

Dear Operator Letters – SPR/DOE Project. Gulf of Mexico properties

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



OMB Control Number 1010-0130  
Expiration date: February 29, 2000

CVD/DAD/RM  
MS-3670

DEC 16 1999

Dear Operator:

Our records indicate that your company is the operator or operating-rights owner for at least one Federal oil and gas lease or approved Federal unit agreement that the Minerals Management Service (MMS) included in the program to use royalties in kind (RIK) to replenish the Strategic Petroleum Reserve (SPR). Our authority for taking royalties in kind and transferring the RIK to the Department of Energy (DOE) is the Outer Continental Shelf Lands Act of 1953 (OCSLA) 43 U.S.C. 1353 and the royalty provisions in your Federal lease.

The DOE has awarded contracts to exchange the RIK from the selected properties for deliveries to the SPR. The Enclosure lists the properties that are included in contracts awarded by DOE. Beginning January 1, 2000, and continuing through October 31, 2000, all royalties due on the properties listed will be taken in kind and delivered to DOE's contractor or the contractor's agent (contractor/agent) at the indicated Facility Measurement Point (FMP).

This letter provides the procedures and establishes the terms and conditions under which the United States (Lessor) will take crude oil during this program. For the purposes of this letter, "Royalty Oil" means the Federal daily lease production multiplied by the lease royalty rate. All Royalty Oil from the properties identified in the Enclosure must be delivered to DOE's contractor for the entire term of the program, including Royalty Oil from the newly producing wells on these leases or until the Lessor directs that deliveries should stop. The Lessor agrees to take title to the Royalty Oil at the lease, and the DOE contractor/agent will take delivery of the Royalty Oil at the FMP. Royalty Oil must be delivered in marketable condition under royalty regulations in 30 CFR part 206 at no cost to the Lessor. Questions regarding marketable condition should be directed to the Lessor's Program Coordinator (under "Lessor Point of Contact" at the end of this letter).

## Term

The Term of this agreement begins at 12:01 a.m. on January 1, 2000, and ends at midnight on October 31, 2000, unless we choose to terminate before October 31, 2000. If we terminate the agreement before October 31, 2000, we will give you at least a 30-day written notice.

## Royalty-in-Kind Applicability

The Operator must deliver Royalty Oil to DOE's contractor/agent at the same frequency as it is produced from the property. Unless otherwise notified, this will be assumed to be daily.

### Fulfillment of Royalty Obligations

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 Lessee's royalty obligation to the Lessor. The Lessor and DOE's contractor/agent will coordinate these deliveries with the Lessee and the Operator of the leases/properties in the program. All rent and/or minimum royalty obligations on any property in this program remain the responsibility of the Lessee. Further, the rights, duties, and obligations that currently exist between the Lessor, Lessee, and Operator for crude oil avoidably lost prior to the FMP under 30 CFR part 202 remain in effect.

### Lessor Obligation to Take

The Lessor agrees to take 100 percent of the Royalty Oil delivered to DOE's contractor/agent at the FMP for the entire Term of this program. The DOE contractor or its agent, through customary industry practice in nominating and scheduling transportation services, will attempt to minimize the occurrence of imbalances with you or the Operator of your lease. To facilitate timely and accurate delivery of Royalty Oil, the DOE contractor or its agent will communicate with you and make arrangements for the delivery and transfer of Royalty Oil from these leases. You will incur no penalties if, through no fault of your own, DOE's contractor/agent fails to take 100 percent of the Royalty Oil.

### Reporting

The Operator of the leases/properties in the program must continue to report crude oil production to MMS on the Oil and Gas Operations Report (OGOR) under current requirements and frequencies as specified in MMS regulations and the MMS *PAAS Reporter Handbook*. You will not be required to report crude oil revenues and values for the leases in this program on the Report of Royalty Sales Remittance (Form MMS-2014) or other similar form for the Term of the project, except under provisions described under "Imbalances During the Project Term and Balancing Account." The DOE contractor/agent will be required to continue to report only crude oil volumes on the Form MMS-2014. Reporting requirements for production and royalties for any natural gas or natural gas liquids for the leases included in the program will not change. All reporting for leases not included in this program will not change.

### Communication with DOE's Contractor

No later than 10 working days before the first day of each month, the Operator must effectively notify the DOE contractor or its agent of the daily Royalty Oil volumes and qualities anticipated for the following month of production. Communication between the operator and DOE's contractor/agent will continue for each month of the project Term using normal industry practices. The Operator may make other arrangements to effectively notify the DOE contractor/agent of anticipated monthly Royalty Oil volume subject to the approval of the DOE

contractor/agent. The DOE contractor/agent understands that any such estimate is not a warranty of actual deliveries to be made but is provided to facilitate planning for receipt of Royalty Oil by the DOE contractor/agent.

The Operator must use reasonable efforts, consistent with industry practice, to inform the DOE contractor/agent regarding significant changes in oil production levels and/or royalty shares anticipated for project properties. Such communication must occur as soon as practicable after the Operator knows of such anticipated changes in production levels. The Operator must notify both the Lessor and DOE contractor/agent in the event of a production shut-in.

#### Imbalances During the Project Term and Balancing Account

For imbalances occurring during any month of the Term, the Operator and DOE's contractor/agent must work together as soon as practicable to arrange for increased or decreased deliveries in the subsequent month to resolve the imbalances. Variances in production levels are expected to be the cause of most imbalances. The Operator and/or Lessee will be required to maintain a balancing account to track monthly imbalances between the Operator and the DOE contractor/agent. The status of the balancing account will be reported to the DOE contractor/agent no later than 30 days after the end of the month. Imbalances during the project Term will be settled by either increased or decreased deliveries in the subsequent month.

Imbalances occurring at the end of the project Term will be settled through adjustments in royalty-in-kind deliveries if acceptable to Lessor and Lessee for any leases that remain in kind. If such imbalances at project termination cannot be settled volumetrically, they will be settled through cash payment. The price used to determine these cash payments will be based on MMS regulations at 30 CFR part 206. For settlement of positive imbalances (overdeliveries), Lessees may take credit against current royalties due on the same property for the net volume overdelivered during the project Term. The Lessee may receive a refund for the overdelivered volumes if the Lessee is no longer responsible for paying royalties on the property.

#### Volume Reconciliations

The MMS analysts will reconcile production and volumes delivered with additional data, including pipeline data. Reconciliations will involve communication between Lessor, Operator, and DOE contractor/agent. The Lessor will conduct such reconciliation separately for each month of the project and will issue final reconciliations to Operators or Lessees through orders appealable under 30 CFR parts 243 and 290.

### Interest

Interest is due from Operators/Lessees for underdeliveries or an interest credit is given to the Operators/Lessees for overdeliveries made during this program. Interest will be charged only on the underpaid or overpaid part of the amount due and only for the number of days overdue. The interest charged will be at the rate established by the Internal Revenue Service Code, 26 U.S.C. 6621(a)(2) (Supp. 1987).

### Audit Rights

The Lessor may audit Operators' records regarding all information relevant to volumes and qualities of Royalty Oil produced, stored, used on lease, processed, measured, transported, and transferred. During the Term, the Lessor relinquishes the right to audit the financial records of Operators or Lessees for revenue and valuation information pertinent to those properties. However, if final reconciliation indicates an imbalance needing valuation using the provisions of 30 CFR part 206 ("Imbalances During the Project Term and Balancing Account"), MMS reserves the right to examine the financial records of Lessees of the project properties. The MMS also reserves the right to examine transportation expenditures, agreements, and accounts to ensure that amounts reimbursed to the Operator for transportation are accurate.

Lessees, Operators, and revenue payors are required to maintain all records of transactions mentioned in the above paragraph 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 will be maintained until the record holder is released in writing from the obligation to maintain the records. The Operator should keep on file copies of all correspondence between Operator and DOE's contractor/agent.

### Lessor Point of Contact

Additional information may be obtained from the contacts below, including address, point of contact, and telephone numbers of the DOE's contractor/agent by property. Points of contact for the Government are as follows:

Contracting Officer:

Mr. Michael G. Waggoner

Telephone: 504-734-4444; Fax: 504-734-4947

Lessor Program Coordinator:

Mr. Bonn J. Macy

Telephone: 202-208-3827; FAX: 202-208-3918

Reporting Issues:

Mr. Tom McNew

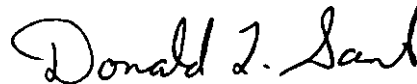
Telephone: 303-231-3777; FAX: 303-231-3700

Electronic Funds Transfer:  
Ms. Kathy J. Jarrett  
Telephone: 303-231-3669; FAX: 303-231-3501

Operators and Lessees should communicate with the Government points of contact to answer any further questions.

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 of minerals from leases on Federal 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, 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 (b)(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	Lease/Agree	FMP Number	Sys	FMP Location	Lease Location	Operator	Opr. Number	DOE'S Contractor
VK780	754-398065-A	20608165113	511	VK 0780 A/SPIRIT PLATFORM	VK 780	Amoco Production Company	F1141	Koch Petroleum Group, L.P.
VK989	054-006898-0	20608165102	510	VK 0989 A	VK 989	BP EXPLORATION & OIL INC	L6800	Equiva Trading Co.
MC27	054-007923-0	20608165102	510	VK 0989 A	MC 27	BP EXPLORATION & OIL INC	L6800	Equiva Trading Co.
MC72	054-008483-0	20608165102	510	VK 0989 A	MC 72	BP EXPLORATION & OIL INC	L6800	Equiva Trading Co.
MC28	054-009771-0	20608165102	510	VK 0989 A	MC 28	BP EXPLORATION & OIL INC	L6800	Equiva Trading Co.
ST51d	054-001240-0	2017715360A	360	ST 0052 C	ST 51	CHEVRON USA INC	F0780	Koch Petroleum Group, L.P.
ST52b	054-001241-0	2017715360A	360	ST 0052 C	ST 52	CHEVRON USA INC	F0780	Vitol S.A., Inc.
ST177b	054-001260-0	20177153605	360	ST 0177 E	ST 177	CHEVRON USA INC	F0780	Koch Petroleum Group, L.P.
ST148e	054-001960-0	2017715360B	360	ST 0151 2	ST 148	CHEVRON USA INC	F0780	Equiva Trading Co.
ST135	891-006669-0	20170573602	360	PASS FOURCHON TERMINAL	ST135	CHEVRON USA INC	F0780	Koch Petroleum Group, L.P.
SP89	054-001618-0	20177224600	460	SP 0089 B	SP 89	MARATHON OIL COMPANY	F7240	Koch Petroleum Group, L.P.
SP89b	054-001618-0	20177224601	460	SP 0086 C	SP 89	MARATHON OIL COMPANY	F7240	Koch Petroleum Group, L.P.
SP86	054-005667-0	20177224601	460	SP 0086 C	SP 86	MARATHON OIL COMPANY	F7240	Koch Petroleum Group, L.P.
SP87	054-007799-0	20177224602	460	SP 0087 D	SP 87	MARATHON OIL COMPANY	F7240	Koch Petroleum Group, L.P.
HIA537	054-002698-0	20427090155	015	HIA0536 C	HI A 537	NEWFIELD EXPLORATION COMPANY	L3640	Vitol S.A., Inc.
MC357	054-010988-0	20608173901	390	MC 0311 A	MC 357	NEWFIELD EXPLORATION COMPANY	L3640	Equiva Trading Co.
MP259b	754-390012-0	2017724511B	511	MP C259 A	MP259	SANTA FE SNYDER CORPORATION	L7900	Equiva Trading Co.
VK912b	754-389014-A	20608165112	511	VK 0956 A	VK912	Shell Deepwater Production Inc.	S1400	Equiva Trading Co.
ST53b	054-004000-0	20177153351	335	ST 0053 A	ST 53	UNION OIL COMPANY OF CALIFORNIA	F0032	Equiva Trading Co.