



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240



AUG 26 1999

OMB Control Number 1010-0126
Expiration date: August 31, 1999

CVD/DAD/RM
Mail Stop 3670

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--64 FR 39527--July 22, 1999). The enclosure lists all properties included in the third 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 October 1, 1999, 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 October 1, 1999, through March 31, 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 only pipeline connected 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, such delivery of Royalty Oil may be as frequent 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 once 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 are not required to 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 anticipated 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 gross imbalance is an underdelivery of Royalty Oil, and if the Lessor elects to take a cash payment in lieu of the Royalty Oil volume not delivered, and if 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 gross imbalance is an overdelivery of Royalty Oil, and if the Lessor elects a cash payment or a cash adjustment, and if 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.

- (a) If you are the royalty payor for the lease,
 - (1) you may submit a credit for the value of the net overdelivered volume determined under 30 CFR part 206, or request a cash refund in that amount, or
 - (2) you must pay MMS the value of the net undelivered volume as determined under 30 CFR part 206.
- (b) If you are not the royalty payor for the lease, you must notify all Lessees and their respective royalty payors for the lease that
 - (1) they may either submit credits that total the value of the net overdelivered volume determined under 30 CFR part 206, or request cash refunds that total that amount, or
 - (2) they must pay MMS the value of the net undelivered volume as determined under 30 CFR part 206.

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 therein 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. Additional information may be obtained from the persons named below, including address, point of contact, 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:

Contracting Officer:

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:

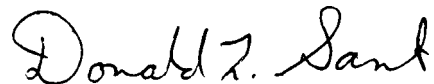
Mr. Dave Menard

Telephone: 303-231-3574; Fax: 303-231-3501

If you have any further questions, 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 details of royalty payments and sales of minerals from leases on Federal and Indian lands. We will use this information to maintain and audit lease accounts, and we estimate the burden for reporting electronically is 2 minutes per line. 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, N. W., Washington, DC 20240 and to the Office of Management and Budget, Office of Information and Regulatory Affairs, Attention: Desk Officer for the U.S. Department of the Interior, Washington, DC 20503. 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

Enclosures

MMS/WY IFB 31010

Operators of Successfully Bid Properties

Line Code	Unit or Field Name	(sorted by) Operator	Optr. No.	Federal Agre. No.	Fed/State Lease No.	Winning Bidder
PSR3500	Victor	Ballard Petroleum	K1148	84686U9910		88 Oil
PSW1002	Empire	Berenergy Corp.	13453		0483013790	Teppco
PSW1005	Empire	Berenergy Corp.	13453		049032267B	Teppco
PSR2950	Shippy	Brown Operating	B3016		0490554070	88 Oil
PSR2951	Shippy	Brown Operating	B3016		0490927770	88 Oil
B0300	Enigma (Tensleep)	Citation O&G	16913	W 112017X		Cenex
B1100	Little Buffalo	Citation O&G	16913	892000365C		Cenex
B1101	Little Buffalo	Citation O&G	16913	892000365A		Cenex
B1102	Little Buffalo	Citation O&G	16913	892000365D		Cenex
B1103	Little Buffalo	Citation O&G	16913	892000365E		Cenex
B1104	Little Buffalo	Citation O&G	16913	892000365F		Cenex
B1105	Little Buffalo	Citation O&G	16913		0640456330	Cenex
PSR2600	N. Rainbow Ranch	Citation O&G	16913	8910210630		88 Oil
PSW2900	Triangle	Citation O&G	16913	8910181480		Teppco
B2501	Rattlesnake	Continental Resources	K2070		048254904A	Cenex
B2502	Rattlesnake	Continental Resources	K2070		048314025B	Cenex
PSR0800	Candy Draw	Costilla Energy	K1513	84687U9500		88 Oil
PSW1601	House Creek	Devon	19800	84687U9690		Teppco
PSW1900	North Buck Draw	Devon	19800	W 106652X		Teppco
PSR1400	Dry Gulch	Duncan Oil	B3188	W 109088X		88 Oil
PSR2000	Mallard	Eland Energy	21673	W 132734X		88 Oil
PSW1300	Hartzog Draw	Exxon	N2764	8910194240		Teppco
PSR0500	Ash	Fancher Oil	49910	W 125237X		88 Oil
PSR2300	North Breaks	Fancher Oil	49910	W 119637X		88 Oil
B0400	Four Bear	Goldmark Engineering	25825	8920001610		Scurlock-Permian/Plains
PSR0750	Camp Creek	H.D. Adams	K0328		048046410E	88 Oil
PSR1800	Indian Tree	Hunt Oil	29090	W 123878X		88 Oil
PSR2400	Pownall Ranch	Hunt Oil	29090	8910209840		88 Oil
B3101	Byron (Em-Ten)	Marathon	C1015	891012527A		Cenex
B3102	Byron (Mad "A")	Marathon	C1015	891002438B		Cenex
B0500	Garland (Em-Tn-Md)	Marathon	C1015	892000174A		Cenex
B0600	Gebo	Marathon	C1015	8920003630		Cenex
B0700	Grass Creek (Curtis)	Marathon	C1015	891006062A		Cenex
B0701	Grass Creek (Phos.)	Marathon	C1015	8910142000		Cenex
B1000	Kinney Coastal	Marathon	C1015	892000185A		Cenex
B1001	Kinney Coastal	Marathon	C1015	892000185B		Cenex
B1002	Kinney Coastal	Marathon	C1015	892000185C		Cenex
B1003	Kinney Coastal	Marathon	C1015	892000185E		Cenex
B1004	Kinney Coastal	Marathon	C1015		0640446940	Cenex
B1005	Kinney Coastal	Marathon	C1015		0640447690	Cenex
B1700	Pitch Fork	Marathon	C1015	8920001130		Scurlock-Permian/Plains
B0800	Hamilton Dome	Merit Energy	38083	W 138881X		Cenex
B0801	Hamilton Dome	Merit Energy	38083		0490376970	Cenex
B0802	Hamilton Dome	Merit Energy	38083		0490376990	Cenex
PSW0507	Bridge Draw	Northern Production	30980		0490457230	Teppco Crude Oil

MMS/WY IFB 31010

Operators of Successfully Bid Properties

Line Code	Unit or Field Name	(sorted by) Operator	Optr. No.	Federal Agre. No.	Fed/State Lease No.	Winning Bidder
PSR3700	Winter Draw	Ocean Energy Res.	K1617	W 115064X		88 Oil
PSR3800	Wolf Draw	Ocean Energy Res.	K1617	W 115093X		88 Oil
PSR1950	Little Mitchell Creek	Osborn Heirs	42570	8910086440		88 Oil
PSR1951	Little Mitchell Creek	Osborn Heirs	42570		0480193090	88 Oil
PSR0600	Bracken	Plains Petroleum	44965	84686U9210		88 Oil
PSR0700	Cambridge	Plains Petroleum	44965	W 125233X		88 Oil
PSR2200	North Adon Road	Plains Petroleum	44965	W 130885X		88 Oil
PSR0400	Alpha	Swift Energy	40067	W 115090X		88 Oil
PSW0700	Culp Draw	TBI Exploration	14450	8910210760		Teppco Crude Oil
PSR1500	Falcon Ridge	TBI Exploration	14450	W 115054X		88 Oil
PSR3200	South Wallace	TBI Exploration	14450	W 129795X		88 Oil
PSW2700	Table Mountain	TBI Exploration	14450	W 125236X		Teppco Crude Oil
B0100	Black Mountain	Texaco	A1790	892000435A		Cenex
B0101	Black Mountain	Texaco	A1790		0620393210	Cenex
B2100	South Spring Creek	Texaco	A1790	892000279A		Scurlock-Permian/Plains
PSR1600	Gibbs	True Oil	72520	W 106645X		88 Oil
PSR1952	Little Mitchell Creek	True Oil	72520		0480421870	88 Oil
PSR2700	Calamity Springs	Yates Petroleum	79460	W 127626X		88 Oil