



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM
P.O. BOX 5760
DENVER, COLORADO 80217



IN REPLY
REFER TO:

FAD-LCB-A-HM MS3220

JAN 22 1992

Dear Payor:

This notice clarifies existing reporting requirements of the Minerals Management Service (MMS) for sales and royalties attributable to Federal or Indian leases commonly referred to as "Takes vs. Entitlements."

Prior to December 1, 1982, payors were required to report sales and royalties on the volume they were "entitled" to take, based upon their working interest percentage and regardless of the actual quantity taken. Effective December 1, 1982, MMS changed the policy to require payors to report sales and royalties based upon actual quantities taken ("Takes") from a lease, regardless of whether that volume matched the entitled share.

The "Takes" policy remains in effect under most circumstances. However, an alternative approach must be taken when a working interest owner takes more than its entitled share of production from a unitization or communitization agreement which includes Federal or Indian leases, and has not established itself as a payor on those Federal or Indian leases by submitting a Payor Information Form (Form MMS-4025) to the MMS. The MMS will hold the established payor(s) responsible for assuring that royalties are paid and reported based on the full volume attributable to the leases under the approved agreement allocation schedule. Product value will be established in accordance with 30 CFR 202.100(e)(3)(1991) or 30 CFR 202.150(e)(3)(1991), as applicable. Specifically, when a shortage exists, MMS will require all established payors to pay and report on the royalty volume shortage for their leases.

We stress that "Takes" remains the primary method of reporting. Under this method, no party would be "out-of-pocket" for royalty and sharing of pricing information would be avoided. Our ultimate objective is to receive 100 percent of royalties due on all production taken from the Federal or Indian leases. If less than 100 percent of the monthly royalties attributable to Federal or Indian leases are reported and paid to MMS, and an overtaker has not submitted a Payor Information Form, then the established payors are responsible for the underpaid royalties.

If you have any questions regarding this issue, please contact your Lessee Contact Branch representative. If you do not know who to contact, please call (303) 231-3288.

Sincerely,

James R. Detlefs

Chief, Fiscal Accounting Division