Accordingly, the Secretary has elected to take royalty oil in kind from certain Federal leases in that region and offer such oil for sale to eligible refiners. However, certain Federal leases located in southern Utah will be excluded from this sale offering.

Participation in the sale will be limited to independent refiners (hereinafter referred to as "eligible refiners") as that term is defined in section 3.3 of the Emergency Petroleum Allocation Act of 1973. (15 U.S.C. 751, et seq.) Further, at the discretion of the Secretary, preference in allocation of the royalty oil to be offered for sale will be given to those eligible refiners that operate refineries in the States of Colorado, Montana, North Dakota, Utah, and Wyoming.

In view of this determination by the Secretary, the Minerals Management Service (MMS) has published a Notice in the **Federal Register**, on the same date as this Notice, that it will conduct a sale on January 30, 1987, of approximately 20,000 barrels per day of royalty oil from selected Federal leases in the north-central region under the Government's Royalty-In-Kind (RIK) Program.

**FOR FURTHER INFORMATION CONTACT:** Jim McNamee, Chief, Royalty-In-Kind Section, Payor Accounting Branch, Minerals Management Service, MS 652, P.O. Box 5760, Denver, Colorado 80217, (303) 231-3605.

**SUPPLEMENTARY INFORMATION:** Regulations governing the disposal of onshore Government royalty oil are found in 30 CFR Part 208. Those regulations and the Act of July 13, 1946 (60 Stat. 533), authorize the Secretary, at his or her discretion, to grant a preference in the allocation of royalty oil to certain eligible refiners when a determination has been made that such refiners do not have access to adequate supplies of crude oil.

The determination of unavailability is based on the following facts: 1. Independent refiners located in the north-central region have indicated to MMS that they are experiencing difficulties obtaining long-term contracts for supplies of crude oil at equitable prices. These refiners do not have substantial production of their own and do not have access to most foreign supplies of oil because of their location. The inability to enter into long-term contracts has, therefore, caused these refiners to either cut back refining operations or resort to buying crude oil stocks on the open market at prices that make it difficult for them to remain competitive in the refined products marketplace.

2. Production of crude oil in the region declined in 1986 largely because of depressed crude oil prices. This has reduced the availability of crude oil to independent refiners. Indications are that the decline will continue at least until economic conditions improve, thereby severely limiting these refiners' access to crude oil supplies.

3. Exploration and drilling activities in the region have declined dramatically in the past year. This will affect future supplies of crude oil, thereby compounding the independent refiners' supply problems.

Dated: November 26, 1986.

**James E. Cason,**

*Acting Assistant Secretary of the Interior.*

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BILLING CODE 4310-MR-M

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## Royalty-In-Kind (RIK) Program

**AGENCY:** Minerals Management Service (MMS), Interior.

**ACTION:** Notice of sale offering of royalty oil available from Federal onshore leases.

**SUMMARY:** Pursuant to the provisions of the Minerals Leasing Act of 1920, as amended (30 U.S.C. 192), and Part 208 of Title 30 of the Code of Federal Regulations (30 CFR Part 208), the Secretary of the Interior (Secretary) has determined that sufficient supplies of crude oil at equitable prices are not available in the open market to refiners in the north-central region of the United States that do not have their own sources of supply for crude oil. Accordingly, the Secretary has elected to take royalty oil in kind from certain Federal leases in that region and offer such oil for sale to eligible refiners.

Therefore, the Minerals Management Service (MMS) is giving notice that it will conduct a sale on January 30, 1987, of royalty oil from the north-central region under the Government's Royalty-In-Kind (RIK) Program. The sale offering will include approximately 20,000 barrels per day of royalty oil. This Notice also provides procedures which must be followed by applicants to permit MMS to determine the applicants' eligibility to participate in the sale and general terms under which the contracts will be awarded.

**DATE:** Completed applications must be received by the close of business on January 9, 1987. Except for good cause shown, applications received after January 9, 1987, will be rejected.

**ADDRESSES:** Application forms may be obtained from the Minerals Management Service, Payor Accounting Branch, MS 652, P.O. Box 5760, Denver, Colorado 80217. Completed applications should be returned to the same address. The sale will be held on January 30, 1987, at the Denver Federal Center, Building 25, Room B1902, Lakewood, Colorado, and will commence at 9:00 a.m. local time.

**FOR FURTHER INFORMATION CONTACT:** Jim McNamee, Chief, Royalty-In-Kind Section, at the above address, (303) 231-3605.

**SUPPLEMENTARY INFORMATION:**

### Sale Offering

Approximately 20,000 barrels per day of royalty oil from selected Federal leases within the boundaries of the States of Colorado, Montana, North Dakota, Utah, and Wyoming will be offered for sale to qualified applicants. However, certain Federal leases located in southern Utah will be excluded from this sale offering. The MMS is holding the sale as early as is consistent with giving adequate notice and information to applicants. An information package will be provided to each applicant that has filed a timely application with MMs. This package will contain such pertinent data as: (1) Sale arrangements and procedures; (2) the lease locations and approximate quantity and quality of royalty oil to be offered from each lease; (3) a statement on the contract award processes and billing procedures; and (4) a copy of the Federal royalty oil contract.

### Eligibility Requirements

For purposes of this sale "eligible refiners" will be those refiners that meet the criteria for "independent" refiners as that term is defined in section 3.3 of the Emergency Petroleum Allocation Act of 1973 (15 U.S.C. 751, et seq.).

Applications will not be accepted from applicants whose refineries are not currently operating, unless the applicant certifies that it intends to start or resume operations beginning with the first month of the contract. In addition, MMS will disallow multiple applications from two or more related refiners. Such refiners will be limited to one allotment in the allocation of royalty oil.

An otherwise eligible refiner will not be permitted to participate in the sale if, at the time of the sale, that refiner is in arrears on payments owed (including interest or administrative charges) under a previously awarded royalty oil contract.

Applicants for royalty oil will be required to furnish a letter of Intent from a financial institution specifying that a surety bond or an irrevocable letter of credit will be provided on behalf of the purchaser. The Letter of Intent must be submitted with the application. Financial institutions that propose to furnish bonds must be listed in the Department of the Treasury's Circular 570. Those institutions that propose to furnish letters of credit must be chartered in the United States and must be acceptable to MMS.

**Application Procedures**

Applications must be filed in triplicate on Form MMS-4070, "Application for the Purchase of Royalty Oil" which may be obtained from MMS at the above address. The application must be filed timely and must be complete. Improperly completed or late applications will be rejected. The MMS will also screen all applications and will reject any application from a refiner that does not meet eligibility criteria established in this Notice.

Applicants are advised that Pub. L. 96-451 provides civil and criminal penalties for false or inaccurate reporting. Applicants are also cautioned to provide adequate detail on each item in the application to preclude rejection of the application from further consideration. Accordingly, any questions concerning the application should be directed to MMS at the above address.

**Sale Procedures**

Preference in selection of royalty oil will be granted to eligible applicants with refineries located within the States of Colorado, Montana, North Dakota, Utah, and Wyoming. Applicants with refineries located in these States will be considered "preference eligible applicants" for royalty oil allocation purposes at the sale. If the available royalty oil is insufficient to satisfy the requirements of all eligible refiners that have made applicaton, or if two or more eligible refiners request the same royalty oil, the oil will be prorated among all eligible applicants and two lotteries will be held to determine the order of selection of available oil. The first lottery will be limited to preference eligible applicants, as defined above. After the preference eligible applicants' needs have been satisfied, a second lottery will be held for all other eligible refiners. The volume of Federal royalty oil that will be allocated to a refiner cannot exceed 60 percent of the combined refinery capacity of that refiner.

In the event an applicant that has participated in the allocation process does not execute its contract, or in the event substantial quantities of royalty oil sold in this sale are subsequently turned back to MMS, MMS may reallocate such oil. However, only those refiners that hold ongoing contracts from this sale will be allowed to participate in any reallocation, and then only if they continue to meet eligibility requirements as set forth in this Notice and 30 CFR Part 208.

Additional information on the allocation and reallocation procedures will be provided upon request prior to and at the time of the sale.

**Contract Terms**

The sale will be conducted pursuant to the provisions of 30 CFR 208. However, MMS is currently in the process of revising this regulation. The proposed new 30 CFR Part 208 will be published for comment in the Federal Register in the near future.

The resultant royalty oil contracts will be effective May 1, 1987, and will have 24-month terms with expiration dates of May, 1, 1989. The MMS anticipates that subsequent sale offerings from the north central region, if deemed necessary, will be for contracts with 3-year terms.

Successful applicants who are awarded royalty oil contracts must process that royalty oil, or oil obtained in exchange for the royalty oil, in their refineries and may not resell it. If a refiner exchanges royalty oil for other crude oil to process in its refinery, it must provide full information thereto, including two copies of the exchange agreement, by May 1, 1987. If the exchange agreement is entered into subsequent to May 1, 1987, the refiner must provide such information within 30 days of the effective date of the agreement.

Contracts awarded in this sale will contain a provision for the payment of administrative fees to MMS. These fees will be assessed for the purpose of recovering identifiable costs incurred by MMS for administering the RIK Program. The fees will consist of an up-front nonrefundable contract fee and a monthly variable charge based on the number of leases under contract. The contract fee with be $20,000 per contract, payable in two $10,000 installments due at the end of the first and second months of the contract. The contract fee will be applied against costs incurred by MMS to administer the program. The remainder of the costs incurred by MMS will be recovered through a monthly variable charge per lease. The rate per lease will be determined by dividing the remaining balance of administrative costs by the total number of leases under contract. The rate could change depending upon whether total administrative costs changed and/or whether the number of leases from which royalty oil is taken in kind changed from one month to another. In instances where production from a lease is sold on a percentage basis to two or more refiners, each percentage portion of the lease will be considered a separate lease for purposes of administrative fee assessments.

**Surety Requirements**

A surety must be furnished to MMS at the above address prior to execution of a contract. If an approved surety is not provided by March 13, 1987, the contract will not be executed with the May 1, 1987, effective date. All sureties must be in a form acceptable to MMS and must include any specific requirements that MMS may require to adequately protect the Government's interests. The surety must be in an amount equal to (including administrative charges) the estimated value of royalty oil, which could be taken by the purchaser in a 99-day period. The MMS will be able to increase the surety requirement if necessary. The MMS also could decrease the amount of the surety, if warranted by significant historical data and requested by the refiner, provided that the interests of the Federal Government would be protected.

If the refiner provides a bond as the surety, it must be effective for the entire term of the contract. If the refiner furnishes a letter of credit as the surety, it must be effective for a 9-month period beginning the first day the royalty oil contract is effective, with a clause providing for automatic renewal monthly for a new 9-month period. The purchaser or its surety company may elect not to renew the letter of credit at any monthly anniversary date, but must notify MMS of the intent to not renew at least 30 days prior to the anniversary date. The MMS may grant the purchaser 45 days to obtain a new surety.

If no replacement surety is provided, MMS will terminate the contract effective at least 6 months prior to the expiration date of the letter of credit.

Dated: November 28, 1986.

**William D. Bettenberg,**

*Director, Minerals Management Service.*

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