

Dear Operator Letters – Wyoming Program

Sample Dear Operator Letter – Individual letters to specific operators regarding specific RIK properties may vary slightly and are not posted to this site.



United States Department of the Interior

MINERALS MANAGEMENT SERVICE

Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165



IN REPLY REFER TO:

MMS/MRM/RIK
Mail Stop 330G5

AUG 24 2001

Dear Operator:

The Minerals Management Service (MMS) has selected one or more onshore Federal leases in Wyoming that you operate to be included in a Royalty in Kind (RIK) program in which we will take crude oil royalties in kind beginning October 1, 2001.

This letter provides the procedures and establishes the terms and conditions under which the United States (Lessor) will take crude oil royalties in kind. Our authority is 30 U.S.C. 192 and the royalty provisions contained in your Federal lease. For the purposes of this letter, Royalty Oil means the Federal lease oil and condensate production multiplied by the lease royalty rate. The volumes of crude oil taken in kind by the Lessor will reflect all granted royalty relief.

Term

The Lessor will take all Royalty Oil from the properties listed in the enclosure beginning October 1, 2001 and continuing until notified by the Lessor of termination. The Lessor will provide Lessees and Operators with at least a 45-day prior written notice of termination of in-kind status.

Royalty Oil Delivery

You must deliver all Royalty Oil from the selected leases, including Royalty Oil from newly producing wells on these leases or newly producing leases added to commingling agreements. In addition, you will make the best efforts to notify Lessor's designated point of contact of leases that, during this period of in kind status, begin producing crude oil that flows to the royalty measurement point(s) for the leases or agreements in the enclosure. Royalty oil from such new properties will be added to the RIK volumes only upon mutual consent of the Purchaser and Lessor.

Royalty Oil must be placed in marketable condition at no cost to the Lessor. Marketable condition means the condition generally acceptable to purchasers in the field or area. Questions on marketable condition should be directed to the Lessor's points of contact identified below.

The delivery point for Royalty Oil produced from the selected leases or units listed in the enclosure is at the accepted royalty measurement point. The Lessor shall have custody, possession, and responsibility for Royalty Oil beyond the delivery point. For lower levels of production and/or those not directly connected to pipelines, delivery of Royalty Oil occurs when the Operator chooses to sell/move crude oil from the tank battery, an activity that may occur as infrequently as monthly, or even less often. For crude oil produced during the term of the contract but remaining in tank batteries as inventory at the end of the project term, royalties will be due to MMS when such crude oil is actually sold/moved from the lease.

Fulfillment of Royalty Obligations

Delivery of the accurate volume of Royalty Oil (taking into account the effects of normal operational imbalances) in accordance with the terms of this letter will satisfy in full the Lessee's royalty obligation to the Lessor.

For properties where the Lessee has applied for a royalty rate reduction, you may use the proposed royalty rate in the interim before the MMS and Bureau of Land Management (BLM) approve the reduction. If the MMS and the BLM do not approve the royalty rate reduction, the resulting imbalance will be resolved in the same manner as described below for imbalances not remedied within 90 days (see "Balancing Account and Imbalances")

All rent or minimum royalty obligations remain the responsibility of the Lessee. If the Lessee owes minimum royalties, the Lessor will issue a bill including information supporting the calculation. The Lessee will have 30 days to review the bill and make payment or appeal the bill.

Lessor Obligation to Take

We agree to take 100 percent of the Royalty Oil delivered for the account of the Lessor at the delivery point. Using reasonable and customary industry practices, we will try to minimize imbalances with Operators and Lessees.

To facilitate timely and accurate custody transfer of Royalty Oil, the Lessor will communicate with you regarding arrangements for the transfer of Royalty Oil from the delivery point. The Lessee will not incur royalty-related penalties because of the Lessor's failure to take delivery of oil volumes as communicated by the Operator.

Communication with Lessor

No later than 10 calendar days before the first day of each month, you must notify the Lessor in writing via facsimile (303-275-7136) or e-mail addressed to our mailbox (rik.project@mms.gov) of the daily Royalty Oil volumes (Avails) anticipated for the following month of production for each of the delivery points identified in the enclosure. On this same schedule, for each of the delivery points, you will also provide any anticipated volume adjustments to resolve previous months' imbalances. The total volumes to be delivered to our purchaser at each of the delivery points must be indicated on the same schedule as a **volume net** of anticipated production plus or minus any adjustments. The Lessor understands that any such estimates are not warranties of actual deliveries but are provided to facilitate planning. You must also use reasonable efforts, consistent with industry practice, to inform the Lessor as soon as practical regarding significant changes to the information listed in the enclosure; e.g., oil production levels, oil type, and/or royalty rates for the RIK contract properties.

Volume Reconciliation

You must send all volume allocation schedules provided to pipeline companies that address crude oil volumes at the delivery points in the enclosure within 5 days of their submittal to the pipeline companies. You, as the Operator, must provide the lease imbalance statement to MMS no later than 45 days after the end of the month of production, unless MMS approves an alternative timeframe for submission of the statement. We will monitor and reconcile royalty entitlements with the Royalty Oil deliveries you make. Reconciliation will involve communication between you and the Lessor. Upon project termination, you, as the Operator, must issue a final oil imbalance statement. You will settle in accordance with the section "Balancing Account and Imbalances." Volume allocation schedules and lease imbalance statements should be submitted to the rik.project@mms.gov mailbox.

Balancing Account and Imbalances

Imbalances between delivered and entitled volumes of royalty oil will be jointly monitored by you and MMS. You will take timely action to remedy such imbalances through adjustments to royalty oil volumes delivered to MMS. Such volume adjustments will be identified in your communication of royalty oil volumes anticipated before the month of production (see above under "Communication with Lessor").

Imbalances will be remedied in the production month following the month that the imbalance is identified. Imbalances not remedied within 90 days of the end of the production month will be resolved as follows:

- mutually agreed upon make-up delivery schedule, or
- A cash out payment based on the contract price (at the delivery point) that MMS actually received (or would have received) from its Purchaser during the month or months that the imbalance occurred. Interest will accrue from 60 days after notification that cash out payment is due.

Imbalances that exist when the lease is no longer taken in kind, or after cessation of production from a lease, will be cashed out based on the MMS contract price for the last month the lease is taken in kind. Interest will accrue from 60 days after the final month of delivery. Imbalances remaining at the time of any sale/assignment of properties identified in the enclosure, will be settled in compliance with your Purchase and Sale Agreement assignments. Imbalance provisions will be reviewed six months from initial contract date.

Reporting

You must continue to report crude oil production on the Oil and Gas Operations Report (OGOR) under requirements/frequencies as specified in MMS regulations and the MMS *Minerals Revenue Reporter Handbook* at <http://www.mrm.mms.gov/ReportingServices/PDFDocs/RevenueHandbook.pdf>. You will not be required to report Royalty Oil for the RIK properties listed in the enclosure on the Form MMS-2014 for the term during which the Lessor takes royalty in kind. Reporting does not change for non-RIK leases.

Lessor's Designee

At times, Lessor may act by or through a duly authorized designee. In such event, we will provide prior written notification of a designee, including the person to contact. Notification will include specific duties that will be handled by the designee on our behalf. Lessor also will provide written notification when the designee is no longer authorized to act on Lessor's behalf for the purposes of this letter. You are authorized to communicate with the designee as specified in the notification. You will not be required to direct communications to both the Lessor and our designee. For purposes of this letter, if Lessor notifies you that it will use a designee in the contract, references to the Lessor shall refer to such designee. The designee will agree in writing to comply with all provisions of this letter that are applicable to the Lessor when the designee acts on our behalf.

Audit

The Lessor may audit your records regarding all information relevant to volumes and qualities of Royalty Oil produced, measured, delivered, and, if applicable, transported. We reserve the right to examine your financial records for the subject properties related to any transportation allowances and quality banks prior to the delivery point.

Lessees, Operators, and revenue payors must maintain all records of transactions mentioned in the above paragraph in accordance with the Federal Oil & Gas Royalty Simplification and Fairness Act of 1996 (Public Law 104-185 Section 115(f)).

Lessor Point of Contact

Copies of all correspondence between Operator and Lessor should be kept on file by the Operator. Points of contact for the Lessor are listed below:

Operator Imbalance Statements:

Mr. Larry Barker
Telephone: 303-275-7296; Fax: 303-275-7136;
E-mail: Larry.Barker@mms.gov

Or

Mr. Ted Drescher
Telephone: 303-275-7297; Fax: 303-275-7136;
E-mail: Theodore.Drescher@mms.gov

New Lease Production:

Ms. Sheila Perry
Telephone: 303-275-7298; Fax: 303-275-7136;
E-mail: Sheila.Perry@mms.gov

Or

Mr. Dave Domagala
Telephone: 303-275-7255; Fax: 303-275-7136;
E-mail: David.Domagala@mms.gov

Reporting Issues:

Mr. Andy Sandoval
Telephone: 303-231-3777; Fax: 303-231-3700
E-mail: Alfonso.Sandoval@mms.gov

Electronic Funds Transfer:

Mr. Joe Romero
Telephone: 303-231-3123; Fax: 303-231-3501;
E-mail: Joseph.Romero@mms.gov

The Lessor acknowledges that Operators and Lessees have given proper notice when using the telephone number or fax number provided to communicate with the Lessor. Any telephone communication regarding volumes must be confirmed by fax or e-mail no later than one business day after telephone communication occurs. The Lessor further agrees to make arrangements to receive such communications regarding oil scheduling issues during normal business hours. Operators and Lessees should communicate with one of the points of contact to answer any further questions.

The Paperwork Reduction Act

The Paperwork Reduction Act of 1995 requires us to inform you that this information is being collected by MMS to document fulfillment of royalty obligations on minerals removed from Federal lands and that we will use this information to maintain and audit lease accounts. We estimate the burden for reporting is 10 minutes per property per month. Comments on the accuracy of this estimate or suggestions for reducing this burden should be directed to the Information Collection Clearance Officer, Minerals Management Service, 1849 C Street, NW, MS 4230, Washington, DC 20240. Proprietary information submitted to the U.S. Department of the Interior is protected in accordance with standards established by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1733), the Freedom of Information Act (5 U.S.C. 552(1), (4)), and the Departmental Regulations (43 CFR 2). An agency may not conduct or sponsor and a person is not required to respond to a collection of information unless it displays a currently valid OMB control number.

Sincerely,

o/s Greg Smith

for Milton K. Dial
Assistant Program Director,
Royalty In Kind

Enclosure

**Properties That Go In-Kind
Effective October 1, 2001**

Enclosure

<i>Line Code</i>	<i>Lease or Agreement Number</i>	<i>Lease or Agreement Name</i>	<i>Operator</i>	<i>Oil Type</i>	<i>Pipeline</i>	<i>Winning Bidder</i>
B0300	W 112017X	ENIGMA (\$.09 charge to pipeline)	CITATION OIL AND GAS	ASC	Marathon	Teppco
B4000	891000463A	COTTONWOOD CREEK (PHOS)	CONTINENTAL RESOURCES	ASC	Marathon	Teppco
B5000	892000223A	GOOSEBERRY "A"	WESTPORT OIL AND GAS	ASC	Marathon	Teppco
B5100	892000223B	GOOSEBERRY "B"	WESTPORT OIL AND GAS	ASC	Marathon	Teppco
B7237	0640639220	MORRISON-WEADICK HALF MOON	MERIT ENERGY	ASC	Marathon	Teppco
PSR0400	W 115090X	ALPHA	BRECK OPERATING	GSC	88 Oil	88 Oil
PSR0700	W 125233X	CAMBRIDGE	PLAINS PETROLEUM	GSC	Belle Fourche	88 Oil
PSR7100	66-15021/M1	EAST SANDBAR	JN PETROLEUM	GSC	88 Oil	88 Oil
PSR9127	801000312A	SALT CREEK (TENSLEEP)	HOWELL PETROLEUM	GSC	Amoco	Teppco
PSR9169	W 119861X	PRONG CREEK WEST	BALLARD PETROLEUM	GSC	88 Oil	88 Oil
PSR9200	892000537U	SUSSEX (TENSLEEP AMSDEN A-B)	WESTPORT OIL AND GAS	GSC	Amoco	Teppco
PSR9310	W 148363X	TRUE GRIT	BELLEVUE RESOURCES	GSC	88 Oil	88 Oil
PSR1400	W 109088X	DRY GULCH	DUNCAN OIL	GSC	Belle Fourche	88 Oil
PSR1500	W 115054X	FALCON RIDGE	TOM BROWN INC.	GSC	Belle Fourche	88 Oil
PSR1600	W 106645X	GIBBS	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR1800	W 123878X	INDIAN TREE	CITATION OIL AND GAS	GSC	Belle Fourche	88 Oil
PSR1950	8910086440	LITTLE MITCHELL CREEK	OSBORN HEIRS CO.	GSC	Belle Fourche	88 Oil
PSR1952	0480421870	COX, FED. 14-11	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR2300	W 119637X	N. BREAKS	FANCHER OIL	GSC	Belle Fourche	88 Oil
PSR2400	8910209840	POWNALL RANCH	CITATION OIL AND GAS	GSC	Belle Fourche	88 Oil
PSR3700	W 115064X	WINTER DRAW	LARIO OIL & GAS	GSC	Belle Fourche	88 Oil
PSR3800	W 115093X	WOLF DRAW	MERIT ENERGY	GSC	Belle Fourche	88 Oil
PSR6700	State/Fee Unit 4	WEST MORAN	NORTH STAR	GSC	Belle Fourche	88 Oil
PSR7300	4940002050	CAMP CREEK, GOVT 6-1	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR7400	0490573180	DEEP DRAW, 14-17 GOVT	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR7500	0490595810	DEEP DRAW, 41-19,44-18	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR7700	0490482770	DEUEL, FED 24-30	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR7800	State/Fee Unit 1	EITEL	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR7850	0490891490	LITTLE MO, 33-23 GOVT	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR7900a	049015548A	MAPES, GOVT 43-28	TRUE OIL	GSC	Belle Fourche	88 Oil

**Properties That Go In-Kind
Effective October 1, 2001**

Enclosure

<i>Line Code</i>	<i>Lease or Agreement Number</i>	<i>Lease or Agreement Name</i>	<i>Operator</i>	<i>Oil Type</i>	<i>Pipeline</i>	<i>Winning Bidder</i>
PSR8000	0490540140	MAPES, GOVT 13-27	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR8100	W 125240X	NORTH SLATTERY	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR8300	0490756740	NORTH YORK, FED. 32-32	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR8400	891020961A	NORTHWEST TIMBER CREEK	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR8500	State/Fee Unit 3	RAINBOW RANCH	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR8600	W 135349X	SOUTH SLATTERY	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR8700	84687U9540	SPRING HOLE	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR9000a	0491091550	WEST GIBBS - True Oil	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR9100	W 116906X	YORK	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR9122	0491416500	TREND, FED 7-1 & 7-4	TREND EXPLORATION	GSC	Belle Fourche	88 Oil
PSR9124	4940000590	CAMP CREEK, NORFOLK	TRUE OIL	GSC	Belle Fourche	88 Oil
PSR9182	W 140473X	TROUT POND	BALLARD PETROLEUM	GSC	Belle Fourche	88 Oil
PSR9183	W 148329X	GLENN, FED 1-5 & 2-5	FLYING J OIL & GAS	GSC	Belle Fourche	88 Oil
PSR9217	0490550500	OSHOTO, RODRIGUEZ 21-2	FANCHER OIL	GSC	Belle Fourche	88 Oil
PSR9219	W 141479X	TANNER	CITATION OIL AND GAS	GSC	Belle Fourche	88 Oil
PSR9223	W 143300	AMMO FEDERAL	FANCHER OIL	GSC	Belle Fourche	88 Oil
PSW1300	8910194240	HARTZOG DRAW	EXXONMOBIL	SC	Belle Fourche	88 Oil
PSW1601	84687U9690	HOUSE CREEK (SUSSEX)	DEVON ENERGY	SC	Belle Fourche	88 Oil
PSW1900	W 106652X	N BUCK DRAW	DEVON ENERGY	SC	Belle Fourche	88 Oil
PSW4100	891013886A	BOX ELDER DRAW	TRUE OIL	SC	Belle Fourche	88 Oil
PSW4200	048042194A	COYOTE CREEK, BUTTRAM GOVT 2	TRUE OIL	SC	Belle Fourche	88 Oil
PSW4300	048011357C	COYOTE CREEK, PACIFIC OIL 2	TRUE OIL	SC	Belle Fourche	88 Oil
PSW4400	State/Fee Unit 2	GLEASON STATE	TRUE OIL	SC	Belle Fourche	88 Oil
PSW4479	8910210470	POWELL PRESS. MAINT. UNIT	DEVON ENERGY	SC	Belle Fourche	88 Oil
PSW4505	W 114211X	HOUSE CREEK NORTH	OCEAN ENERGY RES.	SC	Belle Fourche	88 Oil
PSW4517	W 142503A	AFRICAN SWALLOW	VASTAR RESOURCES	SC	Belle Fourche	88 Oil
PSW4600	891015482E	PINE TREE	DEVON ENERGY	SC	Belle Fourche	88 Oil
PSW4700	W 123877X	SAND DUNES (MUDDY)	DEVON ENERGY	SC	Belle Fourche	88 Oil
PSW0700	8910210760	CULP DRAW	TOM BROWN INC.	SC	Belle Fourche,	EOTT
PSW4000	801000312B	SALT CREEK (LOU)	HOWELL PETROLEUM	SC	Equilon Amoco	EOTT