



United States Department of the Interior



MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM
P.O. BOX 25165
DENVER, COLORADO 80225

IN REPLY
REFER TO:

DAD-VA/RP, MS 662

SEP 30 1988

Dear Payor:

New regulations affecting royalty management of Federal and Indian oil and gas leases became effective March 1, 1988. These regulations were published Friday, January 15, 1988, at 53 F.R. 1184 for oil and 53 F.R. 1230 for gas.

In carrying out the trust responsibility of the United States in the administration of Indian oil and gas leases, we have long recognized the primacy of lease terms. This obligation has been clearly embodied in 30 CFR § 206.100 (1988) and § 206.150 (1988), as amended by the new regulations, which state that where the lease terms and the regulations are inconsistent, the lease provisions shall govern. More specifically, the regulations state that, where lease terms provide, major portion analysis for oil and gas (described in §§ 206.102(a)(2)(ii) (1988), 206.152(a)(3)(ii) (1988), and 206.153(a)(3)(ii) (1988)) and dual accounting for gas (described as "accounting for comparison" in § 206.155 (1988)) must be performed in determining the value of production for royalty purposes.

The purpose of this letter is to reemphasize to payors their obligation to properly determine and pay royalties on production from Indian leases. Payors are hereby given notice that failure to comply with Indian lease terms and the regulations applicable to major portion analysis and dual accounting (accounting for comparison) will subject payors to enforcement action by MMS, including civil penalties, as provided in 30 U.S.C. 1719 and 30 CFR § 241.51 (1988). The regulation provides that a person served with a Notice of Noncompliance and Penalty Notice shall be liable for a penalty of up to \$5,000 per violation for each day such violation continues or up to \$10,000 per violation if it is considered to be an intentional violation.

If you have any questions, please contact Dennis Whitcomb, Chief, Rules and Procedures Branch, at (303) 231-3432.

Sincerely,

Jerry D. Hill
Associate Director for
Royalty Management