

Kansas Oil and Gas Resources Fund, Inc.

POLICY AND RULES

RF Rule 2007-1

Definitions:

- (a) "board" means the Kansas Oil And Gas Resources Board as created by K.S.A. 55-1625-1635, as amended;
- (b) "first purchaser" means:
 - (1) With regard to crude oil, the person to whom title first is transferred beyond the gathering tank or tanks, beyond the facility from which the crude oil was first produced, or both; and
 - (2) With regard to natural gas, the person to whom title first is transferred beyond the inlet side of the measurement station from which the natural gas was first produced;
- (c) "independent producer" means a person who complies with both of the following:
 - (1) Produces oil or natural gas and is not engaged in refining either product; and
 - (2) derives a majority of income from ownership in properties producing oil or natural gas;
- (d) "interest owner" means a person who owns or possesses an oil or gas leasehold interest in the gross production of oil or natural gas produced from a well in Kansas. For the purposes of this act, an oil and gas leasehold estate interest shall include the working interest in any oil and gas lease, but shall neither include royalty interests nor any overriding royalty interests carved out of the working interest;
- (e) "person" means an individual, group of individuals, partnership, corporation, association, limited liability company, cooperative or any other entity or an employee of the entity; and
- (f) "qualified producer association" means an entity that is organized under section 501(c)(6) of the federal internal revenue code and in existence on the effective date of this act, organized and operates within the state of Kansas, and in which a majority of the members of such association's governing body consists of independent producers. In addition to any other entity which constitutes a qualified producer association as defined in this subsection, the Kansas independent oil and gas association, the Kansas petroleum council and the eastern Kansas oil and gas association shall be qualified producer associations.
- (g) "gross revenue" means taxable revenue as defined for severance tax purposes.

RF Rule 2007-2

To fund the activities of the board a voluntary assessment of 0.05% of the gross revenues from oil or natural gas produced from each well in the state of Kansas shall be deducted from proceeds paid by the first purchaser to each working interest owner. The board, however, may permit or require an entity other than the first purchaser to deduct such proceeds where that entity is the operator or the entity that distributes revenues to interest owners, directly or indirectly.

The amount of the assessment payable each month under the provisions of K.S.A. 55-1631, and amendments thereto, shall be due and payable on or before the 60th day following the end of the month in which oil and natural gas is removed from the lease or production unit. The assessment is on working interests in proportion to their respective interests at the time of assessment.

The first purchaser shall collect the amount of assessment due from the producers by deducting and withholding such amount from any payments made by such purchaser to the working interest owners. The assessment shall be deducted and withheld against the working interest share only. **Royalty and overriding royalty interests are exempt from the assessment.**

Where the first purchaser pays the operator one hundred percent of the revenue for oil or gas sold from an oil or gas lease or production unit, the first purchaser shall obtain the total net working interest share for each oil or gas lease or production unit and the assessment shall be deducted and withheld from any payments made by such purchaser to the operator, and shall remit the same as provided in this act, except that nothing in these rules would preclude an operator of an oil or gas lease or production unit that receives one hundred percent of the revenue and distributes such revenue to working, overriding and royalty interest owners to voluntarily assume the responsibility of deducting and withholding the assessment and remitting the same to the Kansas Oil and Gas Resources Fund, Inc. The first purchaser may rely on the net working interest total shown on the producer or operator's ad valorem tax rendition submitted annually to the county for each respective oil or gas lease or production unit.

The assessment shall be deducted and withheld against the taxable gross revenue earned by the working interests for each lease and the total amount shall be remitted to the Kansas Oil and Gas Resources Fund, Inc., at the following address: Kansas Oil and Gas Resources Fund, Inc., P.O. Box 757, Wichita, Kansas, 67201-0757. The assessment shall be deducted and withheld from the same taxable gross revenue value used in deducting and withholding Kansas severance tax.

If an operator of an oil or gas lease or production unit fails to provide the first purchaser with the total net working interest, such operator shall become responsible for collecting the total amount of assessment due and shall remit the same to the Kansas Oil and Gas Resources Fund, Inc. The first purchaser shall provide notice to the board of those producers or operators who do not cooperate with the request for the working interest total or totals on leases they operate. The board shall then notify such producer or operator of their liability for collecting and submitting the assessment to the Kansas Oil and Gas Resources Fund, Inc.

Failure to provide the working interest total share from a producer or operator's lease or leases shall remove any liability of the first purchaser to collect and remit the assessment for such oil and gas lease or leases from an uncooperative producer or operator concerning which notice was provided by said first purchaser to the board in accordance with this rule. However, the first purchaser shall be responsible for collecting and remitting the assessments on each pertinent lease, commencing on the first day of the production period next following the date

upon which the producer or operator shall have supplied the purchaser with the total net revenue interest paid to all of its pertinent working interest owners.

RF Rule 2007-3

There shall be a conspicuous line item on each statement showing the amount and pertinent time period of the assessment under the provisions of K.S.A. 55-1631, and any amendments thereto. Such statement shall include the board contact information for obtaining more information.

The person responsible for distributing revenue from an oil or gas lease or production unit to the individual interest owners shall be responsible for providing notice to the working interest owners of the collection of the assessment and the amount of the assessment. This statement may be on the check stub whereby the revenue is remitted and the assessment deducted or on a separate statement (including a joint interest billing statement) at the distributing party's election. First purchasers who distribute one hundred percent of the revenue from the sale of oil or natural gas and associated liquids to a producer who then makes distribution to individual interest owners, will not be liable for the notice provisions of K.S.A. 55-1631.