



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
WASHINGTON, DC 20240

AUG 30 2000

Dear Operator:

The Minerals Management Service (MMS) has selected one or more onshore Federal lease(s) in Wyoming that you operate to be included in a royalty-in-kind (RIK) contract in which we will take crude oil royalties in kind beginning October 1, 2000.

This letter provides the procedures and establishes the terms and conditions under which the United States (Lessor) will take Royalty Oil in kind under 30 U.S.C § 192 and the royalty provisions contained in your Federal lease(s). For the purposes of this letter, Royalty Oil means the Federal lease production multiplied by the lease royalty rate. The volumes of crude oil taken in kind by MMS will reflect and will be consistent with any grants of all royalty relief.

Term

The Lessor will take all Royalty Oil from the properties listed in the enclosure beginning October 1, 2000, through March 31, 2001. The Lessor will provide the Lessee and Operator with a minimum 30-day prior written notice of termination of in-kind status, and if possible, we will provide a 45-day written notice of termination, if we terminate before March 31, 2001.

Royalty Oil Delivery

You must deliver all Royalty Oil from the selected leases, including Royalty Oil from newly producing wells on these leases or newly producing leases added to commingling agreements. Royalty Oil must be placed in marketable condition at no cost to the Lessor. Marketable condition means the condition generally acceptable to purchasers in the field or area. Questions regarding marketable condition should be directed to one of the Lessor's points of contact, at the end of this letter.

The delivery point for Royalty Oil produced from the selected leases or units listed in the enclosure is at the accepted royalty measurement point. The Lessor shall have custody, possession, and responsibility for Royalty Oil beyond the delivery point. For lower levels of production and/or those not directly connected to pipelines, 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 contract 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.

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.

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 after the correct royalty rate is determined.

All rent or minimum royalty obligations remain the responsibility of the Lessee. If the Lessee owes minimum royalties, MMS will issue a bill including information supporting the calculation. The Lessee will have 30 days to review the bill and make payment or appeal the bill.

Lessor Obligation to Take

The Lessor agrees to take 100 percent of the Royalty Oil delivered for the account of the Lessor or its designee at the delivery point. The Lessor, using customary industry practices, will exercise reasonable efforts to minimize imbalances with you and other Lessees.

To facilitate timely and accurate custody transfer of Royalty Oil, the Lessor will communicate with you and make arrangements for the transfer of Royalty Oil from the delivery point(s). The Lessee will incur no royalty-related penalties because of the Lessor's failure to take delivery of oil volumes as communicated by the Operator.

Communication with Lessor

No later than 10 calendar days before the first day of each month, you must notify the Lessor of the daily Royalty Oil volumes anticipated for the following month of production. You may make other arrangements for timely notification only if acceptable to the Lessor. The Lessor understands that any such estimate is not a warranty of actual deliveries to be made but is provided to facilitate planning.

You must also use reasonable efforts, consistent with industry practice, to inform the Lessor as soon as practical regarding significant changes in oil production levels and/or royalty shares anticipated for project properties.

Balancing Account and Imbalances

Requirements for handling imbalances are outlined below:

- Imbalances will be determined monthly based on the difference between the royalty share of production and the actual volumes delivered. These imbalances will be maintained at a lease or agreement level or at the accepted royalty measurement point.
- You, as the Operator, must provide the lease imbalance statement to MMS no later than 45 days after the end of the month of production, unless MMS approves an alternative timeframe for submission of the statement. If the information is not available due to no fault of the Operator, then the Operator will provide an estimate.
- Deliveries for the month following the month when the imbalance statement is due will be adjusted as necessary to provide for volumetric off-set of the monthly imbalance.
- Net imbalances that exist at the end of each RIK contract term may be settled, at MMS' option, through RIK volume deliveries to an MMS-specified RIK contract or by cash settlement. The cash settlement amount shall be the average price MMS received in the final month of the contract under which the imbalance occurred, times the net RIK imbalance volume under the contract.
- The Lessee will report applicable over- or undertaken imbalance volume and value on the Report of Sales and Royalty Remittance (Form MMS-2014) as either a positive or negative for the final month of delivery. Interest will accrue from 60 days after the final month of delivery

Volume Reconciliation

Using additional data, including pipeline data, MMS will monitor and reconcile production and volumes delivered as soon as practicable. Reconciliation will involve communication between you and the Lessor. Upon project termination, you, as the Operator, must issue a final oil imbalance statement. You will settle in accordance with the section "Balancing Account and Imbalances."

Reporting

You must continue to report crude oil production to MMS on the Oil and Gas Operations Report (OGOR) or the Monthly Report of Operations (Form MMS-3160) under current requirements and frequencies as specified in MMS regulations and the MMS *PAAS Reporter Handbook*. You will not be required to report Royalty Oil for the RIK contract leases on the Form MMS-2014 for the term during which the Lessor takes royalty in kind, except under provisions described under "Balancing Account and Imbalances." Reporting does not change for non-RIK leases.

Lessor's Designee

At times, the Lessor may act by or through a duly authorized designee. In such event, the Lessor will provide you with prior written notification of its designee(s) including the person to contact. Such notification will include specific duties that will be handled by the designee on behalf of the Lessor. The Lessor also will provide written notification to you when the designee is no longer authorized to act on the Lessor's behalf for the purpose of this letter. You are authorized to communicate with the designee as specified in the notification. You will not be required to direct communications to both the Lessor and its designee. For purposes of this letter, if the Lessor notifies you that it will use a designee in the contract, references to the Lessor shall refer to the Lessor's designee.

The Lessor shall require the designee to agree in writing that the designee is required to comply with all provisions of this letter that are applicable to the Lessor when it acts on behalf of the Lessor.

Audit

The Lessor may audit your records regarding all information relevant to volumes and qualities of Royalty Oil produced, measured, delivered, and, if applicable, transported. The MMS reserves the right to examine your financial records for the subject properties related to any transportation allowances prior to the delivery point.

Lessees, Operators, and revenue payors must maintain all records of transactions mentioned in the above paragraph for a period of 7 years from the day on which the relevant transaction occurred unless MMS notifies the record holder of an audit or investigation. When you are notified that an audit or investigation is planned, records must be maintained until the record holder is released in writing from the obligation to maintain the records.

Lessor Point of Contact

Copies of all correspondence between Operator and Lessor should be kept on file by the Operator. Points of contact for the Lessor are listed below.

Lessor acknowledges that you and the other Lessees have given proper notice whenever you communicate with the Lessor using the telephone number or fax number provided. Any telephone communication regarding volumes must be confirmed by fax or e-mail no later than 1 business day after telephone communication occurs. The Lessor further agrees to make arrangements to receive such communications regarding oil scheduling issues during normal business hours. Operators and Lessees should communicate with one of the points of contact to answer any further questions.

COTR:

Ms. Theresa Walsh Bayani
Telephone: 303-231-3043; Fax: 303-231-3219

Reporting Issues:

Mr. Andy Sandoval
Telephone: 303-231-3777; Fax: 303-231-3700

Electronic Funds Transfer:

Ms. Kathy Jarrett
Telephone: 303-231-3669; Fax: 303-231-3501

Paperwork Reduction Act

The Paperwork Reduction Act of 1995 requires us to inform you that the information being collected is necessary to document fulfillment of royalty obligations on minerals removed 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 10 minutes per property per month. Comments on the accuracy of this burden or suggestions on reducing this burden should be directed to the Information Collection Clearance Officer, Minerals Management Service, 1849 C Street, NW., MS 4230, 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). 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 number. This information collection is approved by the Office of Management and Budget and is titled Directed Third Party Communication Between Operators and Purchasers of RIK (OMB 1010-0126, expires February 28, 2003).

Sincerely,

for 
Lucy Querques Denety
Associate Director for
Royalty Management

Enclosure