



IN REPLY REFER TO:

United States Department of the I

MINERALS MANAGEMENT SERVICE
Royalty Management Program - PAD
P.O. Box 17110, MS-3300
Denver, Colorado 80217-0110



PAD/RCB
Mail Stop 3310

SEP -2 1992

Dear Operator:

On August 20, 1992, the Minerals Management Service (MMS) mailed a copy of amended regulations concerning reduced royalty rates for stripper properties contained in 43 CFR Part 3100 and a list of training sites to all operators reporting to MMS. Since the mailing, MMS has received numerous telephone calls concerning the proper procedures for completing the Stripper Royalty Rate Reduction Notification (Form MMS-4377).

The enclosed instructions were developed to address the most frequent questions and misunderstandings. Please read the instructions carefully to ensure that you have not made errors in your reduced royalty rate calculation or in completing the form. If you have any unanswered questions after reviewing the instructions, please contact the Reporter Contact Branch at (800) 525-7922 or (303) 231-3684.

Michael A. Miller
Chief, Reporter Contact Branch

Enclosure

INSTRUCTIONS FOR COMPLETING THE
STRIPPER ROYALTY RATE REDUCTION NOTIFICATION (FORM MMS-4377)
AUGUST 1992

Column: LEASE NUMBER(S)

The LEASE NUMBER(S) column is used for two purposes:

1. To record the number of the property you are filing a reduced rate for if the property is a stand-alone lease.
2. To record the leases in an agreement if the property you are filing a reduced rate for is a unit participating area or a communitization agreement. If the agreement contains State, fee or Indian leases in addition to Federal leases, only the Federal leases should be listed. MMS and payors must have a list of the Federal leases in an agreement in order to identify the revenue sources to which the reduced royalty rates apply.

The qualifying stand-alone lease number should be the same number used to report production to the Minerals Management Service (MMS) on your Monthly Report of Operations (3160) or Oil and Gas Operation Report (OGOR). Leases in agreements can be submitted in either the production report-type format or the MMS number format (10 digits, XXX-XXXXXX-X) used on the Form MMS-2014 to report royalties.

Column: AGREEMENT NUMBER

The AGREEMENT NUMBER column is used to record the number of the property you are filing a reduced rate for if the property is a unit participating area or a communitization agreement.

The qualifying agreement number should be the same number used to report production to MMS on your 3160 or OGOR. All Federal leases in the agreement should be listed under the LEASE NUMBER(s) column. The AGREEMENT NUMBER column will be blank if the property you are filing a reduced royalty rate for is a stand-alone lease.

Column: QUALIFYING OR CURRENT PERIOD

Production data for the initial qualifying period, August 1, 1990 through July 31, 1991, MUST be used to calculate the first year's (called QUALIFYING PERIOD in column title) reduced royalty rate unless:

1. The property, or wells on the property, did not exist during the initial qualifying period. In this case the qualifying period will be the 12-month period from the date the first well was completed (POW or OSI status) on the lease or agreement. You must have a complete 12-month history in order to claim a reduced royalty rate, although the wells need not produce every month; or
2. All wells on the lease or agreement were shut-in during the entire initial qualifying period. In this case the qualifying period (first year calculation) will be the 12-months immediately prior to the last well shut-in date. For example, if the last well on a lease was shut-in on May 31, 1990, the 12-month calculation period would be June 1, 1989 through May 31, 1990; or
3. The property produced 15 or more barrels of oil per well/day for all eligible wells during the initial qualifying period. In this case the operator should calculate a new 12-month average by moving forward one month at a time, until the property qualifies. For example, if the property produces 18 barrels per well/day during the initial qualifying period from August 1, 1990 through July 31, 1991, move forward to the period September 1, 1990 through August 31, 1991 and calculate another rate. If the property still does not qualify, move forward to the period October 1, 1990 through September 30, 1991 and so forth.

The period (month/year to month/year) used to calculate the reduced rate should be entered in the QUALIFYING OR CURRENT PERIOD column for each lease or agreement. MMS will use production data submitted on your 3160's or OGOR'S for that period to verify your calculation.

If the current operator of the property was not the operator during the qualifying period, the current operator must obtain the production records from the previous operator or from MMS. Requests for production data from MMS should be addressed to:

Chief, Reporter Contact Branch
Production Accounting Division
Minerals Management Service
P. O. Box 17110
Denver, Colorado 80217-0110

Production data for periods before production reporting was transferred from the Bureau of Land Management (BLM) to MMS should be addressed to the appropriate BLM District Office.

The second year's reduced royalty rate will be based on production data in the first claim year (called CURRENT PERIOD in column title). For example, if the operator submits and MMS

receives the first year's notification form in September 1992, the rate will become effective October 1, 1992. The second year's reduced rate will be based on the first claim year, October 1, 1992 through September 30, 1993. This means that most operators will not use production data for the period between July 31, 1991 and October 1, 1992 in any reduced royalty rate calculation.

The operator will have 60 days from the end of the first claim year (e.g., September 30, 1993), to submit the second year's notification form if the rate is calculated to be lower than the first year. Since the second year's rate will become effective the month after MMS receives the notification form, the first year's rate will be claimed for 1 or 2 additional months between September 30, 1993 (end of the first claim year) and the effective date of the second year's rate. This pattern will continue in subsequent years. The second and subsequent years' rates will be calculated using only the first 12 months.

The qualifying or first year rate will be effective for the entire five years of the stripper program unless a new notification form is submitted.

Column: QUALIFYING ROYALTY RATE

The qualifying rate is the reduced royalty rate calculated using production data in the QUALIFYING OR CURRENT PERIOD discussed above. Average barrels produced per eligible well day should always be rounded down or truncated before calculating the reduced royalty rate. For example, if the property produced 2.9 barrels per day, round down to 2 barrels. Only 15 different rates can be claimed based on the formula provided in the stripper regulation [Royalty Rate (%) = .5 + (.8 times average daily production rate)]. These rates are as follows:

<u>Average BBL per day</u>	<u>Reduced Royalty Rate</u>
0	.5
1	1.3
2	2.1
3	2.9
4	3.7
5	4.5
6	5.3
7	6.1
8	6.9
9	7.7
10	8.5
11	9.3
12	10.1
13	10.9
14	11.7

If the lease or agreement produces an average of 15 barrels of oil or more per day, the royalty rate will remain the rate established in the lease when it was issued (usually 12.5%).

Column: CURRENT ROYALTY RATE

When filing the notification for the first year, the CURRENT ROYALTY RATE will be the rate identified in the lease when it was issued (usually 12.5%). In the second year, the CURRENT ROYALTY RATE will be the reduced rate claimed in the first year, etc.

Column: EFFECTIVE DATES

The effective date of any reduced royalty rate will be the first day of the month after MMS receives the notification form. The stripper royalty rate regulation became effective September 10, 1992; consequently, MMS cannot officially accept any notifications before that date. Any applications received before September 10, 1992, will be considered received in September 1992; therefore, the first possible effective date of the reduced royalty rate will be for the production month beginning October 1, 1992 (royalties due by November 30, 1992).

GENERAL RULES FOR
CALCULATING AVERAGE BARRELS PRODUCED PER DAY
UNDER THE STRIPPER ROYALTY RATE PROGRAM

1. Determine the correct classification of each well on the property during the 12-month qualifying period. For the stripper royalty rate program, an oil well (completion) is defined as:

A completion from which the energy equivalent of the oil produced exceeds the energy equivalent of the gas produced (including entrained liquid hydrocarbons) or any completion producing oil and less than 60 MCF of gas per day.

MMS uses the following formula to convert oil and gas volumes produced from each well during a 12-month period into MMBTU before making the energy equivalency comparison:

$$[(\text{MCF per well}) (\text{BTU}/1,000)] \text{ MMBTU} \div [\text{BBL per well}] [6 - (0.013)(\text{API Gravity})] \text{ MMBTU} = x$$

If the quotient "X" is less than or equal to 1.0, the well is considered an oil well. If the quotient "X" is greater than 1.0, the well is considered a gas well.

This formula may yield results which are different from classifications determined by individual States using gas/oil ratios so it is very important to verify each well classification before making your stripper royalty rate calculation.

2. Eliminate any producing wells which a) do not meet the oil well energy equivalency test and b) produce more than 60 MCF per day from further stripper calculations.
3. Add the oil volumes and days produced (operating days, NOT the number of days in a calendar month) for the remaining eligible wells. Add days injected for any injection wells on the property to the days produced. If the property is an agreement, these totals should include oil volumes and days produced for eligible wells located on State, fee and Indian land, as well as wells located on Federal land.
4. Divide the total oil volume by the total days produced and injected to determine average barrels produced per day per eligible well. Round down to the next whole number before calculating the stripper royalty rate. Royalties on all oil produced from a stripper property should be paid using the reduced royalty rate. This includes oil produced from ineligible wells and wells drilled or reopened after the qualifying period. Royalty on any condensate shall be paid using the rate established in the lease.