



United States Department of the Interior

MINERALS MANAGEMENT SERVICE

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



IN REPLY REFER TO:

APR - 5 2001

Federal Onshore CAM 1
Mail Stop 392B1

Subject: Stripper Oil Property

Dear Operator:

We would like to clarify your responsibilities under the Stripper Oil Property Royalty Rate Reduction (RRR) Program for onshore Federal leases and agreements. The areas we want to emphasize are:

- accuracy of days produced or injected
- condensate is not eligible for the RRR
- retention of records
- when to begin taking your RRR
- outyear notifications

Accuracy of Days Produced or Injected

In subsequent audits or reviews of stripper rates, we found that many operators misreported their producing or injecting days on their Monthly Report of Operations, Form MMS-3160 or Oil and Gas Operations Report, Form MMS-4054. This distorts the barrels/well-day calculation and can result in material audit findings. Be careful to use only the actual number of days produced or injected when calculating your RRR and assure your production reports are accurate. An injection day should only be counted if the volume injected was sufficient to enhance oil production. Minimal injection volumes are not to be used in an injection well-day calculation. If necessary, submit modified production reports to reflect actual production and injection days.

Condensate is Not Eligible for the RRR

This program was established for reducing the royalty rate on oil only. Royalty on all other products recovered from a property, including condensate, must be reported at the royalty rate established in the lease.

Production is classified as oil or condensate for RRR purposes based on the following definitions:

- Hydrocarbon liquid with an API gravity of 50° or higher, regardless of color, is considered condensate.
- Hydrocarbon liquid with an API gravity of 45° or lower, regardless of color, is considered oil.
- Hydrocarbon liquid with an API gravity more than 45° but less than 50° is considered condensate if the liquid is light, neutral, or straw colored and not dark in appearance.

Retention of Records

You must retain your records from the initial qualifying period and all outyear qualifying periods for any further reduction of the royalty rate below the initial royalty rate reduction. Records include daily pumper reports, daily gauge reports, run tickets, well test data, and any other information supporting the RRR. If you were not the operator during the initial or any outyear qualifying period, you must assure those records are transferred to you from the previous operator(s). You must retain all records you used to calculate your initial qualifying rate, and any other reduced royalty rate, for six years after the program ends or six years after your property no longer qualifies for the program.

When to Begin Taking Your RRR

Some operators have asked if they are required to wait to hear from us before notifying the royalty payor(s) to take the RRR. The answer is no. The royalty payor(s) should start taking the RRR effective the month after the month in which the Minerals Management Service (MMS) receives the notification. If we determine your rate should be higher or lower than you certified, we will notify you by letter. MMS will calculate any interest due or payable as we receive and process amended Reports of Sales and Royalty Remittance, Form MMS-2014.

Outyear Notifications

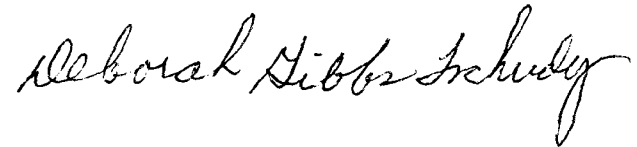
If you calculate a RRR lower than the initial qualifying period RRR for an outyear qualifying period, you must meet the following requirements or the RRR will revert to the initial RRR:

- ◆ You must notify MMS within 60 calendar days after the end of the previous claim year.
- ◆ You must notify MMS every year thereafter of an outyear RRR if it is lower than the initial RRR, even if the outyear rate remains the same as the previous outyear rate. Failure to submit an outyear notification will result in your RRR reverting to the initial RRR. (Note: If your calculated outyear RRR is the same as the initial RRR, please do not notify MMS.)
- ◆ The 12-month qualifying period for an outyear begins with the effective date of the previous claim year.

Dear Operator

If you have any questions about the RRR program, please contact Mr. Don Pagliasotti using our toll free number, 1-800-634-6423, Extension 6-8944.

Sincerely,

A handwritten signature in black ink that reads "Deborah Gibbs Tschudy". The signature is written in a cursive style with a large, looping 'D' at the beginning and a long, sweeping tail at the end.

Deborah Gibbs Tschudy
Acting Assistant Program Director
Onshore Compliance and Asset Management