



# United States Department of the Interior

MINERALS MANAGEMENT SERVICE  
Washington, DC 20240



FEB 12 1999

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Expiration date: July 31, 1999

CVD  
MS-3670

Dear Operator/Payor:

Your company is one of the operators or payors of the properties that were successfully bid in the competitive bidding process that was described in the Federal Register notice (Announcement of Posting of Invitation for Bids on Crude Oil From Federal Leases and State of Wyoming Properties in Wyoming--63 FR 71947--December 30, 1998). The attachment to this letter lists all properties included in the second 6-month term of the pilot and also the winning bidders. The Minerals Management Service (MMS) selected your property as one from which the United States will take the royalty on crude oil production in-kind beginning April 1, 1999, as part of a Royalty-In-Kind (RIK) pilot project.

This letter provides the procedures that you must follow for such RIK properties during the course of this pilot project. Our authority is 30 U.S.C. § 192, and the royalty provisions contained in your Federal lease(s). This letter establishes the terms and conditions under which the United States (Lessor) will take crude oil in-kind during this pilot project, and under which you, the designated operator or operating-rights owner, as representative of the Lessee or operating-rights owner, must make crude oil (Royalty Oil) taken as royalty-in-kind available to the United States and/or its purchaser or marketing agent. For purposes of this letter, the term "Royalty Oil" means that portion of Federal lease or agreement production times the lease royalty rate.

### Royalty-in-Kind Applicability

You must make all Royalty Oil available to the Lessor's purchaser or the purchaser's agent for the entire term of this RIK project. The term of this RIK pilot project is from April 1, 1999, through September 30, 1999. You must deliver all Royalty Oil produced from property(s) selected for this RIK project during the project term, including Royalty Oil from newly producing wells on these property(s).

### Royalty Oil Delivery

You must deliver Royalty Oil to the Lessor's purchaser or the purchaser's agent at the Delivery Point, defined as the flange connecting the tank battery to the pipeline or truck outlet for each

pilot project property operated. Title to Royalty Oil passes to the Lessor's purchaser at this flange.

You must deliver Royalty Oil to the Lessor's purchaser or purchaser's agent only upon movement of production from the tank battery into the pipeline or truck outlet (that is, in sales situations). For high-volume properties that generally are directly connected to pipelines, such delivery of Royalty Oil may be as frequent as daily. For lower levels of production and/or those not directly connected to pipelines, such delivery of Royalty Oil occurs when the Operator chooses to sell/move crude oil from the tank battery, an activity that may occur as infrequently as monthly, or even less often. For crude oil produced during the term of the Wyoming pilot project but remaining in tank batteries as inventory at the end of the project term, royalties will be due to MMS when such crude oil is actually sold/moved from the lease.

Royalty Oil must be delivered in marketable condition, which means the condition generally acceptable to purchasers in the field or area. You must perform any necessary dehydration, or other field processing currently required to place production in marketable condition under regulations applicable to royalty in-value under 30 CFR part 206 at no cost to the Lessor. Questions regarding potential differences in marketable condition among different purchasers should be directed to the Contracting Officer's Technical Representative (COTR) at the address/number on page 6 of this letter under "Lessor Point of Contact."

#### Fulfillment of Royalty Obligations

You represent and act on behalf of the Lessees and operating-rights owners for their properties. 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 Lessees' royalty obligation to the Lessor. However, the rights, duties, and obligations that currently exist between the Lessor, you, and the Lessee or operating-rights owner for crude oil avoidably lost prior to the Delivery Point under 30 CFR part 202 (1998) remain in effect.

For properties where the Lessee has applied for a royalty rate reduction, you may use the proposed royalty rate in the interim before the Bureau of Land Management approves the reduction. Imbalances must be settled at project termination as discussed below. For properties with variable royalty rates that depend on factors not known at the time of delivery of Royalty Oil, you must base the deliveries on your best estimate of the royalty rate. You must then increase or decrease deliveries in the subsequent month to resolve imbalances once the correct royalty rate is determined.

All rent and/or minimum royalty obligations on any property in the Wyoming pilot project remain the responsibility of the Lessee. If royalties paid by the Lessee on the in-value volumes do not meet the minimum royalty obligation on a pilot property, the Lessee may contact MMS for any amount due. Our records will reflect the amount paid by the purchaser or the purchaser's agent for the royalty-in-kind production. Any rent and/or minimum royalty not paid timely will be billed to the Lessee. Interest will be charged when the minimum royalty payment

is received.

Where the Lessee is unable to fully recoup an advance rental paid on a lease, the Lessee may request a refund from MMS.

#### Lessor Obligation to Take

The Lessor through its purchaser or the purchaser's agent will take 100 percent of the Royalty Oil delivered to it at the Delivery Point for the entire term of this RIK pilot project. The Lessor's purchaser or purchaser's agent, through customary industry practice in nominating and scheduling transportation services, will attempt to minimize the occurrence of imbalances with you, as operator. To facilitate timely and accurate delivery of Royalty Oil, the Lessor's purchaser or the purchaser's agent will communicate with you and make arrangements for the delivery and transfer from these properties.

You will incur no penalties if, through no fault of your own, the Lessor's purchaser or the purchaser's agent fails to take 100 percent of the Royalty Oil.

#### Reporting

You must continue to report crude oil production to MMS under current requirements, formats, and frequencies as specified in MMS regulations and the *MMS PAAS Reporter Handbook*. You, the Lessees, and the existing payors are not required to report crude oil revenues and values for the RIK pilot properties on the Form MMS-2014 or other similar form for the term of the project, except under the provisions described under "Gross Imbalances and Resolution" and "Imbalances at Project Termination" on pages 4 and 5 of this letter. **Reporting requirements for production and royalties for any natural gas produced from these RIK pilot properties will not change.**

#### Communication with Royalty Oil Purchaser or Purchaser's Agent

No later than 10 working days before the first day of each month of the pilot project term, you must notify the Lessor's purchaser or purchaser's agent of the daily Royalty Oil volumes and qualities anticipated for the following month of production. You may change the notification time only with the approval of the purchaser or the purchaser's agent. The Lessor understands that any such estimate is not a warranty of actual deliveries to be made but is provided to facilitate planning for transportation.

You must use reasonable efforts, consistent with industry practice, to inform the Lessor's purchaser or the purchaser's agent regarding significant changes in anticipated or actual crude oil production levels anticipated for pilot project properties. Such communication must occur as soon as practicable after you know of such anticipated or actual changes in production levels. You must notify both the Lessor and the Lessor's purchaser or the purchaser's agent in the event of a production shut-in.

## Routine Imbalances During the Project Term and Balancing Account

For routine imbalances occurring during any month of the project, you and the Lessor's purchaser or the purchaser's agent must arrange for increased or decreased deliveries in the subsequent month to resolve the imbalances as soon as practicable. Imbalances less than 5 percent over or under the true volume of Royalty Oil are considered to be routine. (We expect that variances in production levels will be the cause of most routine imbalances.) The operator will be required to maintain a balancing account to track monthly imbalances between the operator and the Lessor's purchaser or purchaser's agent and make such accounting available to the Lessor's purchaser or the purchaser's agent in a timeframe agreed to with the Lessor's purchaser or the purchaser's agent.

## Gross Imbalances and Resolution

Gross imbalances are imbalances that are larger than routine imbalances, which are defined in the previous section. The Lessor reserves the right to resolve gross imbalances by cash payment or adjustment in the delivery of Royalty Oil in the subsequent month. All cash payments will be based on MMS regulations at 30 CFR part 206.

### *Underdeliveries*

If the gross imbalance is an underdelivery of Royalty Oil, and if the Lessor elects to take a cash payment in lieu of the Royalty Oil volume not delivered, and if you are the royalty payor for the lease, you must pay MMS the value of the undelivered volumes as determined under 30 CFR part 206. If you are not the royalty payor for the lease, you must notify all Lessees or their respective royalty payors for the lease (1) that a gross imbalance has occurred in an identified production month; (2) of the undelivered volume of Royalty Oil; (3) that the Lessor has elected to take a cash payment in lieu of delivery; and (4) that they must pay MMS the value of the undelivered volumes as determined under 30 CFR part 206. If the Lessor elects to take the undelivered Royalty Oil volume, you must deliver that volume in the production month following the month in which the imbalance occurred unless otherwise agreed to between you and the Lessor and the Lessor's purchaser or the purchaser's agent.

### *Overdeliveries*

If the gross imbalance is an overdelivery of Royalty Oil, and if the Lessor elects a cash payment or a cash adjustment, and if you are the royalty payor for the lease, you may submit a credit for the value of the overdelivered volumes determined under 30 CFR part 206, or request a cash refund in that amount. If you are not the royalty payor for the lease, you must notify all Lessees and their respective royalty payors for the lease that they may either submit credits that total the value of the overdelivered volumes determined under 30 CFR part 206, or request cash refunds that total that amount. If the Lessor elects an adjustment in deliveries, you must reduce the volume delivered in the production month following the month in which the imbalance occurred by the overdelivered volume, unless otherwise agreed to between you and the Lessor and the Lessor's purchaser or the purchaser's agent.

### Imbalances at Project Termination

Any imbalance at the termination of the pilot, regardless of whether the imbalance is gross or routine, will be resolved by cash payment or cash adjustment.

- (a) If you are the royalty payor for the lease:
  - (1) you may submit a credit for the value of the net overdelivered volume determined under 30 CFR part 206, or request a cash refund in that amount, or
  - (2) you must pay MMS the value of the net undelivered volume as determined under 30 CFR part 206.
- (b) If you are not the royalty payor for the lease, you must notify all Lessees and their respective royalty payors for the lease that:
  - (1) they may either submit credits that total the value of the net overdelivered volume determined under 30 CFR part 206, or request cash refunds that total that amount, or
  - (2) they must pay MMS the value of the net undelivered volume as determined under 30 CFR part 206.

All cash payments or cash adjustments will be based on MMS regulations under 30 CFR part 206.

### Volume Reconciliations

The MMS analysts will reconcile production and revenue reports with additional data, including pipeline data. Reconciliations will involve communication between you, the Lessor, and the Lessor's purchaser or the purchaser's agent. The MMS will conduct such reconciliation separately for each month of the project and will issue final reconciliations to you or to Lessees through orders appealable under 30 CFR parts 243 and 290 (1998).

### Interest

The Lessor will pay interest to the appropriate Lessee or operating-rights owner or royalty payor on the value of overdelivered Royalty Oil volumes, under 30 U.S.C. 1721(h) at the rate therein prescribed from the last day of the month in which the overdelivery occurred until the date the overdelivery was corrected or resolved by cash payment or cash adjustment. The Lessee or operating-rights owner or royalty payor must pay interest to MMS on the value of underdelivered volumes under 30 U.S.C. 1721(a) and corresponding regulations under 30 CFR 218.54 at the rate therein prescribed.

## Audit Rights

The Lessor may audit your records regarding all information relevant to volumes and qualities of Royalty Oil produced, stored, used on lease, processed, measured, transported, and transferred. Except as noted below, the lessor will not audit your financial records or those of the Lessee of pilot project properties for revenue and valuation information pertinent to RIK properties for the term of this pilot project. However, if you resolve any imbalances through cash payment or cash adjustment (see previous section, “Imbalances at Project Termination”), MMS may examine the financial records of Lessees and operating-rights owners of the pilot properties. The MMS also reserves the right to examine transportation expenditures, agreements, royalty valuation data, and other accounts to ensure that amounts reimbursed to you for transportation are accurate.

You, any revenue payors, and the Lessee(s) and operating-rights owners must maintain all records of the types of transactions mentioned in the paragraph immediately above for a period of 6 years from the day on which the relevant transaction occurred unless MMS notifies the record holder of an audit or investigation. When an audit or investigation is underway, records must be maintained until the record holder is released in writing from the obligation to maintain the records.

## Assignability

If operating responsibility changes to another party during the term of this pilot project, all of the rights and responsibilities outlined in this document transfer to the new operator.

## Lessor Point of Contact

You should keep on file copies of all correspondence between you and the Lessor’s purchaser and the purchaser’s agent. Additional information may be obtained from the persons named below, including address, point of contact, and telephone numbers of the Lessor’s purchaser and the purchaser’s agent by pilot property. Points of contact for the Lessor are as follows:

### COTR:

Mr. Robert Kronebusch  
Telephone: 303-275-7113; FAX: 303-275-7124

### Reporting Issues:

Mr. Larry Barker  
Telephone: 303-231-3157; FAX: 303-231-3189

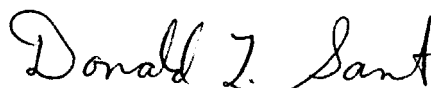
### Electronic Funds Transfer:


Mr. Dave Menard  
Telephone: 303-231-3574; FAX: 303-231-3501

If you have any further questions, communicate with one of the points of contact.

The Paperwork Reduction Act of 1995 requires us to inform you that this information is being collected by the Minerals Management Service to document details of royalty payments and sales of minerals from leases on Federal and Indian lands. We will use this information to maintain and audit lease accounts, and we estimate the burden for reporting electronically is 2 minutes per line. Comments on the accuracy of this burden estimate or suggestions on reducing this burden should be directed to the Information Collection Clearance Officer, MS 4230, MMS, 1849 C Street, N.W., Washington, DC 20240 and to the Office of Management and Budget, Office of Information and Regulatory Affairs, Attention: Desk Officer for the U.S. Department of the Interior, Washington, DC 20503. 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 (b) (4), and the Departmental Regulations (43 CFR 2). Storage of such information and access to it is controlled by strict security measures. 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,



 Lucy Querques Denett  
Associate Director for  
Royalty Management

Attachment

**MMS/Woming Oil Royalty In-Kind Pilot  
 Invitation for Bid No. 3984  
 Schedule of Federal Properties, Operators, and Winning Bidders**

Line Code	Unit or Field Name	Optr. No.	Operator	Federal Agre. No.	Fed/State Lease No.	Winning Bidder
PSW2200	Pumpkin Creek	K0307	Aztec Gas & Oil	W 136880		Eighty-Eight Oil Co.
PSR3500	Victor	K1148	Ballard Petroleum	84686U9910		EOTT
PSR2500	Prong Creek West	K1148	Ballard Petroleum	W 119861X		EOTT
B1501	N. Rattlesnake	<b>State prod.</b>	Bass Enterprises		74-17879	Scurlock-Permian
PSW1002	Empire	13453	Berenergy Corp.		0483013790	Eighty-Eight Oil Co.
PSW1005	Empire	13453	Berenergy Corp.		049032267B	Eighty-Eight Oil Co.
PSW1001	Empire	<b>State prod.</b>	Berenergy Corp.		64-6991	Eighty-Eight Oil Co.
B2800	South Fork	77140	BH E&P	8920005280		EOTT
PSR2950	Shippy	B3016	Brown Operating		0490554070	EOTT
PSR2951	Shippy	B3016	Brown Operating		0490927770	EOTT
PSR0100	Adon North	K0568	C&H Well Service		0491011010	Eighty-Eight Oil Co.
B2003	South Frisby	K0144	Carol Holly Oil		0490117740	Scurlock-Permian
B2004	South Frisby	K0144	Carol Holly Oil		0490595070	Scurlock-Permian
B2006	South Frisby	K0144	Carol Holly Oil		0490745360	Scurlock-Permian
B1904	Slick Creek	K0144	Carol Holly Oil	Herbaly	0490323650	Scurlock-Permian
PSW2900	Triangle	16913	Citation O&G	8910181480		Eighty-Eight Oil Co.
PSR2600	N. Rainbow Ranch	16913	Citation O&G	8910210630		EOTT
B1101	Little Buffalo	16913	Citation O&G	892000365A		Cenex
B1100	Little Buffalo	16913	Citation O&G	892000365C		Cenex
B1102	Little Buffalo	16913	Citation O&G	892000365D		Cenex
B1103	Little Buffalo	16913	Citation O&G	892000365E		Cenex
B1104	Little Buffalo	16913	Citation O&G	892000365F		Cenex
B0300	Enigma (Tensleep)	16913	Citation O&G	W 112017X		Cenex
PSR4300	Spirit	16913	Citation O&G	W 121873X		Eighty-Eight Oil Co.
PSR0904	Cellers Ranch	<b>State prod.</b>	Citation O&G		0-24395	EOTT
PSR0901	Cellers Ranch	16913	Citation O&G		048000436A	EOTT
PSW2801	Triangle	16913	Citation O&G		0491266210	Eighty-Eight Oil Co.
PSW2802	Triangle	16913	Citation O&G		0491277940	Eighty-Eight Oil Co.
B1105	Little Buffalo	16913	Citation O&G		0640456330	Cenex
B1106	Little Buffalo	16913	Citation O&G		0640522330	Cenex
PSR0800	Candy Draw	K1513	Costilla Energy	84687U9500		EOTT
PSW1601	House Creek	19800	Devon	84687U9690		Eighty-Eight Oil Co.
PSR1400	Dry Gulch	B3188	Duncan Oil	W 109088X		EOTT
PSR2000	Mallard	21673	Eland Energy	W 132734X		EOTT
PSW1300	Hartzog Draw	N2764	Exxon	8910194240		Eighty-Eight Oil Co.
PSR2300	North Breaks	49910	Fancher Oil	W 119637X		EOTT
PSR0500	Ash	49910	Fancher Oil	W 125237X		EOTT
PSR1200	Deep Draw-Breaks	49910	Fancher Oil		0491219650	EOTT
PSR3100	Soda Wells	49910	Fancher Oil		0491289910	Eighty-Eight Oil Co.
B0400	Four Bear	25825	Goldmark Engineering	8920001610		Scurlock-Permian
PSR0750	Camp Creek	K0328	H.D. Adams		048046410E	Eighty-Eight Oil Co.
B2508	Rattlesnake	27695	Hanson Operating Co.		0490334410	EOTT
B2506	Rattlesnake	27695	Hanson Operating Co.		0490358760	EOTT
B2507	Rattlesnake	27695	Hanson Operating Co.		0490444600	EOTT
B2505	Rattlesnake	27695	Hanson Operating Co.		0490444610	EOTT
B2007	South Frisby	28227	Herbaly Petroleum		0490442550	Scurlock-Permian
PSR2400	Pownall Ranch	29090	Hunt Oil	8910209840		EOTT
PSR0900	Cellers Ranch	29090	Hunt Oil	W 119864		EOTT
PSR1800	Indian Tree	29090	Hunt Oil	W 123878X		EOTT
PSR0902	Cellers Ranch	29090	Hunt Oil		0491020610	EOTT
PSR0903	Cellers Ranch	29090	Hunt Oil		0491063340	EOTT
PSR4800	Semlek West	29090	Hunt Oil	4940000520		EOTT
PSR4801	Semlek West	29090	Hunt Oil	4940000820		EOTT
PSR4802	Semlek West	29090	Hunt Oil	891012476A		EOTT
PSR4900	Semlek North	29090	Hunt Oil	W 106639X		Eighty-Eight Oil Co.
PSW0402	Boggy Creek	B3116	Klabzuba O&G Inc.		0490550120	Eighty-Eight Oil Co.
PSR1700	Hilda	35260	Lario O&G	W 133833		EOTT
PSR1300	Deer Fly South	35260	Lario O&G	W 136878X		EOTT



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Line Code	Unit or Field Name	Optr. No.	Operator	Federal Agre. No.	Fed/State Lease No.	Winning Bidder
PSR2900	Sagebrush	35260	Lario O&G	W 140441		EOTT
PSR1701	Hilda	<b>State prod.</b>	Lario O&G		79-282	EOTT
B0701	Grass Creek (Phos.)	C1015	Marathon	8910142000		Cenex
B1700	Pitch Fork	C1015	Marathon	8920001130		Scurlock-Permian
B0600	Gebo	C1015	Marathon	8920003630		Cenex
B3102	Byron (Mad "A")	C1015	Marathon	891002438B		Cenex
B0700	Grass Creek (Curtis)	C1015	Marathon	891006062A		Cenex
B3101	Byron (Em-Ten)	C1015	Marathon	891012527A		Cenex
B0500	Garland (Em-Tn-Md)	C1015	Marathon	892000174A		Cenex
B1000	Kinney Coastal	C1015	Marathon	892000185A		Cenex
B1001	Kinney Coastal	C1015	Marathon	892000185B		Cenex
B1002	Kinney Coastal	C1015	Marathon	892000185C		Cenex
B1003	Kinney Coastal	C1015	Marathon	892000185E		Cenex
B1004	Kinney Coastal	C1015	Marathon		0640446940	Cenex
B1005	Kinney Coastal	C1015	Marathon		0640447690	Cenex
B0200	Davis	C1015	Marathon		0640689070	Scurlock-Permian
PSW0506	Bridge Draw	K1673	Marlin Oil Co.		0490434090	Eighty-Eight Oil Co.
B0800	Hamilton Dome	38083	Merit Energy	W 138881X		Cenex
B0801	Hamilton Dome	38083	Merit Energy		0490376970	Cenex
B0802	Hamilton Dome	38083	Merit Energy		0490376990	Cenex
PSR6700	West Moran	<b>State prod.</b>	North Star	State unit		Eighty-Eight Oil Co.
PSW0507	Bridge Draw	30980	Northern Production		0490457230	Eighty-Eight Oil Co.
PSW0301	Black Rock Draw	30980	Northern Production		0490464500	Eighty-Eight Oil Co.
PSR3700	Winter Draw	K1617	Ocean Energy Res.	W 115064X		EOTT
PSR3800	Wolf Draw	K1617	Ocean Energy Res.	W 115093X		EOTT
PSR1950	Little Mitchell Creek	42570	Osborn Heirs	8910086440		EOTT
PSR1951	Little Mitchell Creek	42570	Osborn Heirs		0480193090	EOTT
PSR1000	Cullums	K0835	Pendragon Energy		0483113880	Eighty-Eight Oil Co.
PSR2100	North Wallace	K0835	Pendragon Energy		0491223410	EOTT
PSR0600	Bracken	44965	Plains Petroleum	84686U9210		EOTT
PSR0700	Cambridge	44965	Plains Petroleum	W 125233X		EOTT
PSR2200	North Adon Road	44965	Plains Petroleum	W 130885X		EOTT
PSR5400	Robinson Ranch	K0111	Ranch Oil Co.	891007920A		EOTT
B1500	N. Rattlesnake	48800	Samson Resources		049002607A	Scurlock-Permian
PSR0400	Alpha	40067	Swift Energy	W 115090X		EOTT
PSW0700	Culp Draw	34231	TBI Exploration	8910210760		EOTT
PSR1500	Falcon Ridge	34231	TBI Exploration	W 115054X		EOTT
PSR3200	South Wallace	34231	TBI Exploration	W 129795X		EOTT
B2100	South Spring Creek	A1790	Texaco	892000279A		Scurlock-Permian
B0100	Black Mountain	A1790	Texaco	892000435A		Cenex
B0101	Black Mountain	A1790	Texaco		0620393210	Cenex
PSW1100	Empire/Iberlin	34317	The Prospective Inv. Co.	6910006500		Eighty-Eight Oil Co.
PSW1101	Empire/Iberlin	34317	The Prospective Inv. Co.		0490589440	Eighty-Eight Oil Co.
PSW0800	Dead Horse Creek	K2129	Triple B Energy Inc.	8910085120		Eighty-Eight Oil Co.
PSR1600	Gibbs	72520	True Oil	W 106645X		EOTT
PSR1952	Little Mitchell Creek	72520	True Oil		0480421870	EOTT
PSW0201	21 Mile Butte	72520	True Oil		0490913800	Eighty-Eight Oil Co.
PSW0202	21 Mile Butte	72520	True Oil		0491306000	Eighty-Eight Oil Co.
PSW0200	21 Mile Butte	<b>State prod.</b>	True Oil		93-349	Eighty-Eight Oil Co.
PSR2700	Calamity Springs	79460	Yates Petroleum	W 127626X		EOTT