



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

JUNE 18, 1993

Dear Sir or Madam:

Many purchasers and pipeline companies have negotiated (or are negotiating) with producers to rescind, terminate, limit, or otherwise modify oil and gas sales contracts or to settle disputes. In return, producers have frequently received monies in settlement of contractual obligations. Your company may have been involved in one or more such settlements. This is to advise you that the United States Department of the Interior, Minerals Management Service (MMS), is conducting an investigation and inquiry into these contract settlement agreements to determine the extent to which any of the settlement proceeds are royalty bearing, and whether royalties have been paid on those proceeds. A "Dear payor" letter regarding contract settlement was recently sent to you.

To assist in this process, you are hereby ordered to complete and return the enclosed special report (Enclosure I) within 45 days of receipt of this letter, relative to any contract settlement agreements your company entered into (including those settlements negotiated by any predecessor or acquired entity) since January 1, 1980, affecting Federal or Indian oil and gas leases. In addition, a knowledgeable and responsible officer (e.g. Chief Executive Officer, Chief Operating Officer, or General Counsel) must submit an affidavit certifying either that your company was not a party to any contract settlement during the period beginning January 1, 1980, or that the information given in the special report is correct. A sample affidavit is enclosed as Enclosure II. This information shall be mailed to:

Deputy Associate Director for Audit
Minerals Management Service
Royalty Management Program
P.O. Box 25165, Mail Stop 3600
Denver, CO 80225-0165

Your company may receive multiple copies of this letter because a separate letter is being sent to each payor code on the MMS system. However, as noted on the enclosed special report, Enclosure I, your company should submit only one report consolidating all payor codes.

This investigation and inquiry is authorized by section 107(a)(1) of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), 30 U.S.C. 1717(a)(1), which provides:

In carrying out his duties under this Act the Secretary may conduct any investigation or other inquiry necessary and appropriate and may conduct, after notice, any hearing or audit, necessary and appropriate to carrying out his duties under this Act. In connection with any such hearings, inquiry, investigation, or audit, the Secretary is also authorized where reasonably necessary -

(1) to require by special or general order, any person to submit in writing such affidavits and answers to questions as the Secretary may reasonably prescribe, which submission shall be made within such reasonable period and under oath or otherwise, as may be necessary

The objective of the investigation and inquiry will be to determine whether payments were in compliance with applicable Federal laws, regulations, directives and lease terms. In furtherance of this investigation and inquiry, you are hereby ordered to maintain all records still in the possession of your company related to settlements of disputes concerning contracts for the sale of oil or natural gas from Federal or Indian leases since January 1, 1980.

FOGRMA provides in section 103(a):

A lessee, operator, or other person directly involved in developing, producing, transporting, purchasing, or selling oil or gas subject to this Act through the point of first sale or the point of royalty computation, whichever is later, shall establish and maintain any records, make any reports, and provide any information that the Secretary may, by rule, reasonably require for the purposes of implementing this Act or determining compliance with rules or orders under this Act.

The regulation at 30 CFR 212.51(a) (1992), entitled "Records and files maintenance," provides, in part:

. . . Each lessee, operator, revenue payor, or other person shall make and retain accurate and complete records necessary to demonstrate that payments of rentals, royalties, net profit shares, and other payments related to offshore and onshore Federal and Indian oil and gas leases are in compliance with lease terms, regulations, and orders.

The regulation at 30 CFR 212.50 (1992), entitled "Required recordkeeping and reports," states:

All records pertaining to offshore and onshore Federal and Indian oil and gas leases shall be maintained by a lessee, operator, revenue payor, or other person for 6 years after the records are generated unless the recordholder is notified in writing that records must be maintained for a longer period. When an audit or investigation is underway, records shall be maintained until the recordholder is released by written notice of the obligation to maintain records.

The "inspection" clauses in applicable lease instruments issued pursuant to the various mineral leasing acts require lessees:

To keep open at all reasonable times for the inspection of any duly authorized officer of the Department, the leased premises and all wells, improvements, machinery, and fixtures thereon and all books, accounts, maps and records relative to operations and surveys or investigations on the leased lands or under the lease.

Accordingly, all records related to contract settlements involving Federal and Indian oil and gas leases that occurred after January 1, 1980, must be retained until their release is specifically authorized in writing by MMS. The records must be available for inspection by any duly authorized officer of MMS including personnel of State and Tribal audit organizations that have audit agreements or delegations with MMS. You will be notified at a later date of work to be performed by any of these parties at your office.

Because this order is signed by an Assistant Secretary of the Department of the Interior, it is not subject to appeal to the Interior Board of Land Appeals (IBLA) and is the final action of the Department. Blue Star, Inc., 41 IBLA 333 (1979); and Marathon Oil Co., 108 IBLA 177 (1989).

Pursuant to 30 U.S.C. 1719 and 30 CFR 241.51 (1992), failure to comply with this order could result in a Notice of Noncompliance and the assessment of a civil penalty.

If you have any questions, please call Kenneth Moyers of the MMS at (303) 231-3185.

Sincerely,

A handwritten signature in black ink that reads "Bob Armstrong". The signature is written in a cursive, slightly slanted style.

Bob Armstrong
Assistant Secretary - Land and
Minerals Management

2 Enclosures

CONTRACT SETTLEMENTS SPECIAL REPORT

Company Name_____
Payor Code: _____

Part 1.

List all settlements of contract disputes that took place on or after January 1, 1980, including but not limited to settlements for take-or-pay, price deficiencies, "buy out" or "buy down" payments, etc., to which you are a party and that involve Federal or Indian oil and gas leases. A party is defined as payor, reporter, operator, or other participant in the contract settlement. One consolidated report should be filed for a company.

DATE OF Settlement	PRODUCER	PURCHASER	SETTLEMENT AMOUNT	DATE OF RECEIPT OF SETTLEMENT PROCEEDS

Part 2.

On a separate sheet, for each settlement listed in Part 1 for which proceeds were received, list the Federal or Indian oil and gas leases which were involved, and the proportion or amount of the proceeds which you believe are attributable to those leases.

Public reporting burden for this form is estimated to average 1.5 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form including suggestions for reducing this burden to the Information Collection Clearance Officer, Mail Stop 2050, Minerals Management Service, 381 Elden Street, Herndon, VA 22070; and the Office of Management and Budget, Paperwork Reduction Project (1010-0092), WASHINGTON, DC 20503.

UNITED STATES DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE

Company Name and Address: _____ }
_____ }
_____ }

AFFIDAVIT OF NAME

State of _____ }
County of _____ } ss.

I, _____, being of sound mind, hereby swear and affirm the following to be true and correct to the best of my knowledge:

1. I am currently employed with the Company _____, City _____, State _____, as (President, Chief Executive Officer, Chief Financial Officer, General Counsel, etc.). I have held this position since Date _____. I am the chief legal officer of the Company _____. I am personally knowledgeable regarding the settlement of contract disputes with purchasers of oil or natural gas.

2. Company _____ has not settled any contract, including, but not limited to settlements for take-or-pay, FERC 94 or other price deficiencies, "buy out" or "buy down" payments, etc., with regards to the sale of oil or natural gas produced from Federal or Indian leases, whether on acquired or public lands or on the Outer Continental Shelf or whether pertaining to Indian allotted or Indian Tribal leases, since January 1, 1980.

OR

2. The list of agreements and other information supplied to the Minerals Management Service on the attached special report, parts 1 and 2, is the complete list of all settlement agreements, including, but not limited to settlements for take-or-pay, FERC 94 or other price deficiencies, "buy out" or "buy down" payments, etc., with regards to the sale of oil or natural gas produced from Federal or Indian leases, whether on acquired or public lands or on the Outer Continental Shelf or whether pertaining to Indian allotted or Indian Tribal leases entered into by Company _____ since January 1, 1980.

FURTHER THE AFFIANT SAYETH NOT.

Name

The foregoing AFFIDAVIT OF Name _____ was subscribed and sworn to before me by Name _____ this date _____ day of January, 1993.

My Commission Expires: _____

Notary Public
