



United States Department of the Interior

MINERALS MANAGEMENT SERVICE

Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

RPD/RRPB
Mail Stop 3123

AUG 24 1995

Dear Operator/Payor

Effective with the August 1995 production month, the Navajo Nation has elected to take their oil royalty in-kind from the unitization agreements shown on the enclosed list. This election applies only to Navajo Tribal leases committed to these agreements.

Our records indicate you are the current operator and/or royalty in-value payor on one or more of these properties. The Minerals Management Service (MMS) has established royalty-in-kind (RIK) selling arrangements for you to report on the Report of Sales and Royalty Remittance (Form MMS-2014). Payor Confirmation Reports, if applicable, have been sent under separate cover. These RIK selling arrangements will appear on your September 1995 Model Form MMS-2014.

Reporting procedures and related information for these properties are:

Form MMS-2014

The RIK reporting instructions are provided in the MMS Oil and Gas Payor Handbook, Volume II, Section 3.4. Please refer to this section when completing your Form MMS-2014.

The Sales Quantity reported in Column 13 is based on your gross interest in the lease or your current reporting responsibility if you report on behalf of others. Enclosed is an example of how volume is determined.

The Sales Value reported in Column 16 is based on the weighted average price of your in-value sales. The MMS is aware that the price you report may not be the price the tribe actually received.

You must also send a copy of the Form MMS-2014 to the Navajo Nation Minerals Department, P.O. Box 1910, Window Rock, Arizona, 86515.

Production Reporting

The tribes' election to take their oil royalty in-kind does not affect production reporting in any way. You must continue reporting production as you did in prior months.

Advance Rental Payment and Recoupment

You must continue to report the annual rental payment for these leases on the Form MMS-2014. Payment must be sent to the Navajo Nation's lockbox at:

The Navajo Nation
P.O. Box 52543
Phoenix, Arizona 85072

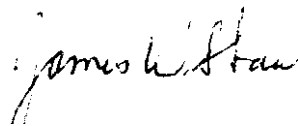
If lease terms permit the recoupment of the annual rental payment from production occurring during the lease year, you must recoup it on the Form MMS-2014 against the gas in-value production attributable to the lease.

If the gas in-value royalties reported and paid during the lease year are insufficient to recoup the rental payment, you must contact the tribe. The tribe may allow you to recoup the rental against other tribal leases or issue a cash refund. Please contact:

Mr. Perry Shirley
Assistant Director
Navajo Nation Minerals Department
P.O. Box 1910
Window Rock, Arizona 86515

If you have any questions regarding this letter, please contact Ms. Paula Neuroth at 1-800-525-0309 or (303) 231-3287.

Sincerely,



James W. Shaw
Associate Director for
Royalty Management

2 Enclosures

UNITIZATION AGREEMENTS

<u>Unit No.</u>	<u>Unit Name</u>	<u>Unit Operator</u>
7960041900	McElmo Creek	Mobil Exploration and Producing
7960041910	NW Cha Cha	Mountain States Petroleum Corp
7960041920	Ratherford	Mobil Exploration and Production
7960041930	White Mesa	U.S. Oil and Gas, Incorporated
7960042160	Gothic Mesa	Giant Exploration & Production Co.
8910068900	West Bisti	Dugan Production Corporation
8910077380	Aneth Unit	Texaco-E & P, Incorporated
8910087400	Ismay Flodin	Apache Exploration

EXAMPLE

Calculating the Sales Quantity.

Assumptions

Gusher Unitization Agreement

Agreement consists of 1,000 acres comprised of the following:

Federal lands = 100 acres
Navajo Tribal Lease No. 1 = 200 acres
State lands = 700 acres

Navajo Tribal Lease No. 1 participation factor in the agreement is 20 percent (200/1000). The lease must receive 20 percent of the production sold from the agreement each month.

In August 1995, 10,000 barrels of oil are produced and sold from the agreement.

There are two lessees on the Navajo Tribal Lease No. 1 with the following ownership portions.

Oil City = 75 percent
Black Tar = 25 percent

On the Form MMS-2014, each company will report a Sales Quantity based on their gross interest in the Navajo Tribal Lease No. 1 as follows:

Oil City = 1500 barrels
Black Tar = 500 barrels