Code, to review, request and correct information we have on file about you. Contact us at the address or toll-free number listed on this form.

Texas Comptroller of Public Accounts
Amended PRODUCER REPORT OF NATURAL GAS TAX

Page 1 of _____

c. Taxpayer number d. Due date e. Filing period f.

h. ■ FM i. ■

g. Taxpayer name and mailing address (MUST BE COMPLETED)

1 Blacken this box if your address has changed.

THIS REPORT PAGE MUST ACCOMPANY ANY LEASE DETAIL SUPPLEMENT PAGES (Form 10-173) FOR THIS REPORTING PERIOD. It is recommended that supplement pages be completed prior to completing this page.

REPORT TOTALS AND TAX COMPUTATION (See instructions)

ENTER NET ADJUSTED AMOUNTS

1. Total net taxable value of condensate <i>(Enter dollars and cents.)</i>	1. ■ \$	<input type="text"/>
2. Tax due on condensate <i>(Multiply Item 1 by . Enter dollars and cents.)</i>	2. ■ \$	<input type="text"/>
3. Total net taxable value of gas (Excluding leases with exemption Type 05 high cost gas) <i>(Enter dollars and cents.)</i>	3. ■ \$	<input type="text"/>
4. Tax due on gas (Excluding leases with exemption Type 05 high cost gas) <i>(Multiply Item 3 by . Enter dollars and cents.)</i>	4. ■ \$	<input type="text"/>
5. Taxable regulatory fee volume <i>(See instructions, Round volume to whole numbers.)</i>	5. ■	<input type="text"/>
6. Regulatory fee due <i>(Multiply Item 5 by . Enter dollars and cents.)</i>	6. ■ \$	<input type="text"/>
7. Tax due on leases with exemption Type 05 high cost gas <i>(Total of Item 24 from attached Lease Detail Supplements. Enter dollars and cents.)</i>	7. ■ \$	<input type="text"/>
8. Total tax and fee due <i>(Add Items 2, 4, 6, and 7. Enter dollars and cents.)</i>	8. ■ \$	<input type="text"/>



10-169 (Rev. 4-08/2)

***** DO NOT DETACH *****

9. Credits <i>(NOT valid without attached Credit Transfer Form for Natural Gas Tax, Form 10-147)</i>	9. \$	<input type="text"/>
10. Net amount due (Item 8 minus Item 9)	10. \$	<input type="text"/>
11. Penalty & Interest (If report is filed or tax paid after the due date, see instructions.)	11. \$	<input type="text"/>
12. TOTAL AMOUNT DUE AND PAYABLE (Item 10 plus Item 11)	12. ■ \$	<input type="text"/>

Taxpayer name

■ T Code ■ Taxpayer number ■ Period

49020

I declare that the information in this document and any attachments is true and correct to the best of my knowledge and belief.

Print name Business phone (Area code and number)

sign here Taxpayer or duly authorized agent Date

Make the amount in Item 12 payable to:
STATE COMPTROLLER

Mail to:
COMPTROLLER OF PUBLIC ACCOUNTS
P.O. Box 149358
Austin, Texas 78714-9358

i.

777

SPECIFIC INFORMATION

Item c: Taxpayer Number:

Enter your 11-digit taxpayer number assigned by the Comptroller's office.

Item e: Filing Period:

- **Monthly Filers:** Enter the month and year for the report period. (Example: March 2007)
- **Annual Filers:** Enter the year only for the report period. (Example 2007)

Item 1: Total Net Taxable Value of Condensate:

Enter the total amount of all net taxable values of condensate from Line 22 of the Lease Detail Supplement page(s). Enter dollars and cents.

Item 2: Tax Due on Condensate:

Enter the tax due amount on condensate by multiplying the net taxable value on condensate reported in Item 1 on this page by 0.046 (or 4.6%). Enter dollars and cents.

Item 3: Total Net Taxable Value of Gas

Enter the total net taxable values of gas for all commodities in Line 22 of the Lease Detail Supplement page(s). Do not include values that correspond with high cost gas exemption "Type 05" leases and condensate values. Enter dollars and cents.

Item 4: Tax Due on Gas

Enter the tax due amount on gas by multiplying the net taxable values of gas in Item 3 of this page by 0.075 (or 7.5%). Enter dollars and cents.

Item 5: Taxable Regulatory Fee Volume

- Leases are subject to the regulatory fee whenever approved legislative exemptions include "Yes" as being liable for tax for raw gas, lease use and product commodities. The exception is leases that are approved for the reactivated orphan well exemption are not subject to the regulatory fee. Enter whole numbers.
- Enter the sum of your volume of all leases reported in Line 16 of the Lease Detail Supplement page(s) that includes the commodities of raw gas (RG), Lease use (LU), and products (PR) less the total of all the governmental royalty volumes reported in Line 19.

- Include volumes for residue (RS) unless the residue volume is included as part of the plant products or raw gas volume. Only include leases marked "Yes" as liable for tax due in Line 18.

Item 6: Regulatory Fee Due

Enter the regulatory fee due amount by multiplying the volume in Item 5 of this page by 0.000667. Enter dollars and cents.

Item 7: Tax Due on Exemption Type 5

Enter the sum of all the reduced tax due amounts reported with high cost gas exemption "Type 05" leases in Line 24 of the Lease Detail Supplement page(s). Enter dollars and cents.

Item 8: Total Tax and Fee Due

Enter the total tax and fee due amount by adding the amounts indicated in items 2, 4, 6 and 7 of this page. Enter dollars and cents.

Item 9: Credits

Enter a credit amount only if using a credit from another report period to offset the liability in this report period. In order to process the transfer of credit, the "Credit Transfer Form for Natural Gas Tax" (Form #10-147), must be signed and submitted.

Item 10: Net Amount Due

Enter the net amount due by subtracting Item 8 from Item 9 of this page. Enter dollar and cents.

Item 11: Penalty and Interest

- If a payment is 1-30 days late, a 5 percent penalty is assessed on the tax balance due.
- If a balance is remaining after 30 days, an additional 5 percent penalty is assessed on the tax balance due.
- Interest begins to accrue on the 61 day after the due date of a report period.
- The interest rate varies annually. For current interest rate information, call the Comptroller toll-free at (877) 447-02837 or visit our Web site at: www.window.state.tx.us/taxinfo/int_rate.html

Item 12: Total Amount Due and Payable

Add the amounts in Item 10 and Item 11. Make the amount in Item 12 payable to "State Comptroller."



AMENDMENT



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a. ■ 49110

Page _____ of _____

Amended Natural Gas Tax
-- PRODUCER LEASE DETAIL SUPPLEMENT --

c. Taxpayer number
■

d. Filing period

e. Taxpayer name



f.

LOCATOR NUMBER

■ [] [] [] [] [] [] [] [] [] []

LOCATOR NUMBER

■ [] [] [] [] [] [] [] [] [] []

1. Lease name (as recorded with the Railroad Commission)

2. County of production

3. Commodity (Use the alpha codes listed in the instructions.)

4. Commodity code (Numeric)..... ■

5. Lease type ■ OIL 1 GAS 2

6. County code ■

7. Lease number..... ■ [] [] [] [] [] [] [] [] [] [] Check digit []

8. Is Item 7 a drilling permit number? ■ YES 1 NO 2

9. Exemption type ■

10. API number ■ [] [] [] [] [] [] [] [] [] []

11. Is this an off-lease sale?..... ■ YES 1 NO 2

12. Purchaser's name

13. Purchaser number ■ [] [] [] [] [] [] [] [] [] []

Enter adjusted data in Items 14 - 24.

14. Total lease volume ■ [] [] [] [] [] [] [] [] [] []

15. Is tax reimbursement included in calculating the value on this lease? ■ YES 1 NO 2

16. Your volume ■ [] [] [] [] [] [] [] [] [] []

17. Value of your volume \$ [] [] [] [] [] [] [] [] [] []

18. Are you liable for the tax? (If "NO," do not complete Items 19-24).. ■ YES 1 NO 2

19. Governmental royalty volume ■ [] [] [] [] [] [] [] [] [] []

20. Governmental royalty value \$ [] [] [] [] [] [] [] [] [] []

21. Marketing cost \$ [] [] [] [] [] [] [] [] [] []

22. Net taxable value \$ [] [] [] [] [] [] [] [] [] []

Items 23 and 24 for Exemption Type 05 leases only.

23. Type 05 reduced tax rate ■ [] [] [] [] [] [] [] [] [] []

24. Tax due on Type 05 \$ [] [] [] [] [] [] [] [] [] []

1. Lease name (as recorded with the Railroad Commission)

2. County of production

3. Commodity (Use the alpha codes listed in the instructions.)

4. Commodity code (Numeric)..... ■

5. Lease type ■ OIL 1 GAS 2

6. County code ■

7. Lease number..... ■ [] [] [] [] [] [] [] [] [] [] Check digit []

8. Is Item 7 a drilling permit number? ■ YES 1 NO 2

9. Exemption type ■

10. API number ■ [] [] [] [] [] [] [] [] [] []

11. Is this an off-lease sale?..... ■ YES 1 NO 2

12. Purchaser's name

13. Purchaser number ■ [] [] [] [] [] [] [] [] [] []

Enter adjusted data in Items 14 - 24.

14. Total lease volume ■ [] [] [] [] [] [] [] [] [] []

15. Is tax reimbursement included in calculating the value on this lease? ■ YES 1 NO 2

16. Your volume ■ [] [] [] [] [] [] [] [] [] []

17. Value of your volume \$ [] [] [] [] [] [] [] [] [] []

18. Are you liable for the tax? (If "NO," do not complete Items 19-24).. ■ YES 1 NO 2

19. Governmental royalty volume ■ [] [] [] [] [] [] [] [] [] []

20. Governmental royalty value \$ [] [] [] [] [] [] [] [] [] []

21. Marketing cost \$ [] [] [] [] [] [] [] [] [] []

22. Net taxable value \$ [] [] [] [] [] [] [] [] [] []

Items 23 and 24 for Exemption Type 05 leases only.

23. Type 05 reduced tax rate ■ [] [] [] [] [] [] [] [] [] []

24. Tax due on Type 05 \$ [] [] [] [] [] [] [] [] [] []

Locator Number

Once a report has processed, a locator number is assigned by the Comptroller’s office for each lease transaction. The purpose of the locator number is to identify the lease that needs to be corrected. Using the locator number is optional and will eliminate the need to re-enter unchanged lease data.

When using a locator number, only enter data that needs to be corrected. The locator number can be used to:

1. replace any field for Line 3 through Line 13, except Line 9 and/or
2. adjust any fields for Line 14 through Line 24, except Line 23.

When A Locator Number Cannot Be Used

1. The locator number cannot be used to amend a lease to create a new exemption item. When amending a lease to claim a new exemption, the current reverse and re-book method must be used.
2. A locator number cannot be used when amending volumes and values on a lease with raw gas commodity to a condensate commodity or condensate commodity to raw gas commodity. The reason a locator number cannot be used in this scenario is because different tax rates are involved. Using the locator number will not allow a credit balance to be created on the report total and therefore will not create a credit amount on the payment record for the amended report period.
3. If amending a report electronically, it is not recommended to amend with a locator number. The reverse and re-book method works the best when amending reports electronically.

Steps In Using A Locator Number:

1. Enter the locator number in the space provided on the lease detail supplement page.
2. Enter data that needs to be replaced and/or adjusted.
3. Leave the unchanged lines blank, if no corrections are required.

Example of Producer Amended Report Using A Locator Number:

A lease was previously reported with a:

- “county code” of 156 and
- “net taxable value” of \$30,000.
- The assigned “locator number” was 7654321 for this lease transaction.

The correct data is:

- “county code” of 159 and
- “net taxable value” of \$25,000.

To replace the “county code” from 156 to 159 and adjust the “net taxable value” from \$30,000 to \$25,000, the following data is entered on the amended report:

- 7654321 in the line for the “locator number”
- 159 to correct the “county code” in Line 6 and
- -\$5,000 credit amount to correct the “net taxable value” in Line 22.

Locator Number Example On Amended Report

LOCATOR NUMBER

7	6	5	4	3	2	1
---	---	---	---	---	---	---

1. Lease name (as recorded with the Railroad Commission)
Great Lease #1

2. County of production
Maverick

3. Commodity (Use the alpha codes listed in the instructions.)

4. Commodity code (Numeric)

5. Lease type
OIL 1 GAS 2

6. County code
1 5 9

22. Net taxable value \$ -5,000.00

Items 23 and 24 for Exemption Type 05 leases only.

23. Type 05 reduced tax rate

24. Tax due on Type 05 \$

1. **Lease Name** (as recorded with the Railroad Commission)
Enter the lease name as recorded with the Texas Railroad Commission.
2. **County of production**
Enter the county as recorded with the Texas Railroad Commission. If the lease overlaps a county line, the

county where the purchase meter is located should be shown.

3. Commodity

Enter the 2-digit alpha code for the type of commodity reported on the lease identified in Line 1 and 7.

RG - Raw Gas – Report sale or purchase of raw gas, unprocessed gas from an oil well, or gas well gas.

LU - Lease Use – Report all gas produced and used to run equipment on the lease regardless of whether it is for oil well, gas well gas or residue gas. The lease use commodity must also include miscellaneous sales of gas to persons not normally engaged in purchasing gas for resale.

When a producer reports the lease use (LU) commodity, the producer must always be shown as the purchaser in lines 12 and 13 and must mark “Yes” in Line 18 as being liable for the tax. The lease use commodity should never be reported on a purchaser report.

CN - Condensate – Report the taxable disposition and purchase of all condensate from a gas well, actual or theoretical. Condensate is the liquid hydrocarbon, or high gravity oil that is, or can be, removed from gas by a separator. It does not include absorption and separated by a fractionating process.

- Report CN-4 only when reporting a gas lease (Type “2”). It should be reported in barrels, rounded to the nearest whole barrel.
- CN-4 cannot be reported as an off-lease sale.
- CN-4 is the only commodity that cannot be reported as an oil well, type “1”, or any approved exempt code types 3, 4, 5, 6, 7, 8 or 9.
- Oil production from a well classified as type “1” must be reported on the *Texas Monthly Report of Taxable Crude Oil*.

RS - Residue Gas - Gas that has been processed and the liquids removed by a processing plant. Residue gas should only be reported when the purchaser of the products is different. If a processing plant takes title to both commodities for products and residue, report as RG-1 indicating the plant operator as the purchaser.

PR - Products - Liquid hydrocarbons extracted from a gas stream at a plant. Use the products commodity only when the purchasers of the products and residue are different. Do not use gallons extracted or shrinkage volume. Enter the total inlet volume to the processing plant as the volume (i.e., the raw gas volume delivered to the extraction plant).

4. Commodity code

Enter the 2-digit alpha code for the type of commodity reported on the lease identified in lines 1 and 7.

Numeric Commodity Code	Alpha Commodity Code
1	RG
3	LU
4	CN
5	RS
6	PR

5. Lease type

Enter the number for the designated lease type:

- 1 – oil lease
- 2 – gas lease

Note: Do not enter an exempt lease type for this item. Item 9 is now used to identify exemptions.

6. County code

Enter the Comptroller’s office 3-digit code for the county shown in Line 2. A list of county codes is available on Comptroller’s Web site at: <http://www.window.state.tx.us/taxinfo/taxforms/10-codes.html>

7. Lease number

Enter the identification number assigned by the Texas Railroad Commission for the lease shown in Line 1.

The Texas Railroad Commission assigns separate completion numbers to gas reservoirs. Therefore, the number assigned to the property becomes the lease identification number used to report volumes and values to the Comptroller’s office. The lease identification number is reported on the natural gas tax report consists of one of the following:

- Five-digit lease identification number assigned to an oil lease, plus a preceding zero.
- Six-digit gas well completion number.

- Two-digit “R3” code and four-digit identification number assigned to a plant or drip station by the Texas Railroad Commission.

Report each well separately when reporting multiple wells within one lease where only one or more wells qualify for an exemption.

Enter the check digit. The check digit is a mathematically calculated check digit used by the Comptroller’s office.

NOTE: The check-digit in Line 7 of the producer and purchaser report is no longer part of the lease identification number and it mostly used for key entry purposes. No edits are in place for the check-digit field. If a different or incorrect digit is reported, no report error will be generated.

Drilling Permit Number: When reporting volumes and values on a lease not yet assigned by the Railroad Commission, use the drilling completion number assigned to the lease until the Railroad Commission assigns a lease number. To use the drilling permit number, complete item 8.

8. Is item 7 a drilling permit number?

- If a lease number has not been assigned yet and Item 7 is a Railroad Commission assigned drilling permit number, check “Yes.”
- If item 7 is a Railroad Commissioned lease number, check “No.”

This feature was added to reduce the number of reporting errors.

9. Exemption type

Enter the number for the designated exemption type, if applicable:

- **03** – approved two-year inactive lease (beginning Sept. 1, 1997 or 9709)
- **04** – approved flared/released gas lease (beginning Sept. 1, 1997 or 9709)
- **05** – approved high-cost lease with reduced rate (beginning Sept. 1, 1996 or 9609)
- **06** – approved high-cost gas lease (beginning Sept. 1, 1991 or 9109. This exemption ended Aug. 31, 2001)
- **07** – approved three-year inactive well (beginning Sept. 1, 1991 or 9109)

- **08** – approved co-production (beginning Sept. 1, 1993 or 9309). This exemption ended Aug. 31, 2001.
- **09** – approved incremental production gas lease (beginning Sept. 1, 1997 or 9709. This exemption was suspended 0012, but was reinstated 0106, then suspended again effective 0303).
- **11** – qualifying low-producing gas well (beginning Sept. 1, 2005 or 0509).
- **12** – reactivated orphaned well (beginning Jan. 1, 2006 or 0601).

10. API number

Enter the last 8-digits of the American Petroleum Institute (API) number assigned by the Texas Railroad Commission to each well that qualifies for a well-level exemption. The API number is only required for the following well-level exemptions:

- two-year inactive well exemption (Type “03”),
- three-year inactive well exemption (Type “07”) and
- reactivated orphan well exemption (Type “12”).

If the API number is required, the correct API number must be entered or the exemption will be disallowed and the lease entry will be changed to a taxable entry.

If there are multiple exempt wells for a lease, the production must be allocated to each individual exempt API number on the lease. To do this, a lease entry must be reported for each individual exempt well.

11. Is this an off-lease sale?

- On sales where delivery is made off the lease, check “Yes” and leave lines 12 or 13 blank.
- If the sale is an on-lease sale, check “No” and complete lines 12 and 13.

12. Purchaser’s name

Enter the name of the first purchaser, if delivery is made on the lease. When reporting a sale to yourself or Lease USE (LU-3) commodity code, enter your producer name.

For an off-lease sale, leave this line blank and check “Yes” in Line 11.

13. Purchaser taxpayer number

For delivery made on the lease, enter the taxpayer number of the purchaser/processor whose name is shown in Line 12.

For an off-lease sale, leave this line blank and check “Yes” in Line 11. A taxpayer number search engine is located on the Comptroller’s Web site.

14. Total Lease Volume

Line 10 should be completed by the physical operator (i.e. operator of record listed with the Railroad Commission) and reflect 100 percent of the commodity being reported.

- Report total volume of gas produced (M.C.F.) when reporting raw gas as commodity code: RG 1.
- Report total volume used (M.C.F.), when reporting lease use as commodity code: LU 3.
- Round the total volume up to the nearest whole barrel, when reporting condensate as commodity code CN 4.
- Report the inlet volume (M.C.F.) to the plant, when reporting products as commodity code PR 6.
- Report the volume of gas (M.C.F.) actually sold under the contact, when reporting residue as commodity code RS 5.

NOTE: If a processing plant takes title to both products and residue commodities, **DO NOT** report products and residue as separate transactions. Report the raw gas as the commodity.

15. Is tax reimbursement included in calculating the value on this lease?

- If the value reported in Line 17 is adjusted for tax reimbursement, check “Yes.”
- If the value reported in Line 17 is not adjusted for tax reimbursement, check “No.”

16. Your Volume

Producers who report as operators, should report the production being sold under their own contract.

Non-operators taking their production in-kind should report their share of the production being sold under their own contract.

- Report total volume of gas produced (M.C.F.) when reporting raw gas as commodity code: RG 1.
- Report total volume used (M.C.F.), when reporting lease use as commodity code: LU 3.
- Round the total volume up to the nearest whole barrel, when reporting condensate as commodity code CN 4.
- Report the inlet volume (M.C.F.) to the plant, when reporting products as commodity code PR 6.
- Report the volume of gas (M.C.F.) actually sold under the contact, when reporting residue as commodity code RS 5.

17. Value of your volume

Enter the entire value associated with the volume indicated in line 16. This is usually referred to as the “contract price.” Cost reimbursement from the gas purchaser should be included. **Tax Reimbursement from the gas purchaser should not be included.**

18. Are you liable for the tax?

Check this box to show if you are responsible for paying tax on this lease.

- If “Yes”, complete lines 19 through 24.
Producers must always mark “Yes” in Line 18 when one of the following conditions occurs:
 - report the lease use commodity in lines 3 and 4,
 - mark “Yes” to an off-lease sale in Line 11,
 - report themselves as purchaser in lines 12 and 13.
- If “No,” do not complete lines 19 through 24.

19. Governmental royalty volume

Enter the volume of gas not subject to tax because of a governmental exempt status, such as a city, town or village government in Texas, a county government in Texas, an independent school district or or common school district in Texas, public (state owned) colleges and universities in Texas, or political subdivisions of the Federal government. (See Rule §3.14.)

DO NOT enter volumes associated with exemption types approved for a legislative tax exemption.

20. Governmental royalty value

Enter the value of gas reported in Line 19. (See Rule §3.14.)

DO NOT enter value associated with lease types approved for a legislative tax exemption.

21. Marketing cost

Enter actual marketing costs incurred. Ascertaining the producer’s actual marketing costs and subtracting these costs from the producer’s gross cash receipts from the sale of the gas shall determine the “market value at the mouth of the well.”

Marketing costs are allowable expenses incurred by the producer in getting the gas from the wellhead to market. They include:

- cost for **compressing** the gas sold,
- cost for **dehydrating** the gas sold,
- cost for **sweetening** the gas sold, and
- cost for **delivering** the gas sold.

See allowable marketing costs for more detailed information on Comptroller’s Web site: http://www.window.state.tx.us/taxinfo/nat_gas/ap116.htm

22. Net taxable value

Enter the net value of Line 17 less lines 20 and 21. Net taxable values on the original report form may never be less than zero.

Enter zero for the following legislative exemptions:

- 2-year inactive (Type “03”),
- flared and released (Type “04”),
- high cost gas (type “06”). The exemption for high cost gas (Type “06”) ended August 2001.
- 3-year inactive (Type “07”),
- co-production projects (Type “08”) leases, and
- reactivated orphaned well (Type “12”).

For high cost gas exemption (Type “05”), enter the sum of Line 17 less lines 20 and 21 and proceed to lines 23 and 24.

For incremental production (Type “09”), enter 50% of the sum if Line 17, less lines 20 and 21.

NOTE: Leases reported with a Type “09” must also have a baseline volume and value reported under a Type “1”.

For qualifying low producing gas leases (Type “11”), enter the taxable value based on the price of gas for the applicable credit.

Price Conditions

Gas from qualified wells becomes eligible for different levels of exemption from natural gas severance tax based upon the Comptroller-certified average price for the reporting month.

Average Taxable Gas Price	Exemption
More than \$3.50	No Exemption
Over \$3 to \$3.50	25 Percent Credit
Over \$2.50 to \$3	50 Percent Credit
\$2.50 or Less	100 Percent Credit

The Comptroller-certified average price of gas to be used in these calculations will be posted in the Texas Register on the Comptroller’s Web site. When the average price falls within one of the categories listed above, gas will be allowed the corresponding level of exemption for that reporting month.

23. Reduced tax rate for Type 05

Enter the 3-digit reduced tax rate for the approved high cost gas exemption Type “05” lease indicated in Line 7.

24. Tax due on Type 05

For high cost gas exemption Type “05,” enter the TAX DUE amount. This amount is the net taxable value amount reported in Item 22 times the tax rate reported in Item 23.

Monthly Purchaser Tax Report

GENERAL INFORMATION

- This report must be accompanied by all Lease Detail Supplement pages (Form #10-161). It is recommended to complete the supplement pages first, prior to completing the Report Totals and Tax Computation page.
- Do not report corrections to previous report periods on this report. The “Amended Natural Gas Tax – Purchaser Report” (Form #10-167 and #10-171) must be filed to correct previously reported data or to report data omitted from your original report.
- Do not write in shaded areas.

WHO MUST FILE?

- Every purchaser whose natural gas account is established and is authorized by the Comptroller must file this report monthly.
- As long as a purchaser is in business, this report must be filed even if the purchaser bought no gas in any

production month. Purchasers who have nothing to report for a specified report period, must mark the box in Item “j” of this page and must include a signature and date. Returning the Lease Detail Supplement (Form #10-161) page is not required when a producer has nothing to report.

- Purchasers required to file this report must report all taxable disposition of natural gas even if the producer is paying the tax.

WHEN TO FILE?

If the due date falls on a Saturday, Sunday or legal holiday, the next business day will be the due date for the following types of filers:

1. **Monthly Filers:** This report must be filed or post-marked on or before the 20 day of the second month following the month of production.



AAAA



RESET FORM

PRINT FORM

a. ■ 37180

You have certain rights under Chapters 552 and 559, Government Code, to review, request and correct information we have on file about you. Contact us at the address or toll-free number listed on this form.

Texas Comptroller of Public Accounts
PURCHASER REPORT OF NATURAL GAS TAX

Page 1 of _____

c. Taxpayer number d. Due date e. Filing period f.

h. ■ FM i. ■

g. Taxpayer name and mailing address

- 1. Blacken this box if your address has changed. Show changes by the preprinted information.
- 2. FINAL REPORT - Blacken this box if you are no longer in business and enter the last business date

j. If you have nothing to report for ALL leases for this filing period, blacken this box, sign and date this report, and return it to the Comptroller's office.

REPORT TOTALS AND TAX COMPUTATION (See instructions)

A REPORT MUST BE FILED EVEN IF NO TAX IS DUE

- 1. Total net taxable value of condensate (Enter dollars and cents.) 1. ■ \$
- 2. Tax due on condensate (Multiply Item 1 by . Enter dollars and cents.) 2. ■ \$
- 3. Total net taxable value of gas (Excluding leases with exemption Type 05 high cost gas) (Enter dollars and cents.) 3. ■ \$
- 4. Tax due on gas (Excluding leases with exemption Type 05 high cost gas) (Multiply Item 3 by . Enter dollars and cents.) 4. ■ \$
- 5. Taxable regulatory fee volume (See instructions. Round volume to whole numbers.) 5. ■
- 6. Regulatory fee due (Multiply Item 5 by . Enter dollars and cents.) 6. ■ \$
- 7. Tax due on leases with exemption Type 05 high cost gas (Total of Item 22 from attached Lease Detail Supplements, Form 10-171. Enter dollars and cents.) 7. ■ \$
- 8. Total tax and fee due (Add Items 2, 4, 6, and 7. Enter dollars and cents.) 8. ■ \$



10-157 (Rev. 4-08/2)

*** DO NOT DETACH ***

- 9. Credits (NOT valid without attached Credit Transfer Form for Natural Gas Tax, Form 10-147) 9. \$
- 10. Net amount due (Item 8 minus Item 9) 10. \$
- 11. Penalty & Interest (If report is filed or tax paid after the due date, see instructions.) 11. \$
- 12. TOTAL AMOUNT DUE AND PAYABLE (Item 10 plus Item 11) 12. ■ \$

Taxpayer name

■ T Code ■ Taxpayer number ■ Period

37020

Make the amount in Item 12 payable to: **STATE COMPTROLLER**

I declare that the information in this document and any attachments is true and correct to the best of my knowledge and belief.

Print name Business phone (Area code and number)

Mail to: COMPTROLLER OF PUBLIC ACCOUNTS
P.O. Box 149358
Austin, Texas 78714-9358

sign here Taxpayer or duly authorized agent Date

m.

777

SPECIFIC INFORMATION

Item c: Taxpayer Number:

Enter your 11-digit taxpayer number assigned by the Comptroller's office.

Item e: Filing Period:

- Monthly Filers: Enter the month and year for the report period. Example: March 2007

Item 1: Total Net Taxable Value of Condensate:

Enter the total amount of all net taxable values of condensate from Line 22 of the Lease Detail Supplement page(s). Enter dollars and cents.

Item 2: Tax Due on Condensate:

Enter the tax due amount on condensate by multiplying the net taxable value on condensate reported in Item 1 on this page by 0.046 (or 4.6%). Enter dollars and cents.

Item 3: Total Net Taxable Value of Gas

Enter the total net taxable values of gas for all commodities in Line 22 of the Lease Detail Supplement page(s). Do not include values that correspond with high cost gas exemption "Type 05" leases and condensate values. Enter dollars and cents.

Item 4: Tax Due on Gas

Enter the tax due amount on gas by multiplying the net taxable values of gas in Item 3 of this page by 0.075 (or 7.5%). Enter dollars and cents.

Item 5: Taxable Regulatory Fee Volume

- Leases are subject to the regulatory fee whenever approved legislative exemptions include "Yes" as being liable for tax for raw gas and product commodities. The exception is leases that are approved for the reactivated orphan well exemption are not subject to the regulatory fee. Enter whole numbers.
- Enter the sum of your volume of all leases reported in line 16 of the Lease Detail Supplement page(s) that includes the commodities of raw gas (RG) and products (PR) less the total of all the governmental royalty volumes reported in Line 19.
- Include volumes for residue (RS) unless the residue volume is included as part of the plant products or raw gas volume. Only include leases marked "Yes" as liable for tax due in Line 18.

Item 6: Regulatory Fee Due

Enter the regulatory fee due amount by multiplying the volume in Item 5 of this page by 0.000667. Enter dollars and cents.

Item 7: Tax Due on Exemption Type 5

Enter the sum of all the reduced tax due amounts reported with high cost gas exemption "Type 05" leases in Line 24 of the Lease Detail Supplement page(s). Enter dollars and cents.

Item 8: Total Tax and Fee Due

Enter the total tax and fee due amount by adding the amounts indicated in items 2, 4, 6 and 7 of this page. Enter dollars and cents.

Item 9: Credits

Enter a credit amount only if using a credit from another report period to offset the liability in this report period. In order to process the transfer of credit, the "Credit Transfer Form for Natural Gas Tax" (Form #10-147), must be signed and submitted.

Item 10: Net Amount Due

Enter the net amount due by subtracting Item 8 from Item 9 of this page. Enter dollar and cents.

Item 11: Penalty and Interest

- If a payment is 1-30 days late, a 5 percent penalty is assessed on the tax balance due.
- If a balance is remaining after 30 days, an additional 5 percent penalty is assessed on the tax balance due.
- Interest begins to accrue on the 61 day after the due date of a report period.
- The interest rate varies annually. For current interest rate information, call the Comptroller toll-free at (877) 447-02837 or visit our Web site at www.window.state.tx.us/taxinfo/int_rate.html

Item 12: Total Amount Due and Payable

Add the amounts in Item 10 and Item 11. Make the amount in Item 12 payable to "State Comptroller."

1. Lease Name (as recorded with the Railroad Commission)
Enter the lease name as recorded with the Texas Railroad Commission.

2. County of production
Enter the county as recorded with the Texas Railroad Commission. If the lease overlaps a county line, the county where the purchase meter is located should be shown.

3. Commodity
Enter the 2-digit alpha code for the type of commodity reported on the lease identified in lines 1 and 7.

RG - Raw Gas – Report sale or purchase of raw gas, unprocessed gas from an oil well, or gas well gas.

CN - Condensate – Report the taxable disposition and purchase of all condensate from a gas well, actual or theoretical. Condensate is the liquid hydrocarbon, or high gravity oil that is, or can be, removed from gas by a separator. It does not include absorption and separated by a fractionating process.

- Report CN-4 only when reporting a gas lease (Type “2”). It should be reported in barrels, rounded to the nearest whole barrel.
- CN-4 cannot be reported as an off-lease sale.
- CN-4 is the only commodity that cannot be reported as an oil well, type “1”, or any approved exempt code types “3, 4, 5, 6, 7, 8” or “9”.
- Oil production from a well classified as type “1” must be reported on the *Texas Monthly Report of Taxable Crude Oil*.

RS - Residue Gas – Gas that has been processed and the liquids removed by a processing plant. Residue gas should only be reported when the purchaser of the products is different. If a processing plant takes title to both commodities for products and residue, report as RG-1 indicating the plant operator as the purchaser.

PR - Products – Liquid hydrocarbons extracted from a gas stream at a plant. Use the products commodity only when the purchasers of the products and residue are different. Do not use gallons extracted or shrinkage volume. Enter the total inlet volume to the processing plant as the volume (i.e., the raw gas volume delivered to the extraction plant).

4. Commodity code
Enter the two-digit alpha code for the type of commodity reported on the lease identified in lines 1 and 7.

Numeric Commodity Code	Alpha Commodity Code
1	RG
4	CN
5	RS
6	PR

5. Lease type
Enter the number for the designated lease type:

1 – oil lease

2 – gas lease

Note: Do not enter an exempt lease type for this item. Item 9 is now used to identify exemptions.

6. County code
Enter the Comptroller’s office 3-digit code for the county shown in Line 2. A list of county codes is available on Comptroller’s Web site: <http://www.window.state.tx.us/taxinfo/taxforms/10-codes.html>

7. Lease number
Enter the identification number assigned by the Texas Railroad Commission for the lease shown in Line 1.

The Texas Railroad Commission assigns separate completion numbers to gas reservoirs. Therefore, the number assigned to the property becomes the lease identification number used to report volumes and values to the Comptroller’s office. The lease identification number is reported on the natural gas tax report consists of one of the following:

- Five-digit lease identification number assigned to an oil lease, plus a preceding zero.
- Six-digit gas well completion number.
- Two-digit “R3” code and four-digit identification number assigned to a plant or drip station by the Texas Railroad Commission.

Report each well separately when reporting multiple wells within one lease where only one or more wells qualify for an exemption.

Enter the check digit. The check digit is a mathematically calculated check digit used by the Comptroller's office.

NOTE: The check-digit in Line 7 of the producer and purchaser report is no longer part of the lease identification number and it mostly used for key entry purposes. No edits are in place for the check-digit field. If a different or incorrect digit is reported, no report error will be generated.

Drilling Permit Number: When reporting volumes and values on a lease not yet assigned by the Railroad Commission, use the drilling completion number assigned to the lease until the Railroad Commission assigns a lease number. To use the drilling permit number, complete Item 8.

8. Is item 7 a drilling permit number?

- If a lease number has not been assigned yet and Item 7 is a Railroad Commission assigned drilling permit number, check "Yes."
- If Item 7 is a Railroad Commissioned lease number, check "No."

This feature was added to reduce the number of reporting errors.

9. Exemption type

Enter the number for the designated exemption type, if applicable:

- **03** – approved two-year inactive lease (beginning Sept. 1, 1997 or 9709)
- **04** – approved flared/released gas lease (beginning Sept. 1, 1997 or 9709)
- **05** – approved high-cost lease with reduced rate (beginning Sept. 1, 1996 or 9609)
- **06** – approved high-cost gas lease (beginning Sept. 1, 1991 or 9109. This exemption ended Aug. 31, 2001)
- **07** – approved three-year inactive well (beginning Sept. 1, 1991 or 9109)
- **08** – approved co-production (beginning Sept. 1, 1993 or 9309). This exemption ended Aug. 31, 2001.
- **09** – approved incremental production gas lease (beginning Sept. 1, 1997 or 9709. This exemption was suspended 0012, but was reinstated 0106, then suspended again effective 0303).

- **11** – qualifying low-producing gas well (beginning Sept. 1, 2005 or 0509).
- **12** – reactivated orphaned well (beginning Jan. 1, 2006 or 0601).

10. API number

Enter the last 8-digits of the American Petroleum Institute (API) number assigned by the Texas Railroad Commission to each well that qualifies for a well-level exemption. The API number is only required for the following well-level exemptions:

- two-year inactive well exemption (Type "03"),
- three-year inactive well exemption (Type "07"), and
- reactivated orphan well exemption (Type "12").

If the API number is required, the correct API number must be entered or the exemption will be disallowed and the lease entry will be changed to a taxable entry.

If there are multiple exempt wells for a lease, the production must be allocated to each individual exempt API number on the lease. To do this, a lease entry must be reported for each individual exempt well.

11. Producer's name

Enter the name of the producer.

12. Producer taxpayer number

For delivery made on the lease, enter the taxpayer number of the producer whose name is shown in Line 11.

A taxpayer number search engine is located on the Comptroller's Web site: http://www.window.state.tx.us/taxinfo/nat_gas/index.html

13. Is tax reimbursement included in calculating the value on this lease?

- If the value reported in Line 15 is adjusted for tax reimbursement, check "Yes."
- If the value reported in Line 15 is not adjusted for tax reimbursement, check "No."

14. Your Volume

Enter the total volume or condensate purchased. Do not use decimals.

- Report total volume of gas produced (M.C.F.) when reporting raw gas as commodity code: RG 1.

- Round the total volume up to the nearest whole barrel, when reporting condensate as commodity code CN 4.
- Report the inlet volume (M.C.F.) to the plant, when reporting products as commodity code PR 6.
- Report the volume of gas (M.C.F.) actually sold under the contract, when reporting residue as commodity code RS 5.

15. Value of your volume

Enter the entire value associated with the volume indicated in Line 14. This is usually referred to as the “contract price.” Cost reimbursement from the gas purchaser should be included.

Tax Reimbursement should not be included.

16. Are you liable for the tax?

Check this box to show if you are responsible for paying tax on this lease.

- If “Yes,” complete lines 17 through 22.
- If “No,” do not complete lines 17 through 22.

17. Governmental royalty volume

Enter the volume of gas not subject to tax because of a governmental exempt status, such as a city, town or village government in Texas, a county government in Texas, an independent school district or common school district in Texas, public (state owned) colleges and universities in Texas, or political subdivisions of the Federal government. (See Rule §3.14.)

DO NOT enter volumes associated with exemption types approved for a legislative tax exemption.

18. Governmental royalty value

Enter the value of gas reported in Line 18. (See Rule §3.14.)

DO NOT enter value associated with lease types approved for a legislative tax exemption.

19. Marketing cost

Purchaser cannot deduct cost incurred by producer.

See allowable marketing costs for more detailed information on Comptroller’s Web site: http://www.window.state.tx.us/taxinfo/nat_gas/ap116.htm

20. Net taxable value

Enter the sum of Line 15 less lines 18 and 19 in Line 20. Net taxable values on the original report form may never be less than zero.

Enter zero for the following legislative exemptions:

- 2-year inactive (Type “03”),
- flared and released (Type “04”),
- 3-year inactive (Type “07”), and
- reactivated orphaned well (Type “12”).

For high cost gas exemption (Type “05”), enter the sum of Line 15 less lines 18 and 19 and proceed to lines 21 and 22.

For incremental production (Type “09”), enter 50 percent of the sum if Line 15, less lines 18 and 19.

NOTE: Leases reported with a Type “09” must also have a baseline volume and value reported under a Type “1.”

For qualifying low producing gas leases (Type “11”), enter the taxable value based on the price of gas for the applicable credit.

Price Conditions

Gas from qualified wells becomes eligible for different levels of exemption from natural gas severance tax based upon the Comptroller-certified average price for the reporting month.

Average Taxable Gas Price	Exemption
More than \$3.50	No Exemption
Over \$3 to \$3.50	25 Percent Credit
Over \$2.50 to \$3	50 Percent Credit
\$2.50 or Less	100 Percent Credit

The Comptroller-certified average price of gas to be used in these calculations will be posted in the Texas Register on the Comptroller’s Web site. When the average price falls within one of the categories listed above, gas will be allowed the corresponding level of exemption for that reporting month.

21. Reduced tax rate for Type 05

Enter the 3-digit reduced tax rate for the approved high cost gas exemption Type “05” lease indicated in Line 7.

22. Tax due on Type 05

For high cost gas exemption Type “05”, enter the TAX DUE amount. This amount is the net taxable value amount reported in Item 20 times the tax rate reported in Item 21.

Amended Purchaser Tax Report

GENERAL INFORMATION

- This report must be accompanied by all Lease Detail Supplement pages (Form #10-171). It is recommended to complete the supplement pages first, prior to completing the Report Totals and Tax Computation page.
- To amend more than one report period, taxpayers are required to file a separate amended report for each individual report period.
- This page must include a signature and printed name.
- Do not write in shaded areas.



AMENDMENT



RESET FORM **PRINT FORM**

a. ■ 37190

You have certain rights under Chapters 552 and 559, Government Code, to review, request and correct information we have on file about you. Contact us at the address or toll-free number listed on this form.

**Texas Comptroller of Public Accounts
Amended PURCHASER REPORT OF NATURAL GAS TAX**

Page 1 of _____

c. Taxpayer number ■	d. Due date	e. Filing period	f. ■
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h. ■ FM	i. ■

g. Taxpayer name and mailing address

1 Blacken this box if your address has changed.

THIS REPORT PAGE MUST ACCOMPANY ANY LEASE DETAIL SUPPLEMENT PAGES (Form 10-171) FOR THIS REPORTING PERIOD. It is recommended that supplement pages be completed prior to completing this page.

REPORT TOTALS AND TAX COMPUTATION (See instructions)

ENTER NET ADJUSTED AMOUNTS

1. Total net taxable value of condensate (Enter dollars and cents.)	1. ■ \$	<input type="text"/>
2. Tax due on condensate (Multiply Item 1 by . Enter dollars and cents.)	2. ■ \$	<input type="text"/>
3. Total net taxable value of gas (Excluding leases with exemption Type 05 high cost gas) (Enter dollars and cents.)	3. ■ \$	<input type="text"/>
4. Tax due on gas (Excluding leases with exemption Type 05 high cost gas) (Multiply Item 3 by . Enter dollars and cents.)	4. ■ \$	<input type="text"/>
5. Taxable regulatory fee volume (See instructions. Round volume to whole numbers.)	5. ■	<input type="text"/>
6. Regulatory fee due (Multiply Item 5 by . Enter dollars and cents.)	6. ■ \$	<input type="text"/>
7. Tax due on leases with exemption Type 05 high cost gas (Total of Item 22 from attached Lease Detail Supplements. Enter dollars and cents.)	7. ■ \$	<input type="text"/>
8. Total tax and fee due (Add Items 2, 4, 6, and 7. Enter dollars and cents.)	8. ■ \$	<input type="text"/>



10-167
(Rev. 4-08/2)

***** DO NOT DETACH *****

9. Credits (NOT valid without attached Credit Transfer Form for Natural Gas Tax, Form 10-147)	9. \$	<input type="text"/>
10. Net amount due (Item 8 minus Item 9)	10. \$	<input type="text"/>
11. Penalty & Interest (If report is filed or tax paid after the due date, see instructions.)	11. \$	<input type="text"/>
12. TOTAL AMOUNT DUE AND PAYABLE (Item 10 plus Item 11)	12. ■ \$	<input type="text"/>

Taxpayer name

■ T Code ■ Taxpayer number ■ Period

37020

Make the amount in Item 12 payable to:
STATE COMPTROLLER

I declare that the information in this document and any attachments is true and correct to the best of my knowledge and belief.

Mail to:
COMPTROLLER OF PUBLIC ACCOUNTS
P.O. Box 149358
Austin, Texas 78714-9358

Print name	Business phone (Area code and number)
sign here ▶ Taxpayer or duly authorized agent	Date

i. ■

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SPECIFIC INFORMATION

Item c: Taxpayer Number:

Enter your 11-digit taxpayer number assigned by the Comptroller's office.

Item e: Filing Period:

- **Monthly Filers:** Enter the month and year for the report period. Example: March 2007

Item 1: Total Net Taxable Value of Condensate:

Enter the total amount of all net taxable values of condensate from Line 22 of the Lease Detail Supplement page(s). Enter dollars and cents.

Item 2: Tax Due on Condensate:

Enter the tax due amount on condensate by multiplying the net taxable value on condensate reported in Item 1 on this page by 0.046 (or 4.6%). Enter dollars and cents.

Item 3: Total Net Taxable Value of Gas

Enter the total net taxable values of gas for all commodities in Line 22 of the Lease Detail Supplement page(s). Do not include values that correspond with high cost gas exemption "Type 05" leases and condensate values. Enter dollars and cents.

Item 4: Tax Due on Gas

Enter the tax due amount on gas by multiplying the net taxable values of gas in Item 3 of this page by 0.075 (or 7.5%). Enter dollars and cents.

Item 5: Taxable Regulatory Fee Volume

- Leases are subject to the regulatory fee whenever approved legislative exemptions include "Yes" as being liable for tax for raw gas and product commodities. The exception is leases that are approved for the reactivated orphan well exemption are not subject to the regulatory fee. Enter whole numbers.
- Enter the sum of your volume of all leases reported in line 16 of the Lease Detail Supplement page(s) that includes the commodities of raw gas (RG) and products (PR) less the total of all the governmental royalty volumes reported in Line 19.
- Include volumes for residue (RS) unless the residue volume is included as part of the plant products or raw gas volume. Only include leases marked "Yes" as liable for tax due in Line 18.

Item 6: Regulatory Fee Due

Enter the regulatory fee due amount by multiplying the volume in Item 5 of this page by 0.000667. Enter dollars and cents.

Item 7: Tax Due on Exemption Type 5

Enter the sum of all the reduced tax due amounts reported with high cost gas exemption "Type 05" leases in line 24 of the Lease Detail Supplement page(s). Enter dollars and cents.

Item 8: Total Tax and Fee Due

Enter the total tax and fee due amount by adding the amounts indicated in Items 2, 4, 6 and 7 of this page. Enter dollars and cents.

Item 9: Credits

Enter a credit amount only if using a credit from another report period to offset the liability in this report period. In order to process the transfer of credit, the "Credit Transfer Form for Natural Gas Tax" (Form #10-147), must be signed and submitted.

Item 10: Net Amount Due

Enter the net amount due by subtracting Item 8 from Item 9 of this page. Enter dollar and cents.

Item 11: Penalty and Interest

- If a payment is 1-30 days late, a 5 percent penalty is assessed on the tax balance due.
- If a balance is remaining after 30 days, an additional 5 percent penalty is assessed on the tax balance due.
- Interest begins to accrue on the 61 day after the due date of a report period.
- The interest rate varies annually. For current interest rate information, call the Comptroller toll-free at (877) 447-02837 or visit our Web site at: www.window.state.tx.us/taxinfo/int_rate.html

Item 12: Total Amount Due and Payable

Add the amounts in Item 10 and Item 11. Make the amount in Item 12 payable to "State Comptroller."



AMENDMENT



RESET FORM **PRINT FORM**

a. ■ 37110

Page _____ of _____

Amended Natural Gas Tax
-- PURCHASER LEASE DETAIL SUPPLEMENT --

c. Taxpayer number

d. Filing period

e. Taxpayer name



f.

LOCATOR NUMBER

LOCATOR NUMBER

1. Lease name (as recorded with the Railroad Commission)

2. County of production

3. Commodity (Use the alpha codes listed in the instructions.)

4. Commodity code (Numeric)

5. Lease type OIL 1 GAS 2

6. County code

7. Lease number Check digit

8. Is Item 7 a drilling permit number YES 1 NO 2

9. Exemption type

10. API number

11. Producer's name

1. Lease name (as recorded with the Railroad Commission)

2. County of production

3. Commodity (Use the alpha codes listed in the instructions.)

4. Commodity code (Numeric)

5. Lease type OIL 1 GAS 2

6. County code

7. Lease number Check digit

8. Is Item 7 a drilling permit number YES 1 NO 2

9. Exemption type

10. API number

11. Producer's name

12. Producer number

12. Producer number

Enter adjusted data in Items 13 - 22.

Enter adjusted data in Items 13 - 22.

13. Is tax reimbursement included in calculating the value on this lease? YES 1 NO 2

14. Your volume

15. Value of your volume \$

16. Are you liable for the tax? YES 1 NO 2

17. Governmental royalty volume

18. Governmental royalty value \$

19. Marketing cost \$

20. Net taxable value \$

13. Is tax reimbursement included in calculating the value on this lease? YES 1 NO 2

14. Your volume

15. Value of your volume \$

16. Are you liable for the tax? YES 1 NO 2

17. Governmental royalty volume

18. Governmental royalty value \$

19. Marketing cost \$

20. Net taxable value \$

Items 21 and 22 for Exemption Type 05 leases only.

Items 21 and 22 for Exemption Type 05 leases only.

21. Type 05 reduced tax rate

22. Tax due on Type 05 \$

21. Type 05 reduced tax rate

22. Tax due on Type 05 \$

Locator Number

Once a report has processed, a locator number is assigned by the Comptroller’s office for each lease transaction. The purpose of the locator number is to identify the lease that needs to be corrected. Using the locator number is optional and will eliminate the need to re-enter unchanged lease data.

When using a locator number, only enter data that needs to be corrected. The locator number can be used to:

1. replace any field for Line 3 through Line 12, except Line 9 and/or
2. adjust any fields for Line 13 through Line 22, except Line 21.

When A Locator Number Cannot Be Used

1. The locator number cannot be used to amend a lease to create a new exemption item. When amending a lease to claim a new exemption, the current reverse and re-book method must be used.
2. A locator number cannot be used when amending volumes and values on a lease with raw gas commodity to a condensate commodity or condensate commodity to raw gas commodity. The reason a locator number cannot be used in this scenario is because different tax rates are involved. Using the locator number will not allow a credit balance to be created on the report total and therefore will not create a credit amount on the payment record for the amended report period.
3. If amending a report electronically, it is not recommended to amend with a locator number. The reverse and re-book method works the best when amending reports electronically.

Steps In Using A Locator Number:

1. Enter the locator number in the space provided on the lease detail supplement page.
2. Enter data that needs to be replaced and/or adjusted.
3. Leave the unchanged lines blank, if no corrections are required.

Example of Producer Amended Report Using A Locator Number:

A lease was previously reported with a:

- “county code” of 156 and
- “net taxable value” of \$30,000.
- The assigned “locator number” was 7654321 for this lease transaction.

The correct data is:

- “county code” of 159 and
- “net taxable value” of \$25,000.

To replace the “county code” from 156 to 159 and adjust the “net taxable value” from \$30,000 to \$25,000, the following data is entered on the amended report:

- 7654321 in the line for the “locator number”
- 159 to correct the “county code” in Line 6 and
- -\$5,000 credit amount to correct the “net taxable value” in Line 20.

Locator Number Example On Amended Report

1. **Lease Name** (as recorded with the Railroad Commission)
 Enter the lease name as recorded with the Texas Railroad Commission.
2. **County of production**
 Enter the county as recorded with the Texas Railroad Commission. If the lease overlaps a county line, the

county where the purchase meter is located should be shown.

3. Commodity

Enter the 2-digit alpha code for the type of commodity reported on the lease identified in lines 1 and 7.

RG - Raw Gas – Report sale or purchase of raw gas, unprocessed gas from an oil well, or gas well gas.

CN - Condensate – Report the taxable disposition and purchase of all condensate from a gas well, actual or theoretical. Condensate is the liquid hydrocarbon, or high gravity oil that is, or can be, removed from gas by a separator. It does not include absorption and separated by a fractionating process.

- Report CN-4 only when reporting a gas lease (Type “2”). It should be reported in barrels, rounded to the nearest whole barrel.
- CN-4 cannot be reported as an off-lease sale.
- CN-4 is the only commodity that cannot be reported as an oil well, type “1”, or any approved exempt code types 3, 4, 5, 6, 7, 8 or 9.
- Oil production from a well classified as type “1” must be reported on the *Texas Monthly Report of Taxable Crude Oil*.

RS - Residue Gas – Gas that has been processed and the liquids removed by a processing plant. Residue gas should only be reported when the purchaser of the products is different. If a processing plant takes title to both commodities for products and residue, report as RG-1 indicating the plant operator as the purchaser.

PR - Products – Liquid hydrocarbons extracted from a gas stream at a plant. Use the products commodity only when the purchasers of the products and residue are different. Do not use gallons extracted or shrinkage volume. Enter the total inlet volume to the processing plant as the volume (i.e., the raw gas volume delivered to the extraction plant).

4. Commodity code

Enter the 2-digit alpha code for the type of commodity reported on the lease identified in lines 1 and 7.

Numeric Commodity Code	Alpha Commodity Code
1	RG
4	CN
5	RS
6	PR

5. Lease type

Enter the number for the designated lease type:

1 – oil lease

2 – gas lease

Note: Do not enter an exempt lease type for this item. Item 9 is now used to identify exemptions.

6. County code

Enter the Comptroller’s office 3-digit code for the county shown in Line 2. A list of county codes is available on Comptroller’s Web site: <http://www.window.state.tx.us/taxinfo/taxforms/10-codes.html>

7. Lease number

Enter the identification number assigned by the Texas Railroad Commission for the lease shown in Line 1.

The Texas Railroad Commission assigns separate completion numbers to gas reservoirs. Therefore, the number assigned to the property becomes the lease identification number used to report volumes and values to the Comptroller’s office. The lease identification number is reported on the natural gas tax report consists of one of the following:

- Five-digit lease identification number assigned to an oil lease, plus a preceding zero.
- Six-digit gas well completion number.
- Two-digit “R3” code and four-digit identification number assigned to a plant or drip station by the Texas Railroad Commission.

Report each well separately when reporting multiple wells within one lease where only one or more wells qualify for an exemption.

Enter the check digit. The check digit is a mathematically calculated check digit used by the Comptroller’s office.

NOTE: The check-digit in Line 7 of the producer and purchaser report is no longer part of the lease identification number and it mostly used for key entry purposes. No edits are in place for the check-digit field. If a different or incorrect digit is reported, no report error will be generated.

Drilling Permit Number: When reporting volumes and values on a lease not yet assigned by the Railroad Commission, use the drilling completion number assigned to the lease until the Railroad Commission assigns a lease number. To use the drilling permit number, complete item 8.

8. Is item 7 a drilling permit number?

- If a lease number has not been assigned yet and Item 7 is a Railroad Commission assigned drilling permit number, check “Yes.”
- If item 7 is a Railroad Commissioned lease number, check “No.”

This feature was added to reduce the number of reporting errors.

9. Exemption type

Enter the number for the designated exemption type, if applicable:

- **03** – approved two-year inactive lease (beginning Sept. 1, 1997 or 9709)
- **04** – approved flared/released gas lease (beginning Sept. 1, 1997 or 9709)
- **05** – approved high-cost lease with reduced rate (beginning Sept. 1, 1996 or 9609)
- **06** – approved high-cost gas lease (beginning Sept. 1, 1991 or 9109. This exemption ended Aug. 31, 2001)
- **07** – approved three-year inactive well (beginning Sept. 1, 1991 or 9109)
- **08** – approved co-production (beginning Sept. 1, 1993 or 9309). This exemption ended Aug. 31, 2001.
- **09** – approved incremental production gas lease (beginning Sept. 1, 1997 or 9709. This exemption was suspended 0012, but was reinstated 0106, then suspended again effective 0303).
- **11** – qualifying low-producing gas well (beginning Sept. 1, 2005 or 0509).
- **12** – reactivated orphaned well (beginning Jan. 1, 2006 or 0601).

10. API number

Enter the last 8-digits of the American Petroleum Institute (API) number assigned by the Texas Railroad Commission to each well that qualifies for a well-level exemption. The API number is only required for the following well-level exemptions:

- two-year inactive well exemption (Type “03”),
- three-year inactive well exemption (Type “07”), and
- reactivated orphan well exemption (Type “12”).

If the API number is required, the correct API number must be entered or the exemption will be disallowed and the lease entry will be changed to a taxable entry.

If there are multiple exempt wells for a lease, the production must be allocated to each individual exempt API number on the lease. To do this, a lease entry must be reported for each individual exempt well.

11. Producer’s name

Enter the name of the producer.

12. Producer taxpayer number

For delivery made on the lease, enter the taxpayer number of the producer whose name is shown in Line 11.

14. Your Volume

Enter the total volume or condensate purchased. Do not use decimals.

- Report total volume of gas produced (M.C.F.) when reporting raw gas as commodity code: RG 1.
- Round the total volume up to the nearest whole barrel, when reporting condensate as commodity code CN 4.
- Report the inlet volume (M.C.F.) to the plant, when reporting products as commodity code PR 6.
- Report the volume of gas (M.C.F) actually sold under the contract, when reporting residue as commodity code RS 5.

15. Value of your volume

Enter the entire value associated with the volume indicated in Line 14. This is usually referred to as the “contract price.” Cost reimbursement from the gas purchaser should be included. **Tax Reimbursement should not be included.**

16. Are you liable for the tax?

Check this box to show if you are responsible for paying tax on this lease.

- If “Yes,” complete lines 17 through 22.
- If “No,” do not complete lines 17 through 22.

17. Governmental royalty volume

Enter the volume of gas not subject to tax because of a governmental exempt status, such as a city, town or village government in Texas, a county government in Texas, an independent school district or common school district in Texas, public (state owned) colleges and universities in Texas, or political subdivisions of the Federal government. (See Rule §3.14.)

DO NOT enter volumes associated with exemption types approved for a legislative tax exemption.

18. Governmental royalty value

Enter the value of gas reported in Line 18. (See Rule §3.14.)

DO NOT enter value associated with lease types approved for a legislative tax exemption.

19. Marketing cost

Marketing cost incurred by the producer cannot be taken by the purchaser.

See allowable marketing costs for more detailed information on Comptroller’s Web site: http://www.window.state.tx.us/taxinfo/nat_gas/ap116.htm

20. Net taxable value

Enter the sum of Line 15 less lines 18 and 19 in Line 20. Net taxable values on the original report form may never be less than zero.

Enter zero for the following legislative exemptions:

- 2-year inactive (Type “03”),
- flared and released (Type “04”),
- 3-year inactive (Type “07”), and
- reactivated orphaned well (Type “12”).

For high cost gas exemption (Type “05”), enter the sum of Line 15 less lines 18 and 19 and proceed to lines 21 and 22.

For incremental production (Type “09”), enter 50 percent of the sum if Line 15, less lines 18 and 19.

NOTE: Leases reported with a Type “09” must also have a baseline volume and value reported under a Type “1.”

For qualifying low producing gas leases (Type “11”), enter the taxable value based on the price of gas for the applicable credit.

Price Conditions

Gas from qualified wells becomes eligible for different levels of exemption from natural gas severance tax based upon the Comptroller-certified average price for the reporting month.

Average Taxable Gas Price	Exemption
More than \$3.50	No Exemption
Over \$3 to \$3.50	25 Percent Credit
Over \$2.50 to \$3	50 Percent Credit
\$2.50 or Less	100 Percent Credit

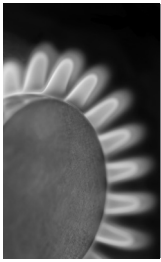
The Comptroller-certified average price of gas to be used in these calculations will be posted in the Texas Register on the Comptroller’s Web site. When the average price falls within one of the categories listed above, gas will be allowed the corresponding level of exemption for that reporting month.

21. Reduced tax rate for Type 05

Enter the 3-digit reduced tax rate for the approved high cost gas exemption Type “05” lease indicated in Line 7.

22. Tax due on Type 05

For high cost gas exemption Type “05”, enter the TAX DUE amount. This amount is the net taxable value amount reported in Item 20 times the tax rate reported in Item 21.



Legislative Exemptions

Quick Notes

Two-Year Inactive Well Exemption

Definition of Exemption	This exemption is for oil or gas wells brought back into production after being inactive for two years. The operator is allowed one month of production during that two year period.
Effective Date of Legislation	Sept. 1, 1997, extended 1999.
Length of Exemption	<ul style="list-style-type: none"> • Ten years beginning on the date of certification by the Texas Railroad Commission. • Certification for a two-year inactive well exemption by the Texas Railroad Commission ends 02/28/2010 which means credits can be recouped through 02/28/2020.
Certification	<p>Taxpayers must:</p> <ol style="list-style-type: none"> 1. obtain a certification letter from the Texas Railroad Commission (RRC) designating a well as being approved for the two-year inactive well exemption. 2. submit their application to the RRC by Aug. 31, 2009.
Comptroller's Application	<ul style="list-style-type: none"> • Taxpayers must submit a completed Comptroller's exemption application form #AP-217 and attach a copy of the letter of certification from the Texas Railroad Commission. • The Comptroller's office will send the taxpayer a letter acknowledging the two-year inactive well as being approved.
Oil Field Clean-up Regulatory Fee	<ul style="list-style-type: none"> • Approved two-year inactive wells are exempt from the oil field clean-up regulatory fee through the August 2003 report period. • Beginning with the September 2003 report period, the oil field clean-up regulatory fee is due on approved exempt wells where the taxpayer has reported as being liable for the tax for commodities reported as raw gas, lease use and products.
Exempt Natural Gas Tax	100 percent exempt
Exempt Crude Oil Tax	100 percent exempt
Condensate Tax	NOT EXEMPT
Natural Gas Tax Report	<ul style="list-style-type: none"> • "Exemption Type" must be reported as "03." • "Net Taxable Value" must be reported as zero. • "API Number" for the approved exempt well must be reported beginning with the November 2007 report period.

Legislative Exemptions

Two-Year Inactive Well Exemption (concluded)

Crude Oil Tax Report	<ul style="list-style-type: none"> • “Exemption Type” must be reported as “03.” • “Net Taxable Value” must be reported as zero. • “API Number” for the approved exempt well must be reported beginning with the December 2007 report period.
Recovery of Taxes Paid	Taxpayers must file an amended report to recover taxes paid prior to the Comptroller’s Office approval date.
One Year Limitation	None. The normal four-year statute of limitations applies.
NOTE	A “worked over” lease may not be eligible for the existing exemption under the old lease number. Taxpayers should contact the Texas Railroad Commission to determine if the new lease qualifies for an existing exemption. A new application with both the Texas Railroad Commission and the Comptroller’s office may be required.

Three-Year Inactive Well Exemption

Definition of Exemption	This exemption is for oil or gas wells brought back into production after being inactive for three years. The operator is allowed one month of production in that three year period.
Effective Date of Legislation	Sept. 1, 1993 – Feb. 28, 2006
Length of Exemption	Ten years from the date of certification by the Texas Railroad Commission. Because the last day for certification was Feb. 28, 1996, this exemption expired during March 2007.
Certification	<ul style="list-style-type: none"> • Taxpayers must obtain a certification letter from the Texas Railroad Commission designating a well as being approved for the three-year inactive exemption. • If the well was certified as part of the mass certification done by the Texas Railroad Commission on Feb. 28, 1996 then a certification letter is not needed.
Comptroller’s Application	<ul style="list-style-type: none"> • Taxpayers must submit a completed Comptroller’s exemption application form #AP-214 and attach a copy of the certification letter from the Texas Railroad Commission. • If the certification date was Feb. 28, 1996, then a certification letter is not needed.
Oil Field Clean-up Regulatory Fee	<ul style="list-style-type: none"> • Approved three-year inactive wells are exempt from the oil filed clean-up regulatory fee through the August 2003 report period. • Beginning with the September 2003 report period, the oil field clean-up regulatory fee is due on approved exempt wells where the taxpayer has reported as being liable for the tax for commodities reported as raw gas, lease use and products.
Exempt Natural Gas Tax	100 percent exempt
Exempt Crude Oil Tax	100 percent exempt
Condensate Tax	NOT EXEMPT
Natural Gas Tax Report	<ul style="list-style-type: none"> • “Exemption Type” must be reported as “07”. • “Net Taxable Value” must be reported as zero. • “API Number” for the exempt well must be reported beginning with the November 2007 report period.

S U S A N C O M B S	TEXAS COMPTROLLER <i>of</i> PUBLIC ACCOUNTS
	P.O. Box 13528 • AUSTIN, TX 78711-3528



February 6, 2008

**Example of Approval Letter for
Two-Year Inactive Well Exemption**

Dear Taxpayer:

Your application for a Two-Year Inactive Well Exemption is approved for the well indicated below. This letter and enclosed copy of the approved application should be retained for future reference.

The information below is to be used for filing and calculating your natural gas taxes. The approved Comptroller exempt type and API number must be used to report your production.

WELL NUMBER	COUNTY NUMBER	LEASE NUMBER	CHECK DIGIT	EXEMPT TYPE
40	240	142742	6	03

API NUMBER	BEGIN DATE	END DATE
479-35559	12/01/2006	11/30/2016

The approved well is eligible for the 100% natural gas tax exemption and is not exempt from the oil-field cleanup regulatory fee or condensate tax assessment. For more information on reporting this exempt type, please refer to the Natural Gas Tax Guide available at www.window.state.tx.us/taxinfo/taxpubs/tx96_203.pdf.

If you have questions, please call the Crude Oil and Natural Gas Tax Section of the Account Maintenance Division at (800) 531-5441, ext. 3-4455, or direct at (512) 463-4455.

Enclosure

Taxpayer number:

Form 10-319 (12-07)

Legislative Exemptions

Three-Year Inactive Well Exemption (concluded)

Crude Oil Tax Report	<ul style="list-style-type: none"> • “Exemption Type” must be reported as “03”. • “Net Taxable Value” must be reported as zero. • “API Number” for the exempt well must be reported beginning with the December 2007 report period.
Recovery of Taxes Paid	Taxpayers must file a credit amended report to recover taxes paid prior to the Comptroller’s Office approval date.
One Year Limitation	None. The normal four-year statute of limitations applies.
NOTE	A “worked over” lease may not be eligible for the existing exemption under the old lease number. Taxpayers should contact the Texas Railroad Commission to determine if the new lease qualifies for an existing exemption. A new application with both the Texas Railroad Commission and the Comptroller’s office may be required.

Flared/Released Gas Exemption

Definition of Exemption	<p>In 1997, the Legislature created an exemption for the marketing of gas that has been previously flared or released from oil leases.</p> <p>To qualify for this exemption, an oil lease must have flared or released the gas according to Texas Railroad Commission rules for the previous 12 months.</p>
Effective Date of Legislation	Sept. 1, 1997
Length of Exemption	Life of the well or lease.
Certification	A certification letter certifying an oil well for the flared/released exemption must be obtained from the Texas Railroad Commission.
Comptroller’s Application	<ul style="list-style-type: none"> • Taxpayers must submit a completed exemption application Comptroller’s form #AP-217 and attach a copy of the letter of certification from the Texas Railroad Commission. • The Comptroller’s office will send the taxpayer a letter acknowledging the two-year inactive well as being approved.
Oil Field Clean-up Regulatory Fee	<ul style="list-style-type: none"> • Approved leases for flared/released gas are exempt from the oil field clean-up regulatory fee through the August 2003 report period. • Beginning with the September 2003 reporting period, the oil field clean-up regulatory fee is due on approved exempt leases for flared/released gas where the taxpayer has reported as being liable for the tax for commodities reported as raw gas, lease use and products.
Exempt Natural Gas Tax	100 percent Exempt
Natural Gas Tax Report	<ul style="list-style-type: none"> • Exemption Type” must be reported as “04”. • “Net Taxable Value” must be reported as zero.
Recovery of Taxes Paid	Credit amended reports must be filed to recover the 100 percent exemption of the taxes paid prior to the Comptroller’s approval of the exemption.
One Year Limitation	None. The normal four-year statute of limitations applies.

Reactivated Orphan Well Exemption

Definition of Exemption	This exemption is for oil or gas wells that have been approved for the Texas Railroad Commission orphan-well program.
Effective Date of Legislation	Jan. 1, 2006.
Length of Exemption	This exemption begins on the first of the month following the Comptroller's approval. The exemption will last as long as the approved orphan well operator operates the well.
Certification	Taxpayers must obtain a certification letter from the Texas Railroad Commission designating a well as a reactivated orphan well.
Comptroller's Application	Taxpayers must submit a completed Comptroller's exemption application form #AP-217 and attach a copy of the certification letter from the Texas Railroad Commission.
Exempt Natural Gas Tax	Natural gas tax and the oil field cleanup regulatory fees are exempt.
Exempt Crude Oil Tax	Crude oil tax and the regulatory tax and the oil field cleanup fees are exempt.
Condensate Tax	NOT EXEMPT
Natural Gas Tax Report	<ul style="list-style-type: none"> • "Exemption Type" must be reported as "12." • "Net Taxable Value" must be reported as zero. • "API Number" for the approved exempt well must be reported beginning with the November 2007 report period.
Crude Oil Tax Report	<ul style="list-style-type: none"> • "Exemption Type" must be reported as "12." • "Net Taxable Value" must be reported as zero. • "API Number" for the approved exempt well must be reported beginning with the December 2007 report period.
Recovery of Taxes Paid	Taxpayers must file a credit amended report to recover taxes paid prior to the Comptroller's Office approval date.
One Year Limitation	None. The normal four-year statute of limitations applies.

Form AP-217 (Back)(7-05)

SPECIFIC INSTRUCTIONS

- Item e Lease and/or Well Name** Type the lease or well name as documented by the Texas Railroad Commission (RRC).
- Item f County of Production** Type the county name of the lease or well as documented by the RRC.
- Item g RRC District** Type the district number as documented by the RRC.
- Item h Lease Number** Type the lease identification number assigned by the RRC.
- Item i API Number** Type the API number assigned by the RRC.
- Item j Certification Effective Month** Type the month indicated on your RRC Certification Letter.
- Item k RRC Certification Date** Type the date indicated on your RRC Certification Letter.

In addition to a - i, complete Item l if you are applying for Credits for Qualifying Low-Producing Gas Wells Only.

- Item l Three-Month Period Used** Enter the three-month period used to qualify your production for this credit.

In addition to a - i, complete Items m - p if you are applying for Tax Credits for Enhanced Efficiency Equipment Only.

- Item m Date equipment purchased and installed** Type the date the efficiency equipment was purchased and installed.
- Item n Average well production for the month prior to equipment installation** Type the average well production for the month prior to installation of the enhanced efficiency equipment.
- Item o Total Cost of Equipment and Installation** Type the total cost of the enhanced efficiency equipment and installation. (Report whole dollars.)
- Item p Severance Tax Credit (10% of total cost but cannot exceed \$1,000 per marginal well)** Enter 10% of the total cost.

GENERAL INSTRUCTIONS

<u>Exemption Type</u>	<u>Documentation Required</u>
Two-Year Inactive Well	} RRC Certification Letter
Three-Year Inactive Well	
Flared/Released Casinghead	
Reactivated Orphaned Well	
Qualifying Low-Producing Wells	Documentation required by Comptroller Rule 3.23
Enhanced Efficiency Equipment Wells	Documentation required by Comptroller Rule 3.41

Legislative Exemptions

High Cost Gas Exemption

Definition of Exemption	<p>Natural gas can be designated by the Texas Railroad Commission as high cost gas. This gas must be produced from the following:</p> <ol style="list-style-type: none"> 1. any gas well, if production is from a completion which is located at a depth of more than 15,000 feet; 2. geopressured brine; 3. occluded natural gas produced from coal seams; 4. Devonian shale; or designated tight formations or produced as a result of production enhancement work.
Effective Date of Legislation	<ul style="list-style-type: none"> • Became effective Sept. 1, 1991 for the original 100 percent exemption. • House Bill 398 created the reduced tax rate exemption effective Sept. 1, 1997 and extended in 1999 and was changed again in 2003 to create a permanent application period.
Length of Tax Reduction for Wells Spudded After May 24, 1989 and before September 1, 1996	Wells spudded after May 24, 1989 and before Sept. 1, 1996, are exempt from the natural gas production taxes until Aug. 31, 2001.
Length of Tax Reduction for Wells Spudded After August 31, 1996	For wells spudded after Aug. 31, 1996, each well will receive a reduced tax rate, for 10 years, or until the well accumulates tax savings of 50 percent of the actual drilling and completion costs for the well.
Certification	Operators must obtain a certification letter from the Texas Railroad Commission.
Comptroller's Application	<ul style="list-style-type: none"> • Operators must submit a completed Comptroller's exemption application form #AP-180 and include a copy of the certification letter from the Texas Railroad Commission. All wells spudded after Sept. 1, 1995, must include the actual drilling and completion costs for that well. Only current costs will be allowed on new and reworked wells. • The Comptroller's application (#AP-180) must be filed the later of the 180 day after the first day of production, or the 45 day after the approval date by the Texas Railroad Commission. If this date is not met, a 10 percent penalty is assessed. • The Comptroller's office will send the taxpayer a letter acknowledging the high cost gas well as being approved. This letter will indicate if a 10 percent penalty applies to the exempt lease for certain report periods.
Oil Field Clean-up Regulatory Fee	<ul style="list-style-type: none"> • Approved high cost gas leases are exempt from the oil field clean-up regulatory fee through the August 2003 report period. • Beginning with the September 2003 reporting period, the oil field clean-up regulatory fee is due on approved high cost gas leases where the taxpayer has reported as being liable for the tax for commodities reported as raw gas, lease use and products.
Exempt Natural Gas Tax	Wells spudded after May 24, 1989, and before Sept. 1, 1996 , 100 percent exemption from natural gas tax applies. This exemption must be reported as "Exemption Type" of "06."

High Cost Gas Exemption (concluded)

Reduced Natural Gas Tax	<p>Wells spudded after Aug. 31, 1996, a reduced tax rate from natural gas tax applies. This reduced tax rate on each well is based on the actual completion and drilling costs for that well. This creates the possibility of a different reduced tax rate for each well.</p> <p>To calculate the reduced tax rate for each well:</p> <ul style="list-style-type: none"> • Divide the actual completion and drilling costs reported on the form #AP-180 by two, times the median cost of all high-cost gas wells applied for the previous state fiscal year. • Take that percentage and multiply it by the tax rate of 0.075. • This percentage is then subtracted from the normal tax rate of 0.075 to come up with the reduced tax rate.
Natural Gas Tax Report for 100% Exemption (Exemption Type 06)	<ul style="list-style-type: none"> • "Exemption Type" must be reported as "06." • Net taxable value must be reported as zero.
Natural Gas Tax Report for Reduced Natural Gas Tax (Exemption Type 05)	<ul style="list-style-type: none"> • "Exemption Type" must be reported as "05." • "Reduced Tax Rate For Type 05" should be reported. • "Tax due on Type 05" is calculated by multiplying the "Net Taxable Value" times the "Reduced Tax Rate For Type 05."
Recovery of Taxes Paid	Credit amendments must be filed to receive a credit for taxes paid prior to exemption/reduction approval by the Comptroller's office.
Limitations On Refunds	<ol style="list-style-type: none"> 1. Four-Year Statute of Limitation: The normal four-year statute of limitations applies. 2. One-Year Window Requirement: Credit amendments for report periods due and payable prior to the Comptroller signature date on the application must be filed within one year of the signature date indicated on the Comptroller's exemption application form #AP-180. 3. Two-Year Window Requirement: Beginning Jan. 1, 2004, refunds will be limited to report periods two years prior to postmark date of the Texas Railroad Commission application for exempt certification of the lease.
Penalty For Late Application Filed	If the exemption application is not received by the application deadline, the tax exemption is reduced by 10 percent for the report period beginning the 180 day after the first day of production and ending on the date the application is filed with the Comptroller.
Condensate Tax	Not Exempt
NOTE	A "worked over" lease may not be eligible for the existing exemption under the old lease number. Taxpayers should contact the Texas Railroad Commission to determine if the new lease qualifies for an existing exemption. A new application with both the Texas Railroad Commission and the Comptroller's office may be required.

Legislative Exemptions

ESTIMATING TAX REDUCTION FOR A LEASE DESIGNATED AS HIGH COST GAS

Estimates for the reduced tax rate for wells spudded or completed after Aug. 31, 1996, can be computed on the Comptroller's Web site: <http://ecpa.cpa.state.tx.us/ngrate/wellcalc.html>

High-cost gas leases may qualify for a reduced natural gas severance tax rate if the producer:

- obtains certification for the lease as a high-cost gas lease from the Texas Railroad Commission and
- completes a Texas Request for Approval of High Cost Gas Exemption or Reduced Tax Rate (form number AP-180).

The Texas Request for Approval of High Cost Gas Exemption or Reduced Tax Rate, AP-180, must be filed with the Comptroller's office at the later of the 180th day after the date of first production or the 45th day after the date of approval by the Railroad Commission.

If the application is not filed by the applicable deadline, the tax exemption or tax deduction is reduced by 10 percent for the period beginning on the 180th day after the first day of production and ending on the date on which the application is filed with the Comptroller.

The Comptroller's computer system calculates the reduced tax rate using the fiscal year drilling and completion cost median. The formula used is:

$$0.075 - [0.075 ((\text{actual drilling and completion cost}) / (2 \times \text{FY median cost}))]$$

The medians calculated for each fiscal year are:

- FY97 Median = \$ 577,392
(leases completed between 9/1/1996 to 8/31/1997)
- FY98 Median = \$ 578,491
(leases completed between 9/1/1997 to 8/31/1998)
- FY99 Median = \$ 707,706
(leases completed between 9/1/1998 to 8/31/1999)
- FY00 Median = \$ 828,463
(leases completed between 9/1/1999 to 8/31/2000)
- FY01 Median = \$ 810,503
(leases completed between 9/1/2000 to 8/31/2001)
- FY02 Median = \$ 875,599
(leases completed between 9/1/2001 to 8/31/2002)
- FY03 Median = \$ 979,318
(leases completed between 9/1/2002 to 8/31/2003)
- FY04 Median = \$1,144,985
(leases completed between 9/1/2003 to 8/31/2004)
- FY05 Median = \$ 939,000
(leases completed between 9/1/2004 to 8/31/2005)
- FY06 Median = \$1,008,893
(leases completed between 9/1/2005 to 8/31/2006)
- FY07 Median = \$1,338,843
(leases completed between 9/1/2006 to 8/31/2007)
- FY08 Median = \$2,275,342
(leases completed between 9/1/2007 to 8/31/2008)

To calculate an estimate of the reduced tax rate for a well, scroll to the bottom of the Comptroller's Web site at: <http://ecpa.cpa.state.tx.us/ngrate/wellcalc.html> and enter the information in the boxes (displayed below). Then click on the "Calculate" button (displayed below).

Enter the Month/Year natural gas well completed: /
MM/YYYY

Total Drilling and Completion Costs For High-Cost Gas Well:
Whole Dollars

(Back Page of Form AP-180)

Form AP-180 (Back)(Rev.7-08/5)

**INSTRUCTIONS FOR COMPLETING AND FOR REPORTING
DRILLING AND COMPLETION COSTS FOR HIGH-COST GAS WELLS
(AS REQUIRED BY SECTION 201.057 (f) OF THE TEXAS TAX CODE)**

GENERAL INSTRUCTIONS

HIGH COST GAS EXEMPTION OR REDUCED TAX RATE - Any producer seeking exemption from the severance tax or a reduced tax rate for gas on gas wells that are certified as High-Cost Gas wells by the Texas Railroad Commission must complete this application. A letter of certification from the Texas Railroad Commission must accompany each application. Applications for wells that are spudded or completed September 1, 1995 forward must include the drilling and completion costs.

THE FOLLOWING WELL TYPES APPLY TO THIS REQUEST:

Type:

- 5 High Cost Gas Reduced Tax Rate - wells spudded or completed 9-1-96 and later (*Taxes must be paid at the full rate until 9-1-97.*)
NOTE: If the approval is for a reduced tax rate, the ending date is the earliest of 120 months from the date of first production or when the cumulative value of the tax savings equal 50% of the drilling and completion cost.
- 6 High Cost Gas Exemption - wells spudded or completed prior to 9-1-96 (*totally exempt*)

NOTE: To recover taxes paid for periods prior to the Comptroller's signature date, amendments must be received within one year from the Comptroller's approval date.

DRILLING COSTS TO BE INCLUDED BY CATEGORY

PREDRILLING - Damage payments to surface owner and any petroleum engineering or geoscience costs associated with the well location are not to be included. All costs related to surveying, permitting, constructing roads to well sites, including fences and gates, costs to build pad, cellar, concrete pad, rat and mouse holes, conductor hole & pipe, drilling pit and liner and the cost of any water well. Costs of any environmental surveys performed including any monitoring wells drilled at or near the wellsite and the preparation of environmental impact study that may be required and any necessary remediation.

DRILLING - Day rates or footage costs including general costs associated with normal rig operations. Include rig mobilization, rig positioning and rig demobilization charges where applicable. All costs for fuel and power, mud and chemical materials used to drill and condition the hole and/or restore and maintain circulation and chemical materials such as weighting materials, lost circulation materials, crude oil, diesel oil or mineral oil used in the circulating system. Also, if applicable, include the cost for air or gas compression if used for drilling. Cost of drill bits used to drill the well from conductor to total depth including the cost of any diamond drilling bits that are used. Labor, material transportation, services, standby time, tool rentals for setting whipstocks, milling casing windows, setting casing whipstocks, cement plugs for directional drilling, any special bottomhole assemblies or equipment such as Dynadrills, Turbodrills, measurement while drilling assemblies and costs, jet deflecting stabilizers, reamers, hole openers and any other items that affect or influence the directional tendencies of a wellbore. Labor, material and services for mud logging and any drill stem testing during drilling operations. Include test analysis costs where applicable. Open-hole logging costs including wireline formation tests and inclination and directional survey costs. Costs required to cut and recover cores, including sidewall cores and core analysis. Costs of rental tools and equipment including BOP's, drill pipe, drill, collars and bottomhole assemblies, mud motors, shale shakers, degassers, desanders, desilters and centrifuges.

CASING & CEMENTING - Cost of casing, float shoes, float collars, and centralizers used in any portion of the casing program including any liners and liner hangers. Cost of cement, additives and pumping charges for the cement and costs for all plugs.

SUPPORT COSTS - Costs associated with hauling water, casing or rental equipment to the well site. Costs for special equipment testing. Costs for roustabout crews. Costs of direct supervision of drilling operations.

COMPLETION COSTS TO BE INCLUDED BY CATEGORY

SERVICES - Rig used in completion operations. If the drilling rig is used for the completion operations, the costs must be separated. All wireline operations performed in the cased hole, including logging, perforating and setting tools on wireline. Costs of any fluids used in the wellbore (except fluids used during stimulation) during well operations from the time production casing is cemented until the well is turned to sales. Costs related to testing pay intervals that cannot be attributed to any other category. Costs for site restoration and for any remediation associated with the completion operations.

WELL STIMULATION - All costs associated with stimulating the pay interval. This includes acidizing and hydraulic fracturing charges as well as equipment costs that are specifically related to stimulation operations such as frac tanks. It includes the cost of coil tubing units and operations if used.

PRODUCTION EQUIPMENT - The production tubing string, packers, bridgeplugs, tubing anchors and gravel packing. Any equipment installed on the wellhead including the wellhead itself. All equipment costs associated with gas lift or rod pumping equipment, including both down hole and surface equipment. Also included in this category is plunger lift and cavity displacement pumps and associated equipment. All equipment from the wing valve to the sales meter that is required to produce the well. This includes production, storage and separation equipment, meters, flowlines, chemical pumps and any location costs such as gates, roads and fences associated with the lease equipment. DRILLING AND COMPLETION COSTS does not include any costs incurred after the outlet of a lease separator or that would otherwise be considered a marketing cost for severance tax purposes.

SUPPORT COSTS - Costs to transport materials and equipment to the well site that are not specifically chargeable to other more specific operations. This category includes hauling casing or tubing to location, but would not include the cost to haul water for a fracture stimulation. Rental equipment used to complete the well. Costs of roustabout crews used during after drilling operations have ceased. Costs of direct supervision of completion operations.

Legislative Exemptions

(Front Page of Form #AP-180)


 AP-180
 (Rev. 7-08/5)

TEXAS REQUEST FOR APPROVAL OF HIGH COST GAS EXEMPTION OR REDUCED TAX RATE

You have certain rights under Chapters 552 and 559, Government Code, to review, request and correct information we have on file about you. Contact us at the address or toll-free number listed on this form.

T Code ■ 00990 ■ 1126

• Do not write in shaded areas.

• See instructions on back of form.

Taxpayer name, contact person and mailing address

Complete this form and mail to:
Comptroller of Public Accounts
 111 E. 17th Street
 Austin, TX 78774-0100

A LETTER OF CERTIFICATION FROM THE TEXAS RAILROAD COMMISSION MUST ACCOMPANY EACH REQUEST FOR EXEMPTION OR REDUCED TAX RATE.

Texas taxpayer number		Lease and/or well name				
Type	County code	Lease no.	Self-check digit	County of production	Date (year and month) well is spudded	RRC approval date
Railroad Commission field in which well is located			Depth of well	Effective date (year/month) well is completed	Date (year/month) of first production	

DRILLING AND COMPLETION COSTS FOR HIGH-COST GAS WELLS	
REPORT WHOLE DOLLARS	
DRILLING COSTS	COMPLETION COSTS
Pre-drilling costs	Services
Drilling costs	Stimulation
Casing & cementing	Production equipment
Support costs	Support costs
TOTAL DRILLING COSTS	TOTAL COMPLETION COSTS
TOTAL DRILLING AND COMPLETION COSTS	

NOTE: This completed form must be submitted to the Comptroller with each individual well application for a severance tax exemption or reduced tax rate.

I declare that the information in this document is true and correct to the best of my knowledge and belief.	
Name and title of authorized individual (Please type or print)	Daytime phone (Area code and number)
sign here ▶	Date

NOTE: YOU ARE REQUIRED TO REPORT THE PRODUCTION IN ACCORDANCE WITH THE INSTRUCTIONS ON THE REPORTS.

COMPTROLLER'S APPROVAL: All leases on the amended report with a high cost gas exemption are subject to a one-year and two-year window requirements, ten-percent penalty and four-year statute of limitations. The possibility of disallowed credits could occur if any of these requirements are not met.

The production from this well is approved for exemption from severance tax or a reduced tax rate (refer to exemption type) beginning with the production month of _____, _____ and ending _____, 20 ____.

sign here ▶	Approved by	Phone	Date

If you have any questions about this request, returns or any other Minerals Tax related matter, please call the Texas Comptroller of Public Accounts at (800) 252-1384 toll free nationwide. The Austin number is (512) 463-4600.

S U S A N	TEXAS COMPTROLLER <i>of</i> PUBLIC ACCOUNTS
C O M B S	P.O. Box 13528 • AUSTIN, TX 78711-3528



February 15, 2008

**Example of Approval Letter for
High Cost Gas Exempt Lease
with 10% Penalty**

Dear Taxpayer:

Your application for a High Cost Gas Exemption or Reduced Tax Rate is approved for the lease indicated below. This letter and enclosed copy of the approved application should be retained for future reference.

WELL NUMBER	COUNTY NUMBER	LEASE NUMBER	CHECK DIGIT	EXEMPT TYPE	COMPTROLLER APPROVAL DATE
3	088	213894	9	05	02/15/2008

MEDIAN COST	REDUCED TAX RATE	BEGIN DATE	END DATE	RRC CERTIFICATION RECEIVED DATE
939,000	0.000	05/01/2005	04/30/2015	08/18/2006

Please note the approved tax exemption lease is reduced by 10% for the production periods of 0511 through 0801 because the application was filed late (Section 201.057(f) Texas Tax Code). For these periods, report 10% of lease production as a lease type 2 with no exemption and report 90% of lease production as a lease type 2 with an exemption type 5.

Since the Texas Railroad Commission (RRC) certification received date for this lease is on or after January 1, 2004, your high cost gas lease refund will be limited to the amount of taxes paid in the 24 months prior to applying to the RRC for the certification.

If you paid taxes prior to being approved for the exemption, you must file amended returns to recoup the excess tax. The amended reports for the production periods 0505 through 0711 must be filed within one year of the Comptroller approval date. Excess taxes paid after the Comptroller approval date may be recouped by filing amended returns within the four-year statute of limitations.

The approved lease qualified for the reduced tax rate for 120 consecutive months or until the cumulative tax savings is equal to 50% of the total drilling and completion costs as reported on the AP-180 application, whichever comes first. You must keep accurate records of the accumulated savings so that you know when the reduced tax rate expires.

For more information about this exempt type, please refer to the Natural Gas Tax Guide available at www.window.state.tx.us/taxinfo/taxpubs/tx96_203.pdf. If you have questions, please call (800) 531-5441, ext. 3-3731, or direct at (512) 463-3731.

Enclosure

Taxpayer number:

Form 10-324-A (12-07)

S U S A N C O M B S	TEXAS COMPTROLLER <i>of</i> PUBLIC ACCOUNTS P.O. Box 13528 • AUSTIN, TX 78711-3528	
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February 1, 2008

**EXAMPLE OF 30%
ACCUMULATED SAVINGS
LETTER**

Dear Taxpayer:

Our records indicate that the high-cost gas reduced tax rate exemption for the following lease has reached an accumulated savings of 30% of the actual drilling and completion costs:

Lease Name	Lease Number	Reduced Tax Rate
ALLISON, THOMAS GAS UNIT	2-183-165663-6	0.019

Section 201.057(C) of the Texas Tax Code provides that once the accumulated tax savings for a high-cost gas reduced tax rate lease reaches 50% of the actual drilling and completion costs for that lease, the reduced tax rate will end. This letter is an advance notification that the above mentioned lease is within 30% of the tax savings limit. Once the 50% tax savings limit for this lease is reached, our records will be changed to reflect the regular tax rate of 7.5%.

If you have questions, please call the Crude Oil and Natural Gas Tax Section of the Account Maintenance Division at (800) 531-5441, ext. 3-4455, or in Austin at (512) 463-4455.

Crude Oil and Natural Gas Tax Section
 Account Maintenance Division
 P.O. Box 13528
 Austin, TX 78711-3528

S U S A N	TEXAS COMPTROLLER <i>of</i> PUBLIC ACCOUNTS P.O. Box 13528 • AUSTIN, TX 78711-3528	
C O M B S		

February 15, 2008

**EXAMPLE OF 50%
ACCUMULATED SAVINGS
LETTER**

Dear Taxpayer:

For the reporting period indicated below, our records indicate that the high-cost gas reduced tax rate exemption has reached an accumulated savings of 50% of the actual drilling and completion costs for the following lease:

Lease Name	Lease Number	Reduced Tax Rate	Ending Period
HEIL "1060"	2-148-169510-5	0.033	12/31/2007

Section 201.057(C) of the Texas Tax Code provides that once the accumulated tax savings for a high-cost gas reduced tax rate lease reaches 50% of the actual drilling and completion costs for that lease, the reduced tax rate will end. Our records have been changed to reflect that the 50% tax savings limit for this lease was reached during the filing period indicated above.

Any production reported after 12/31/2007 is subject to the normal severance tax rate of 7.5%. Please make the necessary adjustments to your natural gas tax report records for any filing periods after 12/31/2007 to show the regular tax rate and also change the exemption type from a "5" to a blank for this lease.

If you have questions, please call the Crude Oil and Natural Gas Tax Section of the Account Maintenance Division at (800) 531-5441, ext. 3-4455, or in Austin at (512) 463-4455.

Crude Oil and Natural Gas Tax Section
Account Maintenance Division
P.O. Box 13528
Austin, TX 78711-3528

Legislative Exemptions

LOW PRODUCING GAS WELL EXEMPTION

The Texas Legislature has provided a natural gas severance tax exemption for low producing gas wells. The exemption took effect September 1, 2005.

To qualify for tax exemption, production on an eligible gas well as reported to the Texas Railroad Commission during the prior three months cannot exceed 90 M. C. F. per day. The amount of exemption is based upon the average gas price certified by the Comptroller's office for a specific report month. The average gas price is based upon daily index prices for the three months immediately prior to the report month.

Qualifying Wells

Taxpayers must file a Texas Well Exemption Application, (Form #AP-217) for any gas wells that meet the production requirements stated above. The production per day will be determined by using the monthly well production report filed with the Texas Railroad Commission.

Not Exempt

- The low producing gas well exemption does not apply to casinghead gas or condensate.
- The regulatory tax and oil clean-up fee are not exempt when reporting the low producing well exemption.

Natural Gas Report Form

- Report "Exempt Type" as "11" for the low producing well exemption

- Multiply the "Net Taxable Value" in the lease detail by the applicable percentage credit.

Recovery of Taxes Paid

To recover taxes previously paid to the Comptroller's office, amended tax reports must be filed within four-year statute of limitations of a report period.

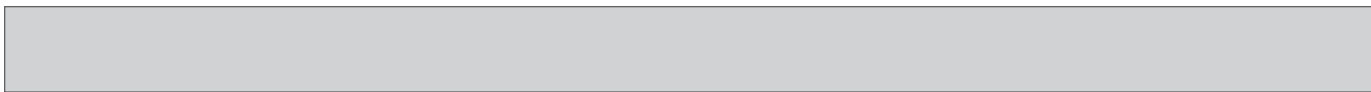
Price Conditions

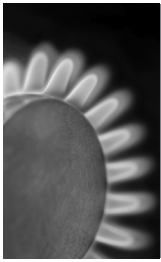
Gas from qualified wells becomes eligible for different levels of exemption from natural gas severance tax based upon the average gas price certified by the Comptroller's office for the reporting month. Below are the different levels of tax exemption.

Average Taxable Gas Price	Exemption
more than \$3.50	no exemption
over \$3.00 to \$3.50	25 percent credit
over \$2.50 to \$3.00	50 percent credit
\$2.50 or less	100 percent credit

The Comptroller-certified average price of gas to be used in these calculations will be posted in the Texas Register and the Comptroller's Web site. When the average price falls within one of the categories listed, gas will be allowed the corresponding level of exemption for that reporting month. For the most current posted prices of gas per M.C.F., refer to: http://www.window.state.tx.us/taxinfo/nat_gas/low_prod_well.html.

Report Period	Price of Gas Per M.C.F.	Eligibility
April 2009	\$3.64	Not Eligible for Exemption
March 2009	\$4.14	Not Eligible for Exemption
February 2009	\$4.76	Not Eligible for Exemption
January 2009	\$5.16	Not Eligible for Exemption
December 2008	\$5.55	Not Eligible for Exemption
November 2008	\$5.91	Not Eligible for Exemption
October 2008	\$7.01	Not Eligible for Exemption
September 2008	\$8.24	Not Eligible for Exemption
August 2008	\$9.13	Not Eligible for Exemption
July 2008	\$8.95	Not Eligible for Exemption
June 2008	\$8.22	Not Eligible for Exemption
May 2008	\$7.41	Not Eligible for Exemption
April 2008	\$6.90	Not Eligible for Exemption
March 2008	\$6.61	Not Eligible for Exemption
February 2008	\$6.44	Not Eligible for Exemption
January 2008	\$6.25	Not Eligible for Exemption
December 2007	\$5.87	Not Eligible for Exemption
November 2007	\$5.49	Not Eligible for Exemption
October 2007	\$5.37	Not Eligible for Exemption
September 2007	\$5.65	Not Eligible for Exemption
August 2007	\$5.39	Not Eligible for Exemption
July 2007	\$5.82	Not Eligible for Exemption
June 2007	\$6.16	Not Eligible for Exemption
May 2007	\$6.50	Not Eligible for Exemption
April 2007	\$6.42	Not Eligible for Exemption
March 2007	\$6.18	Not Eligible for Exemption
February 2007	\$6.17	Not Eligible for Exemption
January 2007	\$6.29	Not Eligible for Exemption
December 2006	\$6.25	Not Eligible for Exemption
November 2006	\$5.69	Not Eligible for Exemption
October 2006	\$5.40	Not Eligible for Exemption
September 2006	\$5.63	Not Eligible for Exemption
August 2006	\$5.46	Not Eligible for Exemption
July 2006	\$5.75	Not Eligible for Exemption
June 2006	\$5.91	Not Eligible for Exemption
May 2006	\$6.24	Not Eligible for Exemption
April 2006	\$6.78	Not Eligible for Exemption
March 2006	\$8.62	Not Eligible for Exemption
February 2006	\$9.82	Not Eligible for Exemption
January 2006	\$11.06	Not Eligible for Exemption
December 2005	\$10.68	Not Eligible for Exemption
November 2005	\$10.03	Not Eligible for Exemption
October 2005	\$8.35	Not Eligible for Exemption
September 2005	\$6.95	Not Eligible for Exemption





Data Changes

GENERAL INFORMATION

When natural gas tax reports are processed, report errors are identified for every reported lease transaction. One lease transaction may contain only one error message or a series of different error messages. Certain error messages are systematically changed based on the lease data reported. These types of corrections are commonly called “data changes.”

The primary reason data changes occur on a taxpayer’s account is to quickly notify the taxpayer of changes to lease data causing tax liabilities or changes to taxpayer numbers in order to avoid future reporting errors.

Provided the data changes made on a taxpayer’s account are correct, it is highly recommended taxpayers make the data change corrections on their records upon receipt of the Comptroller’s data change letter or whenever data changes are viewed on the Comptroller’s Web site. The process of verifying data changes by a taxpayer is highly critical because the data change may have caused a tax liability that was unexpected and immediate actions must be taken to resolve the tax liability. With an assigned Comptroller’s web identification number, all taxpayers have the option to view their data changes at any time on the Comptroller’s Web site: http://www.window.state.tx.us/taxinfo/nat_gas/index.html

These are the most common examples of data changes generating tax liabilities:

- Exemption has expired,
- Incorrect computation of tax due for Type 5 exemption,
- Incorrect beginning date reported for exemption,
- High cost gas exemption has reached 50 percent cap,

- Lease Use commodity reported as “NO” in “Are You Liable for Tax?” field,
- Off lease sale reported as “NO” in “Are You Liable for Tax?” field,
- 10 % penalty applies on reported exempt lease,
- One-year window requirement not met on reported exempt lease,
- Two-year window requirement not met on reported exempt lease,
- Reported exempt lease is not on Comptroller’s exempt lease records, and
- Incorrect “Net Taxable Value” reported.

If a taxpayer finds that the Comptroller’s office data changes are indeed invalid, the taxpayer can contact their assigned examiner and provide the pertinent information so the assigned examiner can process the corrections to the data changed immediately.

Letters from the Comptroller’s office to taxpayers are mailed on a weekly basis after an original and/or amended report has processed informing the taxpayer data changes were identified for a specific report period.

Letters from the Comptroller’s office to taxpayers who file:

1. electronically, inform the taxpayer to view their report errors on the web.
2. on paper, include a data change list identifying the changes made.

Whether the data change list is viewed on paper or on the Web, the format of the data change list is the same.

Data Changes

LIST OF REASONS FOR DATA CHANGES

Below is a list of the most common data changes for lease detail. Five columns indicate the following:

- A. First column: Line number,
- B. Second column: Affected field name,
- C. Third column: Data change message generated,
- D. Fourth column: Reason for data change, and
- E. Fifth column: How the data was changed.

A	B	C	D	E
#	AFFECTED FIELDS	DATA CHANGE MESSAGE	REASON FOR DATA CHANGE	HOW DATA WAS CHANGED
1	LEASE TYPE	LEASE TYPE HAS CHANGED	REPORTED LEASE TYPE NOT SET UP ON COMPTROLLER'S RECORDS.	THIS FIELD CHANGED TO REFLECT THE LEASE TYPE ON THE COMPTROLLER'S RECORDS.
2	TAXPAYER NUMBER (ON PRODUCER'S REPORT)	PURCHASER NUMBER MUST EQUAL PRIMARY NUMBER WITH LEASE USE	REPORTED WITH A TAXPAYER NUMBER AND	
	COMMODITY CODE (ON PRODUCER'S REPORT)		REPORTED AS "3" FOR LEASE USE AND	
	ARE YOU LIABLE FOR TAX?		REPORTED AS "YES" AND	
	PURCHASER TAXPAYER NUMBER		REPORTED WITH A TAXPAYER NUMBER THAT IS NOT THE SAME AS THE PRODUCER TAXPAYER NUMBER.	THIS FIELD CHANGED TO REFLECT THE SAME AS THE PRODUCER TAXPAYER NUMBER.
3	IS THIS AN OFF-LEASE SALE? (ON PRODUCER'S REPORT)	PURCHASER NUMBER HAS CHANGED	REPORTED AS "YES" AND	
	PURCHASER TAXPAYER NUMBER		REPORTED WITH A PURCHASER TAXPAYER NUMBER.	THIS FIELD CHANGED TO A BLANK BECAUSE OFF LEASE SALE WAS REPORTED AS "YES".
4	PURCHASER TAXPAYER NUMBER	PURCHASER NUMBER HAS CHANGED	REPORTED WITH A PURCHASER NUMBER.	THIS FIELD CHANGED BECAUSE THE PURCHASER REQUESTED THE COMPTROLLER'S OFFICE CHANGE THEIR PURCHASER TAXPAYER NUMBER.
5	TAXPYER NUMBER (ON PURCHASER'S REPORT)	PURCHASER NUMBER HAS CHANGED	REPORTED WITH 9 OR 10 DIGITS.	THIS FIELD CHANGED TO 11 DIGITS TO REFLECT THE PURCHASER TAXPAYER NUMBER FIELD ON THE COMPTROLLER'S RECORDS
6	TAXPAYER NUMBER (ON PRODUCER'S REPORT)	LIABLE FOR TAX HAS CHANGED	REPORTED THE SAME AS PURCHASER TAXPAYER NUMBER AND	
	PURCHASER TAXPAYER NUMBER		REPORTED THE SAME AS TAXPAYER NUMBER FIELD AND	
	ARE YOU LIABLE FOR TAX?		REPORTED AS "NO".	THIS FIELD CHANGED TO "YES" BECAUSE TAX IS DUE WHEN PRODUCER AND PURCHASER TAXPAYER NUMBER ARE THE SAME.
7	IS THIS AN OFF-LEASE SALE? (ON PRODUCER'S REPORT)	LIABLE FOR TAX HAS CHANGED	REPORTED AS "YES" AND	
	NET TAXABLE VALUE		REPORTED AS ZERO OR BLANK.	THIS FIELD CHANGED TO REFLECT THE TAX LIABILITY BECAUSE TAX IS DUE WHEN OFF LEASE SALE IS REPORTED AS "YES".
8	TAXPAYER NUMBER (ON PRODUCER'S REPORT)	LIABLE FOR TAX HAS CHANGED	REPORTED WITH A TAXPAYER NUMBER AND	
	COMMODITY CODE		REPORTED AS "3" AND	
	ARE YOU LIABLE FOR TAX?		REPORTED AS "NO" AND CHANGED TO "YES" BECAUSE TAX IS DUE WHEN COMMODITY CODE IS REPORTED AS "3" AND	
	NET TAXABLE VALUE		REPORTED AS ZERO OR BLANK.	THIS FIELD CHANGED TO REFLECT THE TAX LIABILITY BECAUSE TAX IS DUE WHEN COMMODITY CODE IS REPORTED AS "3".
9	IS TAX REIMBURSEMENT INCLUDED IN CALCULATING THE VALUE ON THIS LEASE?	TAX REIMBURSEMENT HAS CHANGED	REPORTED AS BLANK	THIS FIELD CHANGED TO "NO".

A	B	C	D	E
#	AFFECTED FIELDS	DATA CHANGE MESSAGE	REASON FOR DATA CHANGE	HOW DATA WAS CHANGED
10	EXEMPTION TYPE	EXEMPTION TYPE NOT VALID WITH DRILLING PERMIT NUMBER--EXEMPTION DISALLOWED	REPORTED AS AN EXEMPTION AND	THIS FIELD CHANGED TO A BLANK BECAUSE AN EXEMPTION IS NOT ALLOWED WHEN A DRILLING PERMIT NUMBER IS REPORTED.
	IS ITEM 7 A DRILLING PERMIT NUMBER?		REPORTED AS "YES" AND	
	LEASE NUMBER		REPORTED WITH A DRILLING PERMIT NUMBER AND THIS NUMBER IS ON COMPTROLLER'S RECORDS AND	
	NET TAXABLE VALUE		REPORTED WITH A BLANK OR ZERO.	THIS FIELD CHANGED TO REFLECT THE TAX LIABILITY BECAUSE AN EXEMPTION IS NOT ALLOWED WHEN A DRILLING PERMIT NUMBER IS REPORTED.
11	EXEMPTION TYPE	EXEMPTION TYPE NOT VALID WITH INVALID LEASE NUMBER--EXEMPTION DISALLOWED	REPORTED AS AN EXEMPTION AND	THIS FIELD CHANGED TO A BLANK BECAUSE LEASE NUMBER IS NOT ON COMPTROLLER'S LEASE RECORDS.
	LEASE NUMBER		REPORTED WITH A LEASE NUMBER AND	
	NET TAXABLE VALUE		REPORTED AS BLANK OR ZERO.	THIS FIELD CHANGED TO REFLECT THE TAX LIABILITY BECAUSE THE REPORTED EXEMPTION IS NOT ON COMPTROLLER'S EXEMPT LEASE RECORDS.
12	EXEMPTION TYPE	(1) EXEMPTION TYPE NOT SET UP -- EXEMPTION DISALLOWED (2) EXEMPTION TYPE CANNOT REPORT EXEMPTION TYPE WITH CONDENSATE	REPORTED AS AN EXEMPTION AND	THIS FIELD CHANGED TO A BLANK BECAUSE CONDENSATE IS NOT EXEMPT.
	COMMODITY CODE		REPORTED AS "4" AND	
	NET TAXABLE VALUE		REPORTED AS BLANK OR ZERO.	THIS FIELD CHANGED TO REFLECT THE TAX LIABILITY BECAUSE CONDENSATE IS NOT EXEMPT.
13	EXEMPTION TYPE	EXEMPTION TYPE NO WELL EXEMPTIONS EXIST FOR THIS LEASE	REPORTED AS "03" OR "07" AND	THIS FIELD CHANGED BECAUSE THE EXEMPTION IS NOT ON COMPTROLLER'S EXEMPT LEASE RECORDS.
	LEASE NUMBER		REPORTED A LEASE NUMBER THAT IS ON COMPTROLLER'S RECORDS AND	
	NET TAXABLE VALUE		REPORTED AS BLANK OR ZERO.	THIS FIELD CHANGED TO REFLECT THE TAX LIABILITY BECAUSE THE REPORTED EXEMPTION IS NOT ON COMPTROLLER'S EXEMPT LEASE RECORDS.
14	EXEMPTION TYPE	EXEMPTION TYPE NOT VALID FOR PERIOD - EXEMPTION DISALLOWED	REPORTED AS AN EXEMPTION AND	THIS FIELD CHANGED TO A BLANK BECAUSE EXEMPTION IS NOT ACTIVE ON COMPTROLLER'S EXEMPT LEASE RECORDS FOR THE REPORT PERIOD FILED.
	NET TAXABLE VALUE		REPORTED WITH AN AMOUNT OF ZERO OR GREATER AND	THIS FIELD CHANGED TO REFLECT TAX LIABILITY BECAUSE THE REPORTED EXEMPTION IS NOT ACTIVE ON COMPTROLLER'S EXEMPT LEASE RECORDS FOR THE REPORT PERIOD FILED.
	TAX DUE ON TYPE 05		REPORTED WITH AN AMOUNT OF GREATER THAN ZERO.	THIS FIELD CHANGED TO ZERO ON LEASES REPORTED AS "TYPE 05" EXEMPTION BECAUSE THE REPORTED EXEMPTION IS NOT ACTIVE ON COMPTROLLER'S EXEMPT LEASE RECORDS FOR THE REPORT PERIOD FILED.
15	EXEMPTION TYPE	EXEMPTION TYPE IS INVALID -- EXEMPTION DISALLOWED	REPORTED AS AN EXEMPTION AND	THIS FIELD CHANGED TO A BLANK BECAUSE EXEMPTION IS INVALID AND NOT ON COMPTROLLER'S EXEMPT LEASE RECORDS.
	NET TAXABLE VALUE		REPORTED WITH AN AMOUNT OF ZERO OR GREATER AND	THIS FIELD CHANGED TO REFLECT TAX LIABILITY BECAUSE THE REPORTED EXEMPTION IS INVALID AND NOT ON COMPTROLLER'S EXEMPT LEASE RECORDS.
	TAX DUE ON TYPE 05		REPORTED WITH AN AMOUNT OF GREATER THAN ZERO.	THIS FIELD CHANGED TO ZERO ON LEASES REPORTED AS "TYPE 05" EXEMPTION BECAUSE THE REPORTED EXEMPTION IS INVALID AND NOT ON COMPTROLLER'S EXEMPT LEASE RECORDS.

Data Changes

A	B	C	D	E
#	AFFECTED FIELDS	DATA CHANGE MESSAGE	REASON FOR DATA CHANGE	HOW DATA WAS CHANGED
16	EXEMPTION TYPE	EXEMPTION TYPE NOT SET UP - EXEMPTION DISALLOWED	REPORTED AS AN EXEMPTION AND	THIS FIELD CHANGED TO A BLANK BECAUSE EXEMPTION IS NOT ON COMPTROLLER'S EXEMPT LEASE RECORDS.
	NET TAXABLE VALUE		REPORTED WITH AN AMOUNT OF ZERO OR GREATER AND	THIS FIELD CHANGED TO REFLECT TAX LIABILITY BECAUSE THE REPORTED EXEMPTION IS NOT ON COMPTROLLER'S EXEMPT LEASE RECORDS.
	TAX DUE ON TYPE 05		REPORTED WITH AN AMOUNT OF GREATER THAN ZERO.	THIS FIELD CHANGED TO ZERO ON LEASES REPORTED AS "TYPE 05" EXEMPTION BECAUSE THE REPORTED EXEMPTION IS NOT ON COMPTROLLER'S EXEMPT LEASE REOCRDS.
17	FILING PERIOD	EXEMPTION TYPE -- ERROR ONE YEAR WINDOW REQUIREMENT NOT MET EXEMPTION	REPORTED A FILING PERIOD AND	
	EXEMPTION TYPE		REPORTED AS EXEMPTION "05" AND	THIS FIELD CHANGED TO A BLANK BECAUSE THE ONE-YEAR WINDOW REQUIREMENT WAS NOT MET FOR THE REPORT PERIOD FILED.
	TAX DUE ON TYPE 05		REPORTED AS AN AMOUNT GREATER THAN ZERO.	THIS FIELD CHANGED TO ZERO BECAUSE THE ONE-YEAR WINDOW REQUIREMENT WAS OT MET FOR THE REPORT PERIOD FILED.
18	EXEMPTION TYPE	EXEMPTION TYPE FOR WELL MUST HAVE VALID API NR - EXEMPTION DISALLOWED	REPORTED AS "03" OR "07" AND	THIS FIELD CHANGED TO A BLANK BECAUSE THE API NUMBER IS NOT ON COMPTROLLER'S RECORDS.
	API NUMBER		REPORTED API NUMBER AND	THIS FIELD CHANGED TO A BLANK BECAUSE THE API NUMBER REPORTED IS NOT ON COMPTROLLER'S RECORDS.
	NET TAXABLE VALUE		REPORTED AS ZERO OR BLANK.	THIS FIELD CHANGED TO REFLECT THE TAX LIABILITY BECAUSE THE API NUMBER REPORTED FOR THE EXEMPTION TYPE IS NOT ON COMPTROLLER'S RECORDS.
19	EXEMPTION TYPE	ERROR TWO-YEAR WINDOW REQUIREMENT NOT MET EXEMPTION	REPORTED AS "05" AND	THIS FIELD CHANGED TO A BLANK BECAUSE TWO-YEAR WINDOW REQUIREMENT WAS NOT MET.
	TAX DUE ON TYPE 05		REPORTED AS AN AMOUNT OF ZERO OR GREATER.	THIS FIELD CHANGED TO A BLANK BECAUSE THE TWO-YEAR WINDOW REQUIREMENT WAS NOT MET AND TAX LIABILITY IS DUE.
20	EXEMPTION TYPE	ERROR EXEPTION TYPE HAS REACHED 50% CAP ON FILING PRD EXEMTION	REPORTED AS "05" AND	THIS FIELD CHANGED TO A BLANK BECAUSE THE 50% ACCUMULATED SAVINGS CAP WAS REACHED FOR THE EXEMPT LEASE REPORTED.
	TAX DUE ON TYPE 05		REPORTED AS AN AMOUNT OF ZERO OR GREATER.	THIS FIELD CHANGED TO A BLANK BECAUSE THE 50% ACCUMULATED SAVINGS CAP WAS REACHED AND TAX LIABILITY IS DUE.

A	B	C	D	E
#	AFFECTED FIELDS	DATA CHANGE MESSAGE	REASON FOR DATA CHANGE	HOW DATA WAS CHANGED
21	LEASE TYPE	LEASE DETAIL EXEMPTION 05 AMENDED FOR 10% PENALTY	REPORTED AS "2" AND	
	EXEMPTION TYPE		REPORTED AS "05" AND	
	YOUR VOLUME		REPORTED WITH A VOLUME AMOUNT GREATER THAN ZERO AND	THIS FIELD CHANGED TO REFLECT A 10% REDUCTION OF THE VOLUME ORIGINALLY REPORTED BECAUSE A 10% PENALTY APPLIED FOR LATE EXEMPTION APPLICATION RECEIVED.
	VALUE OF YOUR VOLUME		REPORTED WITH A VALUE AMOUNT GREATER THAN ZERO AND	THIS FIELD CHANGED TO REFLECT A 10% REDUCTION OF THE VALUE ORIGINALLY REPORTED BECAUSE A 10% PENALTY APPLIED FOR LATE EXEMPTION APPLICATION RECEIVED.
	GOVERNMENTAL ROYALTY VOLUME		REPORTED WITH A VOLUME AMOUNT GREATER THAN ZERO AND	THIS FIELD CHANGED TO REFLECT A 10% REDUCTION OF THE VOLUME ORIGINALLY REPORTED BECAUSE A 10% PENALTY APPLIED FOR LATE EXEMPTION APPLICATION RECEIVED.
	GOVERNMENTAL ROYALTY VALUE		REPORTED WITH A VALUE AMOUNT GREATER THAN ZERO AND	THIS FIELD CHANGED TO REFLECT A 10% REDUCTION OF THE VALUE ORIGINALLY REPORTED BECAUSE A 10% PENALTY APPLIED FOR LATE EXEMPTION APPLICATION RECEIVED.
	MARKETING COSTS		REPORTED WITH A VALUE AMOUNT GREATER THAN ZERO AND	THIS FIELD CHANGED TO REFLECT A 10% REDUCTION OF THE VALUE ORIGINALLY REPORTED BECAUSE A 10% PENALTY APPLIED FOR LATE EXEMPTION APPLICATION RECEIVED.
	NET TAXABLE VALUE		REPORTED WITH A VALUE AMOUNT GREATER THAN ZERO AND	THIS FIELD CHANGED TO REFLECT A 10% REDUCTION OF THE VALUE ORIGINALLY REPORTED BECAUSE A 10% PENALTY APPLIED FOR LATE EXEMPTION APPLICATION RECEIVED.
	TAX DUE ON TYPE 05		REPORTED WITH A TAX DUE AMOUNT OF ZERO OR GREATER.	THIS FIELD CHANGED TO REFLECT A 10% REDUCTION OF THE TAX DUE AMOUNT ORIGINALLY REPORTED BECAUSE A 10% PENALTY APPLIED FOR LATE EXEMPTION APPLICATION RECEIVED.

Data Changes

A	B	C	D	E
#	AFFECTED FIELDS	DATA CHANGE MESSAGE	REASON FOR DATA CHANGE	HOW DATA WAS CHANGED
22	LEASE TYPE	LEASE DETAIL EXEMPTION 05 AMENDED FOR 10% PENALTY	REPORTED AS "2" AND	
	YOUR VOLUME		REPORTED AS ZERO AND	THIS FIELD CHANGED TO REFLECT A 10% "YOUR VOLUME" AMOUNT BASED ON THE "YOUR VOLUME" AMOUNT ORIGINALLY REPORTED UNDER THE TYPE 05 LEASE BECAUSE A 10% PENALTY APPLIED FOR LATE EXEMPTION APPLICATION RECEIVED.
	VALUE OF YOUR VOLUME		REPORTED AS ZERO AND	THIS FIELD CHANGED TO REFLECT A 10% "VALUE OF YOUR VOLUME" AMOUNT BASED ON THE "VALUE OF YOUR VOLUME" AMOUNT ORIGINALLY REPORTED UNDER THE TYPE 05 LEASE BECAUSE A 10% PENALTY APPLIED FOR LATE EXEMPTION APPLICATION RECEIVED.
	GOVERNMENTAL ROYALTY VOLUME		REPORTED AS ZERO AND	THIS FIELD CHANGED TO REFLECT A 10% "GOVERNMENTAL ROYALTY VOLUME" AMOUNT BASED ON THE "GOVERNMENTAL ROYALTY VOLUME" AMOUNT ORIGINALLY REPORTED UNDER THE TYPE 05 LEASE BECAUSE A 10% PENALTY APPLIED FOR LATE EXEMPTION APPLICATION RECEIVED.
	GOVERNMENTAL ROYALTY VALUE		REPORTED AS ZERO AND	THIS FIELD CHANGED TO REFLECT A 10% "GOVERNMENTAL ROYALTY VALUE" AMOUNT BASED ON THE "GOVERNMENTAL ROYALTY VALUE" AMOUNT ORIGINALLY REPORTED UNDER THE TYPE 05 LEASE BECAUSE A 10% PENALTY APPLIED FOR LATE EXEMPTION APPLICATION RECEIVED.
23	MARKETING COSTS	NET TAXABLE VALUE ADJUSTED -- EXEMPTION DENIED	REPORTED AS ZERO AND	THIS FIELD CHANGED TO REFLECT A 10% "MARKETING COST" AMOUNT BASED ON THE "MARKETING COST" AMOUNT ORIGINALLY REPORTED UNDER THE TYPE 05 LEASE BECAUSE A 10% PENALTY APPLIED FOR LATE EXEMPTION APPLICATION RECEIVED.
	NET TAXABLE VALUE		REPORTED AS ZERO.	THIS FIELD CHANGED TO REFLECT A 10% "NET TAXABLE VALUE" AMOUNT BASED ON THE "NET TAXABLE VALUE" AMOUNT ORIGINALLY REPORTED UNDER THE TYPE 05 LEASE BECAUSE A 10% PENALTY APPLIED FOR LATE EXEMPTION APPLICATION RECEIVED.
	EXEMPTION TYPE		REPORTED AS "05" AND	THIS FIELD CHANGED TO A BLANK BECAUSE THE "05" EXEMPTION IS NOT ON COMPTROLLER'S LEASE EXEMPTION RECORDS AND TAX IS DUE.
24	NET TAXABLE VALUE	NET TAXABLE VALUE INCORRECT COMPUTATION	REPORTED WITH A "NET TAXABLE VALUE" AMOUNT OF ZERO OR GREATER.	THIS FIELD CHANGED TO COMPUTE THE TAX DUE SINCE THE "05" EXEMPTION IS NOT ON COMPTROLLER'S LEASE EXEMPTION RECORDS.
	EXEMPTION TYPE		REPORTED AS "05" AND	THIS FIELD CHANGED TO REFLECT THE CORRECT COMPUTATION FOR THE REPORTED TYPE 05 LEASE.
25	TAX DUE ON TYPE 05	TYPE 05 REDUCED RATE ADJUSTED - EXEMPTION DENIED	REPORTED AS A TAX DUE AMOUNT OF ZERO OR GREATER.	THIS FIELD CHANGED TO A BLANK BECAUSE THE EXEMPTION IS NOT ON COMPTROLLER'S RECORDS.
	EXEMPTION TYPE		REPORTED AS "05" AND	THIS FIELD CHANGED TO A BLANK BECAUSE THE EXEMPTION IS NOT ON COMPTROLLER'S RECORDS.

A	B	C	D	E
#	AFFECTED FIELDS	DATA CHANGE MESSAGE	REASON FOR DATA CHANGE	HOW DATA WAS CHANGED
26	EXEMPTION TYPE	TYPE 05 REDUCED RATE - INCORRECT EXEMPTION RATE REPORTED	REPORTED AS "05" AND	THIS FIELD CHANGED TO REFLECT THE CORRECT COMPUTATION BASED ON THE REDUCED TAX RATE SHOWN ON THE COMPTROLLER'S EXEMPT LEASE RECORDS.
	TAX DUE ON TYPE 05		REPORTED AS A TAX DUE AMOUNT OF ZERO OR GREATER.	
27	EXEMPTION TYPE	TAX DUE ON TYPE 05 ADJUSTED - EXEMPTION DENIED	REPORTED AS "05" AND	THIS FIELD CHANGED TO A BLANK BECAUSE THE TYPE 05 LEASE IS NOT ON COMPTROLLER'S RECORDS.
	TYPE 05 REDUCED TAX RATE		REPORTED A TAX RATE AND	THIS FIELD CHANGED TO A BLANK BECAUSE THE TYPE 05 EXEMPT LEASE IS NOT ON COMPTROLLER'S RECORDS.
	TAX DUE ON TYPE 05		REPORTED AS A TAX DUE AMOUNT OF ZERO OR GREATER.	THIS FIELD CHANGED TO A BLANK BECAUSE THE TYPE 05 EXEMPT LEASE IS NOT ON COMPTROLLER'S RECORDS.
28	EXEMPTION TYPE	TYPE 05 REDUCED TAX RATE ADJUSTED -- EXEMPTION DENIED	REPORTED AS "05" AND	THIS FIELD CHANGED TO A BLANK BECAUSE THE TYPE 05 LEASE IS NOT ON COMPTROLLER'S RECORDS.
	TYPE 05 REDUCED TAX RATE		REPORTED A TAX RATE AND	THIS FIELD CHANGED TO A BLANK BECAUSE THE TYPE 05 EXEMPT LEASE IS NOT ON COMPTROLLER'S RECORDS.
	TAX DUE ON TYPE 05		REPORTED AS A TAX DUE AMOUNT OF ZERO OR GREATER.	THIS FIELD CHANGED TO A BLANK BECAUSE THE TYPE 05 EXEMPT LEASE IS NOT ON COMPTROLLER'S RECORDS.

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		P.O. Box 13528 • AUSTIN, TX 78711-3528	

February 22, 2008

**EXAMPLE ERROR MESSAGE LETTER
FOR TAXPAYERS WHO FILE
ELECTRONIC REPORTS**

Dear Taxpayer:

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For examples and more information on how to file amended reports, please visit our Web site at www.window.state.tx.us/taxinfo/taxpubs/ or call toll free at (800) 531-5441, ext. 3-4455, option 1. The Austin number is (512) 463-4455, option 1.

Crude Oil and Natural Gas Tax Section
Account Maintenance Division
P.O. Box 13528
Austin, TX 78711-3528

Taxpayer number:

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C O M B S		

February 22, 2008

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P.O. Box 13528
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Enclosure

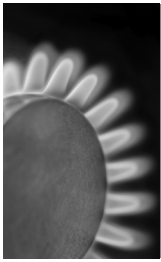
Taxpayer number:

Form 10-348-B (12-07)

Data Changes

Example of Data Change List Mailed With Cover Letter for Taxpayers Who File Paper Reports

PERIOD: 0802		STATE OF TEXAS					PAGE: 1	
TP NUMBER:		COMPTROLLER OF PUBLIC ACCOUNTS					DATE: 05/03/2008	
TP NAME:		NATURAL GAS PRODUCER TAX REPORT					SEQUENCE: 000004	
DETAIL SUPPLEMENT DATA CHANGED LIST								
LOCATOR NUMBER	COMMODITY CODE COUNTY NAME DRLG PERMIT	LEASE TYPE COUNTY CODE LEASE NUMBER	EXEMPTION TY API NUMBER OFF LSE/TAX RE	PURCHASER NBR PURCHASER NAME LIABLE FOR TAX	TOT LEASE VOL YOUR VOL VAL YOUR VOL	GOVT RYLTY VOL GOVT RYLTY VAL MRKTG COSTS	NET TAX VAL TYPE 05 REDUCED RATE TAX DUE TYPE 05	
0000002	1 - RAW GAS GOLIAD NO	2-GAS 088 000980	- YES/NO	OFF LEASE SALE YES	0 130 984.10	0 0.00 450.00	534.10 0.00	
DATA CHANGED - EXEMPTION TYPE IS INVALID - EXEMPTION DISALLOWED								
DATA CHANGED - TAX REIMBURSEMENT HAS CHANGED								
0000015	1 - RAW GAS GOLIAD NO	2-GAS 088 089864	- YES/NO	OFF LEASE SALE YES	2,524 2,524 19,108.68	0 0.00 3,365.00	15,741.68 0.00	
DATA CHANGED - EXEMPTION TYPE IS INVALID - EXEMPTION DISALLOWED								
DATA CHANGED - TAX REIMBURSEMENT HAS CHANGED								
0000004	1 - RAW GAS GOLIAD NO	2-GAS 088 086917	- YES/NO	OFF LEASE SALE YES	2,692 2,692 20,593.80	0 0.00 7,662.50	12,931.30 0.00	
DATA CHANGED - LIABLE FOR TAX HAS CHANGED								
0000009	1 - RAW GAS GOLIAD NO	2-GAS 088 125079	03 175-32248 YES/NO	OFF LEASE SALE YES	111 111 831.14	0 0.00 0.00	0.00 0.00	
DATA CHANGED - TAX REIMBURSEMENT HAS CHANGED								
0000017	1 - RAW GAS GOLIAD NO	2-GAS 088 143106	- YES/NO	OFF LEASE SALE YES	102 102 772.14	0 0.00 350.00	422.14 0.00	
DATA CHANGED - EXEMPTION TYPE IS INVALID - EXEMPTION DISALLOWED								
DATA CHANGED - LIABLE FOR TAX HAS CHANGED								
DATA CHANGED - TAX REIMBURSEMENT HAS CHANGED								
0000018	1 - RAW GAS GOLIAD NO	2-GAS 088 145726	- YES/NO	OFF LEASE SALE YES	108 108 817.56	0 0.00 350.00	487.56 0.00	
DATA CHANGED - EXEMPTION TYPE IS INVALID - EXEMPTION DISALLOWED								
DATA CHANGED - TAX REIMBURSEMENT HAS CHANGED								



Error Messages

When natural gas tax reports are processed, report errors are identified for every lease transaction reported. One lease transaction may contain only one error message or a series of different error messages. The Comptroller's office classified two types of errors identified as non-critical errors and critical errors. The critical errors affect the tax or credit amount due for each lease transaction in a report period. The non-critical errors do not affect the tax or credit amount due for each lease transaction in a report period. The next pages show a list of non-critical and critical errors identified.

NON-CRITICAL ERRORS

Although non-critical errors do not affect the tax or credit amount due for each lease transaction, there is a potential these errors could become critical errors when subsequent amendments are processed.

If a report period has outstanding non-critical errors and no critical errors, refunds are issued and credit transfers from one period to another are processed. Credit interest will be paid on refunds issued and/or credit transfers processed only if a report period has non-critical errors.

However, non-critical errors are incorrect information provided to the Comptroller's office. This definitely impacts on the type of lease data provided to the general public, Texas Legislature and other state agencies. This is because all data from lease transactions is used to make important decisions for the state of Texas, including the estimation of Texas revenues for budgeting purposes and valuations for Texas property tax appraisals.

CRITICAL ERRORS

Since critical errors do indeed affect the tax or credit amount due for each lease transaction and if a report period contains at least one critical error, a refund will not

be issued and a credit transfer moving credits from one period to another will not be processed. The critical error must be corrected in order for a refund to be issued or credit transfer to be processed.

ERROR LETTERS

Letters from the Comptroller's office to taxpayers are mailed weekly after an original and/or amended report has processed informing the taxpayer errors were identified for a specific report period.

Letters from the Comptroller's office to taxpayers who file:

1. electronically, inform the taxpayer to view their report errors on the web.
2. on paper, include an error list identifying the report errors. With an assigned web identification number, taxpayers who report on paper also have the option to view their report errors on the web.

Whether the error message list is viewed on paper or on the Web, the format of the error message list is the same.

Error messages can occur either on the lease detail and/or the computation of the report totals.

Error messages can be viewed on Comptroller's Web site: http://www.window.state.tx.us/taxinfo/nat_gas/report_errors.html

ERROR MESSAGES ON REPORTED TOTALS ARE CRITICAL ERRORS

The "reported totals" are the totals a taxpayer reported on their report and "calculated totals" are the totals computed by the Comptroller's office after the report has processed.

Based on each lease transaction listed on a report, error messages on "reported totals" are a result of a computa-

Error Messages

tion error on the tax reported by a taxpayer. Whenever the “reported totals” and the “calculated totals” do not match, an error message is generated indicating the report to be “out of balance. This is why errors on report totals were categorized as critical errors. Below are the most common error messages for report totals:

1. Cannot have condensate totals out of balance,
2. Reported and calculated totals do not match,
3. Reported and calculated fee volumes did not match, and
4. Computation error in total for Type 05 tax due.

CRITICAL ERROR MESSAGES ON LEASE DETAIL

1. Commodity code cannot be blank
2. Commodity code invalid for lease type
3. Lease type is invalid—*Critical error for report periods prior to November 2007.*
4. County is missing
5. Invalid county code. County must be 001-254
6. Cannot report exemption type with condensate commodity code
7. Lease number is missing
8. Lease number not on file
9. Lease number not active in county
10. Lease number not active
11. Drilling permit number not on file
12. No well exemptions exist for this lease for API number
13. Purchaser number not on file—*Critical error if “Are You Liable For Tax?” field is “NO”*
14. Purchaser number not active for period—*Critical error if “Are You Liable For Tax?” field is “NO”*
15. Purchaser number missing—*Critical error if “Are You Liable For Tax?” field is “NO”*
16. Purchaser number not set up for sub-type—*Critical error if “Are You Liable For Tax?” field is “NO”*
17. Purchaser number not set up for tax—*Critical error if “Are You Liable For Tax?” field is “NO”*
18. Producer number not on file—*Critical error if “Are You Liable For Tax?” field is “NO”*
19. Producer number not active for period—*Critical error if “Are You Liable For Tax?” field is “NO”*
20. Your volume cannot be negative
21. Your volume cannot be zero with a reported value
22. Value of your volume cannot be negative
23. Liable for tax is invalid with a net taxable value
24. Liable for tax is not a valid value
25. Are you liable for tax? Must be yes with lease use
26. Governmental volume cannot be negative
27. Gov royalty volume ratio of your volume to gov royalty volume is unreasonable
28. Gov royalty value ratio of your value to gov royalty value is unreasonable
29. Gov royalty value cannot be negative
30. Gov royalty value cannot equal to your value
31. Marketing costs cannot be negative
32. Marketing cost exceeds your value, net taxable value must be zero
33. Net taxable value cannot be negative
34. Net taxable value is out of balance
35. Net taxable value is unreasonable
36. Incorrect computation for net taxable value
37. Net taxable value is unreasonable with reported exemption type
38. Net taxable value is noncomputable
39. Net taxable value cannot be zero with reported value
40. Net taxable value complete 10% penalty not met
41. Tax due on type 05 incorrect computation
42. Tax due on type 05 cannot be negative
43. Tax due is unreasonable for exempt type
44. Incorrect exemption rate reported for exemption type

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February 22, 2008

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S U S A N C O M B S	TEXAS COMPTROLLER <i>of</i> PUBLIC ACCOUNTS
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February 22, 2008

**EXAMPLE ERROR MESSAGE LETTER
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Crude Oil and Natural Gas Tax Section
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Enclosure

Taxpayer number:

PERIOD: 0711
 TP NUMBER:
 TP NAME:

STATE OF TEXAS
 COMPTROLLER OF PUBLIC ACCOUNTS
 NATURAL GAS PRODUCER TAX REPORT
 ERROR LIST

PAGE: 1
 DATE: 02/16/2008
 SEQUENCE: 0000059

REPORT TOTALS ERRORS

	REPORTED	CALCULATED	VARIANCE
TOTAL NET TAXABLE VALUE OF CONDENSATE:	0.00	0.00	0.00
TAX DUE ON CONDENSATE :	0.00	0.00	0.00
TOTAL NET TAXABLE VALUE OF GAS :	20,103.87	20,103.87	0.00
TAX DUE ON GAS :	1,507.79	1,507.79	0.00
TAXABLE REGULATORY VOLUME :	7,466	7,466	0
REGULATORY FEE DUE :	4.98	4.98	0.00
TAX DUE ON EXEMPTION TYPE 05 :	1,452.48	0.00	1,452.48
TOTAL TAX AND FEE DUE :	2,965.25	1,512.77	1,452.48
DLN :	08043-21-0161		

ERROR - TAX DUE ON XMPY TY05 COMPUTATION ERROR IN TOTAL FOR TYPE 5 TAX DUE  Error on Report Total

DETAIL SUPPLEMENT ERRORS

LOCATOR NUMBER	COMMODITY CODE	LEASE TYPE	EXEMPTION TY	PURCHASER NBR	TOT LEASE VOL	GOVT RYLTY VOL	NET TAX VAL
COUNTY NAME	COUNTY CODE	API NUMBER	PURCHASER NAME	YOUR VOL	GOVT RYLTY VAL	TYPE 05 REDUCED RATE	
DRLG PERMIT	LEASE NUMBER	OFF LSE/TAX RE	LIABLE FOR TAX	VAL YOUR VOL	MRKTING COSTS	TAX DUE TYPE 05	
0000014	1 - RAW GAS	2-GAS		12345678910	0	0	0.00
	PECOS	186		PERFECT OIL & GAS CO	441	0.00	
	NO	019409	NO/NO	NO	1,061.17	0.00	0.00

ERROR - LEASE NUMBER NOT ON FILE

0000005	1 - RAW GAS	1-OIL		12345678910	111	0	0.00
	PECOS	186		PERFECT OIL & GAS CO	60,672	0.00	
	NO	019884	NO/NO	NO	0.00	0.00	0.00

ERROR - VALUE OF YOUR VOLUME IS UNREASONABLE
 ERROR - YOUR VOLUME CANNOT EXCEED TOTAL LEASE VOLUME
 ERROR - VALUE OF YOUR VOLUME CANNOT BE ZERO WITH A REPORTED VOLUME

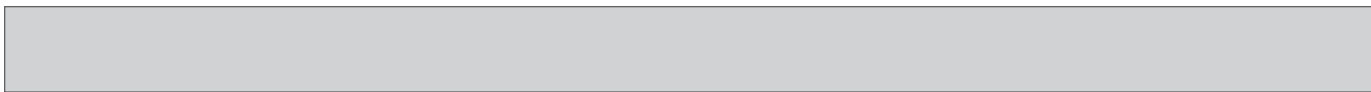
0000001	1 - RAW GAS	1-OIL		12345678910	314	0	0.00
	PECOS	186		PERFECT OIL & GAS CO	3,147	0.00	
	NO	028736	NO/NO	NO	1,676.61	0.00	0.00

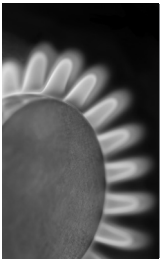
ERROR - YOUR VOLUME CANNOT EXCEED TOTAL LEASE VOLUME

0000016	1 - RAW GAS	2-GAS		12345678910	1,334	0	0.00
	PECOS	186		PERFECT OIL & GAS CO	1,334	0.00	
	NO	121458	NO/NO	NO	7,130.57	0.00	0.00

ERROR - LEASE NUMBER NOT ON FILE

EXAMPLE OF ERROR MESSAGE LIST





Drilling Permit Numbers

Natural gas taxes are to be reported and paid timely even if the Railroad Commission (RRC) has not assigned a lease number for a new lease. When this occurs, in place of the lease number, the drilling permit number should be reported in line 8 of the Purchaser and/or Producer Lease Detail Supplement Report Forms. The drilling permit number indicator in line 8 of the report form should be marked as “YES”.

When a lease number has been assigned by the RRC, amended reports must be filed to replace the drilling permit number with the newly assigned RRC lease number.

Once the assigned lease number is corrected, the drilling permit number indicator in line 8 must then be marked as “NO”. All periods that were reported under a drilling permit number must be corrected accordingly.

As a courtesy, the Comptroller’s office will send a notification letter to the taxpayer that a particular drilling permit number has been assigned a lease number by the RRC. An example of a drilling permit letter to a taxpayer and a list indicating the drilling permit number and lease number is shown on the following page.

S U S A N	TEXAS COMPTROLLER <i>of</i> PUBLIC ACCOUNTS	
C O M B S		

May 15, 2009

NATURAL GAS TAXPAYER
PO BOX 123
HOUSTON, TX 77183-0123

**EXAMPLE OF LETTER NOTIFYING
TAXPAYER OF CHANGE OF DRILLING
PERMIT NUMBER TO A NEWLY
ASSIGNED LEASE NUMBER**

Dear Taxpayer:

Your monthly natural gas PRODUCER tax account has lease data reported with a drilling permit number. The drilling permit number that was reported has now been assigned a lease number by the Texas Railroad Commission (RRC). The drilling permit number that was reported must be corrected with an amended report to reflect the RRC assigned lease number for the filing periods on the enclosed list.

If the RRC assigned lease number is inaccurate, please file an amended report to change the drilling permit number to the correct lease number. Please submit an amended report for each filing period listed.

For more information on how to file amended reports, please visit our Web site at www.window.state.tx.us or call toll free at (800) 531-5441, ext. 3-4455, option 1. The Austin number is (512) 463-4455, option 1.

Crude Oil and Natural Gas Tax Section
Account Maintenance Division
P.O. Box 13528
Austin, TX 78711-3528

Enclosure

Taxpayer number:

Form 10-346-B (12-07)

TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

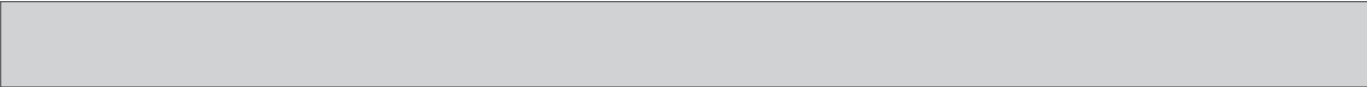
PAGE: 2

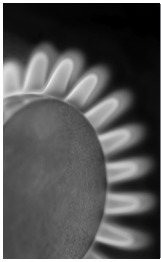
NATURAL GAS TAXPAYER
PO BOX 123
HOUSTON, TX 77183-0123

NATURAL GAS PRODUCER

**EXAMPLE OF LETTER NOTIFYING
TAXPAYER OF CHANGE OF
DRILLING PERMIT NUMBER TO A
NEWLY ASSIGNED LEASE NUMBER**

DRILLING PERMIT NUMBER	COUNTY NUMBER	RRC ASSIGNED LEASE NUMBER	WELL #	FILING PERIOD BEG / END
668165	198	246800	1	0811/0902





Web Inquiry

GENERAL INFORMATION

As shown on the web inquiry screen example on the next page, the main menu on the left side of the web inquiry screen has two sections indicated as the “Public Information” and “Secure Information.” The “Public Information” section can be used by everyone without an assigned web inquiry number. This section has links to search the following:

- drilling permit numbers,
- lease names and numbers,
- approved legislative exemptions,
- taxpayer names, numbers and addresses, and
- other useful links.

A taxpayer can register to view information on their own tax account on the Comptroller’s web inquiry system under the “Secure Information” section of the web inquiry screen. Once registered, a password will be recorded and a web inquiry (WI) number is assigned to the taxpayer. The taxpayer will then have access the following information on their tax account:

- report detailed data,
- report totals,
- report errors,
- data changes (report data systematically changed),
- outstanding liability and credit balances,
- payments received, money transferred and credit interest earned, and
- refunds issued.

To begin the process to view information on the Comptroller’s web inquiry system, a taxpayer:

1. must register on the web by clicking on the “Register” web link provided,
2. enter a password in the “Password” window and
3. keep the assigned web inquiry number displayed.

A letter to the taxpayer will be submitted identifying the web inquiry number. A taxpayer can always call their assigned examiner to obtain their web inquiry number if a letter was not received or if this number is lost at (800) 531-5441, ext. 3-4455.

LIMITED POWER OF ATTORNEY

A taxpayer can also allow access on their account to a consultant, service provider or third party for specific report periods by submitting a Limited Power of Attorney form (#10-341). The Limited Power of Attorney is effective for one year from the signature date for the specified report periods and tax type.

A letter will be issued to the taxpayer informing the taxpayer the name of the consultant, service provider or third party who has an active Limited Power of Attorney form on file and the expiration date will be provided. A letter will also be issued to the consultant, service provider or third party indicating their assigned taxpayer number and web inquiry number. When the Limited Power of Attorney form has expired, a newly signed Limited Power of Attorney form will need to be submitted to the Crude Oil and Natural Gas Tax Section.

Once the information on the Limited Power of Attorney form is entered on the Comptroller’s computer system, the consultant, service provider or third party should do the following:

1. must register on the web by clicking on the “Register” web link provided,
2. enter a password in the “Password” window, and
3. keep the assigned web inquiry number displayed.

Web Inquiry

After this process is completed, the consultant, service provider or third party will have immediate access to the web to view the taxpayer's account information.

To view information without a Web inquiry (WI) number:

1. Go to this Web address: <http://www.window.state.tx.us>.
2. Click on the "Texas Taxes" link.
3. Click on the "Natural Gas" link located at the middle of the screen.
4. Click on the "Crude Oil and Natural Gas Inquiry System" link located on the left hand side of the screen under the "Resources" heading.
5. Click on any links on the left side in the green box under the "Public Information" heading.
6. The Crude Oil and Natural Gas web inquiry screen will be displayed.

Example of the web inquiry screen is indicated below.

Window on State Government

Crude Oil and Natural Gas

PUBLIC INFORMATION

- TAXPAYER SEARCH
 - For a Taxpayer
 - Taxpayer List
- LEASE SEARCH
 - By Drilling Permit
 - By Lease Name
 - By Lease Number
- RESOURCES
 - Useful Links

SECURE INFORMATION

- MY TAX REPORTS
 - Report Details
 - Report Errors
 - Data Changes
- MY TAX ACCOUNT
 - Account Detail
 - Refunds Issued

FUTURE SERVICES

- MY ACCOUNT HISTORY
 - Request
 - Retrieve

Callout Box 1: To view information listed under the "Public Information" heading, a web inquiry number is not required. Information provided under these links is available to everyone.

Callout Box 2: To view information listed under the "Secure Information" heading, a web inquiry number is required and the Limited Power of Attorney information must be on file, if applicable.

Steps to view the Comptroller’s Web site for crude oil and natural gas tax accounts with a web inquiry (WI) number.

STEP 1:

- Go to this Web address: <http://www.window.state.tx.us>.
- Click on the “Texas Taxes” link located on top of the screen.
- Click on the “Natural Gas” link located at the middle of the screen on the right hand side.
- Click on the “Crude Oil and Natural Gas Inquiry System” link located on the left hand side of the screen under the “Resources” heading.

The screen indicated below will be shown. To register, click on the “Register” link.

Window on State Government

Crude Oil and Natural Gas

PUBLIC INFORMATION

- TAXPAYER SEARCH
 - For a Taxpayer
 - Taxpayer List
- LEASE SEARCH
 - By Drilling Permit
 - By Lease Name
 - By Lease Number
- RESOURCES
 - Useful Links

SECURE INFORMATION

- MY TAX REPORTS
 - Report Details
 - Report Errors
 - Data Changes
- MY TAX ACCOUNT
 - Account Detail
 - Refunds Issued

FUTURE SERVICES

- MY ACCOUNT HISTORY
 - Request
 - Retrieve

Login

Welcome to the Crude Oil and Natural Gas System.

Please choose an option from the menu.

Public Information does not require a login.

Secured Information can only be viewed on this site by those who are responsible for reporting these taxes and their representatives.

First time users, please Register. ←

Returning users, please login.

Taxpayer/Representative Number:

PIN:

Login **Forgot PIN**

Web Inquiry


STEP 2:


The screen indicated below will be shown. Enter the “Taxpayer/Representative Number” and the Web Inquiry (WI) number in the “Password” window and click on the “Register” button.

The screenshot shows the 'Window on State Government' website. The header includes the logo and the text 'Susan Combs Texas Comptroller'. The main navigation bar is titled 'Crude Oil and Natural Gas' and includes links for 'Demo', 'Help', and 'Home'. A left-hand sidebar contains a menu with categories: PUBLIC INFORMATION, TAXPAYER SEARCH, LEASE SEARCH, RESOURCES, SECURE INFORMATION, MY TAX REPORTS, MY TAX ACCOUNT, FUTURE SERVICES, and MY ACCOUNT HISTORY. The main content area is titled 'Register' and contains the following text: 'In order to establish a PIN(Personal Identification Number) for your account, please enter the 11 digit Taxpayer or Taxpayer Representative Number and the Password that you received by mail from the Texas Comptroller. This Password begins with "WI" and is followed by 6 digits.' Below this text are two input fields: 'Taxpayer/Representative Number:' followed by a text box, and 'Password:' followed by a text box with the instruction '(enter WI and 6 digits)'. A 'Register' button is positioned below the password field.

STEP 3:

If the taxpayer has Limited Power of Attorney forms on file or if a consultant or service provider has a list of taxpayers they represent, the screen indicated below will show the list of Limited Power of Attorney forms on file.


Window on State Government
Susan Combs Texas Comptroller of Public Accounts


Crude Oil and Natural Gas

[Demo](#) | [Help](#) | [Help Index](#) | [Login](#) | [Logout](#)

PUBLIC INFORMATION

TAXPAYER SEARCH

- For a Taxpayer
- Taxpayer List

LEASE SEARCH

- By Drilling Permit
- By Lease Name
- By Lease Number

RESOURCES

- Useful Links

SECURE INFORMATION

MY TAX REPORTS

- Report Details
- Report Errors
- Data Changes

MY TAX ACCOUNT

- Account Detail
- Refunds Issued

FUTURE SERVICES


MY ACCOUNT HISTORY

- Request
- Retrieve

Welcome

ENERGY, INC

Please choose an option from the menu.

These are the active Power of Attorneys that we have on file. 

Taxpayer Number	Taxpayer Name	Tax Type	Tax Sub Type	Report Begin	Report End	Authority From	Authority End
		CO	Prod	Jan 2003	Dec 2007	05/07/2007	05/06/2008
		NG	Prod	Sep 2003	May 2007	01/03/2008	01/02/2009

STEP 4:

To view the report lease detail, click on the “Reports Detail” link on the left side in the green box. The next screen will show the “Report Detail Menu.” Enter the required information in this screen; then click on the “Report Detail” button located at the bottom of the screen.

Window on State Government

Crude Oil and Natural Gas

PUBLIC INFORMATION

- TAXPAYER SEARCH
 - For a Taxpayer
 - Taxpayer List
- LEASE SEARCH
 - By Drilling Permit
 - By Lease Name
 - By Lease Number
- RESOURCES
 - Useful Links

SECURE INFORMATION

- MY TAX REPORTS
 - Report Details
 - Report Errors
 - Data Changes
- MY TAX ACCOUNT
 - Account Detail
 - Refunds Issued

FUTURE SERVICES

- MY ACCOUNT HISTORY
 - Request
 - Retrieve

Report Details Menu

*** REQUIRED**

Taxpayer:

Tax Type:

Sub Type:

*Filing Period: (yymm or yy)

Please enter one of the following:

*Locator Number: (7 digits)

or

*Lease Number: (6 digits)

(Use lease number or drilling permit number)

County:

Other Party Taxpayer Number: (11 digits)

API Number: (8 digits)

Exemption: (2 digits)

Report Detail

STEP 5:


The next screen will show all the report data for the specific lease entered for a specific report period. The screen indicated below shows the lease was reported with raw gas and lease use commodities.

Natural Gas Report Details														
Taxpayer														
Sub Type: Producer		Filing Period: 0612 (Dec 2006)												
Lease: 129021					Drilling Permit Number: No					Purchaser Number				
Lease Type/County: 2-Gas / 045-COLORADO					Exemption Type:					Tax Reimbursement: No				
Commodity Code: 1 - Raw Gas					API Number:					Off Lease Sale: No				
Return Type	Total Lease Volume	Your Volume	Value of Your Volume	Gov't Royalty Volume	Gov't Royalty Value	Marketing Cost	Net Tax Value	Liable For Tax?	Type 05 Reduced Tax Rate	Tax Due on Type 05	Error	Data Change	Postmark Date	Locator Number
ORIGINAL	5,078	5,074	\$37,244.68	0	\$32.55	\$3,396.43	\$33,815.70	Yes			No	No	02/21/2007	0002270
AMENDED	0	0	-\$560.88	0	-\$0.49	-\$12.19	-\$548.20	Yes			No	No	09/25/2007	0002270
Adj Tot	5,078	5,074	\$36,683.80	0	\$32.06	\$3,384.24	\$33,267.50	Yes		\$0.00				
Lease: 129021					Drilling Permit Number: No					Purchaser Number				
Lease Type/County: 2-Gas / 045-COLORADO					Exemption Type:					Tax Reimbursement: No				
Commodity Code: 3 - Lease Use					API Number:					Off Lease Sale: No				
Return Type	Total Lease Volume	Your Volume	Value of Your Volume	Gov't Royalty Volume	Gov't Royalty Value	Marketing Cost	Net Tax Value	Liable For Tax?	Type 05 Reduced Tax Rate	Tax Due on Type 05	Error	Data Change	Postmark Date	Locator Number
ORIGINAL	331	331	\$2,350.95	0	\$0.00	\$0.00	\$2,350.95	Yes			No	No	02/21/2007	0002271


Web Inquiry

STEP 6:

To view all report errors for a specific report period, click on the “Report Errors” link on the left hand side in the green box. Enter all the information in the screen; then click on the “Search” button located at the middle of the screen.



Window on State Government



Crude Oil and Natural Gas

PUBLIC INFORMATION

TAXPAYER SEARCH

- For a Taxpayer
- Taxpayer List

LEASE SEARCH


- By Drilling Permit
- By Lease Name
- By Lease Number

RESOURCES

- Useful Links

SECURE INFORMATION

MY TAX REPORTS

- Report Details
- Report Errors 
- Data Changes

MY TAX ACCOUNT

- Account Detail
- Refunds Issued

FUTURE SERVICES

MY ACCOUNT HISTORY

- Request
- Retrieve

Report Errors

Taxpayer:

Tax Type:

Sub Type:

Filing Period: (yyymm or yy)

STEP 7:

The next screen will indicate all the report errors for a specific report period. Each lease transaction may have one or more errors. The report errors are listed and grouped by the assigned locator number for each lease transaction. The white and yellow colors separate each lease transaction.

Locator Number	Commodity Code County Name DRLG Permit	Lease Ty Cnty Code Lease Nbr	Exemption Ty API Number Off Lse/Tax RE	Purchaser Nbr Purchaser Name Liable for Tax	Total Lease Vol Your Volume Val Your Vol	Govt Rylty Vol Govt Rylty Val Mrkting Costs	Net Tax Val Type 05 Rate Tax Due Type 05
0016103	5 - Residue CRANE NO	1-Oil 052 028833	03 NO/NO	1705572010 <input type="text"/> YES	161 161 \$851.98	0 \$0.00 \$4.83	\$0.00 \$0.00 \$0.00
ERROR - LEASE TYPE IS INVALID							
0016104	6 - Products CRANE NO	1-Oil 052 028833	03 NO/NO	<input type="text"/> YES	359 359 \$3,196.87	0 \$0.00 \$137.35	\$0.00 \$0.00 \$0.00
ERROR - LEASE TYPE IS INVALID							
0008897	1 - Raw Gas DENTON NO	2-Gas 061 181271	05 NO/NO	<input type="text"/> YES	0 24,718 \$160,838.12	0 \$0.00 \$10,199.37	\$150,638.75 0.040 \$1,107.89
ERROR - TAX DUE ON TYPE 05 INCORRECT COMPUTATION							
0017156	1 - Raw Gas DENTON NO	2-Gas 061 182887	05 NO/NO	<input type="text"/> YES	0 4,743 \$26,653.97	0 \$0.00 \$1,896.89	\$24,757.08 0.035 \$866.50
ERROR - NET TAXABLE VALUE COMPLETE 10% PENALTY NOT MET							
0017175	1 - Raw Gas DENTON NO	2-Gas 061 187828	05 NO/NO	<input type="text"/> YES	0 2,466 \$9,650.01	0 \$0.00 \$2,504.34	\$7,145.67 0.047 \$335.85
ERROR - NET TAXABLE VALUE COMPLETE 10% PENALTY NOT MET							
0017045	1 - Raw Gas MONTGOMERY NO	2-Gas 170 178806	05 NO/NO	<input type="text"/> YES	0 340 \$3,202.30	0 \$0.00 \$4,113.14	-\$910.84 0.073 -\$66.49
ERROR - NET TAXABLE VALUE CANNOT BE NEGATIVE							
0011264	5 - Residue NUECES NO	2-Gas 178 139255	NO/NO	<input type="text"/> YES	-508 -508 -\$3,625.00	0 \$0.00 -\$15.00	-\$3,611.00 \$0.00
ERROR - LEASE VOLUME CANNOT BE NEGATIVE							
ERROR - YOUR VOLUME CANNOT BE NEGATIVE							
ERROR - VALUE OF YOUR VOLUME CANNOT BE NEGATIVE							
ERROR - GOV ROYALTY VALUE RATIO OF YOUR VAL TO GOV ROYALTY VOL IS UNREASONABLE							
ERROR - MARKETING COST CANNOT BE NEGATIVE							
ERROR - MARKETING COST EXCEEDS YOUR VALUE, NET TAXABLE VALUE MUST BE ZERO							
ERROR - NET TAXABLE VALUE CANNOT BE NEGATIVE							
ERROR - NET TAXABLE VALUE IS UNREASONABLE							
0011829	3 - Lease Use PANOLA NO	2-Gas 183 086299	NO/NO	<input type="text"/> YES	7 105 \$771.15	0 \$0.00 \$0.00	\$771.15 \$0.00 \$0.00
ERROR - YOUR VOLUME CANNOT EXCEED TOTAL LEASE VOLUME							

Web Inquiry

STEP 8:

To view data changes (report data systematically changed) for a specific report period and specific lease transaction, click on the “Data Changes” link on the left side in the green box. The screen indicated below will be shown. Enter all the information in the screen; then click on the “Search” button located at the middle of the screen.

The screenshot displays the 'Crude Oil and Natural Gas' web application interface. At the top left is the 'Window on State Government' logo, and at the top right is the name 'Susan Combs Texas Comptroller of Public Accounts'. Below the header is a navigation bar with 'Crude Oil and Natural Gas' and links for 'Demo | Help | Help Index | Login | Logout'. A left-hand navigation menu is organized into sections: 'PUBLIC INFORMATION' (with sub-items 'TAXPAYER SEARCH' and 'LEASE SEARCH'), 'RESOURCES' (with 'Useful Links'), 'SECURE INFORMATION' (with 'MY TAX REPORTS' and 'MY TAX ACCOUNT'), and 'FUTURE SERVICES' (with 'MY ACCOUNT HISTORY'). The 'Data Changes' link under 'MY TAX REPORTS' is highlighted with a white arrow. The main content area, titled 'Data Changes', contains search fields for 'Taxpayer:' (a text box with a dropdown arrow), 'Tax Type:' (a dropdown menu set to 'Natural Gas'), 'Sub Type:' (a dropdown menu set to 'Producer'), and 'Filing Period:' (a text box containing '0612' with '(yymm or yy)' to its right). A 'Search' button is positioned below the 'Filing Period' field.

STEP 9:

The next screen will indicate all the data changes for a specific report period for a specific lease. Each lease transaction may have one or more reasons for a data change. The data change reasons are listed and grouped by the assigned locator number for each lease transaction. The white and yellow colors separate each lease transaction.

Locator Nbr DLN Postmark Dt	Commodity Code County Name DRLG Permit	Lease Ty Cnty Code Lease Nbr	Exemption Ty API Number Off Lse/Tax RE	Purchaser Nbr Purchaser Name Liabile for Tax	Total Lease Vol Your Volume Val Your Vol	Govt Rylyt Vol Govt Rylyt Val Mrking Costs	Net Tax Val Type 05 Rate Tax Due Type 05
0016649 07353-97-0087 12/18/2007	1 - Raw Gas MONTGOMERY NO	2-Gas 170 183066	05 NO/NO	[REDACTED] YES	0 5,748 \$43,014.75	0 \$27.46 \$5,544.49	\$37,442.80 0.000 \$0.00
DATA CHANGE - NET TAXABLE VALUE INCORRECT COMPUTATION							
0016786 07353-97-0087 12/18/2007	3 - Lease Use MONTGOMERY NO	2-Gas 170 183066	05 NO/NO	[REDACTED] YES	0 672 \$4,084.72	0 \$2.75 \$0.00	\$4,081.97 0.000 \$0.00
DATA CHANGE - NET TAXABLE VALUE INCORRECT COMPUTATION							
0013877 08016-97-0047 01/15/2008	5 - Residue PANOLA NO	2-Gas 183 185253	NO/NO	[REDACTED] YES	0 0 \$0.00	0 \$0.00 \$0.00	\$0.00 \$882.97
DATA CHANGE - EXEMPTION TYPE NOT VALID WITH INVALID LEASE NUMBER - EXEMPTION DISALLOWED							
DATA CHANGE - TYPE 05 REDUCED RATE ADJUSTED - EXEMPTION DENIED							
DATA CHANGE - TAX DUE ON TYPE 05 ADJUSTED - EXEMPTION DENIED							
0000049 308152466 01/03/2008	1 - Raw Gas HARRISON NO	2-Gas 102 221128	YES/NO	OFF LEASE SALE YES	0 489 \$3,174.95	0 \$0.00 \$0.00	\$3,174.95 \$0.00 \$0.00
DATA CHANGE - LEASE DETAIL EXEMPTION 05 AMENDED FOR 10% PENALTY							
0001056 08003-97-0114 01/03/2008	1 - Raw Gas HARRISON NO	2-Gas 102 221128	05 YES/NO	OFF LEASE SALE YES	0 8,804 \$57,149.14	0 \$0.00 \$0.00	\$57,149.14 0.024 \$1,371.58
DATA CHANGE - LEASE DETAIL EXEMPTION 05 AMENDED FOR 10% PENALTY							

STEP 10:

To view account outstanding credit and liability balances and error status for a specific report period or a range of report periods, click on the “Account Detail” link on the left side in the green box. The inquiry screen indicated below will be shown. Enter all the information in the screen; then click on the “Search” button located at the middle of the screen.

Window on State Government Susan Combs Texas Comptroller of Public Accounts

Crude Oil and Natural Gas Demo | Help | Help Index | Login | Logout

Account Detail Request

PUBLIC INFORMATION

TAXPAYER SEARCH

- For a Taxpayer
- Taxpayer List

LEASE SEARCH

- By Drilling Permit
- By Lease Name
- By Lease Number

RESOURCES

- Useful Links

SECURE INFORMATION

MY TAX REPORTS

- Report Details
- Report Errors
- Data Changes

MY TAX ACCOUNT

- Account Detail ←
- Refunds Issued

FUTURE SERVICES

MY ACCOUNT HISTORY

- Request
- Retrieve

Taxpayer:

Tax Type:

Sub Type:

Filing Period Range

Beg Period: (yy/mm or yy)

End Period: (yy/mm or yy)

STEP 11:

The screen indicated below will be shown and will indicate the outstanding liability and credit balances and error status listed by report period.

Each report period has a link under the “View Details” heading to view information for “Balance,” “Payments,” “Totals” and “Notices” for the specific report period.

PUBLIC INFORMATION

TAXPAYER SEARCH

- For a Taxpayer
- Taxpayer List

LEASE SEARCH

- By Drilling Permit
- By Lease Name
- By Lease Number

RESOURCES

- Useful Links

SECURE INFORMATION

MY TAX REPORTS

- Report Details
- Report Errors
- Data Changes

MY TAX ACCOUNT

- Account Detail
- Refunds Issued

FUTURE SERVICES

MY ACCOUNT HISTORY

- Request
- Retrieve

Account Detail Request

Taxpayer:

Tax Type:

Sub Type:

Filing Period Range

Beg Period: (yymm or yy)

End Period: (yymm or yy)

Filing Period	Due Date	Balance	Description	View Details
0701 (Jan 2007)	Mar 20, 2007	-437,412.26		Balance Payments Totals Notices
0702 (Feb 2007)	Apr 20, 2007	-419,307.89		Balance Payments Totals Notices
0703 (Mar 2007)	May 21, 2007	-467,520.48		Balance Payments Totals Notices
0704 (Apr 2007)	Jun 20, 2007	-351,541.33		Balance Payments Totals Notices
0705 (May 2007)	Jul 20, 2007	-403,849.46		Balance Payments Totals Notices
0706 (Jun 2007)	Aug 20, 2007	-255,904.39		Balance Payments Totals Notices
0707 (Jul 2007)	Sep 20, 2007	-391,438.71		Balance Payments Totals Notices
0708 (Aug 2007)	Oct 22, 2007	-356,118.95	ERROR STATUS	Balance Payments Totals Notices
0709 (Sep 2007)	Nov 20, 2007	-170,244.50	ERROR STATUS	Balance Payments Totals Notices
0710 (Oct 2007)	Dec 20, 2007	-86,951.64	ERROR STATUS	Balance Payments Totals Notices
0711 (Nov 2007)	Jan 22, 2008	-71,847.04	ERROR STATUS	Balance Payments Totals Notices
0712 (Dec 2007)	Feb 20, 2008	-44,060.37	ERROR STATUS	Balance Payments Totals Notices
0801 (Jan 2008)	Mar 20, 2008	4,932.15	ERROR STATUS	Balance Payments Totals Notices


Each link provides details for each category.

Web Inquiry

STEP 12:

To view the breakdown of an outstanding balance for a specific period, click on the “Balance” link. The next screen, as shown below, will indicate amounts under the columns for “Calculated Tax” based on Comptroller’s calculations, “Penalty,” “Interest,” “Net Payments” and “Balance.”

Window on State Government Susan Combs Texas Comptroller

 **Crude Oil and Natural Gas** Demo | Help |

Account Balance

Taxpayer Number:

Natural Gas Producer Filing Period: 0801 (Jan 2008)

Calculated Tax	Penalty	Interest	Net Payments	Balance
3,562,009.33	234.86	.00	3,557,312.04	4,932.15

STEP 13:

To view the payment records for a specific report period, click on the “Payment” link. The next screen will be shown and will chronologically list all the payments received, money transferred, credit interest earned and refunds issued.

Payment Type	Amount	Postmark Date	Process Date	Transfer Period	Transfer Taxpayer #	Transfer Tax/Sub Type	DLN/REF #	Pmt Method	Warrant Number
transfer in	424.35	02/20/2007	04/24/2007	From: 0612		From: NG/Prod	07113-15-2217		
report payment	1,205,274.55	03/20/2007	03/21/2007				07079-62-6004		
refund	-480.54	03/20/2007	04/09/2008				10008-09-4128		E081001
sub total	1,204,794.01								
report payment	14,989.97	07/20/2007	07/23/2007				07201-62-4203		
refund	-4,512.80	07/20/2007	02/08/2008				03908-08-7044		E080391
refund	-1,644.75	07/20/2007	02/08/2008				03908-08-8794		E080391
refund	-3,363.58	07/20/2007	04/08/2008				09908-11-2207		E080991
refund	-5,468.84	07/20/2007	04/09/2008				10008-09-4128		E081001
sub total	.00								
transfer in	5,355.93	07/20/2007	02/07/2008	From: 0703		From: NG/Prod	08038-94-0119		
refund	-5,355.93	07/20/2007	02/08/2008				03908-08-7044		E080391
sub total	.00								
CRI refund	-88.05	02/08/2008	02/08/2008				03908-08-7044		E080391
CRI refund	-32.09	02/08/2008	02/08/2008				03908-08-8794		E080391
sub total	-88.05								
CRI refund	-104.50	02/08/2008	02/08/2008				03908-08-7044		E080391
CRI refund	-91.89	04/08/2008	04/08/2008				09908-11-2207		E080991
CRI refund	-21.19	04/09/2008	04/09/2008				10008-09-4128		E081001
CRI refund	-150.12	04/09/2008	04/09/2008				10008-09-4128		E081001
total payments	1,205,218.36								


Web Inquiry

STEP 14:

To view all the report totals for each report filed on a specific period, click on the “Totals” link.

The next screen will be shown and will chronologically list every report total filed for the specific report period. If a report total has a calculation error, the reason for the error will be listed. Scroll to the bottom of the screen, to view the grand total or “Accumulated Total” of all reports filed for the specific report period.

Report Type: ORIGINAL DETAIL RPT		Filing Method: ER FILER	
Postmark Date: Feb 20, 2008		Process Date: Feb 29, 2008	
DLN/Reference Number: 08057-97-0013			
	Reported	Calculated	Variance
Total Net Taxable Value of Condensate	2,454,928.43	2,454,928.43	.00
Tax Due on Condensate	112,926.71	112,926.71	.00
Total Net Taxable Value of Gas	43,633,102.60	43,774,409.17	141,306.57
Tax Due on Gas	3,272,482.70	3,283,080.69	10,597.99
Taxable Regulatory Fee Volume	9,773,569	9,835,769	62,200
Regulatory Fee Due	6,518.97	6,560.46	41.49
Tax Due on High Cost Gas Leases	219,868.29	217,112.50	-2,755.79
Total Tax and Fee Due	3,611,796.67	3,619,680.36	7,883.69
Report Errors			
Total Net Taxable Value of Gas reported and calculated totals do not match			
Taxable Regulatory Fee Volume reported and calculated fee volumes do not match			
Tax Due on High Cost Gas Leases computation error in total for type 5 tax due			
Report Type: AMENDED DETAIL RPT		Filing Method: ER FILER	
Postmark Date: Mar 10, 2008		Process Date: Mar 10, 2008	
DLN/Reference Number: 08070-97-0041			
	Reported	Calculated	Variance
Total Net Taxable Value of Condensate	.00	.00	.00
Tax Due on Condensate	.00	.00	.00
Total Net Taxable Value of Gas	-40,390.00	-40,390.00	.00
Tax Due on Gas	-3,029.25	-3,029.25	.00
Taxable Regulatory Fee Volume	0	0	0
Regulatory Fee Due	.00	.00	.00
Tax Due on High Cost Gas Leases	.00	.00	.00
Total Tax and Fee Due	-3,029.25	-3,029.25	.00


Scroll down to view the “Accumulated Totals.”

Accumulated Totals:

	Reported	Calculated	Variance
Total Net Taxable Value of Condensate	2,454,928.43	2,454,928.43	.00
Tax Due on Condensate	112,926.71	112,926.71	.00
Total Net Taxable Value of Gas	42,821,836.36	42,972,368.93	150,532.57
Tax Due on Gas	3,211,637.72	3,222,927.66	11,289.94
Taxable Regulatory Fee Volume	9,776,038	9,835,238	59,200
Regulatory Fee Due	6,452.29	6,560.11	107.82
Tax Due on High Cost Gas Leases	231,238.40	228,390.35	-2,848.05
Total Tax and Fee Due	3,562,321.45	3,570,804.83	8,483.38

STEP 15:

To view the type of notices issued for a specific report period, click on the “Notices” link. The next screen, as shown below, will chronologically list all the notices issued for the specific report period.

Window on State Government Susan Combs Texas Comptroller of Public Accounts

Crude Oil and Natural Gas Demo | Help | Help Index | Login | Log

Notices

Taxpayer Number:

Natural Gas Producer Filing Period: 0701 (Jan 2007)

Notice	Sent	Amount
OVERPAYMENT	02/09/2008	435,465.65

Web Inquiry

STEP 16:

To view the refunds issued for a specific report period, or a specific date, or a range of dates, or warrant number, or warrant amount, click on the “Refund Issued” link located on the left hand side in the green box. The next screen, as shown below, will be displayed. Enter the information on the windows provided and click on the “Search” button located at the bottom of the screen.

Window on State Government Susan Combs Texas Comptroller of Public Accounts

Crude Oil and Natural Gas Demo | Help | Help Index | Login | Logout

PUBLIC INFORMATION **Refunds Issued**

TAXPAYER SEARCH

- For a Taxpayer
- Taxpayer List

LEASE SEARCH

- By Drilling Permit
- By Lease Name
- By Lease Number

RESOURCES

- Useful Links

SECURE INFORMATION

MY TAX REPORTS

- Report Details
- Report Errors
- Data Changes

MY TAX ACCOUNT

- Account Detail
- Refunds Issued

FUTURE SERVICES

MY ACCOUNT HISTORY

- Request
- Retrieve

Please enter one of the following:

Taxpayer:

Tax Type:

Sub Type:

Filing Period: (yy/mm or yy)

or

Issue Date Range

Beg Date: (mm/dd/yyyy)

End Date: (mm/dd/yyyy)

or

Warrant Number: (7 or 8 characters)

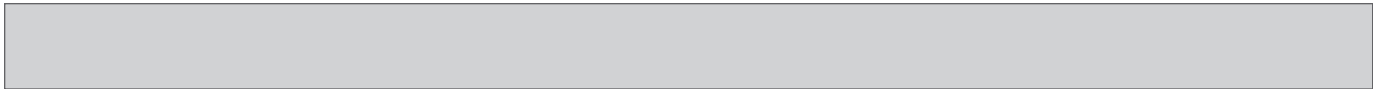
or

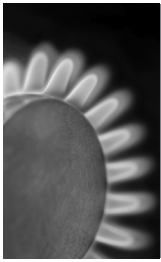
Warrant Amount: (Enter dollars and cents only)

STEP 17:

The next screen, as shown below, will indicate a list of refunds issued and credit interest earned based on the criteria entered. The screen indicated below shows several refunds issued for several report periods for the single issue date of 01/15/2008.

PUBLIC INFORMATION	Refunds					
TAXPAYER SEARCH	Taxpayer Number: <input type="text"/>					
<ul style="list-style-type: none"> • For a Taxpayer • Taxpayer List 	Tax Type: Natural Gas					
LEASE SEARCH	Sub Type: Producer					
<ul style="list-style-type: none"> • By Drilling Permit • By Lease Name • By Lease Number 	Beg Date Range: 01/15/2008					
RESOURCES	End Date Range: 01/15/2008					
<ul style="list-style-type: none"> • Useful Links 	Report Period Refunds					
SECURE INFORMATION	Issue Date	Filing Period	Warrant Number	Tax Amount	Credit Interest	Total Amount
MY TAX REPORTS	01/15/2008	Jun 2005	E080151	\$21,620.46-	\$2,109.00-	\$23,729.46-
<ul style="list-style-type: none"> • Report Details • Report Errors • Data Changes 	01/15/2008	Jul 2005		\$55,343.70-	\$5,295.79-	\$60,639.49-
MY TAX ACCOUNT	01/15/2008	Aug 2005		\$56,142.56-	\$5,278.04-	\$61,420.60-
<ul style="list-style-type: none"> • Account Detail • Refunds Issued 	01/15/2008	Sep 2005		\$58,372.93-	\$5,315.64-	\$63,688.57-
FUTURE SERVICES	01/15/2008	Oct 2005		\$45,308.52-	\$3,964.35-	\$49,272.87-
MY ACCOUNT HISTORY	01/15/2008	Nov 2005		\$31,882.63-	\$2,690.13-	\$34,572.76-
<ul style="list-style-type: none"> • Request • Retrieve 	01/15/2008	Dec 2005		\$25,283.58-	\$2,037.51-	\$27,321.09-
	01/15/2008	Jan 2006		\$21,651.29-	\$1,684.47-	\$23,335.76-
	01/15/2008	Feb 2006		\$25,321.66-	\$1,882.55-	\$27,204.21-
	01/15/2008	Mar 2006		\$75,247.35-	\$5,325.93-	\$80,573.28-
	01/15/2008	Apr 2006		\$57,440.06-	\$3,867.09-	\$61,307.15-
	01/15/2008	May 2006		\$54,699.07-	\$3,511.85-	\$58,210.92-
	01/15/2008	Jun 2006		\$36,701.27-	\$2,225.44-	\$38,926.71-
	01/15/2008	Jul 2006		\$29,794.61-	\$1,703.70-	\$31,498.31-
	01/15/2008	Aug 2006		\$41,065.79-	\$2,215.48-	\$43,281.27-
	01/15/2008	Sep 2006		\$23,392.37-	\$1,169.04-	\$24,561.41-
	01/15/2008	Oct 2006		\$14,845.56-	\$675.97-	\$15,521.53-
			E080151 subtotal	\$674,113.41-	\$50,951.98-	\$725,065.39-
			Total	\$674,113.41-	\$50,951.98-	\$725,065.39-





Refund Requests

REASONS OR GROUNDS

All refund requests are subject to verification prior to releasing the refund. One of the most important part of all refund requests submitted to the Comptroller's office is the postmark and the received date and signature date of an Assignment of Rights to Refund Form (#00-985), if applicable. All refund requests must be postmarked on or before expiration of the four-year statute of limitation. Since each report period has a different due date, each report period contains a different date for the statute of limitations. Texas Tax Code §111.053 extends the report due date to the next business date when the normal due date falls on a weekend or legal holiday.

Refund requests filed by taxpayers are based on one or more of the following reasons or grounds:

- marketing costs,
- tax reimbursement,
- any approved legislative exemptions,
- exempt values for governmental entities,
- value reduction
- credit interest earned,
- overpaid tax,
- waivers on penalty assessments
- erroneous assessments on tax, penalty and/or interest.

In order to record the receipt of refund requests and track the refund request information submitted by taxpayers, consultants and/or service providers, the original refund request letter and additional required documents should first be sent to the Crude Oil and Natural Gas Tax Section, Account Maintenance Division in Austin, Texas.

Depending on the reason for the refund request, the letter for the refund request should include the following information:

1. Either the credit-amended report(s) were filed electronically or filed on paper,
2. Summary schedules and/or detailed spreadsheets are enclosed,
3. Limited Power of Attorney is enclosed, if applicable, and
4. Assignment of Rights to Refund Form(s) (#00-985) is enclosed, if applicable.

REQUIREMENTS FOR ALL REFUND REQUESTS

When submitting a refund claim, the taxpayer must state fully and in detail each reason or ground on which the claim is based.

In order for correspondence to meet the legal requirements to constitute a complete refund claim, Texas Tax Code §111.104(c), requires three things:

- the claim must be written
- state fully and in detail each reason or ground on which the claim is founded, and
- be filed before the expiration of the applicable limitation period.

If any one of these elements is missing, the taxpayer has filed an incomplete refund claim. The statute will not be tolled until all the above requirements are fulfilled.

Missing Elements or Documents on a Refund Request

If any required element and/or document are missing on a refund request, the refund request is considered incomplete. A thirty-day letter will be sent to the requestor of the refund by an assigned tax examiner listing the missing element or document. If the missing element or docu-

Refund Requests

ment is not received after thirty days, the refund request will be returned to the requestor by an assigned tax examiner and no action will be taken. In this situation, the refund request will be closed and the statute of limitations will not be tolled on report periods where the statute of limitations timeframe has elapsed. The requestor has the option to resubmit the refund request. However, the four-year statute of limitations will apply on the new received date of the refund request.

LIMITED POWER OF ATTORNEY

Any person filing a refund claim on behalf of an established taxpayer is required to provide a written authorization, such as a Limited Power of Attorney to the Comptroller's office. The Limited Power of Attorney must state that the consultant, service provider or third party has authority to file reports on behalf of the taxpayer.

If a Limited Power of Attorney is not filed with a refund request, information on the status of a refund request will not be provided to the consultant, service provider or third party. In this case, information on the status of the refund request will only be provided directly to the taxpayer.

The Comptroller's office has two forms that can be used for the Limited Power of Attorney:

- **Form #10-341** is used if a consultant, service provider or third party is filing reports electronically for a taxpayer and has been granted access to the web

to view a taxpayer's report data, report errors, report totals, payment records, warrants issued and outstanding balances for specified beginning and ending report periods. A Limited Power of Attorney Form #10-341 is automatically required when a consultant or third party signs paper amended reports for the taxpayer or submits amended reports electronically via EDI. This form is available on the Comptroller's Web site: <http://www.window.state.tx.us/taxinfo/taxforms/10-341.pdf>

- A letter will be sent to the taxpayer informing the taxpayer the name of the consultant, service provider or third party and acknowledging that the consultant, service provider or third party are registered to use the Comptroller's Web site and file reports electronically.
- A letter will be sent to the consultant, service provider or third party listing their web identification number to use for the Comptroller's Web site.
- **Form #01-137** is used if a consultant, service provider or third party is filing reports on paper for a taxpayer and has not been granted access by a taxpayer to view the web for information on the taxpayer's report data, payment records or outstanding balances. This form is available on the Comptroller's Web site: <http://www.window.state.tx.us/taxinfo/taxforms/01-137.pdf>

(Form 10-341)

STATE OF TEXAS

§
§
§

RESET FORM

PRINT FORM

COUNTY OF _____

**CRUDE OIL AND NATURAL GAS TAX
LIMITED POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENT that I, _____ (Taxpayer) of _____ (Company name), hereby make, constitute, and appoint _____ (Taxpayer representative), as my true and lawful attorney in fact for me and in my name, place and stead; for the following purposes only:

To seek a refund of Texas Crude Oil and/or Natural Gas taxes for the periods of _____ through _____. This includes the right to request and receive any documentation on file with the Comptroller of Public Accounts in order to prove my right to a refund, to amend and sign any tax report(s) originally filed during these time periods, to sign transfer forms, and to receive any and all information pertaining to my refund request. Modes of communication for requesting and receiving information may include telephone, e-mail, fax or mail.

Check all that apply:

Allow to file tax reports and access account data for Crude Oil Tax for the tax periods of _____ through _____. The date range begins with the signature date indicated below through _____.

Allow to file tax reports and access account data for Natural Gas Tax for the tax periods of _____ through _____. The date range begins with the signature date indicated below through _____.

This Crude Oil and Natural Gas Tax Limited Power of Attorney is effective no longer than one year from the signature date.

Dated this _____ day of _____, _____.

TAXPAYER REPRESENTATIVE INFORMATION

TAXPAYER INFORMATION

11-digit Texas taxpayer number (if assigned)

Print name

Taxpayer representative name (Print)

Signature

Mailing address

Relationship to entity (i.e., President, Treasurer)

City, State, ZIP code

11-digit Texas taxpayer number

Daytime phone (Area code and number)

Daytime phone (Area code and number)

You have certain rights under Chapters 552 and 559, Government Code, to review, request, and correct information we have on file about you. To request information for review or to request error correction, contact us at the toll-free number listed on this form.

Form 10-341 (12-07)

	S U S A N	TEXAS COMPTROLLER <i>of</i> PUBLIC ACCOUNTS P.O. Box 13528 • AUSTIN, TX 78711-3528	
	C O M B S		

February 14, 2008

**EXAMPLE OF LIMITED POWER
OF ATTORNEY LETTER TO
TAXPAYER**

Dear Taxpayer:

This is to notify you that we have received a Crude Oil and Natural Gas Tax Limited Power of Attorney from

Name of Consultant or Service Provider or Third Party

dated 02/13/2008 to submit specified data on your behalf. No action is required if this information is correct.

The limited power of attorney expires one year from the signature date. This power of attorney will expire on 02/12/2009.

A written notification must be sent to the Comptroller to revoke a current power of attorney prior to the expiration date. A form letter is provided on our website at www.window.state.tx.us. You may mail it to the address below or FAX it to our toll-free number at (877) 882-8892. The Austin FAX number is (512) 475-0165.

If you have any questions, please call the Crude Oil and Natural Gas Tax Section at (800) 531-5441, ext. 3-4455. The Austin number is (512) 463-4455.

Comptroller of Public Accounts
 Account Maintenance Division
 Crude Oil and Natural Gas Tax Section
 P.O. Box 13528
 Austin, TX 78711-3528

S U S A N	TEXAS COMPTROLLER <i>of</i> PUBLIC ACCOUNTS P.O. Box 13528 • AUSTIN, TX 78711-3528	
C O M B S		

February 12, 2008

**EXAMPLE OF LIMITED POWER
OF ATTORNEY LETTER TO
CONSULTANT OR SERVICE
PROVIDER OR THIRD PARTY**

Dear Taxpayer:

We have received a limited power of attorney and set up your account as a third-party service provider. This allows you to file returns on behalf of your clients and view past return data online. Your 11-digit Texas taxpayer number is . Your password is WI036842. You can view return data, lease information and exemption information on our Web site at www.window.state.tx.us.

The limited power of attorney expires one year from the signature date. This limited power of attorney will expire on 01/08/2009.

If you have any questions, call the Crude Oil and Natural Gas Tax Section at (800) 531-5441, ext. 3-4455. The Austin number is (512) 463-4455.

ASSIGNMENT OF RIGHTS TO REFUND FORM (#00-985)

Effective June 20, 2003, the Assignment of Rights to Refund Form became a legal document required to be filed whenever a taxpayer (assignor) takes these actions:

1. relinquishes their right to request for a refund, or a transfer of credit, and assigns another party (assignee) to receive their refund, or a transfer of credit, or
2. assigns another party (assignee) to receive their refund only.

Received Date of Assignment of Rights to Refund Form

Even though a refund request letter from an assignee can be postmarked within the four-year statute of limitations, the received date of the Assignment of Rights to Refund Form takes precedence over the postmark of the refund request letter submitted by the assignee. This is in accordance to Comptroller §Rule 3.2 Section (d) (4) (C). This rule states, “*When a refund assignment is presented, the comptroller will treat the assigned refund as a payment from the assignee made on the date the assignee submits the assignment to the comptroller.*”

The Assignment of Rights to Refund Form, submitted by the assignee, must be signed by the assignor prior to the four-year statute of limitations of the report periods involved in the refund request, or transfer of credit. This is because since the assignor paid the tax, the assignor gave up their right to a refund, or transfer of credit, on the received date of the Assignment of Rights to Refund Form, not the postmark date of the refund request, or transfer of credit, submitted by the assignee.

Process for Posting the Received Date

1. Whenever a transfer of credit is processed transferring a credit from the assignor to the assignee, credit interest will be paid to the assignee based on the credit interest rules. See Step 1 in example on next page.

2. After the transfer of credit is processed, the postmark of the transferred amount is manually changed to reflect the received date of the Assignment of Rights to Refund Form. See Step 2 in example on next page.
3. Depending on the received date of the Assignment of Rights to Refund Form, there is a possibility that assessments of penalty and interest could occur on certain report periods whenever the received date is after the due date of a report period. When this happens, penalty and interest will be assessed based on the due date of a report period and the newly posted received date. See Step 3 in example on next page.

Assignment of Rights to Refund Form Not Included with Refund Request Package or Request To Transfer a Credit.

Whenever a producer submits a refund request for marketing cost reasons where the purchaser has paid the tax for the producer, signed Assignment of Rights to Refund Forms from each purchaser are required to be included with the refund request package. If not included, the refund request is considered incomplete.

If a refund request, or a request to transfer a credit, is received with no corresponding Assignment of Rights to Refund Form, a thirty-day letter will be sent to the assignee requesting the signed Assignment of Rights to Refund Form. After 30 days, if the Assignment of Rights to Refund Form is not received, the refund request, or transfer of credit, will be returned to the assignee and no action will be taken. In this situation, the refund request, or the request to transfer a credit, will be closed and the statute of limitations will not be tolled on report periods where the statute of limitations timeframe has elapsed.

The assignee has the option to resubmit the refund request or transfer of credit, however, the four-year statute of limitations will apply on the new received date of the Assignment of Rights to Refund Form for the report periods involved in the new refund claim, or transfer of credit.

Refund Requests

EXAMPLE OF WHEN PENALTY AND INTEREST ASSESSMENTS OCCUR

Received Date of Assignment of Rights to Refund Form is 05-01-09

Assignor's Records

Report Period:	0701	
Due Date:	03-20-07	
Calculated Tax Due:		\$ 700,000
Payment:		-\$ 600,000
Credit Amount Transferred to Assignee:		<u>-\$ 100,000</u>
Net Amount:		\$ 0

Postmark: 03-20-07

Assignee's Records Indicating Credit Amount Transferred-In, Prior to Postmark Change

Report Period:	0707	
Due Date:	09-20-07	
Calculated Tax Due:		\$ 900,000
Credit Amount Transferred-In From Assignor:		-\$ 100,000
Payment:		-\$ 800,000
Credit Interest Paid on \$100,000:		<u>-\$ 6,179</u>
Net Amount:		-\$ 6,179

Postmark: 03-20-07

Postmark: 09-20-07

All Timely Postmarks

► OVERPAID

Tax Due:	\$	0
Penalty Due:	\$	0
Interest Due:	<u>-\$</u>	<u>6,179</u>
Total Due:	<u>-\$</u>	<u>6,179</u>

STEP 1

EXAMPLE OF WHEN PENALTY AND INTEREST ASSESSMENTS OCCUR (continued)

Received Date of Assignment of Rights to Refund Form is 05-01-09 (continued)

**Assignee's Records Indicating Credit Amount Transferred-In,
After Postmark is Changed to Received Date of 05-01-09**

Report Period: 0707
Due Date: 09-20-07

Calculated Tax Due: \$ 900,000

Payment: -\$ 800,000
Credit Amount Transferred-In From Assignor: -\$ 100,000
Credit Interest Paid: -\$ 6,179
Net Amount: -\$ 6,179

Postmark: 09-20-07
Postmark: 05-01-09

STEP 2

Postmark Not Timely

► UNDERPAID
Tax Due: -\$ 6,179
Penalty Due: \$ 10,000
Interest Due: \$ 10,723
Total Due: \$ 14,544

- 10% Penalty Due on \$100,000
- Interest Due on \$100,000 through Received Date: 05-01-09

STEP 3

Refund Requests

(Form 00-985)

ASSIGNMENT OF RIGHT TO REFUND

To the Comptroller of Public Accounts for the State of Texas (hereinafter "Comptroller"):

(1) My name is _____, and I am a duly authorized representative of _____ (the "Assignor"). By executing this Assignment of Right to a Refund ("Assignment"), the Assignor assigns all rights and interest to the tax refund herein described that the Assignor may have to _____ (the "Assignee"), subject to the limitation noted herein. The Assignee's Taxpayer Number is _____ (if permitted in Texas).

(2) Assignor hereby assigns the Assignee (check whichever is applicable):

_____ a. The right to file a request for a refund and to receive the refund.

_____ b. The right to receive the refund only.

(3) The tax refund that is the subject of this Assignment is described as follows:

Tax Type: _____

Period: _____

Transactions: _____

_____ (Attach schedule, if necessary.)

Other specific limitations: _____

(4) The Assignor understands that the Comptroller may require both parties to provide documents or information necessary for the Comptroller to verify the validity of the refund claim and/or to transfer any verified amount to the Assignee.

(5) By executing this Assignment, the Assignor affirms that the Assignor has neither previously claimed a refund nor taken a credit on a return for taxes that are subject of this Assignment, and further affirms that the Assignor will not claim a refund or a credit for those taxes in the future.

Executed _____ day of _____, 20 ____ .

Assignor Entity Name Assignor Taxpayer Number

Print or type the name of person authorizing assignment

Relationship to entity (i.e., President, Treasurer)

Signature of person authorizing assignment Date

Area code/daytime phone number

Under Ch. 559, Government Code, you are entitled to review, request, and correct information we have on file about you, with limited exceptions in accordance with Ch. 552, Government Code. To request information for review or to request error correction, contact us at the Texas Comptroller's office

Form 00-985 (Rev.9-05/2)

REFUND REQUESTS FOR MARKETING COST CREDITS

Beginning September 1, 2003, guidelines for determining marketing cost deductions, which are currently in Comptroller Rule 3.15 are incorporated into the tax code.

The refund request letter for marketing cost credits should indicate if producer credit amended reports and/or “Purchaser Paid Tax” schedules are included in the package.

When a producer pays the natural gas tax and claims a credit for marketing cost on a lease, then a credit-amended report is required for each reporting period.

Refund requests for marketing cost credits sent for reviewed by a Comptroller’s field auditor are still subject to a final review by the Crude Oil and Natural Gas Tax Section in Account Maintenance Division in Austin, Texas, where further reduction of credits may occur.

When using the “Cost Averaging” method, include only months with production. If there is no production for a month, no costs are allowed. Also, if standard monthly costs exceed the value of gas sold, the excess cost is disallowed.

WELLHEAD VALUE

Ascertaining the producer’s actual marketing costs and subtracting these costs from the producer’s gross cash receipts from the sale of the gas shall determine the market value at the mouth of the well, or wellhead value.

MARKETING COST CREDITS CLAIMED ON PURCHASER PAID TAX

Effective June 20, 2003, letters for a refund request filed by a producer for marketing cost credits where a purchaser has paid the natural gas tax must include an Assignment of Rights to Refund (Form #00-985) signed by each purchaser.

Attached to Form #00-985, a summary schedule is required listing the date, purchaser name and taxpayer number, producer name and taxpayer number, lease name and number, credit total amounts listed by report period.

A separate schedule is required indicating purchaser name and taxpayer number, lease name and number, report period, volumes, values, marketing cost credit amounts, tax credit amounts and totals.

REFUND REQUESTS FOR ALL LEGISLATIVE EXEMPTIONS

By submitting a refund request letter and credit amended reports for specific exemption credits at the same time to the Crude Oil and Natural Gas Tax Section in Account Maintenance Division in Austin, Texas, helps to properly record and track a refund request.

Requirements For Leases With High Cost Gas Exemptions

Depending on the due date for each report period, a letter and credit amended reports requesting a refund for credits on high cost gas exemptions must be postmarked prior to the four-year statute of limitations. The refund request letter must contain all the required elements. If any required element is missing, the refund request is considered incomplete.

Approved high cost gas leases must meet four requirements prior to issuing a refund on a refund claim. If one or all of these requirements are not met, then the credit amount will be disallowed for the corresponding lease. The following are the four requirements:

1. Four-Year Statute of Limitations:

The statute of limitations for filing natural gas tax original and amended reports is four years prior to, or on, the due date of a report period. This statute of limitation requirement must be met by submitting a refund request and amended reports prior to, or on the due date of a report period.

2. Two-Year Window Requirement (House Bill 2425):

Credits for high cost gas exempt leases are limited to the amount of taxes paid in the 24 months prior to applying for lease certification by the Texas Railroad Commission. This applies to any wells certified by the Railroad Commission after Jan. 1, 2004.

3. One-Year Window Requirement:

To receive a credit or refund on high cost gas exemptions for taxes paid for report periods prior to the signature date on the Comptroller’s application form (#AP-180), the credit amended reports must be postmarked by the first anniversary from the signature date of the Comptroller’s application form (#AP-180).

GENERAL OUTLINE FOR CALCULATING GAS MARKETING COSTS

Investment

Facility (compressor, lines, etc.) Cost	
— Less 15% (may vary) Salvage	
<hr/>	
Depreciable Balance	(1) $6.67\% \times \text{Balance}$

*Provision: Depreciation for Year
15 years (may vary)

Interest on Investment

Beginning Balance 1st of Year	
— Less Provision	
<hr/>	
New Balance	
(Beginning Balance + New Balance ÷ 2) x 6%	(2) Interest

Operating Cost

Direct or Allocated Labor	(3) Operating
Materials and Supplies	(4) Materials and Supplies
Maintenance and Repair	(5) Maintenance and Repairs
Tax - Direct, Ad Valorem	(6) Tax
Fuel (purchased and/or fuel on which tax paid)	(7) Fuel
(fuel used for gas lift compressor is taxable)	
<hr/>	
TOTAL COST	(1 through 7)

TOTAL GAS SOLD:

MCF:

** This statement prepared using a 15-year life expectancy, which may vary depending on the equipment and/or estimated recovery period.*

This is an outline only. Costs listed are not necessarily all allowable. Additional documentation may be required.

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NATURAL GAS SEVERANCE TAXES AUDIT POLICY ON MARKETING COSTS

Section 201.101 of the Tax Code states “The market value of gas is its value at the mouth of the well from which it is produced.” Rule 3.15, Gas Marketing Costs, states “The ‘market value at the mouth of the well’ shall be determined by ascertaining the producer’s actual marketing costs and subtracting those costs from the producer’s gross cash receipts from the sale of the gas.” Market value has been further discussed in the court case *Mobil v. Calvert*, 451 SW 2d 889 (Tex 1970).

The purpose of the marketing cost deduction is not to cause the taxable value to be a “net income” tax. It simply equalizes the tax burden for those selling at or near the point of production with those who have to treat the gas and send it further away to market. Where there is no compression, sweetening, dehydration or transportation to the market, there will be no marketing costs. (The one exception is for costs on the sales meter or a necessary allocation meter. See “Meters” for more information on this subject.)

If a marketing facility is being used for gas lift, pressure maintenance or handling gas for outside parties, those volumes must also be included to calculate a “per MCF” value for the marketing cost deduction. The volumes for gas that qualify for one of the exemptions from tax (i.e., high cost gas) must also be used in the calculation of a “per MCF” cost.

Marketing costs may not reduce the taxable value of gas below zero. Marketing costs may not be carried forward from one month to another.

There are three general rules regarding marketing cost:

- (1) Marketing costs do not include any costs associated with producing natural gas or with the separation of natural gas from oil, condensate and water.
- (2) The cost must be necessary and essential to marketing the gas.
- (3) The cost should be directly related to the physical handling of the gas.

GENERAL CONCEPTS:

- (1) **Only the lease operator can take marketing cost deductions.**

- (a) What if other interest owners have paid their own share of the taxes? Can they then take their own share of the costs?

No, but the operator taking the costs should reimburse the other interest owners for their share of the costs. Exception: If the producer puts in writing that they will tell the other parties the amount of the costs, and agree to make supporting records available, the non-operator can take marketing cost deductions. Also, a non-operating, tax-paying interest owner may file for a refund of marketing costs if the operator provides supporting documentation and if the operator has not already deducted those same costs or received a refund for those costs.

Note: Each non-operator has their own statute of limitations for the purposes of filing refunds.

- (b) What if the gas purchaser is paying the tax? Can the producer tell the purchaser how much the costs were so that the purchaser can enter them on the tax return?

No. The purchaser can only take costs that are built into the contract.

- (c) What if the gas purchaser has paid the tax? Can the producer and/or operator get an assignment letter from the purchaser and file for a refund on their costs?

Yes. They may file the costs on a schedule rather than on amended returns since they have zero reported value.

- (2) **Amended returns need to be filed for all refund requests.**

Amended returns are required to provide a good audit trail for costs taken. If additional costs are submitted as part of a refund request and are to be incorporated in an audit and/or filed on a schedule, the taxpayer must first obtain approval from Account Maintenance Division and from Audit Division.

- (3) **Taxpayers can compute costs on an annual basis and use a rate per MCF for reporting**, then go back at the end of the year and compute the actual costs and rate. Then if the rate used was too high or too low, the rate for the next year must be adjusted accordingly. Actual costs must be used for audits and refund requests.
- (4) **A reasonable amount is allowed for overhead, at a rate of 6% of the appropriate accounts.**

The “overhead” accounts from which the 6% is taken are to be marketing related overhead accounts. Joint interest billings can be used to determine the accounts if necessary, but joint interest billings or amounts billed as “COPAS” overhead can NOT be used directly as the overhead amount.

- (5) **Costs can be allocated between sales and gas lift systems by using a ratio of gas sales to the total gas produced or compressed.**
- (6) **Costs can be allocated between gas and condensate systems by the following methods:**
- (a) hydrocarbon liquids to gas method
 - (b) gas to hydrocarbon liquids method
- (7) **Typical depreciation and return on investment calculation:**

Purchase price = \$100,000

Salvage value = \$ 10,000

Useful life = 10 years

Depreciation per year = $\$100,000 - \$10,000 =$
 $\$90,000 / 10 \text{ yrs} = \$9,000 \text{ per yr}$

Return On Investment:

Undepreciated Balance at Beginning of Year =	\$ 100,000
Undepreciated Balance at End of Year =	91,000

Subtotal	\$ 191,000
Divided by 2 =	\$ 95,500
Less: Salvage Value	- 10,000

Average Undepreciated Balance	\$ 85,500
Multiplied by 6% Rate	.06

Return on Investment Per Year	\$ 5,130

NOTES:

- (a) Useful life and depreciation rate: Ten years useful life and a depreciation rate of 10 percent per year is normally used for field equipment. Twenty years useful life or more is normally used for plants. However, a different term can be used if the situation calls for it, based upon documentation in the taxpayer’s records. Useful life must be the lesser of the expected life of the equipment or the life of the field. Straight-line depreciation is the preferred and recommended depreciation method.
- (b) If another method is used, the taxpayer should be ready to support why that particular method is appropriate for the situation. Useful life should be adjusted for major capital improvements. Useful life for marketing cost purposes should match the depreciation on the financial books.
- (c) In cases where one company acquires another, it is best to use the value placed on the new owner’s books. If the new owners place no value on the equipment, valuing only the reserves, the company should not be allowed to depreciate the equipment.

Refund Requests

- (d) If equipment that has been fully depreciated is sold for more than the salvage value, the additional “profit” is subject to severance tax. If equipment that is not yet fully depreciated is sold for more than book value, the excess depreciation taken can be recouped. In either case, tax is due, and auditors should assess this in audits.
- (e) If fully depreciated equipment continues in use by the taxpayer, they can continue to deduct the return on investment amount on the salvage value.
- (8) **Lease schematics appropriate to the relevant time period and signed by a company engineer should be provided for all audits or refund requests.** If not available, a written description, including a listing of equipment, signed by a company engineer, may be provided.

The list on the next pages presents various costs by category as “Allowable” or “Disallowed” as marketing costs. Whether the cost is deductible or not, the exact answer depends upon exactly how the item is used. Also, if the cost is deductible, it must be determined whether the item should be expensed or depreciated.

Wellhead and Downhole Equipment/Operations

These items all relate to either the drilling of the well or well servicing activities. None are deductible as marketing costs.

Item	Allowable	Disallowed	Comments
Acidizing		X	
Casing		X	
Cementing		X	
Drill Pipe		X	
Fishing/fishing tools		X	
Fracturing		X	
Hot oiling/hot oil treatment	X	X	Allowable if used in flow lines on a percentage basis. Downhole uses are not allowed.
Injecting baroid		X	
Logging		X	
Packers/setting packers		X	
Paraffin removal		X	
Perforating		X	
Swabbing		X	
Tubing		X	
Well Service		X	
Wire line service		X	

Production Equipment/ Operations

These items are all involved with the production of oil and gas, not marketing the gas. Therefore, none is allowable as marketing costs.

Item	Allowable	Disallowed	Comments
Christmas tree		X	
Compressors: wellhead/ suction/ vacuum	X	X	This type of compressor is used to create a vacuum or suction pressure to help produce oil and gas. Our policy is that if a well has a flowing pressure greater than the atmospheric pressure (14.65 psi), the oil and gas will flow to the surface in a natural state without the aid of a compressor. Therefore, the compressor is allowable as a marketing cost. If the flowing pressure is less than the atmospheric pressure, the well will not produce without the compressor. Consequently, the compressor relates to production, and its costs are not deductible as a marketing expense.
Corrosion inhibiting chemicals	*	X	Most of these chemicals are used downhole and are not allowable. If the chemical is used in pipelines that are part of the marketing function, that portion may be allowed.*
Downhole separation		X	
Electricity to run pumping unit		X	
Lease use gas to run pumping unit		X	Gas used to run a pumping unit is taxable as lease use gas, and there is not a corresponding marketing deduction for this gas value since pumping units are used to produce oil and gas.
Pumping unit		X	
Replacement valves /parts for Christmas tree		X	
Rods/ pulling rods		X	
Submersible pumps		X	
Tanks		X	
Tank and Vessel cleaning		X	
Automatic Shut-Down Devices (ASDs)		X	These devices will automatically shut-down the operations of all lease equipment in the event there is a problem with the wellhead or within the lease operations.

Refund Requests

Lease Equipment After the Wellhead

Item	Allowable	Disallowed	Comments
Air compressors used to start lease equipment		X	Not allowable unless used to start equipment that otherwise qualifies as marketing equipment.
Cathodic protection	X	X	These are rods used to prevent corrosion of pipes and vessels. They are allowed if used on the marketing gathering lines or if used on any allowed marketing equipment but not allowed if used downhole.
Chrome/stainless steel piping for handling gas with high H ₂ S content.	X*		*Depends on if the piping qualifies as allowable, based on location of the piping and its function. The "chrome/stainless steel" element is irrelevant.
Cranes for compressor building	X		Used to lift and move the compressor. Sometimes referred to by just the crane's brand name such as "Coffing."
Compressor installation charges	X		If the compressor is owned and used in a manner related to gas marketing, the installation costs may be included in depreciable base.
Compressors/parts and service for compressors - gas lift systems		X	
Compressors/parts and service for compressors - to return gas to leases		X	
Compressors/parts and service for compressors - to get gas up to required sales pressure. Compressors owned rather than rented.	X		If compressors perform a dual purpose, the costs can be allocated between allowable and not allowable marketing costs. Must be depreciated over useful life, and return on investment may be calculated.
Compressors - rented sales compressors	X		Deducted as a monthly expense.
Compressors- at central facility (compressor stations)	X		Same as above for all compressors.
Compressors- transmission line		X	Not allowable unless it occurs before the sale has been made.
Compression charge on settlement statement	X*		*Allowable if not already deducted from the reported gas sales price.
Compressor fuel for gas lift compressors		X	
Concrete slab for compressor	X		If compressor is owned, cost of slab may be included in depreciable base.
Concrete pad around compressor to collect oil and drainage, to reduce environmental clean up in the future.		X	Environmental related costs are not allowed. These pads are not necessary and essential to market the gas and they do not physically handle the gas.
Cost reimbursement from gas purchaser for compression		X	Should be included in gross taxable value, and actual marketing costs deducted by the producer.
Dehydrators	X		Takes the water content out of the gas stream.
Demulsification chemicals		X	Used to break down oil emulsions, usually in a heater treater.
Fence around compressor		X	

Lease Equipment After the Wellhead (continued)

Item	Allowable	Disallowed	Comments
Filters	X*		*Allowable if used on a piece of equipment that qualifies as a marketing cost deduction.
Fin Fans	X		Used to cool the gas after it has been compressed.
Flow lines from separator to purchaser's transmission line	X		
Glycol for use in dehydrators	X		See "dehydrators"
Heater treater		X	Used to treat oil, not gas.
Hydrogen sulfide (H ₂ S) scavengers	X		
Hydrogen sulfide monitoring		X	
Insurance on compressor		X	
LACT Units		X	These measure crude oil being sold.
Lease chiller	X*		*Costs of the chiller are allowable if tax is paid on the products obtained at 7.5 percent tax rate. If the taxpayer defines the liquids obtained as condensate and pays tax at 4.6 percent tax rate, no marketing costs are allowed.
Lease separators		X	By law, the costs of separation are not allowable.
Line heaters	X*		*Allowable if the heater is located after the first separator.
If located before the first separator, the cost may be allocated based on the liquids to gas ratio.			
LTX Unit	X*		*Allowable if the producer is paying gas tax on the liquids that are obtained from the unit.
Methanol for gas line	X		Used in preventing freeze-ups.
Oil/condensate storage tanks		X	
Painting dehydrator and sales compressor building	X		
Painting separators		X	
Paint storage tanks to prevent rusting		X	
Pig socks used around oil storage tanks and compressor		X	Used to clean oil spills.
Pigs and pigging equipment	*	X	*Allowed if used on gathering lines prior to the sales point. However, most pigs are used on gas transmission lines after the lease sale, in which case they are not allowed as a marketing cost.
Pipeline between wellhead and first separator	X*		* allowed based on the percentage of production flow attributable to gas. The allocation should be based on the Railroad Commission production reports.

Refund Requests

Lease Equipment After the Wellhead (concluded)

Item	Allowable	Disallowed	Comments
Pipeline between wellhead and central separation facility	X*		* allowed based on the percentage of production flow attributable to gas. The allocation should be based on the Railroad Commission production reports.
Pipeline between wellhead and sales line if there is no lease separation and no separation prior to sale (gas is sold full well stream)	*	*	*Allocate costs of this line between gas and condensate. Marketing costs are allowable on portion of line allocated to gas, and not allowable on the portion allocated to condensate.
Pipeline between wellhead and plant if there is no lease separation and gas is going full well stream to the plant for processing	*	*	*Allocate costs of this line between gas and condensate. Marketing costs are allowable on portion of line allocated to gas, and not allowable on the portion allocated to condensate.
Pipeline after first separator	X		Between separator and sales point.
Purchase and installation of compressor to increase capacity due to tight sands drilling program	*	*	A vacuum type compressor being used to increase production. The deductibility would be based on the well's flowing pressure (see policy on vacuum /suction/wellhead compressors)
Removal of contaminated soil, back-fill new dirt		X	
Repair handrails on vessels at tank battery		X	
Repair water leg on heater treater		X	
Security alarm on compressor		X	Not necessary and essential.
Separators at central facility		X*	Allowed if first separation has already occurred.
Shed/cover over sales compressor		X	The covering does not physically handle the gas and it is not essential to the marketing of the gas.
Skid mounting of sales compressor	X		Should be included in the depreciable price. Skid mounting of gas lift compressors is not allowable.
Stack packs/ production units		X	Basically separators that contain a heat source. There may also be lease use gas consumed on these.
Sweetening chemicals and H ₂ S Sweetening Scavengers	X*		Used to remove hydrogen sulfide from gas. * Not allowed if used downhole.
Vapor recovery units (VRU)		X*	Recovering additional vapors is a production function, not marketing. *However, costs may be allowed on the VRU if the additional vapors recovered are metered separately and then sold. In that case, the costs of the VRU can be deducted from the additional value received for the vapors recovered and sold.
Drip Stations and the costs of hauling products from drip stations		X	Pipeline drip is generally considered to be condensate, so the costs of handling it are not deductible.
Culverts to protect pipelines		X	Not necessary and essential to market the gas.

Other Lease Related Items

Item	Allowable	Disallowed	Comments
Ad valorem taxes	X*		*Allowable on value of marketing equipment only. If there is no breakdown between marketing equipment versus other equipment, taxes are not allowable.
Building or trailer rental		X	
Cattle guards around lease equipment or on lease roads		X	
Clean out dumpsters, trash barrels at lease facility		X	
Cleaning agents	X*		*Deductibility depends on purpose for which they are being used. Costs are allowable if used on allowable marketing equipment.
Construction/installation of lease road		X	
Cost to acquire pipeline right-of- way	X*		Only for the right-of-ways for pipelines prior to the sales point. Right-of- way expenses after the sales point are not allowed. Auditors should carefully scrutinize which pipeline right-of-way costs are being booked.
Fence around lease facility		X	Not essential for marketing the gas
Fire ant treatment around lease, including compressor		X	
Fire extinguishers		X	
Heat sensing devices on leases		X	Safety expenses are incidental to the marketing function
Hydrostatic testing	X*		*Usually refers to testing pressure and amount of water in pipelines. Deductibility depends on which pipelines are being tested.
Miscellaneous parts, valves, fittings, plugs, duct tape, lubricants, tools, etc.	X*		*Deductibility depends on purpose for which they are being used. Costs are allowable if used on allowable marketing equipment.
Motor freight and hauling	X*		*Deductibility depends on purpose of freight and hauling. Costs are allowable if for allowable marketing equipment.
Mowing, weeding around lease equipment		X	
Mowing, weeding pipeline right of way		X	
Repairing fire wall		X	
Repair and maintenance on lease roads		X	
Salt water disposal expenses, including wells or hauling		X	Water is produced as part of the production operations. Disposing of that water is also a production related expense not related to marketing gas.

Refund Requests

Labor Expenses

A portion of both company and contract labor is allowed as a marketing cost deduction. The cost of labor includes salaries and the cost of the employee's benefits. In other words, all expenses necessary to keep the person who works on marketing equipment employed is subject to the deduction. The exact percentage of these expenses that is deductible depends on the employee's or contractor's overall duties and the types of equipment on which the employee or contractor works. In the interest of saving time on the part of both taxpayers and auditors, a standard percentage has been identified as allowable without being

supported with documentation. That percentage is 50% of the labor expenses on gas wells and 25% of the expenses on oil wells. If the taxpayer wants to claim a higher percentage of the labor expenses, that higher number must be supported with a detailed analysis of how the employee spends his or her time as well as an analysis of the equipment on the various leases on which the employee or contractor works.

Incidental employee expenses such as cell phones, transportation costs, and supervisory expenses are considered to be overhead and allowed at the 6% overhead rate.

Item	Allowable	Disallowed	Comments
Cellular phone in pumper's truck, radios, CBs, etc.	X*		*Include in overhead. Allow at a 6 percent rate.
Cost to operate district office building, warehouses, shops, garages, etc.		X	
Cost of consultant assessing compressor needs		X	This expense is not for an actual compressor involved in marketing gas.
Cost of secretary in district office		X	Does not work on equipment that is physically handling gas.
Field supervisor cost (salary and transportation)	X*		*Include in overhead and allow at a 6 percent rate.
Gauger salaries		X*	*Gaugers normally refer to employees who measure volumes in storage tanks. If this is the case, the gauger's salary would not be deductible. However, the use of this term differs from company to company. Some gaugers are actually doing the work of a pumper. The determining factor as it relates to marketing costs is exactly what the job duties entail.
Hand tools used by pumper/gauger	X*		*If the employee's duties are such that his or her salary is an allowable marketing expense, the tools the employee uses are then includable as an overhead expense and allowed at the 6 percent overhead rate.
"Break out of heater and removal; set new heater and start hook-up."	X		Allowable if the work is performed on a qualifying heater.
Meals/food expenses for pumper/gauger	X*		*Include in overhead and allow at a 6 percent rate.
Meals/food expenses for other district office personnel		X	
Pumper/gauger benefit costs	X*		*Allow the same percentage as for pumper's salary and benefits.

Labor Expenses (concluded)

Item	Allowable	Disallowed	Comments
Pumper salaries/ benefits	X*		*The percentage of salary attributable to pumper's time spent working on marketing equipment is allowable. The percentage of salary attributable to other duties, i.e. production, is not allowable. A standard percentage is often used, i.e., 50 percent of the salary charged to gas wells and 25% charged to oil wells. See explanation before this section for more details.
Training classes for pumpers	X*		*Allowable as overhead at the 6 percent rate. Any meals provided at company expense during the training session are not allowable.
Safety clothing	X*		Required by OSHA or EPA. Allowable at 6 percent overhead rate.
Supervisors of company and contract labor	X*		Allowable at 6 percent overhead rate.
Thawing gas lines	X*		*Allowable if the lines being thawed are after initial separation, partially allowable if before initial separation (based on gas to hydrocarbon liquids ratio).
Transportation expenses for pumpers/ gaugers/ field supervisors (trucks)	X*		*Include in overhead and allow at the 6 percent rate.

Meters

Item	Allowable	Disallowed	Comments
Gas analysis expenses	X		To make sure contract requirements are met.
Meters – sales	X		Meter on which payment is based. If sales meter is owned by producer, the cost of the meter (depreciation plus monthly maintenance expense) is deductible.
Meter- allocation meter	X		Allowable if more than one well or lease is paid from a single purchaser meter. If the sales meter is owned by the purchaser, the producer is allowed to take the cost of lease allocation meters (since we require lease level reporting).
Meters- check		X	Used to verify sales volumes; usually located next to the purchaser's sales meter.
Meter to measure lease use gas		X	
Meter calibration services	X*		*For sales or allocation meters only.
Pens for meters: graphic red pen, graphic green pen, black static pen	X		Allowable if used in an allowable meter only.
Meter on test separator		X	

Refund Requests

Electricity

Item	Allowable	Disallowed	Comments
Central separation/ compression facility	X*		*Partially allowable. Allocate electricity costs based on how much is used in each function of the facility.
District office building		X	
Electronic gate		X	
Gas lift compressor		X	
Gas sales compressor	X		
Generators	X*		*Depends upon use. If used for allowable equipment, it is allowable.
Lease lighting/security lights		X	
Maintenance shop		X	
Oil pumps		X	
Pumping unit		X	
Storage building		X	
Electrical control systems and electric line charges	X*		Partially allowable depending on the types of electrical equipment on the lease or facility

Plants

In general, costs cannot be taken on a plant if the producer is receiving settlement based on a product/residue plant split (getting a percentage of the proceeds). The producers/leases pay tax only on the percentage or dollar value received from the plant. The percentage kept by the plant is considered the processing or marketing fee, and the tax is not paid on that amount. In essence, that amount is the marketing cost deduction on the leases involved. In most cases, producers have filed their monthly tax returns and paid tax in accordance with this method.

When filing refunds for additional marketing costs, some taxpayers want to include the actual costs of operating gas-processing plants. In such cases, they will go back and pay additional tax on the full value of the products and residue extracted at the plant in place of the percentage originally reported. This is allowable, but there are complicating factors that must be considered.

First, auditors must verify that the marketing costs have been offset by 100 percent of the tailgate value received by the plant for the sale of the products (liquid hydrocarbons) and residue. It should be noted that this amount should be more than the total of the amounts that the plant has paid to the individual leases. It must be the total that the plant receives for processing and selling the gas.

Secondly, if the plant is processing gas for unrelated parties, 100 percent of the plant costs **cannot** be taken. Likewise, if the plant operator has other interest owning partners in the field sending in-kind gas to the plant, 100% of the costs cannot be taken. In either situation, a cost per MCF for processing the gas should be calculated. The total costs should then be allocated between the different functions based on the cost per MCF. The only costs that can be deducted from the plant owner's taxes are the costs attributable to their proportional share of the gas produced and sold.

If a taxpayer changes to a 100 percent revenue/100 percent cost method as a result of a refund request, they should continue to report using that method on the future monthly tax returns. They cannot switch back and forth on the method used. If they do not continue to report on the 100 percent revenue/100 percent cost method on their monthly tax return, they will not be allowed to use this method for future refunds.

If a plant owner and the lease operator are the same entity, the auditor should also verify that plants are settling back to the leases based at a fair market value. The price should be similar to what other non-owned leases in the area are receiving for a like quality of gas. If not, an assessment for the extra value can be made as an adjustment to the gas sales value.

Plants

In the examples below, assume that revenue was paid at 100 percent so that costs are eligible to be taken.

Item	Allowable	Disallowed	Comments
Compressors- inlet	X		
Compressors – tailgate	X*		*Compressors handling sales gas before the sales meter are allowable. Compressors handling gas being returned to leases for gas lift, injection or lease use, or transmission, are not allowable.
Control room computers	X		
De-methanization expenses	X		
Electricity for office building and storage buildings		X	
Installing breaker in control room	X		
Janitorial expenses for office building, storage buildings, and control room		X	
Painting of plant piping and other facilities	X		
Propane compressors	X		Before the sales meter.
Scrubbers	X		
Water chilling expenses	X		
Trucks for intra-plant transportation	X*		Allowed at the 6 percent overhead rate.
Trucks provided for the transportation of plant managers and supervisors		X	

Offshore Leases

Item	Allowable	Disallowed	Comments
Boats - crew boats	X*		*Used for taking personnel to and from platform. Allow as part of overhead at the 6 percent rate.
Boats - used to deliver supplies to production platforms	X*		*Partially allowable, depending upon what is being delivered. If supplies being delivered are related to marketing costs (i.e., glycol or parts for sales compressors) the cost is allowable.
Boats - used for surveillance around platforms (maintenance and security)		X	
Boat or barge to transport condensate from platform to shore		X	The cost of transporting crude oil to shore is allowable as a trucking cost for crude oil, but no part of the cost is allowable as a marketing cost.
Compressors	X*		*Allowable if compressing gas for sale. If the compressor is located on the platform and it compresses gas for transport to shore for sale, and if condensate is also placed in the pipeline, compressor costs must be allocated. The portion attributable to condensate is not allowable.

Refund Requests

Offshore Leases (concluded)

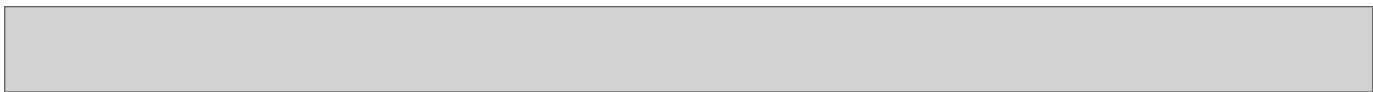
Item	Allowable	Disallowed	Comments
Compressors - gas lift		X	
Condensate sent to shore via pipeline		X	
Food for platform personnel	X*		*Allowable as overhead at the 6 percent rate.
Helicopter expense for transporting personnel to and from platform	X*		*Allowable as overhead at the 6 percent rate.
Housing facilities for platform personnel	X*		*Part of the platform cost and treated the same as "Production platform."
Pipeline - from platform to shore (gas only line)	X*		*Allowable if there has been separation on the platform.
Pipeline - from platform to shore (both gas and condensate in line)	X*		*Allocate as described under "Compressors."
Pipeline - from satellite wells to central platform	X*		The costs of this line may be allocated based on the oil to gas ratio.
Production platform	X*		*An allocation of costs can be made between sales and production based on the total square footage of the platform used for marketing equipment versus the total square footage of the platform.
Separators on platform		X	Separators are never allowed per the statute.
Separators on shore		X	

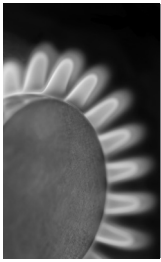
Miscellaneous Issues

Item	Allowable	Disallowed	Comments
Accounting department salaries		X	Recording revenue from leases and reporting taxes
Ad valorem taxes on marketing facilities or equipment	X		Ad valorem tax statements should clearly identify the marketing equipment being taxed and the amounts should be separately stated from other items being taxed.
Carbon dioxide recovery projects		X*	*These projects are normally used to enhance production of crude oil. Only an allocation of expenses may be allowed as a marketing cost. The cost of removing CO2 from a gas stream that is being sold is allowable. The cost of returning CO2 to leases and injecting into back into the formation is not allowed. The allocation should be based on a study of the schematics for each individual situation.
Brokerage or Marketing Fees		X	

Miscellaneous Issues (concluded)

Item	Allowable	Disallowed	Comments
Tax-Exempt leases and Partially tax-exempt leases		X	Marketing costs should be allocated to the leases on which the expenses are incurred. The marketing costs for facilities and plants that serve a group of leases should be allocated to all leases within the group based on the production volume for each lease. A marketing cost tax credit will not be issued for the costs attributable to leases that are tax-exempt. Tax credits can be issued for costs attributable to partially tax-exempt leases up until the point that the taxable value reaches zero. Marketing costs can not be transferred from one lease to another.
Insurance premiums on any equipment or facilities		X	
Legal department salaries and expenses		X	Legal department prepares contracts for marketing gas.
Production Fees		X	These fees relate to the amount produced. Sometimes there is a fee for delivering less than the amount called for in the contract.
Environmental fees and taxes		X	In the case of the state emissions fee, the statute creating the fee specifically states that the entity doing the emitting must pay the fee. It cannot be passed through to another entity. If deducted as a marketing cost, the state would essentially be paying the fee to itself.
Environmental fees and taxes		X	In the case of the state emissions fee, the statute creating the fee specifically states that the entity doing the emitting must pay the fee. It cannot be passed through to another entity. If deducted as a marketing cost, the state would essentially be paying the fee to itself.





Credit Transfer Form #10-147

Verifying and processing the Natural Gas Credit Transfer Form by the Crude Oil and Natural Gas Tax Section in Account Maintenance Division has taken the same protocol as refund requests. Just like refund requests, all credit amounts listed on a transfer form are subject to verification prior to processing. After verification by an examiner and/or field auditor, the potential of a disallowance of a credit amount listed on a Credit Transfer form could occur. If any credit amount is disallowed, a 30 day letter indicating the reason for the disallowed amount will be sent to the taxpayer, consultant and/or service provider.

The Credit Transfer form is only used to designate where the credit amounts are to be applied and it distributes:

- credits to reporting periods with liabilities within the same taxpayer account and tax subtype,
- payments for prior report periods when a lump sum electronic fund transfer (EFT) method of payment was submitted to one particular report period and tax subtype and
- credits from one taxpayer account and tax subtype to another taxpayer account and subtype by attaching a signed Assignment of Rights to Refund Form (#00-985).

WHEN TO FILE A CREDIT TRANSFER FORM

- If an EFT payment contains a payment for a particular report period and this lump sum payment includes payments for prior report periods, then a Credit Transfer form must be filed to process the payment to the prior report periods. However, the report period where the payment was originally sent must be clear of report error prior to transferring the payment amount to prior periods.

- If an amended report reflects a credit amount, then the credit may be used to pay a liability reflected on another report period by filing the Credit Transfer form.
- If a taxpayer has both a producer and purchaser account, or tax subtype, then a Credit Transfer form must be used to transfer a credit from one tax subtype to another.
- If a taxpayer (assignor) wants to relinquish their credit amount to another taxpayer (assignee), then the Credit Transfer form must be filed along with the Assignment of Rights to Refund Form (#00-985).
- Whenever a credit amount is entered on Line 9 of totals page of the monthly, annual, and amended report forms, then the Credit Transfer form must also be filed. If the Credit Transfer form is not filed, the credit transfer from one report period to another will not occur.

ERRORS CAUSING CREDIT TRANSFER FORM TO NOT PROCESS

Whenever one or more errors (listed on the next page) exists on the Credit Transfer form, a 30 day letter will be sent to the taxpayer listing the reason(s) why the credit transfer was not processed. The Credit Transfer form will be placed in a pending status for 30 days. If the error is corrected within 30 days, the pending status will be removed and the credit transfer will process accordingly. If no action is taken after 30 days, a letter will be sent to the taxpayer saying that the credit transfer was not processed. The taxpayer has the option to re-submit the credit transfer once the errors are corrected.

REASONS CAUSING A CREDIT TRANSFER FORM TO NOT PROCESS

1. One or more “critical” report errors exist on the report period listed in Column A.
2. The taxpayer number in block “c” is not set up on Comptroller’s taxpayer records.
3. The tax subtype in Column B for the report period indicated in Column A is not active on Comptroller’s taxpayer records.
4. The amount in Column C is not available because the Comptroller’s records indicate the current balance is zero for the report period indicated in Column A.
5. The amount in Column C is more than the available credit amount on Comptroller’s records. The Comptroller’s records indicate a lesser credit amount for the report period indicated in Column A.
6. The reason code in Column F is blank, or the code is not 1 through 6.
7. A letter was not attached to the Credit Transfer form indicating the specific grounds on which the credit is based for marketing costs and tax reimbursement reasons whereby a Comptroller’s field auditor has verified the credits. The letter must indicate the lease name(s) and number(s) and the specific reason(s) that created each credit amount listed on Column C.
8. Box is checked indicating an Assignment of Rights to Refund Form (#00-985) is attached, but this form was not submitted, or this form is missing.
9. The Credit Transfer form cannot be used to transfer credits from natural gas tax to crude oil tax account. A letter must be submitted when transferring credits from a natural gas tax to crude oil account listing the report periods, taxpayer name, 11-digit taxpayer number, tax type, tax subtype, credit amounts to be transferred and reason.
10. The report period in Column A is out of statute period and the previously filed credit amended report and/or overpaid tax or credit interest amount has not been verified and approved by an examiner and/or field auditor.
11. No name, signature, telephone and/or date are provided.

CREDIT INTEREST EARNED ON CREDIT TRANSFERS

When a report period has no “critical” report errors, the credit amount listed in Column C will be transferred and credit interest will be paid on the transferred amount, if applicable. Credit interest earned is reflected in the report period the overpayment was transferred to, as listed in Column D.

Credit interest created by a payment or transfer of payment from one period to another of an eligible report period used to satisfy some, or all, of a liability is referred to as credit interest earned.

An overpayment in a report period exists when the total amount of payments, money transferred-into a report period and/or credit interest earned, exceeds the liability. The overpayment could consist of multiple payments received, payments transferred-in and/or credit interest earned.

The postmarks of payment received and postmarks of payments transferred into a report period are posted in chronological order. If a report period has a payment transferred-in and this payment resulted in credit interest earned, then the process date of the credit interest earned is posted chronologically along with the postmarks of payments received and payments transferred-in.

The method of processing refunds issued in a report period and transferring out an overpayment from one report period to another is the “last in first out” (LIFO) method. The postmarks of a payment received and/or payment being transferred-out determines the eligibility and calculation of credit interest earned.

Based on the preceding information and using existing eligibility and calculation rules for credit interest, the following rules apply:

1. Any overpayment comprised entirely of tax accrues credit interest on the full amount of the overpayment.
2. Any overpayment comprised of tax and credit interest earned accrues credit interest only on the full amount of the tax portion of the overpayment. The portion for credit interest earned does not accrue credit interest.
3. Any overpayment comprised entirely of credit interest does not accrue credit interest.

RETURN TO FORM

INSTRUCTIONS

- Item c:** Enter the 11-digit taxpayer number assigned by the Comptroller.
- Item d:** Enter the taxpayer's name and mailing address.
- Column A:** Enter the year/month **from** which the credit is to be transferred.
- If the **from** filing period is in monthly filing status, enter the date in YYYY format.
 - If the **from** filing period is in annual filing status, enter the date in YY format.
- Column B:** Enter the 2-digit "Tax Sub Type" for natural gas tax.
- A purchaser is identified as "Tax Sub Type" 37.
 - A producer is identified as "Tax Sub Type" 49.
- Column C:** Enter the amount of the credit to be transferred. Do not use credit brackets. Enter dollars and cents.
- Column D:** Enter the year/month **to** which the credit is to be transferred.
- If the **to** filing period is in monthly filing status, enter the date in YYYY format.
 - If the **to** filing period is in annual filing status, enter the date in YY format.
- Column E:** Enter the 2-digit "Tax Sub Type" for natural gas tax.
- A purchaser is identified as "Tax Sub Type" 37.
 - A producer is identified as "Tax Sub Type" 49.
- Column F:** Enter the 1-digit reason code that indicates the primary reason for the majority of the credit to be transferred, to the best of your knowledge and belief.
- Item 11:** Enter the total amount of credits to be transferred in Column C. Each page must be totaled separately.

-
1. If the credit has not been previously verified by a field auditor, then a letter must be attached to this credit transfer form indicating the specific grounds on which the credit is based for marketing costs, value reduction and tax reimbursement reasons. The letter must indicate the lease name(s) and number(s) and the specific reason(s) that created each credit amount listed on the credit transfer form.
 2. If transferring a credit from one taxpayer to another, please enter the assignor's taxpayer number in Item "c" and attach a current and signed Assignment of Right to Refund (Form 00-985) listing the taxpayer name and number of the assignee.
 3. No transfer of credit will occur if one or more of the following conditions exist:
 - a letter is not provided for the specific grounds on which the credit is based;
 - a filing period in Column A is in "critical" error status;
 - a current and signed Assignment of Right to Refund (Form 00-985) not provided with this form;
 - an error is found on this credit transfer form;
 - transferring credits from natural gas tax to crude oil tax account. A letter must be submitted when transferring credits from a natural gas tax to crude oil tax account listing the report periods, taxpayer name, 11-digit taxpayer number, tax type, sub type and credit amounts.
 - missing reason code(s), subtypes, taxpayer name and address; and/or
 - no signature. A printed name, signature, date and daytime phone number are required.
 4. Credits listed on the transfer form are subject to verification prior to processing the transfer.

For tax assistance, call (800) 252-1384 toll free nationwide. The Austin number is (512) 463-4600.

Credit Transfer – Form #10-147

10-147
 Comptroller of Public Accounts
 Form (Rev.8-08/18)

b. ■

PRINT FORM

RESET FORM

FORM 10-147

CREDIT TRANSFER FORM for Natural Gas Tax

a. T Code ■ **37490**

c. Taxpayer number

■

You have certain rights under Chapters 552 and 559, Government Code, to review, request and correct information we have on file about you. To request information for review or to request error correction, contact us at the toll-free number listed on this form.

d.

Taxpayer name and mailing address

• **Instructions on reverse**

• **Do not write in shaded area**

e. YES 1 NO 2

f. PM

■

ACID

Use this form to transfer credits from one reporting period to another. For Columns A-F below, see instructions on the back of this form.

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Transfer FROM	Tax Sub Type	Amount Transferred <i>(Do not use brackets)</i>	Transfer TO	Tax Sub Type	Reason Code
y y m m		DOLLARS AND CENTS	y y m m		
1. ■	■	\$	■	■	■
2. ■	■	\$	■	■	■
3. ■	■	\$	■	■	■
4. ■	■	\$	■	■	■
5. ■	■	\$	■	■	■
6. ■	■	\$	■	■	■
7. ■	■	\$	■	■	■
8. ■	■	\$	■	■	■
9. ■	■	\$	■	■	■
10. ■	■	\$	■	■	■
11. TOTAL AMOUNT TRANSFERRED		\$	(Each page should be totaled separately.)		c/c ■ 1

TAX SUB TYPE
37 Purchaser – Natural Gas
49 Producer – Natural Gas

REASON CODES		
1 - Marketing costs	2 - Legislative exemption	3 - Tax reimbursement
4 - Overpaid tax	5 - Value reduction	6 - Credit interest

Check this box if an Assignment of Right to Refund (Form 00-985) is attached.

**No transfer of credit will occur if a filing period in Column A is in error status.
 The credits listed on this transfer form are subject to verification prior to processing the credit amounts.**

Mail to: COMPTROLLER OF PUBLIC ACCOUNTS 111 E. 17th Street Austin, Texas 78774-0100	I declare that the information in this document and any attachments is true and correct to the best of my knowledge and belief.	
	Printed name	Daytime phone (Area code and number)
	sign here Taxpayer or authorized agent	Date

For tax assistance call (800) 252-1384 toll free nationwide. The Austin number is (512) 463-4600.

S U S A N C O M B S	TEXAS COMPTROLLER <i>of</i> PUBLIC ACCOUNTS P.O. Box 13528 • AUSTIN, TX 78711-3528	
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February 1, 2008

**EXAMPLE OF
CREDIT TRANSFER FORM
IN "PENDING" STATUS**

Taxpayer number:

Dear Taxpayer:

The Credit Transfer Form for Natural Gas Tax, Form 10-147, submitted to our office for the reporting period(s) listed below did not process. Please call us at (800) 531-5441, ext. 3-4455, option 2, or call the Austin number at (512) 463-4455, option 2, to discuss the reason(s) listed. Once the issue is resolved, please submit a new credit transfer form to our address below, or FAX it to (877) 882-8892, or in Austin, to (512) 475-0165.

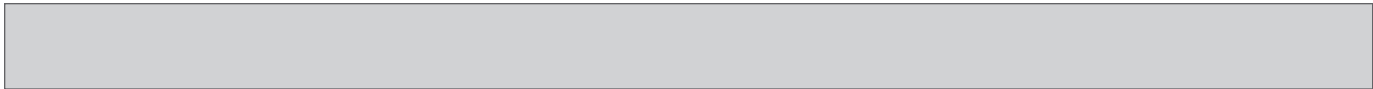
Crude Oil and Natural Gas Tax Section
 Account Maintenance Division
 P.O. Box 13528
 Austin, TX 78711-3528

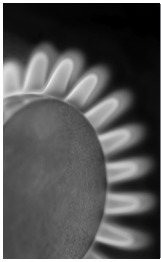
FROM: Producer \$101.71 TO: Producer
 POSTMARK DATE: 11/28/2007 DLN: 08030-15-0611
 REPORT HAS ERRORS
 PROCESS DAY PASS 30 DAYS PERIOD
 PERIOD BALANCE IS NOT A CREDIT

FROM: Producer \$77,279.61 TO: Producer
 POSTMARK DATE: 11/28/2007 DLN: 08030-15-0611
 REPORT HAS ERRORS
 PROCESS DAY PASS 30 DAYS PERIOD
 PERIOD BALANCE IS NOT A CREDIT

FROM: Producer \$19,626.81 TO: Producer
 POSTMARK DATE: 11/28/2007 DLN: 08030-15-0611
 TRANSFER AMOUNT IS GREATER THAN THE CREDIT AMOUNT
 PROCESS DAY PASS 30 DAYS PERIOD

FROM: Producer \$16,933.61 TO: Producer
 POSTMARK DATE: 11/28/2007 DLN: 08030-15-0611
 TRANSFER AMOUNT IS GREATER THAN THE CREDIT AMOUNT
 PROCESS DAY PASS 30 DAYS PERIOD





Interest on Credits, Refunds, Credit Transfers and Tax Due

INTEREST OWED

Past-due taxes are charged interest beginning sixty-one days after the due date.

For most taxes due on or after Jan. 1, 2000, this interest rate varies annually, set at one percent over the prime rate as published in the Wall Street Journal on the first business day of the year.

Calculating Interest Owed

You can calculate the interest you owe by multiplying the interest rate times the tax due times the number of days interest accrues, then dividing that total by the number of days in a year (365 days or 366 for leap years). For example, if you owe \$1000 in taxes at a rate of 8.25 percent (0.0825) for 150 days in 2008 (366 days) the interest owed would be \$33.81.

Year	Annual Rate Prime +1
2009	4.25 percent (.0425)
2008	8.25 percent (.0825)
2007	9.25 percent (.0925)
2006	8.25 percent (.0825)
2005	6.25 percent (.0625)
2004	5.00 percent (.0500)
2003	5.25 percent (.0525)
2002	5.75 percent (.0575)
2001	10.50 percent (.1050)
2000	9.50 percent (.0950)

For taxes due on or before Dec. 31, 1999, interest was assessed at 12 percent per year.

INTEREST EARNED

As a result of legislation (SB 1570) passed in the 79th Regular Legislative Session, refund claims filed on or after Sept. 1, 2005, accrue credit interest at either Treasury Pool rate or Prime +1, whichever is less.

The credit interest will vary annually until the credit is refunded or transferred to a liability. The credit interest for each year is determined by that year's Treasury Pool rate or Prime +1, whichever is less.

Example: If interest accrues from Dec. 20, 2007, to Jan. 20, 2008, the interest rate from Dec. 20, 2007, to Dec. 31, 2007, will be 5.066 percent (0.05066), and the interest from Jan. 1, 2008, to Jan. 20, 2008, will be 4.764 percent (0.04764).

Calculating Interest Earned

You can calculate the interest earned by multiplying the interest rate times the tax due times the number of days interest accrues, then dividing that total by the number of days in a year (365 days or 366 for leap years). For example, if you were to earn interest on \$1000 at a rate of 4.764 percent (0.04764) for 150 days in 2008 (366 days), the interest earned would be \$19.52.

Interest on Credits, Refunds, Credit Transfers and Tax Due

Year	Annual Rate Prime +1	Annual Rate Treasury Pool
2009	4.25 percent (.0425)	4.250 percent (.04250)
2008	8.25 percent (.0825)	4.764 percent (.04764)
2007	9.25 percent (.0925)	5.066 percent (.05066)
2006	8.25 percent (.0825)	4.068 percent (.04068)
2005	6.25 percent (.0625)	2.187 percent (.02187)
2004	5.00 percent (.0500)	1.517 percent (.01517)
2003	5.25 percent (.0525)	2.107 percent (.02107)
2002	5.75 percent (.0575)	3.465 percent (.03465)
2001	10.50 percent (.1050)	6.140 percent (.06140)
2000	9.50 percent (.0950)	5.619 percent (.05619)

CREDIT INTEREST SUMMARY

Credit Interest

Since Jan. 1, 2000, taxpayers have been able to receive interest on refunds and transfers of taxes paid in error. The interest begins to accrue 60 days after the date of the payment, or the due date of the tax report, whichever is later. Credit interest does not accrue for report periods prior to Jan. 1, 2000, or for Title 6, Property Code. Credit interest created by a payment or transfer of payment from one period to another of an eligible report period used to satisfy some, or all, of a liability is referred to as credit interest earned.

Under the old law, the interest rate was 1 percent over the prime rate published in the Wall Street Journal on the first business day of each calendar year. As of Sept. 1, 2005, the credit interest rate for tax refunds is the lesser of these amounts:

- the annual rate earned on deposits in the state treasury during December of the previous calendar year; or
- one percent over the prime interest rate published in the Wall Street Journal on the first business day of the year.

The interest rate is determined by the date of the refund claim. The claim can be an amended tax return, request for a transfer of the credit to another period, or request for a refund. A request with a postmark date prior to Sept. 1, 2005, accrues interest at the old rate, prime plus 1 percent. A request that occurs on or after Sept. 1, 2005, accrues interest at the lesser of the two rates described above.

Example of Credit Created by Amended Reports

For example, a tax return is due on May 20, 2005, and the report is filed and the tax paid on time. An amended return is filed on Aug. 20, 2005, creating a credit of \$1,000. The credit interest would begin on the 61st day after May 20, 2005, or July 20, 2005. The interest rate paid on the credit would be prime plus 1 percent. If the amended return were filed on or after Sept. 1, 2005, however, the interest rate would be determined by which rate is lower - the Treasury Pool Rate or prime interest rate plus 1.

If you file multiple amended reports for a period, the interest rate is determined by the postmark date of the last one. For example, a tax return and payment are filed on time on June 20, 2005. An amended return is filed on Aug. 12, 2005, creating a credit of \$3,000. Another amended return is filed on Sept. 1, 2005, creating an additional credit of \$4,000, for a total credit of \$7,000 for the filing period. The credit interest will start accruing on the 61st day after June 20, 2005, or Aug. 20, 2005, but the interest rate on the entire \$7,000 credit would accrue at the lesser of the two rates since the second amended return was filed Sept. 1.

Credits in Audits

A credit that is scheduled in an audit will be refunded once the audit is completed using the interest rate in effect on the entrance conference date of the audit. If the entrance conference is prior to Sept. 1, 2005, the interest rate accrues at the prime plus one rate. If the entrance conference is on or after Sept. 1, 2005, the interest accrues at the lesser of the two rates.

Refund Claims Verified by Audit

A refund claim with a postmark date prior to Sept. 1, 2005 accrues interest at prime plus 1 percent. If the postmark date is on or after Sept. 1, 2005, it will accrue interest at the lesser of the two rates.

Transfers of Credits

Each transfer of a credit is treated as a new transaction. If a later transfer has a postmark date on or after Sept. 1, 2005, then the interest rate will accrue at the applicable rate.

Example: An amended report for January 2005 is filed on April 1, 2005, creating a \$5,000 credit. A transfer request moves the \$5,000 credit to the May 2005 filing period. Credit interest will accrue at the old rate of prime plus 1 percent. A second transfer is filed on Oct. 1, 2005, moving \$2,000 to the July 2005 filing period. For this transfer, credit interest will accrue at the lesser of the two rates. Each transfer of a credit forward is subject to credit interest. Transfers of credit to previous periods are not subject to credit interest.

Credit Interest Earned on Transfer of Credits

Credit interest created by a payment or transfer of payment from one period to another of an eligible report period used to satisfy some, or all, of a liability is referred to as credit interest earned.

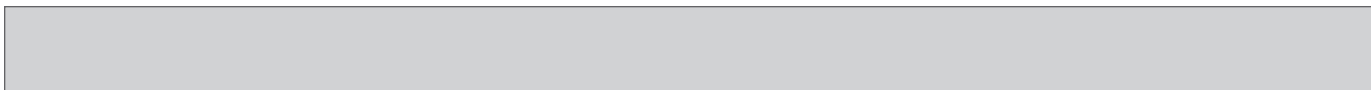
An overpayment in a report period exists when the total amount of payments, money transferred-into a report period and/or credit interest earned, exceeds the liability. The overpayment could consist of multiple payments received, payments transferred-in and/or credit interest earned.

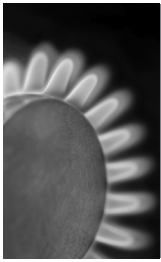
The postmarks of payment received and postmarks of payments transferred into a report period are posted in chronological order. If a report period has a payment transferred-in and this payment resulted in credit interest earned, then the process date of the credit interest earned is posted chronologically along with the postmarks of payments received and payments transferred-in.

The method of processing refunds issued in a report period and transferring out an overpayment from one report period to another is the “last in first out” (LIFO) method. The postmarks of a payment received and/or payment being transferred-out determines the eligibility and calculation of credit interest earned.

Based on the preceding information and using existing eligibility and calculation rules for credit interest the following rules apply:

1. Any overpayment comprised entirely of tax accrues credit interest on the full amount of the overpayment.
2. Any overpayment comprised of tax and credit interest earned accrues credit interest only on the full amount of the tax portion of the overpayment. The portion for credit interest earned does not accrue credit interest.
3. Any overpayment comprised entirely of credit interest does not accrue credit interest.





Notices Issued

When a natural gas tax account has an outstanding balance for a specific report period, generation of an underpayment or overpayment notice occurs. The Comptroller's office has the responsibility of processing taxpayer reports, payments and credit transfers. However, the taxpayer has the burden of checking the validity of any type of underpayment and/or overpayment notices issued. If a notice is invalid, the Comptroller's office must be notified to make the necessary corrections.

It is very important for taxpayers to maintain full knowledge of all outstanding balances. To keep up with the reconciliation process, it is advisable for taxpayers to view their outstanding balances against the report totals on the web whenever notices are received.

The following are the types of notices issued:

- **Underpayment Notice**—is issued for liabilities under \$100 and the form used for this type of liability is the “Texas Statement of Account.” This form indicates tax, penalty and interest assessments for a specific report period. The daily interest assessment is also shown, if any.
- **Notice of Tax/Fee Due**—is issued for liabilities over \$100. This notice is also called a “Jeopardy Determination” and is a legal document. The daily interest assessment is also shown, if any.
 - Twenty days are allowed to resolve the liability indicated on the Notice of Tax/Fee Due. After twenty days from the issue date of the notice, the Notice of Tax Due becomes final. The “Taxpayer Rights Summary” located at the bottom of the Notice of Tax/Fee Due form presents possible collection actions taken by the Comptroller's office if the liability is not resolved.
- The “Summary of Procedures for Handling Disagreements” located on the back of the Notice of Tax/Fee Due explains two options for handling the disagreement with the liability indicated on this form.
- Once the Notice of Tax/Fee Due is issued, the outstanding liability balance on this notice holds until the liability is reduced to a zero or credit balance. This applies regardless if the report period is within the four-year statute of limitations, or if the report period is past the four-year statute of limitations.
- **Overpayment Notice**—is issued for any credit amount after a report period has a credit balance. The form used for this type of overpayment is the “Tax Statement of Account.”
- **Tax Statement of Account**—is issued after a Notice of Tax/Fee Due was previously issued. The issuance of this notice occurs when an existing liability balance remains after processing a payment, credit transfer and/or liability amended report. This form will indicate the tax, penalty and interest assessments and the daily interest, if any.

Examples of the notices issued are on the next pages.

Form 64-003 (Back) (Rev. 2/06/12)

If you have questions regarding this notice, you may contact the Comptroller's field office in your area or call 1-800-252-8880, toll free nationwide. The Austin number is 512/463-4600.

Call us if you need assistance

911 Emergency Service /		Customs Broker	1-800-252-5555	Motor Vehicle Sales Surcharge, Rental and	
Equalization Surcharge	1-800-252-5555	Fireworks Tax	1-800-252-5555	Seller-Financed Sales Tax	1-800-252-1382
Automotive Oil Fee	1-800-252-5555	Franchise Tax	1-800-252-1381	Natural Gas	1-800-252-1384
Bank Franchise	1-800-252-1381	Fuels Tax	1-800-252-1383	Off-Road, Heavy-Duty Diesel	
Battery Fee	1-800-252-5555	Hotel Occupancy Tax	1-800-252-1385	Equipment Surcharge	1-800-252-5555
Boat and Boat Motor Sales Tax	1-800-252-5555	IFTA	1-800-252-1383	Officer and Director	
Cement Tax	1-800-531-5441	Inheritance Tax	1-800-531-5441	Information	1-800-252-1386
Certificates of Account Status /		Insurance Tax	1-800-252-1387	Oil Well Servicing Tax	1-800-531-5441
Good Standing	1-800-252-1386	LG Decals	1-800-252-1383	Oyster Sales Fee	1-800-252-5555
Cigarette, Cigar and/or Tobacco		Local Revenue	1-800-531-5441	Petroleum Products	
Products	1-800-882-2260	Manufactured Housing	1-800-252-1382	Delivery Fee	1-800-252-1383
Clean Vehicle Incentive		Miscellaneous Gross		Sales Tax	1-800-252-5555
Program	1-800-252-1382	Receipts Tax	1-800-531-5441	School Fund Benefit Fee	1-800-252-1383
Coastal Protection	1-800-252-1384	Mixed Beverage Tax	1-800-252-5555	Sulphur Tax	1-800-531-5441
Coin-Operated Machine Tax	1-800-252-1385	Motor Vehicle Registration		Telecommunications	
Crude Oil	1-800-252-1384	Surcharge	1-800-252-1382	Infrastructure Fund (TIF)	1-800-252-5555
tax.help@cpa.state.tx.us				en Espanol 1-800-252-7875	

You have certain rights under Ch. 559, Government Code, to review, request, and correct information we have on file about you. Contact us at the address or toll-free number listed on this form.

Example of Back Page of
Texas Statement of Account Form

64-203 (Rev. 3-06/12)

TEXAS STATEMENT OF ACCOUNT


Date of notice	Taxpayer number
02/22/2008	
Period of liability	
08/01/2007 to 08/31/2007	

Type of tax/fee
NATURAL GAS PRODUCER

An examination of your records for the period 08/01/2007 through 08/31/2007 shows an account balance as of 02/22/2008 as follows:

Reported tax due	184,699.88
Plus regular penalty assessed	19.02
Less applicable discounts and/or applied payments	-184,699.96
TOTAL AMOUNT DUE AS OF DATE OF NOTICE	18.94

**Example of Underpayment Notice on
Tax Statement of Account Form for
Liabilities of \$100 or Less**



If you have questions regarding this notice, you may contact the Comptroller's field office in your area or call 1-800-252-8880, toll free nationwide. The Austin number is 512/463-4600.

Make your check payable to the STATE COMPTROLLER. Our mailing address is 111 E. 17th Street, Austin, TX 78774-0100.

▼ DETACH AND RETURN THIS PORTION WITH YOUR PAYMENT UNLESS YOU ARE REQUIRED TO MAKE PAYMENTS BY ELECTRONIC FUNDS TRANSFER (EFT). ▼

64-203 (Rev. 2-06/12) STATE OF TEXAS

TEXAS STATEMENT OF ACCOUNT -

Do not write in the space above.

a. Type of tax/fee	c. Date of statement
NATURAL GAS PRODUCER	02/22/2008

Make your check payable to: STATE COMPTROLLER
Our mailing address is: 111 E. 17th Street, Austin, TX 78774-0100

d.

e. Taxpayer name and mailing address

AMOUNT \$

PAID ..

*TC	*TP	*FP	*AM
49020		0708	1894

04-203
(Rev. 2-06/12)

TEXAS STATEMENT OF ACCOUNT

Date of notice	Taxpayer number
02/08/2008	
Period of liability	
02/01/2007	to 02/28/2007

Type of tax/fee
NATURAL GAS TAX

AN EXAMINATION OF YOUR NATURAL GAS PRODUCER RECORDS FOR THE PERIOD 02/01/2007 THROUGH 02/28/2007 HAS REVEALED AN OVERPAYMENT OF \$ 32,736.73

TAX & FEE DUE -----	\$	599,986.58
PLUS PENALTY -----	\$	
PLUS INTEREST ASSESSED	\$	
MINUS TOTAL PAYMENTS		
APPLIED -----	\$	632,723.31
AMOUNT OF OVERPAYMENT	\$	32,736.73

Example of Overpayment Notice on Tax Statement of Account Form for All Credit Balances

CREDIT INTEREST WILL ACCRUE WHEN APPLICABLE (TEX TAX CODE ANN. SEC 11.064.)



If you have questions regarding this notice, you may contact the Comptroller's field office in your area or call 1-800-252-8880, toll free nationwide. The Austin number is 512/463-4600.

Make your check payable to the STATE COMPTROLLER. Our mailing address is 111 E. 17th Street, Austin, TX 78774-0100.

▼ DETACH AND RETURN THIS PORTION WITH YOUR PAYMENT UNLESS YOU ARE REQUIRED TO MAKE PAYMENTS BY ELECTRONIC FUNDS TRANSFER (EFT) ▼

04-203
(Rev. 2-06/12)

STATE OF TEXAS VVVV

TEXAS STATEMENT OF ACCOUNT -

b. ■

Do not write in the space above.

a. Type of tax/fee NATURAL GAS TAX	c. Date of statement 02/08/2008
--	---

Make your check payable to: STATE COMPTROLLER	Our mailing address is: 111 E. 17th Street Austin, TX 78774-0100
--	--

e. Taxpayer name and mailing address

f. AMOUNT PAID \$

DLN/REF

Form 00-217 (Back) (Rev. 7-05/8)

SUMMARY OF PROCEDURES FOR HANDLING DISAGREEMENTS

You have certain rights under Ch. 559, Government Code, to review, request, and correct information we have on file about you. Contact us at the address or toll-free number listed on this form.

You have two options if you disagree with this tax/fee bill. You may pay the full amount due and request a refund hearing or you may simply ask for a hearing to decide the matter. Your case is reviewed and considered in the same manner under either option.

If you pay and seek a refund, no additional interest accrues after payment.

If you request a hearing, we will charge interest until the case is resolved. You may make a partial payment of the tax/fee to reduce the accrual of interest.

Your request for a refund or hearing must be accompanied by a statement of grounds that describes in detail the reasons you believe the billing is in error. Your statement should set out as clearly and completely as possible the facts as you see them and the provisions of the tax/fee laws and Comptroller rules on which you are relying.

The date by which you may request a hearing is specified on this bill. If you do not meet the deadline, you must pay the full amount on this bill before your objections can be considered. Extensions of the due date are granted only in cases of emergency or extraordinary circumstances.

The Comptroller wants to give all taxpayers full consideration in each case.

If you have any questions regarding this notice, you may contact the Comptroller's field office in your area or call 1-800-252-8880, toll free nationwide. The Austin number is 512/463-4660.

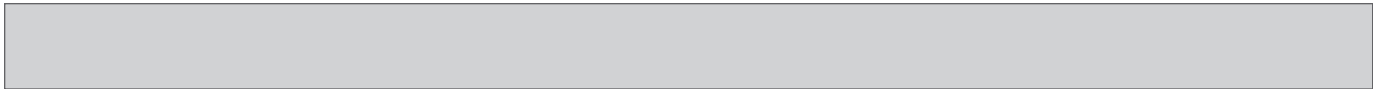
Call us if you need assistance

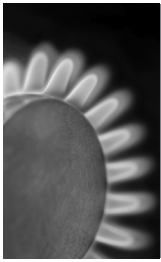
911 Emergency Service / Equalization Surcharge.....	1-800-252-5555	Customs Broker	1-800-252-5555	Motor Vehicle Sales Surcharge, Rental and Seller-Financed Sales Tax.....	1-800-252-1382
Automotive Oil Fee.....	1-800-252-5555	Fireworks Tax	1-800-252-5555	Natural Gas	1-800-252-1384
Bank Franchise.....	1-800-252-1381	Franchise Tax	1-800-252-1381	Off-Road, Heavy-Duty Diesel Equipment Surcharge.....	1-800-252-5555
Battery Fee.....	1-800-252-5555	Fuels Tax	1-800-252-1383	Officer and Director Information.....	1-800-252-1386
Boat and Boat Motor Sales Tax	1-800-252-5555	Hotel Occupancy Tax	1-800-252-1385	Oil Well Servicing Tax.....	1-800-531-5441
Cement Tax	1-800-531-5441	IFTA	1-800-252-1383	Oyster Sales Fee	1-800-252-5555
Certificates of Account Status / Good Standing.....	1-800-252-1386	Inheritance Tax.....	1-800-531-5441	Petroleum Products Delivery Fee	1-800-252-1383
Cigarette, Cigar and/or Tobacco Products.....	1-800-862-2280	Insurance Tax	1-800-252-1387	Sales Tax	1-800-252-5555
Clean Vehicle Incentive Program.....	1-800-252-1382	LG Decals	1-800-252-1383	School Fund Benefit Fee.....	1-800-252-1383
Coastal Protection	1-800-252-1384	Local Revenue	1-800-531-5441	Sulphur Tax	1-800-531-5441
Coin-Operated Machine Tax	1-800-252-1385	Manufactured Housing	1-800-252-1382	Telecommunications Infrastructure Fund (TIF).....	1-800-252-5555
Crude Oil	1-800-252-1384	Miscellaneous Gross Receipts Tax.....	1-800-531-5441		
		Mixed Beverage Tax.....	1-800-252-5555		
		Motor Vehicle Registration Surcharge.....	1-800-252-1382		

tax.help@cpa.state.tx.us

en Espanol 1-800-252-7875

Example of Back Page of
Notice of Tax/Fee Due Form





References

County Codes

Texas County	CPA Code	RRC Dist
Anderson	001	06
Andrews	002	08
Angelina	003	06
Aransas	004	04
Archer	005	09
Armstrong	006	10
Atascosa	007	01
Austin	008	03
Bailey	009	8A
Bandera	010	01
Bastrop	011	01
Baylor	012	09
Bee	013	02
Bell	014	01
Bexar	015	01
Blanco	016	01
Borden	017	8A
Bosque	018	05
Bowie	019	06
Brazoria	020	03
Brazos	021	03
Brewster	022	08
Briscoe	023	10
Brooks	024	04
Brown	025	7B
Burleson	026	03
Burnet	027	01
Caldwell	028	01
Calhoun	029	02
Callahan	030	7B
Cameron	031	04

Texas County	CPA Code	RRC Dist
Camp	032	06
Carson	033	10
Cass	034	06
Castro	035	10
Chambers	036	03
Cherokee	037	06/6E
Childress	038	10
Clay	039	09
Cochran	040	8A
Coke	041	7C
Coleman	042	7B
Collin	043	05
Collingsworth	044	10
Colorado	045	03
Comal	046	01
Comanche	047	7B
Concho	048	7C
Cooke	049	09
Coryell	050	7B
Cottle	051	8A
Crane	052	08
Crockett	053	7C
Crosby	054	8A
Culberson	055	08
Dallam	056	10
Dallas	057	05
Dawson	058	8A
Deaf Smith	059	10
Delta	060	05
Denton	061	09
DeWitt	062	02

Texas County	CPA Code	RRC Dist
Dickens	063	8A
Dimmit	064	01
Donley	065	10
Duval	066	04
Eastland	067	7B
Ector	068	08
Edwards	069	01
Ellis	070	05
El Paso	071	08
Erath	072	7B
Falls	073	05
Fannin	074	05
Fayette	075	03
Fisher	076	7B
Floyd	077	8A
Foard	078	09
Fort Bend	079	03
Franklin	080	06
Freestone	081	05
Frio	082	01
Gaines	083	8A
Galveston	084	03
Garza	085	8A
Gillespie	086	01
Glasscock	087	08
Goliad	088	02
Gonzales	089	01
Gray	090	10
Grayson	091	09
Gregg	092	06/6E
Grimes	093	03

References

Texas County	CPA Code	RRC Dist
Guadalupe	094	01
Hale	095	8A
Hall	096	10
Hamilton	097	7B
Hansford	098	10
Hardeman	099	09
Hardin	100	03
Harris	101	03
Harrison	102	06
Hartley	103	10
Haskell	104	7B
Hays	105	01
Hemphill	106	10
Henderson	107	05
Hidalgo	108	04
Hill	109	05
Hockley	110	8A
Hood	111	7B
Hopkins	112	05
Houston	113	06
Howard	114	08
Hudspeth	115	08
Hunt	116	05
Hutchinson	117	10
Irion	118	7C
Jack	119	09
Jackson	120	02
Jasper	121	03
Jeff Davis	122	08
Jefferson	123	03
Jim Hogg	124	04
Jim Wells	125	04
Johnson	126	05
Jones	127	7B
Karnes	128	02
Kaufman	129	05
Kendall	130	01
Kenedy	131	04
Kent	132	8A
Kerr	133	01
Kimble	134	7C
King	135	8A
Kinney	136	01

Texas County	CPA Code	RRC Dist
Kleberg	137	04
Knox	138	09
Lamar	139	05
Lamb	140	8A
Lampasas	141	7B
LaSalle	142	01
Lavaca	143	02
Lee	144	03
Leon	145	05
Liberty	146	03
Limestone	147	05
Lipscomb	148	10
Live Oak	149	02
Llano	150	01
Loving	151	08
Lubbock	152	8A
Lynn	153	8A
Madison	154	03
Marion	155	06
Martin	156	08
Mason	157	01
Matagorda	158	03
Maverick	159	01
McCulloch	160	7C
McLennan	161	05
McMullen	162	01
Medina	163	01
Menard	164	7C
Midland	165	08
Milam	166	01
Mills	167	7B
Mitchell	168	08
Montague	169	09
Montgomery	170	03
Moore	171	10
Morris	172	06
Motley	173	8A
Nacogdoches	174	06
Navarro	175	05
Newton	176	03
Nolan	177	7B
Nueces	178	04
Ochiltree	179	10

Texas County	CPA Code	RRC Dist
Oldham	180	10
Orange	181	03
Palo Pinto	182	7B
Panola	183	06
Parker	184	7B
Parmer	185	10
Pecos	186	08
Polk	187	03
Potter	188	10
Presidio	189	08
Rains	190	05
Randall	191	10
Reagan	192	7C
Real	193	01
Red River	194	06
Reeves	195	08
Refugio	196	02
Roberts	197	10
Robertson	198	05
Rockwall	199	05
Runnels	200	7C
Rusk	201	06/6E
Sabine	202	06
San Augustine	203	06
San Jacinto	204	03
San Patricio	205	04
San Saba	206	7B
Schleicher	207	7C
Scurry	208	8A
Shackelford	209	7B
Shelby	210	06
Sherman	211	10
Smith	212	06/6E
Somervell	213	7B
Starr	214	04
Stephens	215	7B
Sterling	216	08
Stonewall	217	7B
Sutton	218	7C
Swisher	219	10
Tarrant	220	05
Taylor	221	7B
Terrell	222	7C

Texas County	CPA Code	RRC Dist
Terry	223	8A
Throckmorton	224	7B
Titus	225	06
Tom Green	226	7C
Travis	227	01
Trinity	228	03
Tyler	229	03
Upshur	230	06/6E
Upton	231	7C
Uvalde	232	01
Val Verde	233	01

Texas County	CPA Code	RRC Dist
Van Zandt	234	05
Victoria	235	02
Walker	236	03
Waller	237	03
Ward	238	08
Washington	239	03
Webb	240	04
Wharton	241	03
Wheeler	242	10
Wichita	243	09
Wilbarger	244	09

Texas County	CPA Code	RRC Dist
Willacy	245	04
Williamson	246	01
Wilson	247	01
Winkler	248	08
Wise	249	09
Wood	250	06
Yoakum	251	8A
Young	252	09
Zapata	253	04
Zavala	254	01

COMPTROLLER'S OFFICE TELEPHONE NUMBERS

- The telephone number for the Crude Oil and Natural Gas Tax Section is (512) 463-4455.
- To contact examiners in the Crude Oil and Natural Gas Tax Section, go to the Comptroller's Web site for examiners' telephone numbers at: http://www.window.state.tx.us/taxinfo/nat_gas/index.html
- The toll free fax number for the Crude Oil and Natural Gas Tax Section is (877) 882-8892. The local fax number is (512) 475-0165.
- To contact tax examiners in the Electronic Tax Reporting Section, call toll free at (800) 442-3453. The local telephone number is (512) 463-3630.
- The toll free fax number for the Electronic Tax Reporting Section is (877) 882-8894. The local fax number is (512) 475-0397.
- To contact the Open Records Division, call (512) 936-6057.

COMPTROLLER'S OFFICE E-MAIL ADDRESSES

- Tax examiners in the Crude Oil and Natural Gas Tax Section are assigned to handle taxpayer accounts in accordance to the alphabet letter based on a taxpayer's business name. Each tax examiner is assigned an alphabet letter(s) depending on their job functions and workload. Once a taxpayer knows their assigned examiner, a taxpayer can send an e-mail to the tax examiner at the following e-mail address:

First name.last name@cpa.state.tx.us
(Example: john.doe@cpa.statet.us)

- The Crude Oil and Natural Gas Tax Section's e-mail address for questions regarding any information is congtax@cpa.state.tx.us.
- The Electronic Tax Reporting Section's e-mail address for questions regarding electronic reporting and electronic payments is etf@cpa.state.tx.us.
- The Open Records Division's e-mail address for questions regarding open records is open.records@cpa.state.tx.us

OTHER STATE AGENCIES WEB SITES

- **Texas Railroad Commission:** Provides various information regarding leases, fields and operators. Their Web site is: <http://www.rrc.state.tx.us/>.
- **Texas General Land Office:** Manages state lands and mineral-right properties and leases drilling rights for oil and gas production on state lands. Their Web site is: <http://www.glo.state.tx.us/>
- **Texas Secretary of State:** The Corporations Section of this state agency is responsible for the receipt, filing and permanent maintenance and retention of documents that create or affect business organizations and non-profit entities, which are required by statute to be filed with the Secretary of State. Their Web site is: <http://www.sos.state.tx.us/index.html>
- **Texas Attorney General:** The Office of the Attorney General serves as legal counsel to all boards and agencies of state government, issues legal opinions when requested by the Governor, heads of state agencies and other officials and agencies as provided by Texas statutes. Their Web site is: <http://oag.state.tx.us/index.shtml>

HISTORY OF NATURAL GAS PRODUCTION TAX RATES

Natural Gas & Casinghead Gas

Effective Dates	Tax Percentage Rate
08-01-1931 through 10-31-1936	2% of value, less 2% loss allowance
11-01-1936 through 04-30-1941	3% of value, less 2% loss allowance
05-01-1941 through 05-31-1945	5.2% of value
06-01-1945 through 02-28-1950	5.2% of value (new law)
03-01-1950 through 08-31-1951	5.72% of value (temporary 10% increase)
09-01-1951 through 08-31-1954	5.72% of value (permanent)
09-01-1954 through 08-31-1955	9% of value
09-01-1955 through 08-31-1956	8% of value
09-01-1956 through 09-30-1969	7% of value
10-01-1969 to date	7.5% of value

Condensate

Effective Dates	Tax Percentage Rate
08-01-1931 through 08-31-1933	2% of value
09-01-1933 through 10-31-1936	\$0.02 per barrel when value is \$1.00 per barrel or less; 2.75 % of value when more than \$1.00
11-01-1936 through 04-30-1941	\$0.0275 per barrel when value is \$1.00 per barrel or less; 2.75% of value when more than \$1.00
05-01-1941 through 02-28-1950	\$0.04125 per barrel when value is \$1.00 per barrel or less; 4.125% of value when more than \$1.00
03-01-1950 through 08-31-1951	4.5375% of value
09-01-1951 through 08-26-1953	Rate reverts to 4.125%
08-27-1953 to date	4.6% of value

For more information, visit our Web site:

www.window.state.tx.us

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Texas Comptroller of Public Accounts

Account Maintenance

P.O. Box 13528

Austin, Texas 78711-3528

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