

Dear Operator Letters – Wyoming Crude Oil

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



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DAD/RM
Mail Stop 3005

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Dear Operator:

Your company is one of the operators of the properties successfully bid in the competitive bidding process described in the *Federal Register* notice (Announcement of Posting of Invitation for Bids on Crude Oil From Federal Leases and State of Wyoming Properties in Wyoming—IFB 31053—February 22, 2000). The enclosure lists all properties included in the fourth 6-month term of the pilot and also the winning bidders. The Minerals Management Service (MMS) selected your property as one from which the United States will take the royalty on crude oil production in kind beginning April 1, 2000, as part of a Royalty-In-Kind (RIK) pilot project.

This letter provides the procedures that you must follow for such RIK properties during the term of this pilot project. Our authority is 30 U.S.C. § 192 and the royalty provisions in your Federal lease(s). This letter establishes the terms and conditions under which the United States (Lessor) will take crude oil in kind during this pilot project, and under which you, the designated operator or operating-rights owner, as representative of the Lessee or operating-rights owner, must make crude oil (Royalty Oil) taken as royalty in kind available to the Lessor's purchaser. For purposes of this letter, the term "Royalty Oil" means that portion of Federal lease or agreement production times the lease royalty rate.

Royalty-in-Kind Applicability

You must make all Royalty Oil available to the Lessor's purchaser or the purchaser's agent for the entire term of this RIK project. The term of this RIK pilot project is from April 1, 2000, through September 30, 2000. You must deliver all Royalty Oil produced from property(s) selected for this RIK project during the project term, including Royalty Oil from newly producing wells on these property(s).

Royalty Oil Delivery

You must deliver Royalty Oil to the Lessor's purchaser or the purchaser's agent at the Delivery Point, defined as the flange connecting the tank battery to the pipeline or truck outlet for each pilot project properly operated. Title to Royalty Oil passes to the Lessor's purchaser at this flange. Most properties are connected only at the pipeline, although some Powder River Sweet properties are both piped and trucked.

You must deliver Royalty Oil to the Lessor's purchaser or purchaser's agent only upon movement of production from the tank battery into the pipeline or truck outlet (that is, in sales situations). For high-volume properties that generally are directly connected to pipelines, Royalty Oil may be delivered as frequently as daily. For lower levels of production and/or those not directly connected to pipelines, such 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 Wyoming pilot project 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.

Royalty Oil must be delivered in marketable condition, which means the condition generally acceptable to purchasers in the field or area. You must perform any necessary dehydration or other field processing currently required to place production in marketable condition under regulations applicable to royalty in value under 30 CFR part 206 at no cost to the Lessor. Questions regarding potential differences in marketable condition among different purchasers should be directed to the Contracting Officer's Technical Representative (COTR) listed on page 6 of this letter under "Lessor Point of Contact."

Fulfillment of Royalty Obligations

You represent and act on behalf of the Lessees and operating-rights owners for their properties. 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 Lessees' royalty obligation to the Lessor. However, the rights, duties, and obligations that currently exist between the Lessor, you, and the Lessee or operating-rights owner for crude oil avoidably lost prior to the Delivery Point under 30 CFR part 202 (1998) **remain in effect**.

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 and/or minimum royalty obligations on any property in the Wyoming pilot project remain the responsibility of the Lessee. If royalties paid by the Lessee on the in-value volumes do not meet the minimum royalty obligation on a pilot property, the Lessee may contact MMS for any amount due. Our records will reflect the amount paid by the purchaser or the purchaser's agent for the royalty-in-kind production. Any rent and/or minimum royalty not paid timely will be billed to the Lessee. Interest will be charged when the minimum royalty payment is received. If the Lessee is unable to fully recoup an advance rental paid on a lease, the Lessee may request a refund from MMS.

Lessor Obligation to Take

The Lessor through its purchaser or the purchaser's agent will take 100 percent of the Royalty Oil delivered to it at the Delivery Point for the entire term of this RIK pilot project. The Lessor's purchaser or purchaser's agent, through customary industry practice in nominating and scheduling transportation services, will attempt to minimize the occurrence of imbalances with you, as operator. To facilitate timely and accurate delivery of Royalty Oil, the Lessor's purchaser or the purchaser's agent will communicate with you and make arrangements for the delivery and transfer from these properties.

You will incur no penalties if, through no fault of your own, the Lessor's purchaser or the purchaser's agent fails to take 100 percent of the Royalty Oil.

Reporting

You must continue to report crude oil production to MMS under current requirements, formats, and frequencies as specified in MMS regulations and the MMS *PAAS Reporter Handbook*. You, the Lessees, and the existing payors will not report crude oil revenues and values for the RIK pilot properties on the Form MMS-2014 or other similar form for the term of the project, except under the provisions described under **Gross Imbalances and Resolution** and **Imbalances at Project Termination** on pages 4 and 5 of this letter. **Reporting requirements for production and royalties for any natural gas produced from these RIK pilot properties will not change.**

Communication with Royalty Oil Purchaser or Purchaser's Agent

No later than 10 working days before the first day of each month of the pilot project term, you must notify the Lessor's purchaser or purchaser's agent of the daily Royalty Oil volumes and qualities anticipated for the following month of production. You may change the notification time only with the approval of the purchaser or the purchaser's agent. The Lessor understands that any such estimate is not a warranty of actual deliveries to be made but is provided to facilitate planning for transportation.

You must use reasonable efforts, consistent with industry practice, to inform the Lessor's purchaser or the purchaser's agent regarding significant changes in anticipated or actual crude oil production levels for pilot project properties. Such communication must occur as soon as practicable after you know of such anticipated or actual changes in production levels. You must notify both the Lessor and the Lessor's purchaser or the purchaser's agent in the event of a production shut-in.

Routine Imbalances During the Project Term and Balancing Account

For routine imbalances occurring during any month of the project, you and the Lessor's purchaser or the purchaser's agent must arrange for increased or decreased deliveries in the subsequent month to resolve the imbalances as soon as practicable. Imbalances less than 5 percent over or under the true volume of Royalty Oil are considered to be routine. (We expect that variances in production levels will be the cause of most routine imbalances.) The operator will be required to maintain a balancing account to track monthly imbalances between the operator and the Lessor's purchaser or purchaser's agent and make such accounting available to the Lessor's purchaser or the purchaser's agent in a timeframe agreed to with the Lessor's purchaser or the purchaser's agent.

Gross Imbalances and Resolution

Gross imbalances are imbalances that are larger than routine imbalances, which are defined in the previous section. The Lessor reserves the right to resolve gross imbalances by cash payment or adjustment in the delivery of Royalty Oil in the subsequent month. All cash payments will be based on MMS regulations at 30 CFR part 206.

Underdeliveries

If the Lessor elects to take a cash payment for undelivered volumes of Royalty Oil and you are the royalty payor for the lease, you must pay MMS the value of the undelivered volumes as determined under 30 CFR part 206. If you are **not** the royalty payor for the lease, you must notify all Lessees or their respective royalty payors for the lease (1) that a gross imbalance has occurred in an identified production month; (2) of the undelivered volume of Royalty Oil; (3) that the Lessor has elected to take a cash payment in lieu of delivery; and (4) that they must pay MMS the value of the undelivered volumes as determined under 30 CFR part 206.

If the Lessor elects to take the undelivered Royalty Oil volume, you must deliver that volume in the production month following the month in which the imbalance occurred unless otherwise agreed to between you and the Lessor and the Lessor's purchaser or the purchaser's agent.

Overdeliveries

If the Lessor elects a cash payment or a cash adjustment for an overdelivery and you are the royalty payor for the lease, you may submit a credit for the value of the overdelivered volumes determined under 30 CFR part 206, or request a cash refund in that amount. If you are **not** the royalty payor for the lease, you must notify all Lessees and their respective royalty payors for the lease that they may either submit credits that total the value of the overdelivered volumes determined under 30 CFR part 206, or request cash refunds that total that amount. If the Lessor elects an adjustment in deliveries, you must reduce the volume delivered in the production month following the month in which the imbalance occurred by the overdelivered

volume, unless otherwise agreed to between you and the Lessor and the Lessor's purchaser or the purchaser's agent.

Imbalances at Project Termination

Any imbalance at the termination of the pilot, regardless of whether the imbalance is gross or routine, will be resolved by cash payment or cash adjustment.

- If you are the royalty payor for the lease, you must do one of the following:

For *underdeliveries*, you must pay MMS the value of the net undelivered volume as determined under 30 CFR part 206.

For *overdeliveries* (1) you may submit a credit for the value of the net overdelivered volume determined under 30 CFR part 206, or (2) request a cash refund in that amount.

- If you are not the royalty payor for the lease, you must notify all Lessees and their respective royalty payors for the lease of the following:

For *underdeliveries*, they must pay MMS the value of the net undelivered volume as determined under 30 CFR part 206.

For *overdeliveries* (1) they may submit credits that total the value of the net overdelivered volume determined under 30 CFR part 206, or (2) request cash refunds in that amount.

All cash payments or cash adjustments will be based on MMS regulations under 30 CFR part 206.

Volume Reconciliations

The MMS analysts will reconcile production and revenue reports with additional data, including pipeline data. Reconciliations will involve communication between you, the Lessor, and the Lessor's purchaser or the purchaser's agent. The MMS will conduct such reconciliation separately for each month of the project and will issue final reconciliations to you or to Lessees through orders appealable under 30 CFR parts 243 and 290 (1998).

Interest

The Lessor will pay interest to the appropriate Lessee or operating-rights owner or royalty payor on the value of overdelivered Royalty Oil volumes, under 30 U.S.C. 1721(h) at the rate therein prescribed from the last day of the month in which the overdelivery occurred until the date the overdelivery was corrected or resolved by cash payment or cash adjustment. The Lessee or operating-rights owner or royalty payor must pay interest to MMS on the value of

underdelivered volumes under 30 U.S.C. 1721(a) and corresponding regulations under 30 CFR 218.54 at the rate prescribed.

Audit Rights

The Lessor may audit your records regarding all information relevant to volumes and qualities of Royalty Oil produced, stored, used on lease, processed, measured, transported, and transferred. Except as noted below, the Lessor will not audit your financial records or those of the Lessee of pilot project properties for revenue and valuation information pertinent to RIK properties for the term of this pilot project. However, if you resolve any imbalances through cash payment or cash adjustment (see previous section, "Imbalances at Project Termination"), MMS may examine the financial records of Lessees and operating-rights owners of the pilot properties. The MMS also reserves the right to examine transportation expenditures, agreements, royalty valuation data, and other accounts to ensure that amounts reimbursed to you for transportation are accurate.

You, any revenue payors, and the Lessee(s) and operating-rights owners must maintain all records of the types of transactions mentioned in the paragraph immediately above 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 must be maintained until the record holder is released in writing from the obligation to maintain the records.

Assignability

If operating responsibility changes to another party during the term of this pilot project, all of the rights and responsibilities outlined in this document transfer to the new operator.

Lessee Point of Contact

You should keep on file copies of all correspondence between you and the Lessor's purchaser and the purchaser's agent. You may obtain additional information from the contacts listed below, including addresses and telephone numbers of the Lessor's purchaser and the purchaser's agent by pilot property. Points of contact for the Lessor are as follows:

COTR:

Mr. Robert Kronebusch

Telephone: 303-275-7113; Fax: 303-275-7124

Reporting Issues:

Mr. Tom McNew

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

Electronic Funds Transfer:

Ms. Kathy J. Jarrett

Telephone: 303-231-3669; Fax: 303-231-3501

If you have any further questions, please communicate with one of the points of contact.

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 on minerals removed from 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 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(1), (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 Lucy Querques Denett
Associate Director for
Royalty Management

Enclosure

| Line Code | Unit or Field Name | (sorted by) Operator | Federal/State Lease/Agre. No. | Winning Bidder |
|-----------|---------------------|-------------------------|----------------------------------|------------------|
| PSR3500 | Victor | Ballard Petroleum | 846-86U991-0 | Koch |
| B1501 | N. Rattlesnake | Bass Enterprises | 74-17879 | Plains Marketing |
| PSW1001 | Empire | Berenergy Corp. | 64-6991 | Eighty-Eight Oil |
| PSW1002 | Empire | Berenergy Corp. | 0483013790 | Eighty-Eight Oil |
| PSW1005 | Empire | Berenergy Corp. | 049032267B | Eighty-Eight Oil |
| PSR2950 | Shippy | Brown Operating | 0490554070 | Koch |
| PSR2951 | Shippy | Brown Operating | 0490927770 | Koch |
| PSR8800 | Stewart Ranch | Breck Operating | 891-011730-0 | Koch |
| B0300 | Enigma (Tensleep) | Citation O&G | W 112017-X | Plains Marketing |
| B1100 | Little Buffalo | Citation O&G | 892-000365-C | Conoco |
| B1101 | Little Buffalo | Citation O&G | 892-000365-A | Conoco |
| B1102 | Little Buffalo | Citation O&G | 892-000365-D | Conoco |
| B1103 | Little Buffalo | Citation O&G | 892-000365-E | Conoco |
| B1104 | Little Buffalo | Citation O&G | 892-000365-F | Conoco |
| B1105 | Little Buffalo | Citation O&G | 0640456330 | Conoco |
| PSR2600 | N. Rainbow Ranch | Citation O&G | 891-021063-0 | Koch |
| PSW2900 | Triangle | Citation O&G | 891-018148-0 | Eighty-Eight Oil |
| B4000 | Cottonwood Creek | Continental Resources | 891-000463-A | Plains Marketing |
| B4100 | Cottonwood Creek | Continental Resources | 891-000463-B | Plains Marketing |
| B2501 | Rattlesnake | Continental Resources | 048254904A | Plains Marketing |
| B2502 | Rattlesnake | Continental Resources | 048314025B | Plains Marketing |
| PSR0800 | Candy Draw | Costilla Energy | 846-87U950-0 | Koch |
| PSW1601 | House Creek | Devon Energy Corp. | 846-87U969-0 | Eighty-Eight Oil |
| PSW1900 | North Buck Draw | Devon Energy Corp. | W 106652-X | Eighty-Eight Oil |
| PSW4600 | Pine Tree (N.Shan.) | Devon Energy Corp. | 891-015482-E | Eighty-Eight Oil |
| PSW4700 | Sand Dunes (Muddy) | Devon Energy Corp. | W 123877-X | Eighty-Eight Oil |
| PSR1400 | Dry Gulch | Duncan Oil | W 109088-X | Koch |
| PSR2000 | Mallard | Eland Energy | W 132734-X | Koch |
| PSW1300 | Hartzog Draw | Exxon | 891-019424-0 | Eighty-Eight Oil |
| PSR0500 | Ash | Fancher Oil | W 125237-X | Eighty-Eight Oil |
| PSR2300 | North Breaks | Fancher Oil | W 119637-X | Eighty-Eight Oil |
| B0400 | Four Bear | Goldmark Engineering | 892-000161-0 | Plains Marketing |
| PSR0750 | Camp Creek | H.D. Adams | 048046410E | Koch |
| PSW4000 | Salt Creek (L.O.U.) | Howell Petroleum | 801-000312-B | TransCanada |
| PSR1800 | Indian Tree | Hunt Oil | W 123878-X | Koch |
| PSR2400 | Pownall Ranch | Hunt Oil | 891-020984-0 | Koch |
| PSR7100 | East Sandbar | JN Petroleum | 66-15021 | Eighty-Eight Oil |

| Line Code | Unit or Field Name | (sorted by) Operator | Federal/State Lease/Agre. No. | Winning Bidder |
|-----------|---------------------------|-------------------------|----------------------------------|------------------|
| B3101 | Byron (Em-Ten) | Marathon | 891-012527-A | Plains Marketing |
| B3102 | Byron (Mad "A") | Marathon | 891-002438-B | Plains Marketing |
| B0500 | Garland (Em-Tn-Md) | Marathon | 892-000174-A | Plains Marketing |
| B0600 | Gebo | Marathon | 892-000363-0 | Plains Marketing |
| B0700 | Grass Creek (Curtis) | Marathon | 891-006062-A | Plains Marketing |
| B0701 | Grass Creek (Phos.) | Marathon | 891-014200-0 | Plains Marketing |
| B1000 | Kinney Coastal | Marathon | 892-000185-A | Plains Marketing |
| B1001 | Kinney Coastal | Marathon | 892-000185-B | Plains Marketing |
| B1002 | Kinney Coastal | Marathon | 892-000185-C | Plains Marketing |
| B1003 | Kinney Coastal | Marathon | 892-000185-E | Plains Marketing |
| B1004 | Kinney Coastal | Marathon | 0640446940 | Plains Marketing |
| B1005 | Kinney Coastal | Marathon | 0640447690 | Plains Marketing |
| B6000 | Oregon Basin (No. Chug.) | Marathon | 892-000559-A | Plains Marketing |
| B6100 | Oregon Basin (So. Chug.) | Marathon | 892-000559-B | Plains Marketing |
| B6200 | Oregon Basin (No. Em Ten) | Marathon | 892-000559-C | Plains Marketing |
| B6300 | Oregon Basin (So. Em Ten) | Marathon | 892-000559-D | Plains Marketing |
| B6400 | Oregon Basin (No. Mad.) | Marathon | 892-000559-E | Plains Marketing |
| B6500 | Oregon Basin (So. Mad.) | Marathon | 892-000559-F | Plains Marketing |
| B1700 | Pitch Fork | Marathon | 892-000113-0 | Plains Marketing |
| B0800 | Hamilton Dome | Merit Energy | W 138881-X | Conoco |
| B0801 | Hamilton Dome | Merit Energy | 0490376970 | Conoco |
| B0802 | Hamilton Dome | Merit Energy | 0490376990 | Conoco |
| PSR8900 | Timber Creek | Merit Energy | W 143327-X | Koch |
| PSW4500 | Hawk Point | Nielson & Associates | W 114173-X | Eighty-Eight Oil |
| PSR6700 | West Moran | North Star | State/Fee unit | Koch |
| PSW0507 | Bridge Draw | Northern Production | 0490457230 | Eighty-Eight Oil |
| PSR3700 | Winter Draw | Ocean Energy Res. | W 115064-X | Koch |
| PSR3800 | Wolf Draw | Ocean Energy Res. | W 115093-X | Koch |
| PSR1950 | Little Mitchell Creek | Osborn Heirs | 891-008644-0 | Koch |
| PSR1951 | Little Mitchell Creek | Osborn Heirs | 0480193090 | Koch |
| PSR0600 | Bracken | Plains Petroleum | 846-86U921-0 | Koch |
| PSR0700 | Cambridge | Plains Petroleum | W 125233-X | Koch |
| PSR2200 | North Adon Road | Plains Petroleum | W 130885-X | Koch |
| PSR8200 | North Timber Creek | Prima Exploration | 891-020986-0 | Koch |
| PSR7000 | Climax | Star Resources | W 114127-X | Eighty-Eight Oil |
| PSR0400 | Alpha | Swift Energy | W 115090-X | Eighty-Eight Oil |
| PSR1500 | Falcon Ridge | TBI Exploration | W 115054-X | Koch |
| PSR3200 | South Wallace | TBI Exploration | W 129795-X | Koch |
| PSW0700 | Culp Draw | TBI Exploration | 891-021076-0 | Eighty-Eight Oil |
| PSW2700 | Table Mountain | TBI Exploration | W 125236-X | Conoco |
| B0100 | Black Mountain | Texaco | 892-000435-A | Conoco |

| Line Code | Unit or Field Name | (sorted by) Operator | Federal/State Lease/Agre. No. | Winning Bidder |
|-----------|-----------------------|-------------------------|----------------------------------|------------------|
| B0101 | Black Mountain | Texaco | 0620393210 | Conoco |
| B2100 | South Spring Creek | Texaco | 892-000279-A | Plains Marketing |
| PSW4100 | Boxelder Draw | True Oil | 891-013886-A | Eighty-Eight Oil |
| PSR7300 | Camp Creek | True Oil | 494-000205-0 | Koch |
| PSW4200 | Coyote Creek | True Oil | 048042194A | Eighty-Eight Oil |
| PSW4300 | Coyote Creek | True Oil | 048011357C | Eighty-Eight Oil |
| PSR7400 | Deep Draw | True Oil | 0490573180 | Koch |
| PSR7500 | Deep Draw | True Oil | 0490595810 | Koch |
| PSR7600 | Donkey Creek | True Oil | 0620412730 | Koch |
| PSR7700 | Driscoll Creek | True Oil | 0490482770 | Koch |
| PSR7800 | Eitel Minnelusa | True Oil | State/Fee unit | Koch |
| PSR1600 | Gibbs | True Oil | W 106645-X | Koch |
| PSW4400 | Gleason | True Oil | State/Fee unit | Eighty-Eight Oil |
| PSR1952 | Little Mitchell Creek | True Oil | 0480421870 | Koch |
| PSR7850 | Little Mo | True Oil | 0490891490 | Koch |
| PSR7900 | Mapes | True Oil | 049015548A | Koch |
| PSR8000 | Mapes | True Oil | 0490540140 | Koch |
| PSR8100 | North Slattery | True Oil | W 125240-X | Koch |
| PSR8300 | North York | True Oil | 0490756740 | Koch |
| PSR8400 | NW Timber Creek | True Oil | 891-020961-A | Koch |
| PSR8500 | Rainbow Ranch Unit | True Oil | 62-9118 | Koch |
| PSR8600 | South Slattery | True Oil | W 135349-X | Koch |
| PSR8700 | Spring Hole | True Oil | 846-87U954-0 | Koch |
| PSR9000 | West Gibbs | True Oil | 0491091550 | Koch |
| PSR9100 | York | True Oil | W 116906-X | Koch |
| B5000 | Gooseberry "A" | Westport O&G | 892-000223-A | Plains Marketing |
| B5100 | Gooseberry "B" | Westport O&G | 892-000223-B | Plains Marketing |
| PSR2700 | Calamity Springs | Yates Petroleum | W 127626-X | Eighty-Eight Oil |