

Dear Operator Letters – SPR/DOE Project. Gulf of Mexico properties

Sample Dear Operator Letter – Individual letters to specific operators regarding specific RIK properties may vary slightly and are not posted to this site.



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240



OMB Control Number 1010-0130
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DEC - 2 1999

Dear Operator:

Our records indicate that your company is the operator or operating-rights owner for at least one Federal oil and gas lease or approved Federal unit agreement that the Minerals Management Service (MMS) included in the program to use royalties in kind (RIK) to replenish the Strategic Petroleum Reserve (SPR). Our authority for taking royalties in kind and transferring the RIK to the Department of Energy (DOE) is the Outer Continental Shelf Lands Act of 1953 (OCSLA) 43 U.S.C. 1353 and the royalty provisions in your Federal lease.

The DOE has awarded contracts to exchange the RIK from the selected properties for deliveries to the SPR. The Enclosure lists the properties that are included in contracts awarded by DOE. Beginning January 1, 2000, and continuing through February 29, 2000, all royalties due on the properties listed will be taken in kind and delivered to DOE's contractor or the contractor's agent (contractor/agent) at the indicated Facility Measurement Point (FMP).

This letter provides the procedures and establishes the terms and conditions under which the United States (Lessor) will take crude oil during this program. For the purposes of this letter, "Royalty Oil" means the Federal daily lease production multiplied by the lease royalty rate. All Royalty Oil from the properties identified in the Enclosure must be delivered to DOE's contractor for the entire term of the program, including Royalty Oil from the newly producing wells on these leases or until the Lessor directs that deliveries should stop. The Lessor agrees to take title to the Royalty Oil at the lease, and the DOE contractor/agent will take delivery of the Royalty Oil at the FMP. Royalty Oil must be delivered in marketable condition under royalty regulations in 30 CFR part 206 at no cost to the Lessor. Questions regarding marketable condition should be directed to the Lessor's Program Coordinator (under "Lessor Point of Contact" at the end of this letter).

Term

The term of this agreement begins at 12:01 a.m. on the 1st day of January 2000 and ends at midnight on the 29th day of February 2000, hereafter referred to as the Term.

Royalty-In-Kind Applicability

The Operator must deliver Royalty Oil to DOE's contractor/agent at the same frequency as it is produced from the property. Unless otherwise notified, this will be assumed to be daily.

Fulfillment of Royalty Obligations

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 Lessee's royalty obligation to the Lessor. The Lessor and DOE's contractor/agent will coordinate these deliveries with the Lessee and the Operator of the leases/properties in the program. All rent and/or minimum royalty obligations on any property in this program remain the responsibility of the Lessee. Further, the rights, duties, and obligations that currently exist between the Lessor, Lessee, and Operator for crude oil avoidably lost prior to the FMP under 30 CFR part 202 remain in effect.

Lessor Obligation to Take

The Lessor agrees to take 100 percent of the Royalty Oil delivered to DOE's contractor/agent at the FMP for the entire Term of this program. The DOE contractor or its agent, through customary industry practice in nominating and scheduling transportation services, will attempt to minimize the occurrence of imbalances with you or the Operator of your lease. To facilitate timely and accurate delivery of Royalty Oil, the DOE contractor or its agent will communicate with you and make arrangements for the delivery and transfer of Royalty Oil from these leases. You will incur no penalties if, through no fault of your own, DOE's contractor/agent fails to take 100 percent of the Royalty Oil.

Reporting

The Operator of the leases/properties in the program must continue to report crude oil production to MMS on the Oil and Gas Operations Report (OGOR) under current requirements and frequencies as specified in MMS regulations and the MMS *PAAS Reporter Handbook*. You will not be required to report crude oil revenues and values for the leases in this program on the Report of Royalty Sales Remittance (Form MMS-2014) or other similar form for the Term of the project, except under provisions described under "Imbalances During the Project Term and Balancing Account." The DOE contractor/agent will be required to continue to report only crude oil volumes on the Form MMS-2014. Reporting requirements for production and royalties for any natural gas or natural gas liquids for the leases included in the program will not change. All reporting for leases not included in this program will not change.

Communication with DOE's Contractor

No later than 10 working days before the first day of each month, the Operator must effectively notify the DOE contractor or its agent of the daily Royalty Oil volumes and qualities anticipated for the following month of production. Communication between the operator and DOE's contractor/agent will continue for each month of the project Term using normal industry practices. The Operator may make other arrangements to effectively notify the DOE contractor/agent of anticipated monthly Royalty Oil volume subject to the approval of the DOE

contractor/agent. The DOE contractor/agent understands that any such estimate is not a warranty of actual deliveries to be made but is provided to facilitate planning for receipt of Royalty Oil by the DOE contractor/agent.

The Operator must use reasonable efforts, consistent with industry practice, to inform the DOE contractor/agent regarding significant changes in oil production levels and/or royalty shares anticipated for project properties. Such communication must occur as soon as practicable after the Operator knows of such anticipated changes in production levels. The Operator must notify both the Lessor and DOE contractor/agent in the event of a production shut-in.

Imbalances During the Project Term and Balancing Account

For imbalances occurring during any month of the Term, the Operator and DOE's contractor/agent must work together as soon as practicable to arrange for increased or decreased deliveries in the subsequent month to resolve the imbalances. Variances in production levels are expected to be the cause of most imbalances. The Operator and/or Lessee will be required to maintain a balancing account to track monthly imbalances between the Operator and the DOE contractor/agent. The status of the balancing account will be reported to the DOE contractor/agent no later than 30 days after the end of the month. Imbalances during the project Term will be settled by either increased or decreased deliveries in the subsequent month.

Imbalances occurring at the end of the project Term will be settled through adjustments in royalty-in-kind deliveries if acceptable to Lessor and Lessee for any leases that remain in kind. If such imbalances at project termination cannot be settled volumetrically, they will be settled through cash payment. The price used to determine these cash payments will be based on MMS regulations at 30 CFR part 206. For settlement of positive imbalances (overdeliveries), Lessees may take credit against current royalties due on the same property for the net volume overdelivered during the project Term. The Lessee may receive a refund for the overdelivered volumes if the Lessee is no longer responsible for paying royalties on the property.

Volume Reconciliations

The MMS analysts will reconcile production and volumes delivered with additional data, including pipeline data. Reconciliations will involve communication between Lessor, Operator, and DOE contractor/agent. The Lessor will conduct such reconciliation separately for each month of the project and will issue final reconciliations to Operators or Lessees through orders appealable under 30 CFR parts 243 and 290.

Interest

Interest is due from Operators/Lessees for underdeliveries or an interest credit is given to the Operators/Lessees for overdeliveries made during this program. Interest will be charged only on the underpaid or overpaid part of the amount due and only for the number of days overdue. The interest charged will be at the rate established by the Internal Revenue Service Code, 26 U.S.C. 6621(a)(2) (Supp. 1987).

Audit Rights

The Lessor may audit Operators' records regarding all information relevant to volumes and qualities of Royalty Oil produced, stored, used on lease, processed, measured, transported, and transferred. During the Term, the Lessor relinquishes the right to audit the financial records of Operators or Lessees for revenue and valuation information pertinent to those properties. However, if final reconciliation indicates an imbalance needing valuation using the provisions of 30 CFR part 206 ("Imbalances During the Project Term and Balancing Account"), MMS reserves the right to examine the financial records of Lessees of the project properties. The MMS also reserves the right to examine transportation expenditures, agreements, and accounts to ensure that amounts reimbursed to the Operator for transportation are accurate.

Lessees, Operators, and revenue payors are required to maintain all records of transactions mentioned in the above paragraph 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 will be maintained until the record holder is released in writing from the obligation to maintain the records. The Operator should keep on file copies of all correspondence between Operator and DOE's contractor/agent.

Lessor Point of Contact

Additional information may be obtained from the contacts below, including address, point of contact, and telephone numbers of the DOE's contractor/agent by property. Points of contact for the Government are as follows:

Contracting Officer:

Mr. Michael G. Waggoner

Telephone: 504-734-4444; Fax: 504-734-4947

Lessor Program Coordinator:

Mr. Bonn J. Macy

Telephone: 202-208-3827; FAX: 202-208-3918

Reporting Issues:

Mr. Tom McNew

Telephone: 303-231-3777; FAX: 303-231-3700

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

Operators and Lessees should communicate with the Government points of contact to answer any further questions.

The Paperwork Reduction Act of 1995 requires us to inform you that this information is being collected by the Minerals Management Service to document fulfillment of royalty obligations of minerals from leases on Federal 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, NW., Washington, DC 20240. 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,

for Donald J. Sant

Lucy Querques Denett
Associate Director for
Royalty Management

Enclosure

Line Code	Lease/Agree	FMP Number	Sys	FMP Location	Lease Location	Operator	Upr. Number	DOE'S Contractor
EC349	054-014385-0	20177042205	220	EC038A	EC 349	EEX Corporation	S2110	Vitol S.A., Inc.
ST038	054-009637-0	20177153032	303	ST 0038 A	ST 38	EIF Exploration, Inc.	L5000	Vitol S.A., Inc.
WD091	054-001090-0	20170513700	370	Exxon Term. At GRAND ISLE, LA.	WD 91	Exxon Company U.S.A.	F2761	Vitol S.A., Inc.
SP093	054-001619-0	20170513700	370	Exxon Term at GRAND ISLE, LA.	SP 93	Exxon Company U.S.A.	F2761	Vitol S.A., Inc.
VR265b	054-001955-0	20177062201	220	VR 0265 A	VR 265	Exxon Company U.S.A.	F2761	Vitol S.A., Inc.
WD072	891-008816-0	20170513700	370	Exxon Term at GRAND ISLE, LA.	WD073	Exxon Company U.S.A.	F2761	Vitol S.A., Inc.
WD073	891-011680-0	20170513700	370	Exxon Term at GRAND ISLE, LA.	WD073	Exxon Company U.S.A.	F2761	Vitol S.A., Inc.
EI053	055-000479-0	20171012500	250	TERREBONE HANDLING /CALUMET, LA	EI 53	Forst Oil Corporation	F0480	Vitol S.A., Inc.
WD057b	054-001449-0	20177194600	460	WD.0079 A	WD 57	Marathon Oil Company	F7240	Vitol S.A., Inc.
EC323	054-002255-0	20177042203	220	EC 0322 A	EC 323	Mess Sub 1, Inc.	L6350	Vitol S.A., Inc.
ST148a	054-001898-0	20171012500	250	TERREBONE HANDLING /CALUMET, LA	ST 148	Newfield Exploration Company	L3640	Vitol S.A., Inc.
SP070	054-001614-0	20177215114	511	SP 0070 C	SP 70	Ocean Energy, Inc.	L7770	Vitol S.A., Inc.
MP138	054-016500-0	20170755200	520	VENICE MARATHON TERMINAL	MP 138	Ocean Energy, Inc.	L7770	Vitol S.A., Inc.
EC334	054-002062-0	2017704220A	220	EC 0334 E	EC 334	Pogo Producing Company	L4050	Vitol S.A., Inc.
EC331	754-392008-0	20177042208	220	EC 0332 A	EC331/332	Sanedan Oil Corporation	F 850	Vitol S.A., Inc.
ST179	054-012020-0	20171012500	250	TERREBONE HANDLING /CALUMET, LA	ST 178	SANTA FE SNYDER	L5510	Vitol S.A., Inc.
VK784a	054-013060-0	2017724511D	511	MP0252B	VK 784	Shell Deepwater Production Inc.	S1400	Vitol S.A., Inc.
GB172b	054-014221-0	20608077000	700	GB 0128 A ENCHILADA	GB 172	Shell Offshore Inc.	F6890	Vitol S.A., Inc.
PL025	054-014535-0	20171012500	250	TERREBONE HANDLING /CALUMET, LA	PL 25	Shell Offshore Inc.	F6890	Vitol S.A., Inc.
GB128b	754-395002-A	20608077000	700	GB 0128 A ENCHILADA	GB128	Shell Offshore Inc.	F6890	Vitol S.A., Inc.
SM069	054-001201-0	20177072206	220	SM 0069 B	SM 69	Taylor Energy Company	F7740	Vitol S.A., Inc.
SM073	054-001205-0	20177072206	220	SM 0069 B	SM 73	Taylor Energy Company	F7740	Vitol S.A., Inc.
VR031	054-002868-0	20177052100	210	VR0031A	VR 31	Texaco Exploration and Production Inc.	F7710	Vitol S.A., Inc.
GI100a	754-388016-0	20171012500	250	TERREBONE HANDLING /CALUMET, LA	EB165	Union Oil Company of California	F0031	Vitol S.A., Inc.
SS126	054-012940-0	2017709260F	260	EI 0189 B	SS 126	Union Pacific Resources Company	F1480/L8552	Vitol S.A., Inc.
ST179	054-012020-0	20171012500	250	TERREBONE HANDLING /CALUMET, LA	ST 178	United Trans-Western, Inc.	L6350	Vitol S.A., Inc.
GI090	054-004003-0	20171012500	250	TERREBONE HANDLING /CALUMET, LA	GI 90	Vastar Offshore Inc./Vastar Resources Inc.	S3160	Vitol S.A., Inc.
WC035a	054-001860-0	20170231110	111	GIBBSTOWN, LA/VASTAR TERMINAL	WC 35	Vastar Resources, Inc.	L1551	Vitol S.A., Inc.
WC065	054-002625-0	20170231100	110	VASTAR TERMINAL - CONDENSATE	WC 65	Vastar Resources, Inc.	L1551	Vitol S.A., Inc.
ST182	054-016431-0	20171012500	250	TERREBONE HANDLING /CALUMET, LA	ST 182	Vastar Resources, Inc.	L1551	Vitol S.A., Inc.
VR279b	054-011881-0	20177062204	220	VR 0279 A	VR 279	W A T OFFSHORE INC	L2840	Vitol S.A., Inc.
SS151	054-015282-0	2017709260F	260	EI 0189 B	SS 151	Zilkha Energy Company	L1380	Vitol S.A., Inc.