



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Minerals Revenue Management
P.O. Box 25165
Denver, Colorado 80225-0165
www.mrm.mms.gov



AUG 1 2 2005

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 where we will take crude oil and condensate royalties production in-kind beginning October 1, 2005. This letter supercedes previous operator letters you have received regarding oil royalties taken in kind and is effective the first day of deliveries.

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 royalty oil taken in-kind reflect and be consistent with all grants of royalty relief.

Term

The Lessor will take all royalty oil in-kind from your properties listed in the enclosure beginning October 1, 2005, and will continue taking royalties in-kind 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

The delivery points for royalty oil produced from the properties listed in the enclosure are at the accepted royalty measurement points. The Lessor or designee will take custody and responsibility for royalty oil at 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. Royalty 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 royalty oil is actually sold/moved from the lease.

TAKE PRIDE
IN AMERICA

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 at the end of this letter.

You must deliver all royalty oil from the selected leases, including royalty oil from newly producing wells on these leases. During the in-kind period, you will make the best efforts to notify the Lessor's designated point of contact of new oil production flowing to the royalty measurement points identified in the enclosure. Royalty oil from such new properties will be added to the RIK volumes only upon mutual consent of the purchaser and the Lessor.

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.

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's Obligation to Take

We agree to take 100 percent of the royalty oil delivered at the delivery point for the account of the Lessor. We will try to minimize imbalances with you and the Lessees using reasonable and customary industry practices.

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.

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 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.

Operator Assignments

For leases which are being taken in-kind and which you are assigning to another operator, you will make the best reasonable effort to notify one of the Lessor's Points of Contact - New Lease Production listed below. In addition, any ending imbalance existing at the effective date of the assignment will be cashed out as described under "Balancing Account and Imbalances."

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.
- 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.

When the lease is no longer taken in-kind or after cessation of production from a lease, imbalances 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 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 royalties 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

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.

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 and Gas Royalty Simplification and Fairness Act of 1996 (Public Law 104-185 Section 115(f)).

Lessor's Point of Contact

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

- Operator Imbalance Statements:
 - Ms. Suzanne Elmore
 - Telephone: 303-231-3742; Fax: 303-231-3846
 - E-mail: Suzanne.Elmore@mms.gov
 - or
 - Mr. Ted Drescher
 - Telephone: 303-231-3143; Fax: 303-231-3846;
 - E-mail: Theodore.Drescher@mms.gov

- New Lease Production:
 - Ms. Sheila Perry
 - Telephone: 303-231-3610; Fax: 303-231-3846;
 - E-mail: Sheila.Perry@mms.gov

- Electronic Funds Transfer:
 - Ms. Norma Yagnich
 - Telephone: 303-231-3345; Fax: 303-231-3501
 - E-mail: Norma.Yagnich@mms.gov

- Marketable Condition Questions:

Mr. Jim Morris

Telephone: 303-231-3770; Fax: 303-231-3178

E-mail: James.Morris@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 1 business day after telephone communication occurs. We further agree to make arrangements to receive such communications regarding oil 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: 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. This ICR is approved by Office of Management and Budget (OMB) and is titled "Royalty-in-Kind (RIK) Pilot Program—Directed Communications by Operators of Federal Oil and Gas Leases (OMB Control Number 1010-0129, expiration date July 31, 2006)." We estimate the burden for reporting is 1 hour per response. 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,



Pamela S. Rieger
Deputy Program Manager
Royalty In Kind

Enclosure

Listing of Properties
Royalty-in-Kind
Effective October 1, 2005

Enclosure

Line Code	Lease or Agreement Number	Lease or Agreement Name	Operator	Oil Type	Pipeline/Trucked	Winning Bidder
PSW1601	84687U9690	House Creek (Sussex)	Devon Energy	SC	Belle Fourche	Tesoro
PSW4200	048042194A	Coyote Creek, Buttram Govt 2	True Oil	SC	Belle Fourche	Tesoro
PSW4300	048011357C	Coyote Creek, Pacific Oil 2	True Oil	SC	Belle Fourche	Tesoro
PSW4400	State/Fee Unit 2	Gleason State	True Oil	SC	Belle Fourche	Tesoro
PSW4517	W 142503A	African Swallow	Lario Oil & Gas	SC	Belle Fourche	Tesoro
PSW4700	W 123877X	Sand Dunes (Muddy)	Merit Energy	SC	Belle Fourche	Tesoro
PSW4505	W 114211X	House Creek North	Medicine Bow	SC	Bridger	Shell
PSW1300	8910194240	Hartzog Draw	XTO Energy	SC	Belle Fourche	Teppco
PSR0400	W 115090X	Alpha	Wellstar Corpotation	GSC	88 Pipeline	Shell
PSR7100	66-15021/M1	East Sandbar	Wellstar Corpotation	GSC	88 Pipeline	Shell
PSR9169	W 119861X	Prong Creek West	Ballard Petroleum	GSC	88 Pipeline	Shell
PSR9310	W 148363X	True Grit	Bellevue Resources	GSC	88 Pipeline	Shell
B7276	8920004390	Elk Basin (Madison)	Anadarko	ASC	Clear Fork	Flint Hills
B7277	892000439A	Elk Basin (Emb. -Ten.)	Anadarko	ASC	Clear Fork	Flint Hills
B3101	891012527A	Byron	Marathon	ASC	Red Butte	Flint Hills
B3103	891002438A	Byron Pre-Tensleep, Amsden Pa	Marathon	ASC	Red Butte	Flint Hills
B3102	891002438B	Byron Pre-Tensleep, Madison Pa	Marathon	ASC	Red Butte	Flint Hills
B0300	W 112017X	Enigma	Citation O&G	ASC	Red Butte	Flint Hills
B0500	892000174A	Garland	Marathon	ASC	Red Butte	Flint Hills
B1002	892000185C	Garland (Tensleep)	Marathon	ASC	Red Butte	Flint Hills
B0600	8920003630	Gebo	Phoenix Production	ASC	Red Butte	Flint Hills
B5000	892000223A	Gooseberry "A"	Kerr-McGee	ASC	Red Butte	Flint Hills
B5100	892000223B	Gooseberry "B"	Kerr-McGee	ASC	Red Butte	Flint Hills
B0710	W 150174X	Grass Creek	Marathon	ASC	Red Butte	Flint Hills
B1004	0640446940	Kinney Coastal 012	Marathon	ASC	Red Butte	Flint Hills
B1005	0640447690	Kinney Coastal 051,052	Marathon	ASC	Red Butte	Flint Hills
B1000	892000185A	Kinney Coastal Garland - Mad "B"	Marathon	ASC	Red Butte	Flint Hills
B1001	892000185B	Kinney Coastal Garland - Embar	Marathon	ASC	Red Butte	Flint Hills
B1003	892000185E	Kinney Coastal Garland - Mad "A"	Marathon	ASC	Red Butte	Flint Hills
B7100	064043977A	Kinney Coastal Garland 78Ea	Marathon	ASC	Red Butte	Flint Hills

Listing of Properties
Royalty-in-Kind
Effective October 1, 2005

Enclosure

Line Code	Lease or Agreement Number	Lease or Agreement Name	Operator	Oil Type	Pipeline/Trucked	Winning Bidder
B6000	892000559A	Oregon Basin-N. Chugwater Pa	Marathon	ASC	Red Butte	Flint Hills
B6100	892000559B	Oregon Basin-S. Chugwater Pa	Marathon	ASC	Red Butte	Flint Hills
B6200	892000559C	Oregon Basin (N. Embar)	Marathon	ASC	Red Butte	Flint Hills
B6300	892000559D	Oregon Basin (S. Embar)	Marathon	ASC	Red Butte	Flint Hills
B6400	892000559E	Oregon Basin (N. Madison)	Marathon	ASC	Red Butte	Flint Hills
B6500	892000559F	Oregon Basin (S. Madison)	Marathon	ASC	Red Butte	Flint Hills
GR001	891016173B	Painter Reservoir	Chevron USA	SC	Rocky Mountain	Flying J
GR013	8910161730	Painter Reservoir	Chevron USA	SC	Rocky Mountain	Flying J
GR006	0491331050	Pinocchio	EOG Resources	SC	Rocky Mountain	Flying J
GR008a	891004736E	Green River Bend	Chevron USA	SC	Rocky Mountain	Flying J
GR008b	891004736E	Green River Bend	EOG Resources	SC	Rocky Mountain	Flying J
GR016	8920003200	North Labarge Shallow	EOG Resources	SC	Rocky Mountain	Flying J
GR017	W 146018X	Burly (Mesaverde)	EOG Resources	SC	Rocky Mountain	Flying J
GR030a	891003856C	Dry Piney	Wexpro	SC	Rocky Mountain	Flying J
GR030b	891003856C	Dry Piney	ExxonMobil Corp	SC	Rocky Mountain	Flying J
GR030c	891003856C	Dry Piney	EOG Resources	SC	Rocky Mountain	Flying J
GR011	84385U8590	Luckey Ditch	Whiting	SC	Flying J	Flying J