



# United States Department of the Interior

## MINERALS MANAGEMENT SERVICE

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

IN REPLY REFER TO:

FEB 23 2001

MMS/MRM/RIK  
Mail Stop 330G5

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 **April 1, 2001**.

This letter provides the procedures and establishes the terms and conditions under which the United States (Lessor) will take Royalty Oil 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 production multiplied by the lease royalty rate. The volumes of crude oil taken in kind by MMS will reflect and be consistent with all grants of royalty relief.

### Term

The Lessor will take all Royalty Oil from the properties listed in the enclosure beginning April 1, 2001 and ending on the last day of the month subsequently designated by the Lessor as the date of termination. The Lessor will provide the Lessee and Operator with at least a 30-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. 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 regarding marketable condition should be directed to one of the Lessor's points of contact, at the end of this letter.

The delivery point for Royalty Oil produced from the selected properties listed in the enclosure is at the accepted royalty measurement point. The Lessor will take custody, possession, and responsibility for Royalty Oil beyond the delivery point. For low levels of production and/or those not directly connected to pipelines, delivery of Royalty Oil occurs when the Operator chooses to sell or move crude oil from the tank battery, which 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 or 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 Bureau of Land Management approves the reduction. Imbalances must be settled at project termination as discussed below. For properties with variable royalty rates that depend on factors not known at the time of delivery of Royalty Oil, you must base the deliveries on your best estimate of the royalty rate. You must then increase or decrease deliveries in the subsequent month to resolve imbalances after the correct royalty rate is determined.

All rent or minimum royalty obligations remain the responsibility of the Lessee. If the Lessee owes minimum royalties, we 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, we will communicate with you and make 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/Purchaser of the daily Royalty Oil volumes anticipated for the following month of production. You may make other arrangements for timely notification only if acceptable to the Lessor/Purchaser. The Lessor/Purchaser understands that any such estimate is not a warranty of actual deliveries to be made but is provided to facilitate planning.

You must also use reasonable efforts, consistent with industry practice, to inform the Lessor/Purchaser as soon as practical regarding significant changes anticipated in oil production levels and/or royalty shares.

## Balancing Account and Imbalances

Requirements for handling imbalances are outlined below:

- Imbalances will be determined monthly based on the difference between the royalty share of production and the actual volumes delivered. These imbalances will be maintained at a lease or agreement level or at the accepted royalty measurement point.
- Net imbalances at the end of each RIK contract term may be settled, at our option, through RIK volume deliveries or by cash settlement. The cash settlement amount will be the average price MMS received in the final month of the contract under which the imbalance occurred, times the net RIK imbalance volume under the contract.
- The Lessee will report applicable over- or undertaken imbalance volume and value on the Report of Sales and Royalty Remittance (Form MMS-2014) as either a positive or negative for the final month of delivery. Interest will accrue from 60 days after the final month of delivery.

## Volume Reconciliation

Using additional data, including pipeline data, MMS will monitor and reconcile production and volumes delivered as soon as possible. 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."

## Reporting

You must continue to report crude oil production to MMS on the Oil and Gas Operations Report (OGOR) or the Monthly Report of Operations (Form MMS-3160) under current requirements and frequencies as specified in MMS regulations and the MMS *PAAS Reporter Handbook*. You will not be required to report Royalty Oil for the RIK contract leases on the Form MMS-2014 for the term during which the Lessor takes royalty in kind, except according to provisions described under "Balancing Account and Imbalances." Reporting does not change for non-RIK leases.

## Lessor's Designee

At times, we 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. We also will provide written notification when the designee is no longer authorized to act on our 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 we notify you that we will use a designee in the contract, references to the Lessor shall refer to our designee. The Lessor requires the designee to agree that, when acting on behalf of the Lessor, the designate must comply with all provisions of this letter that are applicable to the Lessor.

## 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 prior to the delivery point.

Lessees, Operators, and revenue payors must maintain all records of transactions mentioned in the above paragraph for a period of 7 years from the day on which the relevant transaction occurred unless we notify the record holder of an audit or investigation. If you are notified that an audit or investigation is planned, records must be maintained until the record holder is released in writing from the obligation to maintain the records.

## 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:

### COTR:

Mr. Greg Smith

Telephone: 303-275-7102; Fax: 303-275-7136

### Reporting Issues:

Mr. Andy Sandoval

Telephone: 303-231-3777; Fax: 303-231-3700

### Electronic Funds Transfer:

Ms. Kathy Jarrett

Telephone: 303-231-3669; Fax: 303-231-3501

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 1 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 electronically 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,

(original signature on file)

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

Enclosure

MMS/Wyoming Oil RIK IFO  
 No. 1435-02-00-RP-40329  
 Apr. 01, 2001 to Sept. 30, 2001

Operators of Successfully Bid Properties

Enclosure

Line Code	Crude Type	Federal/State Lease/Agree No.	Pipeline	Unit or Field Name	(Sorted by) Operator	Winning Bidder
PSR9169	General Sour	W 119861X	88 Oil	PRONG CRK WEST (MINN)	BALLARD PETROLEUM LLC	88 Oil
PSR9182	General Sour	W 140473X	Belle Fourche	TROUT POND MINNELUSA B SAND	BALLARD PETROLEUM LLC	88 Oil
PSR9310	General Sour	W 148363X	88 Oil	TRUE GRIT (MINNELUSA C SAND)	BELLEVUE RESOURCES INC	88 Oil
PSR0400	General Sour	W 115090X	88 Oil	ALPHA (MINNELUSA)	BRECK OPERATING	88 Oil
PSR1800	General Sour	W 123878X	Belle Fourche	INDIAN TREE (MINN "A" SANDS)	CITATION OIL AND GAS CORP	88 Oil
PSR2400	General Sour	8910209840	Belle Fourche	POWNALL RANCH	CITATION OIL AND GAS CORP	88 Oil
PSR9219	General Sour	W 141479X	Belle Fourche	TANNER (MINN UPPER B) UNIT	CITATION OIL AND GAS CORP	88 Oil
PSW1601	Sweet	84687U9690	Belle Fourche	HOUSE CREEK(SUSSEX)	DEVON ENERGY CORP	TEPPCO
PSW1900	Sweet	W 106652X	Belle Fourche	N BUCK DRAW (DAKOTA)	DEVON ENERGY CORP	TEPPCO
PSW4479	Sweet	8910210470	Belle Fourche	POWELL PRESS. MAINT. BOSWELL FED	DEVON ENERGY CORP	TEPPCO
PSW4600	Sweet	891015482E	Belle Fourche	PINE TREE UNIT	DEVON ENERGY CORP	TEPPCO
PSW4700	Sweet	W 123877X	Belle Fourche	SAND DUNES (MUDDY)	DEVON ENERGY CORP	TEPPCO
PSR1400	General Sour	W 109088X	Belle Fourche	DRY GULCH MINNELUSA	DUNCAN OIL INC	88 Oil
PSW1300	Sweet	8910194240	Belle Fourche	HARTZOG DRAW	EXXONMOBIL	TEPPCO
PSR2300	General Sour	W 119637X	Belle Fourche	N. BREAKS (MINN B)	FANCHER OIL LLC	88 Oil
PSR9217	General Sour	0490550500	Belle Fourche	RODRIGUEZ 21-2	FANCHER OIL LLC	88 Oil
PSR9223	General Sour	W 143300	Belle Fourche	AMMO FED #1 WOLF DRAW FIELD	FANCHER OIL LLC	88 Oil
PSR9183	General Sour	W 148329X	Belle Fourche	GLENN (MINNELUSA LOWER B SANDSTONE)	FLYING J OIL & GAS INC	88 Oil
PSR0750	General Sour	048046410E	Belle Fourche	CAMP CREEK, FED #1,2,4	H.D. & CAROLYN ADAMS	88 Oil
PSR4000	General Sour	801000312B	Amoco	SALT CREEK(LOU). WALL CREEK 2ND	CORPORATION	TEPPCO
PSR9127	General Sour	801000312A	Amoco	SALT CREEK - TENSLEEP	CORPORATION	TEPPCO
PSR7100	General Sour	66-15021/M1	88 Oil	EAST SANDBAR	JN PETROLEUM	88 Oil
PSR3700	General Sour	W 115064X	Belle Fourche	WINTER DRAW MNLS SEC.REC.	LARIO OIL & GAS	88 Oil
PSR3800	General Sour	W 115093X	Belle Fourche	WOLF DRAW (SEC REC)	MERIT ENERGY COMPANY	88 Oil
PSR6700	General Sour	State/Fee Unit 4	Belle Fourche	WEST MORAN	NORTH STAR	88 Oil
PSW4505	Sweet	W 114211X	Belle Fourche	HOUSE CREEK NORTH	OCEAN ENERGY RESOURCES, INC.	TEPPCO
PSR1950	General Sour	8910086440	Belle Fourche	LITTLE MITCHELL CREEK AGREEMENT	OSBORN HEIRS COMPANY	88 Oil
PSR0700	General Sour	W 125233X	Belle Fourche	CAMBRIDGE (MINN. UPPER "B" SAND)	PLAINS PETROLEUM OPERATING CO.	88 Oil
PSR1500	General Sour	W 115054X	Belle Fourche	FALCON RIDGE	TOM BROWN INC.	88 Oil
PSW0700	Sweet	8910210760	Equilon	CULP DRAW SHANNON B	TOM BROWN INC.	TEPPCO
PSR9122	General Sour	0491416500	Belle Fourche	TREND FED 7-1, 7-4	TREND EXPLORATION COMPANY	88 Oil
PSR8100	General Sour	W 125240X	Belle Fourche	NORTH SLATTERY "A" SAND	TRUE OIL COMPANY	88 Oil
PSR8600	General Sour	W 135349X	Belle Fourche	SOUTH SLATTERY	TRUE OIL COMPANY	88 Oil
PSR9000	General Sour	0491091550	Belle Fourche	WEST GIBBS	TRUE OIL COMPANY	88 Oil
PSW4517	Sweet	W 142503A	Belle Fourche	AFRICAN SWALLOW 1-22	VASTAR RESOURCES INC	TEPPCO
PSR9200	General Sour	892000537U	Amoco	SUSSEX TENSLEEP AMSDEN AB	WESTPORT OIL AND GAS CO	TEPPCO