

Calculating Statutory Interest in Oklahoma

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Please refer to the Division Order presentation on the NARO website under the Oklahoma section. This possibly may be located on the Events Tab of the main NARO website. Also note the summary at the end of this article.

For a well in the State of Oklahoma, you need to follow the rules from Title 52-570.10 of the Oklahoma Statutes. The first rule to follow is that an operator or first purchaser has six months from the date of first sales to get you a check before they are required to pay you interest. If the well had first sales in January of a given year, they would have until the end of July of that same year to get you paid without paying interest. If they do not comply with that requirement, then the interest penalty applies.

That portion not timely paid shall earn interest at the rate of 12% if there is marketable title at the time or 6% if the title is not marketable at the time per annum to be compounded annually, calculated from the end of the month in which such production is sold until the day paid.

Have you heard that close only counts in horseshoes and hand grenades? That is about how it felt when trying to write this article. In trying to research how to compute the interest due and payable, four different answers were found. You will find all four in this article. The point is that an oil company should compute interest similar to one of the following, but it may not be exact.

For the purposes of this article, let's say you received a check dated May 31, 2015. On that check you found \$10,000 for sales in October 2010 and \$9,500 for sales in November 2010. You received those funds because they had been held in the name of your grandmother's maiden name and you were able to prove you were her only heir. Therefore, the title had not been previously marketable and only subject to the statutory 6% interest.

The following are the questions you should ask yourself before contacting the oil company sending you a check:

1. Was the money paid within six months from the date of first sales? In this particular example, the answer is "No".
2. Did my interest have marketable title at the time the company sold the oil or natural gas? If it existed, your interest rate would be 12%. Lack of a signed Division Order is not considered lack of marketable title. In this example, marketable title did not exist at the time the production was sold and 6% applied. If there had been marketable title and the 12% applied, the interest would be significantly higher.
3. Have I properly applied to calculation rules from the Oklahoma Statutes? The statute states the interest is from the end of the month where sales were made until the date paid. Therefore, you would need to calculate the interest one line item at a time and not the entire amount of the check. We have to conclude the date of the check would be the date paid and not the day you received the check. From the example above, the \$10,000 would have been paid late by four years and seven months. The \$9,500 was paid late by four years and six months.
4. Was there an interest payment on the check?

5. Is interest I am requesting reasonable? Use discretion on the total amount of interest you are requesting and ask, "Is it worth the fight if only requesting \$10 in interest?"

Using the numbers from the criteria above, below are examples of different ways compound interest could be calculated. In order for you to see the difference by using each method, I have a summary of the total interest from each Example. If they offered in the neighborhood of \$5,900 or greater, I would personally be tempted to accept that amount.

Example 1	=	\$5,938.91
Example 2	=	\$5,913.04
Example 3	=	\$5,917.45
Example 4	=	\$5,906.83

For Examples 2, 3 & 4, I placed a link where I found the formula on the interest. Due to ease, I would recommend the online calculator from Example 2 or 4. Example 2 would be easier if you wanted to calculate the interest based upon the date of the check. Remember to follow the Oklahoma Statutes. The Compounding Frequency is "Annually".

EXAMPLE 1

Compounding		Statutory Interest %	Amt of Interest	
Oct 2010 net amt==>	\$10,000.00	6.00%	\$600.00	<== interest for Nov 2010 thru Oct 2011
\$10,000.00 + \$600.00 =	\$10,600.00	6.00%	\$636.00	<== interest for Nov 2011 thru Oct 2012
\$10,600.00 + \$636.00 =	\$11,236.00	6.00%	\$674.16	<== interest for Nov 2012 thru Oct 2013
\$11,236.00 + \$674.16 =	\$11,910.16	6.00%	\$714.61	<== interest for Nov 2013 thru Oct 2014
\$11,910.16 + \$714.61 =	\$12,624.77	6.00%		\$757.49 x 7/12 = \$441.87
			\$441.87	<== interest for Nov 2014 thru May 2015
Nov 2010 net amt==>	\$9,500.00	6.00%	\$570.00	<== interest for Dec 2010 thru Nov 2011
\$9,500.00 + \$570.00 =	\$10,070.00	6.00%	\$604.20	<== interest for Dec 2011 thru Nov 2012
\$10,070.00 + \$604.20 =	\$10,674.20	6.00%	\$640.45	<== interest for Dec 2012 thru Nov 2013
\$10,674.20 + \$640.45 =	\$11,314.65	6.00%	\$678.88	<== interest for Dec 2013 thru Nov 2014
\$11,314.65 + \$678.88 =	\$11,993.53	6.00%		\$719.61 x 6/12 = \$378.75
			\$378.75	<== interest for Dec 2014 thru May 2015
			Grand Total of Interest ==>	\$5,938.91

EXAMPLE 2

<http://www.pine-grove.com/online-calculators/compound-interest-calculator.htm>

Compound Interest Calculator

Starting Amount (PV)?:	<input type="text" value="\$10,000.00"/>
Annual Interest Rate?:	<input type="text" value="6.0000%"/>
Number of Days? (#):	<input type="text" value="1672"/>
Start Date? (m/d/y):	<input type="text" value="11"/> / <input type="text" value="01"/> / <input type="text" value="10"/>
End Date? (m/d/y):	<input type="text" value="05"/> / <input type="text" value="31"/> / <input type="text" value="15"/>
Compounding Frequency?:	<input type="text" value="Annually"/>
Days In Year?:	<input type="text" value="365"/>
<hr/>	
Interest Earned:	<input type="text" value="\$3,062.66"/>
Future Value (FV):	<input type="text" value="\$13,062.66"/>
Annual Percentage Yield (APY):	<input type="text" value="6.0058%"/>
Daily Interest Rate?:	<input type="text" value="0.016438%"/>

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Compound Interest Calculator

Starting Amount (PV)?:	<input type="text" value="\$9,500.00"/>
Annual Interest Rate?:	<input type="text" value="6.0000%"/>
Number of Days? (#):	<input type="text" value="1642"/>
Start Date? (m/d/y):	<input type="text" value="12"/> / <input type="text" value="01"/> / <input type="text" value="10"/>
End Date? (m/d/y):	<input type="text" value="05"/> / <input type="text" value="31"/> / <input type="text" value="15"/>
Compounding Frequency?:	<input type="text" value="Annually"/>
Days In Year?:	<input type="text" value="365"/>
<hr/>	
Interest Earned:	<input type="text" value="\$2,850.38"/>
Future Value (FV):	<input type="text" value="\$12,350.38"/>
Annual Percentage Yield (APY):	<input type="text" value="6.0062%"/>
Daily Interest Rate?:	<input type="text" value="0.016438%"/>

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$$\$3,062.66 + \$2,850.38 = \$5,913.04$$

In using the above calculator in Example 2, I let the calculator compute "Number of Days" and everything below "Days In year"

EXAMPLE 3

<https://www.easycalculation.com/compound-interest.php>

d. Formulae for Interest Compounded Annually with fractional years (e.g 2.5 years)

$$\text{Total Amount} = P(1+(R/100))^a \times (1+(bR/100))$$

here if year is 2.5 then a =2 and b=0.5

where,

CI = Compound Interest,

P = Principal or Sum of amount,

R = % Rate per annum,

n = Time Span in years

I want thank Dillion Driver, a co-worker and fellow OK-NARO Member for his assistance with getting the above formula into excel

	Principal	Rate	Full Years	Fractional Year
\$ 13,064.11	\$ 10,000.00	6.00%	4.00	0.58
\$ 12,353.34	\$ 9,500.00	6.00%	4.00	0.50
\$ 25,417.45	\$ 19,500.00			
\$5,917.45	<== Statutory interest			

EXAMPLE 4

<https://www.easycalculation.com/compound-interest.php>

Compound Interest Calculation Online

I want to calculate

=

Interest Compounded

=

Principal or Sum [P]

=

Rate % per Annum [R]

=
%

Time Years [n]

=

Calculate

Reset

Compound Interest [C.I.]

=

Total Amount

=

Compound Interest Calculation Online

I want to calculate	=	Compound Interest (CI) ▼
Interest Compounded	=	Annually ▼
Principal or Sum [P]	=	9500
Rate % per Annum [R]	=	6 %
Time Years [n]	=	4.5

Calculate **Reset**

Compound Interest [C.I.]	=	2848.1
Total Amount	=	12348.1

$$\$3,058.73 + \$2,848.10 = \$5,906.83$$

SUMMARY

For wells in Oklahoma, it certainly can be worth your effort to monitor late payments and request statutory interest.

For wells in Oklahoma, make sure the Division Order you sign does not contain language stating they do not have to pay you interest. Make up your own Division Order Form using the NADOA Form or strike that language.

For wells in Oklahoma, be ready to cite the Oklahoma Statutes when dealing with companies over Division Orders and statutory interest.

It is usually accepted the crude oil sales can be paid one month late. If there were sales in May and you did not receive payment for those May sales until July, it is considered acceptable. Again, use discretion before you request interest.

It is usually accepted that natural gas sale can be paid two months late. Once again, use discretion before requesting interest.