



# United States Department of the Interior

MINERALS MANAGEMENT SERVICE  
Washington, DC 20240



December 2, 2005

Dear Lessee:

Our records indicate that your company is the lessee of record and (or) operating rights owner of a lease that has confirmed royalty suspension volumes as defined by the Deep Water Royalty Relief Act of 1995 (DWRRA) and at 30 CFR § 260 (2004). The lessee of record and (or) operating rights owner is liable for reporting and paying royalties even though another party may have been designated to report and pay on your company's behalf.

This letter is intended to inform you that:

- The price threshold for both oil and gas was exceeded for 2004 production.
- Your company should report and pay royalties for 2004 production immediately if you have not already done so.
- Interest will be calculated on payments received after April 1<sup>st</sup> of the calendar year following the year of production.
- The Minerals Management Service (MMS) is making a change to the notification process for future years.

As specified in the DWRRA and in the lease instrument, royalties are to be paid at the lease-stipulated royalty rate on all crude oil or natural gas production when the arithmetic average of the closing prices on the New York Mercantile Exchange (NYMEX) exceeds a specified threshold price in any year. The MMS notified the lease operators that the average natural gas prices for the years 2000, 2001, and 2003 exceeded the threshold. Accordingly, royalties, plus interest, were owed on the volumes of natural gas produced during those calendar years as required by 30 CFR § 218.54 (2004).

The average natural gas price for 2004 also exceeded the threshold as did the average price for light sweet crude oil. Accordingly, royalties, plus interest, are owed on the volumes of natural gas and crude oil produced during Calendar Year 2004. All royalties must be reported and paid by March 31, in the calendar year following production to avoid interest charges. As a reminder, all volumes produced during this timeframe count against the royalty suspension volume.

Normally, royalty is due at the end of the month following the month of production. However, for leases issued under DWRRA, royalties are not paid on the usual monthly basis because of the royalty suspension provisions. The royalty suspension provisions apply unless and until the

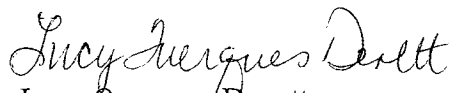
average of the NYMEX closing prices exceeds the price threshold for the year. Because lessees must be able to calculate the average NYMEX closing prices, royalty becomes due, and late-payment interest begins to accrue, no later than a reasonable time after the end of the calendar year.

Regulations at 30 CFR § 260.122 (2004) establish 90 days as a reasonable time. Specifically, if price thresholds are exceeded, payment of royalty is required within 90 days after the end of the year for which royalty is owed. Please refer to the enclosure for specific instructions on how to modify the report you previously submitted.

Please note that, in the future, MMS will not notify reporters when NYMEX prices exceed threshold prices or inform them that royalties are due for a specific calendar year. It is the responsibility of the reporter to monitor this information, which is posted on our website at <http://www.mms.gov/econ/DWRRAPrice1.htm>

The MMS Offshore Compliance and Asset Management Team is completing an analysis and will notify your company of any variances by separate letter. If you have any questions regarding this letter, please contact Roman Geissel at (303) 231-3226.

Sincerely,

  
Lucy Querques Denett  
Associate Director for  
Minerals Revenue Management

Enclosure

## Reporting Guidance

The following summarizes the reporting instructions found in the Minerals Revenue Reporter Handbook and the Minerals Production Reporter Handbook. These instructions will assist you in adjusting your royalty and production reports.

Royalty-free volumes previously reported on the Report of Sales and Royalty Remittance (Form MMS-2014), using Transaction Code 41 (Offshore Deep Water Royalty Relief), must be modified. You must reverse the lines previously reported using Transaction Code 41 and replace them with lines using Transaction Code 01 (Royalty Due). If you have questions, please contact your MMS customer representative for royalty reporting at (800) 525-0309.

Production volumes previously reported on the Oil and Gas Operations Report (Form MMS-4045), as Disposition Code 09, must also be modified. Use Disposition Code 01 (Sales Subject to Royalty) for direct sales for oil and gas; use Disposition Code 11 for any gas transfers. If you have any questions, please contact your MMS customer representative for production reporting at (800) 525-7922.