

**Meeting Minutes
February 20, 1998
MMS and RIK Refiners**

The meeting started with introductions.

Ken Vogel discussed the purpose and objectives of this meeting. The purpose is to reach a common ground for valuing RIK oil for the remainder of the current contracts and for future contracts. The objective is to agree on a value that is closer to market value for valuing RIK oil and to positively impact future relationships with the refiners.

Vern Ingram provided a background of the RIK program and discussed how the program currently operates. RIK bills to refiners are based on 2014 information provided by the producers. MMS audit divisions review prices. Audits go back six years. The RIK section is currently looking to improve billing processes.

The refiners asked what were MMS' current audit efforts. Ken stated that the residency audits are currently looking at 10/92-12/95 and scheduled to complete by 12/98. The top 200 major company audits have a 5-year audit period (1/93-12/97) and are scheduled to be completed by 12/98. The audits have revealed that major companies are paying royalties based on posted prices but are selling at posted price plus a premium. A team was established to audit the Rangely Unit where 40% of production is RIK. They found that two-major producers are paying us at posted prices but selling arm's-length at posting plus a premium. MMS' position is that posted prices do not represent fair market value. MMS have issued bills for both "in value" and "in kind." MMS believes that spot market price reflects a reasonable market value.

Don Hamilton (Gary Williams) brought up several questions.

- 1) **Do we have full authority to negotiate price certainty?** If we negotiate, a price is it legally binding? Yes at the discretion of our Director.
- 2) **Are soft costs (marketing costs) deductible?** Any marketing costs are not allowed costs.
- 3) **Will we be billed based on entitled volumes or delivered volumes? What direction is the pilot going?** Vern stated that it is too early to predict the direction the pilot is going. For now, we will continue to bill based on entitled volumes. The report for the pilot program is due in 12/98. The pilot hopes to close out the study by 6/98 to meet the 12/98 report date.
- 4) **Would the new renegotiated price be retroactively applied?** No.
- 5) **Since MMS is attempting to have a concrete price in a renegotiated RIK contract, will it be to the refiners best interest to terminate the contract since they may be**

able to purchase oil at a lower price?

-MMS could not use only one price, one price does not fit all.

-Since the leases are spread out, MMS cannot easily tie into a particular spot market price. MMS would have to allow for location differentials to the spot market. The difficulty will be establishing values of these differentials.

- 6) **Could MMS chase the producers first vs. the refiners for invalid or incorrect prices?**
Ken did not think we can legally hold the producers based on the lease terms.

Tom Samsonetti had the following questions and comments:

- 1) **If we did in fact renegotiate the contracts, he would like to incorporate new standard language.**
- 2) **When would MMS issue bills on other completed audits?** The audit divisions will issue bills by 12/98 for the audit periods mentioned earlier. Whether they would be bills related to RIK, we don't know. We would need to obtain that information from the audit divisions.

Ken stated that if we do not renegotiate on a price, MMS will issue bills based on spot market price. This would only apply to future production. MMS cannot continue to accept billings at posted prices.

The next meeting was scheduled for March 10 at 8:30 a.m.. The refiners will try to draft the standard language and send it to us for our review before the next meeting. Ken asked if they would take a look at the benchmarks and let us know which ones they would be interested in.

AGENDA

Meeting between Minerals Management Service and "Royalty-in-Kind" Refiners

Date: Friday February 20, 1998

Time: 9:00 am MST

Place: Royalty Management Program Auditorium, Building 85, Denver Federal Center
Lakewood, Colorado

Dress: Business Casual

Contact for Information: Stacey Browne — (303)-231-3177

1. Greetings, Introductions
2. Purpose of Meeting (Finding common ground for valuation for remainder of contract and future)
3. MMS Current Billing and Audit Practice
4. Discussion
5. MMS Pilot on volume billing
6. Discussion
7. MMS Position — postings are not an accurate reflection of value
8. Industry Response
9. Alternative Frameworks —
Are there benchmarks that we can agree upon that will be more accurate and more certain reflection of value that can be used for future?
10. Discussion
11. Future Plans — individualized negotiations on lease by lease basis
Today or Soon?

Expected Industry Attendees:

AGE Refining Inc.

Calcasieu Refining Co.

Gary-Williams Energy Corp.

Giant Industries Arizona Inc.

Placid Refining Co.

U.S. Oil & Refining Co.

Wyoming Refining Co.

Refiner Mtg. 2/20/98

Stacy Keyshon	MMS	303-231-3638
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Mary Tunton	MMS-REK	(303) 231-3665
JOHN GILMAN	MMS	(303) 231-3872
Jim McNamie	MMS-PMI	303 275-7126
ROBERT PRAEL	MMS-RIK	303-231-3217
DON HAMILTON	GWEC	303 628-3800
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Ron Hurst	Placid Refining	214-880-8474
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