Natural Gas and Oil Update

Pete Obermueller
Petroleum Association of Wyoming
April 29, 2020

Agenda:

• The state of natural gas and oil in Wyoming
  • The impact of COVID-19 and demand destruction
  • Saudi and Russian shenanigans, do they even matter?
  • When and how do we recover?

• Other than that, Mrs. Lincoln, how did you like the play?
  • Forced pooling, minimum guaranteed royalties, and monthly payment of ad valorem taxes.
COVID-19 Demand Destruction

- Average global oil demand ~ 100 million barrels a day
- International Energy Agency projects a demand decline of ~ 29 million barrels a day
COVID-19 Demand Destruction

- V Shaped recovery?
- U.S. reverts to a net crude oil importer
Global Over Supply

- Average global oil demand ~ 100 million barrels a day
- International Energy Agency projects a demand decline of ~ 29 million barrels a day
- OPEC+ deal “cut” 10 million barrels.
State of Oil in Wyoming

January 2020

WY Sweet: $53.45

23 Rigs Operating in Wyoming

Production: 8.5 million barrels

State of Oil in Wyoming

April 2020

WY Sweet: $5.60

5 Rigs Operating in Wyoming

Production: ???
State of Natural Gas in Wyoming

January 2020

WY Realized: $1.63

0 Rigs Operating in Wyoming

Production: 136.7 million MCF

What is industry doing to respond?

• State Agencies
  • WOGCC
  • OSLI
  • WDEQ
  • Dept. of Revenue
  • Dept. of Audit

• Federal Agencies
  • Interior
  • EPA
  • Treasury
  • State Department
2020 Legislative Session

Major Components:

- Non-consenting **unleased** mineral owners protected in 2 ways:
  - Reduced risk premium for non-consent
    - 200% on first well, 150% on subsequent wells
  - Statutory royalty during risk premium phase
    - Highest of 16% or acreage weight average
    - Must make an eyes-open election at the end of the risk premium
- Establishes a 1-year timeline for pooling orders

House Bill 14
Drilling units-risk penalties and mandatory royalties.
### Major Components:

- Establishes a 7-year process for operators to switch from twice yearly payments of ad valorem to monthly payments.
- Final bill accelerates tax collection by 8 months, counties sought 16 months.

### New Ad Valorem Timeline

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<th>Production Year</th>
<th>Tax Year</th>
<th>January</th>
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- Establishes a 7-year process for operators to switch from twice yearly payments of ad valorem to monthly payments.

- Final bill accelerates tax collection by 8 months, counties sought 16 months.

- BUT WAIT! The free-for-all-sky’s-the-limit-amendment

Major Components:

- Corrects and clarifies the 2019 strained attempt at fixing the tax lien exemption for minerals
  - Establishes counties as a super priority, perpetual lien, regardless of owner or producer

- Separates lien priority into pre-January 2021 and post-January 2021
House Bill 243

Oil and Gas Tax, New Production

Major Components:

• Reduces the severance tax rate on oil and natural gas on new wells only IF:
  • 12-month rolling average price of natural gas is below $2.95
  • 12-month rolling average price of oil is below $50

• Severance reduced to 4% for 6 months and 5% for six months.

• Could be a vehicle for actual natural gas and oil relief

Petroleum Association of Wyoming
951 Werner Court, Suite 100 Casper, WY 82601-1351
(307) 234.5333 | FAX: 307.266.2189

THANK YOU