



United States Department of the Interior

OFFICE OF NATURAL RESOURCES REVENUE

P.O. Box 25165
Denver, Colorado 80225-0165

AUG 27 2012

CERTIFIED MAIL --
RETURN RECEIPT REQUESTED

- Subjects:
1. Gas Sold From Indian Leases in an Index Zone Under Arm's-Length Dedicated Contracts
 2. Paying Indian Royalties on Oil & Gas Produced From Indian Leases on Behalf of Others

Dear Reporter:

The purpose of this letter is to remind you of your obligation to properly calculate and pay royalties in those instances where you sell gas production from Indian leases in an index zone under an arm's-length dedicated sales contract and those instances where you pay royalties on Indian leases on behalf of others.

You are hereby given notice that failure to comply with Indian lease terms and regulations may subject you to Office of Natural Resources Revenue (ONRR) enforcement actions, including civil penalties.

How do I value gas I sell from Indian leases in an index zone under arm's-length dedicated contracts?

For leases located in an index zone and sold under an arm's-length dedicated contract, under 30 CFR § 1206.174(a)(ii) (2011), the value for royalty purposes is based on the **higher** of the value under the arm's-length dedicated contract determined under 30 CFR § 1206.174(b) (2011), or the index-based value determined under 30 CFR § 1206.172(d) (2011). The value of gas, residue gas, or any gas plant product you sell under an arm's-length contract is the gross proceeds accruing to you or your affiliate. An arm's-length dedicated contract is a contractual commitment between independent, unaffiliated parties to deliver gas production (or a specified portion of production) from a lease or well and specifies the production can only be sold under that contract (30 CFR § 1206.171 (2011)).

What are my responsibilities if I pay royalties on oil and gas produced from Indian leases on behalf of others?

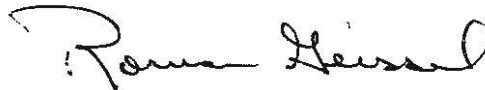
If you pay royalties on oil and gas produced from Indian leases on behalf of others, you are considered a "lessee" under 30 CFR § 1206.171 (2011) and are responsible for ensuring the royalties are paid in accordance with laws, lease terms, and regulations. You also are responsible

for obtaining and maintaining the records necessary to support your reporting and payment of royalties and to make the records available for inspection by ONRR (30 CFR §§ 1212.50 and 1212.51).

This letter does not require that you perform any type of restructured accounting, reporting, or recalculation and payment of royalties. This letter is not an appealable decision, order, Notice of Noncompliance, or Civil Penalty Notice under 30 CFR Part 1290 Subpart B (2011) or 30 CFR Part 1241 (2011). If ONRR issues you an order, Notice of Noncompliance, or Civil Penalty Notice at a later date in accordance with the matters addressed in this letter, we will provide your appeal rights at that time.

If you have any questions contact Joel Arnold, Supervisory Auditor, Central Audit and Compliance Management at (405) 879-6007.

Sincerely,

A handwritten signature in black ink, appearing to read "Theresa Walsh Bayani". The signature is fluid and cursive, with the first name being the most prominent.

~~FOR~~ Theresa Walsh Bayani
Program Director
Audit and Compliance Management