



United States Department of the Interior

OFFICE OF NATURAL RESOURCES REVENUE

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

Subject: Termination of Navajo Nation Royalty In-Kind Program

Dear Reporter:

This letter supersedes the Dear Operator/Payor letter dated August 24, 1995, regarding the Navajo Nation's election to take their oil royalty in-kind. This letter notifies you that the Navajo Nation will no longer take their oil royalty in-kind (Enclosure A) from the properties identified on Enclosure B.

Effective Date

Effective with production month June 2022 (reporting month July 2022), you must begin reporting in-value oil royalties for Navajo Nation leases on the Report of Sales and Royalty Remittance (Form ONRR-2014) and remitting oil royalties directly to the Navajo Nation.

Background

The standard Oil and Gas Lease for Tribal Lands gives authority to the Indian Lessor to elect to take oil royalties in-value or in-kind. In 1995, the Navajo Nation established its Oil Royalty In-Kind Program and elected to take its oil royalties in-kind from certain oil and gas units/leases. Since then, the Navajo Nation's Oil Royalty In-Kind Program has grown to represent approximately 80 percent of all Navajo Nation oil properties. The Navajo Nation has now elected to begin taking its royalties in-value from all properties in which it has a royalty interest.

Royalty Reporter and Payor Responsibilities

If you are responsible for reporting and paying royalties for oil produced from Navajo Nation leases, you must report oil royalties on Form ONRR-2014, and remit oil royalties in-value directly to the Navajo Nation's lockbox account.

Form ONRR-2014, Report of Sales and Royalty Remittance

- Payment Method code – 07 Indian lockbox
- Product Code – 61 Sweet Crude (Indian leases-may change depending on crude type)
- Transaction Code – 01 Royalty Due
- The Sales Quantity reported in Field Number 15 is based on your gross interest in the lease or your current reporting responsibility if you report on behalf of others.
- The Sales Value reported in Field Number 17 is based on the higher of the weighted average price of your in-value sales or ONRR's Index-Based Major Portion Price. Refer to your lease terms and 30 CFR 1200.
- The Royalty Prior to Allowances reported in Field Number 19 is based on the royalty rate specified in your lease agreement.

- The Royalty Value Less Allowances reported in Field Number 22 is the royalty value after you deduct allowable transportation allowances.
- The oil royalties reported in Field Number 22 of the Form ONRR-2014 should be remitted to the Navajo Nation Lockbox Account Number **6008301569**. Please refer to attached instructions for lockbox payment information (Enclosure C).
- A copy of the Form ONRR-2014 should accompany your royalty payment. Your royalty payment to the Navajo Nation must match the Form ONRR-2014 submitted to ONRR.

Please refer to ONRR's Minerals Revenue Reporter Handbook or Indian Payor Handbook for additional reporting guidance.

Form ONRR-4054, Oil and Gas Operations Report

This letter does not affect production reporting. You must continue to report production on the Oil and Gas Operations Report.

Advance Rental Payments and Recoupments

You must continue to report and pay annual lease rental payments on Form ONRR-2014. The annual rental payment should be remitted to the Navajo Nation's Lockbox Account Number **6008301569**. Please see Enclosure C for lockbox payment information.

If lease terms permit the recoupment of the annual rental payment from production occurring during the lease year, you can recoup it against oil and gas royalties attributable to the lease. The annual rental payment should be recouped using Transaction Code 25, Recoup Advance Rental Credit, on Form ONRR-2014, if the recoupment is made during the lease year.

If you have any questions regarding this letter, please contact Ms. Rowena Cheromiah, Minerals & Royalty Management Director, Navajo Nation, at (928) 871-6588.

Sincerely,

Yvette Smith
Program Manager
Tribal and State Audit Services

Enclosures:

- A – Navajo Nation's letter to terminate the Oil Royalty In-Kind Program
- B – Properties
- C – Navajo Nation Royalty Payment Instructions

THE NAVAJO NATION

JONATHAN NEZ | PRESIDENT MYRON LIZER | VICE PRESIDENT



April 14, 2022

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

James R. McClure, President/CEO
 Navajo Nation Oil and Gas Co.
 P.O. Box 4439
 Window Rock, Arizona 86515

Dear Mr. McClure:

This letter serves as notification that the Navajo Nation has elected to terminate its Oil Royalty In-Kind Program; therefore, the Navajo Nation will not be renewing the Crude Oil Sales Contract with the Navajo Nation Oil and Gas Company (NNOGC) for the sale of the Navajo Nation's in-kind royalty share of crude oil.

The standard Oil and Gas Lease for Tribal Lands provides authority to a Tribal Lessor to elect to take oil royalties in-value or in-kind. In 1995, the Navajo Nation elected to take its oil royalties in-kind from certain oil and gas properties and established its first Oil Royalty In-Kind Program. The Navajo Nation's Oil Royalty In-Kind Program proved to be very successful; however, after careful consideration of recent, current and projected oil prices and other factors, the Navajo Nation has decided to terminate its Oil Royalty In-Kind Program.

Effective with sales month July 2022, the Navajo Nation will begin taking its crude oil royalties in-value from all properties that it has a royalty interest in. This does not affect or apply to the Professional Services Agreement between the Navajo Nation and NNOGC.

If you have any questions, I can be reached at (928) 871-6588.

Sincerely,

Rowena Cheromiah

Rowena Cheromiah, Director
 Minerals Department

ENCLOSURE B
PROPERTIES

UNITS

<u>Unit Name</u>	<u>Unit Agreement Number</u>
Aneth	8910077380
Ismay Flodine Park	8910087400
McElmo Creek	7960041900
Rutherford	7960041920
West Bisti	8910068900
White Mesa	7960041930

NON-UNITIZED LEASES

525-002938-0
621-002085-0
527-001773-0
623-008103-0
525-005432-0
527-001709-0
621-000229-0
621-000248-0
621-000270-0
621-004190-0

ENCLOSURE C
NAVAJO NATION ROYALTY PAYMENT INSTRUCTIONS

MAIL

- Royalty payments that are mailed via overnight courier delivery should be sent to the following address:

Wells Fargo Lockbox Services
Navajo Nation
Lockbox #5052543
P.O. Box 842479
Los Angeles, CA 90084-2479

Include the Navajo Nation's Lockbox Account Number **6008301569** on each payment document. Please note what the payment reflects, i.e., "Oil Royalties."

- Express Payment Address:
Lockbox Services #5052543
Navajo Nation
3440 Flair Drive
El Monte, CA 91731

Include the Navajo Nation's Lockbox Account Number **6008301569** on each payment document. Please note on each check what the payment reflects, i.e., "Oil Royalties."

WIRE TRANSFERS

Direct To: Wells Fargo Bank, Window Rock, N.A.
Bank Routing Number **121000248**
Beneficiary Bank: Wells Fargo Bank, Window Rock
Beneficiary: The Navajo Nation Lockbox Account
Account Number 6008301569

Include Form ONRR-2014 *PAD Number* in comments section.

ACH

Account Title: The Navajo Nation – Royalty Revenue
Account Number: 6008301569
ACH Routing: **122105278**
Bank Name: Wells Fargo Bank, N.A.
Bank Address: P.O. Box 842479
Los Angeles, CA 90084-2479

Bank Contact Phone Number: 1-800-289-3557, option 2