

303-290-1266

Link Price

# United States Department of the Interior

MINERALS MANAGEMENT SERVICE ROLALLY MANAGEMENT PROGRAM FO. BOX 25165

DENVER, COLORADO 80225

IN REPLY

MMS-RCD-OSTP 5-3-26 MS 655

APR 5 1985

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Slayton Oil Corporation P. O. Box 150 Farmington, New Mexico 87499

### Gentlemen:

The Minerals Management Service (MMS) and the Navajo Tribe (Tribe) have entered into a Memorandum of Agreement for joint audits. As a result of this Agreement, an audit team comprised of MMS Royalty Compliance Division and Tribal personnel have reviewed Slayton Oil Corporation's (Slayton) Navajo Tribal Lease Nos. 21-002168-A, 21-002172, 21-002198-A, 21-002199, and 21-002200-A (Cha Cha Gallup) for the period of October 1982 through July 1984. These five leases are committed to the Northwest Cha Cha Unit No. 96-004191 (Unit). This letter is intended to apprise you of a preliminary royalty underpayment determination resulting from our review and does not constitute a final action or determination by the Tribe and MMS. Its purpose is to give you an opportunity to comment or provide any additional documentation that would refute our preliminary determination.

According to our review, Slayton underpaid royalties due the Tribe by \$28,256.89. These underpayments resulted from Slayton undervaluing oil sales for five months and not reporting oil and gas sales allocated to the Unit under Communitization Agreement No. NMA-1-0004.— The following paragraphs further detail these underpayments.

Underpaid Royalties Related to the Kirtland #11 Well C-18 79 W-1400

As operator of the previously mentioned Navajo Tribal leases, Slayton is responsible for royalties on production from the Kirtland #11 well. Under Communitization Agreement No. NMA-01-0004 (C. A.), the Tribe is entitled to royalties on a share of production from that well from October 1982, the date of first production. Although the Bureau of Indian Affairs did not approve this C. A. until August 6, 1984, the provisions of the C. A. provide for royalties on production prior to that date. As shown in our Statement of Royalties Due, the royalties due on production from the Kirtland #11 well from October 1982 through July 1984 are \$27,046.71. We based these royalty computations on information furnished by the State of New Mexico, Oil and Gas Accounting Division, and by the operator of the Kirtland #11 well, Greenwood Resources, Inc.

Section 7 of the C. A. requires royalty payments to the Tribe. Section 7 states:

"The royaltles payable on communitized substances allocated to the individual leases comprising the communitized area...shall be determined and paid on the basis prescribed in each of the individual leases."

Additionally, Sections 9 and 11 of the C. A. make the C. A. effective on the date of the first production. Section 11 states: "This agreement shall be effective as of the date of first production of communitized substances..."; while Section 9 states: "The ... production of a well or wells for communitized substances on the communitized area shall be ... considered as the ... production on each and all of the lands within ... said communitized area...."

# Undervalued Oil from Unit No. 96-004191

Slayton undervalued oil produced from the Unit for five months of our nineteen month audit period. This undervaluation occurred because Slayton did not use the highest posted prices in the area in determining the royalty value of oil from the Unit. As a consequence of the undervaluation, Slayton underpaid royalties for March 1983, April 1983, November 1983, December 1983, and January 1984. As shown in the Schedule of Royalty Due, Slayton underpaid royalties by \$1,210.18 for these months.

Federal Regulations establish the value to be used in calculating royalties for the subject leases. Title 30 of the Code of Federal Regulations, Part 206.103, titled, Value Basis for Computing Coynities, states in part:

"The value of production, for the purpose of computing royalty, shall be the estimated reasonable value of the product an determined by the Associate Director due consideration being given to the highest posted price paid for a part or for a majority of production of like quality in the same field, to the price received by the lessee, to posted prices, and to other relevant matters. Under no circumstances shall the value of production of any of sald substances for the purposes of computing royalty be deemed to be less than the gross proceeds accruing to the lessee from the sale thereof or less than the value computed on such reasonable unit value as shall have been determined by the Secretary."

We recomputed royalties for the five referenced months using the highest posted price for the field or area. Specifically, we based our computations on the applicable Crude Oil Price Bulletin for the Four Corners Area issued by Shell Oil Company.

## Summary

In summary, our review indicates that for the period October 1982 through July 1984, oil and gas royalties were underpaid by \$28,256.89. Enclosed are the following: Schedule of Royalty Due - Oil Price Differences and Schedule of Royalty Due - Sales Allocated to Unit under C. A. No. NMA-1-0004. These schedules detail the amounts of potential underpaid oil and gas royalties due the Tribe as summarized below:

 Sales Ailocated to Unit from C. A.
 \$27,046.71

 Oil Price Differences
 1,210.18

 Total Royalty Due
 \$28,256.89

Slayton is requested to review the information provided above and in the enclosed schedules. You are requested to advise this office by May 6, 1985, of your concurrence or specific reason(s) for your nonconcurrence with these findings.

This letter is to advise you of a potential underpayment of Tribal royalties on the referenced leases and should not be interpreted to be an official order to pay. However, if an official response addressing the findings is not received by the due date, an official order to pay the royalties due, as stated, will be issued. Your response to this issue letter should be sent to the following address:

Milton K. Dial, Chief Royalty Compliance Division Minerals Management Service P. O. Box 25165, Mail Stop 655 Denver, Colorado 80225

If you have any questions concerning this letter or the computation schedules, please contact Ms. Janice Brossett at (303) #31-3801 or Mr. Deb Misra at (302) 871-6303.

If you desire to voluntarily remit payment for the additional royalties based on the contents of this issue letter, your payment must be accompanied by a green Form MMS-2014 (copies attached). Instructions for completing this form are also attached. Late payment charges as provided in Title 30 of the Code of Federal Regulations, Section 218.102 will stop accruing as of the date your payment is received.

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# Slavion Oil Corporation Northwest Cha Cha Unit 96-004191 Schedule of Royalty Due Sales Allocated to Unit Under C. A. No. NMA-1-0004

	(2)	(3)	(4)	(5) Total	(5) Percent Altocated	(7) Cait Value	(8) Royalty	(9) Royalty Dus
	Year _		Volume	<u>Yalue</u>	to Unit	Colline Colline	Rate	Col / : Col 3
10	1982	Oil Cas	874 1,209	\$2 <b>8,840.02</b> 2.497 <b>.</b> 98	47.21%	\$13,615.37 1,179.30	12.5%	\$ 1,701.92 £57.41
11	1982	OII Gas	637 1,455	21,020.01 2,999.64		9,023.55 1,446.13		1,240.44 177.02
12	1982	Oil Cas	851 1,684	27,434.79 3,510.53		12,951.96 1,657.32		1,619.00 207.17
11	1983	0il Gas	8 <b>3</b> 9 1,830	26,832.64 3,831.02	**	12,667.69 1,808.62		1,583.46 226.03
02	1983	nil Gas	543 1,569	16,583.63 3,296.03		7,831.49 1,656.06		978.94 194.51
05	1983	Oil Gas	947 1,654	27,45.6.75 3,446.28		12,961.86 1,626. <b>9</b> 9		1,620.23 203.37
Oly	1983	otl Gas	439 1,381	14,351,40		0.7/5.96 1.379.60		847.00 172.45
υ5	1983	0:1 :as	754 1,324	27,364.78 2,816.99	••	10,530.09 1,329.90		1,316.26 166.24
94	1983	OH Gas	656 1,388	19,418.78 3,180.64		9,167. <b>6</b> 1 1,501.58		1,145.95 187.70
Q/	1983	Orl	633 1,456	18,729.99 3,125.55		8,842.43 1,475.57		1,105.30 184.45
US	1983	Oli Gas	579 1 <b>,5</b> 95	17,132.48 3,439.69		8,088.10 1,623.88		1,011.01 202.98
(13)	1983	011 Gas	592 1,464	17,516.98 3,166.69		8,269.77 1,494.99		1,033.72 186.87
10	1983	01! G.or	649 1,490	19,197.08 3,237.45	 	9,062,94 1,528,40	"	1,132.87 191.65
1.1	1983	0(1 Gas	418 1,483	12,128.48 5,231.70		5,725.86 1,525.69	"	715.73 190.71
.2	1983	Oil Gas:	590 1,501	16,974.29 3,280.42	••	7,966.35 1,548.69		995 <b>.</b> 79 193 <b>.</b> 59
. 1	1984	OHI OHIS	723 1,773	21,165.45 3,384.56		9,932,77 1,833,90	0	1,247.35 229.24
632	1984	Oil Gas	444 U.860	3,6 4.24		6,198.94 1,723.75	0 0	77967 21547
<i>(Y3</i> )	1984	Oit Con	570 U,180	10,570.4 i 3,737.04		7,967.37 1,750.09	 	935 <b>.</b> 92 <b>21</b> 8.75
).(4	1984	oil Gu	593 1,039	17, 00.10 5583.53		8,756.69 8,119 <sub>0,</sub> 1		1,044.70 211.47
5	1984	(11 Gal)	398 1,534	11,772.22		5,557.67 1,714.03		694.71 214.25
),,	1984	ort Gas	0 <del>-</del> 1,383	-( <del>)-</del> 3,006.75		-0- 1,419.48		() 1,7,13
(1,	1984	ort Gas	-,\- 1,110	~() - 1,41,1,00	м	~()- 1-142-65	<b>1.</b>	Aya.
otal	Royalt		4 3 4 4 5 °	g that is e CHO		1,143.45		142.93 327,036.71