



United States Department of the Interior



MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM
P.O. BOX 25165
DENVER, COLORADO 80225

IN REPLY
REFER TO:

FAD/LCB
Mail Stop 3220

JUN 12 1991

Dear Payor:

This letter serves as an official notice that the Minerals Management Service (MMS) will begin assessing payors for erroneously reporting sales and royalty information that produces an incorrectly calculated royalty rate.

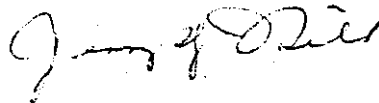
In a previous letter dated March 14, 1988, MMS informed all royalty payors that a project was underway to research apparent variances between royalty rates calculated from information reported by payors on Report of Sales and Royalty Remittance (Forms MMS-2014/4014) and the royalty rates residing in the lease data base of the MMS Auditing and Financial System. Our research indicated that a majority of the variances were caused by payors overstating Sales Quantity and/or Sales Value, which gave the appearance of understated and underpaid Royalty Quantity and/or Royalty Value. The royalty figures divided by the sales figures should result in a calculated royalty rate equal to the royalty rate as defined in the lease document.

Erroneous reporting distorts financial information on the Explanation of Payments Report that MMS provides to States, Bureau of Indian Affairs Agency offices, Indian tribes, and Federal surface management Agencies as required by the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) and 30 CFR 219 (1990). This misinformation has generated queries from Indian tribes, allottees, and States regarding the errors, resulting in the inefficient use of MMS' and payors' staff resources in responding to these queries. The MMS has provided payors with proper reporting and paying guidance through MMS training seminars, the MMS Oil and Gas Payor Handbook, the MMS Solid Minerals Payor Handbook, various letters, and personal telephone contacts. As of this date, our research indicates that many payors are continuing to overstate their Sales Quantity and/or Sales Value information, resulting in incorrectly calculated royalty rates.

Effective with the July 1991 report month, payors will be assessed up to \$10 per line for erroneous reporting whenever misrepresented Sales Quantity and/or Sales Value information on the Forms MMS-2014/4014 causes inaccurately calculated royalty rates. Assessments will be based on regulations contained in FOGRMA and 30 CFR § 218.40 (1990). Continued reporting of erroneous sales and royalty information that produces an inaccurately calculated royalty rate will result in further enforcement action, including the issuance of Notices of Noncompliance and Penalty Notices in accordance with section 109 of FOGRMA as implemented at 30 CFR § 241.51 (1990). Obviously, payors will be billed for additional royalties and related interest when actual royalty rate underpayments occur.

Your cooperation in resolving this important and sensitive royalty reporting issue is appreciated. If you have any questions, please contact your Royalty Management Program's Lessee Contact Branch representative. If you do not know who to contact, please call (303) 231-3288.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry D. Hill". The signature is fluid and cursive, with a prominent initial "J" and a long, sweeping underline.

Jerry D. Hill
Associate Director for
Royalty Management