Royalty-in-Kind Section
Vision of the Future
Short Term

Issue: How to bill refiners starting in October under the new amended contracts?

Background: Contract amendments were recently negotiated to establish new prices at new delivery points. These contract amendments deal mainly with pricing but by using terms such as "The price for each grade of crude oil will be based on the relevant market prices for the physical month of delivery ..." appears to involve us in deliveries.

Billing under these contract amendments could be done using:

. Entitlement volumes as reported on 2014's

. Actual delivered volumes as reported by the refiners

. Prices based upon the month of entitlement

. Prices based upon the month of delivery.

RIK team approach: Our team reviewed this issue and came up with the following suggestion:

Bill actual delivered volumes as reported by the refiners using the price established for the month of delivery.

In discussions with refiners, delivery data by lease is available and will be provided by the 1st day after the month of delivery (refiners will be sending in documentation to verify that delivery data is available).

Using the price at delivery is called for in the contract. Given situations like Shell who will not deliver August entitlements until September, we can not justify billing any refiner at a price established the month before delivery occurred

Advantages to suggestion	Disadvantages to suggestion
It meets the spirit/terms of the amendments	How to handle over/under deliveries (see additional research below)
It meets the spirit of the small refiner pilot.	

It is easier to bill and reconcile the contracts.	
No change for operators.	
It is the fairest and most reasonable approach for the refiners.	
Verifiable to 3160's. Audit trail maintained by RIK database.	
Solves the problem of inaccurate 2014 reporting.	
Will help solve the problem of under/over deliveries (we will be involved in deliveries monthly and closely monitoring)	
Refiners are in favor of this methodology.	

Additional research that needs to be done:

. Review all laws and regulations to ensure we are not violating anything by billing on deliveries (our initial research does not indicate any problems; while the word "entitlements" is used extensively, entitlements are supposed to equal deliveries)

. Determine if we can bill/refund operators for under/over deliveries From an equity standpoint

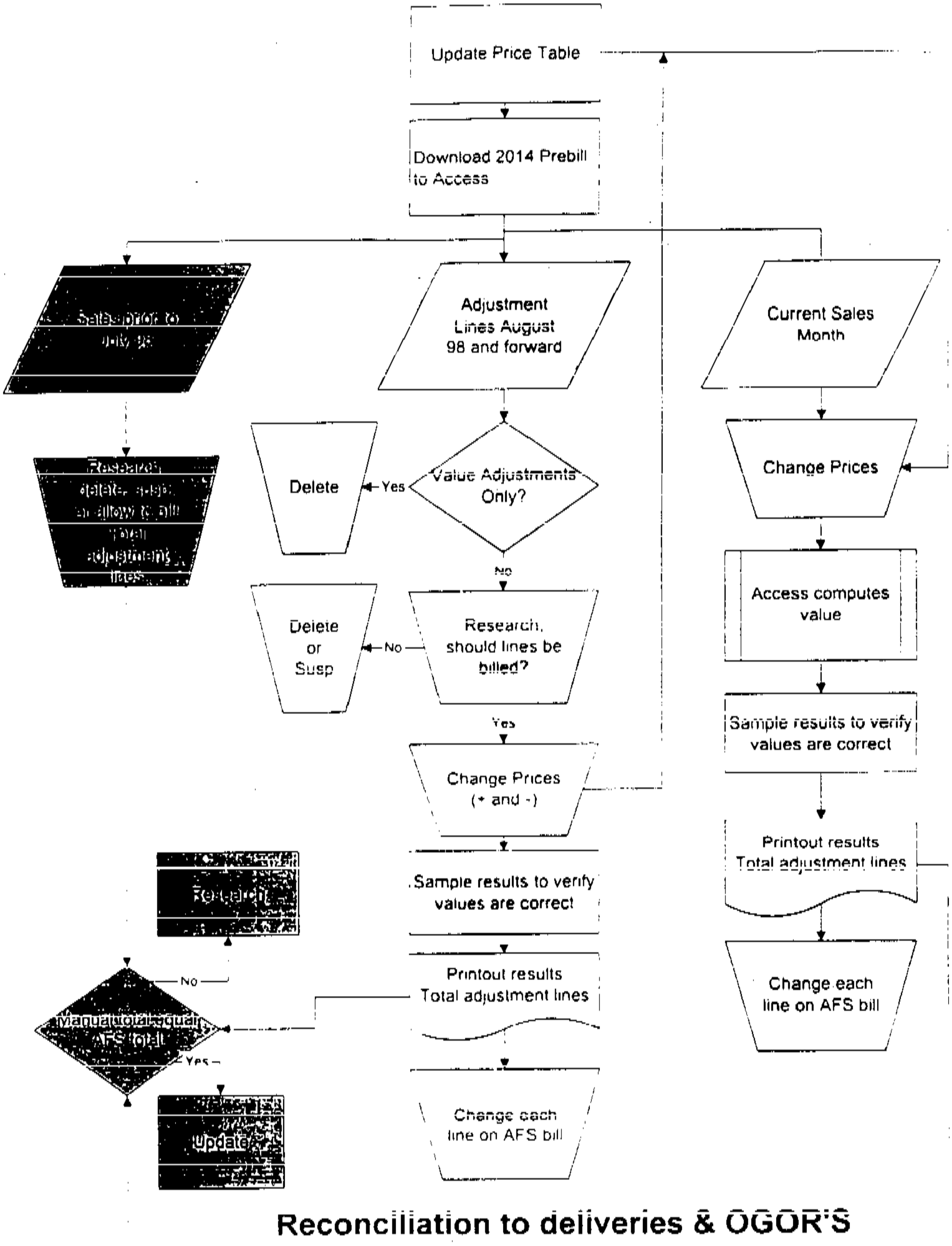
If an operator under-delivers, the operator should be billed for any loss of revenue to the Federal Government.

If an operator over-delivers, the operator should receive a credit/refund for any overpayment to the Federal Government (similar to how RSFA works for royalty in value).

. Review trend data of 2014 reported volumes to volumes delivered to determine if large difference exist (differences can be handled with interest bills/refunds as described above and over time if we are on top of the operators, this problem, if it exists, should go away).

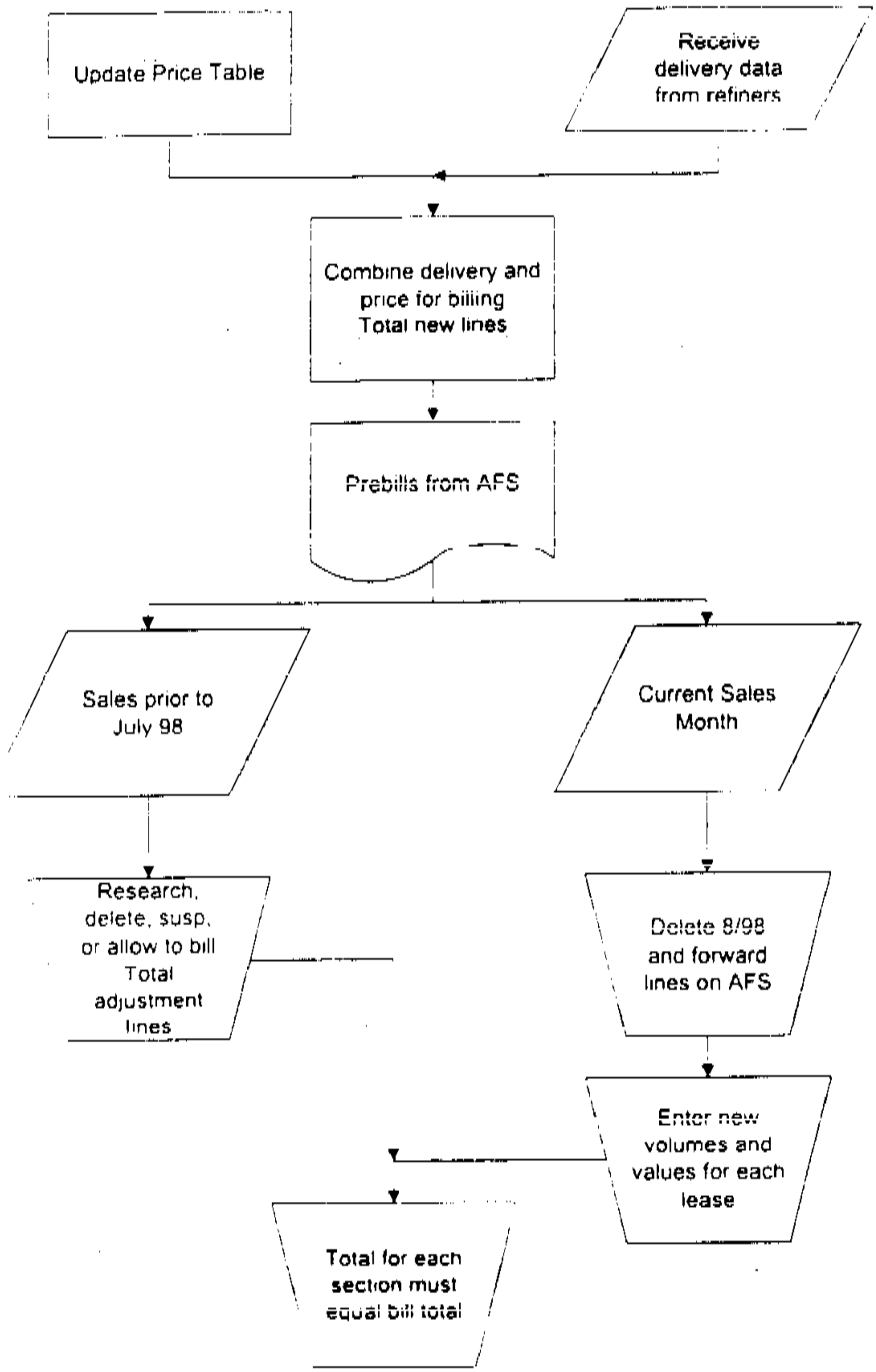
Current Process

RIK Billing Process
Using the 2014



Reconciliation to deliveries & OGOR'S

RIK Billing Process
Using Delivery Data



Reconciliation to OGOR entitlements