



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Minerals Revenue Management
P.O. Box 25165
Denver, Colorado 80225-0165
www.nrm.mms.gov



MAR 10 2008

Dear Reporter:

The purpose of this letter is to give you guidance regarding your royalty payments in light of the October 30, 2007, decision of the United States District Court for the Western District of Louisiana in Kerr-McGee Oil & Gas Corp. v. Allred, No. 2:05 CV 0439. In its decision, the court concluded that the Department of the Interior is without authority to impose royalty relief price thresholds in leases issued between November 28, 1995, and November 28, 2000, under the Outer Continental Shelf Deep Water Royalty Relief Act of 1995, 43 U.S.C.A. § 1337 (West, Supp. 2007).

Because the Kerr-McGee decision may be the subject of additional litigation, we advise all affected payors and lessees to make no adjustments regarding their prior or ongoing royalty payments until there is a final, non-appealable judgement entered in the case.

In particular, if you are a lessee or payor who has paid royalties when oil and gas prices exceeded the price thresholds and did not appeal the Minerals Management Service's (MMS) order to pay these royalties, you should not yet seek to adjust prior payments and associated Reports of Sales and Royalty Remittance, Form MMS-2014. In addition, you should not discontinue royalty payments. We suggest that you submit a refund request for prior royalties only if a refund could be barred by the 7-year statute of limitations for making demands under the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA), 30 U.S.C. § 1724(b).

If you are a lessee or payor who appealed MMS's order to pay royalties when the oil and gas prices exceeded the lease term price thresholds, you should not discontinue royalty payments nor seek to recoup prior royalty payments. The MMS will work with lessees to assure that the RSFA 33-month period in which the Department must render a final action on an appeal is extended or proper and timely action is taken on the appeal. 30 U.S.C. § 1724(h).

If you are a lessee or payor who renegotiated leases issued in 1998 and 1999 to be subject to price thresholds, you should not discontinue royalty payments nor seek to recoup prior royalty payments.

The MMS is willing to enter into a tolling agreement with you that tolls the RSFA's 7-year limitation on lessees making demands in lieu of refund requests and MMS issuing demands for additional royalties until there is a final, non-appealable judgement entered in the case. Please contact Theresa Walsh Bayani at (303) 231-3701 if you are interested in entering into a tolling agreement with MMS.

Sincerely,

Robert F. Prael
Chief, Financial Management

TAKE PRIDE
IN AMERICA