



United States Department of the Interior

MINERALS MANAGEMENT SERVICE

Royalty Management Program
P.O. Box 5760
Denver, Colorado 80217-5760

IN REPLY REFER TO:

Jan 31, 1997

Dear Payor:

On August 13, 1996, President Clinton signed into law the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA), amending the Federal Oil and Gas Royalty Management Act of 1982 in several important ways. One of the most notable changes concerns who is responsible for making royalty and related payments on Federal leases. We are asking you to help implement RSFA by providing important required data by February 28, 1997.

RSFA clearly establishes the owners of operating rights and/or lease record title (who are jointly defined as "lessees" under RSFA) as responsible for making royalty and related payments on a Federal lease. Currently, it is common for the payor, as agent for the lessee, rather than the lessee, to make these reports and payments. When you, as payor, pay royalties on behalf of that lessee, RSFA requires that the lessee designate you as their designee for each lease. We need to know who those lessees are to inform them of their obligation to designate you to be their lawful designee.

What information is being requested? Tell us which lessee(s) as defined under RSFA for whom you pay royalty, rent, and minimum royalty. Lessees, under RSFA, are defined as:

- owners of lease record title, and/or
- owners of operating rights (person to whom operating rights have been transferred).

RSFA made this payor designation requirement effective for lease production beginning September 1, 1996.

What data must be provided? We are asking you to provide some payor data and lessee(s) data. The details of each are listed in later questions and their responses.

How do you get started? To assist you in responding, we will provide you a computer readable file of all Federal oil and gas leases/revenue sources/product codes that you established with

the Minerals Management Service (MMS) as of September 1, 1996. This includes payment responsibilities for royalty, rents, or other royalty-related payments. To get the file type you need, call Ms. Barbara Peterson at (303) 275-7018 or Ms. Paulette Palmer at (303) 275-7049.

What payor data must be provided? First, you must provide your Taxpayer Identification Number (TIN), as required by the Debt Collection Improvement Act of 1996. **Enter your TIN only on the first listed lease/revenue source/product code.** Use an "E" for employer identification number, or "S" for a social security number, whichever is applicable to you. Follow this 1-character alpha field with your 9-digit TIN. Please follow the enclosed record layout, and include your 5-digit payor code and payor name.

If you request a computer readable file, we want you to verify the lease/revenue source/product code in the file. Be sure that it is accurate and complete. If not, add additional or strikeout superfluous lease/revenue sources/product codes. Also, if the responsibility type code (advance royalty, minimum royalty, royalty, rent, etc.) is not correct, please enter the correct code.

What lessee data is being requested? Under RSFA, the operating rights owners (lessees) on whose behalf you pay are primarily liable. The owners of lease record title are secondarily liable for payments to MMS.

Because the operating rights owners are primarily liable, the following information we are requesting from you is for operating rights owners (an operating rights owner can also be an owner of lease record title):

-- lessee/designee indicator: notate your role(s) in each lease/revenue source/product code--select either L, D, or B as follows:

- owner of operating rights and/or lease record title--enter L
- payor (designee) only with no ownership in the lease/revenue source/product code-- enter D
- both designee and owner-- enter B

-- for each lessee for whom you pay on behalf of, provide the following:

- company or individual name
- if you know it, the Taxpayer Identification Number (TIN), which is either an Employer Identification Number (E) or a Social Security Number (S) followed by the 9-digit number
- contact name
- complete mailing address
- telephone number and applicable extension
- the start date for each lessee is 09/01/96. If any lessees have changed since 09/01/96, please include the requested information, including each applicable start and end date the person was/is a lessee.

Add additional records as needed to provide all lessees since September 1, 1996.

Should we differentiate products? Providing information at the product code level is optional, and should be done only if the lessees/designees are different for each product. For example, if the lessees/designees are different for oil and gas, then add the additional lessee information unique to each product. Different lessees/designees will be the only reason for MMS to need product code detail.

How must we provide the data? We are requesting that you respond either electronically or by diskette due to the number of lease/revenue source/product code records you have with MMS. We require Comma Separated Value (CSV) file structure, which is available as an output type in most spreadsheet applications. If you need assistance, please contact Ms. Barbara Peterson at (303) 275-7018 or Ms. Paulette Palmer at (303) 275-7049.

We have enclosed the detailed instructions and the required record layout. Send in your completed responses either by using:

- E-mail: Working_Interest@SMTP.MMS.GOV, or
- a floppy diskette mailed to:

Minerals Management Service
Royalty Management Program
Data Management Division
P.O. Box 5760, MS 3110
Denver, Colorado 80225

If you use a courier or overnight delivery service, send to:

Minerals Management Service
Royalty Management Program
Data Management Division
Building 85, Room A-212
Denver Federal Center
6th Avenue and Kipling
Lakewood, Colorado 80225-0165

When must the data be submitted to MMS? The data must be submitted to MMS no later than February 28, 1997.

How will MMS use the data? When we receive your information, we will notify each lessee (operating rights owners and/or lease record title owners) directing them to complete a written designation to meet the RSFA requirement. It is codified as 30 U.S.C. §1712(a):

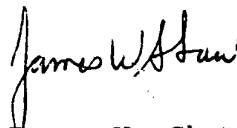
In order to increase receipts and achieve effective collections of royalty and other payments, a lessee who is required to make any royalty or other payment under a lease or under the mineral leasing laws, shall make such payments in the time and manner as may be specified by the Secretary . . . A lessee may designate a person to make all or part of the payments due under a lease on the lessee's behalf and shall notify the Secretary . . . in writing of such designation, in which event the designated person may, in its own name, pay, offset or credit monies, make adjustments, request and receive refunds and submit reports with respect to payments required by the lease

Of what benefit is this information? Your information will accomplish two things:

1. You and your lessees (as defined in RSFA) will be in compliance with RSFA. Then as a designated person, you will continue to have the right to pay, adjust, recoup, etc., in accordance with existing laws, regulations, and procedures, and your lessees will be assured that when you pay they will get credit for those payments made on their behalf.
2. You will enable MMS to notify the lessees promptly when the lease has an amount owing to MMS.

We thank you for your cooperation. If you have any questions, please call Mr. Larry Gratz, Data Management Division, at 1-800-525-9167 or (303) 231-3427.

Sincerely,

A handwritten signature in cursive script that reads "James W. Shaw".

James W. Shaw
Associate Director for
Royalty Management

Enclosure

Lessee/Designee
Comma Separated Value (CSV)
Record Layout

Enclosure
Page 1 of 2

File Name:

Name the incoming file as: LEASDESG.CSV; also indicate the name on the floppy diskette or email file.

Format:

All fields must be separated by commas.

Fields which are blank still require a comma to delimit their position.

A comma is not required after the last field of a record.

All fields are required unless indicated as optional.

Key:

Text is represented by an X with the maximum number of characters in the field, for example, X(5).

Numerics are represented by a 9 with the maximum number of characters in the field, for example, 9(10)

CYRDD Date is a year/month date in the following format: CCYYMM, where CCYY is the century and year, MM is the numeric month, and DD is the numeric day. Use a leading zero for the months January through September, 01 through 09. Use a leading zero for the days 01 through 09.

Record Layout:

Payor Number	X(5)	5 digit RMP payor number
Payor Name	X(30)	Payor's name - up to 30 characters in length
Payor TIN Number	X(10)	Payor's TIN number; indicate either E or S in the first position, followed by the 9-digit number
Lease Number	X(11)	11 digit lease number
Responsibility Type Code	X(2)	Use the following codes: 'AD' - Advance Royalty 'MR' - Minimum Royalty 'RO' - Royalty 'RN' - Rental 'OT' - Well Fees Injection Fee Storage Fee Withdrawal
Revenue Source Code	X(3)	3 digit revenue source code, required for responsibility type "RO".
Product Code	X(2)	2 digit product code, optional if lease-level obligation
Lessee Designee Indicator	X(1)	'L', 'D' or 'B' for Lessee, Designee or Both
Lessee Payor Number	X(5)	5 digit lessee's payor number

Lessee Name	X(30)	Lessee's name - up to 30 characters in length
Lessee TIN Number	X(10)	Lessee's TIN number; indicate E or S in first space, followed by the 9 digit number
Lessee Contact Name	X(30)	Lessee's contact name--up to 30 characters in length
Lessee Address Line 1	X(25)	Lessee's address--up to 25 characters in length
Lessee Address Line 2	X(25)	Lessee's address - continuation (optional)--up to 25 characters in length
Lessee City	X(15)	Lessee's city --up to 15 characters in length
Lessee State Code	X(2)	Lessee's 2 character state postal code
Lessee ZIP Code	X(9)	Lessee's 5+4 digit ZIP code & suffix - do not include dash between code and suffix - suffix is optional
Lessee Area Code	9(3)	Lessee's phone area code
Lessee Phone Number	9(7)	Lessee's phone number - do not include dash between prefix and line number
Lessee Phone Extension	X(5)	Lessee's phone extension (optional)
Start Date	CYMD Date	Start date of the lessee designee relationship. Field is optional. However, if left blank MMS will assume September 1, 1996.
End Date	CYMD Date	End date of the lessee designee relationship. Field is optional. However, if left blank, MMS will assume relationship is still active.