



IN REPLY
REFER TO

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

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Link Price

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM
P.O. BOX 25165
DENVER, COLORADO 80225

5-1-85

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-18-79W-14W
12-6800*

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 royalties 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 Royalties, states in part:

"The value of production, for the purpose of computing royalty, shall be the estimated reasonable value of the product as 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 said 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.

Sales Allocated to Unit from C. A.	\$27,046.71
Oil Price Differences	1,210.18
Total Royalty Due	<u>\$28,256.89</u>

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

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.

Not signed, Vol. 1 - on 12/10/11

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The lower wheel is 11 1/2 in. of diameter. The 1st wheel is 11 1/2 in. of diameter.

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

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