



# United States Department of the Interior

## MINERALS MANAGEMENT SERVICE

Royalty Management Program  
P.O. Box 25165  
Denver, Colorado 80225-0165

IN REPLY REFER TO:

RPD/RRPB  
Mail Stop 3123

AUG 24 1995

Dear Operator/Payor

Effective with the August 1995 production month, the Navajo Nation has elected to take their oil royalty in-kind from the unitization agreements shown on the enclosed list. This election applies only to Navajo Tribal leases committed to these agreements.

Our records indicate you are the current operator and/or royalty in-value payor on one or more of these properties. The Minerals Management Service (MMS) has established royalty-in-kind (RIK) selling arrangements for you to report on the Report of Sales and Royalty Remittance (Form MMS-2014). Payor Confirmation Reports, if applicable, have been sent under separate cover. These RIK selling arrangements will appear on your September 1995 Model Form MMS-2014.

**Reporting procedures and related information for these properties are:**

**Form MMS-2014**

The RIK reporting instructions are provided in the MMS Oil and Gas Payor Handbook, Volume II, Section 3.4. Please refer to this section when completing your Form MMS-2014.

The Sales Quantity reported in Column 13 is based on your gross interest in the lease or your current reporting responsibility if you report on behalf of others. Enclosed is an example of how volume is determined.

The Sales Value reported in Column 16 is based on the weighted average price of your in-value sales. The MMS is aware that the price you report may not be the price the tribe actually received.

You must also send a copy of the Form MMS-2014 to the Navajo Nation Minerals Department, P.O. Box 1910, Window Rock, Arizona, 86515.

**Production Reporting**

The tribes' election to take their oil royalty in-kind does not affect production reporting in any way. You must continue reporting production as you did in prior months.

**Advance Rental Payment and Recoupment**

You must continue to report the annual rental payment for these leases on the Form MMS-2014. Payment must be sent to the Navajo Nation's lockbox at:

The Navajo Nation  
P.O. Box 52543  
Phoenix, Arizona 85072

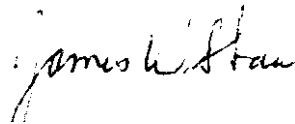
If lease terms permit the recoupment of the annual rental payment from production occurring during the lease year, you must recoup it on the Form MMS-2014 against the gas in-value production attributable to the lease.

If the gas in-value royalties reported and paid during the lease year are insufficient to recoup the rental payment, you must contact the tribe. The tribe may allow you to recoup the rental against other tribal leases or issue a cash refund. Please contact:

Mr. Perry Shirley  
Assistant Director  
Navajo Nation Minerals Department  
P.O. Box 1910  
Window Rock, Arizona 86515

If you have any questions regarding this letter, please contact Ms. Paula Neuroth at 1-800-525-0309 or (303) 231-3287.

Sincerely,



James W. Shaw  
Associate Director for  
Royalty Management

2 Enclosures

UNITIZATION AGREEMENTS

| <u>Unit No.</u> | <u>Unit Name</u> | <u>Unit Operator</u>               |
|-----------------|------------------|------------------------------------|
| 7960041900      | McElmo Creek     | Mobil Exploration and Producing    |
| 7960041910      | NW Cha Cha       | Mountain States Petroleum Corp     |
| 7960041920      | Ratherford       | Mobil Exploration and Production   |
| 7960041930      | White Mesa       | U.S. Oil and Gas, Incorporated     |
| 7960042160      | Gothic Mesa      | Giant Exploration & Production Co. |
| 8910068900      | West Bisti       | Dugan Production Corporation       |
| 8910077380      | Aneth Unit       | Texaco-E & P, Incorporated         |
| 8910087400      | Ismay Flodin     | Apache Exploration                 |

## EXAMPLE

Calculating the Sales Quantity.

### Assumptions

Gusher Unitization Agreement

Agreement consists of 1,000 acres comprised of the following:

Federal lands = 100 acres  
Navajo Tribal Lease No. 1 = 200 acres  
State lands = 700 acres

Navajo Tribal Lease No. 1 participation factor in the agreement is 20 percent (200/1000). The lease must receive 20 percent of the production sold from the agreement each month.

In August 1995, 10,000 barrels of oil are produced and sold from the agreement.

There are two lessees on the Navajo Tribal Lease No. 1 with the following ownership portions.

Oil City = 75 percent  
Black Tar = 25 percent

On the Form MMS-2014, each company will report a Sales Quantity based on their gross interest in the Navajo Tribal Lease No. 1 as follows:

Oil City = 1500 barrels  
Black Tar = 500 barrels