



United States Department of the Interior

MINERALS MANAGEMENT SERVICE

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



FEB 14 2002

MMS/MRM/RIK
Mail Stop 330G5

Dear:

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, 2002.

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 us will reflect all granted royalty relief.

Term

The Lessor will take all Royalty Oil from the properties listed in the enclosure beginning April 1, 2002 and continuing until we notify you that the in-kind status is terminated. We 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 from these leases. In addition, you will make the best efforts to notify the 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 points. Royalty oil from such new properties will be added to the RIK volumes only upon mutual consent of the purchaser and the 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.

The delivery point for Royalty Oil produced from the properties listed in the enclosure is at the accepted royalty measurement point. The Lessor shall take custody 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 you choose to sell/move crude oil from the tank battery, an activity that may occur as infrequently as monthly, or even less often. Crude oil produced during the term of the contract but remaining in tank batteries as inventory at the end of the project term will be cashed out at the MMS contract price at the last month the lease was taken in kind or resolved by mutual agreement between the MMS and you 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" below).

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 at the delivery point for the account of the Lessor. Using reasonable and customary industry practices, we will try to minimize imbalances with you and the Lessees.

To facilitate timely and accurate custody transfer of Royalty Oil, we 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.

You must also use reasonable efforts, consistent with industry practice, to inform us 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 all parties. 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

You and the MMS will jointly monitor imbalances between delivered and entitled volumes of royalty oil. You will take timely action to remedy such imbalances through adjustments to royalty oil volumes delivered to MMS.

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
- 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 the imbalance occurred. Interest will accrue 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 we take royalty in kind. Reporting does not change for non-RIK leases.

Lessor's Designee

At times, the 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. The Lessor 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 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 us should be kept on file. Some key contacts from our offices are listed below:

Volume Avails (Anticipated Volumes) and 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

We acknowledge that you and the Lessees have given proper notice when using the telephone number or fax number provided to communicate with us. Any telephone communication regarding volumes must be confirmed by fax or e-mail no later than one business day after telephone communication occurs. We further agree to make arrangements to receive such communications regarding production scheduling issues during normal business hours. You and the 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,


Milton K. Dial
Assistant Program Director
for Royalty In Kind

Enclosure

Royalty-in-Kind Listing of Properties
Effective April 1, 2002

Enclosure

Lease or Agreement Number	Lease or Agreement Name	Operator	Oil Type	Pipeline	Winning Bidder
892000435A	BLACK MOUNTAIN	MARATHON	ASC	Amoco	Marathon
W 138881X	HAMILTON DOME	MERIT ENERGY	ASC	Amoco	Marathon
0620400270	SHAD - MURPHY DOME	FLYING J OIL & GAS	ASC	Amoco	Nexen
0640686650	LITTLE SAND DRAW-NELSON GS	CITATION OIL AND GAS	ASC	Amoco	Nexen
8920004390	ELK BASIN (MADISON)	HOWELL PETROLEUM	ASC	Marathon	Teppco
892000439A	ELK BASIN (EMB.-TEN.)	HOWELL PETROLEUM	ASC	Marathon	Teppco
8920001610	FOURBEAR	GOLDMARK ENGINEERING	ASC	Four Bear	Marathon
8920001130	PITCH FORK	MARATHON	ASC	Four Bear	Marathon
892000279A	SOUTH SPRING CREEK	MARATHON	ASC	Four Bear	Marathon
*W 112017X	ENIGMA (\$09 charge to pipeline)	CITATION OIL AND GAS	ASC	Marathon	Marathon
891000463A	COTTONWOOD CREEK (PHOS)	CONTINENTAL RESOURCES	ASC	Marathon	Nexen
892000223A	GOOSEBERRY "A"	WESTPORT OIL AND GAS	ASC	Marathon	Marathon
892000223B	GOOSEBERRY "B"	WESTPORT OIL AND GAS	ASC	Marathon	Marathon
0640639220	MORRISON-WEADICK HALF MOON	MERIT ENERGY	ASC	Marathon	Marathon
892000174A	GARLAND	MARATHON	ASC	Red Butte	Marathon
8920003630	GEBO	MARATHON	ASC	Red Butte	Nexen
W 150174X	GRASS CREEK	MARATHON	ASC	Red Butte	Nexen
892000185C	GARLAND (TENSLEEP)	MARATHON	ASC	Red Butte	Marathon
891012527A	BYRON	MARATHON	ASC	Red Butte	Marathon
892000559C	OREGON BASIN (N. EMBAR)	MARATHON	ASC	Red Butte	Marathon
892000559D	OREGON BASIN (S. EMBAR)	MARATHON	ASC	Red Butte	Marathon
892000559E	OREGON BASIN (N. MADISON)	MARATHON	ASC	Red Butte	Marathon
892000559F	OREGON BASIN (S. MADISON)	MARATHON	ASC	Red Butte	Marathon
W 115090X	ALPHA	BRECK OPERATING	GSC	88 Oil	Nexen
66-15021/M1	EAST SANDBAR	JN PETROLEUM	GSC	88 Oil	Nexen
W 119861X	PRONG CREEK WEST	BALLARD PETROLEUM	GSC	88 Oil	Nexen
W 148363X	TRUE GRIT	BELLEVUE RESOURCES	GSC	88 Oil	Nexen
801000312A	SALT CREEK (TENSLEEP)	HOWELL PETROLEUM	GSC	Amoco	Teppco
892000537U	SUSSEX (TENSLEEP AMSDEN A-B)	WESTPORT OIL AND GAS	GSC	Amoco	Teppco
W 125233X	CAMBRIDGE	WILLIAMS PRODUCTION	GSC	Belle Fourche	Nexen
W 109088X	DRY GULCH	DUNCAN OIL	GSC	Belle Fourche	Nexen
W 115054X	FALCON RIDGE	TOM BROWN INC.	GSC	Belle Fourche	Nexen
W 106645X	GIBBS	TRUE OIL	GSC	Belle Fourche	Nexen
W 123878X	INDIAN TREE	CITATION OIL AND GAS	GSC	Belle Fourche	Nexen

Royalty-in-Kind Listing of Properties
Effective April 1, 2002

Enclosure

Lease or Agreement Number	Lease or Agreement Name	Operator	Oil Type	Pipeline	Winning Bidder
8910086440	LITTLE MITCHELL CREEK	OSBORN HEIRS CO.	GSC	Belle Fourche	Nexen
0480421870	COX, FED. 14-11	TRUE OIL	GSC	Belle Fourche	Nexen
W 119637X	N. BREAKS	FANCHER OIL	GSC	Belle Fourche	Nexen
8910209840	POWNALL RANCH	CITATION OIL AND GAS	GSC	Belle Fourche	Nexen
W 115064X	WINTER DRAW	LARIO OIL & GAS	GSC	Belle Fourche	Nexen
W 115093X	WOLF DRAW	MERIT ENERGY	GSC	Belle Fourche	Nexen
State/Fee Unit 4	WEST MORAN	NORTH STAR	GSC	Belle Fourche	Nexen
4940002050	CAMP CREEK, GOVT 6-1	TRUE OIL	GSC	Belle Fourche	Nexen
0490573180	DEEP DRAW, 14-17 GOVT	TRUE OIL	GSC	Belle Fourche	Nexen
0490595810	DEEP DRAW, 41-19,44-18	TRUE OIL	GSC	Belle Fourche	Nexen
0490482770	DEUEL, FED 24-30	TRUE OIL	GSC	Belle Fourche	Nexen
State/Fee Unit 1	EITEL	TRUE OIL	GSC	Belle Fourche	Nexen
0490891490	LITTLE MO, 33-23 GOVT	TRUE OIL	GSC	Belle Fourche	Nexen
049015548A	MAPES, GOVT 43-28	TRUE OIL	GSC	Belle Fourche	Nexen
0490540140	MAPES, GOVT 13-27	TRUE OIL	GSC	Belle Fourche	Nexen
W 125240X	NORTH SLATTERY	TRUE OIL	GSC	Belle Fourche	Nexen
0490756740	NORTH YORK, FED. 32-32	TRUE OIL	GSC	Belle Fourche	Nexen
891020961A	NORTHWEST TIMBER CREEK	TRUE OIL	GSC	Belle Fourche	Nexen
State/Fee Unit 3	RAINBOW RANCH	TRUE OIL	GSC	Belle Fourche	Nexen
W 135349X	SOUTH SLATTERY	TRUE OIL	GSC	Belle Fourche	Nexen
84687U9540	SPRING HOLE	TRUE OIL	GSC	Belle Fourche	Nexen
0491091550	WEST GIBBS - True Oil	TRUE OIL	GSC	Belle Fourche	Nexen
W 116906X	YORK	TRUE OIL	GSC	Belle Fourche	Nexen
0491416500	TREND, FED 7-1 & 7-4	TREND EXPLORATION	GSC	Belle Fourche	Nexen
4940000590	CAMP CREEK, NORFOLK	TRUE OIL	GSC	Belle Fourche	Nexen
W 140473X	TROUT POND	BALLARD PETROLEUM	GSC	Belle Fourche	Nexen
W 148329X	GLENN, FED 1-5 & 2-5	FLYING J OIL & GAS	GSC	Belle Fourche	Nexen
0490550500	OSHOTO, RODRIGUEZ 21-2	FANCHER OIL	GSC	Belle Fourche	Nexen
W 141479X	TANNER	CITATION OIL AND GAS	GSC	Belle Fourche	Nexen
W 143300	AMMO FEDERAL	FANCHER OIL	GSC	Belle Fourche	Nexen
*8910194240	HARTZOG DRAW	EXXONMOBIL	SC	Belle Fourche	Tesoro
84687U9690	HOUSE CREEK (SUSSEX)	DEVON ENERGY	SC	Belle Fourche	Tesoro
W 106652X	N BUCK DRAW	DEVON ENERGY	SC	Belle Fourche	Tesoro
891013886A	BOX ELDER DRAW	TRUE OIL	SC	Belle Fourche	Tesoro
048042194A	COYOTE CREEK, BUTTRAM GOVT 2	TRUE OIL	SC	Belle Fourche	Tesoro
048011357C	COYOTE CREEK, PACIFIC OIL 2	TRUE OIL	SC	Belle Fourche	Tesoro
State/Fee Unit 2	GLEASON STATE	TRUE OIL	SC	Belle Fourche	Tesoro

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<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>
8910210470	POWELL PRESS. MAINT. UNIT	DEVON ENERGY	SC	Belle Fourche	Tesoro
W 114211X	HOUSE CREEK NORTH	ENSIGN OIL & GAS	SC	Belle Fourche	Tesoro
W 142503A	AFRICAN SWALLOW	VASTAR RESOURCES	SC	Belle Fourche	Tesoro
891015482E	PINE TREE	DEVON ENERGY	SC	Belle Fourche	Tesoro
W 123877X	SAND DUNES (MUDDY)	DEVON ENERGY	SC	Belle Fourche	Tesoro
801000312B	SALT CREEK (LOU)	HOWELL PETROLEUM	SC	Amoco	Tesoro