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United States Department of the Interior

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MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM
ROYALTY VALUATION DIVISION
DENVER, COLORADO 80225
STDS. DIV.

IN REPLY
REFER TO:

MMS-VSD-OG
Mail Stop 3920

FEB 02 1993

Dear Payor:

In carrying out the trust responsibility of the United States in the administration of Indian oil and gas leases, the Minerals Management Service (MMS) has long recognized the primacy of lease terms. This obligation is clearly embodied in 30 CFR § 206.100 (1991) and § 206.150 (1991), which state that where the lease terms and the regulations are inconsistent, the lease provisions shall govern. Specifically, the regulations at § 206.155 (1991) require that, where lease terms provide, accounting for comparison (dual accounting) must be performed in determining the value of production for royalty purposes. As a royalty payor on Indian leases, you must comply with the dual accounting requirement which is embodied in the lease terms. This was most recently emphasized in a Dear Payor letter dated September 30, 1988.

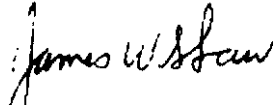
The purpose of this letter is to reemphasize your obligation to properly determine and pay royalties on gas production from Indian leases and to offer assistance if you encounter difficulties in fulfilling the dual accounting obligation. On July 27, 1992, a "Dear Payor" letter was issued which provided guidance for performing a "theoretical dual accounting" when the information needed is not available to the payor. This situation most commonly exists when gas is sold under an arm's-length contract prior to processing in a gas plant. The MMS wishes to know those difficulties that you have encountered in performing the dual accounting on Indian leases and also whether the theoretical dual accounting methodology previously provided will allow you to more fully comply with the requirement. Should the information needed to follow the theoretical dual accounting method still prove impossible to obtain, you may contact the Valuation and Standards Division (VSD) for assistance.

Please notify VSD in writing at the following address of those Indian leases and the circumstances that you have encountered that have made the performance of dual accounting from your vantage point difficult, if not impossible.

Minerals Management Service
Valuation and Standards Division
Mail Stop 3920
P.O. Box 25165
Denver, Colorado 80225

Our goal in requesting this information is to assure, through the efforts of payors and MMS, that dual accounting requirements of Indian leases is satisfied. If you have any question concerning this letter, please contact Mr. Martin Grieshaber at (303) 275-7240.

Sincerely,

A handwritten signature in black ink that reads "James W. Shaw". The signature is written in a cursive style with a prominent initial "J".

James W. Shaw
Associate Director for
Royalty Management