United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-VSD-EVB:96-0283
Mail Stop 3151

SEP 18 1996

CERTIFIED MAIL--
RETURNED RECEIPT REQUESTED

Mr. Raymond A. G. Oalmann
Manager, Revenue Accounting
CNG Producing Company
1450 Poydras Street
New Orleans, Louisiana 70112-6000

Dear Mr. Oalmann:

This is in response to your letter dated June 28, 1996, requesting the Minerals Management Service (MMS) to approve an allowance for transportation of production from Green Canyon 116 to South Timbalier Block 300. You stated that the bulk, untreated production is injected into flowlines at Green Canyon 116 and that all separation, dehydrating, treating, and sales meters are located at the production facilities at South Timbalier 300. Additionally, you stated that although present regulations do not address the transportation of bulk deepwater production, the proposed "Amendments to Gas Valuation Regulations for Federal Leases" discuss the ability of MMS to approve an allowance for transportation of bulk deepwater production.

The MMS cannot grant transportation allowance approvals based on proposed rules. Current Federal regulations and instructions establish the procedures for transportation allowances. Title 30 CFR § 206.105 (1995) defines a transportation allowance as follows:

> . . . an allowance for the reasonable, actual costs incurred by the lessee for moving oil to a point of sale or point of delivery off the lease, unit area, or communitized area, excluding gathering . . . .

Gathering is defined as:

> . . . the movement of lease production to a central accumulation or treatment point on the lease, unit, or communitized area, or to a central accumulation or treatment point off the lease, unit, or communitized area as approved by BLM [Bureau of Land Management] or MMS OCS [Outer Continental Shelf] operations personnel for onshore and offshore leases, respectively.

CNG Producing
Company

A CNG COMPANY

CNG Tower
1450 Poydras Street
New Orleans, LA 70112-6000
(504) 593-7472

RAYMOND A. G. OALMANN
Manager, Revenue Accounting

June 28, 1996

7593

RECEIVED
D.O.I. - MMS
1996 JUN 31 AM 10: 25
VAL. & STDS. DIV

Ms. Debbie Gibbs Tschudy
Chief, Royalty Valuation & Standards Division
Minerals Management Service
12600 W. Colfax
Suite C 100
Lakewood, CO 80215

RE: Transportation Allowance
Approval Request

Dear Ms. Tschudy:

Attached are MMS Forms 4295 and 4110 to request an oil and gas transportation allowance at our deepwater Green Canyon 116 Unit. We are asking permission to take these allowances due to the unusual nature of this transportation system. Per the attached schematic and commingling agreements, this system consists of two 6 inch production flowlines that travel 25 miles from the two producing wells on the seafloor in 2,040 feet of water on the Green Canyon 116 lease to production and handling facilities located at South Timbalier Block 300. Bulk, untreated production is injected into these flowlines at Green Canyon 116. All separation, dehydrating, and treating occurs at the production facilities at South Timbalier 300. The sales meters for both gas and condensate products are also at ST 300. This system was set up due to the enormous expense of setting a production platform and related facilities in a water depth of 2,000 feet verses sending the raw production to the nearest existing production facility with excess processing capacity.

Although the current MMS regulations do not address the transportation of bulk deepwater production, the proposed "Amendments to Gas Valuation Regulations for Federal Leases," published in the Federal Register Vol. 60; No. 214, Monday, November 16, 1996; page 56013; Section 206.456, discusses the ability of the MMS to approve an allowance for the transportation of bulk deepwater production upon request of the lessee.

96-0283

Please approve this request and advise us of your decision as soon as possible. If there are further questions, please contact Richard Pepper at 504-593-7512.

Sincerely,

Raymond A. G. Oalmann by RRP

Raymond A. G. Oalmann
Manager, Revenue Accounting

RAGO/RRP:lfm

Attachments

FIGURE 1: *POPEYE SUBSEA DEVELOPMENT SCHEMATIC*
GC - 116 FIELD TO ST - 300 "A"

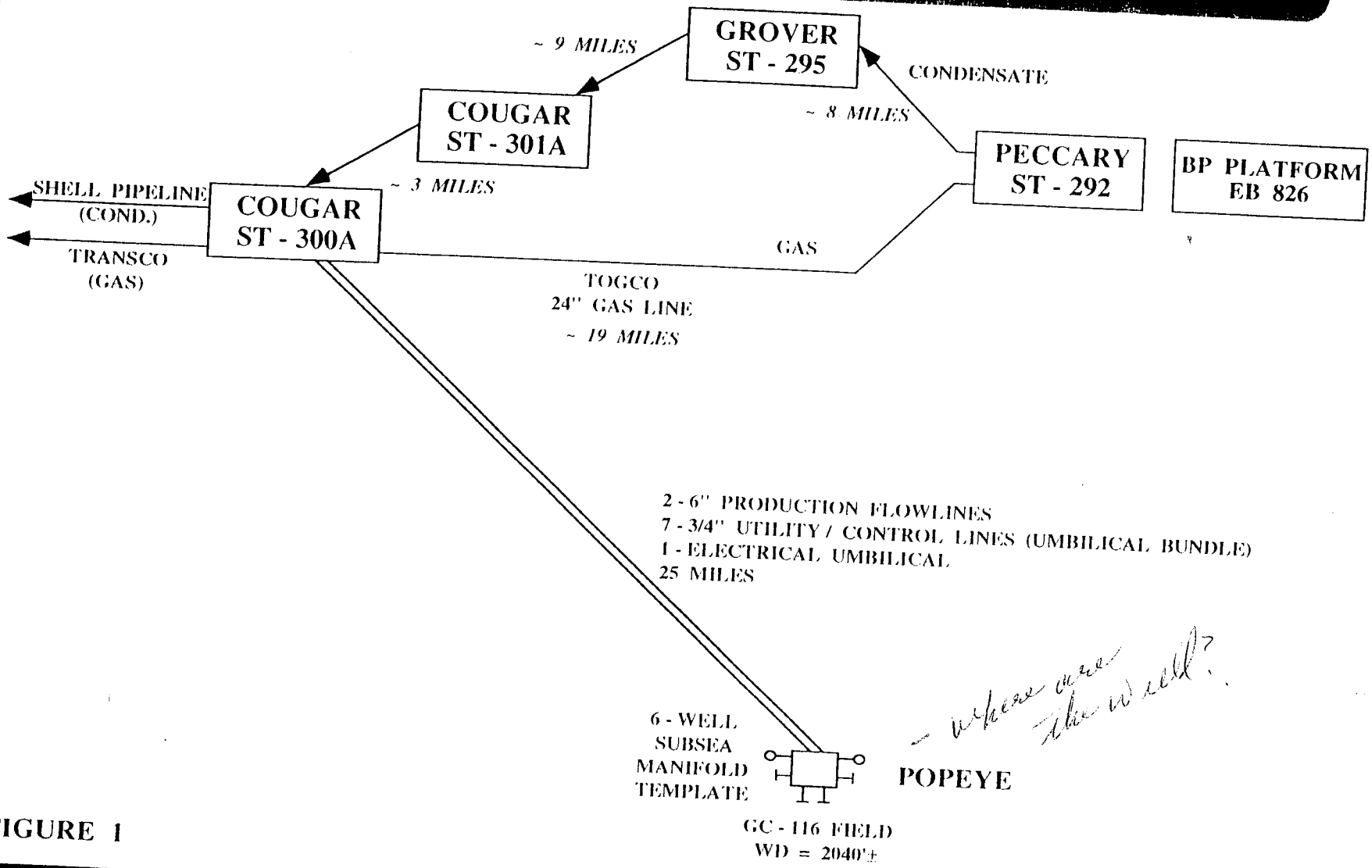

FIGURE 1

GM911862.CAN MAB 11/24/92

Cc: C. Thorne
D. Decker

Shell Offshore Inc.
An affiliate of Shell Oil Company

One Shell Square
PO Box 61933
New Orleans LA 70161-1933
(504) 588-6161

Exploration and Production
Deepwater Division

2

January 17, 1996

Acting Regional Supervisor
Production and Development
Minerals Management Service
1201 Elmwood Park Blvd.
New Orleans, LA 70123-2394

Dear Sir:

SUBJECT: FIRST PRODUCTION AND ANNUAL PLAN OF OPERATIONS
POPEYE FIELD
SOI OCS-G 5897, GREEN CANYON BLOCK 73
SOI OCS-G 5904, GREEN CANYON BLOCK 116
SOI OCS-G 5905, GREEN CANYON BLOCK 117
MOBIL/BP OCS-G 5896, GREEN CANYON BLOCK 72
GREEN CANYON BLOCK 116 UNIT
GREEN CANYON BLOCK 116 FIELD
OFFSHORE LOUISIANA

Shell Offshore Inc. (SOI), as Operator of the captioned unit and on behalf of Mobil Exploration & Producing U.S. Inc., BP Exploration & Oil Inc. and CNG Producing Company, submits for your information and records, notification of first production and date of automatic adjustment to the Unit Area. Also included is our Annual Plan of Operations (Attachment 1).

First Production - Popeye Unit Phase I Development

First production from OCS-G 5896, Well A-1, commenced on January 11, 1996. OCS-G 5904, Well A-2, was placed on production January 15, 1996. These deepwater high pressure subsea gas wells are flowing 24 miles to SOI's South Timbalier 300 Platform "A". Although the wells are not completely stabilized, daily field production rates are expected to exceed 120 MMCF and 8,000 barrels of condensate.

Automatic Adjustment of Unit Area

The Unit Area Adjustment will take place on January 11, 2006 based on first production of January 11, 1996. (Reference Article 13.1 of the Green Canyon Block 116 Unit Agreement.)

2

aj601701.arp

Annual Plan of Operations

Enclosed please find our Annual Plan of Operations as required by Article 9.3 of the Green Canyon Block 116 Unit Agreement.

If you have any questions or need additional information, please contact Al Pickett at (504) 588-0198 in our New Orleans office.

Yours very truly,

For: R. W. Robison, Jr.
Contracts Manager

ARP:AHJ

Attachment

cc: Mr. Lars Herbst
New Orleans District Supervisor
Minerals Management Service
1201 Elmwood Park Blvd.
New Orleans, LA 70123-2394

Ms. Teresa V. LeBlanc
Mobil Exploration & Producing U.S. Inc.
1205 Poydras Building
New Orleans, LA 70113-1892

Mr. E. L. Erwin, III
BP Exploration & Oil Inc.
P. O. Box 4587
Houston, TX 77210-4587

Mr. James Carrington, Jr.
CNG Producing Company
CNG Tower
1450 Poydras Street
New Orleans, LA 70112-6000

ATTACHMENT I

ANNUAL PLAN OF OPERATIONS
GREEN CANYON BLOCK 116 UNIT

UNIT AGREEMENT NO. 754388025

REVIEW PERIOD - 1995

ACTIVITY	TIMING
DWSS* Integration Testing	February - April
Install DWSS*	March - May
Complete drilling operations for OCS-G 5896 Well A-1 and OCS-G 5904 Well A-2	July - September
Completion operations for Wells A-1 and A-2	September - December

PLANNING PERIOD - 1996

ACTIVITY	TIMING
Complete well completion operations and place Wells A-1 and A-2 on production	January
Produce Well A-1 (G-RA) and Well A-2 (G-RM), monitor reservoir performance and DWSS* performance for future development (Phase II)	January - December

*DWSS - Discrete Well Subsea System

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-VSD-EVB:96-0283
Mail Stop 3151

SEP 18 1996

S Barton 9-13-96
D. Hubbard 9/13/96
9/13/96

CERTIFIED MAIL--
RETURNED RECEIPT REQUESTED

Mr. Raymond A. G. Oalmann
Manager, Revenue Accounting
CNG Producing Company
1450 Poydras Street
New Orleans, Louisiana 70112-6000

Dear Mr. Oalmann:

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Regulations for Federal
allowance for transporta

The MMS cannot grant app
Federal regulations and
transportation allowance
transportation allowance

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by the lessee
delivery off
excluding gat

Gathering is defin

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treatment poi
central accum
communitized
MMS OCS [Outer
and offshore

SENDER:
- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt Fee will provide you the signature of the person delivered to and the date of delivery.

I also wish to receive the following services (for an extra fee):
1. ☐ Addressee's Address
2. ☐ Restricted Delivery
Consult postmaster for fee.

3. Article Addressed to:
MR RAYMOND A G OALMANN
MANAGER REVENUE ACCOUNTING
CNG PRODUCING COMPANY
1450 POYDRAS ST
NEW ORLEANS LA 70112-

NEW ORLEANS, LA SEP 23 1996 USPS

4a. Article Number
P 917 721 731

4b. Service Type
☒ CERTIFIED

7. Date of Delivery
9-23-96

5. Signature – (Addressee)

8. Addressee's Address
(ONLY if requested and fee paid.)

6. Signature – (Agent)

PS Form 3811, December 1991

96-0283/BARTON

DOMESTIC RETURN RECEIPT

PS FORM 3800

RECEIPT FOR CERTIFIED MAIL

UNITED STATES POSTAL SERVICE

IMPORTANT

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-VSD-EVB:96-0283
Mail Stop 3151

SEP 18 1996

CERTIFIED MAIL--
RETURNED RECEIPT REQUESTED

Mr. Raymond A. G. Oalmann
Manager, Revenue Accounting
CNG Producing Company
1450 Poydras Street
New Orleans, Louisiana 70112-6000

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> . . . the movement of lease production to a central accumulation or treatment point on the lease, unit, or communitized area, or to a central accumulation or treatment point off the lease, unit, or communitized area as approved by BLM [Bureau of Land Management] or MMS OCS [Outer Continental Shelf] operations personnel for onshore and offshore leases, respectively.

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Gulf of Mexico OCS Region
1201 Elmwood Park Boulevard
New Orleans, Louisiana 70123-2394

In Reply Refer To: MS 5311

JAN 24 1996

Shell Offshore Inc.
Attention: Mr. Peter K. Velez
Post Office Box 61933
New Orleans, Louisiana 70161

Gentlemen:

Your letter requests approval to commingle the production from the Shell Offshore Inc.-operated Green Canyon Block 116 Unit (all leases 1/8 royalty rate) with the previously-approved liquid hydrocarbon production from the South Timbalier Block 295 Unit and nonunit Leases OCS-G 3594, 4240, 5625, 5646, 6779, and 7780, South Timbalier Blocks 301, 300, 245, 295, 302, and 276, respectively, and the previously-approved gas production from nonunit Leases OCS-G 3594, 4240, 5625, and 6779 on the South Timbalier Block 300 A platform, measure the gas production from this same unit, for sales and royalty purposes, by the previously-approved South Timbalier Block 300 A platform gas sales meters prior to delivery to shore, and measure the liquid hydrocarbon production from the Green Canyon Block 116 Unit, for sales and royalty purposes, by the previously-approved South Timbalier Block 300 A platform ACT unit, prior to being delivered into Operations System No. 26.0.

As a result of the liquid hydrocarbon production from Lease OCS-G 4888, South Timbalier Block 292, no longer being transported to the South Timbalier Block 295 A platform, you request approval to remove from service the South Timbalier Block 295 A platform ACT unit and the liquid hydrocarbon allocation meters used to measure the liquid hydrocarbon production transported from the South Timbalier Block 292 A platform. The liquid hydrocarbon production from the South Timbalier Block 295 Unit and nonunit Leases OCS-G 5646 and 7780 will continue to be measured, for allocation purposes, by the previously-approved liquid hydrocarbon allocation meters on the South Timbalier Block 295 A platform, prior to being transported to the South Timbalier Block 301 B platform.

The Shell Offshore Inc.-operated South Timbalier Block 295 Unit (Agreement No. 754391007) consists of the following leases:

Leases	Area/Blocks
OCS-G 5646	South Timbalier Block 295
OCS-G 7780	South Timbalier Block 276

To better serve you we now have a toll-free number to our Public Information Office...
1-800-200-GULF

The Shell Offshore Inc.-operated Green Canyon Block 116 Unit (Agreement No. 754388025) consists of the following leases:

Leases	Area/Blocks
OCS-G 5896	Green Canyon Block 72
OCS-G 5897	Green Canyon Block 73
OCS-G 5904	Green Canyon Block 116
OCS-G 5905	Green Canyon Block 117

Royalty for the liquid hydrocarbon production from the South Timbalier Block 295 Unit, the Green Canyon Block 116 Unit, and nonunit Leases OCS-G 3594, 4240, 5625, 5646, 6779, and 7780 will be based on the volume and the volume-weighted average gravity as determined by the South Timbalier Block 300 A platform ACT unit.

Allocation of the liquid hydrocarbon volume as measured by the South Timbalier Block 300 A platform ACT unit to the Green Canyon Block 116 Unit will be based on the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the low-pressure separator (MBD-115) dedicated to this unit (Popeye). Allocation of the liquid hydrocarbons [from the liquid hydrocarbon allocation meters located immediately downstream of the low-pressure separator (MBD-115)] to the individual wells within the Green Canyon Block 116 Unit will be based on periodic well tests. Allocation of the liquid hydrocarbons [from the liquid hydrocarbon allocation meters located immediately downstream of the low-pressure separator (MBD-115)] to the individual leases within the Green Canyon Block 116 Unit will be based on the unit participation factors.

Allocation of the liquid hydrocarbon volume as measured by the South Timbalier Block 300 A platform ACT unit to the South Timbalier Block 295 Unit and nonunit Leases OCS-G 3594, 4240, 5625, 5646, 6779, and 7780 will be based on the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 300 A platform freewater knockout (MAM-100).

Further allocation of the liquid hydrocarbons [from the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 300 A platform freewater knockout (MAM-100)] to Lease OCS-G 5625 will be based on the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the separator (MBD-111) dedicated to this same lease. Further allocation of the liquid hydrocarbon production to the individual wells which are produced from this same lease will be based on periodic well tests.

Further allocation of the liquid hydrocarbons [from the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 300 A platform freewater knockout (MAM-100)] to the South Timbalier Block 295 Unit and nonunit Leases OCS-G 5646 and 7780, combined, will be based on the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 295 A platform freewater knockout (MAM-100). Further allocation of the liquid hydrocarbons

[from the liquid hydrocarbon allocation meters located ~~immediately~~ downstream of the South Timbalier Block 295 A platform freewater knockout (MAM-100)] to the individual wells within the South Timbalier Block 295 Unit and nonunit Leases OCS-G 5646 and 7780 will be based on periodic well tests. That portion of the liquid hydrocarbons which will be attributable to each individual lease and unit described above will be the sum of the liquid hydrocarbon volumes allocated to the wells within each individual lease and unit. Allocation of the liquid hydrocarbons to the leases within the South Timbalier Block 295 Unit will be based on the unit participation factors.

Allocation of the liquid hydrocarbons [from the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 300 A platform freewater knockout (MAM-100)] to Leases OCS-G 3594, 4240, and 6779, combined, will be based on the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 300 A platform freewater knockout (MAM-100) minus the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the separator (MBD-111) dedicated to Lease OCS-G 5625 and the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 295 A platform ~~freewater knockout~~ (MAM-100). Further allocation of the liquid hydrocarbons to Leases OCS-G 3594, 4240, and 6779, individually, and to the individual wells which are produced from these same leases, will be based on periodic well tests.

Royalty for the gas production from the South Timbalier Block 295 Unit and nonunit Leases OCS-G 5646 and 7780 will continue to be based on the volume as determined by the South Timbalier Block 295 A platform gas sales meters. Allocation of the gas to the individual wells within the South Timbalier Block 295 Unit and nonunit Leases OCS-G 5646 and 7780 will be based on periodic well tests. That portion of the gas which will be attributable to each individual lease and unit described above will be the sum of the gas volumes allocated to the wells within each individual lease and unit. Allocation of the gas to the leases within the South Timbalier Block 295 Unit will be based on the unit participation factors.

Royalty for the retrograde condensate from the South Timbalier Block 295 Unit and nonunit Leases OCS-G 5646 and 7780 and the allocation of these same liquid hydrocarbons which are recovered at the Bayou Black Separation Facility ACT unit near Houma, Louisiana, will be based on the determination of the royalty and allocation for all liquid hydrocarbons delivered into Operations System No. 26.5 as set forth in our letter dated February 3, 1993, addressed to Chevron U.S.A. Production Company (copy enclosed). Further allocation of the retrograde condensate (from the South Timbalier Block 295 A platform gas sales meters) to (1) the South Timbalier Block 295 Unit, and to the individual leases and wells within this same unit, and (2) Leases OCS-G 5646 and 7780, and to the individual wells within these same leases, will be based on allocated gas volumes.

Royalty for the gas production from the Green Canyon Block 116 Unit and nonunit Leases OCS-G 3594, 4240, 5625, and 6779 will be based on the volume as determined by the South Timbalier Block 300 A platform gas sales meters.

Allocation of the gas volume as measured by the South Timbalier Block 300 A platform gas sales meters to the Green Canyon Block 116 Unit will be based on the sum of the volumes as determined by the gas allocation meters located immediately downstream of the two high-pressure separators (NBD-112 and NBD-113) and the low-pressure separator (MBD-115) dedicated to this unit. Allocation of the gas to the individual wells within the Green Canyon Block 116 Unit will be based on periodic well tests. Allocation of the gas to the individual leases within the Green Canyon Block 116 Unit will be based on the unit participation factors.

Allocation of the gas volume as measured by the South Timbalier Block 300 A platform gas sales meters to Lease OCS-G 5625 will be based on the volume as determined by the gas allocation meter located immediately downstream of the high-pressure separator (MBD-111) dedicated to this lease. Further allocation of the gas to the individual wells which are produced from this same lease will be based on periodic well tests.

Allocation of the gas volume as measured by the South Timbalier Block 300 A platform gas sales meters to Leases OCS-G 3594, 4240, and 6779, combined, will be based on the sum of the volumes as determined by the gas allocation meters located immediately downstream of the high-pressure separator (MBD-110), the compressor (C-900), and the test separator (MBD-250) when testing the high-pressure wells minus the volume as determined by the gas allocation meter located immediately downstream of the low-pressure separator (MBD-115). Further allocation of the gas to Leases OCS-G 3594, 4240, and 6779, individually, and to the individual wells which are produced from these same leases, will be based on periodic well tests.

Royalty for the retrograde condensate from the Green Canyon Block 116 Unit and nonunit Leases OCS-G 3594, 4240, 5625, and 6779 and the allocation of these same liquid hydrocarbons which are recovered at the Bayou Black Separation Facility ACT unit near Houma, Louisiana, will be based on the determination of the royalty and allocation for all liquid hydrocarbons delivered into Operations System No. 26.5 as set forth in our letter dated February 3, 1993, addressed to Chevron U.S.A. Production Company (copy enclosed). Further allocation of the retrograde condensate (from the South Timbalier Block 300 A platform gas sales meters) to (1) the Green Canyon Block 116 Unit, and to the individual leases and wells within this same unit, and (2) Leases OCS-G 3594, 4240, 5625, and 6779, and to the individual wells within these same leases, will be based on allocated gas volumes.

The commingling, measurement, and allocation procedures for the production from Leases OCS-G 4888, 8448, and 10853, as outlined in our letter dated June 1, 1995, will remain as previously approved.

In accordance with 30 CFR 250.180, 250.181, and 250.182, the measurement of the liquid hydrocarbons and the gas production from the Green Canyon Block 116 Unit, for sales and royalty purposes, on the South Timbalier Block 300 A platform, the commingling of the production from this same unit, as outlined above, and the revised commingling, measurement, and allocation procedures for the production from the South Timbalier Block 295 Unit and nonunit Leases OCS-G 3594, 4240, 5625, 5646, 6779, and 7780, as outlined

above, are hereby approved. Requests must be submitted to the Surface Commingling and Production Measurement Section of the Office for Production and Development prior to making any other changes in the approved commingling, measurement, or allocation procedures.

This letter confirms the verbal approval given to Mr. Andy Burglass of Shell Offshore Inc. by this office on December 15, 1995.

Sincerely,

Eric L. Primeaux
Chief, Surface Commingling and
Production Measurement Section
Production and Development

Enclosures
Flow Schematic
MMS Letter

cc: Forest Oil Corporation
Attention: Mr. Mark Pye
950 Seventeenth Street
Denver, Colorado 80202

Pennzoil Petroleum Company
Attention: Mr. Bronier T. Rives
Post Office Box 51843
Lafayette, Louisiana 70505-1843

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

OIL TRANSPORTATION ALLOWANCE REPORT

OMB NO. 1010 - 0061
Expires March 31, 1996

[1] PAYOR NAME CNG Producing Co.

ADDRESS 1450 Poydras ST.

CITY New Orleans STATE CA ZIP 70112

[2] PAYOR CODE 17080

[4] FEDERAL [X] or INDIAN [ ]

[5] REPORT TYPE [1]

[6] REPORTING PERIOD Jan 1 19 96 to Dec 31 19 96

[3] FOR PAYOR USE ONLY: GC116

Public reporting burden for this form is estimated to range from 1 to 3 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form including suggestions for reducing this burden to the Information Collection Clearance Officer, Mail Stop 2300, Minerals Management Service, 381 Elden Street, Herndon, Va. 22070; and the Office of Management and Budget, Paperwork Reduction Project (1010 - 0061), Washington, DC 20503.

[7]	[8] ACCOUNTING IDENTIFICATION (AID) NUMBER	[9] PRODUCT CODE	[10] SELLING ARRANGEMENT CODE	[11] ARM'S-LENGTH/ PAYOR-OWNED INDICATOR	[12] PRIOR PERIOD ACTUAL DATA a ROYALTY QUANTITY	b ALLOWANCE RATE PER UNIT	c ROYALTY ALLOWANCE AMOUNT	[13] CURRENT PERIOD ESTIMATED DATA a ROYALTY QUANTITY	b ALLOWANCE RATE PER UNIT	c ROYALTY ALLOWANCE AMOUNT
1	05400589600	02	001	4				63,330		
2	05400590600	02	001	4				86,670	— X-4 —	
3										
4										
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12	PAGE TOTAL					XXXXXXXXXXX		150,000	XXXXXXXXXXX	
13	REPORT TOTAL (LAST PAGE ONLY)					XXXXXXXXXXX			XXXXXXXXXXX	-- X-4 -

IF MORE LINES ARE NEEDED, ATTACH ADDITIONAL PAGES OF FORM MMS-4110

I have read and examined the statements in this report and, to the best of my knowledge, they are accurate and complete.

NAME (FIRST, MIDDLE INITIAL, LAST) (typed or printed) Raymond A. G. Oilman DATE: 6-28-96

AUTHORIZED SIGNATURE: Raymond A. G. Oilman by RRP DATE: 6-28-96

NAME OF PREPARER: Richard R Pepper TELEPHONE NUMBER: 504-593-7512

WARNING: This is to inform you that failure to report accurately and timely in accordance with the statutes, regulations, or terms of the lease, permit, or contract may result in late payment charges, civil penalties, or liquidated damages being assessed without further notification. Intentional false or inaccurate reporting is subject to criminal prosecution in accordance with applicable Federal law(s).

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4110 (REV. 6/93)

The Paperwork Reduction Act of 1980 (44 U.S.C. 3501 et seq.) requires MMS to inform you that this information is being collected for the purpose of managing its oil transportation allowance program.

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

SCHEDULE 1 -- OIL TRANSPORTATION FACILITY SUMMARY SHEET

[1] PAYOR NAME AND CODE CNG Producing Co / 17080

ADDRESS 1450 Poydras ST

CITY New Orleans STATE LA ZIP 70112

[2] ACCOUNTING ID NUMBER: 05400589600001 05400589600001

SELLING ARRANGEMENT CODE: 001

[3] FACILITY NAME/ID NUMBER:

PERIOD: 1/1 19 96 to 12/31 19 96

(a) Segment Name or Number From	(a) To	(b) Mode of Transportation	(c) Arm's-Length/ Payor-Owned Indicator	(d) Arm's-Length Contract/ Payor-Owned Operating Costs	(e) Depreciation	(f) Rate of Return	(g) Undepreciated Capital Investment at Beginning of Year	(h) Return on Investment (f) x (g)	
A. TRANSPORTING OIL TO A REMOTE TREATMENT FACILITY.									
				$	$		$	$	3
									4
									5
									6
									7
			Totals	$	$			$	8

Allowance rate = (lines 8d + 8e + 8h)/Volume of production transported from the lease to processing/treatment facility.

$ ÷ = $ — 9

Part A Total Cost | Part A Total Volume | Cost per Barrel

B. TRANSPORTING OIL TO A REMOTE SALES POINT.

GC116	ST300	P/L	4			10
						11
						12
		Totals		X-4	783	13

÷ 1,200,000 = X-4 — 14

Part B Total Cost | Part B Total Volume

Allowance rate = (lines 13d + 13e + 13h)/Volume of products transported from the lease plant to the sales point.

Total Unit Allowance Rate = the sum of line 9h and 14h. The allowance rate cannot exceed 50 percent of the value of the product without prior MMS approval. — 15

Allowance Rate

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

PAYOR IDENTIFICATION BLOCK	
Payor Name and Code:	CNGP17031
Accounting ID No:	0570058460001
Selling Arrangement Code:	01
Facility ID No:	
Segment ID No:	
Period:	1/1 1996 to 12/31 1996

SCHEDULE 1A -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

☐ Estimated Costs - Check when estimating costs for system/segment start-up.

A. Lessee's Operating Costs for System/Segment

Operations Supervision and Engineering	$	1
Operations Labor		2
Utilities		3
Materials		4
Ad Valorem Property Taxes		5
Rent		6
Supplies		7
Other (specify). Attach Supplemental Schedule 1A as necessary	X-4	8
Total Operating Costs -- Subtotal		9
		10

B. Lessee's Maintenance Costs

Maintenance Supervision	$	11
Maintenance Labor		12
Materials		13
Other (specify). Attach Supplemental Schedule 1A as necessary		14
		15
Total Maintenance Costs -- Subtotal	$	16

C. Lessee's Overhead Allocation (specify)

	$	17
		18
Other (specify) use Supplemental Schedule 1A		19
Total Overhead Allocation	$	20

D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20) — 21

E. Allocated to Segment
Lease Volume _____ ÷ Total throughput _____ — X-4 — 22

F. Segment Allocated Operating, Maintenance, and Overhead Costs
(Line 21 x line 22) Enter in column d, Schedule 1 — 23

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) ☒ PROPRIETARY ☐ NONPROPRIETARY

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

PAYOR IDENTIFICATION BLOCK
Payor Name and Code: CNGP 17080
Accounting ID No: 054-0058460001 / 054-0059240001
Selling Arrangement Code: 001
Facility ID No:
Segment ID No:
Period: 1/1 19 96 to 12/31 19 96

SCHEDULE 1B -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/SEGMENT DEPRECIATION AND CAPITAL EXPENDITURE SUMMARY

1 Expenditure Item	2 Initial Capital Investment and Date Placed in Service		3 Salvage Value	4 Depreciable Life/Years of Depreciation Taken to Date		5 Undepreciated Capital Investment at Beginning of Year	6 Depreciation	7 Undepreciated Capital Investment at End-of-Year
2-25mi 6" Prod. Flowline	X-4	1996	X-4	1 yr	-0-	X-4	X-4	X-4

	5	6	
Totals	X-4	X-4	8
Allocated to Segment (from line 22, Schedule 1A)			9
Segment Depreciation and Capital Expenditure (Line 8 x line 9) Enter in column g and e, Schedule 1			10

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4110 SCHEDULE 1B (REV 1/88)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

GAS TRANSPORTATION ALLOWANCE REPORT

OMB NO. 1010 - 0075
Expires October 31, 199

[1] PAYOR NAME CNG Producing Co

ADDRESS 1450 Poydras St.

CITY New Orleans STATE LA ZIP 70112

[2] PAYOR CODE 17080

[4] FEDERAL [X] or INDIAN [ ]

[5] REPORT TYPE [ ]

[6] REPORTING PERIOD Jan 1 19 96 Dec 31 19 96

[3] FOR PAYOR USE ONLY: CC116

Public reporting burden for this form is estimated to range from 1 to 3 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form including suggestions for reducing this burden to the Information Collection Clearance Officer, Mail Stop 2300, Minerals Management Service, 381 Elden Street, Herndon, Va. 22070; and the Office of Management and Budget, Paperwork Reduction Project (1010 - 0075), Washington, DC 20503.

[7]	[8] ACCOUNTING IDENTIFICATION (AID) NUMBER	[9] PRODUCT CODE	[10] SELLING ARRANGEMENT CODE	[11] ARM'S-LENGTH/ PAYOR-OWNED INDICATOR	[12] PRIOR PERIOD ACTUAL DATA a ROYALTY QUANTITY	b ALLOWANCE RATE PER UNIT	c ROYALTY ALLOWANCE AMOUNT	[13] CURRENT PERIOD ESTIMATED DATA a ROYALTY QUANTITY	b ALLOWANCE RATE PER UNIT	c ROYALTY ALLOWANCE AMOUNT
1	054-00539(0001	04	001	4				1,364,234		
2	054-00539(0001	04	001	4				1,867,016	-X-4-	
3										
4										
5										
6										
7										
8										
9										
10										
11										
12	PAGE TOTAL					XXXXXXXXXXX		3231,250	XXXXXXXXXXX	X-4-
13	REPORT TOTAL (LAST PAGE ONLY)					XXXXXXXXXXX			XXXXXXXXXXX	

IF MORE LINES ARE NEEDED, ATTACH ADDITIONAL PAGES OF FORM MMS-4295

I have read and examined the statements in this report and, to the best of my knowledge, they are accurate and complete.

NAME (FIRST, MIDDLE INITIAL, LAST) (typed or printed): Raymond A.G. Oelmann — DATE: 6-28-96

AUTHORIZED SIGNATURE: Raymond A.G. Oelmann by RRP — DATE: 6-28-96

NAME OF PREPARER: Richard R Pepper — TELEPHONE NUMBER: 504-593-7512

WARNING: This is to inform you that failure to report accurately and timely in accordance with the statutes, regulations, or terms of the lease, permit, or contract may result in late payment charges, civil penalties, or liquidated damages being assessed without further notification. Intentional false or inaccurate reporting is subject to criminal prosecution in accordance with applicable Federal law(s).

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

The Paperwork Reduction Act of 1980 (44 U.S.C. 3501 et seq.) requires MMS to inform you that this information is being collected for the purpose of managing its gas transportation allowance program.

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

SCHEDULE 1 -- GAS TRANSPORTATION FACILITY SUMMARY SHEET

[1] PAYOR NAME AND CODE CNG Producing Co / 17080

ADDRESS 1450 Poydras St

CITY New Orleans STATE LA ZIP 70112

[2] ACCOUNTING ID NUMBER: 05400590400001

SELLING ARRANGEMENT CODE: 001

FACILITY NAME/ID NUMBER:

PRODUCT CODE: 04

PERIOD: 111 1996 to 12/31/1996

A. TRANSPORTING GAS TO A REMOTE GAS PROCESSING FACILITY.

(a) Segment Name or Number From	To	(b) Mode of Transportation	(c) Arm's-Length/ Payor-Owned Indicator	(d) Arm's-Length Contract/ Payor-Owned Operating Costs	(e) Depreciation	(f) Rate of Return	(g) Undepreciated Capital Investment at Beginning of Year	(h) Return on Investment (f) x (g)	
				$	$		$	$	3
									4
									5
									6
									7
			Totals	$	$			$	8

Allowance rate = (lines 8d + 8e + 8h)/Quantity of production transported from the lease to the gas processing facility.

Part A Total Cost ÷ Part A Total Quantity = $ Gas Rate/Mcf — 9

Allowance rate for transporting NGL's or Sulfur from the lease to plant.

Sulfur Rate/LT NGL Rate/Gal — 10

B. TRANSPORTING GAS OR GAS PRODUCTS FROM LEASE OR PLANT TO A REMOTE SALES POINT

GC 116	ST 300	P/L	4	11
				12
				13
		Totals		14

X - 4

Allowance rate = (lines 14d + 14e + 14h)/Quantity of products.

Part B Total Cost — Part B Total Quantity — 15

Total Unit Allowance Rate = the sum of line 9h and 15h if the allowance is for gas; line 10g and 15h if the allowance is for sulfur; or 10h and 15h if the allowance is for NGL's. The allowance rate cannot exceed 50 percent of the value of the product without prior MMS approval.

16 Allowance Rate

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

PAYOR IDENTIFICATION BLOCK	
Payor Name and Code:	CNGP 17080
Accounting ID No:	0540058960001
Selling Arrangement Code:	01
Facility ID No:	
Segment ID No:	
Period:	1/1 19 96 to 12/31 19 96

SCHEDULE 1A -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

☐ Estimated Costs - Check when estimating costs for system/segment start-up.

A. Lessee's Operating Costs for System/Segment

Operations Supervision and Engineering	$	1
Operations Labor		2
Utilities		3
Materials		4
Ad Valorem Property Taxes		5
Rent		6
Supplies		7
Other (specify). Attach Supplemental Schedule 1A as necessary		8
		9
Total Operating Costs -- Subtotal	X-4	10

B. Lessee's Maintenance Costs

Maintenance Supervision	$	11
Maintenance Labor		12
Materials		13
Other (specify). Attach Supplemental Schedule 1A as necessary		14
		15
Total Maintenance Costs -- Subtotal	$	16

C. Lessee's Overhead Allocation (specify)

	$	17
		18
Other (specify) use Supplemental Schedule 1A		19
Total Overhead Allocation	$	20

D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20) — 21

E. Allocated to Segment
Lease Volume _____ ÷ Total throughput _____ — X-4 — 22

F. Segment Allocated Operating, Maintenance, and Overhead Costs (Line 21 x line 22) Enter in column d, Schedule 1 — 23

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) ☒ PROPRIETARY ☐ NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1A (REV. 1/88)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

PAYOR IDENTIFICATION BLOCK	
Payor Name and Code:	CNGP 17080
Accounting ID No:	05700584960001
Selling Arrangement Code:	001
Facility ID No:	
Segment ID No:	
Period:	1/1 1996 to 12/31 1996

SCHEDULE 1B -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/SEGMENT DEPRECIATION AND CAPITAL EXPENDITURE SUMMARY

1 Expenditure Item	2 Initial Capital Investment and Date Placed in Service	3 Salvage Value	4 Depreciable Life/Years of Depreciation Taken to Date	5 Undepreciated Capital Investment at Beginning of Year	6 Depreciation	7 Undepreciated Capital Investment at End-of-Year
2-2.5mi 6" Flowline	X-4 1996	$ -0-	11 0		X-4	

Totals

Allocated to Segment (from line 22, Schedule 1A)

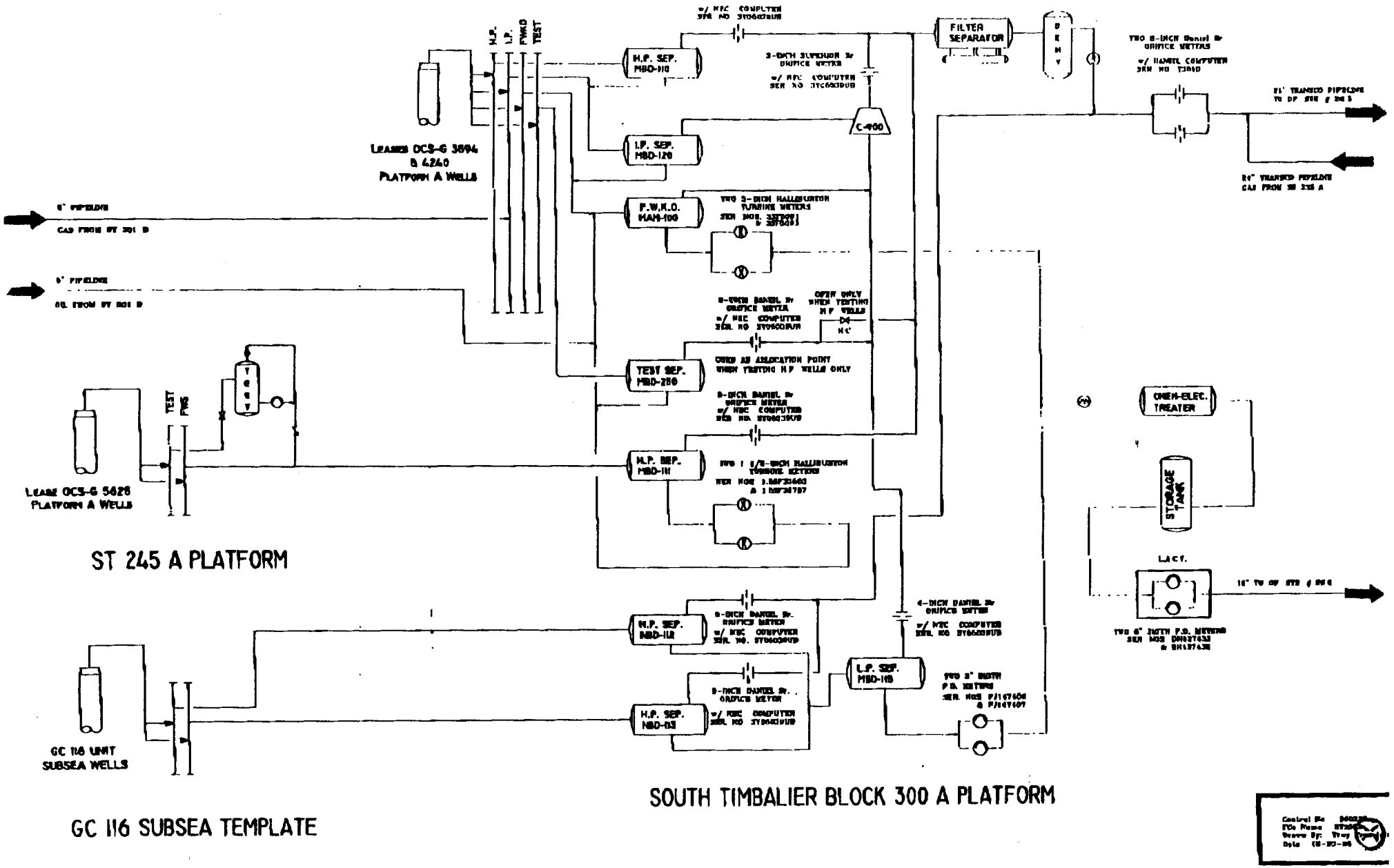
Segment Depreciation and Capital Expenditure
(Line 8 x line 9) Enter in column g and e, Schedule 1

X-4

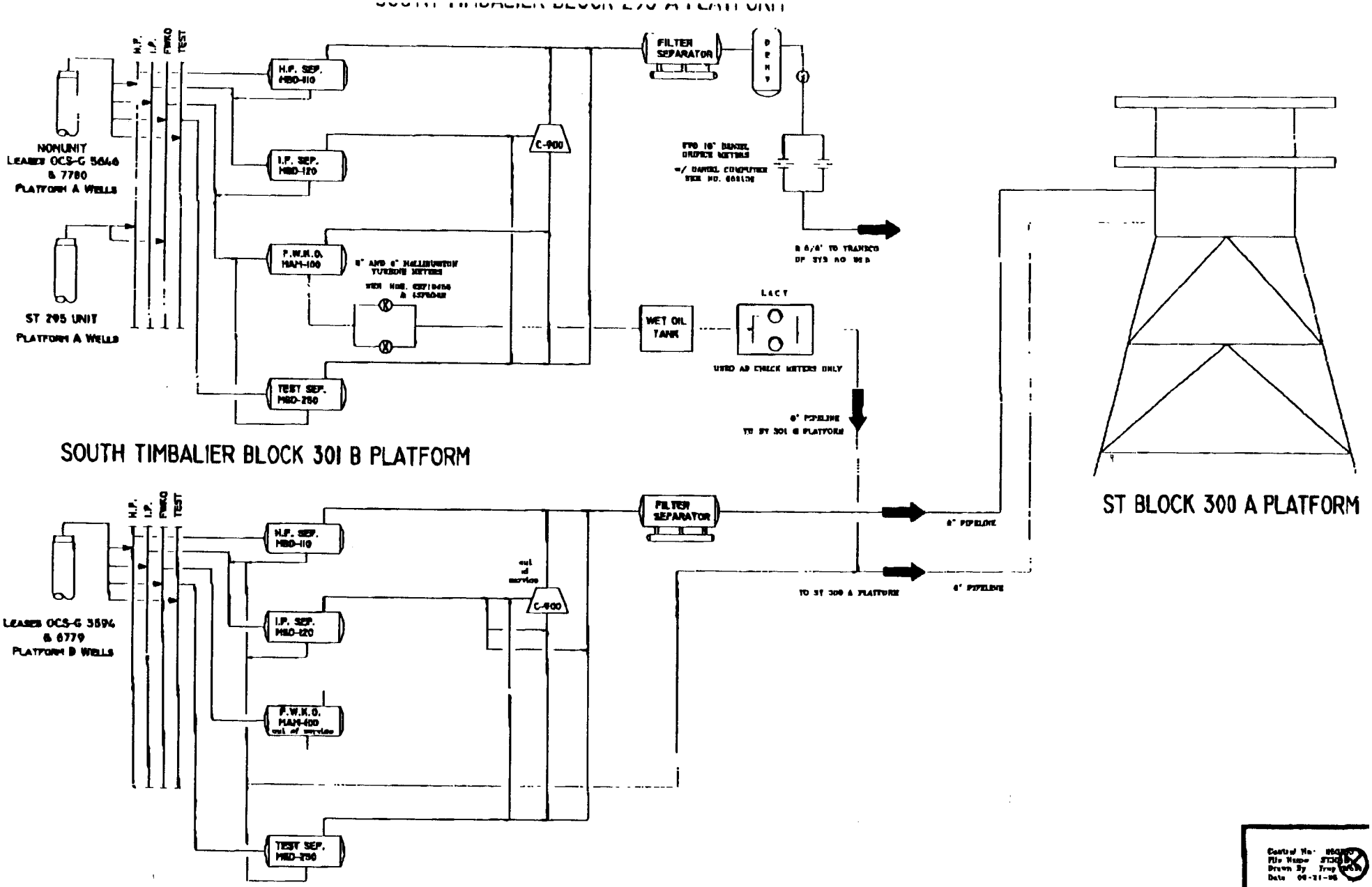
8
9
10

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) ☒ PROPRIETARY ☐ NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1B (REV 1/88)


H.P.
L.P.
PWHD
TEST
H.P. SEP. MBD-110
I.P. SEP. MBD-120
F.W.K.O. MAM-100
TEST SEP. MBD-280
H.P. SEP. MBD-111
H.P. SEP. MBD-112
H.P. SEP. MBD-113
L.P. SEP. MBD-119
C-900
FILTER SEPARATOR
LEASE OCS-G 3894 B 4240 PLATFORM A WELLS
LEASE OCS-G 5626 PLATFORM A WELLS
TEST
PWS
ST 245 A PLATFORM
GC 116 UNIT SUBSEA WELLS
GC 116 SUBSEA TEMPLATE
SOUTH TIMBALIER BLOCK 300 A PLATFORM
OWEN-ELEC. TREATER
STORAGE TANK
L.A.C.T.

06/05/96 WED 08:01 FAX 504 598 6699 SOI DEEP WATER CONTRACTS 010



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB: 99-0527
Mail Stop 3151

DEC 13 1999

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney At Law
Shell Deepwater Production Inc.
P.O. 60834
New Orleans, Louisiana 70160-0834

Dear Mr. Coney:

In response to your letter dated October 19, 1999, we are rescinding our letter dated September 30, 1999, and replacing it with this letter. This letter addresses Shell Offshore Inc.'s (Shell) request for a transportation allowance for the movement of gas production from Mississippi Canyon Block 807 (MC 807) to the West Delta 143 Platform (WD 143). The only change from our earlier letter is clarification under Guideline 2 that separation, dehydration, and treatment costs not related to transportation cannot be included in the transportation allowances.

On May 20, 1999, the Associate Director for Royalty Management (ADRM) issued a memorandum providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure.) The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty bearing substances.

RVD Analysis

The information submitted shows that the MC 807 Platform is located in deepwater Gulf of Mexico, approximately 60 miles from WD 143. Gas production comes to the surface at Platform A located at MC 807. The liquids are then separated and transferred to the oil line and moved to shore. The dehydrated gas is moved to WD 143 via separate pipeline. Upon reaching WD 143, the gas enters into a dedicated slug catcher at which time retrograde condensate falls out. The gas is then measured for royalty purposes and transported from WD 143 to shore via two separate pipelines.

The Payor Handbook, Volume III, pg.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS approval (30 CFR § 206.105(a)(2)(i) and 30 CFR § 206.105(b)(3)(i)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and Shell may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs not related to transportation cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The location of the royalty meter is often a deciding factor in determining whether movement is transportation or gathering. Your (Shell's) request is for movement of production from MC 807 to WD 143, with the royalty meter located at WD 143. However, in applying the ADRM's May 20, 1999, guidance, we consider Platform A at MC 807 to be the central accumulation point. Although the royalty meter is at WD 143, we consider gathering, consistent with the new guidance, to terminate at Platform A. Thus the movement beyond Platform A, MC 807, is transportation, subject to the other qualifications in the ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

Production is from the MC 807 unit only.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that the unit where the production originates, MC 807, is not adjacent to WD 143. Platform A on MC 807 is about 60 miles from WD 143.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

In an affidavit dated August 29, 1999, you state that MC 807 is located in a water depth of more than 200 meters.

Using the referenced guidelines, and subject to future review and audit, we approve your request for a transportation allowance for movement of gas production from MC 807 to WD 143. This approval is subject to RVD modification, should the circumstances change in the future. If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104 (1999), you must apply for an exception to the limitation and provide sufficient documentation to support your request before claiming the excess amount.

If you have any questions, please call Mr. James Morris at (303) 275-7213.

Sincerely,

Original Signed by
Deborah Gibbs Tschudy

Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

Enclosure

bcc: RM File 99-0527
RVD Chron (2)
EVB Chron (2)
LMS:MMS:RVD:EVB:MS-3151:SBarton:275-7222:rjl:11/30/99:p:\...\econ\t&p\t&p99**99-0380**

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO

MMS-RVD-EVB: 99-0380
Mail Stop 3151

SEP 30 1999

Original Letter

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney At Law
Shell Deepwater Production Inc.
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Dear Mr. Coney:

Thank you for the information you provided on August 27, 1999. This information allowed the Royalty Valuation Division (RVD) to further evaluate Shell Offshore Inc.'s (Shell) request for a transportation allowance for the movement of gas production from Mississippi Canyon Block 807 (MC 807) to the West Delta 143 Platform (WD 143).

On May 20, 1999, the Associate Director for Royalty Management (ADRM) issued a memorandum providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure.) The memorandum states that any previously-received requests for the transportation of deepwater production should be reviewed under these guidelines. This response results from our review of your situation under the new guidelines, and is a follow-up to our August 28, 1998, letter that withdrew our original decision of July 6, 1998.

The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty bearing substances.

RVD Analysis

The information submitted shows that the MC 807 Platform is located in deepwater Gulf of Mexico, approximately 60 miles from WD 143. Gas production comes to the surface at Platform A located at MC 807. The liquids are then separated and transferred to the oil line and moved to shore. The dehydrated gas is moved to WD 143 via separate pipeline. Upon reaching WD 143, the gas enters into a dedicated slug catcher at which time retrograde condensate falls out. The gas is then measured for royalty purposes and transported from WD 143 to shore via two separate pipelines.

The Payor Handbook, Volume III, pg.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS approval (30 CFR § 206.105(a)(2)(i) and 30 CFR § 206.105(b)(3)(i)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and Shell may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs are not related to transportation and cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The location of the royalty meter is often a deciding factor in determining whether movement is transportation or gathering. Your (Shell's) request is for movement of production from MC 807 to WD 143, with the royalty meter located at WD 143. However, in applying the ADRM's May 20, 1999, guidance, we consider Platform A at MC 807 to be the central accumulation point. Although the royalty meter is at WD 143, we consider gathering, consistent with the new guidance, to terminate at Platform A. Thus the movement beyond

Platform A, MC 807, is transportation, subject to the other qualifications in the ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

Production is from the MC 807 unit only.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that the unit where the production originates, MC 807, is not adjacent to WD 143. Platform A on MC 807 is about 60 miles from WD 143.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

In an affidavit dated August 29, 1999, you state that MC 807 is located in a water depth of more than 200 meters.

Using the referenced guidelines, and subject to future review and audit, we approve your request for a transportation allowance for movement of gas production from MC 807 to WD 143. This approval is subject to RVD modification, should the circumstances change in the future. If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104 (1999), you must apply for an exception to the limitation, and provide sufficient documentation to support your request before claiming the excess amount.

RECEIVED
D.O.I.-MMS-RVD
99 OCT 21 AM 9:58

Shell Deepwater Production Inc.

One Shell Square
P.O. Box 60834
New Orleans LA 70160-0834

Direct Number: (504) 728-4643
Direct Fax: (504) 728-4690

October 19, 1999

Via Express Mail
Ms. Deborah Gibbs-Tschudy
Chief, Valuation & Standards Division
Minerals Management Service
U.S. Department of the Interior
12600 W. Colfax Avenue, Suite C-100
Lakewood, CO 80215-3736

Dear Ms. Gibbs-Tschudy:

RE: MMS-RVD-EVB: 99-0380
Mail Stop 3151

Shell appreciates very much the review of the recently issued deepwater guidelines and the Valuation and Standards Division (VSD) response incorporating them on our pending Mars transportation determination. However, we are concerned that the last paragraph of Guideline 2 imposes a restriction on the TLP situation which we do not believe was intended to be as unconditional as stated in the letter. We are concerned that the statement unqualified and unconditional as it is would be misleading to an MMS auditor or even a Shell employee who might be reviewing this matter in the future since it is clearly contrary to earlier rulings of the IBLA and the VSD.

This letter will confirm our phone conversation concerning this matter and the reference on page 2, Guideline 2, and its unqualified denial of separation, dehydration and treatment costs. This statement is contradictory to RVD's prior opinion that dehydration and compression costs specifically related to transportation are properly included in a transportation allowance from a tension leg platform. A copy of RVD's opinion is attached hereto. We request that for audit purposes the sentence "separation, dehydration, and treatment costs are not related to transportation and cannot be included in the transportation allowance." be stricken from the letter since it is not vital to allocating the cost between royalty and non-royalty bearing substances. In the alternative, we request that the sentence be clarified to clearly state that dehydration and treatment costs not related to transportation cannot be included in the transportation allowance. This clarification

would be consistent with the VSD prior decision on Auger dehydration and compression. To do otherwise would be arbitrary and capricious and contrary to the prior decisions of the agency on similar issues.

Shell is not at this time specifically requesting a stated amount for dehydration or compression since under the current regulations there is no requirement to file for transportation allowances. Instead, based upon the previous Auger decisions of VSD and the IBLA, Shell intends to take transportation allowances consistent with decisions rendered in that matter. Therefore, there is not requirement at this time to make a detailed filing as was done in Auger unless the MMS intends to review each tension legal platform situation. Based on my prior conversations with you as head of VSD, it was my impression that the agency preferred to not expend the resources to duplicate what had already been decided.

To the extent under the new appeals rules published in the Federal Register on May 13, 1999 require a notice of appeal from the VSD decision, this letter should be treated as a notice of appeal. The VSD prior determination and the IBLA decision attached hereto are submitted in support of Shell's position.

Please let me know what your decision is in this matter so that I may advise my client.

Sincerely yours,

Michael E. Coney

Michael E. Coney, Attorney
For Shell Deepwater Production Inc.

MEC:DAD

Attachments

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO

MMS-RVD-EVB: 99-0380
Mail Stop 3151

SEP 30 1999

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney At Law
Shell Deepwater Production Inc.
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Dear Mr. Coney:

Thank you for the information you provided on August 27, 1999. This information allowed the Royalty Valuation Division (RVD) to further evaluate Shell Offshore Inc.'s (Shell) request for a transportation allowance for the movement of gas production from Mississippi Canyon Block 807 (MC 807) to the West Delta 143 Platform (WD 143).

On May 20, 1999, the Associate Director for Royalty Management (ADRM) issued a memorandum providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure.) The memorandum states that any previously-received requests for the transportation of deepwater production should be reviewed under these guidelines. This response results from our review of your situation under the new guidelines, and is a follow-up to our August 28, 1998, letter that withdrew our original decision of July 6, 1998.

The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty bearing substances.

RVD Analysis

The information submitted shows that the MC 807 Platform is located in deepwater Gulf of Mexico, approximately 60 miles from WD 143. Gas production comes to the surface at Platform A located at MC 807. The liquids are then separated and transferred to the oil line and moved to shore. The dehydrated gas is moved to WD 143 via separate pipeline. Upon reaching WD 143, the gas enters into a dedicated slug catcher at which time retrograde condensate falls out. The gas is then measured for royalty purposes and transported from WD 143 to shore via two separate pipelines.

The Payor Handbook, Volume III, pg.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS approval (30 CFR § 206.105(a)(2)(i) and 30 CFR § 206.105(b)(3)(i)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and Shell may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs ~~are~~ not related to transportation ~~and~~ cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The location of the royalty meter is often a deciding factor in determining whether movement is transportation or gathering. Your (Shell's) request is for movement of production from MC 807 to WD 143, with the royalty meter located at WD 143. However, in applying the ADRM's May 20, 1999, guidance, we consider Platform A at MC 807 to be the central accumulation point. Although the royalty meter is at WD 143, we consider gathering, consistent with the new guidance, to terminate at Platform A. Thus the movement beyond

Platform A, MC 807, is transportation, subject to the other qualifications in the ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

Production is from the MC 807 unit only.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that the unit where the production originates, MC 807, is not adjacent to WD 143. Platform A on MC 807 is about 60 miles from WD 143.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

In an affidavit dated August 29, 1999, you state that MC 807 is located in a water depth of more than 200 meters.

Using the referenced guidelines, and subject to future review and audit, we approve your request for a transportation allowance for movement of gas production from MC 807 to WD 143. This approval is subject to RVD modification, should the circumstances change in the future. If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104 (1999), you must apply for an exception to the limitation, and provide sufficient documentation to support your request before claiming the excess amount.

If you have any questions, please call Mr. James Morris at (303) 275-7213.

Sincerely,

Deborah Gibbs Tschudy
Chief, Royalty Valuation and
Standards Division

Enclosure

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB: 99-0342
Mail Stop 3151

SEP 30 1999

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Raymond A. G. Oalmann
Manager, Revenue Accounting
CNG Producing Company
1450 Poydras Street
New Orleans, Louisiana 70112-6000

Dear Mr. Oalmann:

On September 18, 1996, the Royalty Valuation Division (RVD) of Minerals Management Service (MMS) denied CNG Production Company's (CNG) request for an allowance to transport bulk gas production from Green Canyon Block 116 to South Timbalier Block 300A. (See Enclosure 1.) Subsequently, you (CNG) appealed this denial (Appeal Docket No. MMS-96-0370-OCS), and on October 16, 1997, MMS denied your appeal. CNG then appealed this decision to the Interior Board of Land Appeals (IBLA). On August 24, 1998, counsel for MMS filed a motion stating that MMS wished to reconsider their position in MMS-96-0370-OCS. The IBLA remanded the appeal back to MMS on September 11, 1998, for reconsideration.

On May 20, 1999, the Associate Director for Royalty Management issued a memorandum providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure 2.) The memorandum states that any previously-received requests for transportation of deepwater production should be reviewed under these guidelines. Consequently, we are rescinding our September 18, 1996, decision and replacing it with this guidance.

The guidelines and responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty bearing substances.

RVD Analysis

The information submitted shows that CNG transports bulk gas production and that all separation, dehydration, treatment, and sales measurement occurs at the production facilities at South Timbalier Block 300A.

The Payor Handbook, Volume III, pp. 5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS approval (30 CFR 206.105(a)(2)(i) and 30 CFR 206.105(b)(3)(i). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, costs of movement must be allocated between royalty and non-royalty bearing substances, and CNG may claim only the costs associated with royalty-bearing production. (See 30 CFR § 206.105 (b)(3).) Separation, dehydration, and treatment costs are not related to transportation and cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

CNG transports production from three wells to a subsea manifold within Green Canyon Block 116. From this manifold, production enters two six-inch pipelines for movement of bulk production approximately twenty-five miles to South Timbalier Block 300A.

We consider the central accumulation point to be at the subsea manifold. Therefore, we consider movement before the subsea manifold to be gathering and subsequent movement to be transportation.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

CNG addresses one unit as the origin of its production. The unit has two producing leases, and since leases and units are treated similarly, this is not an issue.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that neither the unit nor the leases where the production originates at Green Canyon Block 116 are adjacent to South Timbalier Block 300A. The distance from the subsea manifold on Green Canyon Block 116 to South Timbalier Block 300A is about 25 miles.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

The wells are located on the seafloor at a water depth of 2,040 feet. This converts to approximately 621 meters, well over the prescribed depth.

Using the referenced guidelines, and subject to future review and audit, we approve your request for a transportation allowance for movement of gas production from Green Canyon Block 116 to South Timbalier Block 300A. This approval is subject to MMS modification, should the circumstances change in the future. If your transportation allowance exceeds the

bcc: RM File 99-0527
RVD Chron (2)
EVB Chron (2)
LMS:MMS:RVD:EVB:MS-3151:SBarton:275-7222:rjl:11/30/99:p:\...\econ\t&p\t&p99**99-0380**

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB: 99-0342
Mail Stop 3151

SEP 30 1999

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Raymond A. G. Oalmann
Manager, Revenue Accounting
CNG Producing Company
1450 Poydras Street
New Orleans, Louisiana 70112-6000

Dear Mr. Oalmann:

On September 18, 1996, the Royalty Valuation Division (RVD) of Minerals Management Service (MMS) denied CNG Production Company's (CNG) request for an allowance to transport bulk gas production from Green Canyon Block 116 to South Timbalier Block 300A. (See Enclosure 1.) Subsequently, you (CNG) appealed this denial (Appeal Docket No. MMS-96-0370-OCS), and on October 16, 1997, MMS denied your appeal. CNG then appealed this decision to the Interior Board of Land Appeals (IBLA). On August 24, 1998, counsel for MMS filed a motion stating that MMS wished to reconsider their position in MMS-96-0370-OCS. The IBLA remanded the appeal back to MMS on September 11, 1998, for reconsideration.

On May 20, 1999, the Associate Director for Royalty Management issued a memorandum providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure 2.) The memorandum states that any previously-received requests for transportation of deepwater production should be reviewed under these guidelines. Consequently, we are rescinding our September 18, 1996, decision and replacing it with this guidance.

The guidelines and responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty bearing substances.

RVD Analysis

The information submitted shows that CNG transports bulk gas production and that all separation, dehydration, treatment, and sales measurement occurs at the production facilities at South Timbalier Block 300A.

The Payor Handbook, Volume III, pp. 5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS approval (30 CFR 206.105(a)(2)(i) and 30 CFR 206.105(b)(3)(i). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, costs of movement must be allocated between royalty and non-royalty bearing substances, and CNG may claim only the costs associated with royalty-bearing production. (See 30 CFR § 206.105 (b)(3).) Separation, dehydration, and treatment costs are not related to transportation and cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

CNG transports production from three wells to a subsea manifold within Green Canyon Block 116. From this manifold, production enters two six-inch pipelines for movement of bulk production approximately twenty-five miles to South Timbalier Block 300A.

We consider the central accumulation point to be at the subsea manifold. Therefore, we consider movement before the subsea manifold to be gathering and subsequent movement to be transportation.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

The Green Canyon Block 116 unit has two producing leases, and since leases and units are treated similarly, this is not an issue.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that neither the unit nor the leases where the production originates at Green Canyon Block 116 are adjacent to South Timbalier Block 300A. The distance from the subsea manifold on Green Canyon Block 116 to South Timbalier Block 300A is about 25 miles.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

The wells are located on the seafloor at a water depth of 2,040 feet. This converts to approximately 621 meters, well over the prescribed depth.

Using the referenced guidelines, and subject to future review and audit, we approve your request for a transportation allowance for movement of gas production from Green Canyon Block 116 to South Timbalier Block 300A. This approval is subject to MMS modification, should the circumstances change in the future. If your transportation allowance exceeds the

50-percent limitation as prescribed in 30 CFR § 206.104 (1998), you must apply for an exception to the limitation and provide sufficient documentation to support your request before claiming the excess amount.

If you have any questions, please call Ms. Shirley Barton at (303) 275-7225.

Sincerely,

Deborah Gibbs Tschudy
Chief, Valuation and
Standards Division

Enclosures

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-VSD-EVB:96-0283
Mail Stop 3151

SEP 18 1996

CERTIFIED MAIL--
RETURNED RECEIPT REQUESTED

Mr. Raymond A. G. Oalmann
Manager, Revenue Accounting
CNG Producing Company
1450 Poydras Street
New Orleans, Louisiana 70112-6000

Dear Mr. Oalmann:

This is in response to your letter dated June 28, 1996, requesting the Minerals Management Service (MMS) to approve an allowance for transportation of production from Green Canyon 116 to South Timbalier Block 300. You stated that the bulk, untreated production is injected into flowlines at Green Canyon 116 and that all separation, dehydrating, treating, and sales meters are located at the production facilities at South Timbalier 300. Additionally, you stated that although present regulations do not address the transportation of bulk deepwater production, the proposed "Amendments to Gas Valuation Regulations for Federal Leases" discuss the ability of MMS to approve an allowance for transportation of bulk deepwater production.

The MMS cannot grant transportation allowance approvals based on proposed rules. Current Federal regulations and instructions establish the procedures for transportation allowances. Title 30 CFR § 206.105 (1995) defines a transportation allowance as follows:

> . . . an allowance for the reasonable, actual costs incurred by the lessee for moving oil to a point of sale or point of delivery off the lease, unit area, or communitized area, excluding gathering . . . .

Gathering is defined as:

> . . . the movement of lease production to a central accumulation or treatment point on the lease, unit, or communitized area, or to a central accumulation or treatment point off the lease, unit, or communitized area as approved by BLM [Bureau of Land Management] or MMS OCS [Outer Continental Shelf] operations personnel for onshore and offshore leases, respectively.

The movement of production from Green Canyon 116 to South Timbalier 300 takes place upstream of the approved measurement point and is considered to be gathering and not part of transportation. These expenses cannot be included in your calculation of a transportation allowance.

But, if you can identify your transportation expenses, not including gathering, you may, with sufficient documentation, submit a request for approval of a transportation allowance in excess of the 50-percent limitation described at 30 CFR § 206.105.

You have the right to appeal this decision. Please refer to the enclosed Appeals Procedure and Bonding Requirements (Enclosure 1).

In an effort to improve the services we provide our customers, we have enclosed a questionnaire regarding the quality of our response to your request. We would appreciate your taking a few minutes to fill out the questionnaire and returning it to us in the self-addressed envelope (Enclosure 2).

If you have any questions, please call Ms. Shirley Barton at (303) 275-7222.

Sincerely,

Deborah Gibbs Tschudy

Deborah Gibbs Tschudy
Chief, Valuation and
Standards Division

Enclosures

bcc: RM Chron: 96-0283
RM Chron DC/Lkwd
VSD Chron (2)
EVB (2)

LMS:RMP/VSD:MS-3151:SBarton:gms:275-7222:09/10/96:econ/t&p/96-0283
Finalized:gms:09/12/96

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management Lucy Querques Denett

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production *originates. An adjacent lease is defined as* any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifying deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Application

Apply this guidance prospectively. Any previously received requests for guidance should be reviewed. If the above criteria are met, and the previously issued decision conflicts with this guidance the company must be notified.

Questions concerning the applicability of this guidance to specific situations should be referred to the Royalty Valuation Division (RVD). Additionally, requests for determinations on a case-by-case basis should be referred to RVD.

DRAFT

changes made 9/22/99 rdd

We consider the central accumulation point to be at the subsea manifold. Therefore, we consider movement before the subsea manifold to be gathering and subsequent movement to be transportation.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

The Green Canyon 116 Unit

~~CNG addresses one unit as the origin of its production.~~ ~~The unit~~ has two producing leases, and since leases and units are treated similarly, this is not an issue.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that neither the unit nor the leases where the production originates at Green Canyon Block 116 are adjacent to South Timbalier Block 300A. The distance from the subsea manifold on Green Canyon Block 116 to South Timbalier Block 300A is about 25 miles.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

The wells are located on the seafloor at a water depth of 2,040 feet. This converts to approximately 621 meters, well over the prescribed depth.

Using the referenced guidelines, and subject to future review and audit, we approve your request for a transportation allowance for movement of gas production from Green Canyon Block 116 to South Timbalier Block 300A. This approval is subject to MMS modification, should the circumstances change in the future. If your transportation allowance exceeds the

changes made 9/20/99

DRAFT

Guideline 4

Leases and units are treated similarly.

~~MMS Response~~ R/V/D Analysis

CNG addresses one unit as the origin of its production. The unit has two producing leases, and since leases and units are treated similarly, this is not an issue.

What do you mean "addresses"? Do you mean CNG's request covers? only 2 unit. I don't understand what you're saying here.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

~~MMS Response~~ R/V/D Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that neither the unit nor the leases where the production originates at Green Canyon Block 116 are adjacent to South Timbalier Block 300A. The distance from the subsea manifold on Green Canyon Block 116 to South Timbalier Block 300A is about 25 miles.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

~~MMS Response~~ R/V/D Analysis

The wells are located on the seafloor at a water depth of 2,040 feet. This converts to approximately 621 meters, well over the prescribed depth.

Using the referenced guidelines, and subject to future review and audit, we approve your request for a transportation allowance for movement of gas production from Green Canyon Block 116 to South Timbalier Block 300A. This approval is subject to MMS modification, should the circumstances change in the future. If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104(1998) you must apply for an exception to the limitation and provide sufficient documentation to support your request before claiming the excess amount.

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management Lucy Jurgues Denett

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifying deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Application

Apply this guidance prospectively. Any previously received requests for guidance should be reviewed. If the above criteria are met, and the previously issued decision conflicts with this guidance the company must be notified.

Questions concerning the applicability of this guidance to specific situations should be referred to the Royalty Valuation Division (RVD). Additionally, requests for determinations on a case-by-case basis should be referred to RVD.

United States Department of the Interior

OFFICE OF HEARINGS AND APPEALS
Interior Board of Land Appeals
4015 Wilson Boulevard
Arlington, Virginia 22203

IN REPLY REFER TO:

CERTIFIED

SEP 11 1998

IBLA 98-347	:	MMS-96-0370-OCS
	:	
CNR PRODUCING CO.	:	Oil and Gas Royalty
	:	
	:	Decision Vacated;
	:	Case Remanded

ORDER

On August 24, 1998, counsel for the Minerals Management Service (MMS) filed a motion stating that MMS wishes to reconsider the position taken in the Decision under appeal herein. Counsel requested accordingly that we remand the above-captioned appeal. No reason appearing not to do so, we grant MMS' request.

Accordingly, pursuant to the authority delegated to the Board of Land Appeals by the Secretary of the Interior, 43 C.F.R. § 4.1, the Decision appealed from is vacated and the case is remanded to MMS for further consideration without prejudice to Appellant's right to appeal any subsequent adverse decision herein.

David L. Hughes
Administrative Judge

I concur:

Hy Dillman Hinsaker
Acting Administrative Judge

Case

APPEARANCES:

M. Hampton Carver, Esq.
John H. Fontham, Esq.
Carver, Darden, et al.
1100 Poydras Street, Suite 2700
New Orleans, LA 70163

Howard W. Chalker, Esq.
Geoffrey Heath, Esq.
Division of Energy and Resources
Office of the Solicitor
U.S. Department of the Interior
18th and C Streets, N.W.
Washington, DC 20240

Enclosure

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management Lucy Querques Denett

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production *originates. An adjacent lease is defined as* any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifying deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Application

Apply this guidance prospectively. Any previously received requests for guidance should be reviewed. If the above criteria are met, and the previously issued decision conflicts with this guidance the company must be notified.

Questions concerning the applicability of this guidance to specific situations should be referred to the Royalty Valuation Division (RVD). Additionally, requests for determinations on a case-by-case basis should be referred to RVD.

October 16, 1997

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Raymond A. G. Oalmann
Manager, Revenue Accounting
CNG Producing Company
1450 Poydras Street
New Orleans, Louisiana 70112-6000

Re: MMS-96-0370-OCS
Transportation/Gathering

Appeal Denied

Dear Mr. Oalmann:

CNG Producing Company (CNG) appealed under 30 CFR Part 290 (1996) from a September 18, 1996, decision issued by the Chief, Royalty Valuation and Standards Division, now Royalty Valuation Division (RVD), of the Minerals Management Service (MMS). The decision denied CNG an allowance for transportation of production from Outer Continental Shelf (OCS) Green Canyon Block 116 (GC-116) to South Timbalier Block 300A (ST-300A).

Background

The MMS, Gulf of Mexico OCS Region, gave Shell Offshore, Inc. (Shell), the designated operator of the GC-116 Unit, approval on January 24, 1996, to commingle production from the GC-116 Unit with production from other unit and nonunit leases at Shell's ST-300A "Cougar" platform. The commingling approval letter states that royalty for oil production from the GC-116 Unit will be based on the volume and the volume-weighted average gravity as determined by the ST-300A platform Automatic Custody Transfer (ACT) unit. Royalty for GC-116 Unit gas production will be based on the volume as determined by the ST-300A platform gas sales meters.

On June 28, 1996, CNG submitted a written request to the RVD for approval to take a transportation allowance for transporting production from GC-116 Unit to Shell's ST-300A platform. The transportation system employed by CNG consists of two 6 inch pipelines that transport bulk production approximately 25 miles from a subsea manifold on the sea floor in 2,040 feet of water on the Green Canyon 116 lease to production measurement, separation, dehydration and treatment facilities located at the ST-300A offshore platform. As previously stated, the OCS sales meters for both gas and condensate production are at the ST-300A platform.

Mr. Raymond A. G. Oalmann

The MMS denied CNG's transportation allowance request and notified the Appellant by letter dated September 18, 1996. The MMS position is that movement of production from GC-116 to ST-300A occurs upstream of the approved measurement point, therefore, the movement of bulk production through the two 6 inch pipelines is considered to be gathering rather than transportation. CNG timely appealed the MMS decision on October 16, 1996, and submitted its Statement of Reasons (SOR) on January 17, 1997.

CNG contends that the deep-water pipeline system used to move production from GC-116 to ST-300A is not a gathering system as defined in the current regulations at 30 CFR 206.101 (1996) because the system is not a series of gathering flowlines converging on a nearby central point or platform for the purpose of accumulating production from a lease or field. An economic decision was made to install a subsea manifold on the GC-116 sea floor to gather production rather than erect a cost-prohibitive platform for the purpose of accumulating Unit production.[1] CNG argues that it is accumulated or gathered production at the subsea manifold that is being transported approximately 25 miles towards shore to the ST-300A platform. Therefore, it should be allowed to claim a transportation allowance for the transport of bulk production from GC-116 to ST-300A.

The Appellant further claims that a market exists for the bulk production at the subsea manifold at GC-116; therefore, the production is in marketable condition at the manifold. CNG maintains that when there is a market for the gas at the lease, MMS is obligated to share in the cost of transporting the gas from the lease to a distant delivery point.

Issues

1. Does the regulatory definition of "gathering" pertain to the Appellant's deep-water pipeline system used to move production 25 miles from the subsea manifold at GC-116 to the platform at ST-300A?

2. Is the Appellant entitled to a transportation allowance in accordance with the marketable condition rule?

Analysis

The Secretary of the Interior (Secretary) has discretionary authority to determine the factors to be used in computing a transportation allowance for royalty purposes. Shell Oil Co., 52 IBLA 15 (1981); Superior Oil Co., 12 IBLA 212 (1973).

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[1]CNG states in its SOR that the GC-116 subsea manifold construction costs were approximately X-4 X-4 as compared to an estimated cost of X-4 for construction of an offshore deep-water platform.

Mr. Raymond A. G. Oalmann

Transportation allowances are authorized at 30 CFR 206.156 and 206.157 (1996) and are defined at 30 CFR 206.151 (1996) as follows:

> Transportation allowance means an allowance for the cost of moving royalty bearing substances (identifiable, measurable oil and gas, including gas that is not in need of initial separation) from the point at which it is first identifiable and measurable to the sales point or other point where value is established under this subpart.

The regulations state explicitly at 30 CFR 206.102(h) as well as at 30 CFR 206.152(h) (1996) that:

> Notwithstanding any other provision of this section, under no circumstances shall the value of production for royalty purposes be less than the gross proceeds accruing to the lessee for lease production, less applicable allowances determined pursuant to this subpart.

As indicated in 30 CFR 206.102(h) and 206.152(h) (1996), when the value for royalty purposes is based upon the gross proceeds accruing to the lessee, reasonable transportation costs may be deducted in determining the portion of the total proceeds that are attributable to the gas at the wellhead.

However, in accordance with the marketable condition rule, any deductions from royalty that are for gathering and marketing expenses are not allowable. See Xeno, Inc., 134 IBLA 12, 180 (1995); Mesa Operating Limited Partnership v. U.S. Department of the Interior, 931 F.2d 318 (5th Cir. 1991), cert, denied 502 U.S. 1058 (1992). This principle is recognized in the regulations at 30 CFR 206.152(i) (1996) which provides that the " lessee is required to place gas in marketable condition at no cost to the Federal Government."

The MMS definition for "gathering" is found at 30 CFR 206.101 (1996), which states:

> *Gathering* means the movement of lease production to a central accumulation or treatment point on the lease, unit or communitized area, or to a central accumulation or treatment point off the lease, unit or communitized area as approved by BLM or MMS OCS operations personnel for onshore and offshore leases, respectively.

The MMS further developed questions that are helpful indicators in determining when

costs may be allowed as a transportation deduction from value in computing royalties rather than as nondeductible "gathering." The four questions are:[2]

1. Does the pipeline segment lie entirely within the lease, unit, or CA?

   If the answer is "yes," the pipeline is a gathering line and no deductions for transportation are permitted.

   (In the instant case, the answer is "no.")

2. Is the pipeline segment upstream of the central accumulation and (or) treatment point?

   If the answer is "yes," the pipeline is probably a gathering line and no deductions for transportation ordinarily would be permitted.

   (In the instant case, the answer is "yes.")

3. Is the pipeline segment beyond the initial treatment point, central accumulation point, or measurement facilities?

   If the answer is "yes," the pipeline likely is not a gathering line and may be eligible for a transportation allowance.

   (In the instant case, the answer is "no.")

4. Is the pipeline segment a link in the continuous flow of marketable product to the point of delivery?

   If the answer is "yes," the pipeline likely is not a gathering line and may be eligible for a transportation allowance.

   (In the instant case, the answer is "no.")

Based on the above question and answer guidelines, the pipeline moving bulk production from GC-116 to ST-300A more readily appears to be a gathering system and ineligible for a MMS-approved transportation allowance.

---

[2]The same four questions used to distinguish gathering from transportation for the period prior to the effective date of the revised valuation regulations, March 1, 1988, are also included in MMS's Payor Handbook, Volume III, section 6.5.1 (July 21, 1993) as a gathering/transportation guide for the regulations in effect on and after March 1, 1988.

Mr. Raymond A. G. Oalmann

The lessee(s) made an economic decision to construct a subsea manifold and pipeline to move bulk production offlease rather than construct platform facilities to treat and measure the production at the GC-116 location. In this situation, an unknown quantity of bulk production is first brought to the surface at the ST-300A platform. Only then is the bulk production stream initially treated (separated, dehydrated, and /or compressed) and measured for royalty purposes. Given these circumstances, MMS determined that the pipeline from the subsea manifold to ST-300A is a part of a system that gathers production from the various unit and non-unit wells and moves it to ST-300A where initial field services are performed.

Because gathering is considered part of placing lease production in marketable condition, it is therefore not allowable as a transportation cost. The Appellant, however, claims that GC-116 production is marketable prior to its exiting the lease or unit boundary and as justification presents affidavits from several buyers who state that they would be willing to purchase production at the subsea manifold at GC-116. The Appellant concludes that even if MMS considers the pipeline to be a gathering system, nevertheless CNG is entitled to a transportation allowance for moving marketable production from the subsea manifold to the offlease delivery point at ST-300A.

In its SOR, the Appellant further claims that in new regulations proposed on November 6, 1995, 60 Fed. Reg. 56009, it was MMS's intent to provide for transportation allowances in deep-water situations such as the instant case. The regulations were not adopted, however, and in any case it appears that the proposed authority was intended to be discretionary.

The fact that the Appellant can sell the production at the subsea manifold is not dispositive on the issue of whether it is in marketable condition. In an earlier ruling, the Interior Board of Land Appeals (IBLA) stated the following:

> Theoretically, any gas -- any 'production' -- is 'marketable.' * * *. There is a clear difference between 'marketing' and merely selling. For the former there must be a market, an established demand for an identified product. We suppose almost anything can be sold, if the price is no consideration. In the record before us there is no evidence of a market for the gas in the condition it comes from the wells. * * *. Although we think it is clear from the above-quoted discussion that the court in California Co. distinguished this type of 'sale' from 'marketing' of gas production, it is evident * * * that deduction from market value for costs of gathering and compression necessary to market the gas are not deductible even where incurred after transfer of title from the lease.

R.E. Yarbrough & Co., 122 IBLA 217 (1992). See also California Company v. Udall, 296 F.2d 384 (D.C. Cir. 1961).

Since the cost of bringing bulk production to the platform for treatment is a cost that ordinarily is the responsibility of the lessee to place the gas in marketable condition, this cost cannot be deducted from the lessee's gross proceeds. See 30 CFR 206.152(i) (1996).

Just because the movement of bulk production from the subsea manifold on GC-116 to the platform on ST-300A happens to move the gas closer to shore does not mean that it is transportation. The purpose of the movement instead is to bring the production to an existing platform (in lieu of building a new platform on the lease) where it can be separated, measured, and otherwise made ready for market. This activity functionally is much more related to gathering than to a transportation expense. Thus, even if MMS were able to deviate from the clear, existing rule, it would have no reason to do so in this case.

Conclusions and Order

The information provided in connection with this appeal indicates that the referenced pipeline is being used for the purpose of gathering GC-116 Unit bulk production for initial treatment and measurement at the ST-300A platform. The pipeline is upstream of the initial delivery or accumulation point, as well as upstream from initial separation, dehydration, compression and measurement facilities. There is no evidence in the record that the primary function of the 25-mile pipeline between the subsea manifold at GC-116 and the ST-300A platform is anything but gathering.

Therefore, for the reasons stated herein, the subject appeal is denied.

You may appeal this decision to the Interior Board of Land Appeals pursuant to 30 CFR Part 290 (1996) and 43 CFR 4.411 and 4.413 (1996). Please find enclosed a copy of 43 CFR 4.411 and 4.413 for your reference. If you choose to appeal this decision, you must file your notice of appeal and any statement of reasons, written arguments, or briefs within 30 days after the date of service of the decision at the following address: U.S. Department of the Interior, Director, Minerals Management Service, Attention: Appeals Division (MS 9300), 1849 C Street, NW, Washington, D.C. 20240. You also must file copies of the notice of appeal and any statement of reasons, written arguments, or briefs with the, U.S. Department of the Interior, Associate Solicitor, Division of Mineral Resources (MS 6312), 1849 C Street, NW, Washington, D.C. 20240.

Sincerely,

Mr. Raymond A. G. Oalmann

/s/

Robert E. Brown
Acting Associate Director for
Policy and Management Improvement

Enclosure

Mr. Raymond A. G. Oalmann

bc: Appeals (MMS-96-0370-OCS)
RMMLF
Reading
LMS:PMI:Appeals:MS9300:RYorty:dlg:9-15-97:(202)208-2622
S:\Appdecsn\Yortyr\96-0370.ocs

Carver, Darden, Koretzky, Tessier, Finn, Blossman & Areaux L.L.C.
Attorneys and Counselors at Law
Energy Centre
1100 Poydras Street - Suite 2700 - New Orleans, Louisiana 70163
Telephone (504) 585-3800 Telecopier (504) 585-3801

TELECOPIER TRANSMITTAL COVER SHEET

DATE: December 21, 1998

RE: CNG Producing Company
35.11254

PLEASE DELIVER THE FOLLOWING PAGES TO:

NAME: Platte Clark

FAX #: 202-219-5565

CONFIRMATION #:

FROM: M. Hampton Carver

TOTAL PAGES: 2 (including cover sheet)

MESSAGE:

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THIS TELECOPY IS BEING SENT FROM: PANAFAX UF-755 (504) 585-3801

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TOTAL P.002

Hold Agreement for MMS Appeal

Appellant: CNG Producing Company

Docket No. MMS-96-0370-OCS

I hereby agree that the appeal listed above, filed under 30 CFR 290, be put on hold for 180 days pending MMS's reconsidering the policy issues in dispute in this appeal.

I also agree to extend for the same number of days the 33-month time frame for processing appeals as set out in 30 U.S.C. 1724(h)(1) and any other time frame for processing appeals that MMS may provide for by regulation.

The Appellant's representative and the Secretary's Designee executing this agreement, warrant that they are duly authorized to represent and bind the parties hereto.

Appellant: CNG Producing Co.

By: M Hampton Carver M HAMPTON CARVER

Title: ATT Date Executed: 12/14/98

FAX Number: 504 585-3801

Approved by:

Secretary's Designee:

Plante E. Clark
Chief, MMS Appeals Division
FAX Number: 202-219-9565

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TOTAL P.002

COPY

1

Hold Agreement for MMS Appeal

Appellant: CNG Producing Company

Docket No. MMS-96-0370-OCS

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Appellant: CNG Producing Co.

By: M. Hampton Carver M. Hampton Carver

Title: Atty Date Executed: 12/14/98

FAX Number: 504 585-3601

Approved by:

Secretary's Designee: Platte E. Clark

Platte E. Clark
Chief, MMS Appeals Division
FAX Number:202-219-5565

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X-5

Hold Agreement for MMS Appeal

Appellant: CNG Producing Company

Docket No. MMS-96-0370-OCS

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Appellant: C N G Producing Co.

By: M. Hampton Carver M. HAMPTON CARVER

Title: Atty Date Executed: 12/14/98

FAX Number: 504 585-3801

Approved by:

Secretary's Designee: Platte E. Clark

Platte E. Clark
Chief, MMS Appeals Division
FAX Number: 202-219-3565

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Carver, Darden, Koretzky, Tessier, Finn, Blossman & Areaux L.L.C.
Attorneys and Counselors at Law

Energy Centre

1100 Poydras Street • Suite 2700 • New Orleans, Louisiana 70163
Telephone (504) 585-3800 Telecopier (504) 585-3801

TELECOPIER TRANSMITTAL COVER SHEET

DATE: December 21, 1998

RE: CNG Producing Company
35.11234

PLEASE DELIVER THE FOLLOWING PAGES TO:

NAME: Platte Clark

FAX #: 202-219-5565

CONFIRMATION #:

FROM: M. Hampton Carver

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Docket No. MMS-96-0370-OCS

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Appellant: CNG Producing Co.

By: M Hampton Carver M HAMPTON CARVER

Title: Atty Date Executed: 12/14/98

FAX Number: 504 585-3801

Approved by:

Secretary's Designee: Platte E. Clark

Platte E. Clark
Chief, MMS Appeals Division
FAX Number:202-219-5565

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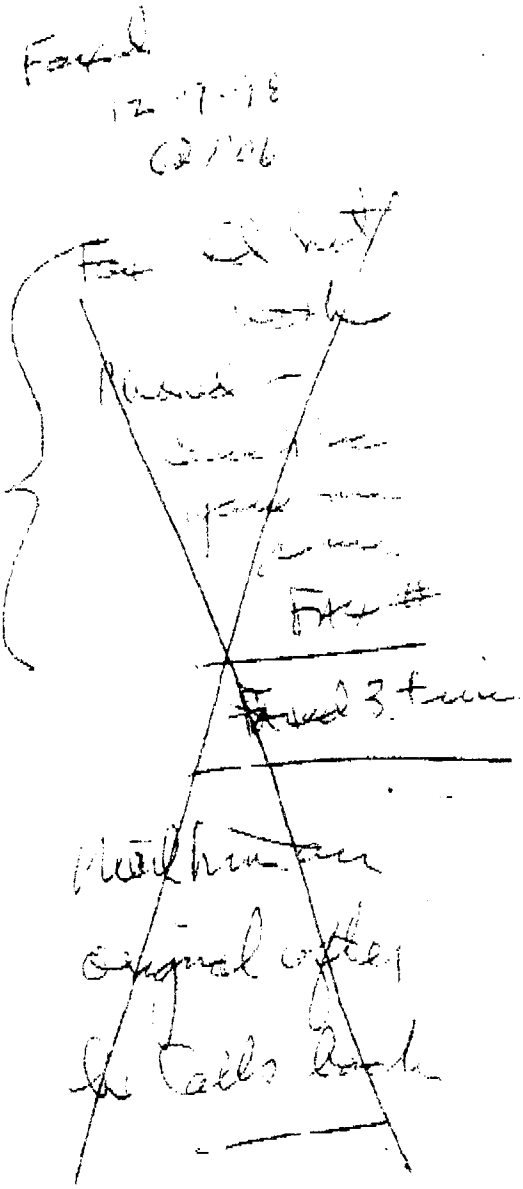
FAX

TO: M. Hampton Carver

FAX # 504-585-3801

FROM: Platte E. Clark
Chief, Appeals Division
Minerals Management Service

FAX: 202-219-5565



Faxed
12-7-98
02/06

Fax did not
work
Phoned -
[illegible]
[illegible]
[illegible]
Fax #
Faxed 3 times

Mail him an
original copy
he calls back

930 AM
12/10/98 Hampton Carver Phoned
He received all 3 faxes
He talked to Tim Jacket.
He'll get back to me today or tomorrow

Hold Agreement for MMS Appeal

Appellant: CNG Producing Company

Docket No. MMS-96-0370-OCS

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Appellant:_____

By:_____

Title:_____ Date Executed:_____

FAX Number:_____

Approved by:

Secretary's Designee:_____

Platte E. Clark
Chief, MMS Appeals Division
FAX Number:202-219-5565

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12-9-98 @ 12:30

Phone Hampton Carver

Hell talk to his Client

+ get back to me tomorrow

CWG

Oct 16, 1996 — 9/12/97

Extensions

5-2-97 90 days Request FR

12/16/96 30 days 31 of Reg

11/15/96 30 days ✓

9/23/99

12.14.98 180 days

3/23/2000

FAX #

504-585-3801

M Hampton Carver

[illegible] Hampton [illegible] [illegible] [illegible]

Jim Jackit

Tim JAKAY

SHAWKAS

Jack [illegible]

CNG's (Staff) or Council

In Hansen

In on Committee or Group

Giving Input on Gathering vs Transportation Policy for Deep Water well completion.

Dated: October 15, 1998.

LaVerne Y. Stringfield,

Committee Management Officer, NIH.

[FR Doc. 98-28255 Filed 10-20-98; 8:45 am]

BILLING CODE 4140-01-M

DEPARTMENT OF THE INTERIOR

Bureau of Land Management

[(WY-920-09-1320-01); WYW146735]

Invitation for Coal Exploration License

AGENCY: Bureau of Land Management, Interior.

ACTION: Notice of Invitation for Coal Exploration License.

SUMMARY: Pursuant to section 2(b) of the Mineral Leasing Act of February 25, 1920, as amended by section 4 of the Federal Coal Leasing Amendments Act of 1976, 90 Stat. 1083, 30 U.S.A. 201(b), and to the regulations adopted as 43 CFR, subpart 3410, all interested parties are hereby invited to participate with Jacobs Ranch Coal Company on a pro rata cost sharing basis in its program for the exploration of coal deposits owned by the United States of America in the following-described lands in Campbell County, WY:

T. 44 N., R. 70 W., 6th P.M., Wyoming,
Sec. 19: Lots 13 thru 20;
Sec. 20: Lots 9 thru 16;
Sec. 21: Lots 9 thru 16;
Sec. 22: Lots 6 thru 10, 12 thru 15;
Sec. 26: Lots 9, 10;
Sec. 27: Lots 1 thru 16;
Sec. 28: Lots 1 thru 16;
Sec. 29: Lots 1 thru 16;
Sec. 30: Lots 5 thru 20;
Sec. 31: Lots 5 thru 20;
Sec. 32: Lots 1 thru 16;
T. 44 N., R. 71 W., 6th P.M., Wyoming,
Sec. 23: Lots 9, 10, 15, 16;
Sec. 24: Lots 9 thru 16;
Sec. 25: Lots 1 thru 16;
Sec. 26: Lots 1, 2, 7 thru 10, 15, 16.

Containing approximately 6,744.31 acres.

All of the coal in the above-described land consists of unleased Federal coal within the Powder River Basin Known Recoverable Coal Resource Area. The purpose of the exploration program is to obtain coal quality data to supplement data from previous adjacent coal exploration programs.

ADDRESSES: The proposed exploration program is fully described and will be conducted pursuant to an exploration plan to be approved by the BLM. Copies of the exploration plan are available for review during normal business hours in the following offices (serialized under number WYW146735): BLM, Wyoming State Office, 5353 Yellowstone Road, PO Box 1828, Cheyenne, WY 82003; and, BLM, Casper Field Office, 1701 East "E" Street, Casper, WY 82601.

SUPPLEMENTARY INFORMATION: This notice of invitation will be published in "The News-Record" of Gillette, WY, once each week for two consecutive weeks beginning the week of October 19, 1998, and in the Federal Register. Any party electing to participate in this exploration program must send written notice to both the BLM and Jacobs Ranch Coal Company no later than thirty days after publication of this invitation in the Federal Register. The written notice should be sent to the following addresses: Jacobs Ranch Coal Company, Attn: Richard A. Turpin, Caller Box 3013, Gillette, WY 82717, and the BLM, Wyoming State Office, Minerals and Lands Authorization Group, Attn: Mavis Love, PO Box 1828, Cheyenne, WY 82003.

The foregoing is published in the Federal Register pursuant to 43 CFR 3410.2-1(c)(1).

Dated: October 13, 1998.

Pamela J. Lewis,

Chief, Leasable Minerals Section.

[FR Doc. 98-28029 Filed 10-20-98; 8:45 am]

BILLING CODE 4310-22-M

DEPARTMENT OF THE INTERIOR

Minerals Management Service

Announcement of Minerals Management Service Workshop on the Development of Criteria To Be Used in Distinguishing Between Gathering and Transportation in Deep Water in the Outer Continental Shelf

AGENCY: Minerals Management Service, Interior.

ACTION: Notice of meeting.

SUMMARY: The Minerals Management Service (MMS) will hold a day-long meeting with parties interested in the development of deep water leases that may involve subsea well completions. We are interested in developing specific criteria to be used in distinguishing between gathering and transportation to determine permissible deductions in calculating royalty value.

DATES: The workshop will be held on November 18, 1998, starting at 9:00 a.m., Central Time.

ADDRESSES: The meeting will be held at the MMS Gulf of Mexico Outer Continental Shelf Regional Office, 1201 Elmwood Park Blvd., New Orleans, Louisiana 70123.

FOR FURTHER INFORMATION CONTACT: Mr. Martin C. Grieshaber, Minerals Management Service, P.O. Box 25165, MS 9200, Denver, CO 80225-0165, telephone number (303) 275-7118; fax (303) 275-7124; e-mail Martin.Grieshaber@mms.gov; or Ms. Deborah Gibbs Tschudy, MMS, P.O. Box 25165, MS 3150, Denver, CO 80225-0165, telephone number (303) 275-7200; fax (303) 275-7227; e-mail Deborah.GibbsTschudy@mms.gov.

COMMENTS: Written comments on the meeting or the issues below should be addressed to Mr. Martin C. Grieshaber at the above address.

SUPPLEMENTARY INFORMATION: MMS is investigating the impact of deep water production systems on the distinction between gathering and transportation.

Current MMS regulations provide for an allowance for the actual and reasonable costs of transporting production when value for royalty purposes is determined away from the lease. No allowance is permitted for gathering (movement to a central accumulation and/or treatment point).

The new technologies involved in deep water development were not specifically contemplated in the current regulations, particularly when distinguishing between gathering and transportation.

We are interested in specific comments regarding what criteria should be used on a case-by-case basis when making the gathering/transportation differentiation for deep water leases.

Some possible criteria we would like comments on include: water depth, distance of movement, location of the approved measurement point, marketable condition of the production, and on-lease v. off-lease movement. Specific comments are welcome on any other criteria with a bearing on the issue.

Dated: October 15, 1998.

Walter Cruickshank,

Associate Director for Policy and Management Improvement.

[FR Doc. 98-28146 Filed 10-20-98; 8:45 am]

BILLING CODE 4310-MR-M

INTERNATIONAL TRADE COMMISSION

[Investigations Nos. 701-TA-385 and 731-TA-809-810 (Preliminary)]

Live Cattle From Canada and Mexico

AGENCY: United States International Trade Commission.

ACTION: Revised schedule for the subject investigations.

EFFECTIVE DATE: October 13, 1998.

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Michael J. Wozniak
Clanahan, Tanner, Downing
and Knowlton, P.C.
1600 Broadway, Suite 2400
Denver, Colorado 80202-4924

Re: MMS-97-0243-O&G
MMS 97 0244 O&G
Snyder Oil Corporation

Dear Mr. Wozniak:

This is to advise you that we have asked the Royalty Valuation Division of the Royalty Management Program to provide us with a review and recommendation on the gathering/transportation issues raised by these appeals.

You will be provided an opportunity to comment on their findings.

In light of this, we would appreciate your agreeing to a 60 day extension to the 33-month time frame applicable to the processing of these appeals as set out in 30 CFR 1725h)(1) while this review is completed.

If you agree, please sign the attached Extension Agreements and FAX them to Rosita Compton on 202-219-5565 or mail them to:

Rosita Compton
Minerals Management Service
Appeals Division, MS4230
1849 C Street, N.W., Washington, DC 20240

Sincerely,

Chief, Appeals Division

Enclosure

cc: Chief, Royalty Valuation Division

Memorandum

To: Chief, Royalty Valuation Division

From: Chief, Appeals Division

Subject: Snyder Oil Corporation (MMS-97-0243-O&G and MMS-97-0244-O&G)

These appeals are from orders of the Chief, State and Indian Compliance Division based on reviews and findings of the Wyoming Department of Audit. The matter at issue is whether certain costs incurred to move lease production constitute non deductible gathering or deductible transportation expenses in valuing Federal production for royalty purposes.

We would appreciate it if you could review this matter and provide us with your comments and recommendation concerning the gathering/transportation issue at your earliest opportunity. Copies of the case files in the appeals have been previously provided to your office.

We intend to ask the Appellant to agree to an extension agreement of 60 days to allow time for the completion of your review. Please provide the Appellant and the Wyoming Department of Audit with a copy of your findings and recommendation for their comment.

If we can be of any assistance in this please call Eric Hager at 202-208-2941.

cc: Chief, State and Indian Compliance Division
Wyoming Department of Audit

bc: Appeal (MMS-97-0243-O&G and MMS-97-0244-O&G)
Reading
LMS:PMI:Appeals:MS4230:EHager:dlg:4-10-98:202-208-2622
S:\appdraft/hagere/97-0243.mem

bc: Appeals (MMS-97-0243-O&G and MMS-97-0244-O&G)
Reading
LMS:PMI:Appeals:MS4230:EHagcr:dig:4-10-98:202-208-2622
S:\Appsdraft\Hagere\97-0243.mem

Author: Platte Clark at -MMS
Date: 12/3/98 2:28 PM
Priority: Normal
TO: Rosita Compton, Rick Martinez
Subject: CNG Producing MMS-96-0370-OCS

Rosita:

Were you able to get CNG to sign an Extension.

If not, we need to know, so the MMS Policy people will recognize the deadline they face.

Platte

Author: Platte Clark at ~MMS
Date: 11/27/98 9:25 AM
Priority: Normal
TO: Rick Martinez
Subject: Re[2]: CNC Producing Co MMS-96-0370-OCS

You indicated you would take on this task. Thank you. I assume the next step is to determine who you should contact that represents the CNG and phone him about the possibility of CNG signing a time extension. If you can not determine who to contact based upon our file, then Howard can tell you who is the counsel for CNG.

Thank you. Please get back to me when you get an answer from CNG's counsel.

Reply Separator

Subject: Re: CNC Producing Co MMS-96-0370-OCS
Author: Rick Martinez at -MMS-DOI2
Date: 11/27/98 9:08 AM

Platte:

I spoke w/Walter today re the above case; the gathering v. transportation issue was discussed at an OCS meeting on 11/16, w/comments from the participants due on 12/16.

X-5

---Richard

Reply Separator

Subject: CNC Producing Co MMS-96-0370-OCS
Author: Platte Clark at ~MMS-DOI2
Date: 11/25/98 1:34 PM

Richard:

This case involves a subsea production cite, without a platform, that ships the production 23 miles to a platform where the processing and treatment is performed. The issue is gathering vs. transportation. Yorty prepared the decision that was signed and appealed to IBLA.

X-5

X-5 — The current problem is the 33 month RSFA deadline.

I think the notice of appeal was filed 10/17/96. I think the 33 months would expire 7/17/99. I believe that there were 2 months worth of time extensions. So the RSFA deadline would be 9-17-99, I believe. Walter indicated that we should attempt to obtain a time extension from CNG X-5

Please pull the file. Consult with Walter as to how much time the MMS decision makers now feel they need. Then approach CNG re an extension of time. If CNG refuses then MMS will know they need to resolve the policy issue pronto. We still need to allow IBLA enough time to issue a decision.

X-5

Thank you.

12/15/98

3:10 PM

1- Phoned Hampton Canon -
Re CNG Processing Company

Left message on Answering Machine -

FAX

TO: M. Hampton Carver

FAX # 504-585-3801

FROM: Platte E. Clark
Chief, Appeals Division
Minerals Management Service

FAX: 202-219-5565

Hold Agreement for MMS Appeal

Appellant: CNG Producing Company

Docket No. MMS-96-0370-OCS

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Appellant:_____

By:_____

Title:_____ Date Executed:_____

FAX Number:_____

Approved by:

Secretary's Designee:_____

Platte E. Clark
Chief, MMS Appeals Division
FAX Number:202-219-5565

S:\appcorre\clarkp\cng96370.hld

Dated: October 15, 1998.

LaVerne Y. Stringfield,

Committee Management Officer, NIH.

[FR Doc. 98-28255 Filed 10-20-98; 8:45 am]

BILLING CODE 4140-01-M

DEPARTMENT OF THE INTERIOR

Bureau of Land Management

[(WY-920-09-1320-01); WYW146735]

Invitation for Coal Exploration License

AGENCY: Bureau of Land Management, Interior.

ACTION: Notice of Invitation for Coal Exploration License.

SUMMARY: Pursuant to section 2(b) of the Mineral Leasing Act of February 25, 1920, as amended by section 4 of the Federal Coal Leasing Amendments Act of 1976, 90 Stat. 1083, 30 U.S.A. 201(b), and to the regulations adopted as 43 CFR, subpart 3410, all interested parties are hereby invited to participate with Jacobs Ranch Coal Company on a pro rata cost sharing basis in its program for the exploration of coal deposits owned by the United States of America in the following-described lands in Campbell County, WY:

T. 44 N., R. 70 W., 6th P.M., Wyoming.
Sec. 19: Lots 13 thru 20;
Sec. 20: Lots 9 thru 16;
Sec. 21: Lots 9 thru 16;
Sec. 22: Lots 8 thru 10, 12 thru 15;
Sec. 26: Lots 9, 10;
Sec. 27: Lots 1 thru 16;
Sec. 28: Lots 1 thru 16;
Sec. 29: Lots 1 thru 16;
Sec. 30: Lots 5 thru 20;
Sec. 31: Lots 5 thru 20;
Sec. 32: Lots 1 thru 16;
T. 44 N., R. 71 W., 6th P.M., Wyoming.
Sec. 23: Lots 9, 10, 15, 16;
Sec. 24: Lots 9 thru 16;
Sec. 25: Lots 1 thru 16;
Sec. 26: Lots 1, 2, 7 thru 10, 15, 16.

Containing approximately 6,744.31 acres.

All of the coal in the above-described land consists of unleased Federal coal within the Powder River Basin Known Recoverable Coal Resource Area. The purpose of the exploration program is to obtain coal quality data to supplement data from previous adjacent coal exploration programs.

ADDRESSES: The proposed exploration program is fully described and will be conducted pursuant to an exploration plan to be approved by the BLM. Copies of the exploration plan are available for review during normal business hours in the following offices (serialized under number WYW146735): BLM, Wyoming State Office, 5353 Yellowstone Road, PO Box 1828, Cheyenne, WY 82003; and, BLM, Casper Field Office, 1701 East "E" Street, Casper, WY 82601.

SUPPLEMENTARY INFORMATION: This notice of invitation will be published in "The News-Record" of Gillette, WY, once each week for two consecutive weeks beginning the week of October 19, 1998, and in the **Federal Register**. Any party electing to participate in this exploration program must send written notice to both the BLM and Jacobs Ranch Coal Company no later than thirty days after publication of this invitation in the Federal Register. The written notice should be sent to the following addresses: Jacobs Ranch Coal Company, Attn: Richard A. Turpin, Caller Box 3013, Gillette, WY 82717, and the BLM, Wyoming State Office, Minerals and Lands Authorization Group, Attn: Mavis Love, PO Box 1828, Cheyenne, WY 82003.

The foregoing is published in the Federal Register pursuant to 43 CFR 3410.2-1(c)(1).

Dated: October 13, 1998.

Pamela J. Lewis,

Chief, Leasable Minerals Section.

[FR Doc. 98-28029 Filed 10-20-98; 8:45 am]

BILLING CODE 4310-22-M

DEPARTMENT OF THE INTERIOR

Minerals Management Service

Announcement of Minerals Management Service Workshop on the Development of Criteria To Be Used in Distinguishing Between Gathering and Transportation in Deep Water in the Outer Continental Shelf

AGENCY: Minerals Management Service, Interior.

ACTION: Notice of meeting.

SUMMARY: The Minerals Management Service (MMS) will hold a day-long meeting with parties interested in the development of deep water leases that may involve subsea well completions. We are interested in developing specific criteria to be used in distinguishing between gathering and transportation to determine permissible deductions in calculating royalty value.

DATES: The workshop will be held on November 16, 1998, starting at 9:00 a.m., Central Time.

ADDRESSES: The meeting will be held at the MMS Gulf of Mexico Outer Continental Shelf Regional Office, 1201 Elmwood Park Blvd., New Orleans, Louisiana 70123.

FOR FURTHER INFORMATION CONTACT: Mr. Martin C. Grieshaber, Minerals Management Service, P.O. Box 25165, MS 9200, Denver, CO 80225-0165, telephone number (303) 275-7118; fax (303) 275-7124; e-mail Martin.Grieshaber@mms.gov; or Ms. Deborah Gibbs Tschudy, MMS, P.O. Box 25165, MS 3150, Denver, CO 80225-0165, telephone number (303) 275-7200; fax (303) 275-7227; e-mail Deborah.GibbsTschudy@mms.gov.

COMMENTS: Written comments on the meeting or the issues below should be addressed to Mr. Martin C. Grieshaber at the above address.

SUPPLEMENTARY INFORMATION: MMS is investigating the impact of deep water production systems on the distinction between gathering and transportation.

Current MMS regulations provide for an allowance for the actual and reasonable costs of transporting production when value for royalty purposes is determined away from the lease. No allowance is permitted for gathering (movement to a central accumulation and/or treatment point).

The new technologies involved in deep water development were not specifically contemplated in the current regulations, particularly when distinguishing between gathering and transportation.

We are interested in specific comments regarding what criteria should be used on a case-by-case basis when making the gathering/transportation differentiation for deep water leases.

Some possible criteria we would like comments on include: water depth, distance of movement, location of the approved measurement point, marketable condition of the production, and on-lease v. off-lease movement. Specific comments are welcome on any other criteria with a bearing on the issue.

Dated: October 15, 1998.

Walter Cruickshank,

Associate Director for Policy and Management Improvement.

[FR Doc. 98-28148 Filed 10-20-98; 8:45 am]

BILLING CODE 4310-MR-M

INTERNATIONAL TRADE COMMISSION

[Investigations Nos. 701-TA-385 and 731-TA-809-810 (Preliminary)]

Live Cattle From Canada and Mexico

AGENCY: United States International Trade Commission.

ACTION: Revised schedule for the subject investigations.

EFFECTIVE DATE: October 13, 1998.

Minerals Management Service
Office of Policy and Management Improvement
12600 West Colfax, Suite B440, MS 9130
Lakewood CO 80215

Date: 12/9/98 *Time:* 11:45 CST

To: Richard Martinez

Office: Appeals

Phone: _____ *Room:* _____ *Mail Stop:* _____

Fax: 202-219-5585

From: Martin Gruenhaber

Phone: (303) 275-7118 *FAX:* (303) 275-7124

Comments:

Per your request

Machine operated by: _____

Pages including this cover: 2

IF YOU DO NOT RECEIVE ALL OF THIS DOCUMENT PLEASE CONTACT SENDER

Hugh

United States Department of the Interior

OFFICE OF HEARINGS AND APPEALS
Interior Board of Land Appeals
4015 Wilson Boulevard
Arlington, Virginia 22203

IN REPLY REFER TO:

CERTIFIED

SEP 11 1998

IBLA 98-347	:	MMS-96-0370-OCS
	:	
CNR PRODUCING CO.	:	Oil and Gas Royalty
	:	
	:	Decision Vacated;
	:	Case Remanded

ORDER

On August 24, 1998, counsel for the Minerals Management Service (MMS) filed a motion stating that MMS wishes to reconsider the position taken in the Decision under appeal herein. Counsel requested accordingly that we remand the above-captioned appeal. No reason appearing not to do so, we grant MMS' request.

Accordingly, pursuant to the authority delegated to the Board of Land Appeals by the Secretary of the Interior, 43 C.F.R. § 4.1, the Decision appealed from is vacated and the case is remanded to MMS for further consideration without prejudice to Appellant's right to appeal any subsequent adverse decision herein.

David L. Hughes
Administrative Judge

I concur:

Hy Dillman Hunsaker
Acting Administrative Judge

CMAC

1920, as amended by section 4 of the Federal Coal Leasing Amendments Act of 1976, 90 Stat. 1083, 30 U.S.C. 201 and to the regulations adopted at 43 CFR, subpart 3410, all interested parties are hereby invited to participate with Jacobs Ranch Coal Company on a pro rata cost sharing basis in its program for the exploration of coal deposits owned by the United States of America in the following-described lands in Campbell County, WY:

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Sec. 29: Lots 1 thru 16;
Sec. 30: Lots 5 thru 20;
Sec. 31: Lots 5 thru 20;
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T. 44 N., R. 71 W., 6th P.M., Wyoming.
Sec. 23: Lots 9, 10, 15, 16;
Sec. 24: Lots 9 thru 16;
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Containing approximately 6,744.31 acres.

All of the coal in the above-described land consists of unleased Federal coal within the Powder River Basin Known Recoverable Coal Resource Area. The purpose of the exploration program is to obtain coal quality data to supplement data from previous adjacent coal exploration programs.

ADDRESSES: The proposed exploration program is fully described and will be conducted pursuant to an exploration plan to be approved by the BLM. Copies of the exploration plan are available for review during normal business hours in the following offices (serialized under number WYW146735): BLM, Wyoming State Office, 5353 Yellowstone Road, PO Box 1828, Cheyenne, WY 82003; and, Cheyenne, WY 82003.

The foregoing is published in the Federal Register pursuant to 43 CFR 3410.2-1(c)(1).

Dated: October 13, 1998.

Pamela J. Lewis,

Chief, Leasable Minerals Section.

[FR Doc. 98-28029 Filed 10-20-98; 8:45 am]

BILLING CODE 4310-22-M

DEPARTMENT OF THE INTERIOR

Minerals Management Service

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AGENCY: Minerals Management Service, Interior.

ACTION: Notice of meeting.

SUMMARY: The Minerals Management Service (MMS) will hold a day-long meeting with parties interested in the development of deep water leases that may involve subsea well completions. We are interested in developing specific criteria to be used in distinguishing between gathering and transportation to determine permissible deductions in calculating royalty value.

DATES: The workshop will be held on November 16, 1998, starting at 9:00 a.m., Central Time.

ADDRESSES: The meeting will be held at the MMS Gulf of Mexico Outer Continental Shelf Regional Office, 1201 Elmwood Park Blvd., New Orleans, Louisiana 70123.

FOR FURTHER INFORMATION CONTACT: Mr. Martin C. Grieshaber, Minerals Management Service, P.O. Box 25165, purposes is determined away from the lease. No allowance is permitted for gathering (movement to a central accumulation and/or treatment point).

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Some possible criteria we would like comments on include: water depth, distance of movement, location of the approved measurement point, marketable condition of the production, and on-lease v. off-lease movement. Specific comments are welcome on any other criteria with a bearing on the issue.

Dated: October 15, 1998.

Walter Cruickshank,

Associate Director for Policy and Management Improvement.

[FR Doc. 98-28146 Filed 10-20-98; 8:45 am]

BILLING CODE 4310-MR-M

INTERNATIONAL TRADE COMMISSION

[Investigations Nos. 701-TA-385 and 731-TA-809-810 (Preliminary)]

Live Cattle From Canada and Mexico

AGENCY: United States International Trade Commission.

ACTION: Revised schedule for the subject investigations.

EFFECTIVE DATE: October 13, 1998.

APPEARANCES:

M. Hampton Carver, Esq.
John H. Fontham, Esq.
Carver, Darden, et al.
1100 Poydras Street, Suite 2700
New Orleans, LA 70163

Howard W. Chalker, Esq.
Geoffrey Heath, Esq.
Division of Energy and Resources
Office of the Solicitor
U.S. Department of the Interior
18th and C Streets, N.W.
Washington, DC 20240

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

OCT 2 1998

Memorandum

To: Chief, Royalty Valuation Division

From: Chief, Appeals Division

Subject: CNG Producing Company MMS-96-0370-OCS

This case was remanded from the IBLA for MMS to reconsider its position. The Department will need to issue a final decision in this case within 33 months of the date the appeal was filed, plus the amount of time for extensions already granted (see extensions in case file) and any additional extensions to which the appellant may agree.

Hugh Hilliard

Attachment

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

Allegra 10/2/98

OCT 2

Memorandum

To: Chief, Royalty Valuation Division

From: Chief, Appeals Division

Subject: CNG Producing Company MMS-96-0370-OCS

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Hugh Hilliard

Hugh Hilliard

bc: Appeals (MMS-96-0370-OCS)
Reading
LMS:PMI:Appeals:MS9300:ad:10-2-98:(202) 208-2622
S:\Appcorre\hilliardh\96-0370.ltr

APPEALS

403 Ka

IN REPLY REFER TO:

United States Department of the Interior

OFFICE OF HEARINGS AND APPEALS
Interior Board of Land Appeals
4015 Wilson Boulevard
Arlington, Virginia 22203

CERTIFIED

SEP 11 1998

IBLA 98-347	:	MMS-96-0370-OCS
	:	
CNR PRODUCING CO.	:	Oil and Gas Royalty
	:	
	:	Decision Vacated;
	:	Case Remanded

ORDER

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Accordingly, pursuant to the authority delegated to the Board of Land Appeals by the Secretary of the Interior, 43 C.F.R. § 4.1, the Decision appealed from is vacated and the case is remanded to MMS for further consideration without prejudice to Appellant's right to appeal any subsequent adverse decision herein.

David L. Hughes
Administrative Judge

I concur:

Hy Dillman Hunsaker
Acting Administrative Judge

Case

APPEARANCES:

M. Hampton Carver, Esq.
John H. Fontham, Esq.
Carver, Darden, et al.
1100 Poydras Street, Suite 2700
New Orleans, LA 70163

Howard W. Chalker, Esq.
Geoffrey Heath, Esq.
Division of Energy and Resources
Office of the Solicitor
U.S. Department of the Interior
18th and C Streets, N.W.
Washington, DC 20240

Attachment 1

CNG Producing Company

A **CNG** COMPANY

CNG Tower
1450 Poydras Street
New Orleans, LA 70112-6000
(504) 593-7472

RAYMOND A. G. OALMANN
Manager, Revenue Accounting

June 28, 1996

RECEIVED
1996 JUN 31 AM 10:25
MMS - ROYALTY
VAL. & STDS. DIV

Ms. Debbie Gibbs Tschudy
Chief, Royalty Valuation & Standards Division
Minerals Management Service
12600 W. Colfax
Suite C 100
Lakewood, CO 80215

RE: Transportation Allowance
Approval Request

Dear Ms. Tschudy:

Attached are MMS Forms 4295 and 4110 to request an oil and gas transportation allowance at our deepwater Green Canyon 116 Unit. We are asking permission to take these allowances due to the unusual nature of this transportation system. Per the attached schematic and commingling agreements, this system consists of two 6 inch production flowlines that travel 25 miles from the two producing wells on the seafloor in 2,040 feet of water on the Green Canyon 116 lease to production and handling facilities located at South Timbalier Block 300. Bulk, untreated production is injected into these flowlines at Green Canyon 116. All separation, dehydrating, and treating occurs at the production facilities at South Timbalier 300. The sales meters for both gas and condensate products are also at ST 300. This system was set up due to the enormous expense of setting a production platform and related facilities in a water depth of 2,000 feet verses sending the raw production to the nearest existing production facility with excess processing capacity.

Although the current MMS regulations do not address the transportation of bulk deepwater production, the proposed "Amendments to Gas Valuation Regulations for Federal Leases," published in the Federal Register Vol. 60; No. 214, Monday, November 16, 1996; page 56013; Section 206.456, discusses the ability of the MMS to approve an allowance for the transportation of bulk deepwater production upon request of the lessee.

96-0283

Please approve this request and advise us of your decision as soon as possible. If there are further questions, please contact Richard Pepper at 504-593-7512.

Sincerely,

Raymond A. G. Oalmann by RRP

Raymond A. G. Oalmann
Manager, Revenue Accounting

RAGO/RRP:lfm

Attachments

FIGURE 1: *POPEYE SUBSEA DEVELOPMENT SCHEMATIC*
GC - 116 FIELD TO ST - 300 "A"

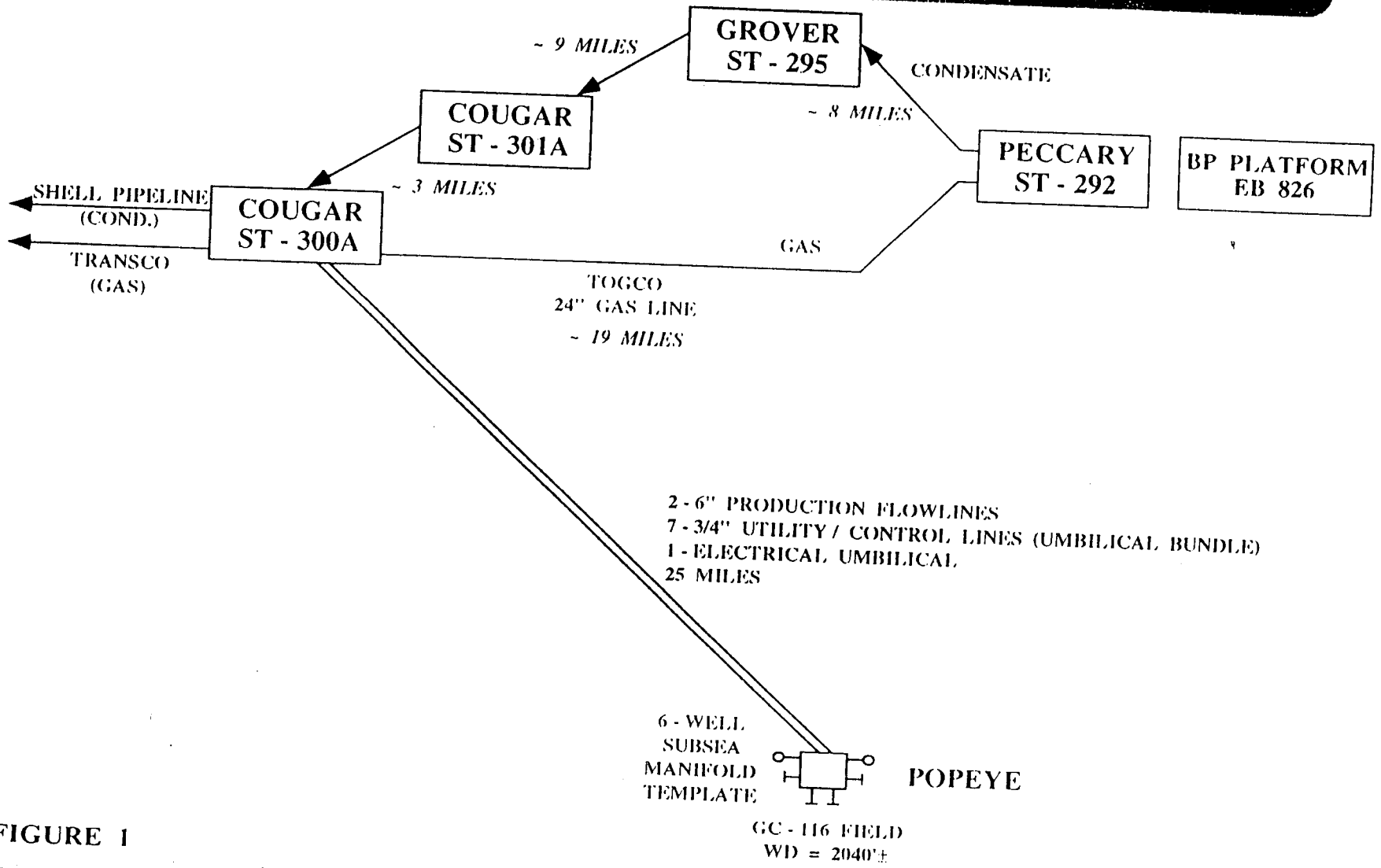

FIGURE 1

GM911862.CAN MAB 11/24/92

FIGURE 1: *POPEYE SUBSEA DEVELOPMENT SCHEMATIC*
GC - 116 FIELD TO ST - 300 "A"

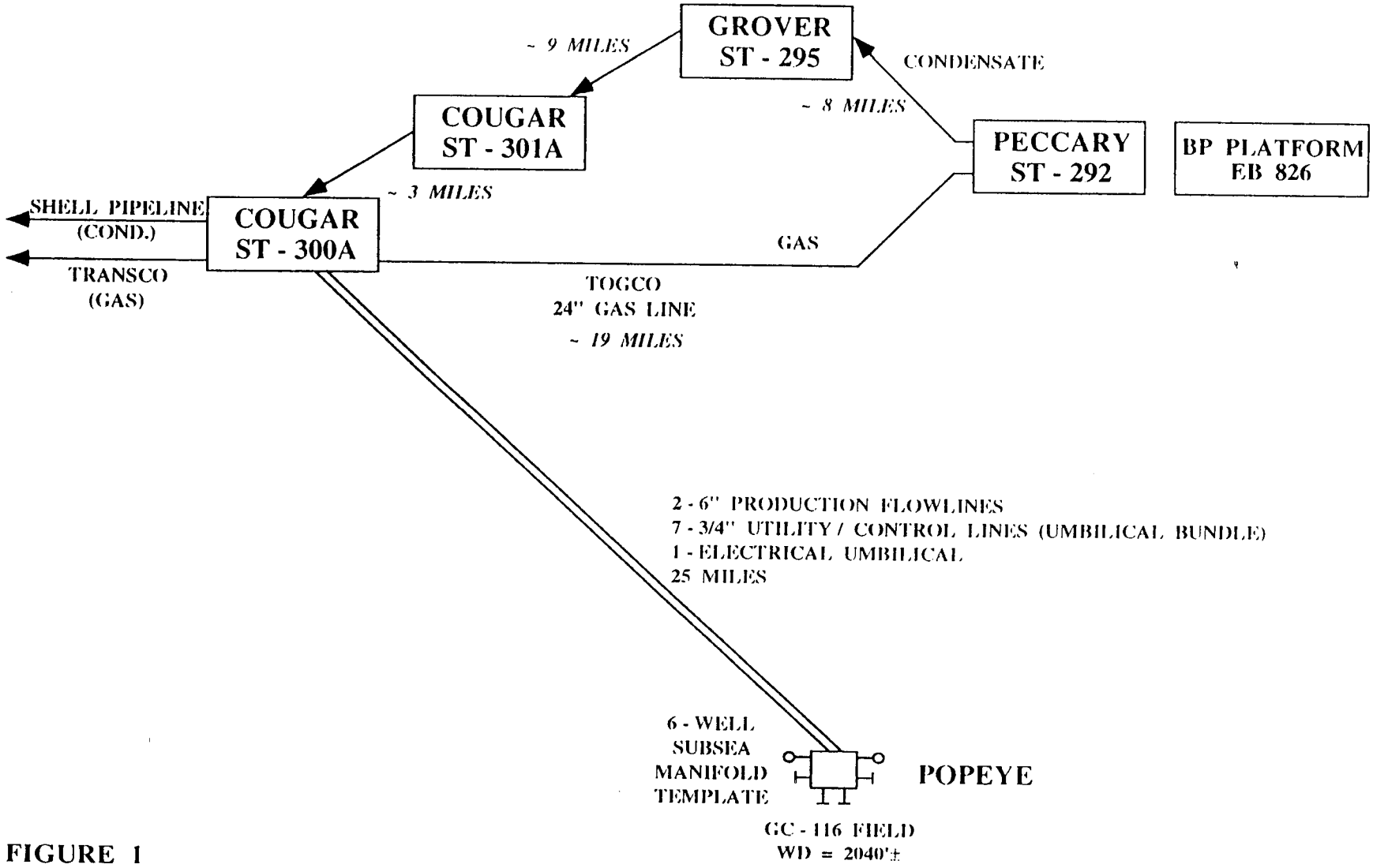

FIGURE 1

GM911862.CAN MAB 11/24/92

cc: C. Thorne
D. Dicken

Shell Offshore Inc.
An affiliate of Shell Oil Company

One Shell Square
PO Box 61933
New Orleans LA 70161-1933
(504) 588-6161

Exploration and Production
Deepwater Division

January 17, 1996

Acting Regional Supervisor
Production and Development
Minerals Management Service
1201 Elmwood Park Blvd.
New Orleans, LA 70123-2394

Dear Sir:

SUBJECT: FIRST PRODUCTION AND ANNUAL PLAN OF OPERATIONS
POPEYE FIELD
SOI OCS-G 5897, GREEN CANYON BLOCK 73
SOI OCS-G 5904, GREEN CANYON BLOCK 116
SOI OCS-G 5905, GREEN CANYON BLOCK 117
MOBIL/BP OCS-G 5896, GREEN CANYON BLOCK 72
GREEN CANYON BLOCK 116 UNIT
GREEN CANYON BLOCK 116 FIELD
OFFSHORE LOUISIANA

Shell Offshore Inc. (SOI), as Operator of the captioned unit and on behalf of Mobil Exploration & Producing U.S. Inc., BP Exploration & Oil Inc. and CNG Producing Company, submits for your information and records, notification of first production and date of automatic adjustment to the Unit Area. Also included is our Annual Plan of Operations (Attachment 1).

First Production - Popeye Unit Phase I Development

First production from OCS-G 5896, Well A-1, commenced on January 11, 1996. OCS-G 5904, Well A-2, was placed on production January 15, 1996. These deepwater high pressure subsea gas wells are flowing 24 miles to SOI's South Timbalier 300 Platform "A". Although the wells are not completely stabilized, daily field production rates are expected to exceed 120 MMCF and 8,000 barrels of condensate.

Automatic Adjustment of Unit Area

The Unit Area Adjustment will take place on January 11, 2006 based on first production of January 11, 1996. (Reference Article 13.1 of the Green Canyon Block 116 Unit Agreement.)

2

aj601701.arp

Annual Plan of Operations

Enclosed please find our Annual Plan of Operations as required by Article 9.3 of the Green Canyon Block 116 Unit Agreement.

If you have any questions or need additional information, please contact Al Pickett at (504) 588-0198 in our New Orleans office.

Yours very truly,

For: R. W. Robison, Jr.
Contracts Manager

ARP:AHJ

Attachment

cc: Mr. Lars Herbst
New Orleans District Supervisor
Minerals Management Service
1201 Elmwood Park Blvd.
New Orleans, LA 70123-2394

Ms. Teresa V. LeBlanc
Mobil Exploration & Producing U.S. Inc.
1205 Poydras Building
New Orleans, LA 70113-1892

Mr. E. L. Erwin, III
BP Exploration & Oil Inc.
P. O. Box 4587
Houston, TX 77210-4587

Mr. James Carrington, Jr.
CNG Producing Company
CNG Tower
1450 Poydras Street
New Orleans, LA 70112-6000

ATTACHMENT I

ANNUAL PLAN OF OPERATIONS
GREEN CANYON BLOCK 116 UNIT

UNIT AGREEMENT NO. 754388025

REVIEW PERIOD - 1995

ACTIVITY	TIMING
DWSS* Integration Testing	February - April
Install DWSS*	March - May
Complete drilling operations for OCS-G 5896 Well A-1 and OCS-G 5904 Well A-2	July - September
Completion operations for Wells A-1 and A-2	September - December

PLANNING PERIOD - 1996

ACTIVITY	TIMING
Complete well completion operations and place Wells A-1 and A-2 on production	January
Produce Well A-1 (G-RA) and Well A-2 (G-RM), monitor reservoir performance and DWSS* performance for future development (Phase II)	January - December

*DWSS - Discrete Well Subsea System

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

OIL TRANSPORTATION ALLOWANCE REPORT

OMB NO. 1010 - 0061
Expires March 31, 1996

FOR MMS USE ONLY:

[1] PAYOR NAME CNC Producing Co.

ADDRESS 1450 Poydras ST.

CITY New Orleans STATE LA ZIP 70112

[2] PAYOR CODE 17080

[4] FEDERAL [X] or INDIAN [ ]

[5] REPORT TYPE [1]

[6] REPORTING PERIOD Jan 1 19 96 to Dec 31 19 96

[3] FOR PAYOR USE ONLY: GC116

Public reporting burden for this form is estimated to range from 1 to 3 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form including suggestions for reducing this burden to the Information Collection Clearance Officer, Mail Stop 2300, Minerals Management Service, 381 Elden Street, Herndon, Va. 22070; and the Office of Management and Budget, Paperwork Reduction Project (1010 - 0061), Washington, DC 20503.

[7]	[8] ACCOUNTING IDENTIFICATION (AID) NUMBER	[9] PRODUCT CODE	[10] SELLING ARRANGEMENT CODE	[11] ARM'S-LENGTH/ PAYOR-OWNED INDICATOR	[12] PRIOR PERIOD ACTUAL DATA a ROYALTY QUANTITY	b ALLOWANCE RATE PER UNIT	c ROYALTY ALLOWANCE AMOUNT	[13] CURRENT PERIOD ESTIMATED DATA a ROYALTY QUANTITY	b ALLOWANCE RATE PER UNIT	c ROYALTY ALLOWANCE AMOUNT
1	05400589600 01	02	001	4				63,330	— X-4 —	
2	05406590400 01	02	001	4				86,670		
3										
4										
5										
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9										
10										
11										
12	PAGE TOTAL					xxxxxxxxxxx		150,000	xxxxxxxxxxx	
13	REPORT TOTAL (LAST PAGE ONLY)					xxxxxxxxxxx			xxxxxxxxxxx	X-4

IF MORE LINES ARE NEEDED, ATTACH ADDITIONAL PAGES OF FORM MMS-4110

I have read and examined the statements in this report and, to the best of my knowledge, they are accurate and complete.

NAME (FIRST, MIDDLE INITIAL, LAST) (typed or printed) Raymond A. G. Oilmann DATE: 6-28-96

AUTHORIZED SIGNATURE: Raymond A. G. Oilmann by RRP DATE: 6-28-96

NAME OF PREPARER: Richard R Pepper TELEPHONE NUMBER: 504-593-7512

WARNING: This is to inform you that failure to report accurately and timely in accordance with the statutes, regulations, or terms of the lease, permit, or contract may result in late payment charges, civil penalties, or liquidated damages being assessed without further notification. Intentional false or inaccurate reporting is subject to criminal prosecution in accordance with applicable Federal law(s).

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

FORM MMS-4110 (REV. 6/93)

The Paperwork Reduction Act of 1980 (44 U.S.C. 3501 et seq.) requires MMS to inform you that this information is being collected for the purpose of managing its oil transportation allowance program.

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

SCHEDULE 1 -- OIL TRANSPORTATION FACILITY SUMMARY SHEET

[1] PAYOR NAME AND CODE CNG Producing Co / 17080

ADDRESS 1450 Poydras St.

CITY New Orleans STATE LA ZIP 70112

[2] ACCOUNTING ID NUMBER: 05400589600001 / 05400590400001

SELLING ARRANGEMENT CODE: 061

[3] FACILITY NAME/ID NUMBER:

PERIOD: 1/1 19 96 to 12/31 19 96

(a) Segment Name or Number From	To	(b) Mode of Transportation	(c) Arm's-Length/ Payor-Owned Indicator	(d) Arm's-Length Contract/ Payor-Owned Operating Costs	(e) Depreciation	(f) Rate of Return	(g) Undepreciated Capital Investment at Beginning of Year	(h) Return on Investment (f) x (g)	
A. TRANSPORTING OIL TO A REMOTE TREATMENT FACILITY.									
				$	$		$	$	3
									4
									5
									6
									7
			Totals	$	$			$	8

Allowance rate = (lines 8d + 8e + 8h)/Volume of production transported from the lease to processing/treatment facility.

$ (Part A Total Cost) + (Part A Total Volume) = $ (Cost per Barrel) — 9

B. TRANSPORTING OIL TO A REMOTE SALES POINT.

GC116	ST300	P/L	4	10
				11
				12
		Totals		13

X - 4

Allowance rate = (lines 13d + 13e + 13h)/Volume of products transported from the lease plant to the sales point. — 14

Total Unit Allowance Rate = the sum of line 9h and 14h. The allowance rate cannot exceed 50 percent of the value of the product without prior MMS approval. — 15

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

ATTACHMENT 3

CNG Producing Company

A CNG COMPANY

October 16, 1996

RECEIVED
1996 OCT 17 PM 3:25
VAL. & STDS. DIV.

Minerals Management Service
Attn: Ms. Deborah Gibbs Tschudy
Chief, Valuation and Standards Division
12600 W. Colfax
Suite 100
Lakewood, CO 80215

Re: MMS-VSD-EUB:96-0283
Mail Stop 3151

Dear Ms. Tschudy:

This correspondence is to appeal the MMS decision to deny a transportation allowance request filed by CNG Producing Company on June 28, 1996 for our deepwater Green Canyon 116 unit. We feel strongly that these 25 mile flowlines represent transportation and not gathering. Please allow us an additional 60 days from receipt of this letter to file our statement of reasons.

If there are any problems with this request, please contact Richard Pepper at (504)593-7512.

Sincerely,

Raymond Adamson

RAGO/kbb

Prod No
96-0413

Appeal No
96-0370

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-VSD-EVB: 96-0413
Mail Stop 3151

NOV 19 1996

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Raymond A.G. Oalmann
Manager, Revenue Accounting
CNG Producing Company
CNG Tower
1450 Poydras Street
New Orleans, Louisiana 70112-6000

Re: Notice of Appeal -- Timely Receipt

Appellant:	CNG Producing Company
MMS Order Date:	September 18, 1996
Appeal Docket No.:	MMS-96-0370-OCS

Dear Mr. Oalmann:

The Minerals Management Service (MMS) received your timely Notice of Appeal by letter dated October 16, 1996, on behalf of CNG Producing Company (CNG). Docket No. MMS-96-0370-OCS has been assigned to this appeal. Future inquiries on this appeal should reference this docket number.

You also requested an extension of time to file your Statement of Reasons (SOR). The MMS will grant an extension of time until December 18, 1996, for CNG to submit their SOR to support their position on this appeal. We appreciate your prompt turnaround of the Extension to File Documents and Extension of Due Date to Issue Decision on Appeal form.

EVB

B.

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

PAYOR IDENTIFICATION BLOCK	
Payor Name and Code:	CNGP17080
Accounting ID No:	05400584600 05400590400
Selling Arrangement Code:	01
Facility ID No:	
Segment ID No:	
Period:	1/1 1996 to 12/31 1996

SCHEDULE 1A -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

☐ Estimated Costs - Check when estimating costs for system/segment start-up.

A. Lessee's Operating Costs for System/Segment

Operations Supervision and Engineering	$	1
Operations Labor		2
Utilities		3
Materials		4
Ad Valorem Property Taxes		5
Rent		6
Supplies		7
Other (specify). Attach Supplemental Schedule 1A		8
as necessary		9
Total Operating Costs -- Subtotal	X-4	10

B. Lessee's Maintenance Costs

Maintenance Supervision	$	11
Maintenance Labor		12
Materials		13
Other (specify). Attach Supplemental Schedule 1A		14
as necessary		15
Total Maintenance Costs -- Subtotal	$	16

C. Lessee's Overhead Allocation (specify)

_____	$	17
_____		18
Other (specify) use Supplemental Schedule 1A		19
Total Overhead Allocation	$	20

D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20) — 21

E. Allocated to Segment
Lease Volume _____ ÷ Total throughput _____ — X-4 — 22

F. Segment Allocated Operating, Maintenance, and Overhead Costs
(Line 21 x line 22) Enter in column d, Schedule 1 — 23

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) ☒ PROPRIETARY ☐ NONPROPRIETARY

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

PAYOR IDENTIFICATION BLOCK	
Payor Name and Code:	CNGP 17080
Accounting ID No:	05400589600001
Selling Arrangement Code:	001
Facility ID No:	
Segment ID No:	
Period:	1/1 19 96 to 12/31 19 96

SCHEDULE 1B -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/SEGMENT DEPRECIATION AND CAPITAL EXPENDITURE SUMMARY

1 Expenditure Item	2 Initial Capital Investment and Date Placed in Service	3 Salvage Value	4 Depreciable Life/Years of Depreciation Taken to Date	5 Undepreciated Capital Investment at Beginning of Year	6 Depreciation	7 Undepreciated Capital Investment at End-of-Year
2-25mi 6" Prod. Flowline	X-4	$ -0-	11yr -0-		X-4	

Totals	8
Allocated to Segment (from line 22, Schedule 1A)	9
Segment Depreciation and Capital Expenditure (Line 8 x line 9) Enter in column g and e, Schedule 1	10

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) ☒ PROPRIETARY ☐ NONPROPRIETARY

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

GAS TRANSPORTATION ALLOWANCE REPORT

OMB NO. 1010 - 0075
Expires October 31, 1994

FOR MMS USE ONLY:

1 PAYOR NAME: CNG Producing Co
2 PAYOR CODE: 17080
ADDRESS: 1450 Poydras St.
4 FEDERAL or INDIAN: FEDERAL [X]
CITY: New Orleans STATE: LA ZIP: 70112
5 REPORT TYPE: [I]
6 REPORTING PERIOD: Jan 1 1996 – Dec 31 1996
3 FOR PAYOR USE ONLY: GC116

Public reporting burden for this form is estimated to range from 1 to 3 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form including suggestions for reducing this burden to the Information Collection Clearance Officer, Mail Stop 2300, Minerals Management Service, 381 Elden Street, Herndon, Va. 22070; and the Office of Management and Budget, Paperwork Reduction Project (1010 - 0075), Washington, DC 20503.

7	8 ACCOUNTING IDENTIFICATION (AID) NUMBER	9 PRODUCT CODE	10 SELLING ARRANGEMENT CODE	11 ARM'S-LENGTH/ PAYOR-OWNED INDICATOR	12 PRIOR PERIOD ACTUAL DATA a ROYALTY QUANTITY	b ALLOWANCE RATE PER UNIT	c ROYALTY ALLOWANCE AMOUNT	13 CURRENT PERIOD ESTIMATED DATA a ROYALTY QUANTITY	b ALLOWANCE RATE PER UNIT	c ROYALTY ALLOWANCE AMOUNT
1	0540058960001	04	001	4				1,364,234	X-4	
2	0540059040001	04	001	4				1,867,016		
3										
4										
5										
6										
7										
8										
9										
10										
11										
12	PAGE TOTAL					xxxxxxxxxxxx		3231,250	xxxxxxxxxxxx	X-4
13	REPORT TOTAL (LAST PAGE ONLY)					xxxxxxxxxxxx			xxxxxxxxxxxx	

IF MORE LINES ARE NEEDED, ATTACH ADDITIONAL PAGES OF FORM MMS-4295

I have read and examined the statements in this report and, to the best of my knowledge, they are accurate and complete.

NAME (FIRST, MIDDLE INITIAL, LAST) (typed or printed): Raymond A.G. Oelmann — DATE: 6-28-96

AUTHORIZED SIGNATURE: Raymond A.G. Oelmann by RRP — DATE: 6-28-96

NAME OF PREPARER: Richard R Pepper — TELEPHONE NUMBER: 504-593-7512

WARNING: This is to inform you that failure to report accurately and timely in accordance with the statutes, regulations, or terms of the lease, permit, or contract may result in late payment charges, civil penalties, or liquidated damages being assessed without further notification. Intentional false or inaccurate reporting is subject to criminal prosecution in accordance with applicable Federal law(s).

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

The Paperwork Reduction Act of 1980 (44 U.S.C. 3501 et seq.) requires MMS to inform you that this information is being collected for the purpose of managing its gas transportation allowance program.

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

SCHEDULE 1 -- GAS TRANSPORTATION FACILITY SUMMARY SHEET

[2] ACCOUNTING ID NUMBER: 05400589600 01 / 05400590400 01

SELLING ARRANGEMENT CODE: 001

[1] PAYOR NAME AND CODE: CNG Producing Co / 17080

ADDRESS: 1450 Poydras St

CITY: New Orleans STATE: LA ZIP: 70112

FACILITY NAME/ID NUMBER:

PRODUCT CODE: 04

PERIOD: 111 19 96 to 12/31/19 96

(a) Segment Name or Number From	(a) To	(b) Mode of Transportation	(c) Arm's-Length/ Payor-Owned Indicator	(d) Arm's-Length Contract/ Payor-Owned Operating Costs	(e) Depreciation	(f) Rate of Return	(g) Undepreciated Capital Investment at Beginning of Year	(h) Return on Investment (f) x (g)	
A. TRANSPORTING GAS TO A REMOTE GAS PROCESSING FACILITY.									
				$	$		$	$	3
									4
									5
									6
									7
			Totals	$	$			$	8

Allowance rate = (lines 8d + 8e + 8h)/Quantity of production transported from the lease to the gas processing facility. ____ (Part A Total Cost) ÷ ____ (Part A Total Quantity) = $ ____ (Gas Rate/Mcf) — 9

Allowance rate for transporting NGL's or Sulfur from the lease to plant. ____ (Sulfur Rate/l T) ____ (NGL Rate/Gal) — 10

B. TRANSPORTING GAS OR GAS PRODUCTS FROM LEASE OR PLANT TO A REMOTE SALES POINT

GC116	ST300	P/L	4	7.83	X-4		11
							12
							13
			Totals	X-4		X-4	14

Allowance rate = (lines 14d + 14e + 14h)/Quantity of products. ÷ 25,850,000 (Part B Total Quantity) = — 15

Total Unit Allowance Rate = the sum of line 9h and 15h if the allowance is for gas; line 10g and 15h if the allowance is for sulfur; or 10h and 15h if the allowance is for NGL's. The allowance rate cannot exceed 50 percent of the value of the product without prior MMS approval. — 16

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) [X] PROPRIETARY [ ] NONPROPRIETARY

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

PAYOR IDENTIFICATION BLOCK	
Payor Name and Code:	CNGP17080
Accounting ID No:	0540058960001 / 0540069040001
Selling Arrangement Code:	01
Facility ID No:	
Segment ID No:	
Period:	1/1 19 96 to 12/31 19 96

SCHEDULE 1A -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/ SEGMENT OPERATIONS, MAINTENANCE AND OVERHEAD EXPENDITURES

☐ Estimated Costs - Check when estimating costs for system/segment start-up.

A. Lessee's Operating Costs for System/Segment

Operations Supervision and Engineering	$	1
Operations Labor		2
Utilities		3
Materials		4
Ad Valorem Property Taxes		5
Rent		6
Supplies		7
Other (specify). Attach Supplemental Schedule 1A		8
as necessary		9
Total Operating Costs -- Subtotal	X-4	10

B. Lessee's Maintenance Costs

Maintenance Supervision	$	11
Maintenance Labor		12
Materials		13
Other (specify). Attach Supplemental Schedule 1A		14
as necessary		15
Total Maintenance Costs -- Subtotal	$	16

C. Lessee's Overhead Allocation (specify)

	$	17
		18
Other (specify) use Supplemental Schedule 1A		19
Total Overhead Allocation	$	20

D. Total Operating and Maintenance Costs (Line 10 + line 16 + line 20) — 21

E. Allocated to Segment
Lease Volume _____ ÷ Total throughput _____ — X-4 — 22

F. Segment Allocated Operating, Maintenance, and Overhead Costs (Line 21 x line 22) Enter in column d, Schedule 1 — 23

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) ☒ PROPRIETARY ☐ NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1A (REV. 1/88)

U.S. DEPARTMENT OF THE INTERIOR
Minerals Management Service
Royalty Management Program

PAYOR IDENTIFICATION BLOCK	
Payor Name and Code:	CNGP 17080
Accounting ID No:	05400589600001
Selling Arrangement Code:	001
Facility ID No:	
Segment ID No:	
Period:	1/1 19 96 to 12/31 19 96

SCHEDULE 1B -- NON-ARM'S-LENGTH TRANSPORTATION SYSTEM/SEGMENT DEPRECIATION AND CAPITAL EXPENDITURE SUMMARY

1 Expenditure Item	2 Initial Capital Investment and Date Placed in Service	3 Salvage Value	4 Depreciable Life/Years of Depreciation Taken to Date	5 Undepreciated Capital Investment at Beginning of Year	6 Depreciation	7 Undepreciated Capital Investment at End-of-Year
2-25mi 6" Flowline	X-4 1996	$ -0-	11 0		X-4	

Totals

Allocated to Segment (from line 22, Schedule 1A) X-4 8

Segment Depreciation and Capital Expenditure (Line 8 x line 9) Enter in column g and e, Schedule 1 9 10

THIS INFORMATION SHOULD BE CONSIDERED (Please check one) ☒ PROPRIETARY ☐ NONPROPRIETARY

FORM MMS-4295 SCHEDULE 1B (REV 1/88)

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Gulf of Mexico OCS Region
1201 Elmwood Park Boulevard
New Orleans, Louisiana 70123-2394

In Reply Refer To: MS 5311

JAN 24 1996

Shell Offshore Inc.
Attention: Mr. Peter K. Velez
Post Office Box 61933
New Orleans, Louisiana 70161

Gentlemen:

Your letter requests approval to commingle the production from the Shell Offshore Inc.-operated Green Canyon Block 116 Unit (all leases 1/8 royalty rate) with the previously-approved liquid hydrocarbon production from the South Timbalier Block 295 Unit and nonunit Leases OCS-G 3594, 4240, 5625, 5646, 6779, and 7780, South Timbalier Blocks 301, 300, 245, 295, 302, and 276, respectively, and the previously-approved gas production from nonunit Leases OCS-G 3594, 4240, 5625, and 6779 on the South Timbalier Block 300 A platform, measure the gas production from this same unit, for sales and royalty purposes, by the previously-approved South Timbalier Block 300 A platform gas sales meters prior to delivery to shore, and measure the liquid hydrocarbon production from the Green Canyon Block 116 Unit, for sales and royalty purposes, by the previously-approved South Timbalier Block 300 A platform ACT unit, prior to being delivered into Operations System No. 26.0.

As a result of the liquid hydrocarbon production from Lease OCS-G 4888, South Timbalier Block 292, no longer being transported to the South Timbalier Block 295 A platform, you request approval to remove from service the South Timbalier Block 295 A platform ACT unit and the liquid hydrocarbon allocation meters used to measure the liquid hydrocarbon production transported from the South Timbalier Block 292 A platform. The liquid hydrocarbon production from the South Timbalier Block 295 Unit and nonunit Leases OCS-G 5646 and 7780 will continue to be measured, for allocation purposes, by the previously-approved liquid hydrocarbon allocation meters on the South Timbalier Block 295 A platform, prior to being transported to the South Timbalier Block 301 B platform.

The Shell Offshore Inc.-operated South Timbalier Block 295 Unit (Agreement No. 754391007) consists of the following leases:

Leases	Area/Blocks
OCS-G 5646	South Timbalier Block 295
OCS-G 7780	South Timbalier Block 276

The Shell Offshore Inc.-operated Green Canyon Block 116 Unit (Agreement No. 754388025) consists of the following leases:

Leases	Area/Blocks
OCS-G 5896	Green Canyon Block 72
OCS-G 5897	Green Canyon Block 73
OCS-G 5904	Green Canyon Block 116
OCS-G 5905	Green Canyon Block 117

Royalty for the liquid hydrocarbon production from the South Timbalier Block 295 Unit, the Green Canyon Block 116 Unit, and nonunit Leases OCS-G 3594, 4240, 5625, 5646, 6779, and 7780 will be based on the volume and the volume-weighted average gravity as determined by the South Timbalier Block 300 A platform ACT unit.

Allocation of the liquid hydrocarbon volume as measured by the South Timbalier Block 300 A platform ACT unit to the Green Canyon Block 116 Unit will be based on the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the low-pressure separator (MBD-115) dedicated to this unit (Popeye). Allocation of the liquid hydrocarbons [from the liquid hydrocarbon allocation meters located immediately downstream of the low-pressure separator (MBD-115)] to the individual wells within the Green Canyon Block 116 Unit will be based on periodic well tests. Allocation of the liquid hydrocarbons [from the liquid hydrocarbon allocation meters located immediately downstream of the low-pressure separator (MBD-115)] to the individual leases within the Green Canyon Block 116 Unit will be based on the unit participation factors.

Allocation of the liquid hydrocarbon volume as measured by the South Timbalier Block 300 A platform ACT unit to the South Timbalier Block 295 Unit and nonunit Leases OCS-G 3594, 4240, 5625, 5646, 6779, and 7780 will be based on the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 300 A platform freewater knockout (MAM-100).

Further allocation of the liquid hydrocarbons [from the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 300 A platform freewater knockout (MAM-100)] to Lease OCS-G 5625 will be based on the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the separator (MBD-111) dedicated to this same lease. Further allocation of the liquid hydrocarbon production to the individual wells which are produced from this same lease will be based on periodic well tests.

Further allocation of the liquid hydrocarbons [from the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 300 A platform freewater knockout (MAM-100)] to the South Timbalier Block 295 Unit and nonunit Leases OCS-G 5646 and 7780, combined, will be based on the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 295 A platform freewater knockout (MAM-100). Further allocation of the liquid hydrocarbons

[from the liquid hydrocarbon allocation meters located ~~immediately~~ downstream of the South Timbalier Block 295 A platform freewater knockout (MAM-100)] to the individual wells within the South Timbalier Block 295 Unit and nonunit Leases OCS-G 5646 and 7780 will be based on periodic well tests. That portion of the liquid hydrocarbons which will be attributable to each individual lease and unit described above will be the sum of the liquid hydrocarbon volumes allocated to the wells within each individual lease and unit. Allocation of the liquid hydrocarbons to the leases within the South Timbalier Block 295 Unit will be based on the unit participation factors.

Allocation of the liquid hydrocarbons [from the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 300 A platform freewater knockout (MAM-100)] to Leases OCS-G 3594, 4240, and 6779, combined, will be based on the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 300 A platform freewater knockout (MAM-100) minus the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the separator (MBD-111) dedicated to Lease OCS-G 5625 and the volume as determined by the liquid hydrocarbon allocation meters located immediately downstream of the South Timbalier Block 295 A platform ~~freewater knockout~~ (MAM-100). Further allocation of the liquid hydrocarbons to Leases OCS-G 3594, 4240, and 6779, individually, and to the individual wells which are produced from these same leases, will be based on periodic well tests.

Royalty for the gas production from the South Timbalier Block 295 Unit and nonunit Leases OCS-G 5646 and 7780 will continue to be based on the volume as determined by the South Timbalier Block 295 A platform gas sales meters. Allocation of the gas to the individual wells within the South Timbalier Block 295 Unit and nonunit Leases OCS-G 5646 and 7780 will be based on periodic well tests. That portion of the gas which will be attributable to each individual lease and unit described above will be the sum of the gas volumes allocated to the wells within each individual lease and unit. Allocation of the gas to the leases within the South Timbalier Block 295 Unit will be based on the unit participation factors.

Royalty for the retrograde condensate from the South Timbalier Block 295 Unit and nonunit Leases OCS-G 5646 and 7780 and the allocation of these same liquid hydrocarbons which are recovered at the Bayou Black Separation Facility ACT unit near Houma, Louisiana, will be based on the determination of the royalty and allocation for all liquid hydrocarbons delivered into Operations System No. 26.5 as set forth in our letter dated February 3, 1993, addressed to Chevron U.S.A. Production Company (copy enclosed). Further allocation of the retrograde condensate (from the South Timbalier Block 295 A platform gas sales meters) to (1) the South Timbalier Block 295 Unit, and to the individual leases and wells within this same unit, and (2) Leases OCS-G 5646 and 7780, and to the individual wells within these same leases, will be based on allocated gas volumes.

Royalty for the gas production from the Green Canyon Block 116 Unit and nonunit Leases OCS-G 3594, 4240, 5625, and 6779 will be based on the volume as determined by the South Timbalier Block 300 A platform gas sales meters.

Allocation of the gas volume as measured by the South Timbalier Block 300 A platform gas sales meters to the Green Canyon Block 116 Unit will be based on the sum of the volumes as determined by the gas allocation meters located immediately downstream of the two high-pressure separators (NBD-112 and NBD-113) and the low-pressure separator (MBD-115) dedicated to this unit. Allocation of the gas to the individual wells within the Green Canyon Block 116 Unit will be based on periodic well tests. Allocation of the gas to the individual leases within the Green Canyon Block 116 Unit will be based on the unit participation factors.

Allocation of the gas volume as measured by the South Timbalier Block 300 A platform gas sales meters to Lease OCS-G 5625 will be based on the volume as determined by the gas allocation meter located immediately downstream of the high-pressure separator (MBD-111) dedicated to this lease. Further allocation of the gas to the individual wells which are produced from this same lease will be based on periodic well tests.

Allocation of the gas volume as measured by the South Timbalier Block 300 A platform gas sales meters to Leases OCS-G 3594, 4240, and 6779, combined, will be based on the sum of the volumes as determined by the gas allocation meters located immediately downstream of the high-pressure separator (MBD-110), the compressor (C-900), and the test separator (MBD-250) when testing the high-pressure wells minus the volume as determined by the gas allocation meter located immediately downstream of the low-pressure separator (MBD-115). Further allocation of the gas to Leases OCS-G 3594, 4240, and 6779, individually, and to the individual wells which are produced from these same leases, will be based on periodic well tests.

Royalty for the retrograde condensate from the Green Canyon Block 116 Unit and nonunit Leases OCS-G 3594, 4240, 5625, and 6779 and the allocation of these same liquid hydrocarbons which are recovered at the Bayou Black Separation Facility ACT unit near Houma, Louisiana, will be based on the determination of the royalty and allocation for all liquid hydrocarbons delivered into Operations System No. 26.5 as set forth in our letter dated February 3, 1993, addressed to Chevron U.S.A. Production Company (copy enclosed). Further allocation of the retrograde condensate (from the South Timbalier Block 300 A platform gas sales meters) to (1) the Green Canyon Block 116 Unit, and to the individual leases and wells within this same unit, and (2) Leases OCS-G 3594, 4240, 5625, and 6779, and to the individual wells within these same leases, will be based on allocated gas volumes.

The commingling, measurement, and allocation procedures for the production from Leases OCS-G 4888, 8448, and 10853, as outlined in our letter dated June 1, 1995, will remain as previously approved.

In accordance with 30 CFR 250.180, 250.181, and 250.182, the measurement of the liquid hydrocarbons and the gas production from the Green Canyon Block 116 Unit, for sales and royalty purposes, on the South Timbalier Block 300 A platform, the commingling of the production from this same unit, as outlined above, and the revised commingling, measurement, and allocation procedures for the production from the South Timbalier Block 295 Unit and nonunit Leases OCS-G 3594, 4240, 5625, 5646, 6779, and 7780, as outlined

above, are hereby approved. Requests must be submitted to the Surface Commingling and Production Measurement Section of the Office for Production and Development prior to making any other changes in the approved commingling, measurement, or allocation procedures.

This letter confirms the verbal approval given to Mr. Andy Burglass of Shell Offshore Inc. by this office on December 15, 1995.

Sincerely,

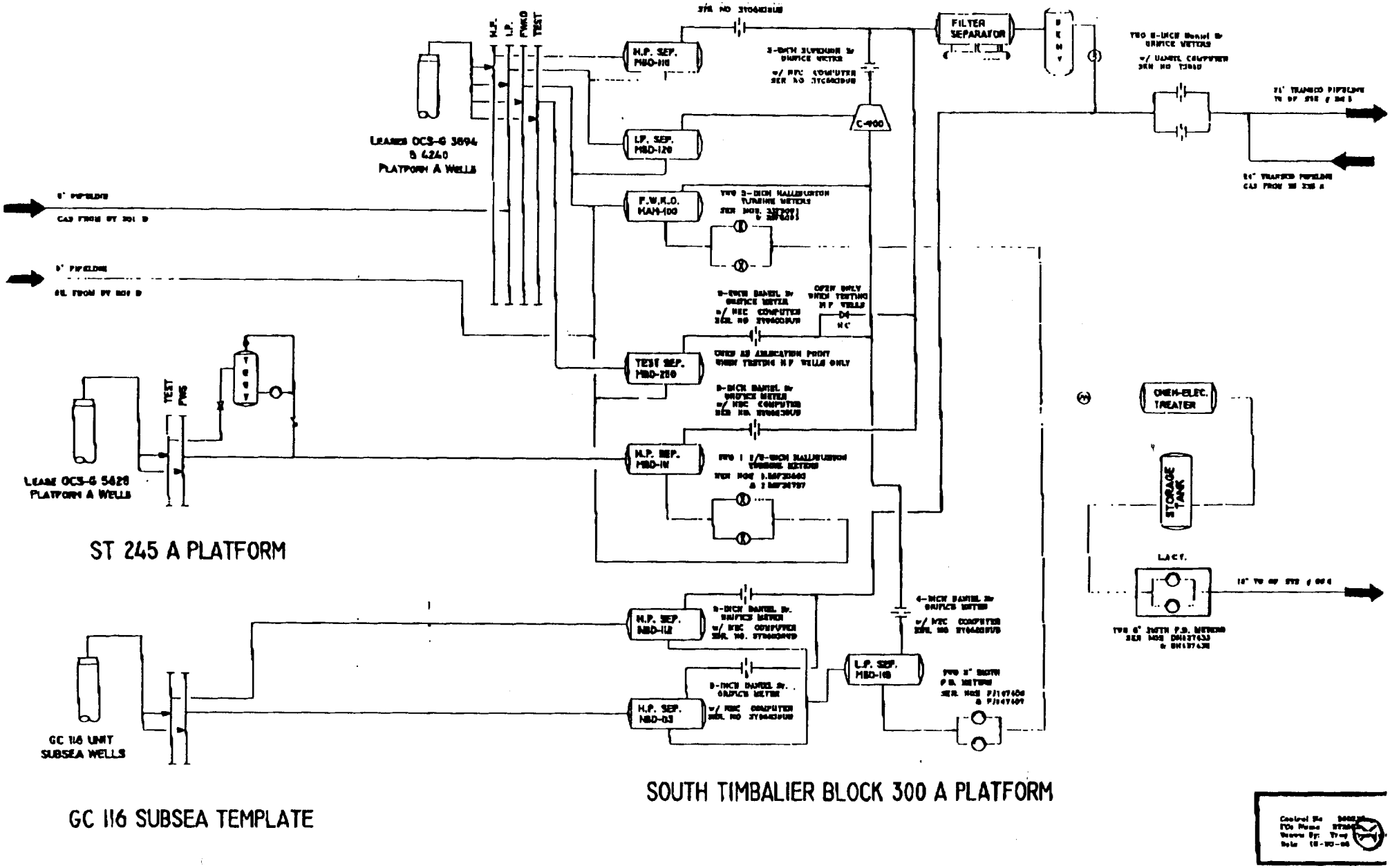
Eric L. Primeaux

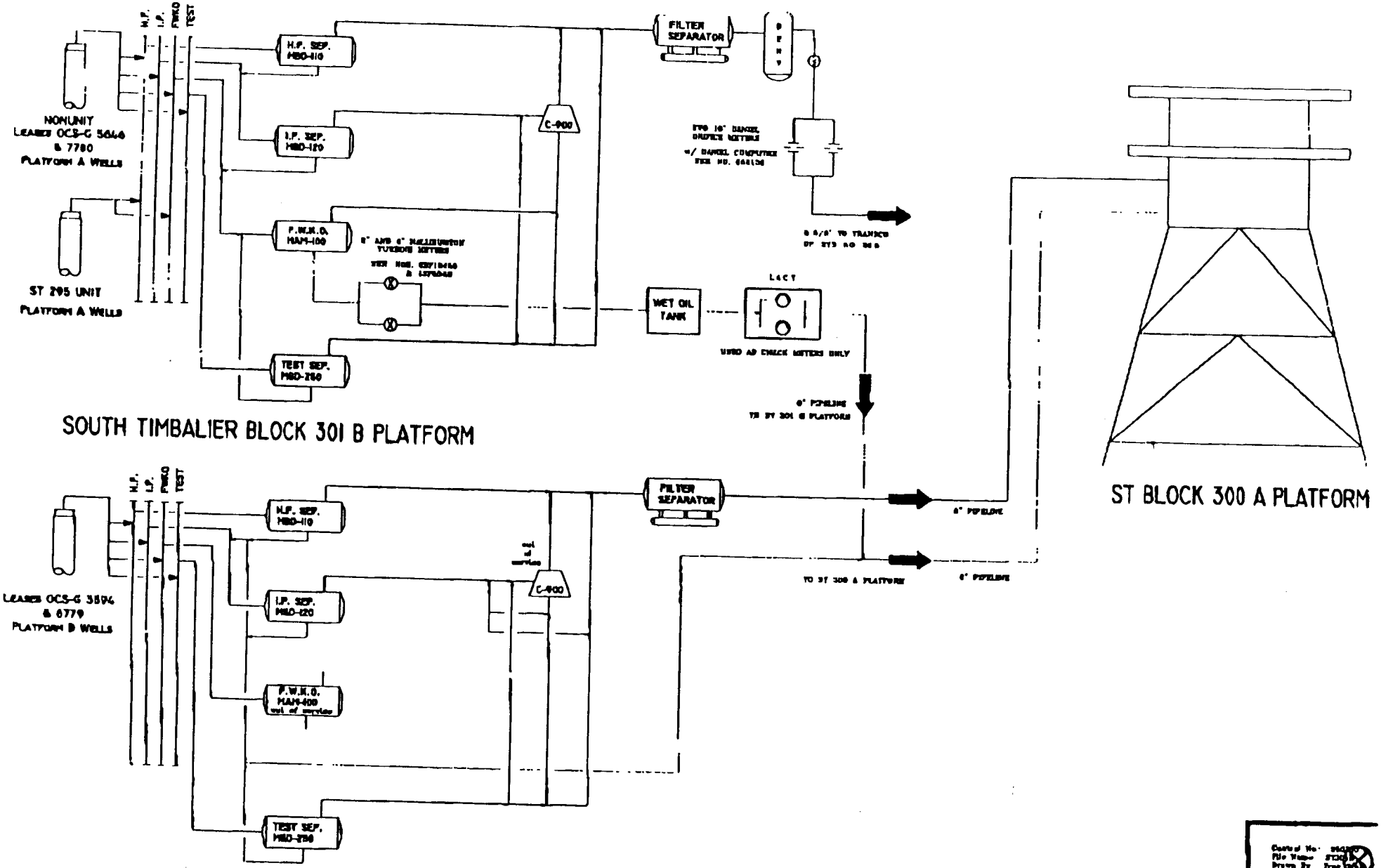
Eric L. Primeaux
Chief, Surface Commingling and
Production Measurement Section
Production and Development

Enclosures
Flow Schematic
MMS Letter

cc: Forest Oil Corporation
Attention: Mr. Mark Pye
950 Seventeenth Street
Denver, Colorado 80202

Pennzoil Petroleum Company
Attention: Mr. Bronier T. Rives
Post Office Box 51843
Lafayette, Louisiana 70505-1843


H.P.
L.P.
FWKO
TEST
LEASE OCS-G 3894
& 4240
PLATFORM A WELLS
H.P. SEP.
MBD-110
L.P. SEP.
MBD-120
F.W.K.O.
MAH-100
TEST SEP.
MBD-280
H.P. SEP.
MBD-IN
TEST
PWO
LEASE OCS-G 5828
PLATFORM A WELLS
ST 245 A PLATFORM
FILTER
SEPARATOR
C-900
ONEH-ELEC.
TREATER
STORAGE
TANK
L.A.C.T.
H.P. SEP.
MBD-112
H.P. SEP.
MBD-03
L.P. SEP.
MBD-100
GC 116 UNIT
SUBSEA WELLS
GC 116 SUBSEA TEMPLATE
SOUTH TIMBALIER BLOCK 300 A PLATFORM


H.P.
L.P.
PWRD
TEST
NONUNIT
LEASES OCS-G 5644
& 7780
PLATFORM A WELLS
ST 295 UNIT
PLATFORM A WELLS
H.P. SEP.
MBD-110
I.P. SEP.
MBD-120
P.W.K.O.
MAM-100
TEST SEP.
MBD-280
C-900
FILTER
SEPARATOR
WET OIL
TANK
L.A.C.T.
SOUTH TIMBALIER BLOCK 301 B PLATFORM
LEASES OCS-G 3894
& 6779
PLATFORM B WELLS
H.P. SEP.
MBD-110
I.P. SEP.
MBD-120
P.W.K.O.
MAM-100
TEST SEP.
MBD-280
C-900
FILTER
SEPARATOR
TO ST 300 A PLATFORM
ST BLOCK 300 A PLATFORM

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-VSD-EVB:96-0283
Mail Stop 3151

SEP 18 1996

CERTIFIED MAIL--
RETURNED RECEIPT REQUESTED

Mr. Raymond A. G. Oalmann
Manager, Revenue Accounting
CNG Producing Company
1450 Poydras Street
New Orleans, Louisiana 70112-6000

Dear Mr. Oalmann:

This is in response to your letter dated June 28, 1996, requesting the Minerals Management Service (MMS) to approve an allowance for transportation of production from Green Canyon 116 to South Timbalier Block 300. You stated that the bulk, untreated production is injected into flowlines at Green Canyon 116 and that all separation, dehydrating, treating, and sales meters are located at the production facilities at South Timbalier 300. Additionally, you stated that although present regulations do not address the transportation of bulk deepwater production, the proposed "Amendments to Gas Valuation Regulations for Federal Leases" discuss the ability of MMS to approve an allowance for transportation of bulk deepwater production.

The MMS cannot grant transportation allowance approvals based on proposed rules. Current Federal regulations and instructions establish the procedures for transportation allowances. Title 30 CFR § 206.105 (1995) defines a transportation allowance as follows:

> . . . an allowance for the reasonable, actual costs incurred by the lessee for moving oil to a point of sale or point of delivery off the lease, unit area, or communitized area, excluding gathering . . . .

Gathering is defined as:

> . . . the movement of lease production to a central accumulation or treatment point on the lease, unit, or communitized area, or to a central accumulation or treatment point off the lease, unit, or communitized area as approved by BLM [Bureau of Land Management] or MMS OCS [Outer Continental Shelf] operations personnel for onshore and offshore leases, respectively.

The movement of production from Green Canyon 116 to South Timbalier 300 takes place upstream of the approved measurement point and is considered to be gathering and not part of transportation. These expenses cannot be included in your calculation of a transportation allowance.

But, if you can identify your transportation expenses, not including gathering, you may, with sufficient documentation, submit a request for approval of a transportation allowance in excess of the 50-percent limitation described at 30 CFR § 206.105.

You have the right to appeal this decision. Please refer to the enclosed Appeals Procedure and Bonding Requirements (Enclosure 1).

In an effort to improve the services we provide our customers, we have enclosed a questionnaire regarding the quality of our response to your request. We would appreciate your taking a few minutes to fill out the questionnaire and returning it to us in the self-addressed envelope (Enclosure 2).

If you have any questions, please call Ms. Shirley Barton at (303) 275-7222.

Sincerely,

Deborah Gibbs Tschudy

Deborah Gibbs Tschudy
Chief, Valuation and
Standards Division

Enclosures

bcc: RM Chron: 96-0283
RM Chron DC/Lkwd
VSD Chron (2)
EVB (2)

LMS:RMP/VSD:MS-3151:SBarton:gms:275-7222:09/10/96:econ/t&p/96-0283
Finalized:gms:09/12/96

ATTACHMENT 5

CNG Producing Company

A **CNG** COMPANY

CNG Tower
1450 Poydras Street
New Orleans, LA 70112-6000
(504) 593-7472

RAYMOND A. G. OALMANN
Manager, Revenue Accounting

December 13, 1996

Ms. Deborah Gibbs Tschudy
Chief, Valuation and Standards Division
Minerals Management Service
Royalty Management Program
P. O. Box 25165
Denver, CO 80225-0165

Re: Appeal #MMS-96-0370-OCS

Dear Ms. Tschudy:

This correspondence is to verify the additional 30 day extension granted for the above mentioned appeal by telephone from Ms. Shirley Barton of your office on December 12, 1996. This request will grant an extension of time until January 17, 1997, for CNG to submit our SOR to support our appeal.

If you have any questions, please contact Richard Pepper at 504-593-7512.

Sincerely,

Raymond A G Oalmann

RAGO/RRP:lfm

RECEIVED
DOI-MMS
1996 DEC 19 PM 3:49
VAL. & STDS. DIV.

ATTACHMENT 6

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

12-18-96

To: Debbie Gibbs-Tschudy
Chief, Valuation and Standards Division

Phone: (303) 275-7222 Fax: (303) 275-7227

Sender: Charlotte Bennett

Phone: (202) 208-2347

Subject: CNG Producing Company; MMS-96-0370-OCS

Ms. Tschudy:

Attached is a copy of the "Extension to File documents and Extension of Due Date to Issue Decision on Appeal" which has been signed by you and also Anthony Raspolic, Chief, MMS Appeals Division.

Charlotte Bennett

Extension to File Documents and Extension of Due Date to Issue Decision on Appeal

Appellant: CNG Producing Company
Docket No. MMS-96-0370-OCS

Where as, the Appellant, under 30 CFR Part 290 (1996), filed the appeal listed above;

Whereas, for the appeal listed above, the Appellant needs an additional period of time, beyond the time previously granted, to file a:

X Statement of Reasons
____ Response to the Field Report
____ Supplemental Statement of Reasons
____ Other Pleadings

Therefore, the Secretary's Designee hereby grants, in the appeal listed above, an "extension" of the proceedings from the start date of November 18, 1996, until December 18, 1996. *

Where, the parties recognize that 30 U.S.C. 1725(h)(1) imposes a 33-month time limit on the processing of the appeal listed above, and the MMS regulations may, from time to time, provide for other related time limits;

Whereas, because of the "extension" herein granted the Appellant to file its pleadings, it is necessary to extend any time limit to process the appeal listed above, by executing this written Extension of Time, as further authorized in 30 U.S. C. 1725(h)(1);

Therefore, the parties hereby agree to extend any due date for the processing of the appeal listed above, for the number of days between the date the Appellant executes this document, as evidenced below, until the expiration of the "extension," provided above, or any Extension thereof granted by the Secretary's Designee.

The Appellant's representative and the Secretary's Designee executing this "Extension" and Extension of the Due Date, warrant that they are duly authorized to represent and bind the parties hereto. The MMS Appeals Division concurrence is required to validate this agreement. This agreement may be executed by facsimile.

Appellant: CNG Producing Company

By: [signature] Dennis G. Millet
Title: Assistant Treasurer Date Executed: 11/15/96
FAX Number: (504)593-7642

Secretary's Designee: [signature]
Deborah Gibbs Tschudy, Chief, Valuation and Standards Division

Concurrence: [signature]
Chief, MMS Appeals Division

Form 4

ATTACHMENT 5

CNG Producing Company

A **CNG** COMPANY

CNG Tower
1450 Poydras Street
New Orleans, LA 70112-6000
(504) 593-7472

RAYMOND A. G. OALMANN
Manager, Revenue Accounting

December 13, 1996

Ms. Deborah Gibbs Tschudy
Chief, Valuation and Standards Division
Minerals Management Service
Royalty Management Program
P. O. Box 25165
Denver, CO 80225-0165

Re: Appeal #MMS-96-0370-OCS

Dear Ms. Tschudy:

This correspondence is to verify the additional 30 day extension granted for the above mentioned appeal by telephone from Ms. Shirley Barton of your office on December 12, 1996. This request will grant an extension of time until January 17, 1997, for CNG to submit our SOR to support our appeal.

If you have any questions, please contact Richard Pepper at 504-593-7512.

Sincerely,

Raymond A G Oalmann

RAGO/RRP:lfm

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DOI - MMS
1996 DEC 19 PM 3:49
VAL. & STDS. DIV

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:
MMS-VSD-EVB:96-0413
Mail Stop 3151

DEC 19

Certified Mail--
Return Receipt Requested

Mr. Richard Pepper
CNG Producing Company
CNB Tower
1450 Poydras Street
New Orleans, Louisiana 70112-6000

Re: Request for Extension of Time to File
Statement of Reasons on Appeal--Approved

Appellant:	CNG Producing Company
MMS Order Date:	September 18, 1996
Appeal Docket No.:	MMS-96-0370-OCS

Dear Mr. Pepper:

In a telephone conversation on December 12, 1996, with Shirley Barton of my staff you requested on behalf of the CNG Producing Company (CNG) an additional extension of time to file a statement of reasons regarding the above-captioned appeal of a Minerals Management Service (MMS) order.

Your request for an extension of time stated that CNG needed additional time due to necessity of hiring lawyers outside your organization to present arguments to support your position.

The CNG's request for additional time is approved, provided that CNG's representative signs the enclosed "Extension to File Documents and Extension of Due Date to Issue Decision on Appeal" form (Extension form). This form authorizes the extension of the 16- and 33-month time periods for MMS and the Department to issue a final decision on the appeal.

The CNG has until January 17, 1997, to file any documents to support the appeal.

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-VSD-EVB:96-0413
Mail Stop 3151

DEC 19 1996

RECEIVED
DEC 26 1996
DIVISION OF APPEALS

Memorandum

To: Chief, Appeal Division

From: Chief, Valuation and Standards Division Deborah Gibbs Tschudi

Subject: Executed "Extension to File Documents and Extension of Due Date to Issue Decision on Appeal" (Extension form) for the CNG Production Company (CNG), Docket No. MMS- 96-0370-OCS

The attached fax original of the executed Extension form extends CNG's time to file additional information regarding this appeal. The extension of time agreed to by both the appellant and the Valuation and Standards Division allows CNG an additional 30 days to file their statement of reasons.

If you have any questions, please call Shirley Barton at (303) 275-7222.

Attachment

Extension to File Documents and Extension of Due Date to Issue Decision on Appeal

Appellant: CNG Producting Company, Docket No. MMS-96-0370-OCS.

Where as, the Appellant, under 30 CFR Part 290 (1996), filed the appeal listed above;

Whereas, for the appeal listed above, the Appellant needs an additional period of time, beyond the time previously granted, to file a:

__X__ Statement of Reasons
_____ Response to the Field Report
_____ Supplemental Statement of Reasons
_____ Other Pleadings

Therefore, the Secretary's Designee hereby grants, in the appeal listed above, an "extension" of the proceedings from the start date of December 18, 1996, until January 17, 1997 .

Where, the parties recognize that 30 U.S.C. 1725(h)(1) imposes a 33-month time limit on the processing of the appeal listed above, and the MMS regulations may, from time to time, provide for other related time limits;

Whereas, because of the "extension" herein granted the Appellant to file its pleadings, it is necessary to extend any time limit to process the appeal listed above, by executing this written Extension of Time, as further authorized in 30 U.S. C. 1725(h)(1);

Therefore, the parties hereby agree to extend any due date for the processing of the appeal listed above, for the number of days between the date the Appellant executes this document, as evidenced below, until the expiration of the "extension," provided above, or any Extension thereof granted by the Secretary's Designee.

The Appellant's representative and the Secretary's Designee executing this "Extension" and Extension of the Due Date, warrant that they are duly authorized to represent and bind the parties hereto. The MMS Appeals Division concurrence is required to validate this agreement. This agreement may be executed by facsimile.

Appellant: _____

By: Dennis G. Millet

Title: Assistant Treasurer Date Executed: 12/16/96

FAX Number: (504)593-7642

Secretary's Designee: _____

Deborah Gibbs Tschudy, Chief, Valuation and Standards Division

RECEIVED
DEC 23 1996
DIVISION OF APPEALS

Attachment 8

Carver, Darden, Koretzky, Tessier, Finn, Blossman & Areaux L.L.C.
Attorneys and Counselors at Law
Energy Centre
1100 Poydras Street - Suite 2700 - New Orleans, LA 70163
Telephone (504)585-3800 Telecopier (504)585-3801

M. Hampton Carver
(504) 585-3805

January 16, 1997

VIA FEDERAL EXPRESS

RECEIVED
1997 JAN 17 AM 11:34
VAL. & STDS. DIV

Ms. Deborah Gibbs Tschudy
Chief, Evaluation and Standards Division
Minerals Management Service
Royalty Management Program, Suite C-100
12600 West Colfax
Lakewood, CO 80215-3735

Re: CNG Producing Company; Appeal from Decision, dated September 18, 1996, MMS-VSD-EVB: 96-0283.

Dear Ms. Tschudy:

Enclosed please find the Statement of Reasons of CNG Producing Company in support of its appeal of your decision, dated September 18, 1996, denying CNG an allowance for transportation of production. The Affidavit of Mr. Rankin Schurman was faxed to us. We will supply you with a "hard" copy as soon as we have received it.

On the enclosed copy of this letter, please acknowledge receipt and return a copy to me.

Respectfully yours,

M. Hampton Carver

M. Hampton Carver

Received this ____ day of January, 1997.

_____

cc: Ms. Cynthia Quarterman, Director, MMS

H:\DOCS\CARVER\CNG\MAINGAS\7A161650.WPD

Director Minerals Management Service
Appeal from the Decision of the Chief, Evaluation and Standard Divisions
Number MMS-VSD-EVB:96-0283

Statement of Reasons by CNG Producing Company

CNG Producing Company ("CNG") files this Statement of Reasons in support of its appeal of the decision of the Chief, Evaluation and Standards Division ("Chief"), dated September 18, 1996, which denied CNG an allowance for transportation of production for the twenty-five miles from Green Canyon Block 116 ("GC-116") to South Timbalier Block 300A ("ST-300A").

I. The Facts

CNG's "Popeye" field at GC-116 is located beyond the Outer Continental Shelf ("OCS"). The water depth at that location is 2000+ feet. There is no platform at or near GC-116. As shown by the attached schematic, the production from CNG's wells at GC-116 is injected into two six-inch looped lines at a subsea manifold and then transported twenty-five miles to Shell's "Cougar" platform at ST-300A. There the production is separated, dehydrated, and metered and then further transported to the shore.

The deepwater pipeline system employed by CNG to move production from GC-116 to ST-300A is readily distinguishable from an OCS gathering system. On the OCS, gathering normally takes place on a lease or in a field. The gas produced at each well is accumulated, usually at low pressure, to a central point on the lease or in the field. That central point is generally a platform or other structure rising from or attached to the sea floor (hereinafter a "platform"). There it is treated, dehydrated, measured, and, if need be, compressed. In some instances, however, as for example when a shipping fairway crosses a lease, it is not convenient or practical for the lessee to gather the gas to a central point on the lease or in the field. In such instances, the gas is gathered to a nearby

platform off the lease. Under the typical OCS configuration, the platform off the lease serves the same function as a platform on the lease would ordinarily serve. The purpose of removing the gas from the lease is not transportation but accumulation of the gas to ready it for separation, dehydration, and compression at the central point.[1]

Unlike OCS gathering lines, CNG's deepwater pipeline running between GC-116 and ST-300A is not one of many flowlines converging on a nearby central point for the purpose of accumulating the production from a lease or field. In the deepwater beyond the edge of the OCS, it is in many cases simply impossible or prohibitively expensive to treat, separate and measure production at or near the lease. Such processes must occur on a platform, and, absent a very large discovery of reserves or special circumstances not present here, a platform cannot be built in deepwater without prohibitive expense. (Here it is estimated that a platform would have cost X-4 X-4 and would have rendered the entire project uneconomic.) CNG therefore installed a subsea manifold in lieu of a platform. The deepwater lines running from the subsea manifold do not accumulate the gas for treatment or compression. Quite to the contrary, all of the gas moving through these lines has already been accumulated at the subsea manifold. From there it is transported to a point many miles closer to the shore.[2]

The physical and operational characteristics of CNG's deepwater looped lines also distinguish them from a gathering system. The looped lines are constructed of X-60, a pipe of two to three higher grades than that which is typically used in an OCS gathering system. These X-60

---

[1]See Affidavit of Rankin G. Schurman, Director of Producer Services, Pan Energy Trading and Services, LLC at p.2, paragraph 7. See also Affidavit of Kris Terry, expert on gas marketing and gas regulatory matters at p. 4, paragraph 10.

[2]See Affidavit of Schurman, *supra*, at paragraph 8; See also Affidavit of Terry, *supra*, at paragraph 11.

pipeshave a wall thickness of .562 inches and have a design pressure of 6800 p.s.i. The lines have tested and held for 8 hours at *8500 p.s.i.* and the two lines had an average full line pressure of 1754 p.s.i. and 1783 p.s.i. for the month of December. Typical gathering lines are not built to these specifications and do not operate at such high pressure.[3]

II. The Decision of the Chief, Evaluation of Standards Division

The Chief denied CNG a transportation allowance because she felt bound by the language of the existing regulations which provide:

> "Transportation allowance" is defined as:
>
> ...an allowance for the reasonable, actual costs incurred by the lessee for moving oil to a point of sale or point of delivery off the lease, unit area, or communitized area, excluding gathering ....
>
> "Gathering" is defined as:
>
> ...the movement of lease production to a central accumulation or treatment point on the lease, unit, or communitized area, or to a central accumulation or treatment point off the lease, unit, or communitized area as approved by BLM [Bureau of Land Management] or MMS OCS [Outer Continental Shelf] operations personnel for onshore and offshore leases, respectively.

30 CFR § 206.151 (1988).[4]

III. The Regulatory Definitions Do Not Exclude A Transportation Allowance

The definitions of transportation allowance and gathering in § 206.151, which were first adopted in 1988, were not intended to address and do not address the situation present here and, unless they are to be mechanically applied to control a situation they were not intended to address,

---

[3]See Affidavit of Robert P. Ducote; see also Affidavit of Kris Terry.

[4]In her decision, the Chief incorrectly cites the above regulations as 30 CFR § 206.101. § 206.101 applies to Federal and Indian **Oil**. § 206.151 applies to Federal and Indian **Gas**.

they do not support the result reached by the Chief.

Prior to the 1988 regulations, Interior and the Courts had adopted the basic rule that, for royalty purposes, "the value to be established is generally the value of marketable gas at the lease...." *Marathon Oil Company v U.S.*, 92-99 (D. Alaska 1985), *affirmed* 807 F.2d 759 (9th Cir. 1986), *cert. denied*, 480 U.S. 940 (1987). This means that, if production was valued at a point off the lease, the United States had to bear its proportion of the cost of movement to that point. The Board of Land Appeals explained that the cost of moving production to a selling point in the field has been disallowed but the cost of transportation from the field to a point off the field is allowed:

> Although a transportation deduction for costs incurred in moving production to a selling point in the field was disallowed in The Texas Co., (64 I.D. 76, 80 (1957)) case, the Department has allowed reasonable expenses for transportation of production from the field to the point of first sale. See Petro-Lewis Corp., 108 IBLA 20, 35, 96 I.D. 127, 135 (1989); Kerr-McGee Corp., 22 IBLA 124, 128 (1975).

Phillips Petroleum Company, 109 IBLA 4, 13 (1989).

Nothing in the 1988 regulations or the Comments to them suggests that, by adopting the definitions on which the Chief relied, MMS intended to change this basic rule that if production was valued at a point off the lease, the United States has to bear its share of the cost of movement to that point. To the contrary, the regulations at 30 CFR § 206.156 provide in pertinent part:

> MMS shall allow a deduction for the reasonable actual costs incurred by the lessee to transport unprocessed gas, residue gas, and gas plant products from a lease to a point off the lease.

The new regulations did define a transportation allowance to exclude the cost of "gathering" and defined "gathering" to include not only a movement to "a central accumulation or treatment point on the lease" but also to "a central accumulation or treatment point off the lease". Nevertheless, this definition was written in a context in which "gathering", if it took place to a point

"off the lease", took place to a nearby point, not to a distant one. As explained above, it sometimes happened on the OCS that, because of a shipping fairway or some other problem, it was necessary to erect the platform off the lease, but usually on an adjacent lease. There the production would be accumulated and separation, dehydration, and compression, if necessary, would take place. The regulations explicitly confirmed this fact. They stated that "field processes....such as natural pressure reduction, mechanical separation, heating, cooling, dehydration, and compression *normally take place on or near the lease.*" 30 C.F. R. § 206.151.

Why then did the definition of gathering refer to movement of production "off the lease"? Having provided in § 206.156 that an allowance would be granted for the movement of production "from a lease to a point off the lease", it is understandable that MMS would want to preclude lessees which accumulated production at a nearby point located off the lease from obtaining an allowance when lessees similarly situated who accumulated to a point "on the lease" would not ordinarily be permitted the allowance. To have permitted an allowance in such cases would have been to create an economic incentive in the OCS for the placement of platforms off the lease and to give a competitive advantage to some lessees over others who, in practical terms, were similarly situated.

The MMS said that the lessee was obligated to place the production in a marketable condition and measure it and that, unless specifically authorized to do so elsewhere, the lessee must do so on the lease. MMS felt that when approval had been granted "for the removal of production...for the purpose of treating or accumulating it" a transportation allowance should not be granted.[5] MMS did not, however, address deepwater production, then in its infancy, in which production, instead of

[5]Response by MMS to Comments on the proposed regulations. 53 Fed. Reg. 1184.

being accumulated at a nearby platform, would be accumulated at a subsea manifold and then transported many miles toward the shore to a distant point where separation, dehydration, and compression would occur. The removal of gas from a lease in such an instance is not for the purpose of treating or accumulating the gas. It is transportation. MMS did not say that, in deepwater, when the production had already been accumulated on the lease at a deepwater subsea manifold, no transportation allowance would be permitted for the cost of a pipeline from that manifold to a platform at an intermediate point nearer the shore. If it had considered whether an allowance should be granted in that circumstance, which it did not, MMS would likely have permitted the allowance.[6] A regulation to the contrary would have been arbitrary and capricious because it would have treated deepwater transportation, which is clearly distinguishable from OCS gathering, exactly as though it were OCS gathering. Such a regulation would have ignored that movement of gas from a subsea manifold to a point many miles closer to the shore has the principal purpose of transportation not gathering. Even in the unlikely event that Interior would have promulgated a proposed regulation which addressed the issue of a deepwater allowance and denied it, such a regulation would have drawn adverse comments, the issue would have been ventilated and the proposed regulation likely withdrawn. At the very least, a regulation which did not alert industry to the need for such comments is not dispositive. Silence on the part of the MMS with respect to transportation in the deepwater should not be equated to a decision by MMS.

In the new regulations which were proposed on Nov. 6, 1995, 60 Fed. Reg. 56009, but have

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[6]The only mention of deepwater transportation costs in the 1988 proposed regulations related to the proposal that a transportation allowance for oil be limited to fifty percent of its value. MMS ultimately adopted a regulation permitting a higher allowance. It said: "The MMS also recognized that transportation costs for frontier and deep-water areas may be extraordinarily high....53 Fed. Reg. 1184." Hence, to the extent MMS did address deepwater transportation, it recognized that such transportation differed from transportation on the OCS and permitted a more liberal transportation allowance.

not been adopted, MMS provided for a transportation allowance in "deepwater" circumstances such as those present here. § 206.456(3) of the proposed regulations provides as follows:

> Notwithstanding any other provisions of this sub-part, MMS may approve, upon request of the lessee, a transportation allowance for the movement of the gas from deepwater OCS leases, even if the production from the lease has not been initially separated.

CNG agrees that, if MMS in the regulations it adopted in 1988 had addressed and decided that no transportation allowance would be permitted under the circumstances present here and if that regulation had been properly adopted and were not arbitrary, then MMS and CNG would be bound by that decision and no transportation allowance could be granted. But, in the 1988 regulations, MMS did not address the issue present here. Not having done so, the existing regulations do not place the MMS in a straight jacket and prevent it from addressing in this proceeding the new issues relating to transportation allowances raised by deepwater production. When it addresses those issues, MMS can consider the policy reflected by the proposed regulations although it is not bound by them.

Moreover, to grant the allowance would be entirely consistent with the policy of Congress[7] and of this Department[8] to provide appropriate fiscal incentives to deepwater production. If CNG's field had been located on the Outer Continental Shelf, a platform would have been erected at or near the field. The production would have been gathered to that platform and separated, and measured

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[7]Outer Continental Shelf Deepwater Royalty Relief Act, Pub. L. No. 104-58. 109 Stat. 563 (1995) (codified at 43 U.S.C. § 1337 (1996)).

[8]"The deepwater areas of the Gulf contain some of the most promising exploration targets in the United States, but industry confronts substantial economic and technical challenges in bringing them into production. The responsible and orderly development of these resources is truly in the national interest. The Office of Management and Budget has advised that it has no objection to the presentation of these views from the standpoint of the Administration's program." Bob Armstrong, Asst. Secretary, Dept. of Interior, 151 Cong. Rec. S6732 (daily ed. May 16, 1995).

there. Then it would have been transported through a line, perhaps a looped six-inch line exactly like the line CNG built in this instance, to another platform where it would be injected into a transmission line. CNG would then have been permitted a transportation allowance for the six-inch looped line. The fact that CNG's field was in deepwater required, given the characteristics of the reserves, that a subsea manifold be used instead of a platform on or near the lease. It required that separation, dehydration, and measurement occur some twenty-five miles nearer the shore instead of at the field. But these factors do not mean that a transportation allowance should be denied here. To the contrary, permitting a transportation allowance in one instance but denying it in the other is arbitrarily to discriminate against deepwater production without any justifiable economic basis whatever.

IV. The Marketable Condition Rule

CNG is also entitled to a transportation allowance because of the marketable condition rule. "Under the marketable condition rule, royalty is due on the gross proceeds accruing to the lessee including payments for the cost of measuring, gathering and compressing gas where such services are necessary to place the gas in marketable condition." *Xeno, Inc.*, 134 IBLA 172 (1995); 30 C.F.R. § 206.152(i). Where, however, there is a market for the gas at the lease, the United States is obligated to bear its proportionate share of the cost of moving the gas from the lease to a distant point. *Beartooth Oil and Gas Co. v. Lujan, Secretary of the Interior*, No. 92-99 (D.C. Montana 1993) ("Beartooth"); *Xeno, Inc.*, 134 IBLA 172.

The initial question is whether there is a market at the lease, not at a point miles distant from the lease. If there is, the government must pay its share of the cost of moving production from the lease. In *Beartooth*, the Court said:

> While case law cited by the Secretary supports the contention that natural gas must be placed in "marketable condition" at no cost to the lessor, the case law does not support the contention that the market of concern is 50 miles away from the leasehold. Rather, case law and the regulations indicate that the market of concern is the market at the leasehold. 30 C.F.R. § 206.151 (definition of marketable condition); *Marathon Oil*, 604 F.Supp. at 1386 (value at the well head); *California Co.*, 296 F.2d at 387 (market within short distance of the wells).

CNG's wells in the "Popeye" field produces a high volume of high quality gas which is readily marketable at the subsea manifold. As produced in the field, the gas contains no H_2S and very little CO_2 (0.07 mole %). The gas has a heating value of 1100 Btus per cubic foot and the wells produce 142,000 MCF per day. Notwithstanding that it had not yet been separated, dehydrated, or measured, experts and purchasers in the field have explicitly recognized that the gas was marketable at the subsea manifold. See Affidavit of Alisa Staib of Natural Gas Clearing House; Affidavit of Kris Terry, at p. 3; Affidavit of Rankin G. Schurman. Mr. Schurman stated that his company, PanEnergy Trading and Services, L.L.C., would have been willing to buy the gas at the subsea manifold. Kris Terry, who has extensive experience in gas marketing and associated problems similarly states that a purchaser would be willing to buy the gas at that point.

V. Conclusion

CNG does not propose to charge MMS with any costs of the subsea manifold, almost X-4 X-4 nor with the cost of the platform where separation and dehydration take place. In this proceeding CNG asks for a transportation allowance only for the cost of the pipeline from the manifold to the platform, an allowance to which it is entitled both under the regulations pertaining to transportation allowances and under the marketable condition rule.

Respectfully submitted,

M. Hampton Carver
John H. Fontham
Carver, Darden, Koretzky, Tessier, Finn, Blossman & Areaux L.L.C.
1100 Poydras Street, Suite 2700
New Orleans, Louisiana 70163
Telephone: (504) 585-3800
Attorneys for CNG Producing Company

Timothy J. Jacquet
David C. Baril
CNG Producing Company
CNG Tower
1450 Poydras Street
New Orleans, Louisiana 70112

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TABLE OF EXHIBITS

	TAB
Schematic	A
Affidavit of Kris Terry	B
Affidavit of Alisa Staib	C
Affidavit of Rankin Schurman, II	D
Affidavit of Robert P. Ducote	E

FIGURE 1: *POPEYE SUBSEA DEVELOPMENT SCHEMATIC*
GC - 116 FIELD TO ST - 300 "A"

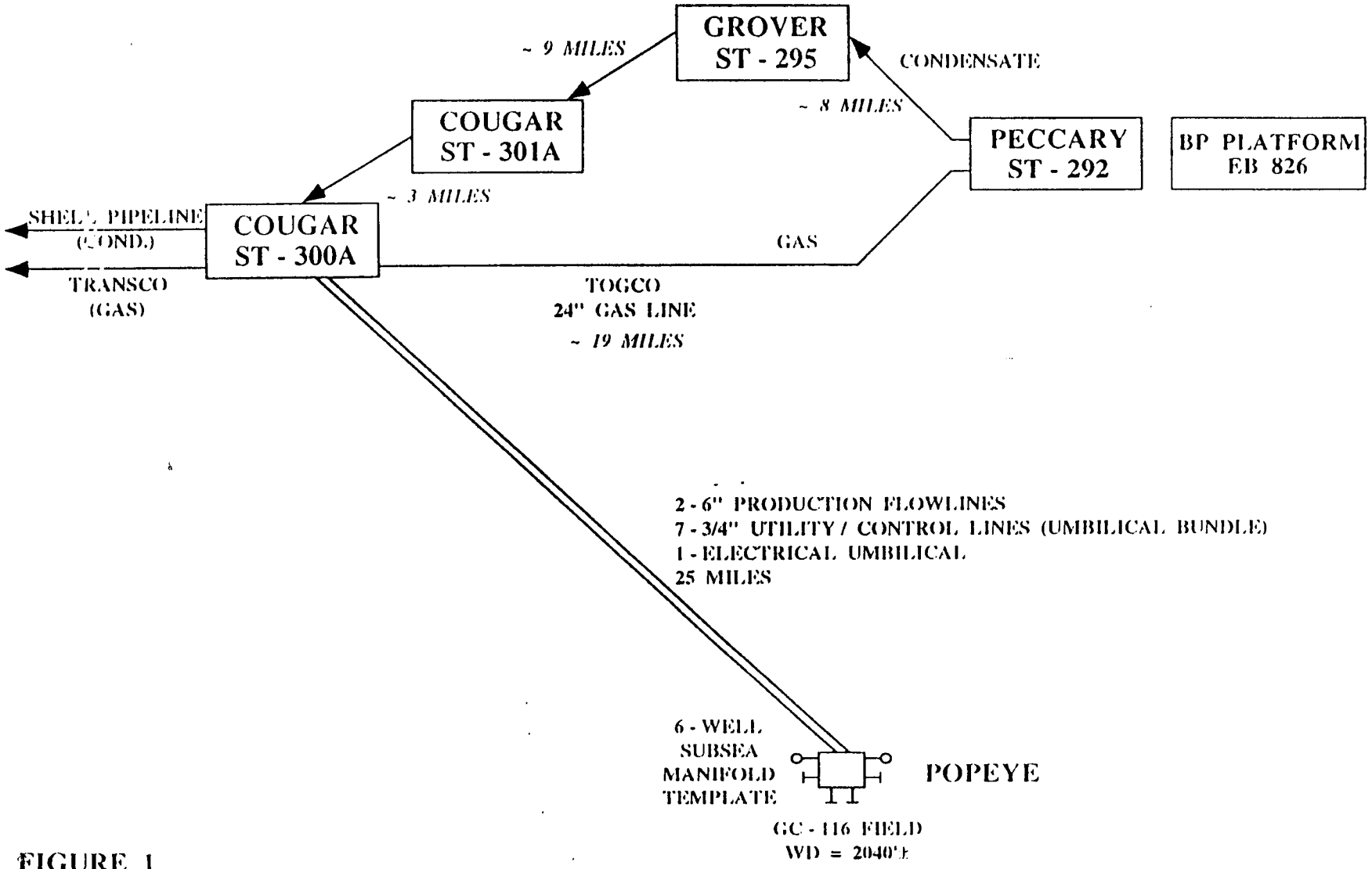


FIGURE 1

GM911862.CAN MAB 11/24/92

FIGURE 1: *POPEYE SUBSEA DEVELOPMENT SCHEMATIC*
GC - 116 FIELD TO ST - 300 "A"

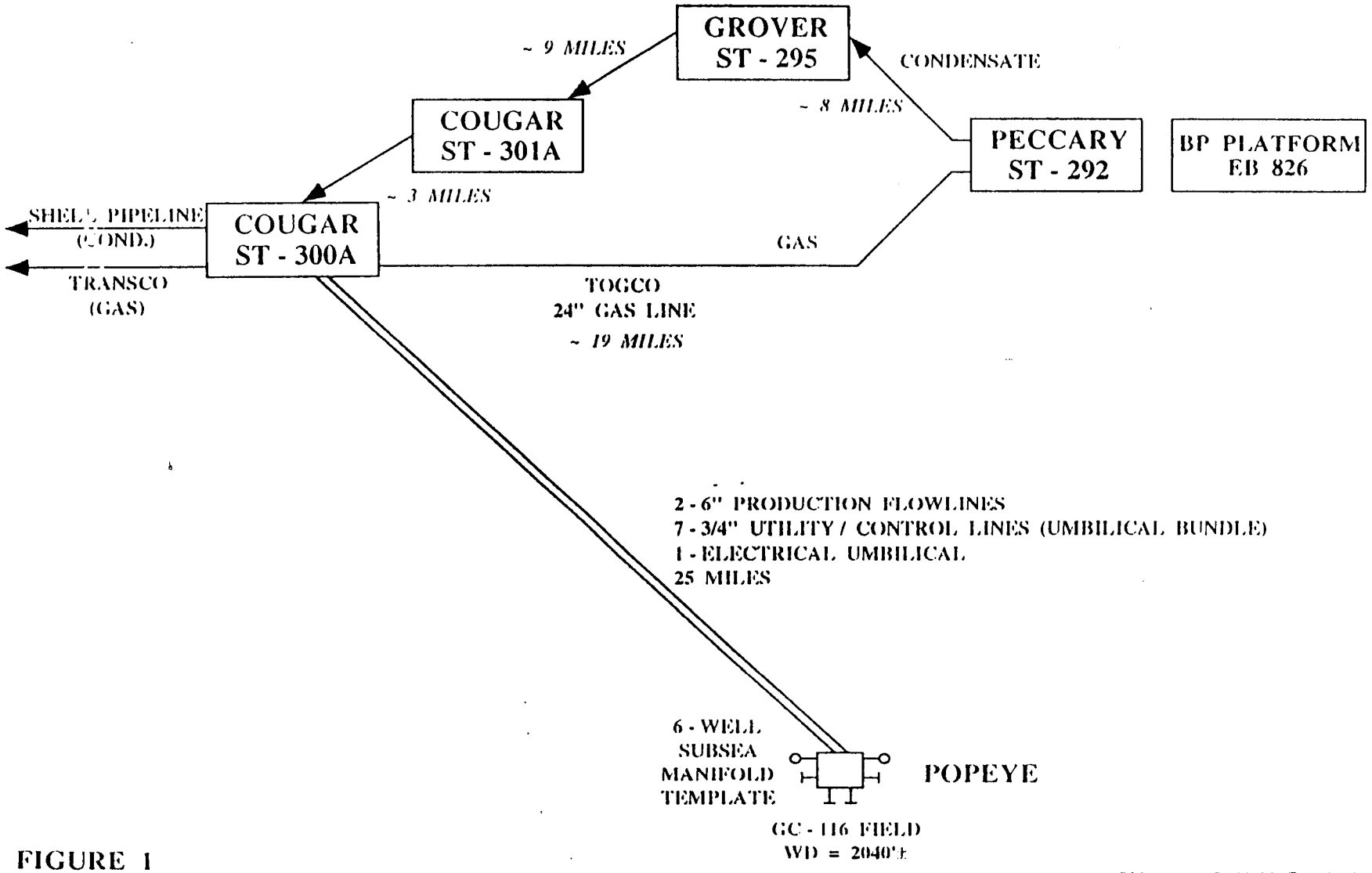


FIGURE 1

GM911862.CAN MAB 11/24/92

AFFIDAVIT OF KRIS L. TERRY

STATE OF TEXAS
COUNTY OF DALLAS

BEFORE ME, the undersigned Notary Public, duly commissioned and qualified for the County of Dallas, State of Texas, personally came and appeared:

Kris L. Terry, who on her oath, being first duly sworn, did depose and state the following:

1. My name is Kris L. Terry. I am president of Kris Terry & Associates, Inc. I have been asked by CNG Producing Company to review the circumstances under which gas is produced and sold from Green Canyon 116.

2. Attached to this Affidavit as Exhibit 1 is a statement describing my professional experience and background. I have been responsible for the sale of gas produced on the Outer Continental Shelf ("OCS"), which included negotiating sales, gathering and transportation contracts. In addition, I have testified as an expert on gas marketing and gas regulatory matters on many occasions in both state and federal court and regulatory proceedings. I am over the age of twenty-one (21) and am fully competent and qualified to give this Affidavit and render the opinions set forth herein.

3. The opinions contained herein are based on my own personal experience and professional knowledge and reflect my conclusions and opinions based upon my knowledge of the natural gas industry, regulation of the natural gas industry, and a review of documents made available to me in connection with this case, as well as publicly available documents.

4. In the last decade, matters relating to the sale, gathering, and transportation of natural gas on the OCS have changed substantially. First, Congress deregulated the price of gas at the wellhead to permit buyers and sellers to contract on such terms and conditions as they may see fit. Second, the Federal Energy Regulatory Commission ("FERC") has issued a number of orders, including Order No. 636 on April 23, 1992, which have, in practical effect, decreased its regulation of rates and terms

and conditions of service related to the movement of gas on the OCS. The result has been that much of the movement of gas on the OCS, and the construction of pipelines from the OCS and beyond to shore, is no longer regulated by the FERC.

5. I am familiar with the content of gas purchase contracts. Partly as a result of the regulatory changes, there is now much greater variety in the types of contracts, and the terms of those contracts. The changes in the industry have also encouraged new entrants to undertake construction of pipelines to transport gas from the field to existing pipelines. These companies have considerable flexibility in structuring their gas transportation and purchase contracts to engage in transactions that are profitable to both producers and the pipeline, including agreeing upon the point of receipt of the gas being purchased. Certain purchasers own firm transportation capacity on the interstate pipelines. As a result, they often demand that gas be delivered to the pipeline in which they own capacity, and are not involved in the transportation agreements upstream of the receiving pipeline. Gas sales agreements today may involve multiple transporters before the gas reaches the end user.

6. I have examined the attached Exhibit 2, a schematic diagram that shows the location of the Green Canyon 116 ("Popeye Field"), the Subsea Manifold, and the looped 6 inch lines from that field to Shell Offshore Inc.'s Cougar Platform, approximately twenty-five (25) miles distant (the "Popeye Pipeline"). I have been informed that 142,000 MCF per day were transported through the Popeye Pipeline during December, 1996. The gas produced from the Popeye Field has a heating value of 1100 Btus per cubic foot, contains no H2S, and has less than .07% CO2.

7. In addition, the average daily pressure of the Popeye Pipeline in December, 1996, was approximately 1760 psig, which is in excess of the pressure of many transportation pipeline systems, including Transcontinental Gas Pipe Line Corporation's ("Transco") pipeline at the Cougar Platform.

In my experience most gathering systems are operated at pressures of less than 400 psig, and many are operated at pressures of less than 100 psig. The high operating pressure of the Popeye Pipeline, and the diameter (6.625") and wall thickness (0.562") of the two looped six inch (6") pipelines is consistent with a transportation function. The Popeye Pipeline has been pressure tested at 8500 psig, a pressure consistent with high pressure transportation pipelines.

8. First production of the Popeye gas began in January, 1996. As of that time, a number of aggregators and marketing companies would have been willing to purchase the gas at the Subsea Manifold and then transport it to the Cougar platform, incurring the cost of laying the pipeline and its subsequent operation. Similarly, if the existing owners of the pipeline were willing at this time to sell the pipeline, a number of companies would be willing to purchase the Popeye Pipeline to enable them to receive gas at the Subsea Manifold and assume all responsibility for transportation of the gas to the Cougar platform for redelivery to Transco. Considering the volumes available, the quality of the gas, and the opportunities now available to purchasers to construct and operate pipelines on the OCS free of FERC regulation, it is clear that, at the Subsea Manifold, the gas was, and is in marketable condition.

9. A purchaser would be willing to buy the gas at the Subsea Manifold with the right to the condensate reserved to the producer, notwithstanding that the gas is not separated, dehydrated or measured until it is received at the Cougar platform.

10. When a well is located in deep water beyond the OCS, the construction of a platform near the wells is either impossible or prohibitively expensive. Accordingly, the gas produced by such wells cannot be measured, separated or dehydrated until after it has been transported a great distance to the shallow waters of the OCS. In this instance, the function of the pipeline is not simply to move

the gas from the wellhead to the production facility, it is to move the gas a great part of the distance that it must ultimately travel to the shore.

11. Permitting a transportation allowance for pipelines from a platform where gas is measured and treated to another platform where the gas it then injected into a transmission line, but not permitting a transportation allowance when the gas instead moves from the wellhead through a similar line of the same or greater length to the first platform on which it is possible for a measurement and dehydration to take place arbitrarily discriminates against those who operate in the deep waters as opposed to those who operate on the OCS. A disincentive is created for the use of the least cost method of transporting the gas because the producer will be encouraged to erect a platform, in some cases an additional and otherwise unnecessary paltform, at the first available opportunity rather than continuing to use the less expensive subsea pipeline to an existing, but more distant, platform on the OCS. Such a disincentive may tend to distort economic decision making, and divert capital spending from further development of the deep waters, to the disadvantage of both producers and the United States as royalty owner and representative of the public.

Further Affiant sayeth not.

Kris L. Terry

KRIS L. TERRY

SUBSCRIBED AND SWORN TO BEFORE ME on the 15th day of January, 1997, witness wherewith my hand and official seal.

Marianna Herrington
Commission Expires
March 15, 1997

Marianna Herrington

Notary Public

KRIS L. TERRY
KRIS TERRY & ASSOCIATES, INC.
3232 VILLANOVA
DALLAS, TEXAS 75225
214 750-1775

PROFESSIONAL EXPERIENCE

1989 To Present — *President*
Kris Terry & Associates, Inc.

Established a natural gas consulting firm to provide clients the following services: evaluating, negotiating, and documenting stock and asset acquisitions; marketing gas directly to LDC's and large powerplant and industrial end users; securing firm and interruptible transportation in support of direct marketing efforts; and litigation support and settlement negotiations in contract disputes and regulatory proceedings.

Represented clients in federal royalty audits; conducted training in organizing gas control procedures and handling imbalance penalties; represented clients in interstate pipeline Order No. 636 restructuring proceedings; assisted clients in resolving gas imbalances and negotiating gas balancing agreements.

Testified as an expert witness on behalf of the New Mexico Attorney General in a proceeding before the Public Service Commission in which a pipeline company sought to recover costs incurred in settling gas contract disputes. (See Attachment "A" for additional consulting experience.)

1986 to 1989 — *Manager of Regulatory Affairs and Litigation*
Fina Oil and Chemical Company

Developed, obtained management approval for, and implemented the company's strategic plans for decreasing its reliance on traditional pipeline purchasers for the disposition of company production by increasing its reliance on selling gas directly to purchasers in consuming regions. Responsibilities included terminating old business relationships and negotiating new ones in furtherance of those strategic plans and participating in more than 70 FERC rate and certificate proceedings that affected the new business relationships.

Organized the company's litigation response to reductions in purchases by pipelines under long-term contracts. Selected outside counsel and testifying and consulting experts to develop and pursue claims of $175 million against nine major interstate and intrastate pipelines. Developed and obtained management approval of strategy to litigate and settle the disputes. Directed the evaluation of gas regulatory issues and gas-related contracts in the company's $600 million acquisition of Tenneco Oil Company's oil and gas properties in Texas and Louisiana.

1988 to 1989 — *Manager of Gas Marketing*
Fina Oil and Chemical Company

Enhanced the company's direct sales of gas to northeastern LDC's, reducing its dependency on brokers from 95% of non-dedicated company production to less than 15%. Negotiated the company's first long-term, firm sales agreement with a northeastern LDC. Recruited and trained the necessary personnel to buy, ship, and resell third party gas under spot and long-term contracts.

1983 to 1986 *Manager, Gas Administration*
Fina Oil and Chemical Company

Restored consistent production from the company's most significant producing property by seeking assignments of firm capacity in HIOS and UTOS from the former interstate pipeline purchaser. Obtained FERC approval of the assignments, the first to a non-interstate pipeline shipper.

Recommended and negotiated the acquisition of facilities for the creation of a Hinshaw pipeline to serve the company's refinery in Big Spring, Texas; the construction of a second Hinshaw pipeline to serve the company's refinery in Port Arthur, Texas; and the acquisition of facilities for a third Hinshaw pipeline to serve the company's gas lift operations in Terrebonne Parish, Louisiana. Responsibilities included certificate applications and tariff filings before state regulatory agencies, budgeting and forecasting revenues, and negotiating upstream gas transportation agreements, gas supply contracts, and gas sales agreements.

1979 to 1983 *Attorney, Legal Department*
Fina Oil and Chemical Company

Designed the company's compliance program for hazardous waste disposal, including coordination of labeling and documentation standards; compiled the company's first filing in response to Superfund regulations, reporting all potential hazardous waste disposal sites.

Participated with the Assistant Treasurer in negotiating the terms of seventeen major revolving credit agreements with U.S. and foreign banks.

Assisted the General Counsel in preparation for board meetings, drafted board resolutions, and maintained corporate minutes; acted as secretary and maintained the corporate minute books for numerous subsidiaries.

EDUCATION

Juris Doctorate, University of Oklahoma, 1979
Oxford University Summer Law Program, 1977
Bachelor of Arts in History, University of Oklahoma, 1976

Honors: Am Jur Award for Conflicts
Dean's List
President's Leadership Class Scholarship

PROFESSIONAL DEVELOPMENT

Harvard Summer Program, Center for Negotiation
National Institute for Trial Advocacy
Brookings Institution, Center for Public Policy Education
Speaker, Dallas Bar Association & Texas Bar Association
Attendee of numerous seminars and conferences, including Public Utility Finance & Accounting

PROFESSIONAL ASSOCIATIONS

American, Texas, & Oklahoma Bar Associations; Federal Energy Bar Association and Dallas Bar Association

References and further data on request.

ATTACHMENT "A" TO RESUME OF KRIS L TERRY

SELECTED CONSULTING EXPERIENCE

1. H.G. Westerman, Loyle Miller and Carl Westerman v. KN Energy, Arbitration for Price Redetermination, Houston, Texas.

   Issue: Interpretation of a price redetermination provision in a gas purchase contract.

   Represented: Mr. H.C. Westerman, Mr. Loyle Miller and Mr. Carl Westerman

   Testimony: Hearing (1996)

2. Franscisa E. De Yturria, et al v. Orxy Energy Company and Sun Operating Limited Partnership, Case No. C-2890-93-F, District Court of Hidalgo County.

   Issue: The determination of the proper royalty under a lease.

   Represented: Orxy Energy Company and Sun Operating Limited Partnership

   Testimony: Deposition (1995)

3. Sun Operating Limited Partnership v. Murphy Exploration Company, Cause No. CA#3-95CV-004J, United States District Court for the Northern District of Texas.

   Issue: Dispute over the terms of an advance payment agreement related to a gas imbalance.

   Represented: Sun Operating Limited Partnership

   Testimony: Deposition and Trial (1995)

4. Transcontinental Gas Pipe Line Corporation, FERC Docket Nos. RP92-137-016(R) and RP93-136-000 (Phase I) (Consolidated).

   Issue: Structure of Transco's rates and their anticompetitive effect on non-Transco connected producers and marketers.

   Represented: Fina Natural Gas Company

   Testimony: Hearing (1994)

5. Arbitration between GPM Gas Corporation and American Liberty Oil Company, Dallas, Texas.

   Issue: American Liberty demanded the right to market residue gas at the tailgate of a processing plant. GPM maintained that it retained the exclusive right to market under the terms of a construction and operating agreement.

   Represented: Neutral Arbitrator

   Testimony: Hearing (1995)

6. Conoco, Inc. v. Intratex Gas Company, The Dow Chemical Company and Tenngasco Gas Supply Company, No. 93-56342, District Court, Harris County, Texas.

Issue: The seller claimed it was entitled under the contract to a price higher than the price paid by defendants.

Represented: Intratex, an Enron affiliate (Fall, 1994)

7. Jacob Rathmell v. Shell Oil Company and Shell Western E & P, Inc., No. 2981, District Court, Zapata County, Texas.

Issue: Lessors claimed they were entitled to a royalty based on the price received by the marketing affiliate, and that lessee was not entitled to deduct post production expenses from the royalty share.

Represented: Shell Oil Company and Shell Western E & P, Inc.

Testimony: Deposition (July, 1994)

8. Enron Oil & Gas Company v. Read & Stevens, Inc., C.A. No. H-92-2875, United States District Court, Southern District of Texas, Houston Division.

Issue: Enron sought a declaratory judgment regarding its rights and obligations under a farmout agreement with Read & Stevens. Read & Stevens filed a counterclaim seeking damages from Enron arising out of alleged claims Enron had against Llano, Inc.

Represented: Enron Oil & Gas Company

Testimony: Deposition (February, 1994)

9. Ralph E. Williamson, et ux, et al v. Elf Aquitaine, Inc., No. 1:93-CV-255-S-D, United States District Court for the Northern District of Mississippi, Eastern Division.

Issue: Plaintiffs alleged that Defendant breached the implied covenant to market gas by failing to share with Plaintiffs a portion of the amount received by Defendant in a take-or-pay settlement with its interstate pipeline purchaser.

Represented: Elf Aquitaine, Inc. (Fall, 1994)

10. Leroy Cattle Co., Inc. et al v. Fina Oil and Chemical Company, No. 93-CV-28, District Court of Barber County, Kansas.

Issue: The Plaintiff alleged Fina breached the implied covenant to market gas by accepting a reduced price from the affiliate of its former interstate pipeline purchaser.

Represented: Fina Oil and Chemical Company

Testimony: Deposition (April, 1994)

11. PG&E Resources Company v. Quester Pipeline Company, Case No. 93-CV-063-J, United States District Court, Wyoming.

Issue: Plaintiff sued for breach of a gas purchase contract alleging that defendant faded to pay the proper price upon deregulation and for failure to take-or-pay for contract quantities.

Represented: PG&E Resources Company

Testimony: Deposition and Trial (December, 1993)

12. Gas Company of New Mexico, Case Nos. 2503, 2353, 2521, New Mexico Public Service Commission, Santa Fe, New Mexico.

Issue: Gas Company of New Mexico sought to recover from New Mexico rate payers the costs incurred in settling take-or-pay and other gas contract disputes with various producers.

Represented: The Attorney General of New Mexico

Testimony: Pre-filed Direct Testimony, and Hearing Testimony (1992-1994)

13. Energy Buyers Service Corporation v. USX Corporation & Texas Oil & Gas Corp., Case No. 87-41743, 234th District Court, Harris County, Texas.

Issue: The Plaintiff alleged that Defendant TXO tortiously interfered in its gas sales contract with United States Steel Corporation.

Represented: Texas Oil & Gas Corp. (1993)

14. Hydrocarbon, Ltd. v. Yankee Gas Company, et al, No. 88-961 1, District Court, Harris County, Texas.

Issue: Hydrocarbon, Ltd. alleged that Esperanza Transmission Company, Defendant's predecessor in interest, breached its obligation to purchase gas from the Oakhill Field in Rusk, Gregg and Harrison Counties. Donaldson Lufkin & Jenrette, Inc. was named a co-defendant upon an alter ego theory.

Represented: Donaldson, Lufkin & Jenrette, Inc. (1992)

15. Bob Klein, et ux, et al v. Arkoma Production Company, et al, No. 90-2060, United States District Court, Western District of Arkansas.

Issue: The Plaintiff alleged defendants breached the implied duty to market gas by settling a take-or-pay dispute through the sale of properties to the exploration and production affiliate of its interstate pipeline purchaser, and not paying royalties on the purchase price of the properties.

Represented: Arkoma Production Company and Arkla Exploration Company

Testimony: Deposition and Trial (1991)

16. CXY Energy, Inc., et al v. Panhandle Gas Company, et al, Cause No. 89-5975-K, District Court, Dallas County, Texas.

Issue: Plaintiffs sued for breach of a gas purchase contract alleging that Defendants failed to pay the contract price.

Represented: CXY Energy, Inc.

Testimony: Deposition and Trial (1991)

17. Union Natural Gas v. Sunbelt Oil Field Services, Inc., No. CA3-89-3003F, United States District Court, Northern District of Texas.

Issue: Union Natural Gas Company alleged that a pipeline transportation volume reallocation required Sunbelt to return a portion of the proceeds received from Union as payment for gas delivered. The case was referred to arbitration by the presiding judge.

Arbitration: Served as the arbitrator chosen by Sunbelt (1991).

18. In the Matter of Arbitration between Fina Oil and Chemical Company and Tennessee Gas Pipeline Company, Houston, Texas (Head, McCollam and Harkaway, Arbitrators).

Issue: The seller invoked arbitration with the gas purchaser pursuant to the price provision in a gas purchase contract.

Represented: Fina Oil and Chemical Company

Testimony: Deposition and Arbitration Hearing (1990)

004
CARVER, DARDEN ET AL
01/13/97 MON 12:57 FAX 504 585 3801
TOTAL P.05

FIGURE 1: *POPEYE SUBSEA DEVELOPMENT SCHEMATIC*
GC-116 FIELD TO ST-300 "A"

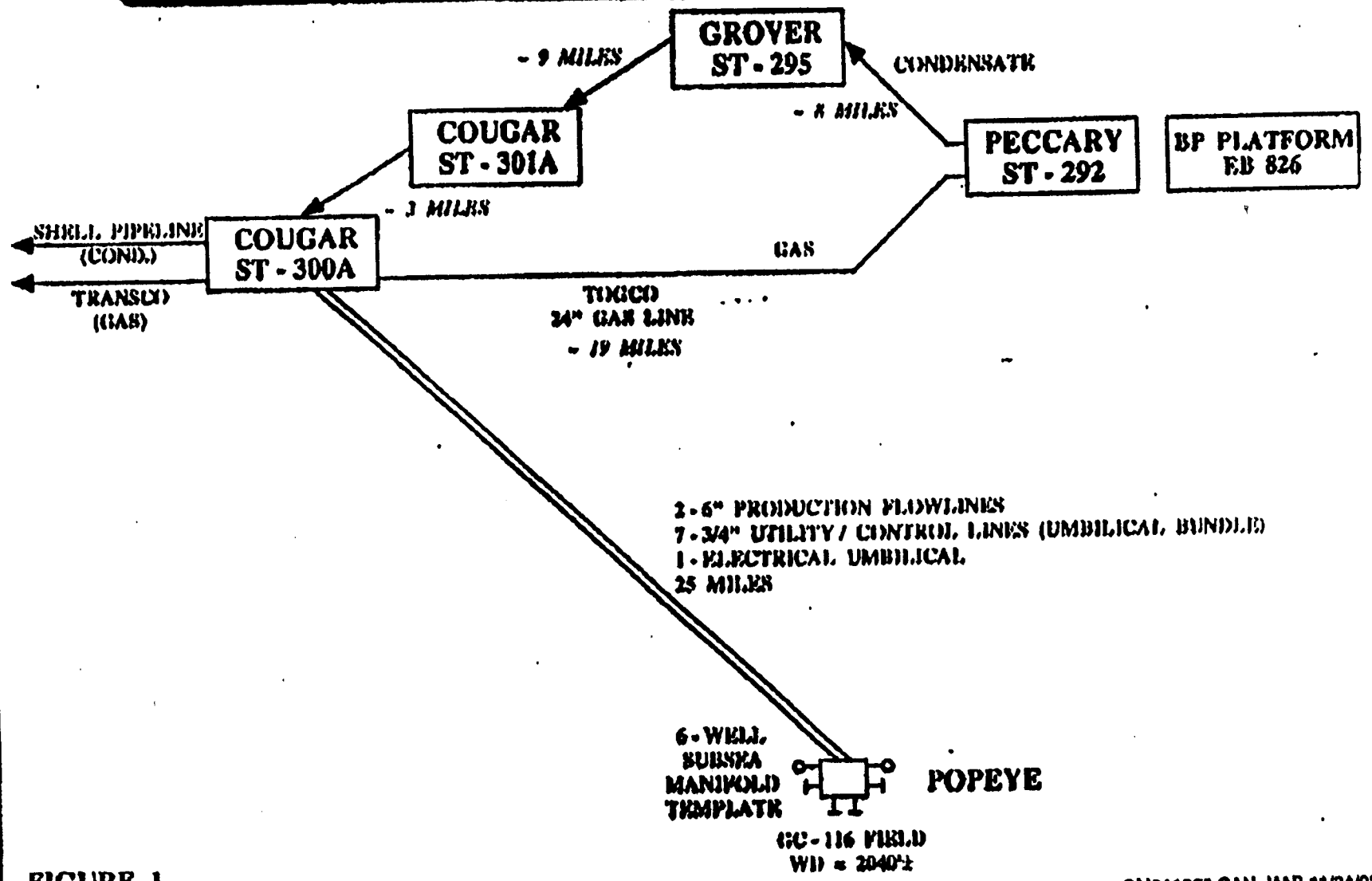


FIGURE 1

GM911662.CAN MAB 11/24/92

AFFIDAVIT

STATE OF TEXAS

HARRIS COUNTY

BEFORE ME, the undersigned Notary Public, duly commissioned and qualified for Harris County, State of Texas, personally came and appeared: Alisa Staib, who, after being duly sworn, did depose and state the following:

1. I am employed by Natural Gas Clearinghouse as Vice President, Gas Supply. I have been involved in gas supply for Natural Gas Clearinghouse for more than five years. As Vice President, Gas Supply, my duties and responsibilities include the purchase and transportation of natural gas produced in the Gulf of Mexico. My position requires the negotiation and review of natural gas purchase and sale agreements covering gas produced in the Gulf of Mexico.

2. Partly as a result of regulatory changes, there is now a much greater variety in the circumstances under which gas is sold and in the content of gas purchase contracts. Many companies have undertaken construction of new pipelines and these companies now have much greater flexibility in dealing with producers respecting the place of purchase of gas and the terms of gas purchase contracts. Similarly, such companies are now eager to take advantage of the changed regulatory climate and to work with producers to bring about arrangements which are profitable to both.

3. I have examined the attached schematic which shows the location of the Popeye Fields, the Subsea Manifold, and the Looped 6" production flowlines from that field to Shell's platform in South Timbalier Block 300 (Shell Platform) some twenty-five miles distant. I have

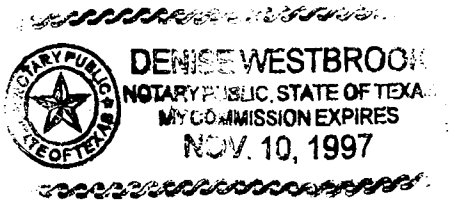
been informed that some 155,000 MMBtu's of gas and 7500 BBL's of condensate are transported through that line daily on average.

4. Considering the volumes available and the opportunities now available to purchasers, the fact that the point of delivery would be the Subsea Manifold would not prevent the gas from being marketed at that point.

Alisa Staib

Sworn to and subscribed before me
this 15th day of January, 1997.

Denise Westbrook
NOTARY PUBLIC



004 CARVER, DARDEN ET AL 01/13/97 MON 12:57 FAX 504 58 801

FIGURE 1: *POPEYE SUBSEA DEVELOPMENT SCHEMATIC*
GC - 116 FIELD TO ST - 300 "A"

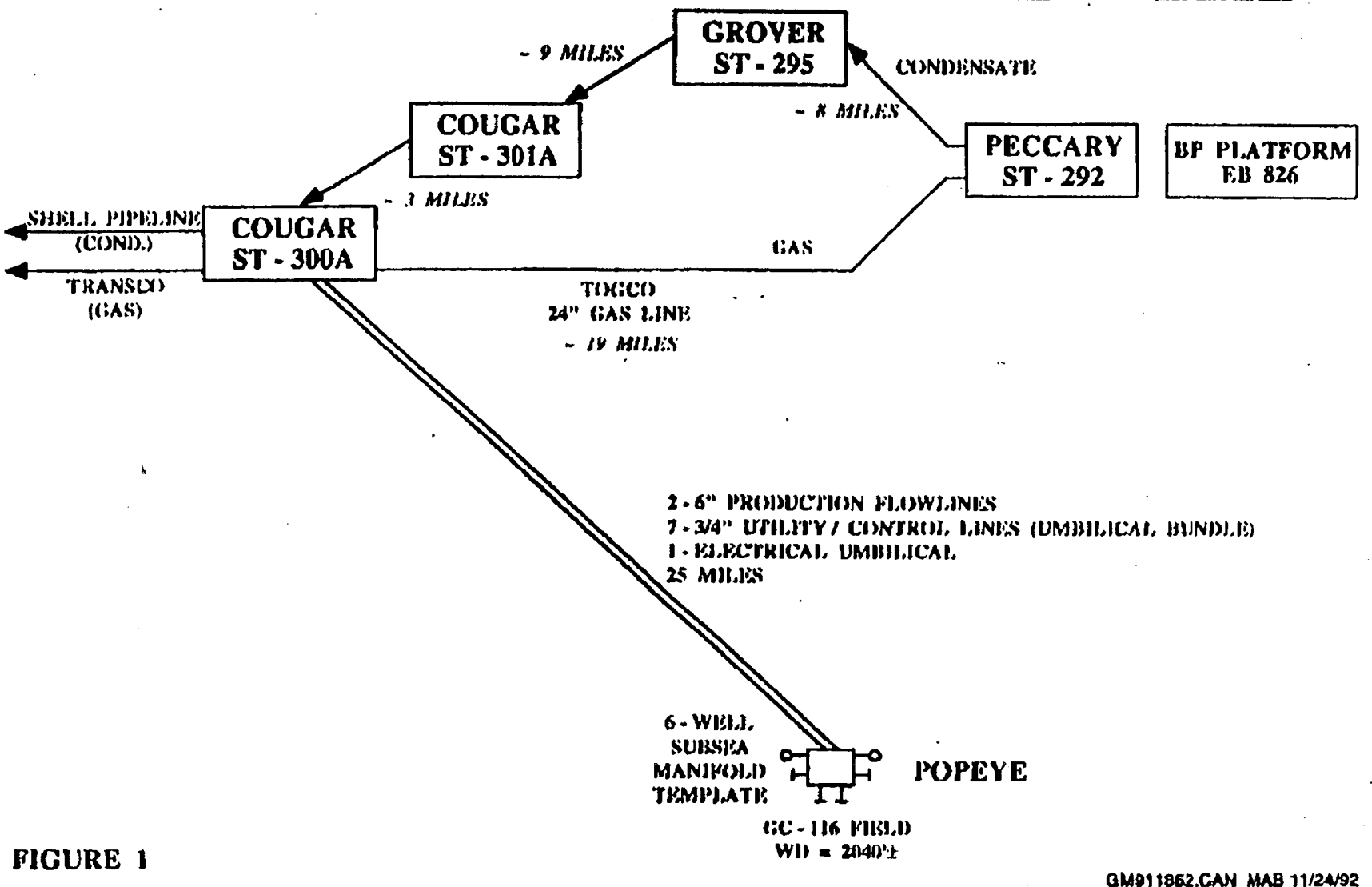


FIGURE 1

GM911862.CAN MAB 11/24/92

TOTAL P.06

AFFIDAVIT

STATE OF TEXAS
COUNTY OF HARRIS

BEFORE ME, the undersigned Notary Public, duly commissioned and qualified for the Harris County, State of Texas, personally came and appeared :

G. Rankin Schurman, II

who, after being duly sworn, did depose and state the following:

1. I am currently employed by PanEnergy Trading and Market Services, L.L.C. ("PanEnergy") as Director of Producer Services at PanEnergy's office located at 10777 Westheimer, Suite 650, Houston, Texas 77042. I have held my current position since February 1, 1996. I have worked for PanEnergy and its affiliated companies since August, 1993 and have 22 total years of employment in the energy industry. As Director of Producer Services, my job responsibilities include the procurement of third-party gas supplies from producers from various sources throughout North America, including the Gulf of Mexico. I have specific experience with respect to negotiations and contracting of gas purchase and sales agreements, gathering and transportation agreements, as well as processing agreements with numerous major oil and gas companies and independent producers.

2. In the last five to six years, matters relating to the sale, gathering, and transportation of natural gas on the Outer Continental Shelf ("OCS") have changed drastically. First, Congress deregulated the price of gas in order to permit parties to contract on such terms and conditions as they may see fit. Second, the Federal Energy Regulatory Commission ("FERC") has rendered a number of decisions which, in practical effect, have diminished its authority under the Natural Gas Act such that the FERC no longer regulates much of the movement in deep water gas. Third, the FERC's new "open access" rules have enabled marketers to purchase gas from producers and then to have interstate pipeline companies transport it through their transmission lines.

3. Partly as a result of the regulatory changes, there is now a much greater variety in the circumstances under which gas is sold and in the content of gas purchase contracts. Many companies have undertaken construction of new pipelines and these companies now have much greater flexibility in dealing with producers respecting the place of purchase of gas and the terms of gas purchase contracts. Similarly, such companies are now eager to take advantage of the changed regulatory climate and to work with producers to being about arrangements which are profitable to both.

4. I have examined the attached schematic which shows the location of the Popeye Fields, the Subsea Manifold, and the looped 6" pipelines from that field to Shell's platform in South Timbalier Block 300 (Shell Platform) some twenty-five miles distant. I have been informed that some 155,000 MMBtu's of gas and 7500 BBL's of condensate are transported through that line daily on average and I have been informed respecting the content and quality of gas.

5. First, production commenced on January 11, 1996. On that date, PanEnergy would have been willing to purchase the gas at the Subsea Manifold and then move such gas to the Shell Platform, incurring the cost of the pipeline. Similarly, should the owners of the pipeline be willing to sell the pipeline to PanEnergy at this time, PanEnergy would now be willing to purchase the gas at the Subsea Manifold and assume responsibility for moving the production stream through the pipeline to the Shell Platform.

6. PanEnergy would be willing to buy the gas at the Subsea Manifold notwithstanding that the gas could not be measured until it reached the Shell Platform some twenty-five miles distant. When gas comes from only one source, it is simply not necessary that the measurement take place near the source. Considering the volumes and the content of the gas, it is clear that, at the Subsea Manifold, the gas was, and is, in marketable condition.

7. On the OCS, "field processing" of gas, such as pressure reduction, mechanical separation, heating, cooling, dehydration, and the like, and measurement of gas ordinarily takes place on a platform on the lease or in the field. In some instances, such as when there is a shipping fairway, the platform may not be located on the lease or in the filed, but is located nearby. The nearby platform off the lease is simply a substitute for the usual lease platform. In such instances, gas moves form the various wells through pipelines to the central platform. The function of these lines is that of a gathering.

8. When a well is located in deep water beyond the OCS, the construction of a platform near the well is either impossible or prohibitively expensive. Accordingly, the gas produced by such a well cannot be measured, separated, or treated until after it has been transported a great distance to the shallow waters of the OCS. In this instance, the function of the pipeline is not simply to move the gas from the wellhead to the treatment facility; it is to move the gas a great part of the distance which it must ultimately travel to the shore.

9. Permitting a transportation allowance for pipelines from a platform where gas is measured and treated to another platform where the gas is then injected into a transmission line, but not permitting a transportation allowance when the gas instead moves from the wellhead through a similar line of the same or greater length to the first platform on which it is possible for a measurement and treatment to take place arbitrarily discriminates against those who operate in the deep waters as opposed to those who operate on the OCS. A disincentive is created for the use of the least cost method of transporting the gas because the producer will be encouraged to erect a platform, in some cases an addition and otherwise unnecessary platform, at the first available opportunity rather than continuing the subsea line to an existing but more distant platform on the OCS. Such a disincentive will tend to distort economic decision making and inhibit investment and development on the OCS to the disadvantage of both producers and the United States, as royalty owner and representative of the pubic.

G. Rankin Schurman, II

Sworn to and subscribed before me
this 16th day of January, 1997.

Notary Public

MARY G. STARK
Notary Public, State of Texas
Commission Expires 10-6-97

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

E. Hubbard 1/7/00
Allen 1/21/00

JAN 27 2000

MMS-RVD-EVB: 99-0633
Mail Stop 3151

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Dow L. Campbell
Attorney
Marathon Oil Company
539 South Main Street
Findlay, Ohio 45840-3295

Re: Notice of Appeal--Timely Receipt

Appellant:	Marathon Oil Company
MMS Order Date:	November 3, 1999
Appeal Docket No.:	MMS-99-0222-OCS

Dear Mr. Campbell:

The Minerals Management Service (MMS) timely received your Notice of Appeal in your letter dated December 8, 1999, from Marathon Oil Company (Marathon). We have assigned Docket No. MMS-99-0222-OCS to your appeal. Inquiries on the appeal should reference this docket number.

For appeals involving Federal and/or Indian minerals leases, you may schedule a settlement conference regarding your appeal. If your appeal involves Federal oil and gas leases, at least one settlement consultation is required under section 4(i) of the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA), P.L. 104-185, 110 Stat. 1710. If you do not wish to participate in a settlement conference, we will consider a written notice of your nonparticipation to have met the requirements of RSFA, section 4(i).

Dow L. Campbell
Attorney

Marathon Oil Company

539 South Main Street
Findlay, OH 45840-3295
Direct No. 419/421-4121
Main No. 419/422-2121
Facsimile 419/427-3681
E-mail: DLCampbell@MarathonOil.com

RECEIVED
D.O.I.-MMS-RVD
00 JAN -7 PM 2:43

January 6, 2000

Via Overnight Mail

Minerals Management Service
Attention: Ms. Deborah Gibbs Tschudy
Chief, Royalty Valuation Division
P.O. Box 25165, MS 3150
Denver Federal Center
Denver, Colorado 80225-0165

Re: Statement of Reasons
Order dated November 3, 1999
Deepwater Transportation Allowance - Arnold & Troika

Dear Ms. Tschudy:

Enclosed you will find Marathon Oil Company's Statement of Reasons in support of its appeal to the Director of the MMS of the Order to Perform dated November 3, 1999.

I have also enclosed a copy of the first page of the Statement of Reasons and ask that you date stamp it upon receipt and return it to me in the enclosed, self-addressed postage-paid envelope.

Sincerely yours,

Dow L Campbell

Dow L. Campbell

[115758]

Enclosures

cc: R.E. Good
C.A. Sudlow
M.P. White

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB: 99-0633
Mail Stop 3151

MAR 7 2000

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Dow L. Campbell
Attorney
Marathon Oil Company
539 South Main Street
Findlay, Ohio 45840-3295

Dear Mr. Campbell:

On November 3, 1999, the Royalty Valuation Division (RVD) of the Minerals Management Service (MMS) issued a decision granting Marathon Oil Company (Marathon) a deep-water transportation allowance. This approval resulted from a memorandum issued by the Associate Director for Royalty Management (ADRM) on May 20, 1999. Our approval was for production beginning June 1999, the first full month of production following the ADRM's memorandum. However, as part of our November 3, 1999, decision, we denied Marathon's request to make retroactive adjustments prior to the date of the memorandum.

Marathon filed a timely Notice of Appeal on November 3, 1999. On January 6, 2000, Marathon filed a Statement of Reasons (SOR) to support their position. Marathon argues that a request for valuation determination concerning deepwater transportation was submitted to MMS on June 24, 1997. This request was withdrawn because supporting documentation was preliminary in nature and still under internal review. Marathon believes that this action and their participation in the development of specific criteria for deepwater transportation clearly establish Marathon's intent to pursue a transportation allowance for prior periods.

Based on our evaluation of the arguments contained in your SOR, we are rescinding our letter dated November 3, 1999, and replacing it with this one. The additional information allowed us to further evaluate your request for a transportation allowance for the movement of production through the Arnold Subsea Development System (Arnold System) and the Troika Subsea Development System (Troika System). We are modifying our earlier letter by approving your request for a transportation allowance beginning with the first movement of production in the Arnold and Troika Systems.

series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The royalty meter location is often a deciding factor in determining whether movement is transportation or gathering. Your (Marathon's) request for movement of production for the Arnold System is from Ewing Bank Block 963 (EB 963) to EB 873, with the royalty meter located at EB 873. However, in applying ADRM's May 20, 1999, guidance, we need to define the central accumulation point.

Subsea trees at the two existing wells on EB 963 are jumpered to a subsea four-slot manifold. From the manifold, production is directed into either of two pipe-in-pipe insulated flowlines. These eight-mile flowlines move production to EB 873, Platform A. Based on ADRM's guidance, we consider the subsea manifold to be the central accumulation point. Although the royalty meter is at EB 873, we consider gathering, consistent with the new guidance, to terminate at the subsea manifold. We consider subsequent movement to be transportation, subject to the other qualifications in ADRM's May 20, 1999, guidance.

For the Troika System, the production flows from the Green Canyon 244 (GC 244) Unit to the GC 65 Unit, Shell Offshore Inc.'s Bullwinkle Platform. The royalty meter is located at the GC 65 Unit. Production from five wells on the GC 244 Unit is commingled at an eight-slot subsea manifold. From there, production moves about 14 miles through two flowlines to the Bullwinkle Platform on the GC 65 Unit. We consider the central accumulation point to be at the subsea manifold. Therefore, we consider movement before the subsea manifold to be gathering and subsequent movement to be transportation, again subject to the other qualifications in ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

The principles applied for determining transportation vs. gathering are the same for both properties, one of which is a unit. Since there is no disparate treatment, this is not an issue.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease there would be eight leases adjacent to a qualifying deep-water lease.

bcc: RM File 99-0633b
RVD Chron (2)
EVB Chron (2)
LMS:MMS:RVD:EVB:MS-3151:SBarton:275-7222:rjg:2/15/00:p:\...\econ\t&p\t&p99\99-0633b
Draft:rjg:2/18/00:2/24/00

Minerals Management Service
Royalty Valuation Division
P.O. Box 25165, Mail Stop 3150
Denver, Colorado 80225
FAX: (303) 275-7227

FAX COVER SHEET

"To establish and communicate the proper value of mineral production from Federal and Indian lands."

Date: 3-14-00

To: Stephen Adams

Division/Company: OE

Phone: _____

FAX: 303-231-3362

From: Shirley Baxter

Phone: (303) 275-7222

Comments: _____

5 pg

Division:
Deborah Gibbs Tschudy, Chief (303) 275-7200
Shelia Dean, Secretary (303) 275-7201

Economic Valuation Branch:
Dave Hubbard, Chief (303) 275-7260
Ronda Gray, Secretary (303) 275-7259
Section I:
Jim Morris, Chief (303) 275-7213

Oil and Gas Valuation Branch:
Theresa Walsh Bayani, Chief (303) 275-7247
Anna Hooker, Secretary (303) 275-7241
Section I:
John Barder, Chief (303) 275-7234
Section II:
Rich Adamski, Chief (303) 275-7242

Solid Minerals Valuation & Reporting Branch:
Herb Wincentsen, Chief (303) 275-7210
Secretary (303) 275-7214
Section I:
John Hovanec, Chief (303) 275-7212

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MAR 17 2000

MMS-RVD-EVB: 99-0633
Mail Stop 3151

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Dow L. Campbell
Attorney
Marathon Oil Company
539 South Main Street
Findlay, Ohio 45840-3295

Dear Mr. Campbell:

On November 3, 1999, the Royalty Valuation Division (RVD) of the Minerals Management Service (MMS) issued a decision granting Marathon Oil Company (Marathon) a deep-water transportation allowance. This approval resulted from a memorandum issued by the Associate Director for Royalty Management (ADRM) on May 20, 1999. Our approval was for production beginning June 1999, the first full month of production following the ADRM's memorandum. However, as part of our November 3, 1999, decision, we denied Marathon's request to make retroactive adjustments prior to the date of the memorandum.

Marathon filed a timely Notice of Appeal on November 3, 1999. On January 6, 2000, Marathon filed a Statement of Reasons (SOR) to support their position. Marathon argues that a request for valuation determination concerning deepwater transportation was submitted to MMS on June 24, 1997. This request was withdrawn because supporting documentation was preliminary in nature and still under internal review. Marathon believes that this action and their participation in the development of specific criteria for deepwater transportation clearly establish Marathon's intent to pursue a transportation allowance for prior periods.

Based on our evaluation of the arguments contained in your SOR, we are rescinding our letter dated November 3, 1999, and replacing it with this one. The additional information allowed us to further evaluate your request for a transportation allowance for the movement of production through the Arnold Subsea Development System (Arnold System) and the Troika Subsea Development System (Troika System). We are modifying our earlier letter by approving your request for a transportation allowance beginning with the first movement of production in the Arnold and Troika Systems.

The memorandum issued by ADRM provides guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure 1.) The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty-bearing substances.

RVD Analysis

The information submitted shows that Marathon transports bulk oil and gas production in both the Arnold and the Troika Systems. Separation and dehydration take place at Ewing Bank Block 873 (EB 873) for the Arnold System, and at Green Canyon 65 (GC 65) Unit for the Troika System.

The MMS Oil and Gas Payor Handbook, Volume III, pgs.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS approval (30 CFR § 206.105(a)(2)(i) and 30 CFR § 206.105(b)(3)(i)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, the costs of movement must be allocated between royalty- and non-royalty-bearing substances, and Marathon may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs not related to transportation cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a

series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The royalty meter location is often a deciding factor in determining whether movement is transportation or gathering. Your (Marathon's) request for movement of production for the Arnold System is from Ewing Bank Block 963 (EB 963) to EB 873, with the royalty meter located at EB 873. However, in applying ADRM's May 20, 1999, guidance, we need to define the central accumulation point.

Subsea trees at the two existing wells on EB 963 are jumpered to a subsea four-slot manifold. From the manifold, production is directed into either of two pipe-in-pipe insulated flowlines. These eight-mile flowlines move production to EB 873, Platform A. Based on ADRM's guidance, we consider the subsea manifold to be the central accumulation point. Although the royalty meter is at EB 873, we consider gathering, consistent with the new guidance, to terminate at the subsea manifold. We consider subsequent movement to be transportation, subject to the other qualifications in ADRM's May 20, 1999, guidance.

For the Troika System, the production flows from the Green Canyon 244 (GC 244) Unit to the GC 65 Unit, Shell Offshore Inc.'s Bullwinkle Platform. The royalty meter is located at the GC 65 Unit. Production from five wells on the GC 244 Unit is commingled at an eight-slot subsea manifold. From there, production moves about 14 miles through two flowlines to the Bullwinkle Platform on the GC 65 Unit. We consider the central accumulation point to be at the subsea manifold. Therefore, we consider movement before the subsea manifold to be gathering and subsequent movement to be transportation, again subject to the other qualifications in ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

The principles applied for determining transportation vs. gathering are the same for both properties, one of which is a unit. Since there is no disparate treatment, this is not an issue.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that EB 963, where the production originates for the Arnold System, is not adjacent to EB 873. Platform A, on EB 873, is about 8 miles from EB 963. Additionally, the GC 244 Unit, where production originates for the Troika System, is not adjacent to the GC 65 Unit. Production moves through approximately 14-mile-long flowlines.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

The EB 963 wells are located at a water depth of 1,750 feet. This converts to approximately 533 meters. The GC 244 Unit wells are located in an average water depth of approximately 2,700 feet. This converts to approximately 822 meters. Since all of these wells are much deeper than the prescribed minimum depth, this is not an issue.

Using the referenced guidelines, we approve your request for transportation allowances for movement of oil and gas production from the subsea manifold on EB 963 to EB 873, and from the subsea manifold on the GC 244 Unit to the GC 65 Unit. This approval is for production beginning with October 1997 for the Troika System, and for production beginning with May 1998 for the Arnold System. This decision is subject to review and audit, and to RVD modification should the circumstances change in the future.

Since this decision satisfies your original request, we assume that Marathon will withdraw its December 8, 1999, appeal as moot. The appeal was assigned Docket No. MMS-99-0222-OCS.

If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104 (1999), you must apply for an exception to the limitation, and provide sufficient documentation to support your request before claiming the excess amount.

You have the right to appeal this decision. Please refer to the enclosed Appeals Procedures. (See Enclosure 2.) If you have any questions, please call Ms. Shirley Barton at (303) 275-7222.

Sincerely,

Deborah Gibbs Tschudy

Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

Enclosures

FAX TRANSMISSION

MARATHON OIL COMPANY – LAW ORGANIZATION
539 S. MAIN ST.
FINDLAY, OHIO 45840
TELEPHONE: (419) 421-4121
FAX: (419) 427-3681

Date: January 31, 2000

Pages: 16, including this cover sheet

To: Shirley Barton
Minerals Management Service

From: Dow L. Campbell
Room 824-M
(419) 421-4121

Fax #: (303) 275-7227

Subject: Retroactive Subsea Transportation Allowance Appeal

COMMENTS:

Shirley -

Attached are copies of the OGORs (Oil and Gas Operations Reports) for both the Arnold and Troika developments. The OGORs for Troika include the months of 10/97 and 11/97. There is some production for Troika in 10/97. The first month of production for Arnold is 5/98.

If you need any additional information, please advise.

Thanks,

- Dow Campbell

Dow

____ If checked, the material is Attorney-Client Privileged and Confidential Information and please read the next three paragraphs.

THE INFORMATION CONTAINED IN THIS FACSIMILE MESSAGE IS ATTORNEY-CLIENT PRIVILEGED AND CONFIDENTIAL INFORMATION OR CONFIDENTIAL ATTORNEY WORK PRODUCT INTENDED FOR THE USE OF THE INDIVIDUAL OR ENTITY NAMED ABOVE.

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IF YOU HAVE RECEIVED THIS COMMUNICATION IN ERROR, PLEASE IMMEDIATELY NOTIFY US BY TELEPHONE, COLLECT, AND RETURN THE ORIGINAL MESSAGE TO US AT THE ABOVE ADDRESS VIA THE U.S. POSTAL SERVICE AT OUR EXPENSE. THANK YOU.

JAN 31 2000 4:37PM MARATHON P.2
RECEIVED 01/31/2000 18:53 FAX 4194214525 NO.703 P.02
JAN-31-2000 13:52 FROM MARATHON GCR ACCOUNTING 83-74-4525
PAGE 2 (PRINTED PAGE 2) TO

MX012703-12279
DATE: 07/23/98
TIME: 14:41:31

REPORTER USE 0

U.S. DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM

OIL AND GAS OPERATIONS REPORT
PART A - WELL PRODUCTION
(OGOR-A)

MMS USE

REPORT TYPE: ORIGINAL

REPORT PERIOD: MMYY 0598

MMS OPERATOR NUMBER: F7240

OPERATOR NAME: MARATHON OIL COMPANY

OPERATOR LEASE, UNIT, OR COMMUNITIZATION NUMBER: OCS-G-13084

OPERATOR LEASE, UNIT, OR COMMUNITIZATION NAME: EWING BANK 963 UNIT

MMS LEASE, UNIT, OR COMMUNITIZATION NUMBER: 7543960140

LN NO	ACT	API WELL NUMBER ST	CTY	SEQ	ST	PRN DT D	OPERATOR WELL NUMBER	WELL CODE	DAYS ON PROD	PRODUCTION VOLUMES OIL/COND (BBL)	GAS (MCF)	WATER (BBL)	INJ VOLUME (BBL/MCF)
1	A	60	810	50060	00	S01	963-01	08	7	49126	43813		
2													
3													
4													
5													
6													
7													
8													
9													
10													
	CHECK IF PART A IS CONTINUED							TOTAL PRODUCTION		49126	43813	0	
								TOTAL INJECTION		0	0	0	

CONTACT NAME: (FIRST M. I. LAST)

PHONE NUMBER: (318) 233-8240

EXTENSION NUMBER:

AUTHORIZING NAME: (FIRST M. I. LAST)
T. G. ALLEN

TITLE:
MGR. PROD. REV. ACCTG.

AUTHORIZING SIGNATURE

DATE: MMDDYY 071798

COMMENTS:

PAGE 1 OF

01/31/00 MON 15:37 [TX/RX NO 6046]

JAN 31 2000 4:38PM MARATHON P.3
RECEIVED 01/31 18:54 1900 AT 4194214525 NO.703
JAN-31-2000 13:54 FROM MARATHON GCR ACCOUNTING 83-74-4525 P.03
PAGE 3 (PRINTED PAGE 3) 1
TO

MX012703-12279
DATE: 07/23/98
TIME: 14:41:31

REPORTER USE 0

U.S. DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM

OIL AND GAS OPERATIONS REPORT
PART B - PRODUCTION DISPOSITIONS
(OGOR-B)

MMS USE

REPORT TYPE: ORIGINAL

REPORT PERIOD: MMYY 0598

MMS OPERATOR NUMBER: F7240

OPERATOR NAME: MARATHON OIL COMPANY

OPERATOR LEASE, UNIT, OR COMMUNITIZATION NUMBER: OCS-G-13084

OPERATOR LEASE, UNIT, OR COMMUNITIZATION NAME: EWING BANK 963 UNIT

MMS LEASE, UNIT, OR COMMUNITIZATION NUMBER: 7543960140

LN NO	ACT	DC IG SD PE	METERING POINT	GAS PLANT	API GRAV /BTU	DISPOSITION VOLUMES: OIL/COND (BBL)	GAS (MCF)	WATER (BBL)
1	A	13				(714)		
2	A	20				2789	1142	
3	A	21					151	
4	A	42				(2789)		
5	A	09	20171012500			714		
6	A	01	20608102951		22.2	49126		
7	A	01	30608100600		1183.0		13625	
8	A	01	30608102E03		1186.0		28895	
9								
10								
		CHECK IF PART B IS CONTINUED		TOTAL DISPOSITIONS		49126	43813	0

CONTACT NAME: (FIRST M. I. LAST)

PHONE NUMBER: (318) 233-8240 EXTENSION NUMBER:

AUTHORIZING NAME: (FIRST M. I. LAST) T. G. ALLEN

TITLE: MGR. PROD. REV. ACCTG.

AUTHORIZING SIGNATURE DATE: MMDDYY 071798

COMMENTS:

01/31/00 MON 15:37 [TX/RX NO 6046]

MX012703-12279
DATE: 10/16/98
TIME: 09:21:19

REPORTER USE 0

U.S. DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM

OIL AND GAS OPERATIONS REPORT
PART B - PRODUCTION DISPOSITIONS
(OGOR-B)

MMS USE

REPORT TYPE: MODIFIED
REPORT PERIOD: MMYY 0598
MMS OPERATOR NUMBER: F7240

OPERATOR NAME: MARATHON OIL COMPANY
OPERATOR LEASE, UNIT, OR COMMUNITIZATION NUMBER: OCS-G-13084

OPERATOR LEASE, UNIT, OR COMMUNITIZATION NAME: EWING BANK 963 UNIT
MMS LEASE, UNIT, OR COMMUNITIZATION NUMBER: 754396014A

LN NO	ACT	DC IO SD PE	METERING POINT	GAS PLANT	API GRAV /BTU	DISPOSITION VOLUMES OIL/COND (BBL)	GAS (MCF)	WATER (BBL)
1	A	13				(139)		
2	A	20				2789	1142	
3	A	21					151	
4	A	42				(2789)		
5	A	09	20171012500			139		
6	A	01	20608102951		22.2	49126		
7	A	01	3060810DS00		1183.0		13625	
8	A	01	3060810XE03		1186.0		28895	
9								
10								
	CHECK IF PART B IS CONTINUED			TOTAL DISPOSITIONS		49126	43813	0

CONTACT NAME: (FIRST M. I. LAST)
PHONE NUMBER: (318) 233-8240
EXTENSION NUMBER:

AUTHORIZING NAME: (FIRST M. I. LAST)
T. G. ALLEN
TITLE: MGR. PROD. REV. ACCTG.

AUTHORIZING SIGNATURE
DATE: MMDDYY 101698
COMMENTS:

JAN 31 2000 4:38PM MARATHON P.5
RECEIVED 01/31 16:56 1900 AT 4194214525 NO.703
JAN-31-2000 13:56 FROM MARATHON 83-74-4525 P.05
[PAGE 5 (PRINTED PAGE 5)]
GCR ACCOUNTING TO

MXG12703-12279
DATE: 10/16/98
TIME: 09:21:19

REPORTER USE 0

U.S. DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM

OIL AND GAS OPERATIONS REPORT
PART B - PRODUCTION DISPOSITIONS
(OGOR-B)

MMS USE

REPORT TYPE: MODIFIED
REPORT PERIOD: MMYY 0598
MMS OPERATOR NUMBER: F7240

OPERATOR NAME: MARATHON OIL COMPANY
OPERATOR LEASE, UNIT, OR COMMUNITIZATION NUMBER:

OPERATOR LEASE, UNIT, OR COMMUNITIZATION NAME:
MMS LEASE, UNIT, OR COMMUNITIZATION NUMBER: 7543960140

LN NO	ACT	DC ID SD PE	METERING POINT	GAS PLANT	API GRAV /BTU	DISPOSITION VOLUMES OIL/COND (BBL)	GAS (MCF)	WATER (BBL)
1	D	13				(139)		
2	D	20				2789	1142	
3	D	21					151	
4	D	42				(2789)		
5	D	09	20171012500			139		
6	D	01	20608102951		22.2	49126		
7	D	01	30608108B00		1183.0		13625	
8	D	01	30608108E03		1186.0		29895	
9								
10								
	CHECK IF PART B IS CONTINUED			TOTAL DISPOSITIONS		(49126)	(43913)	0

CONTACT NAME: (FIRST M. I. LAST)
PHONE NUMBER: (318) 233-8240 EXTENSION NUMBER:

AUTHORIZING NAME: (FIRST M. I. LAST)
T. G. ALLEN
TITLE: MGR. PROD. REV. ACCTG.

AUTHORIZING SIGNATURE
DATE: MMDDYY 101698
COMMENTS:

PAGE 1 OF 1

01/31/00 MON 15:37 [TX/RX NO 6046]

MX012703-12279
DATE: 08/18/98
TIME: 17:04:00

REPORTER USE 0

U.S. DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM

OIL AND GAS OPERATIONS REPORT
PART B - PRODUCTION DISPOSITIONS
(OGOR-B)

MMS USE

REPORT TYPE: MODIFIED

REPORT PERIOD: MMYY 0598

MMS OPERATOR NUMBER: F7240

OPERATOR NAME: MARATHON OIL COMPANY

OPERATOR LEASE, UNIT, OR COMMUNITIZATION NUMBER: OCS-G-13084

OPERATOR LEASE, UNIT, OR COMMUNITIZATION NAME: EWING BANK 963 UNIT

MMS LEASE, UNIT, OR COMMUNITIZATION NUMBER: 7543960140

LN NO	ACT	DC IG SD PE	METERING POINT	GAS PLANT	API GRAV /BTU	DISPOSITION VOLUMES OIL/COND (BBL)	GAS (MCF)	WATER (BBL)
1	D	13				(714)		
2	D	09	20171012500			714		
3	A	13				(139)		
4	A	09	20171012500			139		
5								
6								
7								
8								
9								
10								
	CHECK IF PART B IS CONTINUED			TOTAL DISPOSITIONS		0	0	0

CONTACT NAME: (FIRST M. I. LAST)

PHONE NUMBER: (318) 233-8240

EXTENSION NUMBER:

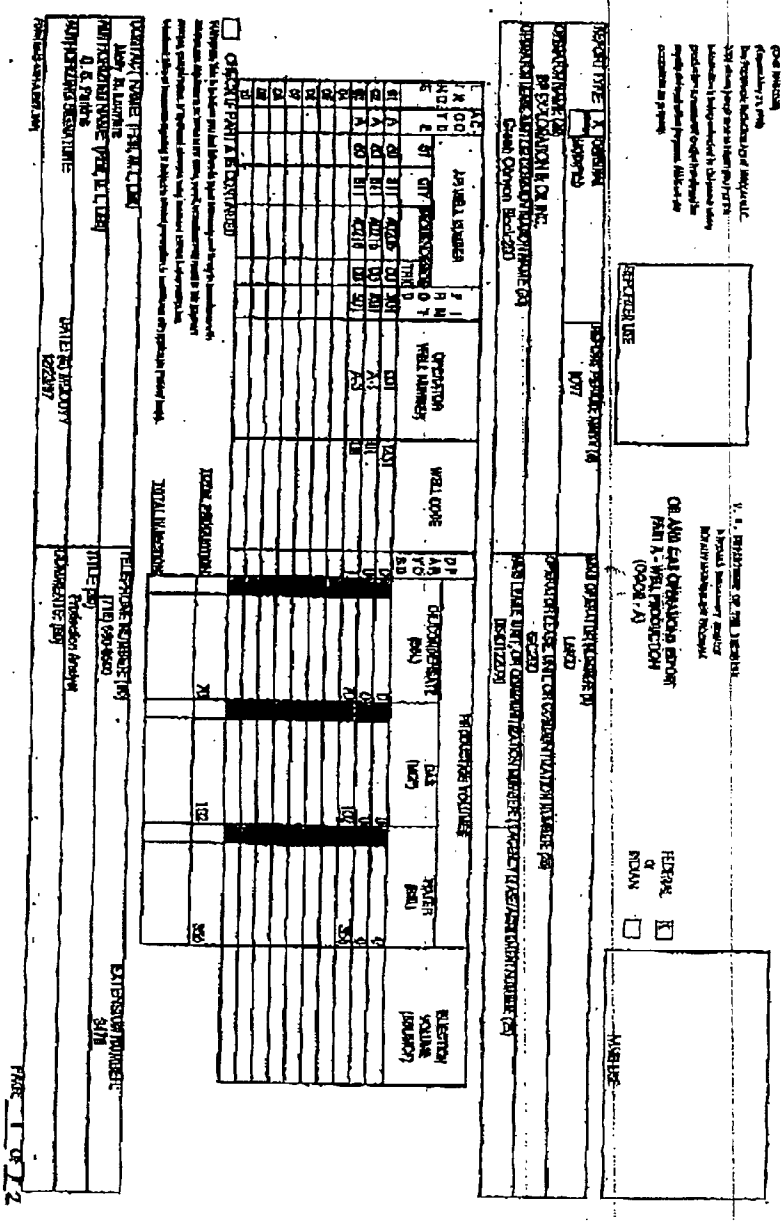
AUTHORIZING NAME: (FIRST M. I. LAST)
T. G. ALLEN

TITLE: MGR. PROD. REV. ACCTG.

AUTHORIZING SIGNATURE

DATE: MMDDYY 081898

COMMENTS:



OIL AND GAS OPERATIONS REPORT
PART B - PRODUCT DISPOSITION
(OOGR-B)

12/22/97
GC2B

REPORT TYPE: ORIGINAL / MODIFIED

REPORTER USE

REPORT PERIOD: 11 09 97

FEDERAL

INDIAN

LEASE

OPERATOR'S NAME: BP EXPLORATION & OIL INC.

OPERATOR'S NUMBER: 00580

LEASE NAME: GREEN CANYON BLOCK 218

LEASE NUMBER: G02218

PRODUCTION UNIT OR COMMUNITIZATION NUMBER: 850122898

WELL NUMBER: 001

ACCOUNT MODIFICATION NUMBER

DAY	METHANE (MCF)	WATER (BBL)	OIL GRAVITY (API)	CONDENSATE (BBL)	OIL (BBL)	GAS (MCF)
1			30.0	78	0	0
2				0	0	0
3				0	0	0
4				0	0	0
5				0	0	0
6				0	0	0
7				0	0	0
8				0	0	0
9				0	0	0
10				0	0	0
11				0	0	0
12				0	0	0
13				0	0	0
14				0	0	0
15				0	0	0
16				0	0	0
17				0	0	0
18				0	0	0
19				0	0	0
20				0	0	0
21				0	0	0
22				0	0	0
23				0	0	0
24				0	0	0
25				0	0	0
26				0	0	0
27				0	0	0
28				0	0	0
29				0	0	0
30				0	0	0
31				0	0	0
TOTAL DISPOSITION				78	0	0
TOTAL PRODUCTION				78	102	356

DESCRIPTION OF PART B IS CONTINUED

WARNING: This is a Federal form. Any person who knowingly and willfully submits false, fictitious, or fraudulent statements or representations on this form may be subject to criminal penalties of up to $10,000 per violation (18 U.S.C. 1001). Submission of this report is required by law (30 U.S.C. 1724). Failure to report all information requested may result in assessments for incomplete or late reporting (30 CFR 250.460). Public burden for this form is estimated to average 30 minutes per response, including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to the Information Collection Control Officer, Minerals Management Service, Mail Stop 4700, 381 Elden Street, Herndon, Virginia 20170-4817.

REPORT MUST BE SIGNED AND DATED

MOLLY H. LOUVIERE

SIGNATURE

DATE SIGNED: 11 12 12 97

TELEPHONE NUMBER: (281) 560-8500

G. S. PERKINS

AUTHORIZING OFFICIAL'S NAME

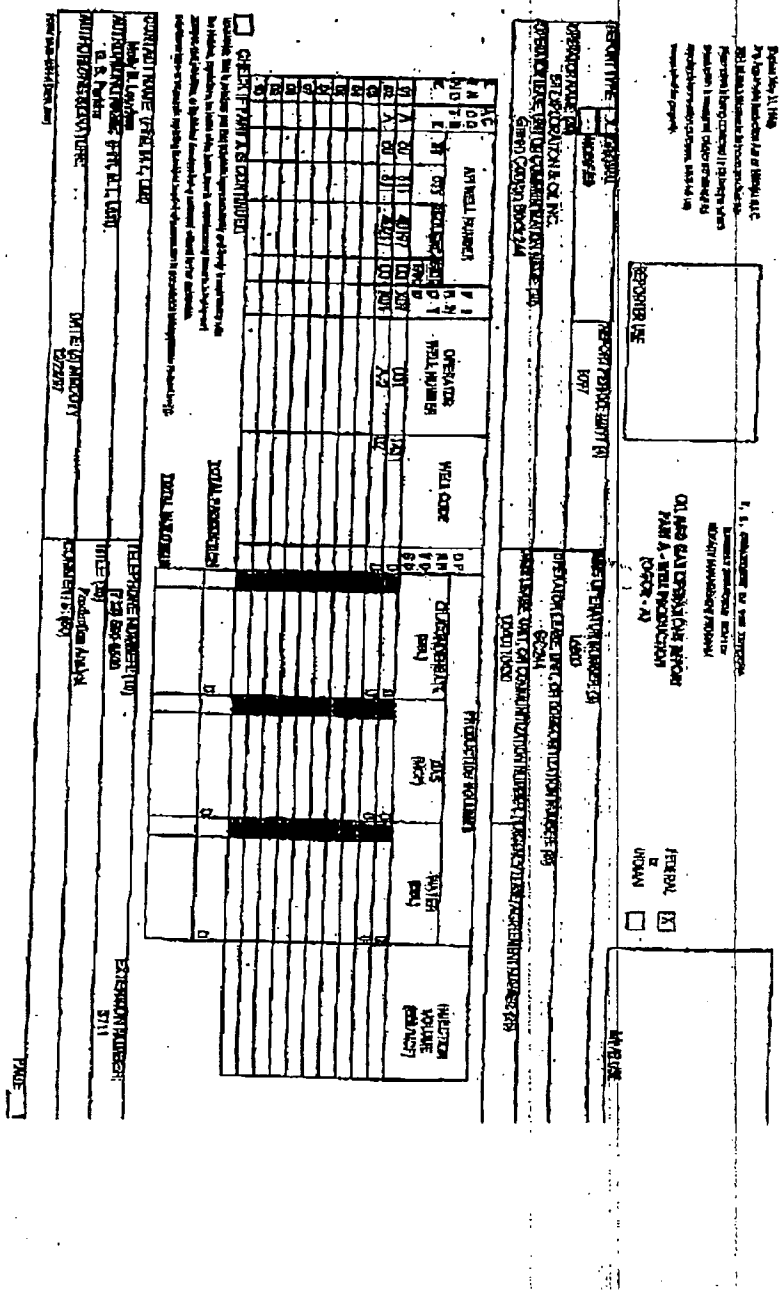
PRODUCTION ANALYST

COMPANY NAME

TELEPHONE NUMBER: (281) 560-8500

EXTENSION NUMBER: 1478

PAGE 2 OF 2



(OMB 1010-0042)
(Expires May 31, 1995)
The Paperwork Reduction Act of 1980 (44 U.S.C. 3501 et seq.) requires us to inform you that this information is being collected to determine whether production is measured and/or hardened for royalty determination purposes. MMS will use accounted for properly.

REPORTER USE

U. S. DEPARTMENT OF THE INTERIOR
BUREAU OF MANAGEMENT SERVICE
MINERALS MANAGEMENT PROGRAM

OIL AND GAS OPERATIONS REPORT
PART B - PRODUCT DISPOSITION
(OGOR - B)

FEDERAL [X]
or
INDIAN [ ]

MMS USE

REPORT TYPE: [ ] ORIGINAL [X] MODIFIED	REPORT PERIOD: MMYY (4) 1097	MMS OPERATOR NUMBER: (5) L6800
OPERATOR NAME: (9) BP EXPLORATION & OIL INC.		OPERATOR LEASE, UNIT, OR COMMUNITIZATION NUMBER: (20) GC244
OPERATOR LEASE, UNIT OR COMMUNITIZATION NAME: (20) GREEN CANYON BLOCK 200 UNIT		MMS LEASE, UNIT, OR COMMUNITIZATION NUMBER: (11) 754393U16A / AGENCY LEASE AGREEMENT NUMBER: (25)

L. IN NO.	AC CO TO E	DC ID SO PE	METERING POINT	GAS PLANT	API GRAVITY BTU	DISPOSITION VOLUMES: OIL/CONDENSATE (BBL)	GAS (MCF)	WATER (BBL)
01	D	01			38	70		
02	A	04			38	70		
03								
04								
05								
06								
07								
08								
09								
10								
					TOTAL DISPOSITIONS	0	0	0

[ ] CHECK IF PART B IS CONTINUED

WARNING: This is to inform you that failure to report accurately and timely in accordance with the statutes, regulations, or terms of the lease, permit, or contract may result in late payment charges, civil penalties, or liquidated damages being assessed without further notification. Intentional false or inaccurate reporting is subject to criminal prosecution in accordance with applicable Federal law(s).

CONTACT NAME: (First, M. I., Last) Molly B. Louviere	TELEPHONE NUMBER: (10) (281) 560-8500	EXTENSION NUMBER: 3478
AUTHORIZING NAME: (First, M. I., Last) G. S. Perkins	TITLE: (30) Production Superintendent	
AUTHORIZING SIGNATURE: Molly Louviere for	DATE: (6) MMDDYY 07/23/98	COMMENTS: (60)

FORM MMS-4054(REV. 1/92)

PAGE 1 OF 1

OIL AND GAS OPERATIONS REPORT
PART A - WELL PRODUCTION
FORM A

REPORT TYPE: ☐ ORIGINAL ☒ CORRECTED

REPORTER USE $

FEDERAL ☒ OR INDIAN ☐

JAMS USE

OPERATOR NAME (CO)
BP EXPLORATION (ALASKA) INC.

OPERATOR LEASE, UNIT, OR COMMUNITIZATION NAME (CA)
Green Canyon Block 200 Unit

OPERATOR NUMBER (CO)
1197

REPORT PERIOD: MONTH (1-12)
12

YEAR
1999

PRODUCTION DISTRICT NUMBER
L600

MMS LEASE, UNIT, OR COMMUNITIZATION NUMBER (10 CHARACTERS)
754N300164

AREA CODE
G4200

TN (NO. 1 D E)	TC (NO. 1 D E)	API WELL NUMBER ST	CNTY	SEQUENCE NUMBER	P, I, N, O, T	OPERATOR WELL NUMBER	WELL CODE	DP, AH, Y, O, S, D	DAYS ON PRODUCTION (DPD)	OIL/CONDENSATE (BBL)	GAS (MCF)	WATER (BBL)	INJECTION VOLUME (BBL/MCF)
01	D	60	611	40218	001	SD1	TA-1	88	22	31	31005	0	
02	X	60	611	40218	001	SD1	TA-3	88	22	321	321017	322	
03													
04													
05													
06													
07													
08													
09													
10													

TOTAL PRODUCTION: 1992 2937 322

TOTAL INJECTION:

☐ CHECK IF PART A IS CONTINUED

WARNING: This is a Federal form. Any person who knowingly and willfully submits any false, fictitious, or fraudulent statements or representations as to any matter within the jurisdiction of any department or agency of the United States may be guilty of a crime and may be subject to penalties on conviction.

Public reporting burden for this form is estimated to average 1 hour per response, including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Information Collection Control Officer, MMS, MS 4700, 381 Elden Street, Herndon, VA 20170-4817.

CONTACT NAME (FIRST, M.I., LAST)
Mary B. Saunders

TELEPHONE NUMBER (TN)
(713) 380-8500

EXTENSION NUMBER
3478

AUTHORIZING NAME (FIRST, M.I., LAST)
G. S. Perkins

TITLE (TM)
Production Superintendent

AUTHORIZING SIGNATURE

DATE (D) MM DD YY
01 28 00

COMMENTS (80)

PAGE 1 OF 2

OMB NO. 1010-0042
Expires March 31, 1998
The Privacy Act of 1974 and the OMB regulation 5 CFR 1320.21 require you to furnish the following information, which is collected to inform the public that the person submitting this report is authorized to do so and knows the obligations assumed by the lessee or the person conducting operations on the lease. Public reporting burden for this form is estimated to average 1 hour per response, including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to the Bureau of Land Management, Information Collection Clerk, (WO-630), 1849 C Street, NW, Washington, DC 20240; and the Office of Management and Budget, Paperwork Reduction Project (1010-0042), Washington, DC 20503.

D. S. DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
MINERALS MANAGEMENT SERVICE

REPORT TYPE 1 [ORIGINAL] REPORTER USE

[ ] MODIFIED REPORT PERIOD (MMYY) 1197

OPERATOR NO. 1680

OPERATOR NAME

OIL AND GAS OPERATIONS REPORT
PART B - RECONCILIATION
(OGOR - B)

FEDERAL [X] INDIAN [ ]

MMS USE

[ ] CHECK IF PART B IS CONTINUED

LEASE TYPE	LEASE NO.	PRODUCT CODE	DAYS PRODUCED	GAS PLANT CODE	GAS PLANT NAME	GAS (MCF)	WATER (BBL)
01	D	01					
02	A	10	20688	113650		324	3
03	A	04				34.6	31005
04	D	01				37	1782
05	A	01	30688	1XW00		1737	457420
06	D	21				1137	54164
07	A	21					57190
08	A	27					322
09							
10							

TOTAL DISPOSITIONS 1982 1937 322

WARNING: If the information you furnish is false or misleading, or if you fail to report accurately and timely all production and other information in accordance with applicable regulations, you may be subject to civil penalties of up to $25,000 per violation for each day such violation continues, 30 U.S.C. 1719(b), 30 CFR 206.734(a). In addition, knowing or willful submission of false, inaccurate, or misleading reports, records, or other information may subject you to criminal penalties of up to $5,000 per violation, 30 U.S.C. 1719(c), 30 CFR 206.734(b). For other civil and criminal penalties that may apply, see 43 CFR 3163.1(a), (b), and (c). Suspension or revocation of your lease, or cancellation of your permit or agreement, may result if you fail to comply with any lease term or obligation, including the requirement to report accurately and timely. Any unearned interest or escrowed funds may be forfeited if you fail to report royalties properly. Any false statement may also subject you to criminal penalties under 18 U.S.C. 1001 and 43 U.S.C. 1212.

CONTACT NAME (First, M. I., Last)
Molly C. Loureiro

TELEPHONE NUMBER (10)
(281) 560-8300

AUTHORIZING NAME (First, M. I., Last)
G. S. Perkins

TITLE (30)
Production Superintendent

EXTENSION NUMBER
3478

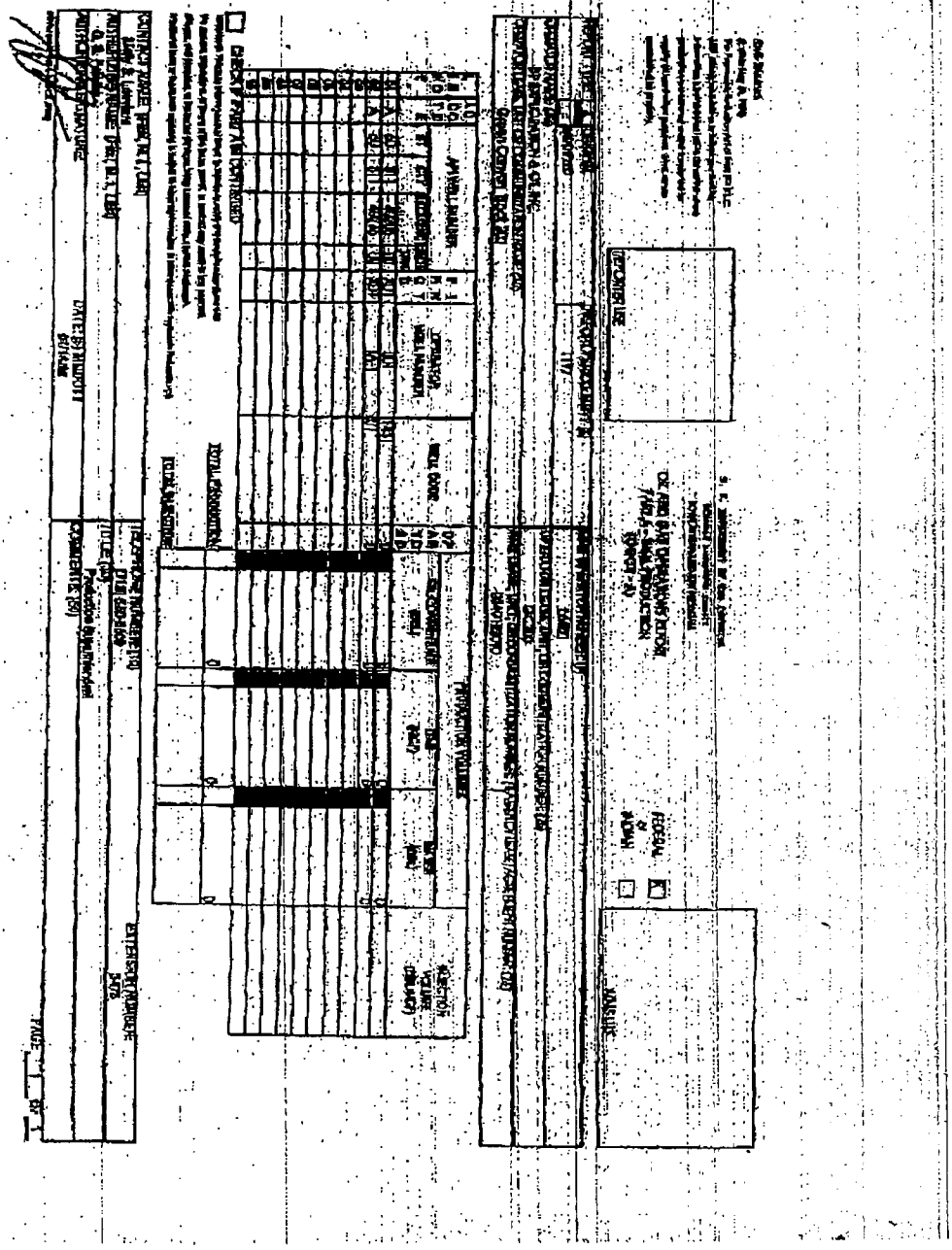
AUTHORIZING SIGNATURE
Molly C. Loureiro

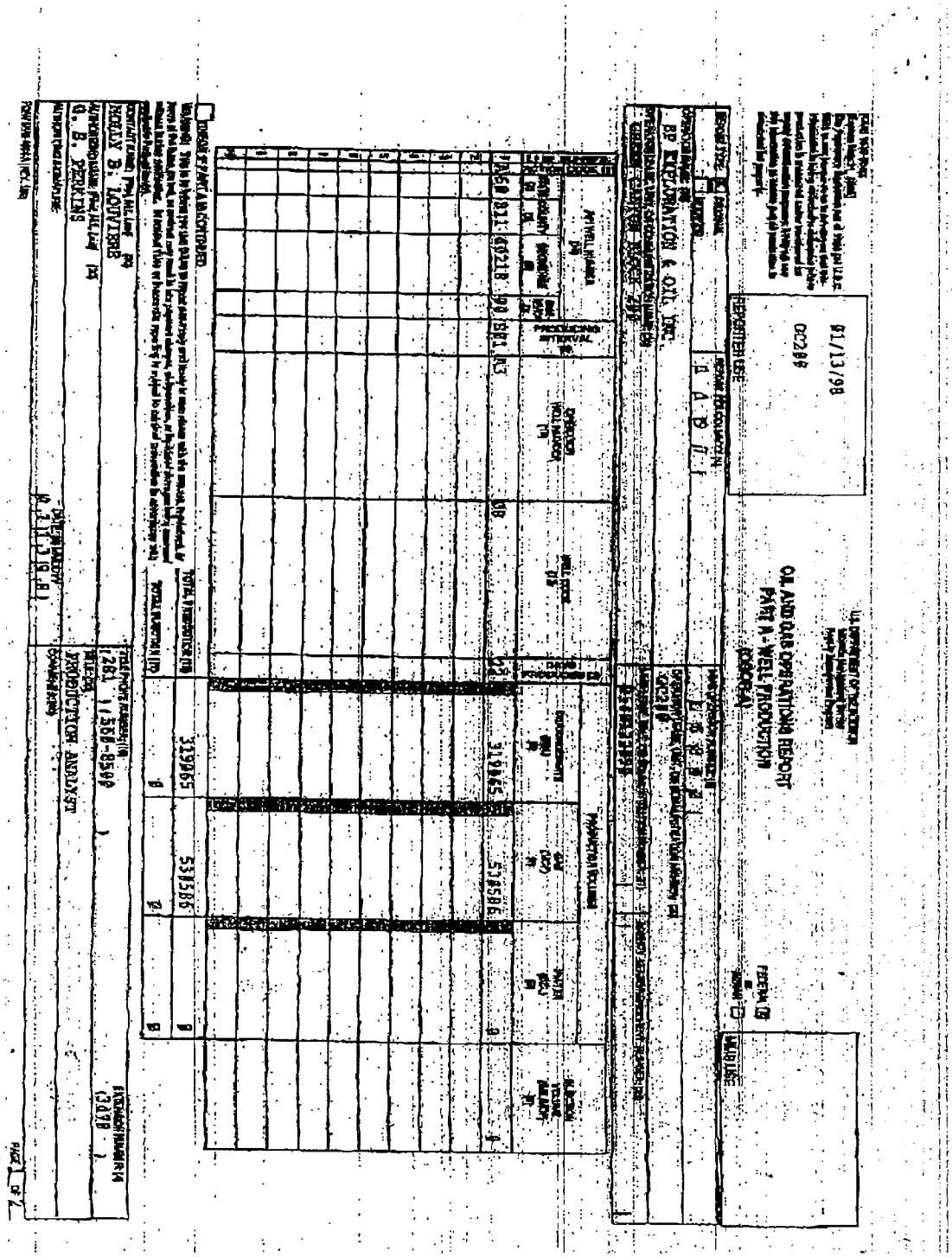
DATE (6) MMDDYY
07/23/98

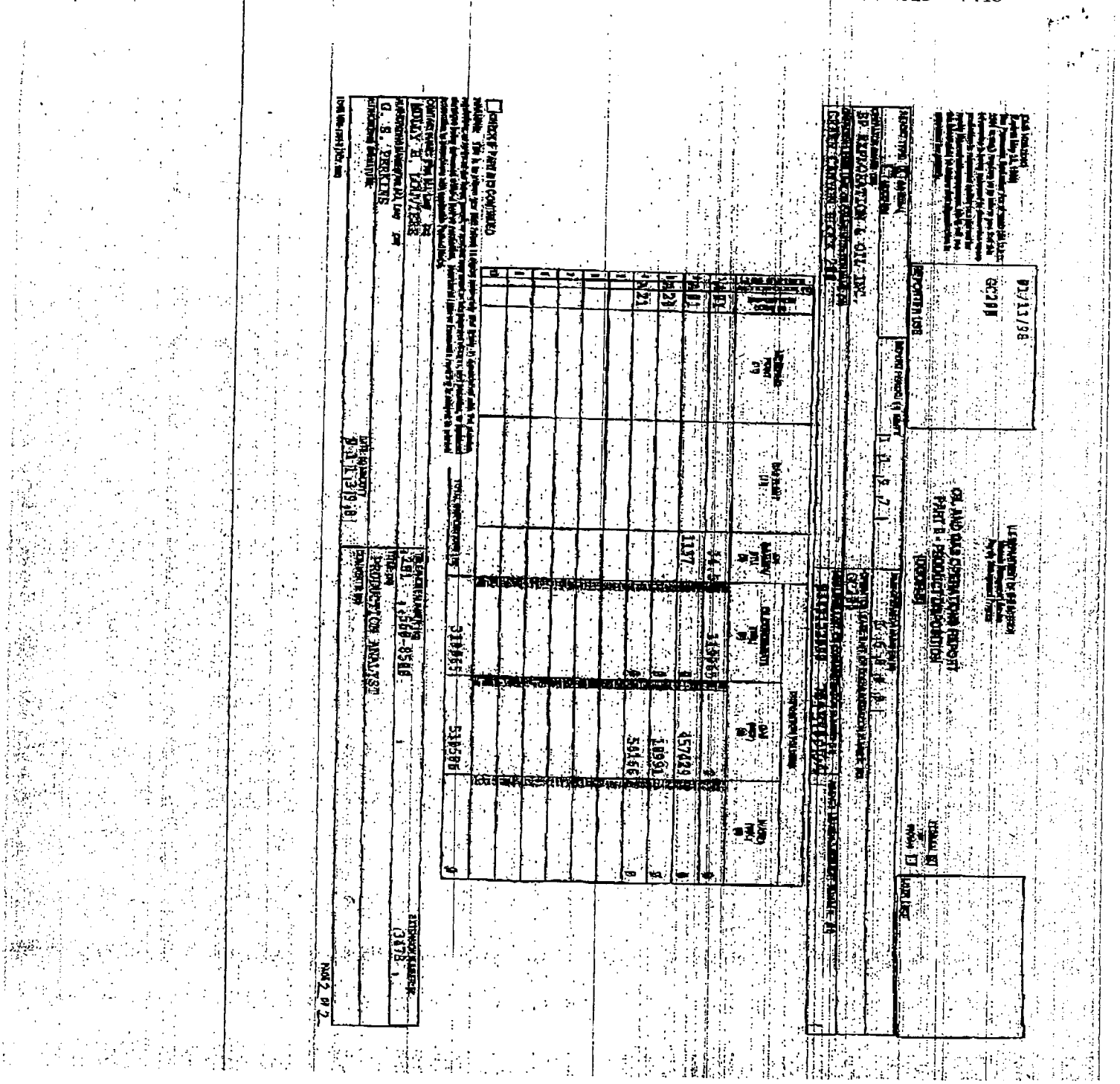
COMMENTS (60)

FORM MMS-4054 (REVISED 07/97)

PAGE 2 OF 2







Dow L. Campbell
Attorney

Marathon Oil Company

539 South Main Street
Findlay, OH 45840-3295
Direct No. 419/421-4121
Main No. 419/422-2121
Facsimile 419/427-3681
E-mail: DLCampbell@MarathonOil.com

RECEIVED
D.O.I.-MMS-RVD
00 JAN -7 PM 2:43

January 6, 2000

Via Overnight Mail

Minerals Management Service
Attention: Ms. Deborah Gibbs Tschudy
Chief, Royalty Valuation Division
P.O. Box 25165, MS 3150
Denver Federal Center
Denver, Colorado 80225-0165

Re: Statement of Reasons
Order dated November 3, 1999
Deepwater Transportation Allowance - Arnold & Troika

Dear Ms. Tschudy:

Enclosed you will find Marathon Oil Company's Statement of Reasons in support of its appeal to the Director of the MMS of the Order to Perform dated November 3, 1999.

I have also enclosed a copy of the first page of the Statement of Reasons and ask that you date stamp it upon receipt and return it to me in the enclosed, self-addressed postage-paid envelope.

Sincerely yours,

Dow L Campbell

Dow L. Campbell

[115758]

Enclosures

Copy

cc: R.E. Good
C.A. Sudlow
M.P. White

UNITED STATES DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE

Marathon Oil Company **Docket No. MMS-99-0???-OCS**

STATEMENT OF REASONS
(Deepwater Transportation Allowance - Arnold & Troika)

Pursuant to 30 C.F.R. §290.3, Marathon Oil Company ("Marathon") hereby files this Statement of Reasons with the Director ("Director") of the Minerals Management Service ("MMS"), appealing that certain order dated November 3, 1999 ("Order"), issued by Deborah Gibbs Tschudy, Chief, Royalty Valuation Division of the MMS.

The Order was received by Marathon on November 9, 1999. Marathon filed a Notice of Appeal on December 8, 1999.

Marathon hereby submits this Supplemental Statement of Reasons in support of its appeal of the Order.

ARGUMENTS

1. **The MMS has improperly denied the retroactive application of the May 20, 1999, Associate Director for Royalty Management's memorandum (*Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters)* to production prior to June, 1999, by improperly differentiating between production from two time periods which are subject to the same set of regulations.**

The Order improperly denied Marathon's request for retroactive application prior to May 20, 1999. The underlying lease agreement combined with the regulations at 30 CFR §206.105(b) prescribe the allowable and non-allowable expenses permitted in determining an allowance for non-arm's-length transportation. The lease's terms have not been revised and this regulation has been in effect and essentially unchanged since its implementation in 1988. The MMS' only basis for differentiating by date of production is based on the date of issuance of its own guidance memorandum (*Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters*, dated May 20, 1999, hereinafter referred to as the "Guidance Memorandum"). There is no factual basis to support the MMS' arbitrary establishment of June, 1999, production as the first month to which the Guidance Memorandum's principles should be applied. Marathon's transportation facilities for theses leases did not change between the pre-May 20, 1999, time period and the post-May 20, 1999, time period. Accordingly, the MMS has improperly denied the retroactive application of these criteria.

2. **The MMS has improperly denied the retroactive application of the May 20, 1999, Guidance Memorandum based on Marathon's failure to request approval for the transportation allowance prior to May 20, 1999.**

The MMS' November 3, 1999, denial of Marathon's request for retroactive application prior to May 20, 1999 states:

"Because your August 20, 1999, request was not pending prior to the ADRM's memorandum, our approval is prospective beginning with June 1999, the first full production month following the ADRM's memorandum. Your request for retroactive application prior to May 20, 1999, is denied." (Order at page 4.)

For argument purposes only, assume that Marathon did fail to request approval for the transportation allowance prior to May 20, 1999. The MMS, nevertheless, has arbitrarily assigned a date of applicability. There is no statutory interest being protected which supports the MMS' imposition of a prospective only application.

There is also no regulatory requirement that Marathon have filed any MMS forms for approval to take the transportation allowances requested. The March 11, 1996, Dear Payor letter did away with transportation and other allowance forms for Federal oil, gas, and coal leases. (A copy of which is attached hereto as Exhibit "A".) The MMS' denial of Marathon's request for retroactive application equates to establishing an unwritten requirement to either file a non-existent transportation form or file an unknown advance approval request. In *Sunland Mining Corp.*, MMS-85-0292-MIN, January 20, 1987, the Director determined that Sunland was not given specific or other adequate notice of a requirement to receive advance approval of transportation and processing cost allowances and granted the appeal in part based on the theory that in the absence of proper notice, fairness dictates that the transportation cost deductions involved should be recognized on a one-time retroactive basis. Marathon is entitled to this same treatment.

3. **The MMS has improperly determined that Marathon did not have a request for approval for the transportation allowance pending prior to May 20, 1999.**

The MMS denied Marathon's request for retroactive approval of the May 20, 1999, Guidance Memorandum because our August 20, 1999 request was not pending prior to the ADRM's memorandum. (The Order at page 4.) However, the MMS has failed to recognize in its analysis Marathon's earlier request for a value determination on this issue. On June 24, 1997, Marathon filed a Transportation Allowance Valuation Determination request with the Valuation and Standards Division of the MMS for its pending offshore deepwater projects, specifically Ewing Bank Block 917, Green Canyon 244 Unit, and Viosca Knoll Block 786. (A copy of which is attached hereto as Exhibit "B".) Therein, Marathon was seeking to establish the extent to which the MMS would allow a transportation allowance for these deepwater leases and units. Although this Valuation Determination request was withdrawn by Marathon only 3 days later due to the fact that the supporting documentation was preliminary in nature and still under internal review, it clearly establishes Marathon's intent to pursue a transportation allowance for the projects denied retroactively under the Order. (A copy of which is attached hereto as Exhibit "C".) The original request was filed well before the Guidance Memorandum was issued.

Marathon's delay in reinstating its Valuation Determination request prior to the issuance of the Guidance Memorandum was caused by the then current developments on this issue within the industry and the MMS. Marathon was awaiting the MMS decision in the CNG Producing Company appeal docketed as MMS-96-0370-OCS, which was issued on October 16, 1997. (A copy of which is attached hereto as Exhibit "D".) In addition, Marathon was under the impression that the MMS was preparing to address this exact issue in either a rulemaking, Dear Payor letter, or interpretive ruling. These discussions within industry and the MMS led to the workshop announced in the Federal Register on October 21, 1998. (See 63 FR 56217, October 21, 1998, a copy of which is attached hereto as Exhibit "E".) Any delay by Marathon in further pursuit of its original request can be explained by the MMS' own activity on this issue.

4. **The MMS has erred in not considering Marathon's active participation in, and prior to, the MMS-sponsored November 16, 1998 meeting on the subsea gathering and transportation initiative as a request pending prior to the May 20, 1999 memorandum.**

Marathon actively participated in the MMS initiative to develop specific criteria to be used in distinguishing between gathering and transportation to determine permissible deductions in calculating royalty value. A review of MMS records will demonstrate that Marathon personnel attended the November 16, 1998, MMS sponsored workshop on the subsea gathering and transportation initiative. In fact, a Marathon engineer, Martin Kennedy, sat on the technical panel which made a thorough presentation on deepwater activity and progress. Marathon then filed its own set of comments on December 18, 1998, in response to the MMS' request for comments. (A copy of which is attached hereto as Exhibit "F".) Marathon also contributed to the API comments which were filed on December 18, 1998. (A copy of which is attached hereto as Exhibit "G".) This activity level supports the position that Marathon was interested in and instrumental in the issuance of the Guidance Memorandum. For the MMS to then penalize Marathon by denying it retroactive application of these principles is an apparent placement of form over substance by the MMS.

5. **The MMS has erred by departing from its normal practice of giving retroactive effect to interpretive rulings in royalty calculations. *See* Sun Exploration & Production Co., 112 IBLA 373, 391 (1990).**

The MMS has improperly departed from its normal practice of giving retroactive effect to interpretive rulings in royalty calculations.

> It is within the authority of the Department to interpret its own regulations, and its interpretation should be given great deference. Normally an interpretive ruling stating the methodology to be used for royalty calculation may be given retroactive effect. However, when it appears from the record that:
>
> (1) for several years the lessee had applied a methodology which conformed with a reasonable interpretation of the applicable regulations when calculating the royalty for federal production;
>
> (2) the MMS had accepted lessee's royalty methodology for several years before issuing an interpretive ruling requiring a new methodology;
>
> (3) the new methodology was an abrupt departure from a well-established practice; and
>
> (4) the prejudice to the lessee affected by retroactive application of the new interpretation substantially outweighs the statutory interest involved. (Emphasis added.)

Sun Exploration & Prod. Co., 112 IBLA 373 (1990). The MMS' normal position that an interpretive ruling should be given retroactive effect has not been overridden by any of the exceptions listed set froth by the IBLA in its *Sun Exploration* analysis. First, there has not been any past history of application of this theory by lessees due to the relatively recent technological advances made by industry which created this issue. Second, since there has not been any longstanding application of these principles, there has not been any outward acceptance of a position by the MMS. Third, these new criteria are not an abrupt departure from well-established practices. And finally, there is neither prejudice to the lessee by retroactive application of these new criteria, nor is there any significant statutory interest for it to be weighed against.

6. **The Order is arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law, and, therefore unlawful.** ***See*** **5 U.S.C. §706(2)(A).**

A court is required by the Administrative Procedure Act ("APA") to set aside agency action found to be "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law." 5 U.S.C. §706(2)(A). Nothing in the public record developed by the MMS' in issuing this guidance memorandum supports the position taken by the MMS that retroactive application of these principles should be denied. On the contrary, many of the comments support the exact opposite position. The pervasive thought by both industry and the MMS was that the existing regulations permit exactly this type of classification. For example, "And, the MMS' regulations as presently written, permit subsea movement to be classified as transportation." (See the second paragraph of API's Comments dated December 18, 1998, attached hereto as Exhibit "G"). This concept that the existing regulations allow these deductions has been clearly endorsed by the MMS in its Guidance Memorandum, yet, it has taken the arbitrary position that this concept cannot be applied retroactively. While the Secretary possesses considerable discretion in interpreting its regulations, its exercise is tempered by the standard of reasonableness. Conoco Inc., 110 IBLA 232, 240 (1989). The setting of May 20, 1999, as an arbitrary cut-off date does not meet this test of reasonableness.

REQUEST FOR FIELD REPORT

Marathon hereby requests copies of any field report or other report which the MMS prepares and submits to the Director in conjunction with this appeal, along with all documents upon which the MMS relies for that report.

REQUEST FOR ORAL ARGUMENT

Marathon hereby requests oral argument of this matter before the Director.

THEREFORE, Marathon respectfully requests that the Director grant:

1. Marathon's appeal and reverse the November 3, 1999 Order, which is the subject of this appeal;

2. The Request for a Field Report;

3. The Request for Oral Argument of this matter;

4. Such other and further relief which the Director deems appropriate.

Respectfully submitted this of 6th day of January, 2000.

Marathon Oil Company

By: Dow L Campbell

Dow L. Campbell
Attorney
539 South Main Street, 824-M
Findlay, Ohio 45840
(419) 421-4121

[115758]

Exhibit "A"

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 173702
Denver, Colorado 80217-3702

IN REPLY REFER TO:
CVD-FCB-ACS

MAR 11 1996

Dear Payor:

The Minerals Management Service (MMS) recently amended its valuation regulations on transportation, processing, and washing allowance deductions used to calculate royalties due on Federal oil and gas, and coal leases (61 Federal Register, 5448, February 12, 1996). The changes, effective March 1, 1996, eliminate allowance forms-filing requirements and associated sanctions for Federal leases only. The amended regulations do not change allowance forms-filing requirements for Indian leases.

In this letter, we describe what changes and what remains the same, The enclosure presents some questions and answers to further clarify the intent of these regulations and help avoid misinterpretation.

What Changes Under the Amended Reglations

- Allowance forms are no longer required for Federal oil, gas, and coal leases. We are adopting a self-implementing approach in which you claim an allowance deduction by reporting it as a separate line entry on the Form MMS-2014, Report of Sales and Royalty Remittance. using the appropriate transaction code.

- Forms-filing. sanctions, allowance payback, and interest for late form filing are eliminated for Federal leases.

- Payors who improperly net royalty value with their allowance deduction when reporting their monthly royalties due may be assessed up to 10 percent of the allowance reported as a netted amount, not to exceed $250 per violation.

What Doesn't Change Under the Amended Regulations

- Regulatory requirements for Indian leases are unaffected by the amended regulations.

- We are retaining the regulatory allowance limits for oil and gas that have been effective since March 1, 1988. You cannot reduce royalty value by more than 50 percent for transportation or 66$^2/_3$ percent for processing without prior MMS approval. Also, you cannot under any circumstances reduce the value, for royalty purposes, to zero for transportation and/or processing under oil and gas leases; or for transportation and/or washing under coal leases.

- You still must make separate line entries when claiming allowance deductions on the Form MMS-2014.

- We are retaining transportation factors for the reporting of royalties due on oil and gas sold under arm's-length contracts. For specific guidance on this issue, please direct your questions to Mr. James P. Morris, Valuation and Standards Division, at (303) 275-7213.

If you need additional information, please call Mr. Tom Brozovich, Chief, Allowance Compliance Section, at (303) 231-3351 for oil and gas leases; or Mr. Herb Wincentsen, Chief, Solid Minerals Valuation Branch, at (303) 275-7210 for coal leases.

Sincerely,

Donald T. Sant

Robert E. Brown
Associate Director
for Royalty Management

Enclosure

Questions and Answers
Relating to Amended Allowance Regulations
Effective March 1, 1996

1. **What allowance forms am I required to submit after March 1, 1996?**

   For Indian leases, you must continue to submit the appropriate allowance form(s), which may include any or all of the following:

   - Form MMS-4109, Gas Processing Allowance Summary Report
   - Form MMS-4110, Oil Transportation Allowance Report
   - Form MMS-4292, Coal Washing Allowance Report
   - Form MMS-4293, Coal Transportation Allowance Report
   - Form MMS-4295, Gas Transportation Allowance Reports

   For Federal leases, you are not required to file any allowance forms. This change includes 1996 estimates, 1995 actuals, and revisions to prior periods. However, you must still adjust the Report of Sales and Royalty Remittance, Form MMS-2014, within a reasonable time period to reflect "actual" allowances taken for any sales month. When replacing estimated allowances with actual allowances on the Form MMS-2014, use Adjustment Reason Code 04.

2. **Will transportation factors be retained?**

   The amended allowance regulations for oil and gas retain the transportation factor provision for both Federal and Indian leases.

   The only situations where MMS allows you to net transportation costs for royalty reporting on the Form MMS-2014 are when:

   - the sale is arm's-length and the contract price is determined net of the cost of transportation, or

   - an onshore oil posted price bulletin contains a charge for transportation that is deducted from the posted price paid.

   Under any other circumstances, such as a less-than-arm's-length sale or an out-of-pocket transportation cost, you must report the transportation separately on the Form MMS-2014 as a transportation allowance using Transaction Code 11. The MMS will approve a different reporting procedure only in unusual situations.

   For additional guidance on when you can deduct a transportation factor from royalty value, refer to the MMS Oil and Gas Payor Handbook, Volume III, Pages 5-4 and 6-3.

3. Does this change the "type" of costs that I may deduct or just the reporting requirements?

The regulations change only the allowance reporting requirements for Federal leases. Regulations at 30 CFR 206 have not changed and continue to govern the types of costs you may deduct.

4. How do I report allowances for Federal and Indian products processed through the same facility?

You must maintain records of all costs and your ownership portion of total throughput to satisfy record keeping requirements.

For both Federal and Indian leases, you must report processing allowances on Form MMS-2014 not to exceed 66⅔ percent of royalty value without prior MMS approval. However, you still must submit Form MMS-4109, Gas Processing Allowance Summary Report, showing throughput attributable to Indian leases.

5. Under the March 1996 regulations, can I recoup an allowance previously denied because of a forms-filing violation under the March 1988 regulations for oil and gas or the March 1989 regulations for coal?

No. You cannot use the amended regulations to obtain relief from forms-filing requirements and related assessments prescribed under the March 1988 oil and gas and March 1989 coal regulations. You can recoup an allowance for prior periods only through adjustments mandated by the Department of the Interior as a result of audit, valuation review, or lease administration.

6. What records must I maintain to support an allowance deduction?

You must maintain all records and cost data used to calculate an allowance amount claimed on the Form MMS-2014. Record keeping requirements, as described at 30 CFR 206, 207, and 212, have not changed under these amended regulations.

7. Will my transportation and processing allowances appear on the Model Form MMS-2014?

No. You are responsible for entering those lines on the Form MMS-2014.

Exhibit "B"

Dc . Car.. ..ell
Att.. ..ey

Marathon Oil Company

539 South Main Street
Findlay, OH 45840-3295
Direct No. 419/421-4121
Main No. 419/422-2121
FAX 419/421-2854

June 24, 1997

Overnight Mail

Deborah Gibbs Tschudy
Chief, Valuation and Standards Division
Minerals Management Service
Denver Federal Center
8th Street, Bldg. 85
Denver, Colorado 80225

Re: Transportation Allowance Valuation Determination
Offshore Deepwater Projects
[Ewing Bank Block 917, Green Canyon 244 Unit, and Viosca Knoll Block 786]

Dear Ms. Tschudy:

Enclosed is proprietary information about deepwater projects currently under development in the Gulf of Mexico by Marathon Oil Company. There are many unknowns in the deepwater, both environmental and technical; therefore, Marathon would like to establish the extent to which the MMS would allow a transportation allowance for these deepwater leases/units.

Marathon is interested in establishing valuation guidelines to comply with MMS' regulatory demands at the time of first production. Although these deepwater projects are still under development, these circumstances are significantly different from conventional offshore operations.

Please review the enclosed information and advise us accordingly of your findings. You may contact Linda Brown with any questions at (419) 421-2457.

Sincerely,

Dow L Campbell

Dow L. Campbell

Enclosures

cc: Dwight Donnelly (MMS - Findlay)

[79920]

Exhibit "C"

Dow L. Campbell
Attorney

F

Marathon Oil Company

539 South Main Street
Findlay, OH 45840-3295
Direct No. 419/421-4121
Main No. 419/422-2121
FAX 419/421-2854

June 27, 1997

Overnight Mail

Deborah Gibbs Tschudy
Chief, Valuation and Standards Division
Minerals Management Service
Denver Federal Center
8th Street, Bldg. 85
Denver, Colorado 80225

Re: Withdrawal of: Transportation Allowance Valuation Determination Request
Offshore Deepwater Projects
[Ewing Bank Block 917, Green Canyon 244 Unit, and Viosca Knoll Block 786]

Dear Ms. Tschudy:

On June 24, 1997, I sent you a letter requesting a Transportation Allowance Valuation Determination for the above-referenced deepwater projects currently under development in the Gulf of Mexico by Marathon Oil Company. Unfortunately the supporting documentation enclosed therein may be preliminary in nature and is still under review and analysis internally.

I would appreciate your return of the information and at such time as Marathon has finalized its plans and a value determination is needed, I will again request one.

Thank you for your understanding and if you have any questions, please contact Linda Brown at (419) 421-2457.

Sincerely,

Dow L Campbell

Dow L. Campbell

cc: Dwight Donnelly (MMS - Findlay)

[80058]

Exhibit "D"

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

OCT 16 1997

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Raymond A. G. Oalmann
Manager, Revenue Accounting
CNG Producing Company
1450 Poydras Street
New Orleans, Louisiana 70112-6000

Re: MMS-96-0370-OCS
Transportation/Gathering

Appeal Denied

Dear Mr. Oalmann:

CNG Producing Company (CNG) appealed under 30 CFR Part 290 (1996) from a September 18, 1996, decision issued by the Chief, Royalty Valuation and Standards Division, now Royalty Valuation Division (RVD), of the Minerals Management Service (MMS). The decision denied CNG an allowance for transportation of production from Outer Continental Shelf (OCS) Green Canyon Block 116 (GC-116) to South Timbalier Block 300A (ST-300A).

Background

The MMS, Gulf of Mexico OCS Region, gave Shell Offshore, Inc. (Shell), the designated operator of the GC-116 Unit, approval on January 24, 1996, to commingle production from the GC-116 Unit with production from other unit and nonunit leases at Shell's ST-300A "Cougar" platform. The commingling approval letter states that royalty for oil production from the GC-116 Unit will be based on the volume and the volume-weighted average gravity as determined by the ST-300A platform Automatic Custody Transfer (ACT) unit. Royalty for GC-116 Unit gas production will be based on the volume as determined by the ST-300A platform gas sales meters.

On June 28, 1996, CNG submitted a written request to the RVD for approval to take a transportation allowance for transporting production from GC-116 Unit to Shell's ST-300A platform. The transportation system employed by CNG consists of two 6 inch pipelines that transport bulk production approximately 25 miles from a subsea manifold on the sea floor in 2,040 feet of water on the Green Canyon 116 lease to production measurement, separation, dehydration and treatment facilities located at the ST-300A offshore platform. As previously

stated, the OCS sales meters for both gas and condensate production are at the ST-300A platform.

The MMS denied CNG's transportation allowance request and notified the Appellant by letter dated September 18, 1996. The MMS position is that movement of production from GC-116 to ST-300A occurs upstream of the approved measurement point, therefore, the movement of bulk production through the two 6 inch pipelines is considered to be gathering rather than transportation. CNG timely appealed the MMS decision on October 16, 1996, and submitted its Statement of Reasons (SOR) on January 17, 1997.

CNG contends that the deep-water pipeline system used to move production from GC-116 to ST-300A is not a gathering system as defined in the current regulations at 30 CFR 206.101 (1996) because the system is not a series of gathering flowlines converging on a nearby central point or platform for the purpose of accumulating production from a lease or field. An economic decision was made to install a subsea manifold on the GC-116 sea floor to gather production rather than erect a cost-prohibitive platform for the purpose of accumulating Unit production.[1] CNG argues that it is accumulated or gathered production at the subsea manifold that is being transported approximately 25 miles towards shore to the ST-300A platform. Therefore, it should be allowed to claim a transportation allowance for the transport of bulk production from GC-116 to ST-300A.

The Appellant further claims that a market exists for the bulk production at the subsea manifold at GC-116; therefore, the production is in marketable condition at the manifold. CNG maintains that when there is a market for the gas at the lease, MMS is obligated to share in the cost of transporting the gas from the lease to a distant delivery point.

Issues

1. Does the regulatory definition of "gathering" pertain to the Appellant's deep-water pipeline system used to move production 25 miles from the subsea manifold at GC-116 to the platform at ST-300A?

2. Is the Appellant entitled to a transportation allowance in accordance with the marketable condition rule?

---

[1] CNG states in its SOR that the GC-116 subsea manifold construction costs were approximately X-4 as compared to an estimated cost of X-4 for construction of an offshore deep-water platform.

Analysis

The Secretary of the Interior (Secretary) has discretionary authority to determine the factors to be used in computing a transportation allowance for royalty purposes. Shell Oil Co., 52 IBLA 15 (1981): Superior Oil Co., 12 IBLA 212 (1973).

Transportation allowances are authorized at 30 CFR 206.156 and 206.157 (1996) and are defined at 30 CFR 206.151 (1996) as follows:

> Transportation allowance means an allowance for the cost of moving royalty bearing substances (identifiable, measurable oil and gas, including gas that is not in need of initial separation) from the point at which it is first identifiable and measurable to the sales point or other point where value is established under this subpart.

The regulations state explicitly at 30 CFR 206.102(h) as well as at 30 CFR 206.152(h) (1996) that:

> Notwithstanding any other provision of this section, under no circumstances shall the value of production for royalty purposes be less than the gross proceeds accruing to the lessee for lease production, less applicable allowances determined pursuant to this subpart.

As indicated in 30 CFR 206.102(h) and 206.152(h) (1996), when the value for royalty purposes is based upon the gross proceeds accruing to the lessee, reasonable transportation costs may be deducted in determining the portion of the total proceeds that are attributable to the gas at the wellhead.

However, in accordance with the marketable condition rule, any deductions from royalty that are for gathering and marketing expenses are not allowable. See Xeno, Inc., 134 IBLA 12, 180 (1995): Mesa Operating Limited Partnership v. U.S. Department of the Interior, 931 F.2d 318 (5th Cir. 1991), cert. denied 502 U.S. 1058 (1992). This principle is recognized in the regulations at 30 CFR 206.152(i) (1996) which provides that the "lessee is required to place gas in marketable condition at no cost to the Federal Government."

The MMS definition for "gathering" is found at 30 CFR 206.101 (1996), which states:

> *Gathering* means the movement of lease production to a central accumulation or treatment point on the lease, unit or communitized area, or to a central accumulation or treatment point off the lease, unit or communitized area as approved by BLM or MMS OCS operations personnel for onshore and offshore leases, respectively.

The MMS further developed questions that are helpful indicators in determining when costs may be allowed as a transportation deduction from value in computing royalties rather than as nondeductible "gathering." The four questions are:[2]

1. Does the pipeline segment lie entirely within the lease, unit, or CA?

   If the answer is "yes," the pipeline is a gathering line and no deductions for transportation are permitted.

   (In the instant case, the answer is "no.")

2. Is the pipeline segment upstream of the central accumulation and (or) treatment point?

   If the answer is "yes," the pipeline is probably a gathering line and no deductions for transportation ordinarily would be permitted.

   (In the instant case, the answer is "yes.")

3. Is the pipeline segment beyond the initial treatment point, central accumulation point, or measurement facilities?

   If the answer is "yes," the pipeline likely is not a gathering line and may be eligible for a transportation allowance.

   (In the instant case, the answer is "no.")

---

[2]The same four questions used to distinguish gathering from transportation for the period prior to the effective date of the revised valuation regulations, March 1, 1988, are also included in MMS's Payor Handbook, Volume III, section 6.5.1 (July 21, 1993) as a gathering/transportation guide for the regulations in effect on and after March 1, 1988.

4. Is the pipeline segment a link in the continuous flow of marketable product to the point of delivery?

   If the answer is "yes," the pipeline likely is not a gathering line and may be eligible for a transportation allowance.

   (In the instant case, the answer is "no.")

Based on the above question and answer guidelines, the pipeline moving bulk production from GC-116 to ST-300A more readily appears to be a gathering system and ineligible for a MMS-approved transportation allowance.

The lessee(s) made an economic decision to construct a subsea manifold and pipeline to move bulk production offlease rather than construct platform facilities to treat and measure the production at the GC-116 location. In this situation, an unknown quantity of bulk production is first brought to the surface at the ST-300A platform. Only then is the bulk production stream initially treated (separated, dehydrated, and /or compressed) and measured for royalty purposes. Given these circumstances, MMS determined that the pipeline from the subsea manifold to ST-300A is a part of a system that gathers production from the various unit and non-unit wells and moves it to ST-300A where initial field services are performed.

Because gathering is considered part of placing lease production in marketable condition, it is therefore not allowable as a transportation cost. The Appellant, however, claims that GC-116 production is marketable prior to its exiting the lease or unit boundary and as justification presents affidavits from several buyers who state that they would be willing to purchase production at the subsea manifold at GC-116. The Appellant concludes that even if MMS considers the pipeline to be a gathering system, nevertheless CNG is entitled to a transportation allowance for moving marketable production from the subsea manifold to the offlease delivery point at ST-300A.

In its SOR, the Appellant further claims that in new regulations proposed on November 6, 1995, 60 Fed. Reg. 56009, it was MMS's intent to provide for transportation allowances in deep-water situations such as the instant case. The regulations were not adopted, however, and in any case it appears that the proposed authority was intended to be discretionary.

The fact that the Appellant can sell the production at the subsea manifold is not dispositive on the issue of whether it is in marketable condition. In an earlier ruling, the Interior Board of Land Appeals (IBLA) stated the following:

> Theoretically, any gas -- any 'production' -- is 'marketable.' * * *. There is a clear difference between 'marketing' and merely selling. For the former there must be a market, an established demand for an identified product. We suppose almost anything can be sold, if the price is no consideration. In the record before us there is no evidence of a market for the gas in the condition it comes from the wells. * * *. Although we think it is clear from the above-quoted discussion that the court in California Co. distinguished this type of 'sale' from 'marketing' of gas production, it is evident * * * that deduction from market value for costs of gathering and compression necessary to market the gas are not deductible even where incurred after transfer of title from the lease.

R.E. Yarbrough & Co., 122 IBLA 217 (1992). See also California Company v. Udall, 296 F.2d 384 (D.C. Cir. 1961).

Since the cost of bringing bulk production to the platform for treatment is a cost that ordinarily is the responsibility of the lessee to place the gas in marketable condition, this cost cannot be deducted from the lessee's gross proceeds. See 30 CFR 206.152(i) (1996).

Just because the movement of bulk production from the subsea manifold on GC-116 to the platform on ST-300A happens to move the gas closer to shore does not mean that it is transportation. The purpose of the movement instead is to bring the production to an existing platform (in lieu of building a new platform on the lease) where it can be separated, measured, and otherwise made ready for market. This activity functionally is much more related to gathering than to a transportation expense. Thus, even if MMS were able to deviate from the clear, existing rule, it would have no reason to do so in this case.

Conclusions and Order

The information provided in connection with this appeal indicates that the referenced pipeline is being used for the purpose of gathering GC-116 Unit bulk production for initial treatment and measurement at the ST-300A platform. The pipeline is upstream of the initial delivery or accumulation point, as well as upstream from initial separation, dehydration, compression and measurement facilities. There is no evidence in the record that the primary

function of the 25-mile pipeline between the subsea manifold at GC-116 and the ST-300A platform is anything but gathering.

Therefore, for the reasons stated herein, the subject appeal is denied.

You may appeal this decision to the Interior Board of Land Appeals pursuant to 30 CFR Part 290 (1996) and 43 CFR 4.411 and 4.413 (1996). Please find enclosed a copy of 43 CFR 4.411 and 4.413 for your reference. If you choose to appeal this decision, you must file your notice of appeal and any statement of reasons, written arguments, or briefs within 30 days after the date of service of the decision at the following address: U.S. Department of the Interior, Director, Minerals Management Service, Attention: Appeals Division (MS 9300), 1849 C Street, NW, Washington, D.C. 20240. You also must file copies of the notice of appeal and any statement of reasons, written arguments, or briefs with the, U.S. Department of the Interior, Associate Solicitor, Division of Mineral Resources (MS 6312), 1849 C Street, NW, Washington, D.C. 20240.

Sincerely,

Walter D. Cruickshank

for Robert E. Brown
Acting Associate Director for
Policy and Management Improvement

Enclosure

Dated: October 15, 1998.

LaVerne Y. Stringfield,

Committee Management Officer, NIH.

[FR Doc. 98-28255 Filed 10-20-98; 8:45 am]

BILLING CODE 4140-01-M

DEPARTMENT OF THE INTERIOR

Bureau of Land Management

[(WY-920-09-1320-01); WYW146735]

Invitation for Coal Exploration License

AGENCY: Bureau of Land Management, Interior.

ACTION: Notice of Invitation for Coal Exploration License.

SUMMARY: Pursuant to section 2(b) of the Mineral Leasing Act of February 25, 1920, as amended by section 4 of the Federal Coal Leasing Amendments Act of 1976, 90 Stat. 1083, 30 U.S.A. 201(b), and to the regulations adopted as 43 CFR, subpart 3410, all interested parties are hereby invited to participate with Jacobs Ranch Coal Company on a pro rata cost sharing basis in its program for the exploration of coal deposits owned by the United States of America in the following-described lands in Campbell County, WY:

T. 44 N. R. 70 W., 6th P.M., Wyoming,
Sec. 19: Lots 13 thru 20;
Sec. 20: Lots 9 thru 16;
Sec. 21: Lots 9 thru 16;
Sec. 22: Lots 8 thru 10, 12 thru 15;
Sec. 26: Lots 9, 10;
Sec. 27: Lots 1 thru 16;
Sec. 28: Lots 1 thru 16;
Sec. 29: Lots 1 thru 16;
Sec. 30: Lots 5 thru 20;
Sec. 31: Lots 5 thru 20;
Sec. 32: Lots 1 thru 16;
T. 44 N., R. 71 W., 6th P.M., Wyoming,
Sec. 23: Lots 9, 10, 15, 16;
Sec. 24: Lots 9 thru 16;
Sec. 25: Lots 1 thru 16;
Sec. 26: Lots 1, 2, 7 thru 10, 15, 16.

Containing approximately 6,744.31 acres.

All of the coal in the above-described land consists of unleased Federal coal within the Powder River Basin Known Recoverable Coal Resource Area. The purpose of the exploration program is to obtain coal quality data to supplement data from previous adjacent coal exploration programs.

ADDRESSES: The proposed exploration program is fully described and will be conducted pursuant to an exploration plan to be approved by the BLM. Copies of the exploration plan are available for review during normal business hours in the following offices (serialized under number WYW146735): BLM. Wyoming State Office, 5353 Yellowstone Road, PO Box 1828, Cheyenne, WY 82003; and, BLM, Casper Field Office, 1701 East "E" Street, Casper, WY 82601.

SUPPLEMENTARY INFORMATION: This notice of invitation will be published in "The News-Record" of Gillette, WY, once each week for two consecutive weeks beginning the week of October 19, 1998, and in the **Federal Register**. Any party electing to participate in this exploration program must send written notice to both the BLM and Jacobs Ranch Coal Company no later than thirty days after publication of this invitation in the **Federal Register**. The written notice should be sent to the following addresses: Jacobs Ranch Coal Company, Attn: Richard A. Turpin, Caller Box 3013, Gillette, WY 82717, and the BLM, Wyoming State Office, Minerals and Lands Authorization Group, Attn: Mavis Love, PO Box 1828, Cheyenne, WY 82003.

The foregoing is published in the **Federal Register** pursuant to 43 CFR 3410.2-1(c)(1).

Dated: October 13, 1998.

Pamela J. Lewis,

Chief, Leasable Minerals Section.

[FR Doc. 98-28029 Filed 10-20-98; 8:45 am]

BILLING CODE 4310-22-M

DEPARTMENT OF THE INTERIOR

Minerals Management Service

Announcement of Minerals Management Service Workshop on the Development of Criteria To Be Used in Distinguishing Between Gathering and Transportation in Deep Water in the Outer Continental Shelf

AGENCY: Minerals Management Service, Interior.

ACTION: Notice of meeting.

SUMMARY: The Minerals Management Service (MMS) will hold a day-long meeting with parties interested in the development of deep water leases that may involve subsea well completions. We are interested in developing specific criteria to be used in distinguishing between gathering and transportation to determine permissible deductions in calculating royalty value.

DATES: The workshop will be held on November 16, 1998, starting at 9:00 a.m., Central Time.

ADDRESSES: The meeting will be held at the MMS Gulf of Mexico Outer Continental Shelf Regional Office, 1201 Elmwood Park Blvd., New Orleans, Louisiana 70123.

FOR FURTHER INFORMATION CONTACT: Mr. Martin C. Grieshaber, Minerals Management Service, P.O. Box 25165, MS 9200, Denver, CO 80225-0165, telephone number (303) 275-7118; fax (301) 275-7124; e-mail Martin.Grieshaber@mms.gov; or Ms. Deborah Gibbs Tschudy, MMS, P.O. Box 25165, MS 3150, Denver, CO 80225-0165, telephone number (303) 275-7200; fax (303) 275-7227; e-mail Deborah.GibbsTschudy@mms.gov.

COMMENTS: Written comments on the meeting or the issues below should be addressed to Mr. Martin C. Grieshaber at the above address.

SUPPLEMENTARY INFORMATION: MMS is investigating the impact of deep water production systems on the distinction between gathering and transportation.

Current MMS regulations provide for an allowance for the actual and reasonable costs of transporting production when value for royalty purposes is determined away from the lease. No allowance is permitted for gathering (movement to a central accumulation and/or treatment point).

The new technologies involved in deep water development were not specifically contemplated in the current regulations, particularly when distinguishing between gathering and transportation.

We are interested in specific comments regarding what criteria should be used on a case-by-case basis when making the gathering/transportation differentiation for deep water leases.

Some possible criteria we would like comments on include: water depth, distance of movement, location of the approved measurement point, marketable condition of the production, and on-lease v. off-lease movement. Specific comments are welcome on any other criteria with a bearing on the issue.

Dated: October 15, 1998.

Walter Cruickshank,

Associate Director for Policy and Management Improvement.

[FR Doc. 98-28146 Filed 10-20-98; 8:45 am]

BILLING CODE 4310-MR-M

INTERNATIONAL TRADE COMMISSION

[Investigations Nos. 701-TA-385 and 731-TA-809-810 (Preliminary)]

Live Cattle From Canada and Mexico

AGENCY: United States International Trade Commission.

ACTION: Revised schedule for the subject investigations.

EFFECTIVE DATE: October 13, 1998.

EXHIBIT "F"

Dc··· Campbell
A.

Marathon Oil Company

539 South Main Street
Findlay, OH 45840-3295
Direct No. 419/421-4121
Main No. 419/422-2121
Facsimile 419/427-3681
E-mail: DLCampbell@MarathonOil.com

December 18, 1998

Via Facsimile: (303) 275-7124

Mr. Martin C. Grieshaber
Minerals Management Service
U.S. Department of the Interior
Denver Federal Center
P.O. Box 25165 - MS 9200
Denver, Colorado 80225-0165

Re: Comments - MMS Workshop on the Development of Criteria to be used in distinguishing between Gathering and Transportation in Deep Water in the Outer Continental Shelf (63 FR 56217, October 21, 1998)

Dear Mr. Grieshaber:

Marathon Oil Company (Marathon) appreciated the opportunity to attend and participate in the Mineral Management Service's (MMS) November 16, 1998, workshop in New Orleans on the development of criteria to be used in distinguishing between gathering and transportation in deep water in the outer continental shelf.

Marathon welcomes the MMS' investigation of this important issue. However, Marathon prefers to see the MMS develop a set of criteria for production movements and when such criteria are met by a specific production movement, the movement would automatically be entitled to a transportation allowance. A case-by-case analysis would then only be applied to those situations which are exceptions to the established criteria. This would benefit both the MMS and industry by reducing administrative burdens imposed by implementing solely a case-by-case analysis and would also be advantageous by giving industry a sense of certainty.

Marathon supports the analysis and criteria offered by the American Petroleum Institute, both at the November workshop and in its written comments.

If you should have any questions please contact me.

Sincerely,

Dow L Campbell

Dow L. Campbell

[101368]

EXHIBIT "G"

American Petroleum Institute

1220 L Street, Northwest
Washington, DC 20005-4070
Phone: 202/682-8116
Fax: 202/682-8426
E-mail: rubinm@api.org

Mark Rubin
Upstream General Manager

December 18, 1998

Mr. Todd McCutcheon
Chief, Policy & Management Improvement
Minerals Management Service
U.S. Department of the Interior
P. O. Box 25165 - MS 9200
Denver, CO 80225

Dear Mr. McCutcheon:

I am writing on behalf of the American Petroleum Institute's (API) more than 400 members, many of whom operate on the outer continental shelf (OCS) and have a business interest in deep water leases. API strongly supports the Minerals Management Service's (MMS) subsea gathering and transportation initiative described in the MMS notice at 63 FR 56217 (October 21,1998). We appreciate MMS' continued interest in reviewing the appropriateness of transportation allowances for deepwater subsea operation.

Several representatives of API member companies participated in the MMS-sponsored November 16, 1998 meeting in New Orleans, and we hope the preliminary information they provided was useful. To complement those discussions, we want to reinforce industry's point of view on this important matter. API recommends specific criteria that MMS might employ in evaluating whether transportation allowances are appropriate for deepwater subsea production operations in the Gulf of Mexico. Further, the lessor, as beneficiary of the transportation service, should share the cost of that service. And, the MMS' regulations as presently written, permit subsea movement to be classified as transportation.

The great challenges of exploring and developing deep-water leases have required the oil and gas industry to expand its technological capabilities far beyond those used to explore and develop conventional shallower water shelf leases. Water depth, distance from infrastructure, tremendous variances in temperature and pressure, extraordinary costs, and extraordinary seafloor topography have tested the research and development capabilities of lessees. For some deepwater Gulf of Mexico areas and under some conditions in the deepwater subsea development may be the only technological, practical, and economically viable method to develop a lease. In a very real sense, subsea developments are as technically innovative as the first push by industry out into the Gulf of Mexico in the late 1940's. The technical presentations made by Dennis McLaughlin of Shell and Al Verret of Texaco were intended to demonstrate how far development technology has advanced and how it has yet to go. We attach as Exhibit "A," copies of Dennis McLaughlin's slides describing an actual subsea gas development, and as Exhibit "B," copies of the slides used by Al Verret.

In subsea development, a central fact is that production is physically moved at a great cost over long distances to a point where is it more valuable and more easily sold. The selection of subsea systems for lease/unit development is principally driven by economics. In most instances, lease/unit development would not have been economic utilizing a platform-type development. Consequently, the royalty settlement point is at a remotely located surface platform because it is not technically or economically feasible to accomplish this at the lease. If a surface platform-type system were utilized for lease/unit development, movement of production away from the lease would clearly be deemed transportation. The fact that a different development system is utilized for economic reasons should, therefore, not preclude production movement away from the lease/unit from receiving transportation allowances in subsea development situations.

MMS operations personnel in the Gulf of Mexico Regional Office have had to use existing operating regulations geared principally to shelf operations and adapt them to the deep-water environment. The MMS should use the current royalty regulations to address the physical facts of deepwater subsea development, recognizing that the deepwater environment differs from that of the shelf.

As explained in the technical presentations made at the workshop, in subsea development it is not technically and economically feasible to treat production to marketable condition at the producing lease or subsea manifold. The subsea manifold serves as a central accumulation point for wells that often are located away from the lease where the treatment facility is located. Production from several wells on the producing lease, or often on different leases, is commingled at the manifold and is then moved to a surface facility miles away. In this instance, the subsea manifold functions similarly to a central accumulation platform except that physical treatment is not feasible at the manifold itself.

In granting transportation allowances for subsea movement, MMS would not be breaking new ground. The existing regulations lead to the conclusion that such movement qualifies as transportation. Evaluating the purpose and function of subsea movement is a function test that both the MMS and the Interior Board of Land Appeals (IBLA) has used repeatedly under the existing regulations to determine the true character of transportation. Some examples of this application follow.

First, in *Exxon Company, U.S.A.*, MMS-VSD-OG93-0075 (December 29, 1994), the MMS allowed a transportation allowance for oil in a bulk oil stream that moved to shore from offshore platforms for processing and handling. In so allowing, the MMS looked to the true nature of the service and found that the function provided was part of necessary transportation to the nearest onshore market. Distance moved, pipeline size and the mere fact that the oil in question was untreated and not in marketable condition did not automatically disqualify the movement as transportation. Instead, in granting transportation, the agency used the standard royalty lease provision language of "other relevant matters" to consider the fact that, irrespective of marketable condition of production, movement to shore to reach market was an inevitable fact. The same is true of subsea production.

Second, in *Shell Offshore Inc.*, 142 IBLA 71 (1998), the Board found that the additional platform costs were an integral part of the transportation system because their function or purpose was to serve the purpose of transportation. The test of function is flexible enough to accommodate many different circumstances. Shell had sought to include a portion of the cost of the surface structure of the tension leg platform (TLP) associated with transportation in the calculation of the transportation allowance. The Board found that the weight sensitive TLP had specific costs integral to the function or purpose of transportation. Its decision on whether to include the space revolved around a determination of function or relationship of the space to transport. The Board found the additional platform costs were an integral part of the transportation because of their function or purpose.

Third, in 1988, when the current MMS definitions were promulgated, most deep-water developments and non-traditional or alternative deepwater development scenarios were not in existence. The history of prior OCS shelf development provided the backdrop for the 1988 royalty regulations. Under that history, two non-traditional scenarios were most prevalent. One was based on a development scheme of one or two platforms on the same lease with one or more subsea wells producing at each platform but with bulk production from one platform then moving to the other where treatment facilities placed production into marketable condition. A second scenario was virtually identical, except that the two platforms may have been located on adjacent leases with multi-well production flowing to a central accumulation point on each but with bulk production from one then moving to the other for treatment for the convenience of the lessees. These scenarios allowed for the construction of only one set of handling facilities to place production in marketable condition. Handling could have been done at each platform at a proportionally higher cost but lessees chose not to do so.

Under these circumstances, the MMS found that this type of off lease movement, or "gathering," did not qualify for transportation. The lessee, who for its convenience had moved production to a central accumulation at reduced facility capital cost and enhanced lessee profitability, was not allowed to also take a deduction by classifying this movement as transportation. This is not the case for subsea production where physical treatment of production is not feasible.

Fourth, in one of the earliest decisions on offshore OCS transportation in *Shell Oil Company et al*, 70 I.D. 393 (1963) the Solicitor examined the facts surrounding the necessity of barge transportation of OCS production. He found certain factors to be unique to the offshore environment: "production difficulties peculiar to offshore operations," "distances traversed," "high costs in purchase and maintenance of sea going barges and tugs," and "volume of crude oil." In concluding his opinion, the Solicitor required consideration of barge costs as "other relevant matters" to be considered under the regulation and lease when reaching a value determination. The realities of subsea movement over thirty years later compels a similar re-thinking on the part of the Department:

- Costs for installation and operation of pipelines from the subsea manifold to a surface facility are substantial,
- The distances moved are great.
- The situation is peculiar to the offshore deepwater subsea production world.
- The volumes involved are substantial by the Gulf of Mexico shelf standards.
- Central accumulation already occurs at the subsea manifold.

These facts compel re-examination of the distinction between gathering and transportation for subsea production.

The distances moved in subsea transportation provide a benefit to the federal lessor by enhancing the value of the production. One of the significant costs clearly recognized for offshore production is costs of movement to onshore markets or pipeline sales points. Each leg in that journey closer to shore enhances the value of the hydrocarbons. As far back as *Continental Oil Co. v. U.S.A.*, 184 F2d 802 (9th Cir., 1950) the location difference impact on value has been recognized and costs attributed to it shared by lessor and lessee. Movement of even bulk production a great distance enhances the value of the bulk production. The lessor, as beneficiary of the transportation service, should share the cost of the service.

In summary, we believe the existing MMS regulations permit classification of subsea movement as transportation. We also suggest that MMS should not make each subsea development subject to a case-by-case analysis to determine if transportation exists for royalty deduction purposes. It would be administratively burdensome for the agency and create uncertainty for the lessee to decide subsea allowances on a case-by-case basis. Instead, we suggest that MMS divide the subsea allowance into two categories, one category which is clearly entitled to the allowance and another which should be decided on a case by case basis.

The following criteria can be used to establish the two categories:

1. Deep water should be defined at 200 meters of water or greater, just as it is in the Deepwater Royalty Relief Act. Water depth should be determined by location of the subsea well or the subsea manifold.

2. All subsea production in deepwater moving through a subsea manifold to a surface platform located on a lease not adjacent to the producing lease or unit should qualify for the allowance. The transportation allowance should be granted for costs incurred after production enters the subsea manifold.

3. Production from subsea "daisy-chain" wells (see page 14 of Exhibit A for an example of daisy-chain wells) that flow to a platform on a lease not adjacent to the producing lease or unit should also qualify for the allowance.

4. Deepwater production from a single well that flows to a surface platform located on a lease not adjacent to the producing lease or unit should also qualify for the allowance.

5. Marketable condition and facility measurement point for deepwater subsea should not be determinative of transportation qualification. In the deep-water subsea environment, movement to a non-adjacent lease should be dispositive.

6. Direction of movement and pipeline size should not be determinative.

7. Additional subsea transportation allowances should be considered on a case by case basis.

8. The existing regulations on non-arm's-length transportation provide a method to calculate the size of the allowance.

9. MMS should grant subsea allowances for bulk production moved from deep-water surface facilities where bulk production is moved to the shelf tie in point.

In closing, let me reiterate our strong support for the MMS's willingness to explore this importance issue. We encourage the MMS to pursue the subsea initiative expeditiously and we would welcome the opportunity to meet with you again or provide you with additional information as you crystallize your plans.

Sincerely,

Attachments (2)
(Sent under separate cover via Airborne Express)

UNITED STATES DEPARTMENT OF THE INTERIOR
DIRECTOR OF MINERALS MANAGEMENT SERVICE

§
§
§
§
§ MMS-99-0222-OCS
§
§
§
§

MOTION TO WITHDRAW APPEAL

MARATHON OIL COMPANY, by its attorney, moves to withdraw the above-referenced proceeding, due to the Minerals Management Service having rescinded its letter dated November 3, 1999, and having replaced it with a letter dated March 7, 2000, which modified the earlier letter by approving our request for a transportation allowance beginning with the first movement of production. The March 7, 2000, letter was signed by Deborah Gibbs Tschudy, Chief, Royalty Valuation Division, Minerals Management Service. (See Exhibit "A" attached hereto and incorporated herein by this reference.)

Respectfully submitted this 20th day of March, 2000.

Marathon Oil Company

By: Dow L Campbell

Dow L. Campbell
Attorney
539 South Main Street, 824-M
Findlay, Ohio 45840
(419) 421-4121

RVD 99-0033

Dow Campbell
Atto

RECEIVED
D.O.I.-MMS-RVD
00 MAR 23 AM 10: 39

Marathon Oil Company

539 South Main Street
Findlay, OH 45840-3295
Direct No. 419/421-4121
Main No. 419/422-2121
Facsimile 419/427-3681
E-mail: DLCampbell@MarathonOil.com

March 20, 2000

Via Overnight Mail

U.S. Department of the Interior
Minerals Management Service
Chief, Appeals Division, MS 4230
1849 "C" Street, NW
Washington, D.C. 20240

Re: Motion to Withdraw Appeal
MMS-99-0222-OCS (11/3/99)
Arnold & Troika Subsea Transportation Allowance

Dear Sir:

Enclosed you will find Marathon Oil Company's Motion to Withdraw Appeal for MMS Docket No. MMS-99-0222-OCS.

I have also enclosed a copy of the Motion to Withdraw Appeal and request that you date-stamp it upon receipt and return it to me in the enclosed self-addressed, postage-paid envelope.

Sincerely,

Dow L Campbell

Dow L. Campbell

Enclosures

[118759]

cc: Ms. Deborah Gibbs Tschudy
Chief, Royalty Valuation Division
Minerals Management Service
P.O. Box 25165, MS 3150
Denver Federal Center
Denver, Colorado 80225-0165

B.L. Benson
R. E. Good
C.A. Sudlow
M.P. White

EXHIBIT "A"

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MAR 17 2000

MMS-RVD-EVB: 99-0633
Mail Stop 3151

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Dow L. Campbell
Attorney
Marathon Oil Company
539 South Main Street
Findlay, Ohio 45840-3295

Dear Mr. Campbell:

On November 3, 1999, the Royalty Valuation Division (RVD) of the Minerals Management Service (MMS) issued a decision granting Marathon Oil Company (Marathon) a deep-water transportation allowance. This approval resulted from a memorandum issued by the Associate Director for Royalty Management (ADRM) on May 20, 1999. Our approval was for production beginning June 1999, the first full month of production following the ADRM's memorandum. However, as part of our November 3, 1999, decision, we denied Marathon's request to make retroactive adjustments prior to the date of the memorandum.

Marathon filed a timely Notice of Appeal on November 3, 1999. On January 6, 2000, Marathon filed a Statement of Reasons (SOR) to support their position. Marathon argues that a request for valuation determination concerning deepwater transportation was submitted to MMS on June 24, 1997. This request was withdrawn because supporting documentation was preliminary in nature and still under internal review. Marathon believes that this action and their participation in the development of specific criteria for deepwater transportation clearly establish Marathon's intent to pursue a transportation allowance for prior periods.

Based on our evaluation of the arguments contained in your SOR, we are rescinding our letter dated November 3, 1999, and replacing it with this one. The additional information allowed us to further evaluate your request for a transportation allowance for the movement of production through the Arnold Subsea Development System (Arnold System) and the Troika Subsea Development System (Troika System). We are modifying our earlier letter by approving your request for a transportation allowance beginning with the first movement of production in the Arnold and Troika Systems.

The memorandum issued by ADRM provides guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure 1.) The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty-bearing substances.

RVD Analysis

The information submitted shows that Marathon transports bulk oil and gas production in both the Arnold and the Troika Systems. Separation and dehydration take place at Ewing Bank Block 873 (EB 873) for the Arnold System, and at Green Canyon 65 (GC 65) Unit for the Troika System.

The MMS Oil and Gas Payor Handbook, Volume III, pgs.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS approval (30 CFR § 206.105(a)(2)(i) and 30 CFR § 206.105(b)(3)(i)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, the costs of movement must be allocated between royalty- and non-royalty-bearing substances, and Marathon may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs not related to transportation cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a

series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The royalty meter location is often a deciding factor in determining whether movement is transportation or gathering. Your (Marathon's) request for movement of production for the Arnold System is from Ewing Bank Block 963 (EB 963) to EB 873, with the royalty meter located at EB 873. However, in applying ADRM's May 20, 1999, guidance, we need to define the central accumulation point.

Subsea trees at the two existing wells on EB 963 are jumpered to a subsea four-slot manifold. From the manifold, production is directed into either of two pipe-in-pipe insulated flowlines. These eight-mile flowlines move production to EB 873, Platform A. Based on ADRM's guidance, we consider the subsea manifold to be the central accumulation point. Although the royalty meter is at EB 873, we consider gathering, consistent with the new guidance, to terminate at the subsea manifold. We consider subsequent movement to be transportation, subject to the other qualifications in ADRM's May 20, 1999, guidance.

For the Troika System, the production flows from the Green Canyon 244 (GC 244) Unit to the GC 65 Unit, Shell Offshore Inc.'s Bullwinkle Platform. The royalty meter is located at the GC 65 Unit. Production from five wells on the GC 244 Unit is commingled at an eight-slot subsea manifold. From there, production moves about 14 miles through two flowlines to the Bullwinkle Platform on the GC 65 Unit. We consider the central accumulation point to be at the subsea manifold. Therefore, we consider movement before the subsea manifold to be gathering and subsequent movement to be transportation, again subject to the other qualifications in ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

The principles applied for determining transportation vs. gathering are the same for both properties, one of which is a unit. Since there is no disparate treatment, this is not an issue.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease there would be eight leases adjacent to a qualifying deep-water lease.

Mr. Dow L. Campbell

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that EB 963, where the production originates for the Arnold System, is not adjacent to EB 873. Platform A, on EB 873, is about 8 miles from EB 963. Additionally, the GC 244 Unit, where production originates for the Troika System, is not adjacent to the GC 65 Unit. Production moves through approximately 14-mile-long flowlines.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

The EB 963 wells are located at a water depth of 1,750 feet. This converts to approximately 533 meters. The GC 244 Unit wells are located in an average water depth of approximately 2,700 feet. This converts to approximately 822 meters. Since all of these wells are much deeper than the prescribed minimum depth, this is not an issue.

Using the referenced guidelines, we approve your request for transportation allowances for movement of oil and gas production from the subsea manifold on EB 963 to EB 873, and from the subsea manifold on the GC 244 Unit to the GC 65 Unit. This approval is for production beginning with October 1997 for the Troika System, and for production beginning with May 1998 for the Arnold System. This decision is subject to review and audit, and to RVD modification should the circumstances change in the future.

Since this decision satisfies your original request, we assume that Marathon will withdraw its December 8, 1999, appeal as moot. The appeal was assigned Docket No. MMS-99-0222-OCS.

If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104 (1999), you must apply for an exception to the limitation, and provide sufficient documentation to support your request before claiming the excess amount.

You have the right to appeal this decision. Please refer to the enclosed Appeals Procedures. (See Enclosure 2.) If you have any questions, please call Ms. Shirley Barton at (303) 275-7222.

Sincerely,

Deborah Gibbs Tschudy

Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

Enclosures

Enclosure 2

United States Department of the Interior
Minerals Management Service

IF YOU APPEAL, THE FOLLOWING PROCEDURES MUST BE FOLLOWED

1. Notice of Appeal	You may appeal this directive to the Director, Minerals Management Service (MMS). You must file a Notice of Appeal within **30 days** of receiving this letter. See 30 CFR Part 290, Subpart B (64 FR 26258, May 13, 1999).
2. Where to File Notice of Appeal And Statement of Reasons	Minerals Management Service Attention: Ms. Deborah Gibbs Tschudy Chief, Royalty Valuation Division P.O. Box 25165, MS 3150 Denver, Colorado 80225-0165 Telephone (303) 275-7200 Fax No.: (303) 275-7227
3. Statement of Reasons . .	You have **30 days** from the receipt of this letter to send us your reasons why you think we should reverse or change this directive.
4. Extension to File Statement of Reasons	If you need more than **30 days**, you must file a written request for an extension to file a Statement of Reasons within the 30-day appeal time period. You must include reasons why you need the time extension. Send your request to Chief, Royalty Valuation Division at the address shown above.
5. Notice to Lessee	If you are not the lessee of the Federal leases involved in the order being appealed, you (as the designee) are required to serve your Notice of Appeal on those lessees. See 30 CFR § 290.105(a)(2) (64 FR 26259, May 13, 1999). Proof of service of this notice shall be provided to the MMS office at the address shown above.
6. Suspension of Directive/ Order	Your compliance with this directive shall be suspended pending the outcome of the appeal. Since the order being appealed does not involve the payment of a specified amount, you are not required to post a surety. See 30 CFR § 243.8(a)(1) (64 FR 26255, May 13, 1999).

Barton, Shirley

From: Hubbard, David
Sent: Thursday, September 09, 1999 11:22 AM
To: Barton, Shirley
Subject: FW: Deep Water Transportation

Shirley, fyi for the Marathon case.

-----Original Message-----
From: Morris, James
Sent: Thursday, September 09, 1999 10:36 AM
To: Hubbard, David
Subject: FW: Deep Water Transportation

-----Original Message-----
From: Gibbs Tschudy, Deborah
Sent: Monday, June 28, 1999 4:09 PM
To: Reeder, James
Cc: McCutcheon, Todd ; Grieshaber, Martin; Morris, James; Hubbard, David
Subject: RE: Deep Water Transportation

Jim,

I had the same question and contacted Lucy to determine what that sentence meant specifically to a case we have involving CNG.

In that situation, CNG had requested approval of a transportation allowance for movement of bulk production from a subsea manifold approximately 25 miles to a platform containing treatment facilities. In September 1996, we denied their request, the Director affirmed the denial, and it was pending before the IBLA until about 6 months ago when SOL requested that the appeal be remanded to MMS. CNG's request was from 1996 forward.

After conferring with Walter Cruickshank, Lucy advised that we should allow a transportation allowance for CNG's case from 1996 forward. We have a similar situation involving Shell.

So, I interpret that sentence to mean that we should apply the guidance to pending cases from the date of the request forward. For cases that are not pending, we would apply the guidance prospectively. That is, we do not intend to retroactively grant allowances (refunds) for deepwater transportation unless a company had requested an allowance before or during the time we were deliberating this issue.

-----Original Message-----
From: Grieshaber, Martin
Sent: Monday, June 28, 1999 8:29 AM
To: Gibbs Tschudy, Deborah
Cc: McCutcheon, Todd
Subject: FW: Deep Water Transportation

Debbie, I am forwarding this to you, since I think it is your call.

I will let james know that is what I did.

Marty

-----Original Message-----
From: James Reeder at ~MMS-OkCity-Audit
Sent: Monday, June 28, 1999 8:35 AM
To: Grieshaber, Martin
Subject: Deep Water Transportation

Marty,

I spoke with you several months ago concerning one of my leases

relating to deep water transporta allowances.

I have attached the Guidance signed by Ms. Querques Denett relating to deep water t/a and have a question relating to the Application section of the guidance. Specifically, what does the sentence mean,

"Apply this guidance prospectively."

I'd really appreciate it if you could shed some light on the context of this sentence.

Jim

Barton, Shirley

From: Gibbs Tschudy, Deborah
Sent: Thursday, September 09, 1999 12:48 PM
To: Hubbard, David
Cc: Barton, Shirley; Morris, James
Subject: RE: CNG

Have you talked to Marty about the CNG situation? I'd really like to get this out. I told CNG at the RPC meeting in early June that we would have them a letter within the month.

Bob Fees is here at the STRAC meeting. I'll talk to him about Whiting.

Marathon's approval should only be perspective per Lucy's guidance memo.

-----Original Message-----
From: Hubbard, David
Sent: Thursday, September 09, 1999 11:25 AM
To: Gibbs Tschudy, Deborah
Cc: Barton, Shirley; Morris, James
Subject: FW: CNG

In response to your question on the status of the CNG subsea transportation allowance, Shirley has contacted Gulf personnel repeatedly to get the additional details to confirm what CNG told us. We haven't received any info. yet, but Ron Konecni called Shirley back this morning. He acknowledged that they owe us an answer and is supposed to get back with her later today with an update.

Two other points/questions:

1) We met on Whiting Petroleum (Oil Spill Admin. fee) on 8/18. We agreed to follow up with Bob Fees. I called him that same day and left a detailed message on the Whiting request. I asked for a response by no later than Friday, 8/27. Having not heard from him in the meantime, I called again 8/26 (the only time I've been able to talk with him in person). He hadn't done anything yet but asked that I fax Whiting's request and the corresponding State regulations to both he and Lee Helferich (which I did immediately). I reiterated that we would like an answer asap in order to respond to Whiting and asked when we could expect a response. He said by early in the week of 8/30. Having not heard from him by yesterday, I called again and left a message indicating we need an answer soon.

I propose that if we don't hear back from Bob by tomorrow, I call him one more time and say that if we don't hear from him by, say, 9/15, we will go ahead with our response to Whiting.

2) We have a Marathon request that they say meets the deepwater transp. criteria. Their only request, though, is to get a retroactive approval (they began prod. in 1997). According to your earlier advice, we will deny their request for retroactive approval because they didn't make an earlier request.

-----Original Message-----
From: Barton, Shirley
Sent: Thursday, September 09, 1999 9:12 AM
To: Hubbard, David
Subject: CNG

I left another message for Ron Konecni. He is the person that was supposed to get back to me after he researched the unit and flowlines.

Barton, Shirley

From: Hubbard, David
Sent: Thursday, September 09, 1999 11:25 AM
To: Gibbs Tschudy, Deborah
Cc: Barton, Shirley; Morris, James
Subject: FW: CNG

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-----Original Message-----
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Sent: Thursday, September 09, 1999 9:12 AM
To: Hubbard, David
Subject: CNG

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UNITED STATES DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE

Marathon Oil Company **Docket No. MMS-99-0???-OCS**

STATEMENT OF REASONS
(Deepwater Transportation Allowance - Arnold & Troika)

Pursuant to 30 C.F.R. §290.3, Marathon Oil Company ("Marathon") hereby files this Statement of Reasons with the Director ("Director") of the Minerals Management Service ("MMS"), appealing that certain order dated November 3, 1999 ("Order"), issued by Deborah Gibbs Tschudy, Chief, Royalty Valuation Division of the MMS.

The Order was received by Marathon on November 9, 1999. Marathon filed a Notice of Appeal on December 8, 1999.

Marathon hereby submits this Supplemental Statement of Reasons in support of its appeal of the Order.

ARGUMENTS

1. **The MMS has improperly denied the retroactive application of the May 20, 1999, Associate Director for Royalty Management's memorandum (*Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters)* to production prior to June, 1999, by improperly differentiating between production from two time periods which are subject to the same set of regulations.**

The Order improperly denied Marathon's request for retroactive application prior to May 20, 1999. The underlying lease agreement combined with the regulations at 30 CFR §206.105(b) prescribe the allowable and non-allowable expenses permitted in determining an allowance for non-arm's-length transportation. The lease's terms have not been revised and this regulation has been in effect and essentially unchanged since its implementation in 1988. The MMS' only basis for differentiating by date of production is based on the date of issuance of its own guidance memorandum (*Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters*, dated May 20, 1999, hereinafter referred to as the "Guidance Memorandum"). There is no factual basis to support the MMS' arbitrary establishment of June, 1999, production as the first month to which the Guidance Memorandum's principles should be applied. Marathon's transportation facilities for theses leases did not change between the pre-May 20, 1999, time period and the post-May 20, 1999, time period. Accordingly, the MMS has improperly denied the retroactive application of these criteria.

2. **The MMS has improperly denied the retroactive application of the May 20, 1999, Guidance Memorandum based on Marathon's failure to request approval for the transportation allowance prior to May 20, 1999.**

The MMS' November 3, 1999, denial of Marathon's request for retroactive application prior to May 20, 1999 states:

"Because your August 20, 1999, request was not pending prior to the ADRM's memorandum, our approval is prospective beginning with June 1999, the first full production month following the ADRM's memorandum. Your request for retroactive application prior to May 20, 1999, is denied." (Order at page 4.)

For argument purposes only, assume that Marathon did fail to request approval for the transportation allowance prior to May 20, 1999. The MMS, nevertheless, has arbitrarily assigned a date of applicability. There is no statutory interest being protected which supports the MMS' imposition of a prospective only application.

There is also no regulatory requirement that Marathon have filed any MMS forms for approval to take the transportation allowances requested. The March 11, 1996, Dear Payor letter did away with transportation and other allowance forms for Federal oil, gas, and coal leases. (A copy of which is attached hereto as Exhibit "A".) The MMS' denial of Marathon's request for retroactive application equates to establishing an unwritten requirement to either file a non-existent transportation form or file an unknown advance approval request. In *Sunland Mining Corp.*, MMS-85-0292-MIN, January 20, 1987, the Director determined that Sunland was not given specific or other adequate notice of a requirement to receive advance approval of transportation and processing cost allowances and granted the appeal in part based on the theory that in the absence of proper notice, fairness dictates that the transportation cost deductions involved should be recognized on a one-time retroactive basis. Marathon is entitled to this same treatment.

3. **The MMS has improperly determined that Marathon did not have a request for approval for the transportation allowance pending prior to May 20, 1999.**

The MMS denied Marathon's request for retroactive approval of the May 20, 1999, Guidance Memorandum because our August 20, 1999 request was not pending prior to the ADRM's memorandum. (The Order at page 4.) However, the MMS has failed to recognize in its analysis Marathon's earlier request for a value determination on this issue. On June 24, 1997, Marathon filed a Transportation Allowance Valuation Determination request with the Valuation and Standards Division of the MMS for its pending offshore deepwater projects, specifically Ewing Bank Block 917, Green Canyon 244 Unit, and Viosca Knoll Block 786. (A copy of which is attached hereto as Exhibit "B".) Therein, Marathon was seeking to establish the extent to which the MMS would allow a transportation allowance for these deepwater leases and units. Although this Valuation Determination request was withdrawn by Marathon only 3 days later due to the fact that the supporting documentation was preliminary in nature and still under internal review, it clearly establishes Marathon's intent to pursue a transportation allowance for the projects denied retroactively under the Order. (A copy of which is attached hereto as Exhibit "C".) The original request was filed well before the Guidance Memorandum was issued.

Marathon's delay in reinstating its Valuation Determination request prior to the issuance of the Guidance Memorandum was caused by the then current developments on this issue within the industry and the MMS. Marathon was awaiting the MMS decision in the CNG Producing Company appeal docketed as MMS-96-0370-OCS, which was issued on October 16, 1997. (A copy of which is attached hereto as Exhibit "D".) In addition, Marathon was under the impression that the MMS was preparing to address this exact issue in either a rulemaking, Dear Payor letter, or interpretive ruling. These discussions within industry and the MMS led to the workshop announced in the Federal Register on October 21, 1998. (See 63 FR 56217, October 21, 1998, a copy of which is attached hereto as Exhibit "E".) Any delay by Marathon in further pursuit of its original request can be explained by the MMS' own activity on this issue.

4. **The MMS has erred in not considering Marathon's active participation in, and prior to, the MMS-sponsored November 16, 1998 meeting on the subsea gathering and transportation initiative as a request pending prior to the May 20, 1999 memorandum.**

Marathon actively participated in the MMS initiative to develop specific criteria to be used in distinguishing between gathering and transportation to determine permissible deductions in calculating royalty value. A review of MMS records will demonstrate that Marathon personnel attended the November 16, 1998, MMS sponsored workshop on the subsea gathering and transportation initiative. In fact, a Marathon engineer, Martin Kennedy, sat on the technical panel which made a thorough presentation on deepwater activity and progress. Marathon then filed its own set of comments on December 18, 1998, in response to the MMS' request for comments. (A copy of which is attached hereto as Exhibit "F".) Marathon also contributed to the API comments which were filed on December 18, 1998. (A copy of which is attached hereto as Exhibit "G".) This activity level supports the position that Marathon was interested in and instrumental in the issuance of the Guidance Memorandum. For the MMS to then penalize Marathon by denying it retroactive application of these principles is an apparent placement of form over substance by the MMS.

5. **The MMS has erred by departing from its normal practice of giving retroactive effect to interpretive rulings in royalty calculations. *See* Sun Exploration & Production Co., 112 IBLA 373, 391 (1990).**

The MMS has improperly departed from its normal practice of giving retroactive effect to interpretive rulings in royalty calculations.

> It is within the authority of the Department to interpret its own regulations, and its interpretation should be given great deference. Normally an interpretive ruling stating the methodology to be used for royalty calculation may be given retroactive effect. However, when it appears from the record that:
>
> (1) for several years the lessee had applied a methodology which conformed with a reasonable interpretation of the applicable regulations when calculating the royalty for federal production;
>
> (2) the MMS had accepted lessee's royalty methodology for several years before issuing an interpretive ruling requiring a new methodology;
>
> (3) the new methodology was an abrupt departure from a well-established practice; and
>
> (4) the prejudice to the lessee affected by retroactive application of the new interpretation substantially outweighs the statutory interest involved. (Emphasis added.)

Sun Exploration & Prod. Co., 112 IBLA 373 (1990). The MMS' normal position that an interpretive ruling should be given retroactive effect has not been overridden by any of the exceptions listed set froth by the IBLA in its *Sun Exploration* analysis. First, there has not been any past history of application of this theory by lessees due to the relatively recent technological advances made by industry which created this issue. Second, since there has not been any longstanding application of these principles, there has not been any outward acceptance of a position by the MMS. Third, these new criteria are not an abrupt departure from well-established practices. And finally, there is neither prejudice to the lessee by retroactive application of these new criteria, nor is there any significant statutory interest for it to be weighed against.

6. **The Order is arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law, and, therefore unlawful. *See* 5 U.S.C. §706(2)(A).**

A court is required by the Administrative Procedure Act ("APA") to set aside agency action found to be "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law." 5 U.S.C. §706(2)(A). Nothing in the public record developed by the MMS' in issuing this guidance memorandum supports the position taken by the MMS that retroactive application of these principles should be denied. On the contrary, many of the comments support the exact opposite position. The pervasive thought by both industry and the MMS was that the existing regulations permit exactly this type of classification. For example, "And, the MMS' regulations as presently written, permit subsea movement to be classified as transportation." (See the second paragraph of API's Comments dated December 18, 1998, attached hereto as Exhibit "G"). This concept that the existing regulations allow these deductions has been clearly endorsed by the MMS in its Guidance Memorandum, yet, it has taken the arbitrary position that this concept cannot be applied retroactively. While the Secretary possesses considerable discretion in interpreting its regulations, its exercise is tempered by the standard of reasonableness. Conoco Inc., 110 IBLA 232, 240 (1989). The setting of May 20, 1999, as an arbitrary cut-off date does not meet this test of reasonableness.

REQUEST FOR FIELD REPORT

Marathon hereby requests copies of any field report or other report which the MMS prepares and submits to the Director in conjunction with this appeal, along with all documents upon which the MMS relies for that report.

REQUEST FOR ORAL ARGUMENT

Marathon hereby requests oral argument of this matter before the Director.

THEREFORE, Marathon respectfully requests that the Director grant:

1. Marathon's appeal and reverse the November 3, 1999 Order, which is the subject of this appeal;

2. The Request for a Field Report;

3. The Request for Oral Argument of this matter;

4. Such other and further relief which the Director deems appropriate.

Respectfully submitted this of 6th day of January, 2000.

Marathon Oil Company

By: Dow L Campbell

Dow L. Campbell
Attorney
539 South Main Street, 824-M
Findlay, Ohio 45840
(419) 421-4121

[115758]

Exhibit "A"

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 173762
Denver, Colorado 80217-3762

IN REPLY REFER TO:
CVD-FCB-ACS

MAR 11 1996

Dear Payor:

The Minerals Management Service (MMS) recently amended its valuation regulations on transportation, processing, and washing allowance deductions used to calculate royalties due on Federal oil and gas, and coal leases (61 Federal Register, 5448, February 12, 1996). The changes, effective March 1, 1996, eliminate allowance forms-filing requirements and associated sanctions for Federal leases only. The amended regulations do not change allowance forms-filing requirements for Indian leases.

In this letter, we describe what changes and what remains the same, The enclosure presents some questions and answers to further clarify the intent of these regulations and help avoid misinterpretation.

What Changes Under the Amended Reglations

- Allowance forms are no longer required for Federal oil, gas, and coal leases. We are adopting a self-implementing approach in which you claim an allowance deduction by reporting it as a separate line entry on the Form MMS-2014, Report of Sales and Royalty Remittance. using the appropriate transaction code.

- Forms-filing. sanctions, allowance payback, and interest for late form filing are eliminated for Federal leases.

- Payors who improperly net royalty value with their allowance deduction when reporting their monthly royalties due may be assessed up to 10 percent of the allowance reported as a netted amount, not to exceed $250 per violation.

What Doesn't Change Under the Amended Regulations

- Regulatory requirements for Indian leases are unaffected by the amended regulations.

- We are retaining the regulatory allowance limits for oil and gas that have been effective since March 1, 1988. You cannot reduce royalty value by more than 50 percent for transportation or 66⅔ percent for processing without prior MMS approval. Also, you cannot under any circumstances reduce the value, for royalty purposes, to zero for transportation and/or processing under oil and gas leases; or for transportation and/or washing under coal leases.

- You still must make separate line entries when claiming allowance deductions on the Form MMS-2014.

- We are retaining transportation factors for the reporting of royalties due on oil and gas sold under arm's-length contracts. For specific guidance on this issue, please direct your questions to Mr. James P. Morris, Valuation and Standards Division, at (303) 275-7213.

If you need additional information, please call Mr. Tom Brozovich, Chief, Allowance Compliance Section, at (303) 231-3351 for oil and gas leases; or Mr. Herb Wincentsen, Chief, Solid Minerals Valuation Branch, at (303) 275-7210 for coal leases.

Sincerely,

Donald J. Sant

Robert E. Brown
Acting Associate Director
for Royalty Management

Enclosure

Questions and Answers
Relating to Amended Allowance Regulations
Effective March 1, 1996

1. **What allowance forms am I required to submit after March 1, 1996?**

   For Indian leases, you must continue to submit the appropriate allowance form(s), which may include any or all of the following:

   - Form MMS-4109, Gas Processing Allowance Summary Report
   - Form MMS-4110, Oil Transportation Allowance Report
   - Form MMS-4292, Coal Washing Allowance Report
   - Form MMS-4293, Coal Transportation Allowance Report
   - Form MMS-4295, Gas Transportation Allowance Reports

   For Federal leases, you are not required to file any allowance forms. This change includes 1996 estimates, 1995 actuals, and revisions to prior periods. However, you must still adjust the Report of Sales and Royalty Remittance, Form MMS-2014, within a reasonable time period to reflect "actual" allowances taken for any sales month. When replacing estimated allowances with actual allowances on the Form MMS-2014, use Adjustment Reason Code 04.

2. **Will transportation factors be retained?**

   The amended allowance regulations for oil and gas retain the transportation factor provision for both Federal and Indian leases.

   The only situations where MMS allows you to net transportation costs for royalty reporting on the Form MMS-2014 are when:

   - the sale is arm's-length and the contract price is determined net of the cost of transportation, or

   - an onshore oil posted price bulletin contains a charge for transportation that is deducted from the posted price paid.

   Under any other circumstances, such as a less-than-arm's-length sale or an out-of-pocket transportation cost, you must report the transportation separately on the Form MMS-2014 as a transportation allowance using Transaction Code 11. The MMS will approve a different reporting procedure only in unusual situations.

   For additional guidance on when you can deduct a transportation factor from royalty value, refer to the MMS Oil and Gas Payor Handbook, Volume III, Pages 5-4 and 6-3.

3. **Does this change the "type" of costs that I may deduct or just the reporting requirements?**

   The regulations change only the allowance reporting requirements for Federal leases. Regulations at 30 CFR 206 have not changed and continue to govern the types of costs you may deduct.

4. **How do I report allowances for Federal and Indian products processed through the same facility?**

   You must maintain records of all costs and your ownership portion of total throughput to satisfy record keeping requirements.

   For both Federal and Indian leases, you must report processing allowances on Form MMS-2014 not to exceed 66⅔ percent of royalty value without prior MMS approval. However, you still must submit Form MMS-4109, Gas Processing Allowance Summary Report, showing throughput attributable to Indian leases.

5. **Under the March 1996 regulations, can I recoup an allowance previously denied because of a forms-filing violation under the March 1988 regulations for oil and gas or the March 1989 regulations for coal?**

   No. You cannot use the amended regulations to obtain relief from forms-filing requirements and related assessments prescribed under the March 1988 oil and gas and March 1989 coal regulations. You can recoup an allowance for prior periods only through adjustments mandated by the Department of the Interior as a result of audit, valuation review, or lease administration.

6. **What records must I maintain to support an allowance deduction?**

   You must maintain all records and cost data used to calculate an allowance amount claimed on the Form MMS-2014. Record keeping requirements, as described at 30 CFR 206, 207, and 212, have not changed under these amended regulations.

7. **Will my transportation and processing allowances appear on the Model Form MMS-2014?**

   No. You are responsible for entering those lines on the Form MMS-2014.

Exhibit "B"

Dow Campbell
Attorney

Marathon Oil Company

539 South Main Street
Findlay, OH 45840-3295
Direct No. 419/421-4121
Main No. 419/422-2121
FAX 419/421-2854

June 24, 1997

Overnight Mail

Deborah Gibbs Tschudy
Chief, Valuation and Standards Division
Minerals Management Service
Denver Federal Center
8th Street, Bldg. 85
Denver, Colorado 80225

Re: Transportation Allowance Valuation Determination
Offshore Deepwater Projects
[Ewing Bank Block 917, Green Canyon 244 Unit, and Viosca Knoll Block 786]

Dear Ms. Tschudy:

Enclosed is proprietary information about deepwater projects currently under development in the Gulf of Mexico by Marathon Oil Company. There are many unknowns in the deepwater, both environmental and technical; therefore, Marathon would like to establish the extent to which the MMS would allow a transportation allowance for these deepwater leases/units.

Marathon is interested in establishing valuation guidelines to comply with MMS' regulatory demands at the time of first production. Although these deepwater projects are still under development, these circumstances are significantly different from conventional offshore operations.

Please review the enclosed information and advise us accordingly of your findings. You may contact Linda Brown with any questions at (419) 421-2457.

Sincerely,

Dow L Campbell

Dow L. Campbell

Enclosures

cc: Dwight Donnelly (MMS - Findlay)

[79920]

Exhibit "C"

Dow L. Campbell
Attorn

539 South Main Street
Findlay, OH 45840-3295
Direct No. 419/421-4121
Main No. 419/422-2121
FAX 419/421-2854

June 27, 1997

Overnight Mail

Deborah Gibbs Tschudy
Chief, Valuation and Standards Division
Minerals Management Service
Denver Federal Center
8th Street, Bldg. 85
Denver, Colorado 80225

Re: Withdrawal of: Transportation Allowance Valuation Determination Request
Offshore Deepwater Projects
[Ewing Bank Block 917, Green Canyon 244 Unit, and Viosca Knoll Block 786]

Dear Ms. Tschudy:

On June 24, 1997, I sent you a letter requesting a Transportation Allowance Valuation Determination for the above-referenced deepwater projects currently under development in the Gulf of Mexico by Marathon Oil Company. Unfortunately the supporting documentation enclosed therein may be preliminary in nature and is still under review and analysis internally.

I would appreciate your return of the information and at such time as Marathon has finalized its plans and a value determination is needed, I will again request one.

Thank you for your understanding and if you have any questions, please contact Linda Brown at (419) 421-2457.

Sincerely,

Dow L Campbell

Dow L. Campbell

cc: Dwight Donnelly (MMS - Findlay)

[80058]

Exhibit "D"

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

OCT 16 1997

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Raymond A. G. Oalmann
Manager, Revenue Accounting
CNG Producing Company
1450 Poydras Street
New Orleans, Louisiana 70112-6000

Re: MMS-96-0370-OCS
Transportation/Gathering

Appeal Denied

Dear Mr. Oalmann:

CNG Producing Company (CNG) appealed under 30 CFR Part 290 (1996) from a September 18, 1996, decision issued by the Chief, Royalty Valuation and Standards Division, now Royalty Valuation Division (RVD), of the Minerals Management Service (MMS). The decision denied CNG an allowance for transportation of production from Outer Continental Shelf (OCS) Green Canyon Block 116 (GC-116) to South Timbalier Block 300A (ST-300A).

Background

The MMS, Gulf of Mexico OCS Region, gave Shell Offshore, Inc. (Shell), the designated operator of the GC-116 Unit, approval on January 24, 1996, to commingle production from the GC-116 Unit with production from other unit and nonunit leases at Shell's ST-300A "Cougar" platform. The commingling approval letter states that royalty for oil production from the GC-116 Unit will be based on the volume and the volume-weighted average gravity as determined by the ST-300A platform Automatic Custody Transfer (ACT) unit. Royalty for GC-116 Unit gas production will be based on the volume as determined by the ST-300A platform gas sales meters.

On June 28, 1996, CNG submitted a written request to the RVD for approval to take a transportation allowance for transporting production from GC-116 Unit to Shell's ST-300A platform. The transportation system employed by CNG consists of two 6 inch pipelines that transport bulk production approximately 25 miles from a subsea manifold on the sea floor in 2,040 feet of water on the Green Canyon 116 lease to production measurement, separation, dehydration and treatment facilities located at the ST-300A offshore platform. As previously

stated, the OCS sales meters for both gas and condensate production are at the ST-300A platform.

The MMS denied CNG's transportation allowance request and notified the Appellant by letter dated September 18, 1996. The MMS position is that movement of production from GC-116 to ST-300A occurs upstream of the approved measurement point, therefore, the movement of bulk production through the two 6 inch pipelines is considered to be gathering rather than transportation. CNG timely appealed the MMS decision on October 16, 1996, and submitted its Statement of Reasons (SOR) on January 17, 1997.

CNG contends that the deep-water pipeline system used to move production from GC-116 to ST-300A is not a gathering system as defined in the current regulations at 30 CFR 206.101 (1996) because the system is not a series of gathering flowlines converging on a nearby central point or platform for the purpose of accumulating production from a lease or field. An economic decision was made to install a subsea manifold on the GC-116 sea floor to gather production rather than erect a cost-prohibitive platform for the purpose of accumulating Unit production.[1] CNG argues that it is accumulated or gathered production at the subsea manifold that is being transported approximately 25 miles towards shore to the ST-300A platform. Therefore, it should be allowed to claim a transportation allowance for the transport of bulk production from GC-116 to ST-300A.

The Appellant further claims that a market exists for the bulk production at the subsea manifold at GC-116; therefore, the production is in marketable condition at the manifold. CNG maintains that when there is a market for the gas at the lease, MMS is obligated to share in the cost of transporting the gas from the lease to a distant delivery point.

Issues

1. Does the regulatory definition of "gathering" pertain to the Appellant's deep-water pipeline system used to move production 25 miles from the subsea manifold at GC-116 to the platform at ST-300A?

2. Is the Appellant entitled to a transportation allowance in accordance with the marketable condition rule?

---

[1]CNG states in its SOR that the GC-116 subsea manifold construction costs were approximately X-4 as compared to an estimated cost of X-4 for construction of an offshore deep-water platform.

Analysis

The Secretary of the Interior (Secretary) has discretionary authority to determine the factors to be used in computing a transportation allowance for royalty purposes. Shell Oil Co., 52 IBLA 15 (1981); Superior Oil Co., 12 IBLA 212 (1973).

Transportation allowances are authorized at 30 CFR 206.156 and 206.157 (1996) and are defined at 30 CFR 206.151 (1996) as follows:

> Transportation allowance means an allowance for the cost of moving royalty bearing substances (identifiable, measurable oil and gas, including gas that is not in need of initial separation) from the point at which it is first identifiable and measurable to the sales point or other point where value is established under this subpart.

The regulations state explicitly at 30 CFR 206.102(h) as well as at 30 CFR 206.152(h) (1996) that:

> Notwithstanding any other provision of this section, under no circumstances shall the value of production for royalty purposes be less than the gross proceeds accruing to the lessee for lease production, less applicable allowances determined pursuant to this subpart.

As indicated in 30 CFR 206.102(h) and 206.152(h) (1996), when the value for royalty purposes is based upon the gross proceeds accruing to the lessee, reasonable transportation costs may be deducted in determining the portion of the total proceeds that are attributable to the gas at the wellhead.

However, in accordance with the marketable condition rule, any deductions from royalty that are for gathering and marketing expenses are not allowable. See Xeno, Inc., 134 IBLA 12, 180 (1995); Mesa Operating Limited Partnership v. U.S. Department of the Interior, 931 F.2d 318 (5th Cir. 1991), cert. denied 502 U.S. 1058 (1992). This principle is recognized in the regulations at 30 CFR 206.152(i) (1996) which provides that the "lessee is required to place gas in marketable condition at no cost to the Federal Government."

The MMS definition for "gathering" is found at 30 CFR 206.101 (1996), which states:

> *Gathering* means the movement of lease production to a central accumulation or treatment point on the lease, unit or communitized area, or to a central accumulation or treatment point off the lease, unit or communitized area as approved by BLM or MMS OCS operations personnel for onshore and offshore leases, respectively.

The MMS further developed questions that are helpful indicators in determining when costs may be allowed as a transportation deduction from value in computing royalties rather than as nondeductible "gathering." The four questions are:[2]

1. Does the pipeline segment lie entirely within the lease, unit, or CA?

   If the answer is "yes," the pipeline is a gathering line and no deductions for transportation are permitted.

   (In the instant case, the answer is "no.")

2. Is the pipeline segment upstream of the central accumulation and (or) treatment point?

   If the answer is "yes," the pipeline is probably a gathering line and no deductions for transportation ordinarily would be permitted.

   (In the instant case, the answer is "yes.")

3. Is the pipeline segment beyond the initial treatment point, central accumulation point, or measurement facilities?

   If the answer is "yes," the pipeline likely is not a gathering line and may be eligible for a transportation allowance.

   (In the instant case, the answer is "no.")

---

[2]The same four questions used to distinguish gathering from transportation for the period prior to the effective date of the revised valuation regulations, March 1, 1988, are also included in MMS's Payor Handbook, Volume III, section 6.5.1 (July 21, 1993) as a gathering/transportation guide for the regulations in effect on and after March 1, 1988.

4. Is the pipeline segment a link in the continuous flow of marketable product to the point of delivery?

   If the answer is "yes," the pipeline likely is not a gathering line and may be eligible for a transportation allowance.

   (In the instant case, the answer is "no.")

Based on the above question and answer guidelines, the pipeline moving bulk production from GC-116 to ST-300A more readily appears to be a gathering system and ineligible for a MMS-approved transportation allowance.

The lessee(s) made an economic decision to construct a subsea manifold and pipeline to move bulk production offlease rather than construct platform facilities to treat and measure the production at the GC-116 location. In this situation, an unknown quantity of bulk production is first brought to the surface at the ST-300A platform. Only then is the bulk production stream initially treated (separated, dehydrated, and /or compressed) and measured for royalty purposes. Given these circumstances, MMS determined that the pipeline from the subsea manifold to ST-300A is a part of a system that gathers production from the various unit and non-unit wells and moves it to ST-300A where initial field services are performed.

Because gathering is considered part of placing lease production in marketable condition, it is therefore not allowable as a transportation cost. The Appellant, however, claims that GC-116 production is marketable prior to its exiting the lease or unit boundary and as justification presents affidavits from several buyers who state that they would be willing to purchase production at the subsea manifold at GC-116. The Appellant concludes that even if MMS considers the pipeline to be a gathering system, nevertheless CNG is entitled to a transportation allowance for moving marketable production from the subsea manifold to the offlease delivery point at ST-300A.

In its SOR, the Appellant further claims that in new regulations proposed on November 6, 1995, 60 Fed. Reg. 56009, it was MMS's intent to provide for transportation allowances in deep-water situations such as the instant case. The regulations were not adopted, however, and in any case it appears that the proposed authority was intended to be discretionary.

The fact that the Appellant can sell the production at the subsea manifold is not dispositive on the issue of whether it is in marketable condition. In an earlier ruling, the Interior Board of Land Appeals (IBLA) stated the following:

> Theoretically, any gas -- any 'production' -- is 'marketable.' * * *. There is a clear difference between 'marketing' and merely selling. For the former there must be a market, an established demand for an identified product. We suppose almost anything can be sold, if the price is no consideration. In the record before us there is no evidence of a market for the gas in the condition it comes from the wells. * * *. Although we think it is clear from the above-quoted discussion that the court in California Co. distinguished this type of 'sale' from 'marketing' of gas production, it is evident * * * that deduction from market value for costs of gathering and compression necessary to market the gas are not deductible even where incurred after transfer of title from the lease.

R.E. Yarbrough & Co., 122 IBLA 217 (1992). See also California Company v. Udall, 296 F.2d 384 (D.C. Cir. 1961).

Since the cost of bringing bulk production to the platform for treatment is a cost that ordinarily is the responsibility of the lessee to place the gas in marketable condition, this cost cannot be deducted from the lessee's gross proceeds. See 30 CFR 206.152(i) (1996).

Just because the movement of bulk production from the subsea manifold on GC-116 to the platform on ST-300A happens to move the gas closer to shore does not mean that it is transportation. The purpose of the movement instead is to bring the production to an existing platform (in lieu of building a new platform on the lease) where it can be separated, measured, and otherwise made ready for market. This activity functionally is much more related to gathering than to a transportation expense. Thus, even if MMS were able to deviate from the clear, existing rule, it would have no reason to do so in this case.

Conclusions and Order

The information provided in connection with this appeal indicates that the referenced pipeline is being used for the purpose of gathering GC-116 Unit bulk production for initial treatment and measurement at the ST-300A platform. The pipeline is upstream of the initial delivery or accumulation point, as well as upstream from initial separation, dehydration, compression and measurement facilities. There is no evidence in the record that the primary

function of the 25-mile pipeline between the subsea manifold at GC-116 and the ST-300A platform is anything but gathering.

Therefore, for the reasons stated herein, the subject appeal is denied.

You may appeal this decision to the Interior Board of Land Appeals pursuant to 30 CFR Part 290 (1996) and 43 CFR 4.411 and 4.413 (1996). Please find enclosed a copy of 43 CFR 4.411 and 4.413 for your reference. If you choose to appeal this decision, you must file your notice of appeal and any statement of reasons, written arguments, or briefs within 30 days after the date of service of the decision at the following address: U.S. Department of the Interior, Director, Minerals Management Service, Attention: Appeals Division (MS 9300), 1849 C Street, NW, Washington, D.C. 20240. You also must file copies of the notice of appeal and any statement of reasons, written arguments, or briefs with the, U.S. Department of the Interior, Associate Solicitor, Division of Mineral Resources (MS 6312), 1849 C Street, NW, Washington, D.C. 20240.

Sincerely,

Walter D. Cruickshank

for Robert E. Brown
Acting Associate Director for
Policy and Management Improvement

Enclosure

Dated: October 15, 1998.

LaVerne Y. Stringfield,

Committee Management Officer, NIH.

[FR Doc. 98-28255 Filed 10-20-98; 8:45 am]

BILLING CODE 4140-01-M

DEPARTMENT OF THE INTERIOR

Bureau of Land Management

[(WY-920-09-1320-01); WYW146735]

Invitation for Coal Exploration License

AGENCY: Bureau of Land Management, Interior.

ACTION: Notice of Invitation for Coal Exploration License.

SUMMARY: Pursuant to section 2(b) of the Mineral Leasing Act of February 25, 1920, as amended by section 4 of the Federal Coal Leasing Amendments Act of 1976, 90 Stat. 1083, 30 U.S.A. 201(b), and to the regulations adopted as 43 CFR, subpart 3410, all interested parties are hereby invited to participate with Jacobs Ranch Coal Company on a pro rata cost sharing basis in its program for the exploration of coal deposits owned by the United States of America in the following-described lands in Campbell County, WY:

T. 44 N. R. 70 W., 6th P.M., Wyoming,
Sec. 19: Lots 13 thru 20;
Sec. 20: Lots 9 thru 16;
Sec. 21: Lots 9 thru 16;
Sec. 22: Lots 8 thru 10, 12 thru 15;
Sec. 26: Lots 9, 10;
Sec. 27: Lots 1 thru 16;
Sec. 28: Lots 1 thru 16;
Sec. 29: Lots 1 thru 16;
Sec. 30: Lots 5 thru 20;
Sec. 31: Lots 5 thru 20;
Sec. 32: Lots 1 thru 16;
T. 44 N., R. 71 W., 6th P.M., Wyoming,
Sec. 23: Lots 9, 10, 15, 16;
Sec. 24: Lots 9 thru 16;
Sec. 25: Lots 1 thru 16;
Sec. 26: Lots 1, 2, 7 thru 10, 15, 16.
Containing approximately 6,744.31 acres.

All of the coal in the above-described land consists of unleased Federal coal within the Powder River Basin Known Recoverable Coal Resource Area. The purpose of the exploration program is to obtain coal quality data to supplement data from previous adjacent coal exploration programs.

ADDRESSES: The proposed exploration program is fully described and will be conducted pursuant to an exploration plan to be approved by the BLM. Copies of the exploration plan are available for review during normal business hours in the following offices (serialized under number WYW146735): BLM. Wyoming State Office, 5353 Yellowstone Road, PO Box 1828, Cheyenne, WY 82003; and, BLM, Casper Field Office, 1701 East "E" Street, Casper, WY 82601.

SUPPLEMENTARY INFORMATION: This notice of invitation will be published in "The News-Record" of Gillette, WY, once each week for two consecutive weeks beginning the week of October 19, 1998, and in the **Federal Register**. Any party electing to participate in this exploration program must send written notice to both the BLM and Jacobs Ranch Coal Company no later than thirty days after publication of this invitation in the **Federal Register**. The written notice should be sent to the following addresses: Jacobs Ranch Coal Company, Attn: Richard A. Turpin, Caller Box 3013, Gillette, WY 82717, and the BLM, Wyoming State Office, Minerals and Lands Authorization Group, Attn: Mavis Love, PO Box 1828, Cheyenne, WY 82003.

The foregoing is published in the **Federal Register** pursuant to 43 CFR 3410.2-1(c)(1).

Dated: October 13, 1998.

Pamela J. Lewis,

Chief, Leasable Minerals Section.

[FR Doc. 98-28029 Filed 10-20-98; 8:45 am]

BILLING CODE 4310-22-M

DEPARTMENT OF THE INTERIOR

Minerals Management Service

Announcement of Minerals Management Service Workshop on the Development of Criteria To Be Used in Distinguishing Between Gathering and Transportation in Deep Water in the Outer Continental Shelf

AGENCY: Minerals Management Service, Interior.

ACTION: Notice of meeting.

SUMMARY: The Minerals Management Service (MMS) will hold a day-long meeting with parties interested in the development of deep water leases that may involve subsea well completions. We are interested in developing specific criteria to be used in distinguishing between gathering and transportation to determine permissible deductions in calculating royalty value.

DATES: The workshop will be held on November 16, 1998, starting at 9:00 a.m., Central Time.

ADDRESSES: The meeting will be held at the MMS Gulf of Mexico Outer Continental Shelf Regional Office, 1201 Elmwood Park Blvd., New Orleans, Louisiana 70123.

FOR FURTHER INFORMATION CONTACT: Mr. Martin C. Grieshaber, Minerals Management Service, P.O. Box 25165, MS 9200, Denver, CO 80225-0165, telephone number (303) 275-7118; fax (301) 275-7124; e-mail Martin.Grieshaber@mms.gov; or Ms. Deborah Gibbs Tschudy, MMS, P.O. Box 25165, MS 3150, Denver, CO 80225-0165, telephone number (303) 275-7200; fax (303) 275-7227; e-mail Deborah.GibbsTschudy@mms.gov.

COMMENTS: Written comments on the meeting or the issues below should be addressed to Mr. Martin C. Grieshaber at the above address.

SUPPLEMENTARY INFORMATION: MMS is investigating the impact of deep water production systems on the distinction between gathering and transportation.

Current MMS regulations provide for an allowance for the actual and reasonable costs of transporting production when value for royalty purposes is determined away from the lease. No allowance is permitted for gathering (movement to a central accumulation and/or treatment point).

The new technologies involved in deep water development were not specifically contemplated in the current regulations, particularly when distinguishing between gathering and transportation.

We are interested in specific comments regarding what criteria should be used on a case-by-case basis when making the gathering/transportation differentiation for deep water leases.

Some possible criteria we would like comments on include: water depth, distance of movement, location of the approved measurement point, marketable condition of the production, and on-lease v. off-lease movement. Specific comments are welcome on any other criteria with a bearing on the issue.

Dated: October 15, 1998.

Walter Cruickshank,

Associate Director for Policy and Management Improvement.

[FR Doc. 98-28146 Filed 10-20-98; 8:45 am]

BILLING CODE 4310-MR-M

INTERNATIONAL TRADE COMMISSION

[Investigations Nos. 701-TA-385 and 731-TA-809-810 (Preliminary)]

Live Cattle From Canada and Mexico

AGENCY: United States International Trade Commission.

ACTION: Revised schedule for the subject investigations.

EFFECTIVE DATE: October 13, 1998.

EXHIBIT "F"

Dow Campbell
Attor.

Marathon Oil Company

539 South Main Street
Findlay, OH 45840-3295
Direct No. 419/421-4121
Main No. 419/422-2121
Facsimile 419/427-3681
E-mail: DLCampbell@MarathonOil.com

December 18, 1998

Via Facsimile: (303) 275-7124

Mr. Martin C. Grieshaber
Minerals Management Service
U.S. Department of the Interior
Denver Federal Center
P.O. Box 25165 - MS 9200
Denver, Colorado 80225-0165

Re: Comments - MMS Workshop on the Development of Criteria to be used in distinguishing between Gathering and Transportation in Deep Water in the Outer Continental Shelf (63 FR 56217, October 21, 1998)

Dear Mr. Grieshaber:

Marathon Oil Company (Marathon) appreciated the opportunity to attend and participate in the Mineral Management Service's (MMS) November 16, 1998, workshop in New Orleans on the development of criteria to be used in distinguishing between gathering and transportation in deep water in the outer continental shelf.

Marathon welcomes the MMS' investigation of this important issue. However, Marathon prefers to see the MMS develop a set of criteria for production movements and when such criteria are met by a specific production movement, the movement would automatically be entitled to a transportation allowance. A case-by-case analysis would then only be applied to those situations which are exceptions to the established criteria. This would benefit both the MMS and industry by reducing administrative burdens imposed by implementing solely a case-by-case analysis and would also be advantageous by giving industry a sense of certainty.

Marathon supports the analysis and criteria offered by the American Petroleum Institute, both at the November workshop and in its written comments.

If you should have any questions please contact me.

Sincerely,

Dow L. Campbell

Dow L. Campbell

[101368]

EXHIBIT "G"

American Petroleum Institute

1220 L Street, Northwest
Washington, DC 20005-4070
Phone: 202/682-8116
Fax: 202/682-8426
E-mail: rubinm@api.org

Mark Rubin
Upstream General Manager

December 18, 1998

Mr. Todd McCutcheon
Chief, Policy & Management Improvement
Minerals Management Service
U.S. Department of the Interior
P. O. Box 25165 - MS 9200
Denver, CO 80225

Dear Mr. McCutcheon:

I am writing on behalf of the American Petroleum Institute's (API) more than 400 members, many of whom operate on the outer continental shelf (OCS) and have a business interest in deep water leases. API strongly supports the Minerals Management Service's (MMS) subsea gathering and transportation initiative described in the MMS notice at 63 FR 56217 (October 21,1998). We appreciate MMS' continued interest in reviewing the appropriateness of transportation allowances for deepwater subsea operation.

Several representatives of API member companies participated in the MMS-sponsored November 16, 1998 meeting in New Orleans, and we hope the preliminary information they provided was useful. To complement those discussions, we want to reinforce industry's point of view on this important matter. API recommends specific criteria that MMS might employ in evaluating whether transportation allowances are appropriate for deepwater subsea production operations in the Gulf of Mexico. Further, the lessor, as beneficiary of the transportation service, should share the cost of that service. And, the MMS' regulations as presently written, permit subsea movement to be classified as transportation.

The great challenges of exploring and developing deep-water leases have required the oil and gas industry to expand its technological capabilities far beyond those used to explore and develop conventional shallower water shelf leases. Water depth, distance from infrastructure, tremendous variances in temperature and pressure, extraordinary costs, and extraordinary seafloor topography have tested the research and development capabilities of lessees. For some deepwater Gulf of Mexico areas and under some conditions in the deepwater subsea development may be the only technological, practical, and economically viable method to develop a lease. In a very real sense, subsea developments are as technically innovative as the first push by industry out into the Gulf of Mexico in the late 1940's. The technical presentations made by Dennis McLaughlin of Shell and Al Verret of Texaco were intended to demonstrate how far development technology has advanced and how it has yet to go. We attach as Exhibit "A," copies of Dennis McLaughlin's slides describing an actual subsea gas development, and as Exhibit "B," copies of the slides used by Al Verret.

In subsea development, a central fact is that production is physically moved at a great cost over long distances to a point where is it more valuable and more easily sold. The selection of subsea systems for lease/unit development is principally driven by economics. In most instances, lease/unit development would not have been economic utilizing a platform-type development. Consequently, the royalty settlement point is at a remotely located surface platform because it is not technically or economically feasible to accomplish this at the lease. If a surface platform-type system were utilized for lease/unit development, movement of production away from the lease would clearly be deemed transportation. The fact that a different development system is utilized for economic reasons should, therefore, not preclude production movement away from the lease/unit from receiving transportation allowances in subsea development situations.

MMS operations personnel in the Gulf of Mexico Regional Office have had to use existing operating regulations geared principally to shelf operations and adapt them to the deep-water environment. The MMS should use the current royalty regulations to address the physical facts of deepwater subsea development, recognizing that the deepwater environment differs from that of the shelf.

As explained in the technical presentations made at the workshop, in subsea development it is not technically and economically feasible to treat production to marketable condition at the producing lease or subsea manifold. The subsea manifold serves as a central accumulation point for wells that often are located away from the lease where the treatment facility is located. Production from several wells on the producing lease, or often on different leases, is commingled at the manifold and is then moved to a surface facility miles away. In this instance, the subsea manifold functions similarly to a central accumulation platform except that physical treatment is not feasible at the manifold itself.

In granting transportation allowances for subsea movement, MMS would not be breaking new ground. The existing regulations lead to the conclusion that such movement qualifies as transportation. Evaluating the purpose and function of subsea movement is a function test that both the MMS and the Interior Board of Land Appeals (IBLA) has used repeatedly under the existing regulations to determine the true character of transportation. Some examples of this application follow.

First, in *Exxon Company, U.S.A.*, MMS-VSD-OG93-0075 (December 29, 1994), the MMS allowed a transportation allowance for oil in a bulk oil stream that moved to shore from offshore platforms for processing and handling. In so allowing, the MMS looked to the true nature of the service and found that the function provided was part of necessary transportation to the nearest onshore market. Distance moved, pipeline size and the mere fact that the oil in question was untreated and not in marketable condition did not automatically disqualify the movement as transportation. Instead, in granting transportation, the agency used the standard royalty lease provision language of "other relevant matters" to consider the fact that, irrespective of marketable condition of production, movement to shore to reach market was an inevitable fact. The same is true of subsea production.

Second, in *Shell Offshore Inc.*, 142 IBLA 71 (1998), the Board found that the additional platform costs were an integral part of the transportation system because their function or purpose was to serve the purpose of transportation. The test of function is flexible enough to accommodate many different circumstances. Shell had sought to include a portion of the cost of the surface structure of the tension leg platform (TLP) associated with transportation in the calculation of the transportation allowance. The Board found that the weight sensitive TLP had specific costs integral to the function or purpose of transportation. Its decision on whether to include the space revolved around a determination of function or relationship of the space to transport. The Board found the additional platform costs were an integral part of the transportation because of their function or purpose.

Third, in 1988, when the current MMS definitions were promulgated, most deep-water developments and non-traditional or alternative deepwater development scenarios were not in existence. The history of prior OCS shelf development provided the backdrop for the 1988 royalty regulations. Under that history, two non-traditional scenarios were most prevalent. One was based on a development scheme of one or two platforms on the same lease with one or more subsea wells producing at each platform but with bulk production from one platform then moving to the other where treatment facilities placed production into marketable condition. A second scenario was virtually identical, except that the two platforms may have been located on adjacent leases with multi-well production flowing to a central accumulation point on each but with bulk production from one then moving to the other for treatment for the convenience of the lessees. These scenarios allowed for the construction of only one set of handling facilities to place production in marketable condition. Handling could have been done at each platform at a proportionally higher cost but lessees chose not to do so.

Under these circumstances, the MMS found that this type of off lease movement, or "gathering," did not qualify for transportation. The lessee, who for its convenience had moved production to a central accumulation at reduced facility capital cost and enhanced lessee profitability, was not allowed to also take a deduction by classifying this movement as transportation. This is not the case for subsea production where physical treatment of production is not feasible.

Fourth, in one of the earliest decisions on offshore OCS transportation in *Shell Oil Company et al*, 70 I.D. 393 (1963) the Solicitor examined the facts surrounding the necessity of barge transportation of OCS production. He found certain factors to be unique to the offshore environment: "production difficulties peculiar to offshore operations," "distances traversed," "high costs in purchase and maintenance of sea going barges and tugs," and "volume of crude oil." In concluding his opinion, the Solicitor required consideration of barge costs as "other relevant matters" to be considered under the regulation and lease when reaching a value determination. The realities of subsea movement over thirty years later compels a similar re-thinking on the part of the Department:

- Costs for installation and operation of pipelines from the subsea manifold to a surface facility are substantial,
- The distances moved are great.
- The situation is peculiar to the offshore deepwater subsea production world.
- The volumes involved are substantial by the Gulf of Mexico shelf standards.
- Central accumulation already occurs at the subsea manifold.

These facts compel re-examination of the distinction between gathering and transportation for subsea production.

The distances moved in subsea transportation provide a benefit to the federal lessor by enhancing the value of the production. One of the significant costs clearly recognized for offshore production is costs of movement to onshore markets or pipeline sales points. Each leg in that journey closer to shore enhances the value of the hydrocarbons. As far back as *Continental Oil Co. v. U.S.A.*, 184 F2d 802 (9th Cir., 1950) the location difference impact on value has been recognized and costs attributed to it shared by lessor and lessee. Movement of even bulk production a great distance enhances the value of the bulk production. The lessor, as beneficiary of the transportation service, should share the cost of the service.

In summary, we believe the existing MMS regulations permit classification of subsea movement as transportation. We also suggest that MMS should not make each subsea development subject to a case-by-case analysis to determine if transportation exists for royalty deduction purposes. It would be administratively burdensome for the agency and create uncertainty for the lessee to decide subsea allowances on a case-by-case basis. Instead, we suggest that MMS divide the subsea allowance into two categories, one category which is clearly entitled to the allowance and another which should be decided on a case by case basis.

The following criteria can be used to establish the two categories:

1. Deep water should be defined at 200 meters of water or greater, just as it is in the Deepwater Royalty Relief Act. Water depth should be determined by location of the subsea well or the subsea manifold.

2. All subsea production in deepwater moving through a subsea manifold to a surface platform located on a lease not adjacent to the producing lease or unit should qualify for the allowance. The transportation allowance should be granted for costs incurred after production enters the subsea manifold.

3. Production from subsea "daisy-chain" wells (see page 14 of Exhibit A for an example of daisy-chain wells) that flow to a platform on a lease not adjacent to the producing lease or unit should also qualify for the allowance.

4. Deepwater production from a single well that flows to a surface platform located on a lease not adjacent to the producing lease or unit should also qualify for the allowance.

5. Marketable condition and facility measurement point for deepwater subsea should not be determinative of transportation qualification. In the deep-water subsea environment, movement to a non-adjacent lease should be dispositive.

6. Direction of movement and pipeline size should not be determinative.

7. Additional subsea transportation allowances should be considered on a case by case basis.

8. The existing regulations on non-arm's-length transportation provide a method to calculate the size of the allowance.

9. MMS should grant subsea allowances for bulk production moved from deep-water surface facilities where bulk production is moved to the shelf tie in point.

In closing, let me reiterate our strong support for the MMS's willingness to explore this importance issue. We encourage the MMS to pursue the subsea initiative expeditiously and we would welcome the opportunity to meet with you again or provide you with additional information as you crystallize your plans.

Sincerely,

Attachments (2)
(Sent under separate cover via Airborne Express)

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management Lucy Querques Denett

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifing deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Application

Apply this guidance prospectively. Any previously received requests for guidance should be reviewed. If the above criteria are met, and the previously issued decision conflicts with this guidance the company must be notified.

Questions concerning the applicability of this guidance to specific situations should be referred to the Royalty Valuation Division (RVD). Additionally, requests for determinations on a case-by-case basis should be referred to RVD.

Enclosure 2

United States Department of the Interior
Minerals Management Service

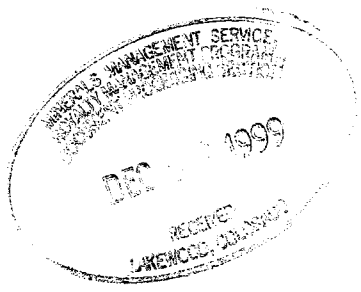
IF YOU APPEAL, THE FOLLOWING PROCEDURES MUST BE FOLLOWED

1. Notice of Appeal	You may appeal this directive to the Director, Minerals Management Service (MMS). You must file a Notice of Appeal within **30 days** of receiving this letter. See 30 CFR Part 290, Subpart B (64 FR 26258, May 13, 1999).
2. Where to File Notice of Appeal And Statement of Reasons	Minerals Management Service Attention: Ms. Deborah Gibbs Tschudy Chief, Royalty Valuation Division P.O. Box 25165, MS 3150 Denver, Colorado 80225-0165 Telephone (303) 275-7200 Fax No.: (303) 275-7227
3. Statement of Reasons . .	You have **30 days** from the receipt of this letter to send us your reasons why you think we should reverse or change this directive.
4. Extension to File Statement of Reasons	If you need more than **30 days**, you must file a written request for an extension to file a Statement of Reasons within the 30-day appeal time period. You must include reasons why you need the time extension. Send your request to Chief, Royalty Valuation Division at the address shown above.
5. Notice to Lessee	If you are not the lessee of the Federal leases involved in the order being appealed, you (as the designee) are required to serve your Notice of Appeal on those lessees. See 30 CFR § 290.105(a)(2) (64 FR 26259, May 13, 1999). Proof of service of this notice shall be provided to the MMS office at the address shown above.
6. Suspension of Directive/ Order	Your compliance with this directive shall be suspended pending the outcome of the appeal. Since the order being appealed does not involve the payment of a specified amount, you are not required to post a surety. See 30 CFR § 243.8(a)(1) (64 FR 26255, May 13, 1999).

Dow L. Campbell
Attc

Marathon Oil Company

539 South Main Street
Findlay, OH 45840-3295
Direct No. 419/421-4121
Main No. 419/422-2121
Facsimile 419/427-3681
E-mail: DLCampbell@MarathonOil.com



December 8, 1999

Via Overnight Mail

Minerals Management Service
Attention: Ms. Deborah Gibbs Tschudy
Chief, Royalty Valuation Division
P.O. Box 25165, MS 3150
Denver Federal Center
Denver, Colorado 80225-0165

Re: Notice of Appeal and Initial Statement of Reasons
Order dated November 3, 1999
Deepwater Transportation Allowance - Arnold & Troika

Dear Ms. Tschudy:

Enclosed you will find Marathon Oil Company's Notice of Appeal and Initial Statement of Reasons in support of its appeal to the Director of the MMS of the Order to Perform dated November 3, 1999.

I have also enclosed a copy of the first page of the Notice of Appeal and Initial Statement of Reasons and ask that you date stamp it upon receipt and return it to me in the enclosed, self-addressed postage-paid envelope.

Sincerely yours,

Dow L. Campbell

Dow L. Campbell

[114674]

Enclosures

cc: R.E. Good
C.A. Sudlow

RVD #
99-0633

App. Docket No
99-0222

UNITED STATES DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE

Marathon Oil Company **Docket No. MMS-99-0???-OCS**

NOTICE OF APPEAL AND
INITIAL STATEMENT OF REASONS
(Deepwater Transportation Allowance - Arnold & Troika)

Marathon Oil Company ("Marathon") hereby files this Notice of Appeal and Initial Statement of Reasons with the Director ("Director") of the Minerals Management Service ("MMS"), appealing that certain Order dated November 3, 1999 ("Order") (a copy of which is attached hereto as Exhibit "A" and is incorporated herein by this reference), issued by Deborah Gibbs Tschudy, Chief, Royalty Valuation Division of the MMS and received by Marathon on November 9, 1999.

Marathon hereby submits this Notice of Appeal and Initial Statement of Reasons based upon the following arguments:

1. The MMS has improperly denied the retroactive application of the May 20, 1999, Associate Director for Royalty Management's memorandum (*Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters)* to production prior to June, 1999, by improperly differentiating between production from two time periods which are subject to the same set of regulations.

2. The MMS has improperly denied the retroactive application of the May 20, 1999, memorandum based on Marathon's failure to request approval for the transportation allowance prior to May 20, 1999.

3. The MMS has improperly determined that Marathon did not have a request for approval for the transportation allowance pending prior to May 20, 1999.

4. The MMS has erred in not considering Marathon's active participation in, and prior to, the MMS-sponsored November 16, 1998 meeting on the subsea gathering and transportation initiative as a request pending prior to the May 20, 1999 memorandum.

5. The MMS has erred by departing from its normal practice of giving retroactive effect to interpretive rulings in royalty calculations. *See* Sun Exploration & Production Co., 112 IBLA 373, 391 (1990).

6. The Order is arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law, and, therefore unlawful. *See* 5 U.S.C. §706(2)(A).

7. Marathon hereby reserves the right to include additional arguments in its Supplemental Statement of Reasons.

REQUEST FOR FIELD REPORT

Marathon hereby requests copies of any field report or other report which the MMS prepares and submits to the Director in conjunction with this appeal, along with all documents upon which the MMS relies for that report.

REQUEST FOR ORAL ARGUMENT

Marathon hereby requests oral argument of this matter before the Director.

THEREFORE, Marathon respectfully requests that the Director grant:

1. Marathon's appeal and reverse the November 3, 1999 Order, which is the subject of this appeal;
2. The Request for a Field Report;
3. The Request for Oral Argument of this matter;
4. Such other and further relief which the Director deems appropriate.

Respectfully submitted this of 8th day of December, 1999.

Marathon Oil Company

By: Dow L Campbell

Dow L. Campbell
Attorney
539 South Main Street, 824-M
Findlay, Ohio 45840
(419) 421-4121

[114674]

Exhibit "A"

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB: 99-0445
Mail Stop 3151

NOV 3 1999

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Dow L. Campbell
Attorney
Marathon Oil Company
539 South Main Street
Findlay, Ohio 45840-3295

Dear Mr. Campbell:

Thank you for the information you provided on September 15, 1999. This information allowed the Royalty Valuation Division (RVD) to further evaluate Marathon Oil Company's (Marathon) request for a transportation allowance for the movement of production through the Arnold Subsea Development System (Arnold System) and the Troika Subsea Development System (Troika System).

On May 20, 1999, the Associate Director for Royalty Management (ADRM) issued a memorandum providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure 1.) The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty-bearing substances.

RVD Analysis

The information submitted shows that Marathon transports bulk oil and gas production in both the Arnold and the Troika Systems. Separation and dehydration take place at Ewing Bank Block 873 (EB 873) for the Arnold System and at Green Canyon 65 (GC 65) Unit for the Troika System.

The MMS Oil and Gas Payor Handbook, Volume III, pg.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS [Minerals Management Service] approval (30 CFR § 206.105(a)(2)(i) and 30 CFR § 206.105(b)(3)(i)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and Marathon may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs not related to transportation cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The royalty meter location is often a deciding factor in determining whether movement is transportation or gathering. Your (Marathon's) request for movement of production for the Arnold System is from Ewing Bank Block 963 (EB 963) to EB 873, with the royalty meter located at EB 873. However, in applying the ADRM's May 20, 1999, guidance, we need to define the central accumulation point.

Subsea trees at the two existing wells on EB 963 are jumpered to a subsea four-slot manifold. From the manifold, production is directed into either of two pipe-in-pipe insulated flowlines. These eight-mile flowlines move production to EB873, Platform A. Based on the ADRM's guidance, we consider the subsea manifold to be the central accumulation point. Although the royalty meter is at EB 873, we consider gathering, consistent with the new guidance, to terminate at the subsea manifold. We consider subsequent movement to be transportation, subject to the other qualifications in the ADRM's May 20, 1999, guidance.

For the Troika System, the production flows from the Green Canyon 244 (GC 244) Unit to the GC 65 Unit, Shell Offshore Inc.'s Bullwinkle Platform. The royalty meter is located at the GC 65 Unit. Production from five wells on the GC 244 Unit is commingled at an eight-slot subsea manifold. From there, production moves about 14 miles through two flowlines to the Bullwinkle Platform on the GC 65 Unit. We consider the central accumulation point to be at the subsea manifold. Therefore, we consider movement before the subsea manifold to be gathering and subsequent movement to be transportation, again subject to the other qualifications in the ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

The principles applied for determining transportation vs. gathering are the same for both properties, one of which is a unit. Since there is no disparate treatment, this is not an issue.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that EB 963, where the production originates for the Arnold system, is not adjacent to EB 873. Platform A on EB 873 is about 8 miles from EB 963. Additionally, the GC 244 Unit, where production originates for the Troika system, is not adjacent to the GC 65 Unit. Production moves through approximately 14-mile-long flowlines.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

The EB 963 wells are located at a water depth of 1,750 feet. This converts to approximately 533 meters. The GC 244 Unit wells are located in an average water depth of approximately 2,700 feet. This converts to approximately 822 meters. Since all of these wells are much deeper than the prescribed minimum depth, this is not an issue.

Using the referenced guidelines, we approve your request for transportation allowances for movement of oil and gas production from the subsea manifold on EB 963 to EB 873, and from the subsea manifold on the GC 244 Unit to the GC 65 Unit. Because your August 20, 1999, request was not pending prior to the ADRM's memorandum, our approval is prospective beginning with June 1999, the first full production month following the ADRM's memorandum. Your request for retroactive application prior to May 20, 1999, is denied. This approval is subject to review and audit and is also subject to RVD modification, should the circumstances change in the future.

If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104 (1999), you must apply for an exception to the limitation, and provide sufficient documentation to support your request before claiming the excess amount.

You have the right to appeal this decision. Please refer to the enclosed Appeals Procedures. (See Enclosure 2.) If you have any questions, please call Ms. Shirley Barton at (303) 275-7222.

Sincerely,

for Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

Enclosures

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB: 99-0380
Mail Stop 3151

SEP 30 1999

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney At Law
Shell Deepwater Production Inc.
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Dear Mr. Coney:

Thank you for the information you provided on August 27, 1999. This information allowed the Royalty Valuation Division (RVD) to further evaluate Shell Offshore Inc.'s (Shell) request for a transportation allowance for the movement of gas production from Mississippi Canyon Block 807 (MC 807) to the West Delta 143 Platform (WD 143).

On May 20, 1999, the Associate Director for Royalty Management (ADRM) issued a memorandum providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure.) The memorandum states that any previously-received requests for the transportation of deepwater production should be reviewed under these guidelines. This response results from our review of your situation under the new guidelines, and is a follow-up to our August 28, 1998, letter that withdrew our original decision of July 6, 1998.

The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty bearing substances.

RVD Analysis

The information submitted shows that the MC 807 Platform is located in deepwater Gulf of Mexico, approximately 60 miles from WD 143. Gas production comes to the surface at Platform A located at MC 807. The liquids are then separated and transferred to the oil line and moved to shore. The dehydrated gas is moved to WD 143 via separate pipeline. Upon reaching WD 143, the gas enters into a dedicated slug catcher at which time retrograde condensate falls out. The gas is then measured for royalty purposes and transported from WD 143 to shore via two separate pipelines.

The Payor Handbook, Volume III, pg.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS approval (30 CFR § 206.105(a)(2)(i) and 30 CFR § 206.105(b)(3)(i)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and Shell may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs are not related to transportation and cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The location of the royalty meter is often a deciding factor in determining whether movement is transportation or gathering. Your (Shell's) request is for movement of production from MC 807 to WD 143, with the royalty meter located at WD 143. However, in applying the ADRM's May 20, 1999, guidance, we consider Platform A at MC 807 to be the central accumulation point. Although the royalty meter is at WD 143, we consider gathering, consistent with the new guidance, to terminate at Platform A. Thus the movement beyond

Platform A, MC 807, is transportation, subject to the other qualifications in the ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

Production is from the MC 807 unit only.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that the unit where the production originates, MC 807, is not adjacent to WD 143. Platform A on MC 807 is about 60 miles from WD 143.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

In an affidavit dated August 29, 1999, you state that MC 807 is located in a water depth of more than 200 meters.

Using the referenced guidelines, and subject to future review and audit, we approve your request for a transportation allowance for movement of gas production from MC 807 to WD 143. This approval is subject to RVD modification, should the circumstances change in the future. If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104 (1999), you must apply for an exception to the limitation, and provide sufficient documentation to support your request before claiming the excess amount.

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB: 99-0380
Mail Stop 3151

SEP 30 1999

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney At Law
Shell Deepwater Production Inc.
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Dear Mr. Coney:

Thank you for the information you provided on August 27, 1999. This information allowed the Royalty Valuation Division (RVD) to further evaluate Shell Offshore Inc.'s (Shell) request for a transportation allowance for the movement of gas production from Mississippi Canyon Block 807 (MC 807) to the West Delta 143 Platform (WD 143).

On May 20, 1999, the Associate Director for Royalty Management (ADRM) issued a memorandum providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure.) The memorandum states that any previously-received requests for the transportation of deepwater production should be reviewed under these guidelines. This response results from our review of your situation under the new guidelines, and is a follow-up to our August 28, 1998, letter that withdrew our original decision of July 6, 1998.

The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty bearing substances.

RVD Analysis

The information submitted shows that the MC 807 Platform is located in deepwater Gulf of Mexico, approximately 60 miles from WD 143. Gas production comes to the surface at Platform A located at MC 807. The liquids are then separated and transferred to the oil line and moved to shore. The dehydrated gas is moved to WD 143 via separate pipeline. Upon reaching WD 143, the gas enters into a dedicated slug catcher at which time retrograde condensate falls out. The gas is then measured for royalty purposes and transported from WD 143 to shore via two separate pipelines.

The Payor Handbook, Volume III, pg.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS approval (30 CFR § 206.105(a)(2)(i) and 30 CFR § 206.105(b)(3)(i)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and Shell may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs are not related to transportation and cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The location of the royalty meter is often a deciding factor in determining whether movement is transportation or gathering. Your (Shell's) request is for movement of production from MC 807 to WD 143, with the royalty meter located at WD 143. However, in applying the ADRM's May 20, 1999, guidance, we consider Platform A at MC 807 to be the central accumulation point. Although the royalty meter is at WD 143, we consider gathering, consistent with the new guidance, to terminate at Platform A. Thus the movement beyond

Platform A, MC 807, is transportation, subject to the other qualifications in the ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

Production is from the MC 807 unit only.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that the unit where the production originates, MC 807, is not adjacent to WD 143. Platform A on MC 807 is about 60 miles from WD 143.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

In an affidavit dated August 29, 1999, you state that MC 807 is located in a water depth of more than 200 meters.

Using the referenced guidelines, and subject to future review and audit, we approve your request for a transportation allowance for movement of gas production from MC 807 to WD 143. This approval is subject to RVD modification, should the circumstances change in the future. If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104 (1999), you must apply for an exception to the limitation, and provide sufficient documentation to support your request before claiming the excess amount.

If you have any questions, please call Mr. James Morris at (303) 275-7213.

Sincerely,

Deborah Gibbs Tschudy
Chief, Royalty Valuation and
Standards Division

Enclosure

Enclosure

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management Lucy Jurgues Denett

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifing deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Application

Apply this guidance prospectively. Any previously received requests for guidance should be reviewed. If the above criteria are met, and the previously issued decision conflicts with this guidance the company must be notified.

Questions concerning the applicability of this guidance to specific situations should be referred to the Royalty Valuation Division (RVD). Additionally, requests for determinations on a case-by-case basis should be referred to RVD.

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834

Direct Number: (504) 728-4643
Direct Fax: (504) 728-4690

August 25, 1999

Hand Delivered
Ms. Shirley Barton
Minerals Management Service
Royalty Valuation Division
Department of Interior
P. O. Box 25165, MS 3150
Denver, CO 80225

Dear Ms. Barton:

RE: PROJECT NO. 99-0380
MARS GAS PIPELINE
REQUEST FOR DETERMINATION OF TRANSPORTATION STATUS

After our conversation, I secured a copy of the commingling approval of the Gulf of Mexico Regional Office dated May 8, 1997. Also included to assist you is a Central Pipeline Corridor Map. I also include the following Shell Offshore Inc. application letters:

Letter dated May 21, 1996 to the MMS re commingling and measurement of new production from the Mississippi Canyon Block 807 Unit;

Letter dated July 23, 1996 to the MMS re confirmation of verbal approval commingling and measurement of gas production from the Mississippi Canyon Block 807 Unit;

Letter dated August 14, 1996 to the MMS re commingling and measurement modification involving the Mississippi Canyon Block 807 Unit; and

Letter dated December 30, 1996 to the MMS re revision to our original application dated May 21, 1996 regarding the commingling and measurement of production from the Mississippi Canyon Block 807 Unit.

To clarify what Shell is requesting, we are seeking a decision from the Minerals Management Service (MMS) at present only on whether the pipeline running from Mississippi Canyon 807 (MC 807) TLP at Mars to the West Delta 143 (WD 143) platform is eligible for transportation allowance. No request has been made to MMS for an MMS declaration on any line moving from a well in one of the Mars Units to the TLP at MC 807. No request has been made on the value or amount of any actual allowance.

Sincerely yours,

Michael E. Coney
Senior Counsel

MEC:DAD

Attachments

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834

Direct Number: (504) 728-4643
Direct Fax: (504) 728-4690

August 25, 1999

Hand Delivered
Ms. Shirley Barton
Minerals Management Service
Royalty Valuation Division
Department of Interior
P. O. Box 25165, MS 3150
Denver, CO 80225

Dear Ms. Barton:

RE: PROJECT NO. 99-0380
MARS GAS PIPELINE
REQUEST FOR DETERMINATION OF TRANSPORTATION STATUS

This letter will confirm my phone conversation of August 24, 1999, in which I inquired whether the affidavit which was furnished to you last week responded to all of the requirements of the May 20, 1999 guideline for deepwater allowances. Although that affidavit was both faxed and mailed to you, you indicated you did not know whether it had actually been received by the agency. This letter is written as a precaution in response to your July 23, 1999 "30 day letter". I believe the affidavit submitted is sufficient to meet the requirements for inclusion under the guideline issued, but if additional information is needed, please contact me immediately at (504) 728-4643.

Sincerely yours,

Michael E. Coney

Michael E. Coney
Senior Counsel

MEC:DAD

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

JUL 23 1999

MMS-RVD-EVB: 99-0380
Mail Stop 3151

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney At Law
Shell Deepwater Production Inc.
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Dear Mr. Coney:

On August 28, 1998, the Royalty Valuation Division withdrew its denial of your request for a transportation allowance for the Mars gas pipeline extending from the Mars Platform, located at Mississippi Canyon Block 807, to the West Delta 142 Platform. In a Memorandum dated May 20, 1999, the Associate Director for Royalty Management issued guidelines for determining transportation allowances for deepwater production. We will review your previous request using these guidelines, as well as the following information that you need to provide:

- Identify lease and well locations.
- Identify boundary lines of adjacent leases.
- Describe the depth of the pipeline or flowline.
- Identify where production is measured for royalty purposes.
- Identify where production is valued for royalty purposes.

The information requested above is necessary to determine whether your situation warrants a transportation allowance, and not to determine whether any subsequent allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.157. If you wish to apply for this exception, the additional information will be required.

It is our policy to retain projects requiring additional documentation for 30 days. After the 30-day period, all project files are closed if the requested information has not been received in this office. Please submit the requested information within 30 days form the date of this letter to:

Minerals Management Service
Royalty Valuation Division
Attention: Ms. Shirley Barton
P.O. Box 25165, Mail Stop 3151
Denver, Colorado 80225-0165

Please refer to Project No. 99-0380 when submitting the requested information. If there are any questions, please call Ms. Shirley Barton at (303) 275-7222.

Sincerely,

David Hubbard
Chief, Economic Valuation Branch

Enclosure

Barton, Shirley

From: "Coney; Michael ME SHLOIL" <MC159640@MSXSEPC.SHELL.COM> at ~smtp
Sent: Wednesday, August 25, 1999 10:45 AM
To: Barton, Shirley
Subject: RE: flowline

The mars platform is a tension leg platform. Production flows to it from the unit wells on the seafloor. Production as stated in the affadavit is treated to pipeline quality .It is commingled from the various wells at the platform prior to treatmento p/l quality and then moves from the Mars TLP in the p/l some 60+ miles to West Delta.Please advise if this satsifies your info need. Thanks.

> ---------
> From: Shirley.Barton@mms.gov[SMTP:Shirley.Barton@mms.gov]
> Sent: Tuesday, August 24, 1999 1:36 PM
> To: meconey@shellus.com
> Subject: flowline
>
> I located your fax. Some of the information we discussed is still
> necessary.
> You explained what happens to production once it comes to the surface at
> the
> Mars Platform. What I need to know is how it gets to the platform. Is
> production produced from more than one well? If production is from more
> than
> one well then where is the central accumulation point? Where does
> production
> enter the flowline?
>

note to file:
I talked to M. Coney on Aug 31, 1999, and he stated that the platform was located at West Delta 143 and not 142 as he previously stated in some info.

Barton, Shirley

From: Barton, Shirley
Sent: Wednesday, August 25, 1999 10:35 AM
To: "'Coney; Michael ME SHLOIL" <MC159640@MSXSEPC.SHELL.COM> at ~smtp'
Subject: RE: flowline

I believe I need to clarify my request. Movement from the Mars Platform to West Delta is not what I am questioning. Production from individual wells must be commingled somewhere. Is there individual line from each well to the platform? Exactly how does the production get from the well to the Mars Platform?

-----Original Message-----
From: "Coney; Michael ME SHLOIL" <MC159640@MSXSEPC.SHELL.COM> at ~smtp
Sent: Wednesday, August 25, 1999 10:45 AM
To: Barton, Shirley
Subject: RE: flowline

The mars platform is a tension leg platform. Production flows to it from the unit wells on the seafloor. Production as stated in the affadavit is treated to pipeline quality .It is commingled from the various wells at the platform prior to treatmento p/l quality and then moves from the Mars TLP in the p/l some 60+ miles to West Delta.Please advise if this satsifies your info need. Thanks.

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> one well then where is the central accumulation point? Where does
> production
> enter the flowline?
>

United States De

MINERALS M
Gulf o
1201 El
New Orlea

MEC
PKV
GME
AMS
- NOT FOR DISTRIBUTION -

In Reply Refer To: MS 5311 MAY 8 1997

Shell Offshore Inc.
Attention: Mr. Peter K. Ve
Post Office Box 61933
New Orleans, Louisiana 70161-1933

Gentlemen:

Your application dated May 21, 1996, and supplemented July 23, 1996, August 14, 1996, December 30, 1996, and February 12, 1997, requests approval to (1) install a LACT unit on the Mississippi Canyon Block 807 A platform to measure, for sales and royalty purposes, the liquid hydrocarbon production from the Mississippi Canyon Block 807 Unit (Agreement No. 754393002) beginning on June 26, 1996, for ultimate delivery into newly designated Operations System No. 36.5, (2) temporarily measure the gas production from the Mississippi Canyon Block 807 Unit (Agreement No. 754393002), Wells A-2 and A-4, on the Mississippi Canyon Block 807 A platform, for sales and royalty purposes, for a period commencing with the cessation of approved flaring (July 19, 1996) until the 30-inch Mississippi Canyon Gas System (MCGS) pipeline began delivering gas and entrained liquid hydrocarbons directly to the Warren Venice Plant (October 17, 1996)[During that time, the gas production from this unit flowed to the West Delta Block 143 A platform via the Mars 14-inch gas pipeline, entered either a 12-inch and/or a 6-inch gas pipeline to a subsea tie-in with TETCO's 20-inch pipeline, and flowed to Warren's Venice Plant. During this same period, Shell Offshore Inc. agreed to report the production and pay royalties on the gas production from this unit as a direct sale which, by MMS definition of a direct sale, Shell Offshore Inc. would not retain the rights to any of the liquid hydrocarbons recovered from the gas production (this included NGLs and retrograde condensate).], and (3) upon commencement of the delivery of gas and entrained liquid hydrocarbons via the 30-inch MCGS pipeline directly to the Warren Venice Plant (October 17, 1996), on a permanent basis, continue to measure the gas production from the Mississippi Canyon Block 807 Unit, for sales and royalty purposes, on the Mississippi Canyon Block 807 A platform (At that time, all retrograde production separated on the West Delta Block 143 A platform will be blocked from entry into the 12-inch and 6-inch TETCO pipelines and will, from then on, only enter the 30-inch MCGS pipeline).

The Shell Offshore Inc.-operated Mississippi Canyon Block 807 Unit (Agreement No. 754393002)(Allocation Suffix 0) will consist of portions of the following leases:

Leases	Area/Blocks
OCS-G 7957	Mississippi Canyon Block 762 SE/4
OCS-G 7958	Mississippi Canyon Block 763 S/2
OCS-G 7962	Mississippi Canyon Block 806 E/2
OCS-G 7963	Mississippi Canyon Block 807
OCS-G 9881	Mississippi Canyon Block 850 NE/4
OCS-G 9882	Mississippi Canyon Block 851 N/2

On **June 26, 1996**, the Mississippi Canyon Block 807 Unit initially began producing from wells drilled from the Mississippi Canyon Block 807 A platform and a remote subsea satellite well. On this same platform, the full-well-stream production from these wells is combined into a common header. Once combined, this production enters a high-pressure or an intermediate-pressure separator. At least once every other month, the production from each of the wells drilled from the Mississippi Canyon Block 807 A platform, including the remote subsea satellite well, is individually diverted to a test separator, for well tests, prior to being combined.

Once separated, the liquid hydrocarbons are combined and measured, for sales and royalty purposes, by the Mississippi Canyon Block 807 A platform LACT unit. The liquid hydrocarbons depart the platform via Shell Pipe Line Corporation's (SPLC) 18-inch oil pipeline, flow to, and across, the West Delta Block 143 A platform, and enter the newly designated Operations System No. 36.5 via a 24-inch oil pipeline, for delivery to the Shell-operated Fourchon Terminal at Fourchon, Louisiana.

(July 19, 1996, through October 16, 1996)

Commencing with the cessation of approved flaring (July 19, 1996) until the 30-inch Mississippi Canyon Gas System (MCGS) pipeline began delivering gas and entrained liquid hydrocarbons directly to the Warren Venice Plant (October 17, 1996), the separated gas production from the Mississippi Canyon Block 807 Unit was combined, was dehydrated, and was measured, for sales and royalty purposes, on the Mississippi Canyon Block 807 A platform by a single 10-inch Daniel Senior orifice meter in conjunction with one of two Barton chart recorders (Serial Nos. 202A-6189622 and 202A-174238). [On or about September 23, 1996, these chart recorders were scheduled to be replaced by an Omni 6000 flow computer (Serial No. 31691) but due to technical difficulties, the replacement did not take place until March 21, 1997]. The gas production departed the platform via Shell Gas Pipeline Company's (SGPC) 14-inch pipeline, was delivered to the West Delta Block 143 A platform and entered a dedicated slug catcher.

On the West Delta Block 143 A platform, the separated retrograde liquid hydrocarbons from the Mississippi Canyon Block 807 Unit were measured (for company purposes only) by two of four Halliburton Model 1105 turbine meters, were recombined with the gas, and entered the 12-inch TETCO pipeline, for delivery to the Warren Gas Plant located in Venice, Louisiana.

(Beginning October 17, 1996)

Commencing when the 30-inch Mississippi Canyon Gas System (MCGS) pipeline began delivering gas and entrained liquid hydrocarbons directly to the Warren Venice Plant (October 17, 1996),the gas production from the Mississippi Canyon Block 807 Unit will no longer be measured, for royalty purposes, on the Mississippi Canyon Block 807 A platform. The separated gas production from the Mississippi Canyon Block 807 Unit will continue to be combined, will continue to be dehydrated, and will then depart the platform via Shell Gas Pipeline Company's (SGPC) 14-inch pipeline, for delivery to the West Delta Block 143 A platform.

On the West Delta Block 143 A platform, the gas production from the Mississippi Canyon Block 807 Unit will enter a dedicated slug catcher. That portion of the separated gas production on the West Delta Block 143 A platform which enters the 12-inch TETCO pipeline (BP Exploration Inc.'s share of the gas) for delivery to the Warren Gas Plant located in Venice, Louisiana will now be measured, for sales and royalty purposes, by two 12-inch Daniel Senior orifice meters in conjunction with a Flow Automation Benchmark flow computer (Serial No. 9512005) and will be delivered into the 12-inch TETCO pipeline. The remaining separated gas production on the West Delta Block 143 A platform which enters the 30-inch MCGS pipeline, for direct delivery to the Warren Gas Plant located in Venice, Louisiana will now be measured, for royalty purposes, by three 16-inch Daniel Senior orifice meters in conjunction with an Omni flow computer (Serial No. 62126). The separated retrograde liquid hydrocarbons from the Mississippi Canyon Block 807 Unit will be measured (for company purposes only) by two of four Halliburton Model 1105 turbine meters, will be recombined with the gas which enters the 30-inch MCGS pipeline, and will flow directly to the Warren Gas Plant located in Venice, Louisiana.

The Mississippi Canyon Block 807 A platform LACT unit will have three meter runs, each consisting of the following: basket strainer with an air eliminator, BS&W monitor, sample probe (located in a vertical run of pipe), and a 10-inch A. O. Smith Model JA10-S3 positive-displacement meter (Serial Nos. PL147409, PL147410, and PL147411). A sample container with a circulating pump will be used for each meter run. Temperature measurement will be accomplished using a Rosemount temperature averager.

Meter proving will be accomplished using a bidirectional prover loop (27.22076-barrel prover volume, 17.25-inch (ID) diameter, .375-inch wall thickness, calibrated on July 22, 1994).

Royalty for the liquid hydrocarbons produced from the Mississippi Canyon Block 807 Unit will be based on the volume and the volume-weighted average gravity as determined by the LACT unit located on the Mississippi Canyon Block 807 A platform. Allocation of the liquid hydrocarbons to the individual wells which will be produced from the Mississippi Canyon Block 807 Unit will be based on periodic well tests. Allocation of the liquid hydrocarbon production measured by these LACT meters to each lease within the Mississippi Canyon Block 807 Unit will be based on the unit participation factors.

(July 19, 1996, through October 16, 1996)

Royalty for the gas produced from the Mississippi Canyon Block 807 Unit during this time will be based on the volume as measured by the Mississippi Canyon Block 807 A platform gas sales meters.

(After October 16, 1996)

Royalty for that portion of the separated gas production from the Mississippi Canyon Block 807 Unit which enters the 12-inch TETCO pipeline (BP Exploration Inc.'s share of the gas), for delivery to the Warren Gas Plant located in Venice, Louisiana will be based on the volume as measured by the two 12-inch Daniel Senior orifice meters in conjunction with a Flow Automation Benchmark flow computer (Serial No. 9512005) located on the West Delta Block 143 A platform. Allocation of gas from these royalty meters to the individual wells within the Mississippi Canyon Block 807 Unit will be based on periodic well tests. Allocation of gas to each lease within the Mississippi Canyon Block 807 Unit will be based on the unit participation factor for each lease.

Royalty for the gas production from the Mississippi Canyon Block 807 Unit which enters the 30-inch MCGS pipeline, for direct delivery to the Warren Gas Plant located in Venice, Louisiana will be based on the volume as measured by the three 16-inch Daniel Senior orifice meters in conjunction with an Omni flow computer (Serial No. 62126) located on the West Delta Block 143 A platform. Allocation of gas from these royalty meters to the individual wells within the Mississippi Canyon Block 807 Unit will be based on periodic well tests. Allocation of gas to each lease within the Mississippi Canyon Block 807 Unit will be based on the unit participation factor for each lease.

In accordance with 30 CFR 250.180 and 250.181, the royalty measurement of the liquid hydrocarbons and the gas production from the Mississippi Canyon Block 807 Unit, as outlined above,

are hereby approved. The royalty measurement of the gas production from the Mississippi Canyon Block 807 Unit, for delivery into the 30-inch MCGS pipeline on the Mississippi Canyon Block 807 A platform is hereby denied. Requests must be submitted to the Surface Commingling and Production Measurement Section of the Office for Production and Development prior to making any changes in the approved commingling, measurement, allocation, or testing procedures.

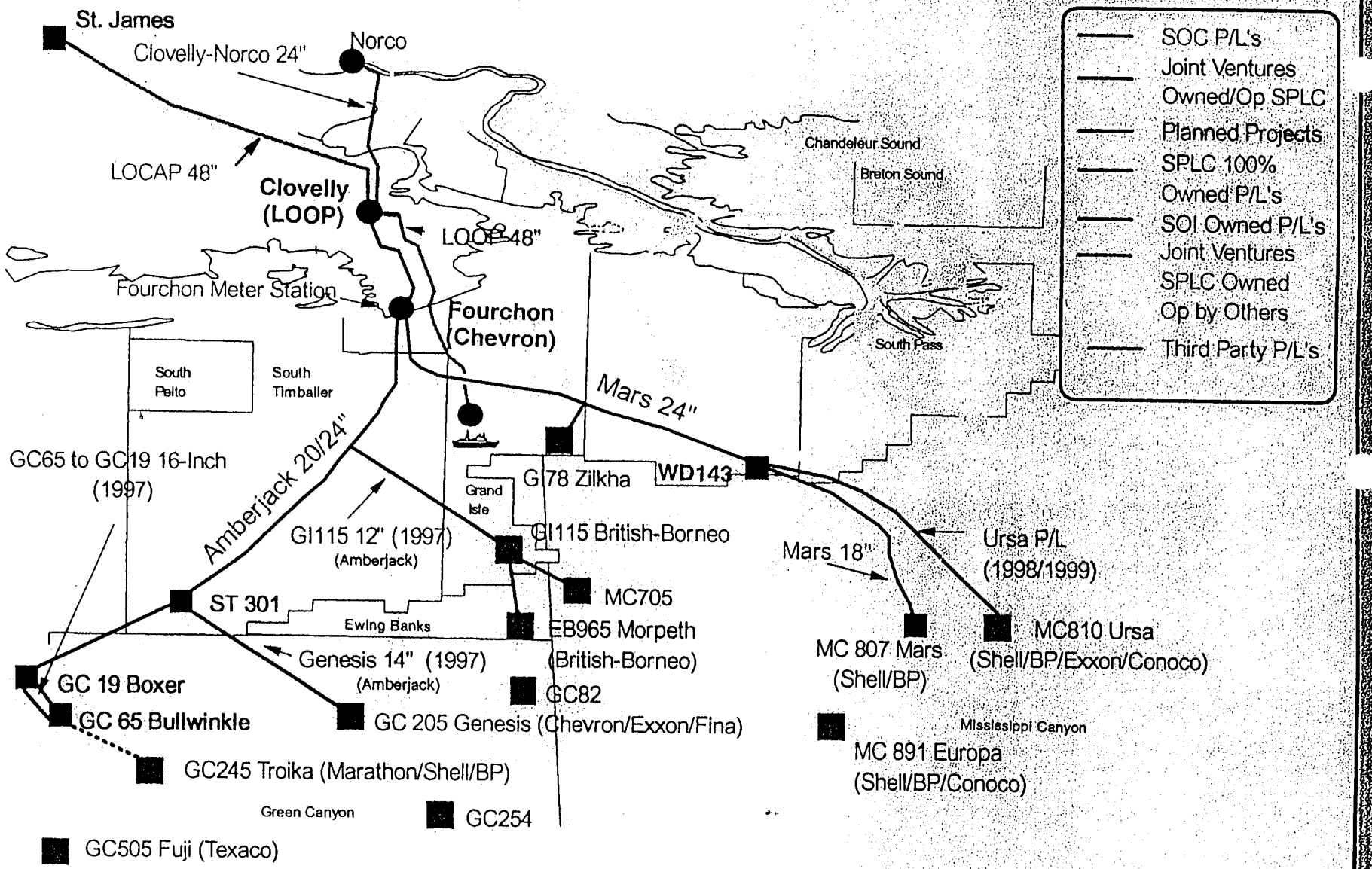
This letter confirms the verbal approvals given to Mr. Peter K. Velez of your office for (1) the royalty measurement of the liquid hydrocarbons from the Mississippi Canyon Block 807 Unit by Mr. Mike Melancon of this office on June 26, 1996, and (2) the roylaty measurement of the gas production from the Mississippi Canyon Block 807 Unit on the Mississippi Canyon Block 807 A platform until the startup of the 30-inch MCGS pipeline by Mr. Mike Melancon of this office on July 19, 1996.

Sincerely,

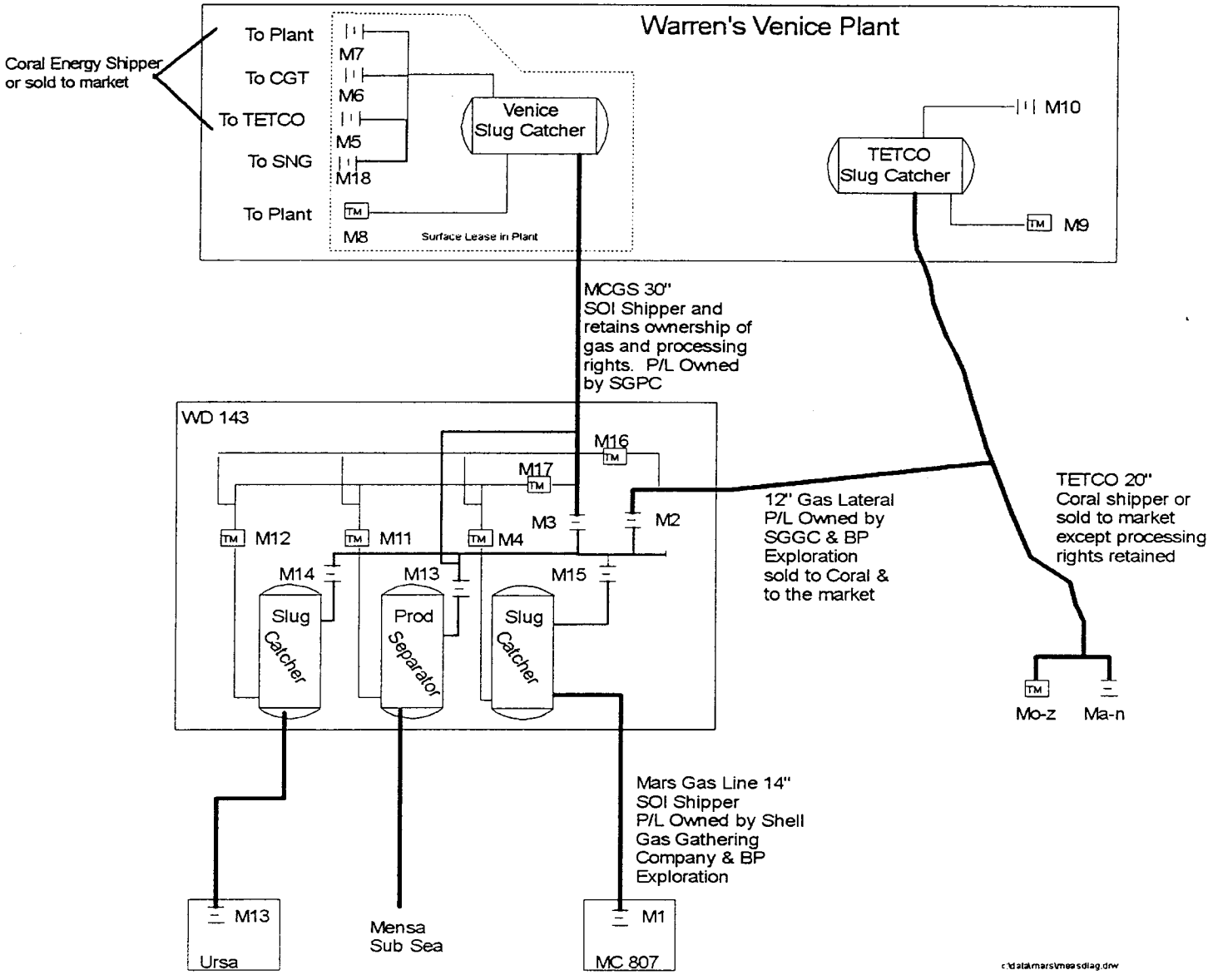
Eric L. Primeaux
Chief, Surface Commingling and
Production Measurement Section
Production and Development

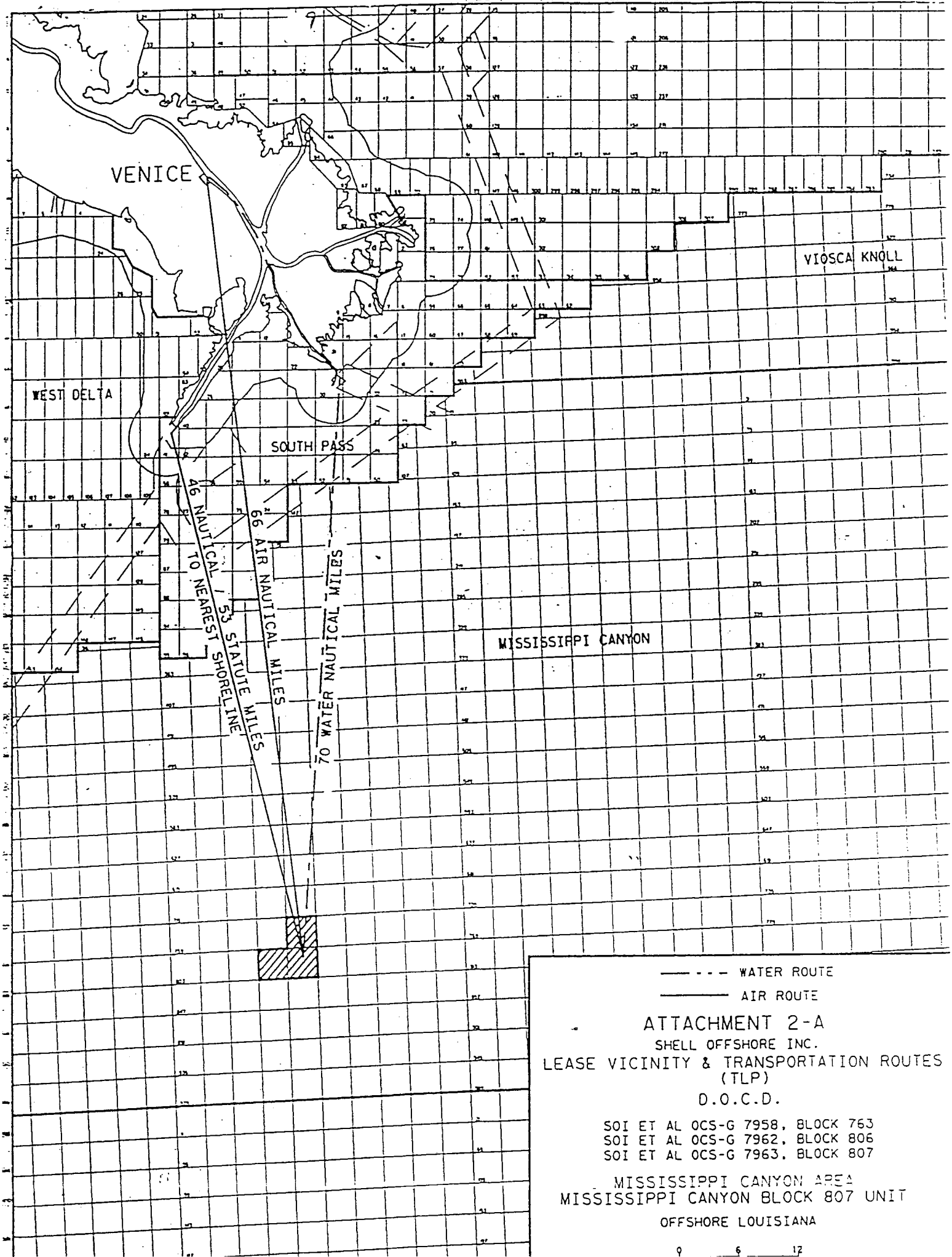
cc: BP Exploration Inc.
Attention: Mr. Stephan J. Chrien
Post Office Box 4587
Houston, Texas 77210-4587

Central Pipeline Corridor Map



Mars Corridor Measurement Plan





ATTACHMENT 2-A

SHELL OFFSHORE INC.

LEASE VICINITY & TRANSPORTATION ROUTES (TLP)

D.O.C.D.

SOI ET AL OCS-G 7958, BLOCK 763
SOI ET AL OCS-G 7962, BLOCK 806
SOI ET AL OCS-G 7963, BLOCK 807

MISSISSIPPI CANYON AREA
MISSISSIPPI CANYON BLOCK 807 UNIT

OFFSHORE LOUISIANA

9 6 12

Shell Offshore Inc.
An affiliate of Shell Oil Company

One Shell Square
PO Box 61933
New Orleans LA 70161-1933
(504) 588-6161

Exploration and Production
Deepwater Division

July 23, 1996

Mr. Mike Melancon
Regional Supervisor
Production and Development
Minerals Management Service
1201 Elmwood Park Boulevard
New Orleans, LA 70123-2394

Dear Mr. Melancon:

SUBJECT: CONFIRMATION OF VERBAL APPROVAL
COMMINGLING AND MEASUREMENT OF GAS PRODUCTION
FROM THE MISSISSIPPI CANYON BLOCK 807 UNIT
UNIT AGREEMENT NUMBER 754393002, COMPRISING PORTIONS
OF THE FOLLOWING LEASE BLOCKS:
SE/4 MISSISSIPPI CANYON BLOCK 762, OCS-G 7957
S/2 MISSISSIPPI CANYON BLOCK 763, OCS-G 7958
E/2 MISSISSIPPI CANYON BLOCK 806, OCS-G 7962
MISSISSIPPI CANYON BLOCK 807, OCS-G 7963
NE/4 MISSISSIPPI CANYON BLOCK 850, OCS-G 9881
N/2 MISSISSIPPI CANYON BLOCK 851, OCS-G 9882

The purpose of this letter is to confirm the verbal approval you granted to Mr. Andy Burglass and myself in our teleconference of July 19, 1996 to measure gas production, for sales and royalty purposes with the equipment discussed in our application dated May 21, 1996, with the clarifications and modifications listed below:

We have been informed by representatives of the TETCO Pipeline System that they will not change procedures on their pipeline to allow for Shell to receive a liquid accounting for our retrograde condensate separated from the fluid stream at the entrance to their plant. Therefore, all portions of our May 21 application dealing with measurement of retrograde condensate, for sales and royalty purposes, (contained in the last sentences of Page 2 and continuing onto the top of Page 3) should be removed from that application.

Until the start-up of the 30" MCGS Pipeline the MC 807 "A", dehydrated gas production from MC 807 "A" will be produced to WD 143 "A" where any retrograde condensate will be separated before the gas stream is re-measured and before it flows into the TETCO System. Any separated retrograde will be recombined with the gas stream and

shipped to TETCO in the same pipeline. As stated in our May 21 application, after the start-up of the 30" MCGS Pipeline all separated retrograde liquid production will be blocked from entry into the TETCO System and re-injected into the MCGS Pipeline for processing at the Warren Plant.

Ultimate sales and royalty for gas production transported by TETCO to the TETCO Gas Processing Plant will be based on the higher value of the residue gas and plant liquids recovered at TETCO as compared with the value of the gas as measured by the offshore sales and royalty basis meters on MC 807 "A". This procedure is consistent with our gas processing agreement with TETCO and conforms to procedures already in place for operation on that line and in the TETCO Plant. As you are aware, TETCO in its agreements with transporters for this line requires that retrograde condensate recovered at the TETCO slug catcher be surrendered to TETCO. Royalty will be paid on this volume as gas based on the gas measurement at the appropriate royalty settlement point offshore, and not as oil.

Finally, due to programming problems with the Electronic Measurement System discussed in our original application, we would like your approval to temporarily measure gas at MC 807 "A" utilizing a Barton Recorder System while necessary adjustments are made to our electronic system. In the mean time we request your approval to use a Model 202A Barton Recorder (Serial Number 6189622).

Should you have any questions regarding this matter, please contact either Mr. Andy Burglass at (504) 588-6012, or myself at (504) 588-6982.

Yours truly,

Peter K. Velez
Manager Regulatory Affairs

Attachments

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834
(504) 588-6161

December 30, 1996

Mr. Mike Melancon
Regional Supervisor
Production and Development
Minerals Management Service
1201 Elmwood Park Boulevard
New Orleans, LA 70123-2394

Dear Mr. Melancon:

SUBJECT: REVISION TO OUR ORIGINAL APPLICATION DATED MAY 21, 1996
REGARDING THE COMMINGLING AND MEASUREMENT OF PRODUCTION
FROM THE MISSISSIPPI CANYON BLOCK 807 UNIT
UNIT AGREEMENT NUMBER 754393002, COMPRISING PORTIONS
OF THE FOLLOWING LEASE BLOCKS:
SE/4 MISSISSIPPI CANYON BLOCK 762, OCS-G 7957
S/2 MISSISSIPPI CANYON BLOCK 763, OCS-G 7958
E/2 MISSISSIPPI CANYON BLOCK 806, OCS-G 7962
MISSISSIPPI CANYON BLOCK 807, OCS-G 7963
NE/4 MISSISSIPPI CANYON BLOCK 850, OCS-G 9881
N/2 MISSISSIPPI CANYON BLOCK 851, OCS-G 9882

The purpose of this letter is to revise our earlier application dated May 21, 1996 relative to, what we had thought might be a liquid measurement facility associated with the Tetco Pipeline System. In that regard, we have been informed that Tetco has ruled out the possibility of adding such equipment to their facility. Therefore, we request that you remove all references to a Royalty Tank from our application. All references to this equipment and related procedures are contained in the last paragraph of the second page of our application beginning with the words "Additionally, any retrograde liquids..." and ending with the conclusion of that same paragraph at the top of Page 3. All other provisions of the original application remain unchanged by this revision. Further, we have added a Revised Composite Simplified Process Flow Diagram for the WD 143 "A" Platform showing the existence of previously installed 6" gas pipeline connection into the Tetco System. Please be advised that any gas flowing through this pipeline will have already been measured by the existing system meters discussed in or original application.

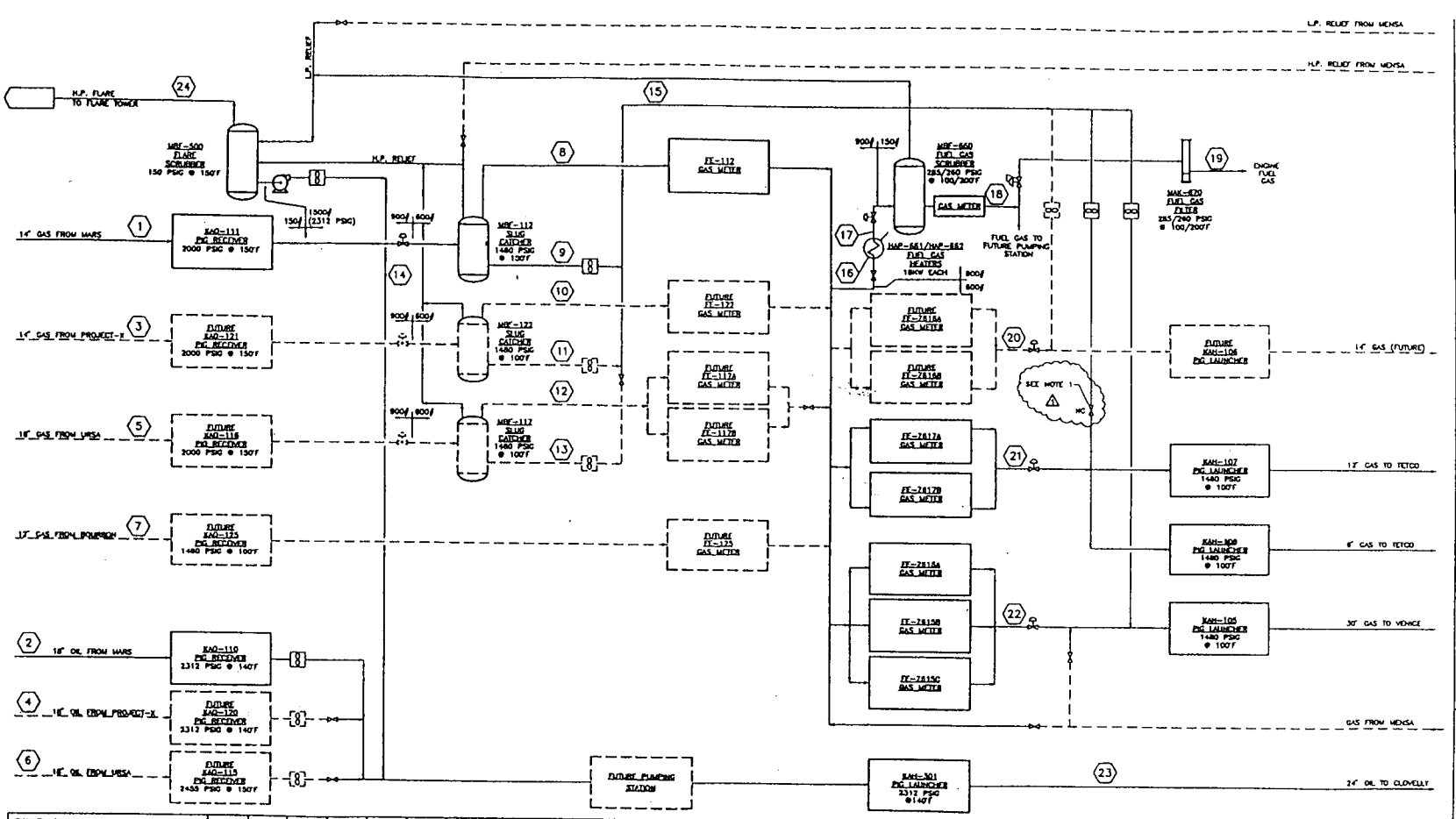
Should you have any questions regarding this matter, please contact Mr. Andy Burglass at (504) 588-6012.

Yours truly,

Peter K. Velez
Manager Regulatory Affairs

Attachment

BCC: J. F. Moore
A. M. Schneider
M. A. Curole
R. M. Rainey
M. C. Ecklund (SSC)
G. M. Flores (SSC)
N. M. Pasvantis
Foremen - Mars Platform



STREAM	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
GAS MMSCFD	110	–	110	–	400	–	100	110	–	110	–	400	–	–	–	0.5/2.7+	0.5/2.7	0.5/2.7	0.5	370	100	550	–	400
CONDENSATE BPD(NORMAL/SLUG)	2400	–	2400	–	9600	–	NIL	–	4000/80,000	–	4000/80,000	–	16,000/80,000	–	24,000/80,000	–	–	–	–	–	–	–	–	–
OIL BPD	–	100,000	–	100,000	–	200,000	–	–	–	–	–	–	–	500	–	–	–	–	–	–	–	–	250,000	–
TEMPERATURE F	80	80	80	80	80	80	70	80	80	80	80	80	90	0	80	80	130	81	47	80	80	80	80	-44
PRESSURE PSIG	1200	1500	1200	1500	1200	1500	1200	1180	1180	1180	1180	1180	1160	1480	1175	1180	1175	180	30	1170	1170	1170	1480	100
OIL VISCOSITY CP	–	25	–	25	–	25	–	–	–	–	–	–	–	25	–	–	–	–	–	–	–	–	25	–
GAS S.G.	.72	–	.72	–	.72	–	.72	.72	–	.72	–	.72	–	–	–	.72	.72	.72	.72	.72	.72	.72	–	.72
OIL S.G.	–	.85	–	.85	–	.85	–	–	–	–	–	–	–	.85	–	–	–	–	–	–	–	–	.85	–
CONDENSATE S.G.	.43	–	.43	–	.43	–	–	–	.43	–	.43	–	.43	–	.43	–	–	–	–	–	–	–	–	–

*FUTURE FUEL GAS RATE

NOTE:
1. NORMALLY CLOSED AFTER START-UP OF 30" MCOGS PIPELINE.

RELEASED ONLY FOR :

Shell Offshore Inc.

COMPOSITE SIMPLIFIED PROCESS FLOW WITH METERED CONDENSATE
W.D. BLOCK 143 PLATFORM "A"
WEST DELTA 143 FIELD

526A-95-18

AMB

Shell Offshore Inc.
An affiliate of Shell Oil Company

One Shell Square
PO Box 61933
New Orleans LA 70161-1933
(504) 588-6161

Exploration and Production
Deepwater Division

August 14, 1996

Mr. Mike Melancon
Regional Supervisor
Production and Development
Minerals Management Service
1201 Elmwood Park Boulevard
New Orleans, LA 70123-2394

Dear Mr. Melancon:

SUBJECT: COMMINGLING AND MEASUREMENT MODIFICATION
INVOLVING THE MISSISSIPPI CANYON BLOCK 807 UNIT
UNIT AGREEMENT NUMBER 754393002, COMPRISING PORTIONS
OF THE FOLLOWING LEASE BLOCKS:
SE/4 MISSISSIPPI CANYON BLOCK 762, OCS-G 7957
S/2 MISSISSIPPI CANYON BLOCK 763, OCS-G 7958
E/2 MISSISSIPPI CANYON BLOCK 806, OCS-G 7962
MISSISSIPPI CANYON BLOCK 807, OCS-G 7963
NE/4 MISSISSIPPI CANYON BLOCK 850, OCS-G 9881
N/2 MISSISSIPPI CANYON BLOCK 851, OCS-G 9882

Shell Offshore Inc. herein requests your approval to remove the existing Barton Recorder associated with gas measurement at the Mars Platform and install in its place an Omni Flow Computer, Serial Number 31691. We currently plan to install and begin using this equipment on or about September 23, 1996, contingent upon your approval.

We are enclosing for your review a technical data package describing the specifications and capabilities of this equipment.

Should you have any questions regarding this matter, please contact Mr. Andy Burglass at (504) 588-6012.

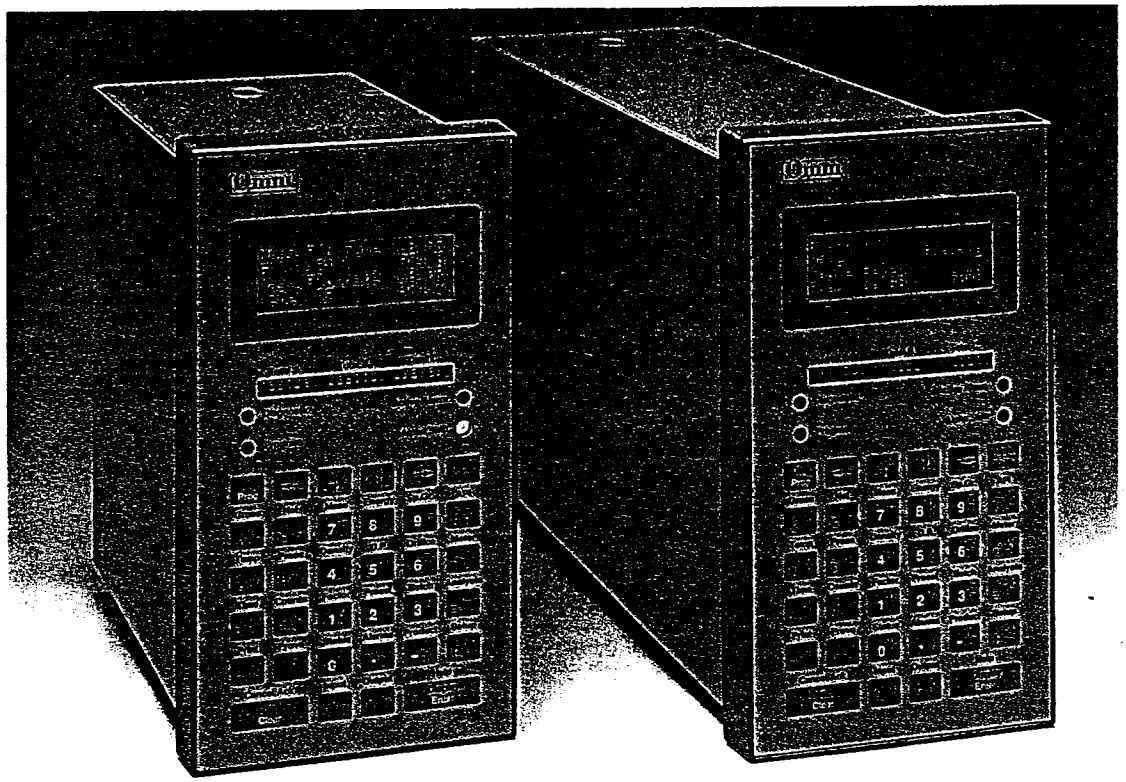
Yours truly,

Peter K. Velez
Manager Regulatory Affairs

Attachment

BCC: J. F. Moore
A. M. Schneider
M. A. Curole
J. E. Matherne
M. C. Ecklund (SSC - Houston)
G. M. Flores (SSC - Houston)
N. M. Pasvantis
Foremen - Mars Platform

Multi-Stream Flow Computers



- High-speed C-Mos 16/32 bit processor with math co-processor for high-speed execution of precision floating point math
- 4 MByte max. configurable ROM/RAM memory
- Multi-channel serial communications to 19.2 KBaud
- 34 button, color-coded, alpha-numeric keypad for instantaneous data displays, configuration and diagnostics
- User formatting of reports and displays
- User on-line configuration with PC program
- Control, PID, and Sequencing functions with boolean programmable logic
- Modular I/O and digital transmitter interface
- 4 line, alpha-numeric, backlit LCD display
- 4 Dual-color, Status LEDs, and 3 electromechanical counters
- RTU and Communication Sub-Master functions

Introduction

Omni 3000 and Omni 6000 flow computers are reliable, easy-to-use, uniquely versatile, measurement instruments. Their control and communication capabilities are added features that are indispensable for liquid and gas transmission and process measurement, control and display. The compact, rugged design and operation incorporate many user-requested features that can reduce or eliminate requirements for other ancillary control devices.

The modular plug in design and interchangeability of Omni multi-function input/output boards allow the user to select from a wide range of functions including multi-run flow measurement, control, PID, sequencing, Remote Terminal Unit and communications Sub Master capability.

Copyright 1996 Omni Flow Computers, Inc.

Design features

Keypad

Control of the flow computer is via the front-panel 34 button, imprinted alpha-numeric character membrane keypad with tactile domes and audio feedback. Imprinted characters are color coded to indicate operator and program functions, as well as primary and secondary alpha-numeric functions.

The keypad provides the user with a unique on-line capability to configure measurement and control data, perform diagnostic tasks and display operator information. Context-sensitive help screens are provided as an additional aid.

Configuration, program and diagnostic data can be entered via the keypad or remotely by serial hook-up into battery-backed up, CMOS SRAM memory. Security codes and an internal mechanical switch ensure that configure/program functions can be disabled when required.

Display

The 4 line x 20 alpha-numeric character, back-lit Liquid Crystal Display is updated every 500 ms and displays all messages and system variables in English language engineering units. Four dual-color LEDs indicate various operating modes and alarms. Three nonresettable 6 digit electromechanical counters are included on the front panel and can be configured to count gross, net, mass or energy units at any rate up to 20 counts per second.

Processor

A powerful 16/32 bit, CMOS microprocessor and floating point math co-processor are used for high speed execution of assembler code instructions. They provide a throughput of 3 Million instructions per second. A hardware real-time clock is also incorporated. Timekeeping continues even when power is lost to the Omni, which automatically resets on power-up. Time and duration of power failure is logged, and printed when power is restored.

512 Kbytes of CMOS SRAM and 1 Mbyte of CMOS EPROM are standard on the CPU module. With the addition of memory expansion, total memory capacity can be increased to 2 Mbytes of SRAM and 2 Mbytes of EPROM. All SRAM is backed up by nickel-cadmium batteries.

Modular Circuitry

The Omni computers utilize a I/O bus system. Mounted on a passive backplane are 5/15 DIN Standard connectors which are bussed in two sections. The front section, which contains the microprocessor modules, is comprised of 96-pin connectors. The functions located here are the CPU, Memory, Math Co-processor and Control Logic, and I/O bus Controller.

The rear section comprises 64-pin connectors which can accept any type of optically isolated I/O module. The rearmost connector accepts the system power supply module. Ribbon cables connect the I/O and power connectors on the backplane to the back panel.

Plug-in I/O Expansion

Almost any combination of I/O mix can be accommodated in the computer (Omni 3000/Omni 6000). The only limitations are the number of I/O connectors (4/10) and the number of wires connecting them to the back panel field wiring terminals (48/120). Each I/O connector has dedicated wires to the back panel terminal module. Additional wires are bussed to all I/O connectors.

Meter runs utilize plug-in modules which include all necessary A/D converters and control circuitry. User selection of process I/O is available with 'combo' cards that can be a mix of meter pulse, frequency densitometer, 4-20mA, 4-wire 100 ohm Rtd inputs and fused 4- 20mA outputs.

Special 4-Channel modules interface to Honeywell digital transmitters.

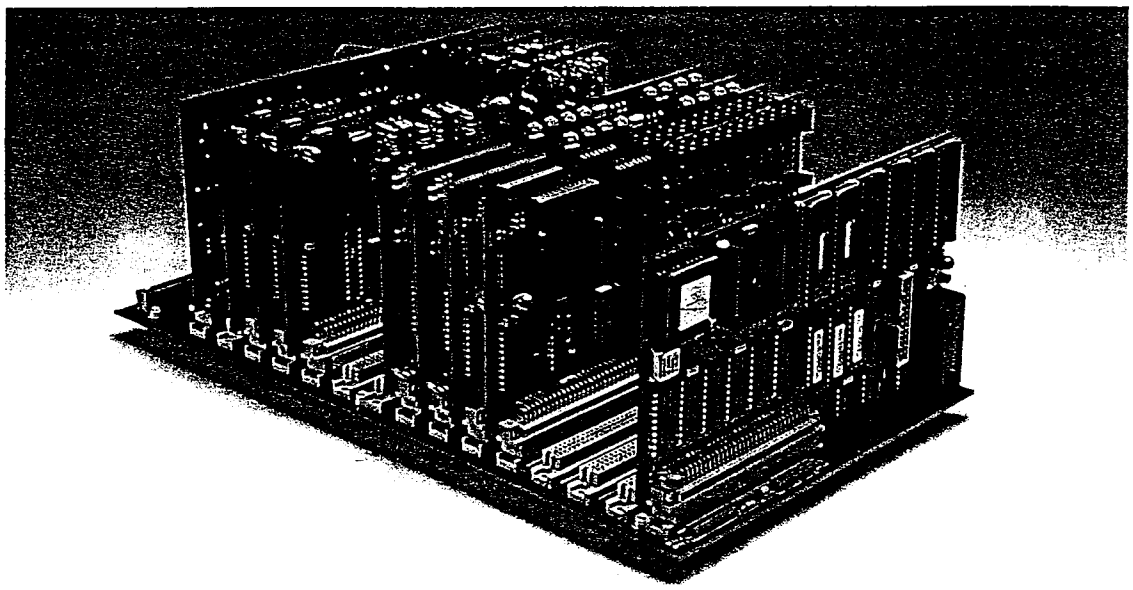
Digital status inputs and digital control outputs are selectable/configurable and are provided as fused,12-channel modules with active and fuse indication LEDs. Field technicians can isolate problems to board level and can quickly get the system fully operational.

Photo-optical isolation

The isolation of circuitry via photo-optical devices from all field wiring prevents accidental damage to the electronics, including that caused by static electricity. The isolation also inhibits electrical noise from inducing measurement errors. All I/O is modular and plug-in for easy field maintenance and replacement.

Built-in Diagnostics and Calibration

Extensive diagnostic software is built in which allows the technician to locally or remotely debug a possible problem without interrupting on-line measurement. Calibration of analog signals is performed through the keypad and software without having to physically access potentiometers.



View showing modularity of an Omni 6000 flow computer

Interrupt Driven CPU

This is a very important aspect to firmware. It provides for a multi-tasking environment in which priority tasks can be undertaken concurrently with unrelated activity. This provides for high-speed digital signals to be output at the same time as measurement computations and serial communications to a printer or host computer without degradation in speed of tasking.

All custody transfer measurement programs are stored in EPROM memory. This prevents damage due to electrical noise, or tampering with the integrity of calculation specifications. SRAM programming can also be accommodated.

Fast Cycle Time

All time-critical measurement functions are performed concurrently by the computers in every 500 ms for four meter runs. This provides greater accuracy of measurement calculations and permits a faster response by pipeline operations in critical control functions such as opening or closing valves or flow control.

Communications Serial I/O

Multiple port high-speed, concurrent serial communications up to 19200 bps is provided for direct interface with SCADA and process control mainframes. Software selectable baud rates also allow for multi-drop RS232C communications with printers, PCs, and various brands of digital transmitters.

SCADA/DCS Protocols

The ability and willingness of the manufacturer to provide communication protocols is a key element in the selection of instrumentation. These protocols provide a ready communication interface with full read/write capability with an array of existing host SCADA systems. These data acquisition networks include PLCs and/or RTUs. Modbus™ RTU Binary and ASCII, and Allen-Bradley DF1 full duplex are amongst a variety that have been implemented by our programming staff.

PC-Communications Interface

The wide use of PCs, and video display units makes it possible to provide software for off-line/on-line access to measurement, configuration and calibration data. Collection of historical reports, including alarms, interval reports of any time sequence, liquid batch and prove reports, and full remote technical intervention capabilities are also provided.

In-House Programming Service

Omni's resident measurement and communications programming expertise is available for user support.

Modbus™ is a Trademark of AEG-Modicon, Inc

™Omni 3000 and Omni 6000 are Trademarks of Omni Flow Computers Inc

SPECIFICATIONS of Omni 3000/Omni 6000*

PHYSICAL SPECIFICATIONS

Dimensions:

Panel cut-out: 8.25" high x 4.75" wide

Distance behind panel: 8.75/15.50"

Front Panel Bezel: 9.00" high x 5.00" wide

Weight: 9/16.0 lb (4.10/7.25 kg)

Mechanical: Outer panel-mounted enclosure with integral field-wiring back panel supplied with mounting brackets. Inner slide-in enclosure contains electronic modules. NEMA4 and NEMA7 options.

ELECTRICAL SPECIFICATIONS

Supply Voltage:
Type: 120, or 16-30 VDC. 10-20 Watts.

Field Wiring Connections
Inputs/Outputs: Four/ Ten 12 position screw terminal strips vertically mounted on the back panel

Power: AC and DC connect to adjacent 3 pin and 8 position terminals

Fuse: Primary system fuses located on back panel

Transient / Overvoltage Protection: Crowbar and transorbs on power supply

CPU/Memory:
16/32 bit CMos microprocessor,w/ floating point math co-processor, throughput 3 MIPS, max 2 Mb EPROM, max 2 Mb SRAM, hardware real-time clock, RAM battery back-up, 16 MHz operation

Modular I/O:
Number: 4/10 plug-in slots for any configuration of I/O modules for measurement, control, PID, sequencing, RTU, or as a communications Sub-Master

Optical Isolation:
Each input and output is photo-optically isolated, with a maximum common mode rejection on inputs/outputs of + /- 250 VDC to chassis ground

Environmental:
Operating Temperature: -20 Deg.C to + 50 Deg.C.
Storage Temperature: -20 Deg.C to + 80 Deg.C.
Relative Humidity: 90 % non condensing.

Analog / RTD Inputs:
Number: Max 4 per combo module
Precision: 14 binary bits
Type: 4 - 20 mA or 1 - 5 Volts. Differential Input or 100 Ohm, 4-wire Rtd

Digital Transmitter Inputs:
Number: 4 per digital module

Type: Honeywell

Pulse Inputs:
Number: Max two per combo module

Input Frequency: DC to 20 KHz.

Configuration: Differential input

Prover Detector Switch Input: Voltage, application of voltage starts prove

Status Inputs/Control Outputs:
Number: Selectable in any configuration of I/O up to 12 per 12-ch fused digital I/O module

Analog Outputs:
Number: Max. two fused per combo module

Multi-Bus RS232C Serial I/O:
Number: Groups of two
Baud rate: Software selectable 300-19200 Bps

*Specifications subject to change by manufacturer without notice due to modifications or improvements.

Limited warranties apply to the use of the equipment.

Omni Flow Computers, Inc
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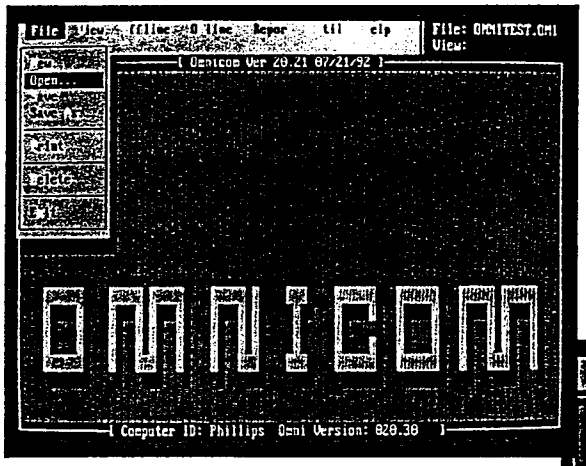
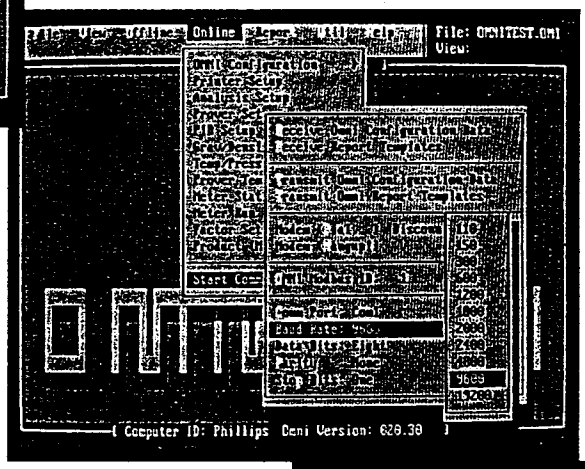
OmniCom® can configure...

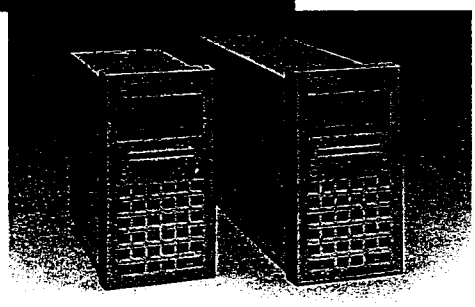


communicate with...



and control...

an Omni flow computer



- Puts I/0 configurability in your hands at the press of a key
- Lowers project costs by eliminating custom programming and vendor dependencies
- Enhanced productivity by giving you real-time access when you need it
- Provides an operator/ technician interface that "works the way it's supposed to"

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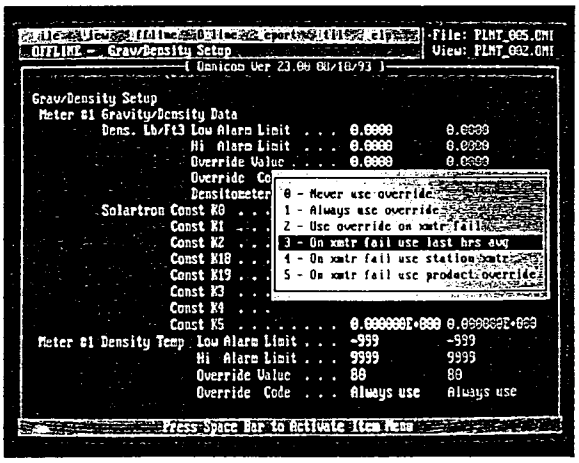
OmniCom® is a PC configuration program for use with Omni flow computers. Designed around the Omni operating system, it takes the place of the keypad data entries required to configure an Omni 3000™ or Omni 6000™ RTU/flow computer.

Full color pulldown menus and entry-sensitive Help screens guide the user quickly through an I/O configuration procedure.Configurations can be prepared offline and uploaded as required or entered in interactive mode.

Easy to Use, Control and PID also

OmniCom is designed for day-to-day users-not computer experts. Everything is in plain English, with values displayed in engineering units. Safety limits are built-in that inhibit the possibility of gross errors being made in the entry of critical configuration data.

Meter and transducer calibration ranges can be entered in advance. Entry of simple boolean logic statements and setpoints lets the computer function as a small PLC and as a four-loop PID controller.



Custom Reports

Report templates are provided, allowing you to modify the standard report formats to fit your own needs. Only simple text editing commands are required.

Dial-Up Access

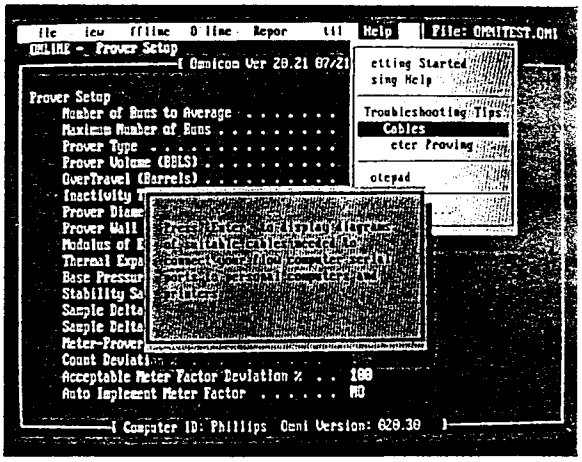
Remote real-time access via OmniCom's dial-up feature lets you access data and make modifications online. Daily reports and stored historical data can be retrieved and saved to disk. Various baud rates to 19.2 KBd are supported.

You can even predefine or modify three data packets totalling 48 different data groups for fast response single-message polling by a SCADA host.

Accessing one computer at a meter station, or several, OmniCom gets you there. An Omni 6000's multi-port SCADA capability lets you access the computers concurrently with the SCADA/ DCS link. And three levels of password access and serial communications passwords provide all the security you'll ever need.

User Definable Help Screens

You can customize OmniCom's Help screens to suit your personal preferences. An on-screen editor allows you to scale and position windows, and add, delete or edit text in almost any language.



Operations Utilities

View the physical and software-assigned I/O matchup and wiring diagrams for instrument hookup and perform operator control tasks such as batching and proving. Diagnostics can be read for each I/O point to determine proper signal values.

The Best News? The Price

OmniCom is an inexpensive PC program that comes with every computer. You don't need expensive training. You'll be up and running in minutes.

Quick Payback

Your investment in an Omni using OmniCom will pay for itself quickly in cost savings. Approved meter data/configurations and reduced travel to meter stations are just some of the benefits. By monitoring activity through telephone modem access, you can quickly identify problems.

Dependability

We've made our reputation on reliability and responsiveness. If you have a problem, we're only a telephone call away. An Omni specialist will provide you with an immediate response when you need an answer to a hardware or software technology question.

Or just call for some basic tips on good measurement or automation-related practice.

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Omni OMNI FLOW COMPUTERS, INC.

Hardware Matrix

Module Type		or	or		
Type A Combination Card p/n 686006	Input Channel 1	4-20ma	1-5volts	RTD 4wire	
	Input Channel 2	4-20ma	1-5volts	RTD 4wire	
	Input Channel 3	4-20ma	1-5volts	Pulse Turbine/PD	
	Input Channel 4	4-20ma	1-5volts	Pulse Turbine/PD	
	Output Channel 1	4-20ma			
	Output Channel 2	4-20ma			
Type B Combination Card p/n 686006	Input Channel 1	4-20ma	1-5volts	RTD 4wire	
	Input Channel 2	4-20ma	1-5volts	RTD 4wire	
	Input Channel 3	4-20ma	1-5volts	Pulse Turbine/PD	
	Input Channel 4	4-20ma	1-5volts	Frequency Density	
	Output Channel 1	4-20ma			
Type E Combination Card p/n 686008	Input Channel 1	4-20ma	1-5volts	RTD 4wire	
	Input Channel 2	4-20ma	1-5volts	RTD 4wire	
	Input Channel 3	Turbine/PD or Dual Chron. & 1/2 Pulse Fidelity			
	Input Channel 4	Turbine/PD or Dual Chron. & 1/2Pulse Fidelity			
	Output Channel 1	4-20ma			
	Output Channel 2	4-20ma			
Type E/D Combination Card p/n 686008	Input Channel 1	4-20ma	1-5volts	RTD 4wire	
	Input Channel 2	4-20ma	1-5volts	RTD 4wire	
	Input Channel 3	Frequency Density			
	Input Channel 4	Frequency Density			
	Output Channel 1	4-20ma			
	Output Channel 2	4-20ma			
Type H Honeywell Card p/n 686004	Input Channel 1	Honeywell Digital Transmitter			
	Input Channel 2	Honeywell Digital Transmitter			
	Input Channel 3	Honeywell Digital Transmitter			
	Input Channel 4	Honeywell Digital Transmitter			
	Output Channel 1	4-20ma			
	Output Channel 2	4-20ma			
Type S Serial Card 3000 1 max 6000 2 max p/n 686005	Input / Output Ch 1	Tri-State RS-232C (add for optional RS-422/485 module)			
	Input / Output Ch 2	Tri-State RS-232C (add for optional RS-422/485 module)			

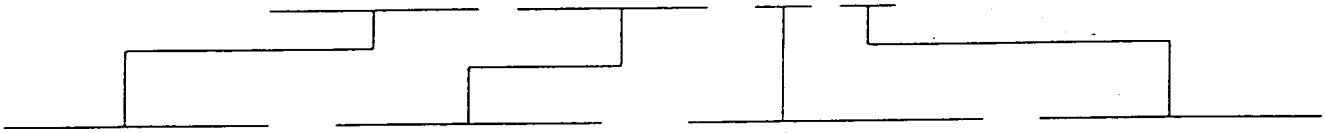
Type D Digital Card 3000 1 max 6000 2 max p/n 686011	Input/Output Ch 1
	Input/Output Ch 2
	Input/Output Ch 3
	Input/Output Ch 4
	Input/Output Ch 5
	Input/Output Ch 6
	Input/Output Ch 7
	Input/Output Ch 8
	Input/Output Ch 9
	Input/Output Ch 10
	Input/Output Ch 11
	Input/Output Ch 12

Type PSU Power 115vac & 24vdc Supply p/n 686018

Terms & Conditions for Domestic & Foreign Final Destinations: Prices: U.S. Dollars, EXworks **Validity:** 60 days on response to complete customer specification. Re-sellers subject to terms & conditions of Resale Confidentiality and Limited Use Agreement. **Delivery:** 4-6 weeks ARO Panel Mount, 6-8 weeks ARO for NEMA mounting. All deliveries subject to confirmation when ordered. Freight: Pre-paid & Add UPS Ground unless otherwise specified. Packing suitable for Airfreight. **Product specifications** are subject to change by manufacturer without notice. **Warranty:** Three(3) Years Limited (see Operational Manual for details.) **Payment:** Domestic- Net 20 days with Approved credit only. All other orders prepaid by "Banker's Draft" before shipment or Pre-Approved credit line against Standby Letter of Credit payable on demand at counters of Texas Commerce Bank N.A., Houston. All charges for customer's account. Other terms by express agreement only. Foreign-Irrevocable, confirmed Letter of Credit, or prepaid by Banker's Draft before shipment, or pre-approved credit against Standby L/C - All Instruments are payableon demand at counters of Texas Commerce Bank, Houston in U.S. Dollars. All charges are for customers account. Other terms by express agreement only.Taxes and Duties:Not included. All local taxes, import duties and customs fees are for customer's account. Where EC is final destination, product tariff number is 84 71.

What The Model Number Means

Omni 6000 - 2A - 1B - 1E - 1D - 2S



Model Number -
The **Omni 3000** is limited to 2 Combo modules,1 12 - channel digital I/O module and 1 dual - channel serial I/O module.
The **Omni 6000** can accept up to 6 combo modules, 2 12 - channel digital I/O modules and 2 dual channel serial I/O modules.

Combo Modules Required -

'A' and 'H' modules provide 4 process inputs and 2 analog outputs. An 'A' module provides 4 analog inputs of which 2 can be pulse inputs and 2 can be 4-wire RTDs.

'B' modules provide 3 process inputs, 1 periodic time density pulse input and 1 analog output.

'E' modules provide 4 process inputs incl. 1 dual pulse input, 1 Double Chronometry Proving input and 2 analog outputs.

The **Omni 3000** will accept a maximum of 2 combo modules.

Digital I/O Modules Required -

'1D' specifies 1 12 - channel digital I/O module.
'2D' is the **maximum** for any combination of inputs and outputs.

'1D' is **always** used when specifying an **Omni 3000.**

Serial I/O Modules Required -
'1S' specifies 1 dual - channel RS232-C serial module.
'2S' specifies 2 dual - channel RS232-C serial modules.

'2S' is the **maximum** available.

'1S' is **always** used when specifying an **Omni 3000.**

Specifying the Flow Computer Hardware

1) Determine the total number of combo modules ('A' + 'B' + 'E' + 'H' types) required by adding up the number of temperatures, pressures, densitometers, gravitometers, differential pressures, turbine/P.D. meter pick-offs to which you will be interfacing. Round the number up to the nearest increment of 4 and divide that number by 4. 'A' denotes a 4-input analog/pulse combo module. **'H' denotes a 4- input module used solely with Honeywell Smartline™ digital transmitters.**
2) If the number of combo modules required is **greater** than 2, select an Omni 6000.
3) The number of 'B' type combo modules you require is equal to the number of digital pulse densitometers with which you intend to interface.
4) The number of 'E' type combo modules you require is equal to the number of meter runs requiring **pulse fidelity checking,** and a Double Chronometry proving option (pulse interpolation method for Small Volume Provers). Two analog inputs and two pulse inputs are provided.
5) Two analog outputs per 'A', 'E' and 'H' modules and one per 'B' module are available..
6) Determine the number of digital I/O modules needed by adding up the number of digital I/O points you require. These include but are not limited to prover detector inputs, sampler pulse outputs, control outputs, alarm outputs and control inputs. Each module accepts 12 points. If more than 12 digital points are required, select an Omni 6000 model. 24 points is the **maximum** available.
7) The Omni 3000 is limited to **one** dual serial I/O module. The first port is dedicated to a printer.The Omni 6000 can accept up to two dual serial I/O modules. Three ports are Modbus-compatible.
8) The computer includes an AC/DC power supply suitable for use with 120 VAC or 16 to 30 VDC. When AC powered, the Omni 3000 provides a maxiimum of 65 0 mA at 24 VDC for powering the transducer loops. The Omni 6000 provides a maximum of 500 mA at 24 VDC.

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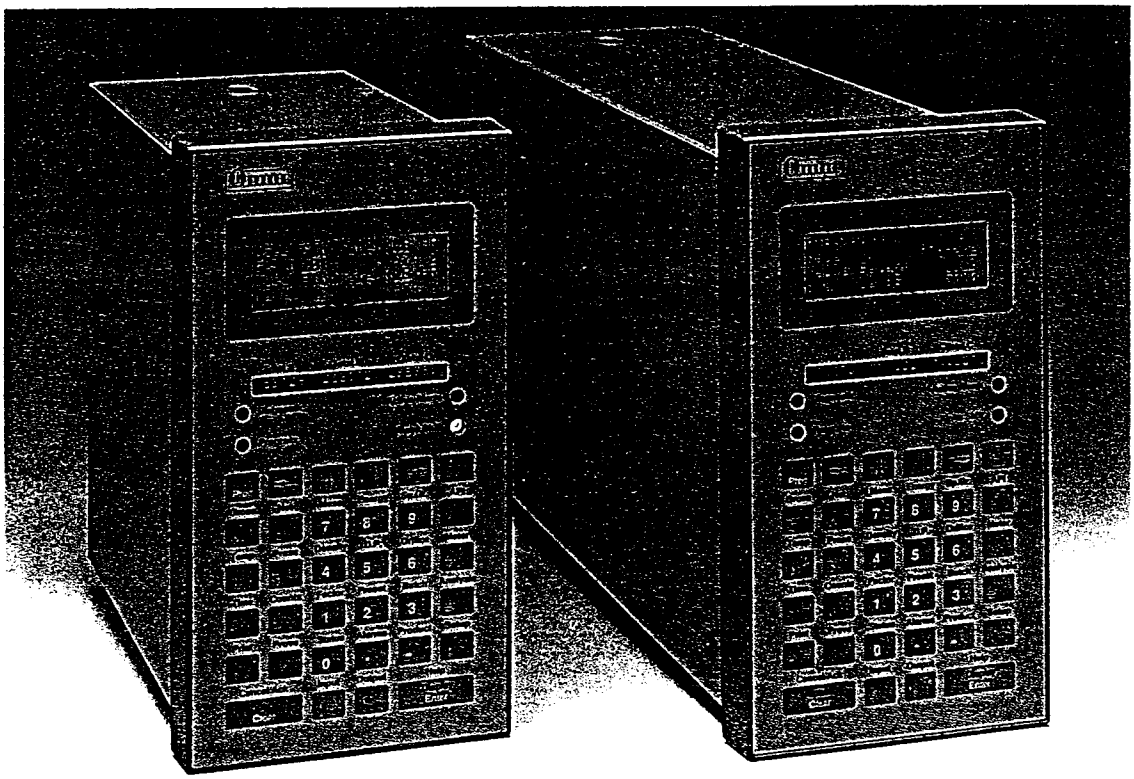
Technical Bulletin 9003

Liquid and Gas Measurement, Control and Communication for Pipelines, Terminals, Petrochemical and Process Plants



- Volumetric, mass and energy measurement
- User-assignable analog and pulse inputs, with dual-pulse error detection options
- Calculated or live flowing gravity or density, and selectable gravity engineering units
- 4-20 mA or Rtd temperature compensation for flow meter, gravitometer or densitometer
- Serial link for Gas Chromatograph data
- Meter fail, high/low flowrate and gravity alarms
- Automated batch tracking and product scheduling
- Automated proving, uni or bi-directional, or double chronometry or master meter
- User-configurable digital I/O and analog outputs for control and PID functions
- Programmable variables for user calculations and proprietary equations
- Multiple flow computers using one printer
- On-line configuration software and report formatting
- Stored reports, reprint functions and historical gas or liquid data storage
- User-configurable archive function
- Multi-port, high speed SCADA and PC links to assist inventory control and leak detection
- Configurable SCADA data packets and selectable protocols

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Introduction - Omni 3000™ and Omni 6000™ flow computers are reliable, easy-to-use, uniquely versatile instruments. They are usually factory programmed for single and multi-run configurations measuring crude oils, refined products, NGLs, LPGs, ethylene, propylene, natural gas, and specialty gases such as O_2, N_2, H_2, Ar, H_20, and CO_2.

Measurement of other flowing materials such as anhydrous ammonia can also be provided.

Extensive communications capability enables the Omni 6000 to be used in a variety of Master/Slave configurations for high-speed data transfer applications, and as a communication SubMaster.

The non-restrictive I/O bus system permits any combination of inputs and outputs to meet most measurement and control station requirements. The flow computer can also be hardware configured as a medium size RTU with significant digital I/O capability.

Totalizers - Gross, Net Volume and Mass totalizing are provided for individual meter runs. Cumulative non-resetting, daily and batch gross, net, mass totalizers are also provided.

Flow Weighted Averages - Flow weighted averages based on the gross flow rate for each meter run and total station or meter skid flow are maintained for temperature, pressure, density, and API gravity at 60°F, 15°C, 20°C & 30°C.

Liquid Products Capability - Information for sixteen products/customers can be handled. Products can range from crude oil, gasolines, jet fuels, diesel, fuel and lube oils, LPGs, ethylene and propylene.

The following information is stored for each product::

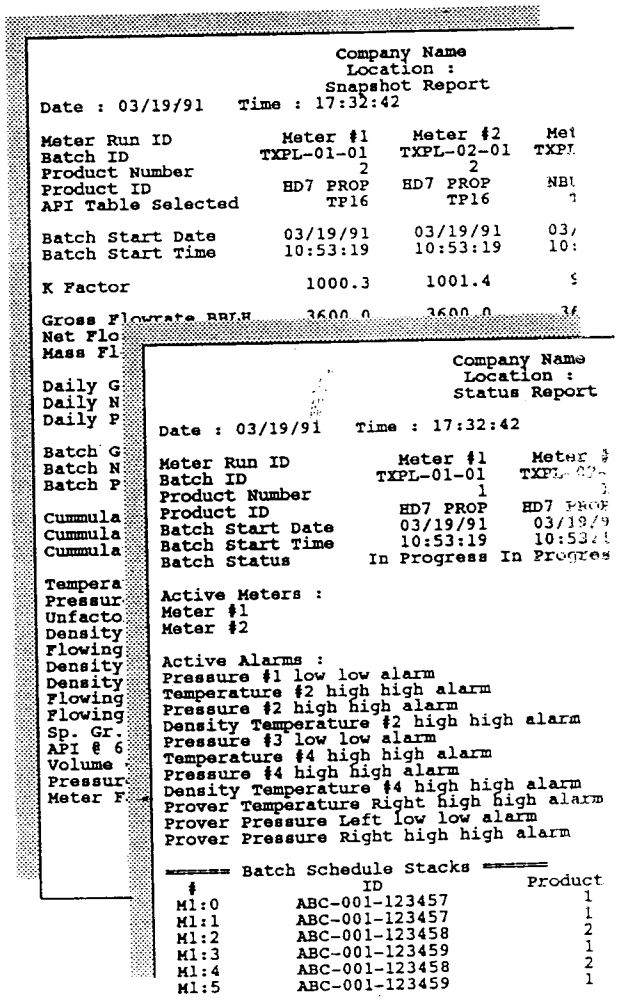
1) Product description
2) Meter factors to be used for each flowmeter
3) API Table(s) or calculations to be used
4) Override API gravity/density where applicable
5) Reference temperature

Product and Batch End Selection - Product and batch end selection are made via four digital status inputs to the flow computer, directly through the keypad, via a remote PC link, or through the SCADA ports. Batch scheduling, total, intermediate, end of batch presets can also be selected or changed. Product interface detection can also be used to implement a batch change.

Daily Operation - Batch totalizers and flow weighted averages are printed and reset at a user selected day start hour and also anytime a product is changed or batch end is selected.

Batching Operation and Features - Batch totalizers and flow weighted averages are printed and reset only when a batch end signal is activated. Daily printed snapshots still occur but do not reset the totalizers. In addition to the non-resetable cumulative totalizers, additional batch or daily totalizers are available. A batch schedule stack stores setup information for twenty-three future batches.

Product Interface Detection - A gravity rate of change limit is set to accurately detect the product interface. It is flowrate independent and can be set to allow for a longer interface or a smaller gravity delta. Automatic batch changes can be made. A digital output assigned to an 'interface detected' alarm can be wired to a digital input assigned to a 'batch end' command.



```
                    Company Name
                     Location :
                   Snapshot Report
Date : 03/19/91   Time : 17:32:42

Meter Run ID          Meter #1    Meter #2    Met
Batch ID            TXPL-01-01  TXPL-02-01  TXPL
Product Number               2           2
Product ID            HD7 PROP    HD7 PROP     NBU
API Table Selected       TP16        TP16       1

Batch Start Date      03/19/91    03/19/91    03/
Batch Start Time      10:53:19    10:53:19    10:

K Factor               1000.3      1001.4       9

Gross Flowrate BBLH    3600.0      3600.0      36
Net Flo
Mass Fl

Daily G
Daily N
Daily P

Batch G
Batch N
Batch P

Cummula
Cummula
Cummula

Tempera
Pressur
Unfacto
Density
Flowing
Density
Density
Flowing
Flowing
Sp. Gr.
API @ 6
Volume
Pressur
Meter F
```

```
                    Company Name
                     Location :
                    Status Report
Date : 03/19/91   Time : 17:32:42

Meter Run ID          Meter #1    Meter #
Batch ID            TXPL-01-01  TXPL-02-
Product Number               1           1
Product ID            HD7 PROP    HD7 PROP
Batch Start Date      03/19/91    03/19/9
Batch Start Time      10:53:19    10:53:1
Batch Status        In Progress In Progres

Active Meters :
Meter #1
Meter #2

Active Alarms :
Pressure #1 low low alarm
Temperature #2 high high alarm
Pressure #2 high high alarm
Density Temperature #2 high high alarm
Pressure #3 low low alarm
Temperature #4 high high alarm
Pressure #4 high high alarm
Density Temperature #4 high high alarm
Prover Temperature Right high high alarm
Prover Pressure Left low low alarm
Prover Pressure Right high high alarm

====== Batch Schedule Stacks ======
 #              ID              Product
 M1:0       ABC-001-123457          1
 M1:1       ABC-001-123457          1
 M1:2       ABC-001-123458          2
 M1:3       ABC-001-123459          1
 M1:4       ABC-001-123458          2
 M1:5       ABC-001-123459          1
```

Proving Features - Proving of a selected flowmeter pulse train is available. Full API MPMS Chapter 12 proving for Master Meter, Uni, Bidirectional provers, including Double Chronometry method for compact or reduced volume provers, can be user selectable. Mass proving with coriolis mass meters can also be accomplished. Reports are printed with the option of a trial run or complete sequence. Proving is activated through the keypad, by a logic input, or via a remote PC link, or through the SCADA port. Temperature, pressure, and detector switch signals from the prover loop are also required when generating API MPMS Chapter 12 proving reports.

Meter Factor Changes - Meter factor changes are implemented on a retroactive basis. ie. any changes during a batch or a day automatically cause the net and mass totalizers to be adjusted to the beginning of the batch.

Flow Rate Changes - The flow rate is constantly monitored against the rate at which the meter was last proved. Automated proving can be undertaken upon a preset % rate of change limit being reached. When the new flow rate and process variables are stable, a prove sequence will be attempted. When complete, the new factor will be implemented.

Orifice Plate Changes - Orifice plate changes are recorded, time tagged, and show up in the audit report. Accumulated flow at the time of change is also captured.

API and AGA Equations Performed - The following API and AGA equations, algorithms, and tables, and their metric API or ISO equivalents are amongst the calculations that can be performed depending upon application, product or material selection, presence of live density, and type of flowmeter:

Liquids:
Temperature Correction: API 2540 23/24 (1952), 23/24A, 23/24B, 24C and metric equivalents

Pressure Correction: API MPMS 11.2.1 or 11.2.2, and for Equilibrium Vapor Pressure, GPA TP 15/16 and metric equivalents.

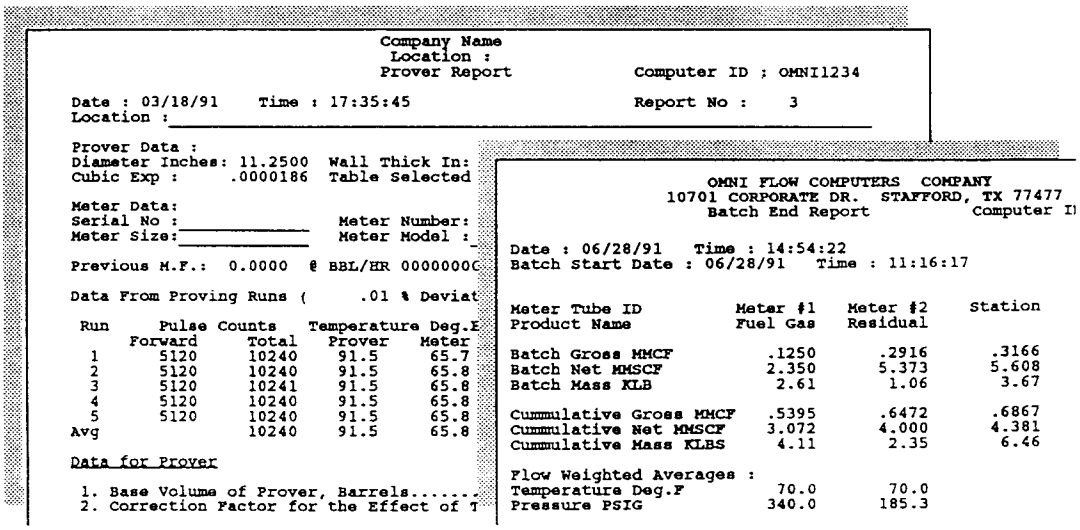
API 2565, MPMS11.3.3.2, NIST 1045 and IUPAC for calculated density for ethylene and propylene.

All calculations in full compliance with API MPMS Ch.12.2

Gases:
AGA3/API2530, ISO 5167-1, GPA8185, AGA5, AGA7, AGA8, and NIST1048 for oxygen, nitrogen, steam, and hydrogen.

Printed Reports and Audit Trails -
Liquids - Reports can be printed on a daily, batch end, timed interval, on demand, on alarm. At the end of each contract day or batch, daily accumulated gross, net and mass flow, and flow weighted averages of temperature, pressure, density and API factors are printed automatically. Reprint and report storage capability is provided for 8 historical batches, 8 meter provings, and 150 alarm conditions.

Gases - Audit trails for gas flows storing 35 days, and more if required, of quarter-hour square rooted/flow weighted averages of Dp, Temperature and Pressure. Hourly flows, orifice plate size, alarm conditions and calculated Fb are also stored. At the end of each contract day, reports of daily accumulated flow, and flow weighted averages of Dp, temperature, pressure and AGA factors are printed automatically. Daily summary averages and flows, and monthly total flow are included in an automatically printed report at the calendar month-end.



Company Name
Location :
Prover Report Computer ID ; OMNI1234

Date : 03/18/91 Time : 17:35:45 Report No : 3
Location :

Prover Data :
Diameter Inches: 11.2500 Wall Thick In:
Cubic Exp : .0000186 Table Selected

Meter Data:
Serial No : Meter Number:
Meter Size: Meter Model :

Previous M.F.: 0.0000 @ BBL/HR 0000000

Data From Proving Runs (.01 % Deviat

Run	Pulse Counts Forward	Total	Temperature Prover	Deg.F Meter
1	5120	10240	91.5	65.7
2	5120	10240	91.5	65.8
3	5120	10241	91.5	65.8
4	5120	10240	91.5	65.8
5	5120	10240	91.5	65.8
Avg		10240	91.5	65.8

Data for Prover

1. Base Volume of Prover, Barrels.....
2. Correction Factor for the Effect of T

OMNI FLOW COMPUTERS COMPANY
10701 CORPORATE DR. STAFFORD, TX 77477
Batch End Report Computer I

Date : 06/28/91 Time : 14:54:22
Batch Start Date : 06/28/91 Time : 11:16:17

Meter Tube ID / Product Name	Meter #1 Fuel Gas	Meter #2 Residual	Station
Batch Gross MMCF	.1250	.2916	.3166
Batch Net MMSCF	2.350	5.373	5.608
Batch Mass KLB	2.61	1.06	3.67
Cummulative Gross MMCF	.5395	.6472	.6867
Cummulative Net MMSCF	3.072	4.000	4.381
Cummulative Mass KLBS	4.11	2.35	6.46
Flow Weighted Averages :			
Temperature Deg.F	70.0	70.0	
Pressure PSIG	340.0	185.3	

Configurable Report Formats - Using the OmniCom® PC software, users can define their own report templates for a range of reports including meter and batch tickets. These can then be uploaded to the Omni. Default formats remain resident as standard.

Stored Data - All reports are stored for re-printing at any time on demand. Historical audit trail data can be requested for a liquid batch or proving and is dependent upon entering the appropriate sequence number. Historical gas audit trail data can be requested on a calendar month basis or for any number of days and/or hours.

A Configuration data report showing the current computer set-up can be printed on demand. A current snapshot of all flowrates, accumulations, process input values and calculated factors can be printed on request or at a timed interval.

Event and Historical Alarms - Liquids - The last 150 occurrences can be time tagged and recorded. Data configuration changes show up with the user ID number. The accumulated gross, net and mass flow are also captured at each alarm occurrence. A report of each alarm can be automatically printed out as it occurs.

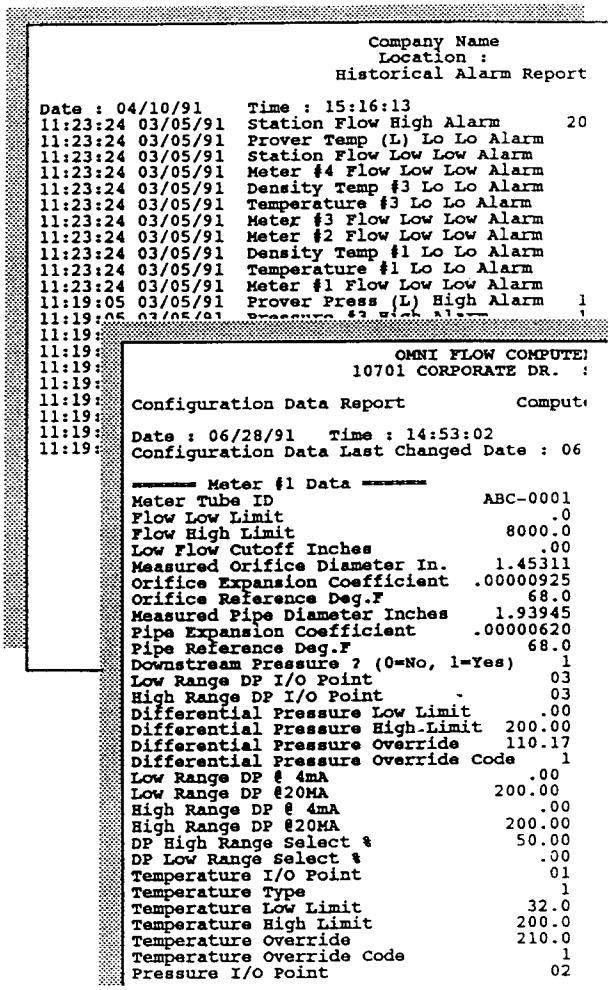
Gases - The last 150 events and the last 150 alarm occurrences are time tagged and recorded. Data configuration changes show up with the user ID number. The accumulated flow is also captured at each alarm occurrence which can be individually printed out automatically as it occurs.

Printer Interface - A dedicated port connects to a printer. All reports can be accessed. All changes are recorded in the event log. Multiple computers can share a common RS232 printer, PC or SCADA host.

Personal Computer Interface - A second serial port connects directly or via a modem to a PC. In addition, on-line entry of configuration data, and calibration of field instruments, meter factor and orifice plate changes can be achieved from the PC with OmniCom® interactive software.

SCADA/DCS Protocols - All data is available via dedicated ports for communication to SCADA/DCS. Any standard Baud rate up to 19.2 KBd can be selected. Standard protocol implements a subset of the Modbus™ binary oriented RTU and ASCII oriented protocols, which can be specified for custom implementation.

™Modbus is a Trademark of AEG Modicon, Inc



```
                                Company Name
                                 Location :
                            Historical Alarm Report

Date : 04/10/91     Time : 15:16:13
11:23:24 03/05/91   Station Flow High Alarm        20
11:23:24 03/05/91   Prover Temp (L) Lo Lo Alarm
11:23:24 03/05/91   Station Flow Low Low Alarm
11:23:24 03/05/91   Meter #4 Flow Low Low Alarm
11:23:24 03/05/91   Density Temp #3 Lo Lo Alarm
11:23:24 03/05/91   Temperature #3 Lo Lo Alarm
11:23:24 03/05/91   Meter #3 Flow Low Low Alarm
11:23:24 03/05/91   Meter #2 Flow Low Low Alarm
11:23:24 03/05/91   Density Temp #1 Lo Lo Alarm
11:23:24 03/05/91   Temperature #1 Lo Lo Alarm
11:23:24 03/05/91   Meter #1 Flow Low Low Alarm
11:19:05 03/05/91   Prover Press (L) High Alarm    1
11:19:05 03/05/91   Pressure #3 High Alarm         1
11:19:
11:19:                          OMNI FLOW COMPUTEI
11:19:                       10701 CORPORATE DR.  :
11:19:
11:19:  Configuration Data Report                 Computi
11:19:
11:19:  Date : 06/28/91    Time : 14:53:02
11:19:  Configuration Data Last Changed Date : 06

        ======= Meter #1 Data =======
        Meter Tube ID                          ABC-0001
        Flow Low Limit                               .0
        Flow High Limit                         8000.0
        Low Flow Cutoff Inches                       .00
        Measured Orifice Diameter In.           1.45311
        Orifice Expansion Coefficient       .00000925
        Orifice Reference Deg.F                   68.0
        Measured Pipe Diameter Inches           1.93945
        Pipe Expansion Coefficient          .00000620
        Pipe Reference Deg.F                      68.0
        Downstream Pressure ? (0=No, 1=Yes)          1
        Low Range DP I/O Point                      03
        High Range DP I/O Point                     03
        Differential Pressure Low Limit              .00
        Differential Pressure High Limit         200.00
        Differential Pressure Override           110.17
        Differential Pressure Override Code          1
        Low Range DP @ 4mA                           .00
        Low Range DP @20MA                       200.00
        High Range DP @ 4mA                          .00
        High Range DP @20MA                      200.00
        DP High Range Select %                    50.00
        DP Low Range Select %                        .00
        Temperature I/O Point                       01
        Temperature Type                             1
        Temperature Low Limit                     32.0
        Temperature High Limit                   200.0
        Temperature Override                     210.0
        Temperature Override Code                    1
        Pressure I/O Point                          02
```

Online Configurable SCADA Data Packets - Although the data base order of the flow computer is defined by OMNI, you can configure individual pre-defined data packets. This minimizes the number of polls required by the host computer and provides for the fastest possible update time.

Data Security and On-line Configuration - Configuration and calibration data needed by the flow computer can be changed dynamically online without loss of data or measurement function. User selectable passwords, a secure privileged user password to lockout non-privileged users, an internal keyswitch program lockout, and an exterior wireseal (or optional lock) provide a choice of security.

*Specifications subject to change by manufacturer without notice due to modifications or improvements.

Limited warranties apply to the use of the equipment.

™Omni 3000 and Omni 6000 are Trademarks of Omni Flow Computers, Inc.

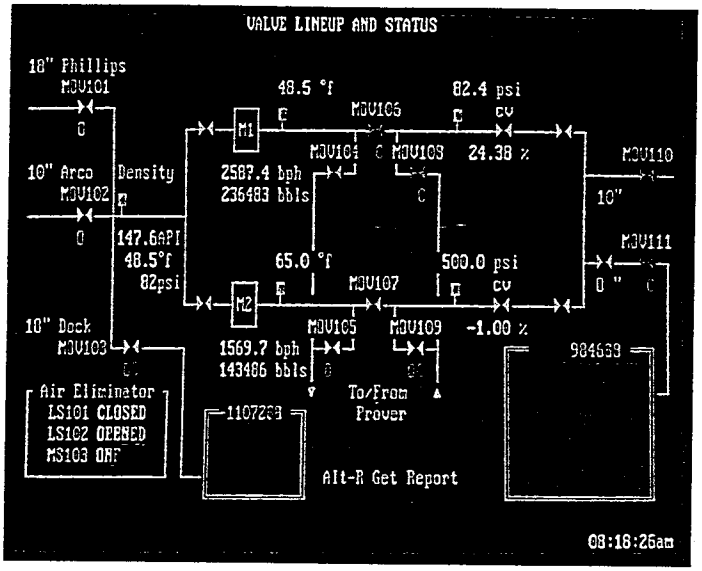
Omni Flow Computers, Inc
10701 Corporate Drive, Suite 300, Stafford, Texas 77477 Phone: 713-240-6161 Fax: 713-240-6162
E-Mail: dromni@aol.com 102675.2143@compuserve.com

Omni

Omni Flow Computers

Technical Bulletin 9006

OmniView® Man-Machine Interface



The next logical step towards a Complete, Inexpensive, Liquid & Gas Metering Solution is . . .

. . . Real-time Operator Software for Local/Remote Surveillance

Features

- Creates screens to display data variables
- Sends commands and retrieves reports
- Displays valve status
- Meter proving and batch scheduling
- Remote calibration of I/O
- Displays flow and pressure control variables
- Displays data and alarms in real-time
- Retrieves archived data from flow computer
- Direct or modem connect for access to multiple flow computers

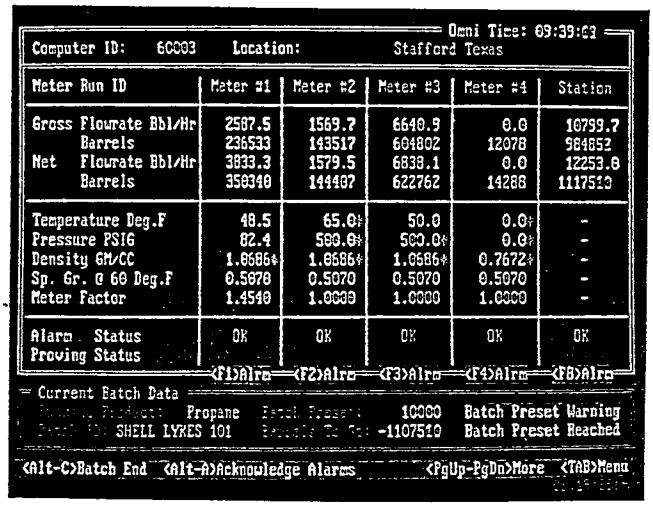
Introduction

OmniView® MMI (Man-Machine Interface) is a MS DOS-based, general-purpose utility program operating in text-mode for use with Omni flow computers/ controllers. It offers a low-cost solution for operating personnel who need real-time measurement data from liquid or gas metering sites.

An OmniView program is a complete, configurable package. Screens consist of ASCII text and line graphics which the user creates and edits using an external text editor. Formal programming expertise is not required but computer literacy is essential. The user has complete access to the flow computer's Modbus™ data base. Dynamic data can be configured via menu selections and dialog boxes.

Run-Time System

Omni provides sample color screens for the user to build upon for real-time data, alarms and commands. Tasks such as gravity, meter factor, orifice diameter or gas analysis data changes can be entered for the flowing material. Access to the flow computer's batch scheduling capability is provided. This allows the operator to edit the sequence of anticipated product batches including adding or deleting a batch, editing product and batch size data.



© Copyright 1995 Omni Flow Computers, Inc

A simple command via OmniView can initiate a full proving sequence or end of batch of the selected meter using the automated batching and proving capabilities of the Omni flow computer. Screens can simultaneously display data from multiple flow computers.

Report Generation

Any reports or archive data stored in the flow computer can be retrieved for viewing, storing to disk or printing by OmniView. These include historical alarm and event logs, meter proving, batch and daily reports, and configuration logs.

Valve Lineup and Status

Text character displays can be setup to show the piping configuration, with real-time data displayed for process variables such as flow rates, totalizers, temperatures, pressure, gravities, and batch preset counters. Valve open/close status can be indicated. Batch end, control valve position, meter and prover lineups can be initiated.

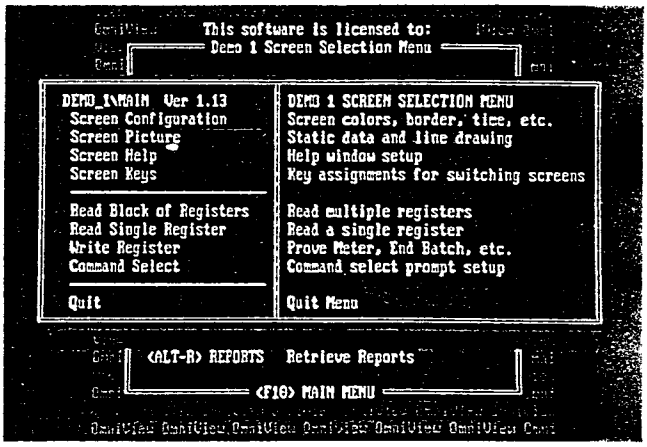
Valve control and sequencing can be provided by an Omni or by using a PLC as extended I/O.

Alarms

When the Omni flow computer detects alarms, user-built screens can provide message displays and cause audible alarms to be activated. These can be acknowledged through OmniView by the operator. Sample screens are provided that can be readily enhanced to meet individual requirements.

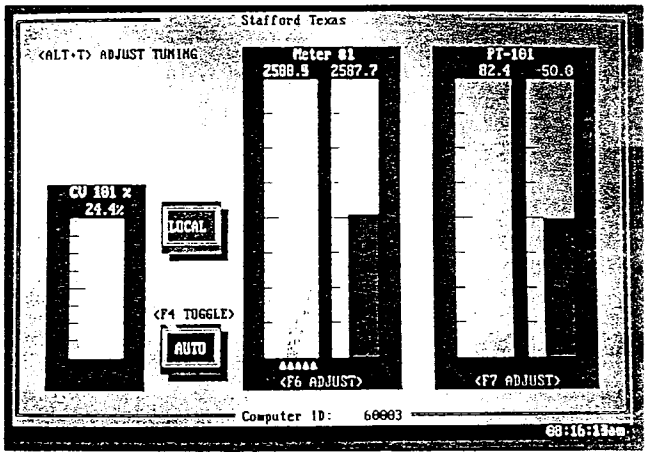
User Configuration

OmniView allows a user to custom design or modify data entry screens to fit specific application needs. Capabilities include reading dynamic data, displaying static text, color selection, positioning data fields, alarms, and command functions.



Flow Control

Dynamic bar graph displays can show both measurement and setpoint values for primary and secondary variables. Setpoint changes can be made in either a manual or remote mode. Changes are instantly reflected on the display screen.



Remote Calibration

This feature is an invaluable tool for a technician during field instrument calibrations. He can perform remote calibration of flow computer inputs/outputs without being physically present at the computer.

Dial-up Access

Real-time security access to multiple flow computers via the OmniView dial-up feature is also available. Communication to 19200 Baud is supported.

Support

Quality technical support is our watchword. If you need assistance, we're only a phone or modem call away.

Omni Flow Computers, Inc
10701 Corporate Drive, Suite 300, Stafford, Texas 77477 Phone:713-240-6161 Fax: 713-240-6162
E-Mail: dromni@aol.com 102675,2143@compuserve.com

Central files - 1700

Shell Offshore Inc.
An affiliate of Shell Oil Company

One Shell Square
PO Box 61933
New Orleans LA 70161-1933
(504) 588-6161

5/31/96 Passed on
MC 807 'A' GAS Computer
SR# Allen Bradley PLC
model 5-40
96141479-UPS-STOIX 2 BA
to Carl Walker

Exploration and Production
Deepwater Division

May 21, 1996

Mr. Mike Melancon
Regional Supervisor
Production and Development
Minerals Management Service
1201 Elmwood Park Boulevard
New Orleans, LA 70123-2394

Dear Mr. Melancon:

SUBJECT: COMMINGLING AND MEASUREMENT OF NEW PRODUCTION FROM THE MISSISSIPPI CANYON BLOCK 807 UNIT
UNIT AGREEMENT NUMBER 754393002, COMPRISING PORTIONS OF THE FOLLOWING LEASE BLOCKS:
SE/4 MISSISSIPPI CANYON BLOCK 762, OCS-G 7957
S/2 MISSISSIPPI CANYON BLOCK 763, OCS-G 7958
E/2 MISSISSIPPI CANYON BLOCK 806, OCS-G 7962
MISSISSIPPI CANYON BLOCK 807, OCS-G 7963
NE/4 MISSISSIPPI CANYON BLOCK 850, OCS-G 9881
N/2 MISSISSIPPI CANYON BLOCK 851, OCS-G 9882

Shell Offshore Inc. herein requests your approval of the equipment and procedures outlined below planned for use in the measurement, for sales and royalty purposes of fluid hydrocarbon production from the MC 807 Unit. Contingent upon your approval, we plan to begin production and measurement of fluid hydrocarbons based on these procedures on or about June 20, 1996. You should be aware that upon start-up of the facilities the 30" Mississippi Canyon Gas System (MCGS) pipeline may have not yet been commissioned. In that event total gas and associated retrograde fluids will temporarily be transported to the Warren Plant in Venice, Louisiana via the 12" TETCO lateral discussed below.

Additionally, please be advised that the gas measurement equipment and procedures we plan to use during the first year after start-up of the Mars Development will not involve SOI's use of most of the allocation meters located on our dedicated equipment on the WD 143 "A" Platform. However, all meters on WD 143 that will be discussed in this letter will be clearly identified in the attachments. As other developments begin producing into this new system (1997), SOI will modify the procedures discussed in this Plan to activate these "out-of-service" meters as the particular circumstances dictate.

Fluid hydrocarbons from the various MC 807 Unit wells (one being a remote sub-sea well location) will be produced to a manifold on our, currently being installed, Mars Tension Leg Platform designated as MC 807 "A". Once on MC 807 "A" the fluids will be separated and processed through the onboard facilities before shipment to shore through the newly installed Gas and Liquid Pipelines operated by Shell Gas Pipeline Company (SGPC) and Shell Pipe Line Corporation (SPLC), respectively.

Processed liquid hydrocarbon production from the MC 807 Unit will be measured, for sales and royalty purposes by three LACT Units, described in detail in the attachments, before that production is pumped into the aforementioned SPLC 18" Oil Pipeline for transportation to Chevron's Fourchon, Louisiana Terminal.

Liquid hydrocarbon production will be allocated back from these LACT Units to the MC 807 Unit and lease areas based on periodic well tests, taken at least once every other month, in conjunction with MMS approved Unit Participation Factors. Please be advised that we have not yet submitted our estimation of these factors for approval; however, we expect that this information will be submitted and approved prior to start-up of the facility.

Processed, dehydrated gas production from the MC 807 Unit will be measured by twin 10" Daniels Senior Orifice Meters each connected to a flow computer for electronic measurement. These meters will be the basis for ultimate Sales and Royalty determination. Measured gas production will flow through a 14" SGPC pipeline to their WD 143 "A" Platform where the gas production will enter a dedicated slug catcher where retrograde liquids will be removed prior to the gas being measured at the gateway to either the 30" MCGS Pipeline or the 12" SGPC lateral connected to the existing TETCO Pipeline System.

While each of these gas pipelines flow into separate and distinct areas of the Warren Gas Plant located in Venice, Louisiana; you should be aware that regardless of the transportation system used, SOI is reserving the right to process its gas at the Warren Plant.

All retrograde liquids delivered to WD 143 "A" will be re-injected into the 30" MCGS Pipeline for transportation to the Warren Gas Plant, where the gas and any remaining retrograde liquids (that have not yet re-vaporized) will enter directly into the plant process. Additionally, any retrograde liquids falling out of the gas stream and recovered on the TETCO system will be measured for sales and royalty purposes by a (soon to be submitted for approval) royalty tank located in the confines of the Warren Plant. This commingled volume and gravity (less any offshore liquid volumes which were measured, for sales and royalty purposes, prior to being injected into the system) will be allocated

back to the various gas injectors based on gas analysis readings taken of their respective gas streams. In this situation the retrograde liquid volume attributable to Mars will be based on the gas sample taken of the Mars gas stream measured by the WD 143 "A" TETCO System gateway meter(s).

Similar to liquids, gas hydrocarbon (including any retrograde liquids associated with the TETCO Pipeline) production will be allocated back to the MC 807 Unit and lease areas based on periodic well tests taken at least once every other month, in conjunction with MMS approved Unit Participation Factors. Again, please be reminded that we have not yet submitted our estimation of these factors for approval; however, we expect that this information will be submitted and approved prior to start-up of the facility.

To aid you in your review of this application, we are including the following attachments:

1. Liquid Transportation Route to Shore
2. Gas Transportation Overview to Shore (Present and Future)
3. Process and Safety Analysis Flow Diagrams - MC 807 "A"
4. Listing of MC 807 "A" Gas and Liquid Meter Types, Sizes, Associated Recording Devices and Serial Numbers.
5. Detailed Design Drawings - LACT Units
6. Prover Calibration Report
7. Composite Simplified Process Schematic - WD 143 "A"
8. Listing of Current and Proposed WD 143 Liquid Meter Types, Sizes, and Serial Numbers

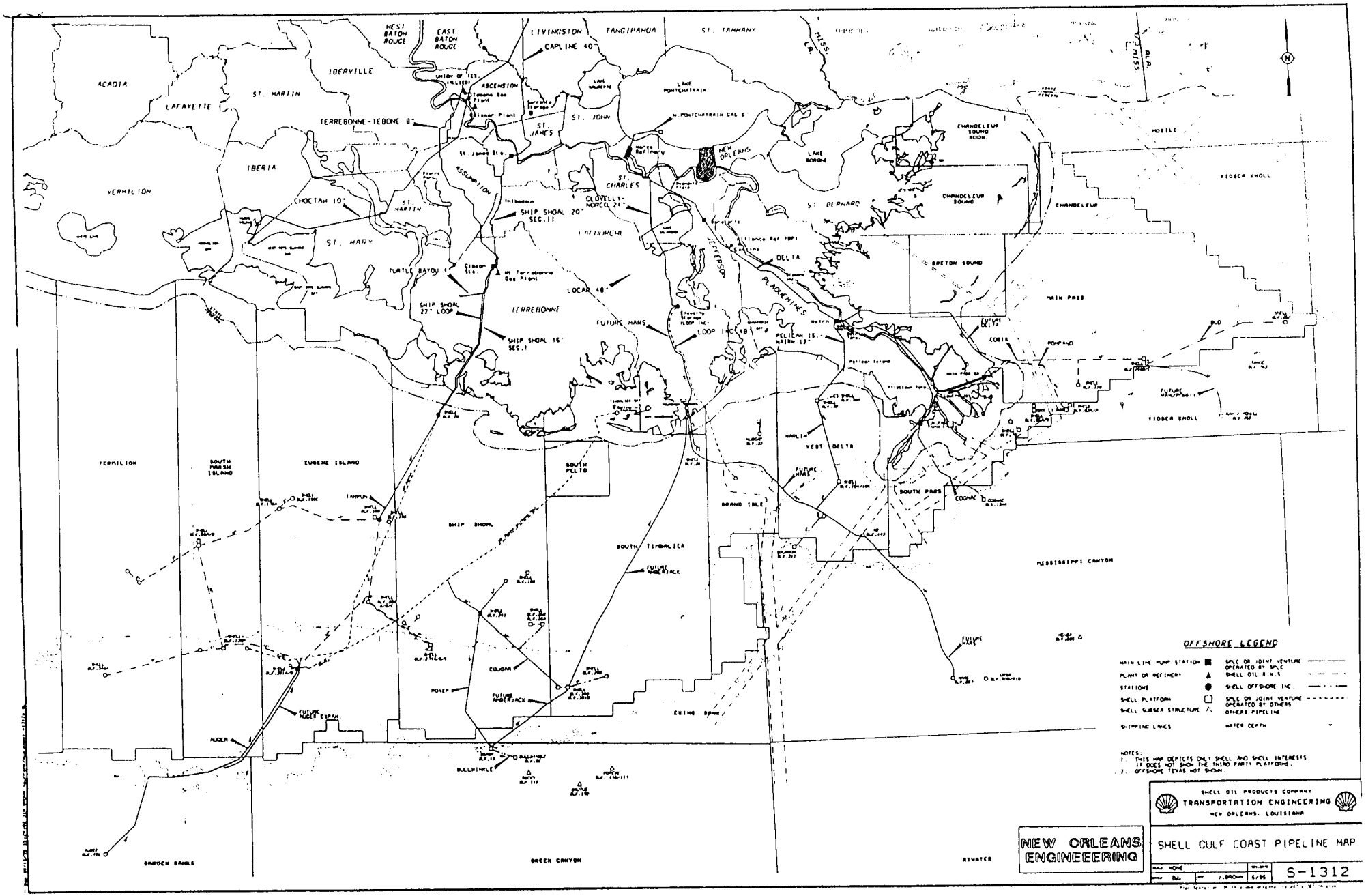
Should you have any questions regarding this matter, please contact Mr. Andy Burglass at (504) 588-6012.

Yours truly,

Peter K. Velez
Manager Regulatory Affairs
E&P - Shelf Division

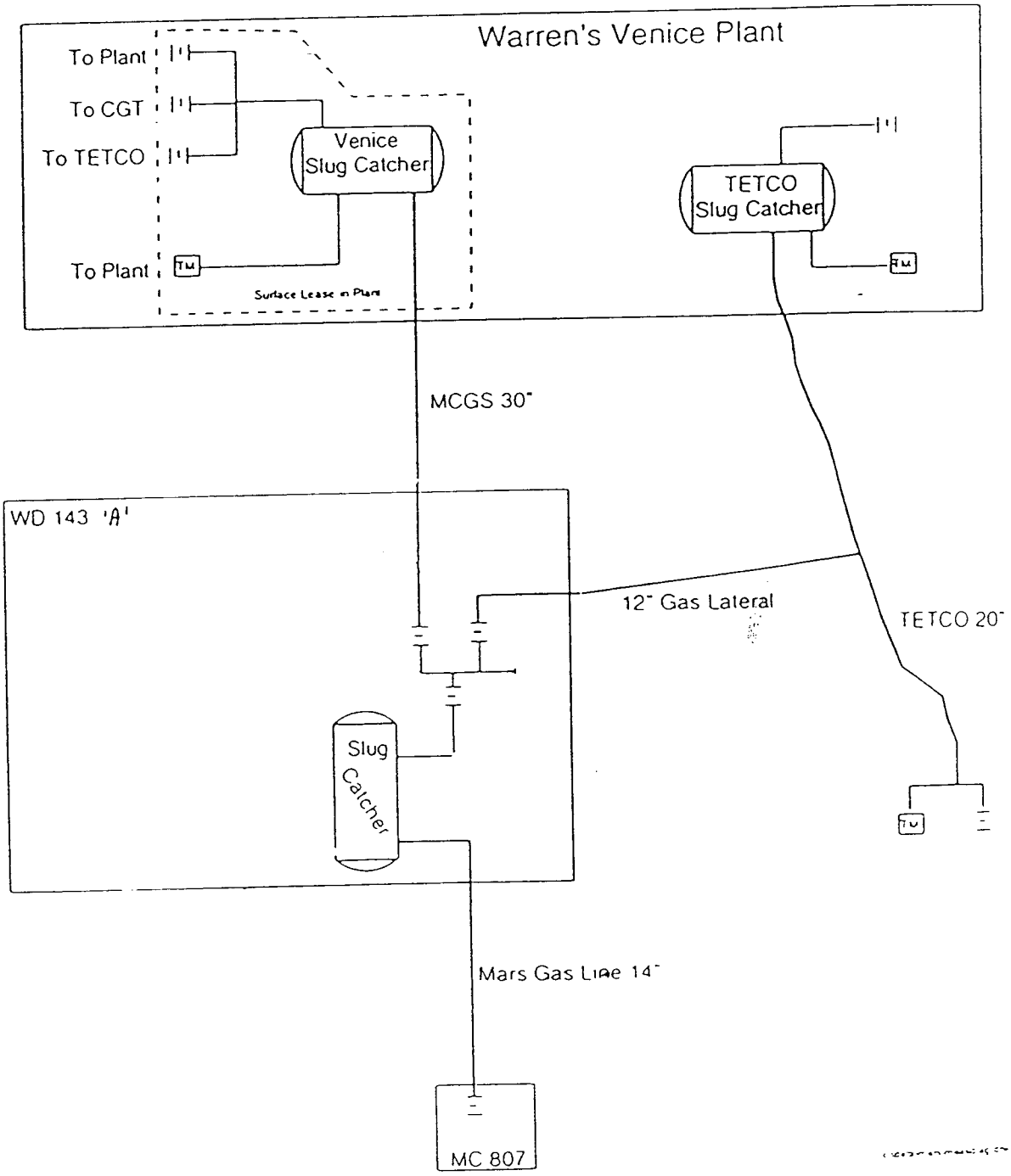
Attachments

BCC: J. F. Moore
A. M. Schneider
M. A. Curole
R. M. Rainey
M. C. Ecklund (SSC - Houston)
G. M. Flores (SSC - Houston)
N. M. Pasvantis
Foremen - Mars Platform


ACADIA
LAFAYETTE
ST. MARTIN
IBERVILLE
WEST BATON ROUGE
EAST BATON ROUGE
LIVINGSTON
TANGIPAHOA
ST. TAMMANY
CAPLINE 40"
ASCENSION
ST. JAMES
ST. JOHN
LAKE PONTCHARTRAIN
NEW ORLEANS
TERREBONNE-TEBONE 8"
IBERIA
VERMILION
CHOCTAW 10"
ST. MARY
ASSUMPTION
ST. CHARLES
CLOVELLY-NORCO 24"
SHIP SHOAL 20" SEC. 11
TURTLE BAYOU
SHIP SHOAL 22" LOOP
SHIP SHOAL 16" SEC. 1
LOCAP 18"
TERREBONNE
FUTURE MAINS
LOOP 14"
JEFFERSON
PLAQUEMINES
DELTA
PELICAN 18" MAIN 12"
LAKE BORGNE
CHANDELEUR SOUND
BRETON SOUND
MAIN PASS
VIOSCA KNOLL
MOBILE
SOUTH MARSH ISLAND
EUGENE ISLAND
SOUTH PELTO
SHIP SHOAL
SOUTH TIMBALIER
WEST DELTA
SOUTH PASS
GRAND ISLE
COGNAC
MISSISSIPPI CANYON
EWING BANK
COUGAR
POWER
AUGER
BULLWINKLE
GREEN CANYON
ATWATER
OFFSHORE LEGEND
MAIN LINE PUMP STATION
PLANT OR REFINERY
STATIONS
SHELL PLATFORM
SHELL SUBSEA STRUCTURE
SHIPPING LANES
SOLE OR JOINT VENTURE OPERATED BY SHELL
SHELL OIL P.I.P.E.
SHELL OFFSHORE INC.
SOLE OR JOINT VENTURE OPERATED BY OTHERS
OTHERS PIPELINE
WATER DEPTH
NOTES:
1. THIS MAP DEPICTS ONLY SHELL AND SHELL INTERESTS. IT DOES NOT SHOW THE THIRD PARTY PLATFORMS.
2. OFFSHORE TEXAS NOT SHOWN.
SHELL OIL PRODUCTS COMPANY
TRANSPORTATION ENGINEERING
NEW ORLEANS, LOUISIANA
NEW ORLEANS ENGINEERING
SHELL GULF COAST PIPELINE MAP
J. BROWN
6/95
S-1312

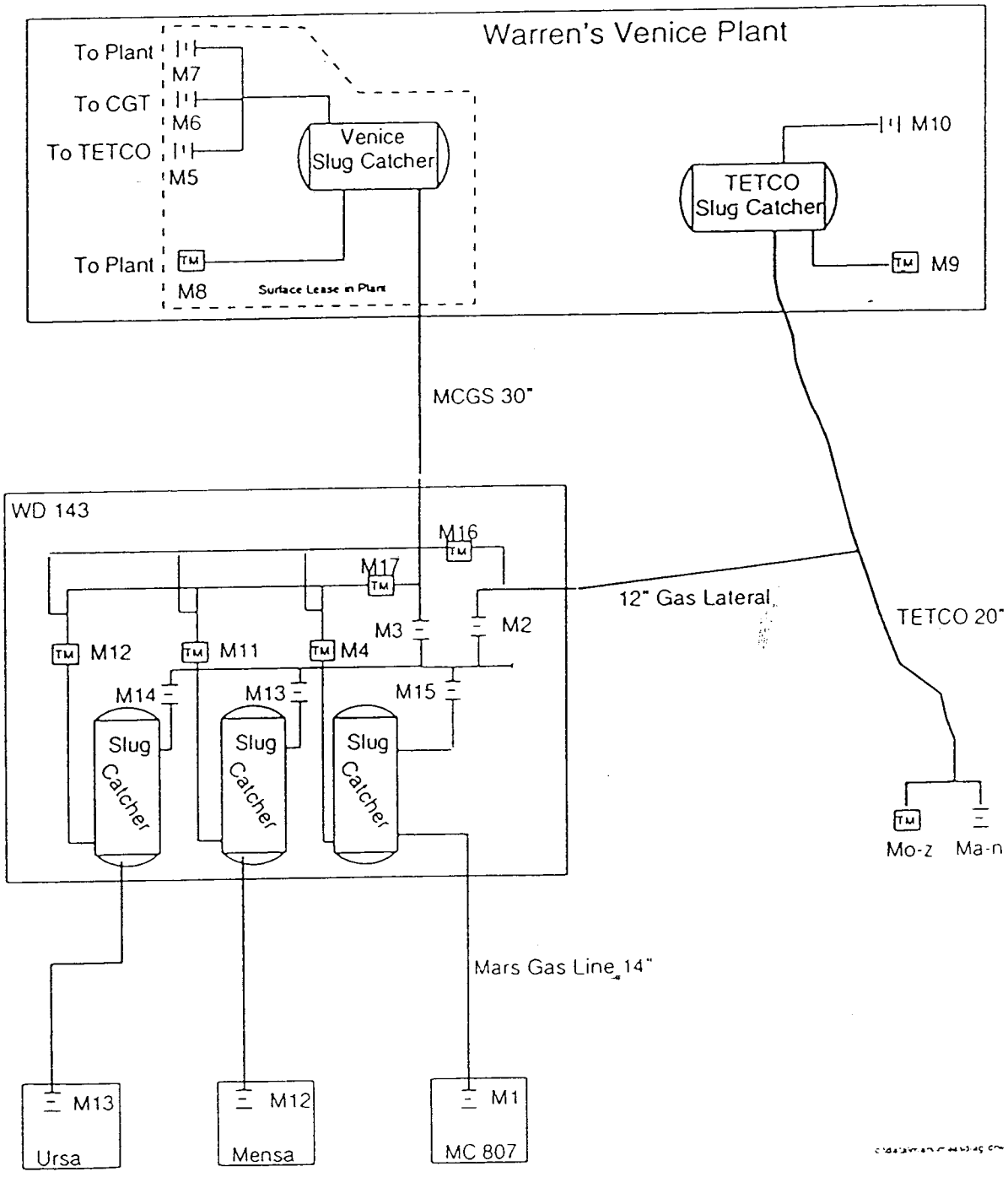
Mars/MCGS Measurement Plan

CURRENT



Mars/MCGS Measurement Plan

FUTURE



PIPING AND INSTRUMENT SYMBOLS

- ANALOG SIGNAL (4-20MA OR PULSE)
- DISCRETE SIGNAL (LS, PS, TS ETC.)
- COMMUNICATION LINK
- MECHANICAL LINK
- MAJOR PROCESS LINE
- FLOW LINE
- OBJECT LINE
- TUBING (HYDRAULIC)
- TUBING (PNEUMATIC)
- FLEXIBLE HOSE
- SKID LIMITS
- VESSEL INTERNALS
- ANGLE VALVE
- BALL VALVE
- BUTTERFLY VALVE
- CHECK VALVE (FULL BODY)
- CHECK VALVE (WAFER BODY)
- GATE VALVE
- GLOBE VALVE
- MANIFOLD (GAUGE) VALVE /WITH BLEEDER
- NEEDLE VALVE
- PLUG VALVE
- THREE PORT VALVE (MANUAL)
- DIAPHRAGM VALVE
- CONTROL VALVE
- CONTROL VALVE (W/POSITIONER)
- SHUTDOWN OR BLOWDOWN VALVE
- SELF CONTAINED CONTROL VALVE (REGULATOR)
- RELIEF VALVE (SPRING OPER.)
- RELIEF VALVE (PILOT OPER.)
- RELIEF VALVE (RUPTURE PIN)
- SOLENOID VALVE
- ACTUATED VALVE WITH MANUAL OPERATOR
- POSITIVE CHOKE (FCV)
- ADJUSTABLE CHOKE (FCV)
- INLINE ADJUSTABLE CHOKE (FCV)
- IN-LINE POSITIVE CHOKE (FCV)
- HAND CONTROL VALVE (HCV)
- AUTOMATIC DRAIN (TRAP)
- AIR RELEASE HEAD
- FLAME ARRESTOR
- PRESSURE-VACUUM RELIEF VALVE (PALLET TYPE)
- PRESSURE RELIEF VALVE (PALLET TYPE)
- VACUUM RELIEF VALVE (PALLET TYPE)
- LINE NO./SPEC. BRK
- QUICK CONNECT (FEMALE)
- QUICK CONNECT (MALE)
- UNIVERSAL HOSE COUPLING
- HINGED CLOSURE
- POSITIVE DISPLACEMENT METER
- TURBINE METER
- VORTEX METER
- SENIOR ORIFICE
- ORIFICE FLANGES
- ROTAMETER
- EXPANSION JOINT
- Y-STRAINER
- TEE STRAINER
- BASKET STRAINER
- QUICK BREAK CONNECTION (UNIBOLT, GRAYLOC, ETC.)
- SCREWED CONNECTION
- WELDED CONNECTION
- WELDED CONNECTION (FIELD WELD)
- INSTRUMENT FLANGE
- FLANGE
- SOCKET WELD
- UNION
- CAP
- BULL PLUG
- PLUG
- CUSHION FLOW TEE
- REDUCER (CONCENTRIC)
- REDUCER (ECCENTRIC)
- SPECTACLE BLIND
- INSULATION (HC-HEAT CONSERVATION)
- INSULATION (PP-PERSONNEL PROTECTION)
- TRANSFORMER
- SIGHT GLASS
- CALIBRATION BAR
- BACKFLOW PREVENTOR
- SWIVEL FLANGE (Δ)
- DRAIN CUP

MISCELLANEOUS DETAILS

ABBREVIATED ITEMS

- AC — AIR TO CLOSE
- AF — AIR FILTER
- AO — AIR TO OPEN
- BF — BLIND FLANGE
- BOP — BOTTOM OF PIPE
- C — COMMON
- CO — CLEAN OUT
- CPLG — COUPLING
- DA — DOUBLE ACTING
- D&T — DRILLED & TAPPED
- DWP — DESIGN WORKING PRESSURE
- ECC — ECCENTRIC
- EOSF — EDGE OF SKID FLANGE
- EXIST — EXISTING
- FF — FLAT FACE
- FO — FULL OPENING
- FRP — FIBER REINFORCED PLASTIC
- FSD — FLAT SIDE DOWN
- FSU — FLAT SIDE UP
- FV — FULL VACUUM
- GHT — GARDEN HOSE THREAD
- HC — HEAT CONSERVATION
- HH — HAND HOLE
- HLL — HIGH LIQUID LEVEL
- HOL — HIGH OIL LEVEL
- HP — HIGH PRESSURE
- HPV — HIGH POINT VENT
- IAS — INSTRUMENT AIR SUPPLY
- ICP — INTERCONNECTING PIPING
- IGS — INSTRUMENT GAS SUPPLY
- IP — INTERMEDIATE PRESSURE
- LACT — LEASE AUTO. CUSTODY TRANSFER
- LC — LOCKED CLOSED
- LCD — LOCK OPEN/CLOSED DEVICE
- LO — LOCKED OPEN
- LP — LOW PRESSURE
- LPD — LOW POINT DRAIN
- LSH — LEVEL SAFETY HIGH
- LSL — LEVEL SAFETY LOW
- MF — MECHANICAL FLOW SHEET
- MGL — MEAN GULF LEVEL
- MOD — MODULATING
- MR — MANUAL RESET
- MW — MANWAY
- NC — NORMALLY CLOSED
- NF — NON-FLOWING
- NGL — NORMAL GLYCOL LEVEL
- NO — NORMALLY OPEN
- NLL — NORMAL LIQUID LEVEL
- NOL — NORMAL OIL LEVEL
- NPT — NATIONAL PIPE THREAD
- NWL — NORMAL WATER LEVEL
- PP — PERSONNEL PROTECTION
- PROD — PRODUCTION
- RED — REDUCER
- RF — RAISED FACE
- RO — REDUCED OPENING
- RTJ — RING TYPE JOINT
- RTR — REINFORCED THERMOSETTING RESIN
- SS — STAINLESS STEEL
- S/S — SEAM TO SEAM
- SW — SOCKET WELD
- TSE — TEMPERATURE SAFETY ELEMENT
- UF — UTILITY FLOWSHEET
- VFD — VARIABLE FREQUENCY DRIVE
- VNT — VALVE NEEDLE THREADED
- VBT — VALVE BALL THREADED
- XS — EXTRA STRONG
- XXS — DOUBLE EXTRA STRONG
- XFORM — TRANSFORMER

LINE DESCRIPTION

PL-0114-080-A

- CLASS
- PIPE SCHEDULE
- LINE NUMBER
- SERVICE
- LINE SIZE

LINE SERVICE IDENTIFICATION

AB	BULK AIR	9000-9009
AF	AFFF FOAM	9590-9599
AI	AIR INSTRUMENT	2800-2874
AP	RIG AIR	9010-9019, 9030-9059
AS	AIR START	2760-2769, 9020-9029
AU	AIR UTILITY	2675-2759
BC	BULK CEMENT	9060-9069
BM	BULK MUD	9090-9099
CD	CUTTINGS DISCHARGE TO ATMOSPHERE	9170-9179
CH	CHEMICAL	2000-2024
DCS	DRAIN-CEMENT SLURRY	9150-9169
DD	DIVERTER DISCHARGE	9180-9199
DM	DRAIN-MUD	9120-9149
DSB	DRAIN-SEWAGE (BLACK WATER)	9260-9269
DSG	DRAIN-SEWAGE (GRAY WATER)	9270-9279
DC	DRAIN - CLOSED	9200-9218
DF	DIESEL FUEL	(Δ) 2487-2519
DO	DRAIN - OPEN	0400-0499, 2800-2899, 9100-9119, 9220-9227, 9284-9309, 9320-9339, 9390-9399, 9620-9639, 9860-9899
EXH	EXHAUST	1334-1355
GD	GLYCOL DRY/LEAN	2475-2486 (Δ)
GF	GAS FUEL	2400-2474
GL	GAS LIFT	0700-0734
GW	GLYCOL WET/RICH	2425-2449
GP	GAS PAD	2450-2474
HCF	H.P. COMPLETION FLUIDS	9280-9285
HPH	H.P. HYDRAULIC	9800-9819
HI	HYDRATE INHIBITOR	2025-2049
HPC	H.P. CEMENT	9310-9319
HPM	H.P. MUD	9340-9359
IO	INHIBITOR OIL	9580-9589
JF	JET FUEL	2520-2529
JW	JACKET WATER	2066-2074
LCF	L.P. COMPLETION FLUIDS	9460-9469
LO	LUBE OIL	2075-2099, 9840-9849
LPH	L.P. HYDRAULIC	9850-9859
LPG	L.P. GLYCOL	9360-9369
LPM	L.P. MUD	9370-9389
MR	MUD RETURN	9400-9429
N2	NITROGEN	8900-8999
PF	PROCESS FLUID	0001-0049, 1001-1049
PL	PROCESS LIQUID	0100-0199, 1100-1199
PV	PROCESS VAPOR	0250-0299, 1250-1299
PW	PROCESS WATER	0200-0249, 1200-1249
SC	STEAM CONDENSATE	2575-2599
SV	STEAM VAPOR	2550-2574
VA	VENT TO ATMOS.	0300-0345, 1300-1335, 9450-9459
VC	VENT-CEMENT TO ATMOS.	9440-9449
VDF	VENT - DRILLING TO FLARE	9730-9789
VF	VENT TO FLARE	0346-0399, 1346-1399
VM	VENT-MUD TO ATMOS.	9430-9439
WB	BALLAST WATER	9500-9549
WBO	BILGE WATER-OILY	9650-9699
WC	COOLING WATER	2300-2349
WD	DRILL WATER	9700-9749
WF	FIREWATER	2100-2239, 9565-9579, 9600-9619
WH	HEAT MEDIUM	2770-2799, 9790-9799
WI	WATERFLOOD	1900-1999
	FRESH WATER	2925-2999, 9970-9989, 9620-9649
WPD	DRINKING WATER	9990-9999
WS	UTILITY SEAWATER	2900-2924, 9070-9089, 9550-9564
WW	WASH WATER	2240-2299, 2350-2399

PROGRAMMABLE LOGIC CONTROLLER (PLC) LIST

PLC SYMBOL	DESCRIPTION
HSW	SW HULL COLUMN
HSE	SE HULL COLUMN
QTR	QUARTERS MODULE CONTROL & MASTER PANEL
PWR	POWER MODULE CONTROL
GN1	GENERATOR/TURBINE CONTROL (SOLAR)
GN2	GENERATOR/TURBINE CONTROL (SOLAR)
GN3	GENERATOR/TURBINE CONTROL (SOLAR)
LACT	LACT PANEL
VRC	VAPOR RECOVERY COMPRESSOR CONTROL
FGC	FIELD GAS COMPRESSOR CONTROL (SOLAR)
PR1	PROCESS MODULE & WELLBAY CONTROL - VESSELS
PR2	PROCESS MODULE CONTROL - PUMPS
DA	PROCESS MODULE & WELLBAY DATA ACQUISITION

INSTRUMENT ITEM IDENTIFICATION

- AAH — ANALYZER ALARM HIGH
- AE — ANALYZER ELEMENT
- AOV — AUTOMATIC OPERATED VALVE
- AR — AIR RELEASE
- ASB — BASIC SEDIMENT & WATER MONITOR
- AIT — ANALYZER INDICATING TRANSMITTER
- BBV — BLOCK & BLEED VALVE
- BDV — BLOWDOWN VALVE
- CP — CORROSION PROBE
- FAH — FLOW ALARM HIGH
- FAL — FLOW ALARM LOW
- FC — FLOW CONTROLLER
- FCV — FLOW CONTROL VALVE
- FE — FLOW ELEMENT
- FI — FLOW INDICATOR/ROTAMETER
- FIC — FLOW INDICATING CONTROLLER
- FIT — FLOW INDICATING TRANSMITTER
- FO — FIXED ORIFICE
- FPR — FLOW/PRESSURE RECORDER
- FQI — FLOW QUANTITY INDICATOR (METER W/ LOCAL READOUT)
- FQIT — FLOW QUANTITY INDICATING TRANSMITTER (Δ)
- FR — FLOW RECORDER
- FSH — FLOW SAFETY HIGH
- FSL — FLOW SAFETY LOW
- FT — FLOW TRANSMITTER
- FTR — FLOW/TEMPERATURE RECORDER
- FX — STRAINER
- FY — FLOW RELAY/TRANSDUCER
- HCV — HAND CONTROL VALVE
- HMS — HAND MOMENTARY SWITCH (START/STOP)
- HS — HAND SWITCH
- HY — HAND RELAY
- IIC — CURRENT INDICATING CONTROLLER
- LAH — INTERFACE LEVEL ALARM HIGH
- LSL — INTERFACE LEVEL SHUTDOWN LOW
- ILT — INTERFACE LEVEL TRANSMITTER
- I/P — ELECTRIC TO PNEUMATIC CONVERTER
- IT — CURRENT TRANSMITTER
- LAH — LEVEL ALARM HIGH
- LAL — LEVEL ALARM LOW
- LC — LEVEL CONTROLLER
- LCH — HIGH LEVEL SWITCH FOR PUMP START
- LCL — LOW LEVEL SWITCH FOR PUMP STOP
- LCV — LEVEL CONTROL VALVE
- LG — LEVEL GAUGE
- LI — LEVEL INDICATOR
- LIC — LEVEL INDICATING CONTROLLER
- LS — LEVEL SWITCH
- LSH — LEVEL SAFETY HIGH
- LSL — LEVEL SAFETY LOW
- LY — LEVEL RELAY/TRANSDUCER
- LT — LEVEL TRANSMITTER
- LTS — LEVEL TRANSMITTER - SAFETY
- LI — LEVEL INSTRUMENT
- MI — MISCELLANEOUS ITEM
- MX — MIXER
- NOA — NELSON ANALYZER
- PAH — PRESSURE ALARM HIGH
- PAL — PRESSURE ALARM LOW
- PC — PRESSURE CONTROLLER
- PCV — PRESSURE CONTROL VALVE
- PD — PULSATION DAMPENER
- PDAH — PRESSURE DIFFERENTIAL ALARM HIGH
- PDC — PRESSURE DIFFERENTIAL CONTROLLER
- PDI — PRESSURE DIFFERENTIAL INDICATOR
- PDIT — PRESSURE DIFFERENTIAL INDICATING TRANSMITTER
- PDRC — PRESSURE DIFFERENTIAL RATIO CONTROLLER
- PDT — PRESSURE DIFFERENTIAL TRANSMITTER
- PDV — PRESSURE DIFFERENTIAL CONTROL VALVE
- PE — PRESSURE ELEMENT (Δ)
- PI — PRESSURE INDICATOR
- P/I — PNEUMATIC TO ELECTRIC CONVERTER
- PIC — PRESSURE INDICATING CONTROLLER
- PIT — PRESSURE INDICATING TRANSMITTER
- PR — PRESSURE RECORDER
- PS — PRESSURE SWITCH
- PSE — PRESSURE SAFETY ELEMENT (RUPTURE DISC)
- PSH — PRESSURE SAFETY HIGH
- PSL — PRESSURE SAFETY LOW
- PSV — PRESSURE SAFETY (RELIEF) VALVE
- PT — PRESSURE TRANSMITTER-CONTROL OR DATA
- PTR — PRESSURE/TEMPERATURE RECORDER
- PTS — PRESSURE TRANSMITTER-SAFETY
- PY — PRESSURE RELAY/TRANSDUCER
- QIT — QUANTITY INDICATING TOTALIZER (METER W/ PULSER & LOCAL TOTALIZER)
- QT — QUANTITY TOTALIZER (METER W/ PULSER)
- QY — FREQUENCY TO ANALOG CONVERTER
- RTD — RESISTANCE TEMPERATURE DEVICE
- SC — SPEED CONTROL
- SDV — SHUTDOWN VALVE
- SG — SIGHT GLASS
- SP — SAMPLE PROBE
- SX — SAND PROBE
- TAH — TEMPERATURE ALARM HIGH
- TAL — TEMPERATURE ALARM LOW
- TC — TEMPERATURE CONTROLLER
- TCV — TEMPERATURE CONTROL VALVE
- TE — TEMPERATURE ELEMENT
- TI — TEMPERATURE INDICATOR
- TIC — TEMPERATURE INDICATING CONTROLLER
- TIT — TEMPERATURE INDICATING TRANSMITTER
- TP — THREE PORT VALVE
- TR — TEMPERATURE RECORDER
- TSH — TEMPERATURE SAFETY HIGH
- TSL — TEMPERATURE SAFETY LOW
- TT — TEMPERATURE TRANSMITTER
- TTS — TEMPERATURE TRANSMITTER-SAFETY
- TW — THERMOWELL (TEST WELL)
- TD — AUTOMATIC DRAIN (TRAP)
- TY — TEMPERATURE RELAY/TRANSDUCER
- US — SIGNAL SPLITTER
- UY — MULTI-VARIABLE RELAY
- VE — VIBRATION ELEMENT
- VSH — VIBRATION SAFETY HIGH
- VY — VIBRATION RELAY
- WE — WEIGHT ELEMENT
- WT — WEIGHT TRANSMITTER
- XA — COMMON ALARM (Δ)
- XE — FLAME ARRESTER
- XED — DETONATION FLAME ARRESTER
- XS — LEAK DETECTOR
- XY — SELECT RELAY
- ZSC — POSITION SWITCH CLOSED
- ZSO — POSITION SWITCH OPEN
- ZY — POSITION RELAY
- ZYP — SOLENOID FOR PCV OR BDV
- ZYS — SOLENOID FOR SDV, SSV
- INSTRUMENT FURNISHED W/ PACKAGE

GENERAL INSTRUMENT FUNCTION SYMBOLS

	LOCALLY MOUNTED (FIELD)	PANEL MOUNTED (CONTROL ROOM)	MOUNTED BEHIND INSTRUMENT PANEL (CONTROL ROOM)	MOUNTED FRONT (FIELD PANEL)	MOUNTED BEHIND OR ON SIDE OF PANEL (FIELD PANEL)
INSTRUMENTS	○	⊖	⊖ (dashed)	⊖	⊖ (dashed)
PROGRAMMABLE LOGIC CONTROL	□	⊟	⊟ (dashed)	⊟	⊟ (dashed)

TABLE OF PIPING CLASSES (1)

CLASS	INDUSTRIAL SERVICE (MMS)	RATING
A	HYDROCARBONS, FLARE PILOT/IGNITORS, HULL OILY WATER DRAINS	150# ANSI TO 200 F/STEEL
AL	LUBE OIL	150# ANSI TO 200 F/STEEL
AV	ATMOSPHERIC VENTS	150# ANSI TO 100 PSIG @ 200 F/STEEL
AW	PRODUCED WATER	150# ANSI TO 200 F/STEEL
B	HYDROCARBONS AND PRODUCED WATER	300# ANSI TO 200 F/STEEL
C	HYDROCARBONS AND H.P. SEAWATER	600# ANSI TO 200 F/STEEL
CC	HYDROCARBONS IN SOUR (H_2S) SERVICE, COMPLIES WITH NACE MR-0175	600# ANSI TO 200 F/STEEL
D	HYDROCARBONS AND WET/DRY GLYCOL	900# ANSI TO 200 F/STEEL
DD	HYDROCARBONS AND WET/DRY GLYCOL IN SOUR (H_2S) SERVICE, COMPLIES WITH NACE MR-0175	900# ANSI TO 200 F/STEEL
E	HYDROCARBONS AND H.P. INERT GAS	1500# ANSI TO 200 F/STEEL
G	BULK AIR, RIG AIR, FRESH WATER, UTILITY SEAWATER, COOLING WATER, DRILLWATER, AND L.P. INERT GAS, BLACK WATER, GRAY WATER, OPEN DRAINS	150# ANSI TO 150 F/ STEEL GALVANIZED
H	SEPARATED WATER (WATER SEPARATED FROM HYDROCARBONS AND ISOLATED FROM LIQUID HYDROCARBONS BY A HYDROCARBON RATED BLOCK VALVE), OPEN DRAINS	150 PSIG @ 150 F 150# ANSI FF FIBERGLASS
I	HEAT MEDIA (WATER AND STEAM)	300# ANSI TO 650 F/STEEL
J	H.P. INJECTION WATER (WATERFLOOD)	5000# API TO 250 F/STEEL
JJ	HYDROCARBONS IN SOUR (H_2S) SERVICE COMPLIES WITH NACE MR-0175	5000# API TO 250 F/STEEL
K	DRY BULK CEMENT, DRY BULK MUD, DRY BULK GEL	150# ANSI TO 100 F/STEEL
PVC	BLACK WATER, GRAY WATER	150# ANSI FF 150 PSIG @ 100 F/PVC
SP	L.P. WET/DRY GLYCOL	150# ANSI TO 450 F/STEEL
SS	CHEMICALS, L.P. GLYCOL, L.P. HYDRAULIC FLUID AND LUBE OIL	150# ANSI TO 150 F 316/316L S.S
T	FRAC AND PAC, WELL EQUALIZATION	10,000# API TO 100 F/STEEL
TT	HYDROCARBONS IN SOUR (H_2S) SERVICE, COMPLIES WITH NACE MR-0175	10,000# API TO 250 F/STEEL
V	L.P. INJECTION WATER (WATERFLOOD)	225 PSIG @ 150 F 150# ANSI FF FIBERGLASS
Y	UTILITY SEAWATER, INJECTION SOURCE/ DRILL COOLING WATER	150# ANSI FF TO 200 PSIG @ 140 F, 90-10 CU-NI

CLASS	MARINE SERVICE (USCG)	RATING
MDA	DIESEL FUEL (USCG CLASS II)	150# ANSI TO 150 F/STEEL
MGA	INSTRUMENT AIR, START AIR (USCG CLASS I, P ≤ 150 PSIG, AND II, P > 150 PSIG)	150# ANSI TO 150 F/STEEL GALVANIZED
MR	FIREWATER RING MAIN ONLY (USCG CLASS II)	225 PSIG @ 150 F 150# ANSI FF FIBERGLASS
MEB	HELICOPTER FUEL (USCG CLASS II)	150# ANSI TO 150 F 316/316L S.S
MW	FIREWATER, FOAM EXTINGUISHING SYSTEMS (USCG CLASS II)	200 PSIG @ 150 F 150# ANSI FF 90-10 CU-NI

NOTES

1. THE ABOVE PIPING CLASSES ARE INCLUDED IN THE MARS PROJECT SPECIFICATIONS FOR TOPSIDES PIPING SYSTEMS, SCHEDULE Q. SERVICES LISTED WITH THE PIPE CLASS ARE THOSE USED ON THE TOPSIDES FACILITIES AND OUTSIDE THE HULL. SERVICES INSIDE THE HULL ARE INCLUDED IN SCHEDULE QH.

GENERAL NOTES

1. TEMPERATURE INSTRUMENT CONNECTIONS TO BE 3/4" FNPT IN SIZE UNLESS OTHERWISE NOTED. ALL TE'S, TI'S AND TW'S SHALL BE MOUNTED VERTICALLY.
2. ALL PRESSURE INSTRUMENT CONNECTIONS TO BE 1/2" FNPT IN SIZE UNLESS OTHERWISE NOTED. AN ANDERSON-GREENWOOD (AGCO) OR WHITEY GAUGE VALVE WITH AGCO BLEEDER VALVE AND A 316 SS PLUG SHALL BE INSTALLED IN EACH CONNECTION, UNLESS NOTED OTHERWISE.
3. ALL NEEDLE VALVES TO BE 1/2" NPT IN SIZE UNLESS OTHERWISE NOTED.
4. ALL CHECK VALVE BONNETS ARE TO BE DRILLED & TAPPED 1/2" NPT AND A 1/2" NEEDLE VALVE INSTALLED WHERE INDICATED.
5. ALL VESSELS WITH EXTERNAL CONTROL COLUMNS TO HAVE A MINIMUM OF ONE(1) DRAIN CUP INSTALLED ADJACENT TO VESSEL AND BELOW GRATING. ALL LEVEL GAUGE DRAIN VALVES SHALL HAVE A 3/8" S.S. TUBING ROUTED TO DRAIN LINE. LEVEL GAUGES ON DIFFERENT VESSELS SHALL NOT BE INTERCONNECTED.

WOB	Δ	GENERAL REVISION	WOB
WOB	Δ	GENERAL REVISION	WOB
WOB	Δ	GENERAL REVISION	WOB
WOB	Δ	ISSUED FOR CONSTRUCTION	WOA

REVIEWED BY: W.D. BEASLEY; A.L. PIPPIN; F.J. ELLIOTT; D.R. JOHNSTON; M.A. DURDLE

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P&ID - PRODUCTION SYSTEMS
FLOWSHEET LEGEND
MC BLOCK 807 PLATFORM 'A' (MARS)
MISSISSIPPI CANYON 807 FIELD

DATE 11/01/93 — A.L. PIPPIN — 3/11/94 — 7930011

517A-93-661B

FLOWSHEET LEGEND
51? A93661 R

MISSISSIPPI CANYON 807A (PROSPECT MARS)

PROCESS AND SAFETY ANALYSIS FLOW DIAGRAMS - DRAWING SERIES 517A-93-660

PROCESS				
REVISIONS		CAD FILE NAME	SHELL DWG NO	TITLE
CURRENT	DATE			
A	10/06/95	F9301130	517A-93-660A	DRAWING INDEX
A	10/06/95	F9301140	517A-93-660B	PRODUCTION/SEPARATION
A	10/06/95	F9301150	517A-93-660C	OIL TREATING & SALES
A	10/06/95	F9301160	517A-93-660D	GAS COMPRESSION
A	10/06/95	F9301170	517A-93-660E	GAS TREATING & SALES
A	10/06/95	F9301180	517A-93-660F	WATER TREATING, DRAINS & HEA. MEDIA
A	10/06/95	F9301190	517A-93-660G	VENT, FLARE & FUEL GAS
A	10/06/95	F9301200	517A-93-660H	DIESEL, FIREWATER & CHEMICALS

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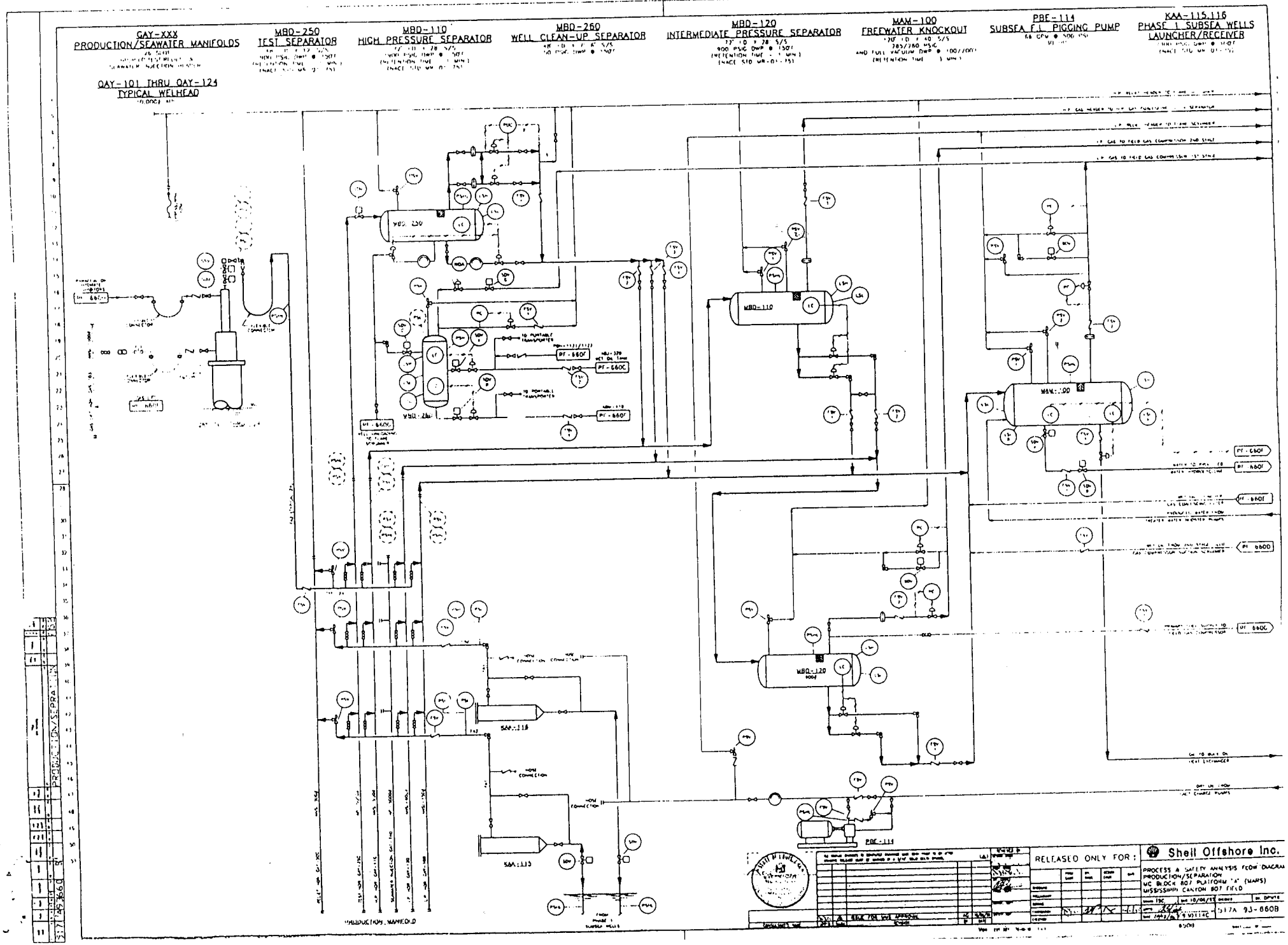
PROCESS & SAFETY ANALYSIS FLOW DIAGRA
DRAWING INDEX
MC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD

517A 93 660A


GAY-XXX
PRODUCTION/SEAWATER MANIFOLDS
MBD-250
TEST SEPARATOR
MBD-110
HIGH PRESSURE SEPARATOR
MBD-260
WELL CLEAN-UP SEPARATOR
MBD-120
INTERMEDIATE PRESSURE SEPARATOR
MAN-100
FREEWATER KNOCKOUT
PBE-114
SUBSEA F.L. PIGGING PUMP
KAA-115,116
PHASE 1 SUBSEA WELLS
LAUNCHER/RECEIVER
GAY-101 THRU GAY-124
TYPICAL WELLHEAD
MBD-250
MBD-110
MAN-100
MBD-120
PBE-114
SAA-118
SAA-115
PRODUCTION MANIFOLD
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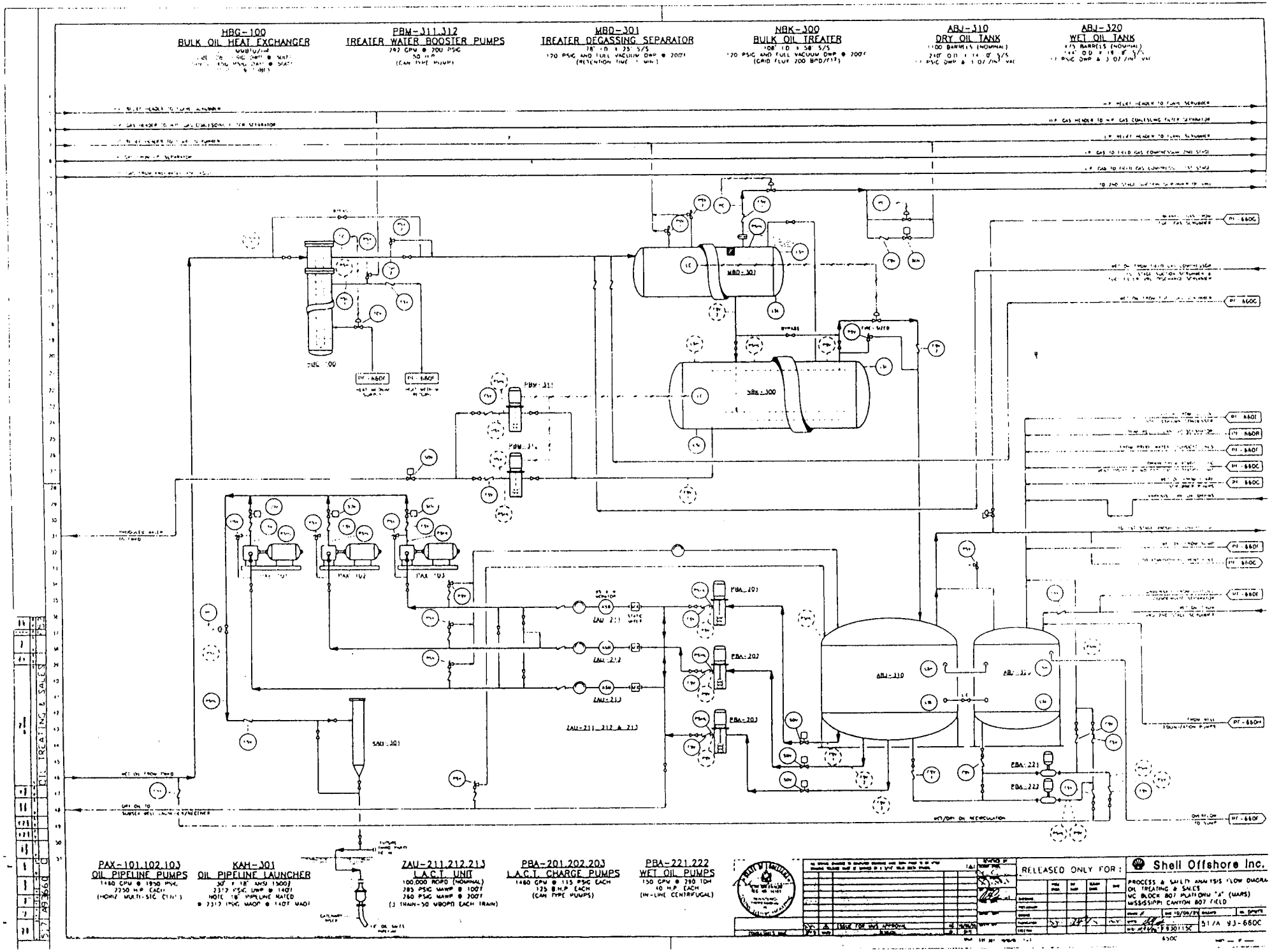
PROCESS & SAFETY ANALYSIS FLOW DIAGRAM
PRODUCTION/SEPARATION
MC BLOCK 807 PLATFORM "A" (MAPS)
MISSISSIPPI CANYON 807 FIELD
93-660B


HBC-100
BULK OIL HEAT EXCHANGER
PBM-311,312
TREATER WATER BOOSTER PUMPS
MBD-301
TREATER DEGASSING SEPARATOR
NBK-300
BULK OIL TREATER
ABJ-310
DRY OIL TANK
ABJ-320
WET OIL TANK
MBD-301
NBK-300
ABJ-310
PAX-101
PAX-102
PAX-103
PBA-201
PBA-202
PBA-203
PBA-221
PBA-222
KAH-301
ZAU-211
ZAU-212
ZAU-213
ZAU-211, 212 & 213
PAX-101,102,103
OIL PIPELINE PUMPS
KAH-301
OIL PIPELINE LAUNCHER
ZAU-211,212,213
L.A.C.T. UNIT
PBA-201,202,203
L.A.C.T. CHARGE PUMPS
PBA-221,222
WET OIL PUMPS
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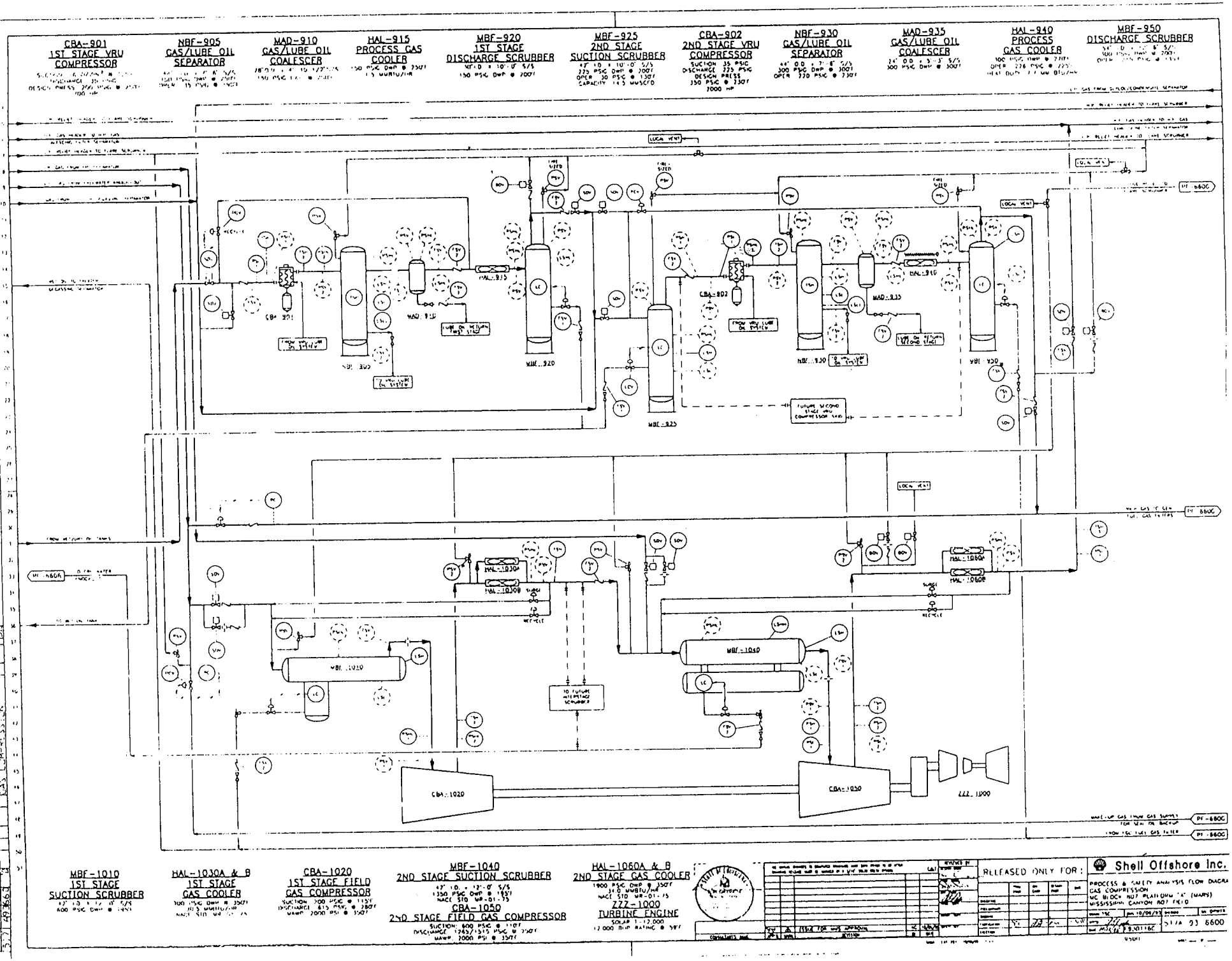
PROCESS & SAFETY ANALYSIS FLOW DIAGRAM
OIL TREATING & SALES
VC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD
51/A VJ-660C


CBA-901
1ST STAGE VRU
COMPRESSOR
NBF-905
GAS/LUBE OIL
SEPARATOR
MAD-910
GAS/LUBE OIL
COALESCER
HAL-915
PROCESS GAS
COOLER
MBF-920
1ST STAGE
DISCHARGE SCRUBBER
MBF-925
2ND STAGE
SUCTION SCRUBBER
CBA-902
2ND STAGE VRU
COMPRESSOR
NBF-930
GAS/LUBE OIL
SEPARATOR
MAD-935
GAS/LUBE OIL
COALESCER
HAL-940
PROCESS
GAS COOLER
MBF-950
DISCHARGE SCRUBBER
LOCAL VENT
MBF-1010
1ST STAGE
SUCTION SCRUBBER
HAL-1030A & B
1ST STAGE
GAS COOLER
CBA-1020
1ST STAGE FIELD
GAS COMPRESSOR
MBF-1040
2ND STAGE SUCTION SCRUBBER
HAL-1060A & B
2ND STAGE GAS COOLER
CBA-1050
2ND STAGE FIELD GAS COMPRESSOR
ZZZ-1000
TURBINE ENGINE
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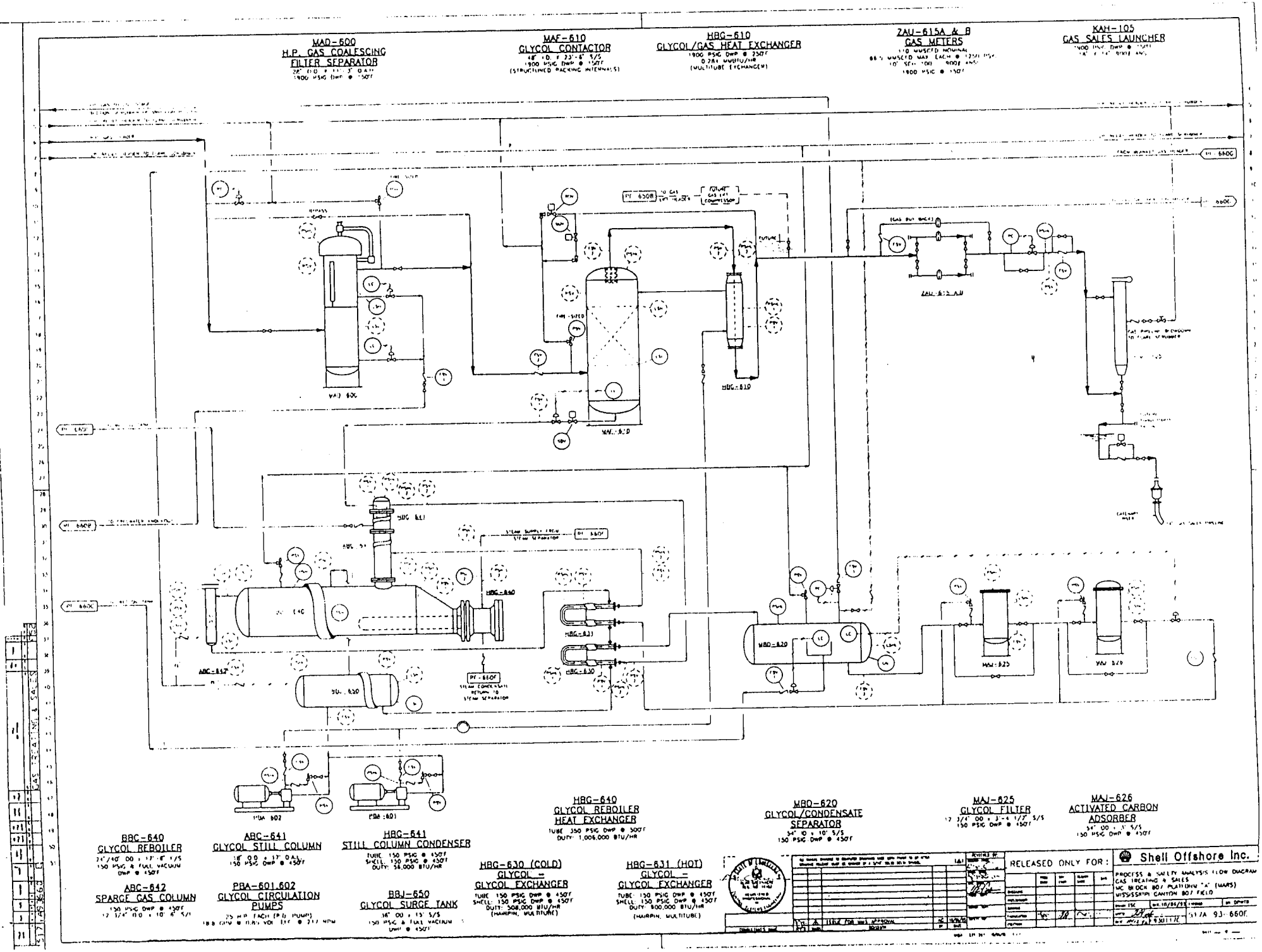
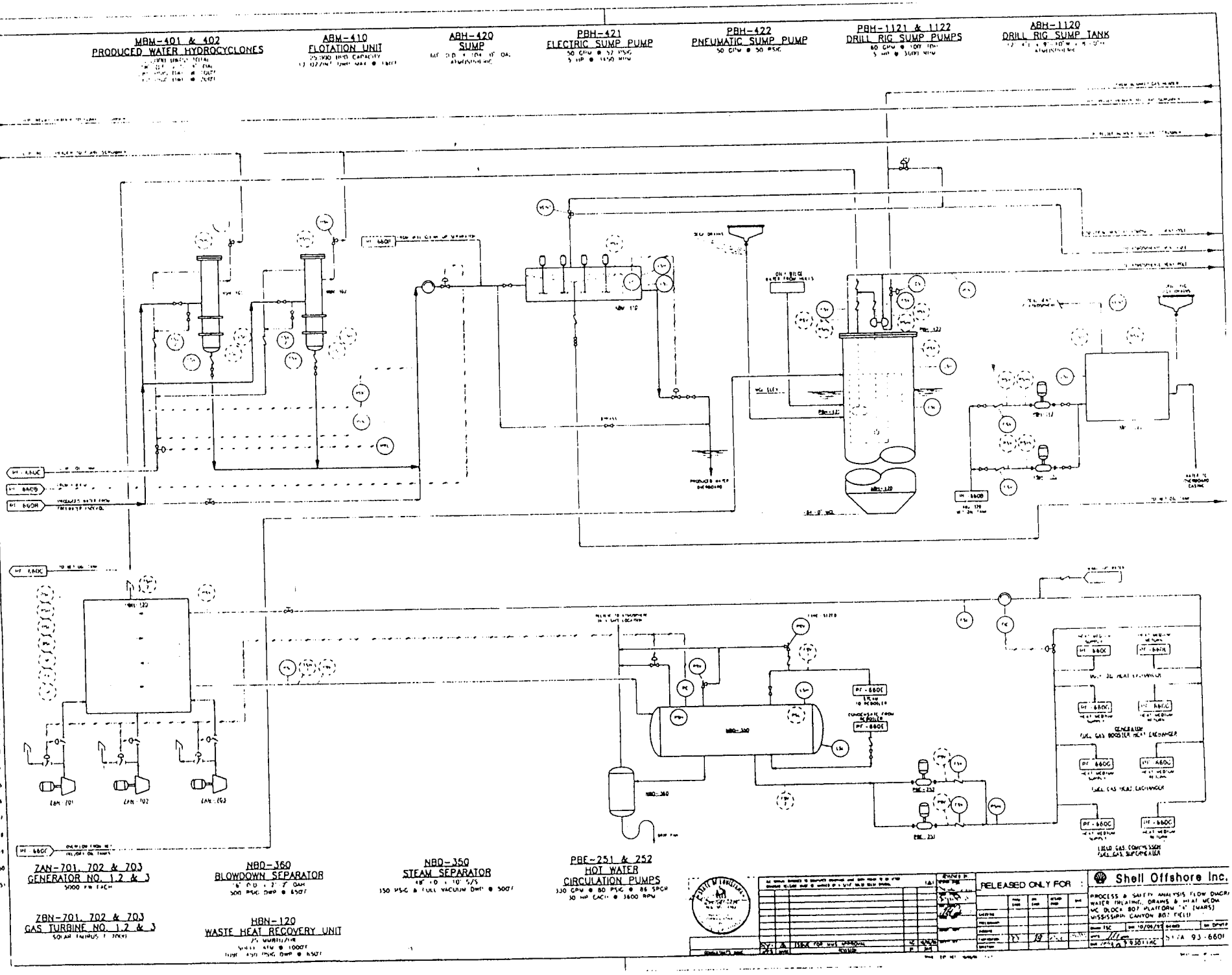
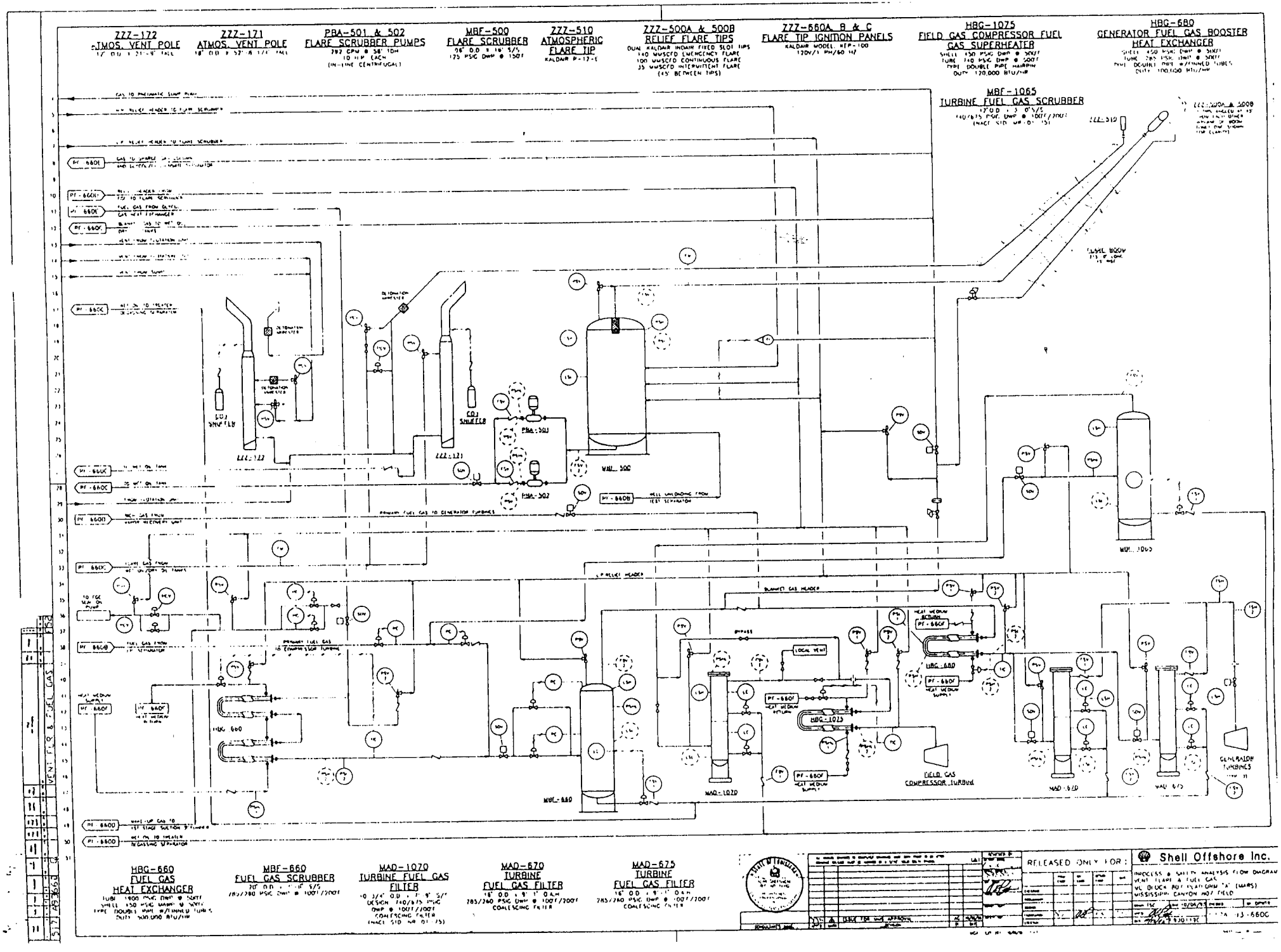
PROCESS & SAFETY ANALYSIS FLOW DIAGRA
GAS COMPRESSION
MC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD


MAD-600
H.P. GAS COALESCING FILTER SEPARATOR
MAF-610
GLYCOL CONTACTOR
HBG-610
GLYCOL/GAS HEAT EXCHANGER
ZAU-615A & B
GAS METERS
KAH-105
GAS SALES LAUNCHER
HBG-640
GLYCOL REBOILER HEAT EXCHANGER
TUBE 350 PSIG DWP @ 500°F
DUTY: 1,006,000 BTU/HR
WBD-620
GLYCOL/CONDENSATE SEPARATOR
34" ID x 10' S/S
150 PSIG DWP @ 450°F
MAJ-625
GLYCOL FILTER
12 3/4" OD x 3'-4 1/2" S/S
150 PSIG DWP @ 450°F
MAJ-626
ACTIVATED CARBON ADSORBER
34" OD x 5' S/S
150 PSIG DWP @ 450°F
ABC-640
GLYCOL REBOILER
24"/18" OD x 12'-8" S/S
150 PSIG & FULL VACUUM DWP @ 450°F
ABC-641
GLYCOL STILL COLUMN
18" OD x 17' OAL
150 PSIG DWP @ 450°F
HBG-641
STILL COLUMN CONDENSER
TUBE: 150 PSIG @ 450°F
SHELL: 150 PSIG @ 450°F
DUTY: 58,000 BTU/HR
ABC-642
SPARGE GAS COLUMN
150 PSIG DWP @ 450°F
12 3/4" OD x 10' 6" S/S
PBA-601,602
GLYCOL CIRCULATION PUMPS
BBJ-650
GLYCOL SURGE TANK
16" OD x 15' S/S
150 PSIG & FULL VACUUM DWP @ 450°F
HBG-630 (COLD)
GLYCOL - GLYCOL EXCHANGER
TUBE: 150 PSIG DWP @ 450°F
SHELL: 150 PSIG DWP @ 450°F
DUTY: 508,000 BTU/HR
(HAIRPIN, MULTITUBE)
HBG-631 (HOT)
GLYCOL - GLYCOL EXCHANGER
TUBE: 150 PSIG DWP @ 450°F
SHELL: 150 PSIG DWP @ 450°F
DUTY: 800,000 BTU/HR
(HAIRPIN, MULTITUBE)
RELEASED ONLY FOR:
Shell Offshore Inc.
PROCESS & SAFETY ANALYSIS FLOW DIAGRAM
GAS TREATING & SALES
MC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD
51 7A 93 660F.


MBH-401 & 402
PRODUCED WATER HYDROCYCLONES
ABM-410
FLOTATION UNIT
ABH-420
SUMP
PBH-421
ELECTRIC SUMP PUMP
50 GPM @ 50 PSIG
PBH-422
PNEUMATIC SUMP PUMP
50 GPM @ 50 PSIG
PBH-1121 & 1122
DRILL RIG SUMP PUMPS
ABH-1120
DRILL RIG SUMP TANK
ZAN-701, 702 & 703
GENERATOR NO. 1, 2 & 3
5000 KW EACH
ZBN-701, 702 & 703
GAS TURBINE NO. 1, 2 & 3
NBD-360
BLOWDOWN SEPARATOR
500 PSIG DWP @ 650°F
NBD-350
STEAM SEPARATOR
350 PSIG & FULL VACUUM DWP @ 500°F
HBN-120
WASTE HEAT RECOVERY UNIT
PBE-251 & 252
HOT WATER
CIRCULATION PUMPS
330 GPM @ 80 PSIG @ 86 SPGR
30 HP EACH @ 3600 RPM
RELEASED ONLY FOR
Shell Offshore Inc.
PROCESS & SAFETY ANALYSIS FLOW DIAGRAM
WATER INJECTING, DRAINS & HEAT MEDIA
MC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD
SAFA 93-6601


ZZZ-172
ATMOS. VENT POLE
ZZZ-171
ATMOS. VENT POLE
PBA-501 & 502
FLARE SCRUBBER PUMPS
MBF-500
FLARE SCRUBBER
ZZZ-510
ATMOSPHERIC FLARE TIP
ZZZ-500A & 500B
RELIEF FLARE TIPS
ZZZ-660A, B & C
FLARE TIP IGNITION PANELS
HBG-1075
FIELD GAS COMPRESSOR FUEL GAS SUPERHEATER
HBG-680
GENERATOR FUEL GAS BOOSTER HEAT EXCHANGER
MBF-1065
TURBINE FUEL GAS SCRUBBER
HBG-660
FUEL GAS HEAT EXCHANGER
MBF-660
FUEL GAS SCRUBBER
MAD-1070
TURBINE FUEL GAS FILTER
MAD-670
TURBINE FUEL GAS FILTER
MAD-675
TURBINE FUEL GAS FILTER
FIELD GAS COMPRESSOR TURBINE
RELEASED ONLY FOR:
Shell Offshore Inc.

ZBA-827
PARAFFIN & HYDRATE
INHIBITOR PACKAGE

ZBA-821
PRODUCTION
CHEMICAL INJECTION PACKAGE

PZZ-833, 834, 835, 836 & 837
METHANOL PUMPS

PBE-271 & 272
DIESEL DRIVEN FIREWATER PUMPS

ABJ-895
HELICOPTER
FUEL STORAGE TANK

PBE-895
HELICOPTER FUEL PUMP

ZZZ-895
HELICOPTER
REFUELING STATION

ABJ-710
DIESEL FUEL DAY TANK

ABJ-705
EMERGENCY GENERATOR
DAY TANK

ABJ-271 & 272
FIREWATER PUMP
DIESEL DAY TANK

PBE-231 & 232
H.P. WELL EQUALIZATION PUMPS
10 GPM @ 7300 PSIG
60 H.P @ 1200 RPM + 764 RPM
HYDROPLEX MOD HP-550
TRIPLEX PLUNGER PUMP
V-BELT DRIVEN

RELEASED ONLY FOR :

Shell Offshore Inc.

PROCESS & SAFETY ANALYSIS FLOW DIAGRA
DIESEL, FIREWATER & CHEMICALS
MC BLOCK 807 PLATFORM 'A' (MARS)
MISSISSIPPI CANYON 807 FIELD

517A-93-6601

MISSISSIPPI CANYON 807A
MARS PLATFORM

ITEM: LACT OIL METERS

SHELL TAG NOS.: QIT-Z211 (Serial No. PL147411)
QIT-Z212 (Serial No. PL147409)
QIT-Z213 (Serial No. PL147410)

6/24/96
Called in Correction to Frank Tom. He has no other questions on this. He'll Δ # he's inputting into the MMS Computer

WORKING PRESSURE: 275/260 PSIG DWP AT 100/200°F

MANUFACTURER/MODEL NO.: Smith Meter, 10: ~~JA10-53~~ JA10-53

MANUFACTURER'S CONTINUOUS RATING
MAXIMUM FLOW RATE: 3500 BPH (84,000 BPD) each

ITEM: METER PROVER

SHELL TAG NO.: ZZZ-215

WORKING PRESSURE: 285/260 PSIG DWP AT 100/200°F

MISSISSIPPI CANYON 807A
MARS PLATFORM

ITEM: GAS SALES METERS

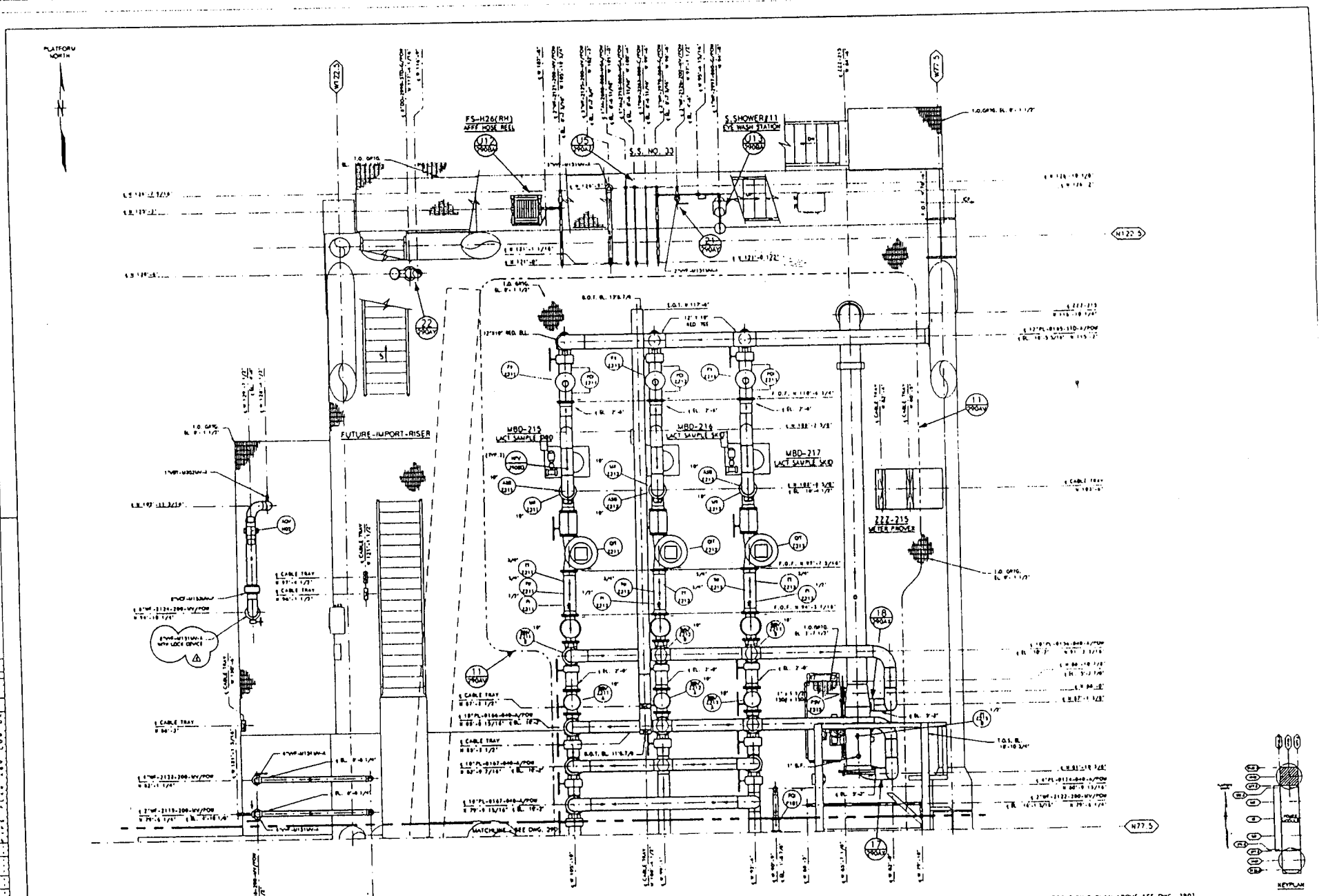
SHELL TAG NOS.: FE-615A (Tube Serial No. 94-440112)
(Fitting Serial No. 94-20475)
FE-615B (Tube Serial No. 94-440113)
(Fitting Serial No. 94-420474)

WORKING PRESSURE: 1900 PSIG at 150°F

MANUFACTURER/MODEL NO.: Daniel Flow Products, 3M-0146CTT 10" 900# RTJFN
3-Section Senior Meter Tube, 9.312" I.D.

**FLOW RATE (MAXIMUM PLANNED): 70.3 MMCFD each with 1250 PSIG operating pressure with 123" water column differential pressure and a 0.6 Beta Ratio

** Note that flow rate can be varied up or down by altering the differential pressure, Beta Ratio and operating pressure in the meter tube.



PIPING PLAN ABOVE LOWER DECK (T.O.S. EL. 0'-0")

SCALE: 3/8" = 1'-0"

FOR PIPING PLAN ABOVE SEE DWG 2901
FOR PIPING PLAN BELOW SEE DWG 290AH

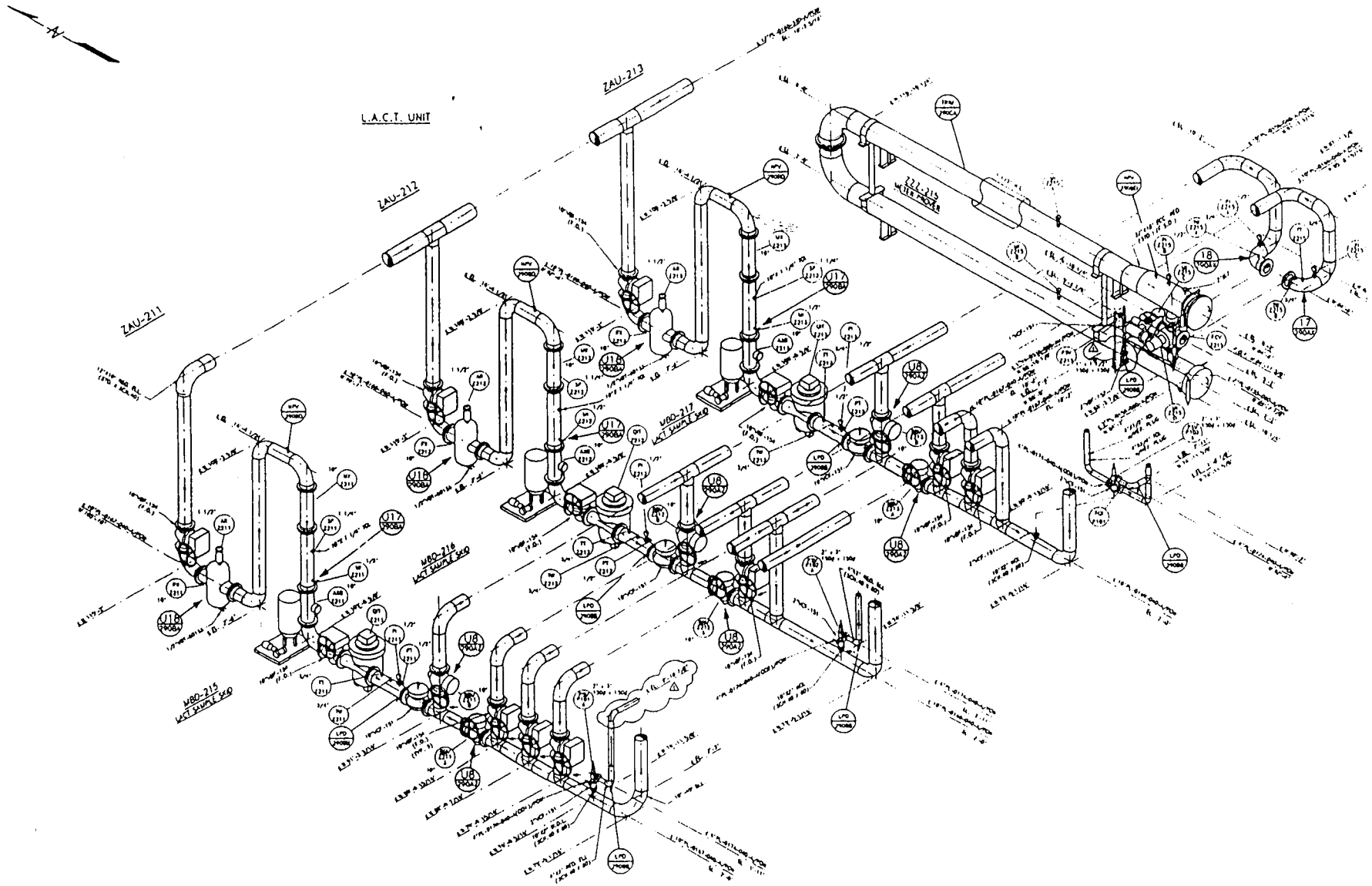
NOTES:
1. FOR GENERAL NOTES SEE DRAWING 517A-93-2900.

RELEASED ONLY FOR:

Shell Offshore Inc

POWER MODULE
PIPING PLAN ABOVE LOWER DECK
MC BLOCK 697 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD

517A-93-290AA



DETAIL 11
SCALE 3/8" = 1'-0"

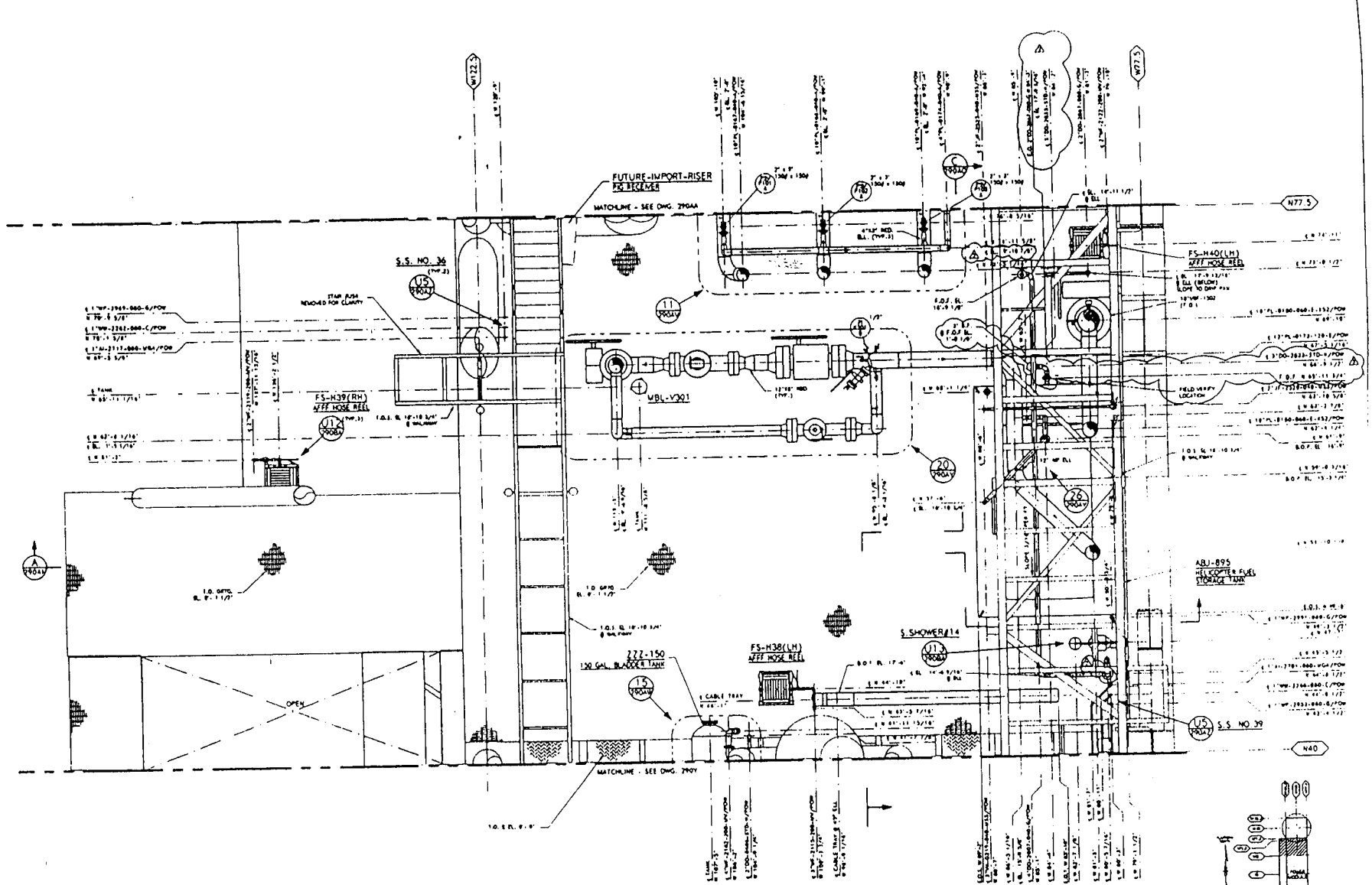
NOTES:
1. FOR GENERAL NOTES SEE DRAWING 5178-93-7900.
2. CONTRACTOR SHALL DRILL VALVE HANDLES ON ACCO NEEDLE AND GUAGE (MANIFOLD) VALVES FOR CAP SEALS FOR LOCKING DEVICE (L.D.) WHERE NOTED. REFERENCE NOTE 11 ON DWG. 6612 & NOTE 1 ON DWG. 6618.
3. BALL VALVES REQUIRING LOCKING DEVICES SHALL HAVE THE BALL VALVE MANUFACTURER'S STANDARD LOCKING DEVICE FURNISHED WITH THE VALVE. REFERENCE NOTE 11 ON DWG. 6612 & NOTE 1 ON DWG. 6618.

RELEASED ONLY FOR:

Shell Offshore

POWER MODULE
ISOMETRIC DETAIL
MC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD

5178-93-7904



PIPING PLAN ABOVE LOWER DECK (T.O.S. EL. 0'-0")

SCALE: 3/8" = 1'-0"

FOR PIPING PLAN ABOVE SEE DWG 2905
FOR PIPING PLAN BELOW SEE DWG 2904G

NOTES:
1. FOR GENERAL NOTES SEE DRAWING S17A-93-2900.

RELEASED ONLY FOR:

Shell Offshore Inc

POWER MODULE
PIPING PLAN ABOVE LOWER DECK
MC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD

S17A-93-2902

INSPECTORATE

Inspectorate America Corporation 709 E. Houston Ave. Pasadena, Texas 77502
Tel: 713-920-1551 Fax: 713-920-1918

PROVER CALIBRATION REPORT

DATE: JULY 22, 1994

OWNER: SHELL OFFSHORE INC.
REPORT NO: 94-50
LOCATION: HOUSTON, TEXAS
MFGR.: DANIEL ENFAB
PROVER TYPE: BIDIRECTIONAL
SERIAL NO.: BMP-54062
SERVICE LOCATION: N/A
SERVICE I.D.: OFFSHORE LOUISIANA
CUSTOMER: DANIEL ENFAB
PIPE SIZE: 17.25" I.D. .375" W.T.

THIS IS TO CERTIFY THAT USING WATER AS THE CALIBRATING MEDIUM, THE ABOVE SUBJECT PROVER WAS CALIBRATED BY THE WATERDRAW METHOD. IN ACCORDANCE WITH THE PROCEDURES OUTLINED IN API CHAPTERS 4.2, 4.3, 4.4, 11.2.3 AND 12.2. THE CALIBRATED VOLUME AT STANDARD CONDITIONS HAS BEEN DETERMINED TO BE:

VOLUME OF	264,095.8321	CUBIC INCHES	@ 60° F. & 0 PSIG
VOLUME OF	1,143.27$\overline{2}$	U.S. GALLONS	@ 60° F. & 0 PSIG
VOLUME OF	27.22076	42-GALLON BARRELS	@ 60° F. & 0 PSIG
VOLUME OF	152.833$\overline{2}$	CUBIC FEET	@ 60° F. & 0 PSIG

THE TEST MEASURES USED TO OBTAIN THE ABOVE VOLUMES WERE CALIBRATED BY THE "NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY" AND ARE LISTED AS FOLLOWS:

NIST NO. 5845 NIST NO. 5840 NIST NO. _____

NIST NO. 5841 NIST NO. 5839 NIST NO. _____

TEMPERATURES WERE TAKEN USING THERMOMETERS CALIBRATED AGAINST CERTIFIED THERMOMETER NO. 89C-2855.

PRESSURES WERE TAKEN USING CALIBRATED PRESSURE GAUGE NO. PRR-11197.

F. L. Conway
INSPECTORATE AMERICA CORPORATION

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50

CHECKED BY Edt

DATE 7-22-94

SHEET: 1 OF 1

DATE: JULY 22,1994
CUSTOMER: SHELL OFFSHORE INC.
LOCATION: HOUSTON,TEXAS
SERVICE LOCATION & ID: OFFSHORE LOUISIANA
TIME:1:00
WEATHER:950DEG

INSIDE DIAMETER 17.25 INCHES
WALL THICKNESS .375 INCHES
MODULUS OF ELAS. 30000000
CUBICAL COEFF. .0000186 /DEG. F
AREA COEFF. .0000124 /DEG. F
MANUFACTURER: DANIEL ENFAB
SERIAL NUMBER: BMP-54062
PROVER TYPE: BIDIR. PIPE W/1 WALL
MATERIAL: CARBON STEEL
LINEAL COEFF. .0000062 /DEG. F

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

PROVER CALIBRATION SUMMARY

L-R	R-L	ROUND TRIP
1 132024.7191	2 132074.2965	264099.0156 I
3 132019.3819	4 132068.2713	264087.6532 II
5 132021.4927	6 132079.3348	264100.8275 III
AVG =132022.0505 (1-3)	132071.2839 (2-4)	264093.3344 (I-II)
1-3 -.004 %	2-4 -.005 %	I - II -.004 %
3-5 .002 %	4-6 .008 %	II - III .005 %
1-5 -.002 %	2-6 .004 %	I - III .001 %
1-AVG .002 %	2-AVG .002 %	I-AVG .002 %
3-AVG .002 %	4-AVG .002 %	II-AVG .002 %
5-AVG .000 %	6-AVG .006 %	III-AVG .003 %

THIS IS TO REPORT THAT USING WATER AS THE CALIBRATING MEDIUM, THE ABOVE SUBJECT PROVER WAS CALIBRATED BY THE WATERDRAW METHOD, IN ACCORDANCE WITH NATIONAL AND INTERNATIONAL MEASUREMENT STANDARDS AND PRACTICES. THE CALIBRATED VOLUME AT STANDARD CONDITIONS HAS BEEN CALCULATED TO BE:

CERTIFIED VOLUME: AVERAGE I, II, & III
CUBIC INCHES (2.54 CM PER INCH) @ 60 F & 0 PSIG = 264095.8321
U.S. GALLONS (231 CU.IN. PER GAL.) @ 60 F & 0 PSIG = 1143.2720004329
BARRELS (9702 CU.IN. PER BBL.) @ 60 F & 0 PSIG = 27.220761915069 06
CUB. FEET (1728 CU.IN. PER CU.FT.) @ 60 F & 0 PSIG = 152.8332361689815
LITERS (1000 CU.CM. PER L) @ 15C & 101.325 kPa = 4327.674808005614
CUB. METERS (1000 LITERS PER M) @ 15C & 101.325 kPa = 4.327674808005614

PREVIOUS VOLUME(BBLS) = NEW
NEW VOLUME(BBLS) = 27.220762
CHANGE = N/A

INSPECTORATE AMERICA CORPORATION

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50

CHECKED BY Ed

DATE 7.22.94

SHEET: 1 OF 6

DATE: JULY 22,1994
CUSTOMER: SHELL OFFSHORE INC.
LOCATION: HOUSTON,TEXAS
SERVICE LOCATION & ID: OFFSHORE LOUISIANA
TIME:11:15
WEATHER:950DEG

INSIDE DIAMETER 17.25 INCHES
WALL THICKNESS .375 INCHES
MODULUS OF ELAS. 30000000
CUBICAL COEFF. .0000186 /DEG. F
AREA COEFF. .0000124 /DEG. F
MANUFACTURER: DANIEL ENFAB
SERIAL NUMBER: BMP-54062
PROVER TYPE: BIDIR. PIPE W/1 WALL
MATERIAL: CARBON STEEL
LINEAL COEFF. .0000062 /DEG. F

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO. 1
PAGE 1
DIRECTION DOWN
FLOW RATE 60 GPM
TEMPERATURE PROVER 86 DEGREES F
PRESSURE IN PROVER 35 PSIG

FILL	REF	BASE	+/-	ADJ.	TEMP	CTDW	CCTS	TEMP CORR VOL
1	1	5774.56	0	5774.56	86	1	1.000205	5775.7438
2	2	11549.7	0	11549.7	86	1	1.000205	11552.0677
3	3	23101.6	-200	22901.6	86	1	1.000205	22906.2948
4	4	23098.4	-200	22898.4	86	1	1.000205	22903.0942
5	3	23101.6	-200	22901.6	86.1	.999983	1.000208	22905.9741
6	4	23098.4	-200	22898.4	86.1	.999983	1.000208	22902.7735
7	3	23101.6	-5	23096.6	86.2	.999966	1.000211	23100.6879
8	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0

INSPECTORATE REP.: F.R.CONWAY

F. Conway

INSPECTORATE AMERICA

*TEMP CORR VOL @ 60 F 132046.636
*CPSP=1+(P*ID)/(E*WT) 1.000054
*CPLP=1/1-(0.0000032*PSIG) 1.000112
*NET VOL: TCV/(CPSP*CPLP) 132024.7191

WITNESS/REPRESENTING:

M. Peterson

*WITNESS/REPRESENTING:

* Daniel

*

*

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50
CHECKED BY Edt
DATE 7-22-94

SHEET: 2 OF 6
TIME:11:30
WEATHER:950DEG

DATE: JULY 22,1994
CUSTOMER:
LOCATION: SHELL OFFSHORE INC.
SERVICE LOCATION & ID: HOUSTON,TEXAS
OFFSHORE LOUISIANA

INSIDE DIAMETER 17.25 INCHES
WALL THICKNESS .375 INCHES
MODULUS OF ELAS. 30000000
CUBICAL COEFF. .0000186 /DEG. F
AREA COEFF. .0000124 /DEG. F

MANUFACTURER: DANIEL ENFAB
SERIAL NUMBER: BMP-54062
PROVER TYPE: BIDIR. PIPE W/1 WALL
MATERIAL: CARBON STEEL
LINEAL COEFF. .0000062 /DEG. F

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO. 2 DIRECTION UP
PAGE 1 FLOW RATE 60 GPM

TEMPERATURE PROVER 86.2 DEGREES F
PRESSURE IN PROVER 35 PSIG

FILL	REF	BASE	+/-	ADJ.	TEMP	CTDW	CCTS	TEMP CORR VOL
1	1	5774.56	0	5774.56	86.2	1	1.000207	5775.7553
2	2	11549.7	0	11549.7	86.2	1	1.000207	11552.0908
3	3	23101.6	-200	22901.6	86.2	1	1.000207	22906.3406
4	4	23098.4	-200	22898.4	86.3	.999983	1.00021	22902.8193
5	3	23101.6	-200	22901.6	86.3	.999983	1.00021	22906.0199
6	4	23098.4	-200	22898.4	86.4	.999966	1.000212	22902.4758
7	3	23101.6	45	23146.6	86.4	.999966	1.000212	23150.7199
8	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0

INSPECTORATE REP.: F.R.CONWAY
F. Conway
INSPECTORATE AMERICA

*TEMP CORR VOL @ 60 F 132096.2216
*CPSP=1+(P*ID)/(E*WT) 1.000054
*CPLP=1/1-(0.0000032*PSIG) 1.000112
*NET VOL: TCV/(CPSP*CPLP) 132074.2965

WITNESS/REPRESENTING:
N Otterson

*WITNESS/REPRESENTING:
*Daniel

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50
CHECKED BY Edt
DATE 7-22-94

SHEET: 3 OF 6
TIME: 11:45
WEATHER: 950DEG

DATE: JULY 22,1994
CUSTOMER: SHELL OFFSHORE INC.
LOCATION: HOUSTON,TEXAS
SERVICE LOCATION & ID: OFFSHORE LOUISIANA

INSIDE DIAMETER 17.25 INCHES
WALL THICKNESS .375 INCHES
MODULUS OF ELAS. 30000000
CUBICAL COEFF. .0000186 /DEG. F
AREA COEFF. .0000124 /DEG. F

MANUFACTURER: DANIEL ENFAB
SERIAL NUMBER: BMP-54062
PROVER TYPE: BIDIR. PIPE W/1 WALL
MATERIAL: CARBON STEEL
LINEAL COEFF. .0000062 /DEG. F

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO. 3 DIRECTION DOWN TEMPERATURE PROVER 86.3 DEGREES F
PAGE 1 FLOW RATE 60 GPM PRESSURE IN PROVER 35 . PSIG

FILL	REF	BASE	+/-	ADJ.	TEMP	CTDW	CCTS	TEMP CORR VOL
1	1	5774.56	0	5774.56	86.3	1	1.000208	5775.7611
2	2	11549.7	0	11549.7	86.3	1	1.000208	11552.1023
3	3	23101.6	-200	22901.6	86.3	1	1.000208	22906.3635
4	4	23098.4	-200	22898.4	86.4	.999983	1.00021	22902.8193
5	3	23101.6	-200	22901.6	86.4	.999983	1.00021	22906.0199
6	4	23098.4	-200	22898.4	86.5	.999966	1.000213	22902.4986
7	3	23101.6	-10	23091.6	86.5	.999966	1.000213	23095.7332
8	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0

INSPECTORATE REP.: F.R.CONWAY

F. R. Conway

INSPECTORATE AMERICA

*TEMP CORR VOL @ 60 F 132041.2979
*CPSP=1+(P*ID)/(E*WT) 1.000054
*CPLP=1/1-(0.0000032*PSIG) 1.000112
*NET VOL: TCV/(CPSP*CPLP) 132019.3819

WITNESS/REPRESENTING:

N Peterson

*WITNESS/REPRESENTING:

Daniel

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50

CHECKED BY Eadt

DATE 7-22-94

SHEET: 4 OF 6

DATE: JULY 22,1994
CUSTOMER: SHELL OFFSHORE INC.
LOCATION: HOUSTON,TEXAS
SERVICE LOCATION & ID: OFFSHORE LOUISIANA
TIME:12:00
WEATHER:950DEG

INSIDE DIAMETER 17.25 INCHES
WALL THICKNESS .375 INCHES
MODULUS OF ELAS. 30000000
CUBICAL COEFF. .0000186 /DEG. F
AREA COEFF. .0000124 /DEG. F
MANUFACTURER: DANIEL ENFAB
SERIAL NUMBER: BMP-54062
PROVER TYPE: BIDIR. PIPE W/1 WALL
MATERIAL: CARBON STEEL
LINEAL COEFF. .0000062 /DEG. F

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO. 4 DIRECTION UP TEMPERATURE PROVER 86.5 DEGREES F
PAGE 1 FLOW RATE 60 GPM PRESSURE IN PROVER 35 PSIG

FILL	REF	BASE	+/-	ADJ.	TEMP	CTDW	CCTS	TEMP CORR VOL
1	1	5774.56	0	5774.56	86.5	1	1.000209	5775.7669
2	2	11549.7	0	11549.7	86.5	1	1.000209	11552.1139
3	3	23101.6	-200	22901.6	86.5	1	1.000209	22906.3864
4	4	23098.4	-200	22898.4	86.6	.999983	1.000212	22902.8651
5	3	23101.6	-200	22901.6	86.7	.999966	1.000215	22905.745
6	4	23098.4	-200	22898.4	86.8	.999949	1.000217	22902.2009
7	3	23101.6	40	23141.6	86.9	.999932	1.00022	23145.1172
8	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0

INSPECTORATE REP.: F.R.CONWAY

F. Conway

INSPECTORATE AMERICA

*TEMP CORR VOL @ 60 F 132090.1954
*CPSP=1+(P*ID)/(E*WT) 1.000054
*CPLP=1/1-(0.0000032*PSIG) 1.000112
*NET VOL: TCV/(CPSP*CPLP) 132068.2713

WITNESS/REPRESENTING: N Vitesson

*WITNESS/REPRESENTING: Daniel

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50

CHECKED BY Edt

DATE 7-22-94

SHEET: 5 OF 6

DATE: JULY 22,1994
CUSTOMER: SHELL OFFSHORE INC.
LOCATION: HOUSTON,TEXAS
SERVICE LOCATION & ID: OFFSHORE LOUISIANA
TIME:12:15
WEATHER:950DEG

INSIDE DIAMETER 17.25 INCHES
WALL THICKNESS .375 INCHES
MODULUS OF ELAS. 30000000
CUBICAL COEFF. .0000186 /DEG. F
AREA COEFF. .0000124 /DEG. F
MANUFACTURER: DANIEL ENFAB
SERIAL NUMBER: BMP-54062
PROVER TYPE: BIDIR. PIPE W/1 WALL
MATERIAL: CARBON STEEL
LINEAL COEFF. .0000062 /DEG. F

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO. 5 DIRECTION DOWN TEMPERATURE PROVER 86.7 DEGREES F
PAGE 1 FLOW RATE 40 GPM PRESSURE IN PROVER 35 PSIG

FILL	REF	BASE	+/-	ADJ.	TEMP	CTDW	CCTS	TEMP CORR VOL
1	1	5774.56	0	5774.56	86.7	1	1.000211	5775.7784
2	2	11549.7	0	11549.7	86.7	1	1.000211	11552.137
3	3	23101.6	-200	22901.6	86.7	1	1.000211	22906.4322
4	4	23098.4	-200	22898.4	86.9	.999966	1.000216	22902.5673
5	3	23101.6	-200	22901.6	86.9	.999966	1.000216	22905.7679
6	4	23098.4	-200	22898.4	87	.999949	1.000219	22902.2467
7	3	23101.6	-7	23094.6	87	.999949	1.000219	23098.4796
8	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0

INSPECTORATE REP.: F.R.CONWAY

F. R. Conway

INSPECTORATE AMERICA

*TEMP CORR VOL @ 60 F 132043.4091
*CPSP=1+(P*ID)/(E*WT) 1.000054
*CPLP=1/1-(0.0000032*PSIG) 1.000112
*NET VOL: TCV/(CPSP*CPLP) 132021.4927

WITNESS/REPRESENTING:

J. Peterson

*WITNESS/REPRESENTING:

Daniel

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50

CHECKED BY Edt

DATE 7-22-94

DATE: JULY 22,1994 SHEET: 6 OF 6
CUSTOMER: SHELL OFFSHORE INC. TIME:12:35
LOCATION: HOUSTON,TEXAS WEATHER:950DEG
SERVICE LOCATION & ID: OFFSHORE LOUISIANA

INSIDE DIAMETER 17.25 INCHES MANUFACTURER: DANIEL ENFAB
WALL THICKNESS .375 INCHES SERIAL NUMBER: BMP-54062
MODULUS OF ELAS. 30000000 PROVER TYPE: BIDIR. PIPE W/1 WALL
CUBICAL COEFF. .0000186 /DEG. F MATERIAL: CARBON STEEL
AREA COEFF. .0000124 /DEG. F LINEAL COEFF. .0000062 /DEG. F

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO. 6 DIRECTION UP TEMPERATURE PROVER 86.9 DEGREES F
PAGE 1 FLOW RATE 40 GPM PRESSURE IN PROVER 35 PSIG

FILL	REF	BASE	+/-	ADJ.	TEMP	CTDW	CCTS	TEMP CORR VOL
1	1	5774.56	0	5774.56	86.9	1	1.000212	5775.7842
2	2	11549.7	0	11549.7	86.9	1	1.000212	11552.1485
3	3	23101.6	-200	22901.6	86.9	1	1.000212	22906.4551
4	4	23098.4	-200	22898.4	87	.999983	1.000215	22902.9338
5	3	23101.6	-200	22901.6	87.1	.999966	1.000218	22905.8137
6	4	23098.4	-200	22898.4	87.1	.999966	1.000218	22902.6131
7	3	23101.6	50	23151.6	87.2	.999949	1.00022	23155.5124
8	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0

INSPECTORATE REP.: F.R.CONWAY

F. Conway

INSPECTORATE AMERICA

*TEMP CORR VOL @ 60 F 132101.2608
*CPSP=1+(P*ID)/(E*WT) 1.000054
*CPLP=1/1-(0.0000032*PSIG) 1.000112
*NET VOL: TCV/(CPSP*CPLP) 132079.3348

WITNESS/REPRESENTING:

M. Peterson

*WITNESS/REPRESENTING:

* Daniel

*

INSPECTORATE

PROVER WORKSHEET

709 E. Houston Avenue, Pasadena, TX 77502 Phone: (713) 920-1551 Fax: (713) 920-1918

DATE : 7/22/94	SHEET NO. 1 OF 3
COMPANY: DNELL OFFSHORE INC	CERTIFICATE NO.: 94-50
SERVICE LOCATION : Houston Tx	SERVICE I.D.: OFFSHORE LA.
INSIDE DIAMETER: 17.25"	MANUFACTURER: DANIEL ENFAB
WALL THICKNESS: .375"	SERIAL NUMBER: Bmp.54062
MODULUS OF ELAS. (30,000,000) / 28,500,000	PROVER TYPE: UNIDIRECTIONAL (BIDIRECTIONAL)
CUBICAL COEFF.: (.0000186) / .0000265	MATERIAL: (CARBON) / STAINLESS

REF NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839		
BASE 60 F.	5774.56	11549.7	23101.6	23098.4		
CU. COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO.: 1 | FLOW RATE: 60 | DIRECTION: Down | PROVER PRESS: 35# 11:15

FILL	REF.	BASE	+	-	ADJ. VOL.	TEMP. PROV.	TEMP. MEAS.	CTDW	CCTS	CORR. VOLUME
1	1	5774.56	0	—		86.0	86.0			
2	2	11549.7	0	—			86.0			
3	3	23101.6	—	200			86.0			
4	4	23098.4	—	200			86.0			
5	3	23101.6	—	200			86.1			
6	4	23098.4	—	200			86.1			
7	3	23101.6	—	5			86.2			
8										
9										
10	(2)	60 GPM			UP			35# 9:16		11:30
11	1	5774.56	0	—		86.2	86.2			
12	2	11549.7	0	—			86.2			
13	3	23101.6	—	200			86.2			
14	4	23098.4	—	200			86.3			
15	3	23101.6	—	200			86.3			
16	4	23098.4	—	200			86.4			
17	3	23101.6	45	—			86.4			
18										
19										
20										

CHECKED BY Edt

DATE 7-22-94

WITNESS:	REPRESENTING:	WITNESS:	REPRESENTING:
F. L. Thomas	INSPECTORATE AMERICA CORP.		
Norman L. Peterson	Daniel		

INSPECTORATE

PROVER WORKSHEET

709 E. Houston Avenue, Pasadena, TX 77502 Phone: (713) 920-1551 Fax: (713) 920-1918

DATE : 7/22/94	SHEET NO. 2 OF 3
COMPANY: SHELL OFFSHORE INC	CERTIFICATE NO.: 94-50
SERVICE LOCATION : HOUSTON TX	SERVICE I.D.: OFFSHORE LA
INSIDE DIAMETER: 17.25"	MANUFACTURER: DANIEL ENFAB
WALL THICKNESS: .375	SERIAL NUMBER: BMP-54062
MODULUS OF ELAS.: (30,000,000) / 28,500,000	PROVER TYPE: UNIDIRECTIONAL / (BIDIRECTIONAL)
CUBICAL COEFF.: (.0000186) / .0000265	MATERIAL: (CARBON) / STAINLESS

REF NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839		
BASE 60 F.	5774.56	11549.7	23101.6	23098.4		
CU. COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO.: 3 | FLOW RATE: 60 | DIRECTION: DOWN | PROVER PRESS: 35# 11:45

FILL	REF.	BASE	+	-	ADJ. VOL.	TEMP. PROV.	TEMP. MEAS.	CTDW	CCTS	CORR. VOLUME
1	1	5774.56	0	—		86.3	86.3			
2	2	11549.7	0	—			86.3			
3	3	23101.6	—	200			86.3			
4	4	23098.4	—	200			86.4			
5	3	23101.6	—	200			86.4			
6	4	23098.4	—	200			86.5			
7	3	23101.6	—	10			86.5			
8										
9										
10	(4)	60 GPM				UP		35#		12:00
11	1	5774.56	0	—		86.5	86.5			
12	2	11548.7	0	—			86.5			
13	3	23101.6	—	200			86.5			
14	4	23098.4	—	200			86.6			
15	3	23101.6	—	200			86.7			
16	4	23098.4	—	200			86.8			
17	3	23101.6	40	—			86.9			
18										
19										
20										

CHECKED BY Edi

DATE 7-22-94

WITNESS:	REPRESENTING:	WITNESS:	REPRESENTING:
F. L. Torres	INSPECTORATE AMERICA CORP.		
[illegible]	Daniel		

INSPECTORATE

PROVER WORKSHEET

709 E. Houston Avenue, Pasadena, TX 77502 Phone: (713) 920-1551 Fax: (713) 920-1918

DATE : 7/22/94	SHEET NO. 3 OF 3
COMPANY: SHELL OFFSHORE INC	CERTIFICATE NO.: 94-50
SERVICE LOCATION : HOUSTON TX	SERVICE I.D.: OFFSHORE LA
INSIDE DIAMETER: 17.25"	MANUFACTURER: DANIEL ENFAB
WALL THICKNESS: .375	SERIAL NUMBER: BMP 54062
MODULUS OF ELAS.: 30,000,000 / 28,500,000	PROVER TYPE: UNIDIRECTIONAL / BIDIRECTIONAL
CUBICAL COEFF.: .0000186 / .0000265	MATERIAL: CARBON / STAINLESS

REF NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839		
BASE 60 F.	5774.56	11549.7	23101.6	23098.4		
CU. COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO.: 5 | FLOW RATE: 40 | DIRECTION: Down | PROVER PRESS: 35# 12:15

FILL	REF.	BASE	+	-	ADJ. VOL.	TEMP. PROV.	TEMP. MEAS.	CTDW	CCTS	CORR. VOLUME
1	1	5774.56	0	-		86.7	86.7			
2	2	11549.7	0	-			86.7			
3	3	23101.6	-	200			86.7			
4	4	23098.4	-	200			86.9			
5	3	23101.6	-	200			86.9			
6	4	23098.4	-	200			87.0			
7	3	23101.6	-	7			87.0			
8										
9										
10	6	40 GPM				up			35#	
11	1	5774.56	0	-		86.9	86.9			
12	2	11549.7	0	-			86.9			
13	3	23101.6	-	200			86.9			
14	4	23098.4	-	200			87.0			
15	3	23101.6	-	200			87.1			
16	4	23098.4	-	200			87.1			
17	3	23101.6	50	-			87.2			
18										
19										
20										

CHECKED BY Edt

DATE 7-22-94

WITNESS:	REPRESENTING:	WITNESS:	REPRESENTING:
F. L. Conway	INSPECTORATE AMERICA CORP.		
N. Patterson	Daniel		

JFH:gk
836
TN 251140
8361604

U.S. DEPARTMENT OF COMMERCE

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY
Gaithersburg, Maryland 20899

REPORT OF CALIBRATION

November 5, 1992

Submitted by: Inspectorate
Pasadena, Texas

Seal No. 5845

Reference: Purchase Order No. 10078 dated 10-27-92

Item: 25 gallon vessel (Graduated Neck Type)

Maker: Seraphin (Maker #21474-E)

Material: Stainless Steel

Assumed Cubical Coefficient of Expansion, 0.0000265 per degree Fahrenheit

With the vessel described above, in a standing position and a reference attitude established by leveling the attached levels, and when drained for 30 seconds after cessation of the main flow, the volume of water delivered is as follows:

Scale Reading*	Volume Delivered at 60°F (U.S. Gal)**	Volume Delivered at 60°F (in^3)	Estimated Uncertainty (in^3)
0	24.9981	5774.56	± 1.80

A scale division between -60 and +60 is, as established by separate test, equivalent to 2 in^3.

The position of the graduated scale was not moved as part of the calibration procedure.

*The scale reading is determined by the intersection of the horizontal plane, tangent to the bottom of the meniscus.

**The volume established is based on the density of water (reference available upon request). A U.S. gallon is equivalent to .003785412 m^3 or 231 in^3.

For the Director,
National Institute of Standards and Technology

Dr. George E. Mattingly
Leader, Fluid Flow Group
Process Measurements Division
Chemical Science and Technology Laboratory

JFH:gk
836
TN 251140
8361604

U.S. DEPARTMENT OF COMMERCE

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY
Gaithersburg, Maryland 20899

REPORT OF CALIBRATION

November 5, 1992

Submitted by: Inspectorate
Pasadena, Texas

Seal No. 5841

Reference: Purchase Order No. 10078 dated 10-27-92

Item: 50 gallon vessel (Graduated Neck Type)

Maker: Seraphin (Maker #21474-A)

Material: Stainless Steel

Assumed Cubical Coefficient of Expansion, 0.0000265 per degree Fahrenheit

With the vessel described above, in a standing position and a reference attitude established by leveling the attached levels, and when drained for 30 seconds after cessation of the main flow, the volume of water delivered is as follows:

Scale Reading*	Volume Delivered at 60°F (U.S. Gal)**	Volume Delivered at 60°F (in^3)	Estimated Uncertainty (in^3)
0	49.9987	11549.7	± 4.6

A scale division between -60 and +60 is, as established by separate test, equivalent to 2 in^3.

The position of the graduated scale was not moved as part of the calibration procedure.

*The scale reading is determined by the intersection of the horizontal plane, tangent to the bottom of the meniscus.

**The volume established is based on the density of water (reference available upon request). A U.S. gallon is equivalent to .003785412 m^3 or 231 in^3.

For the Director,
National Institute of Standards and Technology

Dr. George E. Mattingly
Leader, Fluid Flow Group
Process Measurements Division
Chemical Science and Technology Laboratory

JFH:gk
836
TN 251140
8361604

U.S. DEPARTMENT OF COMMERCE

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY
Gaithersburg, Maryland 20899

REPORT OF CALIBRATION

November 5, 1992

Submitted by: Inspectorate
Pasadena, Texas

Seal No. 5840

Reference: Purchase Order No. 10078 dated 10-27-92

Item: 100 gallon vessel (Graduated Neck Type)

Maker: Seraphin (Maker #5890-B)

Material: Stainless Steel

Assumed Cubical Coefficient of Expansion, 0.0000265 per degree Fahrenheit

With the vessel described above, in a standing position and a reference attitude established by leveling the attached levels, and when drained for 30 seconds after cessation of the main flow, the volume of water delivered is as follows:

Scale Reading*	Volume Delivered at 60°F (U.S. Gal)**	Volume Delivered at 60°F (in^3)	Estimated Uncertainty (in^3)
0	100.0070	23101.6	± 4.6

A scale division between -150 and +150 is, as established by separate test, equivalent to 5 in^3.

The position of the graduated scale was not moved as part of the calibration procedure.

*The scale reading is determined by the intersection of the horizontal plane, tangent to the bottom of the meniscus.

**The volume established is based on the density of water (reference available upon request). A U.S. gallon is equivalent to .003785412 m^3 or 231 in^3.

For the Director,
National Institute of Standards and Technology

Dr. George E. Mattingly
Leader, Fluid Flow Group
Process Measurements Division
Chemical Science and Technology Laboratory

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836
TN 540
836

U.S. DEPARTMENT OF COMMERCE

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY

Gaithersburg, Maryland 20899

REPORT OF CALIBRATION

November 5, 1992

Submitted by: Inspectorate
Pasadena, Texas

Seal No. 5839

Reference: Purchase Order No. 10078 dated 10-27-92

Item 100 gallon vessel (Graduated Neck Type)

Maker: Seraphin (Maker #8890-A)

Material: Stainless Steel

Assumed Cubical Coefficient of Expansion, 0.0000265 per degree Fahrenheit

With the vessel described above, in a standing position and a reference attitude established by leveling the attached levels, and when drained for 30 seconds after cessation of the main flow, the volume of water delivered is as follows:

Scale Reading*	Volume Delivered at 60°F (U.S. Gal)**	Volume Delivered at 60°F (in^3)	Estimated Uncertainty (in^3)
0	99.9929	23098.4	± 4.6

A scale division between -150 and +150 is, as established by separate test, equivalent to 5 in^3.

The position of the graduated scale was not moved as part of the calibration procedure.

*The scale reading is determined by the intersection of the horizontal plane, tangent to the bottom of the meniscus.

**The volume established is based on the density of water (reference available upon request). A U.S. gallon is equivalent to .003412 m^3 or 231 in^3.

For the Director,
National Institute of Standards and Technology

Dr. George E. Mattingly
Leader, Fluid Flow Group
Process Measurements Division
Chemical Science and Technology Laboratory

PERMA-CAL CORPORATION

Calibration Certificate

We certify that the gauge identified below has been tested and calibrated in the vertical position using precision test equipment (the accuracy of which is traceable to the NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY) and that this instrument is accurate to within ☒ ± 1/4% full scale, ☐ ± 1/2% full scale, ☐ ± 1/2% mid scale, ☐ ± % full scale.

To verify calibration, use ☐ a 3:1 water:alcohol mixture ☒ nitrogen, with the filter snubber removed. If an Isolator is installed, DO NOT REMOVE: NOTE: Gauges tested with media more viscous than recommended, may indicate proportionately higher hysteresis.

1 FSW = .4444 PSI 1 mpa = 145.038 PSI 1 IN HG = 0.491 PSI
1 BAR = 14.5038 PSI 1 Kpa = 0.145038 PSI 1 kg cm² = 14.223 PSI

MODEL NO. 101[illegible] SERIAL NO. PRR 11197 ~~18463-02-11197~~

TEMPERATURE: 68°F — 77°F

APPLIED PRESS. (PSI)	INDICATED PRESS. (INCREASING)	INDICATED PRESS. (DECREASING)
0	0	0
20	19.90	19.90
40	40	40
50	50	50
60	60	60
80	80	80
100	90.90	90.90

CALIBRATED BY L. Tabullo SERIAL NO 507 DATE 6-7-90

P E R M A - C A L C O R P O R A T I O N
401 East Huntington Drive, Monrovia, CA 91016 — (818) 357-9835

WALTER H. KESSLER COMPANY, INC.

CALIBRATION SERVICES
THERMOMETERS KESSLER HYDROMETERS
GAUGING EQUIPMENT

ONE-SIXTY HICKS STREET • WESTBURY, NEW YORK 11590 516 334-4063 • FAX 516 334-2689

CERTIFICATE OF CALIBRATION

This is to certify that the instrument listed below has been certified in our temperature calibration laboratory using the most sensitive constant temperature equipment available. This calibration has been performed against National Institute for Standards and Technology certified master instruments in accordance with the procedures outlined by ASTM E77-87 and NIST Monograph 150.

Certified for: INSPECTORATE AMERICA

Description: THERMOMETER RANGE 30/124F IN 0.1 DEG DIV 3IN IMMERSION

Instrument Serial No.: 89C-2855 Date Certified: 01-11-1990

Reading of This Instrument	Reading of NIST Standard (True Temperature)
31.98 F	32.00 F
59.97 F	60.00 F
100.00 F	100.00 F
ESTIMATED UNCERTAINTIES IN THE ABOVE CORRECTIONS DO NOT EXCEED 0.030 F	

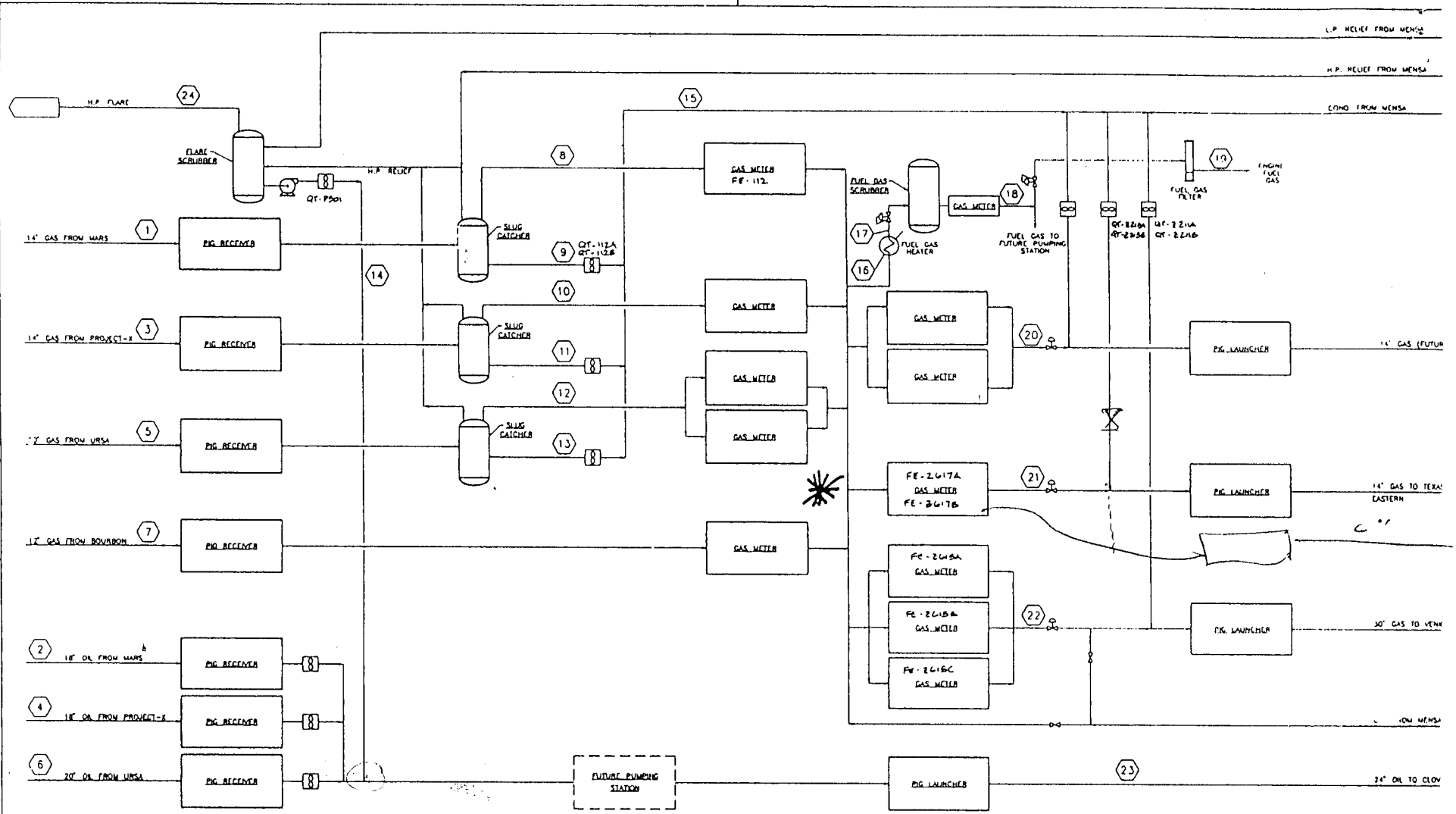
The tabulated readings apply provided the ice-point reading taken after exposure for not less than 3 days to a temperature of about 25°C (77°F) is 31.98 F. If the ice-point reading is found to be higher (or lower) than stated, all other readings will be higher (or lower) by the same amount.

Serial and Test numbers of National Institute for Standards and Technology certified instruments referenced in certification of the thermometer listed above:

NBS TEST#,STD#'S:768543,217368/P14452,176240/M44165,176240/,/

CALIBRATION TECHNICIANS: BURGHARDT & MANAGER: J. KELLY

*CURRENT



STREAM	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
GAS MMSCFD	110	-	110	-	400	-	100	110	-	110	-	400	-	-	-	0.5/2.7*	0.5/2.7	0.5/2.7	0.5	370	100	550	-	400
CONDENSATE BPD(NORMAL/SLUG)	2400	-	2400	-	8600	-	NIL	-	4000/80,000	-	4000/80,000	-	16,000/80,000	-	24,000/80,000	-	-	-	-	-	-	-	-	-
OIL BPD	-	100,000	-	100,000	-	200,000	-	-	-	-	-	-	-	500	-	-	-	-	-	-	-	-	250,000	-
TEMPERATURE F	60	60	60	60	60	60	70	60	60	60	60	60	60	0	60	60	130	61	47	60	60	60	60	-44
PRESSURE PSIG	1200	1500	1200	1500	1200	1500	1200	1180	1180	1180	1180	1180	1180	1490	1175	1180	1175	190	30	1170	1170	1170	1480	100
OIL VISCOSITY CP	-	25	-	25	-	25	-	-	-	-	-	-	-	25	-	-	-	-	-	-	-	-	25	-
GAS S.G.	.72	-	.72	-	.72	-	.72	.72	-	.72	-	.72	-	-	-	.72	.72	.72	.72	.72	.72	.72	-	.72
OIL S.G.	-	.85	-	.85	-	.85	-	-	-	-	-	-	-	.85	-	-	-	-	-	-	-	-	85	-
CONDENSATE S.G.	.43	-	.43	-	.43	-	-	-	.43	-	.43	-	.43	-	.43	-	-	-	-	-	-	-	-	-

*FUTURE FUEL GAS RATE

ORIGINAL REVISION STAMPED BY R. BLAIR SUNDQUIST REG. No. 12448 REGISTERED PROFESSIONAL ENGINEER IN CIVIL ENGINEERING

PROJECT ASSOCIATES INC.

ISSUED FOR MMS APPROVAL

REVIEWED BY: P.B. BOATRIGHT, R.M. RAINEY, A.E. PIPPIN

RELEASED ONLY FOR :

Shell Offshore In

COMPOSITE SIMPLIFIED PROCESS F WITH METERED CONDENSATE

W.D. BLOCK 143 PLATFORM "A" WEST DELTA 143 FIELD

JDT 2/95

A.E. PIPPIN

3/12/96

526A-

COMP. SIMP. PROCESS

Shell Oil Company

P. O. Box 60193
New Orleans LA 70160-0193

701 Poydras Street
One Shell Square - 15th Floor
New Orleans, LA 70139

Direct Number: (504) 728-4643
Direct Fax: (504) 728-4690

Legal Organization

RECEIVED
O.O.I.-MMS--RVD
AUG 20 AM 10: 25

This facsimile may contain CONFIDENTIAL INFORMATION which also may be legally PRIVILEGED and which is intended only for the use of the Addressee(s) named below. If you are not the intended recipient of this facsimile, or the employee or agent responsible for delivering it to the intended recipient, you are hereby notified that any dissemination or copying of this facsimile may be strictly prohibited. If you have received this facsimile in error, please immediately notify us by telephone and return the original facsimile to us at the above addressed via the United States Postal Service. Thank you.

TELECOPY COVER SHEET

DATE: AUGUST 20, 1999

FROM: MICHAEL E. CONEY
LEGAL DEPARTMENT, NATURAL RESOURCES - NEW ORLEANS

TO: MS. SHIRLEY BARTON - (303) 275-7227
ROYALTY VALUATION DIVISION
MINERALS MANAGEMENT SERVICE

PAGES: 4 (INCLUDING COVER SHEET)

Please call Dianne Dauterive (504) 728-4644, to confirm receipt of transmittal. Thank you.

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834

Direct Number: (504) 728-4643
Direct Fax: (504) 728-4690

August 19, 1999

Via Fax – (303) 275-7227 and U.S. Mail
Ms. Shirley Barton
Minerals Management Service
Royalty Valuation Division
Department of Interior
P. O. Box 25165, MS 3150
Denver, CO 80225

Dear Ms. Barton:

RE: MARS GAS PIPELINE
REQUEST FOR DETERMINATION OF TRANSPORTATION STATUS

Attached hereto is an affidavit which I have prepared and had notarized verifying the facts necessary for making a determination under the Deepwater Guidelines published by the Minerals Management Service on May 20, 1999. If this affidavit is inadequate, please contact me immediately at (504) 728-4643.

Sincerely yours,

Michael E. Coney
Senior Counsel

MEC:DAD

Attachment

UNITED STATES OF AMERICA

STATE OF LOUISIANA

PARISH OF ORLEANS

AFFIDAVIT

BEFORE ME, the undersigned notary public, personally came and appeared:

MICHAEL E. CONEY

who after being duly sworn did depose and say:

1.

I am the attorney for Shell Deepwater Production Inc. and am personally familiar with the physical location and physical layout of Mississippi Canyon Block 807, commonly called the Mars Unit.

2.

Production from the Mars Platform located in Mississippi Canyon Block 807 moves via gas pipeline some sixty (60) miles to the West Delta 143 Platform. The West Delta 143 lease is not adjacent to the Mississippi Canyon Block 807 Unit or Platform. No point of West Delta 143 has contact or touches the Mississippi Canyon Block 807 Unit leases.

3.

The Mississippi Canyon Block 807 Unit is located in a water depth more than 200 meters.

4.

The production moved from the Mars Platform located at Mississippi Canyon Block 807 is pipeline quality gas which has been treated for the removal of impurities.

5.

The MMS Gulf of Mexico Regional Office has designated a meter at West Delta 143 Platform as the FMP for royalty purposes. The MMS valuation regulations use the FMP as the starting point for determining volume and value for royalty purposes. SDPI's production is sold to a Shell affiliate at a point onshore, State of Louisiana.

6.

This affidavit is made of my own best knowledge and belief.

Michael E. Coney

SWORN AND SUBSCRIBED BEFORE ME this 20th day of August, 1999

Notary Public

My Commission expires at death.

RECEIVED
D.O.I.-MMS-RVD
99 AUG 23 PM 4:26

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834

Direct Number: (504) 728-4643
Direct Fax: (504) 728-4690

August 19, 1999

Via Fax – (303) 275-7227 and U.S. Mail
Ms. Shirley Barton
Minerals Management Service
Royalty Valuation Division
Department of Interior
P. O. Box 25165, MS 3150
Denver, CO 80225

Dear Ms. Barton:

RE: MARS GAS PIPELINE
REQUEST FOR DETERMINATION OF TRANSPORTATION STATUS

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Sincerely yours,

Michael E. Coney
Senior Counsel

MEC:DAD

Attachment

3.

The Mississippi Canyon Block 807 Unit is located in a water depth more than 200 meters.

4.

The production moved from the Mars Platform located at Mississippi Canyon Block 807 is pipeline quality gas which has been treated for the removal of impurities.

5.

The MMS Gulf of Mexico Regional Office has designated a meter at West Delta 143 Platform as the FMP for royalty purposes. The MMS valuation regulations use the FMP as the starting point for determining volume and value for royalty purposes. SDPI's production is sold to a Shell affiliate at a point onshore, State of Louisiana.

6.

This affidavit is made of my own best knowledge and belief.

Michael E. Coney

Michael E. Coney

SWORN AND SUBSCRIBED BEFORE ME this 20th day of August, 1999

Notary Public

My Commission expires at death.

UNITED STATES OF AMERICA

STATE OF LOUISIANA

PARISH OF ORLEANS

AFFIDAVIT

BEFORE ME, the undersigned notary public, personally came and appeared:

MICHAEL E. CONEY

who after being duly sworn did depose and say:

1.

I am the attorney for Shell Deepwater Production Inc. and am personally familiar with the physical location and physical layout of Mississippi Canyon Block 807, commonly called the Mars Unit.

2.

Production from the Mars Platform located in Mississippi Canyon Block 807 moves via gas pipeline some sixty (60) miles to the West Delta 143 Platform. The West Delta 143 lease is not adjacent to the Mississippi Canyon Block 807 Unit or Platform. No point of West Delta 143 has contact or touches the Mississippi Canyon Block 807 Unit leases.

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834

Direct Number: (504) 728-4643
Direct Fax: (504) 728-4690

August 4, 1998

Via Airborne Express

Minerals Management Service
ATTN: Ms. Deborah Gibbs-Tschudy
Chief, Royalty Valuation Division
P. O. Box 25165, MS 3150
Denver, CO 80225-0165

RECEIVED
1998 AUG -5 AM 10:22
VAL. & STDS. DIV

Dear Ms. Gibbs-Tschudy:

RE: MMS-RVD-ECON:98-0260
MAIL STOP 3151
MARS GAS PIPELINE TRANSPORTATION APPEAL

Shell Deepwater Production Inc. hereby gives notice of its appeal of the decision of July 6, 1998, denying transportation status to the gas pipeline extending between the Mars platform located at Mississippi Canyon Block 807 Platform to the West Delta 142 Platform. This decision was received by Shell Deepwater Production Inc. on July 10, 1998. Therefore, this appeal is within thirty (30) days of the date of the receipt of the decision.

The decision of the MMS is arbitrary and capricious and contrary to existing law since:

1. The gas moved in the Mars gas pipeline is equal to or in excess of pipeline sales quality gas customarily accepted in the Gulf of Mexico for sale.

2. The gas is transported approximately 65 miles away from the Mars lease to the West Delta platform. This movement can only reasonably be classified as transportation.

3. The Mars platform already has in place a royalty measurement quality/sales quality meter through which the gas is measured. From August 1996 through April 1997, royalty measurement occurred at the Mars platform.

Proj No

DD821602.LTR

98-0347

App No

98-0153

4. The production moving from Mars is not bulk production but pipeline quality sales production.

5. The gas in the Mars gas pipeline is already in marketable condition at the time it leaves the Mars platform.

An extension of time to file written reasons in support of the appeal is requested up through and including September 10, 1998. The additional time is needed in order to prepare adequate legal arguments and to provide and gather factual evidence in support of Shell Deepwater's position in this matter.

Pursuant to 30 CFR §243.2 (1997) compliance with the order is presumed suspended since the Director has not notified Shell Deepwater in writing that the order is not suspended pending appeal.

Questions regarding this matter should be directed to M. E. Coney at the above phone number and address.

Sincerely yours,

Michael E. Coney

Michael E. Coney, Attorney
For Shell Deepwater Production Inc.

MEC:DAD

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB: 99-0380
Mail Stop 3151

JUL 23 1999

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney At Law
Shell Deepwater Production Inc.
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Dear Mr. Coney:

On August 28, 1998, the Royalty Valuation Division withdrew its denial of your request for a transportation allowance for the Mars gas pipeline extending from the Mars Platform, located at Mississippi Canyon Block 807, to the West Delta 142 Platform. In a Memorandum dated May 20, 1999, the Associate Director for Royalty Management issued guidelines for determining transportation allowances for deepwater production. We will review your previous request using these guidelines, as well as the following information that you need to provide:

- Identify lease and well locations.
- Identify boundary lines of adjacent leases.
- Describe the depth of the pipeline or flowline.
- Identify where production is measured for royalty purposes.
- Identify where production is valued for royalty purposes.

The information requested above is necessary to determine whether your situation warrants a transportation allowance, and not to determine whether any subsequent allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.157. If you wish to apply for this exception, the additional information will be required.

It is our policy to retain projects requiring additional documentation for 30 days. After the 30-day period, all project files are closed if the requested information has not been received in this office. Please submit the requested information within 30 days form the date of this letter to:

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-ECON:98-0260
Mail Stop 3151

JUL - 6 1998

CERTIFIED MAIL---
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney for Shell Deepwater Production Inc.
Shell Deepwater Production Inc.
One Shell Square
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Dear Mr. Coney:

Thank you for your letter dated April 29, 1998. You are requesting the Minerals Management Service (MMS) to approve an allowance for transportation of bulk production from the Mississippi Canyon (MC) 807 Unit to the royalty measurement settlement point at the West Delta 142 Platform.

The MC 807 Platform is located in deepwater Gulf of Mexico, approximately 60 miles from West Delta 142. Gas production comes to the surface at the Platform A located at MC 807. The liquids are then separated and transferred to the oil line and moved to shore. The dehydrated gas is moved to West Delta 142 via separate pipeline. Upon reaching the West Delta 142 Platform, the gas enters into a dedicated slug catcher at which time retrograde condensate falls out. The gas is then measured and transported from West Delta 142 to shore via a separate gas line.

Shell believes that the gas line moving from MC 807 to West Delta 142 should be classified as a transportation pipeline since the distance moved is 60 miles and the production being moved is of pipeline sales quality.

Current Federal regulations and instructions establish the procedures for transportation allowances. Title 30 CFR § 206.151 (1997) defines a transportation allowance as follows:

> Transportation allowance means an allowance for the cost of moving royalty bearing substances (identifiable, measurable oil and gas, including gas that is not in need of initial separation) from the point at which it is first identifiable and measurable to the sales point or other point where value is established under this subpart.

Gathering is defined as:

> . . . the movement of lease production to a central accumulation or treatment point on the lease, unit, or communitized area, or to a central accumulation or treatment point off the lease, unit, or communitized area as approved by BLM (Bureau of Land Management) or MMS OCS (Outer Continental Shelf) operations personnel for onshore and offshore leases, respectively.

The MMS cannot grant a transportation allowance for movement of bulk production from MC 807 to the royalty measurement settlement point at the West Delta 142 platform. The movement is clearly gathering. The fact that production is moved 60 miles to West Delta platform is not a determining factor in distinguishing transportation from gathering. Gathering is necessary to put gas into marketable condition and bring it to the point of royalty measurement. Gas cannot be sold and delivered to a pipeline, nor can it be treated , or compressed to pipeline pressure without first being gathered from various producing wells.

In its comments at 53 F.R. 1240, "gathering," MMS explains why the terminology, " . . . or to a central accumulation or treatment point off the lease, unit or communitized area, . . ." was retained:

> The definition has been retained intact. The operational regulation of both BLM and MMS require that a lessee place all production in a marketable condition, if economically feasible, and that a lessee properly measure all production in a manner acceptable to the authorized officials of those agencies. Unless specifically approved otherwise, the requirements of the regulations must be met prior to the production leaving the lease. Therefore, when approval has been granted for the removal of production from a lease, unit, or communitized area for the purpose of treating the production or accumulating production for delivery to a purchaser prior to the requirements of operations regulations having been met, MMS does not believe that any allowances should be granted for costs incurred by a lessee in these instances. (Emphasis Added)

Shell also contends it is entitled to a transportation allowance because the production is of pipeline sales quality. MMS cannot approve a transportation allowance on this basis, as there can be a market for gas anywhere. The relevant facts are that gas must still be gathered to the West Delta 142 platform to be measured and treated. The price for the gas at MC 807 likely would be low, as the purchaser would not simply absorb these costs.

In R.E. Yarbough & Co. 122 IBLA 222, the facts are similar to the instant case.

Key to the relevance of the Circuit Court's holding in resolving Yarbrough's appeal is the following paragraph from the court's opinion:

> The premise for the Secretary's decision in the case before us was that, since the lessee was obligated to market the product, he was obligated to put it in marketable condition. Theoretically, any gas--any "production"--is "marketable". We can assume that, if the price were low enough to justify capital expenditures for conditioning equipment, someone would undertake to buy low pressure gas having a high water and hydrocarbon content. A lessee who sold unconditioned gas at such a price would, in a rhetorical sense, be fulfilling his obligation to "market" the gas, and by thus saving on overhead he might find such business profitable. There is a clear difference between marketing and merely selling. For the former there must be a market, an established demand for an identified product. We suppose almost anything can be sold if the price is no consideration. (Emphasis Added)

The above cited case further states:

> Although we think it is clear from the above-quoted discussion that the court in California Co. distinguished this type of "sale" from "marketing" of gas production, it is evident from cases such as Big Piney Oil & Gas Co., supra, and Placid Oil Co., supra, that deduction from market value for costs of gathering and compression necessary to market the gas are not deductible even where incurred after the transfer of title from the lessee. Recent litigation has confirmed that the "Marketable Condition Rule" requires valuation of gas production without deduction of the costs of gathering and compressing the gas necessary to place the gas in marketable condition. Mesa Operating Ltd. v. U.S. Department of the Interior, 931F.2d 318, 325. (1991)

Therefore, the MMS is denying your request to consider the gas movement from MC 807 to West Delta 142, as transportation. The movement is clearly gathering.

You have the right to appeal his decision. Please refer to the enclosed Appeals Procedure and Bonding Requirements (Enclosure).

If you have any questions, please call Ms. Colette Haines at (303) 275-7215.

Sincerely,

Deborah Gibbs Tschudy

Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

Enclosure

bcc: RM Chron
RM Chron DC/Lakewood
RVD Chron (2)
EVB Chron
LMS:RMP:RVD:EVB:MS3151:Haines:275-7215:p:\rvdshar~1\econ\t&p\98-0260.wpd:
final:mmd:5/29/98:re-final:mkr:06/15/1998

Shell Offshore Inc.

An affiliate of Shell Oil Company

PO Box 61933
New Orleans LA 70161

701 Poydras Street
One Shell Square - 15th Floor
New Orleans, LA 70139

Direct Number: (504) 728-4643
Direct FAX: (504) 728-4690

Legal Organization

September 9, 1998

Via Fax - (303) 275-7227
Ms. Deborah Gibbs-Tschudy
Chief, Royalty Valuation Division
Minerals Management Service
P. O. Box 25165, MS 3150
Denver, CO 80225-0165

Dear Ms. Gibbs-Tschudy:

RE: VALUATION DETERMINATION FOR MARS GAS PIPELINE'S TRANSPORTATION STATUS
MMS-98-0153-OCS

I am confused and somewhat perplexed by the procedure utilized in declaring my appeal moot. Although I am anxious to be cooperative in disposing of this matter efficiently and promptly, I am concerned about protecting Shell's procedural standing in this matter.

30 CFR §290.2 provides that any party adversely impacted by a final order of the agency has a right to appeal to the Director. Once the appeal has been filed to the Director, the original officer issuing the decision no longer has the discretion to terminate the appeal by reversing that decision. Pursuant to 30 CFR §290.3 this appeal now lies before the Director of the MMS. The duty of the officer issuing the appeal is to transmit the appeal and accompanying papers to the Director with a full report and recommendation on the appeal. If the Director wishes to remand this matter to the deciding officer for reconsideration, then that is fully within the discretion of the Director. To do otherwise would leave the appeal rules in a state of utter chaos.

Therefore, Shell hereby asks that the Director confirm a remand of the appeal back to the deciding officer for reconsideration.

Until this procedural matter has been clarified there appears to be little purpose in Shell filing further reasons in this appeal. Therefore, an extension of time up through and including November 30, 1998, within which to file additional reasons is requested. In the alternative, if this extension is denied, then you are requested to forward your August 28, 1998 letter to the Director as your recommendation under 30 CFR §290.3.

Please understand that I am happy to be cooperative but am confused at the procedures utilized. Because of the high volume of production from the Mars unit, we are very interested in resolving the issue raised in our April 29 request. Please call if there is a simpler resolution to this matter.

Sincerely yours,

Michael E. Coney

Michael E. Coney, Attorney
For Shell Offshore Inc.

MEC:DAD

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-ECON:98-0347
Mail Stop 3151

AUG 28 1998

CERTIFIED MAIL---
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney for Shell Deepwater
Production Inc.
Shell Deepwater Production Inc.
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Re: Gathering Determination

Appellant:	Shell Deepwater Production Inc.
MMS Order Date	July 6, 1998
Appeal Docket No.	MMS-98-0153-OCS

Dear Mr. Coney:

By letter dated July 6, 1998, the Royalty Valuation Division (RVD) denied your request for a transportation allowance for the Mars gas pipeline extending between the Mars platform located at Mississippi Canyon Block 807 to the West Delta 142 Platform. Shell Deepwater Production Inc. filed a Notice of Appeal (Appeal) of that decision by letter dated August 4, 1998.

The RVD hereby withdraws its July 6, 1998, decision to allow us to further evaluate this situation. Therefore, your appeal is moot.

If you have any questions, please call Ms. Colette Haines at (303) 275-7215.

Sincerely,

Deborah Gibbs Tschudy

Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

RECEIVED
D.C.L. - MMS
1998 APR 30 AM 10: 55
VAL. & STDS. DIV

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834

Writer's Direct No.: (504) 728-4643
Writer's Fax No.: (504) 728-4690

April 29, 1998

Via Airborne Express

Ms. Deborah Gibbs-Tschudy
Valuation & Standards Division
Minerals Management Service
12600 W. Colfax Avenue, Suite C-100
Lakewood, CO 80215-3736

Dear Ms. Gibbs-Tschudy:

RE: MARS GAS PIPELINE - REQUEST FOR DETERMINATION OF TRANSPORTATION STATUS

This written request follows phone conversations between representatives of the Gulf of Mexico Operations Office (Eric Primeaux) and the Denver MMS Office, as well as my own conversations with you relative to the status of the pipeline carrying gas from Shell Deepwater Production Inc. (hereinafter "Shell") Mississippi Canyon 807 Unit (Mars Unit). In these discussions, MMS Denver Office has been informed that the MMS Gulf of Mexico Regional Office has issued a commingling approval for Mars production which sets the royalty measurement settlement point at the West Delta 142 Platform, some 60 miles from Mississippi Canyon Block 807 (MC 807) where production reaches the surface. Shell has filed a notice of appeal of that commingling order and among other things is concerned about the impact on the deductibility of the transportation allowance caused by setting the royalty settlement and measurement point to West Delta 142. The MMS Regional Office in Metairie and Shell have been working diligently to resolve and compromise differences regarding the setting of the settlement point but Shell remains concerned about the impact on the characterization of the gas pipeline as transportation or gathering if the measurement and settlement point is set at West Delta 142. If the pipeline is characterized as a gathering line, then the treatment of the value of gas for royalty purposes would be impacted since gathering is generally considered a non-deductible expense from royalty. On the other hand, if the line is characterized as a transportation line, then it would be perfectly clear that Shell is entitled to deduct its multi-million dollar investment in the pipeline in accordance with the royalty valuation regulations.

DD811904.WPD

98-0260

Therefore, the valuation issue for determination is whether MMS will classify the gas pipeline moving from the Mars Platform at MC 807 to the platform at West Delta 142 as a transportation line for which Shell, as lessee, would be entitled to take a transportation allowance from royalty. The facts surrounding this request are as follows.

The MC 807 Platform is located in deepwater Gulf of Mexico, approximately 60 miles from West Delta 142. Gas production comes to the surface at the Platform A located at MC 807. Liquids are separated from the gas at MC 807 with the liquids then transferred to the oil line and moved to shore with the dehydrated gas of pipeline quality then moving via a 14" pipeline some 60 miles to West Delta 142. LACT quality measurement facilities are present at MC 807 and the gas is dry gas of suitable pipeline quality for sale according to the custom and practice of the Gulf of Mexico. Upon reaching the West Delta 142 Platform, the Mars gas enters into a dedicated slug catcher at which time retrograde condensate falls out. The retrograde condensate which falls out is a result of a combination of the richness of the gas and the temperature and pressure changes occasioned by bringing the gas to surface temperature and pressure when it has been moved at low temperatures at high pressure along the Gulf sea floor. Retrograde condensate is then separately measured and the gas moves off West Delta 142 via a separate gas line. The condensate moves in a separate line to shore.

Under Shell's ordinary operating plan, the gas will move to the shore via the Mississippi Canyon Gathering System 30" pipeline. Shell is not concerned at this time with the Mississippi Canyon Gathering System but with the 60 mile transportation from MC 807 to West Delta 142 via the 14" pipeline. The MMS's commingling plan approves the setting of the royalty settlement and measurement point at West Delta 143.

Shell believes that the 14" Mars gas line moving from MC 807 to West Delta 143 should be classified as a transportation pipeline since the distance moved is 60 miles and the production being moved is of pipeline sales quality. The cost of installing a deepwater gas line such as Mars is approximately $1 million per mile and Shell believes it would be legally incorrect and inequitable to deny Shell the right to take a gas transportation allowance merely through the setting of the royalty settlement and measurement point. However, since the royalty measurement and settlement point is set at West Delta 143, Shell has concern about taking a transportation allowance without first securing MMS's approval to do so.

Shell needs this decision in order to calculate its royalty and makes this request pursuant to 30 CFR §206.152(g). Shell also needs this decision in order to conclude its appeal of the Gulf of Mexico Regional Office's commingling order. A prompt disposition is requested in this matter since the Gulf of Mexico Regional Office and

Shell have been working diligently toward resolving their differences on commingling approval. If you have questions concerning this matter, please don't hesitate to call.

Sincerely yours,

Michael E. Coney

Michael E. Coney, Attorney
For Shell Deepwater Production Inc.

MEC:DAD

cc: Mr. Michael Melacon
Mr. Eric Primeaux
Gulf of Mexico Regional Office
Minerals Management Service
1201 Elmwood Park Blvd.
New Orleans, LA 70123-2394

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

FEB 8 2000

MMS/RMP/EVB: 99-0457
MMS 3151

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Keith Godwin
Controller
ATP Oil & Gas Corporation
4600 Post Oak Place
Suite 230
Houston, Texas 77027-9726

Dear Mr. Godwin:

We received your letter dated September 3, 1999, on behalf of ATP Oil & Gas Corporation requesting a valuation determination on the deductibility of the expenses for transportation of gas production from the Garden Banks Unit. On September 23, 1999, we provided you with a memorandum issued by the Associate Director for Royalty Management detailing guidelines for deepwater transportation allowances. We requested that you review the memorandum and provide us with documentation to satisfy the listed requirements. Please provide this information within 30 days of the date of this letter.

However, if your pipeline does not meet the requirements listed, and you wish to apply for an exception to the 50 percent limitation, then the following information is needed:

- Measurement point for sales and royalty purposes
- Proposed list of costs, installation, rate of return, and operating expenses you will use in calculations for the pipeline costs
- A schedule showing costs and value to determine if transportation costs exceed 50 percent of the value of production

It is our policy to retain projects requiring additional information for 30 days. After the 30-day period, all project files are closed if the requested information has not been received in this office. Please submit the information within 30 days from the date of this letter to:

Minerals Management Service
Royalty Valuation Division
Attn: Ms. Shirley Barton
P.O. Box 25165, Mail Stop 3151
Denver, Colorado 80225-0165

Please refer to Project No. 99-0457 when submitting the requested information. If there are any questions, please call Ms. Shirley Barton at (303) 275-7222.

Sincerely,

James P. Morris
Chief, Transportation and
Processing Section
Economic Valuation Branch
Royalty Valuation Division

bcc: RM File 99-0457
RVD Chron (2)
EVB Chron (2)
LMS:MMS:RVD:EVB:MS-3151:SBarton:275-7222:rjg:2/7/00:p:\...\t&p\t&p99\99-0457
Finalized:rjg:2/8/2000

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS/RMP/EVB: 99-0457
MMS 3151

FEB 8 2000

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Keith Godwin
Controller
ATP Oil & Gas Corporation
4600 Post Oak Place
Suite 230
Houston, Texas 77027-9726

Dear Mr. Godwin:

We received your letter dated September 3, 1999, on behalf of ATP Oil & Gas Corporation requesting a valuation determination on the deductibility of the expenses for transportation of gas production from the Garden Banks Unit. On September 23, 1999, we provided you with a memorandum issued by the Associate Director for Royalty Management detailing guidelines for deepwater transportation allowances. We requested that you review the memorandum and provide us with documentation to satisfy the listed requirements. Please provide this information within 30 days of the date of this letter.

However, if your pipeline does not meet the requirements listed, and you wish to apply for an exception to the 50 percent limitation, then the following information is needed:

- Measurement point for sales and royalty purposes
- Proposed list of costs, installation, rate of return, and operating expenses you will use in calculations for the pipeline costs
- A schedule showing costs and value to determine if transportation costs exceed 50 percent of the value of production

It is our policy to retain projects requiring additional information for 30 days. After the 30-day period, all project files are closed if the requested information has not been received in this office. Please submit the information within 30 days from the date of this letter to:

Minerals Management Service
Royalty Valuation Division
Attn: Ms. Shirley Barton
P.O. Box 25165, Mail Stop 3151
Denver, Colorado 80225-0165

Please refer to Project No. 99-0457 when submitting the requested information. If there are any questions, please call Ms. Shirley Barton at (303) 275-7222.

Sincerely,

for James P. Morris
Chief, Transportation and
Processing Section
Economic Valuation Branch
Royalty Valuation Division

ATP OIL & GAS CORPORATION

RECEIVED
D.O.I.-MMS-RVD
99 SEP 10 AM 11:34

Certified Mail
Minerals Management Service
Royalty Valuation Division
Mail Stop 3151
P.O. Box 25165
Denver, CO 80225

September 3, 1999

Re: Request for Transportation Allowance
Garden Banks 134-1
OCS-G 13366

Sir or Madame,

In April 1998 ATP Oil and Gas Corporation began production on the above referenced federal lease. The well is situated in approximately 550' of water and is produced through a subsea completion unit. The gas is then transported, without separation or dehydration, across several leases to High Island Block A-595 (please see attached plat). This pipeline is owned and operated by ATP Oil and Gas Corporation and is approximately 62,046'.

ATP proposes to deduct, on the basis of a five-year life, the cost, installation, rate of return and applicable operating expenses directly attributable to the pipeline.

We request a valuation determination on the deductibility of this pipeline.

If there are any comments or questions, please call me at 713-622-3311 x13.

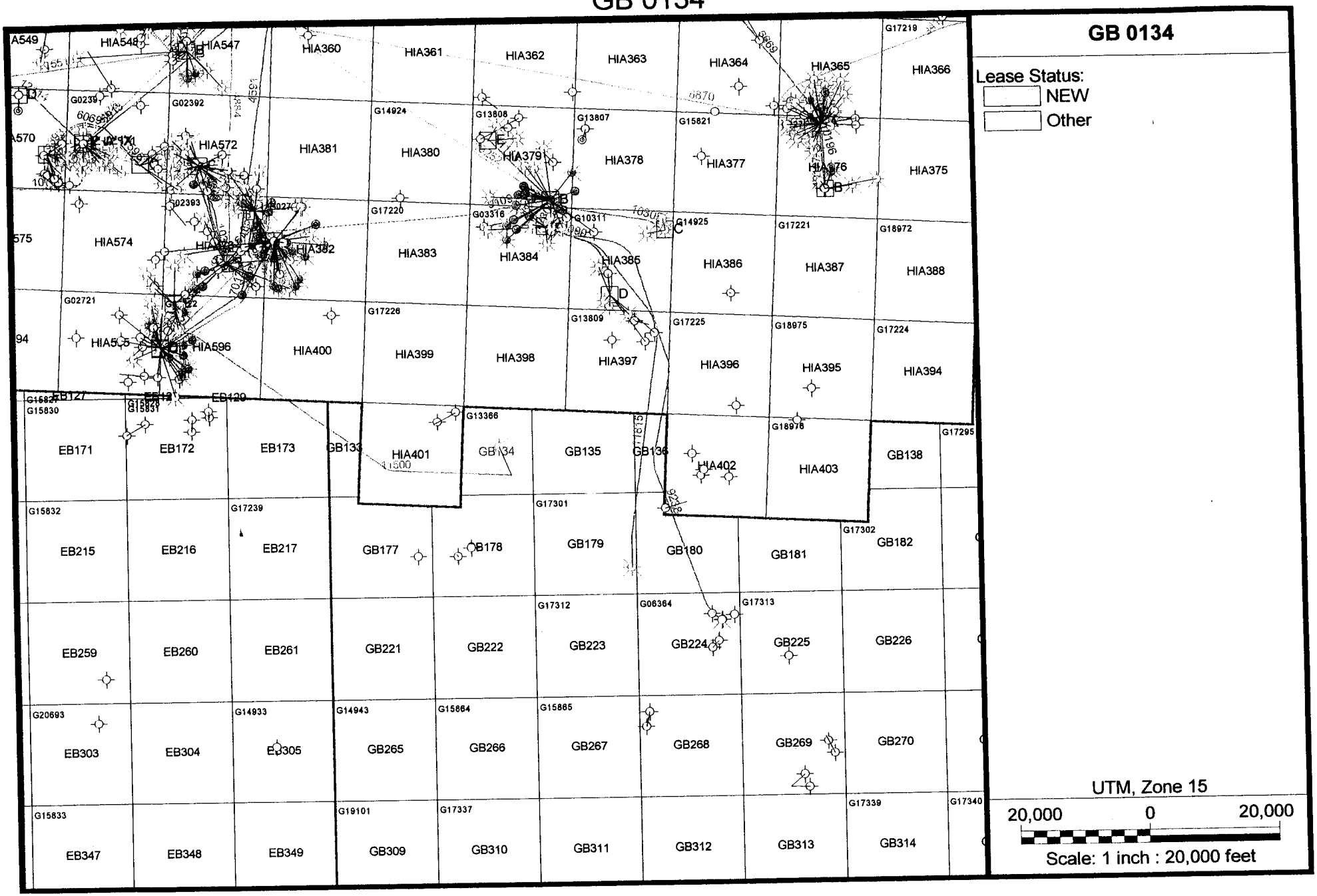
Sincerely,

Keith Godwin
Controller

99-0457

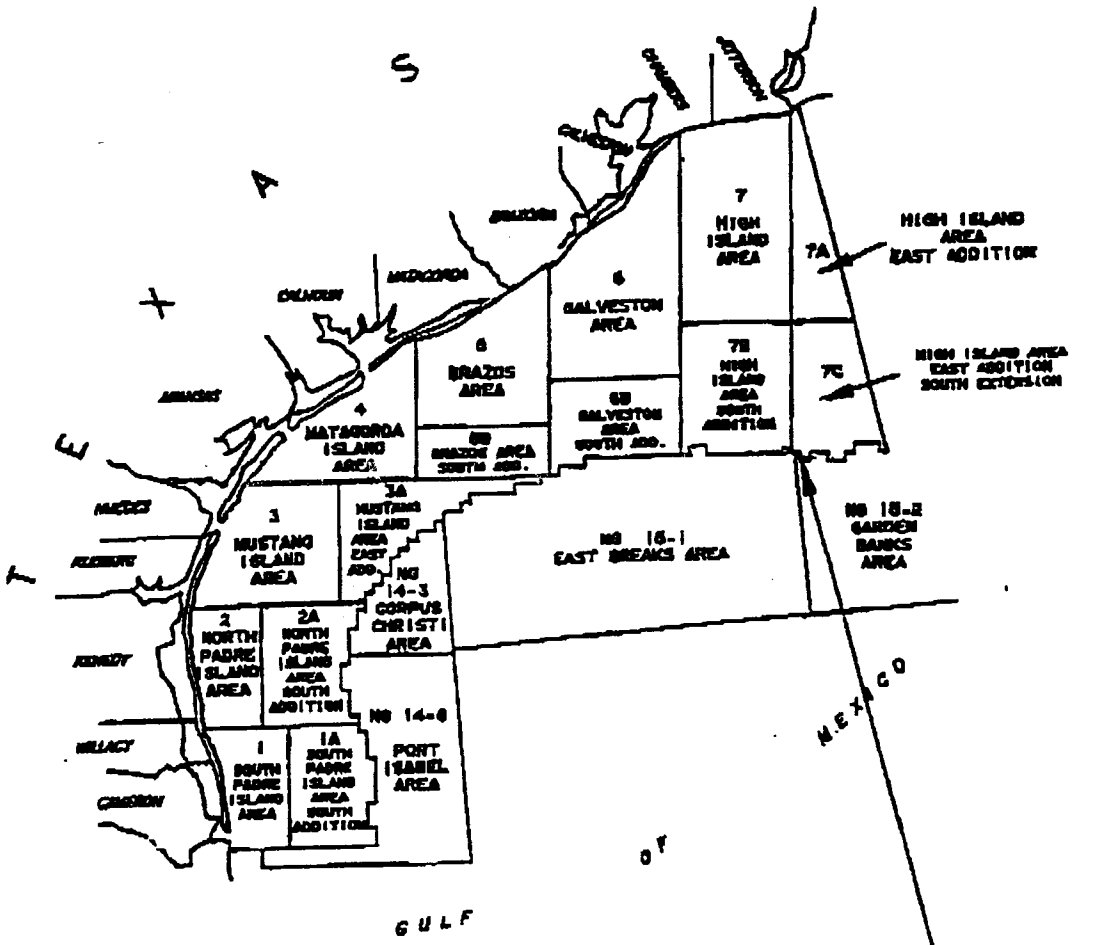
4600 POST OAK PLACE SUITE 230 HOUSTON, TEXAS 77027-9726 713-622-3311 FAX: 713-622-5101

GB 0134



OWL Database ©1991-1999, Lexco Data Systems, Inc. Map Printed 9/2/99.

TEXAS GULF COAST INDEX
M.M.S. O.C.S. LEASING AREAS



VICINITY MAP

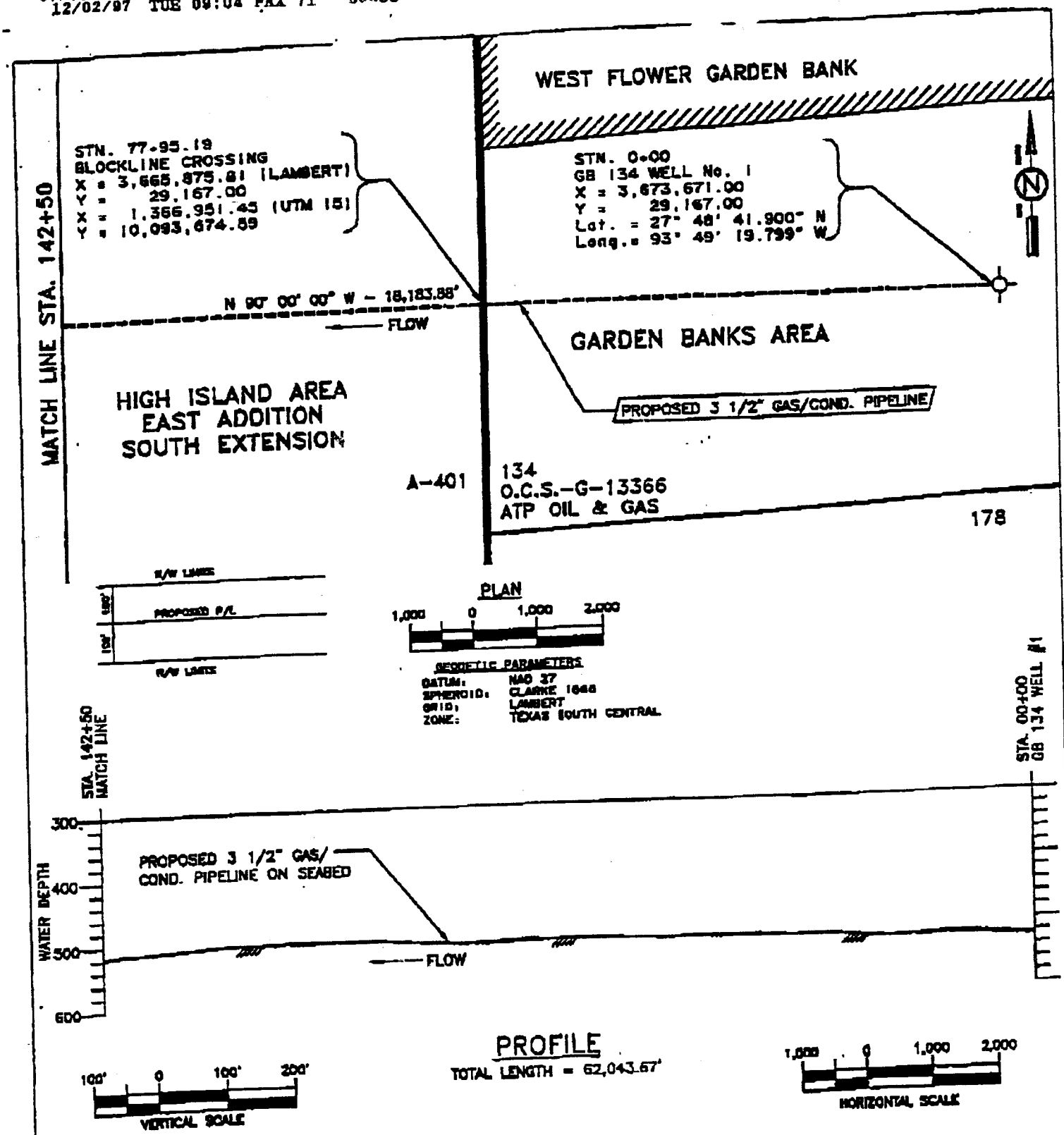
PROPOSED 3 1/2" GAS/COND. PIPELINE

PROPOSED 3 1/2" GAS/COND. PIPELINE
GULF OF MEXICO
GB 134 WELL #1 TO HI A-595 'D' PLAT.
GARDEN BANKS AND HIGH ISLAND AREAS
ATP OIL AND GAS CORPORATION

DATE: 6-13-97

SHEET 1 OF 6

PREPARED BY KC OFFSHORE, L.L.C.



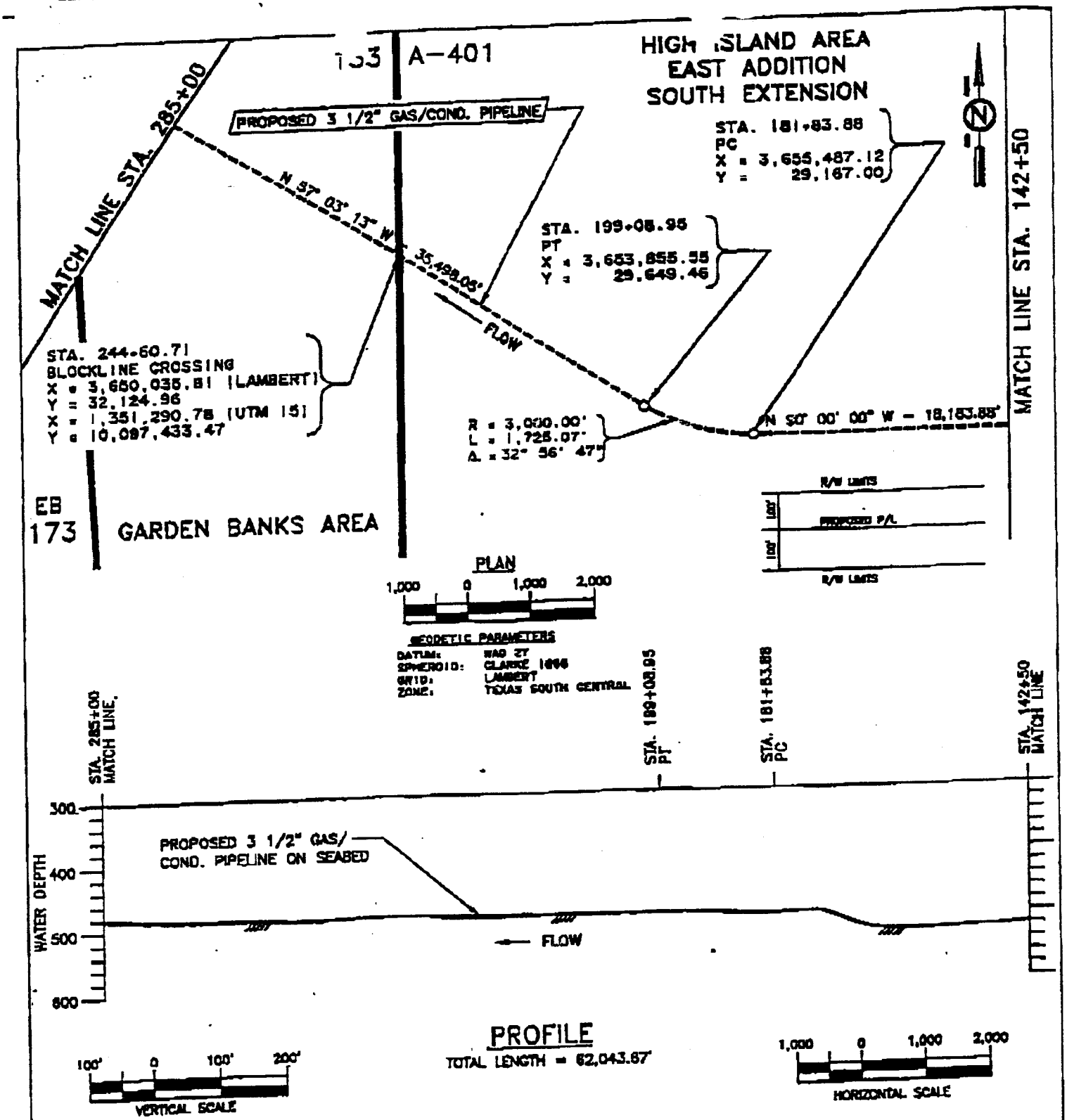
PROPOSED 3 1/2" GAS/COND. PIPELINE
GULF OF MEXICO
GB 134 WELL #1 TO HI A-595 'D' PLAT.
GARDEN BANKS AND HIGH ISLAND AREAS
ATP OIL AND GAS CORPORATION

DATE: 6-13-97

Keith A. Codd

PREPARED BY KC OFFSHORE, L.L.C.

THE DESIGN CHARACTERISTICS OF THIS PIPELINE ARE IN COMPLIANCE WITH APPLICABLE REGULATIONS.



PROPOSED 3 1/2" GAS/COND. PIPELINE
GULF OF MEXICO
GB 134 WELL #1 TO HI A-595 'D' PLAT.
GARDEN BANKS AND HIGH ISLAND AREAS
ATP OIL AND GAS CORPORATION

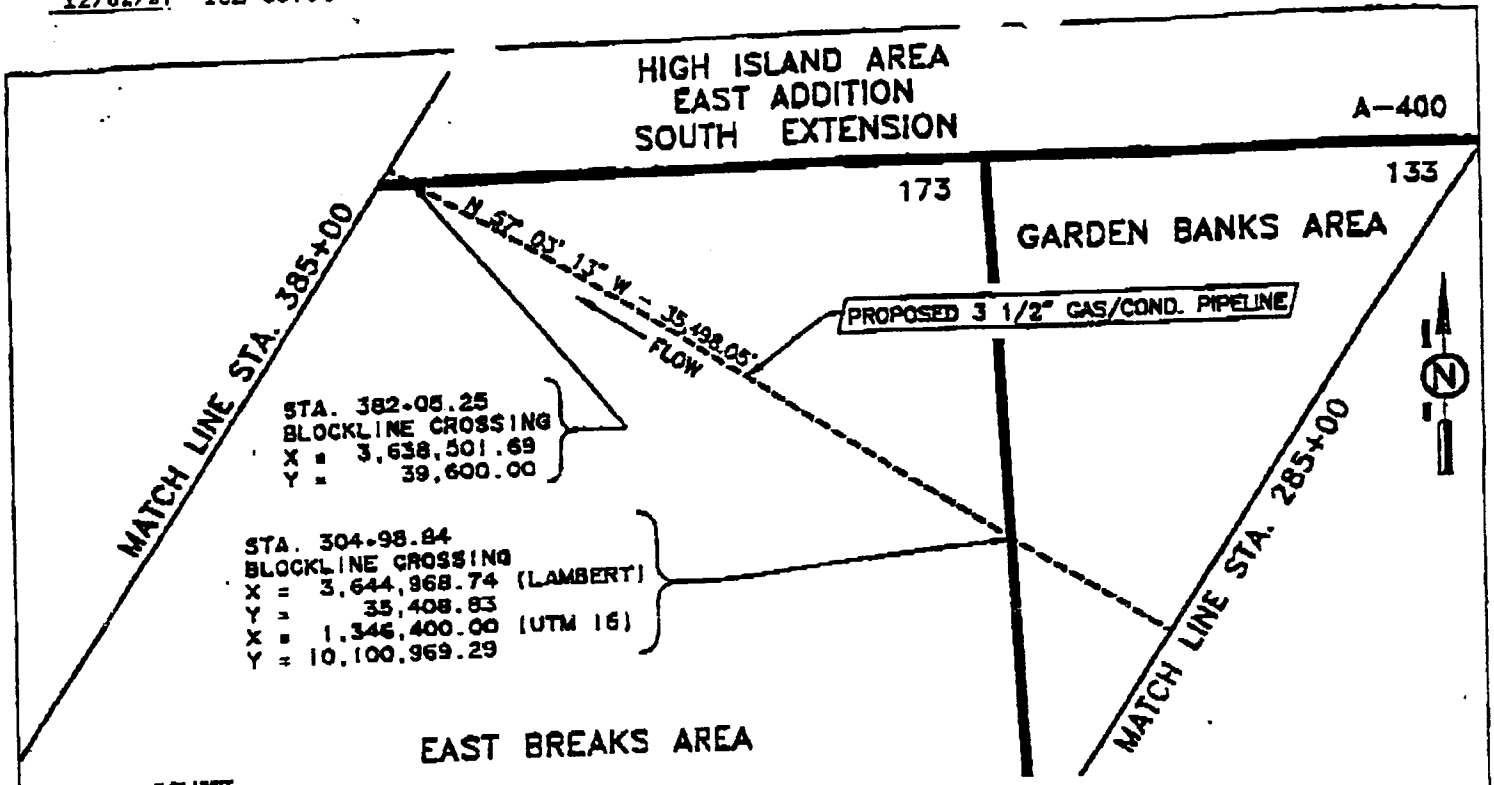
Keith A. Ladd

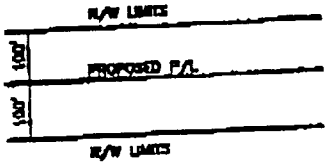
PREPARED BY KG OFFSHORE, L.L.C.

THE DESIGN CHARACTERISTICS OF THIS PIPELINE ARE IN COMPLIANCE WITH APPLICABLE REGULATIONS.

DATE: 8-13-97

SHEET 3 OF 6



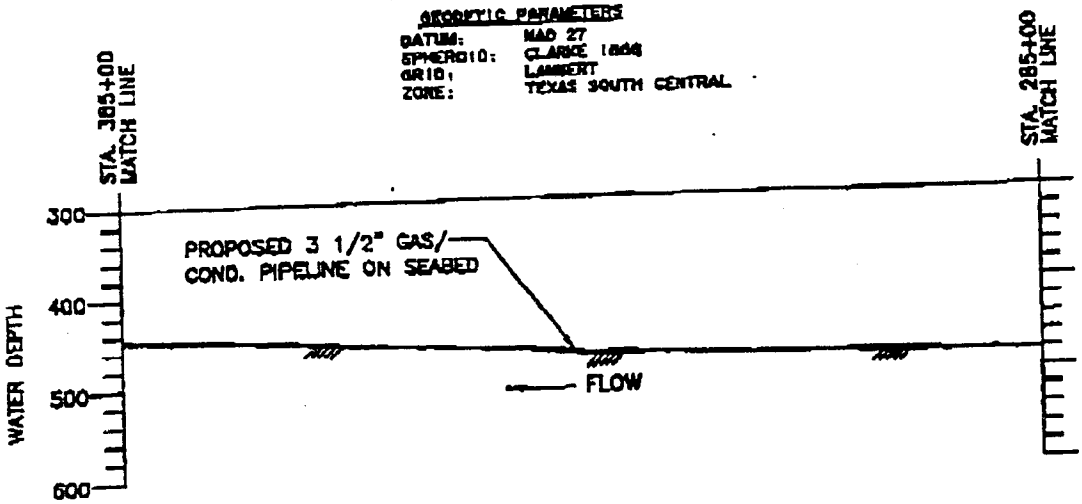


PLAN

1,000 0 1,000 2,000

GEODETIC PARAMETERS

DATUM:	NAD 27
SPHEROID:	CLARKE 1866
GRID:	LAMBERT
ZONE:	TEXAS SOUTH CENTRAL



PROFILE

TOTAL LENGTH = 62,043.67'

100' 0 100' 200'
VERTICAL SCALE

1,000 0 1,000 2,000
HORIZONTAL SCALE

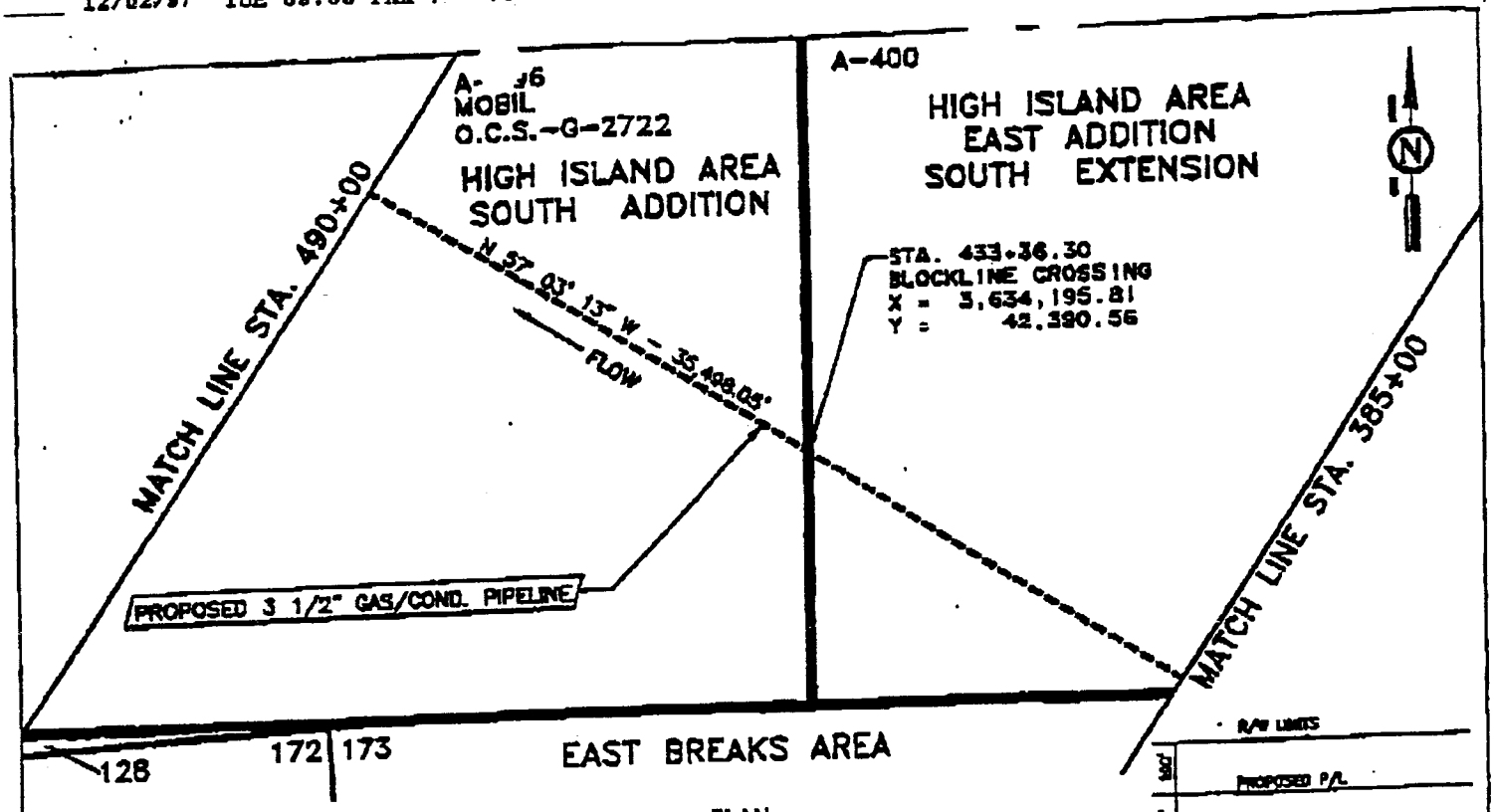
PROPOSED 3 1/2" GAS/COND. PIPELINE
GULF OF MEXICO
GB 134 WELL #1 TO HI A-595 'D' PLAT.
GARDEN BANKS AND HIGH ISLAND AREAS
ATP OIL AND GAS CORPORATION

DATE: 6-13-97

SHEET 4 OF 6

Keith A. Codd
PREPARED BY ICC OFFSHORE, L.L.C.

THE DESIGN CHARACTERISTICS OF THIS PIPELINE ARE IN COMPLIANCE WITH APPLICABLE REGULATIONS.

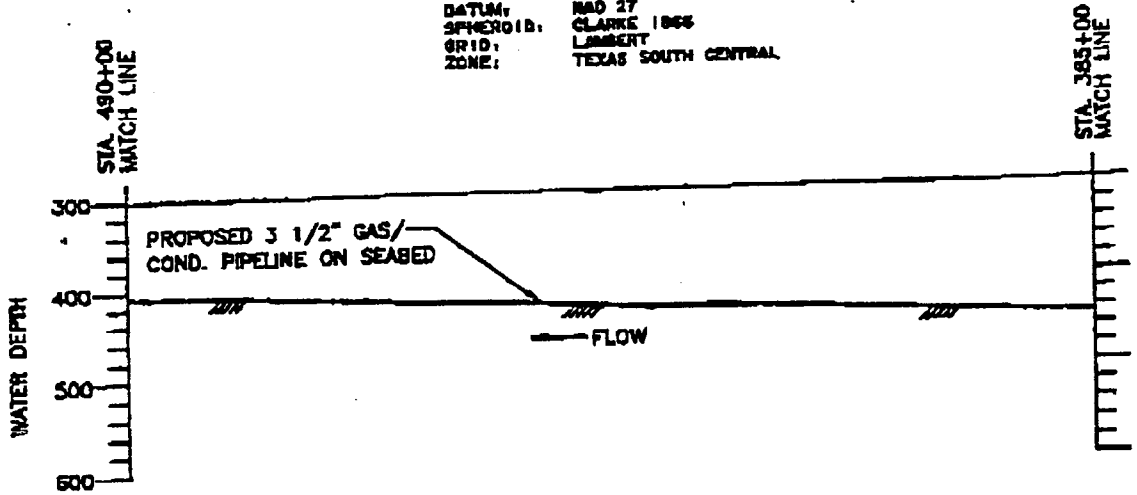


PLAN

1,000 0 1,000 2,000

GEODETIC PARAMETERS

DATUM:	NAD 27
SPHEROID:	CLARKE 1866
GRID:	LAMBERT
ZONE:	TEXAS SOUTH CENTRAL



PROFILE

TOTAL LENGTH = 62,043.87'

100' 0 100' 200'
VERTICAL SCALE

1,000 0 1,000 2,000
HORIZONTAL SCALE

PROPOSED 3 1/2" GAS/COND. PIPELINE
GULF OF MEXICO
GB 134 WELL #1 TO HI A-595 'D' PLAT.
GARDEN BANKS AND HIGH ISLAND AREAS
ATP OIL AND GAS CORPORATION

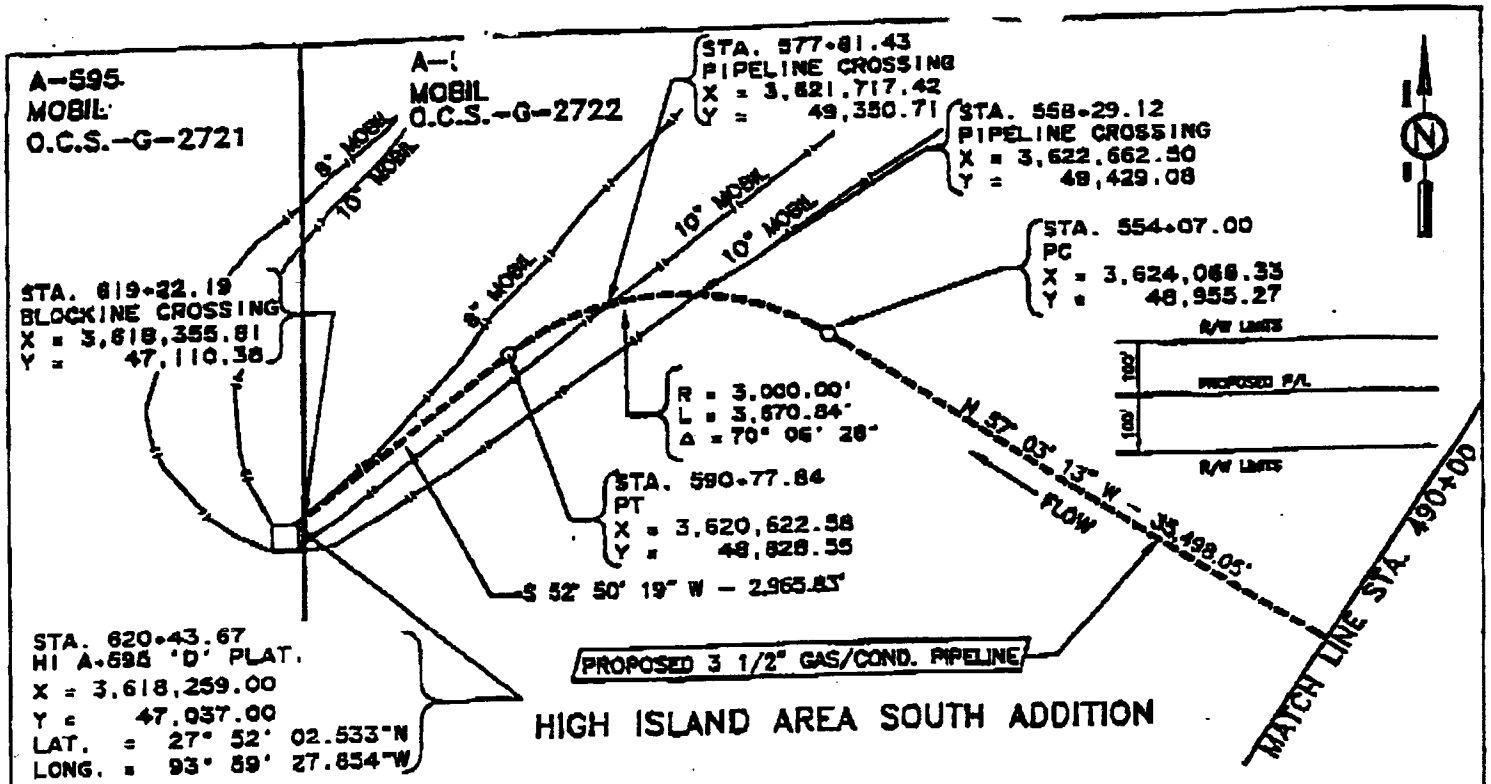
Keith A. Codd

PREPARED BY KC OFFSHORE, L.L.C.

THE DESIGN CHARACTERISTICS OF THIS PIPELINE ARE IN COMPLIANCE WITH APPLICABLE REGULATIONS.

DATE: 6-13-97

SHEET 5 OF 6

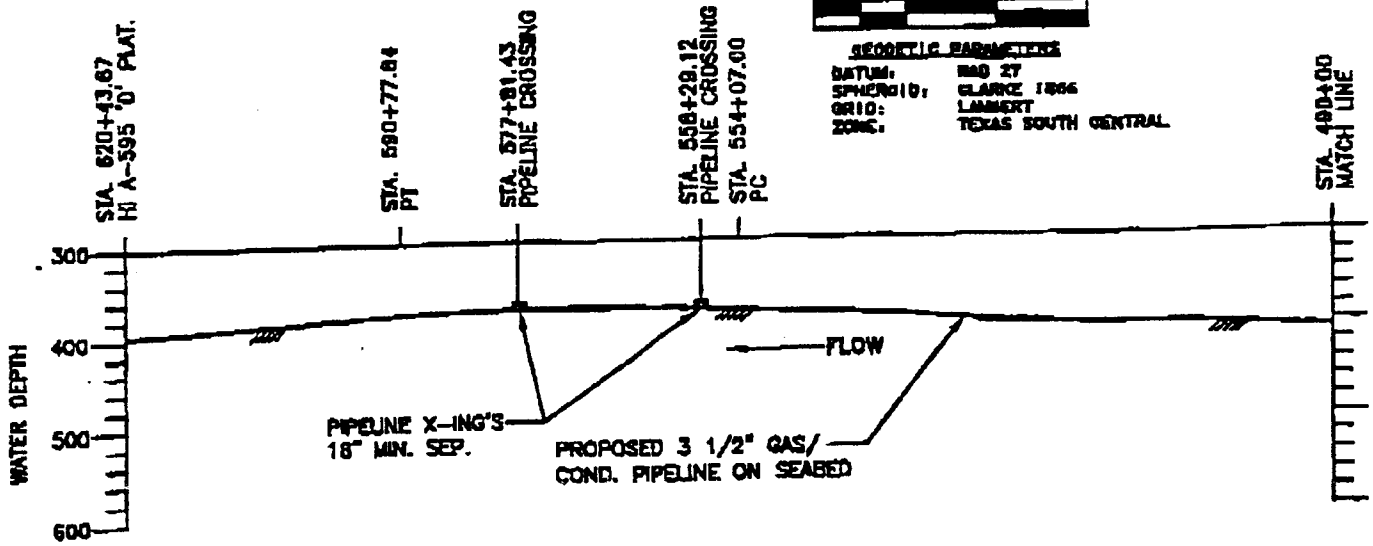


PLAN

1,000 0 1,000 2,000

GEODETIC PARAMETERS

DATUM:	NAD 27
SPHEROID:	CLARKE 1866
GRID:	LAMBERT
ZONE:	TEXAS SOUTH CENTRAL



PROFILE

TOTAL LENGTH = 52,043.67'

100' 0 100' 200'
VERTICAL SCALE

1,000 0 1,000 2,000
HORIZONTAL SCALE

PROPOSED 3 1/2" GAS/COND. PIPELINE
GULF OF MEXICO
GB 134 WELL #1 TO HI A-595 'D' PLAT.
GARDEN BANKS AND HIGH ISLAND AREAS
ATP OIL AND GAS CORPORATION

DATE: 6-13-97

Keith A. Cobb

PREPARED BY KC OFFSHORE, L.L.C.

THE DESIGN CHARACTERISTICS OF THIS PIPELINE ARE IN COMPLIANCE WITH APPLICABLE REGULATIONS.

SHEET 6 OF 6

ATP OIL & GAS CORPORATION

4600 POST OAK PLACE
SUITE 230
HOUSTON, TEXAS 77027-9726

CERTIFIED

Z 453 745 592

Return Receipt

MAIL

Minerals Management Services
Royalty Valuation Division
Mail Stop 3151
P.O. Box 25165
Denver, CO 80225

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management Lucy Jurgues Denett

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

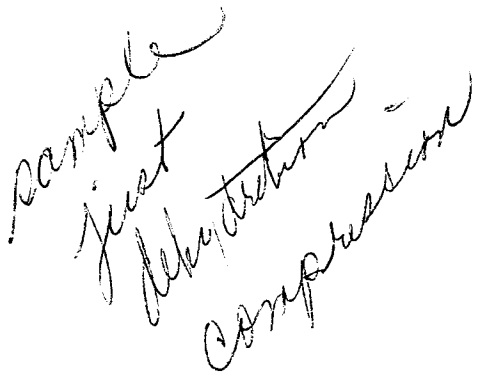
- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifing deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Application

Apply this guidance prospectively. Any previously received requests for guidance should be reviewed. If the above criteria are met, and the previously issued decision conflicts with this guidance the company must be notified.

Questions concerning the applicability of this guidance to specific situations should be referred to the Royalty Valuation Division (RVD). Additionally, requests for determinations on a case-by-case basis should be referred to RVD.

MMS-RVD-EVB: 99-0380
Mail Stop 3151



CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney At Law
Shell Deepwater Production Inc.
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Dear Mr. Coney:

Thank you for the information you provided on August 27, 1999. This information allowed the Royalty Valuation Division (RVD) to further evaluate Shell Offshore Inc.'s (Shell) request for a transportation allowance for the movement of gas production from Mississippi Canyon Block 807 (MC 807) to the West Delta 143 Platform (WD 143).

On May 20, 1999, the Associate Director for Royalty Management (ADRM) issued a memorandum providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure.) The memorandum states that any previously-received requests for the transportation of deepwater production should be reviewed under these guidelines. This response results from our review of your situation under the new guidelines, and is a follow-up to our August 28, 1998, letter that withdrew our original decision of July 6, 1998.

The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Platform A, MC 807, is transportation, subject to the other qualifications in the ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

Production is from the MC 807 unit only.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that the unit where the production originates, MC 807, is not adjacent to WD 143. Platform A on MC 807 is about 60 miles from WD 143.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

In an affidavit dated August 29, 1999, you state that MC 807 is located in a water depth of more than 200 meters.

Using the referenced guidelines, and subject to future review and audit, we approve your request for a transportation allowance for movement of gas production from MC 807 to WD 143. This approval is subject to RVD modification, should the circumstances change in the future. If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104 (1999), you must apply for an exception to the limitation, and provide sufficient documentation to support your request before claiming the excess amount.

If you have any questions, please call Mr. James Morris at (303) 275-7213.

Sincerely,

Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

Enclosure

bcc: RM File 99-0380
RVD DC/Lkwd
RVD Chron (2)
EVB Chron (2)
LMS:MMS:RVD:EVB:MS-3151:SBarton:rjl:9/1/99:275-7222:P:\...\t&p\t&p99\99-0380
Drafted:rjl:9/10/99
Finalized:rjl:9/20/99:9/22/99

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty bearing substances.

RVD Analysis

The information submitted shows that the MC 807 Platform is located in deepwater Gulf of Mexico, approximately 60 miles from WD 143. Gas production comes to the surface at Platform A located at MC 807. The liquids are then separated and transferred to the oil line and moved to shore. The dehydrated gas is moved to WD 143 via separate pipeline. Upon reaching WD 143, the gas enters into a dedicated slug catcher at which time retrograde condensate falls out. The gas is then measured for royalty purposes and transported from WD 143 to shore via two separate pipelines.

The Payor Handbook, Volume III, pg.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without RVD approval (30 CFR 206.105(a)(2)(i) and 30 CFR 206.105(b)(3)(i)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and Shell may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs are not related to transportation and cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The location of the royalty meter is often a deciding factor in determining whether movement is transportation or gathering. Your (Shell's) request is for movement of production from MC 807 to WD 143, with the royalty meter located at WD 143. However, in applying the ADRM's May 20, 1999, guidance, we consider Platform A at MC 807 to be the central accumulation point. Although the royalty meter is at WD 143, we consider gathering, consistent with the new guidance, to terminate at Platform A. Thus the movement beyond

We consider the central accumulation point to be at the subsea manifold. Therefore, we consider movement before the subsea manifold to be gathering and subsequent movement to be transportation.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

The Green Canyon Block 116 unit has two producing leases, and since leases and units are treated similarly, this is not an issue.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that neither the unit nor the leases where the production originates at Green Canyon Block 116 are adjacent to South Timbalier Block 300A. The distance from the subsea manifold on Green Canyon Block 116 to South Timbalier Block 300A is about 25 miles.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

The wells are located on the seafloor at a water depth of 2,040 feet. This converts to approximately 621 meters, well over the prescribed depth.

Using the referenced guidelines, and subject to future review and audit, we approve your request for a transportation allowance for movement of gas production from Green Canyon Block 116 to South Timbalier Block 300A. This approval is subject to MMS modification, should the circumstances change in the future. If your transportation allowance exceeds the

50-percent limitation as prescribed in 30 CFR § 206.104 (1998), you must apply for an exception to the limitation and provide sufficient documentation to support your request before claiming the excess amount.

If you have any questions, please call Ms. Shirley Barton at (303) 275-7225.

Sincerely,

Deborah Gibbs Tschudy
Chief, Valuation and
Standards Division

Enclosures

bcc: RM File 99-0342
RVD DC/Lkwd
RVD Chron (2)
EVB Chron (2)
LMS:RMP:RVD:EVB:MS-3151:SBarton:rjl:7/27/99:275-7222:p:\...\t&p\t&p99\99-0342
Draft:rjl:7/28/99
Redrafted:rjl:8/9/99
Finalized:rjl:9/20/99:9/22/99

Minerals Management Service
Royalty Valuation Division
P.O. Box 25165, Mail Stop 3150
Denver, Colorado 80225
FAX: (303) 275-7227

FAX COVER SHEET

"To establish and communicate the proper value of mineral production from Federal and Indian lands."

Date: 9-23-99

To: Keith Godwin

Division/Company: ATP Oil & Gas

Phone: (713) 622-3311 X13

FAX: (713) 622-5101

From: Shirley Barton
(303)

Phone: 275-7222

Comments: For your information

Division:
Deborah Gibbs Tschudy, Chief (303) 275-7200
Shelia Dean, Secretary (303) 275-7201

Economic Valuation Branch:
Dave Hubbard, Chief (303) 275-7260
Secretary (Vacant) (303) 275-7259
Section I:
Jim Morris, Chief (303) 275-7213

Oil and Gas Valuation Branch:
Theresa Walsh Bayani, Chief (303) 275-7247
Amy Flynn, Secretary (303) 275-7241
Section I:
John Barder, Chief (303) 275-7234
Section II:
Rich Adamski, Chief (303) 275-7242

Solid Minerals Valuation & Reporting Branch:
Herb Wincentsen, Chief (303) 275-7210
Glenda Simpson, Secretary (303) 275-7214
Section I:
John Hovanec, Chief (303) 275-7212

Number of pages including this cover 3

MMS-RVD-EVB: 99-0342
Mail Stop 3151

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Raymond A. G. Oalmann
Manager, Revenue Accounting
CNG Producing Company
1450 Poydras Street
New Orleans, Louisiana 70112-6000

Dear Mr. Oalmann:

On September 18, 1996, the Royalty Valuation Division (RVD) of Minerals Management Service (MMS) denied CNG Production Company's (CNG) request for an allowance to transport bulk gas production from Green Canyon Block 116 to South Timbalier Block 300A. (See Enclosure 1.) Subsequently, you (CNG) appealed this denial (Appeal Docket No. MMS-96-0370-OCS), and on October 16, 1997, MMS denied your appeal. CNG then appealed this decision to the Interior Board of Land Appeals (IBLA). On August 24, 1998, counsel for MMS filed a motion stating that MMS wished to reconsider their position in MMS-96-0370-OCS. The IBLA remanded the appeal back to MMS on September 11, 1998, for reconsideration.

On May 20, 1999, the Associate Director for Royalty Management issued a memorandum providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure 2.) The memorandum states that any previously-received requests for transportation of deepwater production should be reviewed under these guidelines. Consequently, we are rescinding our September 18, 1996, decision and replacing it with this guidance.

The guidelines and responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty bearing substances.

RVD Analysis

The information submitted shows that CNG transports bulk gas production and that all separation, dehydration, treatment, and sales measurement occurs at the production facilities at South Timbalier Block 300A.

The Payor Handbook, Volume III, pg.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS approval (30 CFR 206.105(a)(2)(i) and 30 CFR 206.105(b)(3)(i). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, costs of movement must be allocated between royalty and non-royalty bearing substances, and CNG may claim only the costs associated with royalty-bearing production. (See 30 CFR § 206.105 (b)(3).) Separation, dehydration, and treatment costs are not related to transportation and cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

CNG transports production from three wells to a subsea manifold within Green Canyon Block 116. From this manifold, production enters two six-inch pipelines for movement of bulk production approximately twenty-five miles to South Timablier Block 300A.

Royalty Valuation Division
Project Closure Report

04-Oct-99

RVD Group	Project Number	Employee Name	Project Description	Priority	Work Element Name
EVB	99-0380	BARTON	Rescind prior denial of allowance on deepwater transportation	2	Approval for pre-3/89 Transportation Allowance Requests

Date Received	Date Assigned	Date Completed
7/21/1999	7/21/1999	9/30/1999

Company Name: Shell Offshore, Inc.

Appeal Number:

Product Name: Oil

Tribe Name:

Summary

BARTON

This project is to rescind a denial of Shell request for a transportation allowance for production from leases in water depths greater than 200 meters. Letter requesting additional information sent on 7/23/99. Approval for deepwater transportation granted.

SENDER:
- Check box at right if you require Restricted Delivery.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee)

☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

SHELL DEEPWATER PRODUCTION INC.
ATTN. MR. MICHAEL E. CONEY
ATTORNEY AT LAW
P.O. BOX 60834
NEW ORLEANS, LA 70160-0834

4a. Article Number

P 968 384 701

4b. Service Type

☒ CERTIFIED

7. Date of Delivery

OCT - 5 1999

5. Received By: *(Print Name)*

8. Addressee's Address

6. Signature: *(Addressee or Agent)*

X

PS FORM 3811, December 1994 Domestic Return Receipt

LMS:MMS:RVD:EVB:SBarton:99-0380

P 968 384 701

RETURN RECEIPT SERVICE	POSTAGE	POSTMARK OR DATE
	RESTRICTED DELIVERY	
	CERTIFIED FEE + RETURN RECEIPT	
	TOTAL POSTAGE AND FEES	
SENT TO:	NO INSURANCE COVERAGE PROVIDED – NOT FOR INTERNATIONAL MAIL (SEE OTHER SIDE)	

SHELL DEEPWATER PRODUCTION INC.
ATTN. MR. MICHAEL E. CONEY
ATTORNEY AT LAW
P.O. BOX 60834
NEW ORLEANS, LA 70160-0834

PS FORM 3800 US Postal Service **Receipt for Certified Mail**

IMPORTANT! PLACE STICKER AT TOP OF ENVELOPE TO THE RIGHT OF THE RETURN ADDRESS.

LMS:MMS:RVD:EVB:SBarton:99-0380

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB: 99-0380
Mail Stop 3151

SEP 30 1999

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney At Law
Shell Deepwater Production Inc.
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Dear Mr. Coney:

Thank you for the information you provided on August 27, 1999. This information allowed the Royalty Valuation Division (RVD) to further evaluate Shell Offshore Inc.'s (Shell) request for a transportation allowance for the movement of gas production from Mississippi Canyon Block 807 (MC 807) to the West Delta 143 Platform (WD 143).

On May 20, 1999, the Associate Director for Royalty Management (ADRM) issued a memorandum providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure.) The memorandum states that any previously-received requests for the transportation of deepwater production should be reviewed under these guidelines. This response results from our review of your situation under the new guidelines, and is a follow-up to our August 28, 1998, letter that withdrew our original decision of July 6, 1998.

The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

United States Department of the Interior

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New Orleans, Louisiana 70160-0834

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The guidelines and our responses are as follows:

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The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty bearing substances.

RVD Analysis

The information submitted shows that the MC 807 Platform is located in deepwater Gulf of Mexico, approximately 60 miles from WD 143. Gas production comes to the surface at Platform A located at MC 807. The liquids are then separated and transferred to the oil line and moved to shore. The dehydrated gas is moved to WD 143 via separate pipeline. Upon reaching WD 143, the gas enters into a dedicated slug catcher at which time retrograde condensate falls out. The gas is then measured for royalty purposes and transported from WD 143 to shore via two separate pipelines.

The Payor Handbook, Volume III, pg.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without RVD approval (30 CFR 206.105(a)(2)(i) and 30 CFR 206.105(b)(3)(i)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and Shell may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs are not related to transportation and cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The location of the royalty meter is often a deciding factor in determining whether movement is transportation or gathering. Your (Shell's) request is for movement of production from MC 807 to WD 143, with the royalty meter located at WD 143. However, in applying the ADRM's May 20, 1999, guidance, we consider Platform A at MC 807 to be the central accumulation point. Although the royalty meter is at WD 143, we consider gathering, consistent with the new guidance, to terminate at Platform A. Thus the movement beyond Platform A, MC 807, is transportation, subject to the other qualifications in the ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty bearing substances.

RVD Analysis

The information submitted shows that the MC 807 Platform is located in deepwater Gulf of Mexico, approximately 60 miles from WD 143. Gas production comes to the surface at Platform A located at MC 807. The liquids are then separated and transferred to the oil line and moved to shore. The dehydrated gas is moved to WD 143 via separate pipeline. Upon reaching WD 143, the gas enters into a dedicated slug catcher at which time retrograde condensate falls out. The gas is then measured for royalty purposes and transported from WD 143 to shore via two separate pipelines.

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Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and Shell may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs are not related to transportation and cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The location of the royalty meter is often a deciding factor in determining whether movement is transportation or gathering. Your (Shell's) request is for movement of production from MC 807 to WD 143, with the royalty meter located at WD 143. However, in applying the ADRM's May 20, 1999, guidance, we consider Platform A at MC 807 to be the central accumulation point. Although the royalty meter is at WD 143, we consider gathering, consistent with the new guidance, to terminate at Platform A. Thus the movement beyond

Platform A, MC 807, is transportation, subject to the other qualifications in the ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

Production is from the MC 807 unit only.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that the unit where the production originates, MC 807, is not adjacent to WD 143. Platform A on MC 807 is about 60 miles from WD 143.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

In an affidavit dated August 29, 1999, you state that MC 807 is located in a water depth of more than 200 meters.

Using the referenced guidelines, and subject to future review and audit, we approve your request for a transportation allowance for movement of gas production from MC 807 to WD 143. This approval is subject to RVD modification, should the circumstances change in the future. If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104 (1999), you must apply for an exception to the limitation, and provide sufficient documentation to support your request before claiming the excess amount.

If you have any questions, please call Mr. James Morris at (303) 275-7213.

Sincerely,

/S James P Morris

Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

Enclosure

bcc: RM File 99-0380
RVD DC/Lkwd
RVD Chron (2)
EVB Chron (2)
LMS:MMS:RVD:EVB:MS-3151:SBarton:rjl:9/1/99:275-7222:P:\...\t&p\t&p99\99-0380
Drafted:rjl:9/10/99
Finalized:rjl:9/20/99:9/22/99

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB: 99-0380
Mail Stop 3151

SEP 30 1999

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney At Law
Shell Deepwater Production Inc.
P.O. Box 60834
New Orleans, Louisiana 70160-0834

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The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty bearing substances.

RVD Analysis

The information submitted shows that the MC 807 Platform is located in deepwater Gulf of Mexico, approximately 60 miles from WD 143. Gas production comes to the surface at Platform A located at MC 807. The liquids are then separated and transferred to the oil line and moved to shore. The dehydrated gas is moved to WD 143 via separate pipeline. Upon reaching WD 143, the gas enters into a dedicated slug catcher at which time retrograde condensate falls out. The gas is then measured for royalty purposes and transported from WD 143 to shore via two separate pipelines.

The Payor Handbook, Volume III, pg.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS approval (30 CFR § 206.105(a)(2)(i) and 30 CFR § 206.105(b)(3)(i)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and Shell may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs are not related to transportation and cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The location of the royalty meter is often a deciding factor in determining whether movement is transportation or gathering. Your (Shell's) request is for movement of production from MC 807 to WD 143, with the royalty meter located at WD 143. However, in applying the ADRM's May 20, 1999, guidance, we consider Platform A at MC 807 to be the central accumulation point. Although the royalty meter is at WD 143, we consider gathering, consistent with the new guidance, to terminate at Platform A. Thus the movement beyond

Platform A, MC 807, is transportation, subject to the other qualifications in the ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

Production is from the MC 807 unit only.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that the unit where the production originates, MC 807, is not adjacent to WD 143. Platform A on MC 807 is about 60 miles from WD 143.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

In an affidavit dated August 29, 1999, you state that MC 807 is located in a water depth of more than 200 meters.

Using the referenced guidelines, and subject to future review and audit, we approve your request for a transportation allowance for movement of gas production from MC 807 to WD 143. This approval is subject to RVD modification, should the circumstances change in the future. If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104 (1999), you must apply for an exception to the limitation, and provide sufficient documentation to support your request before claiming the excess amount.

If you have any questions, please call Mr. James Morris at (303) 275-7213.

Sincerely,

Deborah Gibbs Tschudy
Chief, Royalty Valuation and
Standards Division

Enclosure

Enclosure

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management Lucy Querques Denett

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifing deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Application

Apply this guidance prospectively. Any previously received requests for guidance should be reviewed. If the above criteria are met, and the previously issued decision conflicts with this guidance the company must be notified.

Questions concerning the applicability of this guidance to specific situations should be referred to the Royalty Valuation Division (RVD). Additionally, requests for determinations on a case-by-case basis should be referred to RVD.

PROJECT ROUTING FO... Project No. 99-030 Priority ________

Author S Barton Date Received ____________ Date Closed ____________

Directory\File Path ____________ : ____________ : ____________

Comments ____

L = Letter requesting information
I = Issue Paper
D = Draft
F = Final Letter
DPL = Dear payor letter

PRIORITY

Letter Type/ Comments	Date	From	To
F-see note inside	9-30-99	RPt	SB
signature	9-30-99	Shirley	Jim

PROJECT ROUTING FORM Project No. 99-0 0 Priority _____

Author S. Barton Date Received _____ Date Closed _____

Directory\File Path P:\rvdsha~\econ\t&p\ 99-0380

Comments _____

L = Letter requesting information
I = Issue Paper
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F = Final Letter
DPL = Dear payor letter

PRIORITY

Letter Type/ Comments	Date	From	To
draft	8/31	Shirley	Ronda
D	8-31	RJL	SB
Review draft	8-31	Shirley	Dave H.
redraft	9/2	Dave	Shirley
Review draft	9-7-99	Shirley	Dave H
review	9/7/99	Dave	Jim
review	9-8-99	Shirley	Jim
Please Review	9/8	[illegible]	DH
redraft for Div. review	9/8	Dave	Shirley
draft	9-9	Shirley	Ronda
D	9/10	RJL	SB
Review draft	9-13	SH	Dave H
review draft	9/13	Dave	Debbie
Finalize	9/14	Debbie	Shelia
D(?s)	9/14	RJL	AM (for SB)
Please Finalize	9/16	[illegible]	Ronda
F	9/20	RJL	SB
signature	9/20	Shirley	Debbie
Revise -	9/20	Debbie	Shelia
typo at end	9/20	Shelia	Ronda
F(needs Encl)	9/22	RJL	SB
signature	9/22	SH	Shelia
Check/Revise	9/22	Shelia	Ronda
Checked	9/23	Shirley	Shelia
sur - [illegible]	[illegible]	Shirley	[illegible]

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

JUL 23 1999

MMS-RVD-EVB: 99-0380
Mail Stop 3151

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney At Law
Shell Deepwater Production Inc.
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Dear Mr. Coney:

On August 28, 1998, the Royalty Valuation Division withdrew its denial of your request for a transportation allowance for the Mars gas pipeline extending from the Mars Platform, located at Mississippi Canyon Block 807, to the West Delta 142 Platform. In a Memorandum dated May 20, 1999, the Associate Director for Royalty Management issued guidelines for determining transportation allowances for deepwater production. We will review your previous request using these guidelines, as well as the following information that you need to provide:

- Identify lease and well locations.
- Identify boundary lines of adjacent leases.
- Describe the depth of the pipeline or flowline.
- Identify where production is measured for royalty purposes.
- Identify where production is valued for royalty purposes.

The information requested above is necessary to determine whether your situation warrants a transportation allowance, and not to determine whether any subsequent allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.157. If you wish to apply for this exception, the additional information will be required.

It is our policy to retain projects requiring additional documentation for 30 days. After the 30-day period, all project files are closed if the requested information has not been received in this office. Please submit the requested information within 30 days form the date of this letter to:

Minerals Management Service
Royalty Valuation Division
Attention: Ms. Shirley Barton
P.O. Box 25165, Mail Stop 3151
Denver, Colorado 80225-0165

Please refer to Project No. 99-0380 when submitting the requested information. If there are any questions, please call Ms. Shirley Barton at (303) 275-7222.

Sincerely,

David Hubbard
Chief, Economic Valuation Branch

Enclosure

Barton, Shirley

From: "Coney; Michael ME SHLOIL" <MC159640@MSXSEPC.SHELL.COM> at ~smtp
Sent: Wednesday, August 25, 1999 10:45 AM
To: Barton, Shirley
Subject: RE: flowline

The mars platform is a tension leg platform. Production flows to it from the unit wells on the seafloor. Production as stated in the affadavit is treated to pipeline quality .It is commingled from the various wells at the platform prior to treatmento p/l quality and then moves from the Mars TLP in the p/l some 60+ miles to West Delta.Please advise if this satsifies your info need. Thanks.

> ---------
> From: Shirley.Barton@mms.gov[SMTP:Shirley.Barton@mms.gov]
> Sent: Tuesday, August 24, 1999 1:36 PM
> To: meconey@shellus.com
> Subject: flowline
>
> I located your fax. Some of the information we discussed is still
> necessary.
> You explained what happens to production once it comes to the surface at
> the
> Mars Platform. What I need to know is how it gets to the platform. Is
> production produced from more than one well? If production is from more
> than
> one well then where is the central accumulation point? Where does
> production
> enter the flowline?
>

Note to file:
I talked to M. Coney on Aug 31, 1999, and he stated that the platform was located at West Delta 143 and not 142 as he previously stated in some info.

Barton, Shirley

From: Barton, Shirley
Sent: Wednesday, August 25, 1999 10:35 AM
To: '"Coney; Michael ME SHLOIL" <MC159640@MSXSEPC.SHELL.COM> at ~smtp'
Subject: RE: flowline

I believe I need to clarify my request. Movement from the Mars Platform to West Delta is not what I am questioning. Production from individual wells must be commingled somewhere. Is there individual line from each well to the platform? Exactly how does the production get from the well to the Mars Platform?

-----Original Message-----
From: "Coney; Michael ME SHLOIL" <MC159640@MSXSEPC.SHELL.COM> at ~smtp
Sent: Wednesday, August 25, 1999 10:45 AM
To: Barton, Shirley
Subject: RE: flowline

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> one well then where is the central accumulation point? Where does
> production
> enter the flowline?
>

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834

Direct Number: (504) 728-4643
Direct Fax: (504) 728-4690

August 25, 1999

Hand Delivered
Ms. Shirley Barton
Minerals Management Service
Royalty Valuation Division
Department of Interior
P. O. Box 25165, MS 3150
Denver, CO 80225

Dear Ms. Barton:

RE: PROJECT NO. 99-0380
MARS GAS PIPELINE
REQUEST FOR DETERMINATION OF TRANSPORTATION STATUS

After our conversation, I secured a copy of the commingling approval of the Gulf of Mexico Regional Office dated May 8, 1997. Also included to assist you is a Central Pipeline Corridor Map. I also include the following Shell Offshore Inc. application letters:

Letter dated May 21, 1996 to the MMS re commingling and measurement of new production from the Mississippi Canyon Block 807 Unit;

Letter dated July 23, 1996 to the MMS re confirmation of verbal approval commingling and measurement of gas production from the Mississippi Canyon Block 807 Unit;

Letter dated August 14, 1996 to the MMS re commingling and measurement modification involving the Mississippi Canyon Block 807 Unit; and

Letter dated December 30, 1996 to the MMS re revision to our original application dated May 21, 1996 regarding the commingling and measurement of production from the Mississippi Canyon Block 807 Unit.

To clarify what Shell is requesting, we are seeking a decision from the Minerals Management Service (MMS) at present only on whether the pipeline running from Mississippi Canyon 807 (MC 807) TLP at Mars to the West Delta 143 (WD 143) platform is eligible for transportation allowance. No request has been made to MMS for an MMS declaration on any line moving from a well in one of the Mars Units to the TLP at MC 807. No request has been made on the value or amount of any actual allowance.

Sincerely yours,

Michael E. Coney
Senior Counsel

MEC:DAD

Attachments

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834

Direct Number: (504) 728-4643
Direct Fax: (504) 728-4690

August 25, 1999

Hand Delivered
Ms. Shirley Barton
Minerals Management Service
Royalty Valuation Division
Department of Interior
P. O. Box 25165, MS 3150
Denver, CO 80225

Dear Ms. Barton:

RE: PROJECT NO. 99-0380
MARS GAS PIPELINE
REQUEST FOR DETERMINATION OF TRANSPORTATION STATUS

This letter will confirm my phone conversation of August 24, 1999, in which I inquired whether the affidavit which was furnished to you last week responded to all of the requirements of the May 20, 1999 guideline for deepwater allowances. Although that affidavit was both faxed and mailed to you, you indicated you did not know whether it had actually been received by the agency. This letter is written as a precaution in response to your July 23, 1999 "30 day letter". I believe the affidavit submitted is sufficient to meet the requirements for inclusion under the guideline issued, but if additional information is needed, please contact me immediately at (504) 728-4643.

Sincerely yours,

Michael E. Coney

Michael E. Coney
Senior Counsel

MEC:DAD

United States D

MINERALS M
Gulf o
1201 El
New Orlea

MEC
PKV
GME
AMS
- NOT FOR DISTRIBUTION -

In Reply Refer To: MS 5311

MAY 8 1997

Shell Offshore Inc.
Attention: Mr. Peter K. Ve
Post Office Box 61933
New Orleans, Louisiana 70161-1933

Gentlemen:

Your application dated May 21, 1996, and supplemented July 23, 1996, August 14, 1996, December 30, 1996, and February 12, 1997, requests approval to (1) install a LACT unit on the Mississippi Canyon Block 807 A platform to measure, for sales and royalty purposes, the liquid hydrocarbon production from the Mississippi Canyon Block 807 Unit (Agreement No. 754393002) beginning on June 26, 1996, for ultimate delivery into newly designated Operations System No. 36.5, (2) temporarily measure the gas production from the Mississippi Canyon Block 807 Unit (Agreement No. 754393002), Wells A-2 and A-4, on the Mississippi Canyon Block 807 A platform, for sales and royalty purposes, for a period commencing with the cessation of approved flaring (July 19, 1996) until the 30-inch Mississippi Canyon Gas System (MCGS) pipeline began delivering gas and entrained liquid hydrocarbons directly to the Warren Venice Plant (October 17, 1996)[During that time, the gas production from this unit flowed to the West Delta Block 143 A platform via the Mars 14-inch gas pipeline, entered either a 12-inch and/or a 6-inch gas pipeline to a subsea tie-in with TETCO's 20-inch pipeline, and flowed to Warren's Venice Plant. During this same period, Shell Offshore Inc. agreed to report the production and pay royalties on the gas production from this unit as a direct sale which, by MMS definition of a direct sale, Shell Offshore Inc. would not retain the rights to any of the liquid hydrocarbons recovered from the gas production (this included NGLs and retrograde condensate).], and (3) upon commencement of the delivery of gas and entrained liquid hydrocarbons via the 30-inch MCGS pipeline directly to the Warren Venice Plant (October 17, 1996), on a permanent basis, continue to measure the gas production from the Mississippi Canyon Block 807 Unit, for sales and royalty purposes, on the Mississippi Canyon Block 807 A platform (At that time, all retrograde production separated on the West Delta Block 143 A platform will be blocked from entry into the 12-inch and 6-inch TETCO pipelines and will, from then on, only enter the 30-inch MCGS pipeline).

The Shell Offshore Inc.-operated Mississippi Canyon Block 807 Unit (Agreement No. 754393002)(Allocation Suffix 0) will consist of portions of the following leases:

Leases	Area/Blocks
OCS-G 7957	Mississippi Canyon Block 762 SE/4
OCS-G 7958	Mississippi Canyon Block 763 S/2
OCS-G 7962	Mississippi Canyon Block 806 E/2
OCS-G 7963	Mississippi Canyon Block 807
OCS-G 9881	Mississippi Canyon Block 850 NE/4
OCS-G 9882	Mississippi Canyon Block 851 N/2

On **June 26, 1996**, the Mississippi Canyon Block 807 Unit initially began producing from wells drilled from the Mississippi Canyon Block 807 A platform and a remote subsea satellite well. On this same platform, the full-well-stream production from these wells is combined into a common header. Once combined, this production enters a high-pressure or an intermediate-pressure separator. At least once every other month, the production from each of the wells drilled from the Mississippi Canyon Block 807 A platform, including the remote subsea satellite well, is individually diverted to a test separator, for well tests, prior to being combined.

Once separated, the liquid hydrocarbons are combined and measured, for sales and royalty purposes, by the Mississippi Canyon Block 807 A platform LACT unit. The liquid hydrocarbons depart the platform via Shell Pipe Line Corporation's (SPLC) 18-inch oil pipeline, flow to, and across, the West Delta Block 143 A platform, and enter the newly designated Operations System No. 36.5 via a 24-inch oil pipeline, for delivery to the Shell-operated Fourchon Terminal at Fourchon, Louisiana.

(July 19, 1996, through October 16, 1996)

Commencing with the cessation of approved flaring (July 19, 1996) until the 30-inch Mississippi Canyon Gas System (MCGS) pipeline began delivering gas and entrained liquid hydrocarbons directly to the Warren Venice Plant (October 17, 1996), the separated gas production from the Mississippi Canyon Block 807 Unit was combined, was dehydrated, and was measured, for sales and royalty purposes, on the Mississippi Canyon Block 807 A platform by a single 10-inch Daniel Senior orifice meter in conjunction with one of two Barton chart recorders (Serial Nos. 202A-6189622 and 202A-174238). [On or about September 23, 1996, these chart recorders were scheduled to be replaced by an Omni 6000 flow computer (Serial No. 31691) but due to technical difficulties, the replacement did not take place until March 21, 1997]. The gas production departed the platform via Shell Gas Pipeline Company's (SGPC) 14-inch pipeline, was delivered to the West Delta Block 143 A platform and entered a dedicated slug catcher.

On the West Delta Block 143 A platform, the separated retrograde liquid hydrocarbons from the Mississippi Canyon Block 807 Unit were measured (for company purposes only) by two of four Halliburton Model 1105 turbine meters, were recombined with the gas, and entered the 12-inch TETCO pipeline, for delivery to the Warren Gas Plant located in Venice, Louisiana.

(Beginning October 17, 1996)

Commencing when the 30-inch Mississippi Canyon Gas System (MCGS) pipeline began delivering gas and entrained liquid hydrocarbons directly to the Warren Venice Plant (October 17, 1996),the gas production from the Mississippi Canyon Block 807 Unit will no longer be measured, for royalty purposes, on the Mississippi Canyon Block 807 A platform. The separated gas production from the Mississippi Canyon Block 807 Unit will continue to be combined, will continue to be dehydrated, and will then depart the platform via Shell Gas Pipeline Company's (SGPC) 14-inch pipeline, for delivery to the West Delta Block 143 A platform.

On the West Delta Block 143 A platform, the gas production from the Mississippi Canyon Block 807 Unit will enter a dedicated slug catcher. That portion of the separated gas production on the West Delta Block 143 A platform which enters the 12-inch TETCO pipeline (BP Exploration Inc.'s share of the gas) for delivery to the Warren Gas Plant located in Venice, Louisiana will now be measured, for sales and royalty purposes, by two 12-inch Daniel Senior orifice meters in conjunction with a Flow Automation Benchmark flow computer (Serial No. 9512005) and will be delivered into the 12-inch TETCO pipeline. The remaining separated gas production on the West Delta Block 143 A platform which enters the 30-inch MCGS pipeline, for direct delivery to the Warren Gas Plant located in Venice, Louisiana will now be measured, for royalty purposes, by three 16-inch Daniel Senior orifice meters in conjunction with an Omni flow computer (Serial No. 62126). The separated retrograde liquid hydrocarbons from the Mississippi Canyon Block 807 Unit will be measured (for company purposes only) by two of four Halliburton Model 1105 turbine meters, will be recombined with the gas which enters the 30-inch MCGS pipeline, and will flow directly to the Warren Gas Plant located in Venice, Louisiana.

The Mississippi Canyon Block 807 A platform LACT unit will have three meter runs, each consisting of the following: basket strainer with an air eliminator, BS&W monitor, sample probe (located in a vertical run of pipe), and a 10-inch A. O. Smith Model JA10-S3 positive-displacement meter (Serial Nos. PL147409, PL147410, and PL147411). A sample container with a circulating pump will be used for each meter run. Temperature measurement will be accomplished using a Rosemount temperature averager.

Meter proving will be accomplished using a bidirectional prover loop (27.22076-barrel prover volume, 17.25-inch (ID) diameter, .375-inch wall thickness, calibrated on July 22, 1994).

Royalty for the liquid hydrocarbons produced from the Mississippi Canyon Block 807 Unit will be based on the volume and the volume-weighted average gravity as determined by the LACT unit located on the Mississippi Canyon Block 807 A platform. Allocation of the liquid hydrocarbons to the individual wells which will be produced from the Mississippi Canyon Block 807 Unit will be based on periodic well tests. Allocation of the liquid hydrocarbon production measured by these LACT meters to each lease within the Mississippi Canyon Block 807 Unit will be based on the unit participation factors.

(July 19, 1996, through October 16, 1996)

Royalty for the gas produced from the Mississippi Canyon Block 807 Unit during this time will be based on the volume as measured by the Mississippi Canyon Block 807 A platform gas sales meters.

(After October 16, 1996)

Royalty for that portion of the separated gas production from the Mississippi Canyon Block 807 Unit which enters the 12-inch TETCO pipeline (BP Exploration Inc.'s share of the gas), for delivery to the Warren Gas Plant located in Venice, Louisiana will be based on the volume as measured by the two 12-inch Daniel Senior orifice meters in conjunction with a Flow Automation Benchmark flow computer (Serial No. 9512005) located on the West Delta Block 143 A platform. Allocation of gas from these royalty meters to the individual wells within the Mississippi Canyon Block 807 Unit will be based on periodic well tests. Allocation of gas to each lease within the Mississippi Canyon Block 807 Unit will be based on the unit participation factor for each lease.

Royalty for the gas production from the Mississippi Canyon Block 807 Unit which enters the 30-inch MCGS pipeline, for direct delivery to the Warren Gas Plant located in Venice, Louisiana will be based on the volume as measured by the three 16-inch Daniel Senior orifice meters in conjunction with an Omni flow computer (Serial No. 62126) located on the West Delta Block 143 A platform. Allocation of gas from these royalty meters to the individual wells within the Mississippi Canyon Block 807 Unit will be based on periodic well tests. Allocation of gas to each lease within the Mississippi Canyon Block 807 Unit will be based on the unit participation factor for each lease.

In accordance with 30 CFR 250.180 and 250.181, the royalty measurement of the liquid hydrocarbons and the gas production from the Mississippi Canyon Block 807 Unit, as outlined above,

are hereby approved. The royalty measurement of the gas production from the Mississippi Canyon Block 807 Unit, for delivery into the 30-inch MCGS pipeline on the Mississippi Canyon Block 807 A platform is hereby denied. Requests must be submitted to the Surface Commingling and Production Measurement Section of the Office for Production and Development prior to making any changes in the approved commingling, measurement, allocation, or testing procedures.

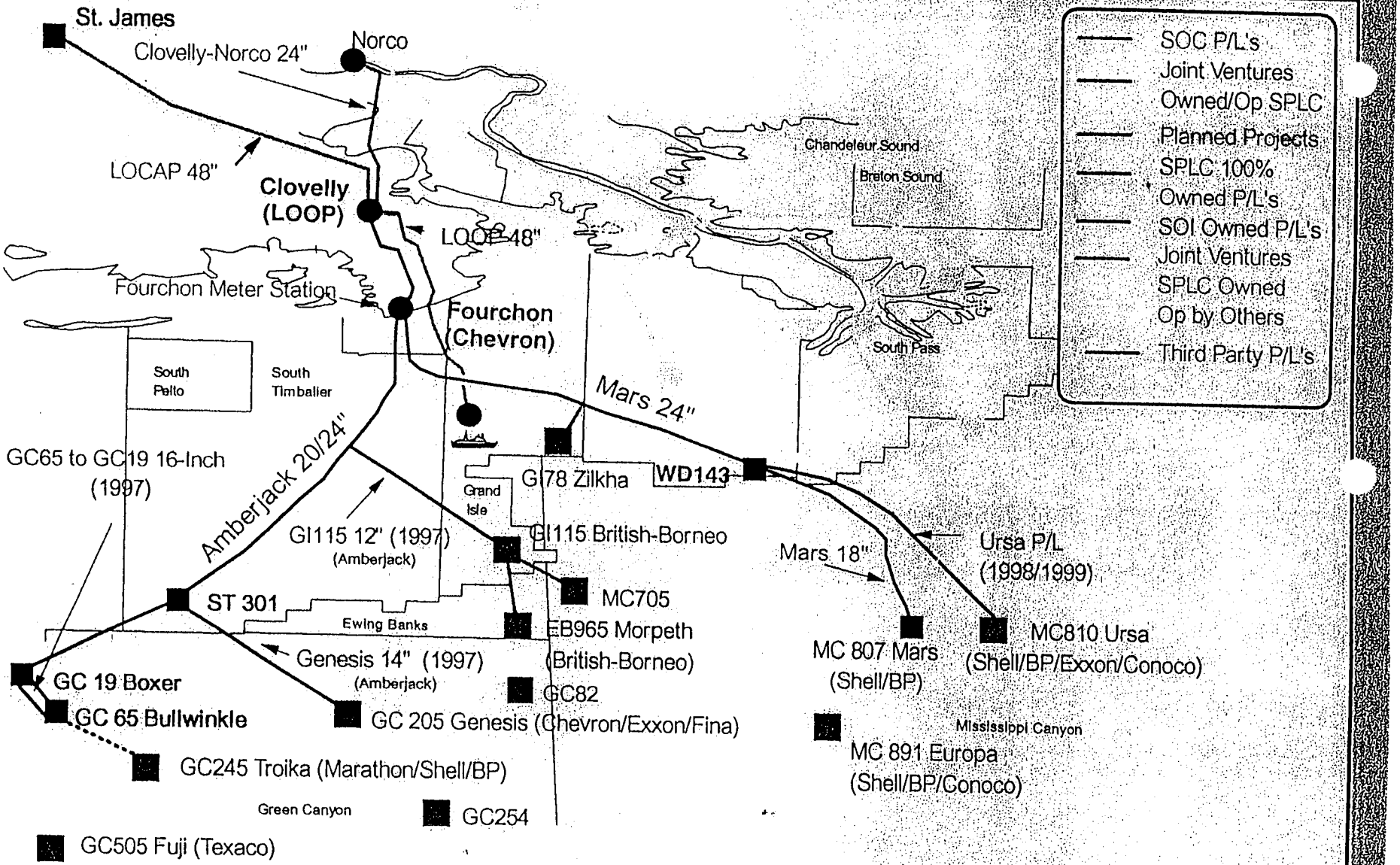
This letter confirms the verbal approvals given to Mr. Peter K. Velez of your office for (1) the royalty measurement of the liquid hydrocarbons from the Mississippi Canyon Block 807 Unit by Mr. Mike Melancon of this office on June 26, 1996, and (2) the roylaty measurement of the gas production from the Mississippi Canyon Block 807 Unit on the Mississippi Canyon Block 807 A platform until the startup of the 30-inch MCGS pipeline by Mr. Mike Melancon of this office on July 19, 1996.

Sincerely,

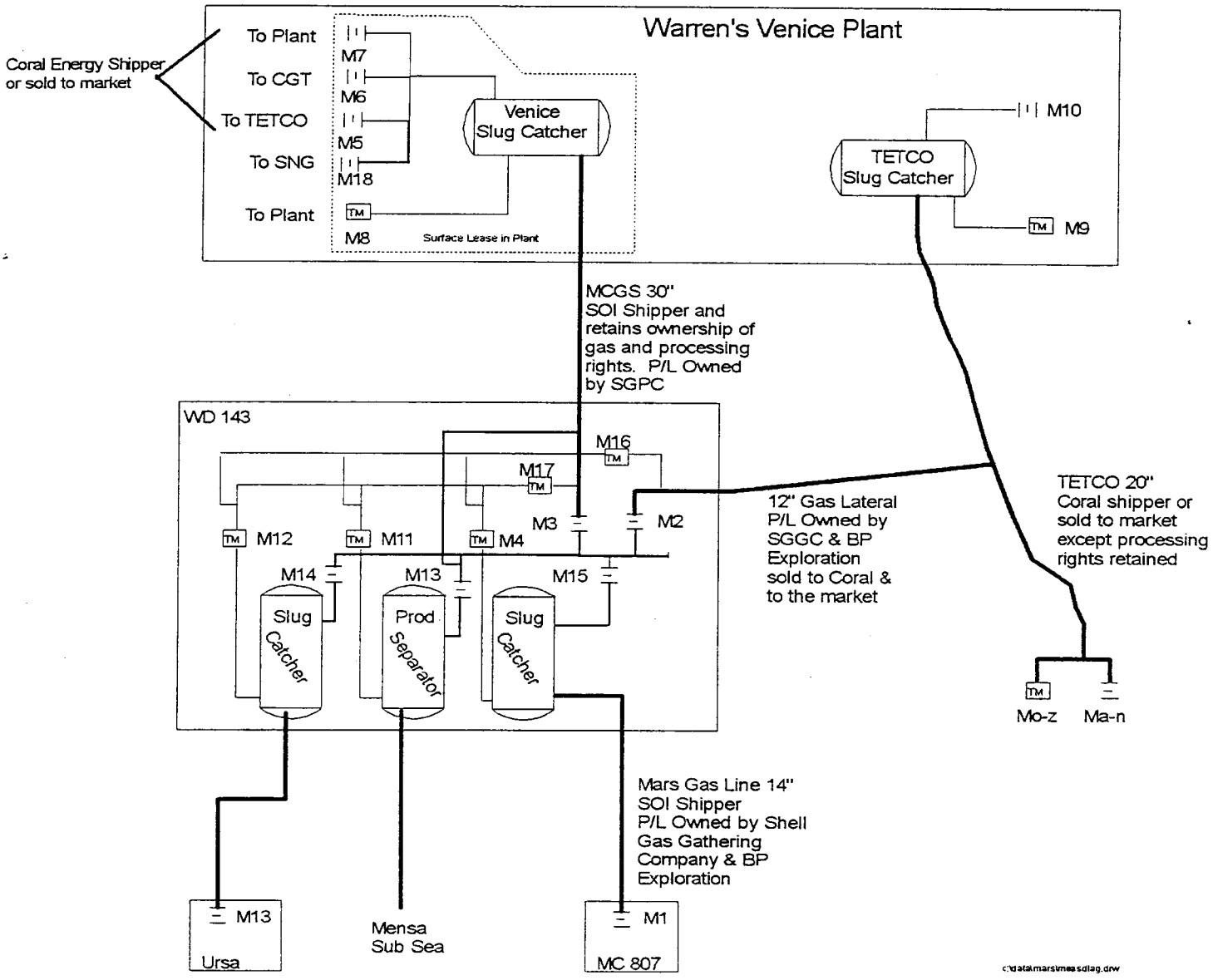
Eric L. Primeaux
Chief, Surface Commingling and
Production Measurement Section
Production and Development

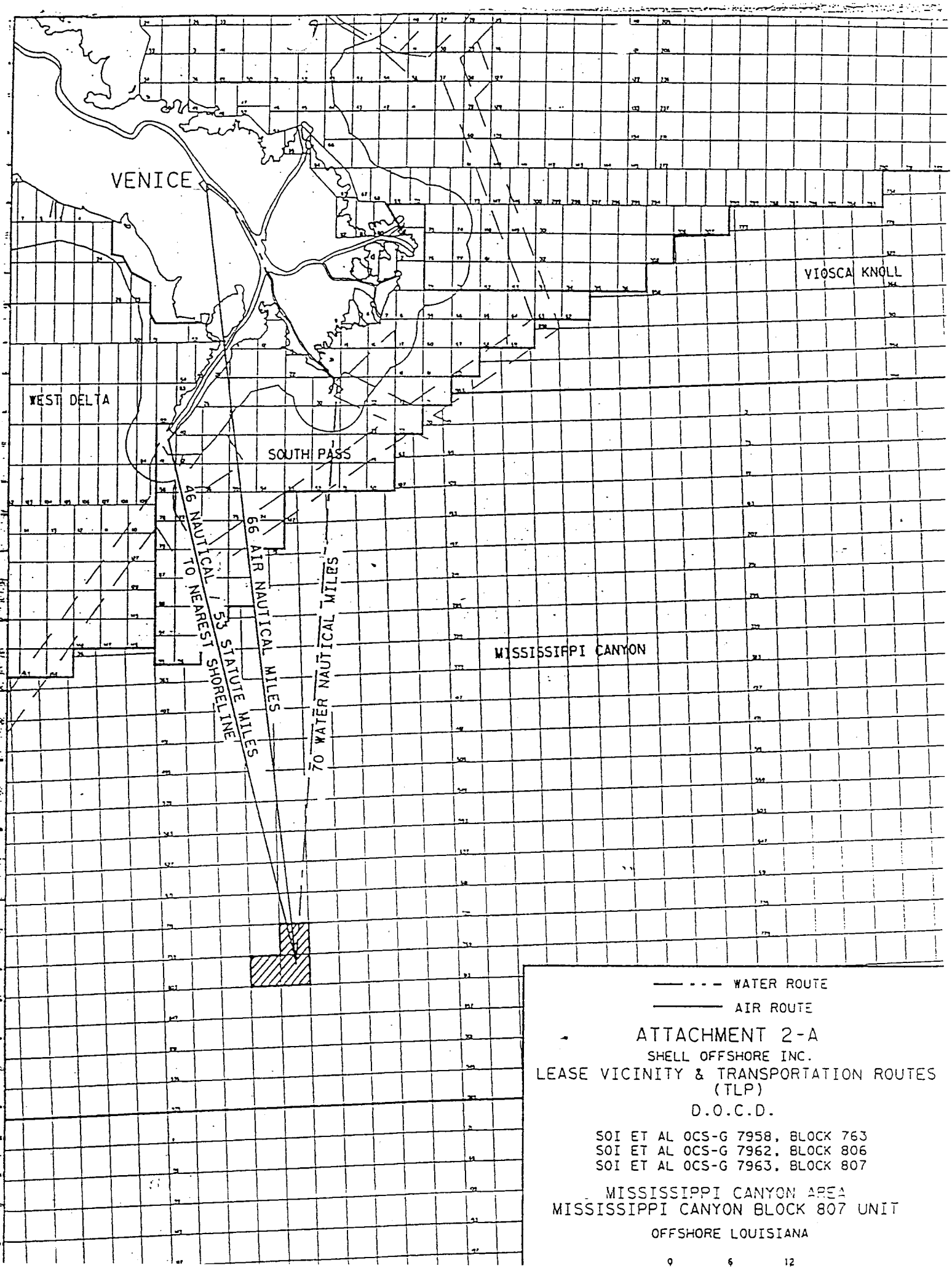
cc: BP Exploration Inc.
Attention: Mr. Stephan J. Chrien
Post Office Box 4587
Houston, Texas 77210-4587

Central Pipeline Corridor Map



Mars Corridor Measurement Plan




VENICE
VIOSCA KNOLL
WEST DELTA
SOUTH PASS
MISSISSIPPI CANYON
46 NAUTICAL / 53 STATUTE MILES TO NEAREST SHORELINE
66 AIR NAUTICAL MILES
70 WATER NAUTICAL MILES
WATER ROUTE
AIR ROUTE
ATTACHMENT 2-A
SHELL OFFSHORE INC.
LEASE VICINITY & TRANSPORTATION ROUTES
(TLP)
D.O.C.D.
SOI ET AL OCS-G 7958, BLOCK 763
SOI ET AL OCS-G 7962, BLOCK 806
SOI ET AL OCS-G 7963, BLOCK 807
MISSISSIPPI CANYON AREA
MISSISSIPPI CANYON BLOCK 807 UNIT
OFFSHORE LOUISIANA
0 6 12

Shell Offshore Inc.
An affiliate of Shell Oil Company

One Shell Square
PO Box 61933
New Orleans LA 70161-1933
(504) 588-6161

Exploration and Production
Deepwater Division

July 23, 1996

Mr. Mike Melancon
Regional Supervisor
Production and Development
Minerals Management Service
1201 Elmwood Park Boulevard
New Orleans, LA 70123-2394

Dear Mr. Melancon:

SUBJECT: CONFIRMATION OF VERBAL APPROVAL
COMMINGLING AND MEASUREMENT OF GAS PRODUCTION
FROM THE MISSISSIPPI CANYON BLOCK 807 UNIT
UNIT AGREEMENT NUMBER 754393002, COMPRISING PORTIONS
OF THE FOLLOWING LEASE BLOCKS:
SE/4 MISSISSIPPI CANYON BLOCK 762, OCS-G 7957
S/2 MISSISSIPPI CANYON BLOCK 763, OCS-G 7958
E/2 MISSISSIPPI CANYON BLOCK 806, OCS-G 7962
MISSISSIPPI CANYON BLOCK 807, OCS-G 7963
NE/4 MISSISSIPPI CANYON BLOCK 850, OCS-G 9881
N/2 MISSISSIPPI CANYON BLOCK 851, OCS-G 9882

The purpose of this letter is to confirm the verbal approval you granted to Mr. Andy Burglass and myself in our teleconference of July 19, 1996 to measure gas production, for sales and royalty purposes with the equipment discussed in our application dated May 21, 1996, with the clarifications and modifications listed below:

We have been informed by representatives of the TETCO Pipeline System that they will not change procedures on their pipeline to allow for Shell to receive a liquid accounting for our retrograde condensate separated from the fluid stream at the entrance to their plant. Therefore, all portions of our May 21 application dealing with measurement of retrograde condensate, for sales and royalty purposes, (contained in the last sentences of Page 2 and continuing onto the top of Page 3) should be removed from that application.

Until the start-up of the 30" MCGS Pipeline the MC 807 "A", dehydrated gas production from MC 807 "A" will be produced to WD 143 "A" where any retrograde condensate will be separated before the gas stream is re-measured and before it flows into the TETCO System. Any separated retrograde will be recombined with the gas stream and

shipped to TETCO in the same pipeline. As stated in our May 21 application, after the start-up of the 30" MCGS Pipeline all separated retrograde liquid production will be blocked from entry into the TETCO System and re-injected into the MCGS Pipeline for processing at the Warren Plant.

Ultimate sales and royalty for gas production transported by TETCO to the TETCO Gas Processing Plant will be based on the higher value of the residue gas and plant liquids recovered at TETCO as compared with the value of the gas as measured by the offshore sales and royalty basis meters on MC 807 "A". This procedure is consistent with our gas processing agreement with TETCO and conforms to procedures already in place for operation on that line and in the TETCO Plant. As you are aware, TETCO in its agreements with transporters for this line requires that retrograde condensate recovered at the TETCO slug catcher be surrendered to TETCO. Royalty will be paid on this volume as gas based on the gas measurement at the appropriate royalty settlement point offshore, and not as oil.

Finally, due to programming problems with the Electronic Measurement System discussed in our original application, we would like your approval to temporarily measure gas at MC 807 "A" utilizing a Barton Recorder System while necessary adjustments are made to our electronic system. In the mean time we request your approval to use a Model 202A Barton Recorder (Serial Number 6189622).

Should you have any questions regarding this matter, please contact either Mr. Andy Burglass at (504) 588-6012, or myself at (504) 588-6982.

Yours truly,

Peter K. Velez
Manager Regulatory Affairs

Attachments

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834
(504) 588-6161

December 30, 1996

Mr. Mike Melancon
Regional Supervisor
Production and Development
Minerals Management Service
1201 Elmwood Park Boulevard
New Orleans, LA 70123-2394

Dear Mr. Melancon:

SUBJECT: REVISION TO OUR ORIGINAL APPLICATION DATED MAY 21, 1996
REGARDING THE COMMINGLING AND MEASUREMENT OF PRODUCTION
FROM THE MISSISSIPPI CANYON BLOCK 807 UNIT
UNIT AGREEMENT NUMBER 754393002, COMPRISING PORTIONS
OF THE FOLLOWING LEASE BLOCKS:
SE/4 MISSISSIPPI CANYON BLOCK 762, OCS-G 7957
S/2 MISSISSIPPI CANYON BLOCK 763, OCS-G 7958
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MISSISSIPPI CANYON BLOCK 807, OCS-G 7963
NE/4 MISSISSIPPI CANYON BLOCK 850, OCS-G 9881
N/2 MISSISSIPPI CANYON BLOCK 851, OCS-G 9882

The purpose of this letter is to revise our earlier application dated May 21, 1996 relative to, what we had thought might be a liquid measurement facility associated with the Tetco Pipeline System. In that regard, we have been informed that Tetco has ruled out the possibility of adding such equipment to their facility. Therefore, we request that you remove all references to a Royalty Tank from our application. All references to this equipment and related procedures are contained in the last paragraph of the second page of our application beginning with the words "Additionally, any retrograde liquids..." and ending with the conclusion of that same paragraph at the top of Page 3. All other provisions of the original application remain unchanged by this revision. Further, we have added a Revised Composite Simplified Process Flow Diagram for the WD 143 "A" Platform showing the existence of previously installed 6" gas pipeline connection into the Tetco System. Please be advised that any gas flowing through this pipeline will have already been measured by the existing system meters discussed in or original application.

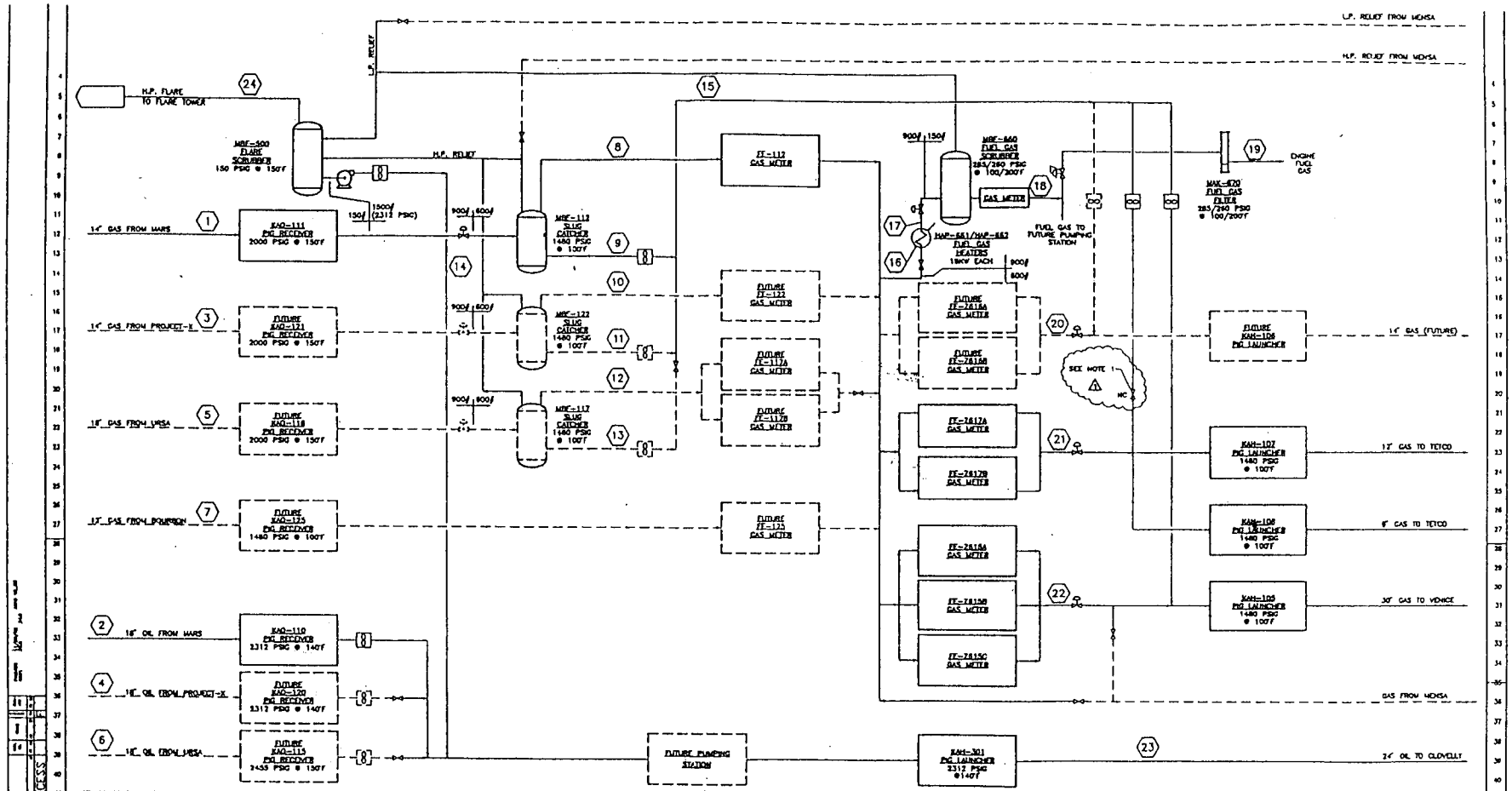
Should you have any questions regarding this matter, please contact Mr. Andy Burglass at (504) 588-6012.

Yours truly,

Peter K. Velez
Manager Regulatory Affairs

Attachment

BCC: J. F. Moore
A. M. Schneider
M. A. Curole
R. M. Rainey
M. C. Ecklund (SSC)
G. M. Flores (SSC)
N. M. Pasvantis
Foremen - Mars Platform



STREAM	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
GAS MMSCFD	110	-	110	-	400	-	100	110	-	110	-	400	-	-	-	0.5/2.7+	0.5/2.7	0.5/2.7	0.5	370	100	550	-	400
CONDENSATE BPD(NORMAL/SLUG)	2400	-	2400	-	9600	-	NIL	-	4000/80,000	-	4000/80,000	-	16,000/80,000	-	24,000/80,000	-	-	-	-	-	-	-	-	-
OIL BPD	-	100,000	-	100,000	-	200,000	-	-	-	-	-	-	-	500	-	-	-	-	-	-	-	-	250,000	-
TEMPERATURE F	80	80	80	80	80	80	70	60	80	60	80	80	80	0	80	60	130	81	47	80	80	60	60	-44
PRESSURE PSIG	1200	1500	1200	1500	1200	1500	1200	1180	1180	1180	1180	1180	1180	1490	1175	1180	1175	190	30	1170	1170	1170	1480	100
OIL VISCOSITY CP	-	25	-	25	-	25	-	-	-	-	-	-	-	25	-	-	-	-	-	-	-	-	25	-
GAS S.G.	.72	-	.72	-	.72	-	.72	.72	-	.72	-	.72	-	-	-	.72	.72	.72	.72	.72	.72	.72	-	.72
OIL S.G.	-	.85	-	.85	-	.85	-	-	-	-	-	-	-	.85	-	-	-	-	-	-	-	-	.85	-
CONDENSATE S.G.	.43	-	.43	-	.43	-	-	-	.43	-	.43	-	.43	-	.43	-	-	-	-	-	-	-	-	-

*FUTURE FUEL GAS RATE

AMB

Shell Offshore Inc.
An affiliate of Shell Oil Company

One Shell Square
PO Box 61933
New Orleans LA 70161-1933
(504) 588-6161

Exploration and Production
Deepwater Division

August 14, 1996

Mr. Mike Melancon
Regional Supervisor
Production and Development
Minerals Management Service
1201 Elmwood Park Boulevard
New Orleans, LA 70123-2394

Dear Mr. Melancon:

SUBJECT: COMMINGLING AND MEASUREMENT MODIFICATION
INVOLVING THE MISSISSIPPI CANYON BLOCK 807 UNIT
UNIT AGREEMENT NUMBER 754393002, COMPRISING PORTIONS
OF THE FOLLOWING LEASE BLOCKS:
SE/4 MISSISSIPPI CANYON BLOCK 762, OCS-G 7957
S/2 MISSISSIPPI CANYON BLOCK 763, OCS-G 7958
E/2 MISSISSIPPI CANYON BLOCK 806, OCS-G 7962
MISSISSIPPI CANYON BLOCK 807, OCS-G 7963
NE/4 MISSISSIPPI CANYON BLOCK 850, OCS-G 9881
N/2 MISSISSIPPI CANYON BLOCK 851, OCS-G 9882

Shell Offshore Inc. herein requests your approval to remove the existing Barton Recorder associated with gas measurement at the Mars Platform and install in its place an Omni Flow Computer, Serial Number 31691. We currently plan to install and begin using this equipment on or about September 23, 1996, contingent upon your approval.

We are enclosing for your review a technical data package describing the specifications and capabilities of this equipment.

Should you have any questions regarding this matter, please contact Mr. Andy Burglass at (504) 588-6012.

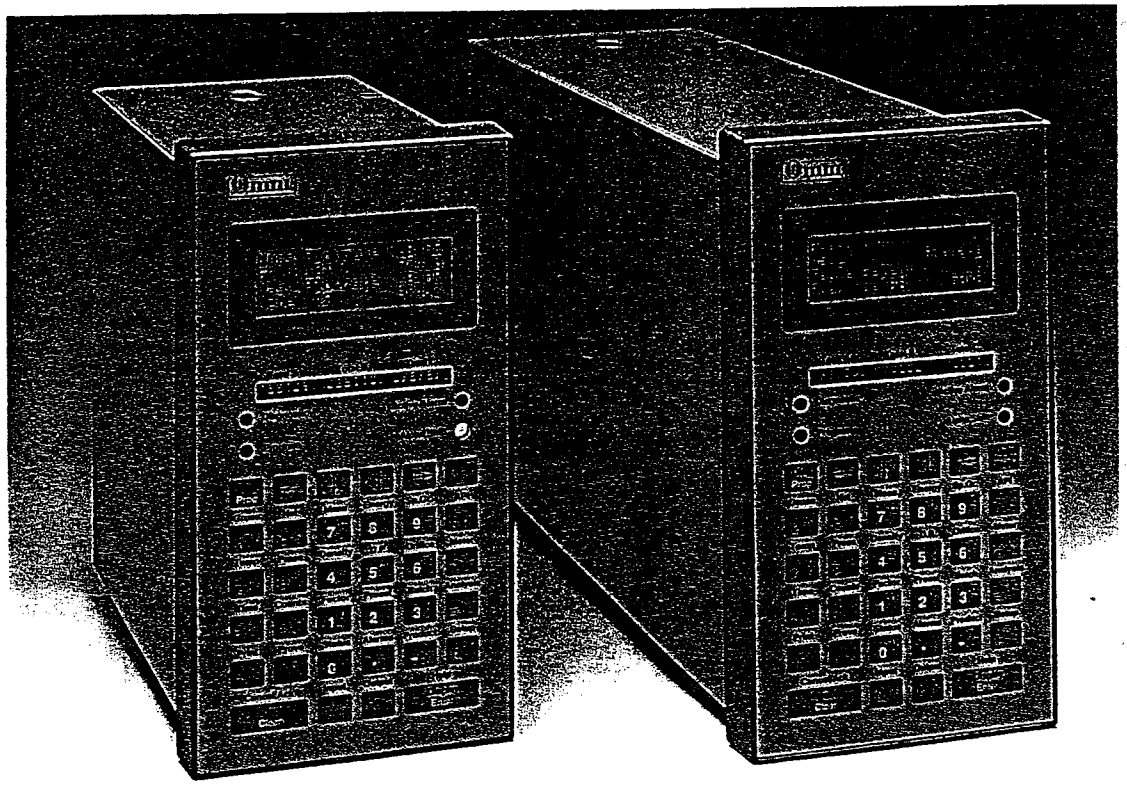
Yours truly,

Peter K. Velez
Manager Regulatory Affairs

Attachment

BCC: J. F. Moore
A. M. Schneider
M. A. Curole
J. E. Matherne
M. C. Ecklund (SSC - Houston)
G. M. Flores (SSC - Houston)
N. M. Pasvantis
Foremen - Mars Platform

Multi-Stream Flow Computers



- High-speed C-Mos 16/32 bit processor with math co-processor for high-speed execution of precision floating point math
- 4 MByte max. configurable ROM/RAM memory
- Multi-channel serial communications to 19.2 KBaud
- 34 button, color-coded, alpha-numeric keypad for instantaneous data displays, configuration and diagnostics
- User formatting of reports and displays
- User on-line configuration with PC program
- Control, PID, and Sequencing functions with boolean programmable logic
- Modular I/O and digital transmitter interface
- 4 line, alpha-numeric, backlit LCD display
- 4 Dual-color, Status LEDs, and 3 electromechanical counters
- RTU and Communication Sub-Master functions

Introduction

Omni 3000 and Omni 6000 flow computers are reliable, easy-to-use, uniquely versatile, measurement instruments. Their control and communication capabilities are added features that are indispensable for liquid and gas transmission and process measurement, control and display. The compact, rugged design and operation incorporate many user-requested features that can reduce or eliminate requirements for other ancillary control devices.

The modular plug in design and interchangeability of Omni multi-function input/output boards allow the user to select from a wide range of functions including multi-run flow measurement: control, PID, sequencing, Remote Terminal Unit and communications Sub-Master capability.

Copyright 199[illegible] Computers Inc

Design features

Keypad

Control of the flow computer is via the front-panel 34 button, imprinted alpha-numeric character membrane keypad with tactile domes and audio feedback. Imprinted characters are color coded to indicate operator and program functions, as well as primary and secondary alpha-numeric functions.

The keypad provides the user with a unique on-line capability to configure measurement and control data, perform diagnostic tasks and display operator information. Context-sensitive help screens are provided as an additional aid.

Configuration, program and diagnostic data can be entered via the keypad or remotely by serial hook-up into battery-backed up, CMOS SRAM memory. Security codes and an internal mechanical switch ensure that configure/program functions can be disabled when required.

Display

The 4 line x 20 alpha-numeric character, back-lit Liquid Crystal Display is updated every 500 ms and displays all messages and system variables in English language engineering units. Four dual-color LEDs indicate various operating modes and alarms. Three nonresettable 6 digit electromechanical counters are included on the front panel and can be configured to count gross, net, mass or energy units at any rate up to 20 counts per second.

Processor

A powerful 16/32 bit, CMOS microprocessor and floating point math co-processor are used for high speed execution of assembler code instructions. They provide a throughput of 3 Million instructions per second. A hardware real-time clock is also incorporated. Timekeeping continues even when power is lost to the Omni, which automatically resets on power-up. Time and duration of power failure is logged, and printed when power is restored.

512 Kbytes of CMOS SRAM and 1 Mbyte of CMOS EPROM are standard on the CPU module. With the addition of memory expansion, total memory capacity can be increased to 2 Mbytes of SRAM and 2 Mbytes of EPROM. All SRAM is backed up by nickel-cadmium batteries.

Modular Circuitry

The Omni computers utilize a I/O bus system. Mounted on a passive backplane are 5/15 DIN Standard connectors which are bussed in two sections. The front section, which contains the microprocessor modules, is comprised of 96-pin connectors. The functions located here are the CPU, Memory, Math Co-processor and Control Logic, and I/O bus Controller.

The rear section comprises 64-pin connectors which can accept any type of optically isolated I/O module. The rearmost connector accepts the system power supply module. Ribbon cables connect the I/O and power connectors on the backplane to the back panel.

Plug-in I/O Expansion

Almost any combination of I/O mix can be accommodated in the computer (Omni 3000/Omni 6000). The only limitations are the number of I/O connectors (4/10) and the number of wires connecting them to the back panel field wiring terminals (48/120). Each I/O connector has dedicated wires to the back panel terminal module. Additional wires are bussed to all I/O connectors.

Meter runs utilize plug-in modules which include all necessary A/D converters and control circuitry. User selection of process I/O is available with 'combo' cards that can be a mix of meter pulse, frequency densitometer, 4-20mA, 4-wire 100 ohm Rtd inputs and fused 4- 20mA outputs.

Special 4-Channel modules interface to Honeywell digital transmitters.

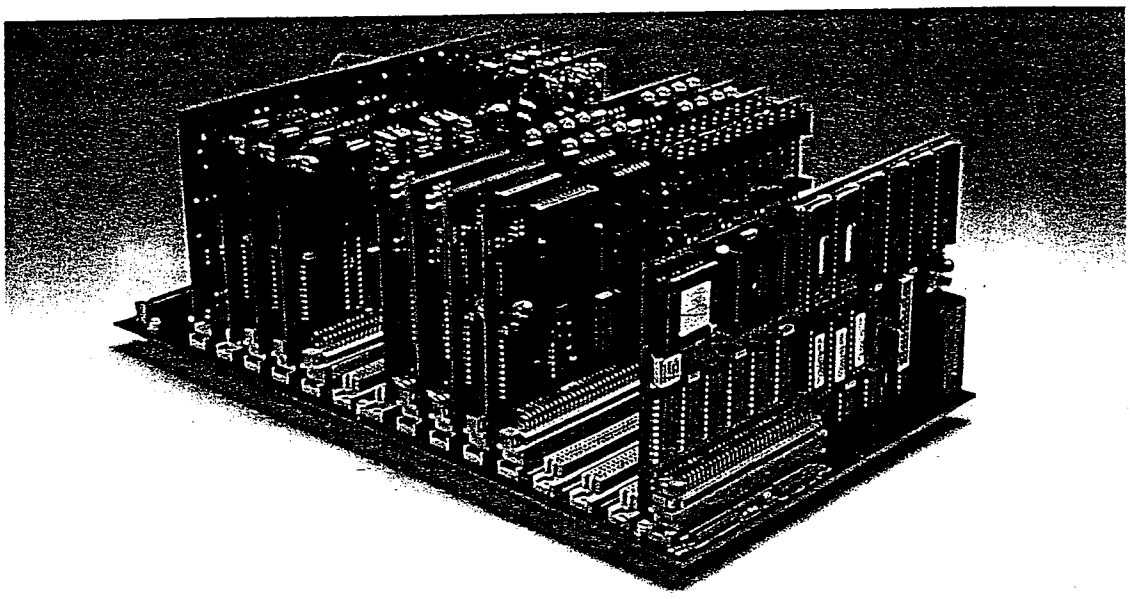
Digital status inputs and digital control outputs are selectable/configurable and are provided as fused,12-channel modules with active and fuse indication LEDs. Field technicians can isolate problems to board level and can quickly get the system fully operational.

Photo-optical isolation

The isolation of circuitry via photo-optical devices from all field wiring prevents accidental damage to the electronics, including that caused by static electricity. The isolation also inhibits electrical noise from inducing measurement errors. All I/O is modular and plug-in for easy field maintenance and replacement.

Built-in Diagnostics and Calibration

Extensive diagnostic software is built in which allows the technician to locally or remotely debug a possible problem without interrupting on-line measurement. Calibration of analog signals is performed through the keypad and software without having to physically access potentiometers.



View showing modularity of an Omni 6000 flow computer

Interrupt Driven CPU

This is a very important aspect to firmware. It provides for a multi-tasking environment in which priority tasks can be undertaken concurrently with unrelated activity. This provides for high-speed digital signals to be output at the same time as measurement computations and serial communications to a printer or host computer without degradation in speed of tasking.

All custody transfer measurement programs are stored in EPROM memory. This prevents damage due to electrical noise, or tampering with the integrity of calculation specifications. SRAM programming can also be accommodated.

Fast Cycle Time

All time-critical measurement functions are performed concurrently by the computers in every 500 ms for four meter runs. This provides greater accuracy of measurement calculations and permits a faster response by pipeline operations in critical control functions such as opening or closing valves or flow control.

Communications Serial I/O

Multiple port high-speed, concurrent serial communications up to 19200 bps is provided for direct interface with SCADA and process control mainframes. Software selectable baud rates also allow for multi-drop RS232C communications with printers, PCs, and various brands of digital transmitters.

SCADA/DCS Protocols

The ability and willingness of the manufacturer to provide communication protocols is a key element in the selection of instrumentation. These protocols provide a ready communication interface with full read/write capability with an array of existing host SCADA systems. These data acquisition networks include PLCs and/or RTUs. Modbus™ RTU Binary and ASCII, and Allen-Bradley DF1 full duplex are amongst a variety that have been implemented by our programming staff.

PC-Communications Interface

The wide use of PCs, and video display units makes it possible to provide software for off-line/on-line access to measurement, configuration and calibration data. Collection of historical reports, including alarms, interval reports of any time sequence, liquid batch and prove reports, and full remote technical intervention capabilities are also provided.

In-House Programming Service

Omni's resident measurement and communications programming expertise is available for user support.

Modbus™ is a Trademark of AEG-Modicon, Inc

™Omni 3000 and Omni 6000 are Trademarks of Omni Flow Computers Inc

SPECIFICATIONS of Omni 3000/Omni 6000*

PHYSICAL SPECIFICATIONS

Dimensions:

Panel cut-out: 8.25" high x 4.75" wide

Distance behind panel: 8.75/15.50"

Front Panel Bezel: 9.00" high x 5.00" wide

Weight: 9/16.0 lb (4.10/7.25 kg)

Mechanical: Outer panel-mounted enclosure with integral field-wiring back panel supplied with mounting brackets. Inner slide-in enclosure contains electronic modules. NEMA4 and NEMA7 options.

ELECTRICAL SPECIFICATIONS

Supply Voltage:
Type: 120, or 16-30 VDC. 10-20 Watts.

Field Wiring Connections
Inputs/Outputs: Four/ Ten 12 position screw terminal strips vertically mounted on the back panel

Power: AC and DC connect to adjacent 3 pin and 8 position terminals

Fuse: Primary system fuses located on back panel

Transient / Overvoltage Protection: Crowbar and transorbs on power supply

CPU/Memory:
16/32 bit CMos microprocessor,w/ floating point math co-processor, throughput 3 MIPS, max 2 Mb EPROM, max 2 Mb SRAM, hardware real-time clock, RAM battery back-up, 16 MHz operation

Modular I/O:
Number: 4/10 plug-in slots for any configuration of I/O modules for measurement, control, PID, sequencing, RTU, or as a communications Sub-Master

Optical Isolation:
Each input and output is photo-optically isolated, with a maximum common mode rejection on inputs/outputs of + /- 250 VDC to chassis ground

Environmental:
Operating Temperature: -20 Deg.C to + 50 Deg.C.
Storage Temperature: -20 Deg.C to + 80 Deg.C.
Relative Humidity: 90 % non condensing.

Analog / RTD Inputs:
Number: Max 4 per combo module
Precision: 14 binary bits
Type: 4 - 20 mA or 1 - 5 Volts. Differential Input or 100 Ohm, 4-wire Rtd

Digital Transmitter Inputs:
Number: 4 per digital module

Type: Honeywell

Pulse Inputs:
Number: Max two per combo module

Input Frequency: DC to 20 KHz.

Configuration: Differential input

Prover Detector Switch Input: Voltage, application of voltage starts prove

Status Inputs/Control Outputs:
Number: Selectable in any configuration of I/O up to 12 per 12-ch fused digital I/O module

Analog Outputs:
Number: Max. two fused per combo module

Multi-Bus RS232C Serial I/O:
Number: Groups of two
Baud rate: Software selectable 300-19200 Bps

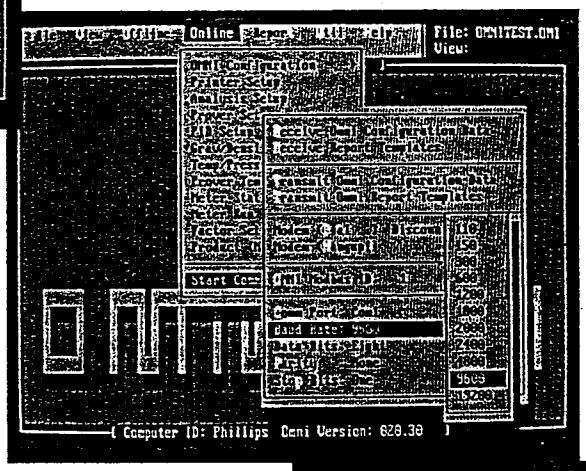
*Specifications subject to change by manufacturer without notice due to modifications or improvements.

Limited warranties apply to the use of the equipment.

Omni Flow Computers, Inc
10701 Corporate Drive, Suite 300, Stafford, Texas 77477 Phone: 713-240-6161 Fax: 713-240-6162
E-Mail: dromni@aol.com 102675.2143@compuserve.com

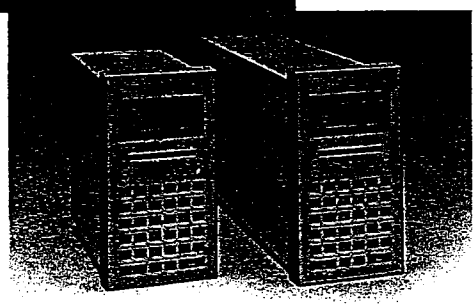
OmniCom® can configure...

communicate with...



and control...

an Omni flow computer



- Puts I/0 configurability in your hands at the press of a key
- Lowers project costs by eliminating custom programming and vendor dependencies
- Enhanced productivity by giving you real-time access when you need it
- Provides an operator/ technician interface that "works the way it's supposed to"

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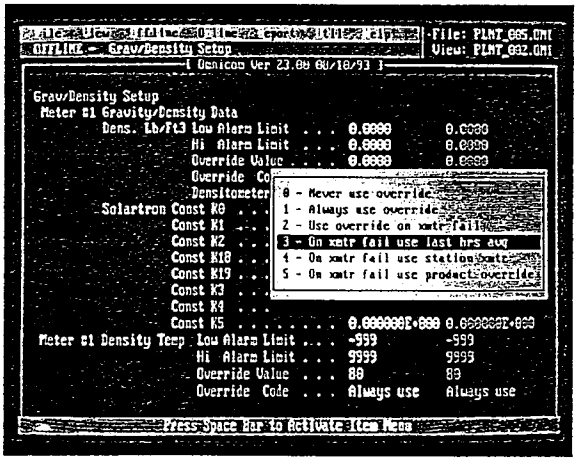
OmniCom® is a PC configuration program for use with Omni flow computers. Designed around the Omni operating system, it takes the place of the keypad data entries required to configure an Omni 3000™ or Omni 6000™ RTU/flow computer.

Full color pulldown menus and entry-sensitive Help screens guide the user quickly through an I/O configuration procedure.Configurations can be prepared offline and uploaded as required or entered in interactive mode.

Easy to Use, Control and PID also

OmniCom is designed for day-to-day users-not computer experts. Everything is in plain English, with values displayed in engineering units. Safety limits are built-in that inhibit the possibility of gross errors being made in the entry of critical configuration data.

Meter and transducer calibration ranges can be entered in advance. Entry of simple boolean logic statements and setpoints lets the computer function as a small PLC and as a four-loop PID controller.



Custom Reports

Report templates are provided, allowing you to modify the standard report formats to fit your own needs. Only simple text editing commands are required.

Dial-Up Access

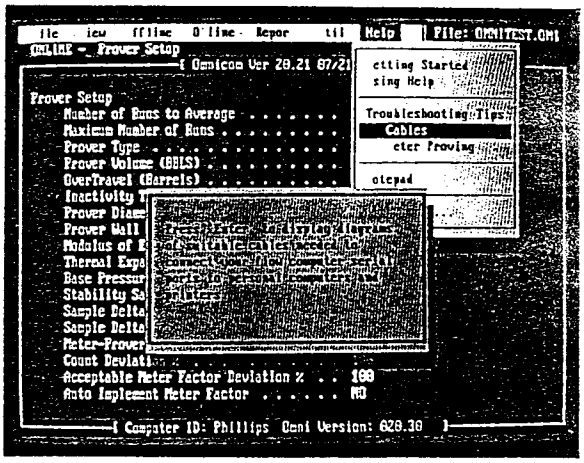
Remote real-time access via OmniCom's dial-up feature lets you access data and make modifications online. Daily reports and stored historical data can be retrieved and saved to disk. Various baud rates to 19.2 KBd are supported.

You can even predefine or modify three data packets totalling 48 different data groups for fast response single-message polling by a SCADA host.

Accessing one computer at a meter station, or several, OmniCom gets you there. An Omni 6000's multi-port SCADA capability lets you access the computers concurrently with the SCADA/ DCS link. And three levels of password access and serial communications passwords provide all the security you'll ever need.

User Definable Help Screens

You can customize OmniCom's Help screens to suit your personal preferences. An on-screen editor allows you to scale and position windows, and add, delete or edit text in almost any language.



Operations Utilities

View the physical and software-assigned I/O matchup and wiring diagrams for instrument hookup and perform operator control tasks such as batching and proving. Diagnostics can be read for each I/O point to determine proper signal values.

The Best News? The Price

OmniCom is an inexpensive PC program that comes with every computer. You don't need expensive training. You'll be up and running in minutes.

Quick Payback

Your investment in an Omni using OmniCom will pay for itself quickly in cost savings. Approved meter data/configurations and reduced travel to meter stations are just some of the benefits. By monitoring activity through telephone modem access, you can quickly identify problems.

Dependability

We've made our reputation on reliability and responsiveness. If you have a problem, we're only a telephone call away. An Omni specialist will provide you with an immediate response when you need an answer to a hardware or software technology question.

Or just call for some basic tips on good measurement or automation-related practice.

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Omni OMNI FLOW COMPUTERS, INC.

Hardware Matrix

Module Type			or	or
Type A Combination Card p/n 686006	Input Channel 1	4-20ma	1-5volts	RTD 4wire
	Input Channel 2	4-20ma	1-5volts	RTD 4wire
	Input Channel 3	4-20ma	1-5volts	Pulse Turbine/PD
	Input Channel 4	4-20ma	1-5volts	Pulse Turbine/PD
	Output Channel 1	4-20ma		
	Output Channel 2	4-20ma		
Type B Combination Card p/n 686006	Input Channel 1	4-20ma	1-5volts	RTD 4wire
	Input Channel 2	4-20ma	1-5volts	RTD 4wire
	Input Channel 3	4-20ma	1-5volts	Pulse Turbine/PD
	Input Channel 4	4-20ma	1-5volts	Frequency Density
	Output Channel 1	4-20ma		
Type E Combination Card p/n 686008	Input Channel 1	4-20ma	1-5volts	RTD 4wire
	Input Channel 2	4-20ma	1-5volts	RTD 4wire
	Input Channel 3	Turbine/PD or Dual Chron. & 1/2 Pulse Fidelity		
	Input Channel 4	Turbine/PD or Dual Chron. & 1/2Pulse Fidelity		
	Output Channel 1	4-20ma		
	Output Channel 2	4-20ma		
Type E/D Combination Card p/n 686008	Input Channel 1	4-20ma	1-5volts	RTD 4wire
	Input Channel 2	4-20ma	1-5volts	RTD 4wire
	Input Channel 3	Frequency Density		
	Input Channel 4	Frequency Density		
	Output Channel 1	4-20ma		
	Output Channel 2	4-20ma		
Type H Honeywell Card p/n 686004	Input Channel 1	Honeywell Digital Transmitter		
	Input Channel 2	Honeywell Digital Transmitter		
	Input Channel 3	Honeywell Digital Transmitter		
	Input Channel 4	Honeywell Digital Transmitter		
	Output Channel 1	4-20ma		
	Output Channel 2	4-20ma		
Type S Serial Card 3000 1 max 6000 2 max p/n 686005	Input / Output Ch 1	Tri-State RS-232C (add for optional RS-422/485 module)		
	Input / Output Ch 2	Tri-State RS-232C (add for optional RS-422/485 module)		

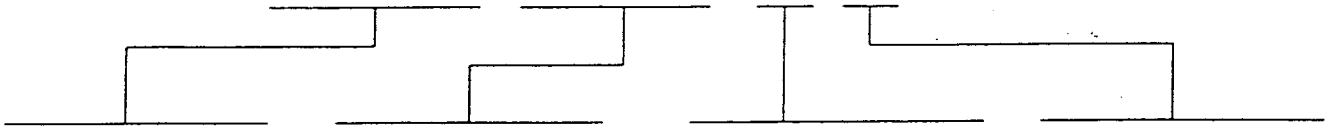
Type D Digital Card 3000 1 max 6000 2 max p/n 686011	Input/Output Ch 1
	Input/Output Ch 2
	Input/Output Ch 3
	Input/Output Ch 4
	Input/Output Ch 5
	Input/Output Ch 6
	Input/Output Ch 7
	Input/Output Ch 8
	Input/Output Ch 9
	Input/Output Ch 10
	Input/Output Ch 11
	Input/Output Ch 12

Type PSU Power 115vac & 24vdc Supply p/n 686018

Terms & Conditions for Domestic & Foreign Final Destinations: Prices: U.S. Dollars, EXworks **Validity:** 60 days on response to complete customer specification. Re-sellers subject to terms & conditions of Resale Confidentiality and Limited Use Agreement. **Delivery:** 4-6 weeks ARO Panel Mount, 6-8 weeks ARO for NEMA mounting. All deliveries subject to confirmation when ordered. Freight: Pre-paid & Add UPS Ground unless otherwise specified. Packing suitable for Airfreight. **Product specifications** are subject to change by manufacturer without notice. **Warranty:** Three(3) Years Limited (see Operational Manual for details.) **Payment:**Domestic- Net 20 days with Approved credit only. All other orders prepaid by "Banker's Draft" before shipment or Pre-Approved credit line against Standby Letter of Credit payable on demand at counters of Texas Commerce Bank N.A.,Houston. All charges for customer's account. Other terms by express agreement only. Foreign-Irrevocable, confirmed Letter of Credit, or prepaid by Banker's Draft before shipment, or pre-approved credit against Standby L/C - All Instruments are payableon demand at counters of Texas Commerce Bank, Houston in U.S. Dollars. All charges are for customers account. Other terms by express agreement only.Taxes and Duties:Not included. All local taxes, import duties and customs fees are for customer's account. Where EC is final destination, product tariff number is 84 71.

What The Model Number Means

Omni 6000 - 2A - 1B - 1E - 1D - 2S



Model Number -
The Omni 3000 is limited to 2 Combo modules,1 12 - channel digital I/O module and 1 dual - channel serial I/O module.
The Omni 6000 can accept up to 6 combo modules, 2 12 - channel digital I/O modules and 2 dual channel serial I/O modules.

Combo Modules Required -

'A' and 'H' modules provide 4 process inputs and 2 analog outputs. An 'A' module provides 4 analog inputs of which 2 can be pulse inputs and 2 can be 4-wire RTDs.

'B' modules provide 3 process inputs, 1 periodic time density pulse input and 1 analog output.

'E' modules provide 4 process inputs incl. 1 dual pulse input, 1 Double Chronometry Proving input and 2 analog outputs.

The Omni 3000 will accept a maximum of 2 combo modules.

Digital I/O Modules Required -

'1D' specifies 1 12 - channel digital I/O module.
'2D' is the **maximum** for any combination of inputs and outputs.

'1D' is **always** used when specifying an Omni 3000.

Serial I/O Modules Required -
'1S' specifies 1 dual - channel RS232-C serial module.
'2S' specifies 2 dual - channel RS232-C serial modules.

'2S' is the **maximum** available.

'1S' is **always** used when specifying an Omni 3000.

Specifying the Flow Computer Hardware

1) Determine the total number of combo modules ('A' + 'B' + 'E' + 'H' types) required by adding up the number of temperatures, pressures, densitometers, gravitometers, differential pressures, turbine/P.D. meter pick-offs to which you will be interfacing. Round the number up to the nearest increment of 4 and divide that number by 4. 'A' denotes a 4-input analog/pulse combo module. **'H' denotes a 4- input module used solely with Honeywell Smartline™ digital transmitters.**
2) If the number of combo modules required is **greater** than 2, select an Omni 6000.
3) The number of 'B' type combo modules you require is equal to the number of digital pulse densitometers with which you intend to interface.
4) The number of 'E' type combo modules you require is equal to the number of meter runs requiring **pulse fidelity checking,** and a Double Chronometry proving option (pulse interpolation method for Small Volume Provers). Two analog inputs and two pulse inputs are provided.
5) Two analog outputs per 'A', 'E' and 'H' modules and one per 'B' module are available..
6) Determine the number of digital I/O modules needed by adding up the number of digital I/O points you require. These include but are not limited to prover detector inputs, sampler pulse outputs, control outputs, alarm outputs and control inputs. Each module accepts 12 points. If more than 12 digital points are required, select an Omni 6000 model. 24 points is the **maximum** available.
7) The Omni 3000 is limited to **one** dual serial I/O module. The first port is dedicated to a printer.The Omni 6000 can accept up to two dual serial I/O modules. Three ports are Modbus-compatible.
8) The computer includes an AC/DC power supply suitable for use with 120 VAC or 16 to 30 VDC. When AC powered, the Omni 3000 provides a maxiimum of 65 0 mA at 24 VDC for powering the transducer loops. The Omni 6000 provides a maximum of 500 mA at 24 VDC.

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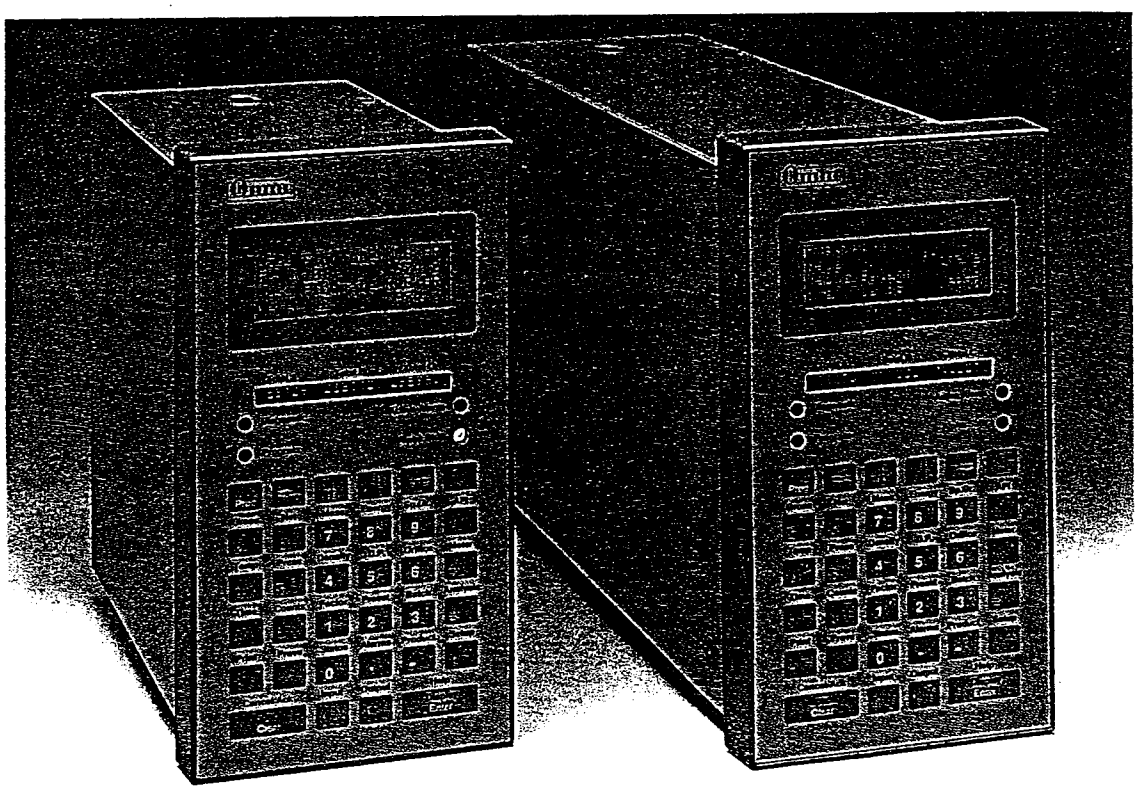
Omni

Omni Flow Computers

Technical Bulletin 9003

Liquid and Gas Measurement, Control and Communication for Pipelines, Terminals, Petrochemical and Process Plants



- Volumetric, mass and energy measurement
- User-assignable analog and pulse inputs, with dual-pulse error detection options
- Calculated or live flowing gravity or density, and selectable gravity engineering units
- 4-20 mA or Rtd temperature compensation for flow meter, gravitometer or densitometer
- Serial link for Gas Chromatograph data
- Meter fail, high/low flowrate and gravity alarms
- Automated batch tracking and product scheduling
- Automated proving, uni or bi-directional, or double chronometry or master meter
- User-configurable digital I/O and analog outputs for control and PID functions
- Programmable variables for user calculations and proprietary equations
- Multiple flow computers using one printer
- On-line configuration software and report formatting
- Stored reports, reprint functions and historical gas or liquid data storage
- User-configurable archive function
- Multi-port, high speed SCADA and PC links to assist inventory control and leak detection
- Configurable SCADA data packets and selectable protocols

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Introduction - Omni 3000™ and Omni 6000™ flow computers are reliable, easy-to-use, uniquely versatile instruments. They are usually factory programmed for single and multi-run configurations measuring crude oils, refined products, NGLs, LPGs, ethylene, propylene, natural gas, and specialty gases such as O_2, N_2, H_2, Ar, H_20, and CO_2.

Measurement of other flowing materials such as anhydrous ammonia can also be provided.

Extensive communications capability enables the Omni 6000 to be used in a variety of Master/Slave configurations for high-speed data transfer applications, and as a communication SubMaster.

The non-restrictive I/O bus system permits any combination of inputs and outputs to meet most measurement and control station requirements. The flow computer can also be hardware configured as a medium size RTU with significant digital I/O capability.

Totalizers - Gross, Net Volume and Mass totalizing are provided for individual meter runs. Cumulative non-resetting, daily and batch gross, net, mass totalizers are also provided.

Flow Weighted Averages - Flow weighted averages based on the gross flow rate for each meter run and total station or meter skid flow are maintained for temperature, pressure, density, and API gravity at 60°F, 15°C, 20°C & 30°C.

Liquid Products Capability - Information for sixteen products/customers can be handled. Products can range from crude oil, gasolines, jet fuels, diesel, fuel and lube oils, LPGs, ethylene and propylene.

The following information is stored for each product::

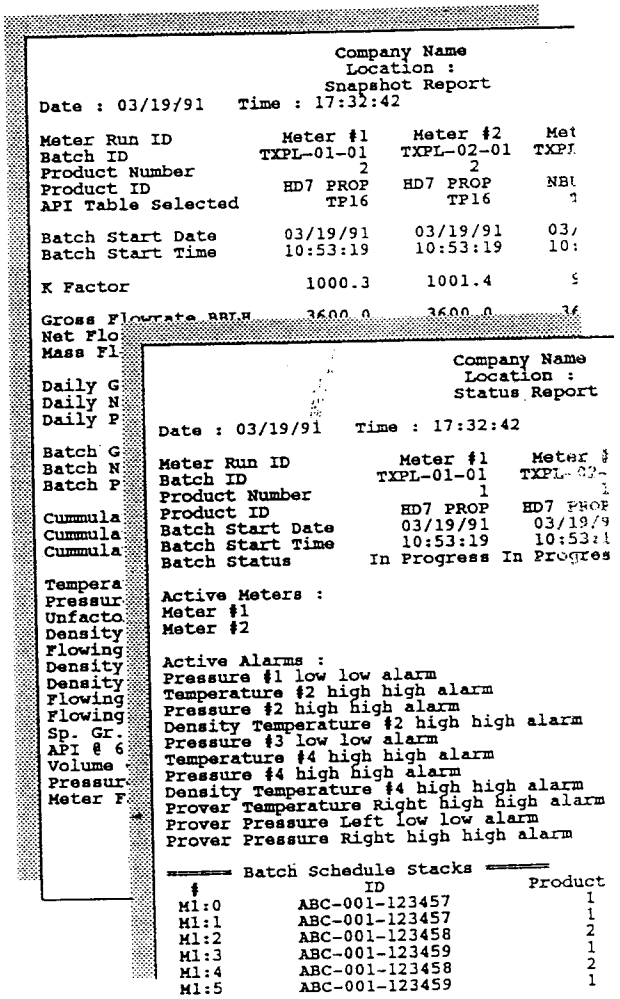
1) Product description
2) Meter factors to be used for each flowmeter
3) API Table(s) or calculations to be used
4) Override API gravity/density where applicable
5) Reference temperature

Product and Batch End Selection - Product and batch end selection are made via four digital status inputs to the flow computer, directly through the keypad, via a remote PC link, or through the SCADA ports. Batch scheduling, total, intermediate, end of batch presets can also be selected or changed. Product interface detection can also be used to implement a batch change.

Daily Operation - Batch totalizers and flow weighted averages are printed and reset at a user selected day start hour and also anytime a product is changed or batch end is selected.

Batching Operation and Features - Batch totalizers and flow weighted averages are printed and reset only when a batch end signal is activated. Daily printed snapshots still occur but do not reset the totalizers. In addition to the non-resetable cumulative totalizers, additional batch or daily totalizers are available. A batch schedule stack stores setup information for twenty-three future batches.

Product Interface Detection - A gravity rate of change limit is set to accurately detect the product interface. It is flowrate independent and can be set to allow for a longer interface or a smaller gravity delta. Automatic batch changes can be made. A digital output assigned to an 'interface detected' alarm can be wired to a digital input assigned to a 'batch end' command.



```
                          Company Name
                           Location :
                         Snapshot Report
Date : 03/19/91    Time : 17:32:42

Meter Run ID            Meter #1     Meter #2     Met
Batch ID              TXPL-01-01   TXPL-02-01   TXPL
Product Number                 2            2
Product ID              HD7 PROP     HD7 PROP     NBU
API Table Selected         TP16         TP16        1

Batch Start Date        03/19/91     03/19/91     03/
Batch Start Time        10:53:19     10:53:19     10:

K Factor                  1000.3       1001.4       9

Gross Flowrate BBLH      3600.0       3600.0       36
Net Flo
Mass Fl

Daily G
Daily N
Daily P

Batch G
Batch N
Batch P

Cummula
Cummula
Cummula

Tempera
Pressur
Unfacto
Density
Flowing
Density
Density
Flowing
Flowing
Sp. Gr.
API @ 6
Volume
Pressur
Meter F
```

```
                          Company Name
                           Location :
                         Status Report
Date : 03/19/91    Time : 17:32:42

Meter Run ID            Meter #1     Meter #
Batch ID              TXPL-01-01   TXPL-02-
Product Number                 1            1
Product ID              HD7 PROP     HD7 PROP
Batch Start Date        03/19/91     03/19/9
Batch Start Time        10:53:19     10:53:1
Batch Status          In Progress  In Progres

Active Meters :
Meter #1
Meter #2

Active Alarms :
Pressure #1 low low alarm
Temperature #2 high high alarm
Pressure #2 high high alarm
Density Temperature #2 high high alarm
Pressure #3 low low alarm
Temperature #4 high high alarm
Pressure #4 high high alarm
Density Temperature #4 high high alarm
Prover Temperature Right high high alarm
Prover Pressure Left low low alarm
Prover Pressure Right high high alarm

====== Batch Schedule Stacks ======
 #              ID              Product
 M1:0       ABC-001-123457          1
 M1:1       ABC-001-123457          1
 M1:2       ABC-001-123458          2
 M1:3       ABC-001-123459          1
 M1:4       ABC-001-123458          2
 M1:5       ABC-001-123459          1
```

Proving Features - Proving of a selected flowmeter pulse train is available. Full API MPMS Chapter 12 proving for Master Meter, Uni, Bidirectional provers, including Double Chronometry method for compact or reduced volume provers, can be user selectable. Mass proving-with coriolis mass meters can also be accomplished. Reports are printed with the option of a trial run or complete sequence. Proving is activated through the keypad, by a logic input, or via a remote PC link, or through the SCADA port. Temperature, pressure, and detector switch signals from the prover loop are also required when generating API MPMS Chapter 12 proving reports.

Meter Factor Changes - Meter factor changes are implemented on a retroactive basis. ie. any changes during a batch or a day automatically cause the net and mass totalizers to be adjusted to the beginning of the batch.

Flow Rate Changes - The flow rate is constantly monitored against the rate at which the meter was last proved. Automated proving can be undertaken upon a preset % rate of change limit being reached. When the new flow rate and process variables are stable, a prove sequence will be attempted. When complete, the new factor will be implemented.

Orifice Plate Changes - Orifice plate changes are recorded, time tagged, and show up in the audit report. Accumulated flow at the time of change is also captured.

API and AGA Equations Performed - The following API and AGA equations, algorithms, and tables, and their metric API or ISO equivalents are amongst the calculations that can be performed depending upon application, product or material selection, presence of live density, and type of flowmeter:

Liquids:

Temperature Correction: API 2540 23/24 (1952), 23/24A, 23/24B, 24C and metric equivalents

Pressure Correction: API MPMS 11.2.1 or 11.2.2, and for Equilibrium Vapor Pressure, GPA TP 15/16 and metric equivalents.

API 2565, MPMS11.3.3.2, NIST 1045 and IUPAC for calculated density for ethylene and propylene.

All calculations in full compliance with API MPMS Ch.12.2

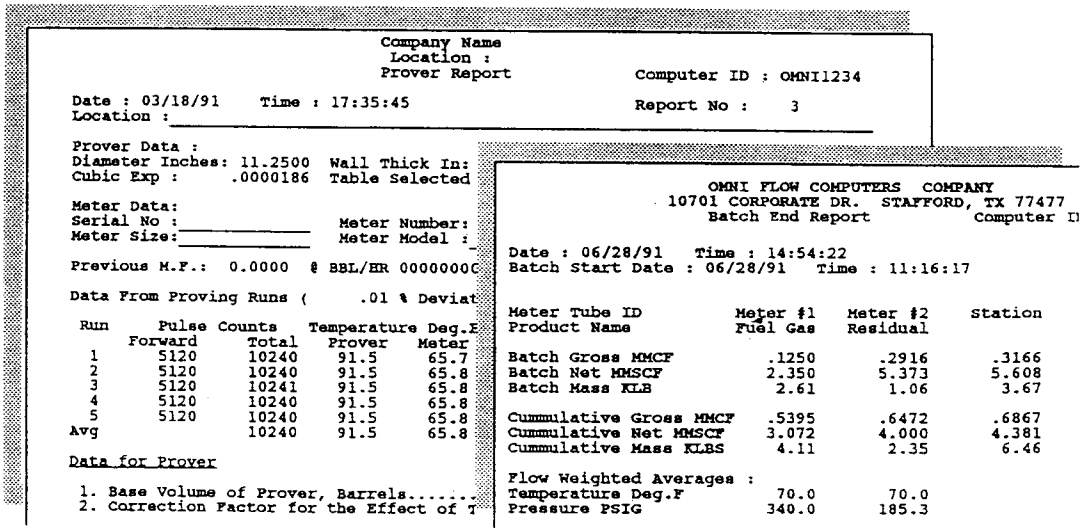
Gases:

AGA3/API2530, ISO 5167-1, GPA8185, AGA5, AGA7, AGA8, and NIST1048 for oxygen, nitrogen, steam, and hydrogen.

Printed Reports and Audit Trails -

Liquids - Reports can be printed on a daily, batch end, timed interval, on demand, on alarm. At the end of each contract day or batch, daily accumulated gross, net and mass flow, and flow weighted averages of temperature, pressure, density and API factors are printed automatically. Reprint and report storage capability is provided for 8 historical batches, 8 meter provings, and 150 alarm conditions.

Gases - Audit trails for gas flows storing 35 days, and more if required, of quarter-hour square rooted/flow weighted averages of Dp, Temperature and Pressure. Hourly flows, orifice plate size, alarm conditions and calculated Fb are also stored. At the end of each contract day, reports of daily accumulated flow, and flow weighted averages of Dp, temperature, pressure and AGA factors are printed automatically. Daily summary averages and flows, and monthly total flow are included in an automatically printed report at the calendar month-end.



```
                              Company Name
                               Location :
                              Prover Report                Computer ID : OMNI1234

Date : 03/18/91     Time : 17:35:45                        Report No :     3
Location :

Prover Data :
Diameter Inches: 11.2500  Wall Thick In:
Cubic Exp :      .0000186  Table Selected

Meter Data:
Serial No :                 Meter Number:
Meter Size:                 Meter Model :

Previous M.F.:  0.0000  @ BBL/HR 0000000C

Data From Proving Runs (      .01 % Deviat

 Run      Pulse Counts    Temperature Deg.F
       Forward     Total    Prover    Meter
  1       5120     10240     91.5      65.7
  2       5120     10240     91.5      65.8
  3       5120     10241     91.5      65.8
  4       5120     10240     91.5      65.8
  5       5120     10240     91.5      65.8
Avg                10240     91.5      65.8

Data for Prover

 1. Base Volume of Prover, Barrels.......
 2. Correction Factor for the Effect of T
```

```
                    OMNI FLOW COMPUTERS  COMPANY
                 10701 CORPORATE DR.  STAFFORD, TX 77477
                      Batch End Report              Computer I

Date : 06/28/91    Time : 14:54:22
Batch Start Date : 06/28/91    Time : 11:16:17

Meter Tube ID          Meter #1    Meter #2     Station
Product Name           Fuel Gas    Residual

Batch Gross MMCF          .1250       .2916       .3166
Batch Net MMSCF           2.350       5.373       5.608
Batch Mass KLB             2.61        1.06        3.67

Cummulative Gross MMCF    .5395       .6472       .6867
Cummulative Net MMSCF     3.072       4.000       4.381
Cummulative Mass KLBS      4.11        2.35        6.46

Flow Weighted Averages :
Temperature Deg.F          70.0        70.0
Pressure PSIG             340.0       185.3
```

Configurable Report Formats - Using the OmniCom® PC software, users can define their own report templates for a range of reports including meter and batch tickets. These can then be uploaded to the Omni. Default formats remain resident as standard.

Stored Data - All reports are stored for re-printing at any time on demand. Historical audit trail data can be requested for a liquid batch or proving and is dependent upon entering the appropriate sequence number. Historical gas audit trail data can be requested on a calendar month basis or for any number of days and/or hours.

A Configuration data report showing the current computer set-up can be printed on demand. A current snapshot of all flowrates, accumulations, process input values and calculated factors can be printed on request or at a timed interval.

Event and Historical Alarms - Liquids - The last 150 occurrences can be time tagged and recorded. Data configuration changes show up with the user ID number. The accumulated gross, net and mass flow are also captured at each alarm occurrence. A report of each alarm can be automatically printed out as it occurs.

Gases - The last 150 events and the last 150 alarm occurrences are time tagged and recorded. Data configuration changes show up with the user ID number. The accumulated flow is also captured at each alarm occurrence which can be individually printed out automatically as it occurs.

Printer Interface - A dedicated port connects to a printer. All reports can be accessed. All changes are recorded in the event log. Multiple computers can share a common RS232 printer, PC or SCADA host.

Personal Computer Interface - A second serial port connects directly or via a modem to a PC. In addition, on-line entry of configuration data, and calibration of field instruments, meter factor and orifice plate changes can be achieved from the PC with OmniCom® interactive software.

SCADA/DCS Protocols - All data is available via dedicated ports for communication to SCADA/DCS. Any standard Baud rate up to 19.2 KBd can be selected. Standard protocol implements a subset of the Modbus™ binary oriented RTU and ASCII oriented protocols, which can be specified for custom implementation.

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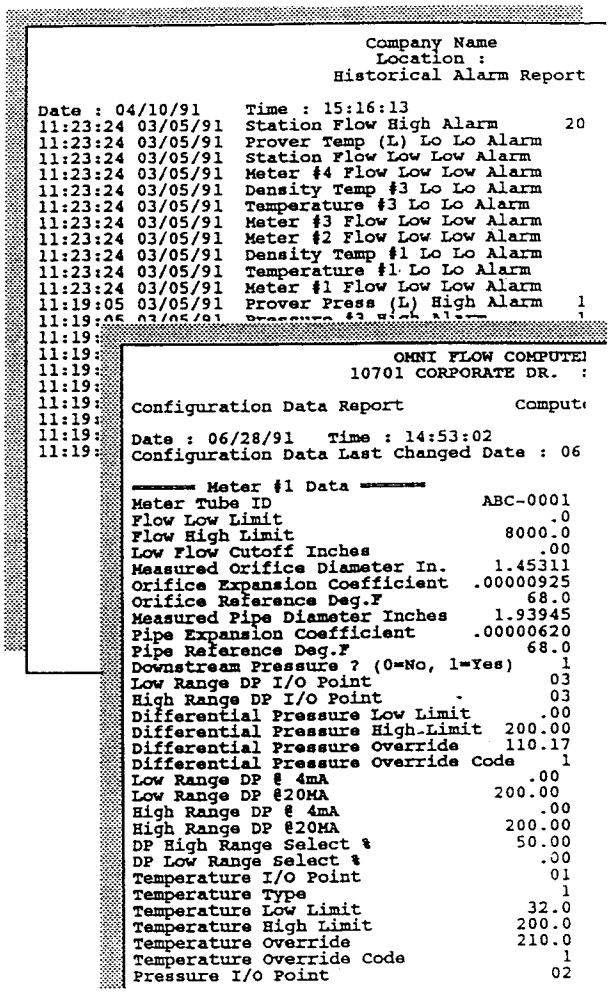

```
                                Company Name
                                 Location :
                            Historical Alarm Report

Date : 04/10/91     Time : 15:16:13
11:23:24 03/05/91  Station Flow High Alarm       20
11:23:24 03/05/91  Prover Temp (L) Lo Lo Alarm
11:23:24 03/05/91  Station Flow Low Low Alarm
11:23:24 03/05/91  Meter #4 Flow Low Low Alarm
11:23:24 03/05/91  Density Temp #3 Lo Lo Alarm
11:23:24 03/05/91  Temperature #3 Lo Lo Alarm
11:23:24 03/05/91  Meter #3 Flow Low Low Alarm
11:23:24 03/05/91  Meter #2 Flow Low Low Alarm
11:23:24 03/05/91  Density Temp #1 Lo Lo Alarm
11:23:24 03/05/91  Temperature #1 Lo Lo Alarm
11:23:24 03/05/91  Meter #1 Flow Low Low Alarm
11:19:05 03/05/91  Prover Press (L) High Alarm    1
11:19:05 03/05/91  Pressure #3 High Alarm         1
11:19:
11:19:                          OMNI FLOW COMPUTEI
11:19:                       10701 CORPORATE DR.  :
11:19:
11:19:  Configuration Data Report                 Computi
11:19:
11:19:  Date : 06/28/91    Time : 14:53:02
11:19:  Configuration Data Last Changed Date : 06

        ======= Meter #1 Data =======
        Meter Tube ID                          ABC-0001
        Flow Low Limit                               .0
        Flow High Limit                         8000.0
        Low Flow Cutoff Inches                       .00
        Measured Orifice Diameter In.           1.45311
        Orifice Expansion Coefficient         .00000925
        Orifice Reference Deg.F                     68.0
        Measured Pipe Diameter Inches           1.93945
        Pipe Expansion Coefficient            .00000620
        Pipe Reference Deg.F                        68.0
        Downstream Pressure ? (0=No, 1=Yes)            1
        Low Range DP I/O Point                        03
        High Range DP I/O Point                       03
        Differential Pressure Low Limit              .00
        Differential Pressure High Limit          200.00
        Differential Pressure Override            110.17
        Differential Pressure Override Code            1
        Low Range DP @ 4mA                           .00
        Low Range DP @20MA                        200.00
        High Range DP @ 4mA                          .00
        High Range DP @20MA                       200.00
        DP High Range Select %                     50.00
        DP Low Range Select %                        .00
        Temperature I/O Point                         01
        Temperature Type                               1
        Temperature Low Limit                       32.0
        Temperature High Limit                     200.0
        Temperature Override                       210.0
        Temperature Override Code                      1
        Pressure I/O Point                            02
```

Online Configurable SCADA Data Packets - Although the data base order of the flow computer is defined by OMNI, you can configure individual pre-defined data packets. This minimizes the number of polls required by the host computer and provides for the fastest possible update time.

Data Security and On-line Configuration - Configuration and calibration data needed by the flow computer can be changed dynamically online without loss of data or measurement function. User selectable passwords, a secure privileged user password to lockout non-privileged users, an internal keyswitch program lockout, and an exterior wireseal (or optional lock) provide a choice of security.

*Specifications subject to change by manufacturer without notice due to modifications or improvements.

Limited warranties apply to the use of the equipment.

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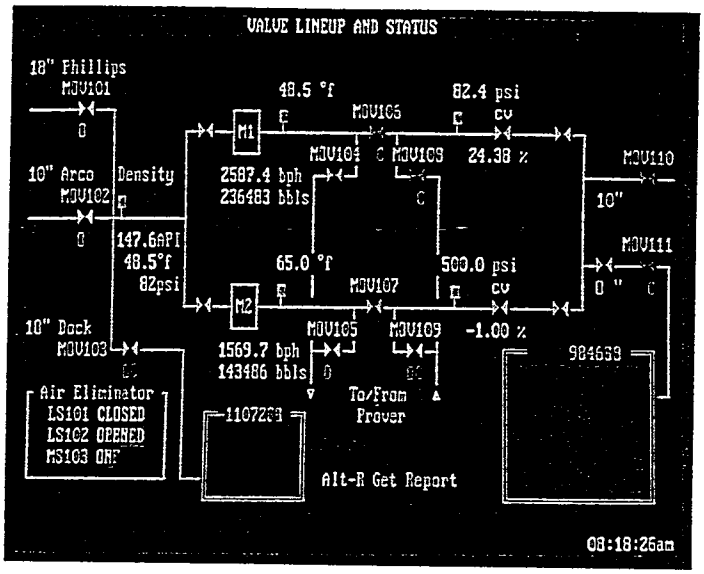
Omni Flow Computers, Inc
10701 Corporate Drive, Suite 300, Stafford, Texas 77477 Phone: 713-240-6161 Fax: 713-240-6162
E-Mail: dromni@aol.com 102675.2143@compuserve.com

OmniView® Man-Machine Interface



The next logical step towards a Complete, Inexpensive, Liquid & Gas Metering Solution is . . .

. . . Real-time Operator Software for Local/Remote Surveillance

Features

- Creates screens to display data variables
- Sends commands and retrieves reports
- Displays valve status
- Meter proving and batch scheduling
- Remote calibration of I/O
- Displays flow and pressure control variables
- Displays data and alarms in real-time
- Retrieves archived data from flow computer
- Direct or modem connect for access to multiple flow computers

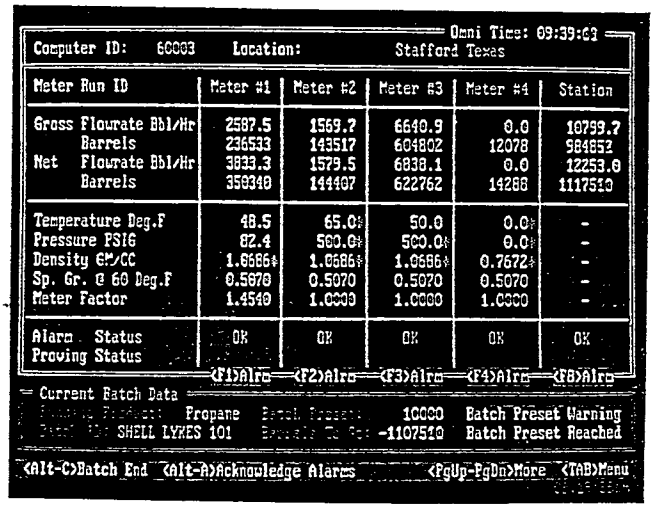
Introduction

OmniView® MMI (Man-Machine Interface) is a MS DOS-based, general-purpose utility program operating in text-mode for use with Omni flow computers/ controllers. It offers a low-cost solution for operating personnel who need real-time measurement data from liquid or gas metering sites.

An OmniView program is a complete, configurable package. Screens consist of ASCII text and line graphics which the user creates and edits using an external text editor. Formal programming expertise is not required but computer literacy is essential. The user has complete access to the flow computer's Modbus™ data base. Dynamic data can be configured via menu selections and dialog boxes.

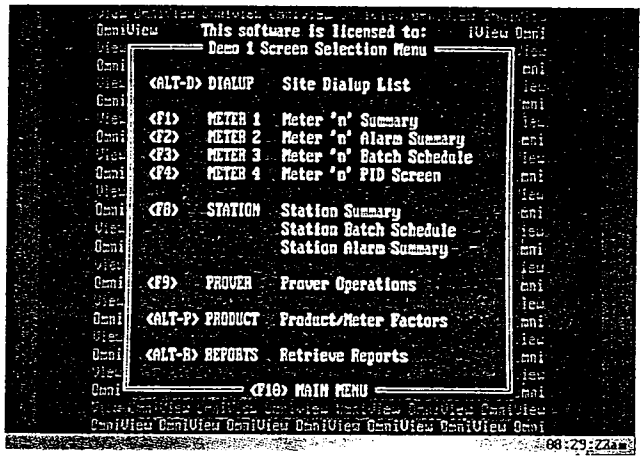
Run-Time System

Omni provides sample color screens for the user to build upon for real-time data, alarms and commands. Tasks such as gravity, meter factor, orifice diameter or gas analysis data changes can be entered for the flowing material. Access to the flow computer's batch scheduling capability is provided. This allows the operator to edit the sequence of anticipated product batches including adding or deleting a batch, editing product and batch size data.



© Copyright 1995 Omni Flow Computers, Inc

A simple command via OmniView can initiate a full proving sequence or end of batch of the selected meter using the automated batching and proving capabilities of the Omni flow computer. Screens can simultaneously display data from multiple flow computers.



Report Generation

Any reports or archive data stored in the flow computer can be retrieved for viewing, storing to disk or printing by OmniView. These include historical alarm and event logs, meter proving, batch and daily reports, and configuration logs.

Valve Lineup and Status

Text character displays can be setup to show the piping configuration, with real-time data displayed for process variables such as flow rates, totalizers, temperatures, pressure, gravities, and batch preset counters. Valve open/close status can be indicated. Batch end, control valve position, meter and prover lineups can be initiated.

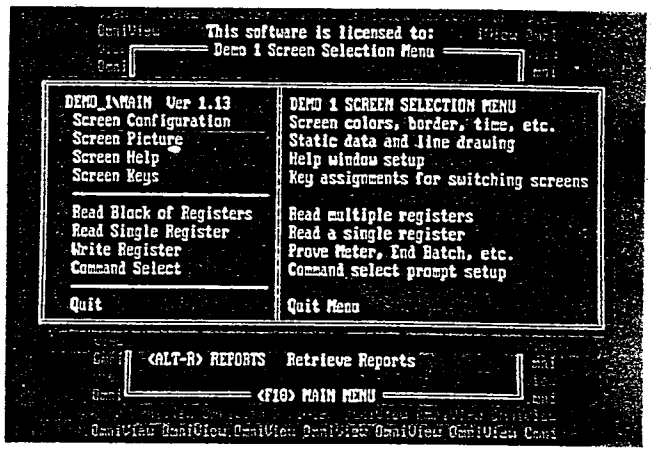
Valve control and sequencing can be provided by an Omni or by using a PLC as extended I/O.

Alarms

When the Omni flow computer detects alarms, user-built screens can provide message displays and cause audible alarms to be activated. These can be acknowledged through OmniView by the operator. Sample screens are provided that can be readily enhanced to meet individual requirements.

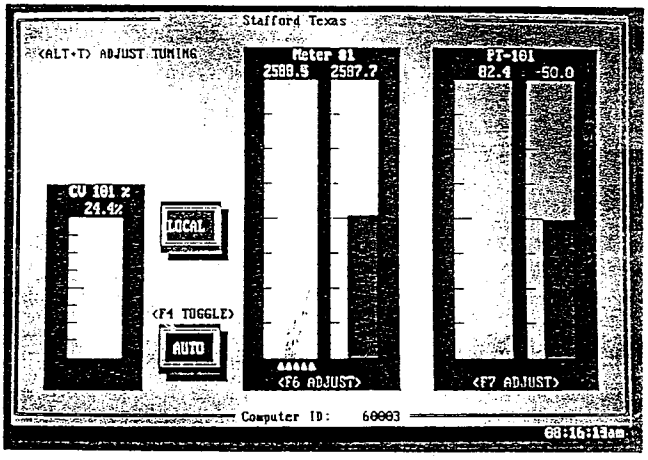
User Configuration

OmniView allows a user to custom design or modify data entry screens to fit specific application needs. Capabilities include reading dynamic data, displaying static text, color selection, positioning data fields, alarms, and command functions.



Flow Control

Dynamic bar graph displays can show both measurement and setpoint values for primary and secondary variables. Setpoint changes can be made in either a manual or remote mode. Changes are instantly reflected on the display screen.



Remote Calibration

This feature is an invaluable tool for a technician during field instrument calibrations. He can perform remote calibration of flow computer inputs/outputs without being physically present at the computer.

Dial-up Access

Real-time security access to multiple flow computers via the OmniView dial-up feature is also available. Communication to 19200 Baud is supported.

Support

Quality technical support is our watchword. If you need assistance, we're only a phone or modem call away.

Omni Flow Computers, Inc
10701 Corporate Drive, Suite 300, Stafford, Texas 77477 Phone:713-240-6161 Fax: 713-240-6162
E-Mail: dromni@aol.com 102675,2143@compuserve.com

C'extral files - 1700

Shell Offshore Inc.
An affiliate of Shell Oil Company

One Shell Square
PO Box 61933
New Orleans LA 70161-1933
(504) 588-6161

Exploration and Production
Deepwater Division

5/31/96 Passed on
MC 807 'A' GAS Computer
SR# Allen Bradley PLC
model 5-40
96141479-UPS-STOIX 2 BA
to Carl Walker

May 21, 1996

Mr. Mike Melancon
Regional Supervisor
Production and Development
Minerals Management Service
1201 Elmwood Park Boulevard
New Orleans, LA 70123-2394

Dear Mr. Melancon:

SUBJECT: COMMINGLING AND MEASUREMENT OF NEW PRODUCTION FROM THE MISSISSIPPI CANYON BLOCK 807 UNIT
UNIT AGREEMENT NUMBER 754393002, COMPRISING PORTIONS OF THE FOLLOWING LEASE BLOCKS:
SE/4 MISSISSIPPI CANYON BLOCK 762, OCS-G 7957
S/2 MISSISSIPPI CANYON BLOCK 763, OCS-G 7958
E/2 MISSISSIPPI CANYON BLOCK 806, OCS-G 7962
MISSISSIPPI CANYON BLOCK 807, OCS-G 7963
NE/4 MISSISSIPPI CANYON BLOCK 850, OCS-G 9881
N/2 MISSISSIPPI CANYON BLOCK 851, OCS-G 9882

Shell Offshore Inc. herein requests your approval of the equipment and procedures outlined below planned for use in the measurement, for sales and royalty purposes of fluid hydrocarbon production from the MC 807 Unit. Contingent upon your approval, we plan to begin production and measurement of fluid hydrocarbons based on these procedures on or about June 20, 1996. You should be aware that upon start-up of the facilities the 30" Mississippi Canyon Gas System (MCGS) pipeline may have not yet been commissioned. In that event total gas and associated retrograde fluids will temporarily be transported to the Warren Plant in Venice, Louisiana via the 12" TETCO lateral discussed below.

Additionally, please be advised that the gas measurement equipment and procedures we plan to use during the first year after start-up of the Mars Development will not involve SOI's use of most of the allocation meters located on our dedicated equipment on the WD 143 "A" Platform. However, all meters on WD 143 that will be discussed in this letter will be clearly identified in the attachments. As other developments begin producing into this new system (1997), SOI will modify the procedures discussed in this Plan to activate these "out-of-service" meters as the particular circumstances dictate.

Fluid hydrocarbons from the various MC 807 Unit wells (one being a remote sub-sea well location) will be produced to a manifold on our, currently being installed, Mars Tension Leg Platform designated as MC 807 "A". Once on MC 807 "A" the fluids will be separated and processed through the onboard facilities before shipment to shore through the newly installed Gas and Liquid Pipelines operated by Shell Gas Pipeline Company (SGPC) and Shell Pipe Line Corporation (SPLC), respectively.

Processed liquid hydrocarbon production from the MC 807 Unit will be measured, for sales and royalty purposes by three LACT Units, described in detail in the attachments, before that production is pumped into the aforementioned SPLC 18" Oil Pipeline for transportation to Chevron's Fourchon, Louisiana Terminal.

Liquid hydrocarbon production will be allocated back from these LACT Units to the MC 807 Unit and lease areas based on periodic well tests, taken at least once every other month, in conjunction with MMS approved Unit Participation Factors. Please be advised that we have not yet submitted our estimation of these factors for approval; however, we expect that this information will be submitted and approved prior to start-up of the facility.

Processed, dehydrated gas production from the MC 807 Unit will be measured by twin 10" Daniels Senior Orifice Meters each connected to a flow computer for electronic measurement. These meters will be the basis for ultimate Sales and Royalty determination. Measured gas production will flow through a 14" SGPC pipeline to their WD 143 "A" Platform where the gas production will enter a dedicated slug catcher where retrograde liquids will be removed prior to the gas being measured at the gateway to either the 30" MCGS Pipeline or the 12" SGPC lateral connected to the existing TETCO Pipeline System.

While each of these gas pipelines flow into separate and distinct areas of the Warren Gas Plant located in Venice, Louisiana; you should be aware that regardless of the transportation system used, SOI is reserving the right to process its gas at the Warren Plant.

All retrograde liquids delivered to WD 143 "A" will be re-injected into the 30" MCGS Pipeline for transportation to the Warren Gas Plant, where the gas and any remaining retrograde liquids (that have not yet re-vaporized) will enter directly into the plant process. Additionally, any retrograde liquids falling out of the gas stream and recovered on the TETCO system will be measured for sales and royalty purposes by a (soon to be submitted for approval) royalty tank located in the confines of the Warren Plant. This commingled volume and gravity (less any offshore liquid volumes which were measured, for sales and royalty purposes, prior to being injected into the system) will be allocated

back to the various gas injectors based on gas analysis readings taken of their respective gas streams. In this situation the retrograde liquid volume attributable to Mars will be based on the gas sample taken of the Mars gas stream measured by the WD 143 "A" TETCO System gateway meter(s).

Similar to liquids, gas hydrocarbon (including any retrograde liquids associated with the TETCO Pipeline) production will be allocated back to the MC 807 Unit and lease areas based on periodic well tests taken at least once every other month, in conjunction with MMS approved Unit Participation Factors. Again, please be reminded that we have not yet submitted our estimation of these factors for approval; however, we expect that this information will be submitted and approved prior to start-up of the facility.

To aid you in your review of this application, we are including the following attachments:

1. Liquid Transportation Route to Shore
2. Gas Transportation Overview to Shore (Present and Future)
3. Process and Safety Analysis Flow Diagrams - MC 807 "A"
4. Listing of MC 807 "A" Gas and Liquid Meter Types, Sizes, Associated Recording Devices and Serial Numbers.
5. Detailed Design Drawings - LACT Units
6. Prover Calibration Report
7. Composite Simplified Process Schematic - WD 143 "A"
8. Listing of Current and Proposed WD 143 Liquid Meter Types, Sizes, and Serial Numbers

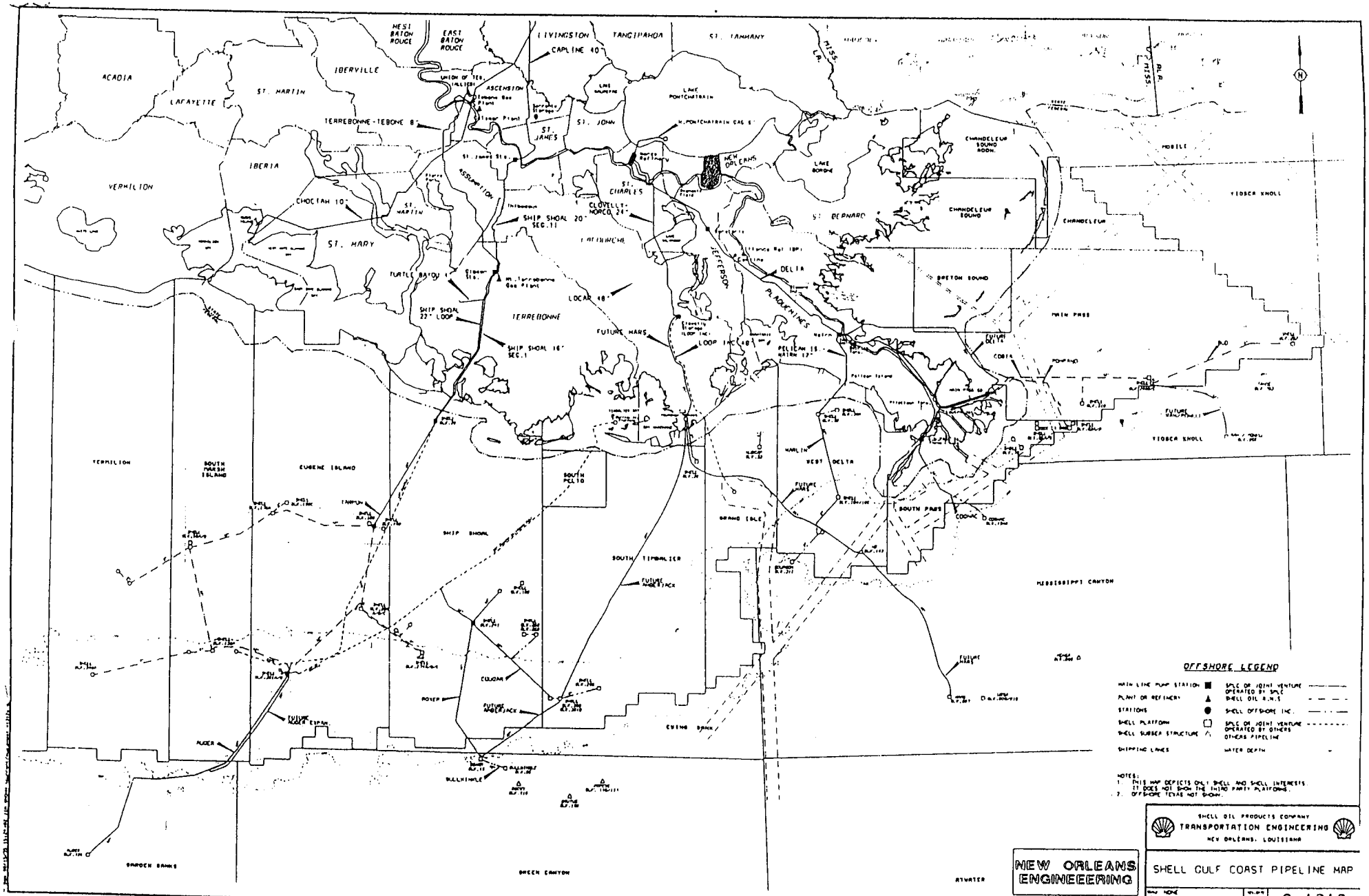
Should you have any questions regarding this matter, please contact Mr. Andy Burglass at (504) 588-6012.

Yours truly,

Peter K. Velez
Manager Regulatory Affairs
E&P - Shelf Division

Attachments

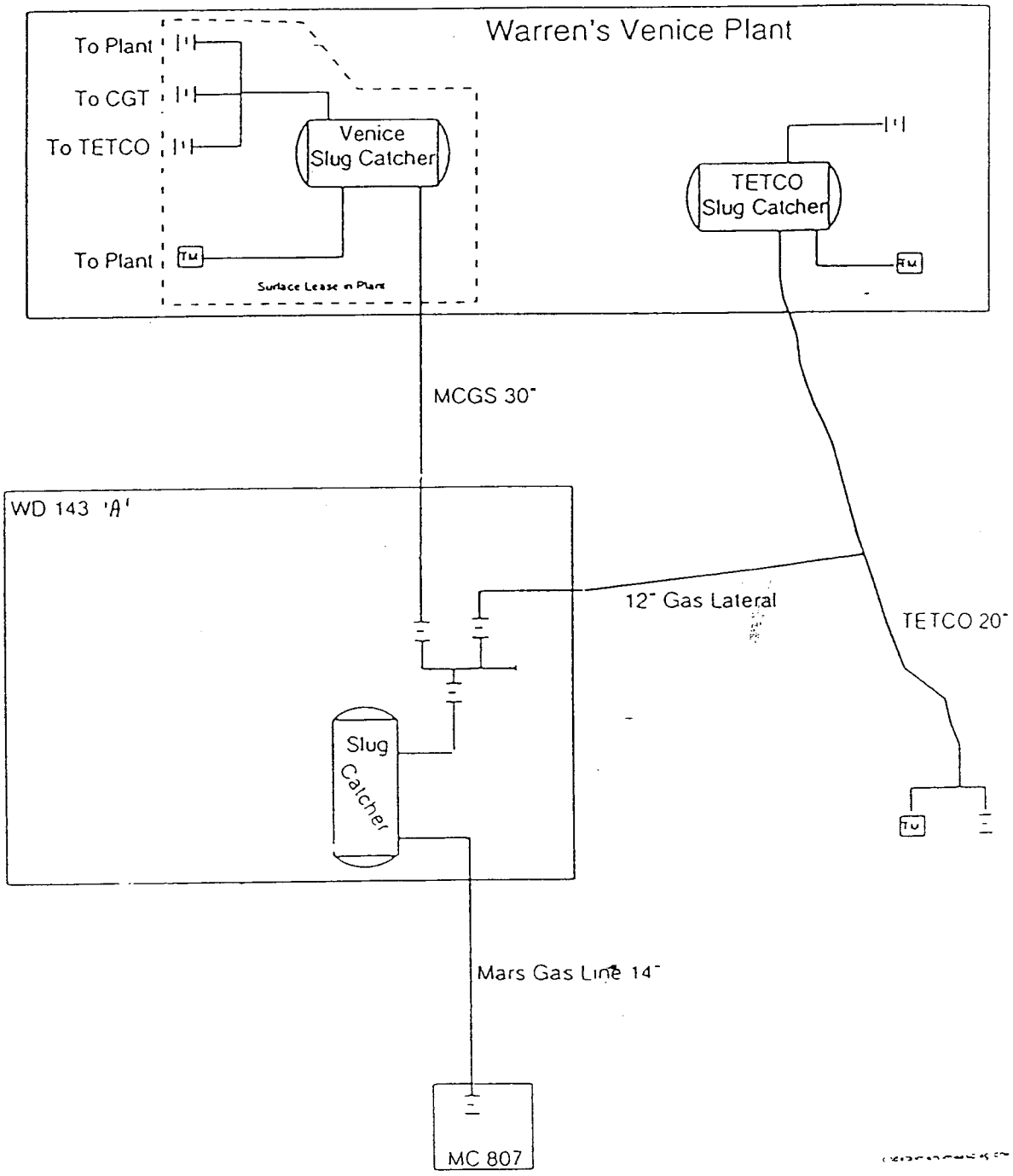
BCC: J. F. Moore
A. M. Schneider
M. A. Curole
R. M. Rainey
M. C. Ecklund (SSC - Houston)
G. M. Flores (SSC - Houston)
N. M. Pasvantis
Foremen - Mars Platform



ACADIA
LAFAYETTE
ST. MARTIN
IBERVILLE
WEST BATON ROUGE
EAST BATON ROUGE
LIVINGSTON
TANGIPAHOA
ST. TAMMANY
CAPLINE 40"
ASCENSION
TERREBONNE-TEBONE 8"
ST. JAMES
ST. JOHN
LAKE PONTCHATRAIN
NEW ORLEANS
LAKE BORGNE
CHANDELEUR SOUND ADDN.
MOBILE
YIOSCA KNOLL
IBERIA
VERMILION
CHOCTAW 10"
ST. MARTIN
ASSUMPTION
ST. CHARLES
CLOVELLY-NORCO 24"
SHIP SHOAL 20" SEC.11
ST. BERNARD
CHANDELEUR SOUND
CHANDELEUR
ST. MARY
LAFOURCHE
JEFFERSON
DELTA
BRETON SOUND
TURTLE BAYOU
LOCAR 48"
PLAQUEMINES
MAIN PASS
SHIP SHOAL 22" LOOP
TERREBONNE
FUTURE HARS
LOOP INC. 48"
PELICAN IS. NATRN 12"
FUTURE DELTA
COBIA
POMPANO
SHIP SHOAL 16" SEC.1
YIOSCA KNOLL
VERMILION
SOUTH MARSH ISLAND
EUGENE ISLAND
SOUTH PELTO
WEST DELTA
SOUTH PASS
GRAND ISLE
SHIP SHOAL
SOUTH TIMBALIER
FUTURE AMBERJACK
MISSISSIPPI CANYON
COUGAR
ROYER
FUTURE AUGER EXPAN.
AUGER
EWING BANK
BULLWINKLE
GARDEN BANKS
GREEN CANYON
ATWATER
OFFSHORE LEGEND
MAIN LINE PUMP STATION
PLANT OR REFINERY
STATIONS
SHELL PLATFORM
SHELL SUBSEA STRUCTURE
SHIPPING LANES
SPLC OR JOINT VENTURE OPERATED BY SPLC
SHELL OIL R.N.S.
SHELL OFFSHORE INC.
SPLC OR JOINT VENTURE OPERATED BY OTHERS
OTHERS PIPELINE
WATER DEPTH
NOTES:
1. THIS MAP DEPICTS ONLY SHELL AND SHELL INTERESTS. IT DOES NOT SHOW THE THIRD PARTY PLATFORMS.
2. OFFSHORE TEXAS NOT SHOWN.
NEW ORLEANS ENGINEEERING
SHELL OIL PRODUCTS COMPANY
TRANSPORTATION ENGINEERING
NEW ORLEANS, LOUISIANA
SHELL GULF COAST PIPELINE MAP
S-1312

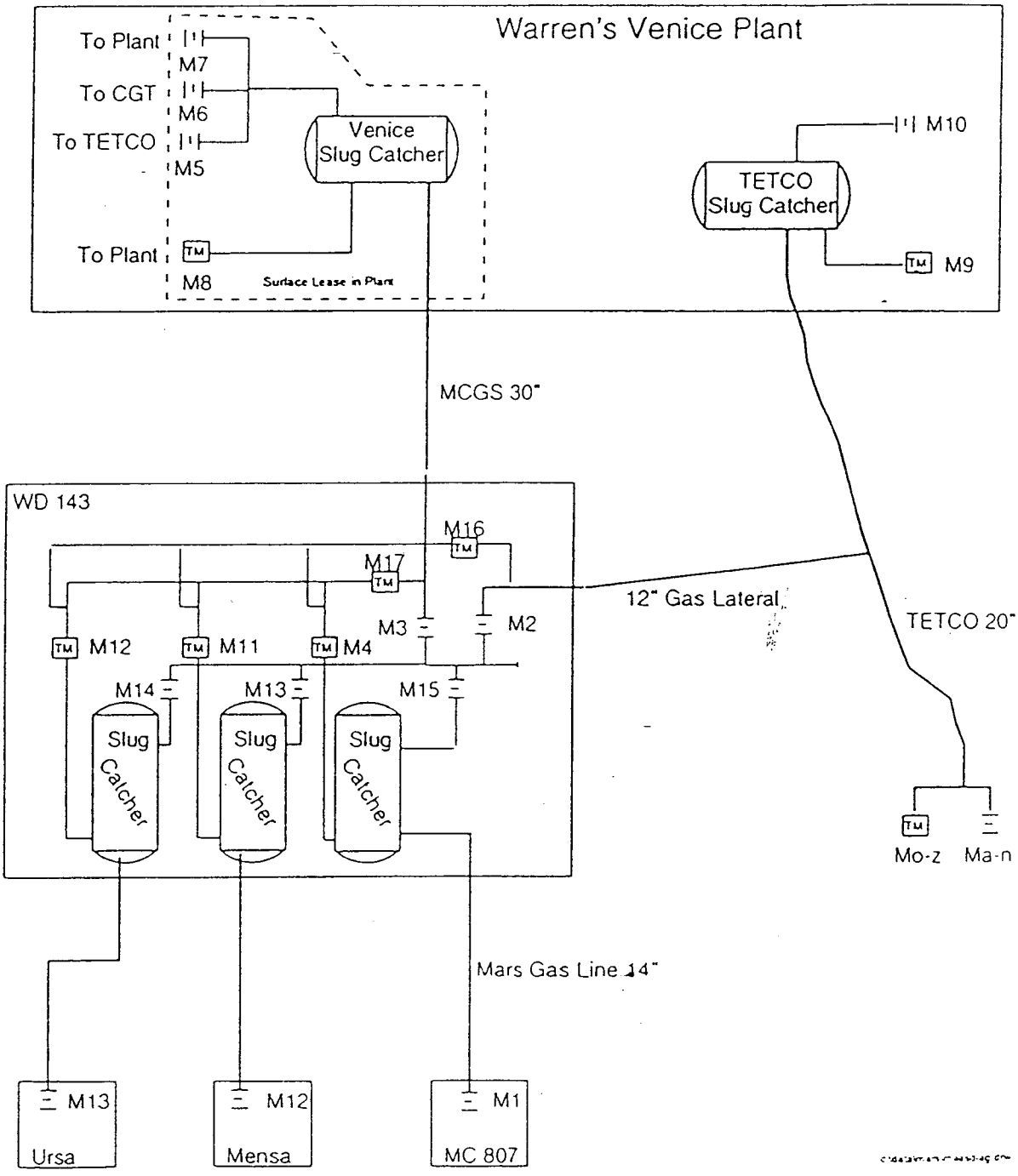
Mars/MCGS Measurement Plan

CURRENT



Mars/MCGS Measurement Plan

FUTURE



PIPING AND INSTRUMENT SYMBOLS

- ANALOG SIGNAL (4-20MA OR PULSE)
- DISCRETE SIGNAL (LS, PS, TS ETC.)
- COMMUNICATION LINK
- MECHANICAL LINK
- MAJOR PROCESS LINE
- FLOW LINE
- OBJECT LINE
- TUBING (HYDRAULIC)
- TUBING (PNEUMATIC)
- FLEXIBLE HOSE
- SKID LIMITS
- VESSEL INTERNALS
- ANGLE VALVE
- BALL VALVE
- BUTTERFLY VALVE
- CHECK VALVE (FULL BODY)
- CHECK VALVE (WAFER BODY)
- GATE VALVE
- GLOBE VALVE
- MANIFOLD (GAUGE) VALVE /WITH BLEEDER
- NEEDLE VALVE
- PLUG VALVE
- THREE PORT VALVE (MANUAL)
- DIAPHRAGM VALVE
- CONTROL VALVE
- CONTROL VALVE (W/POSITIONER)
- SHUTDOWN OR BLOWDOWN VALVE
- SELF CONTAINED CONTROL VALVE (REGULATOR)
- RELIEF VALVE (SPRING OPER.)
- RELIEF VALVE (PILOT OPER.)
- RELIEF VALVE (RUPTURE PIN)
- SOLENOID VALVE
- ACTUATED VALVE WITH MANUAL OPERATOR
- POSITIVE CHOKE (FCV)
- ADJUSTABLE CHOKE (FCV)
- INLINE ADJUSTABLE CHOKE (FCV)
- IN-LINE POSITIVE CHOKE (FCV)
- HAND CONTROL VALVE (HCV)
- AUTOMATIC DRAIN (TRAP)
- AIR RELEASE HEAD
- FLAME ARRESTOR
- PRESSURE-VACUUM RELIEF VALVE (PALLET TYPE)
- PRESSURE RELIEF VALVE (PALLET TYPE)
- VACUUM RELIEF VALVE (PALLET TYPE)
- LINE NO./SPEC. BRK
- QUICK CONNECT (FEMALE)
- QUICK CONNECT (MALE)
- UNIVERSAL HOSE COUPLING
- HINGED CLOSURE
- POSITIVE DISPLACEMENT METER
- TURBINE METER
- VORTEX METER
- SENIOR ORIFICE
- ORIFICE FLANGES
- ROTAMETER
- EXPANSION JOINT
- Y-STRAINER
- TEE STRAINER
- BASKET STRAINER
- QUICK BREAK CONNECTION (UNIBOLT,GRAYLOC,ETC.)
- SCREWED CONNECTION
- WELDED CONNECTION
- WELDED CONNECTION (FIELD WELD)
- INSTRUMENT FLANGE
- FLANGE
- SOCKET WELD
- UNION
- CAP
- BULL PLUG
- PLUG
- CUSHION FLOW TEE
- REDUCER (CONCENTRIC)
- REDUCER (ECCENTRIC)
- SPECTACLE BLIND
- INSULATION (HC-HEAT CONSERVATION)
- INSULATION (PP-PERSONNEL PROTECTION)
- TRANSFORMER
- SIGHT GLASS
- CALIBRATION BAR
- BACKFLOW PREVENTOR
- SWIVEL FLANGE △
- DRAIN CUP

LINE DESCRIPTION

PL-0114-080-A — CLASS / PIPE SCHEDULE / LINE NUMBER / SERVICE / LINE SIZE

LINE SERVICE IDENTIFICATION

AB	BULK AIR	9000-9009
AF	AFFF FOAM	9590-9599
AI	AIR INSTRUMENT	2600-2674
AR	RIG AIR	9010-9019, 9030-9059
AS	AIR START	2760-2769, 9020-9029
AU	AIR UTILITY	2675-2759
BC	BULK CEMENT	9060-9069
BM	BULK MUD	9090-9099
CD	CUTTINGS DISCHARGE TO ATMOSPHERE	9170-9179
CH	CHEMICAL	2000-2024
DCS	DRAIN-CEMENT SLURRY	9150-9169
DD	DIVERTER DISCHARGE	9180-9199
DM	DRAIN-MUD	9120-9149
DSB	DRAIN-SEWAGE (BLACK WATER)	9260-9269
DSG	DRAIN-SEWAGE (GRAY WATER)	9270-9279
DC	DRAIN - CLOSED	9200-9219
DF	DIESEL FUEL	△ 2487-2519
DO	DRAIN - OPEN	0400-0499, 2800-2899, 9100-9119, 9220-9227, 9286-9309, 9320-9339, 9390-9399, 9820-9839, 9880-9899
EXH	EXHAUST	1336-1345
GD	GLYCOL DRY/LEAN	2475-2486 △
GF	GAS FUEL	2400-2424
GL	GAS LIFT	0700-0734
GW	GLYCOL WET/RICH	2425-2449
GP	GAS PAD	2450-2474
HCF	H.P. COMPLETION FLUIDS	9280-9285
HPH	H.P. HYDRAULIC	9800-9819
HI	HYDRATE INHIBITOR	2025-2049
HPC	H.P. CEMENT	9310-9319
HPM	H.P. MUD	9340-9359
IO	INHIBITOR OIL	9580-9589
JF	JET FUEL	2520-2529
JW	JACKET WATER	2066-2074
LCF	L.P. COMPLETION FLUIDS	9440-9449
LO	LUBE OIL	2075-2099, 9840-9849
LPH	L.P. HYDRAULIC	9850-9859
LPG	L.P. GLYCOL	9360-9369
LPM	L.P. MUD	9370-9389
MR	MUD RETURN	9400-9429
N2	NITROGEN	9900-9999
PF	PROCESS FLUID	0001-0049, 1001-1049
PL	PROCESS LIQUID	0100-0199, 1100-1199
PV	PROCESS VAPOR	0250-0299, 1250-1299
PW	PROCESS WATER	0200-0249, 1200-1249
SC	STEAM CONDENSATE	2575-2599
SV	STEAM VAPOR	2550-2574
VA	VENT TO ATMOS.	0300-0345, 1300-1335, 9450-9459
VC	VENT-CEMENT TO ATMOS.	9440-9449
VDF	VENT - DRILLING TO FLARE	9750-9789
VF	VENT TO FLARE	0346-0399, 1346-1399
VW	VENT-MUD TO ATMOS.	9430-9439
WB	BALLAST WATER	9500-9549
WBO	BILGE WATER-OILY	9650-9689
WC	COOLING WATER	2300-2349
WD	DRILL WATER	9700-9749
WF	FIREWATER	2100-2239, 9565-9579, 9600-9619
WH	HEAT MEDIUM	2770-2799, 9790-9799
WI	WATERFLOOD	1900-1999
	FRESH WATER	2825-2999, 9970-9989, 9620-9649
WPD	DRINKING WATER	9990-9999
WS	UTILITY SEAWATER	2900-2924, 9070-9089, 9550-9564
WW	WASH WATER	2240-2299, 2350-2399

PROGRAMMABLE LOGIC CONTROLLER (PLC) LIST

PLC SYMBOL	DESCRIPTION
HSW	SW HULL COLUMN
HSE	SE HULL COLUMN
QTR	QUARTERS MODULE CONTROL & MASTER PANEL
PWR	POWER MODULE CONTROL
GN1	GENERATOR/TURBINE CONTROL (SOLAR)
GN2	GENERATOR/TURBINE CONTROL (SOLAR)
GN3	GENERATOR/TURBINE CONTROL (SOLAR)
LACT	LACT PANEL
VRC	VAPOR RECOVERY COMPRESSOR CONTROL
FGC	FIELD GAS COMPRESSOR CONTROL (SOLAR)
PR1	PROCESS MODULE & WELLBAY CONTROL - VESSELS
PR2	PROCESS MODULE CONTROL - PUMPS
DA	PROCESS MODULE & WELLBAY DATA ACQUISITION

INSTRUMENT ITEM IDENTIFICATION

AAH	ANALYZER ALARM HIGH	LCL	LOW LEVEL SWITCH FOR PUMP STOP	SC	SPEED CONTROL
AE	ANALYZER ELEMENT	LCV	LEVEL CONTROL VALVE	SDV	SHUTDOWN VALVE
AOV	AUTOMATIC OPERATED VALVE	LG	LEVEL GAUGE	SG	SIGHT GLASS
AR	AIR RELEASE	LI	LEVEL INDICATOR	SP	SAMPLE PROBE
ASB	BASIC SEDIMENT & WATER MONITOR	LIC	LEVEL INDICATING CONTROLLER	SZ	SAND PROBE
AIT	ANALYZER INDICATING TRANSMITTER	LS	LEVEL SWITCH	TAH	TEMPERATURE ALARM HIGH
BBV	BLOCK & BLEED VALVE	LSH	LEVEL SAFETY HIGH	TAL	TEMPERATURE ALARM LOW
BDV	BLOWDOWN VALVE	LSL	LEVEL SAFETY LOW	TC	TEMPERATURE CONTROLLER
CX	CORROSION PROBE	LY	LEVEL RELAY/TRANSDUCER	TCV	TEMPERATURE CONTROL VALVE
FAH	FLOW ALARM HIGH	LT	LEVEL TRANSMITTER	TE	TEMPERATURE ELEMENT
FAL	FLOW ALARM LOW	LTS	LEVEL TRANSMITTER - SAFETY	TI	TEMPERATURE INDICATOR
FC	FLOW CONTROLLER	LJ	LEVEL INSTRUMENT	TIC	TEMPERATURE INDICATING CONTROLLER
FCV	FLOW CONTROL VALVE	MI	MISCELLANEOUS ITEM	TIT	TEMPERATURE INDICATING TRANSMITTER
FE	FLOW ELEMENT	MX	MIXER	TP	THREE PORT VALVE
FI	FLOW INDICATOR/ROTAMETER	NOA	METHOL ANALYZER	TR	TEMPERATURE RECORDER
FIC	FLOW INDICATING CONTROLLER	PAH	PRESSURE ALARM HIGH	TSH	TEMPERATURE SAFETY HIGH
FIT	FLOW INDICATING TRANSMITTER	PAL	PRESSURE ALARM LOW	TSL	TEMPERATURE SAFETY LOW
FO	FIXED ORIFICE	PC	PRESSURE CONTROLLER	TT	TEMPERATURE TRANSMITTER
FPR	FLOW/PRESSURE RECORDER	PCV	PRESSURE CONTROL VALVE	TTS	TEMPERATURE TRANSMITTER-SAFETY
FQI	FLOW QUANTITY INDICATOR (METER W/ LOCAL READOUT)	PD	PULSATION DAMPENER	TW	THERMOWELL (TEST WELL)
FQIT	FLOW QUANTITY INDICATING TRANSMITTER △	PDAH	PRESSURE DIFFERENTIAL ALARM HIGH	TZ	AUTOMATIC DRAIN (TRAP)
FR	FLOW RECORDER	PDC	PRESSURE DIFFERENTIAL CONTROLLER	TY	TEMPERATURE RELAY/TRANSDUCER
FSH	FLOW SAFETY HIGH	PDI	PRESSURE DIFFERENTIAL INDICATOR	US	SIGNAL SPLITTER
FSL	FLOW SAFETY LOW	PDIT	PRESSURE DIFFERENTIAL INDICATING TRANSMITTER	UY	MULTI-VARIABLE RELAY
FT	FLOW TRANSMITTER	PDRC	PRESSURE DIFFERENTIAL RATIO CONTROLLER	VE	VIBRATION ELEMENT
FTR	FLOW/TEMPERATURE RECORDER	PDT	PRESSURE DIFFERENTIAL TRANSMITTER	VSH	VIBRATION SAFETY HIGH
FX	STRAINER	PDV	PRESSURE DIFFERENTIAL CONTROL VALVE	VY	VIBRATION RELAY
FY	FLOW RELAY/TRANSDUCER	PE	PRESSURE ELEMENT △	WE	WEIGHT ELEMENT
HCV	HAND CONTROL VALVE	PI	PRESSURE INDICATOR	WT	WEIGHT TRANSMITTER
HMS	HAND MOMENTARY SWITCH (START/STOP)	P/I	PNEUMATIC TO ELECTRIC CONVERTER	XA	COMMON ALARM △
HS	HAND SWITCH	PIC	PRESSURE INDICATING CONTROLLER	XE	FLAME ARRESTER
HY	HAND RELAY	PIT	PRESSURE INDICATING TRANSMITTER	XED	DETONATION FLAME ARRESTER
IIC	CURRENT INDICATING CONTROLLER	PR	PRESSURE RECORDER	XS	LEAK DETECTOR
LAH	INTERFACE LEVEL ALARM HIGH	PS	PRESSURE SWITCH	XY	SELECT RELAY
LSL	INTERFACE LEVEL SHUTDOWN LOW	PSE	PRESSURE SAFETY ELEMENT (RUPTURE DISC)	ZSC	POSITION SWITCH CLOSED
ILT	INTERFACE LEVEL TRANSMITTER	PSH	PRESSURE SAFETY HIGH	ZSO	POSITION SWITCH OPEN
I/P	ELECTRIC TO PNEUMATIC CONVERTER	PSL	PRESSURE SAFETY LOW	ZY	POSITION RELAY
IT	CURRENT TRANSMITTER	PSV	PRESSURE SAFETY (RELIEF) VALVE	ZYP	SOLENOID FOR PCV OR BDV
LAH	LEVEL ALARM HIGH	PT	PRESSURE TRANSMITTER-CONTROL OR DATA	ZYS	SOLENOID FOR SDV, SSV
LAL	LEVEL ALARM LOW	PTR	PRESSURE/TEMPERATURE RECORDER		INSTRUMENT FURNISHED W/ PACKAGE
LC	LEVEL CONTROLLER	PTS	PRESSURE TRANSMITTER-SAFETY		
LCH	HIGH LEVEL SWITCH FOR PUMP START	PY	PRESSURE RELAY/TRANSDUCER		
		QIT	QUANTITY INDICATING TOTALIZER (METER W/ PULSER & LOCAL TOTALIZER)		
		QT	QUANTITY TOTALIZER (METER W/ PULSER)		
		SY	FREQUENCY TO ANALOG CONVERTER		
		RTD	RESISTANCE TEMPERATURE DEVICE		

GENERAL INSTRUMENT FUNCTION SYMBOLS

	LOCALLY MOUNTED (FIELD)	PANEL MOUNTED (CONTROL ROOM)	MOUNTED BEHIND INSTRUMENT PANEL (CONTROL ROOM)	MOUNTED FRONT (FIELD PANEL)	MOUNTED BEHIND OR ON SIDE OF PANEL (FIELD PANEL)
INSTRUMENTS	○	⊖	(…)	⊖	(…)
PROGRAMMABLE LOGIC CONTROL	□	⊟	[...]	⊟	[...]

TABLE OF PIPING CLASSES (1)

CLASS	INDUSTRIAL SERVICE (MMS)	RATING
A	HYDROCARBONS, FLARE PILOT/IGNITORS, HULL OILY WATER DRAINS	150# ANSI TO 300 F/STEEL
AL	LUBE OIL	150# ANSI TO 300 F/STEEL
AV	ATMOSPHERIC VENTS	150# ANSI TO 100 PSIG @ 300 F/STEEL
AW	PRODUCED WATER	150# ANSI TO 300 F/STEEL
B	HYDROCARBONS AND PRODUCED WATER	300# ANSI TO 300 F/STEEL
C	HYDROCARBONS AND H.P. GAS/WATER	600# ANSI TO 300 F/STEEL
CC	HYDROCARBONS IN SOUR (H_2S) SERVICE, COMPLIES WITH NACE MR-0175	600# ANSI TO 300 F/STEEL
D	HYDROCARBONS AND WET/DRY GLYCOL	900# ANSI TO 300 F/STEEL
DD	HYDROCARBONS AND WET/DRY GLYCOL IN SOUR (H_2S) SERVICE, COMPLIES WITH NACE MR-0175	900# ANSI TO 300 F/STEEL
E	HYDROCARBONS AND H.P. INERT GAS	1500# ANSI TO 300 F/STEEL
G	BULK AIR, RIG AIR, FRESH WATER, UTILITY SEAWATER, COOLING WATER, DRILLWATER, AND L.P. INERT GAS, BLACK WATER, GRAY WATER, OPEN DRAINS	150# ANSI TO 150 F/ STEEL GALVANIZED
H	SEPARATED WATER (WATER SEPARATED FROM HYDROCARBONS AND ISOLATED FROM LIQUID HYDROCARBONS BY A HYDROCARBON RATED BLOCK VALVE), OPEN DRAINS	150 PSIG @ 150 F 150# ANSI FF FIBERGLASS
I	HEAT MEDIUM (WATER AND STEAM)	300# ANSI TO 650 F/STEEL
J	H.P. INJECTION WATER (WATERFLOOD)	5000# API TO 250 F/STEEL
JJ	HYDROCARBONS IN SOUR (H_2S) SERVICE, COMPLIES WITH NACE MR-0175	5000# API TO 250 F/STEEL
K	DRY BULK CEMENT, DRY BULK MUD, DRY BULK GEL	150# ANSI TO 100 F/STEEL
PVC	BLACK WATER, GRAY WATER	150# ANSI FF 150 PSIG @ 100 F/PVC
SP	L.P. WET/DRY GLYCOL	150# ANSI TO 450 F/STEEL
SS	CHEMICALS, L.P. GLYCOL, L.P. HYDRAULIC FLUID AND LUBE OIL	150# ANSI TO 150 F 316/316L S.S
T	FRAC AND PAC, WELL EQUALIZATION	10,000# API TO 100 F/STEEL
TT	HYDROCARBONS IN SOUR (H_2S) SERVICE, COMPLIES WITH NACE MR-0175	10,000# API TO 250 F/STEEL
U	L.P. INJECTION WATER (WATERFLOOD)	225 PSIG @ 150 F 150# ANSI FF FIBERGLASS
V	UTILITY SEAWATER, INJECTION SOURCE/ DRILL COOLING WATER	150# ANSI FF TO 200 PSIG @ 140 F, 90-10 CU-NI

CLASS	MARINE SERVICE (USCG)	RATING
MDA	DIESEL FUEL (USCG CLASS II)	150# ANSI TO 150 F/STEEL
MGA	INSTRUMENT AIR, START AIR (USCG CLASS I, P ≤ 150 PSIG, AND II, P > 150 PSIG)	150# ANSI TO 150 F/STEEL GALVANIZED
MR	FIREWATER RING MAIN ONLY (USCG CLASS II)	225 PSIG @ 150 F 150# ANSI FF FIBERGLASS
MSS	HELICOPTER FUEL (USCG CLASS I)	150# ANSI TO 150 F 316/316L S.S
MW	FIREWATER, FOAM EXTINGUISHING SYSTEMS (USCG CLASS II)	200 PSIG @ 150 F 150# ANSI FF 90-10 CU-NI

NOTES:

1. THE ABOVE PIPING CLASSES ARE INCLUDED IN THE MARS PROJECT SPECIFICATIONS FOR TOPSIDES PIPING SYSTEMS, SCHEDULE B. SERVICES LISTED WITH THE PIPE CLASS ARE THOSE USED ON THE TOPSIDES FACILITIES AND OUTSIDE THE HULL. SERVICES INSIDE THE HULL ARE INCLUDED IN SCHEDULE BM.

ABBREVIATED ITEMS

AC	AIR TO CLOSE
AF	AIR FILTER
AO	AIR TO OPEN
BF	BLIND FLANGE
BOP	BOTTOM OF PIPE
C	COMMON
CO	CLEAN OUT
CPLG	COUPLING
DA	DOUBLE ACTING
D&T	DRILLED & TAPPED
DWP	DESIGN WORKING PRESSURE
ECC	ECCENTRIC
EOSF	EDGE OF SKID FLANGE
EXIST	EXISTING
FF	FLAT FACE
FO	FULL OPENING
FRP	FIBER REINFORCED PLASTIC
FSD	FLAT SIDE DOWN
FSU	FLAT SIDE UP
FV	FULL VACUUM
GHT	GARDEN HOSE THREAD
HC	HEAT CONSERVATION
HH	HAND HOLE
HLL	HIGH LIQUID LEVEL
HOL	HIGH OIL LEVEL
HP	HIGH PRESSURE
HPV	HIGH POINT VENT
IAS	INSTRUMENT AIR SUPPLY
ICP	INTERCONNECTING PIPING
IGS	INSTRUMENT GAS SUPPLY
IP	INTERMEDIATE PRESSURE
LACT	LEASE AUTO. CUSTODY TRANSFER
LC	LOCKED CLOSED
LCD	LOCK OPEN/CLOSED DEVICE
LO	LOCKED OPEN
LP	LOW PRESSURE
LPD	LOW POINT DRAIN
LSH	LEVEL SAFETY HIGH
LSL	LEVEL SAFETY LOW
MF	MECHANICAL FLOW SHEET
MGL	MEAN GULF LEVEL
MOD	MODULATING
MR	MANUAL RESET
MW	MANWAY
NC	NORMALLY CLOSED
NF	NON-FLOWING
NGL	NORMAL GLYCOL LEVEL
NO	NORMALLY OPEN
NLL	NORMAL LIQUID LEVEL
NOL	NORMAL OIL LEVEL
NPT	NATIONAL PIPE THREAD
NWL	NORMAL WATER LEVEL
PP	PERSONNEL PROTECTION
PROD	PRODUCTION
RED	REDUCER
RF	RAISED FACE
RO	REDUCED OPENING
RTJ	RING TYPE JOINT
RTR	REINFORCED THERMOSETTING RESIN
SS	STAINLESS STEEL
S/S	SEAM TO SEAM
SW	SOCKET WELD
TSE	TEMPERATURE SAFETY ELEMENT
UF	UTILITY FLOWSHEET
VFD	VARIABLE FREQUENCY DRIVE
VNT	VALVE NEEDLE THREADED
VBT	VALVE BALL THREADED
XS	EXTRA STRONG
XXS	DOUBLE EXTRA STRONG
XFORM	TRANSFORMER

MISCELLANEOUS DETAILS

GENERAL NOTES

1. TEMPERATURE INSTRUMENT CONNECTIONS TO BE 3/4" FNPT IN SIZE UNLESS OTHERWISE NOTED. ALL TE'S, TI'S AND TW'S SHALL BE MOUNTED VERTICALLY.
2. ALL PRESSURE INSTRUMENT CONNECTIONS TO BE 1/2" FNPT IN SIZE UNLESS OTHERWISE NOTED. AN ANDERSON-GREENWOOD (AGCO) OR WHITEY GAUGE VALVE WITH AGCO BLEEDER VALVE AND A 316 SS PLUG SHALL BE INSTALLED IN EACH CONNECTION, UNLESS NOTED OTHERWISE.
3. ALL NEEDLE VALVES TO BE 1/2" NPT IN SIZE UNLESS OTHERWISE NOTED.
4. ALL CHECK VALVE BONNETS ARE TO BE DRILLED & TAPPED 1/2" NPT AND A 1/2" NEEDLE VALVE INSTALLED WHERE INDICATED.
5. ALL VESSELS WITH EXTERNAL CONTROL COLUMNS TO HAVE A MINIMUM OF ONE(1) DRAIN CUP INSTALLED ADJACENT TO VESSEL AND BELOW GRATING. ALL LEVEL GAUGE DRAIN VALVES SHALL HAVE A 3/8" S.S. TUBING ROUTED TO DRAIN. LINE LEVEL GAUGES ON DIFFERENT VESSELS SHALL NOT BE INTERCONNECTED.

RELEASED ONLY FOR:

Shell Offshore Inc.

P&ID - PRODUCTION SYSTEMS
FLOWSHEET LEGEND
MC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD

517A-93-6618

△	ISSUE FOR CONSTRUCTION

51 A93661 'R FLOWSHEET LEGEND

MISSISSIPPI CANYON 807A (PROSPECT MARS)

PROCESS AND SAFETY ANALYSIS FLOW DIAGRAMS - DRAWING SERIES 517A-93-660

PROCESS				
REVISIONS		CAD FILE NAME	SHELL DWG NO	TITLE
CURRENT	DATE			
A	10/06/95	F9301130	517A-93-660A	DRAWING INDEX
A	10/06/95	F9301140	517A-93-660B	PRODUCTION/SEPARATION
A	10/06/95	F9301150	517A-93-660C	OIL TREATING & SALES
A	10/06/95	F9301160	517A-93-660D	GAS COMPRESSION
A	10/06/95	F9301170	517A-93-660E	GAS TREATING & SALES
A	10/06/95	F9301180	517A-93-660F	WATER TREATING, DRAINS & HEA VEDA
A	10/06/95	F9301190	517A-93-660G	VENT, FLARE & FUEL GAS
A	10/06/95	F9301200	517A-93-660H	DIESEL FIREWATER & CHEMICALS

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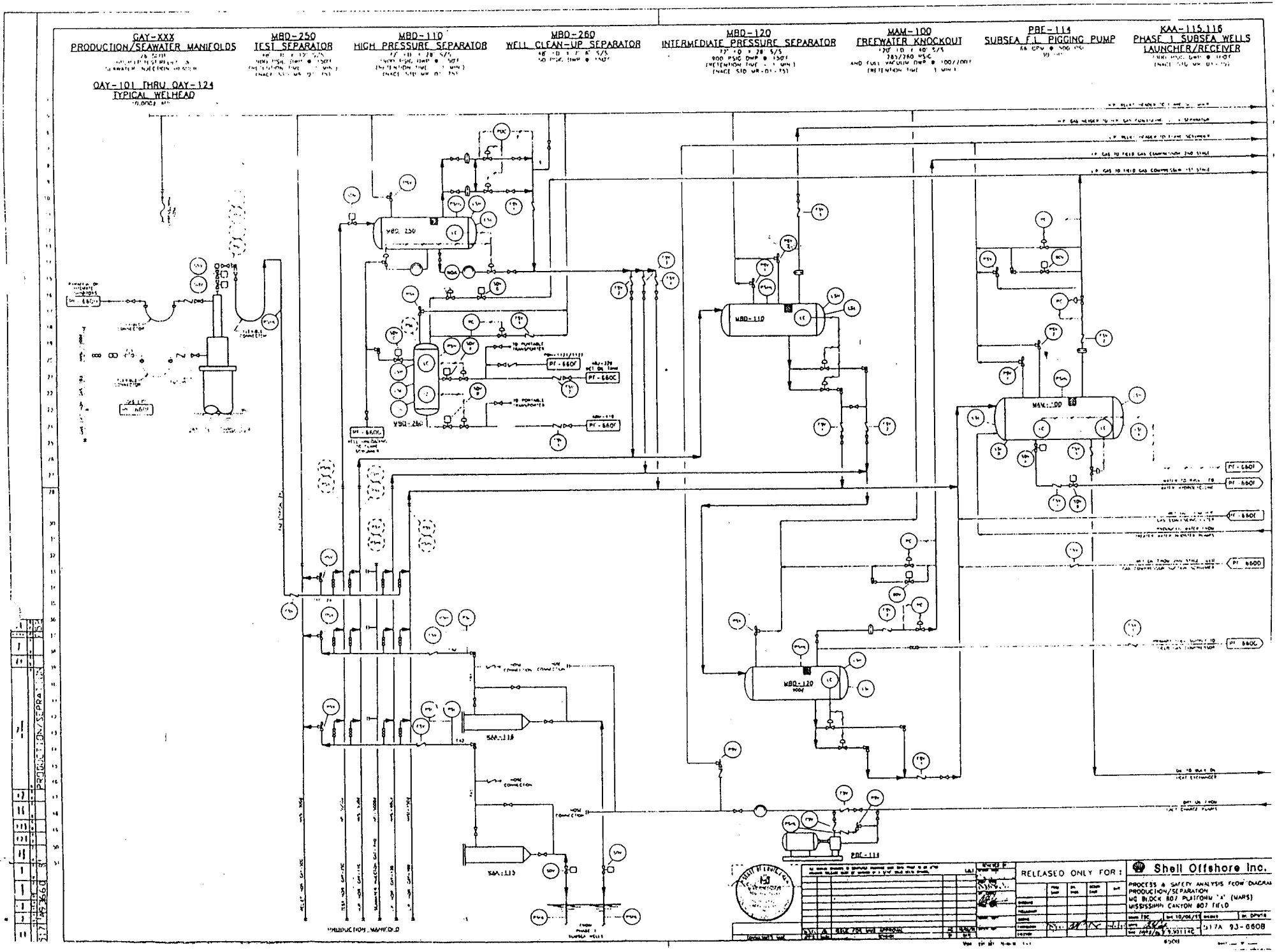
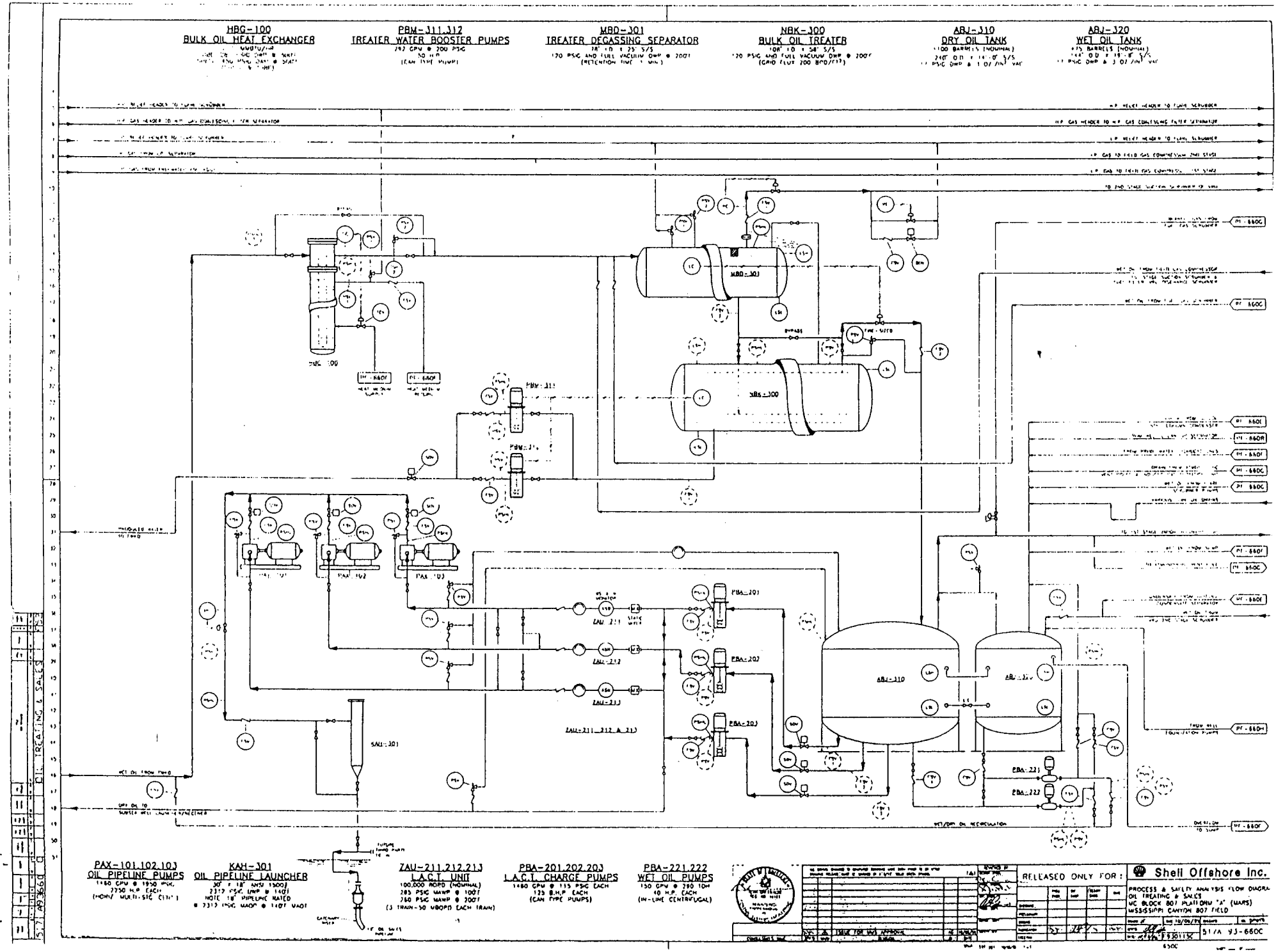
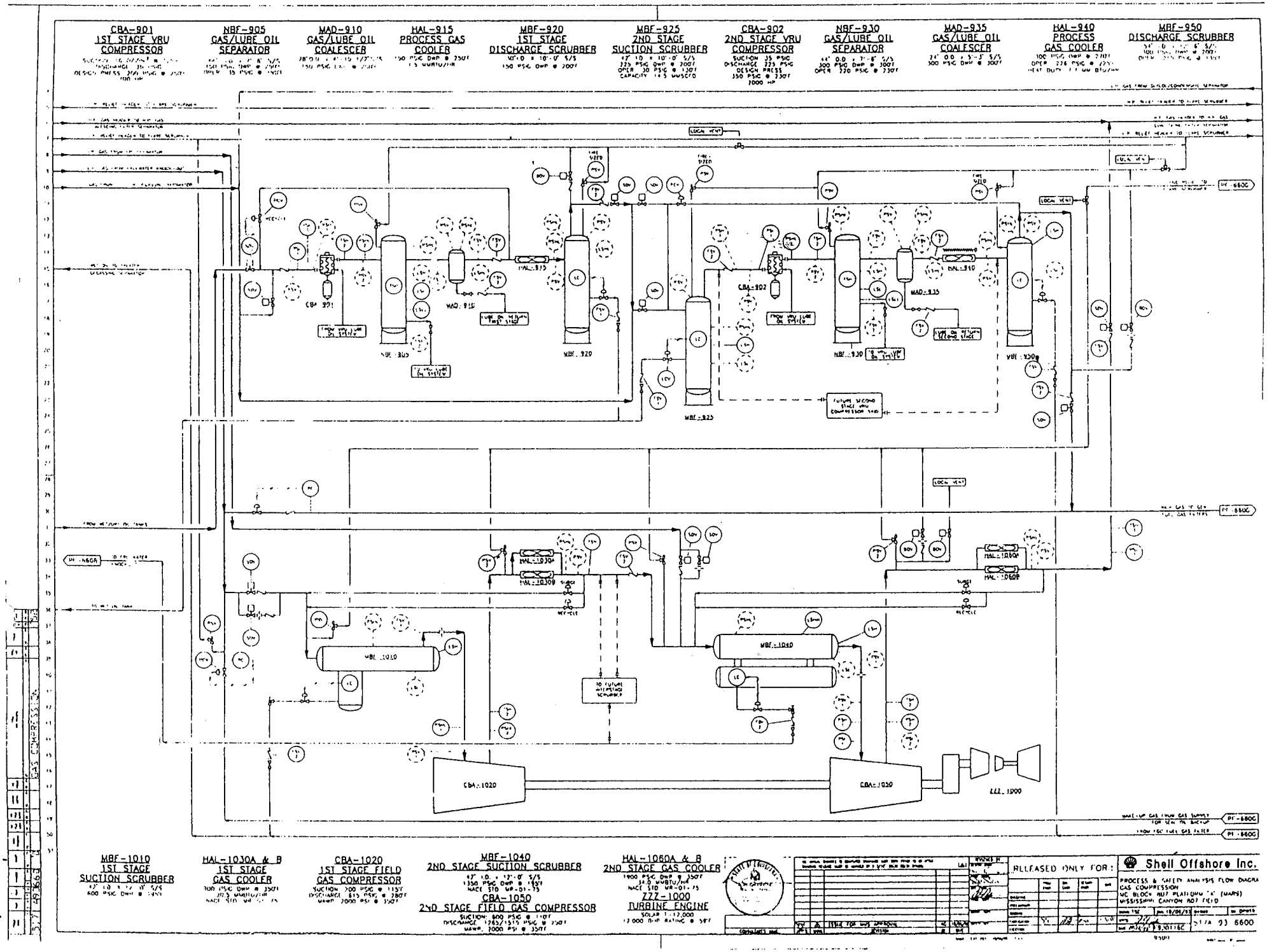
Shell Offshore Inc.

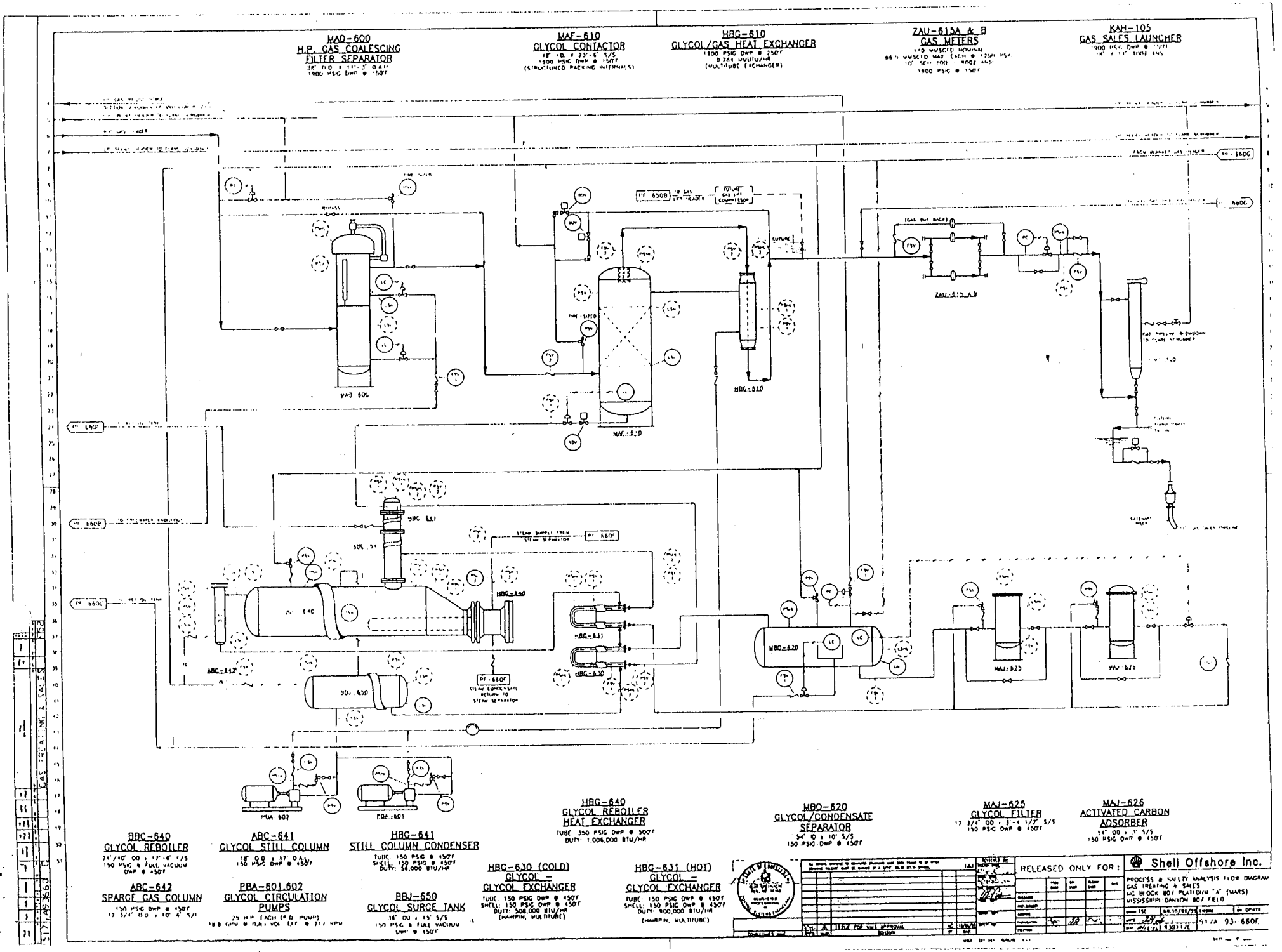
PROCESS & SAFETY ANALYSIS FLOW DIAGRA
DRAWING INDEX
MC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD

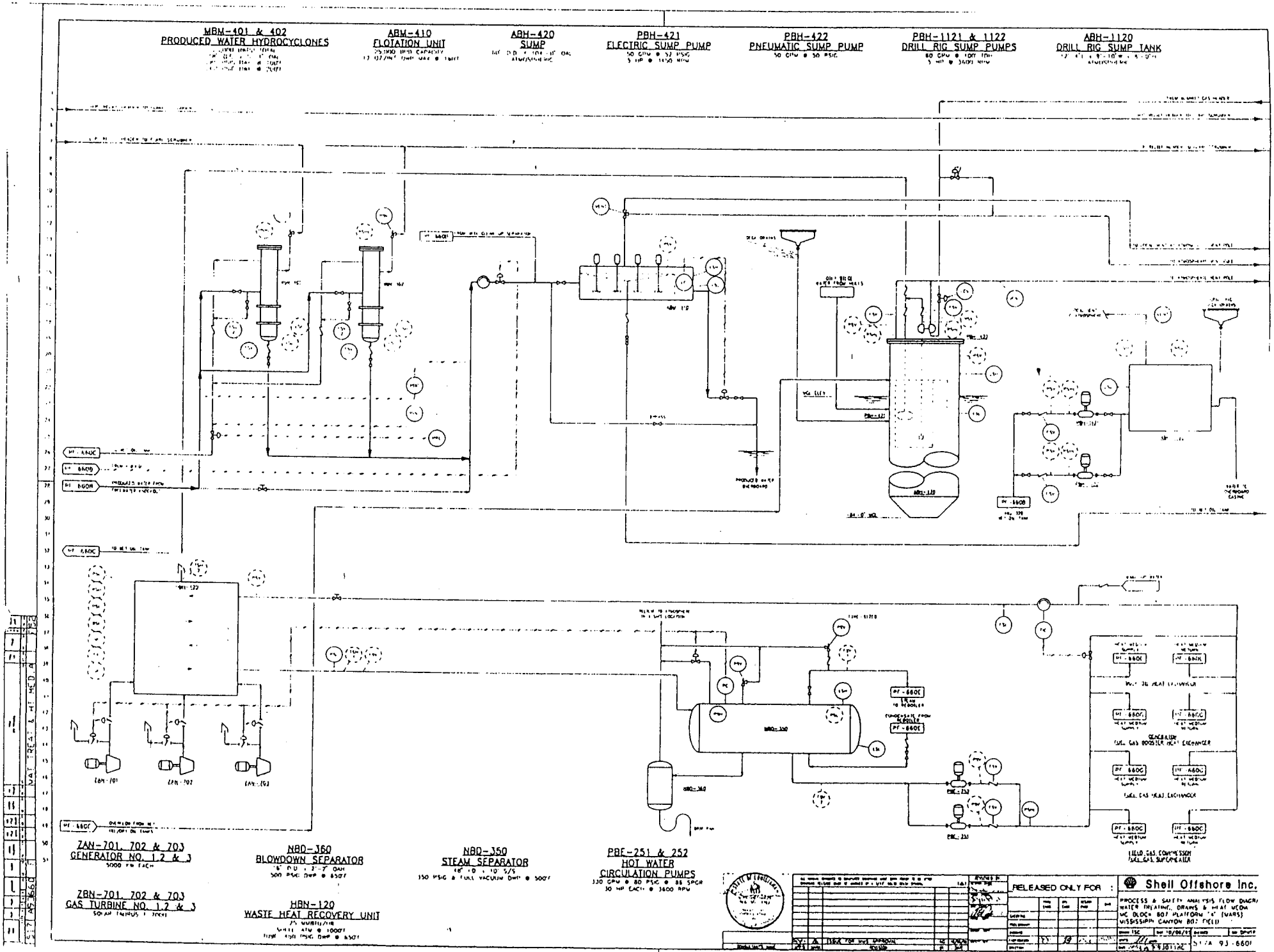
517A 93 660A


GAY-XXX
PRODUCTION/SEAWATER MANIFOLDS
MBD-250
TEST SEPARATOR
MBD-110
HIGH PRESSURE SEPARATOR
MBD-260
WELL CLEAN-UP SEPARATOR
MBD-120
INTERMEDIATE PRESSURE SEPARATOR
MAM-100
FREEWATER KNOCKOUT
PBF-114
SUBSEA F.L. PIGGING PUMP
KAA-115,116
PHASE 1 SUBSEA WELLS
LAUNCHER/RECEIVER
QAY-101 THRU QAY-124
TYPICAL WELHEAD
MBD-250
MBD-110
MAM-100
MBD-120
KAA-116
KAA-115
PBF-114
PRODUCTION MANIFOLD
RELEASED ONLY FOR:
Shell Offshore Inc.
PROCESS & SAFETY ANALYSIS FLOW DIAGRAM
PRODUCTION/SEPARATION
MC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD
517A 93-660B


HBG-100
BULK OIL HEAT EXCHANGER
PBM-311,312
TREATER WATER BOOSTER PUMPS
MBD-301
TREATER DEGASSING SEPARATOR
NBK-300
BULK OIL TREATER
ABJ-310
DRY OIL TANK
ABJ-320
WET OIL TANK
PAX-101,102,103
OIL PIPELINE PUMPS
KAH-301
OIL PIPELINE LAUNCHER
ZAU-211,212,213
L.A.C.T. UNIT
PBA-201,202,203
L.A.C.T. CHARGE PUMPS
PBA-221,222
WET OIL PUMPS
RELEASED ONLY FOR :
Shell Offshore Inc.
PROCESS & SAFETY ANALYSIS FLOW DIAGRAM
OIL TREATING & SALES
MC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD
51/A MJ-660C


CBA-901
1ST STAGE VRU COMPRESSOR
MBF-905
GAS/LUBE OIL SEPARATOR
MAD-910
GAS/LUBE OIL COALESCER
HAL-915
PROCESS GAS COOLER
MBF-920
1ST STAGE DISCHARGE SCRUBBER
MBF-925
2ND STAGE SUCTION SCRUBBER
CBA-902
2ND STAGE VRU COMPRESSOR
MBF-930
GAS/LUBE OIL SEPARATOR
MAD-935
GAS/LUBE OIL COALESCER
HAL-940
PROCESS GAS COOLER
MBF-950
DISCHARGE SCRUBBER
MBF-1010
1ST STAGE SUCTION SCRUBBER
HAL-1030A & B
1ST STAGE GAS COOLER
CBA-1020
1ST STAGE FIELD GAS COMPRESSOR
MBF-1040
2ND STAGE SUCTION SCRUBBER
CBA-1050
2ND STAGE FIELD GAS COMPRESSOR
HAL-1060A & B
2ND STAGE GAS COOLER
ZZZ-1000
TURBINE ENGINE
RELEASED ONLY FOR:
Shell Offshore Inc.
PROCESS & SAFETY ANALYSIS FLOW DIAGRAM
GAS COMPRESSION
MC BLOCK 807 PLATFORM "A" (WARN)
MISSISSIPPI CANYON 807 FIELD
93 6600


MAD-600
H.P. GAS COALESCING FILTER SEPARATOR
MAF-610
GLYCOL CONTACTOR
HBG-610
GLYCOL/GAS HEAT EXCHANGER
ZAU-615A & B
GAS METERS
KAH-105
GAS SALES LAUNCHER
HBG-640
GLYCOL REBOILER HEAT EXCHANGER
TUBE 350 PSIG DWP @ 500F
DUTY: 1,006,000 BTU/HR
MBD-620
GLYCOL/CONDENSATE SEPARATOR
54" ID x 10' S/S
150 PSIG DWP @ 450F
MAJ-625
GLYCOL FILTER
150 PSIG DWP @ 450F
MAJ-626
ACTIVATED CARBON ADSORBER
150 PSIG DWP @ 450F
BBC-640
GLYCOL REBOILER
150 PSIG & FULL VACUUM DWP @ 450F
ABC-641
GLYCOL STILL COLUMN
150 PSIG DWP @ 450F
HBG-641
STILL COLUMN CONDENSER
TUBE: 150 PSIG @ 450F
SHELL: 150 PSIG @ 450F
DUTY: 58,000 BTU/HR
ABC-642
SPARGE GAS COLUMN
150 PSIG DWP @ 450F
PBA-601,602
GLYCOL CIRCULATION PUMPS
BBJ-650
GLYCOL SURGE TANK
150 PSIG & FULL VACUUM DWP @ 450F
HBG-630 (COLD)
GLYCOL - GLYCOL EXCHANGER
TUBE: 150 PSIG DWP @ 450F
SHELL: 150 PSIG DWP @ 450F
DUTY: 508,000 BTU/HR
(HAIRPIN, MULTITUBE)
HBG-631 (HOT)
GLYCOL - GLYCOL EXCHANGER
TUBE: 150 PSIG DWP @ 450F
SHELL: 150 PSIG DWP @ 450F
DUTY: 800,000 BTU/HR
(HAIRPIN, MULTITUBE)
RELEASED ONLY FOR:
Shell Offshore Inc.
PROCESS & SAFETY ANALYSIS FLOW DIAGRAM
GAS TREATING & SALES
MC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD
93-660F


MBM-401 & 402
PRODUCED WATER HYDROCYCLONES
ABM-410
FLOTATION UNIT
ABH-420
SUMP
PBH-421
ELECTRIC SUMP PUMP
PBH-422
PNEUMATIC SUMP PUMP
PBH-1121 & 1122
DRILL RIG SUMP PUMPS
ABH-1120
DRILL RIG SUMP TANK
ZAN-701, 702 & 703
GENERATOR NO. 1,2 & 3
5000 KW EACH
ZBN-701, 702 & 703
GAS TURBINE NO. 1,2 & 3
NBD-360
BLOWDOWN SEPARATOR
500 PSIG @ 650°F
HBN-120
WASTE HEAT RECOVERY UNIT
NBD-350
STEAM SEPARATOR
350 PSIG @ FULL VACUUM DWP @ 500°F
PBF-251 & 252
HOT WATER
CIRCULATION PUMPS
330 GPM @ 80 PSIG @ 85 SPGR
30 HP EACH @ 3600 RPM
RELEASED ONLY FOR :
Shell Offshore Inc.
PROCESS & SAFETY ANALYSIS FLOW DIAGRAM
WATER TREATING, DRAINS & HEAT MEDIA
WC BLOCK 807 PLATFORM "A" (VARS)
MISSISSIPPI CANYON 807 FIELD
93-6601

ZZZ-172
ATMOS. VENT POLE
12' O.D. x 21'-9" TALL

ZZZ-171
ATMOS. VENT POLE
18" O.D. x 52'-8 1/4" TALL

PBA-501 & 502
FLARE SCRUBBER PUMPS
297 GPM @ 58' TDH
10 HP EACH
(IN-LINE CENTRIFUGAL)

MBF-500
FLARE SCRUBBER
96" O.D. x 18' S/S
175 PSIG DWP @ 150°F

ZZZ-510
ATMOSPHERIC
FLARE TIP
KALDAIR P-12-E

ZZZ-500A & 500B
RELIEF FLARE TIPS
DUAL KALDAIR INDAIR FIXED SLOT TIPS
140 MMSCFD EMERGENCY FLARE
100 MMSCFD CONTINUOUS FLARE
35 MMSCFD INTERMITTENT FLARE
(45° BETWEEN TIPS)

ZZZ-660A, B & C
FLARE TIP IGNITION PANELS
KALDAIR MODEL NEP-100
120V/1 PH/60 HZ

HBG-1075
FIELD GAS COMPRESSOR FUEL GAS SUPERHEATER
SHELL 450 PSIG DWP @ 300°F
TUBE 740 PSIG DWP @ 500°F
TYPE DOUBLE PIPE HAIRPIN
DUTY 120,000 BTU/HR

HBG-680
GENERATOR FUEL GAS BOOSTER HEAT EXCHANGER
SHELL 450 PSIG DWP @ 300°F
TUBE 785 PSIG DWP @ 500°F
TYPE DOUBLE PIPE W/FINNED TUBES
DUTY 100,000 BTU/HR

MBF-1065
TURBINE FUEL GAS SCRUBBER
17'O.D. x 3'-0"S/S
740/675 PSIG DWP @ 100°F/200°F
(NACE STD MR-01-75)

HBG-660
FUEL GAS
HEAT EXCHANGER
TUBE 1400 PSIG DWP @ 300°F
SHELL 450 PSIG DWP @ 300°F
TYPE DOUBLE PIPE W/FINNED TUBES
DUTY 1,000,000 BTU/HR

MBF-660
FUEL GAS SCRUBBER
20" O.D. x 7'-0" S/S
785/760 PSIG DWP @ 100°F/200°F

MAD-1070
TURBINE FUEL GAS
FILTER
10 3/4" O.D. x 7'-9" S/S
DESIGN 740/675 PSIG
DWP @ 100°F/200°F
COALESCING FILTER
(NACE STD MR-01-75)

MAD-670
TURBINE
FUEL GAS FILTER
16" O.D. x 9'-1" O.A.H.
785/760 PSIG DWP @ 100°F/200°F
COALESCING FILTER

MAD-675
TURBINE
FUEL GAS FILTER
16" O.D. x 9'-1" O.A.H.
785/760 PSIG DWP @ 100°F/200°F
COALESCING FILTER

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Shell Offshore Inc.

PROCESS & SAFETY ANALYSIS FLOW DIAGRAM
VENT, FLARE & FUEL GAS
VK BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD

10/06/97

93-6560

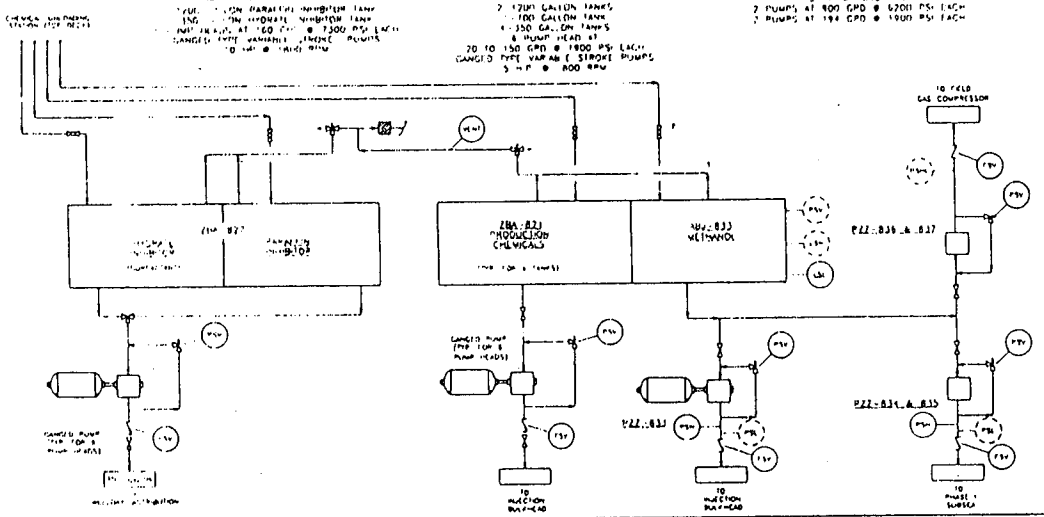
517 49366

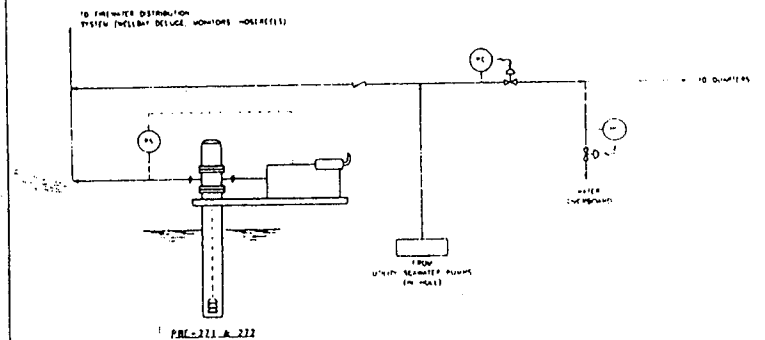
ZBA-822
PARAFFIN & HYDRATE
INHIBITOR PACKAGE

ZBA-821
PRODUCTION
CHEMICAL INJECTION PACKAGE

PZZ-833, 834, 835, 836 & 837
METHANOL PUMPS

PBE-271 & 272
DIESEL DRIVEN FIREWATER PUMPS

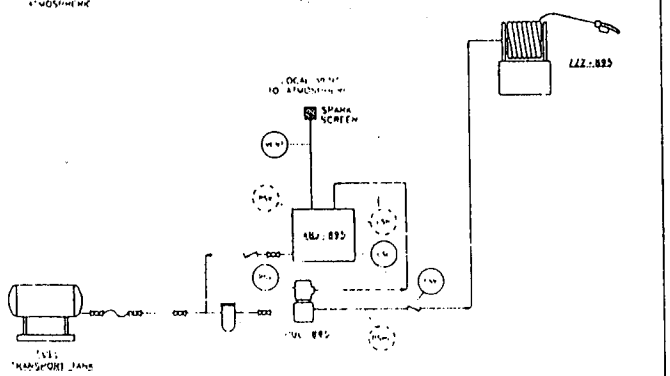




ABJ-895
HELICOPTER
FUEL STORAGE TANK

PBE-895
HELICOPTER FUEL PUMP

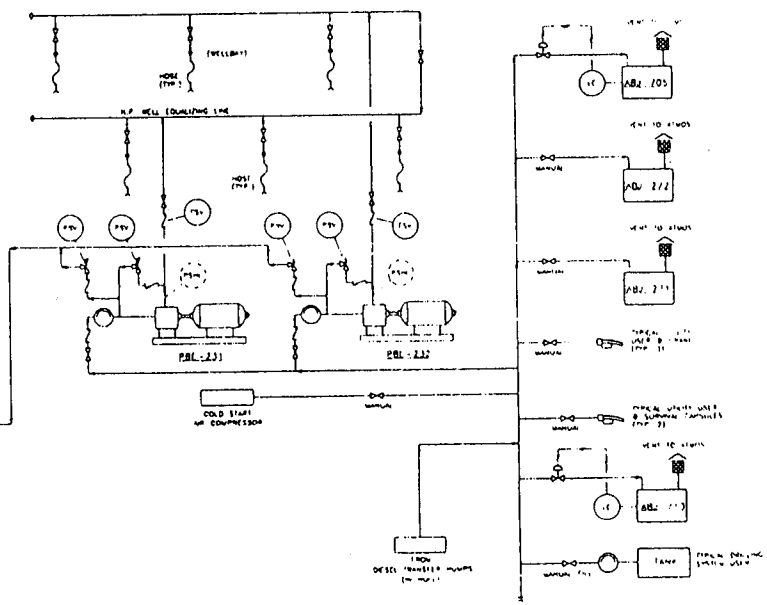
ZZZ-895
HELICOPTER
REFUELING STATION



ABJ-710
DIESEL FUEL DAY TANK

ABJ-705
EMERGENCY GENERATOR
DAY TANK

ABJ-271 & 272
FIREWATER PUMP
DIESEL DAY TANK



PBE-231 & 232
H.P. WELL EQUALIZATION PUMPS
10 GPM @ 7500 PSIG
60 H.P. @ 1200 RPM x 284 RPU
HYDROPLEX MOD. HP-350
TRIPLEX PLUNGER PUMP
V-BELT DRIVEN

RELEASED ONLY FOR :

Shell Offshore Inc.

PROCESS & SAFETY ANALYSIS FLOW DIAGRA
DIESEL, FIREWATER & CHEMICAL
MC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD

517A-93-6801H

MISSISSIPPI CANYON 807A
MARS PLATFORM

ITEM: LACT OIL METERS

SHELL TAG NOS.: QIT-Z211 (Serial No. PL147411)
QIT-Z212 (Serial No. PL147409)
QIT-Z213 (Serial No. PL147410)

6/24/96
Called in Correction to Frank Tom. He has no other questions on this. He'll Δ # he's inputing into the MMS Computer.

WORKING PRESSURE: 275/260 PSIG DWP AT 100/200°F

MANUFACTURER/MODEL NO.: Smith Meter, 10: ~~JA10-53~~ JA10-53

MANUFACTURER'S CONTINUOUS RATING
MAXIMUM FLOW RATE: 3500 BPH (84,000 BPD) each

ITEM: METER PROVER

SHELL TAG NO.: ZZZ-215

WORKING PRESSURE: 285/260 PSIG DWP AT 100/200°F

MISSISSIPPI CANYON 807A
MARS PLATFORM

ITEM: GAS SALES METERS

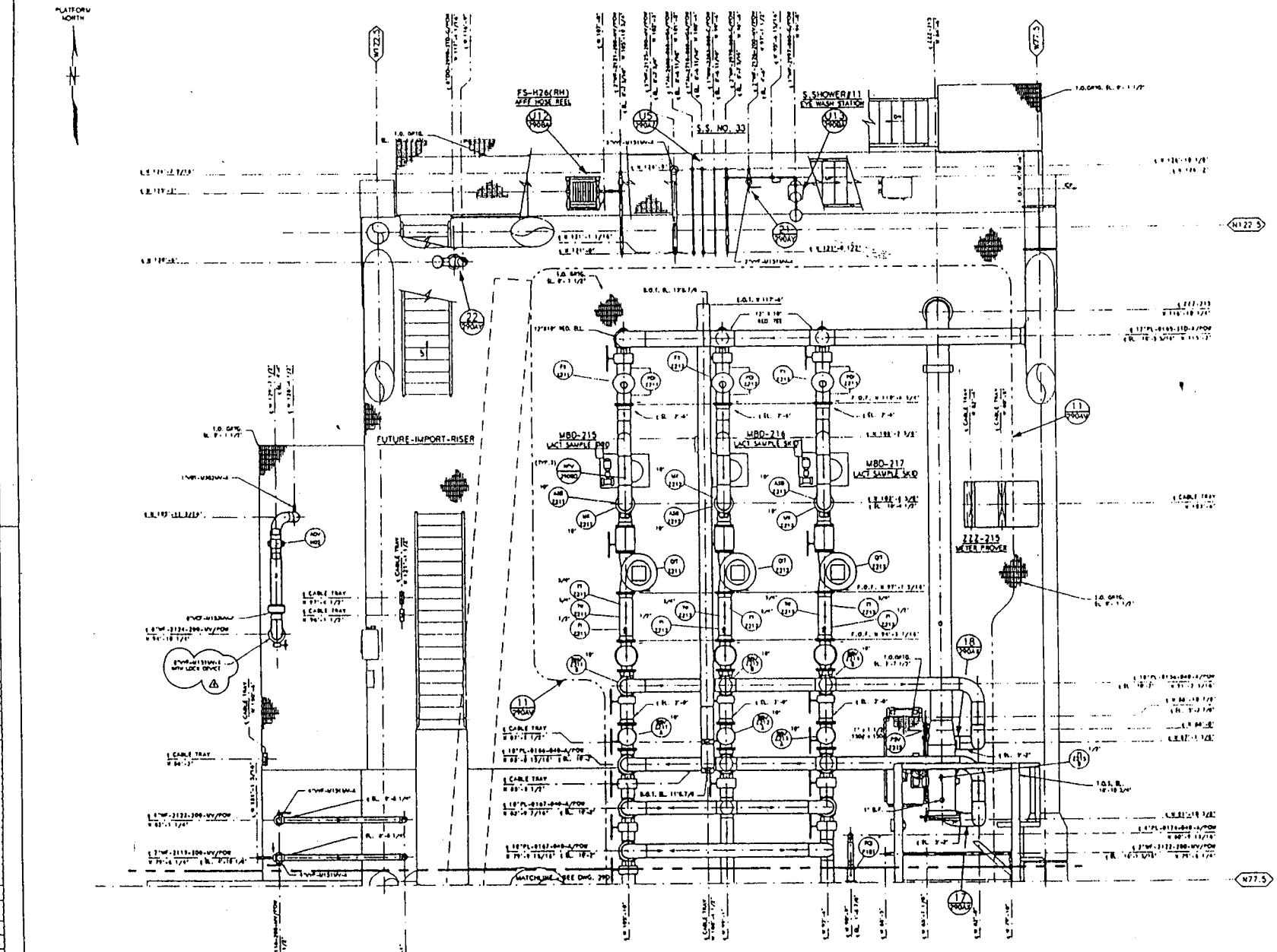
SHELL TAG NOS.: FE-615A (Tube Serial No. 94-440112)
(Fitting Serial No. 94-20475)
FE-615B (Tube Serial No. 94-440113)
(Fitting Serial No. 94-420474)

WORKING PRESSURE: 1900 PSIG at 150°F

MANUFACTURER/MODEL NO.: Daniel Flow Products, 3M-0146CTT 10" 900# RTJFN
3-Section Senior Meter Tube, 9.312" I.D.

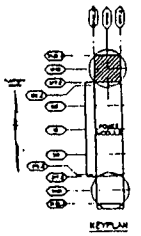
**FLOW RATE (MAXIMUM PLANNED): 70.3 MMCFD each with 1250 PSIG operating pressure with 123" water column differential pressure and a 0.6 Beta Ratio

** Note that flow rate can be varied up or down by altering the differential pressure, Beta Ratio and operating pressure in the meter tube.



PIPING PLAN ABOVE LOWER DECK (T.O.S. EL. 0'-0")

SCALE: 3/8" = 1'-0"



FOR PIPING PLAN ABOVE SEE DWG. 2901
FOR PIPING PLAN BELOW SEE DWG. 2904H

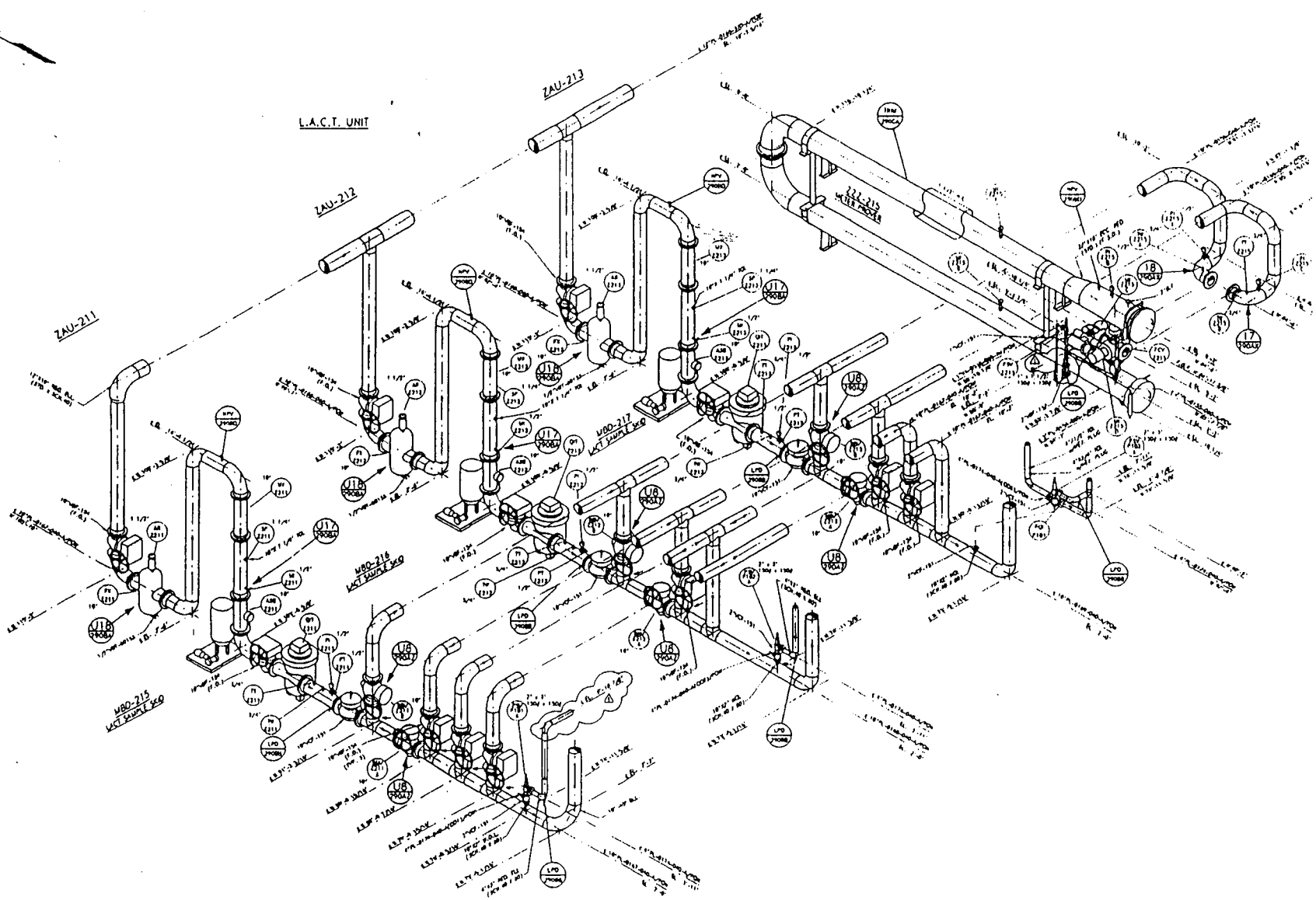
NOTES:
1. FOR GENERAL NOTES SEE DRAWING S17A-93-2900.

RELEASED ONLY FOR:

Shell Offshore Inc

POWER MODULE
PIPING PLAN ABOVE LOWER DECK
MC BLOCK 807 PLATFORM "A" (MARS)
MISSISSIPPI CANYON 807 FIELD

S17A-93-2904A



DETAIL 11
SCALE 3/8" = 1'-0"
2902, AA

NOTES:

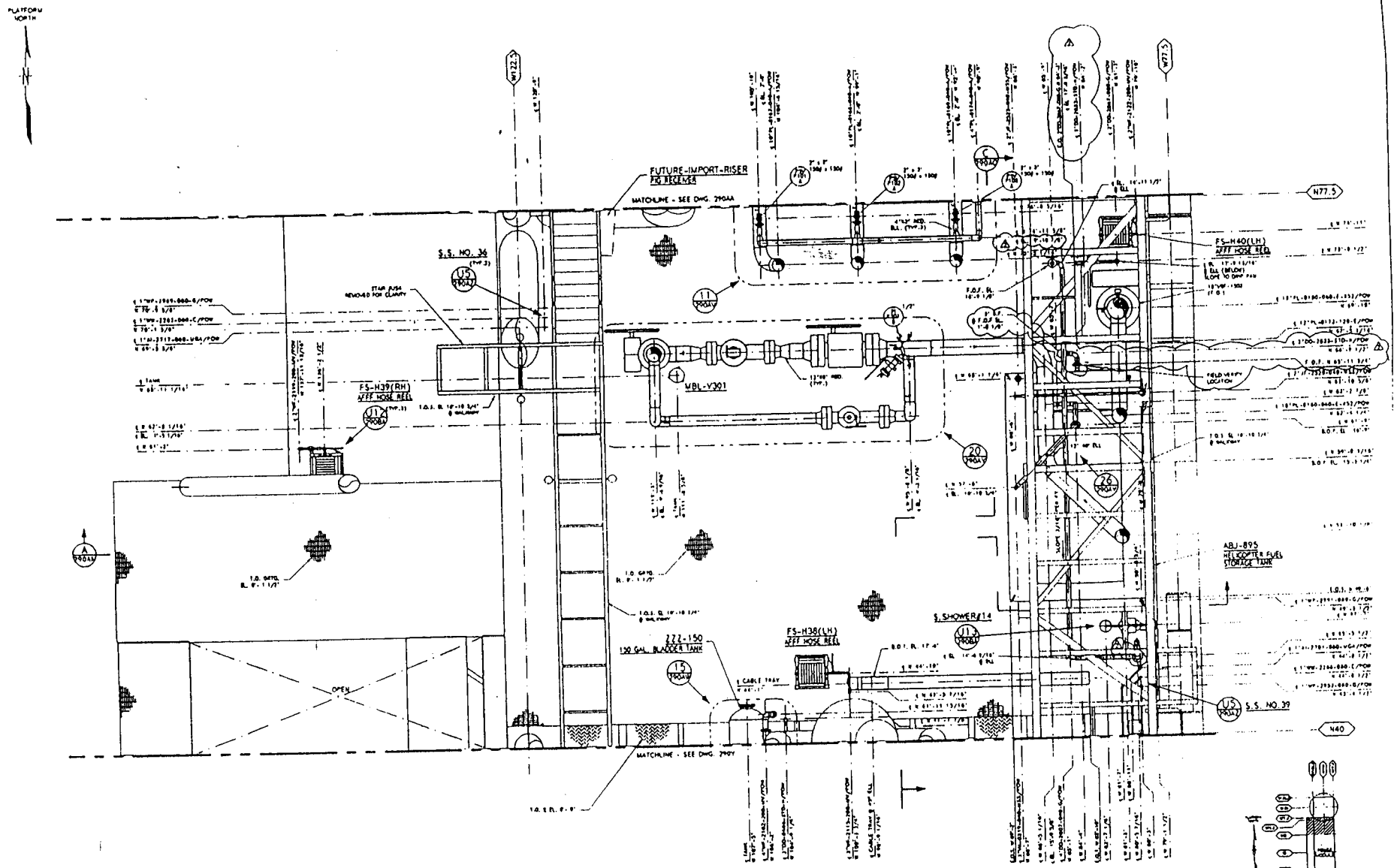
1. FOR GENERAL NOTES SEE DRAWING 517A-93-2902.
2. CONTRACTOR SHALL DRILL VALVE HANDLES OR ADD NEEDLE AND GUAGE (MANIFOLD) VALVES FOR CAP SEALS FOR LOCKING DEVICE (L.D.) WHERE REQ'D. REFERENCE NOTE 11 ON DWG. 6612 & NOTE 1 ON DWG. 6611.
3. BALL VALVES REQUIRING LOCKING DEVICES SHALL HAVE THE BALL VALVE MANUFACTURER'S STANDARD LOCKING DEVICE PURCHASED WITH THE VALVE. REFERENCE NOTE 11 ON DWG. 6612 & NOTE 1 ON DWG. 6611.

RELEASED ONLY FOR:

Shell Offshore

POWER MODULE
ISOMETRIC DETAIL
MC BLOCK 687 PLATFORM 'A' (MARS)
MISSISSIPPI CANYON 687 FIELD

517A-93-2904



PIPING PLAN ABOVE LOWER DECK (T.O.S. EL. 0'-0")

SCALE: 3/8" = 1'-0"

FOR PIPING PLAN ABOVE SEE DWG 2905
FOR PIPING PLAN BELOW SEE DWG 2904G

NOTES:
1. FOR GENERAL NOTES SEE DRAWING S17A-93-2901.

RELEASED ONLY FOR:

Shell Offshore Inc

POWER MODULE
PIPING PLAN ABOVE LOWER DECK
MC BLOCK 807 PLATFORM "A" (MAPLE)
MISSISSIPPI CANYON 807 FIELD

S17A-93-2902

INSPECTORATE

Inspectorate America Corporation 709 E. Houston Ave. Pasadena, Texas 77502
Tel: 713-920-1551 Fax: 713-920-1918

PROVER CALIBRATION REPORT

DATE: JULY 22, 1994

OWNER: SHELL OFFSHORE INC. REPORT NO: 94-50

LOCATION: HOUSTON, TEXAS MFGR.: DANIEL ENFAB

PROVER TYPE: BIDIRECTIONAL SERIAL NO.: BMP-54062

SERVICE LOCATION: N/A SERVICE I.D.: OFFSHORE LOUISIANA

CUSTOMER: DANIEL ENFAB PIPE SIZE: 17.25" I.D. .375" W.T.

THIS IS TO CERTIFY THAT USING WATER AS THE CALIBRATING MEDIUM, THE ABOVE SUBJECT PROVER WAS CALIBRATED BY THE WATERDRAW METHOD. IN ACCORDANCE WITH THE PROCEDURES OUTLINED IN API CHAPTERS 4.2, 4.3, 4.4, 11.2.3 AND 12.2. THE CALIBRATED VOLUME AT STANDARD CONDITIONS HAS BEEN DETERMINED TO BE:

VOLUME OF	264,095.8321	CUBIC INCHES	@ 60° F. & 0 PSIG
VOLUME OF	1,143.272	U.S. GALLONS	@ 60° F. & 0 PSIG
VOLUME OF	27.22076	42-GALLON BARRELS	@ 60° F. & 0 PSIG
VOLUME OF	152.8332	CUBIC FEET	@ 60° F. & 0 PSIG

THE TEST MEASURES USED TO OBTAIN THE ABOVE VOLUMES WERE CALIBRATED BY THE "NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY" AND ARE LISTED AS FOLLOWS:

NIST NO. 5845 NIST NO. 5840 NIST NO. _____

NIST NO. 5841 NIST NO. 5839 NIST NO. _____

TEMPERATURES WERE TAKEN USING THERMOMETERS CALIBRATED AGAINST CERTIFIED THERMOMETER NO. 89C-2855.

PRESSURES WERE TAKEN USING CALIBRATED PRESSURE GAUGE NO. PRR-11197.

F. Conway

INSPECTORATE AMERICA CORPORATION

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50
CHECKED BY Ledt
DATE 7-22-94

DATE: JULY 22,1994
CUSTOMER: SHELL OFFSHORE INC.
LOCATION: HOUSTON,TEXAS
SERVICE LOCATION & ID: OFFSHORE LOUISIANA

SHEET: 1 OF 1
TIME:1:00
WEATHER:950DEG

INSIDE DIAMETER 17.25 INCHES
WALL THICKNESS .375 INCHES
MODULUS OF ELAS. 30000000
CUBICAL COEFF. .0000186 /DEG. F
AREA COEFF. .0000124 /DEG. F

MANUFACTURER: DANIEL ENFAB
SERIAL NUMBER: BMP-54062
PROVER TYPE: BIDIR. PIPE W/1 WALL
MATERIAL: CARBON STEEL
LINEAL COEFF. .0000062 /DEG. F

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

PROVER CALIBRATION SUMMARY

L-R	R-L	ROUND TRIP
1 132024.7191	2 132074.2965	264099.0156 I
3 132019.3819	4 132068.2713	264087.6532 II
5 132021.4927	6 132079.3348	264100.8275 III
AVG =132022.0505 (1-3)	132071.2839 (2-4)	264093.3344 (I-II)
1-3 -.004 %	2-4 -.005 %	I - II -.004 %
3-5 .002 %	4-6 .008 %	II - III .005 %
1-5 -.002 %	2-6 .004 %	I - III .001 %
1-AVG .002 %	2-AVG .002 %	I-AVG .002 %
3-AVG .002 %	4-AVG .002 %	II-AVG .002 %
5-AVG .000 %	6-AVG .006 %	III-AVG .003 %

THIS IS TO REPORT THAT USING WATER AS THE CALIBRATING MEDIUM, THE ABOVE SUBJECT PROVER WAS CALIBRATED BY THE WATERDRAW METHOD, IN ACCORDANCE WITH NATIONAL AND INTERNATIONAL MEASUREMENT STANDARDS AND PRACTICES. THE CALIBRATED VOLUME AT STANDARD CONDITIONS HAS BEEN CALCULATED TO BE:

CERTIFIED VOLUME: AVERAGE I, II, & III
CUBIC INCHES (2.54 CM PER INCH) @ 60 F & 0 PSIG = 264095.8321
U.S. GALLONS (231 CU.IN. PER GAL.) @ 60 F & 0 PSIG = 1143.2720004329
BARRELS (9702 CU.IN. PER BBL.) @ 60 F & 0 PSIG = 27.220761915069 06
CUB. FEET (1728 CU.IN. PER CU.FT.) @ 60 F & 0 PSIG = 152.8332361689815
LITERS (1000 CU.CM. PER L) @ 15C & 101.325 kPa = 4327.674808005614
CUB. METERS (1000 LITERS PER M) @ 15C & 101.325 kPa = 4.327674808005614

PREVIOUS VOLUME(BBLS) = NEW
NEW VOLUME(BBLS) = 27.220762
CHANGE = N/A

INSPECTORATE AMERICA CORPORATION

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50

CHECKED BY Ed

DATE 7.22.94

SHEET: 1 OF 6

DATE: JULY 22,1994
TIME:11:15
WEATHER:950DEG

CUSTOMER: SHELL OFFSHORE INC.
LOCATION: HOUSTON,TEXAS
SERVICE LOCATION & ID: OFFSHORE LOUISIANA

INSIDE DIAMETER 17.25 INCHES
WALL THICKNESS .375 INCHES
MODULUS OF ELAS. 30000000
CUBICAL COEFF. .0000186 /DEG. F
AREA COEFF. .0000124 /DEG. F

MANUFACTURER: DANIEL ENFAB
SERIAL NUMBER: BMP-54062
PROVER TYPE: BIDIR. PIPE W/1 WALL
MATERIAL: CARBON STEEL
LINEAL COEFF. .0000062 /DEG. F

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO. 1 DIRECTION DOWN TEMPERATURE PROVER 86 DEGREES F
PAGE 1 FLOW RATE 60 GPM PRESSURE IN PROVER 35 PSIG

FILL	REF	BASE	+/-	ADJ.	TEMP	CTDW	CCTS	TEMP CORR VOL
1	1	5774.56	0	5774.56	86	1	1.000205	5775.7438
2	2	11549.7	0	11549.7	86	1	1.000205	11552.0677
3	3	23101.6	-200	22901.6	86	1	1.000205	22906.2948
4	4	23098.4	-200	22898.4	86	1	1.000205	22903.0942
5	3	23101.6	-200	22901.6	86.1	.999983	1.000208	22905.9741
6	4	23098.4	-200	22898.4	86.1	.999983	1.000208	22902.7735
7	3	23101.6	-5	23096.6	86.2	.999966	1.000211	23100.6879
8	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0

INSPECTORATE REP.: F.R.CONWAY

F. Conway

INSPECTORATE AMERICA

*TEMP CORR VOL @ 60 F 132046.636
*CPSP=1+('P*ID)/(E*WT) 1.000054
*CPLP=1/1-(0.0000032*PSIG) 1.000112
*NET VOL: TCV/(CPSP*CPLP) 132024.7191

WITNESS/REPRESENTING:

T. Patterson

*WITNESS/REPRESENTING:

* Daniel

*

*

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50

CHECKED BY Ed

DATE 7-22-94

DATE: JULY 22,1994 SHEET: 2 OF 6

CUSTOMER: SHELL OFFSHORE INC. TIME:11:30

LOCATION: HOUSTON,TEXAS WEATHER:950DEG

SERVICE LOCATION & ID: OFFSHORE LOUISIANA

INSIDE DIAMETER 17.25 INCHES MANUFACTURER: DANIEL ENFAB

WALL THICKNESS .375 INCHES SERIAL NUMBER: BMP-54062

MODULUS OF ELAS. 30000000 PROVER TYPE: BIDIR. PIPE W/1 WALL

CUBICAL COEFF. .0000186 /DEG. F MATERIAL: CARBON STEEL

AREA COEFF. .0000124 /DEG. F LINEAL COEFF. .0000062 /DEG. F

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO. 2 DIRECTION UP TEMPERATURE PROVER 86.2 DEGREES F

PAGE 1 FLOW RATE 60 GPM PRESSURE IN PROVER 35 PSIG

FILL	REF	BASE	+/-	ADJ.	TEMP	CTDW	CCTS	TEMP CORR VOL
1	1	5774.56	0	5774.56	86.2	1	1.000207	5775.7553
2	2	11549.7	0	11549.7	86.2	1	1.000207	11552.0908
3	3	23101.6	-200	22901.6	86.2	1	1.000207	22906.3406
4	4	23098.4	-200	22898.4	86.3	.999983	1.00021	22902.8193
5	3	23101.6	-200	22901.6	86.3	.999983	1.00021	22906.0199
6	4	23098.4	-200	22898.4	86.4	.999966	1.000212	22902.4758
7	3	23101.6	45	23146.6	86.4	.999966	1.000212	23150.7199
8	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0

INSPECTORATE REP.: F.R.CONWAY

F. Conway

INSPECTORATE AMERICA

*TEMP CORR VOL @ 60 F 132096.2216

*CPSP=1+(P*ID)/(E*WT) 1.000054

*CPLP=1/1-(0.0000032*PSIG) 1.000112

*NET VOL: TCV/(CPSP*CPLP) 132074.2965

WITNESS/REPRESENTING:

N Otterson

*WITNESS/REPRESENTING:

*Daniel

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50
CHECKED BY Edt
DATE 7-22-94

DATE: JULY 22,1994
CUSTOMER: SHELL OFFSHORE INC.
LOCATION: HOUSTON,TEXAS
SERVICE LOCATION & ID: OFFSHORE LOUISIANA

SHEET: 3 OF 6
TIME:11:45
WEATHER:950DEG

INSIDE DIAMETER 17.25 INCHES
WALL THICKNESS .375 INCHES
MODULUS OF ELAS. 30000000
CUBICAL COEFF. .0000186 /DEG. F
AREA COEFF. .0000124 /DEG. F

MANUFACTURER: DANIEL ENFAB
SERIAL NUMBER: BMP-54062
PROVER TYPE: BIDIR. PIPE W/1 WALL
MATERIAL: CARBON STEEL
LINEAL COEFF. .0000062 /DEG. F

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO. 3 DIRECTION DOWN TEMPERATURE PROVER 86.3 DEGREES F
PAGE 1 FLOW RATE 60 GPM PRESSURE IN PROVER 35 PSIG

FILL	REF	BASE	+/-	ADJ.	TEMP	CTDW	CCTS	TEMP CORR VOL
1	1	5774.56	0	5774.56	86.3	1	1.000208	5775.7611
2	2	11549.7	0	11549.7	86.3	1	1.000208	11552.1023
3	3	23101.6	-200	22901.6	86.3	1	1.000208	22906.3635
4	4	23098.4	-200	22898.4	86.4	.999983	1.00021	22902.8193
5	3	23101.6	-200	22901.6	86.4	.999983	1.00021	22906.0199
6	4	23098.4	-200	22898.4	86.5	.999966	1.000213	22902.4986
7	3	23101.6	-10	23091.6	86.5	.999966	1.000213	23095.7332
8	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0

INSPECTORATE REP.: F.R.CONWAY

F. R. Conway

INSPECTORATE AMERICA

*TEMP CORR VOL @ 60 F 132041.2979
*CPSP=1+(P*ID)/(E*WT) 1.000054
*CPLP=1/1-(0.0000032*PSIG) 1.000112
*NET VOL: TCV/(CPSP*CPLP) 132019.3819

WITNESS/REPRESENTING:

N Peterson

*WITNESS/REPRESENTING:

Daniel

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50

CHECKED BY Eckt

DATE 7-22-94

DATE: JULY 22,1994 SHEET: 4 OF 6

CUSTOMER: SHELL OFFSHORE INC. TIME:12:00

LOCATION: HOUSTON,TEXAS WEATHER:950DEG

SERVICE LOCATION & ID: OFFSHORE LOUISIANA

INSIDE DIAMETER 17.25 INCHES MANUFACTURER: DANIEL ENFAB

WALL THICKNESS .375 INCHES SERIAL NUMBER: BMP-54062

MODULUS OF ELAS. 30000000 PROVER TYPE: BIDIR. PIPE W/1 WALL

CUBICAL COEFF. .0000186 /DEG. F MATERIAL: CARBON STEEL

AREA COEFF. .0000124 /DEG. F LINEAL COEFF. .0000062 /DEG. F

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO. 4 DIRECTION UP TEMPERATURE PROVER 86.5 DEGREES F

PAGE 1 FLOW RATE 60 GPM PRESSURE IN PROVER 35 PSIG

FILL	REF	BASE	+/-	ADJ.	TEMP	CTDW	CCTS	TEMP CORR VOL
1	1	5774.56	0	5774.56	86.5	1	1.000209	5775.7669
2	2	11549.7	0	11549.7	86.5	1	1.000209	11552.1139
3	3	23101.6	-200	22901.6	86.5	1	1.000209	22906.3864
4	4	23098.4	-200	22898.4	86.6	.999983	1.000212	22902.8651
5	3	23101.6	-200	22901.6	86.7	.999966	1.000215	22905.745
6	4	23098.4	-200	22898.4	86.8	.999949	1.000217	22902.2009
7	3	23101.6	40	23141.6	86.9	.999932	1.00022	23145.1172
8	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0

INSPECTORATE REP.: F.R.CONWAY

F. R. Conway

INSPECTORATE AMERICA

*TEMP CORR VOL @ 60 F 132090.1954

*CPSP=1+(P*ID)/(E*WT) 1.000054

*CPLP=1/1-(0.0000032*PSIG) 1.000112

*NET VOL: TCV/(CPSP*CPLP) 132068.2713

WITNESS/REPRESENTING:

N Peterson

*WITNESS/REPRESENTING:

Daniel

****

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50

CHECKED BY Edt

DATE 7-22-94

****

SHEET: 5 OF 6

DATE: JULY 22,1994
CUSTOMER: SHELL OFFSHORE INC.
LOCATION: HOUSTON,TEXAS
SERVICE LOCATION & ID: OFFSHORE LOUISIANA

TIME:12:15
WEATHER:950DEG

****

INSIDE DIAMETER 17.25 INCHES
WALL THICKNESS .375 INCHES
MODULUS OF ELAS. 30000000
CUBICAL COEFF. .0000186 /DEG. F
AREA COEFF. .0000124 /DEG. F

MANUFACTURER: DANIEL ENFAB
SERIAL NUMBER: BMP-54062
PROVER TYPE: BIDIR. PIPE W/1 WALL
MATERIAL: CARBON STEEL
LINEAL COEFF. .0000062 /DEG. F

****

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

****

RUN NO. 5 DIRECTION DOWN TEMPERATURE PROVER 86.7 .DEGREES F
PAGE 1 FLOW RATE 40 GPM PRESSURE IN PROVER 35 . PSIG

****

FILL	REF	BASE	+/-	ADJ.	TEMP	CTOW	CCTS	TEMP CORR VOL
1	1	5774.56	0	5774.56	86.7	1	1.000211	5775.7784
2	2	11549.7	0	11549.7	86.7	1	1.000211	11552.137
3	3	23101.6	-200	22901.6	86.7	1	1.000211	22906.4322
4	4	23098.4	-200	22898.4	86.9	.999966	1.000216	22902.5673
5	3	23101.6	-200	22901.6	86.9	.999966	1.000216	22905.7679
6	4	23098.4	-200	22898.4	87	.999949	1.000219	22902.2467
7	3	23101.6	-7	23094.6	87	.999949	1.000219	23098.4796
8	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0

****

INSPECTORATE REP.: F.R.CONWAY

F. R. Conway

INSPECTORATE AMERICA

*TEMP CORR VOL @ 60 F 132043.4091
*CPSP=1+(P*ID)/(E*WT) 1.000054
*CPLP=1/1-(0.0000032*PSIG) 1.000112
*NET VOL: TCV/(CPSP*CPLP) 132021.4927

****

WITNESS/REPRESENTING:

J. R. Peterson

*WITNESS/REPRESENTING:

* Daniel

*

*

INSPECTORATE AMERICA
709 E. HOUSTON AVE
PASADENA, TEXAS 77502
TEL: (713) 920-1551
FAX: (713) 920-1918

CERT.# 94-50

CHECKED BY Edt

DATE 7-22-94

SHEET: 6 OF 6

DATE: JULY 22,1994
CUSTOMER: SHELL OFFSHORE INC.
LOCATION: HOUSTON,TEXAS
SERVICE LOCATION & ID: OFFSHORE LOUISIANA
TIME:12:35
WEATHER:950DEG

INSIDE DIAMETER 17.25 INCHES
WALL THICKNESS .375 INCHES
MODULUS OF ELAS. 30000000
CUBICAL COEFF. .0000186 /DEG. F
AREA COEFF. .0000124 /DEG. F
MANUFACTURER: DANIEL ENFAB
SERIAL NUMBER: BMP-54062
PROVER TYPE: BIDIR. PIPE W/1 WALL
MATERIAL: CARBON STEEL
LINEAL COEFF. .0000062 /DEG. F

REF. NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839	0	0
BASE 60 F	5774.56	11549.7	23101.6	23098.4	0	0
CU.COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO. 6 DIRECTION UP TEMPERATURE PROVER 86.9 DEGREES F
PAGE 1 FLOW RATE 40 GPM PRESSURE IN PROVER 35 PSIG

FILL	REF	BASE	+/-	ADJ.	TEMP	CTDW	CCTS	TEMP CORR VOL
1	1	5774.56	0	5774.56	86.9	1	1.000212	5775.7842
2	2	11549.7	0	11549.7	86.9	1	1.000212	11552.1485
3	3	23101.6	-200	22901.6	86.9	1	1.000212	22906.4551
4	4	23098.4	-200	22898.4	87	.999983	1.000215	22902.9338
5	3	23101.6	-200	22901.6	87.1	.999966	1.000218	22905.8137
6	4	23098.4	-200	22898.4	87.1	.999966	1.000218	22902.6131
7	3	23101.6	50	23151.6	87.2	.999949	1.00022	23155.5124
8	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0

INSPECTORATE REP.: F.R.CONWAY

F. Conway

INSPECTORATE AMERICA

*TEMP CORR VOL @ 60 F 132101.2608
*CPSP=1+(P*ID)/(E*WT) 1.000054
*CPLP=1/1-(0.0000032*PSIG) 1.000112
*NET VOL: TCV/(CPSP*CPLP) 132079.3348

WITNESS/REPRESENTING:

N Peterson

*WITNESS/REPRESENTING:

Daniel

INSPECTORATE

PROVER WORKSHEET

709 E. Houston Avenue, Pasadena, TX 77502 Phone: (713) 920-1551 Fax: (713) 920-1918

DATE : 7/22/94	SHEET NO. 1 OF 3
COMPANY: DNEL OFFSHORE INC	CERTIFICATE NO.: 94-50
SERVICE LOCATION : Houston Tx	SERVICE I.D.: OFFSHORE LA.
INSIDE DIAMETER: 17.25"	MANUFACTURER: DANIEL ENFAB
WALL THICKNESS: .375	SERIAL NUMBER: Bmf. 54062
MODULUS OF ELAS. (30,000,000) / 28,500,000	PROVER TYPE: UNIDIRECTIONAL (BIDIRECTIONAL)
CUBICAL COEFF.: (.0000186) / .0000265	MATERIAL: (CARBON) / STAINLESS

REF NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839		
BASE 60 F.	5774.56	11549.7	23101.6	23098.4		
CU. COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO.: 1 | FLOW RATE: 60 | DIRECTION: Down | PROVER PRESS: 35# 11:15

FILL	REF.	BASE	+	-	ADJ. VOL.	TEMP. PROV.	TEMP. MEAS.	CTDW	CCTS.	CORR. VOLUME
1	1	5774.56	0	—		86.0	86.0			
2	2	11549.7	0	—			86.0			
3	3	23101.6	—	200			86.0			
4	4	23098.4	—	200			86.0			
5	3	23101.6	—	200			86.1			
6	4	23098.4	—	200			86.1			
7	3	23101.6	—	5			86.2			
8										
9										
10	(2)	60 GPM		UP				35# PSIG	11.30	
11	1	5774.56	0	—		86.2	86.2			
12	2	11549.7	0	—			86.2			
13	3	23101.6	—	200			86.2			
14	4	23098.4	—	200			86.3			
15	3	23101.6	—	200			86.3			
16	4	23098.4	—	200			86.4			
17	3	23101.6	45	—			86.4			
18										
19										
20										

CHECKED BY Edt

DATE 7-22-94

WITNESS:	REPRESENTING:	WITNESS:	REPRESENTING:
F.L. Norman	INSPECTORATE AMERICA CORP.		
Norman L. Dotson	Daniel		

INSPECTORATE

PROVER WORKSHEET

709 E. Houston Avenue, Pasadena, TX 77502 Phone: (713) 920-1551 Fax: (713) 920-1918

DATE : 7/22/94	SHEET NO. 2 OF 3
COMPANY: SHELL OFFSHORE INC	CERTIFICATE NO.: 94-50
SERVICE LOCATION : HOUSTON TX	SERVICE I.D.: OFFSHORE LA
INSIDE DIAMETER: 17.25"	MANUFACTURER: DANIEL ENFAB
WALL THICKNESS: .375"	SERIAL NUMBER: Bmp-54062
MODULUS OF ELAS.: 30,000,000 / 28,500,000	PROVER TYPE: UNIDIRECTIONAL / BIDIRECTIONAL
CUBICAL COEFF.: .0000186 / .0000265	MATERIAL: CARBON / STAINLESS

REF NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839		
BASE 60 F.	5774.56	11549.7	23101.6	23098.4		
CU. COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO.: 3 | FLOW RATE: 60 | DIRECTION: DOWN | PROVER PRESS: 35# 11:45

FILL	REF.	BASE	+	-	ADJ. VOL.	TEMP. PROV.	TEMP. MEAS.	CTDW	CCTS	CORR. VOLUME
1	1	5774.56	0	—		86.3	86.3			
2	2	11549.7	0	—			86.3			
3	3	23101.6	—	200			86.3			
4	4	23098.4	—	200			86.4			
5	3	23101.6	—	200			86.4			
6	4	23098.4	—	200			86.5			
7	3	23101.6	—	10			86.5			
8										
9										
10	4	60 GPM				up		35#		12:00
11	1	5774.56	0	—		86.5	86.5			
12	2	11549.7	0	—			86.5			
13	3	23101.6	—	200			86.5			
14	4	23098.4	—	200			86.6			
15	3	23101.6	—	200			86.7			
16	4	23098.4	—	200			86.8			
17	3	23101.6	40	—			86.9			
18										
19										
20										

CHECKED BY Edt

DATE 7-22-94

WITNESS:	REPRESENTING:	WITNESS:	REPRESENTING:
F. L. Conroy	INSPECTORATE AMERICA CORP.		
[illegible]	Daniel		

INSPECTORATE

PROVER WORKSHEET

709 E. Houston Avenue, Pasadena, TX 77502 Phone: (713) 920-1551 Fax: (713) 920-1918

DATE : 7/22/94	SHEET NO. 3 OF 3
COMPANY: SHELL OFFSHORE INC	CERTIFICATE NO.: 94-50
SERVICE LOCATION : HOUSTON TX	SERVICE I.D.: OFFSHORE LA
INSIDE DIAMETER: 17.25"	MANUFACTURER: DANIEL ENFAB
WALL THICKNESS: .375"	SERIAL NUMBER: BMO 54062
MODULUS OF ELAS.: (30,000,000) / 28,500,000	PROVER TYPE: UNIDIRECTIONAL / (BIDIRECTIONAL)
CUBICAL COEFF.: (.0000186) / .0000265	MATERIAL: (CARBON) / STAINLESS

REF NO.	1	2	3	4	5	6
NIST NO.	5845	5841	5840	5839		
BASE 60 F.	5774.56	11549.7	23101.6	23098.4		
CU. COEFF.	.0000265	.0000265	.0000265	.0000265	.0000265	.0000265

RUN NO.: 5 | FLOW RATE: 40 | DIRECTION: Down | PROVER PRESS: 35# 12.15"

FILL	REF.	BASE	+	-	ADJ. VOL.	TEMP. PROV.	TEMP. MEAS.	CTDW	CCTS	CORR. VOLUME
1	1	5774.56	0	-		86.7	86.7			
2	2	11549.7	0	-			86.7			
3	3	23101.6	-	200			86.7			
4	4	23098.4	-	200			86.9			
5	3	23101.6	-	200			86.9			
6	4	23098.4	-	200			87.0			
7	3	23101.6	-	7			87.0			
8										
9										
10	(6)	40 GPM				up			35#	
11	1	5774.56	0	-		86.9	86.9			
12	2	11549.7	0	-			86.9			
13	3	23101.6	-	200			86.9			
14	4	23098.4	-	200			87.0			
15	3	23101.6	-	200			87.1			
16	4	23098.4	-	200			87.1			
17	3	23101.6	50	-			87.2			
18										
19										
20										

CHECKED BY Edt

DATE 7-22-94

WITNESS:	REPRESENTING:	WITNESS:	REPRESENTING:
F.L. Jones	INSPECTORATE AMERICA CORP.		
M Patterson	Daniel		

JFH:gk
836
TN 251140
8361604

U.S. DEPARTMENT OF COMMERCE

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY
Gaithersburg, Maryland 20899

REPORT OF CALIBRATION

November 5, 1992

Submitted by: Inspectorate
Pasadena, Texas

Seal No. 5845

Reference: Purchase Order No. 10078 dated 10-27-92

Item: 25 gallon vessel (Graduated Neck Type)

Maker: Seraphin (Maker #21474-E)

Material: Stainless Steel

Assumed Cubical Coefficient of Expansion, 0.0000265 per degree Fahrenheit

With the vessel described above, in a standing position and a reference attitude established by leveling the attached levels, and when drained for 30 seconds after cessation of the main flow, the volume of water delivered is as follows:

Scale Reading*	Volume Delivered at 60°F (U.S. Gal)**	Volume Delivered at 60°F (in^3)	Estimated Uncertainty (in^3)
0	24.9981	5774.56	± 1.80

A scale division between -60 and +60 is, as established by separate test, equivalent to 2 in^3.

The position of the graduated scale was not moved as part of the calibration procedure.

*The scale reading is determined by the intersection of the horizontal plane, tangent to the bottom of the meniscus.

**The volume established is based on the density of water (reference available upon request). A U.S. gallon is equivalent to .003785412 m^3 or 231 in^3.

For the Director,
National Institute of Standards and Technology

Dr. George E. Mattingly
Leader, Fluid Flow Group
Process Measurements Division
Chemical Science and Technology Laboratory

JFH:gk
836
TN 251140
8361604

U.S. DEPARTMENT OF COMMERCE

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY
Gaithersburg, Maryland 20899

REPORT OF CALIBRATION

November 5, 1992

Submitted by: Inspectorate
Pasadena, Texas

Seal No. 5841

Reference: Purchase Order No. 10078 dated 10-27-92

Item: 50 gallon vessel (Graduated Neck Type)

Maker: Seraphin (Maker #21474-A)

Material: Stainless Steel

Assumed Cubical Coefficient of Expansion, 0.0000265 per degree Fahrenheit

With the vessel described above, in a standing position and a reference attitude established by leveling the attached levels, and when drained for 30 seconds after cessation of the main flow, the volume of water delivered is as follows:

Scale Reading*	Volume Delivered at 60°F (U.S. Gal)**	Volume Delivered at 60°F (in^3)	Estimated Uncertainty (in^3)
0	49.9987	11549.7	± 4.6

A scale division between -60 and +60 is, as established by separate test, equivalent to 2 in^3.

The position of the graduated scale was not moved as part of the calibration procedure.

*The scale reading is determined by the intersection of the horizontal plane, tangent to the bottom of the meniscus.

**The volume established is based on the density of water (reference available upon request). A U.S. gallon is equivalent to .003785412 m^3 or 231 in^3.

For the Director,
National Institute of Standards and Technology

Dr. George E. Mattingly
Leader, Fluid Flow Group
Process Measurements Division
Chemical Science and Technology Laboratory

JFH:gk
836
TN 251140
8361604

U.S. DEPARTMENT OF COMMERCE

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY
Gaithersburg, Maryland 20899

REPORT OF CALIBRATION

November 5, 1992

Submitted by: Inspectorate
Pasadena, Texas

Seal No. 5840

Reference: Purchase Order No. 10078 dated 10-27-92

Item: 100 gallon vessel (Graduated Neck Type)

Maker: Seraphin (Maker #5890-B)

Material: Stainless Steel

Assumed Cubical Coefficient of Expansion, 0.0000265 per degree Fahrenheit

With the vessel described above, in a standing position and a reference attitude established by leveling the attached levels, and when drained for 30 seconds after cessation of the main flow, the volume of water delivered is as follows:

Scale Reading*	Volume Delivered at 60°F (U.S. Gal)**	Volume Delivered at 60°F (in^3)	Estimated Uncertainty (in^3)
0	100.0070	23101.6	± 4.6

A scale division between -150 and +150 is, as established by separate test, equivalent to 5 in^3.

The position of the graduated scale was not moved as part of the calibration procedure.

*The scale reading is determined by the intersection of the horizontal plane, tangent to the bottom of the meniscus.

**The volume established is based on the density of water (reference available upon request). A U.S. gallon is equivalent to .003785412 m^3 or 231 in^3.

For the Director,
National Institute of Standards and Technology

Dr. George E. Mattingly
Leader, Fluid Flow Group
Process Measurements Division
Chemical Science and Technology Laboratory

836
TN 440
836

U.S. DEPARTMENT OF COMMERCE

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY
Gaithersburg, Maryland 20899

REPORT OF CALIBRATION

November 5, 1992

Submitted by: Inspectorate
Pasadena, Texas

Seal No. 5839

Reference: Purchase Order No. 10078 dated 10-27-92

Item 100 gallon vessel (Graduated Neck Type)

Maker: Seraphin (Maker #8890-A)

Material: Stainless Steel

Assumed Cubical Coefficient of Expansion, 0.0000265 per degree Fahrenheit

With the vessel described above, in a standing position and a reference attitude established by leveling the attached levels, and when obtained for 30 seconds after cessation of the main flow, the volume of water delivered is as follows:

Scale Reading	Volume Delivered at 60°F (U.S. Gal)**	Volume Delivered at 60°F (in^3)	Estimated Uncertainty (in^3)
0	99.9929	23098.4	± 4.6

A scale division between -150 and +150 is, as established by separate test, equivalent to 5 in^3.

The position of the graduated scale was not moved as part of the calibration procedure.

*The scale reading is determined by the intersection of the horizontal plane, tangent to the bottom of the meniscus.

**The volume established is based on the density of water (reference available upon request). A U.S. gallon is equivalent to .003412 m^3 or 231 in^3.

For the Director,
National Institute of Standards and Technology

Dr. George E. Mattingly
Leader, Fluid Flow Group
Process Measurements Division
Chemical Science and Technology Laboratory

PERMA-CAL CORPORATION

Calibration Certificate

We certify that the gauge identified below has been tested and calibrated in the vertical position using precision test equipment (the accuracy of which is traceable to the NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY) and that this instrument is accurate to within ☒ ±1/4% full scale, ☐ ±1/2% full scale, ☐ ±1/2% mid scale, ☐ ± % full scale.

To verify calibration, use ☐ a 3:1 water:alcohol mixture ☒ nitrogen, with the filter snubber removed. If an Isolator is installed, DO NOT REMOVE: NOTE: Gauges tested with media more viscous than recommended, may indicate proportionately higher hysteresis.

1 FSW = .4444 PSI	1 mpa = 145.038 PSI	1 IN HG = 0.491 PSI
1 BAR = 14.5038 PSI	1 Kpa = 0.145038 PSI	1 kg cm² = 14.223 PSI

MODEL NO. [illegible] SERIAL NO PRR 11197

TEMPERATURE: 68°F – 77°F

APPLIED PRESS. (PSI)	INDICATED PRESS. (INCREASING)	INDICATED PRESS. (DECREASING)
0	0	0
20	19.90	19.90
40	40	40
50	50	50
60	60	60
80	80	80
100	90.90	90.90

CALIBRATED BY L. Tabullo SERIAL NO 507 DATE 6-7-90

WALTER H. KESSLER COMPANY, INC.

CALIBRATION SERVICES

THERMOMETERS KESSLER HYDROMETERS

GAUGING EQUIPMENT

ONE-SIXTY HICKS STREET • WESTBURY, NEW YORK 11590 516 334-4063 • FAX 516 334-2689

CERTIFICATE OF CALIBRATION

This is to certify that the instrument listed below has been certified in our temperature calibration laboratory using the most sensitive constant temperature equipment available. This calibration has been performed against National Institute for Standards and Technology certified master instruments in accordance with the procedures outlined by ASTM E77-87 and NIST Monograph 150.

artified for: INSPECTORATE AMERICA

escription: THERMOMETER RANGE 30/124F IN 0.1 DEG DIV 3IN IMMERSION

ıstrument Serial No.: 89C-2855 Date Certified: 01-11-1990

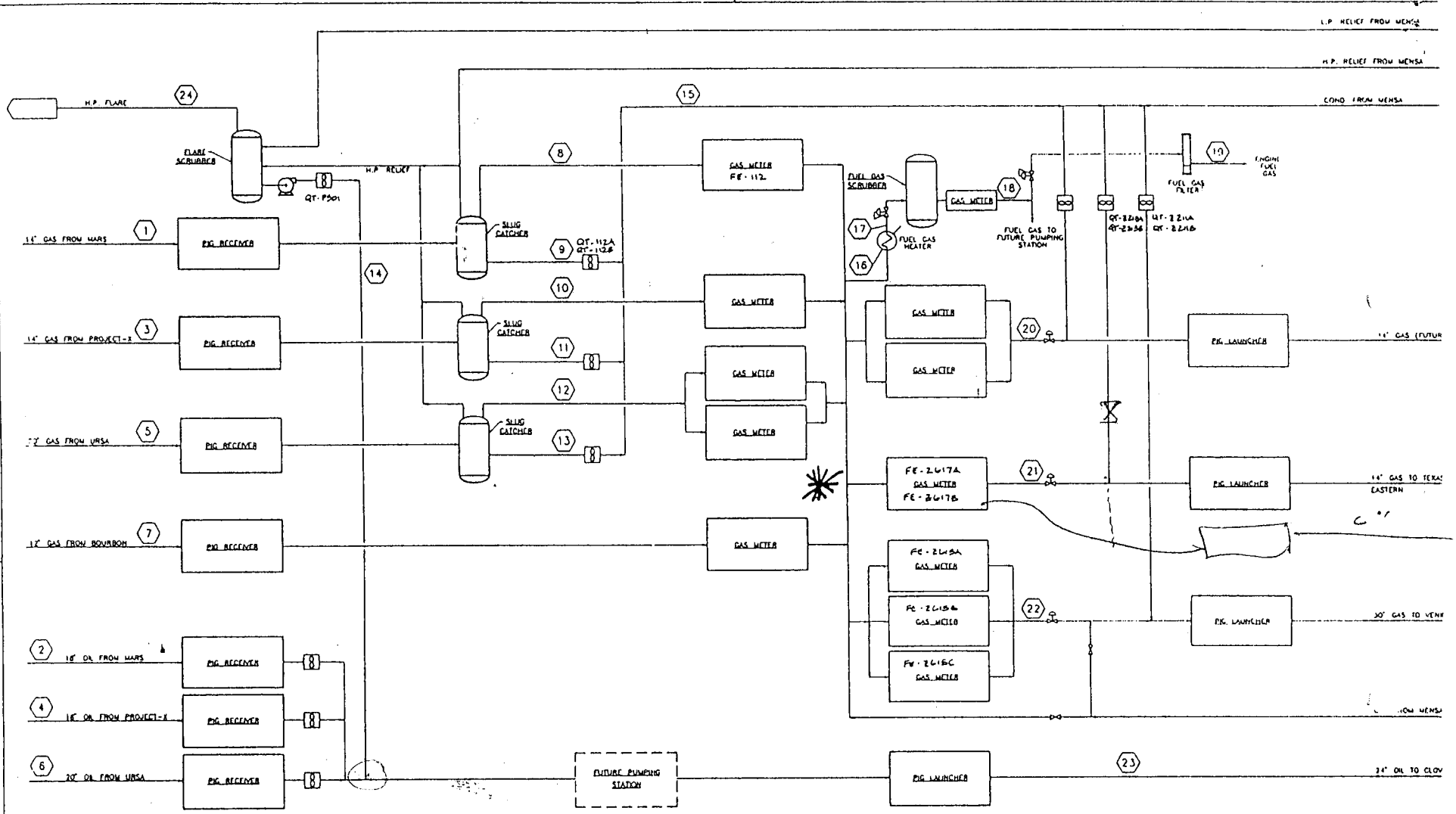
Reading of This Instrument	Reading of NIST Standard (True Temperature)
31.98 F	32.00 F
59.97 F	60.00 F
100.00 F	100.00 F
ESTIMATED UNCERTAINTIES IN THE ABOVE CORRECTIONS DO NOT EXCEED 0.030 F	

The tabulated readings apply provided the ice-point reading taken after exposure for not less than 3 days to a temperature of about 25°C (77°F) is 31.98 F . If the ice-point reading is found to be higher (or lower) than stated, all other readings will be higher (or lower) by the same amount.

Serial and Test numbers of National Institute for Standards and Technology certified instruments referenced in certification of the thermometer listed above:

NBS TEST#,STD#'S:763543,217383/P14452,176240/M41165,176240/,/

*CURRENT



STREAM	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
GAS MMSCFD	110	-	110	-	400	-	100	110	-	110	-	400	-	-	-	0.5/2.7+	0.5/2.7	0.5/2.7	0.5	370	100	550	-	400
CONDENSATE BPD(NORMAL/SLUG)	2400	-	2400	-	9600	-	NIL	-	4000/80,000	-	4000/80,000	-	16,000/80,000	-	24,000/80,000	-	-	-	-	-	-	-	-	-
OIL BPD	-	100,000	-	100,000	-	200,000	-	-	-	-	-	-	-	500	-	-	-	-	-	-	-	-	250,000	-
TEMPERATURE F	60	60	60	60	60	60	70	60	60	60	60	60	60	0	60	60	130	61	47	60	60	60	60	-44
PRESSURE PSIG	1200	1500	1200	1500	1200	1500	1200	1180	1180	1180	1180	1180	1180	1490	1175	1180	1175	190	30	1170	1170	1170	1460	100
OIL VISCOSITY CP	-	25	-	25	-	25	-	-	-	-	-	-	-	25	-	-	-	-	-	-	-	-	25	-
GAS S.G.	.72	-	.72	-	.72	-	.72	.72	-	.72	-	.72	-	-	-	.72	.72	.72	.72	.72	.72	.72	-	.72
OIL S.G.	-	.85	-	.85	-	.85	-	-	-	-	-	-	-	.85	-	-	-	-	-	-	-	-	.85	-
CONDENSATE S.G.	.43	-	.43	-	.43	-	-	-	.43	-	.43	-	.43	-	.43	-	-	-	-	-	-	-	-	-

+FUTURE FUEL GAS RATE

ORIGINAL REVISION STAMPED BY R. BLAIR SUNDQUIST REG. No. 13468 REGISTERED PROFESSIONAL ENGINEER IN CIVIL ENGINEERING

PROJECT ASSOCIATES INC.

ISSUED FOR MMS APPROVAL

REVIEWED BY: P.B. BOATRIGHT, R.M. RAINEY, A.E. PIPPIN

RELEASED ONLY FOR :

Shell Offshore In

COMPOSITE SIMPLIFIED PROCESS WITH METERED CONDENSATE

W.D. BLOCK 143 PLATFORM "A"
WEST DELTA 143 FIELD

JDT 2/95
A.E. PIPPIN
3/12/96

526A-

COMP. SIMP. PROCESS

Shell Oil Company

P. O. Box 60193
New Orleans LA 70160-0193

701 Poydras Street
One Shell Square - 15th Floor
New Orleans, LA 70139

Direct Number: (504) 728-4643
Direct Fax: (504) 728-4690

Legal Organization

RECEIVED
D.O.I.-MMS-RVD
99 AUG 20 AM 10:25

This facsimile may contain CONFIDENTIAL INFORMATION which also may be legally PRIVILEGED and which is intended only for the use of the Addressee(s) named below. If you are not the intended recipient of this facsimile, or the employee or agent responsible for delivering it to the intended recipient, you are hereby notified that any dissemination or copying of this facsimile may be strictly prohibited. If you have received this facsimile in error, please immediately notify us by telephone and return the original facsimile to us at the above addressed via the United States Postal Service. Thank you.

TELECOPY COVER SHEET

DATE: AUGUST 20, 1999

FROM: MICHAEL E. CONEY
LEGAL DEPARTMENT, NATURAL RESOURCES - NEW ORLEANS

TO: MS. SHIRLEY BARTON - (303) 275-7227
ROYALTY VALUATION DIVISION
MINERALS MANAGEMENT SERVICE

PAGES: 4 (INCLUDING COVER SHEET)

Please call Dianne Dauterive (504) 728-4644, to confirm receipt of transmittal. Thank you.

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834

Direct Number: (504) 728-4643
Direct Fax: (504) 728-4690

August 19, 1999

Via Fax – (303) 275-7227 and U.S. Mail
Ms. Shirley Barton
Minerals Management Service
Royalty Valuation Division
Department of Interior
P. O. Box 25165, MS 3150
Denver, CO 80225

Dear Ms. Barton:

RE: MARS GAS PIPELINE
REQUEST FOR DETERMINATION OF TRANSPORTATION STATUS

Attached hereto is an affidavit which I have prepared and had notarized verifying the facts necessary for making a determination under the Deepwater Guidelines published by the Minerals Management Service on May 20, 1999. If this affidavit is inadequate, please contact me immediately at (504) 728-4643.

Sincerely yours,

Michael E. Coney
Senior Counsel

MEC:DAD

Attachment

UNITED STATES OF AMERICA

STATE OF LOUISIANA

PARISH OF ORLEANS

AFFIDAVIT

BEFORE ME, the undersigned notary public, personally came and appeared:

MICHAEL E. CONEY

who after being duly sworn did depose and say:

1.

I am the attorney for Shell Deepwater Production Inc. and am personally familiar with the physical location and physical layout of Mississippi Canyon Block 807, commonly called the Mars Unit.

2.

Production from the Mars Platform located in Mississippi Canyon Block 807 moves via gas pipeline some sixty (60) miles to the West Delta 143 Platform. The West Delta 143 lease is not adjacent to the Mississippi Canyon Block 807 Unit or Platform. No point of West Delta 143 has contact or touches the Mississippi Canyon Block 807 Unit leases.

3.

The Mississippi Canyon Block 807 Unit is located in a water depth more than 200 meters.

4.

The production moved from the Mars Platform located at Mississippi Canyon Block 807 is pipeline quality gas which has been treated for the removal of impurities.

5.

The MMS Gulf of Mexico Regional Office has designated a meter at West Delta 143 Platform as the FMP for royalty purposes. The MMS valuation regulations use the FMP as the starting point for determining volume and value for royalty purposes. SDPI's production is sold to a Shell affiliate at a point onshore, State of Louisiana.

6.

This affidavit is made of my own best knowledge and belief.

Michael E. Coney

Michael E. Coney

SWORN AND SUBSCRIBED BEFORE ME this 20th day of August, 1999

Notary Public

My Commission expires at death.

RECEIVED
D.O.I.-MMS-RVD
99 AUG 23 PM 4:26

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834

Direct Number: (504) 728-4643
Direct Fax: (504) 728-4690

August 19, 1999

Via Fax – (303) 275-7227 and U.S. Mail
Ms. Shirley Barton
Minerals Management Service
Royalty Valuation Division
Department of Interior
P. O. Box 25165, MS 3150
Denver, CO 80225

Dear Ms. Barton:

RE: MARS GAS PIPELINE
REQUEST FOR DETERMINATION OF TRANSPORTATION STATUS

Attached hereto is an affidavit which I have prepared and had notarized verifying the facts necessary for making a determination under the Deepwater Guidelines published by the Minerals Management Service on May 20, 1999. If this affidavit is inadequate, please contact me immediately at (504) 728-4643.

Sincerely yours,

Mike

Michael E. Coney
Senior Counsel

MEC:DAD

Attachment

UNITED STATES OF AMERICA

STATE OF LOUISIANA

PARISH OF ORLEANS

AFFIDAVIT

BEFORE ME, the undersigned notary public, personally came and appeared:

MICHAEL E. CONEY

who after being duly sworn did depose and say:

1.

I am the attorney for Shell Deepwater Production Inc. and am personally familiar with the physical location and physical layout of Mississippi Canyon Block 807, commonly called the Mars Unit.

2.

Production from the Mars Platform located in Mississippi Canyon Block 807 moves via gas pipeline some sixty (60) miles to the West Delta 143 Platform. The West Delta 143 lease is not adjacent to the Mississippi Canyon Block 807 Unit or Platform. No point of West Delta 143 has contact or touches the Mississippi Canyon Block 807 Unit leases.

3.

The Mississippi Canyon Block 807 Unit is located in a water depth more than 200 meters.

4.

The production moved from the Mars Platform located at Mississippi Canyon Block 807 is pipeline quality gas which has been treated for the removal of impurities.

5.

The MMS Gulf of Mexico Regional Office has designated a meter at West Delta 143 Platform as the FMP for royalty purposes. The MMS valuation regulations use the FMP as the starting point for determining volume and value for royalty purposes. SDPI's production is sold to a Shell affiliate at a point onshore, State of Louisiana.

6.

This affidavit is made of my own best knowledge and belief.

Michael E. Coney

Michael E. Coney

SWORN AND SUBSCRIBED BEFORE ME this 20th day of August, 1999

Notary Public

My Commission expires at death.

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834

Direct Number: (504) 728-4643
Direct Fax: (504) 728-4690

August 4, 1998

Via Airborne Express

Minerals Management Service
ATTN: Ms. Deborah Gibbs-Tschudy
Chief, Royalty Valuation Division
P. O. Box 25165, MS 3150
Denver, CO 80225-0165

RECEIVED
1998 AUG -5 AM 10:22
MMS
VAL. & STDS. DIV

Dear Ms. Gibbs-Tschudy:

RE: MMS-RVD-ECON:98-0260
MAIL STOP 3151
MARS GAS PIPELINE TRANSPORTATION APPEAL

Shell Deepwater Production Inc. hereby gives notice of its appeal of the decision of July 6, 1998, denying transportation status to the gas pipeline extending between the Mars platform located at Mississippi Canyon Block 807 Platform to the West Delta 142 Platform. This decision was received by Shell Deepwater Production Inc. on July 10, 1998. Therefore, this appeal is within thirty (30) days of the date of the receipt of the decision.

The decision of the MMS is arbitrary and capricious and contrary to existing law since:

1. The gas moved in the Mars gas pipeline is equal to or in excess of pipeline sales quality gas customarily accepted in the Gulf of Mexico for sale.

2. The gas is transported approximately 65 miles away from the Mars lease to the West Delta platform. This movement can only reasonably be classified as transportation.

3. The Mars platform already has in place a royalty measurement quality/sales quality meter through which the gas is measured. From August 1996 through April 1997, royalty measurement occurred at the Mars platform.

Proj No

DD821602.LTR

98-0347

App No

98-0153

4. The production moving from Mars is not bulk production but pipeline quality sales production.

5. The gas in the Mars gas pipeline is already in marketable condition at the time it leaves the Mars platform.

An extension of time to file written reasons in support of the appeal is requested up through and including September 10, 1998. The additional time is needed in order to prepare adequate legal arguments and to provide and gather factual evidence in support of Shell Deepwater's position in this matter.

Pursuant to 30 CFR §243.2 (1997) compliance with the order is presumed suspended since the Director has not notified Shell Deepwater in writing that the order is not suspended pending appeal.

Questions regarding this matter should be directed to M. E. Coney at the above phone number and address.

Sincerely yours,

Michael E. Coney

Michael E. Coney, Attorney
For Shell Deepwater Production Inc.

MEC:DAD

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB: 99-0380
Mail Stop 3151

JUL 23 1999

CH signed 7-23-99
RA Lundy 7-23-99

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney At Law
Shell Deepwater Production Inc.
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Dear Mr. Coney:

On August 28, 1998, the Royalty Valuation Division withdrew its denial of your request for a transportation allowance for the Mars gas pipeline extending from the Mars Platform, located at Mississippi Canyon Block 807, to the West Delta 142 Platform. In a Memorandum dated May 20, 1999, the Associate Director for Royalty Management issued guidelines for determining transportation allowances for deepwater production. We will review your previous request using these guidelines, as well as the following information that you need to provide:

- Identify lease and well locations.
- Identify boundary lines of adjacent leases.
- Describe the depth of the pipeline or flowline.
- Identify where production is measured for royalty purposes.
- Identify where production is valued for royalty purposes.

The information requested above is necessary to determine whether your situation warrants a transportation allowance, and not to determine whether any subsequent allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.157. If you wish to apply for this exception, the additional information will be required.

It is our policy to retain projects requiring additional documentation for 30 days. After the 30-day period, all project files are closed if the requested information has not been received in this office. Please submit the requested information within 30 days form the date of this letter to:

P 968 384 667

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MICHAEL E. CONEY
ATTORNEY AT LAW
SHELL DEEPWATER PRODUCTION INC.
P.O. BOX 60834
NEW ORLEANS, LOUISIANA 70160-0834

PS FORM 3800 US Postal Service **Receipt for Certified Mail**

IMPORTANT! PLACE STICKER AT TOP OF ENVELOPE TO

LMS:MMS:RMP:EVB:SBarton:99-0380

SENDER:
- Check box at right if you require Restricted Delivery.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

MICHAEL E. CONEY
ATTORNEY AT LAW
SHELL DEEPWATER PRODUCTION INC.
P.O. BOX 60834
NEW ORLEANS, LOUISIANA 70160-0834

4a. Article Number: P 968 384 667

4b. Service Type: ☒ CERTIFIED

7. Date of Delivery: JUL 29 1999

NEW ORLEANS LA BOX SECTION DIV USPS

5. Received By: *(Print Name)*

8. Addressee's Address

6. Signature: *(Addressee or Agent)*

X

PS FORM 3811, December 1994 Domestic Return Receipt

LMS:MMS:RMP:EVB:SBarton:99-0380

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-ECON:98-0260
Mail Stop 3151

JUL - 6 1998

CERTIFIED MAIL---
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney for Shell Deepwater Production Inc.
Shell Deepwater Production Inc.
One Shell Square
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Dear Mr. Coney:

Thank you for your letter dated April 29, 1998. You are requesting the Minerals Management Service (MMS) to approve an allowance for transportation of bulk production from the Mississippi Canyon (MC) 807 Unit to the royalty measurement settlement point at the West Delta 142 Platform.

The MC 807 Platform is located in deepwater Gulf of Mexico, approximately 60 miles from West Delta 142. Gas production comes to the surface at the Platform A located at MC 807. The liquids are then separated and transferred to the oil line and moved to shore. The dehydrated gas is moved to West Delta 142 via separate pipeline. Upon reaching the West Delta 142 Platform, the gas enters into a dedicated slug catcher at which time retrograde condensate falls out. The gas is then measured and transported from West Delta 142 to shore via a separate gas line.

Shell believes that the gas line moving from MC 807 to West Delta 142 should be classified as a transportation pipeline since the distance moved is 60 miles and the production being moved is of pipeline sales quality.

Current Federal regulations and instructions establish the procedures for transportation allowances. Title 30 CFR § 206.151 (1997) defines a transportation allowance as follows:

> Transportation allowance means an allowance for the cost of moving royalty bearing substances (identifiable, measurable oil and gas, including gas that is not in need of initial separation) from the point at which it is first identifiable and measurable to the sales point or other point where value is established under this subpart.

Gathering is defined as:

> . . . the movement of lease production to a central accumulation or treatment point on the lease, unit, or communitized area, or to a central accumulation or treatment point off the lease, unit, or communitized area as approved by BLM (Bureau of Land Management) or MMS OCS (Outer Continental Shelf) operations personnel for onshore and offshore leases, respectively.

The MMS cannot grant a transportation allowance for movement of bulk production from MC 807 to the royalty measurement settlement point at the West Delta 142 platform. The movement is clearly gathering. The fact that production is moved 60 miles to West Delta platform is not a determining factor in distinguishing transportation from gathering. Gathering is necessary to put gas into marketable condition and bring it to the point of royalty measurement. Gas cannot be sold and delivered to a pipeline, nor can it be treated , or compressed to pipeline pressure without first being gathered from various producing wells.

In its comments at 53 F.R. 1240, "gathering," MMS explains why the terminology, " . . . or to a central accumulation or treatment point off the lease, unit or communitized area, . . ." was retained:

> The definition has been retained intact. The operational regulation of both BLM and MMS require that a lessee place all production in a marketable condition, if economically feasible, and that a lessee properly measure all production in a manner acceptable to the authorized officials of those agencies. Unless specifically approved otherwise, the requirements of the regulations must be met prior to the production leaving the lease. Therefore, when approval has been granted for the removal of production from a lease, unit, or communitized area for the purpose of treating the production or accumulating production for delivery to a purchaser prior to the requirements of operations regulations having been met, MMS does not believe that any allowances should be granted for costs incurred by a lessee in these instances. (Emphasis Added)

Shell also contends it is entitled to a transportation allowance because the production is of pipeline sales quality. MMS cannot approve a transportation allowance on this basis, as there can be a market for gas anywhere. The relevant facts are that gas must still be gathered to the West Delta 142 platform to be measured and treated. The price for the gas at MC 807 likely would be low, as the purchaser would not simply absorb these costs.

In R.E. Yarbough & Co. 122 IBLA 222, the facts are similar to the instant case.

Key to the relevance of the Circuit Court's holding in resolving Yarbrough's appeal is the following paragraph from the court's opinion:

> The premise for the Secretary's decision in the case before us was that, since the lessee was obligated to market the product, he was obligated to put it in marketable condition. Theoretically, any gas--any "production"--is "marketable". We can assume that, if the price were low enough to justify capital expenditures for conditioning equipment, someone would undertake to buy low pressure gas having a high water and hydrocarbon content. A lessee who sold unconditioned gas at such a price would, in a rhetorical sense, be fulfilling his obligation to "market" the gas, and by thus saving on overhead he might find such business profitable. There is a clear difference between marketing and merely selling. For the former there must be a market, an established demand for an identified product. We suppose almost anything can be sold if the price is no consideration. (Emphasis Added)

The above cited case further states:

> Although we think it is clear from the above-quoted discussion that the court in California Co. distinguished this type of "sale" from "marketing" of gas production, it is evident from cases such as Big Piney Oil & Gas Co., supra, and Placid Oil Co., supra, that deduction from market value for costs of gathering and compression necessary to market the gas are not deductible even where incurred after the transfer of title from the lessee. Recent litigation has confirmed that the "Marketable Condition Rule" requires valuation of gas production without deduction of the costs of gathering and compressing the gas necessary to place the gas in marketable condition. Mesa Operating Ltd. v. U.S. Department of the Interior, 931F.2d 318, 325. (1991)

Therefore, the MMS is denying your request to consider the gas movement from MC 807 to West Delta 142, as transportation. The movement is clearly gathering.

You have the right to appeal his decision. Please refer to the enclosed Appeals Procedure and Bonding Requirements (Enclosure).

If you have any questions, please call Ms. Colette Haines at (303) 275-7215.

Sincerely,

Deborah Gibbs Tschudy

Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

Enclosure

bcc: RM Chron
RM Chron DC/Lakewood
RVD Chron (2)
EVB Chron
LMS:RMP:RVD:EVB:MS3151:Haines:275-7215:p:\rvdshar~1\econ\t&p\98-0260.wpd:
final:mmd:5/29/98:re-final:mkr:06/15/1998

Shell Offshore Inc.

An affiliate of Shell Oil Company

PO Box 61933
New Orleans LA 70161

Legal Organization

701 Poydras Street
One Shell Square - 15th Floor
New Orleans, LA 70139

Direct Number: (504) 728-4643
Direct FAX: (504) 728-4690

September 9, 1998

Via Fax - (303) 275-7227
Ms. Deborah Gibbs-Tschudy
Chief, Royalty Valuation Division
Minerals Management Service
P. O. Box 25165, MS 3150
Denver, CO 80225-0165

Dear Ms. Gibbs-Tschudy:

RE: VALUATION DETERMINATION FOR MARS GAS PIPELINE'S TRANSPORTATION STATUS
MMS-98-0153-OCS

I am confused and somewhat perplexed by the procedure utilized in declaring my appeal moot. Although I am anxious to be cooperative in disposing of this matter efficiently and promptly, I am concerned about protecting Shell's procedural standing in this matter.

30 CFR §290.2 provides that any party adversely impacted by a final order of the agency has a right to appeal to the Director. Once the appeal has been filed to the Director, the original officer issuing the decision no longer has the discretion to terminate the appeal by reversing that decision. Pursuant to 30 CFR §290.3 this appeal now lies before the Director of the MMS. The duty of the officer issuing the appeal is to transmit the appeal and accompanying papers to the Director with a full report and recommendation on the appeal. If the Director wishes to remand this matter to the deciding officer for reconsideration, then that is fully within the discretion of the Director. To do otherwise would leave the appeal rules in a state of utter chaos.

Therefore, Shell hereby asks that the Director confirm a remand of the appeal back to the deciding officer for reconsideration.

Until this procedural matter has been clarified there appears to be little purpose in Shell filing further reasons in this appeal. Therefore, an extension of time up through and including November 30, 1998, within which to file additional reasons is requested. In the alternative, if this extension is denied, then you are requested to forward your August 28, 1998 letter to the Director as your recommendation under 30 CFR §290.3.

Please understand that I am happy to be cooperative but am confused at the procedures utilized. Because of the high volume of production from the Mars unit, we are very interested in resolving the issue raised in our April 29 request. Please call if there is a simpler resolution to this matter.

Sincerely yours,

Michael E. Coney

Michael E. Coney, Attorney
For Shell Offshore Inc.

MEC:DAD

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-ECON:98-0347
Mail Stop 3151

AUG 28 1998

CERTIFIED MAIL---
RETURN RECEIPT REQUESTED

Mr. Michael E. Coney
Attorney for Shell Deepwater
Production Inc.
Shell Deepwater Production Inc.
P.O. Box 60834
New Orleans, Louisiana 70160-0834

Re: Gathering Determination

Appellant:	Shell Deepwater Production Inc.
MMS Order Date	July 6, 1998
Appeal Docket No.	MMS-98-0153-OCS

Dear Mr. Coney:

By letter dated July 6, 1998, the Royalty Valuation Division (RVD) denied your request for a transportation allowance for the Mars gas pipeline extending between the Mars platform located at Mississippi Canyon Block 807 to the West Delta 142 Platform. Shell Deepwater Production Inc. filed a Notice of Appeal (Appeal) of that decision by letter dated August 4, 1998.

The RVD hereby withdraws its July 6, 1998, decision to allow us to further evaluate this situation. Therefore, your appeal is moot.

If you have any questions, please call Ms. Colette Haines at (303) 275-7215.

Sincerely,

Deborah Gibbs Tschudy

Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

RECEIVED
D.O.I. - MMS
1998 APR 30 AM 10: 55
VAL. & STDS. DIV

Shell Deepwater Production Inc.

One Shell Square
PO Box 60834
New Orleans LA 70160-0834

Writer's Direct No.: (504) 728-4643
Writer's Fax No.: (504) 728-4690

April 29, 1998

Via Airborne Express

Ms. Deborah Gibbs-Tschudy
Valuation & Standards Division
Minerals Management Service
12600 W. Colfax Avenue, Suite C-100
Lakewood, CO 80215-3736

Dear Ms. Gibbs-Tschudy:

RE: MARS GAS PIPELINE - REQUEST FOR DETERMINATION OF TRANSPORTATION STATUS

This written request follows phone conversations between representatives of the Gulf of Mexico Operations Office (Eric Primeaux) and the Denver MMS Office, as well as my own conversations with you relative to the status of the pipeline carrying gas from Shell Deepwater Production Inc. (hereinafter "Shell") Mississippi Canyon 807 Unit (Mars Unit). In these discussions, MMS Denver Office has been informed that the MMS Gulf of Mexico Regional Office has issued a commingling approval for Mars production which sets the royalty measurement settlement point at the West Delta 142 Platform, some 60 miles from Mississippi Canyon Block 807 (MC 807) where production reaches the surface. Shell has filed a notice of appeal of that commingling order and among other things is concerned about the impact on the deductibility of the transportation allowance caused by setting the royalty settlement and measurement point to West Delta 142. The MMS Regional Office in Metairie and Shell have been working diligently to resolve and compromise differences regarding the setting of the settlement point but Shell remains concerned about the impact on the characterization of the gas pipeline as transportation or gathering if the measurement and settlement point is set at West Delta 142. If the pipeline is characterized as a gathering line, then the treatment of the value of gas for royalty purposes would be impacted since gathering is generally considered a non-deductible expense from royalty. On the other hand, if the line is characterized as a transportation line, then it would be perfectly clear that Shell is entitled to deduct its multi-million dollar investment in the pipeline in accordance with the royalty valuation regulations.

DD811904.WPD

98-0260

Therefore, the valuation issue for determination is whether MMS will classify the gas pipeline moving from the Mars Platform at MC 807 to the platform at West Delta 142 as a transportation line for which Shell, as lessee, would be entitled to take a transportation allowance from royalty. The facts surrounding this request are as follows.

The MC 807 Platform is located in deepwater Gulf of Mexico, approximately 60 miles from West Delta 142. Gas production comes to the surface at the Platform A located at MC 807. Liquids are separated from the gas at MC 807 with the liquids then transferred to the oil line and moved to shore with the dehydrated gas of pipeline quality then moving via a 14" pipeline some 60 miles to West Delta 142. LACT quality measurement facilities are present at MC 807 and the gas is dry gas of suitable pipeline quality for sale according to the custom and practice of the Gulf of Mexico. Upon reaching the West Delta 142 Platform, the Mars gas enters into a dedicated slug catcher at which time retrograde condensate falls out. The retrograde condensate which falls out is a result of a combination of the richness of the gas and the temperature and pressure changes occasioned by bringing the gas to surface temperature and pressure when it has been moved at low temperatures at high pressure along the Gulf sea floor. Retrograde condensate is then separately measured and the gas moves off West Delta 142 via a separate gas line. The condensate moves in a separate line to shore.

Under Shell's ordinary operating plan, the gas will move to the shore via the Mississippi Canyon Gathering System 30" pipeline. Shell is not concerned at this time with the Mississippi Canyon Gathering System but with the 60 mile transportation from MC 807 to West Delta 142 via the 14" pipeline. The MMS's commingling plan approves the setting of the royalty settlement and measurement point at West Delta 143.

Shell believes that the 14" Mars gas line moving from MC 807 to West Delta 143 should be classified as a transportation pipeline since the distance moved is 60 miles and the production being moved is of pipeline sales quality. The cost of installing a deepwater gas line such as Mars is approximately $1 million per mile and Shell believes it would be legally incorrect and inequitable to deny Shell the right to take a gas transportation allowance merely through the setting of the royalty settlement and measurement point. However, since the royalty measurement and settlement point is set at West Delta 143, Shell has concern about taking a transportation allowance without first securing MMS's approval to do so.

Shell needs this decision in order to calculate its royalty and makes this request pursuant to 30 CFR §206.152(g). Shell also needs this decision in order to conclude its appeal of the Gulf of Mexico Regional Office's commingling order. A prompt disposition is requested in this matter since the Gulf of Mexico Regional Office and

Shell have been working diligently toward resolving their differences on commingling approval. If you have questions concerning this matter, please don't hesitate to call.

Sincerely yours,

Michael E. Coney

Michael E. Coney, Attorney
For Shell Deepwater Production Inc.

MEC:DAD

cc: Mr. Michael Melacon
Mr. Eric Primeaux
Gulf of Mexico Regional Office
Minerals Management Service
1201 Elmwood Park Blvd.
New Orleans, LA 70123-2394

Royalty Valuation Division
Project Closure Report

20-Jun-00

RVD Group	Project Number	Employee Name	Project Description	Priority	Work Element Name
EVB	O0-0143	BARTON	Request for deepwater transportation Oyster Subsea System - Ewing Bank 917	3	Approval for pre-3/89 Transportation Allowance Requests

Date Received	Date Assigned	Date Completed
3/27/2000	3/30/2000	5/11/2000

Company Name: Marathon Oil Company

Appeal Number:

Product Name: Unprocessed Gas
Oil

Tribe Name:

Summary

BARTON

Request for deepwater transportation denied. Marathon did not meet all the requirements as stated in the May 20, 1999, memorandum. Leases are adjacent to each other.

P 974 152 261

RETURN RECEIPT SERVICE	POSTAGE		POSTMARK OR DATE
	RESTRICTED DELIVERY		
	CERTIFIED FEE + RETURN RECEIPT		
	TOTAL POSTAGE AND FEES		
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MARATHON OIL COMPANY
ATTN: MR. DOW L. CAMPBELL
ATTORNEY
539 SOUTH MAIN STREET
FINDLAY, OH 45840-3295

PS FORM 3800 US Postal Service

Receipt for Certified Mail

IMPORTANT! PLACE STICKER AT TOP OF ENVELOPE TO

LMS:MMS:RVD:EVB:SBarton:00-0143

SENDER:
- Check box at right if you require Restricted Delivery.
- Print your name and address on the reverse of this form so that we can return this card to you.
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- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee)

☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

MARATHON OIL COMPANY
ATTN: MR. DOW L. CAMPBELL
ATTORNEY
539 South Main St.
FINDLAY, OH 45840-3295

4a. Article Number: P 974 152 261

4b. Service Type: ☒ CERTIFIED

7. Date of Delivery

5. Received By: (Print Name) Keith Ensign

8. Addressee's Address

6. Signature: (Addressee or Agent) X

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LMS:MMS:RVD:EVB:SBarton:00-0143

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB: 00-0143
Mail Stop 3151

MAY 11 2000

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Dow L. Campbell
Attorney
Marathon Oil Company
539 South Main Street
Findlay, Ohio 45840-3295

Dear Mr. Campbell:

By letter dated March 24, 2000, you requested on behalf of Marathon Oil Company (Marathon) a transportation allowance for the movement of production through the Oyster Development System (Oyster System). In your request you cited the May 20, 1999, memorandum issued by the Associate Director for Royalty Management (ADRM) providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure 1.) The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty-bearing substances.

RVD Analysis

The information submitted shows that Marathon transports bulk oil and gas production from Ewing Bank Block 917 (EB 917) to Ewing Bank Block 873 (EB 873) where the oil, gas, and water are separated and measured. Once separated, the oil and gas are shipped onshore through separate pipelines.

The MMS Oil and Gas Payor Handbook, Volume III, pg.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS [Minerals Management Service] approval (30 CFR § 206.105(a)(2)(i) and 30 CFR § 206.105(b)(3)(i)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and lessees may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs not related to transportation cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The royalty meter location is often a deciding factor in determining whether movement is transportation or gathering. Your (Marathon's) request for movement of production for the Oyster System is from EB 917 to EB 873, with the royalty meter located at EB 873. However, in applying the ADRM's May 20, 1999, guidance, we need to define the central accumulation point.

The Oyster System consists of a single subsea well located at EB 917 with a tieback to Platform A at EB 873. The subsea facilities consist of a subsea tree, the PLET (pipeline end termination), dual pipe-in-pipe flowlines, a control umbilical, an umbilical termination assembly, a flowline jumper, and electric and hydraulic flying leads. The subsea well is controlled from EB 873, Platform A by a direct hydraulic control system via a 14-line umbilical. All production flows through the flowlines to EB 873 where production is then separated and measured. Applying Guideline 3 in isolation, the subsea well might be considered the central accumulation point and the subsequent movement of production might be considered transportation. However, when approving an allowance for deepwater transportation all guidelines must be taken into consideration.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

Production is from EB 917 only.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deepwater lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico shows that EB 917, where the production originates for the Oyster System, is adjacent to EB 873. Platform A on EB 873 is about 3 miles from EB 917.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

The EB 917 single well is located at a water depth of 1,195 feet. This converts to approximately 364 meters. Since the well is much deeper than the prescribed minimum depth, this is not an issue.

Using the referenced guidelines, we deny your request for a transportation allowance for movement of oil and gas production from the subsea manifold on EB 917 to EB 873. Guideline 5 clearly states that to qualify for the deepwater transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. Your request does not satisfy this requirement.

You have the right to appeal this decision. Please refer to the enclosed Appeals Procedures. (See Enclosure 2.) If you have any questions, please call Ms. Shirley Barton at (303) 275-7222.

Sincerely,

Original Signed by
Deborah Gibbs Tschudy

Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

Enclosures

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB: 00-0143
Mail Stop 3151

MAY 11 2000

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Dow L. Campbell
Attorney
Marathon Oil Company
539 South Main Street
Findlay, Ohio 45840-3295

Dear Mr. Campbell:

By letter dated March 24, 2000, you requested on behalf of Marathon Oil Company (Marathon) a transportation allowance for the movement of production through the Oyster Development System (Oyster System). In your request you cited the May 20, 1999, memorandum issued by the Associate Director for Royalty Management (ADRM) providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure 1.) The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty-bearing substances.

RVD Analysis

The information submitted shows that Marathon transports bulk oil and gas production from Ewing Bank Block 917 (EB 917) to Ewing Bank Block 873 (EB 873) where the oil, gas, and water are separated and measured. Once separated, the oil and gas are shipped onshore through separate pipelines.

RVD Analysis

Production is from EB 917 only.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deepwater lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico shows that EB 917, where the production originates for the Oyster System, is adjacent to EB 873. Platform A on EB 873 is about 3 miles from EB 917.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

The EB 917 single well is located at a water depth of 1,195 feet. This converts to approximately 364 meters. Since the well is much deeper than the prescribed minimum depth, this is not an issue.

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You have the right to appeal this decision. Please refer to the enclosed Appeals Procedures. (See Enclosure 2.) If you have any questions, please call Ms. Shirley Barton at (303) 275-7222.

Sincerely,

Deborah Gibbs Tschudy

Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

Enclosures

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management Lucy Querques Denett

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifing deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Enclosure 2

United States Department of the Interior
Minerals Management Service

IF YOU APPEAL, THE FOLLOWING PROCEDURES MUST BE FOLLOWED

1. Notice of Appeal	You may appeal this directive to the Director, Minerals Management Service (MMS). You must file a Notice of Appeal within **30 days** of receiving this letter. See 30 CFR Part 290, Subpart B (64 FR 26258, May 13, 1999).
2. Where to File Notice of Appeal And Statement of Reasons	Minerals Management Service Attention: Ms. Deborah Gibbs Tschudy Chief, Royalty Valuation Division P.O. Box 25165, MS 3150 Denver, Colorado 80225-0165 Telephone (303) 275-7200 Fax No.: (303) 275-7227
3. Statement of Reasons . .	You have **30 days** from the receipt of this letter to send us your reasons why you think we should reverse or change this directive.
4. Extension to File Statement of Reasons	If you need more than **30 days**, you must file a written request for an extension to file a Statement of Reasons within the 30-day appeal time period. You must include reasons why you need the time extension. Send your request to Chief, Royalty Valuation Division at the address shown above.
5. Notice to Lessee	If you are not the lessee of the Federal leases involved in the order being appealed, you (as the designee) are required to serve your Notice of Appeal on those lessees. See 30 CFR § 290.105(a)(2) (64 FR 26259, May 13, 1999). Proof of service of this notice shall be provided to the MMS office at the address shown above.
6. Suspension of Directive/ Order	Your compliance with this directive shall be suspended pending the outcome of the appeal. Since the order being appealed does not involve the payment of a specified amount, you are not required to post a surety. See 30 CFR § 243.8(a)(1) (64 FR 26255, May 13, 1999).

Dow Campbell
Attorney

RECEIVED
D.O.I.-MMS-RVD
00 MAR 27 PM 3:52

Marathon Oil Company

539 South Main Street
Findlay, OH 45840-3295
Direct No. 419/421-4121
Main No. 419/422-2121
Facsimile 419/427-3681
E-mail: DLCampbell@MarathonOil.com

March 24, 2000

Via Overnight Mail

Minerals Management Service
Ms. Deborah Gibbs Tschudy, Chief
Royalty Valuation Division
P.O. Box 25165, Mail Stop 3150
Denver, Colorado 80225-0165

Re: Request for Transportation Allowance for Deepwater Production
Oyster Subsea Development System (Ewing Bank Block 917)

Dear Ms. Tschudy:

On May 20, 1999, the Associate Director for Royalty Management issued a memorandum addressed to you and the RMP Audit Managers entitled: *Guidance For Determining Transportation Allowances For Production From Leases In Water Depths Greater Than 200 Meters* (a copy of which is enclosed).

Marathon Oil Company has reviewed this memorandum with regard to our Oyster Subsea Development System and, except for the fact that the movement is to a facility which is located on an adjacent lease, it clearly meets the deepwater requirements set forth in the guidance memo. This situation is nearly identical to Marathon's Arnold Development (Ewing Bank Block 963), which meets the requirements in the guidance memo, the only distinction being that the Oyster System does not transport production beyond an adjacent lease. Since Oyster production is transported over a shorter distance, the effect should generally result in lower transportation rates applicable to the system.

Enclosed for your review and analysis is a description (including a summary and diagrams) of the configuration of the Oyster System (Ewing Bank Block 917).

We recognize that this system falls into the category of requiring a case-by-case analysis, therefore, please advise if there is any additional information or documentation that Marathon could provide to the MMS to aid in its review and approval of a transportation allowance for the Oyster System based on the May 20, 1999, guidance memo?

Thank you for your consideration of this request.

Sincerely,

Dow L Campbell

Dow L. Campbell

Enclosures

[115227]

cc: B. L. Benson
R. E. Good
C. A. Sudlow
M. P. White

OP—0143

Oyster Subsea Development System

Ewing Bank Block 917 (also known as Oyster) is a subsea development in 1,195 feet of water located approximately three miles south of Ewing Bank Block 873, Platform "A". The platform is located in approximately 750 feet of water and is operated by Marathon Oil Company.

The Oyster development consists of a single subsea well tied-back to the platform. The project was completed on a fast track schedule, requiring 15 months from initial discovery to first oil production. The field first produced oil on April 5, 1998 at a rate of 11,300 BOPD and 11.5 MMSCFD.

The subsea well was drilled with a semi-submersible rig prior to installing the subsea facilities and additional production facilities required on Ewing Bank Block 873, Platform "A". The subsea facilities consist of a subsea tree, the PLET (pipeline end termination), dual pipe-in-pipe flowlines, a control umbilical, an umbilical termination assembly (UTA), a flowline jumper, and electric and hydraulic flying leads. The facilities added to Ewing Bank Block 873, Platform "A" include pigging facilities, chemical injection and storage facilities, ethanol injection and storage facilities, a hydraulic pressure unit (HPU) and a well control panel.

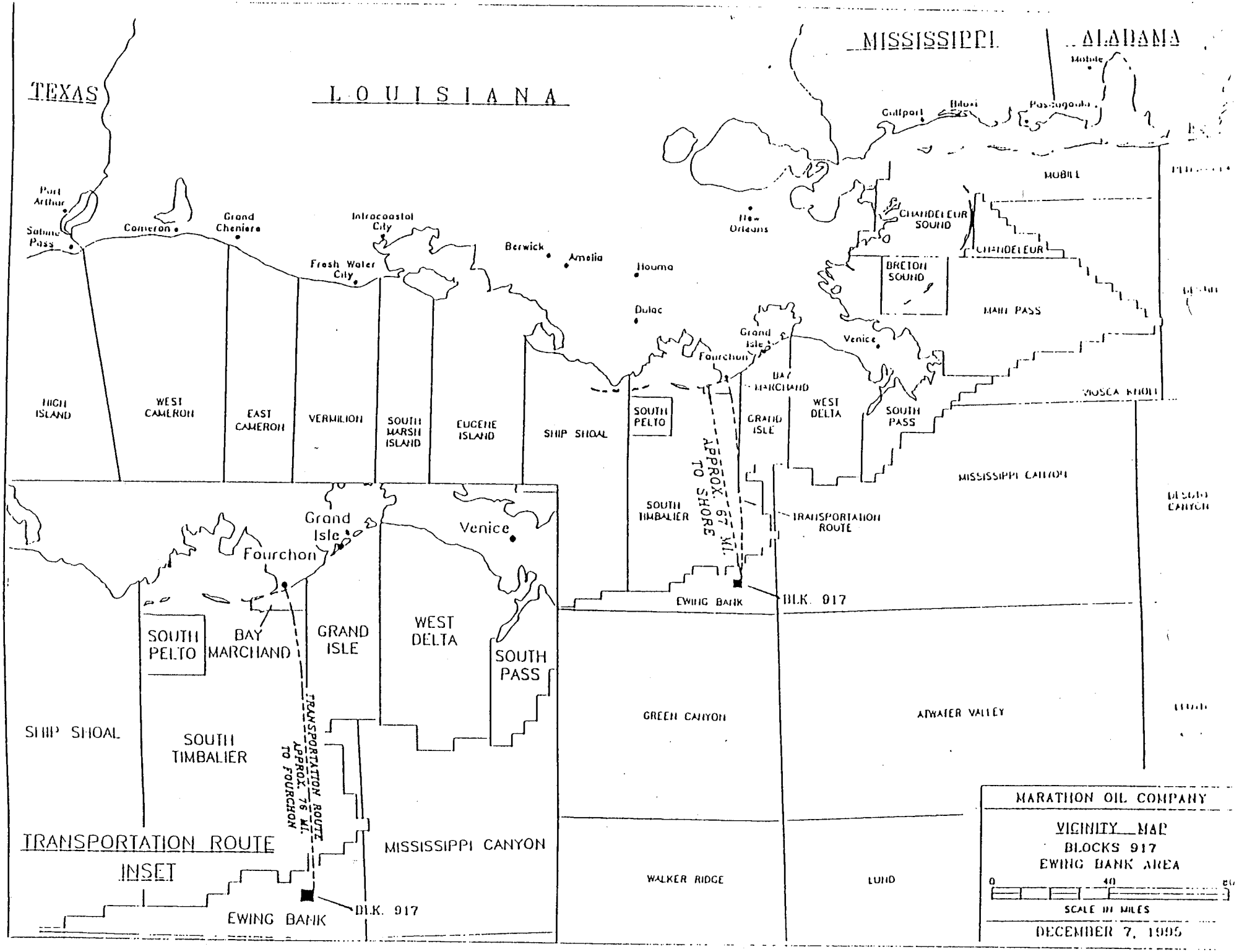
The well is attached to the aforementioned PLET by a 4" steel jumper with "Oceaneering" type flanges. The PLET has an additional mandrel for another well to be tied into the system, giving the system limited expansion capabilities. The subsea well is controlled from Ewing Bank 873, Platform "A" by a direct hydraulic control system via a 14-line umbilical. Additionally, the subsea well incorporates a downhole pressure and temperature meter located approximately 250' above the productive interval. This meter is used for collecting pressure build-up and draw-down data, which assists technical personnel with the reservoir management of the field.

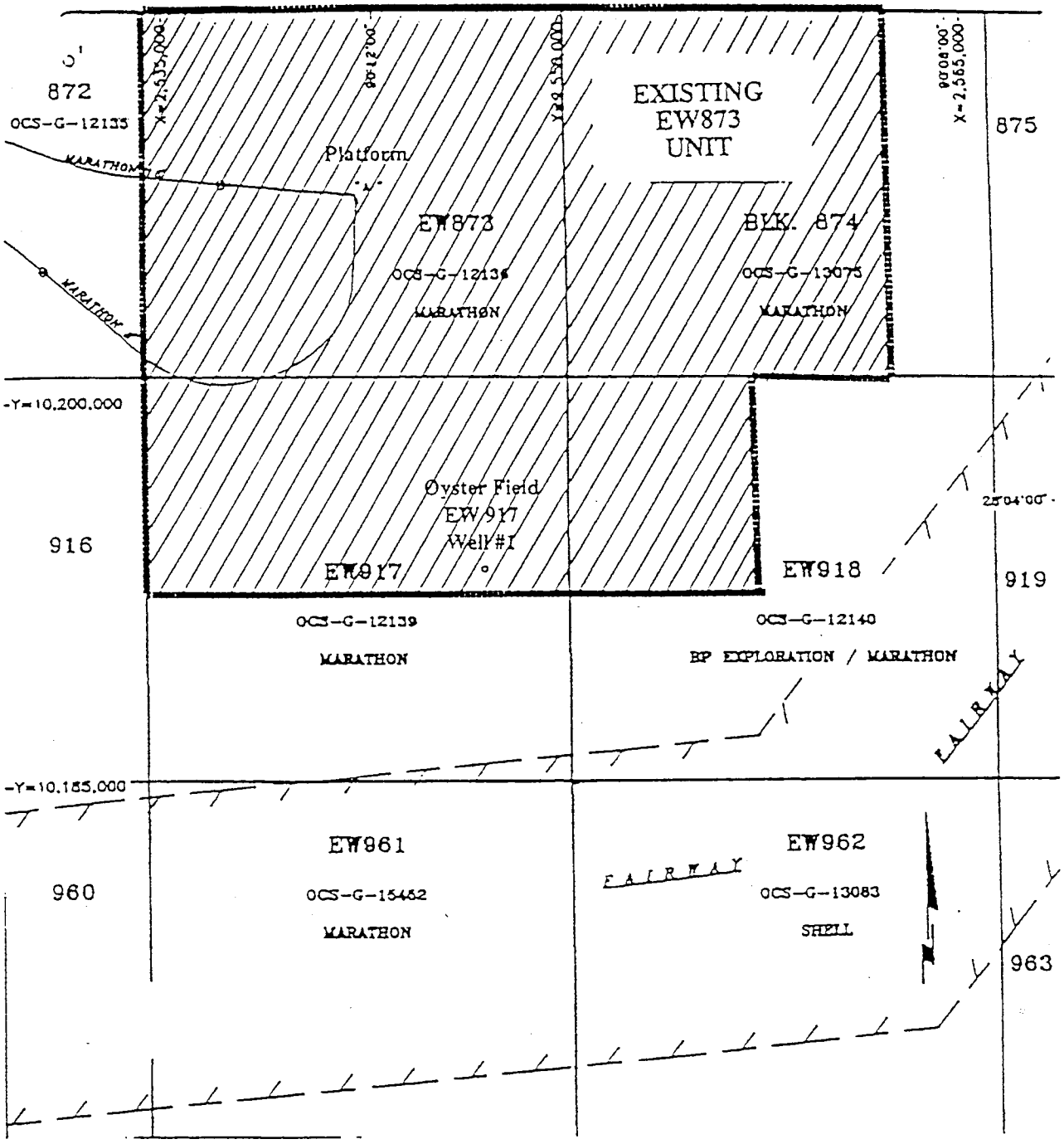
The flowlines consist of dual 4" insulated flowlines, each inside a 6" carrier pipe. The flowlines are welded directly onto the PLET and are capable of being round trip pigged from the platform.

All production flows for 3 miles through the twin flowlines to Ewing Bank Block 873, Platform "A", where production is combined with production from the platform wells. The oil, gas, and water are separated and measured. Well tests are performed periodically to determine the flow from the well. Once separated, the oil is then shipped via a 16" Poseidon Pipeline lateral line which ties into the 24" Poseidon Pipeline System in South Timbalier Block 212. The gas is transported in either an 8" Marathon Oil Company/Texaco pipeline which ties into Trunkline Gas Company's 16" pipeline in Ewing Bank Block 826, or the Discovery 30" gas pipeline, which ties into their Larose, LA Gas Plant.

Marathon Oil Company has a 66.6667% working interest in the field and partner, Texaco Exploration & Production, Inc. holds the remaining 33.3334% working interest.

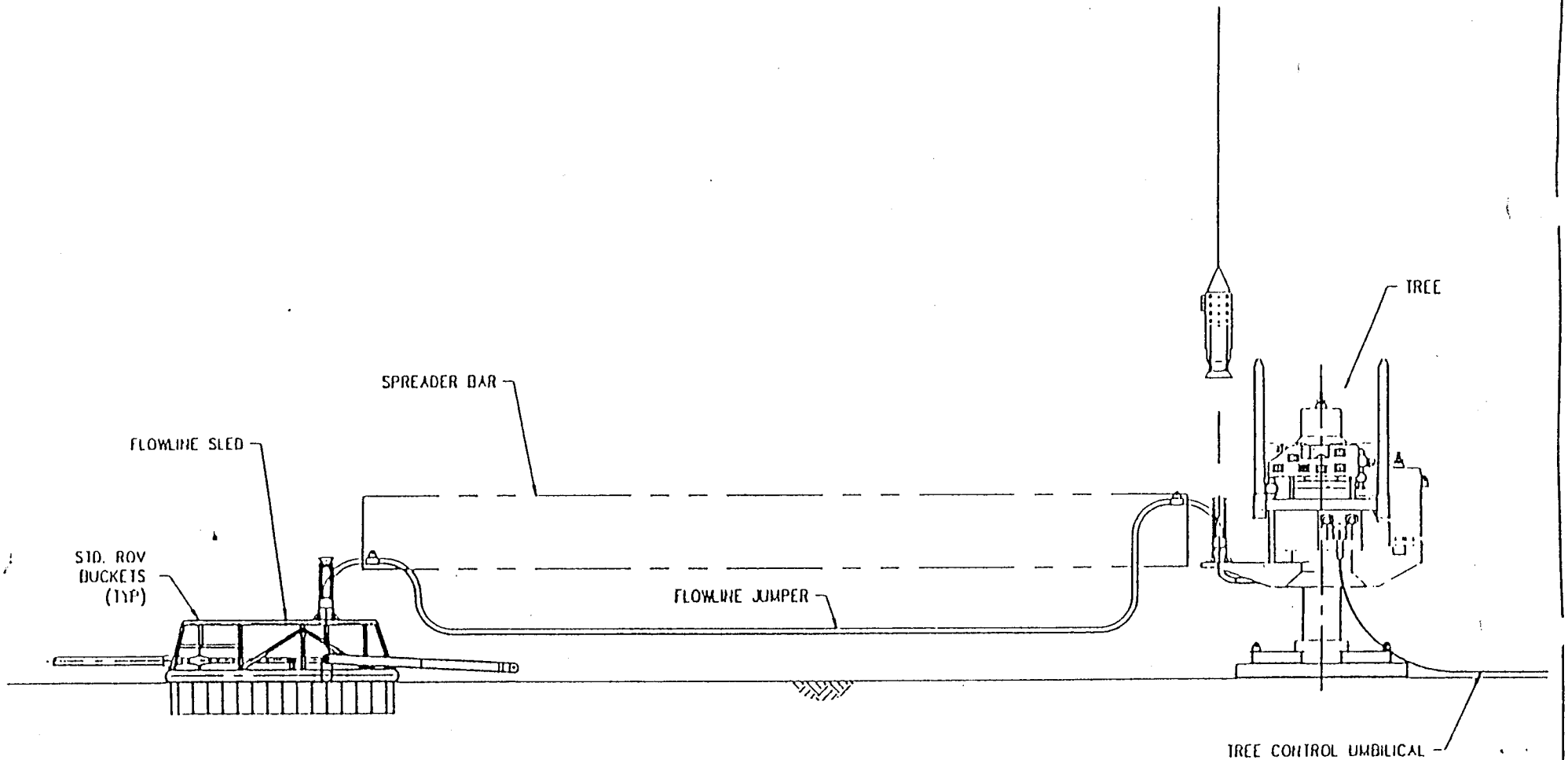
EW917 (Oyster Field) Conceptual DWOP
Figure 1 - Vicinity Map



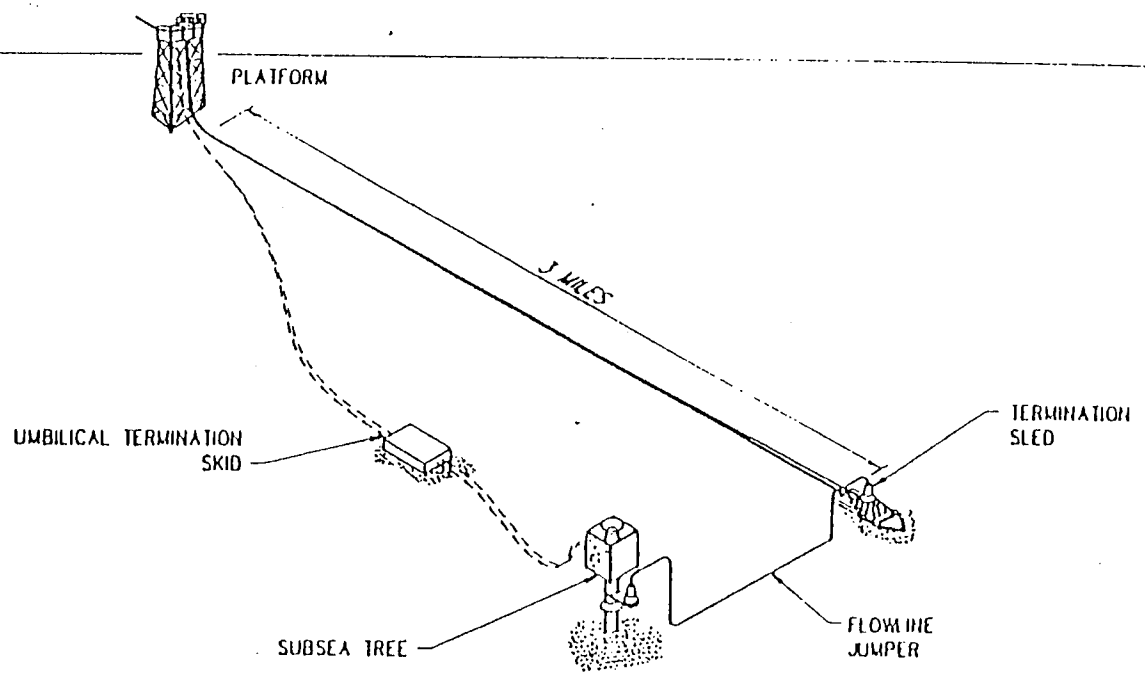


EW917 (Oyster Field) Conceptual DWOP
Figure 2 - Unit Area Map

EW917 (Oyster Field) Conceptual DWOP



MARATHON OIL COMPANY	FLOWLINE / TREE TIE-IN	INTEC ENGINEERING
OYSTER SATELLITE WELL DEVELOPMENT (EW 917)		CAD FILE: 8112-12A.DWG DEC 16, 1996 8:55 AM DMP
		DRAWN BY: ADW | DATE: 12-11-96 | JOB NO.: H-811.2



MARATHON OIL COMPANY	OYSTER FIELD LAYOUT	INTEC ENGINEERING
OYSTER SATELLITE WELL DEVELOPMENT (EW 917)		CAD FILE: 8112-10A.DWG DEC 13, 1996 3:14 PM ABW
		DRAWN BY: DMP | DATE: 11-11-96 | JOB NO.: 11-811.2 | Figure 7-1

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management Lucy Jacques Denett

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifing deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Application

Apply this guidance prospectively. Any previously received requests for guidance should be reviewed. If the above criteria are met, and the previously issued decision conflicts with this guidance the company must be notified.

Questions concerning the applicability of this guidance to specific situations should be referred to the Royalty Valuation Division (RVD). Additionally, requests for determinations on a case-by-case basis should be referred to RVD.

Royalty Valuation Division
Project Closure Report

04-Nov-99

RVD Group	Project Number	Employee Name	Project Description	Priority	Work Element Name
EVB	99-0445	BARTON	Request for guidance for deep water Gathering/transportation	3	Approval for pre-3/89 Transportation Allowance Requests

Date Received	Date Assigned	Date Completed
8/23/1999	8/26/1999	11/3/1999

Company Name: Marathon Oil Company

Appeal Number:

Product Name: Unprocessed Gas
Oil

Tribe Name:

Summary

BARTON

Request for allowance on deep-water flowline approved.

Barton, Shirley

From: Gibbs Tschudy, Deborah
Sent: Friday, January 28, 2000 12:02 PM
To: Hubbard, David
Cc: Morris, James; Barton, Shirley
Subject: RE: deepwater gathering

b)

-----Original Message-----
From: Hubbard, David
Sent: Friday, January 28, 2000 9:52 AM
To: Gibbs Tschudy, Deborah
Cc: Morris, James; Barton, Shirley
Subject: RE: deepwater gathering

Debbie: I'm sorry, but neither Jim, Shirley or I understand Lucy's message. Does "Walter and I are both comfortable with applying the deepwater gathering decision to Marathon's request" mean

a) They're comfortable with maintaining the position in the deepwater gathering decision that it should only be applied prospectively from the date of the guidance memo (which is what we've already done), or

b) They're comfortable with going retroactive in this case by considering Marathon's request as pending when the guidance was issued?

I'm assuming it's the latter, but need to make sure.

-----Original Message-----
From: Gibbs Tschudy, Deborah
Sent: Friday, January 28, 2000 8:36 AM
To: Querques Denett, Lucy
Cc: Hubbard, David; Morris, James; Barton, Shirley
Subject: RE: deepwater gathering

Thank you.

-----Original Message-----
From: Querques Denett, Lucy
Sent: Friday, January 28, 2000 6:43 AM
To: Gibbs Tschudy, Deborah
Subject: RE: deepwater gathering

Debbie, Walter and I are both comfortable with applying the deepwater gathering decision to Marathon's request..

-----Original Message-----
From: Gibbs Tschudy, Deborah
Sent: Friday, January 21, 2000 2:32 PM
To: Querques Denett, Lucy
Subject: FW: deepwater gathering

I am forwarding this message which contains more details on the issue that Dave and I spoke to you about on the National Car Rental Bus. We will stand by pending your discussion with Walter. Thanks.

-----Original Message-----
From: Hubbard, David
Sent: Wednesday, January 12, 2000 9:20 AM
To: Gibbs Tschudy, Deborah
Cc: Barton, Shirley; Morris, James
Subject: deepwater gathering

Debbie: As you will recall, Marathon requested a deepwater transportation allowance for a subsea completion. We approved it based on the A/D's May 20, 1999, guidance, but only prospective from 6/1/99. Now Marathon has appealed the non-retroactivity of the decision.

Several factors come into play here:

- Marathon did submit a request on 6/24/97. They submitted proprietary info. about their then-current deepwater projects and said "Marathon would like to establish the extent to which the MMS would allow a transportation allowance for these deepwater leases/units."

-Marathon sent another letter 6/27/99 asking that we return the info. they sent via the 6/24/97 request, saying the data was preliminary and still under internal review. Thus we took no formal action at that time.

-Marathon argues that they participated fully in the 11/16/98 New Orleans workshop we held on this issue; they delayed reinstating their request prior to MMS's issuance of the guidance memo because of ongoing developments on this issue within industry and MMS; they were awaiting the CNG appeal decision on this issue; and they believed MMS was preparing to address this exact issue in either a rulemaking, Dear Payor letter, of interpretive ruling. Through all of this process, Marathon says they never were led to believe that, if allowances were approved, they couldn't be retroactive.

-We don't set deadlines for taking t.a.'s otherwise, at least under the revised allowance reg's. effective 3/1/96--i.e., if a company for whatever reason finds it hasn't claimed an allowance to which it's entitled for, say, 1/97 forward, we wouldn't deny it.

-Andy Anderson thinks we would lose--because we would be setting a double standard; establishment of the 6/1/99 prospective date based on the AD guidance appears arbitrary; and the pertinent court cases don't seem to support denial before 5/1/99. Also, we gave approval to two others (CNG and Shell) retroactively. The fact that they previously submitted applications doesn't otherwise make the factual circumstances surrounding their allowance requests different from any others (form over substance).

Taken together, these factors make it difficult to deny retroactively, at least for Marathon, who arguably **did** submit a request in 1997. (Their related production began 5/98.)

We favor permitting the allowance retroactively for Marathon. Your thoughts?

Dave

Barton, Shirley

From: Gibbs Tschudy, Deborah
Sent: Friday, January 28, 2000 8:36 AM
To: Querques Denett, Lucy
Cc: Hubbard, David; Morris, James; Barton, Shirley
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Cc: Barton, Shirley; Morris, James
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Taken together, these factors make it difficult to deny retroactively, at least for Marathon, who arguably **did** submit a request in 1997. (Their related production began 5/98.)

We favor permitting the allowance retroactively for Marathon. Your thoughts?

Dave

SENDER:
- Check box at right if you require Restricted Delivery.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee

☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

MARATHON OIL COMPANY
ATTN: MR. DOW L. CAMPBELL
ATTORNEY
539 SOUTH MAIN STREET
FINDLAY, OH 45840-3295

4a. Article Number

P 974 152 081

4b. Service Type

☒ CERTIFIED

7. Date of Delivery: NOV 09 1999

5. Received By: (Print Name) Keith Ensign

8. Addressee's Address

6. Signature: (Addressee or Agent)

X Keith Ensign

PS FORM 3811, December 1994 Domestic Return Receipt

LMS:MMS:RVD:EVB:SBarton:99-0445

P 974 152 081

RETURN RECEIPT SERVICE	POSTAGE	
	RESTRICTED DELIVERY	
	CERTIFIED FEE + RETURN RECEIPT	
	TOTAL POSTAGE AND FEES	
SENT TO:	NO INSURANCE COVERAGE PROVIDED — NOT FOR INTERNATIONAL MAIL (SEE OTHER SIDE)	POSTMARK OR DATE

MARATHON OIL COMPANY
ATTN: MR. DOW L. CAMPBELL
ATTORNEY
539 SOUTH MAIN STREET
FINDLAY, OH 45840-3295

PS FORM 3800 US Postal Service

Receipt for Certified Mail

IMPORTANT! PLACE STICKER AT TOP OF ENVELOPE TO

LMS:MMS:RVD:EVB:SBarton:99-0445

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

NOV 3 1999

MMS-RVD-EVB: 99-0445
Mail Stop 3151

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Dow L. Campbell
Attorney
Marathon Oil Company
539 South Main Street
Findlay, Ohio 45840-3295

Dear Mr. Campbell:

Thank you for the information you provided on September 15, 1999. This information allowed the Royalty Valuation Division (RVD) to further evaluate Marathon Oil Company's (Marathon) request for a transportation allowance for the movement of production through the Arnold Subsea Development System (Arnold System) and the Troika Subsea Development System (Troika System).

On May 20, 1999, the Associate Director for Royalty Management (ADRM) issued a memorandum providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure 1.) The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty-bearing substances.

For the Troika System, the production flows from the Green Canyon 244 (GC 244) Unit to the GC 65 Unit, Shell Offshore Inc.'s Bullwinkle Platform. The royalty meter is located at the GC 65 Unit. Production from five wells on the GC 244 Unit is commingled at an eight-slot subsea manifold. From there, production moves about 14 miles through two flowlines to the Bullwinkle Platform on the GC 65 Unit. We consider the central accumulation point to be at the subsea manifold. Therefore, we consider movement before the subsea manifold to be gathering and subsequent movement to be transportation, again subject to the other qualifications in the ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

The principles applied for determining transportation vs. gathering are the same for both properties, one of which is a unit. Since there is no disparate treatment, this is not an issue.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that EB 963, where the production originates for the Arnold system, is not adjacent to EB 873. Platform A on EB 873 is about 8 miles from EB 963. Additionally, the GC 244 Unit, where production originates for the Troika system, is not adjacent to the GC 65 Unit. Production moves through approximately 14-mile-long flowlines.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

The EB 963 wells are located at a water depth of 1,750 feet. This converts to approximately 533 meters. The GC 244 Unit wells are located in an average water depth of approximately 2,700 feet. This converts to approximately 822 meters. Since all of these wells are much deeper than the prescribed minimum depth, this is not an issue.

Using the referenced guidelines, we approve your request for transportation allowances for movement of oil and gas production from the subsea manifold on EB 963 to EB 873, and from the subsea manifold on the GC 244 Unit to the GC 65 Unit. Because your August 20, 1999, request was not pending prior to the ADRM's memorandum, our approval is prospective beginning with June 1999, the first full production month following the ADRM's memorandum. Your request for retroactive application prior to May 20, 1999, is denied. This approval is subject to review and audit and is also subject to RVD modification, should the circumstances change in the future.

If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104 (1999), you must apply for an exception to the limitation, and provide sufficient documentation to support your request before claiming the excess amount.

You have the right to appeal this decision. Please refer to the enclosed Appeals Procedures. (See Enclosure 2.) If you have any questions, please call Ms. Shirley Barton at (303) 275-7222.

Sincerely,

o/s Herbert B. Wincentsen

for Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

Enclosures

bcc: RM File 99-0445
RVD DC/Lkwd
RVD Chron (2)
EVB Chron (2)
LMS:MMS:RVD:EVB:MS-3151:SBarton:275-7222:rjl:10/14/99:P:\...\econ\t&p\t&p99\99-0445
Finalized:rjl:10/15/99:10/27/99:11/1/99

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management Lucy Querques Denett

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifing deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Application

Apply this guidance prospectively. Any previously received requests for guidance should be reviewed. If the above criteria are met, and the previously issued decision conflicts with this guidance the company must be notified.

Questions concerning the applicability of this guidance to specific situations should be referred to the Royalty Valuation Division (RVD). Additionally, requests for determinations on a case-by-case basis should be referred to RVD.

United States Department of the Interior
Minerals Management Service

IF YOU APPEAL, THE FOLLOWING PROCEDURES MUST BE FOLLOWED

1. Notice of Appeal	You may appeal this directive to the Director, Minerals Management Service (MMS). You must file a Notice of Appeal within **30 days** of receiving this letter. See 30 CFR Part 290, Subpart B (64 FR 26258, May 13, 1999).
2. Where to File Notice of Appeal And Statement of Reasons	Minerals Management Service Attention: Ms. Deborah Gibbs Tschudy Chief, Royalty Valuation Division P.O. Box 25165, MS 3150 Denver, Colorado 80225-0165 Telephone (303) 275-7200 Fax No.: (303) 275-7227
3. Statement of Reasons . .	You have **30 days** from the receipt of this letter to send us your reasons why you think we should reverse or change this directive.
4. Extension to File Statement of Reasons	If you need more than **30 days**, you must file a written request for an extension to file a Statement of Reasons within the 30-day appeal time period. You must include reasons why you need the time extension. Send your request to Chief, Royalty Valuation Division at the address shown above.
5. Notice to Lessee	If you are not the lessee of the Federal leases involved in the order being appealed, you (as the designee) are required to serve your Notice of Appeal on those lessees. See 30 CFR § 290.105(a)(2) (64 FR 26259, May 13, 1999). Proof of service of this notice shall be provided to the MMS office at the address shown above.
6. Suspension of Directive/ Order	Your compliance with this directive shall be suspended pending the outcome of the appeal. Since the order being appealed does not involve the payment of a specified amount, you are not required to post a surety. See 30 CFR § 243.8(a)(1) (64 FR 26255, May 13, 1999).

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO: –

MMS-RVD-EVB: 99-0445
Mail Stop 3151

NOV 3 1999

CERTIFIED MAIL--
RETURN RECEIPT REQUESTED

Mr. Dow L. Campbell
Attorney
Marathon Oil Company
539 South Main Street
Findlay, Ohio 45840-3295

Dear Mr. Campbell:

Thank you for the information you provided on September 15, 1999. This information allowed the Royalty Valuation Division (RVD) to further evaluate Marathon Oil Company's (Marathon) request for a transportation allowance for the movement of production through the Arnold Subsea Development System (Arnold System) and the Troika Subsea Development System (Troika System).

On May 20, 1999, the Associate Director for Royalty Management (ADRM) issued a memorandum providing guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. (See Enclosure 1.) The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

RVD Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribe the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty-bearing substances.

RVD Analysis

The information submitted shows that Marathon transports bulk oil and gas production in both the Arnold and the Troika Systems. Separation and dehydration take place at Ewing Bank Block 873 (EB 873) for the Arnold System and at Green Canyon 65 (GC 65) Unit for the Troika System.

The MMS Oil and Gas Payor Handbook, Volume III, pg.5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS [Minerals Management Service] approval (30 CFR § 206.105(a)(2)(i) and 30 CFR § 206.105(b)(3)(i)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and Marathon may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs not related to transportation cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.

RVD Analysis

The royalty meter location is often a deciding factor in determining whether movement is transportation or gathering. Your (Marathon's) request for movement of production for the Arnold System is from Ewing Bank Block 963 (EB 963) to EB 873, with the royalty meter located at EB 873. However, in applying the ADRM's May 20, 1999, guidance, we need to define the central accumulation point.

Subsea trees at the two existing wells on EB 963 are jumpered to a subsea four-slot manifold. From the manifold, production is directed into either of two pipe-in-pipe insulated flowlines. These eight-mile flowlines move production to EB873, Platform A. Based on the ADRM's guidance, we consider the subsea manifold to be the central accumulation point. Although the royalty meter is at EB 873, we consider gathering, consistent with the new guidance, to terminate at the subsea manifold. We consider subsequent movement to be transportation, subject to the other qualifications in the ADRM's May 20, 1999, guidance.

For the Troika System, the production flows from the Green Canyon 244 (GC 244) Unit to the GC 65 Unit, Shell Offshore Inc.'s Bullwinkle Platform. The royalty meter is located at the GC 65 Unit. Production from five wells on the GC 244 Unit is commingled at an eight-slot subsea manifold. From there, production moves about 14 miles through two flowlines to the Bullwinkle Platform on the GC 65 Unit. We consider the central accumulation point to be at the subsea manifold. Therefore, we consider movement before the subsea manifold to be gathering and subsequent movement to be transportation, again subject to the other qualifications in the ADRM's May 20, 1999, guidance.

Guideline 4

Leases and units are treated similarly.

RVD Analysis

The principles applied for determining transportation vs. gathering are the same for both properties, one of which is a unit. Since there is no disparate treatment, this is not an issue.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deep-water lease.

RVD Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico, shows that EB 963, where the production originates for the Arnold system, is not adjacent to EB 873. Platform A on EB 873 is about 8 miles from EB 963. Additionally, the GC 244 Unit, where production originates for the Troika system, is not adjacent to the GC 65 Unit. Production moves through approximately 14-mile-long flowlines.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

RVD Analysis

The EB 963 wells are located at a water depth of 1,750 feet. This converts to approximately 533 meters. The GC 244 Unit wells are located in an average water depth of approximately 2,700 feet. This converts to approximately 822 meters. Since all of these wells are much deeper than the prescribed minimum depth, this is not an issue.

Using the referenced guidelines, we approve your request for transportation allowances for movement of oil and gas production from the subsea manifold on EB 963 to EB 873, and from the subsea manifold on the GC 244 Unit to the GC 65 Unit. Because your August 20, 1999, request was not pending prior to the ADRM's memorandum, our approval is prospective beginning with June 1999, the first full production month following the ADRM's memorandum. Your request for retroactive application prior to May 20, 1999, is denied. This approval is subject to review and audit and is also subject to RVD modification, should the circumstances change in the future.

If your transportation allowance exceeds the 50-percent limitation as prescribed in 30 CFR § 206.104 (1999), you must apply for an exception to the limitation, and provide sufficient documentation to support your request before claiming the excess amount.

You have the right to appeal this decision. Please refer to the enclosed Appeals Procedures. (See Enclosure 2.) If you have any questions, please call Ms. Shirley Barton at (303) 275-7222.

Sincerely,

for Deborah Gibbs Tschudy
Chief, Royalty Valuation Division

Enclosures

United States Department of the Interior
Minerals Management Service

IF YOU APPEAL, THE FOLLOWING PROCEDURES MUST BE FOLLOWED

1. Notice of Appeal	You may appeal this directive to the Director, Minerals Management Service (MMS). You must file a Notice of Appeal within **30 days** of receiving this letter. See 30 CFR Part 290, Subpart B (64 FR 26258, May 13, 1999).
2. Where to File Notice of Appeal And Statement of Reasons	Minerals Management Service Attention: Ms. Deborah Gibbs Tschudy Chief, Royalty Valuation Division P.O. Box 25165, MS 3150 Denver, Colorado 80225-0165 Telephone (303) 275-7200 Fax No.: (303) 275-7227
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6. Suspension of Directive/ Order	Your compliance with this directive shall be suspended pending the outcome of the appeal. Since the order being appealed does not involve the payment of a specified amount, you are not required to post a surety. See 30 CFR § 243.8(a)(1) (64 FR 26255, May 13, 1999).

Dow L. Campbell
Attorney

RECEIVED
D.O.I.-MMS-RVD
99 AUG 23 PM 4:18

Marathon Oil Company

539 South Main Street
Findlay, OH 45840-3295
Direct No. 419/421-4121
Main No. 419/422-2121
Facsimile 419/427-3681
E-mail: DLCampbell@MarathonOil.com

August 20, 1999

MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM
DOCUMENT PROCESSING SECTION
AUG 23 1999
RECEIVED
LAKEWOOD, COLORADO

Minerals Management Service
Attention: Ms. Deborah Gibbs Tschudy
Chief, Royalty Valuation Division
P.O. Box 25165, Mail Stop 3150
Denver, Colorado 80225-0165

Re: Request for Guidance
Arnold & Troika Subsea Development Systems
Retroactive Transportation Allowances for Deepwater Production

Dear Ms. Tschudy:

On May 20, 1999, the Associate Director for Royalty Management issued a memorandum addressed to you and the RMP Audit Managers entitled: *Guidance For Determining Transportation Allowances For Production From Leases In Water Depths Greater Than 200 Meters*, a copy of which is enclosed.

Marathon Oil Company has reviewed this memorandum and is applying the guidance to our reporting on a prospective basis. Marathon holds interests in two subsea development systems which clearly meet the deepwater requirements set forth in the guidance memo on a retroactive basis as well. Enclosed is a description and summary of the configuration of each system.

Is there any additional information or documentation that Marathon should provide to the MMS for its review in order for the MMS to approve retroactive adjustments to our transportation allowances for these systems based on the May 20, 1999 guidance memo?

We recognize that these systems do not fall into the category of requiring a case-by-case analysis, but seek additional guidance from you on this matter before proceeding with any retroactive adjustments.

If you have any questions, please contact me.

Sincerely,

Dow L Campbell

Dow L. Campbell

Enclosures

[110813]

cc: R. E. Good
G.C. Haines
M. P. White

99-0495

Troika Subsea Development System

The Green Canyon 244 Unit (also known as the Troika Subsea Development) is located 150 miles southwest of New Orleans and is comprised of Green Canyon Blocks 200, 244 and 245. The unit is located in an average water depth of approximately 2,700 feet. The nearest production is 15 miles to the northwest at Green Canyon Block 65, Shell Offshore Inc.'s (SOI) Bullwinkle platform, which is located in 1,350 feet of water.

The Troika subsea development system consists of an eight-slot subsea template and manifold assembly located on Green Canyon Block 200. The equipment/facilities include electrohydraulic remote control and chemical injection equipment, subsea trees, well heads, completion equipment, flowlines and control umbilicals, platform mounted facilities, and maintenance equipment.

Production flow from five wells is commingled at the eight slot subsea manifold. Two actuated manifold valves per well slot and a pigging isolation valve provide the ability to split production in the manifold and direct specific wells to either of two flowlines. This feature permits the creation of dual operating system pressures in the future, if desired. The manifold and flowlines are designed to handle full well shut-in pressure.

Production flows to SOI's Bullwinkle platform through approximately 14-mile long flowlines. Bullwinkle facilities were upgraded to accept Troika production. The flowlines are configured as two 10" production flowlines in a large diameter carrier pipe. The production flowlines are wrapped with insulation, and carrier pipe is pressurized with nitrogen to resist collapse. Pigging of the flowlines is available to remove wax deposition from the production flowlines. All subsea manifold valves, fittings, etc. have been sized and configured to be compatible with the selected flowline pigging operations and equipment.

The Troika working interest owners are Marathon Oil Company, SOI, and British Petroleum; each party holds a one-third working interest. First oil from the Troika development was achieved in November 1997, which is notable as being only 3.5 years after the initial discovery--a world record at this water depth.

5 wells - go to 8 slot manifold

gas & Oil not se Host measured & valued at Green Canyon 65

Arnold Subsea Development System

Ewing Bank Block 963 (also known as Arnold) is a subsea development in 1,750 feet of water located approximately eight miles southeast of Ewing Bank Block 873, Platform "A". Marathon Oil Company and partner, Texaco Exploration and Production Inc., discovered the field in June 1996 with the drilling and testing of the first well. The field first produced oil on May 25, 1998 at a rate of 11,000 BOPD. The second well was brought on line on June 30, 1998, bringing the total rate to 24,000 BOPD. These two wells formed the basis for design of a subsea production system to bring production back to the existing Ewing Bank Block 873, Platform "A". The platform is in 750 feet of water and is operated by Marathon Oil Company. The Arnold field is notable in the Gulf of Mexico as having the largest reeled pipe-in-pipe flowlines, the first three part mud mat supported separable manifold and one of the first compact gas liquid separators installed at the host facility. Arnold and the nearby Oyster development, located on Ewing Bank Block 917, were Marathon's first deepwater company-operated subsea projects.

Three wells were drilled subsea with semi-submersible rigs prior to installing the facilities. The third well proved to be uneconomic, therefore, only two wells were tied back. The project was completed on an extremely tight schedule, requiring only 22 months from initial discovery to first oil production. The facilities were contracted under an EPCI (Engineering, Procurement, Construction, Installation) contract, where one company provided all phases of the project.

Arnold utilizes a subsea development concept consisting of a four-well cluster with a retrievable manifold. The subsea facilities consist of two subsea trees, a subsea 4-slot manifold, dual 8-mile insulated 6" inside of 10" pipe-in-pipe flowlines, a control umbilical, and a subsea distribution unit (SDU).

During the drill stem test of the first well, several downhole and surface fluid samples were taken for laboratory analysis. About 300 barrels of dead crude were also taken for flow loop experiments at Texaco's live flow loop facility in Humble, Texas. The results of these tests confirmed fluid property data established during the laboratory analysis. For example, the presence of sufficient wax to require pigging was confirmed. Further, the pigging frequency was determined to be unacceptably high for an uninsulated flowline.

A detailed thermo-hydraulic analysis of the entire subsea system was then performed in order to size the pipeline and select the optimum insulation techniques for each segment of the flowpath. Three operational requirements governed the design; no continuous methanol injection, no continuous wax inhibitor injection and at least four hours of cool down time from steady state production to hydrate formation temperature at operating pressure. Based on these requirements, expected well rates and platform arrival pressure requirements, a pipe-in-pipe system with 6' nominal product carrier (inside) pipe and 10" nominal outer (jacket) pipe was selected. After studying several insulation materials and techniques, rigid polyurethane foam was selected for its excellent combination to thermal conductivity, cost, and ease of installation. After fabrication and reeling on a barge, the flowlines were pulled into J-tubes on the platform. The flowline was then reeled off the barge using an S-lay technique. This process was then repeated for the second flowline. The flowline design and installation method offered advantages in cost and time compared to other techniques.

The two subsea horizontal trees are jumpered to the manifold and produce to Ewing Bank Block 873, Platform "A" via dual 6" insulated pipelines, each inside a 10" carrier pipe. Production from each well flows through a single, insulated, rigid flowline jumper into a manifold where ROV-operated valves direct the production into either of the two, pipe-in-pipe insulated flowlines. The dual lines are connected to the manifold via a pipeline end manifold (PLEM) and are capable of providing round trip pigging from the platform. The PLEM is designed to allow extension of the pipelines to another nearby subsea development, if needed. A combined electrical and hydraulic umbilical provides hydraulic power, electric power, communications, methanol for batch treatment of the trees during transient periods, and chemical for injection downhole.

All production flows 8 miles through twin flowlines to Ewing Bank Block 873, Platform "A", where production is separated and measured. The oil is then shipped via a 16" Poseidon Pipeline's lateral line which ties into the 24" Poseidon Pipeline System in South Timbalier Block 212. The gas is transported in either an 8" Marathon oil Company/Texaco pipeline which ties into Trunkline Gas Company's 16" pipeline in Ewing Bank Block 826, and the Discovery 20" gas pipeline.

The subsea system is controlled from Ewing Bank Block Block 873, Platform "A" via an electro-hydraulic umbilical and local subsea control modules mounted to each tree. Facilities added to Ewing Bank Block 873, Platform "A" include pigging facilities, chemical injection and storage facilities, methanol injection and storage facilities, a hydraulic pressure unit (HPU) which is shared with the Oyster development, and a computerized control panel.

Marathon Oil Company holds a 62.5% working interest in the field, with partner, Texaco Exploration & Production, Inc. holding the remaining 37.5% working interest.

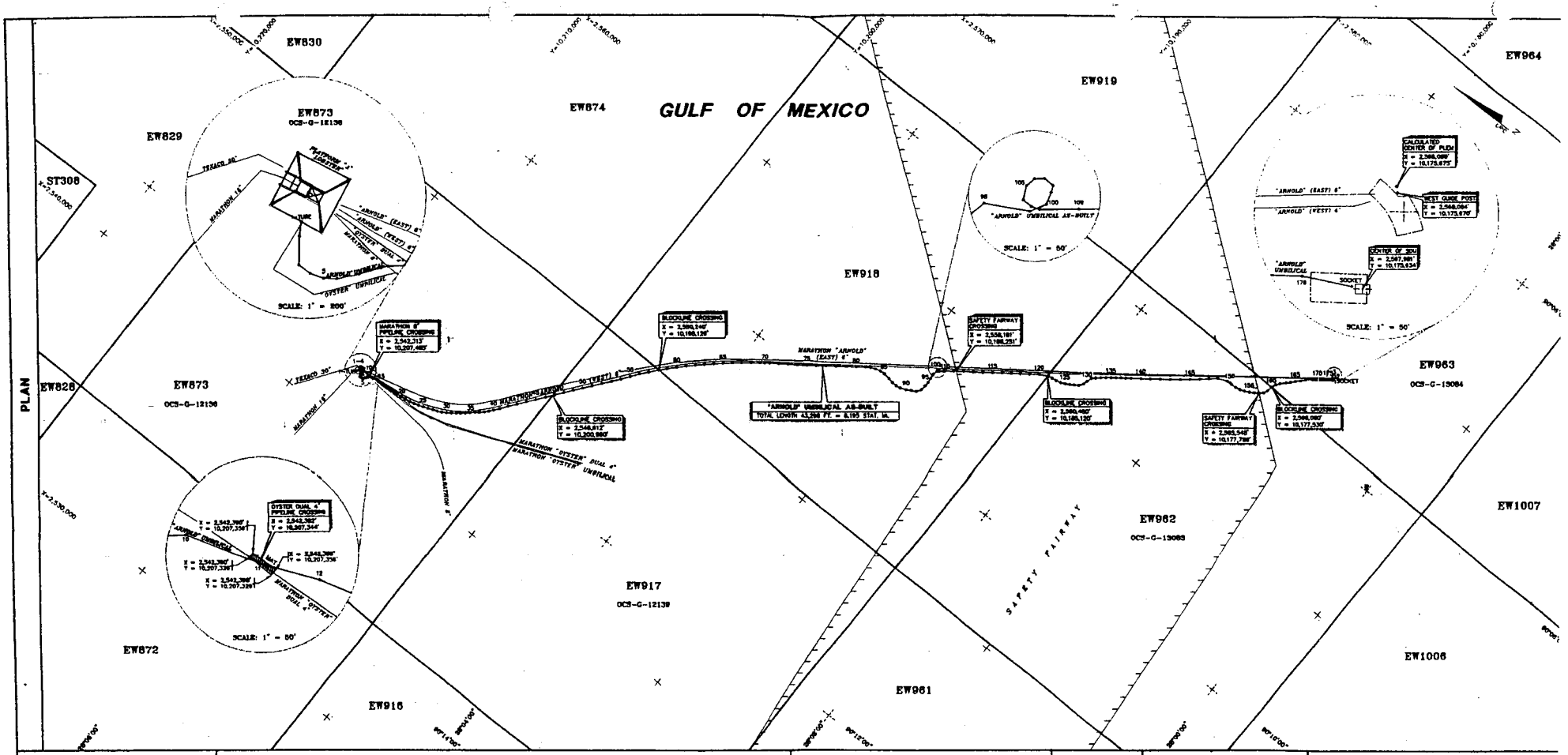
If A Company HAD A Request in Prior to 5/20/99 we go back to the Date of the Req

5/20/99

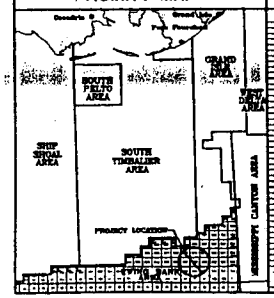
If A Company submits A Request after 5/20/99 we go back to 5/20/99 IF they want

Dave - The this is the way I believe the approval is to be

Exhibit "A"



VICINITY MAP



COORDINATE TABLE

TE	X COORDINATE (ft.)	Y COORDINATE (ft.)	TE	X COORDINATE (ft.)	Y COORDINATE (ft.)	TE	X COORDINATE (ft.)	Y COORDINATE (ft.)	TE	X COORDINATE (ft.)	Y COORDINATE (ft.)

NOTES

1. D.O.V. UMBILICAL COORDINATES ARE THE POSITIONS OF THE D.O.V. LOCATED AT THE PRIME USING STARFIX DGPS POSITIONING AND SONARDYNE USBL (ULTRA SHORT BASELINE) ACOUSTIC POSITIONING.
2. THE LENGTH OF THE UMBILICAL IS CALCULATED USING SURVEY COORDINATES ALONG THE UMBILICAL.
3. THIS DRAWING IS NOT FOR NAVIGATION. ONLY FOREIGN PIPELINES AND FEATURES IN THE IMMEDIATE VICINITY OF THE AS-BUILT ARE SHOWN.

CERTIFICATION

I, MARK KEITH BUHRKE, A REGISTERED PROFESSIONAL LAND SURVEYOR IN THE STATE OF TEXAS, HEREBY CERTIFY THAT THIS DRAWING ACCURATELY REPRESENTS THE POSITION OF THE UMBILICAL, WHERE FOREIGN PIPELINES, AND LEGAL BOUNDARIES PERTAINING TO THE UMBILICAL TO THE BEST OF MY KNOWLEDGE AS DETERMINED BY THE SURVEY METHODS NOTED ABOVE.

STATE OF TEXAS REGISTERED MARK KEITH BUHRKE 5092 PROFESSIONAL LAND SURVEYOR

5/7/99

MARK KEITH BUHRKE
REG. PROF. LAND SURVEYOR NO. 5092

LEGEND

- AS-BUILT UMBILICAL
- EXISTING PIPELINE
- BLOCK LINES
- PLATFORM
- WELL
- SAFETY FAIRWAY

PROJECTION PARAMETERS

PROJECTION: U.T.M.
ZONE: 15
SPHEROID: CLARKE 1866

GRAPHIC SCALE

HORIZONTAL
2000' 1000' 0 2000' 4000'
SCALE: 1" = 2000'

REFERENCE DRAWINGS

MARATHON OIL COMPANY

ARNOLD PROJECT UMBILICAL AS-BUILT

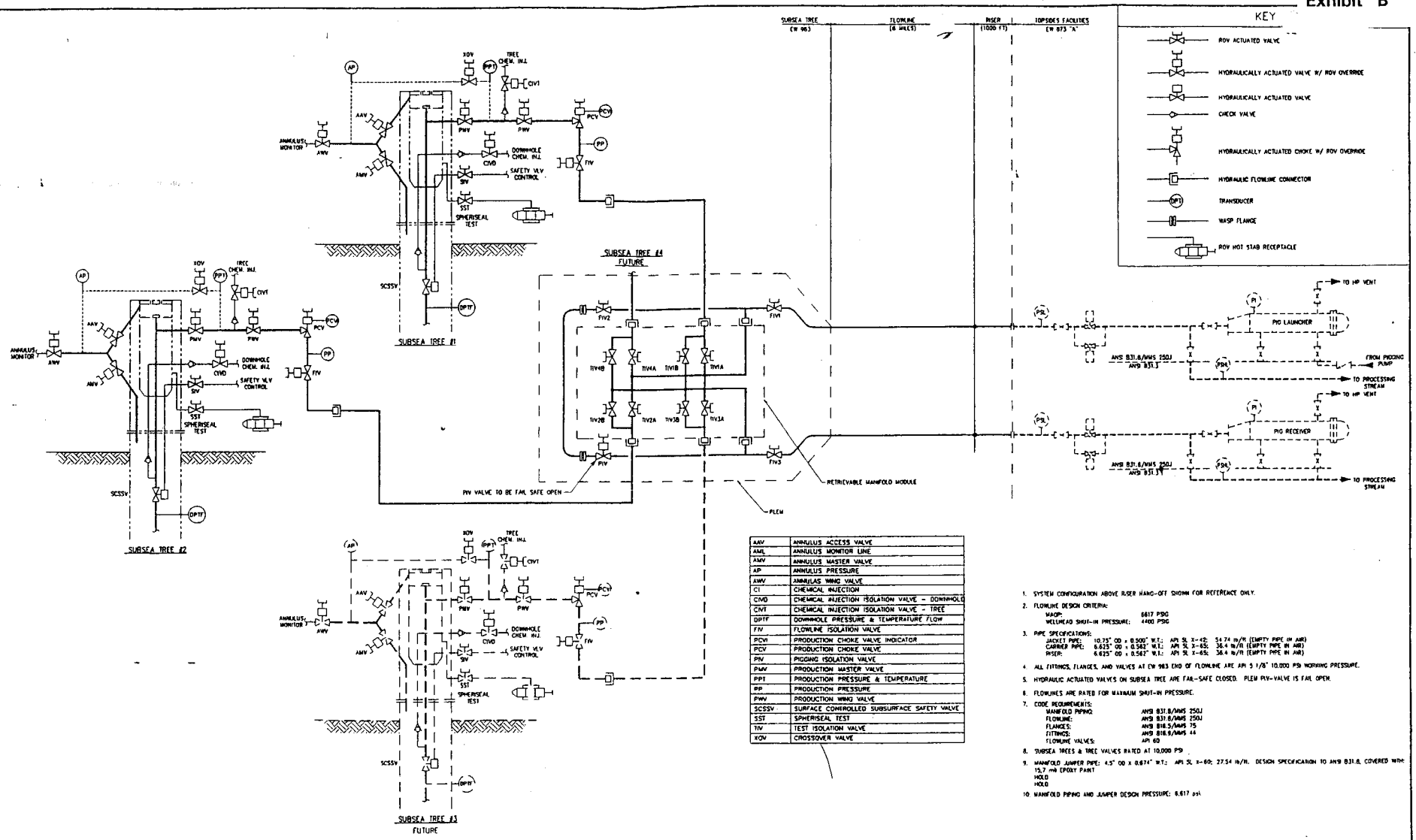
FROM EWING BANK BLOCK 873 from to 873
TO EWING BANK BLOCK 963 Host Platform
OFFSHORE LOUISIANA

DRAWN FOR: GLOBAL INDUSTRIES OFFSHORE LTD.
DRAWN BY: JOHN S. CHANCE & ASSOCIATES, INC.

REV.	DATE	DESCRIPTION	DRWN	CHK'D	APR
0	4-22-98	ORIGINAL	MVH		

DRAWING No. 98700207 SHT. 1 of

Exhibit "B"



AAV	ANNULUS ACCESS VALVE
AML	ANNULUS MONITOR LINE
AMV	ANNULUS MASTER VALVE
AP	ANNULUS PRESSURE
AWV	ANNULAS WING VALVE
CI	CHEMICAL INJECTION
CIVD	CHEMICAL INJECTION ISOLATION VALVE - DOWNHOLD
CIVT	CHEMICAL INJECTION ISOLATION VALVE - TREE
DPTF	DOWNHOLE PRESSURE & TEMPERATURE FLOW
FIV	FLOWLINE ISOLATION VALVE
PCV	PRODUCTION CHOKE VALVE INDICATOR
PCV	PRODUCTION CHOKE VALVE
PIV	PIGGING ISOLATION VALVE
PMV	PRODUCTION MASTER VALVE
PPT	PRODUCTION PRESSURE & TEMPERATURE
PP	PRODUCTION PRESSURE
PWV	PRODUCTION WING VALVE
SCSSV	SURFACE CONTROLLED SUBSURFACE SAFETY VALVE
SST	SPHERISEAL TEST
TIV	TEST ISOLATION VALVE
XOV	CROSSOVER VALVE

1. SYSTEM CONFIGURATION ABOVE RISER HANG-OFF SHOWN FOR REFERENCE ONLY.
2. FLOWLINE DESIGN CRITERIA:
   MAOP: 6617 PSIG
   WELLHEAD SHUT-IN PRESSURE: 4400 PSIG
3. PIPE SPECIFICATIONS:
   JACKET PIPE: 10.75" OD x 0.500" W.T.; API 5L X-42; 54.74 lb/ft (EMPTY PIPE IN AIR)
   CARRIER PIPE: 6.625" OD x 0.562" W.T.; API 5L X-65; 36.4 lb/ft (EMPTY PIPE IN AIR)
   RISER: 6.625" OD x 0.562" W.T.; API 5L X-65; 36.4 lb/ft (EMPTY PIPE IN AIR)
4. ALL FITTINGS, FLANGES, AND VALVES AT EW 963 END OF FLOWLINE ARE API 5 1/8" 10,000 PSI WORKING PRESSURE.
5. HYDRAULIC ACTUATED VALVES ON SUBSEA TREE ARE FAIL-SAFE CLOSED. PLEM PIV-VALVE IS FAIL OPEN.
6. FLOWLINES ARE RATED FOR MAXIMUM SHUT-IN PRESSURE.
7. CODE REQUIREMENTS:

MANIFOLD PIPING:	ANSI B31.8/ANSI 250J
FLOWLINE:	ANSI B31.8/ANSI 250J
FLANGES:	ANSI B16.5/ANSI 15
FITTINGS:	ANSI B16.5/ANSI 15
FLOWLINE VALVES:	API 6D

8. SUBSEA TREES & TREE VALVES RATED AT 10,000 PSI
9. MANIFOLD JUMPER PIPE: 4.5" OD X 0.674" W.T.; API 5L X-60; 27.54 lb/ft. DESIGN SPECIFICATION TO ANSI B31.8, COVERED WITH:
   15.7 mils EPOXY PAINT
   HOLD
   HOLD
10. MANIFOLD PIPING AND JUMPER DESIGN PRESSURE: 6,617 psi

GENERAL NOTES:

No.	DATE	BY	APP.	REVISIONS
2	02/10/99	JOB	MW	AS BUILT
1	07/11/98	PAH	YT	APPROVED FOR CONSTRUCTION
0	08/18/97	PAH	YT	APPROVED FOR CONSTRUCTION
A	07/17/97	PAH	YT	ISSUED FOR I.D.C.
P1	08/05/97	PEF	YT	ISSUED FOR D.I.C.

ENGINEERING APPROVAL

	BY	DATE
PROJECT		
STRUCTURAL		
PROCESS		
MECHANICAL		
ELECTRICAL		
INSTRUMENT		
DRAFTING		

ENGINEERING CONSULTANT: ABB Offshore Technology Inc.

	BY	DATE
DESIGNED	ABB OE	-
DRAWN	PAH	07/17/98
CHECKED	MW	07/18/98
APPROVED	YT	07/18/98
MOC APPR.		

Marathon Oil Company

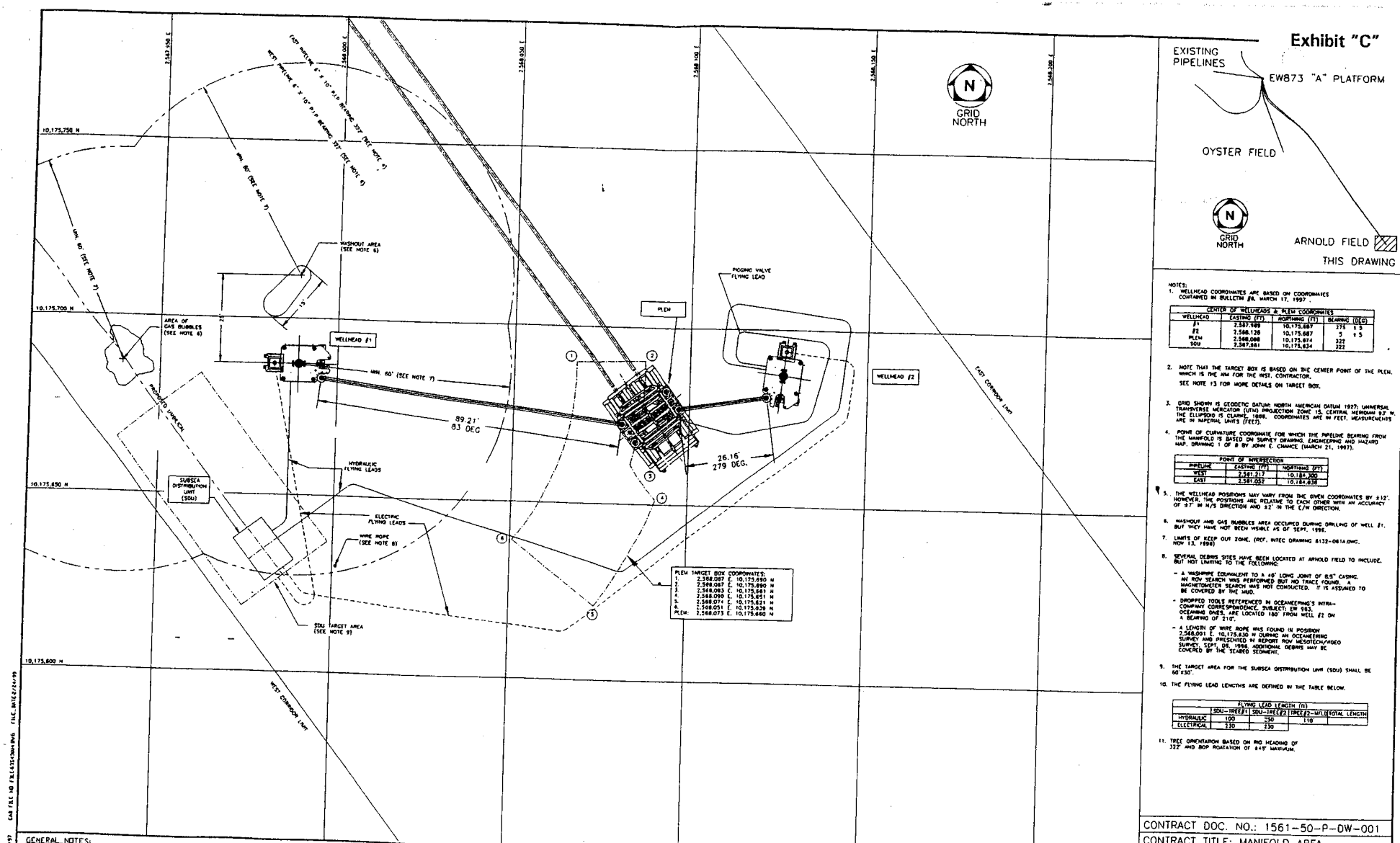
FACILITY NAME: EWING BANK 963 ARNOLD

DRAWING TITLE: ARNOLD SUBSEA SYSTEM PRODUCTION FLOW DIAGRAM

SCALE	JOB NO.	FACILITY ID	DISC/TYPE	SIZE	DWG NO.	REV
NTS	91001	EW963	00	0	4001	2

WORKSPACE TITLEBLOCK V 1.0/97 CAD FILE NO.: 8354001.DWG 02/11/98

Exhibit "C"



NOTES:

1. WELLHEAD COORDINATES ARE BASED ON COORDINATES CONTAINED IN BULLETIN #8, MARCH 17, 1997.

CENTER OF WELLHEADS & PLEM COORDINATES			
WELLHEAD	EASTING (FT)	NORTHING (FT)	BEARING (DEG)
#1	2,567,989	10,175,687	275 1 5
#2	2,568,126	10,175,687	5 1 5
PLEM	2,568,088	10,175,874	327
SDU	2,567,861	10,175,634	322

2. NOTE THAT THE TARGET BOX IS BASED ON THE CENTER POINT OF THE PLEM, WHICH IS THE ANA FOR THE WST. CONTRACTOR.
   SEE NOTE #3 FOR MORE DETAILS ON TARGET BOX.

3. GRID SHOWN IS GEODETIC DATUM: NORTH AMERICAN DATUM 1927, UNIVERSAL TRANSVERSE MERCATOR (UTM) PROJECTION ZONE 15, CENTRAL MERIDIAN 93° W. THE ELLIPSOID IS CLARKE 1866. COORDINATES ARE IN FEET. MEASUREMENTS ARE IN IMPERIAL UNITS (FEET).

4. POINT OF CURVATURE COORDINATE FOR WHICH THE PIPELINE BEARING FROM THE MANIFOLD IS BASED ON SURVEY DRAWING, ENGINEERING AND HAZARD MAP, DRAWING 1 OF 8 BY JOHN E. CHANCE (MARCH 21, 1997).

POINT OF INTERSECTION		
PIPELINE	EASTING (FT)	NORTHING (FT)
WEST	2,581,217	10,184,300
EAST	2,581,052	10,184,838

5. THE WELLHEAD POSITIONS MAY VARY FROM THE GIVEN COORDINATES BY ±15'. HOWEVER, THE POSITIONS ARE RELATIVE TO EACH OTHER WITH AN ACCURACY OF ±7' IN N/S DIRECTION AND ±2' IN THE E/W DIRECTION.

6. WASHOUT AND GAS BUBBLES AREA OCCURED DURING DRILLING OF WELL #1, BUT THEY HAVE NOT BEEN VISIBLE AS OF SEPT. 1998.

7. LIMITS OF KEEP OUT ZONE. (REF. INTEC DRAWING 6132-081A.DWG. NOV 13, 1996)

8. SEVERAL DEBRIS SITES HAVE BEEN LOCATED AT ARNOLD FIELD TO INCLUDE, BUT NOT LIMITING TO THE FOLLOWING:
   - A WASHPIPE EQUIVALENT TO A 40' LONG JOINT OF 8.5" CASING. AN ROV SEARCH WAS PERFORMED BUT NO TRACE FOUND. A MAGNETOMETER SEARCH WAS NOT CONDUCTED. IT IS ASSUMED TO BE COVERED BY THE MUD.
   - DROPPED TOOLS REFERENCED IN OCEANEERING'S INTRA-COMPANY CORRESPONDENCE, SUBJECT: EW 963, OCEANBIRD DIVES, ARE LOCATED 100' FROM WELL #2 ON A BEARING OF 210°.
   - A LENGTH OF WIRE ROPE WAS FOUND IN POSITION 2,568,001 E, 10,175,830 N DURING AN OCEANEERING SURVEY AND PRESENTED IN REPORT ROV MESOTECH/VIDEO SURVEY, SEPT. 04, 1998. ADDITIONAL DEBRIS MAY BE COVERED BY THE SEABED SEDIMENT.

9. THE TARGET AREA FOR THE SUBSEA DISTRIBUTION UNIT (SDU) SHALL BE 60'X30'.

10. THE FLYING LEAD LENGTHS ARE DEFINED IN THE TABLE BELOW.

FLYING LEAD LENGTH (ft)				
	SDU-TREE #1	SDU-TREE #2	TREE #2-MFL	TOTAL LENGTH
HYDRAULIC	100	250	110	
ELECTRICAL	230	230		

11. TREE ORIENTATION BASED ON PRD HEADING OF 322° AND BOP ROTATION OF 045° MAXIMUM.

GENERAL NOTES:

No.	DATE	BY	APP	REVISIONS
4	05/19/98	JDB	NH	AS BUILT
3	02/24/98	PAH	YT	APPROVED FOR CONSTRUCTION
2	01/08/98	PAH	YT	APPROVED FOR CONSTRUCTION
1	11/18/97	PAH	YT	APPROVED FOR CONSTRUCTION
B	09/17/97	PAH	YT	APPROVED FOR CONSTRUCTION
B	08/07/97	PAH	YT	ISSUED FOR I.D.C.
A	07/21/97	PAH	YT	ISSUED FOR D.I.C.

ENGINEERING APPROVAL	BY	DATE
PROJECT		
STRUCTURAL		
PROCESS		
MECHANICAL		
ELECTRICAL		
INSTRUMENT		
DRAFTING		

ENGINEERING CONSULTANT: ABB Offshore Technology Inc.

	BY	DATE
DESIGNED	EPCI	
DRAWN	PAH	2/24
CHECKED	NH	2/24
APPROVED	RG	
*IDC APPR		

Marathon Oil Company

CONTRACT DOC. NO.: 1561-50-P-DW-001

CONTRACT TITLE: MANIFOLD AREA GENERAL ARRANGEMENT

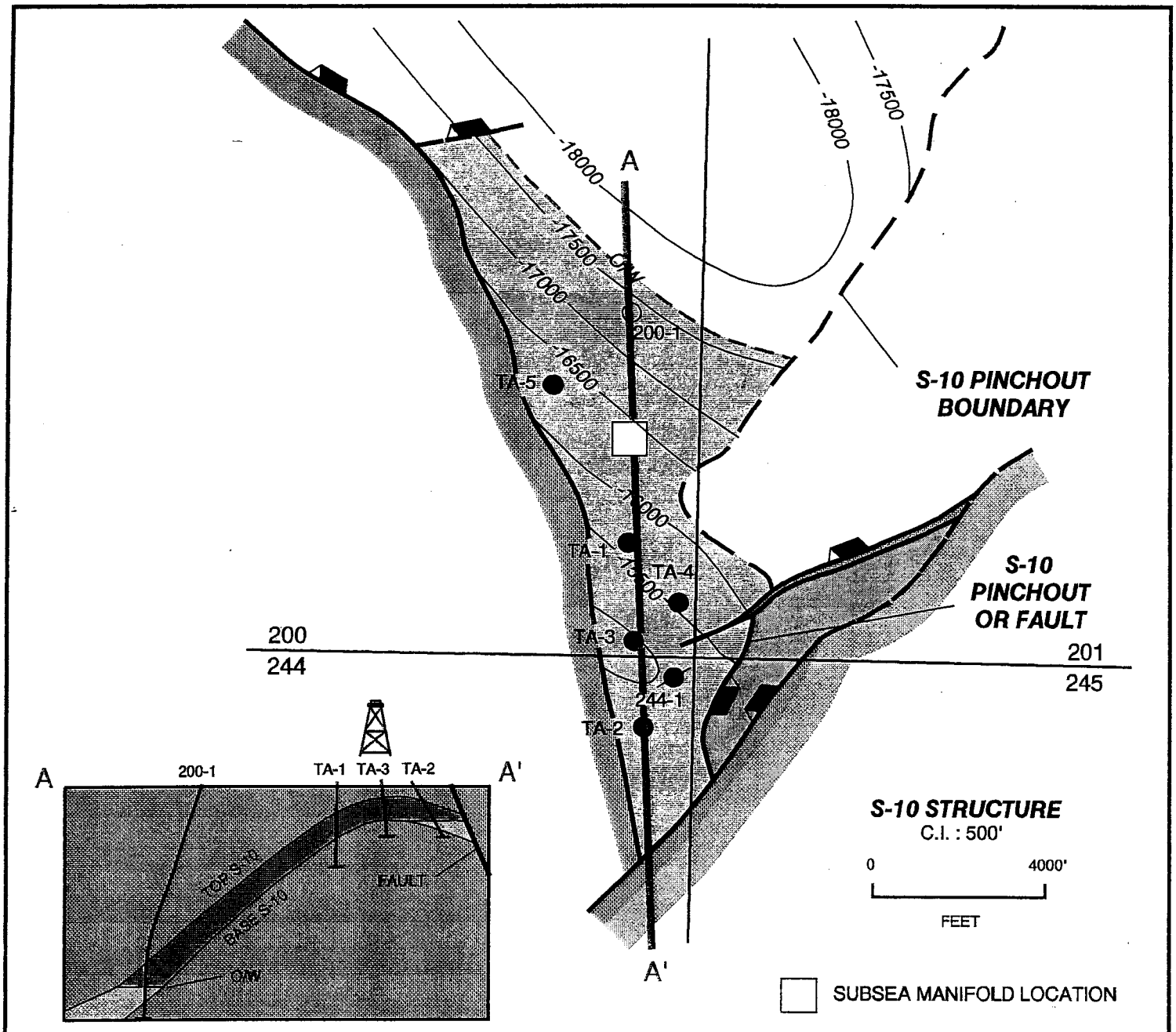
FACILITY NAME: FIELD FACILITY

DRAWING TITLE: ARNOLD FIELD DEVELOPMENT SUBSEA SYSTEM GENERAL ARRANGEMENT AS BUILT

SCALE	JOB NO.	FACILITY ID	DISC/TYPE	SIZE	DWG NO.	REV.
	91001	EW963	RD	D	4300	4

MCENGR1.DWG TITLEBLOCK 1/16/97 CAD FILE NO. FILENAME.DWG FILE DATE 2/24/99

Exhibit "D"



MARATHON OIL COMPANY
GULF COAST REGION

GREEN CANYON BLOCK 244 FIELD TROIKA DEVELOPMENT

OFFSHORE LOUISIANA

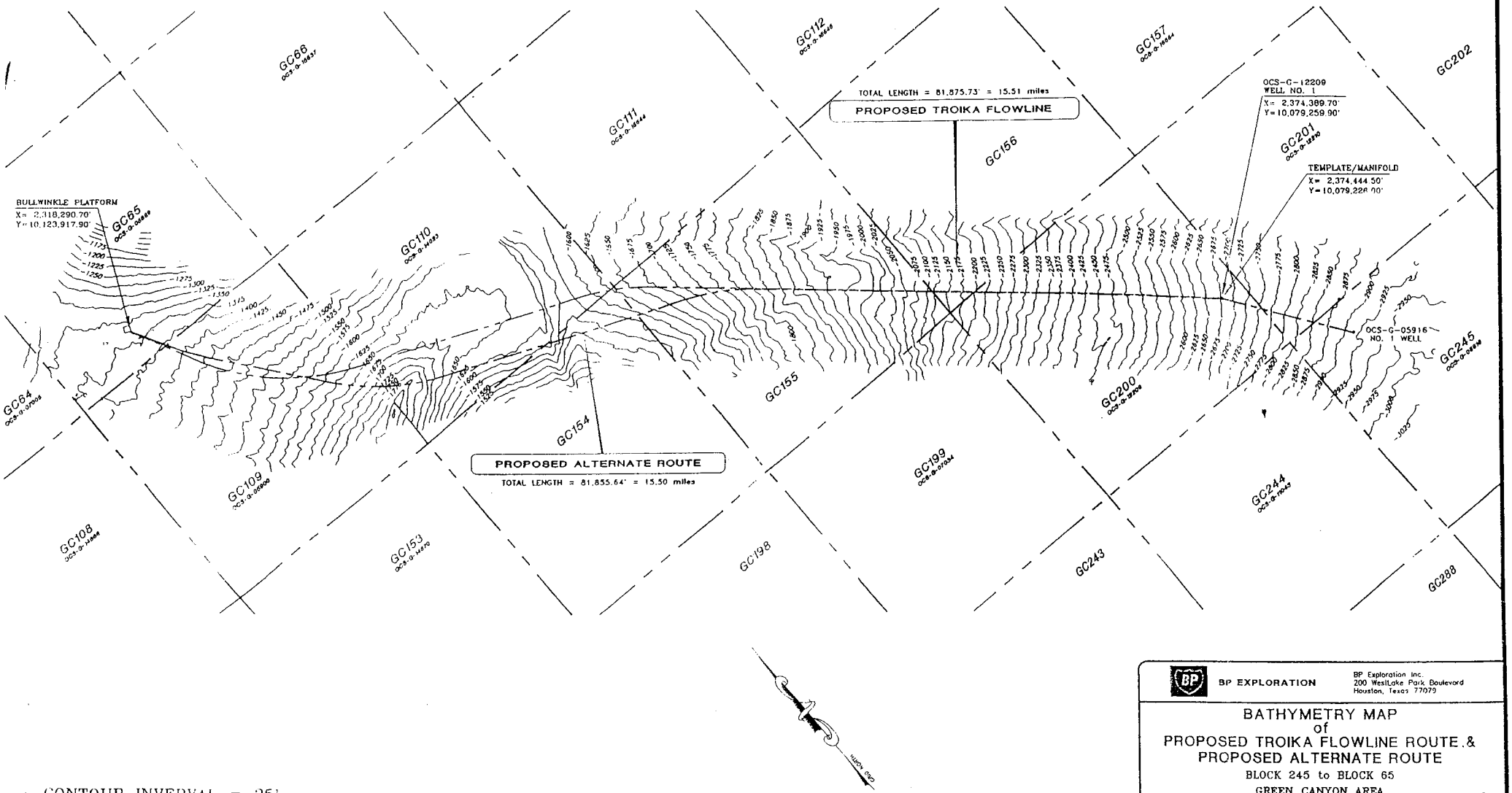
1999 DEVELOPMENT

NET WORKING INTEREST = 33%
NET REVENUE INTEREST = 29%

JUNE 1999

99budget\gc244s10_sand.dgn

Exhil "E"



CONTOUR INVERVAL = 25'
ZERO DATUM = SEA LEVEL

BP EXPLORATION

BP Exploration Inc.
200 WestLake Park Boulevard
Houston, Texas 77079

BATHYMETRY MAP of PROPOSED TROIKA FLOWLINE ROUTE & PROPOSED ALTERNATE ROUTE

BLOCK 245 to BLOCK 65

GREEN CANYON AREA

6000' 0' 6000' 12000'

SCALE IN FEET

PREPARED BY:
C & C TECHNOLOGIES, INC.
500 DOVER BLVD., LAFAYETTE, LA.
(318) 981-1442

JOB NO. 96-3302	DATE: 06/25/96
MAP NO. 963302	REV.
Dwg By: CTB	

Troika Field Layout

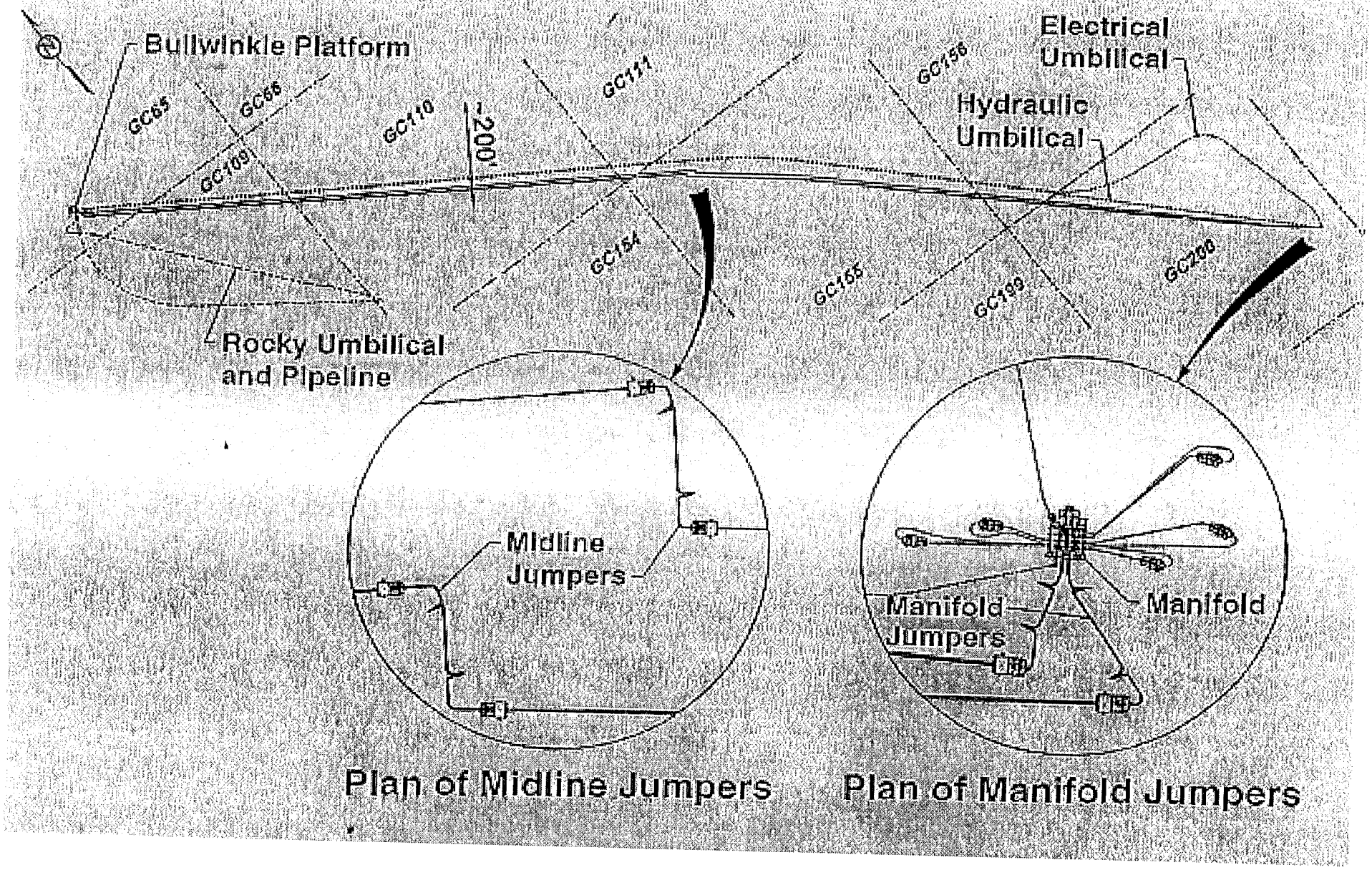


Exhibit "F"

4/8/97

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MMS-RVD-EVB:96-0413
Mail Stop 3151

Memorandum

To: Chief, Appeals Division

From: Chief, Royalty Valuation Division

Original Signed by
Deborah Gibbs Tschudy

Subject: Appeal by the CNG Producing Company (CNG), of the Minerals Management Service (MMS) Letter Dated September 18, 1996, Denying a Transportation Allowance for Movement of Production from Green Canyon 116 to South Timbalier Block 300, Appeal Docket No. MMS-96-0370-OCS

CNG appealed MMS's letter (Order) dated September 18, 1996. CNG timely filed its Notice of Appeal with MMS on October 16, 1996. The appellant requested, and we granted, an extension to file the Statement of Reasons (SOR). The SOR was timely received on January 17, 1997. Following is the field report for CNG's appeal.

RECOMMENDATION

We recommend denying the appeal by CNG and affirming MMS's decision. The movement of production from Green Canyon 116 (GC-116) to South Timbalier 300 (ST-300) takes place upstream of the approved measurement point and is considered gathering, not transportation.

ISSUES

1. Do the regulatory definitions exclude a transportation allowance in this situation?

2. Is CNG entitled to a transportation allowance because of the marketable condition rule?

BACKGROUND

By letter dated June 28, 1996, CNG requested a transportation allowance approval for movement of bulk production from GC-116 to ST-300. The system consists of two 6-inch production flowlines that travel 25 miles from the two producing wells on the sea floor in 2,040 feet of water

on the GC-116 lease to production and handling facilities located at South Timbalier Block 300. Bulk untreated production is injected into these flowlines at GC-116. All separation, dehydration, and treatment occur at the production facilities at the Cougar Platform located at ST-300. The sales meters for both gas and condensate products are also at ST-300.

By letter dated September 18, 1996, MMS states that the movement of production is gathering, not transportation. The letter states that the movement of production from GC-116 to ST-300 takes place upstream of the approved measurement point and is considered to be gathering and not part of transportation. The letter further states that these expenses cannot be included in CNG's calculation of a transportation allowance.

By letter dated October 16, 1996, CNG appealed MMS's letter dated September 18, 1996. CNG stated that it strongly feels that the 25-mile flowlines represent transportation and not gathering.

CORRESPONDENCE

Date	Letter
ne 28, 1996	Letter from CNG requesting a transportation allowance determination (Attachment 1).
ptember 18, 1996	Letter from MMS denying a transportation allowance (Attachment 2).
tober 16, 1996	Letter from CNG appealing MMS's letter dated September 18, 1996 (Attachment 3).
vember 19, 1996	Letter to CNG from MMS, acknowledging CNG's timely Notice of Appeal (Attachment 4).
cember 13, 1996	CNG's Confirmation of additional 30-day extension to file Statement of Reasons (SOR) (Attachment 5).
ember 18, 1996	Memorandum from Appeals Division containing "Extension to file documents and extension of due date to issue decision on Appeal" (Attachment 6).
mber 19, 1996	The MMS's approval for extension to file SOR (Attachment 7).
ary 16, 1997	CNG's SOR (Attachment 8).

ANALYSIS

1. Do the regulatory definitions exclude a transportation allowance in this situation?

Appellant's Position

The appellant contends that the deep water pipeline system used to move production from GC-116 to ST- 300 is readily distinguishable from an Outer Continental Shelf (OCS) gathering system. Furthermore, CNG states that its situation is different from the situation intended in the definition of gathering as stated in the regulations.

CNG's "Popeye" Field at GC-116 is located beyond OCS. The water depth at that location is 2000 feet or greater. There is no platform at or near GC-116. The production from CNG's wells at GC-116 is injected into two six-inch looped lines at a subsea manifold and then transported twenty-five miles to Shell's "Cougar" Platform at ST-300A. There the production is separated, dehydrated, and metered and then further transported to shore.

CNG also states:

> Unlike OCS gathering lines, CNG's deep water pipeline running between GC-116 and ST-300A is not one of many flowlines converging on a nearby central point for the purpose of accumulating the production from a lease or field. In the deep water beyond the edge of the OCS, it is in many cases simply impossible or prohibitively expensive to treat, separate and measure production at or near the lease. Such processess must occur on a platform, and, absent a very large discovery of reserves or special circumstances not present here, a platform cannot be built without prohibitive expense. (Here it is estimated that a platform would have cost $160 million and would have rendered the entire project uneconomic.) CNG therefore installed a subsea manifold in lieu of a platform. The deep water lines running from the subsea manifold do not accumulate the gas for treatment or compression. Quite to the contrary, all of the gas moving through these lines has already been accumulated at the subsea manifold. From there it is transported to a point many miles closer to the shore.

CNG also states that the deep water looped lines are constructed at grades two to three times higher than that which is typically used in an OCS gathering system. CNG states that these lines have a pipeshave wall thickness of .562 inches and a design pressure of 6800 p.s.i. CNG claims that typical gathering lines are not built to these specifications and do not operate at such high pressure.

CNG contends that deep water transportation is clearly distinguishable from OCS gathering, and in this situation, MMS is treating this situation exactly like OCS gathering. The appellant asserts that MMS is ignoring the facts in this situation. CNG states that the movement of gas from a

subsea manifold to a point many miles closer to the shore is transportation not gathering. CNG states that there is nothing in the 1988 regulations or the comments to suggest that MMS intended to change the basic rule, ". . . if production was valued at a point off the lease, the United States has to bear its share of the cost of movement to that point."

CNG further states that a transportation allowance excludes the cost of "gathering." Gathering is defined as:

> . . . "gathering" to include not only a movement to "a central accumulation or treatment point on the lease" but also to "a central accumulation or treatment point off the lease.'

The appellant further contends that this definition was written in a context in which:

> . . . "gathering," if it took place to a point "off the lease," took place to a nearby point, not to a distant one.

CNG states that the regulations explicitly confirm this fact. Title 30 CFR § 206.151 (1996) states: "[F]ield processes . . . such as natural pressure reduction, mechanical separation, heating, cooling, dehydration, and compression normally take place on or near the lease."

CNG also supports its position with 30 CFR § 206.456 (1996) of the proposed regulations that states:

> Notwithstanding any other provisions of this sub-part, MMS may approve, upon request of the lessee, a transportation allowance for the movement of the gas from deep water OCS leases, even if the production from the lease has not been initially separated.

In addition, CNG states that granting a transportation allowance in this situation is consistent with the policy of Congress and of this Department to provide appropriate fiscal incentives to deep water production. If CNG's field had been located on OCS, a platform would have been erected at or near the field. The production would have been gathered to that platform and separated, and measured there. Then it would have been transported through a line, perhaps a looped six-inch line exactly like the line CNG built in this instance, to another platform where it would be injected into a transmission line. In that instance, a transportation allowance would have been allowed.

CNG states that the location of its field in deep water, given the characteristics of the reserves, required use of a subsea manifold instead of a platform on or near the lease. It required that separation, dehydration, and measurement occur 25 miles closer to shore instead of at the field. CNG asserts that these factors do not mean that a transportation allowance should be denied here. To the contrary, permitting a transportation allowance in one instance but denying it in the other is arbitrarily discriminating against deep water production without any justifiable economic basis.

The MMS's Position

The MMS cannot grant a transportation allowance for movement of bulk production from GC-116 to ST-300. This movement is clearly gathering. Production is injected from a subsea manifold into two flow lines and moved to ST-300 where it is separated, dehydrated, treated, and measured. The fact that production is moved 25 miles closer to shore is not a determining factor in distinguishing transportation from gathering.

"Transportation" contrasts with "gathering;" i.e., the process of accumulating gas from multiple wells for any necessary treatment and input into a pipeline. Gathering is necessary to put gas into marketable condition and bring it to the point of royalty measurement. Gas cannot be sold and delivered to a pipeline, nor can it be treated for removal of hydrogen sulfide or water (dehydration), or compressed to pipeline pressure without being gathered from the various producing wells. In CNG's situation, the flow lines in question are gathering the gas from the various wells to the Cougar Platform. This is the location where all these field services are being performed.

In a comprehensive revision of product value regulations promulgated on January 15, 1988 (53 F. R. 1272), MMS included in the gas valuation regulations a definition of "gathering" applicable to both onshore and offshore leases:

> . . . the movement of lease production to a central accumulation or treatment point on the lease, unit, or communitized area, or to a central accumulation or treatment point off the lease, unit or communitized area [emphasis added] as approved by BLM (Bureau of Land Management) or MMS OCS (Outer Continental Shelf) operations personnel for onshore and offshore leases, respectively

In its comments at 53 F. R. 1240, "gathering," MMS explains why the terminology, ". . . or to a central accumulation or treatment point off the lease, unit or communitized area, . . . " was retained.

> The definition has been retained intact. The operational relation of both BLM and MMS require that a lessee place all production in a marketable condition, if economically feasible, and that a lessee properly measure all production in a manner acceptable to the authorized officials of those agencies. Unless specifically approved otherwise, the requirements of the regulations must be met prior to the production leaving the lease. Therefore, when approval has been granted for the removal of production from a lease, unit or communitized area for the purpose of treating the production or accumulating production for delivery to a purchaser prior to the requirements of operational regulations having been met, MMS does not believe that any allowances should be granted for costs incurred by a lessee in these instances. [Emphasis added.]

The MMS asserts that CNG's situation is exactly the type contemplated by the regulations as noted above. Furthermore, MMS cannot share in these gathering costs as the regulations clearly define gathering. In CNG's situation, MMS approval was granted for the removal of production from the leases for the purpose of accumulating and treating production prior to the requirements of operational regulations having been met.

This "gathering" definition reflects established principle and longstanding concepts within the industry and administration of law under Federal leases.[1]

In distinguishing between gathering and transportation, MMS addresses the following questions:

1. Is the pipeline segment upstream of the approved metering point or the central accumulation and (or) treatment point?

   If the answer is "yes," the pipeline is a gathering line and no deductions for transportation are permitted.

2. Is the pipeline segment a link in the continuous flow of a marketable product to the point of delivery?

If the answer is "no," the pipeline is a gathering line and is not eligible for a transportation allowance.

In determining whether a particular movement through a pipeline is gathering versus transportation, the guidelines do not address the distance and whether the accumulation point is close by or distant but rather the location of the accumulation point where separation, dehydration, and measurement take place. In this situation, the accumulation point is 25 miles closer to shore at Shell's Cougar Platform. The statement that CNG used in distinguishing their movement from typical gathering (these services usually take place close to the lease) is not a

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[1] *The Texas Company, supra,* 64 I.D. at 79-80; *The California Company, supra,* 66 I.D. at 56, *affirmed, California C. v. Seaton, supra,* 187 F. Supp. At 447 (D.D.C.) *Affirmed, California Co. V. Udall, supra* (D.C. Cir.); Notice to Lessees and Operators of Federal Onshore Oil and Gas Leases No. 1, 42 F. R. 4546, 4548 (Jan. 25, 1977), and Notice to Lessees and Operators of Federal and Indian Onshore Oil and Gas Leases No. 5, 42 F. R. 22610, 22611 (May 4, 1977) (both rules promulgated pursuant to Administrative Procedure Act ("APA") notice-and-comment rulemaking procedures at 5 U.S.C. 553); *Mesa Operating Limited Partnership v. Department of the Interior,* 931 F.R. 2d 318 (5th Cir. 1991), *cert. Denied,* 508 U.S. 1058 (1992). *Mesa* was an offshore gathering case. The Interior Board of Land Appeals followed and relied on *Mesa* in its August 3, 1993, decision. The principles later established in Mesa and earlier by the other cited authorities were expressly continued under the 1988 rules. Title 30 CFR §§ 206.151, 206.152(h), and 206.153(h) (1988-present).

deciding factor. The deciding factor in this situation is that the accumulation point is downstream from the pipeline segment. This is the point where production is separated, dehydrated, and measured.

CNG also argues that the flow lines are at grades two to three times higher than that which is typically used in an OCS gathering system. The above-cited definitions do not address the grades of flow lines. Rather, it is the location and function of the lines that are the determining factors in distinguishing gathering from transportation. If the higher grade is necessary to move additional pounds per square inch (a design pressure of 6800), then these are marketing costs for which the lessee is responsible. As stated previously, it is a long established fact that the Federal Government does not share in these marketing costs.

In moving the production to the accumulation point, CNG also argues that MMS discriminates against deep water producers by not allowing a transportation allowance for this movement. CNG states that the project would not be economical if it had built a platform at or near the lease instead of moving production 25 miles to a platform where it is treated, dehydrated, separated, and measured. The MMS asserts that it would be discrimatory to all producers if it did not apply the same criteria to all producers (the accumulation and metering point is downstream from the pipeline segment, therefore the movement is gathering). Furthermore, these leases have a reduced royalty rate of one-eighth, which is consistent with the policy of Congress and of this Department to provide appropriate fiscal incentives to deep water production. The MMS cannot approve exceptions to the regulations that deal with transportation to offer additional incentives for deep water production.

Furthermore, MMS cannot grant transportation allowance approvals based on proposed rules. Current Federal regulations and instructions establish the procedures for transportation allowances.

2. Is CNG Entitled to a Transportation Allowance Because of the Marketable Condition Rule?

Appellant's Position

CNG contends it is entitled to a transportation allowance because of the marketable condition rule. CNG interprets this rule to mean, "Where, however, there is a market for the gas at the lease, the United States is obligated to bear its proportionate share of the cost of moving the gas from the lease to a distant point."

To support its position, CNG submitted two affidavits, which state that a purchaser would be willing to buy the gas at the subsea manifold.

The MMS's Position

The above affidavits declare there is a market at the subsea manifold. They do not state the contract price for the gas or what marketing services are included in the price. There can be a market for gas anywhere (in this case at the subsea manifold). The relevant facts are that the gas must still be gathered to the Cougar Platform to be measured, separated, dehydrated, and treated. The price for the gas at the subsea manifold likely would be low, as the purchaser would not simply absorb these costs.

In R.E. Yarbrough & Co. 122 IBLA 222, the facts are similar to the instant case.

Key to the relevance of the Circuit Court's holding in resolving Yarbrough's appeal is the following paragraph from the court's opinion:

> The premise for the Secretary's decision in the case before us was that, since the lessee was obligated to market the product, he was obligated to put it in marketable condition. Theoretically, any gas--any "production"--is "marketable". We can assume that, if the price were low enough to justify capital expenditures for conditioning equipment, someone would undertake to buy low pressure gas having a high water and hydrocarbon content. A lessee who sold unconditioned gas at such a price would, in a rhetorical sense, be fulfilling his obligation to "market" the gas, and by thus saving on overhead he might find such business profitable. There is a clear difference between "marketing" and merely selling. For the former there must be a market, an established demand for an identified product. We suppose almost anything can be sold, if the price is no consideration. [Emphasis added.]

The above cited case further states:

> Although we think it is clear from the above-quoted discussion that the court in California Co. distinguished this type of "sale" from "marketing" of gas production, it is evident from cases such as Big Piney Oil & Gas Co., supra, and Placid Oil Co., Supra, that deduction from market value for costs of gathering and compression necessary to market the gas are not deductible even where incurred after the "Marketable Condition Rule" requires valuation of gas production without deduction of the costs of gathering and compressing the gas necessary to place the gas in marketable condition. Mesa Operating Ltd. V. U.S. Department of the Interior, 931F.2d 318, 325. (1991).

Title 30 CFR § 206.152(i) (1996) states:

> The lessee is required to place gas in marketable condition at no cost to the Federal Government or Indian lessor unless otherwise provided in the lease agreement. Where the value established under this section is determined by a lessee's gross proceeds, that value shall be increased to the extent that the gross proceeds have been reduced because

> the purchaser, or any other person, is providing certain services the cost of which ordinarily is the responsibility of the lessee to place the gas in marketable condition. [Emphasis added.]

It is long established that it is the responsibility of the lessee to place production in marketable condition and market production and that MMS does not share in costs of placing production in marketable condition, such as gathering.

For example, in The California Company , GS-23-O&G, September 27, 1957, the acting Director states:

> In deciding an appeal of The Texas Company involving the sale of gas from . . . (The Texas Co., 64 I. D. 76), the Acting Solicitor, Department of the Interior, states: "The lease requires the lessee to market the production from the lease and until the gas from the wells is in such a condition that it can be sold in the market, it cannot be said that the lessee has fulfilled his obligation under the lease." [Emphasis added.]

Also,

> It has been consistently held in numerous appeals that the costs of gathering, dehydrating, and compressing gas produced on a Federal lease may not be deducted when computing the royalty value against which the royalty rate is applied. [Emphasis added.] Placid Oil Company, 70 I.D. 438 (1963); The California Company, 66 I.D. 54 (1954), aff'd 296 F. R. 2d 384 (D.C. Cir. 1961); The Texas Company, 64 I.D. 76 (1957).

Finally,

> The Secretary promulgated a regulation in 1954 that requires lessees to put extracted gas into "marketable condition" and pay royalty on the marketable gas without first deducting the costs of treatment. The so-called "marketable condition rule" states:
>
> > The lessee shall put into marketable condition if commercially feasible, all products produced from the leased land. In calculating the royalty payment, the lessee many not deduct the costs of treatment. Mesa Operating Limited Partnership v. U.S. Department of the Interior, 931 F. 2d 318 (5th Cir. 1991); Cert. Denied, 112 S. Ct. 934 (1992).

It is the responsibility of the lessee to produce and market production. This includes any costs associated with gathering the gas to the Cougar Platform. The MMS correctly disallowed the gathering costs associated with the movement of the production to the Cougar Platform. The

mere statements that buyers are willing to purchase the gas at the subsea manifold does not negate the responsibility of the lessee to place the product in marketable condition. Gathering costs are considered costs of placing production in marketable condition.

Thus, MMS is correct to deny the costs for gathering. It is CNG's inherent obligation to place the product in marketable condition. This includes the costs associated with gathering production from the subsea manifold to the Cougar platform.

Conclusions and Recommendations

We conclude that the costs associated with movement of production from the subsea manifold to the Cougar Platform are gathering. Gathering is considered a cost of placing production in marketable condition. The MMS does not share in these costs.

Therefore, we recommend that CNG's appeal be denied and that MMS's position be affirmed. If you have any questions, please call Ms. Colette Haines at (303) 275-7215.

Attachments

bcc: RM File
RM Chron DC/Lakewood (2)
RVD (2)
EVB

LMS:MMS/RMP/RVD/EVB:MS 3151:CHaines:skd:275-7215:p:\users\econ\96-0413c
Finalized:gms:04/08/97

Colette Hamp 9/28/01

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

RJ Chap 9/27/01

SEP 28 2001

MRM/Offshore CAM 1
Mail Stop 382G2
01-0008

CERTIFIED MAIL---
RETURN RECEIPT REQUESTED

Mr. David Doyle, Jr.
Texaco Exploration and Production Inc.
P.O. Box 60252
New Orleans, Louisiana 70160

Dear Mr. Doyle:

Thank you for your letter dated January 23, 2001. In your letter, you requested an allowance for oil and gas transported from deepwater production in calendar year 1999, from Ewing Bank 963 to Ewing Bank 873. Your request is based on the May 20, 1999, memorandum issued by the Associate Director for Royalty Management that provides guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with current regulations.

Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribes the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty-bearing substances.

Analysis

The information submitted shows that Texaco Exploration and Production Inc. transports bulk oil and gas production from Ewing Bank 963 to Ewing Bank 873 where the oil, gas, and water

are separated and measured. Once separated, the oil and gas are shipped onshore through separate pipelines.

The MMS Oil and Gas Payor Handbook, Volume III, pgs. 5-10, state:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS [Minerals Management Service] approval (30 CFR § 206.105(b)(3)(I)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. (Emphasis added.)

Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and lessees may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs not related to transportation cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or platform extending above the surface of the water. Movement beyond this point is considered transportation.

Analysis

The royalty meter location is often a deciding factor in determining whether movement is transportation or gathering. Your request is for movement from Ewing Bank 963 to Ewing Bank 873, with the royalty meter located at Ewing Bank 873. However, in applying the Associate Director's May 20, 1999, guidance, we need to define the central accumulation point.

The transportation system consists of a single subsea well located at Ewing Bank 963, with a tieback to Platform A at Ewing Bank 873. The subsea facilities consist of a subsea tree, the PLET (pipeline end termination), dual pipe-in-pipe flowlines, a control umbilical, an umbilical termination assembly, a flowline jumper, and electric and hydraulic control system via a 14-line umbilical. All production flows through the flowlines to Ewing Bank 873 where production is then separated and measured. Applying Guideline 3 in isolation, the subsea well might be considered the central accumulation point and the subsequent movement of production might be considered transportation. However, when approving an allowance for deepwater transportation all guidelines must be taken into consideration.

Guideline 4

Leases and units are treated similarly.

Analysis

Production is from Ewing Bank 963 only.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deepwater lease.

Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico show that Ewing Bank 963 is not adjacent to Ewing Bank 873.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Analysis

The Ewing Bank 963 is a subsea development in 1750 feet of water.

Conclusion

Using the referenced guideline, we approve your request for a transportation allowance for movement of oil and gas production from the subsea manifold on Ewing Bank 963 to Ewing Bank 873.

If you have any questions, please call Ms. Colette Haines at (303) 275-7215.

Sincerely,

Original Signed By
ROMAN GEISSEL

Roman A. Geissel
Team Manager
Offshore Compliance and Asset Management 1

bc: Offshore CAM Chron
Offshore CAM 1 Chron
Circulating Chron
MRM File (1802-01 a/B) Case No.: 01-0008/Texaco Explor & Prod Inc.
MMS/MRM/Offshore CAM1/Team3:MS-382G2:Chaines:275-7215:rjg:9/26/01:common:\Offshore\A1 Industry & MMS Sources\Company Profiles\Texaco\01-008.doc
Final:rjg:9/27/01

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MRM/Offshore CAM 1
Mail Stop 382G2
01-0008

SEP 2 8 2001

CERTIFIED MAIL---
RETURN RECEIPT REQUESTED

Mr. David Doyle, Jr.
Texaco Exploration and Production Inc.
P.O. Box 60252
New Orleans, Louisiana 70160

Dear Mr. Doyle:

Thank you for your letter dated June 25, 2001. In your letter, you requested a transportation allowance for movement of production from Mississippi Canyon 292 to Viosca Knoll 900, for oil and gas transported from deepwater production. Your request is based on the May 20, 1999, memorandum issued by the Associate Director for Royalty Management that provides guidance for determining transportation allowances for production from leases in water depths greater than 200 meters. The guidelines and our responses are as follows:

Guideline 1

The transportation allowance must be determined in accordance with the current regulations.

Analysis

To determine an allowance for non-arm's-length transportation, the regulations at 30 CFR § 206.105(b) (1999) prescribes the allowable and non-allowable expenses.

Guideline 2

The costs of movement must be allocated between the royalty and non-royalty-bearing substances.

Analysis

The information submitted shows that Texaco Exploration and Production Inc. transports bulk oil and gas production from Mississippi Canyon 292 to Viosca Knoll 900 where the oil, gas, and

water are separated and measured. Once separated, the oil and gas are shipped onshore through separate pipelines.

The MMS Oil and Gas Payor Handbook, Volume III, pgs. 5-10, state:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS [Minerals Management Service] approval (30 CFR § 206.105(b)(3)(I)). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. (Emphasis added.)

Thus, the costs of movement must be allocated between royalty and non-royalty-bearing substances, and lessees may deduct only the costs associated with royalty-bearing production. Separation, dehydration, and treatment costs not related to transportation cannot be included in the transportation allowance.

Guideline 3

Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in a series, or platform extending above the surface of the water. Movement beyond this point is considered transportation.

Analysis

The royalty meter location is often a deciding factor in determining whether movement is transportation or gathering. Your request is for movement from Mississippi Canyon 292 to Viosca Knoll 900, with the royalty meter located at Ewing Bank 873. However, in applying the Associate Director's May 20, 1999, guidance, we need to define the central accumulation point.

The transportation system consists of a single subsea well located at Mississippi Canyon 292 with a tieback to Platform A at Viosca Knoll 900. The subsea facilities consist of a subsea tree, the PLET (pipeline end termination), dual pipe-in-pipe flowlines, a control umbilical, an umbilical termination assembly, a flowline jumper, and electric and hydraulic control system via a 14-line umbilical. All production flows through the flowlines to Viosca Knoll 900 where production is then separated and measured. Applying Guideline 3 in isolation, the subsea well might be considered the central accumulation point and the subsequent movement of production might be considered transportation. However, when approving an allowance for deepwater transportation all guidelines must be taken into consideration.

Guideline 4

Leases and units are treated similarly.

Analysis

Production is from Mississippi Canyon 292 only.

Guideline 5

To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to a qualifying deepwater lease.

Analysis

A review of leases on the Outer Continental Shelf, Gulf of Mexico show that Mississippi Canyon 292 is not adjacent to Viosca Knoll 900.

Guideline 6

Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Analysis

The Mississippi Canyon 292 is a subsea development in 1750 feet of water.

Conclusion

Using the referenced guideline, we approve your request for a transportation allowance for movement of oil and gas production from the subsea manifold on Mississippi Canyon 292 to Viosca Knoll 900.

If you have any questions, please call Ms. Colette Haines at (303) 275-7215.

Sincerely,

Original Signed By
ROMAN GEISSEL

Roman A. Geissel
Team Manager
Offshore Compliance and Asset Management 1

bc: Offshore CAM Chron
Offshore CAM 1 Chron
Circulating Chron
MRM File (1802-01 a/B) Case No.: 01-0008/Texaco Explor & Prod Inc.
MMS/MRM/Offshore CAM1/Team 3:MS-382G2:Chaines:275-7215:rjg:9/27/01:common:\Offshore\A1 Industry & MMS Sources\Company Profiles\Texaco\01-008a.doc
Final:rjg:9/27/01

Colette Haines
5/30/01

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:

MRM/Offshore CAM 1
01-0008
Mail Stop382G2

MAY 31 2001

CERTIFIED MAIL---
RETURN RECEIPT REQUESTED

Mr. David Doyle, Jr.
Texaco Exploration and Production Inc.
P. O. Box 60252
New Orleans, Louisiana 70160

Dear Mr. Doyle,

Thank you for your letter dated January 23, 2001. In your letter, you are requesting a transportation allowance for Ewing Bank 963 to Ewing Bank 873 for calendar year 1999 for oil and gas transported from deepwater production.

In order to adequately review your request, the following additional information is needed:

- An itemization of the operating expenses.
- An explanation of the investment items and their use.
- An explanation of the costs used in the flowline which includes the following
  1). Allocated amount
  2). Overhead
  3). Capitalized interest.
- A detailed schematic of the system.
- A list of leases for this system.
- Are there separate gas and oil lines?

Within 30 days of your receipt of this letter, please send the information to:

Ms. Colette Haines
Offshore Compliance and Asset Management I
Minerals Mangement Service
P.O. Box 25165, Mail Stop 382G2
Denver, Colorado 80225-0165

If you have any questions, please call me at (303) 275-7215.

Sincerely,

O/S: KATHY SAGER
FOR
Roman Geissel, Team Manager
Offshore CAM 1, Team 3

Texaco Worldwide Exploration & Production
P O Box 60252
New Orleans LA 70160
504 680 1000

July 9, 2001

Ms. Colette Haines
Offshore Compliance and Asset Management I
Mineral Management Service
P. O. Box 25165, Mail Stop 382G2
Denver, CO 80225-0165

Re: **904440 – OCS-G-13084 (EWING BANK 963)**
Offshore Louisiana

Transportation Allowances – Movement of Production From Leases In Water Greater Than 200 Meters

Dear Ms. Haines:

Reference our June 25, 2001 letter in which we furnished certain information regarding Texaco Exploration and Production Inc.'s request for approval of a Deep Water Transportation Allowance covering the movement of the gas and oil production from Ewing Bank 963 to Ewing Bank 873.

As advised in the aforementioned letter, we requested additional detail from Marathon Oil Company for the $273,469.32 in expenses. Of the $273,469.32, chemical-treating costs were $237,208.22 and the remaining $36,261.10 was from allocated platform expenses (Labor etc.).

Should you have any questions, please contact me at (504) 680-1489.

Yours very truly,

David Doyle, Jr.

David Doyle, Jr.
Land Department

DD
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Texaco Worldwide Exploration & Production
P O Box 60252
New Orleans LA 70160
504 680 1000

July 9, 2001

Ms. Colette Haines
Offshore Compliance and Asset Management I
Mineral Management Service
P. O. Box 25165, Mail Stop 382G2
Denver, CO 80225-0165

Re: **904440 – OCS-G-13084 (EWING BANK 963)**
Offshore Louisiana

Transportation Allowances – Movement of Production From Leases In Water Greater Than 200 Meters

Dear Ms. Haines:

Reference our June 25, 2001 letter in which we furnished certain information regarding Texaco Exploration and Production Inc.'s request for approval of a Deep Water Transportation Allowance covering the movement of the gas and oil production from Ewing Bank 963 to Ewing Bank 873.

As advised in the aforementioned letter. we requested additional detail from Marathon Oil Company for the X – 4 in expenses. Of the X – 4 chemical-treating costs were X – 4 and the remaining X – 4 was from allocated platform expenses (Labor etc.).

Should you have any questions, please contact me at (504) 680-1489.

Yours very truly,

David Doyle, Jr.

David Doyle, Jr.
Land Department

DD
v:\dd\mms\DEEPWATERTRANSALLOWEWBK963C.MMS.doc

Texaco Worldwide Exploration & Production
P O Box 60252
New Orleans LA 70160
504 680 1000

June 25, 2001

Ms. Colette Haines
Offshore Compliance and Asset Management I
Mineral Management Service
P. O. Box 25165, Mail Stop 382G2
Denver, CO 80225-0165

Re: **904440 – OCS-G-13084 (EWING BANK 963)**
Offshore Louisiana

Transportation Allowances – Movement of Production From Leases In Water Greater Than 200 Meters

Dear Ms. Haines:

This is in response to your May 31, 2001 letter in which you requested additional information regarding Texaco Exploration and Production Inc.'s request for approval of a Deep Water Transportation Allowance covering the movement of the gas and oil production from Ewing Bank 963 to Ewing Bank 873.

ITEMIZATION OF EXPENSES (TOTAL EXPENSES X-4

We have requested additional detail from Marathon Oil Company who is the operator of the lease and provided the expense amount. The expenses are generally Labor, Miscellaneous Services, Materials and Overhead.

INVESTMENT ITEMS (TOTAL INVESTMENT X-4

Flowlines (Investment X-4 – Dual 10" flowlines move the gross production (gas, oil and water) approximately eight miles from the subsea manifold to the Ewing Bank 873 platform for handling and sale.

Flowline ROW Survey (Investment X-4 - Capitalized costs to survey floor in order to lay the dual 10" flowlines.

Production Manifold (Investment X-4 - The subsea manifold provides the necessary capability to direct production from any of the wells into any one of two 10" flowlines. This includes various header valves. The manifold is a piggable design with a retrievable pigging loop. The two sides of the manifold are isolated from each other.

Pig Receiver/Launchers (Investment X-4 - The launchers/receivers are essentially barrels with end closures to load and remove polyurethane foam pipeline pigs, the purpose of which, are to round trip pig and clean the dual pipelines, if required.

Methanol Pumps (Investment X – 4 – Necessary pumps used to handle the methanol to prevent the production from freezing. The methanol pump system consists of a methanol storage tank that feeds the methanol injection pumps. The injection pumps pump methanol via the subsea umbilical tubes to the subsea trees to prevent hydrates from forming and blocking production flow in the dual flowlines.

Allocated Amount (Investment X – 4 – This covers the portion of the capitalized engineering design and project team expenditures that apply to the flowlines and the equipment listed above.

Overhead (Investment X – 4 – This covers the portion of indirect costs covering accounting, management etc. that were capitalized and apply to the flowlines and the equipment listed above.

Capitalized Interest (Investment X – 4 – Financial Accounting Standards Board (FASB No. 34) requires the capitalization of interest on assets that require a period of time to be made ready for the intended use of the assets. The amount included is that portion of the capitalized interest that applies to the flowlines and related equipment.

DETAILED SCHEMATIC OF THE SYSTEM

Enclosed is a schematic showing the manifold and flowlines.

LIST OF LEASES

Only OCS-G-13084 is used in the system.

SEPARATE GAS AND OIL LINES

Full production flows through both lines to the platform.

Should you have any questions, please contact me at (504) 680-1489.

Yours very truly,

David Doyle, Jr.

David Doyle, Jr.
Land Department

DD
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Enclosure

June 25, 2001

Offshore Compliance and Asset Management I
Mineral Management Service
P. O. Box 25165, Mail Stop 382G2
Denver, CO 80225-0165

Attention: Ms. Colette Haines

Re: 904009 – OCS-G-8806 (MISSISSIPPI CANYON 292)
Offshore Louisiana

Transportation Allowances – Movement of Production From Leases In Water Greater Than 200 Meters

Dear Ms. Haines:

In accordance with the Mineral Management Service's guidelines, Texaco Exploration and Production Inc. requests approval of a Deep Water Transportation Allowance covering the movement of the gas and oil production from Mississippi Canyon 292 to Viosca Knoll 900. The lease is located in water greater than 200 meters and the production moves to a facility that is not located on a lease adjacent to Mississippi Canyon 292. Supporting schedules detailing our calculations for the Year 1999 rates of X – Y per barrel and X - Y per MCF are enclosed for your review. For your information, we have also enclosed a plat of the line segment as well as a schematic showing the manifold and flowlines.

Should you have any questions, please contact me at (504) 680-1489.

Yours very truly,

David Doyle, Jr.
Land Department

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Enclosure

MISSISSIPPI CANYON 292 (GEMINI) DEEPWATER MMS TRANSPORTATION ALLOWANCES

Flowlines: Dual 12" flowlines move the gross production (gas, oil and water) approximately 27.5 miles from the subsea manifold to the Viosca Knoll 900 platform for handling and sale.

Production Manifold: The subsea manifold provides the necessary capability to direct production from any one of the wells into any one of two 12" flowlines. Each well connection point includes two failsafe closed actuated header valves which are controlled through a direct hydraulic flying lead by the control pod on the tree connected to that particular location. The manifold is a piggable design with a retrievable pigging loop. The two sides of the manifold are isolated from each other by an 11", 5100 psi rated failsafe closed pigging valve.

Flowline Jumpers: The manifold is connected to the two 12" flowlines using rigid steel jumpers. The jumper connections are vertically landed collet connectors with a metal-to-metal seal. The jumpers are approximately 90 feet long.

Pig Launchers/Receivers: We have two 12" flowlines which flow through two 16" OD x 9' long pig launcher/receivers. The launchers/receivers are essentially barrels with end closures to load and remove polyurethane foam pipeline pigs, the purpose of which, are to round trip pig and clean the dual 12" pipelines, if required. The pigs would be propelled into the pipelines via high-pressure dry gas from the glycol contact tower.

Methanol Pumps/System: The methanol pump system consists of a 1400 bbl methanol storage tank, which feeds methanol charge pumps, which then feeds the high pressure methanol injection pumps. The injection pumps pump methanol via the subsea umbilical tubes to the subsea trees to prevent hydrates from forming and blocking production flow in the flowlines. The charge pumps are electric driven low-pressure pumps that take the atmospheric methanol from the tank and feed the methanol to the injection pumps. The injection pumps are electric driven pumps (double diaphragm) that take the methanol from say 40# suction to 4000# discharge, into the umbilical. The pumps (charge and injection) are dual systems with 100% back-up capability. The injection pumps have a manifold and individual meters for each umbilical tube to route and monitor individual well methanol rates.

Allocated Investment: This covers the portion of the capitalized preliminary engineering design expenditures that apply to the dual 12" flowlines.

Capitalized Interest Investment: Financial Accounting Standards Board (FASB No. 34) requires the capitalization of interest on assets that require a period of time to be made ready for the intended use of the assets. The amount included is that portion of the capitalized interest that applies to the flowlines and related equipment.

LIST OF LEASES

Only OCS-G-8806 uses the system.

MISSISSIPPI CANYON 292 (GEMINI)
DEEPWATER - MMS TRANSPORTATION ALLOWANCES

MC 292 - 1999 RATE CALCULATIONS
PRODUCER OWNED LINE COSTS FROM
MC 292 TO VK 900

DESCRIPTION OF COSTS	**OIL PRODUCTION**	**GAS PRODUCTION**	**TOTAL**
OPERATING COSTS			
DEPRECIATION			
RETURN ON INVESTMENT			
TOTAL COSTS			
PRODUCTION			
RATE	PER BARREL	PER MCF	

X-4

MC 292 - 2000 RATE CALCULATIONS
PRODUCER OWNED LINE COSTS FROM
MC 292 TO VK 900

DESCRIPTION OF COSTS	**OIL PRODUCTION**	**GAS PRODUCTION**	**TOTAL**
OPERATING COSTS			
DEPRECIATION			
RETURN ON INVESTMENT			
TOTAL COSTS			
PRODUCTION			
RATE			

X-4

		PER BARREL	PER MCF			

MISSISSIPPI CANYON 292 (GEMINI)
DEEPWATER - MMS TRANSPORTATION ALLOWANCES

INVESTMENT AND PRODUCTION DETAIL:

GROSS INVESTMENT:

TEPI'S SHARE

FLOWLINES	AFE 877169	DIRECT INVESMENT
PROD MANIFOLD	INCLUDED IN AFE 877168	DIRECT INVESMENT
FLOWLINE JUMPERS	INCLUDED IN AFE 877168	DIRECT INVESMENT
PIG LAUNCHERS/RECEIVERS	INCLUDED IN AFE 877172	DIRECT INVESMENT
METHANOL PUMP SYSTEM	INCLUDED IN AFE 877172	DIRECT INVESMENT
TOTAL DIRECT INVESTMENT		
CAPITALIZED INTEREST		
PRELIM ENG DES(100% AMOUNT $1,352,022.69)		ALLOCATED AMOUNT
TOTAL PROJECT COST		

X-4

X-4

COST USED IN FLOWLINES:

DIRECT INVESTMENT	SEE ABOVE
ALLOCATED AMOUNT	SEE ABOVE
CAPITALIZED INTEREST	(DIRECT INVESTMENT/TOTAL PROJECT COSTS)
TOTAL INVESTMENT	

YEAR	GROSS OIL	GROSS GAS	GROSS WATER	GROSS BOE	% ROYALTY BEARING	% ANNUAL DEPRECIATION	ANNUAL DEPRECIATION**
1999*	463,735.00	26,618,625.00	5,273.00	4,900,172.50			
2000*	661,642.00	47,585,498.00	9,951.00	8,592,558.33			
2001	211,345.00	22,243,100.00	5,273.00	3,918,528.33			
2002	79,929.00	8,413,500.00	5,273.00	1,482,179.00			
	1,416,651.00	104,860,723.00	25,770.00	18,893,438.17			

X- 4

*ACTUAL

**UNITS OF PRODUCTION DEPRECIATION METHOD IS USED.

MISSISSIPPI CANYON 292 (GEMINI)
DEEPWATER - MMS TRANSPORTATION ALLOWANCES

YEAR	ORIGINAL INVESTMENT	SALVAGE VALUE	DEPRECIABLE AMOUNT	ANNUAL DEPRECIATION	S&P BBB BOND RATE	RATE OF RETURN ON INVESTMENT	OPERATING EXPENSES	GROSS DEPRECIATION & ROI
1999	X - 4	0	X-4		7.69%	X-4		
2000		0			8.81%			
2001		0			8.29%			
2002		0			8.00%			

January 23, 2001

Mineral Management Service
P. O. Box 25165
Mail Stop 3150
Denver, CO 80225

Attention: Royalty Valuation Division

Re: 904440 – OCS-G-13084 (EWING BANK 963)
Offshore Louisiana

Transportation Allowances – Movement of Production From Leases In Water Greater Than 200 Meters

Gentlemen:

In accordance with the Mineral Management Service's guidelines, Texaco Exploration and Production Inc. requests approval of a Deep Water Transportation Allowance covering the movement of the gas and oil production from Ewing Bank 963 to Ewing Bank 873. The lease is located in water greater than 200 meters and the production moves to a facility that is not located on a lease adjacent to Ewing Bank 963. Supporting schedules detailing our calculations for the Year 1999 rates of X-4 per barrel and X-4 per MCF are enclosed for your review. For your information, we have also enclosed a plat of the line segment.

Should you have any questions, please contact me at (504) 680-1489.

Yours very truly,

David Doyle, Jr.
Land Department

DD
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Enclosure

Arnold Subsea Development System

Ewing Bank Block 963 (also known as Arnold) is a subsea development in 1,750 feet of water located approximately eight miles southeast of Ewing Bank Block 873, Platform "A". Marathon Oil Company and partner, Texaco Exploration and Production Inc., discovered the field in June 1996 with the drilling and testing of the first well. The field first produced oil on May 25, 1998 at a rate of 11,000 BOPD. The second well was brought on line on June 30, 1998, bringing the total rate to 24,000 BOPD. These two wells formed the basis for design of a subsea production system to bring production back to the existing Ewing Bank Block 873, Platform "A". The platform is in 750 feet of water and is operated by Marathon Oil Company. The Arnold field is notable in the Gulf of Mexico as having the largest reeled pipe-in-pipe flowlines, the first three part mud mat supported separable manifold and one of the first compact gas liquid separators installed at the host facility. Arnold and the nearby Oyster development, located on Ewing Bank Block 917, were Marathon's first deepwater company-operated subsea projects.

Three wells were drilled subsea with semi-submersible rigs prior to installing the facilities. The third well proved to be uneconomic, therefore, only two wells were tied back. The project was completed on an extremely tight schedule, requiring only 22 months from initial discovery to first oil production. The facilities were contracted under an EPCI (Engineering, Procurement, Construction, Installation) contract, where one company provided all phases of the project.

Arnold utilizes a subsea development concept consisting of a four-well cluster with a retrievable manifold. The subsea facilities consist of two subsea trees, a subsea 4-slot manifold, dual 8-mile insulated 6" inside of 10" pipe-in-pipe flowlines, a control umbilical, and a subsea distribution unit (SDU).

During the drill stem test of the first well, several downhole and surface fluid samples were taken for laboratory analysis. About 300 barrels of dead crude were also taken for flow loop experiments at Texaco's live flow loop facility in Humble, Texas. The results of these tests confirmed fluid property data established during the laboratory analysis. For example, the presence of sufficient wax to require pigging was confirmed. Further, the pigging frequency was determined to be unacceptably high for an uninsulated flowline.

A detailed thermo-hydraulic analysis of the entire subsea system was then performed in order to size the pipeline and select the optimum insulation techniques for each segment of the flowpath. Three operational requirements governed the design; no continuous methanol injection, no continuous wax inhibitor injection and at least four hours of cool down time from steady state production to hydrate formation temperature at operating pressure. Based on these requirements, expected well rates and platform arrival pressure requirements, a pipe-in-pipe system with 6' nominal product carrier (inside) pipe and 10" nominal outer (jacket) pipe was selected. After studying several insulation materials and techniques, rigid polyurethane foam was selected for its excellent combination to thermal conductivity, cost, and ease of installation. After fabrication and reeling on a barge, the flowlines were pulled into J-tubes on the platform. The flowline was then reeled off the barge using an S-lay technique. This process was then repeated for the second flowline. The flowline design and installation method offered advantages in cost and time compared to other techniques.

The two subsea horizontal trees are jumpered to the manifold and produce to Ewing Bank Block 873, Platform "A" via dual 6" insulated pipelines, each inside a 10" carrier pipe. Production from each well flows through a single, insulated, rigid flowline jumper into a manifold where ROV-operated valves direct the production into either of the two, pipe-in-pipe insulated flowlines. The dual lines are connected to the manifold via a pipeline end manifold (PLEM) and are capable of providing round trip pigging from the platform. The PLEM is designed to allow extension of the pipelines to another nearby subsea development, if needed. A combined electrical and hydraulic umbilical provides hydraulic power, electric power, communications, methanol for batch treatment of the trees during transient periods, and chemical for injection downhole.

All production flows 8 miles through twin flowlines to Ewing Bank Block 873, Platform "A", where production is separated and measured. The oil is then shipped via a 16" Poseidon Pipeline's lateral line which ties into the 24" Poseidon Pipeline System in South Timbalier Block 212. The gas is transported in either an 8" Marathon oil Company/Texaco pipeline which ties into Trunkline Gas Company's 16" pipeline in Ewing Bank Block 826, and the Discovery 20" gas pipeline.

The subsea system is controlled from Ewing Bank Block Block 873, Platform "A" via an electro-hydraulic umbilical and local subsea control modules mounted to each tree. Facilities added to Ewing Bank Block 873, Platform "A" include pigging facilities, chemical injection and storage facilities, methanol injection and storage facilities, a hydraulic pressure unit (HPU) which is shared with the Oyster development, and a computerized control panel.

Marathon Oil Company holds a 62.5% working interest in the field, with partner, Texaco Exploration & Production, Inc. holding the remaining 37.5% working interest.

EWING BANKS BLOCK 963 (ARNOLD PROJECT)
DEEPWATER - MMS TRANSPORTATION ALLOWANCES

INVESTMENT DETAIL(INFORMATION PROVIDED BY MARATHON):

GROSS INVESTMENT:

FLOWLINES	5500597 DF 0028	DIRECT INVESMENT
FLOWLINE RT SURV	AFE 5500897	DIRECT INVESMENT
PROD MANIFOLD	5500597 DF 0084	DIRECT INVESMENT
S. PUMPS(PIGGING)	5500597 DF 0161	DIRECT INVESMENT
METHANOL PUMPS	5500597 DF 0163	DIRECT INVESMENT
NDT-SUPV	5500597 DF 0247	
CONS FAC & DES	5500597 DF 0268	
CAPITALIZED INTEREST		
CONC ENG DES	AFE 5507596	
PRELIM ENG DES	AFE 5508596	
FINAL ENG DES	AFE 5509496	
MOC PROJ TEAM	AFE 5500497	
TX PROJ TEAM	AFE 5501397	
TOTAL PROJECT COST		
COST USED IN FLOWLINES:		
DIRECT INVESTMENT		SEE ABOVE
ALLOCATED AMOUNT		MARATHON'S CALCULATIONS
OVERHEAD		MARATHON'S CALCULATIONS
CAPITALIZED INTEREST		(DIRECT INVESTMENT/TOTAL PROJECT COSTS)
TOTAL INVESTMENT		

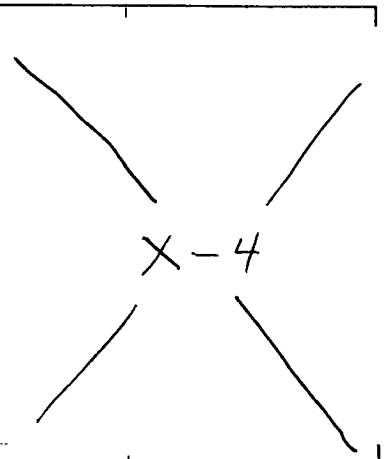
X-4

PRODUCTION DETAIL(INFORMATION PROVIDED BY MARATHON):

YEAR	GROSS OIL	GROSS GAS	GROSS WATER	GROSS BOE	% ROYALTY BEARING	% ANNUAL DEPRECIATION	ANNUAL DEPRECIATION**

1998*	3,375,190.00	2,728,508.00	16,363.00	3,829,941.00	
1999*	4,931,200.00	4,104,079.00	231,469.00	5,615,213.00	
2000	3,645,630.00	4,065,653.00	164,183.00	4,323,238.00	
2001	2,851,662.00	3,180,257.00	149,926.00	3,381,705.00	
2002	2,464,187.00	2,747,982.00	133,090.00	2,922,184.00	
2003	2,080,552.00	2,320,279.00	125,684.00	2,467,265.00	
2004	1,788,529.00	1,994,609.00	177,828.00	2,120,964.00	
2005	1,496,506.00	1,668,940.00	158,690.00	1,774,662.00	
2006	1,350,585.00	1,506,197.00	85,789.00	1,601,618.00	
2007	762,516.00	850,470.00	13,104.00	904,261.00	
	24,746,557.00	25,166,974.00	1,256,126.00	28,941,051.00	
*ACTUAL					
**UNITS OF PRODUCTION DEPRECIATION METHOD IS USED.					

X-4



EWING BANKS BLOCK 963 (ARNOLD PROJECT)
DEEPWATER - MMS TRANSPORTATION ALLOWANCES

SUMMARY OF RATE CALCULATIONS

EWING BANK 963 - 1998 RATE CALCULATIONS
PRODUCER OWNED LINE COSTS FROM
EWING BANK 963 TO EWING BANK 873

DESCRIPTION OF COSTS	OIL PRODUCTION	GAS PRODUCTION		TOTAL
OPERATING COSTS				
DEPRECIATION				
RETURN ON INVESTMENT				
TOTAL COSTS				
PRODUCTION				
RATE				
	PER BARREL	PER MCF		

X-4

EWINB BANK 963 - 1999 RATE CALCULATIONS
PRODUCER OWNED LINE COSTS FROM
EWING BANK 963 TO EWING BANK 873

DESCRIPTION OF COSTS	OIL PRODUCTION	GAS PRODUCTION		TOTAL
OPERATING COSTS				
DEPRECIATION				
RETURN ON INVESTMENT				
TOTAL COSTS				
PRODUCTION				
RATE				
	PER BARREL	PER MCF		

X-4

July 9, 2001

Ms. Colette Haines
Offshore Compliance and Asset Management I
Mineral Management Service
P. O. Box 25165, Mail Stop 382G2
Denver, CO 80225-0165

Re: 904440 – OCS-G-13084 (EWING BANK 963)
Offshore Louisiana

Transportation Allowances – Movement of Production From Leases In Water Greater Than 200 Meters

Dear Ms. Haines:

Reference our June 25, 2001 letter in which we furnished certain information regarding Texaco Exploration and Production Inc.'s request for approval of a Deep Water Transportation Allowance covering the movement of the gas and oil production from Ewing Bank 963 to Ewing Bank 873.

As advised in the aforementioned letter, we requested additional detail from Marathon Oil Company for the X-4 in expenses. Of the X-4 chemical-treating costs were X-4 and the remaining X-4 was from allocated platform expenses (Labor etc.).

Should you have any questions, please contact me at (504) 680-1489.

Yours very truly,

David Doyle, Jr.
Land Department

DD
v:\dd\mms\DEEPWATERTRANSALLOWEWBK963C.MMS.doc

EWING BANKS BLOCK 963 (ARNOLD PROJECT)
DEEPWATER - MMS TRANSPORTATION ALLOWANCES

INVESTMENT DETAIL(INFORMATION PROVIDED BY MARATHON):

GROSS INVESTMENT:

	FLOWLINES	5500597 DF 0028			DIRECT INVESMENT		
	FLOWLINE RT SURV	AFE 5500897			DIRECT INVESMENT		
	PROD MANIFOLD	5500597 DF 0084			DIRECT INVESMENT		
	S. PUMPS(PIGGING)	5500597 DF 0161			DIRECT INVESMENT		
	METHANOL PUMPS	5500597 DF 0163			DIRECT INVESMENT		
	NDT-SUPV	5500597 DF 0247					
	CONS FAC & DES	5500597 DF 0268					
	CAPITALIZED INTEREST						
	CONC ENG DES	AFE 5507596					
	PRELIM ENG DES	AFE 5508596					
	FINAL ENG DES	AFE 5509496					
	MOC PROJ TEAM	AFE 5500497					
	TX PROJ TEAM	AFE 5501397					
	TOTAL PROJECT COST						
	COST USED IN FLOWLINES:						
	DIRECT INVESTMENT				SEE ABOVE		
	ALLOCATED AMOUNT				MARATHON'S CALCULATIONS		
	OVERHEAD				MARATHON'S CALCULATIONS		
	CAPITALIZED INTEREST				(DIRECT INVESTMENT/TOTAL PROJECT COSTS)		
	TOTAL INVESTMENT						

X-4

PRODUCTION DETAIL(INFORMATION PROVIDED BY MARATHON):

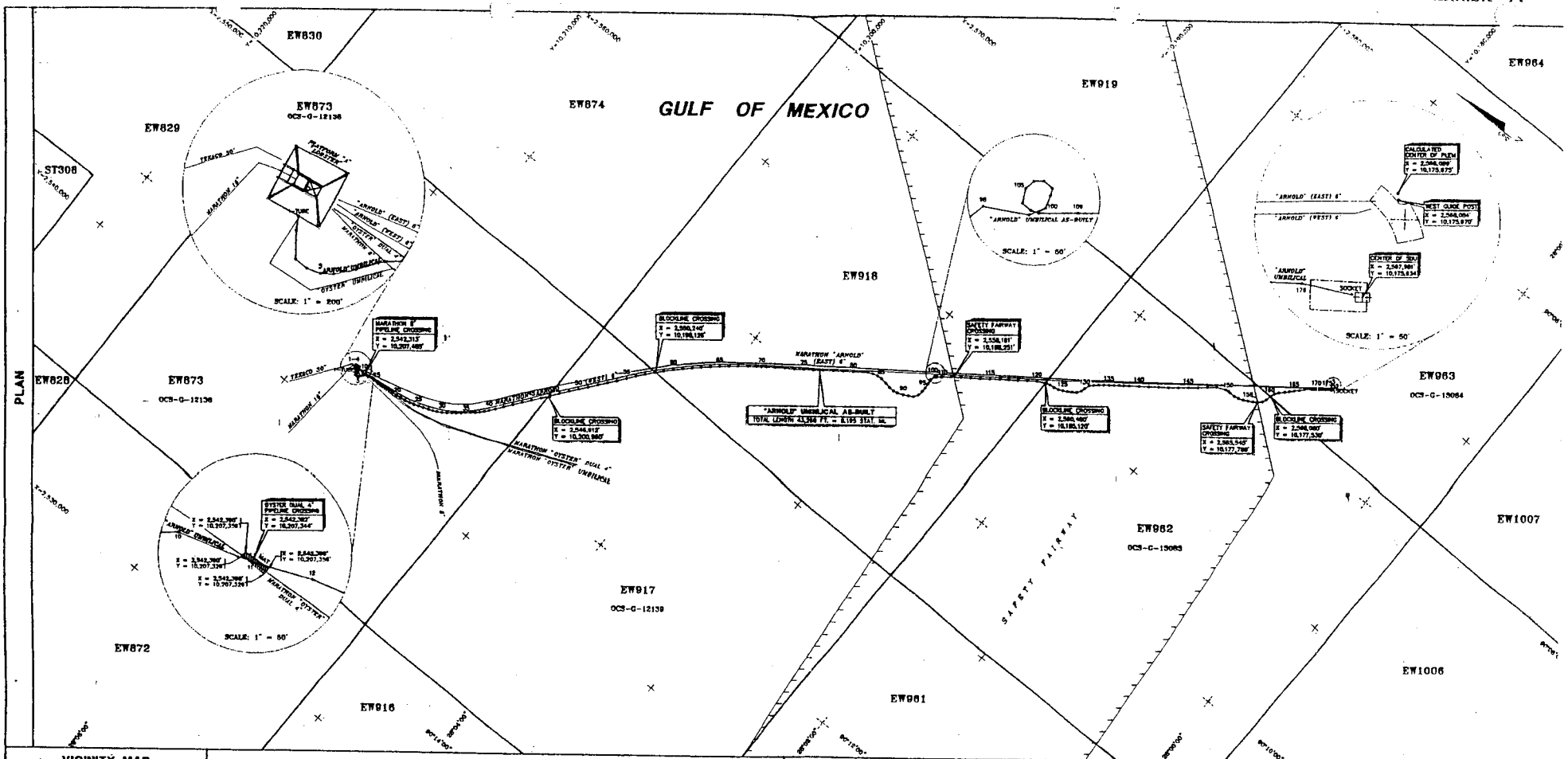
YEAR	GROSS OIL	GROSS GAS	GROSS WATER	GROSS BOE	% ROYALTY BEARING	% ANNUAL DEPRECIATION	ANNUAL DEPRECIATION**

EWING BANKS BLOCK 963 (ARNOLD PROJECT)
DEEPWATER - MMS TRANSPORTATION ALLOWANCES

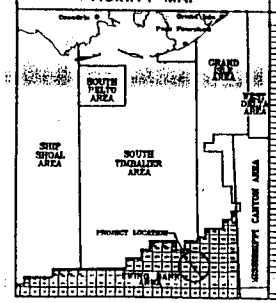
SEE DETAIL OF INVESTMENT AND PRODUCTION INFORMATION.

YEAR	ORIGINAL INVESTMENT	SALVAGE VALUE	DEPRECIABLE AMOUNT	ANNUAL DEPRECIATION	S&P BBB BOND RATE	RATE OF RETURN ON INVESTMENT	OPERATING EXPENSES	GROSS DEPRECIATION & ROI
1998	X-4	0	X-4		7.18%	X-4		
1999		0			7.36%			
2000		0			8.81%			
2001		0			8.00%			
2002		0			8.00%			
2003		0			8.00%			
2004		0			8.00%			
2005		0			8.00%			
2006		0			8.00%			
2007		0			8.00%			

Exhibit "A"



VICINITY MAP



COORDINATE TABLE

PIPE STRING	X COORDINATE (ft.)	Y COORDINATE (ft.)	PIPE STRING	X COORDINATE (ft.)	Y COORDINATE (ft.)	PIPE STRING	X COORDINATE (ft.)	Y COORDINATE (ft.)	PIPE STRING	X COORDINATE (ft.)	Y COORDINATE (ft.)
MAIN LINE											

NOTES

1. S.P.C. UMBILICAL COORDINATES ARE THE POSITIONS OF THE S.P.C. UMBILICAL AT THE POINT WHERE IT ENTERS THE SEA. POSITIONING AND DRAWING TOOL (M.P.H.) SHOT TO THIS POINT.
2. THE LENGTH OF THE UMBILICAL IS CALCULATED USING SURVEY COORDINATES ALONG THE UMBILICAL.
3. THIS DRAWING IS NOT FOR ORIENTATION. ONLY PERTAIN PIPELINES AND FEATURES IN THE IMMEDIATE VICINITY OF THE AS-BUILT ARE SHOWN.

CERTIFICATION

I, MARK KEITH BURKE, A REGISTERED PROFESSIONAL LAND SURVEYOR IN THE STATE OF TEXAS, HEREBY CERTIFY THAT THIS DRAWING ACCURATELY REPRESENTS THE POSITION OF THE UMBILICAL, WHERE FORMING PIPELINES, AND LOCAL BRANCHINGS PERTAINING TO THE UMBILICAL TO THE BEST OF MY KNOWLEDGE AS DETERMINED BY THE SURVEY METHODS NOTED ABOVE.

STATE OF TEXAS REGISTERED MARK KEITH BURKE 5092 LAND SURVEYOR

5/7/98
DATE

Mark K. Burke
MARK KEITH BURKE
REG. PROF. LAND SURVEYOR NO. 5092

LEGEND

- AS-BUILT UMBILICAL
- EXISTING PIPELINE
- BLOCK LINES
- PLATFORM
- WELL
- SAFETY FAIRWAY

PROJECTION PARAMETERS

PROJECTION: U.T.M.
ZONE: 15
SPHEROID: CLARKE 1866

GRAPHIC SCALE

HORIZONTAL
3000' 1000' 0 2000' 4000'
SCALE: 1" = 2000'

REFERENCE DRAWINGS

MARATHON OIL COMPANY

ARNOLD PROJECT UMBILICAL AS-BUILT

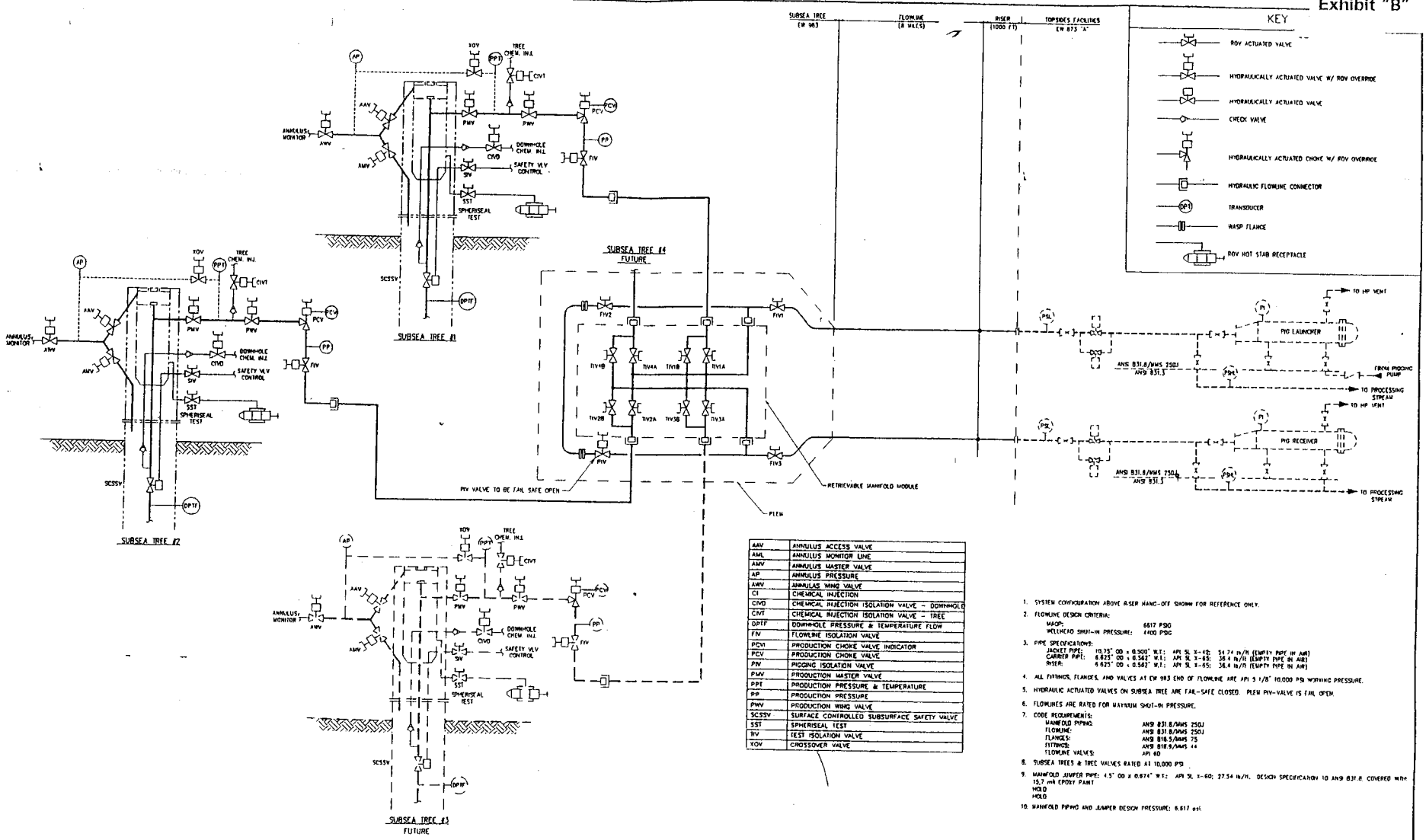
FROM EWING BANK BLOCK 873 from to 873 Host Platform
TO EWING BANK BLOCK 963
OFFSHORE LOUISIANA

DRAWN FOR	DRAWN BY
GLOBAL DIVERTORS OFFSHORE LTD. P.O. BOX 3012 HOUMA, LOUISIANA 70361-3012	FRANK S. CLARKE & ASSOCIATES, INC. 9990 HILLCROFT HOUSTON, TEXAS 77096

REV.	DATE	DESCRIPTION	DRWN	CHK'D	APP
0	4-22-98	ORIGINAL	MWH		

DRAWING No. 98700207 SHT. 1 of

Exhibit "B"



AAV	ANNULUS ACCESS VALVE
AML	ANNULUS MONITOR LINE
AMV	ANNULUS MASTER VALVE
AP	ANNULUS PRESSURE
AWV	ANNULAS WING VALVE
CI	CHEMICAL INJECTION
CMD	CHEMICAL INJECTION ISOLATION VALVE - DOWNHOLE
CMT	CHEMICAL INJECTION ISOLATION VALVE - TREE
DPTF	DOWNHOLE PRESSURE & TEMPERATURE FLOW
FIV	FLOWLINE ISOLATION VALVE
PCVI	PRODUCTION CHOKE VALVE INDICATOR
PCV	PRODUCTION CHOKE VALVE
PIV	PIGGING ISOLATION VALVE
PMV	PRODUCTION MASTER VALVE
PPT	PRODUCTION PRESSURE & TEMPERATURE
PP	PRODUCTION PRESSURE
PWV	PRODUCTION WING VALVE
SCSSV	SURFACE CONTROLLED SUBSURFACE SAFETY VALVE
SST	SPHERISEAL TEST
TIV	TEST ISOLATION VALVE
XOV	CROSSOVER VALVE

1. SYSTEM CONFIGURATION ABOVE RISER HANG-OFF SHOWN FOR REFERENCE ONLY.
2. FLOWLINE DESIGN CRITERIA:
   MAOP: 6617 PSIG
   WELLHEAD SHUT-IN PRESSURE: 7400 PSIG
3. PIPE SPECIFICATIONS:
   JACKET PIPE: 10.75" OD x 0.500" W.T.; API 5L X-42; 54.74 lb/ft (EMPTY PIPE IN AIR)
   CARRIER PIPE: 6.625" OD x 0.562" W.T.; API 5L X-65; 38.4 lb/ft (EMPTY PIPE IN AIR)
   RISER: 6.625" OD x 0.562" W.T.; API 5L X-65; 38.4 lb/ft (EMPTY PIPE IN AIR)
4. ALL FITTINGS, FLANGES, AND VALVES AT EW 963 END OF FLOWLINE ARE API 5 1/8" 10,000 PSI WORKING PRESSURE.
5. HYDRAULIC ACTUATED VALVES ON SUBSEA TREE ARE FAIL-SAFE CLOSED. PLEM PIV-VALVE IS FAIL OPEN.
6. FLOWLINES ARE RATED FOR MAXIMUM SHUT-IN PRESSURE.
7. CODE REQUIREMENTS:
   MANIFOLD PIPING: ANSI B31.8/WMS 250J
   FLOWLINE: ANSI B31.8/WMS 250J
   FLANGES: ANSI B16.5/WMS 75
   FITTINGS: ANSI B16.9/WMS 44
   FLOWLINE VALVES: API 6D
8. SUBSEA TREES & TREE VALVES RATED AT 10,000 PSI.
9. MANIFOLD JUMPER PIPE: 4.5" OD x 0.674" W.T.; API 5L X-60; 27.54 lb/ft. DESIGN SPECIFICATION TO ANSI B31.8. COVERED WITH 15.7 mil EPOXY PAINT
   HOLD
   HOLD
10. MANIFOLD PIPING AND JUMPER DESIGN PRESSURE: 6,617 psi.

GENERAL NOTES:

No.	DATE	BY	APP.	REVISIONS
2	02/10/99	JOB	HM	AS BUILT
1	02/11/98	PAH	YT	APPROVED FOR CONSTRUCTION
0	08/18/97	PAH	YT	APPROVED FOR CONSTRUCTION
A	07/17/97	PAH	YT	ISSUED FOR I.D.C.
P1	06/05/97	PEF	YT	ISSUED FOR D.I.C.

ENGINEERING APPROVAL

	BY	DATE
PROJECT		
STRUCTURAL		
PROCESS		
MECHANICAL		
ELECTRICAL		
INSTRUMENT		
DRAFTING		

ENGINEERING CONSULTANT: ABB Offshore Technology Inc.

	BY	DATE
DESIGNED	ABB OT	
DRAWN	PAH	02/11/98
CHECKED	MM	02/18/98
APPROVED	YT	02/18/98
MOC APPR		

Marathon Oil Company

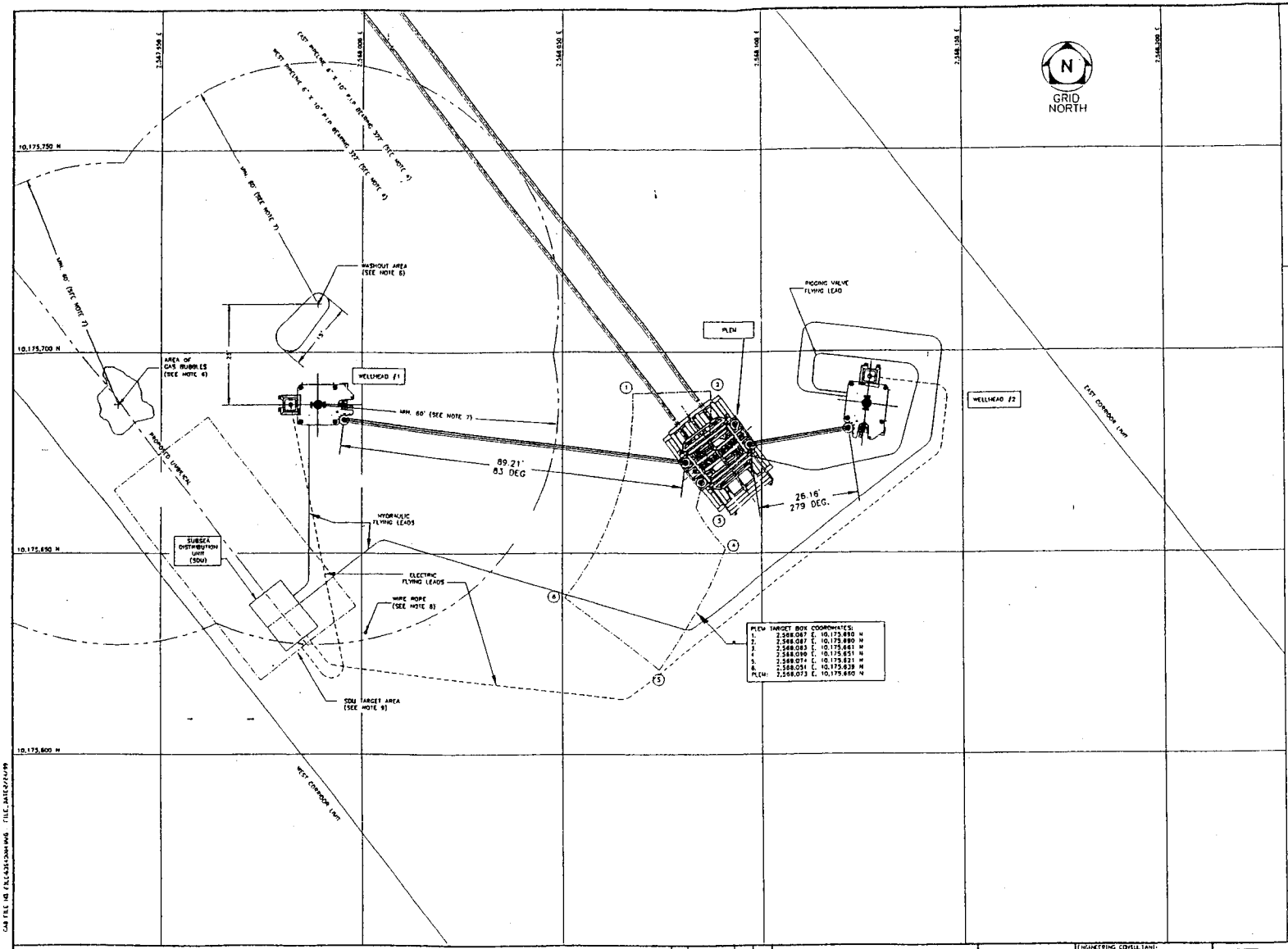
FACILITY NAME: EWING BANK 963 ARNOLD

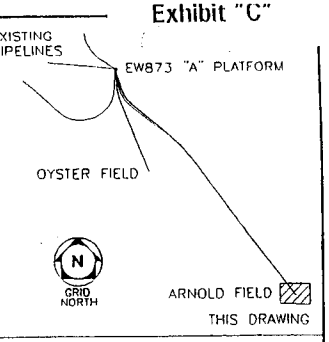
DRAWING TITLE: ARNOLD SUBSEA SYSTEM PRODUCTION FLOW DIAGRAM

SCALE	JOB NO.	FACILITY ID	DISC/TYPE	SIZE	DWG NO.	REV
NTS	91001	EW963	OD	D	4001	2

ACCEPTANCE DWG TITLEBLOCK 1/10/97 CAD FILE NO.: 1394601D.DWG 02/11/98

Exhibit "C"





NOTES:

1. WELLHEAD COORDINATES ARE BASED ON COORDINATES CONTAINED IN BULLETIN #8, MARCH 17, 1997.

CENTER OF WELLHEADS & PLEM COORDINATES			
WELLHEAD	EASTING (FT)	NORTHING (FT)	BEARING (DEG)
#1	2,567,948	10,175,687	275
#2	2,568,128	10,175,687	5
PLEM	2,568,080	10,175,671	322
SDU	2,567,961	10,175,634	322

2. NOTE THAT THE TARGET BOX IS BASED ON THE CENTER POINT OF THE PLEM, WHICH IS THE AIM FOR THE INST. CONTRACTOR.
   SEE NOTE 13 FOR MORE DETAILS ON TARGET BOX.

3. GRID SHOWN IS GEODETIC DATUM: NORTH AMERICAN DATUM 1927; UNIVERSAL TRANSVERSE MERCATOR (UTM) PROJECTION ZONE 15, CENTRAL MERIDIAN 93° W. THE ELLIPSOID IS CLARKE, 1866. COORDINATES ARE IN FEET. MEASUREMENTS ARE IN IMPERIAL UNITS (FEET).

4. POINT OF CURVATURE COORDINATE FOR WHICH THE PIPELINE BEARING FROM THE MANIFOLD IS BASED ON SURVEY DRAWING, ENGINEERING AND HAZARD MAP, DRAWING 1 OF 8 BY JOHN E. CHANCE (MARCH 21, 1997).

POINT OF INTERSECTION		
PIPELINE	EASTING (FT)	NORTHING (FT)
WEST	2,561,217	10,184,300
EAST	2,561,052	10,184,858

5. THE WELLHEAD POSITIONS MAY VARY FROM THE GIVEN COORDINATES BY ±12'. HOWEVER, THE POSITIONS ARE RELATIVE TO EACH OTHER WITH AN ACCURACY OF ±7' IN N/S DIRECTION AND ±2' IN THE E/W DIRECTION.

6. WASHOUT AND GAS BUBBLES AREA OCCURRED DURING DRILLING OF WELL #1, BUT THEY HAVE NOT BEEN VISIBLE AS OF SEPT. 1996.

7. LIMITS OF KEEP OUT ZONE. (REF. INTEC DRAWING 8132-061A.DWG, NOV 13, 1996)

8. SEVERAL DEBRIS SITES HAVE BEEN LOCATED AT ARNOLD FIELD TO INCLUDE, BUT NOT LIMITING TO THE FOLLOWING:
   - A WASHPIPE EQUIVALENT TO A 40' LONG JOINT OF 8.5" CASING. AN ROV SEARCH WAS PERFORMED BUT NO TRACE FOUND. A MAGNETOMETER SEARCH WAS NOT CONDUCTED. IT IS ASSUMED TO BE COVERED BY THE MUD.
   - DROPPED TOOLS REFERENCED IN OCEANEERING'S WIRA-COMPANY CORRESPONDENCE, SUBJECT: EN 983, OCEANING DWG'S, ARE LOCATED 180' FROM WELL #2 ON A BEARING OF 210°.
   - A LENGTH OF WIRE ROPE WAS FOUND IN POSITION 2,568,001 E, 10,175,630 N DURING AN OCEANEERING SURVEY AND PRESENTED IN REPORT ROV MEGIDEO/VIDEO SURVEY, SEPT. 04, 1996. ADDITIONAL DEBRIS MAY BE COVERED BY THE SEABED SEDIMENT.

9. THE TARGET AREA FOR THE SUBSEA DISTRIBUTION UNIT (SDU) SHALL BE 60'x30'.

10. THE FLYING LEAD LENGTHS ARE DEFINED IN THE TABLE BELOW.

FLYING LEAD LENGTH (ft)				
	SDU-TREE #1	SDU-TREE #2	TREE #2-WFL	TOTAL LENGTH
HYDRAULIC	100	250	110	
ELECTRICAL	230	230		

11. TREE ORIENTATION BASED ON PIG HEADING OF 332° AND ROP ROTATION OF 345° MAXIMUM.

CONTRACT DOC. NO.: 1561-50-P-DW-001

CONTRACT TITLE: MANIFOLD AREA GENERAL ARRANGEMENT

GENERAL NOTES:

No.	DATE	BY	APP	REVISIONS
4	05/19/98	JDB	MH	AS BUILT
3	02/24/98	PAH	YT	APPROVED FOR CONSTRUCTION
2	01/08/98	PAH	YT	APPROVED FOR CONSTRUCTION
1	11/18/97	PAH	YT	APPROVED FOR CONSTRUCTION
B	09/17/97	PAH	YT	APPROVED FOR CONSTRUCTION
5	08/07/97	PAH	YT	ISSUED FOR I.B.C.
A	07/21/97	PAH	YT	ISSUED FOR B.I.C.

ENGINEERING APPROVAL	BY	DATE
PROJECT		
STRUCTURAL		
PROCESS		
MECHANICAL		
ELECTRICAL		
INSTRUMENT		
DRAFTING		

ENGINEERING CONSULTANT:
ABB Offshore Technology Inc.

DESIGNED	CPET	
DRAWN	PAH	7/24
CHECKED	MH	7/24
APPROVED	RD	
MOC APPR		

Marathon Oil Company

FACILITY NAME: FIELD FACILITY

DRAWING TITLE: ARNOLD FIELD DEVELOPMENT
SUBSEA SYSTEM GENERAL ARRANGEMENT
AS BUILT

SCALE	JOB NO.	FACILITY ID	DISC/TYPE	TITLE	DWG NO	REV
	91001	EW963	RD	D	4300	4

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management Lucy Querques Denett

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

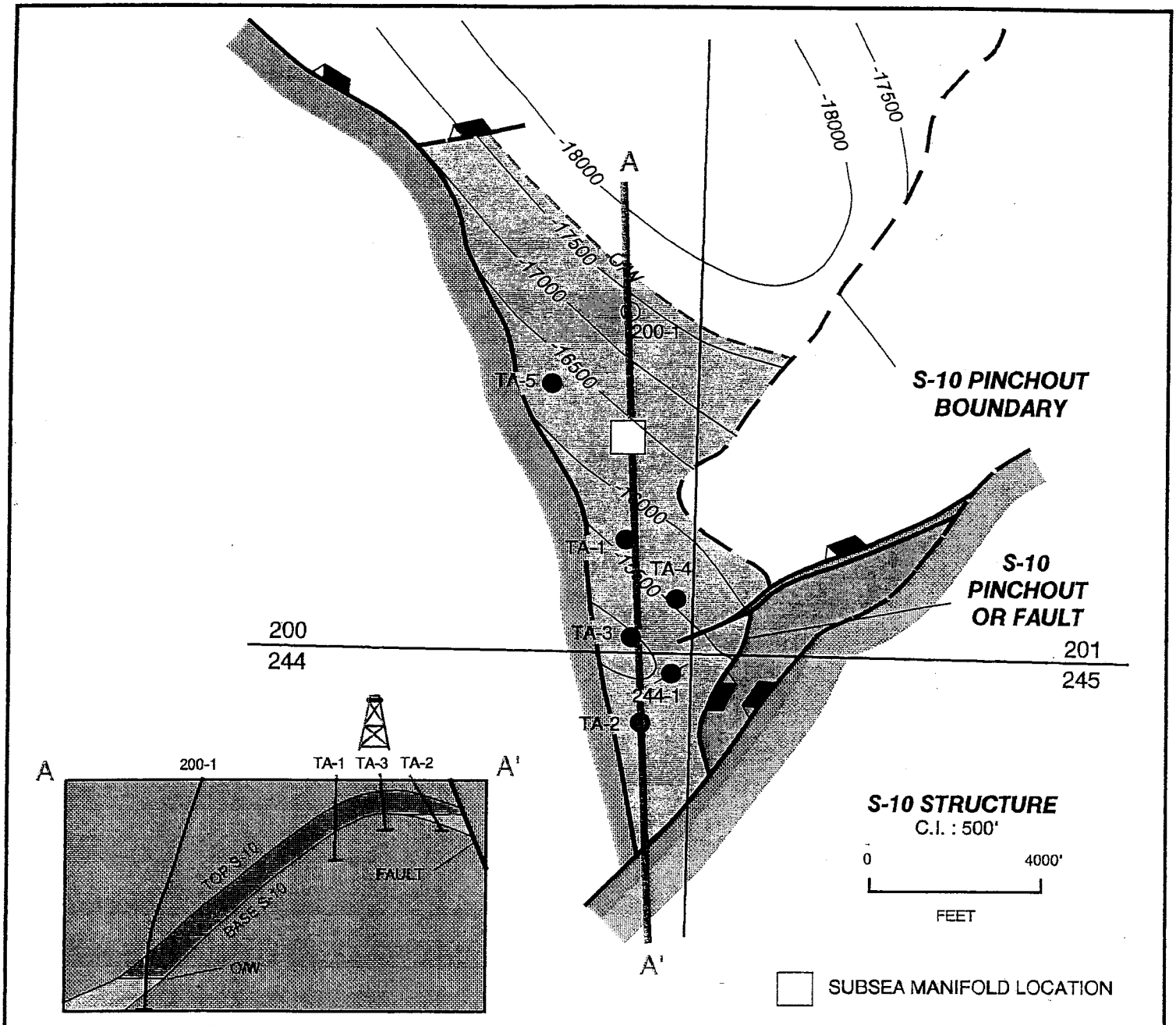
- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifing deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Application

Apply this guidance prospectively. Any previously received requests for guidance should be reviewed. If the above criteria are met, and the previously issued decision conflicts with this guidance the company must be notified.

Questions concerning the applicability of this guidance to specific situations should be referred to the Royalty Valuation Division (RVD). Additionally, requests for determinations on a case-by-case basis should be referred to RVD.

Exhibit "D"



MARATHON OIL COMPANY
GULF COAST REGION

GREEN CANYON BLOCK 244 FIELD TROIKA DEVELOPMENT

OFFSHORE LOUISIANA

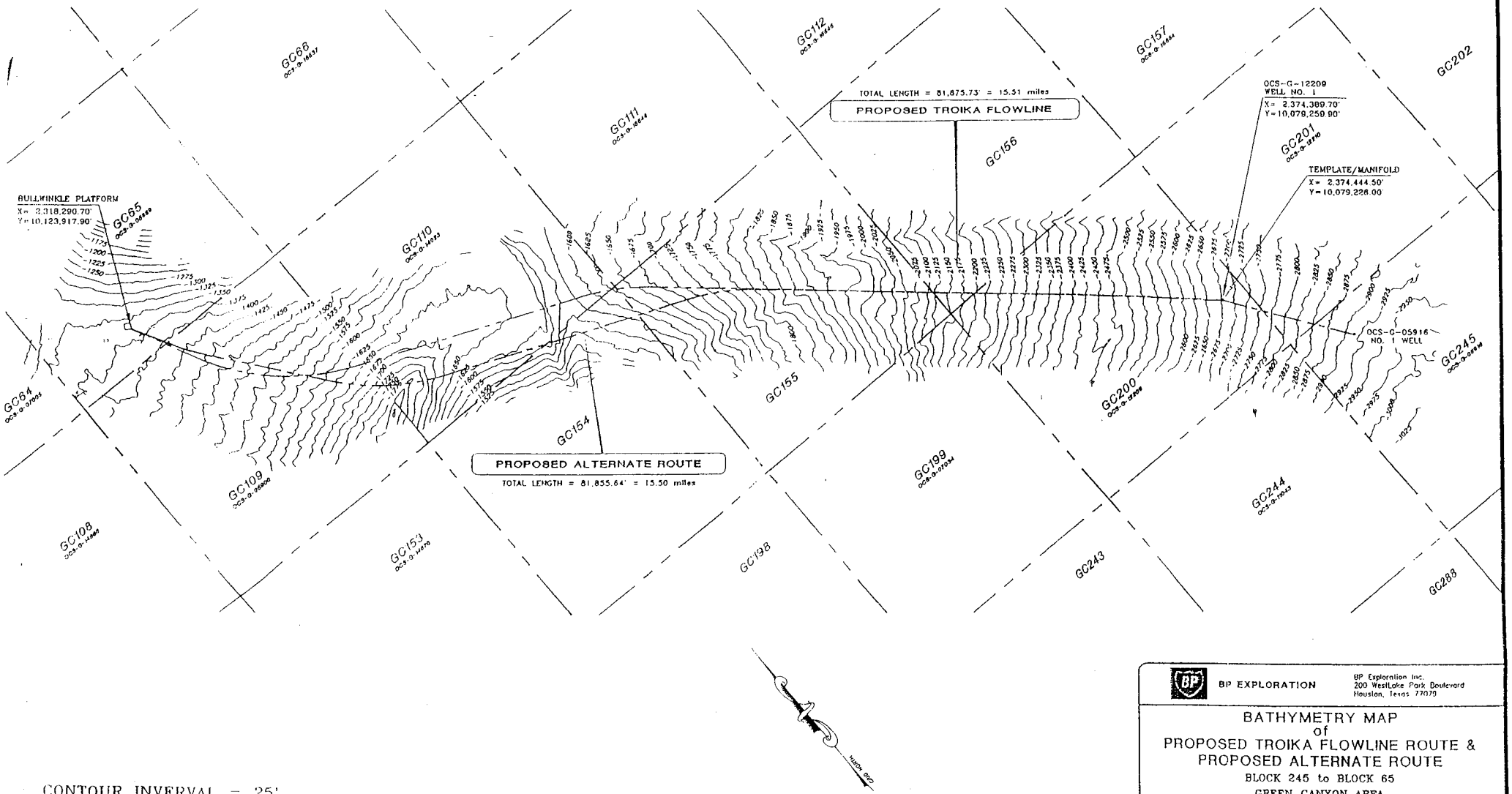
1999 DEVELOPMENT

NET WORKING INTEREST = 33%
NET REVENUE INTEREST = 29%

JUNE 1999

99budget\gc244\s10_sand.dgn

Exhil "E"



CONTOUR INVERVAL = 25'
ZERO DATUM = SEA LEVEL

BP EXPLORATION

BP Exploration Inc.
200 WestLake Park Boulevard
Houston, Texas 77079

BATHYMETRY MAP
of
PROPOSED TROIKA FLOWLINE ROUTE & PROPOSED ALTERNATE ROUTE
BLOCK 245 to BLOCK 65
GREEN CANYON AREA

6000' 0' 6000' 12000'
SCALE IN FEET

PREPARED BY:
C & C TECHNOLOGIES, INC.
500 DOVER BLVD., LAFAYETTE, LA.
(318) 981-1443

JOB NO. 96-3302
MAP NO. 963302
Dwg By: CTB
DATE: 08/25/96
REV.

Troika Field Layout

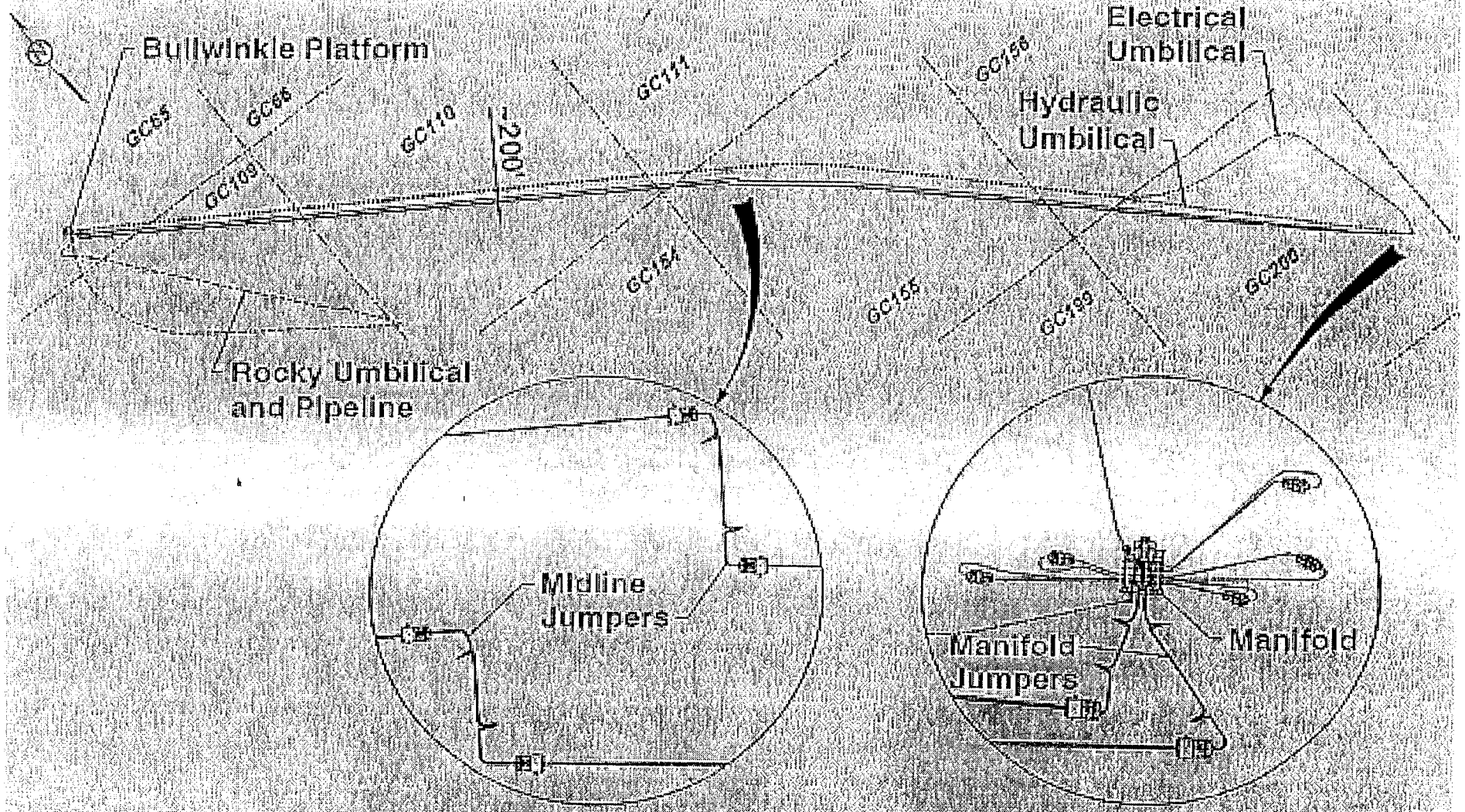


Exhibit "F"

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management Lucy Querques Denett

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifing deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Enclosure 2

United States Department of the Interior
Minerals Management Service

IF YOU APPEAL, THE FOLLOWING PROCEDURES MUST BE FOLLOWED

1. Notice of Appeal	You may appeal this directive to the Director, Minerals Management Service (MMS). You must file a Notice of Appeal within **30 days** of receiving this letter. See 30 CFR Part 290, Subpart B (64 FR 26258, May 13, 1999).
2. Where to File Notice of Appeal And Statement of Reasons	Minerals Management Service Attention: Ms. Deborah Gibbs Tschudy Chief, Royalty Valuation Division P.O. Box 25165, MS 3150 Denver, Colorado 80225-0165 Telephone (303) 275-7200 Fax No.: (303) 275-7227
3. Statement of Reasons . .	You have **30 days** from the receipt of this letter to send us your reasons why you think we should reverse or change this directive.
4. Extension to File Statement of Reasons	If you need more than **30 days**, you must file a written request for an extension to file a Statement of Reasons within the 30-day appeal time period. You must include reasons why you need the time extension. Send your request to Chief, Royalty Valuation Division at the address shown above.
5. Notice to Lessee	If you are not the lessee of the Federal leases involved in the order being appealed, you (as the designee) are required to serve your Notice of Appeal on those lessees. See 30 CFR § 290.105(a)(2) (64 FR 26259, May 13, 1999). Proof of service of this notice shall be provided to the MMS office at the address shown above.
6. Suspension of Directive/ Order	Your compliance with this directive shall be suspended pending the outcome of the appeal. Since the order being appealed does not involve the payment of a specified amount, you are not required to post a surety. See 30 CFR § 243.8(a)(1) (64 FR 26255, May 13, 1999).

Dow Campbell
Attorney

RECEIVED
D.O.I.-MMS-RVD
00 MAR 27 PM 3:52

Marathon Oil Company

539 South Main Street
Findlay, OH 45840-3295
Direct No. 419/421-4121
Main No. 419/422-2121
Facsimile 419/427-3681
E-mail: DLCampbell@MarathonOil.com

March 24, 2000

Via Overnight Mail

Minerals Management Service
Ms. Deborah Gibbs Tschudy, Chief
Royalty Valuation Division
P.O. Box 25165, Mail Stop 3150
Denver, Colorado 80225-0165

Re: Request for Transportation Allowance for Deepwater Production
Oyster Subsea Development System (Ewing Bank Block 917)

Dear Ms. Tschudy:

On May 20, 1999, the Associate Director for Royalty Management issued a memorandum addressed to you and the RMP Audit Managers entitled: *Guidance For Determining Transportation Allowances For Production From Leases In Water Depths Greater Than 200 Meters* (a copy of which is enclosed).

Marathon Oil Company has reviewed this memorandum with regard to our Oyster Subsea Development System and, except for the fact that the movement is to a facility which is located on an adjacent lease, it clearly meets the deepwater requirements set forth in the guidance memo. This situation is nearly identical to Marathon's Arnold Development (Ewing Bank Block 963), which meets the requirements in the guidance memo, the only distinction being that the Oyster System does not transport production beyond an adjacent lease. Since Oyster production is transported over a shorter distance, the effect should generally result in lower transportation rates applicable to the system.

Enclosed for your review and analysis is a description (including a summary and diagrams) of the configuration of the Oyster System (Ewing Bank Block 917).

We recognize that this system falls into the category of requiring a case-by-case analysis, therefore, please advise if there is any additional information or documentation that Marathon could provide to the MMS to aid in its review and approval of a transportation allowance for the Oyster System based on the May 20, 1999, guidance memo?

Thank you for your consideration of this request.

Sincerely,

Dow L Campbell

Dow L. Campbell

Enclosures

[115227]

cc: B. L. Benson
R. E. Good
C. A. Sudlow
M. P. White

OP-0143

Oyster Subsea Development System

Ewing Bank Block 917 (also known as Oyster) is a subsea development in 1,195 feet of water located approximately three miles south of Ewing Bank Block 873, Platform "A". The platform is located in approximately 750 feet of water and is operated by Marathon Oil Company.

The Oyster development consists of a single subsea well tied-back to the platform. The project was completed on a fast track schedule, requiring 15 months from initial discovery to first oil production. The field first produced oil on April 5, 1998 at a rate of 11,300 BOPD and 11.5 MMSCFD.

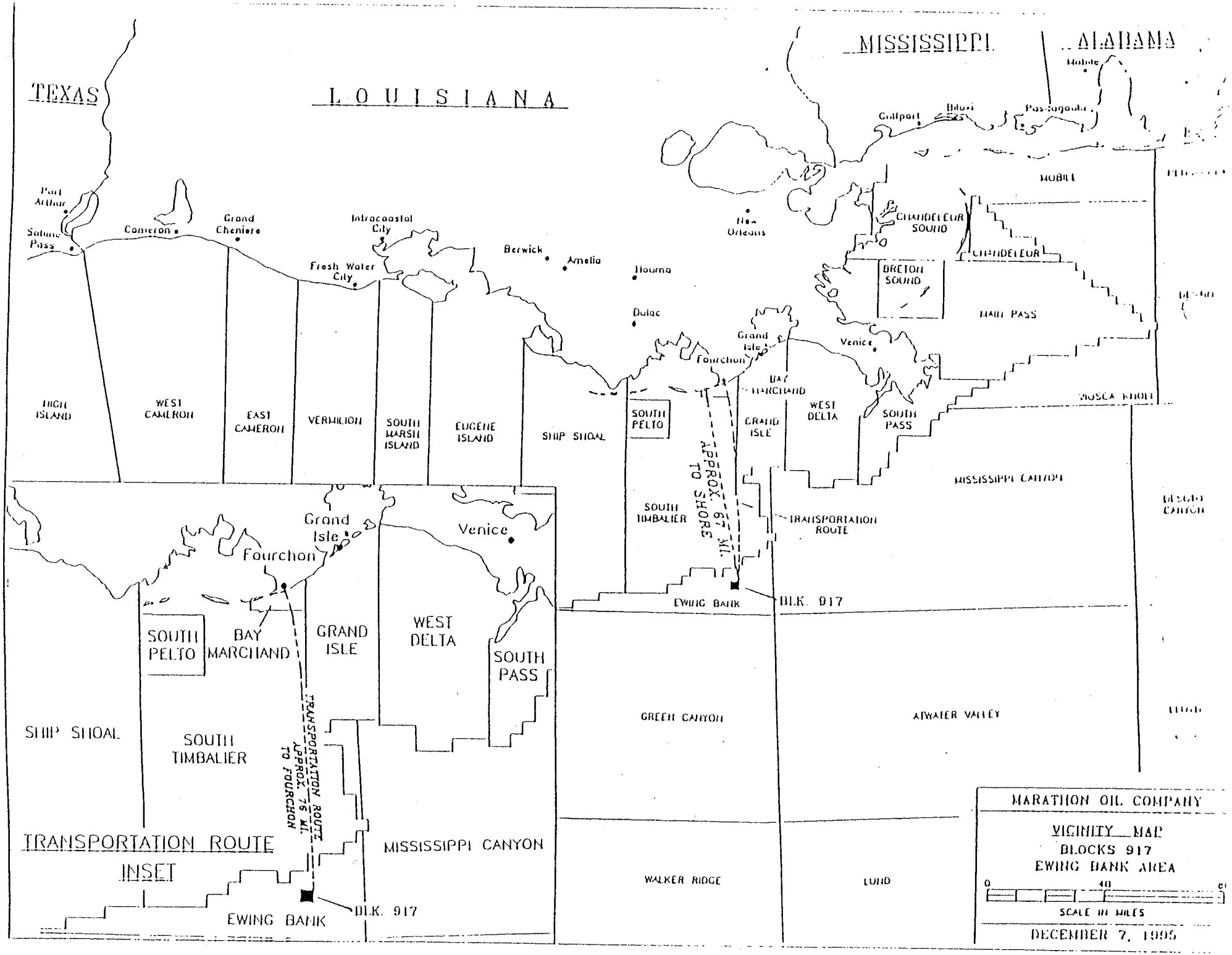
The subsea well was drilled with a semi-submersible rig prior to installing the subsea facilities and additional production facilities required on Ewing Bank Block 873, Platform "A". The subsea facilities consist of a subsea tree, the PLET (pipeline end termination), dual pipe-in-pipe flowlines, a control umbilical, an umbilical termination assembly (UTA), a flowline jumper, and electric and hydraulic flying leads. The facilities added to Ewing Bank Block 873, Platform "A" include pigging facilities, chemical injection and storage facilities, ethanol injection and storage facilities, a hydraulic pressure unit (HPU) and a well control panel.

The well is attached to the aforementioned PLET by a 4" steel jumper with "Oceaneering" type flanges. The PLET has an additional mandrel for another well to be tied into the system, giving the system limited expansion capabilities. The subsea well is controlled from Ewing Bank 873, Platform "A" by a direct hydraulic control system via a 14-line umbilical. Additionally, the subsea well incorporates a downhole pressure and temperature meter located approximately 250' above the productive interval. This meter is used for collecting pressure build-up and draw-down data, which assists technical personnel with the reservoir management of the field.

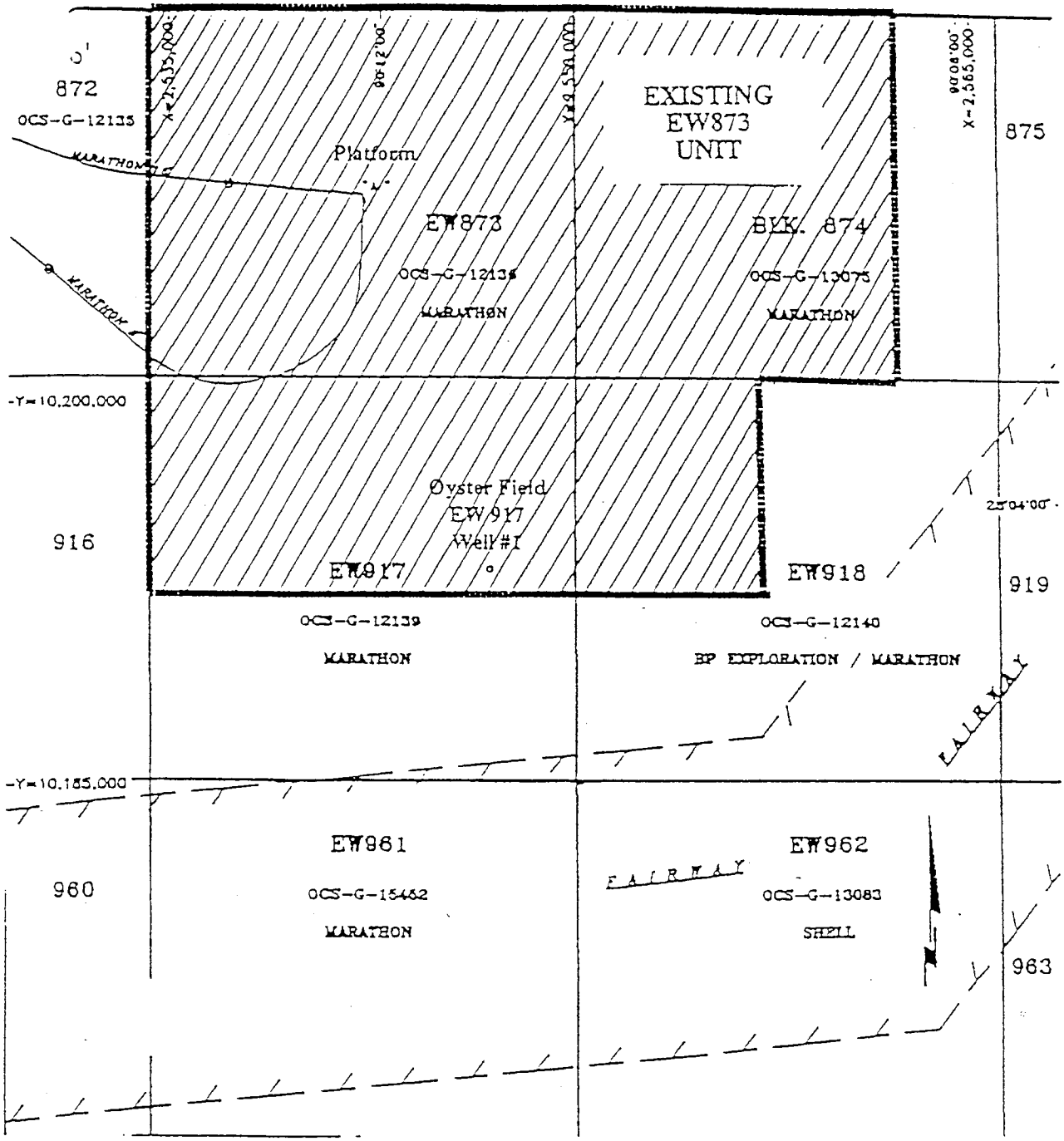
The flowlines consist of dual 4" insulated flowlines, each inside a 6" carrier pipe. The flowlines are welded directly onto the PLET and are capable of being round trip pigged from the platform.

All production flows for 3 miles through the twin flowlines to Ewing Bank Block 873, Platform "A", where production is combined with production from the platform wells. The oil, gas, and water are separated and measured. Well tests are performed periodically to determine the flow from the well. Once separated, the oil is then shipped via a 16" Poseidon Pipeline lateral line which ties into the 24" Poseidon Pipeline System in South Timbalier Block 212. The gas is transported in either an 8" Marathon Oil Company/Texaco pipeline which ties into Trunkline Gas Company's 16" pipeline in Ewing Bank Block 826, or the Discovery 30" gas pipeline, which ties into their Larose, LA Gas Plant.

Marathon Oil Company has a 66.6667% working interest in the field and partner, Texaco Exploration & Production, Inc. holds the remaining 33.3334% working interest.

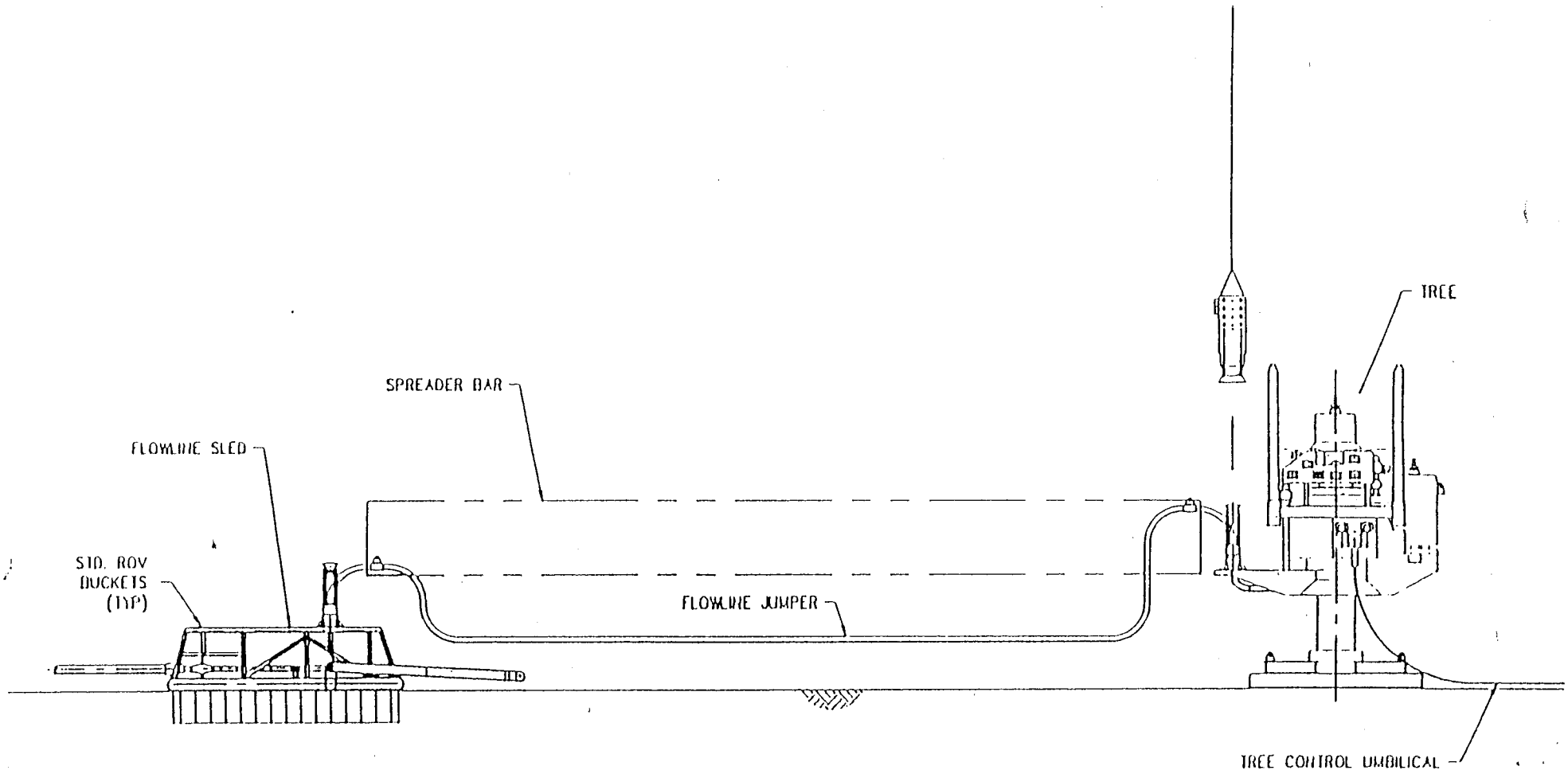


EW917 (Oyster Field) Conceptual DWOP
Figure 1 - Vicinity Map

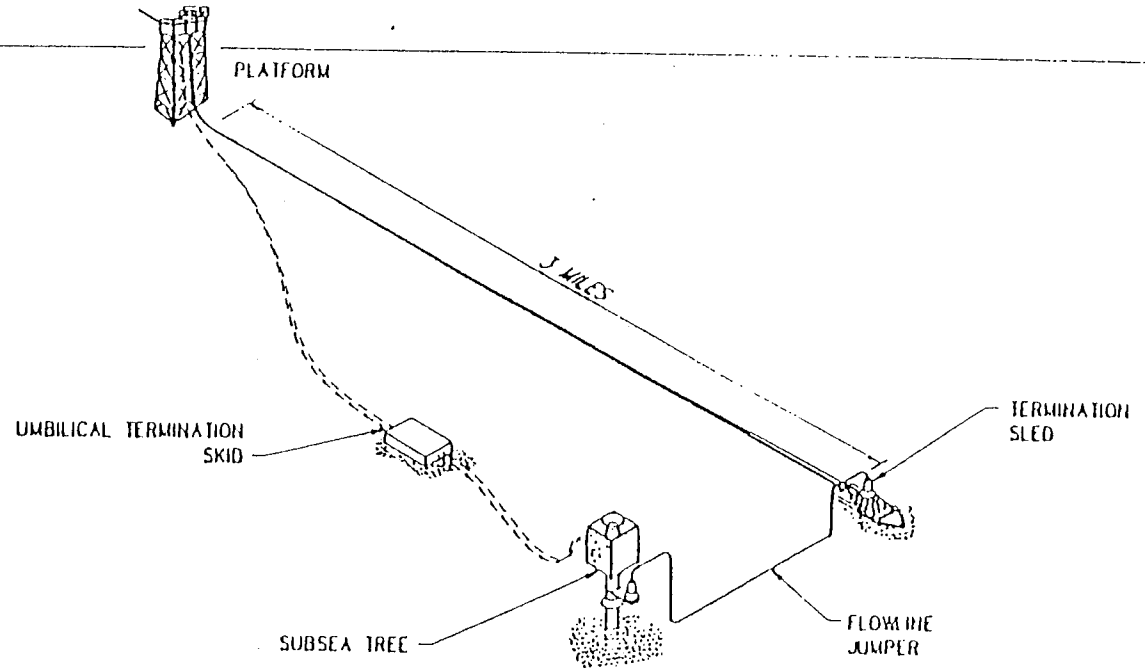


EW917 (Oyster Field) Conceptual DWOP
Figure 2 - Unit Area Map

EW917 (Oyster Field) Conceptual DWOP



MARATHON OIL COMPANY	FLOWLINE / TREE TIE-IN	INTEC ENGINEERING
OYSTER SATELLITE WELL DEVELOPMENT (EW 917)		CAD FILE: 8112-12A.DWG DEC 16, 1996 8:55 AM DWP
		DRAWN BY: ADW | DATE: 12-11-96 | JOB NO.: 11-811.2



MARATHON OIL COMPANY	OYSTER FIELD LAYOUT	INTEC ENGINEERING	
OYSTER SATELLITE WELL DEVELOPMENT (EW 917)		CAD FILE: 8112-10A.DWG DEC 13, 1996 3:14 PM ABW	
		DRAWN BY: DMP	DATE: 11-11-96
		JOB NO.: 11-811.2	Figure 7-1

EW917 (Oyster Field) Conceptual DWOP

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, D.C. 20240

MAY 20 1999

Memorandum

To: RMP Audit Managers
Chief, Royalty Valuation Division

From: Associate Director for Royalty Management Lucy Jurgues Denett

Subject: Guidance For Determining Transportation Allowances for Production from Leases in Water Depths Greater Than 200 Meters

The following guidance is provided to assist you in determining the proper transportation allowances for movement of production from leases in water depths greater than 200 meters. This guidance was agreed to by the Minerals Management Service's Quality Council at its monthly meeting on March 26, 1999. Please disseminate this information as appropriate.

Guidance

Production from a lease, any part of which, lies in water deeper than 200 meters may qualify for a transportation allowance. The following guidelines also apply:

- The transportation allowance must be determined in accordance with the current regulations.
- The costs of movement must be allocated between the royalty bearing and non-royalty bearing substances.
- Movement prior to a central accumulation point is considered gathering. A central accumulation point may be a single well, a subsea manifold, the last well in a group of wells connected in series, or a platform extending above the surface of the water. Movement beyond this point is considered transportation.
- Leases and units are treated similarly.
- To qualify for a transportation allowance, the movement must be to a facility that is not located on a lease adjacent to the lease on which the production originates. An adjacent lease is defined as any lease with at least one point of contact with the producing lease/unit. Typically, for a single lease, there would be eight leases adjacent to the qualifing deep-water lease.
- Allowances for subsea completions not located in water deeper than 200 meters may still be considered on a case-by-case basis.

Application

Apply this guidance prospectively. Any previously received requests for guidance should be reviewed. If the above criteria are met, and the previously issued decision conflicts with this guidance the company must be notified.

Questions concerning the applicability of this guidance to specific situations should be referred to the Royalty Valuation Division (RVD). Additionally, requests for determinations on a case-by-case basis should be referred to RVD.

Note: The information within this document does not necessarily contain the views of the Minerals Management Service (MMS). Rather, it is an attempt to describe background information, alternatives, and articulate comments supporting or opposing alternatives. Thus, even where this document appears to make a statement of fact, that fact may reflect a perspective of an interested party in supporting or opposing an option rather than what MMS believes to be the actual facts surrounding the gathering/transportation issue or agency regulations. Nothing herein should be perceived or cited as a statement of MMS's opinion or its position on the facts.

August 5, 1998

Subsea Tie-ins
or
Deep Water Gathering Allowances

As companies move into deep water in the Gulf of Mexico, they have started developing fields using subsea facilities. The operators move production by pipeline from the subsea manifold to a pre-existing platform in shallower water, where it undergoes separation, dehydration, and treatment before continuing to shore. The pipeline tiebacks can be of substantial length. Industry uses this scenario to reduce the cost of deep water development and to prolong the productive life of offshore facilities originally built to develop other fields.

Background

On October 16, 1997, the Minerals Management Service (MMS) Associate Director for Policy and Management Improvement (PMI), denied a CNG Producing Company appeal (MMS-96-370-OCS) of a determination by the Chief, Royalty Valuation Division. The decision denied an allowance for the transportation of production from Outer Continental Shelf (OCS) Green Canyon Block 116 (GC116) to South Timbalier Block 300A (ST300A). CNG requested an allowance for the transportation of bulk production approximately 25 miles from a subsea manifold in 2,040 feet of water on the GC116 lease to production measurement, separation, dehydration and treatment facilities located on the ST300A offshore platform. CNG appealed to the Interior Board of Land Appeals. The statement of reasons from the MMS solicitor is due on or about September 15, 1998, thus providing urgency to a decision on what actions MMS plans regarding this issue.

The current regulations and definitions did not specifically anticipate movement of this type and

the resulting impact on the regulations. MMS management determined that further investigation was appropriate.

A team, under PMI leadership, was established in November 1997. The team's members are Eric Primeaux - Offshore Minerals Management (OMM)/Gulf of Mexico Region (GOMR); Sam Fraser - OMM/Herndon; Jim Morris - Royalty Management Program (RMP)/Lakewood; Martin Grieshaber (initially Greg Smith) - PMI/Lakewood; and Todd McCutcheon - PMI/Lakewood.

The team was tasked with several items, including:

- Investigate subsea tie-ins in general (how many, physical hookups, distances from well to tie-in facilities, revenue impacts, etc.),

- Analyze the differences between gathering and transportation - what are the effects under the current regulations and how should subsea tie-ins be regulated in the future, and

- Provide a recommendation/decision paper to the MMS Quality Council whether transportation allowances should be granted to these tieback projects, and if so, what the structure of these allowances should be.

The team initially met at the GOMR office in December 1997. The team agreed to limit the scope to the Outer Continental Shelf. Importantly, the team decided to investigate all movement of bulk production (oil and gas) downstream off the lease - not just movement from subsea tie-ins. The team recognized the need for several pieces of additional data before moving on to the second and third bullets above.

The GOMR staff identified at least 47 subsea wells, 27 of which are producing. For the month of December 1997, the wells produced from 0 -158,926 barrels of oil; 1148 - 5,684,421 Mcf of gas; and 0 - 55,602 barrels of water. The bulk production from all these wells flows to existing platforms where the production is separated and the oil, gas, and water are measured. The length of the pipeline from the subsea well to the platform varies significantly, as does the water depth. Eleven of the 27 wells are in water depths that would qualify as deep water (greater than 656 feet). Data specific to these wells is summarized in Attachment 1. The GOMR also identified two pipeline systems that move bulk production from offshore to onshore where separation and measurement occurs.

The team reviewed data from the Royalty Valuation Division concerning any regulatory determinations made for the identified wells. The purpose of the review was to assure the consistency of application of the regulations regarding MMS guidance, particularly when determining whether production movement was gathering or transportation. RVD's review identified three projects related to the subsea wells on Attachment 1:

- LL&E's Garden Banks 235 (See Attachment 2),
- CNG's Green Canyon 116 (See Attachment 3), and

- Shell's Mississippi Canyon (MC) 807 (See Attachment 4).

Attachment 1 indicates that the movement in the Shell MC 807 case was 1.0 miles. Shell has asked for a determination concerning the movement of the production from MC 807 Platform A to West Delta 142 (>60 miles). In all instances, RVD concluded that the movement was gathering.

Additional investigation identified that allowances for transportation were claimed on several of the leases identified on Attachment 1. Without further investigation, no conclusion can be made regarding the accuracy of the allowance claims. The allowances being reported may be for legitimate transportation and unrelated to the issue decided by the MMS.

The team met again in the GOMR offices on July 21, 1998. Discussions at this meeting centered on the topics listed under the Options Discussion occurring later in this paper. Numerous options were also developed.

The team decided to expand the scope of its inquiry. During the discussions about the data compiled by the GOMR and what criteria should be used in developing options, the team identified several critical issues needing serious consideration prior to making a recommendation on the allowableness of deductions for transporting production from subsea tie-ins. Based upon the team's decisions on these critical issues, the scope was expanded to the larger transportation versus gathering question. The team felt that proposing a solution to the subsea tie-ins issue would not simplify or clarify outstanding ambiguities and questions on the larger issue. The team did develop an option for this smaller issue. A summary of the discussions on the critical issues follows.

Critical Issues Discussion

Prior to deciding which option may be the best course of action, decisions concerning the scope of potential changes must be made. For purposes of discussion here, the term lease is used synonymously with lease/unit. The team's decisions are summarized below.

Deep Water v. All Water Depths

Should the MMS consider changing its gathering definition for only deep water (≥656 feet), or should the definition be changed for all situations, regardless of water depth? An argument can be made that the circumstances are different and require different guidelines. However, changes to the definition that would be applicable to all water depths, would impact all companies - not just those with the resources to develop deep water prospects.

Deep Water Royalty Relief (DWRR) results in a royalty holiday when the MMS concludes that the royalties that would have to be paid for a field make the development uneconomic. When estimating the potential royalties, the MMS includes a transportation allowance in the calculation. In this calculation, larger allowances mean smaller potential royalties, that is, a smaller difference between the field's value with and without royalties. Data from one deep water royalty relief case indicates that permitting an allowance for gathering would increase the transportation costs from $0.45/ Mcf to $0.50/Mcf.

Much of the deep water will probably be developed under royalty holiday, so gathering allowances would be less important in deep water than in shallow water. However, allowances for gathering would reduce the royalties for the pioneering deep water projects that were too early to benefit from the royalty holiday of the DWRR.

The problems related to differentiating between transportation and gathering are not solely a deep water issue, in fact, they occur universally. The team decided to expand the issue to all water depths.

Distance of Movement

Is the distance that bulk production is moved prior to initial treatment a factor that should be considered in any proposed definition changes? In and of itself, this is not a critical factor. The team wondered what criteria - without appearing arbitrary and capricious - would MMS use if a distance cutoff had to be developed. The team questioned whether companies moving production across several leases had to pay right-of-way fees? The answer is yes, and they are collected by the GOMR.

Measurement

Should the gathering definition be tied to the location of the approved measurement point? What effect do accurate allocation measurements have on the royalty equation? The MMS/RMP currently uses the approved measurement point as one of its factors in determining the marketable condition of the production. However, there appears to be no correlation between the measurement point approved by the MMS and the point at which the production is in marketable condition. Approximately 55-60% of the oil in the GOM is measured for royalty purposes offshore. The remaining 40-45% of the oil is measured at an onshore point approved under the regulations and the companies claim an allowance for transportation prior to that point. The MMS determines the appropriate location of the approved measurement point. Since there are examples of on lease and off lease measurement of marketable production, as well as, at least one example of off lease measurement of bulk production, the location of the measurement point doesn't appear to be critical in the gathering/transportation determination.

Single Well Gathering v. Accumulated Well Stream Movement

Is there a difference between the movement of bulk production from one well and the movement of bulk production from several wells to the initial point of treatment? Several well streams may be "gathered" to a central tie-in at which point bulk production is moved to a facility for initial treatment. The team discussed the question of whether some of the possible gathering/transportation solutions themselves would create more problems. For example, if a solution would promote development including more subsea wellheads and manifolds as opposed to platforms, what environmental affects would there be? Does MMS have a preference, or does the MMS let the companies continue to make these decisions as we have historically? To the team's knowledge, the MMS has never forced development one way or the other. The team decided that the movement of bulk production should be treated consistently whether it comes from one well or several wells. Attachment 5 provides a visual example of this

situation.

Valuation Point Different Than Accumulation Point Or Initial Treatment Point
Currently, a transportation allowance is permitted for movement away from the lease to the point of valuation off the lease. Have we ever had a situation where the approved measurement point and the valuation point were different but still on the same lease and a company claimed an allowance? The team's members were not aware of the existence of this situation.

Movement On Lease As Opposed to Movement Beyond the Lease Boundaries
Is there a difference between movement of bulk production or marketable production on a lease as opposed the movement of the same production off the lease? As far back as 1936, the Department of the Interior has maintained that the lessee bears the responsibility of placing the production in marketable condition. This interpretation was upheld in the California v. Udall decision in 1961. The R. E. Yarbrough and Co. Decision at IBLA 90-481 (1992) states the following:

> Recent litigation has confirmed that the "Marketable Condition Rule" requires valuation of gas production without deduction of the costs of gathering and compressing the gas necessary to place the gas in marketable condition. Mesa Operating Ltd. v. U.S. Department of the Interior, 931 F.2d 318, 325. (1991).

As supported by numerous other cases, the lessee bears the responsibility of gathering under the marketable condition rule.

The standard OCS lease form provides: "The lessee shall pay a fixed royalty as shown on the face hereof in amount or value of production saved, removed, or sold from the leased area." The standard lease form also provides that; "The value of production shall be the estimated reasonable value of the production as determined by the Lessor, due consideration . . . and other relevant matters."

The current valuation regulations (30 CFR § 206.104 for oil; 30 CFR §§ 206.152 and 206.153 for gas) provide that MMS shall allow a deduction for the reasonable actual costs incurred by the lessee for transportation of production to a point (e.g. sales point or value determination point) off the lease.

The team discussed the possibility of crafting a gathering (or transportation) definition that clearly stated that any movement on the lease of bulk production or marketable production was gathering. The movement of bulk production off the lease could be dealt with on a case-by-case basis. The movement of marketable production off the lease would be transportation. No firm decision was made on this concept.

Definitions Discussion

Also germane to this issue is a discussion of the definitions and meanings of the two terms -

gathering and transportation.

The MMS and the Federal Energy Regulatory Commission (FERC) have historically had different meanings for the term gathering. Also, the Royalty Enhancement Act of 1998 (Act) - House Resolution 3334 (H.R. 3334) - has proposed separate and different expanded definitions for many of the terms used frequently in gathering and transportation discussions. Finally, the MMS undertook a Federal Gas Valuation Negotiated Rulemaking (REGNEG) effort completed in 1995. The committee composed of state, industry, and government representatives proposed new criteria for distinguishing between gathering and transportation.

MMS

The current MMS regulations promulgated in 1988 define gathering as:

> *Gathering* means the movement of lease production to a central accumulation and/or treatment point on the lease, unit or communitized area, or to a central accumulation or treatment point off the lease, unit or communitized area as approved by the BLM or MMS OCS operations personnel for onshore and OCS leases, respectively.

MMS received several comments on the definition prior to the rule's publication. The commenters proposed removing the phrase "or to a central accumulation or treatment point off the lease, unit or communitized area as approved by the BLM or MMS OCS operations personnel for onshore and OCS leases, respectively." The commenters stated that the phrase was unclear and that it should be removed from the definition. Several industry commenters recommended limiting gathering to the lease or unit area so a transportation allowance may be obtained for all off-lease movement.

The term transportation is not defined in the regulations. The 1988 regulations provide for an allowance for the reasonable actual costs of transporting the product. An unwritten definition would be - any movement not determined to be gathering is transportation.

When analyzing the movement of production, the MMS's Royalty Management Program uses additional information to distinguish between gathering (no allowance) and transportation (allowance). The two main criteria used historically are: 1) the location of the approved measurement point; and 2) whether the production is in marketable condition.

FERC

The Federal Energy Regulatory Commission (FERC) uses a "primary function test" when making a factual determination regarding its jurisdiction of pipelines. Pipelines used for the production and gathering of natural gas are exempted from FERC jurisdiction by the Natural Gas Act. The primary function test is a case-by-case consideration of all the facts and circumstances rather than the strict application of previously determined standards. The FERC has identified certain relevant considerations, including:

1) the diameter and length of the facility;
2) the location of compressors and processing plants;
3) the extension of the facility beyond the central point in the field;

4) the location of wells along all or part of the facility;
5) the geographical configuration of the system; and
6) the operating pressure of the line.

The analysis of these factors provides FERC with a basis for determining whether the function of the facility (pipeline) is for transmission (jurisdictional) or gathering (nonjurisdictional).

Additionally, the MMS recently commented on a Notice of Inquiry from the FERC concerning the criteria used to determine whether gas facilities in the OCS fell within their jurisdiction. A copy of the MMS response is included as Attachment 6.

H.R. 3334

H.R. 3334 - proposes changing several definitions. The proposed new definitions are as follows:

GATHERING. --The term "gathering means the movement of lease production to a central accumulation point on the lease, unit, or communitized area approved by the Secretary.

TRANSPORTATION: TRANSPORT. --Each of the terms "transportation" and " transporting" means any movement (including associated activities to facilitate movement such as compression and dehydration) of royalty oil or royalty gas. Such terms include any movement of royalty oil or royalty gas downstream of the delivery point, including movement described in this paragraph. Such terms may include--

(A) the movement of unseparated, bulk production away from the lease premises to a point distant from the lease premises: and

(B) the movement of separated, identifiable production downstream of a well on the lease premises to any point that is not on, and is not adjacent to, the lease premises, unit, or communitized area, as approved by the Secretary.

MERCHANTABLE CONDITION; MARKETABLE CONDITION.--Each of the terms " merchantable condition" and "marketable condition" means thee condition of oil or gas that is sufficiently free of impurities to meet the requirements of or is accepted by the transporter of production from that lease premises, royalty oil, or royalty gas. Whether or not lease production is in merchantable condition shall not affect the responsibility for the bearing of costs of gathering or transportation, as provided by this Act.

DELIVERY POINT.-- The term "delivery point" means--

(A) for a lease premise for which a production measurement meter is approved in accordance with applicable laws before the date of this Act--

(i) subject to clause (ii), the existing approved meter location, or

(ii) subject to clause (ii), a delivery point requested by a lessee and approved in accordance with subparagraph (B); or

(B) for a lease premise for which no production measurement meter is approved before the date of this Act, that point on or near the lease premises, approved by the appropriate agency in accordance applicable laws and regulations,

where lease production can be measured and reported in a manner that is practical, economical , and verifiable, except that such a point may be at a location off the lease premises where, if necessary, production can be allocated back to the lease premises.

REGNEG

Page 70 of the final report of the REGNEG committee states the following:

"E. TRANSPORTATION VS. GATHERING

Final Recommendation

The lessee may deduct from value, as a transportation allowance, the cost of moving royalty bearing substances (identifiable, measurable oil and gas, including gas that is not in need of initial separation) from the point at which it is first identifiable and measurable to the sales point or other point where value is established. The lessee may not deduct from value the cost of gathering. Gathering is defined as the movement of an unseparated, bulk production stream to a point on or off the lease, where the production stream undergoes initial separation into identifiable oil, gas, or free water.

In reaching consensus, the committee agreed that for movement to be considered transportation, the gas must be an identifiable and measurable substance and that the current marketable condition requirement should not be the basis for determining between gathering and transportation."

Additionally, in its clarifying criteria, the committee stated:

" • Movement of deep water bulk production would be considered for transportation but only as an exception, on a case-by-case basis."

Options

There are many options representing possible solutions. The team found it useful to identify different actions appropriate to the implementation of each option.

Option 1: Status Quo

Action 1: Continue using the current regulations. Let the IBLA determine whether the decision in the CNG case is correct. When making future gathering/transportation determinations, assure that no contradictions with past decisions occur.

Implementation: None.

Pros

- No regulatory changes required.
- Implies that the regulations are flexible enough to handle future development.
- Consistency with past application.
- No loss of revenues.

Cons

- Continual litigation over issue.
- Regulatory change may be forced by appeals decision.
- Could impact deep water development, lower bids on tracts.
- Did the MMS actually expect not to share in costs of moving bulk production up to 60+ miles?
- Fairness question.

Action 2: Allow a deduction for the costs allocable to only the royalty bearing substances. This action implements the Exxon Grand Isle decision (see Attachment 7). The basis for this action is as follows:

- The responsibility of placing production in marketable condition is the lessee's.
- The standard OCS lease provides the Secretary with the authority to consider other relevant matters when determining value - including production movement exceptions.
- The Secretary may allow a deduction for the royalty bearing portion of bulk production being moved to a facility where the production is placed in marketable condition.

Implementation: Case by case

Pros

- Provides deep water allowance.
- Within Secretary's authority.
- Consistent with past decisions.
- Agrees with REGNEG recommendation.

Cons

- Arbitrary and capricious? - why different than shallow water?
- Reduces revenues.

Option 2 Alter the Regulations Only to Recognize the New Deep Water Technology

Action 3: Redefine gathering (or allowance for movement) based upon water depth. Deep water is defined in the royalty rate relief regulations as greater than 200 meters (≈656 feet).

Implementation: Regulatory change

Pros

- Provides industry with allowance.
- Fair?

- Should prevent some litigation.
- Provides guidance which should provide surety.

Cons

- What about subsea wells or movement in 650 feet of water?
- Doesn't totally clarify the larger gathering/transportation issue.
- Changes long standing practice.
- Reduces revenues.

Action 4: Allow a deduction for movement greater than a predetermined distance.

Implementation: Regulatory change

Pros

- Provides an allowance for movement in special circumstances.
- Provides guidance which should provide surety.

Cons

- What rationale does the MMS use in determining the distance?
- Arbitrary and capricious? - Why different than shallow water?
- Revenue loss.

Option 3 Maintain Current Regulatory Structure With Increased Control

Action 5: The MMS could develop a set of criteria (an MMS Primary Function Test) to be used in determining whether the movement of production on the OCS is gathering or transportation.

Implementation: Not necessarily regulatory but could be.

Pros

- Could include water depth and distance guidelines.
- Would provide an allowance in cases not currently accepted.
- Flexible - can be adjusted easily.
- Provides more certainty than current regulations.

Cons

- Difficult to set criteria for all circumstances.
-

Action 6: The MMS could calculate and publish rates for all pipeline segments that qualify for a transportation allowance. Companies would request the calculation of rates for all new segments at which time MMS would determine whether the new segment qualified.

Implementation: Regulatory change.

Pros

- Certainty.
- Eliminates potential for litigation.

Cons

- Additional workload.
- More regulation.

Option 4 Replace Current Regulations

Action 7: The MMS would allow a deduction for any movement of royalty bearing substances off the lease. Under this action, the MMS would no longer care about the marketable condition of the production when allowing a deduction for movement. The lessee could claim an allowance only for the royalty bearing portion of the production that was being moved. The costs of transportation would have to be calculated on a pro rata basis. Regardless of where it occurs, the lessee is still responsible for the costs of placing the production in marketable condition.

Implementation: Regulatory change.

Pros

- Provides industry with allowance.
- Should prevent some litigation.
- Simplification.
- Closely resembles what MMS has approved in the Grand Isle (and other) cases.

Cons

- Revenue loss
- Somewhat more complicated calculation.
- Increases auditing burden.
- Impact on historical "marketable condition" rules?

Action 8: Develop a bright line determination - any movement on the lease is gathering, any movement from the lease line downstream is transportation. The gathering definition would be changed to specifically state that any movement of any production on the lease is gathering; off the lease is transportation. If value is determined at the lease (per the contract), then no transportation is allowed.

Implementation: Regulatory change.

Pros

- Clarity

- Conforms with industry's stated wants in their comments on the 1988 regulations.
- Legally defensible?

Cons

- On large units, what was previously transportation could become gathering.
- More complicated calculations - must pro rate costs based upon on lease/off lease ratio.
- Industry loses some currently accepted allowances.
- Legally defensible?

Action 9: The MMS would embrace the definitions proposed in H.R. 3334.

Implementation: Regulatory change

Pros

- Reduces litigation.
- Not too unlike the REGNEG proposal.

Cons

- Revenue losses.
- Contradicts MMS opposition to H.R. 3334.

Subsea Wells Summary

December 1997

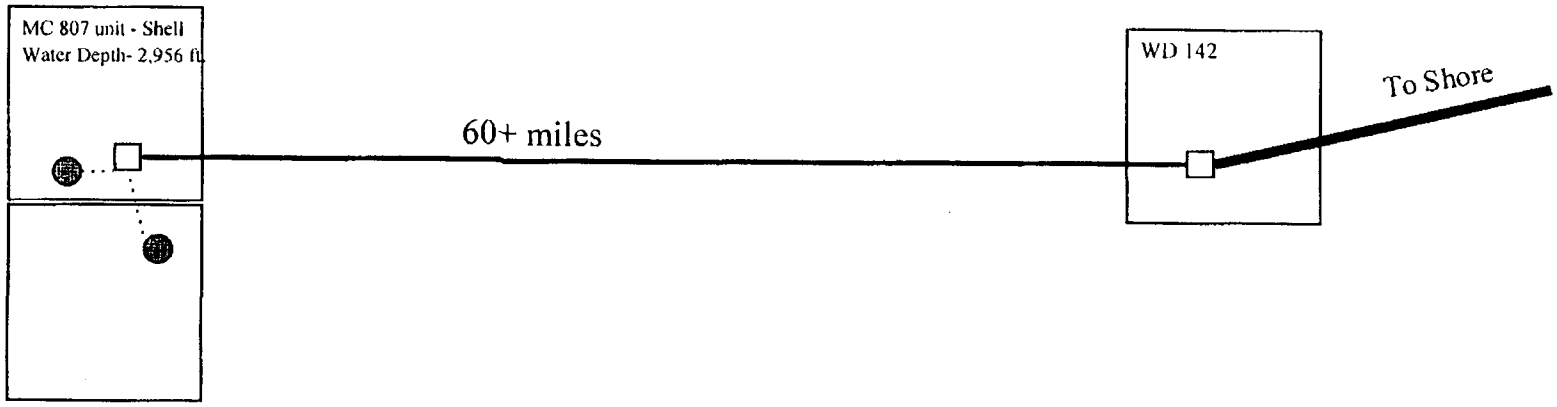
Block	Operator	Lease	Well Name	Water Depth (Ft.)	Well Type	Oil (Bbls)	Production Gas (Mcf)	H_2O (Bbls)	Segment Length (Miles)	Crosses Lease Line?
BA 007A	Pioneer	G04558	4	120	Gas	114	35,226	14,347	2.3	No
* GC 116	CNG	G05904	1	2,316	Gas	2,450	70,457	12	23.4	Yes
EI 266	Shell	G16360	1	155	Gas	7,514	442,019	194	3.3	Yes
EI 320	Forest	G08695	3	244	Gas	0	25,942	9,191	1.5	Yes
EI 322	Amoco	G02113	5	242	Gas	5,797	63,201	8,415	1.3	No
EW 977	Walter	G15454	1	470	Gas	3	164,147	17	6.6	Yes
* GB 235	LL&E	G07454	3	785	Gas	0	395,399	145	6.2	Yes
GC 110	Shell	G05901	1	1,295	Oil	70,413	129,420	509	4.3	Yes
GI 43	Conoco	175	4	114	Gas	0	11,721	4,585	1.5	Yes
GI 43	Conoco	175	4D	114	Gas	0	33,710	0	1.5	Yes
HI 320A	Walter	G15814	1	237	Gas	0	313,912	44	3.9	Yes
HI 519A	Coastal	G08184	4	220	Gas	87	46,594	13,639	3.3	Yes
HI 587A	BP Expl.	G07349	2	467	Gas	0	41,115	55,602	5.9	Yes
WD 152	Oryx	G05845	1	1,367	Gas	0	55,204	0	4.4	Yes
MC 397	Enserch	G05080	A004	1,438	Gas	1,415	369,384	128	2.7	Yes
MC 397	Enserch	G05080	A009	1,438	Gas	201	99,478	138	2.7	Yes
MC 398	Enserch	G05080	B007	1,531	Gas	608	199,239	68	5.6	Yes
MC 445	Oryx	G06951	2	2,095	Gas	696	141,591	484	7.7	Yes
MC 731	Shell	G05862	A001	5,292	Gas	8,431	5,684,421	0	62.3	Yes
* MC 807	Shell	G07963	4	2,956	Oil	158,962	232,576	0	1.0	No
MP 144	OXY	G04252	5	213	Gas	0	84,871	0	1.6	Yes
MP 262	Walter	G10910	1	293	Gas	0	21,274	0	3.1	Yes
MP 290	Allied	G09727	1	272	Gas	0	8,460	0	5.1	Yes
SS 323	Santa Fe	G05572	2	295	Gas	5	23,251	0	1.9	Yes
ST 176	Newfield	G01898	C001	103	Gas	8,551	149,394	0	1.1	No
VK 783	Shell	G06886	4	1,494	Gas	21,281	699,350	889	12.1	Yes
WD 61	Pioneer	G03601	5	130	Gas	127	35,919	186	1.4	Yes

* MMS denied transportation

Attachment 1

8/5/98 10:01 AM

TRANSPORTATION or GATHERING
Shell Appeal



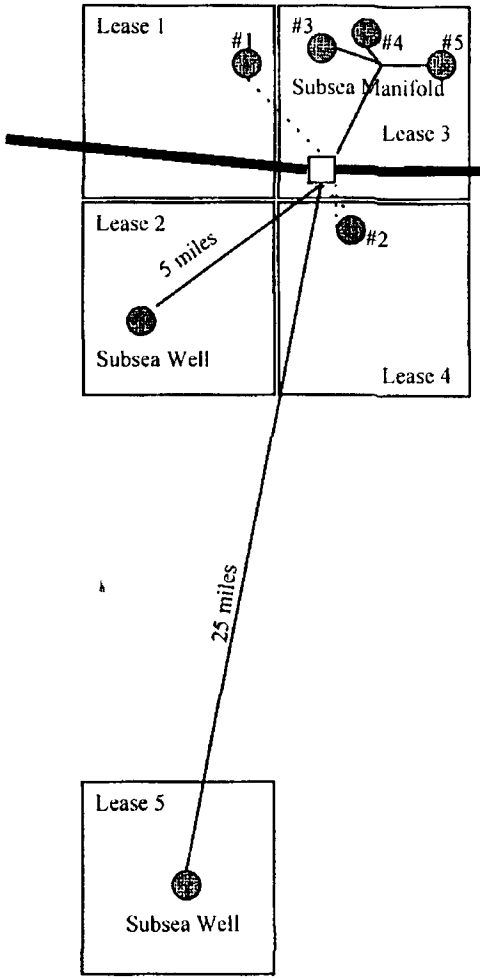
The Facts

- Oil and gas production are initially separated on MC 807 Platform A.
- The oil is moved to shore via a separate line.
- Shell transports pipeline quality gas from MC 807 Platform A to WD 142.

RVD decision of July 6, 1998, decided movement was gathering.

Attachment 3

TRANSPORTATION or GATHERING?



Questions:

- Is there a difference between the movement of production from the subsea well on Lease 5 and the subsea well on Lease 2?
- Is there a difference between the movement of production up the wellbore (Wells 1 & 2) and the movement of production from the subsea manifold to the platform (Wells 3, 4, and 5)?
- If the lease line is used as the "bright line", is the distance from the platform to the lease line on the transmission line permitted an allowance?

Attachment 5

a. **What distinguishing physical and operational characteristics are unique to OCS gathering systems?**

For royalty purposes, the movement of bulk production to a point on the lease, or to a point off the lease for treatment and/or measurement is gathering.

b. **What distinguishing physical and operational characteristics are unique to OCS transmission systems?**

When value for royalty purposes is determined at a point off the lease, the movement of measured production in marketable condition to that point is transportation.

2. **What factors, other than a pipeline facility's physical and operational characteristics, are relevant to making jurisdictional determinations in the offshore context.**

MMS has keen interest in whether a pipeline is jurisdictional. We require equal and nondiscriminatory access and rates for our lessees when royalty is paid in value and for ourselves when royalty is taken in-kind. Our purposes would be served best if the definitions used by FERC and MMS were consistent and drew a bright line between gathering facilities and transmission/transportation facilities.

3. **Are there any elements of the existing "primary function" test as it applies to OCS facilities that should be eliminated for lack of relevance, value, undue complexity, or for any other reason?**

See Question 5 below.

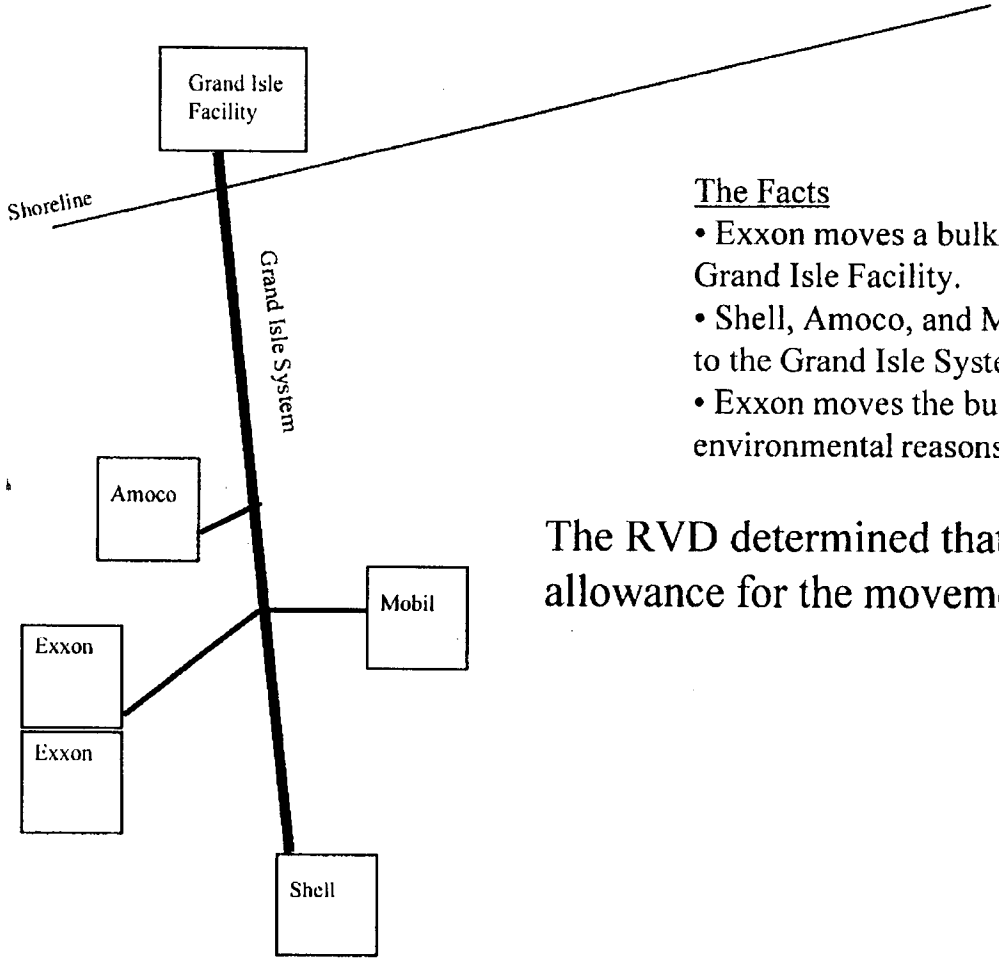
4. **What alternatives are there to the concept of the "primary function" test as a method of making OCS jurisdictional determinations?**

See Question 5 below.

5. **Should the Commission adopt the OUTER CONTINENTAL SHELF LANDS ACT (OCSLA)'s definition of "feeder lines" as a definition of gathering lines on the OCS?**

Yes, from a royalty collection standpoint this would provide more consistency between the rules of MMS and those of FERC. However, it would not necessarily bring about the more light-handed approach to regulation that FERC is seeking.

TRANSPORTATION or GATHERING
Exxon - Grand Isle



The Facts

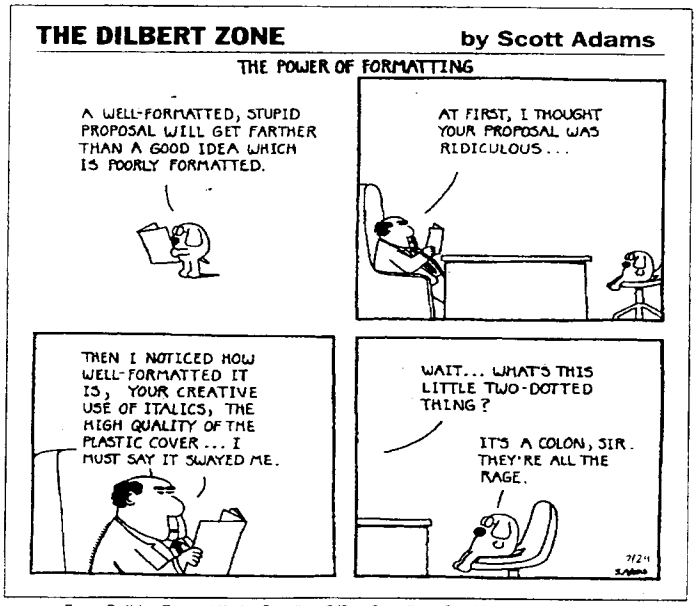
- Exxon moves a bulk oil/water (40% water) stream to the Grand Isle Facility.
- Shell, Amoco, and Mobil, deliver marketable oil (<1% water) to the Grand Isle System.
- Exxon moves the bulk stream to shore for economic and environmental reasons.

The RVD determined that Exxon should be permitted an allowance for the movement of the oil but not the water.

Attachment 7

Subsea Tie-ins
(Gathering v. Transportation)

BRIEFING DOCUMENT
FOR THE
MMS Quality Council



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Gathering and Transportation Determination Criteria

Issue

Under the current regulations, what criteria should the Minerals Management Service use in making determinations regarding whether the movement of offshore production is gathering or movement qualifying for a transportation allowance?

Background

On August 20, 1998, the MMS Office of Management and Policy Improvement presented a briefing document to the Quality Council entitled Subsea Tie-ins (Gathering or Transportation). The Quality Council reviewed the options presented and requested that the appropriate persons meet to develop criteria for making gathering/transportation determinations under the current regulations. The criteria, when applied, need to be consistent with previous guidance provided lessees.

Discussion

Personnel from the Royalty Management Program's Royalty Valuation Division and Policy and Management Improvement's Lakewood Office met on August 28 to discuss the issue and develop options for presentation to the Quality Council at its September meeting.

The group initially identified four cases related to this issue for which the MMS has provided lessees with written guidance. An additional deep water subsea case (Shell Mensa Project) was used in developing criteria. The four cases - graphically illustrated on Attachments 1 through 4 - are:

- Gathering determination provided Louisiana Land & Exploration (LL&E),
- Transportation allowance granted Exxon for the Grand Isle Gathering System,
- Gathering determination provided CNG Producing Company (CNG), and
- Gathering determination provided Shell Deep water Production, Inc. (Shell).

The fifth factor regarded as significant in the discussion involves the movement of oil produced on the Outer Continental Shelf (OCS) that is initially treated offshore and measured for royalty purposes onshore. Lessees routinely claim a transportation allowance for this production.

The group then identified a list of criteria that could or have been used in evaluating the movement of production from subsea wells or deep water facilities under the 1988 regulations. The following criteria were identified:

1. Water depth
2. Distance of movement
3. Location of facility measurement point (FMP)
4. Functionality

5. Marketable condition
6. Movement to shore
7. Deep Water Royalty Relief
8. On lease v. off lease movement.

Water depth and distance were considered to be too arbitrary and therefore not defendable. Additionally, what cutoff (how far - how deep) would be used based upon what rationale? Attachment 5 illustrates the distribution and approximate distance from the 200 meter water depth for all identified subsea wells.

The Deep Water Royalty Relief legislation is not a significant factor in making a gathering/transportation determination either in the case of automatic qualification (leases issued within five years of the Act) or in the case of "new production" from existing deep water leases that the Secretary of the Interior determines would be uneconomic without royalty relief.

Functionality and movement to shore were very similar, since on the OCS, almost all movement is to get the production to shore and closer to market. The group also discussed the criteria the FERC uses in its functional test and reached the conclusion that most of their criteria were not applicable to the MMS issue. Developing distinctions using these two factors would be difficult at best.

On lease and off lease movement does provide guidance when distinguishing between gathering and transportation. The definition of gathering in the current regulations states that movement of lease production to a central accumulation and/or treatment point on the lease, unit, or communitized area, or when approved, off the lease, unit, or communitized area is gathering. Under this definition, gathering still has a meaning.

The RVD has used the FMP location and the marketable condition requirement as the two primary factors in distinguishing between gathering and transportation. The rationale being, production must be in marketable condition in order for accurate measurement to occur. In investigating the subsea tie-in/deep water issue, the synchronization of these two factors becomes less meaningful the farther one gets from shore. The location of the FMP is a major factor but cannot be directly linked to the marketable condition requirement.

The key criteria is whether or not the production is in marketable condition. The lessee has the responsibility of 1) placing in marketable condition and 2) marketing the production at no cost to the lessor. Therefore, no allowance should be given for the movement of bulk (not identifiable oil or gas) production. At best, an allowance could be granted for the movement of only the royalty bearing portion of the bulk stream as approved in the Grand Isle case.

Concern

The following recommendation is not without a significant concern. The concern being: How

does the MMS open the floodgates of discretion but pass through only the intended situations?? Is the subsea/deep water sieve legally strong enough to keep the flow of exceptions from reaching onshore?

Options

Before proposing specific criteria for distinguishing between gathering and transportation, the group discussed one additional option. Upon review of the CNG, LL&E, and Shell cases, the group decided that RVD's guidance was consistent and strictly adhered to the regulations.

X-5

Recommendation

The MMS recognizes the new technology involved in exploring and developing leases in increasingly deeper waters in the Gulf of Mexico. The 1988 regulations did not recognize this still developing technology. In applying the Secretary's discretion when determining the allowableness of deductions for the actual and reasonable costs of transportation, the MMS will use the following criteria. Because the allowance rate for most, if not all, subsea/deep water movement will be calculated using the methods currently in use for non-arm's-length transportation, revenue impact estimates are highly speculative.

There are two primary criteria that bear significantly on any guidance determination - marketable condition of the production and location of the approved royalty measurement point.

- If the movement off the lease involves transporting bulk production from a subsea deep water location, the Secretary may under his discretion permit a deduction for an allowance for the actual and reasonable costs of transporting the royalty bearing portion of the bulk production. The costs of movement must be allocated proportionately between the royalty bearing and non-royalty bearing substances.

- If the movement of bulk production completely on the lease or unit, no deduction for the costs of movement will be allowed. The movement of bulk production to a central accumulation or treatment point is gathering. Movement of bulk production downstream of an accumulation or treatment point on the lease or unit may qualify for a deduction for the actual and reasonable costs of transportation of the royalty bearing portion of the bulk stream.

Impact on Past Decisions

CNG Part of the movement of bulk production in the CNG case qualifies for an

allowance for transportation. The movement of royalty bearing substances from the subsea manifold which gathers production from two wells approximately 50 feet apart on the Green Canyon Block 116 Unit to South Timbalier Block 00A would qualify for an allowance using the Secretary's discretion provided in the lease terms. Based on the analysis performed by MMS concerning the Royalty Enhancement Act of 1998 (H.R. 3334), the lessees would qualify for an allowance of up to X - 4 yr. CNG's share would be approximately X - 4 yr.

Shell The Mars and Mensa projects require different analyses.

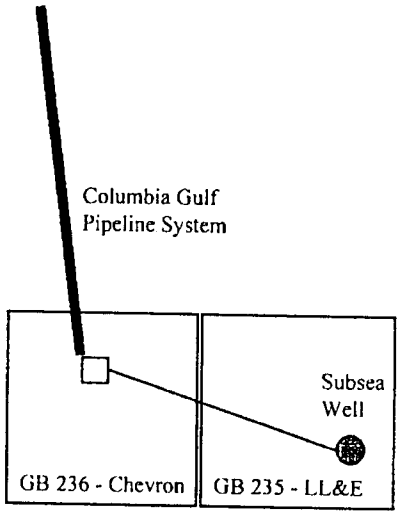
Mars The gas production moved from the platform on MC 807 to WD 142 is in marketable condition. The Offshore Minerals Management Gulf of Mexico office is willing to move the approved measurement point from WD 142 to MC 807. The previously disallowed 62 miles of movement would then qualify for a transportation allowance. Applying the proposed policy would have the same effect, therefore, there is no negative royalty impact.

Mensa Shell has not requested a gathering/transportation determination for the Mensa project. However, application of the proposed criteria to this project could result in Shell claiming a allowance for the royalty bearing portion of the bulk stream. Mensa commenced production in July 1997. For the year ending June 1998. the Mensa project would have qualified for an allowance of approximately X - 4 using average transportation rates.

LL&E The single subsea well on Garden Banks 235 produced 4.7 million Mcf of gas from June 1997 to July 1998 with very little water and no liquids. If the Secretary chose to exercise discretion in this instance. a royalties would have been negatively impacted by approximately X - 4

Grand Isle Since Secretarial discretion has been applied in this case, there is no impact on royalties.

TRANSPORTATION or GATHERING
LL&E



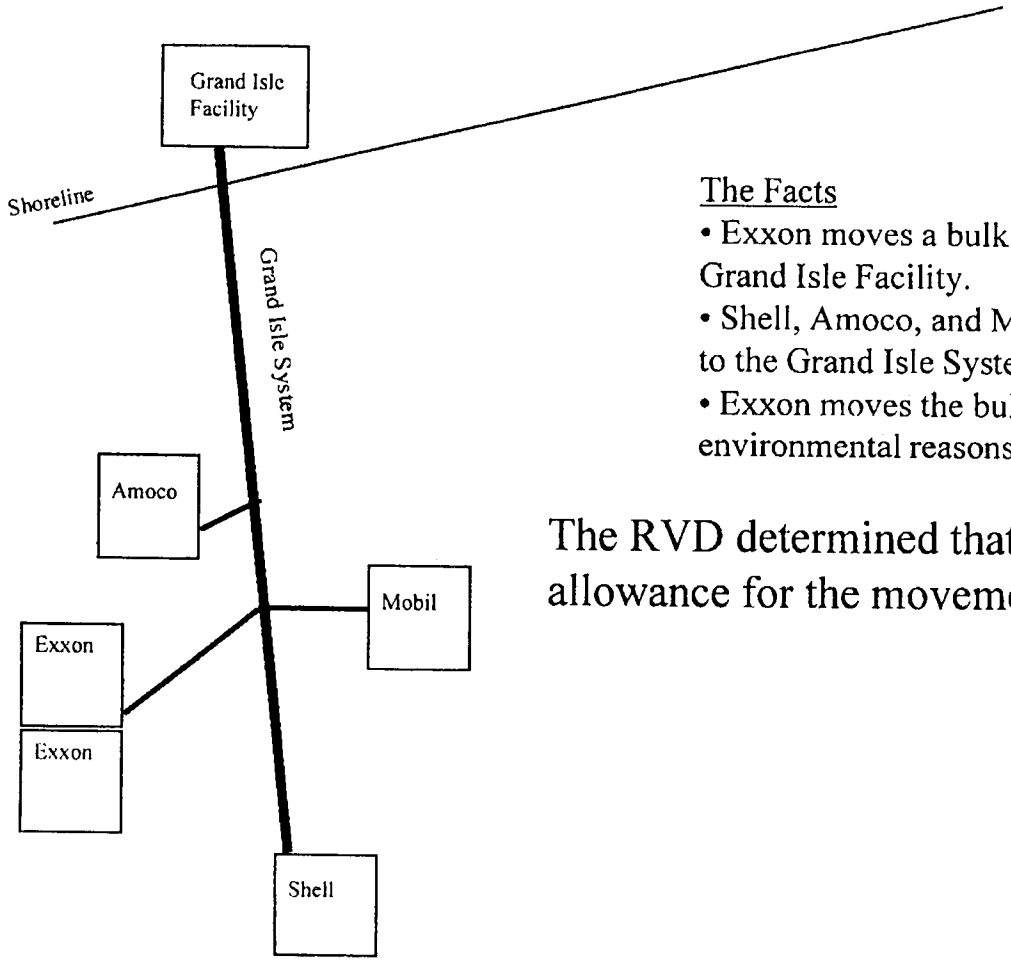
The Facts

- The well on GB 235 is a subsea completion connected by a 5.6 mile long flowline to GB 236.
- The well is located in 806 feet of water and the platform is in 685 feet of water.
- The production is measured at GB 236 for royalty purposes.
- Neither LL&E nor the MMS states where production is placed in marketable condition.

The RVD determined that the movement of the production from the subsea completion to the platform was gathering.

Attachment 1

TRANSPORTATION or GATHERING
Exxon - Grand Isle



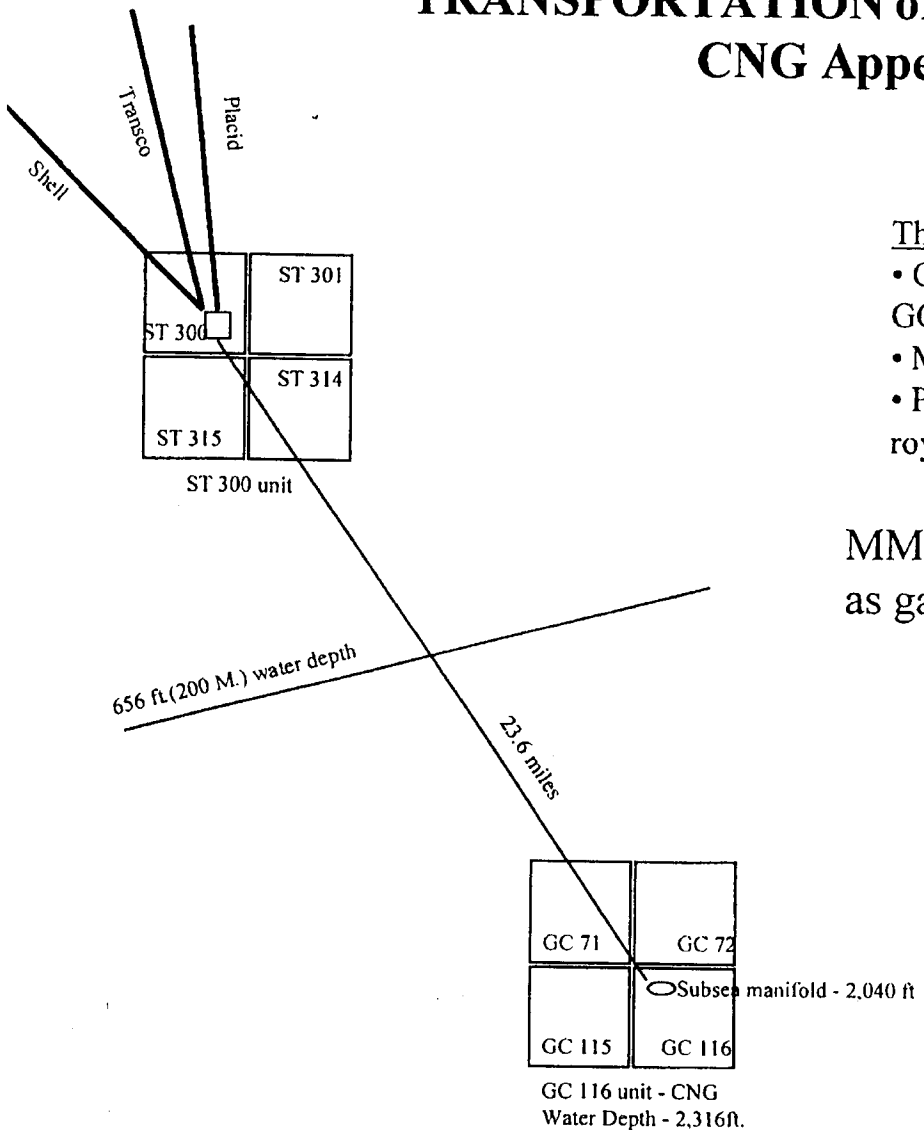
The Facts

- Exxon moves a bulk oil/water (40% water) stream to the Grand Isle Facility.
- Shell, Amoco, and Mobil, deliver marketable oil (<1% water) to the Grand Isle System.
- Exxon moves the bulk stream to shore for economic and environmental reasons.

The RVD determined that Exxon should be permitted an allowance for the movement of the oil but not the water.

Attachment 2

TRANSPORTATION or GATHERING
CNG Appeal



The Facts

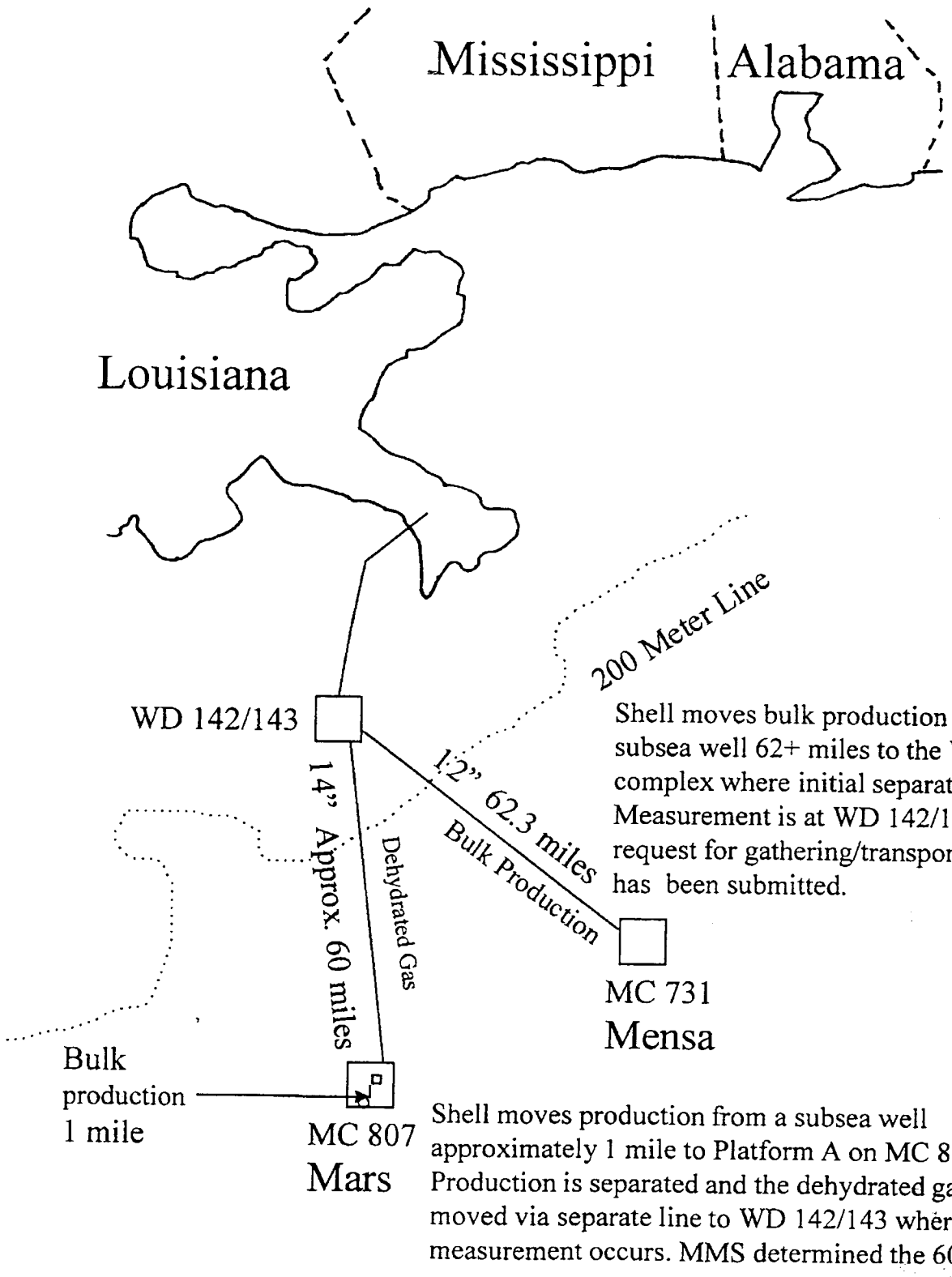
- CNG moves bulk production 23.6 miles from GC 116 to ST 300A.
- Movement occurs along two 6-inch lines.
- Production is separated and measured for royalty purposes at ST 300A.

MMS decision of October 16, 1997, ruled as gathering.

Attachment 3

Attachment 4

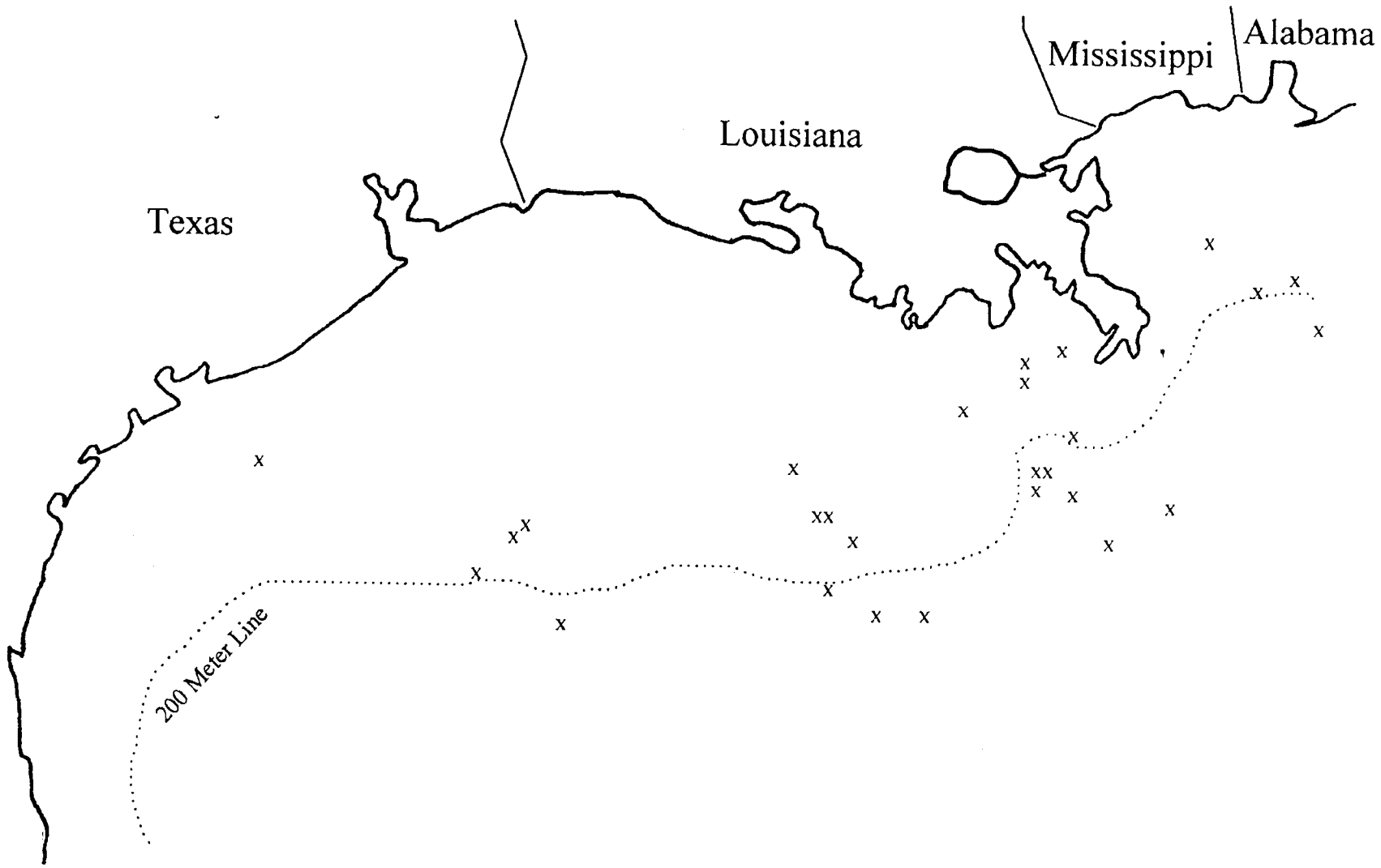
Shell Viosca Knoll Gathering



Shell moves bulk production from a subsea well 62+ miles to the WD 142/143 complex where initial separation occurs. Measurement is at WD 142/143. No request for gathering/transportation has been submitted.

Shell moves production from a subsea well approximately 1 mile to Platform A on MC 807. Production is separated and the dehydrated gas is moved via separate line to WD 142/143 where measurement occurs. MMS determined the 60 miles

Locations of Subsea Wells



Attachment 5

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

TAKE PRIDE IN AMERICA

IN REPLY
REFER TO:

MMS-VSD-OG:93-0075
Mail Stop 3152

DEC 29 1994

12/28/94

CERTIFIED MAIL---
RETURN RECEIPT REQUESTED

Ms. Linda D. Denova
Supervisor, Federal Royalty Unit
Exxon Company, U.S.A.
P.O. Box 2180
Houston, Texas 77252-2180

Dear Ms. Denova:

The Minerals Management Service is rescinding its letter dated November 15, 1994 (Enclosure 1), and replacing it with this letter which will address the overstated oil transportation allowances and another letter which will address Exxon Company, U.S.A.'s (Exxon), request for an exception to computing actual costs.

By letter dated May 3, 1993, we notified you of the Valuation and Standard Division's (VSD) review of the transportation allowances claimed on the Oil Transportation Allowance Report (Form MMS-4110) for production transported through the Grand Isle System for the periods January 1, 1990, through December 31, 1990, and January 1, 1991, through December 31, 1991.

By letters dated June 25, 1993, and July 29, 1994, Exxon requested approval to use the Federal Energy Regulatory Commission (FERC) Tariff Nos. 391 and 413 in lieu of computing actual costs. These requests were for the periods January 1, 1992, through December 31, 1992, January 1, 1993, through December 31, 1993, and January 1, 1994, through December 31, 1994. We expanded our review to include these requests as Exxon indicated that the tariff rates would be adjusted.

OVERSTATED OIL TRANSPORTATION ALLOWANCES FOR THE GRAND ISLE SYSTEM

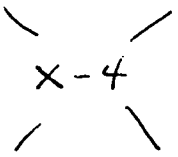
A. Determination

By letter dated August 22, 1991, VSD approved Exxon's request for an exception from the requirement of computing actual costs. The MMS approved the use of the rates specified in the FERC Tariff No. 391 for Calendar Years (CY) 1990, 1991, and 1992, for the various leases.

Our review indicates that Exxon overstated the transportation allowance for CY's 1990, 1991, 1992, 1993, and 1994. Exxon incorrectly adjusted the rates specified in FERC Tariff Nos. 391 and 413 to include the total cost of transporting oil and water and applied that rate as a transportation allowance against the royalty due on the oil production. Exxon may only deduct the costs attributable to transporting oil, not those costs associated with transporting water production. The transportation allowance rates for oil that may be deducted are the rates specified in FERC Tariff No. 391 for CY's 1990, 1991, and 1992 and the calculated rate based on actual costs for CY's 1993 and 1994. The VSD calculated the following estimated underpayment from Exxon's schedules which showed barrels of water transported and the rate which it was transported.

TRANSPORTATION ALLOWANCE UNDERPAYMENT

Period	Underpayment
1990	
1991	
1992	
1993	
1994	



These are estimated underpayments which are based on Exxon's workpapers.

Exxon must:

° Correct its transportation allowances claimed on the Report of Sales and Royalty Remittance (Form MMS-2014) for production from various leases transported through the Grand Isle System for October 1, 1989, through December 31, 1989, and the CY's 1990, 1991, 1992, 1993, and 1994.

° Correct all of its oil transportation allowances taken on Form MMS-2014 for the period beginning October 1, 1989, to the present where it adjusted the transportation allowance to include the cost of moving water. Exxon is not required to adjust its allowances prior to October 1, 1989, due to the global settlement between MMS and Exxon which closed out the pre-October 1, 1989 time period.

° Submit to this office, schedules by lease showing the adjusted rates taken and the correct rate that should have been taken. The schedules are due 30 days upon receipt of this letter.

B. Rational for Our Determination

1. Is the Grand Isle System Transportation or Gathering?

The Grand Isle System consists of a network of pipelines connecting several Exxon-owned and non-Exxon-owned production platforms. These pipelines transport a three-phase product stream to Exxon Pipeline

The major part of the flow stream in the network is crude/condensate and water. Treated water from the Grand Isle terminal is disposed of via injection wells. Approximately 40 percent of the total production stream is water. Exxon states that it transports the water to the central disposal site for environmental and economic reasons. Exxon also indicates that while it ships all of its production water to shore, other producers (Mobil, Shell, and Amoco) deliver marketable oil with less than 1 percent BS&W.

Exxon's production moved through the Grand Isle System is not in marketable condition. The production stream is approximately 40 percent water. Furthermore, the pipeline system is located upstream of the Grand Isle Terminal where treating, separation, and disposal of the water occur. Exxon is required to place lease production in marketable condition at no cost to the Federal Government. A transportation allowance is not permitted for oil that is not in marketable condition. Any costs associated with placing the oil in marketable condition cannot be included as a transportation cost. Gathering and dehydration costs are considered to be costs of placing the production in marketable condition.

We determined that the Grand Isle System meets the definition of gathering. To apply the strictest definition of the regulations, policy, and past court decisions would mean that all costs incurred by Exxon to move production through the Grand Isle system would be disallowed. However, the standard offshore lease document states in part:

> . . . the Secretary may establish reasonable minimum values for purposed of computing royalty * * * due consideration being given to the highest price paid for a part or for a majority of production of like quality in the same field, or area, to the price received by Lessee, to posted prices, and other relevant matters.

It is evident that one of the relevant matters to be considered is transportation and the Secretary of the Interior has discretionary authority to determine the factors to be used in computing such a transportation allowance for royalty purposes.

> One such relevant matter is the cost of transportation for royalty oil to an onshore market where there is no market at the offshore point of production. It has long been considered reasonable with respect to oil produced onshore or offshore to deduct a transportation allowance from the market value of the oil at the nearest open market to determine value at the wellhead where no market exists at the wellhead, the point where the oil would ordinarily be sold and valued. United States v. General Petroleum Corp., 73 F. Supp. 225, 262-63 (S.D. Cal. 1947), aff'd, Continental Oil Co. v. United States, 184 F.2d 802 (9th Cir. 1950); C & K Petroleum, Inc., 27 IBLA 15 (1976); Kerr-McGee Corp., 22 IBLA 124 (1975); Shell Oil Co., 70 I.D. 393 (1963).

> The Secretary of the Interior has discretionary authority to determine the factors to be used in computing such a transportation allowance for royalty purposes. Superior Oil Co., 112 IBLA 212 (1973); Shell Oil Co., supra. Shell Oil Co., IBLA 78-607,(1981)

Title 30 CFR § 206.101 (1993) defines a transportation allowance as:

> Transportation allowance means an allowance for the reasonable, actual costs incurred by the lessee for moving oil to a point of sale or point of delivery off the lease, unit area, or communitized area, excluding gathering, or an approved or MMS-initially accepted deduction for costs of such transportation, determined pursuant to this subpart.

Even though Exxon is transporting approximately 40 percent water production with oil production, we examined the necessity of moving the oil to shore to determine whether it was appropriate to allow a transportation allowance in this circumstance. We determined that it is necessary for Exxon to move production from the platform to onshore. The allowance shall be the actual reasonable, and necessary costs to transport oil production. A transportation allowance for movement of oil production should be allowed even though production is not in marketable condition. However, only the cost to move oil barrels is allowed. We determined that the cost to move water is non-allowable as transportation of the water is not necessary in order to transport the oil.

2. Is the Cost of Transporting Water Allowable?

Exxon stated that it made the decision to move the water to shore for economic and environmental reasons. There were no mandates to do so. In fact, other operators are utilizing water treatment & disposal facilities on the platform and shipping merchantable oil through the Grand Isle System. The rate other operators are paying for shipment of the oil is the FERC rate for oil which is approximately half of the adjusted FERC rate that Exxon has been claiming. The other operators are not claiming the water treatment and disposal facilities as a deduction from royalties. Rather, these costs are necessary to place the production in marketable condition and, therefore, the responsibility of the lessee.

Even if there were environmental mandates to ship the water to shore for disposal, MMS' policy is to share in transportation costs of moving only oil, not water. The terms of the standard offshore lease state that production and environmental costs are the responsibility of the lessee. The MMS established this precedent for oil production moved from offshore California. In the case of offshore California, there is an environmental mandate which requires the production stream of approximately 20 percent water to be moved onshore for water disposal.

Title 30 CFR § 206.101 (1993) states in part:

> Gross proceeds (for royalty payment purposes) means the total monies and other consideration accruing to an oil and gas lessee for the disposition of the oil produced. Gross proceeds includes, but is not limited to, payments to the lessee for certain services such as dehydration, measurement, and/or gathering to the extent that the lessee is obligated to perform them at no cost (emphasis added) to the Federal Government or Indian lessor.

The Payor Handbook, Volume III, pg. 5-10, states:

> Non-Royalty-Bearing Products
>
> The lessee is not permitted to deduct the costs of transporting non-royalty-bearing products without MMS approval (30 CFR 206.105(a)(2)(i) and 30 CFR 206.105(b)(3)(i). In computing a transportation allowance for a gaseous and (or) liquid stream that contains both royalty-bearing and non-royalty-bearing products, only the costs associated with transporting the royalty-bearing portion of the stream are deductible. [Emphasis added.]

Furthermore, in the Federal Register, Vol.53. No. 10, Friday, January 15, 1988, Rules and Regulations, pg. 1209, MMS addressed the issue of whether it is appropriate to include costs of transporting non-royalty-bearing substance as allowable costs of a transportation allowance. In that Federal Register Notice, MMS states:

> The MMS does not agree with the proposal that the costs of transporting non-royalty-bearing substance should be included in a transportation allowance in all instances. However, upon review, MMS has recognized that there could be circumstances where it is appropriate to provide an allowance which includes the costs of transporting certain nonroyalty-bearing substances such as waste products including water. For example, there may be circumstances where transportation of water along with the oil is necessary in order to transport the oil. For other than waste products, the final rule provides, however, that prior MMS approval is required before an allowance may be taken for the cost of transporting nonroyalty-bearing substances.

In examining the above excerpt, we determined that water transported through the Grand Isle System is a non-royalty-bearing substance which requires prior MMS approval in order to include that cost in the transportation allowance. We reviewed the allocation by Exxon and determined that the water was not necessary for transportation of the oil. Rather, Exxon chose to transport the water to shore for treatment and disposal--a function that is the responsibility of the lessee at no cost to the lessor.

You have the right to appeal this decision. Please refer to Enclosure 2 for the Appeals Procedure and Bonding Requirements.

If you have any questions, please call Ms. Colette Haines at (303) 275-7215.

Sincerely,

Original Signed by
Deborah Gibbs Tschudy

Deborah Gibbs Tschudy
Chief, Valuation and
Standards Division

2 Enclosures

bcc: RM File:93-0075
RM Chron/DC
RM Chron/Lakewood
VSD (2)
States
O&G (2)

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Finalized:gms:12/14/94

EXXON COMPANY, U.S.A.
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CONTROLLER'S DEPARTMENT
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W.L. STONE
REGULATORY AFFAIRS ADVISOR

December 18, 1998

Comments of Exxon Company, U.S.A. Related to Transportation Allowances for Deep Water Subsea Leases

VIA FACSIMILE (303) 275-7124

Mr. Martin C. Grieshaber
Minerals Management Service
Royalty Management Program
P.O. Box 25165
MS 9200
Denver, Colorado 80225-0165

Dear Mr. Grieshaber:

On November 16, 1998, the MMS hosted a workshop at its Regional Office in New Orleans, Louisiana to discuss deep water lease developments involving subsea well completions. Specifically, the MMS solicited input for developing criteria to distinguish between "gathering" and "transportation" in the deep water environment for the purpose of determining allowable deductions for calculating royalty value. The workshop was a good first step toward the ultimate goal of providing fair and equitable treatment to both the government and the federal lessee in the deep water OCS. Exxon commends the MMS for this initiative and is confident that this important goal can and will be accomplished.

In response to the MMS' invitation, the American Petroleum Institute ("API"), through participating member companies, presented a panel of industry technical experts that discussed the significant technical and operational distinctions between traditional shallow water operations and those in the deep water. In addition, the API presented a panel of legal experts that discussed the various reasons why the operational circumstances unique to deep water exploration render the classification of all sub-sea movement as "gathering" unreasonable. Exxon Company, U.S.A. ("Exxon") supports the API's presentation and recommendations made at the workshop. At the conclusion of the workshop, the MMS invited written comments from interested parties. As a federal lessee with substantial deep water lease holdings, Exxon is an interested party in this process and welcomes this opportunity to submit comments. Exxon further supports the written comments and recommendations that API is submitting to the MMS on these issues.

As the MMS recognizes and as was made evident by API's presentation at the workshop, fundamental differences exist between traditional mineral exploration and production in the shallow water OCS, which the 1988 regulations were designed to address, and that in the deep water. Simply stated, the technological and operational realities of the present deep water subsea production environment will not always fit neatly within the MMS' historical royalty valuation regulations, promulgated nearly eleven years ago. The MMS has recognized that the 1988

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regulations should not be strictly applied in the deepwater context as evidenced by the following comment in the MMS' 1997 report entitled *Deepwater in the Gulf of Mexico: America's New Frontier*:

> Because operations and equipment used in deepwater are different from those used in shallower waters, the existing regulations, originally written for conventional, shallow-water operations, cannot be directly applied to proposed deepwater operations in many cases.

The realities of the deep water subsea environment compel a re-examination of the distinction between gathering and transportation for subsea production under the existing regulations. Costs for installation and operation of subsea pipelines are substantial and the distances the production is moved are great. The MMS can and should recognize that the movement of bulk production from subsea wells and/or manifolds to distant host platforms serves a transportation function and purpose and, consequently, should be eligible for a transportation allowance. Such treatment is well within the MMS' discretion. Both Congress and the courts have specifically recognized that the Department of the Interior can and should consider whether operational factors affect the applicability of a regulation.

> It is recognized that a certain amount of administrative discretion and flexibility are necessary. Oil and gas are found under a great variety of types of terrain and localities. Many different and highly technical factors may be controlling in different cases. Legislative rules and standards which would be fair and equitable in one case might well prevent any operations at all in another. Therefore, the Secretary of the Interior must have administrative discretion to deal with particular problems in particular areas as they arise.

California Co. v. Seaton 187 F.Supp. 445, 449 n. 1 (D.D.C. 1960)(quoting House Report No. 2238, U.S. Code Cong. & Adm. News, 1954, p. 2696).[1]

Indeed, the MMS has in a previous instance exercised its discretion to grant a transportation allowance upon a finding that a movement of bulk oil production actually served a transportation function. *See Exxon Company, U.S.A.*, MMS-VSD-OG: 93-0075 (December 29, 1994). This decision unquestionably establishes that the MMS has the flexibility to apply the 1988 regulations based on the function of the movement.

Exxon and others operating in the deep water face unique operational circumstances that render the treatment of all subsea movements as gathering unreasonable and unfair. The great distances moved in subsea transportation provide a benefit to the MMS by enhancing the value of the production. Movement of even bulk production a great distance enhances the value of the royalty oil and/or gas production. The federal lessor, as beneficiary of the transportation service

[1] While *California Co. v. Seaton* addressed onshore leasing under section 17 of the Mineral Leasing Act, the Secretary is afforded the same discretion regardless of whether the lease in question is located onshore or offshore.

of the royalty oil and/or gas, should share the cost of this transportation service by permitting a reasonable transportation allowance.

Exxon appreciates this opportunity to comment on this critical initiative.

Sincerely,

W. F. Stone

CNG Producing Company

A **CNG** COMPANY

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PAUL P. GREGG
Senior Vice President and Chief Financial Officer

December 18, 1998

Mr. Todd McCutcheon
Chief, Policy & Management Improvement
Minerals Management Service
U.S. Department of the Interior
P. O. Box 25165 - MS 9200
Denver, CO 80225

Dear Mr. McCutcheon:

I am writing to express the strong support of CNG Producing Company (CNG) for the Minerals Management Service's (MMS) subsea gathering and transportation initiative described in the MMS notice at 63 FR 56217 (October 21, 1998).

CNG is an independent producer with substantial production and reserves in the Gulf of Mexico. CNG is ranked by Offshore magazine (June, 1998 edition) as the third largest producer of oil and gas from water depths greater than 1500 feet.

CNG remains optimistic about the potential for new discoveries of oil and gas reserves, both in the deepwater Gulf and on the Outer Continental Shelf. However, exploitation of such discoveries will require very substantial capital expenditures and the use of new and innovative technologies. In the current climate of depressed commodity prices, it is especially important that the MMS recognize that new subsea pipeline technologies can play a critical role in moving oil and gas from offshore leases to market centers in a safe and cost effective manner.

CNG has also sought a transportation allowance for CNG's movement by pipeline of subsea gas production from the deepwater Popeye field to a "host" facility on the O.C.S. Regrettably, the MMS denied that allowance and CNG was forced to appeal. However, the MMS is now reconsidering that decision in light of this initiative and we are gratified by this action.

CNG has reviewed the comments jointly filed by the Independent Petroleum Association of America and the Domestic Petroleum Council. We urge expeditious adoption of the recommendations set forth therein.

CNG very much appreciates the very significant resources MMS is committing to work with CNG and other producers in this very important area. We look forward to a further constructive exchange of information and ideas.

Very truly yours,

Paul P. Gregg
Senior Vice President &
Chief Financial Officer

Mobil

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COUNSEL
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MEPUS PRACTICE GROUP

December 18, 1998

VIA FAX (303-275-7124)
ORIGINAL BY U.S. MAIL

Todd McCutcheon, Chief
Policy and Management Improvement
Minerals Management Service
U.S. Department of the Interior
P.O. Box 25165 – Mail Stop 9200
Denver Colorado 80225

Dear Mr. McCutcheon:

Mobil Exploration & Producing U.S. Inc. ("Mobil") welcomes the opportunity to comment on the subsea gathering and transportation initiative described in the Minerals Management Service ("MMS") notice published at 63 Fed. Reg. 56217 (October 21, 1998). Mobil strongly supports this initiative, and we greatly appreciate MMS' continued interest in reviewing the appropriateness of transportation allowances for subsea operations.

Mobil concurs with the written comments submitted by the American Petroleum Institute ("API"), as well as with the oral comments made by the API member companies who made a presentation at the MMS-sponsored workshop held in New Orleans, Louisiana, on November 16, 1998. Accordingly, Mobil adopts those comments, by reference, as its own.

As is more fully explained in API's comments, current MMS regulations and existing lease terms authorize MMS to grant allowances for subsea transportation whenever that transportation serves the function of moving federal lease production from the offshore to the first available market. This transportation enhances the value of the production, regardless of whether or not the production is in "marketable condition" at the time of the

transportation. Since MMS is the beneficiary of the enhanced value resulting from the transportation, it should share in the cost of that transportation.

Mobil also concurs with API's recommendation that MMS not engage in a case by case analysis for every subsea development, but rather that it establish two categories, one category which would be clearly entitled to the allowance and another which would be decided on a case by case basis. This would reduce the administrative burden on the MMS as well as on lessees, and it would add greater certainty to the royalty valuation process. The recommended categories and criteria to be used are discussed more fully in API's comments. Mobil concurs fully with these recommendations.

Mobil appreciates your consideration of these comments. If you have any questions regarding the comments, please call me at 214-951-3349.

Very Truly Yours,

Deborah Bahn Haglund
Attorney for Mobil Exploration & Producing U.S. Inc.

James C Pruitt
Vice President
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Department

Texaco

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December 17, 1998

Mr. Martin C. Grieshaber
Minerals Management Service
P.O. Box 25165
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Denver Co 80225-0165

Re: Deepwater Transportation
63 FR 56217 (October 21, 1998)

Dear Mr. Grieshaber:

On October 2, 1998, MMS announced a workshop to discuss distinctions between gathering and transportation in deepwater as they relate to permissible deductions in calculating royalty value, 63 FR 56217 (October 21, 1998). The workshop was held in New Orleans on November 16, 1998. At the workshop, the MMS requested written comments by December 16, 1998, and thereafter granted an extension until December 18, 1998 to receive comments. Texaco Inc., on behalf of itself and its affiliate, Texaco Exploration and Production Inc., appreciates the opportunity to submit these comments.

As can be judged by the attendance at the workshop and the interest expressed by the participants, this issue is of great significance to producers developing deepwater leases in the Gulf of Mexico. Three representatives of Texaco participated in two industry panels at the workshop. We urge MMS to carefully consider the workshop panel presentations. We are hopeful that the discussion will lead MMS to a workable policy based on the purpose and function of the movement of production.

As for written comments, Texaco adopts as its own the comments filed by the American Petroleum Institute. Texaco is available for further discussion and would be pleased to provide any additional information the MMS might require on deepwater subsea transportation.

Sincerely,

James C. Pruitt

USA
36 USC 380
Official Sponsor
U.S. Olympic Team

cc: Walter Cruickshank
Associate Director Policy and Management Improvement

Dow L. Campbell
Attorney

Marathon Oil Company

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December 18, 1998

Via Facsimile: (303) 275-7124

Mr. Martin C. Grieshaber
Minerals Management Service
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Re: Comments - MMS Workshop on the Development of Criteria to be used in distinguishing between Gathering and Transportation in Deep Water in the Outer Continental Shelf (63 FR 56217, October 21, 1998)

Dear Mr. Grieshaber:

Marathon Oil Company (Marathon) appreciated the opportunity to attend and participate in the Mineral Management Service's (MMS) November 16, 1998, workshop in New Orleans on the development of criteria to be used in distinguishing between gathering and transportation in deep water in the outer continental shelf.

Marathon welcomes the MMS' investigation of this important issue. However, Marathon prefers to see the MMS develop a set of criteria for production movements and when such criteria are met by a specific production movement, the movement would automatically be entitled to a transportation allowance. A case-by-case analysis would then only be applied to those situations which are exceptions to the established criteria. This would benefit both the MMS and industry by reducing administrative burdens imposed by implementing solely a case-by-case analysis and would also be advantageous by giving industry a sense of certainty.

Marathon supports the analysis and criteria offered by the American Petroleum Institute, both at the November workshop and in its written comments.

If you should have any questions please contact me.

Sincerely,

Dow L Campbell

Dow L. Campbell

(101368)

Domestic Petroleum Council
Independent Petroleum Association of America

December 18, 1998

Mr. Todd McCutcheon
Chief, Policy & Management Improvement
Minerals Management Service
U.S. Department of the Interior
P. O. Box 25165 - MS 9200
Denver, CO 80225

Dear Mr. McCutcheon:

We are writing to express the strong support of the Independent Petroleum Association of America (IPAA) and the Domestic Petroleum Council (DPC) for the Minerals Management Service's (MMS) subsea gathering and transportation initiative described in the MMS notice at 63 FR 56217 (October 21, 1998).

Our Supplemental Comment filed in response to the MMS' inquiry in the Federal Register, 63 FR 38353 (July 16, 1998), explained that the current regulations are ill suited to identify the true function of subsea pipeline facilities. We were therefore very gratified that the MMS convened the November 15, 1998 workshop and the Staff stated at the workshop their belief that a new policy is appropriate in this area.

The Gulf of Mexico is a critical basin for the domestic petroleum industry. As shown in Arthur Andersen's recent report entitled "1998 U.S. Oil & Gas Industry Outlook Survey Results", independents believe the deepwater Gulf has the greatest potential for new discoveries of crude oil and natural gas reserves. The same report also shows that independents assign a high ranking to the O.C.S. Gulf for new discoveries of crude oil and natural gas reserves. However, exploitation of such discoveries will require very substantial capital expenditures and the use of new and innovative technologies. In the current climate of depressed commodity prices, it is especially important to recognize that new subsea pipeline technologies can play a critical role in moving oil and gas from offshore leases to market centers in a safe and cost effective manner.

DPC and IPAA actively participated in the workshop and the legal panel included a company representative. We joined with the American Petroleum Institute (API) in recommending that the MMS create a "safe-harbor" category, where movements of deepwater[1] production would be clearly entitled to transportation cost allowances.

Independents, who often rely on project financing by lenders or investors for development, need a safe-harbor to ensure timely project development occurs. Requiring case-specific approval would unduly delay project funding and would place independents at a competitive disadvantage to those producers who do not utilize external financing for development activities.

At the workshop, the technical panel demonstrated that new technologies permit subsea facilities to replicate on the sea floor the production accumulation and transportation functions traditionally performed on the O.C.S. by a combination of surface structures and linked pipelines. However, measurement and treatment functions still must be performed on "host" surface structures[2] downstream of the subsea point where production is aggregated and production enters the pipeline. Consequently, the traditional MMS policy that labels the movement by pipeline of production not treated to marketable condition as "gathering" leads to an arbitrary and discriminatory result, where the producer is denied any cost allowance for moving deepwater production -- frequently over very long distances -- to the host surface structure. [3] We strongly believe this outcome was not contemplated when the current regulations were adopted in 1988 and it is contrary to law.

To remedy this problem, we recommend the MMS adopt a policy incorporating the following criteria into a safe-harbor transportation allowance for deepwater production:

- **Deepwater production moving through a subsea manifold to a surface structure located on a lease not adjacent to the producing lease or unit should qualify for a safe-harbor allowance.** The transportation allowance should apply to all costs incurred after the production enters the manifold. As explained by the technical panel, the manifold is not a production facility, but rather serves as a header for the movement of accumulated production

[1] Deep water should be defined at 200 meters of water or more just as it is in the Deepwater Royalty Relief Act. Water depth should be determined by either or both of the subsea production well tied to the manifold or the manifold itself.
[2] Surface structures include both fixed and floating structures, including fixed platforms, compliant towers, spars, floating production systems and tension leg platforms.
[3] The Supplemental Comments filed by IPAA and DPC explain in detail why this outcome is arbitrary and discriminatory and point out analogous instances where transportation allowances have been granted when physical or other factors prevented separation or treatment functions from being performed upstream of the pipeline at issue.

through the downstream pipelines. Movement of deepwater production through those pipelines to a non-adjacent lease should be considered transportation per se, because such movement is a costly endeavor and clearly not a matter of the lessee's operational convenience.

- **Deepwater production moving from subsea "daisy-chain" wells to a surface structure on a lease not adjacent to the producing lease or unit should also qualify for a safe-harbor allowance.** As explained at the workshop, installation of a manifold is not necessary when wells can be linked in seriatim. In this case, the transportation function includes only the flow through the linking pipelines. The same factors as are discussed above for the manifold configuration support a cost allowance for these facilities.

- **Deepwater production moving from a single subsea well to a surface structure on a lease not adjacent to the producing lease or unit should also qualify for a safe-harbor allowance.** Here only the pipeline linking the subsea wellhead to the host facility would qualify for a cost allowance. Again, the same factors as are discussed above for the manifold arrangement justify a cost allowance for these facilities.

- **Deepwater production (whether produced from a subsea well or not) moving from a surface structure to a host facility not adjacent to the lease or unit where the surface structure is located should also qualify for a safe-harbor allowance.** A cost allowance should be provided whenever deepwater production is moved in bulk form downstream of a surface structure where the production is not separated and/or treated to marketable condition to a host facility not adjacent to the lease or unit where the upstream surface structure is located. We believe the upstream surface structure is performing an accumulation function and that the movement by pipeline downstream of that structure is transportation. Even though subsea production may not be involved, the above-discussed operational factors, e.g. the movement of bulk production a substantial distance away from the lease, justify a cost allowance.

The MMS should also provide a cost allowance for other types of movements of bulk production from any offshore lease that extend from the lease to a point not adjacent to the lease or unit. In this case, the lessee would be required to show that it is not operationally feasible, practical, or safe to separate and/or treat the production to marketable condition before it enters the pipeline.[4] The lessee would apply for this allowance on a case by case basis.

[4] See *Exxon Company, U.S.A.*, MMS-VSD-OG93-0075 (December 29, 1994), where the MMS allowed a transportation allowance for oil in bulk stream which moved to shore from offshore platforms for processing and handling.

For purposes of both the safe-harbor and the case by case determination, the marketable or non-marketable condition of the product being transported and the location of the facility measurement point should not be considered. However, the lessee should not receive an allowance for the allocated cost of moving non-marketable substances such as free water through the pipeline.

Following the workshop, an MMS representative inquired whether a black-and-white, facility-specific test could be devised to define the scope of the transportation allowance. We believe that a litmus test should not be created. For example, while the deepwater temperatures approach freezing and present significant operational challenges, temperature of the transported product is not an appropriate criterion, because technologies may be employed to insulate or heat the production in the pipeline. Likewise, while increased pipeline wall thickness is often associated with deepwater production, new metallurgic technology will reduce required wall thickness over time. Policies that focus on specific facility characteristics are destined to failure due to the rapidly changing nature of the technologies being employed.

In conclusion, IPAA and DPC strongly support MMS' subsea initiative. We very much appreciate the very significant resources MMS is committing to work with industry in this area. We look forward to a further constructive exchange of information and ideas on this very important topic.

Sincerely,

Ben J. Dillon

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Date: December 18, 1998

Pages: 2, including this cover sheet

To: Mr. Martin C. Grieshaber
Minerals Management Service
Denver, Colorado

From: Dow L. Campbell
Room 824-M
(419) 421-4121

Fax #: (303) 275-7124

Subject: Comments
OCS Deep Water Transportation

COMMENTS:

Please see the attached set of comments.

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[100253]

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December 18, 1998

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Mr. Martin C. Grieshaber
Minerals Management Service
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Re: Comments - MMS Workshop on the Development of Criteria to be used in distinguishing between Gathering and Transportation in Deep Water in the Outer Continental Shelf (63 FR 56217, October 21, 1998)

Dear Mr. Grieshaber:

Marathon Oil Company (Marathon) appreciated the opportunity to attend and participate in the Mineral Management Service's (MMS) November 16, 1998, workshop in New Orleans on the development of criteria to be used in distinguishing between gathering and transportation in deep water in the outer continental shelf.

Marathon welcomes the MMS' investigation of this important issue. However, Marathon prefers to see the MMS develop a set of criteria for production movements and when such criteria are met by a specific production movement, the movement would automatically be entitled to a transportation allowance. A case-by-case analysis would then only be applied to those situations which are exceptions to the established criteria. This would benefit both the MMS and industry by reducing administrative burdens imposed by implementing solely a case-by-case analysis and would also be advantageous by giving industry a sense of certainty.

Marathon supports the analysis and criteria offered by the American Petroleum Institute, both at the November workshop and in its written comments.

If you should have any questions please contact me.

Sincerely,

Dow L Campbell

Dow L. Campbell

(101368)

American Petroleum Institute

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Mark Rubin
Upstream General Manager

December 18, 1998

Mr. Todd McCutcheon
Chief, Policy & Management Improvement
Minerals Management Service
U.S. Department of the Interior
P. O. Box 25165 - MS 9200
Denver, CO 80225

Dear Mr. McCutcheon:

I am writing on behalf of the American Petroleum Institute's (API) more than 400 members, many of whom operate on the outer continental shelf (OCS) and have a business interest in deep water leases. API strongly supports the Minerals Management Service's (MMS) subsea gathering and transportation initiative described in the MMS notice at 63 FR 56217 (October 21,1998). We appreciate MMS' continued interest in reviewing the appropriateness of transportation allowances for deepwater subsea operation.

Several representatives of API member companies participated in the MMS-sponsored November 16, 1998 meeting in New Orleans, and we hope the preliminary information they provided was useful. To complement those discussions, we want to reinforce industry's point of view on this important matter. API recommends specific criteria that MMS might employ in evaluating whether transportation allowances are appropriate for deepwater subsea production operations in the Gulf of Mexico. Further, the lessor, as beneficiary of the transportation service, should share the cost of that service. And, the MMS' regulations as presently written, permit subsea movement to be classified as transportation.

The great challenges of exploring and developing deep-water leases have required the oil and gas industry to expand its technological capabilities far beyond those used to explore and develop conventional shallower water shelf leases. Water depth, distance from infrastructure, tremendous variances in temperature and pressure, extraordinary costs, and extraordinary seafloor topography have tested the research and development capabilities of lessees. For some deepwater Gulf of Mexico areas and under some conditions in the deepwater subsea development may be the only technological, practical, and economically viable method to develop a lease. In a very real sense, subsea developments are as technically innovative as the first push by industry out into the Gulf of Mexico in the late 1940's. The technical presentations made by Dennis McLaughlin of Shell and Al Verret of Texaco were intended to demonstrate how far development technology has advanced and how it has yet to go. We attach as Exhibit "A," copies of Dennis McLaughlin's slides describing an actual subsea gas development, and as Exhibit "B," copies of the slides used by Al Verret.

In subsea development, a central fact is that production is physically moved at a great cost over long distances to a point where is it more valuable and more easily sold. The selection of subsea systems for lease/unit development is principally driven by economics. In most instances, lease/unit development would not have been economic utilizing a platform-type development. Consequently, the royalty settlement point is at a remotely located surface platform because it is not technically or economically feasible to accomplish this at the lease. If a surface platform-type system were utilized for lease/unit development, movement of production away from the lease would clearly be deemed transportation. The fact that a different development system is utilized for economic reasons should, therefore, not preclude production movement away from the lease/unit from receiving transportation allowances in subsea development situations.

MMS operations personnel in the Gulf of Mexico Regional Office have had to use existing operating regulations geared principally to shelf operations and adapt them to the deep-water environment. The MMS should use the current royalty regulations to address the physical facts of deepwater subsea development, recognizing that the deepwater environment differs from that of the shelf.

As explained in the technical presentations made at the workshop, in subsea development it is not technically and economically feasible to treat production to marketable condition at the producing lease or subsea manifold. The subsea manifold serves as a central accumulation point for wells that often are located away from the lease where the treatment facility is located. Production from several wells on the producing lease, or often on different leases, is commingled at the manifold and is then moved to a surface facility miles away. In this instance, the subsea manifold functions similarly to a central accumulation platform except that physical treatment is not feasible at the manifold itself.

In granting transportation allowances for subsea movement, MMS would not be breaking new ground. The existing regulations lead to the conclusion that such movement qualifies as transportation. Evaluating the purpose and function of subsea movement is a function test that both the MMS and the Interior Board of Land Appeals (IBLA) has used repeatedly under the existing regulations to determine the true character of transportation. Some examples of this application follow:

First, in *Exxon Company, U.S.A.*, MMS-VSD-OG93-0075 (December 29, 1994), the MMS allowed a transportation allowance for oil in a bulk oil stream that moved to shore from offshore platforms for processing and handling. In so allowing, the MMS looked to the true nature of the service and found that the function provided was part of necessary transportation to the nearest onshore market. Distance moved, pipeline size and the mere fact that the oil in question was untreated and not in marketable condition did not automatically disqualify the movement as transportation. Instead, in granting transportation, the agency used the standard royalty lease provision language of "other relevant matters" to consider the fact that, irrespective of marketable condition of production, movement to shore to reach market was an inevitable fact. The same is true of subsea production.

Second, in *Shell Offshore Inc.*, 142 IBLA 71 (1998), the Board found that the additional platform costs were an integral part of the transportation system because their function or purpose was to serve the purpose of transportation. The test of function is flexible enough to accommodate many different circumstances. Shell had sought to include a portion of the cost of the surface structure of the tension leg platform (TLP) associated with transportation in the calculation of the transportation allowance. The Board found that the weight sensitive TLP had specific costs integral to the function or purpose of transportation. Its decision on whether to include the space revolved around a determination of function or relationship of the space to transport. The Board found the additional platform costs were an integral part of the transportation because of their function or purpose.

Third, in 1988, when the current MMS definitions were promulgated, most deep-water developments and non-traditional or alternative deepwater development scenarios were not in existence. The history of prior OCS shelf development provided the backdrop for the 1988 royalty regulations. Under that history, two non-traditional scenarios were most prevalent. One was based on a development scheme of one or two platforms on the same lease with one or more subsea wells producing at each platform but with bulk production from one platform then moving to the other where treatment facilities placed production into marketable condition. A second scenario was virtually identical, except that the two platforms may have been located on adjacent leases with multi-well production flowing to a central accumulation point on each but with bulk production from one then moving to the other for treatment for the convenience of the lessees. These scenarios allowed for the construction of only one set of handling facilities to place production in marketable condition. Handling could have been done at each platform at a proportionally higher cost but lessees chose not to do so.

Under these circumstances, the MMS found that this type of off lease movement, or "gathering," did not qualify for transportation. The lessee, who for its convenience had moved production to a central accumulation at reduced facility capital cost and enhanced lessee profitability, was not allowed to also take a deduction by classifying this movement as transportation. This is not the case for subsea production where physical treatment of production is not feasible.

Fourth, in one of the earliest decisions on offshore OCS transportation in *Shell Oil Company et al*, 70 I.D. 393 (1963) the Solicitor examined the facts surrounding the necessity of barge transportation of OCS production. He found certain factors to be unique to the offshore environment: "production difficulties peculiar to offshore operations," "distances traversed," "high costs in purchase and maintenance of sea going barges and tugs," and "volume of crude oil." In concluding his opinion, the Solicitor required consideration of barge costs as "other relevant matters" to be considered under the regulation and lease when reaching a value determination. The realities of subsea movement over thirty years later compels a similar re-thinking on the part of the Department:

- Costs for installation and operation of pipelines from the subsea manifold to a surface facility are substantial,
- The distances moved are great.
- The situation is peculiar to the offshore deepwater subsea production world.
- The volumes involved are substantial by the Gulf of Mexico shelf standards.
- Central accumulation already occurs at the subsea manifold.

These facts compel re-examination of the distinction between gathering and transportation for subsea production.

The distances moved in subsea transportation provide a benefit to the federal lessor by enhancing the value of the production. One of the significant costs clearly recognized for offshore production is costs of movement to onshore markets or pipeline sales points. Each leg in that journey closer to shore enhances the value of the hydrocarbons. As far back as *Continental Oil Co. v. U.S.A.*, 184 F2d 802 (9th Cir., 1950) the location difference impact on value has been recognized and costs attributed to it shared by lessor and lessee. Movement of even bulk production a great distance enhances the value of the bulk production. The lessor, as beneficiary of the transportation service, should share the cost of the service.

In summary, we believe the existing MMS regulations permit classification of subsea movement as transportation. We also suggest that MMS should not make each subsea development subject to a case-by-case analysis to determine if transportation exists for royalty deduction purposes. It would be administratively burdensome for the agency and create uncertainty for the lessee to decide subsea allowances on a case-by-case basis. Instead, we suggest that MMS divide the subsea allowance into two categories, one category which is clearly entitled to the allowance and another which should be decided on a case by case basis.

The following criteria can be used to establish the two categories:

1. Deep water should be defined at 200 meters of water or greater, just as it is in the Deepwater Royalty Relief Act. Water depth should be determined by location of the subsea well or the subsea manifold.

2. All subsea production in deepwater moving through a subsea manifold to a surface platform located on a lease not adjacent to the producing lease or unit should qualify for the allowance. The transportation allowance should be granted for costs incurred after production enters the subsea manifold.

3. Production from subsea "daisy-chain" wells (see page 14 of Exhibit A for an example of daisy-chain wells) that flow to a platform on a lease not adjacent to the producing lease or unit should also qualify for the allowance.

4. Deepwater production from a single well that flows to a surface platform located on a lease not adjacent to the producing lease or unit should also qualify for the allowance.

5. Marketable condition and facility measurement point for deepwater subsea should not be determinative of transportation qualification. In the deep-water subsea environment, movement to a non-adjacent lease should be dispositive.

6. Direction of movement and pipeline size should not be determinative.

7. Additional subsea transportation allowances should be considered on a case by case basis.

8. The existing regulations on non-arm's-length transportation provide a method to calculate the size of the allowance.

9. MMS should grant subsea allowances for bulk production moved from deep-water surface facilities where bulk production is moved to the shelf tie in point.

In closing, let me reiterate our strong support for the MMS's willingness to explore this importance issue. We encourage the MMS to pursue the subsea initiative expeditiously and we would welcome the opportunity to meet with you again or provide you with additional information as you crystallize your plans.

Sincerely,

Attachments (2)
(Sent under separate cover via Airborne Express)

Chevron

December 18, 1998

VIA FACSIMILE

(303) 275-7124

Mr. Todd McCutcheon
Minerals Management Service
Policy & Management Improvement
P. O. Box 25165
Denver, CO 80225-0165

Chevron U.S.A. Production Company
1301 McKinney Street
Houston, Texas 77010-3029
Mail Address: P. O. Box 3725
Houston, Texas 77253-3725

George W. Butler III
Senior Counsel
Law Department
(713) 754-7809
Fax (713) 754-3366

Deepwater Transportation

Dear Sir:

Chevron U.S.A Production Company, a Division of Chevron U.S.A. Inc., appreciates the opportunity to comment on transportation and gathering issues recently discussed at an MMS workshop in New Orleans.

Chevron actively participated in the formation of the proposal presented by Shell, Texaco and Marathon representatives at the recent workshop, as well as the comments submitted by the American Petroelum Institute, which Chevron endorses and incorporates by reference herein.

We stand ready to participate in future workshops and in the rulemaking process. We encourage MMS to address this very important issue as soon as practicable.

Respectfully submitted,

GWButler

George W. Butler

cc: R. J. Sandilos HOU130/2478

Shell Exploration & Production Company

One Shell Plaza
P. O. Box 2463
Houston, TX 77252-2463

Larry W. Wooden
Manager Public Affairs

December 16, 1998

Mr. Todd McCutcheon
Chief, Policy & Management Improvement
Minerals Management Service
U.S. Department of the Interior
P. O. Box 25165 - MS 9200
Denver, CO 80225

Dear Mr. McCutcheon:

I am writing on behalf of Shell Oil Company and its subsidiaries and affiliates to express our support for the Minerals Management Service's subsea gathering and transportation initiative described in the notice published in the October 21, 1998 *Federal Register.* Shell commends the MMS for re-evaluating its position on subsea transportation, for as you know subsea completions are becoming an increasingly important component of industry's deepwater portfolio.

Further to our comments at the November 16, 1998 workshop, Shell endorses the substantive comments submitted by the American Petroleum Institute on this topic. In addition, we strongly encourage the MMS to expeditiously evaluate the factual information provided and to render a decision as soon as possible. We are hopeful that successful resolution of this issue will help to break the log jam and create positive momentum for the resolution of other pending royalty and operational issues.

Let me reiterate Shell's commitment to work with MMS to resolve issues in a constructive and fair fashion. We value the professionalism and dedication of MMS staff, and look forward to working cooperatively with MMS in the future to resolve this and other issues of importance to the offshore petroleum industry.

Sincerely yours,

Larry W. Wooden

Domestic Petroleum Council
Independent Petroleum Association of America

December 18, 1998

Mr. Todd McCutcheon
Chief, Policy & Management Improvement
Minerals Management Service
U.S. Department of the Interior
P. O. Box 25165 - MS 9200
Denver, CO 80225

Dear Mr. McCutcheon:

We are writing to express the strong support of the Independent Petroleum Association of America (IPAA) and the Domestic Petroleum Council (DPC) for the Minerals Management Service's (MMS) subsea gathering and transportation initiative described in the MMS notice at 63 FR 56217 (October 21, 1998).

Our Supplemental Comment filed in response to the MMS' inquiry in the Federal Register, 63 FR 38353 (July 16, 1998), explained that the current regulations are ill suited to identify the true function of subsea pipeline facilities. We were therefore very gratified that the MMS convened the November 15, 1998 workshop and the Staff stated at the workshop their belief that a new policy is appropriate in this area.

The Gulf of Mexico is a critical basin for the domestic petroleum industry. As shown in Arthur Andersen's recent report entitled "1998 U.S. Oil & Gas Industry Outlook Survey Results", independents believe the deepwater Gulf has the greatest potential for new discoveries of crude oil and natural gas reserves. The same report also shows that independents assign a high ranking to the O.C.S. Gulf for new discoveries of crude oil and natural gas reserves. However, exploitation of such discoveries will require very substantial capital expenditures and the use of new and innovative technologies. In the current climate of depressed commodity prices, it is especially important to recognize that new subsea pipeline technologies can play a critical role in moving oil and gas from offshore leases to market centers in a safe and.cost effective manner.

DPC and IPAA actively participated in the workshop and the legal panel included a company representative. We joined with the American Petroleum Institute (API) in recommending that the MMS create a "safe-harbor" category, where movements of deepwater[1] production would be clearly entitled to transportation cost allowances.

Independents, who often rely on project financing by lenders or investors for development, need a safe-harbor to ensure timely project development occurs. Requiring case-specific approval would unduly delay project funding and would place independents at a competitive disadvantage to those producers who do not utilize external financing for development activities.

At the workshop, the technical panel demonstrated that new technologies permit subsea facilities to replicate on the sea floor the production accumulation and transportation functions traditionally performed on the O.C.S. by a combination of surface structures and linked pipelines. However, measurement and treatment functions still must be performed on "host" surface structures[2] downstream of the subsea point where production is aggregated and production enters the pipeline. Consequently, the traditional MMS policy that labels the movement by pipeline of production not treated to marketable condition as "gathering" leads to an arbitrary and discriminatory result, where the producer is denied any cost allowance for moving deepwater production -- frequently over very long distances -- to the host surface structure. [3] We strongly believe this outcome was not contemplated when the current regulations were adopted in 1988 and it is contrary to law.

To remedy this problem, we recommend the MMS adopt a policy incorporating the following criteria into a safe-harbor transportation allowance for deepwater production:

- **Deepwater production moving through a subsea manifold to a surface structure located on a lease not adjacent to the producing lease or unit should qualify for a safe-harbor allowance.** The transportation allowance should apply to all costs incurred after the production enters the manifold. As explained by the technical panel, the manifold is not a production facility, but rather serves as a header for the movement of accumulated production

---

[1] Deep water should be defined at 200 meters of water or more just as it is in the Deepwater Royalty Relief Act. Water depth should be determined by either or both of the subsea production well tied to the manifold or the manifold itself.

[2] Surface structures include both fixed and floating structures, including fixed platforms, compliant towers, spars, floating production systems and tension leg platforms.

[3] The Supplemental Comments filed by IPAA and DPC explain in detail why this outcome is arbitrary and discriminatory and point out analogous instances where transportation allowances have been granted when physical or other factors prevented separation or treatment functions from being performed upstream of the pipeline at issue.

through the downstream pipelines. Movement of deepwater production through those pipelines to a non-adjacent lease should be considered transportation per se, because such movement is a costly endeavor and clearly not a matter of the lessee's operational convenience.

- **Deepwater production moving from subsea "daisy-chain" wells to a surface structure on a lease not adjacent to the producing lease or unit should also qualify for a safe-harbor allowance**. As explained at the workshop, installation of a manifold is not necessary when wells can be linked in seriatim. In this case, the transportation function includes only the flow through the linking pipelines. The same factors as are discussed above for the manifold configuration support a cost allowance for these facilities.

- **Deepwater production moving from a single subsea well to a surface structure on a lease not adjacent to the producing lease or unit should also qualify for a safe-harbor allowance.** Here only the pipeline linking the subsea wellhead to the host facility would qualify for a cost allowance. Again, the same factors as are discussed above for the manifold arrangement justify a cost allowance for these facilities.

- **Deepwater production (whether produced from a subsea well or not) moving from a surface structure to a host facility not adjacent to the lease or unit where the surface structure is located should also qualify for a safe-harbor allowance.** A cost allowance should be provided whenever deepwater production is moved in bulk form downstream of a surface structure where the production is not separated and/or treated to marketable condition to a host facility not adjacent to the lease or unit where the upstream surface structure is located. We believe the upstream surface structure is performing an accumulation function and that the movement by pipeline downstream of that structure is transportation. Even though subsea production may not be involved, the above-discussed operational factors, e.g. the movement of bulk production a substantial distance away from the lease, justify a cost allowance.

The MMS should also provide a cost allowance for other types of movements of bulk production from any offshore lease that extend from the lease to a point not adjacent to the lease or unit. In this case, the lessee would be required to show that it is not operationally feasible, practical, or safe to separate and/or treat the production to marketable condition before it enters the pipeline.[4] The lessee would apply for this allowance on a case by case basis.

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[4] See *Exxon Company, U.S.A.*, MMS-VSD-OG93-0075 (December 29, 1994), where the MMS allowed a transportation allowance for oil in bulk stream which moved to shore from offshore platforms for processing and handling.

[Federal Register: October 21, 1998 (Volume 63, Number 203)]
[**Notices**]
[Page 56217]
From the Federal Register Online via GPO Access [wais.access.gpo.gov]
[DOCID:fr21oc98-93]

DEPARTMENT OF THE INTERIOR

Minerals Management Service

Announcement of Minerals Management Service Workshop on the Development of Criteria To Be Used in Distinguishing Between Gathering and Transportation in Deep Water in the Outer Continental Shelf

AGENCY: Minerals Management Service, Interior.

ACTION: Notice of meeting.

SUMMARY: The Minerals Management Service (**MMS**) will hold a day-long meeting with parties interested in the development of deep water leases that may involve subsea well completions. We are interested in developing specific criteria to be used in distinguishing between gathering and transportation to determine permissible deductions in calculating royalty value.

DATES: The workshop will be held on November 16, 1998, starting at 9:00 a.m., Central Time.

ADDRESSES: The meeting will be held at the **MMS** Gulf of Mexico Outer Continental Shelf Regional Office, 1201 Elmwood Park Blvd., New Orleans, Louisiana 70123.

FOR FURTHER INFORMATION CONTACT: Mr. Martin C. Grieshaber, Minerals Management Service, P.O. Box 25165, MS 9200, Denver, CO 80225-0165, telephone number (303) 275-7118; fax (301) 275-7124; e-mail Martin.Grieshaber@**mms**.gov; or Ms. Deborah Gibbs Tschudy, **MMS**, P.O. Box 25165, MS 3150, Denver, CO 80225-0165, telephone number (303) 275-7200; fax (303) 275-7227; e-mail Deborah.GibbsTschudy@**mms**.gov.

COMMENTS: Written comments on the meeting or the issues below should be addressed to Mr. Martin C. Grieshaber at the above address.

SUPPLEMENTARY INFORMATION: **MMS** is investigating the impact of deep water production systems on the distinction between gathering and transportation.

Current **MMS** regulations provide for an allowance for the actual and reasonable costs of transporting production when value for royalty purposes is determined away from the lease. No allowance is permitted for gathering (movement to a central accumulation and/or treatment point).

The new technologies involved in deep water development were not specifically contemplated in the current regulations, particularly when distinguishing between gathering and transportation.

We are interested in specific comments regarding what criteria should be used on a case-by-case basis when making the gathering/transportation differentiation for deep water leases.

Some possible criteria we would like comments on include: water depth, distance of movement, location of the approved measurement

point, marketable condition of the production, and on-lease v. off-lease movement. Specific comments are welcome on any other criteria with a bearing on the issue.

Dated: October 15, 1998.
Walter Cruickshank,
Associate Director for Policy and Management Improvement.
[FR Doc. 98-28146 Filed 10-20-98; 8:45 am]
BILLING CODE 4310-MR-M

Barton, Shirley

From: Grieshaber, Martin
Sent: Wednesday, May 16, 2001 3:27 PM
To: Fraser, Sam
Cc: Barton, Shirley; Mense, Robert
Subject: RE: Question on deepwater transportation allowance

Sam, I'm going to beg off answering your questions and refer you to Shirley Barton (who you cc'd) or Jim Morris. I haven't kept up with what MRM has done or what their interpretation of Lucy's memo is. Any thing I would provide would probably be wrong. If I can run down an answer for you, I will get back in touch.

Marty

-----Original Message-----
From: Fraser, Sam
Sent: Wednesday, May 16, 2001 08:52 AM
To: Grieshaber, Martin
Cc: Barton, Shirley; Mense, Robert
Subject: Question on deepwater transportation allowance

Marty

You led a team on the issue of deepwater transportation/gathering a couple of years ago that resulted in a memo (May 20, 1999) from Lucy Querques Denett. We need a bit of follow-up on it for one of our deepwater royalty relief cases.

We have an applicant who has a prospect in about 400 meters of water. He is proposing a subsea tieback where production from 2 wells will be commingled on the lease and then moved 18 miles (across 6 lease blocks) to a host for separation, dehydration, etc. Lucy's memo seemed to define this 18 mile movement as transportation that would qualify for a transportation allowance. If that is the case, we need to change the application to get the correct (reduced) forecast of royalties that would be due absent relief. That change may well disqualify the applicant, so it will be contentious.

When I go to the 08/01/00 release of the *Oil and Gas Payor Handbook Volume III*, I still find the direction that "A transportation allowance is not permitted for oil that is not in marketable condition. ... Gathering is movement of lease production to an accumulation and/or treatment point on the lease or ... off the lease. Gathering is considered part of placing lease production in marketable condition and therefore not allowable as a transportation cost." (pg 5-4 and 5-5). I can't find any exception/clarification of this guidance for deepwater or for movement of production that is not yet in marketable condition. Can you point us to where in MRM guidance Lucy's memo is reflected. We need to refer the applicant to it.

A related question has to do with the capital and operating cost of the separation, dehydration equipment on the host. I recall that Shell got a favorable IBLA decision in 1997 to the effect that the extra buoyancy needed to hold the dehydration equipment as well as the equipment itself on the Auger platform qualified for a transportation allowance. Where in the *Payor Handbook* can we point the applicant for guidance on these deepwater transportation allowances?

Thanks, Sam

Notes on Subsea Tie-ins/Gathering and Transportation

August 28, 1998

What would distinguish from onshore?

- Water depth
- Distance
- Movement from well on sea floor
- Movement on sea floor

What are options for allowance?

- Allocation to royalty bearing substances
- On lease v. off lease
- All movement

Is there still gathering where subsea tie-ins are involved?

- On lease central accumulation
- Bulk v. initially separated

Is the approved measurement point a determining factor?

- Location

Are economics a factor?

- Deep Water Royalty Rate Relief
- The "If a platform were here, transportation would be allowed" argument

What is the function of the movement?

- Closer to shore
- Movement to valuation point

Is any regulatory control necessary?

- Notification/application/determination

Do we need to consult with our customers?

- Meetings
- Request for comments

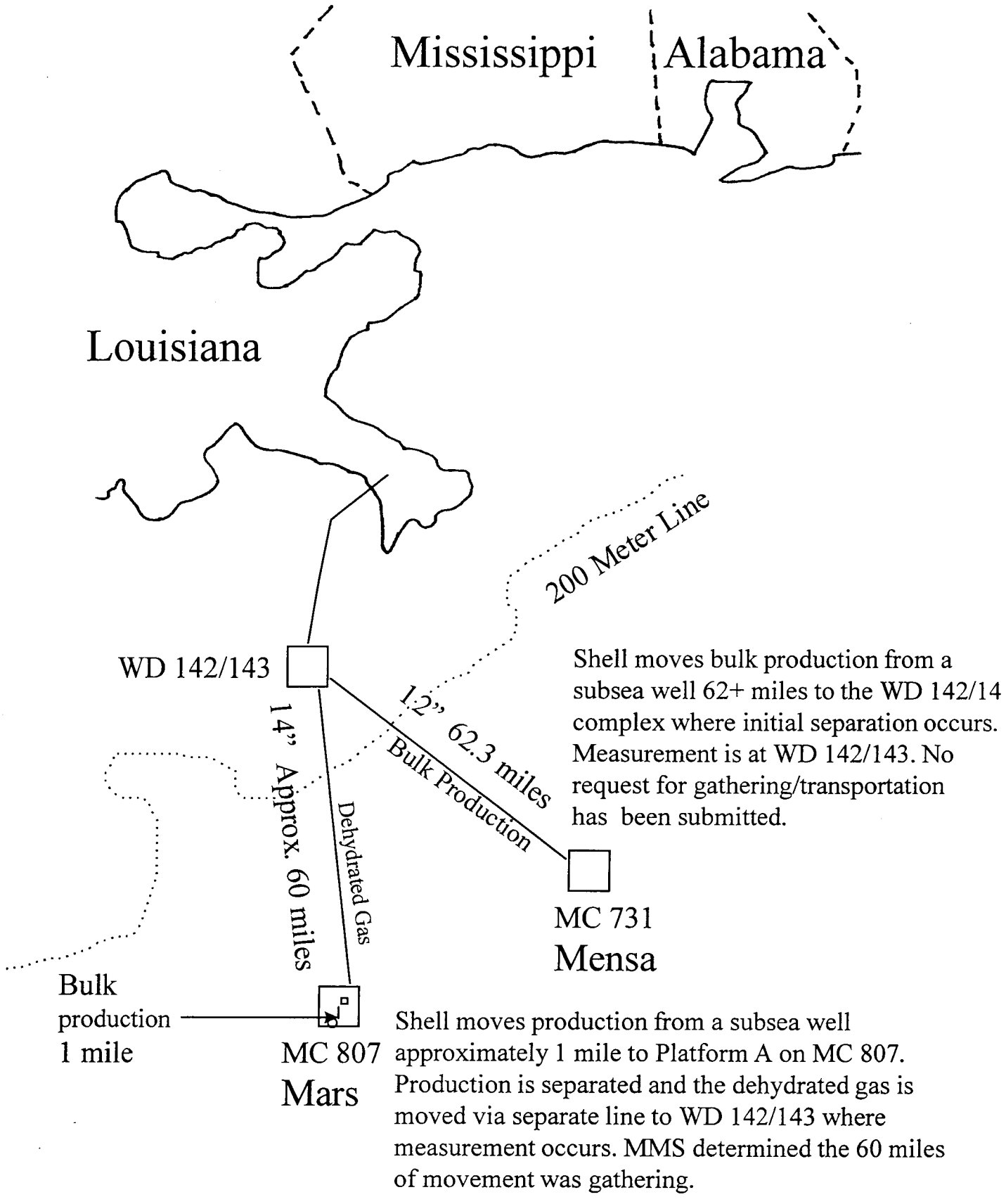
How and who do we notify of decision?

- Dear Payor letter
- Federal Register Notice
- Payors/auditors/determiners

Last questions:

Are the criteria able to be applied consistently without creating too many exceptions?
What does MMS need to do about previous decisions?

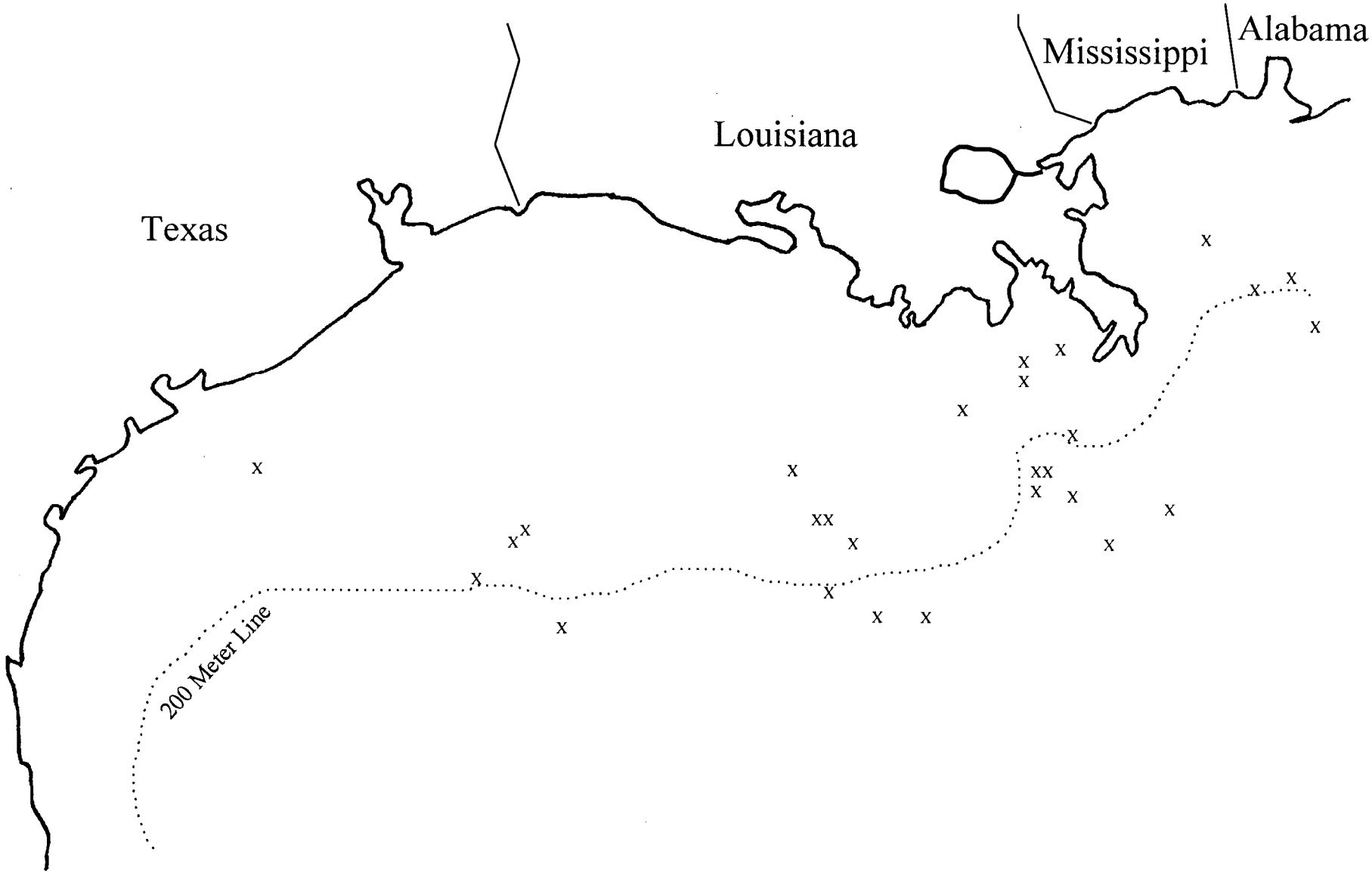
Shell Viosca Knoll Gathering



Shell moves bulk production from a subsea well 62+ miles to the WD 142/14 complex where initial separation occurs. Measurement is at WD 142/143. No request for gathering/transportation has been submitted.

Shell moves production from a subsea well approximately 1 mile to Platform A on MC 807. Production is separated and the dehydrated gas is moved via separate line to WD 142/143 where measurement occurs. MMS determined the 60 miles of movement was gathering.

Locations of Subsea Wells



American Petroleum Institute

1220 L Street, Northwest
Washington, DC 20005-4070
Tel 202/682-8057
Fax 202/682-8426
E-mail Leonard@api.org

V. Kenneth Leonard
Senior Manager, Upstream

Faxcover Sheet

Date: December 18, 1998

To: Mr. Todd McCutcheon 303-275-7124
Minerals Management Service

From: Ken Leonard

Please see the following letter regarding MMS' Subsea Initiative.

PAGES TO FOLLOW: Cover + 5

Please call (202) 682-8030 if there are any problems with this transmission.

DEC-18-1998 17:57 FROM API TO 6130327571248074 P.01

American Petroleum Institute

1220 L Street, Northwest
Washington, DC 20005-4070
Tel 202/682-8057
Fax 202/682-8426
E-mail Leonard@api.org

V. Kenneth Leonard
Senior Manager, Upstream

December 17, 1998

Mr. Todd McCutcheon
Chief, Policy & Management Improvement
Minerals Management Service
U.S. Department of the Interior
12600 West Colfax
Suite B 440
Lakewood, CO 80215

Dear Mr. McCutcheon:

Enclosed are the two exhibits that we are using with our written comments for the MMS Subsea Initiative. Because of their bulk, I am sending them to you via Airborne rather than by fax. The comments will be faxed to you tomorrow.

Thank you,

Ken Leonard

An equal opportunity employer

MMS WORKSHOP
GATHERING AND TRANSPORTATION CRITERIA FOR DEEPWATER SUBSEA WELLS

November 16, 1998, New Orleans

Speaker - Dennis McLaughlin
Shell Deepwater Development Systems

- How does Deepwater Development Differ from Shelf?
- Types of Deepwater Development Systems
- Subsea's Role in Deepwater
- What is a Subsea Development System?
- Example Project (Mensa - Video)
- Subsea's Challenge

Shell Deepwater

DEEPWATER VS SHELF DEVELOPMENT

- Frontier/Growth Opportunity
- Environmental
- Infrastructure
- Technology
- Costs

Shell Deepwater

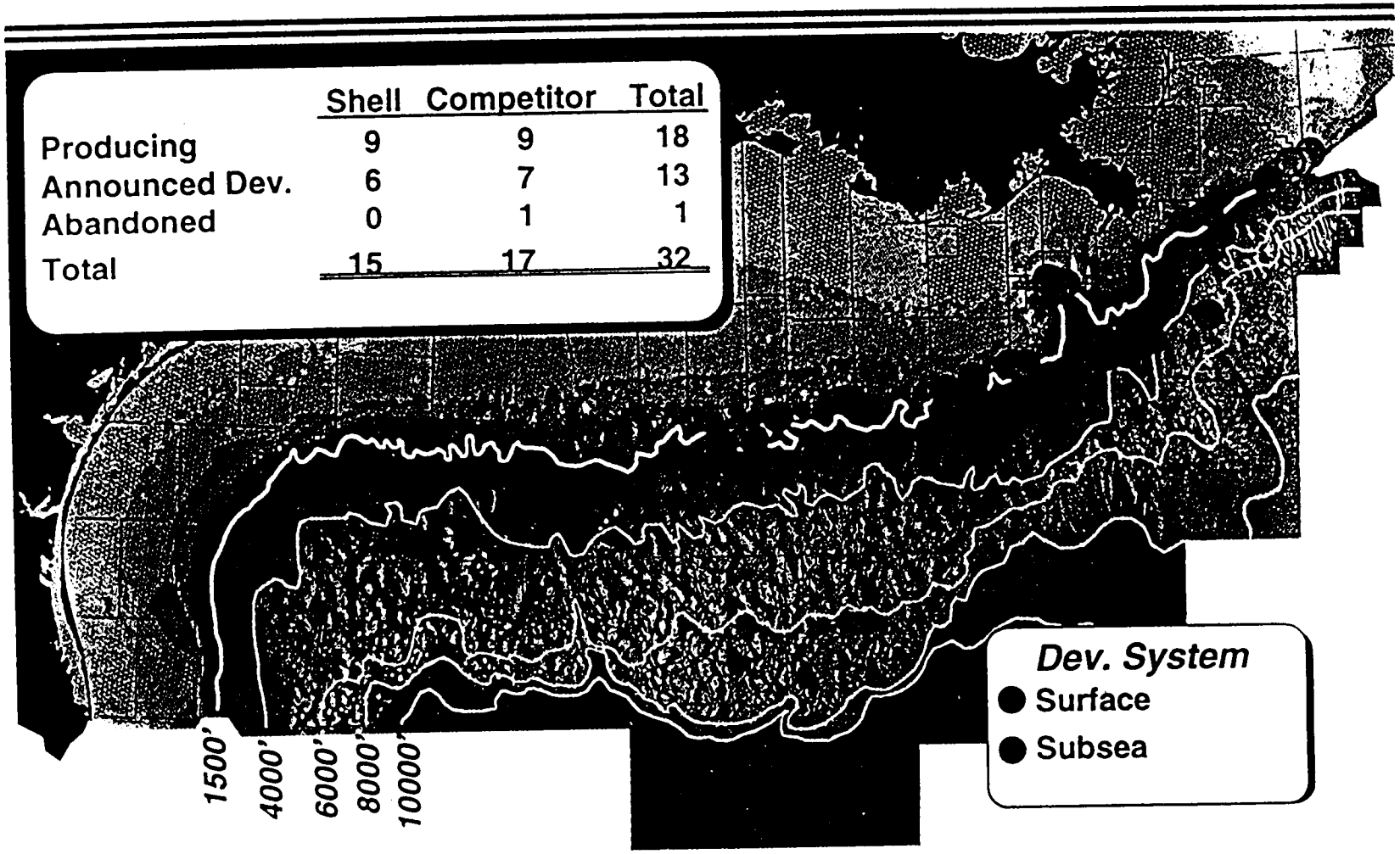
Cost Overview

Estimated Costs ($ in millions)

Item	Shelf	Deep Water
Water Depth	200'	3000'
Wells (Based on Gen III Semi)		
Exploratory (Per Well)	$4	$22
Development (Subsea)	$16	$65
Development (Surface)	$3	$20
Systems		
TLP	N/A	$500
SPAR	N/A	$500
Subsea	$32	$250
Fixed Platform	$15	N/A
Pipeline (Nominal 12")	$10 (~12 miles)	$80 (40-60 Miles)

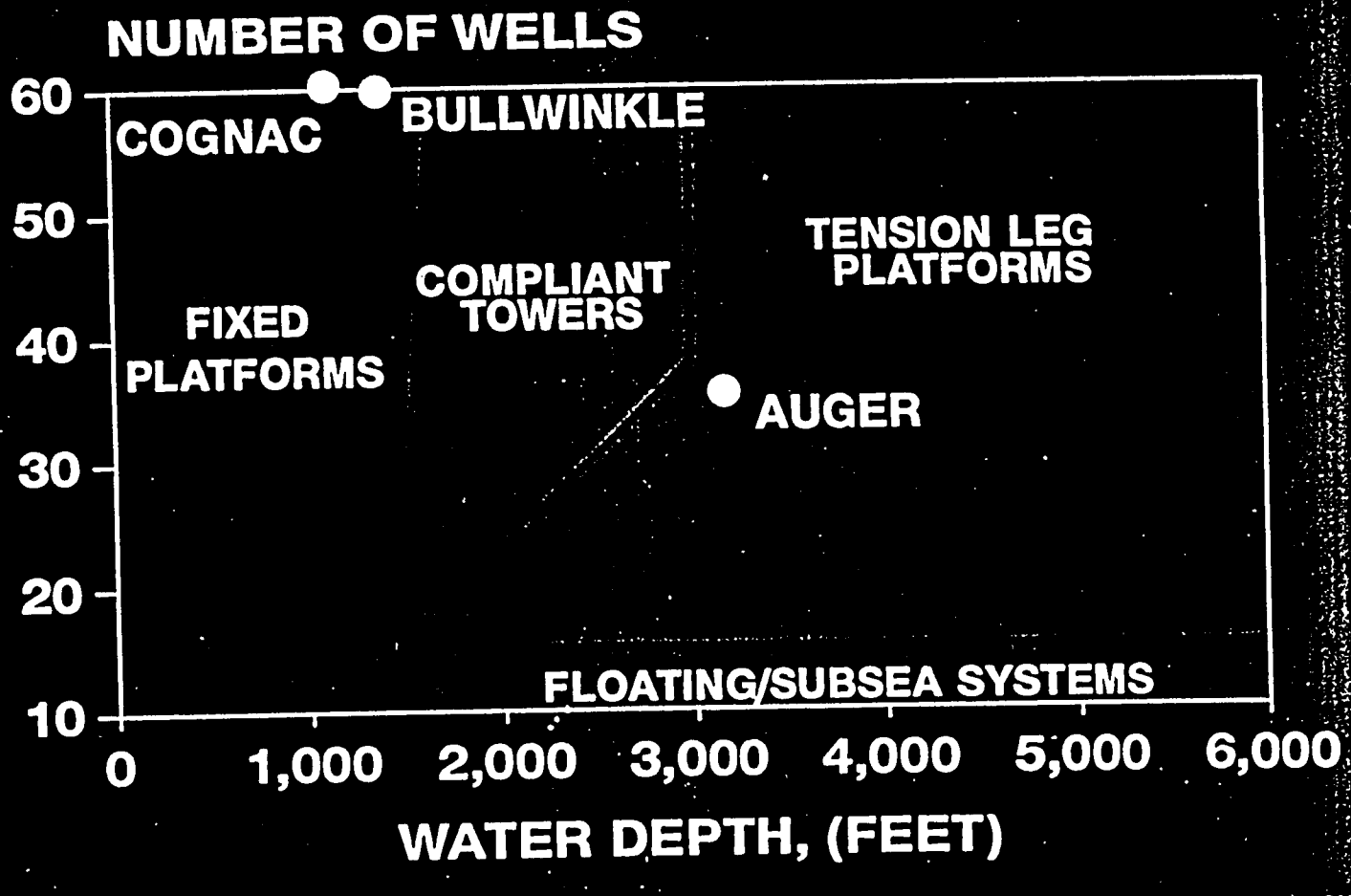
Deepwater Developments

	Shell	Competitor	Total
Producing	9	9	18
Announced Dev.	6	7	13
Abandoned	0	1	1
Total	15	17	32



Deepwater
Gulf of Mexico

DEEPWATER SYSTEMS



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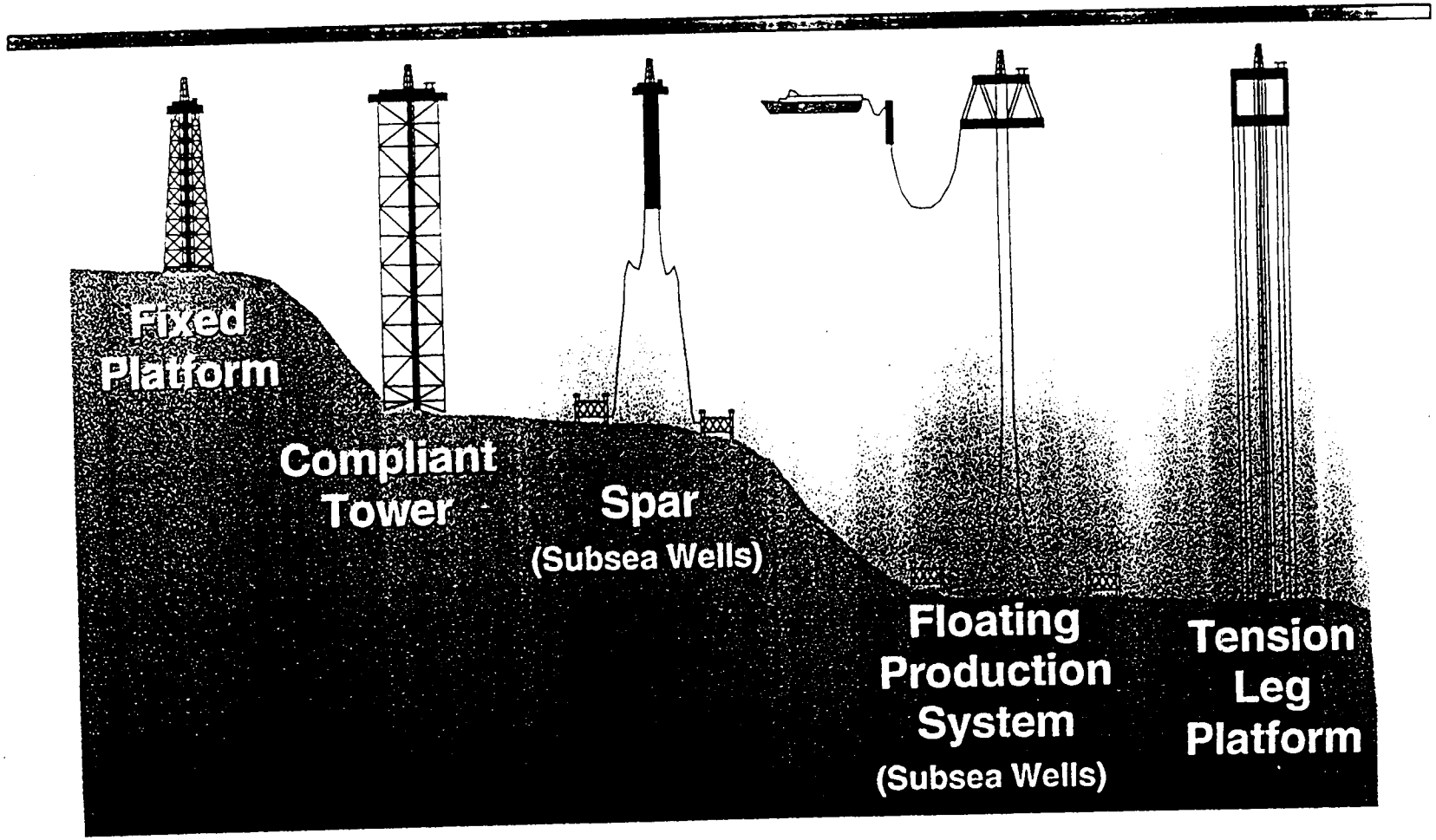
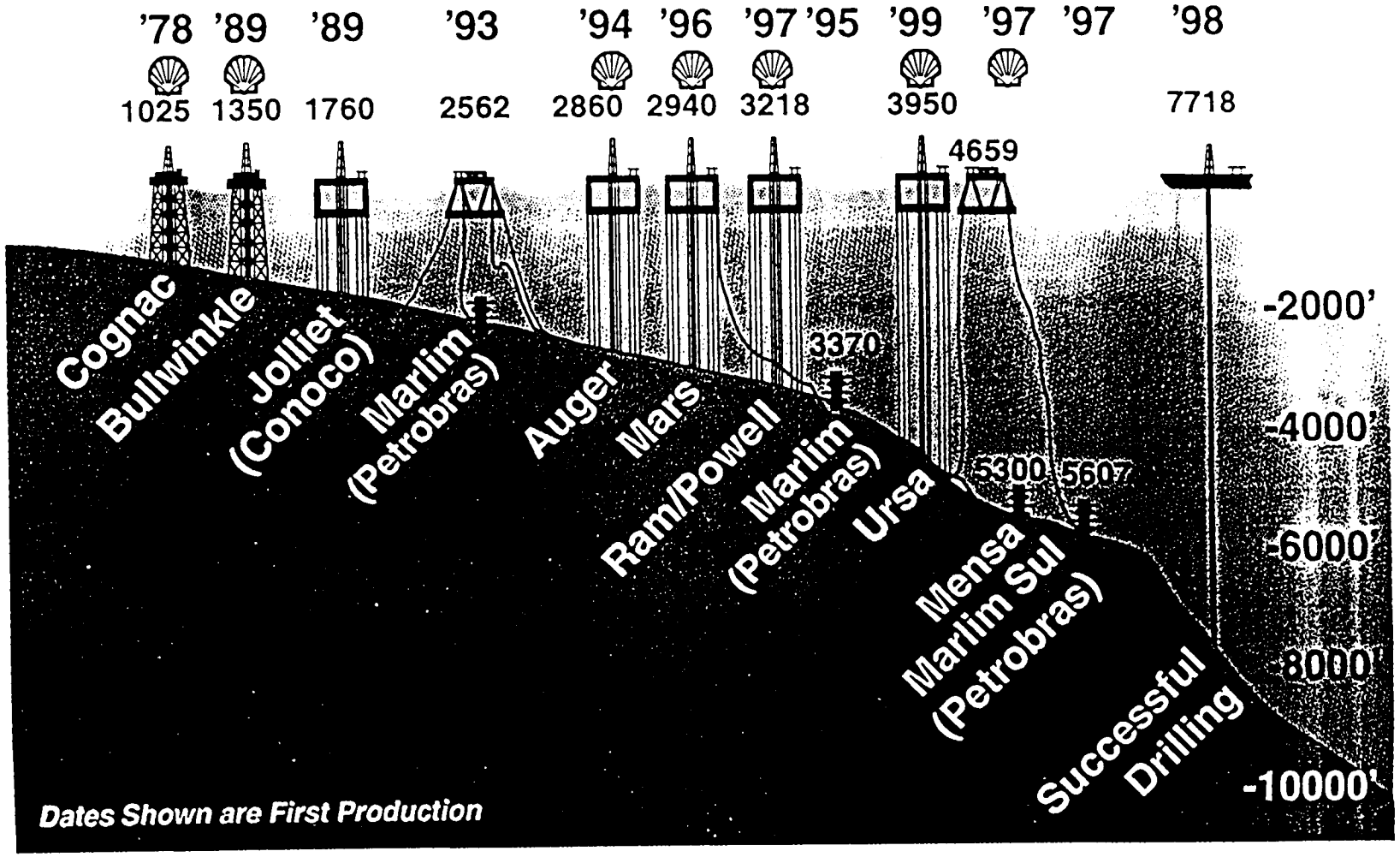
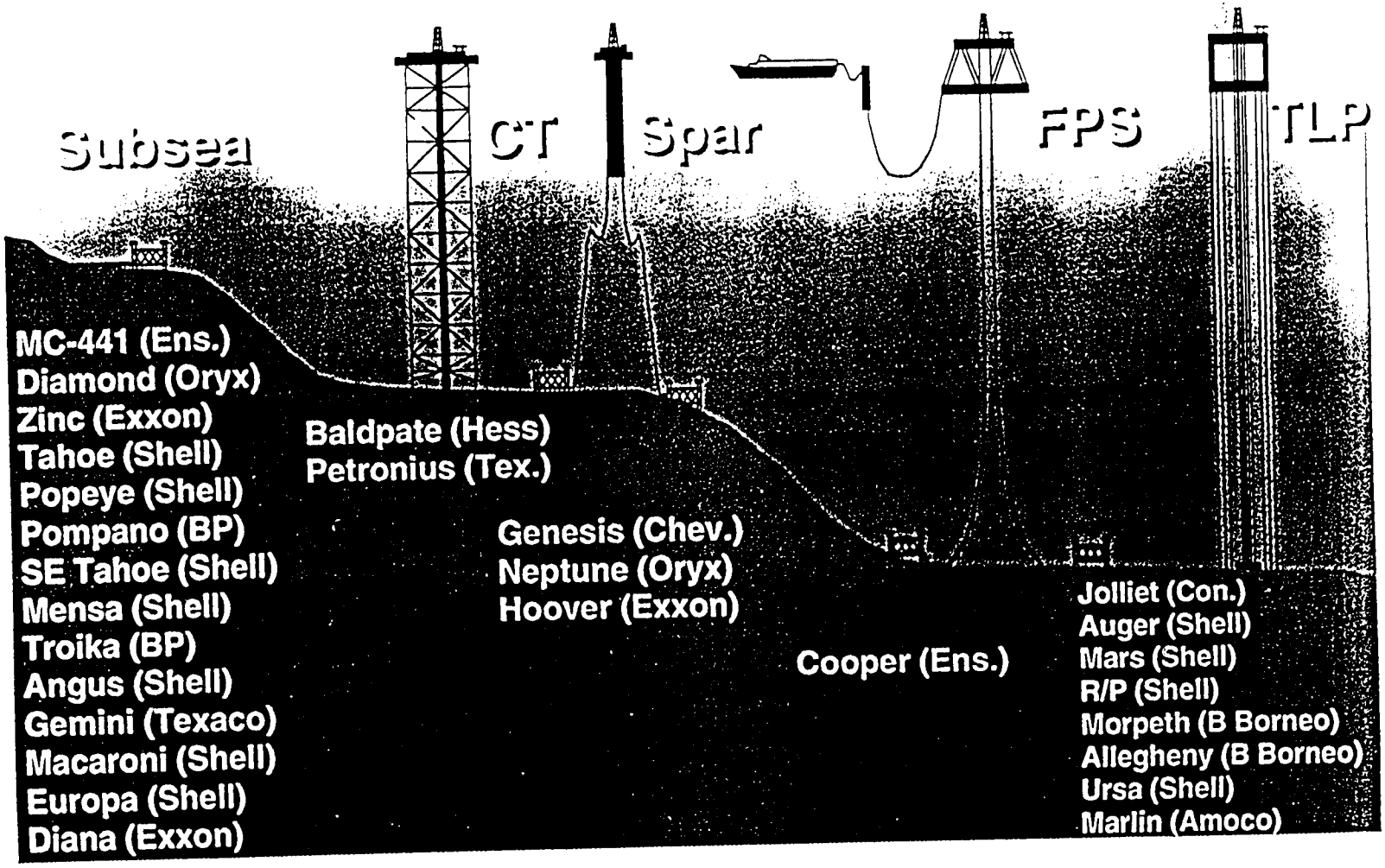
Development Systems



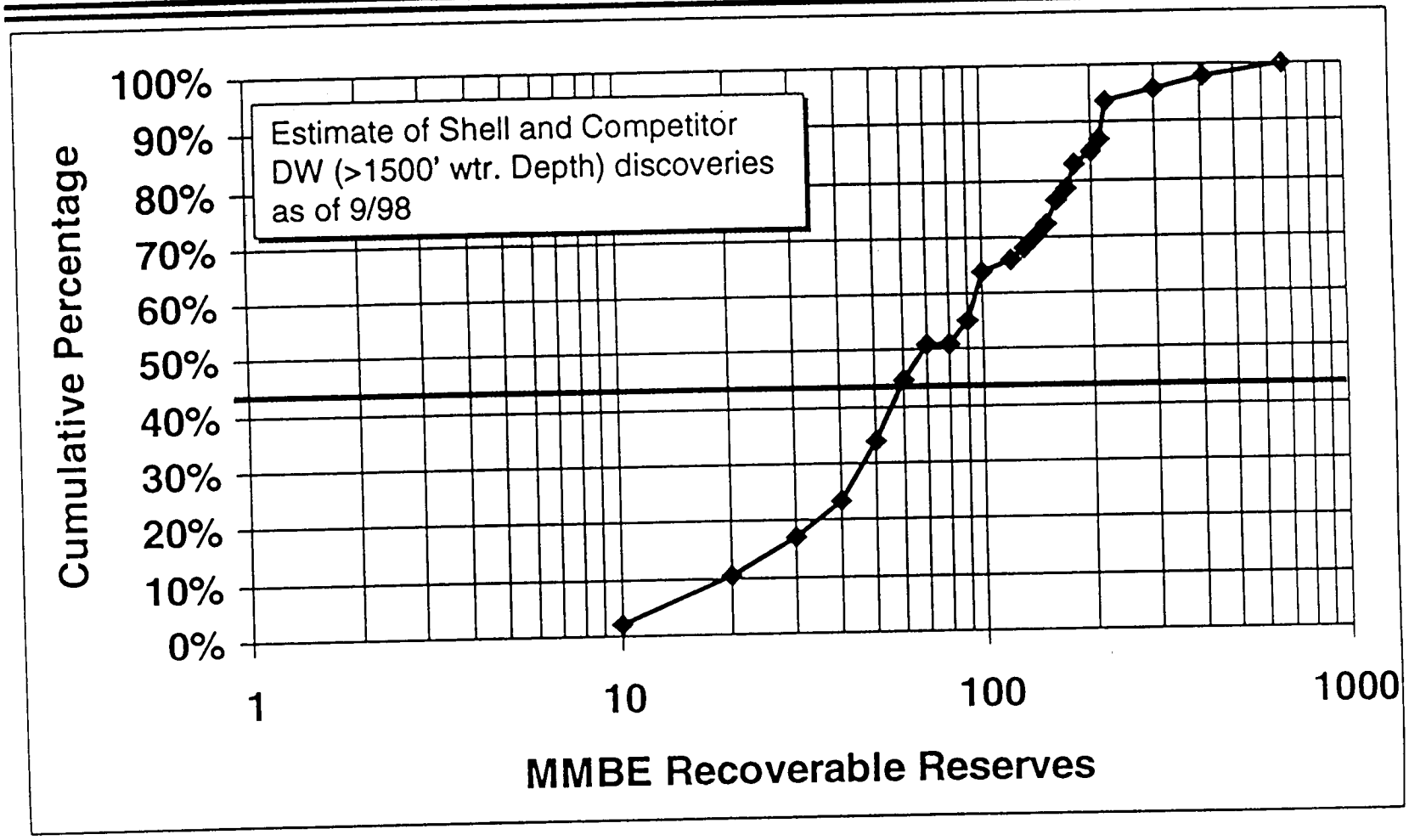
Development Milestones



Current Production Systems



Deepwater Volume Distribution



Subsea - A Business Decision

- Pros:
  - Lower Capital ($400MM vs $1,000MM)
  - Quicker route to recovery (18 months vs 3+ years)
  - No navigational or surface construction issues
  - Better for lighter crude oil, and gas developments
  - Permits Phased Development approach
- Cons:
  - Not suitable for all reservoir types (heavier crudes)
  - Needs infrastructure (host facilities, pipelines)
  - Higher intervention cost
  - Limited expansion / multiuse potential
  - Cold flow, long offsets (hydrates & paraffin)

Subsea Works Best when . . .

- Reservoir characteristics are well known and likely to be consistent through field life
- Infrastructure is close at hand (Pipelines and Host Facilities)
- Some redundancy and maintenance / intervention capability is designed in
- Marginal fields that individually do not justify capital expense of surface facility can be combined

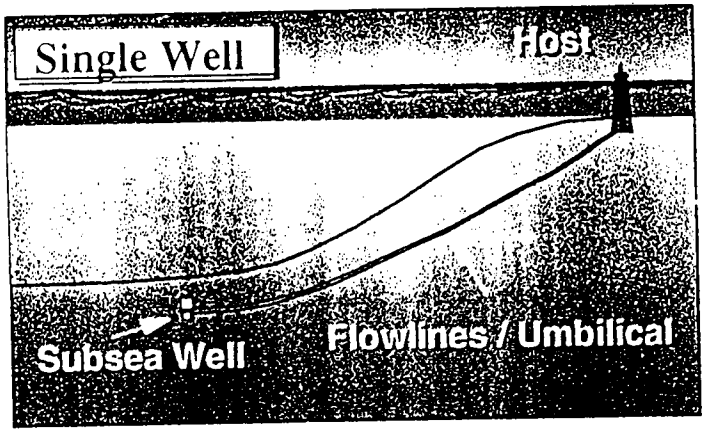
Definition of Terms

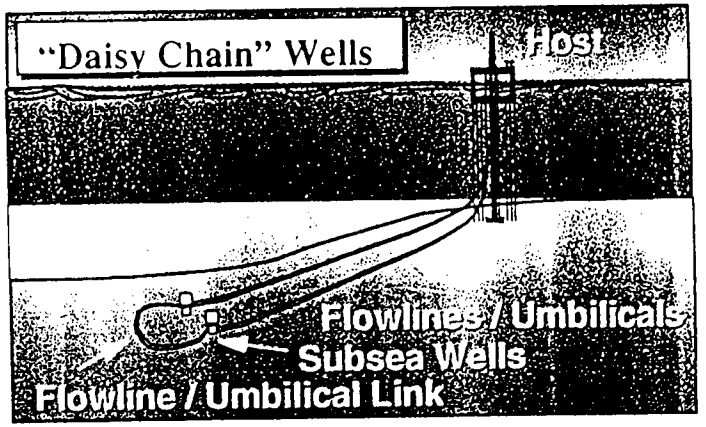
- **Subsea** - Located on the sea floor.
- **Host Facility** - A fixed or floating OCS facility that receives produced hydrocarbons from, and provides control and monitoring support to a subsea development.
- **Hub** - A host facility that serves as a processing point for a number of subsea developments.
- **Intervention -** Using a drilling rig or specialized vessel to reenter a subsea well for maintenance or flow enhancement purposes.
- **Laydown Sled** - Device on the end of a flowline or umbilical which facilitates connection/distribution to subsea wells or manifolds.

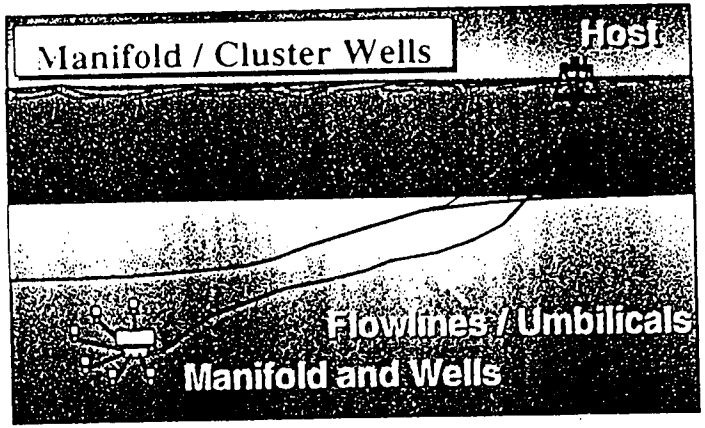
Definition of Terms *(cont'd)*

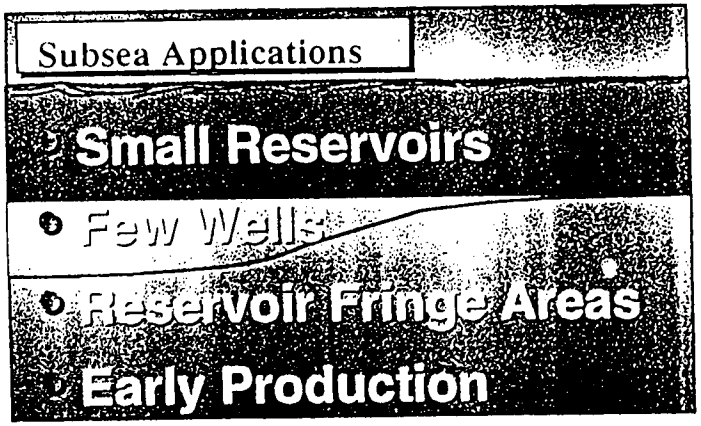
- **Subsea Manifold** - A subsea device that serves as a collection and distribution point for produced hydrocarbons from subsea wells.
- **Subsea Wellhead -** Series of control valves on sea floor that permits access to and recovery from the well bore.
- **Flowline** - Piping that carries produced hydrocarbons from the well, to manifolds and from the manifold to the host facility.
- **Umbilical** - Electric and/or hydraulic lines from host facility for purpose of controlling and monitoring the subsea system. Chemical lines for the delivery of chemical treatments to the wells and flowlines.

Subsea System Building Blocks

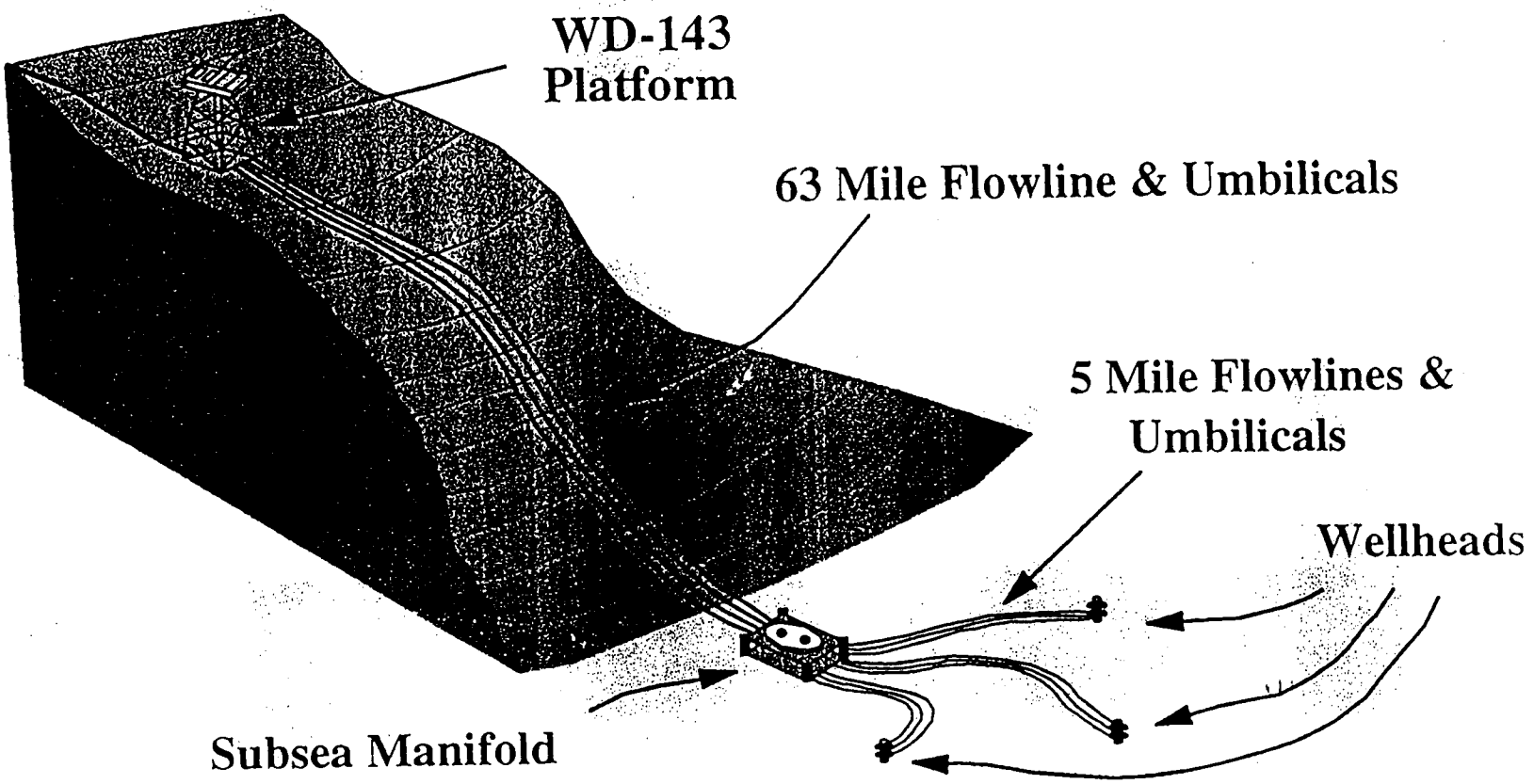




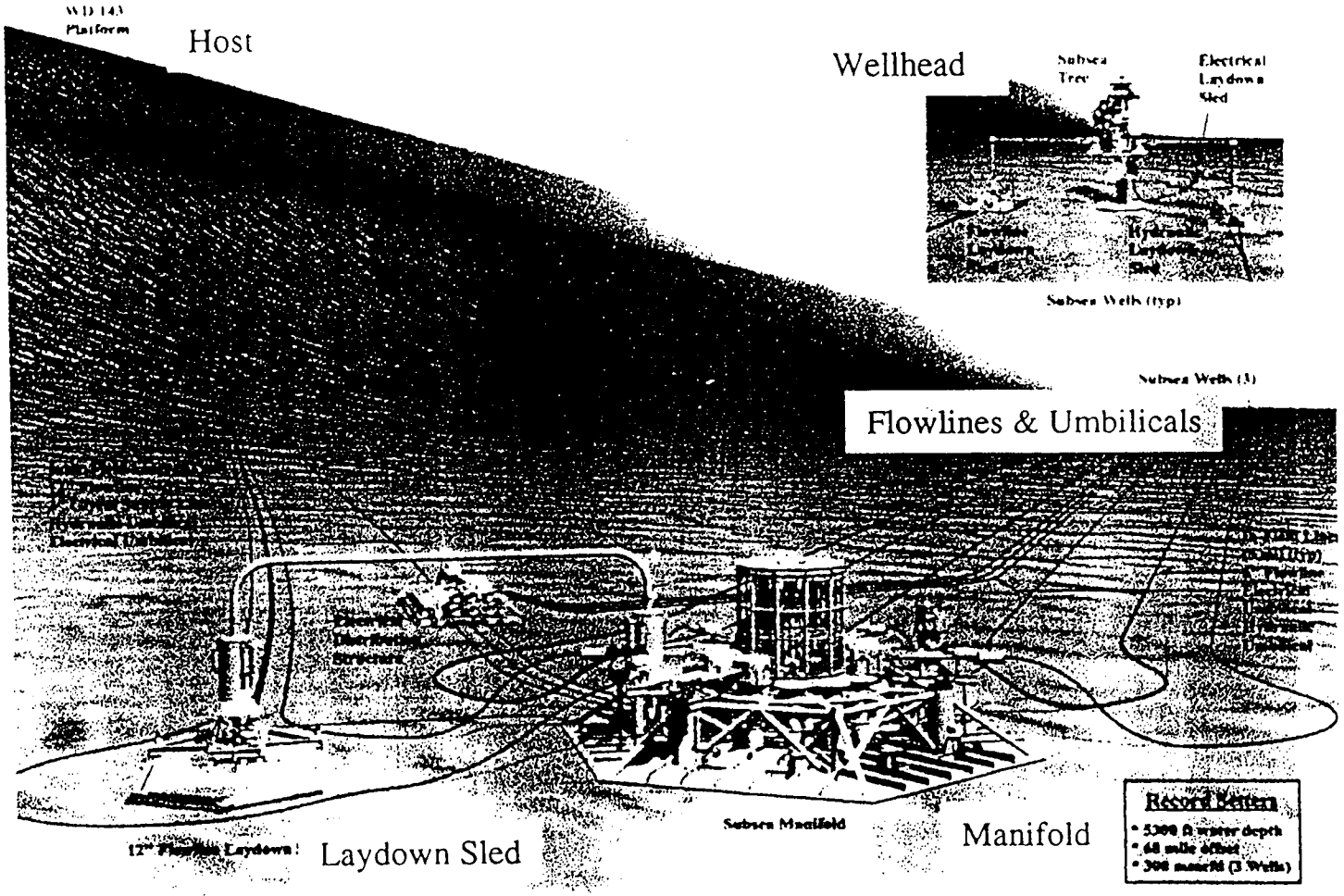




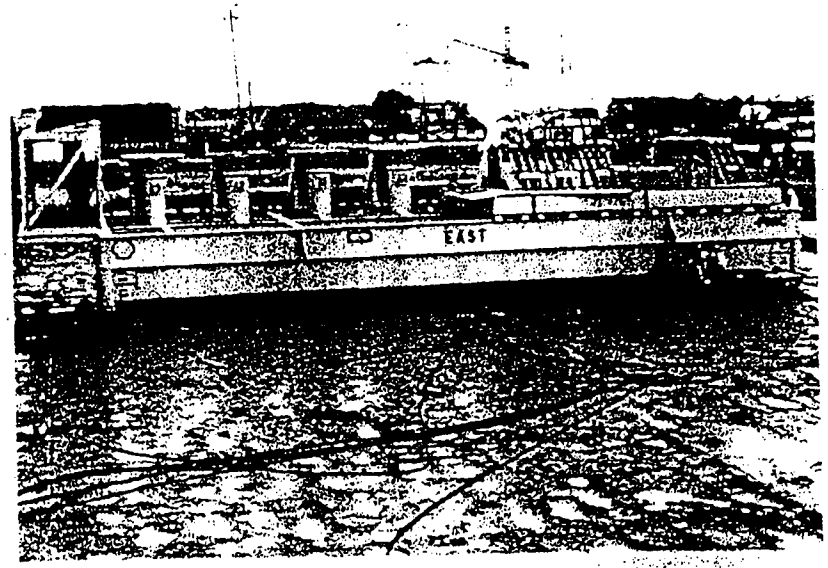
Mensa Schematic



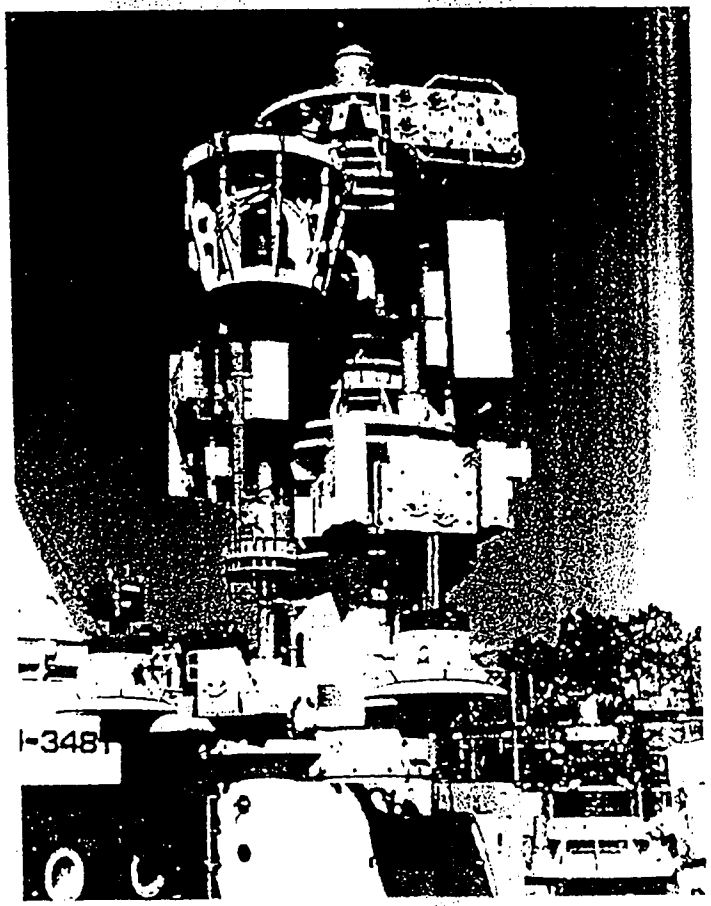
Example of a Subsea System



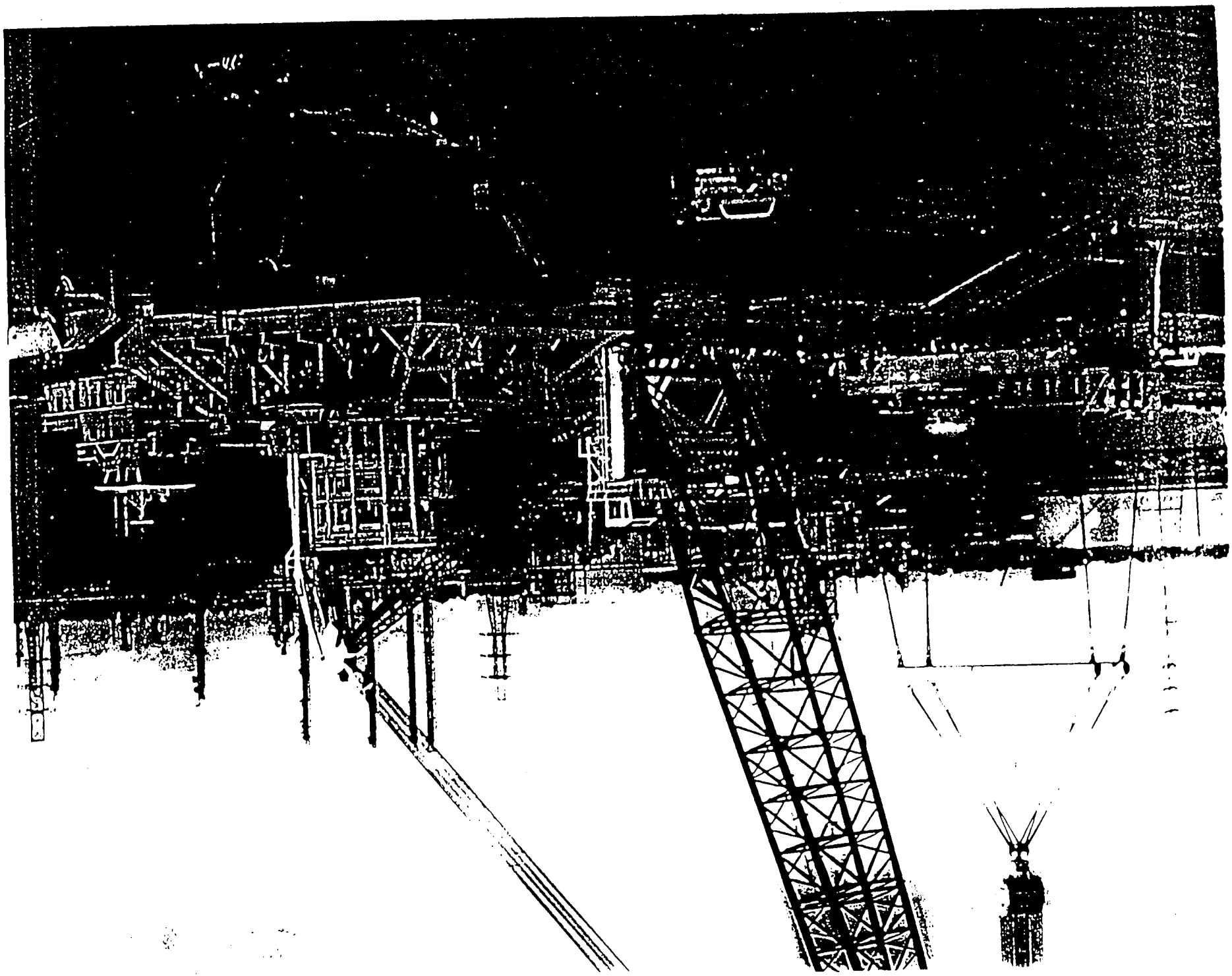
Subsea Components



Electrical Distribution Structure



Subsea Tree (Wellhead)

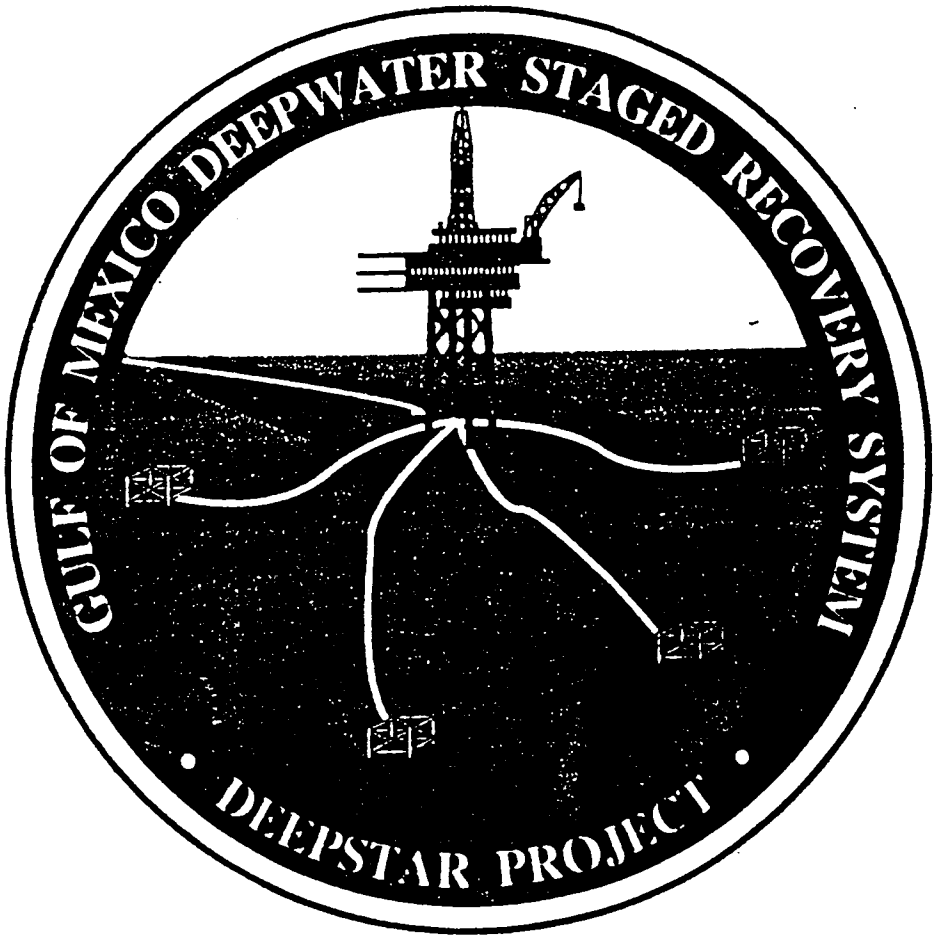


Subsea Challenges

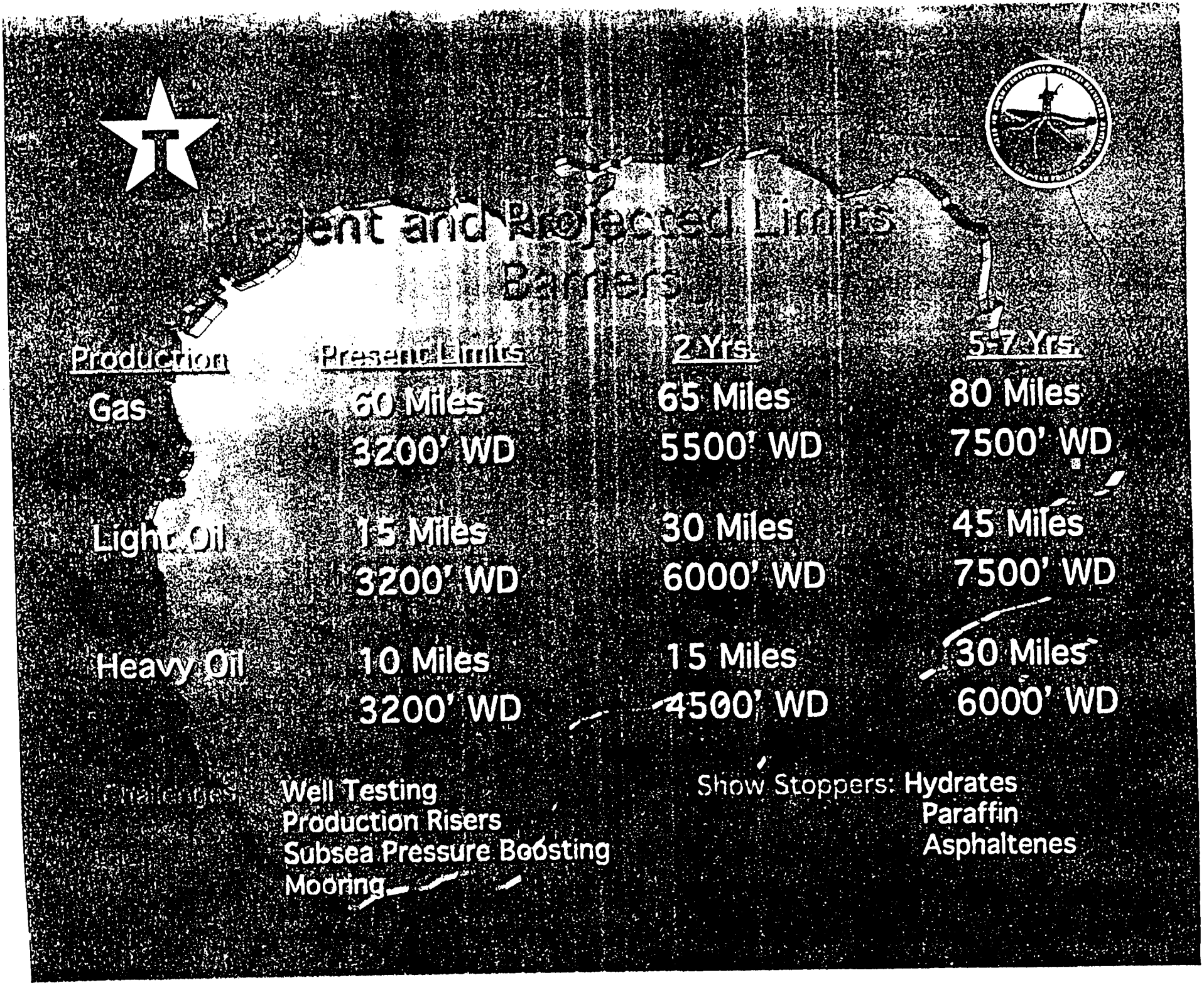
- Application of existing MMS regulations and policies to subsea technology is evolving
- Combining process streams from multiple SS developments with varying properties and ownership/royalty issues
- Technology rapidly advancing (water depths, offsets, composite materials, complexity, metering)
- Long term reliability in deepwater applications is not yet proven

B

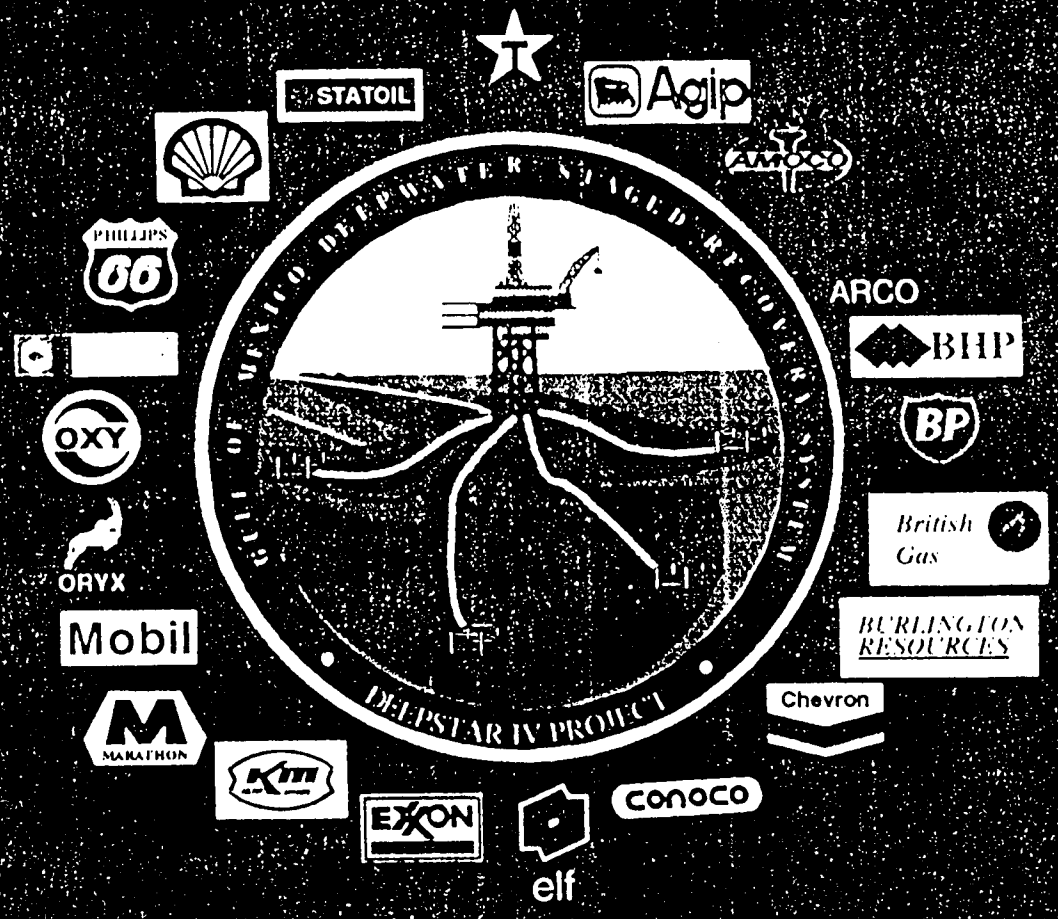
DEEPSTAR



DEEPWATER STAGED RECOVERY


Present and Projected Limits
Barriers
Production
Present Limits
2 Yrs.
5-7 Yrs.
Gas
60 Miles
3200' WD
65 Miles
5500' WD
80 Miles
7500' WD
Light Oil
15 Miles
3200' WD
30 Miles
6000' WD
45 Miles
7500' WD
Heavy Oil
10 Miles
3200' WD
15 Miles
4500' WD
30 Miles
6000' WD
Challenges:
Well Testing
Production Risers
Subsea Pressure Boosting
Mooring
Show Stoppers:
Hydrates
Paraffin
Asphaltenes

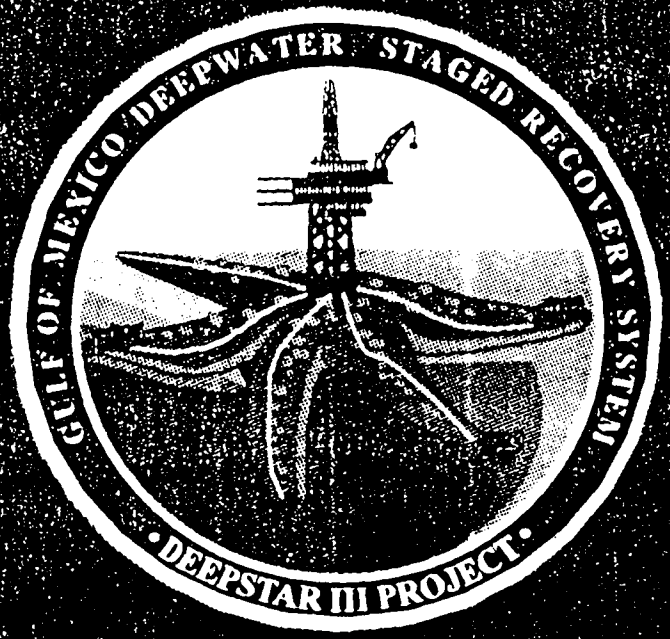
The DeepStar Project Participants



The DeepStar Project

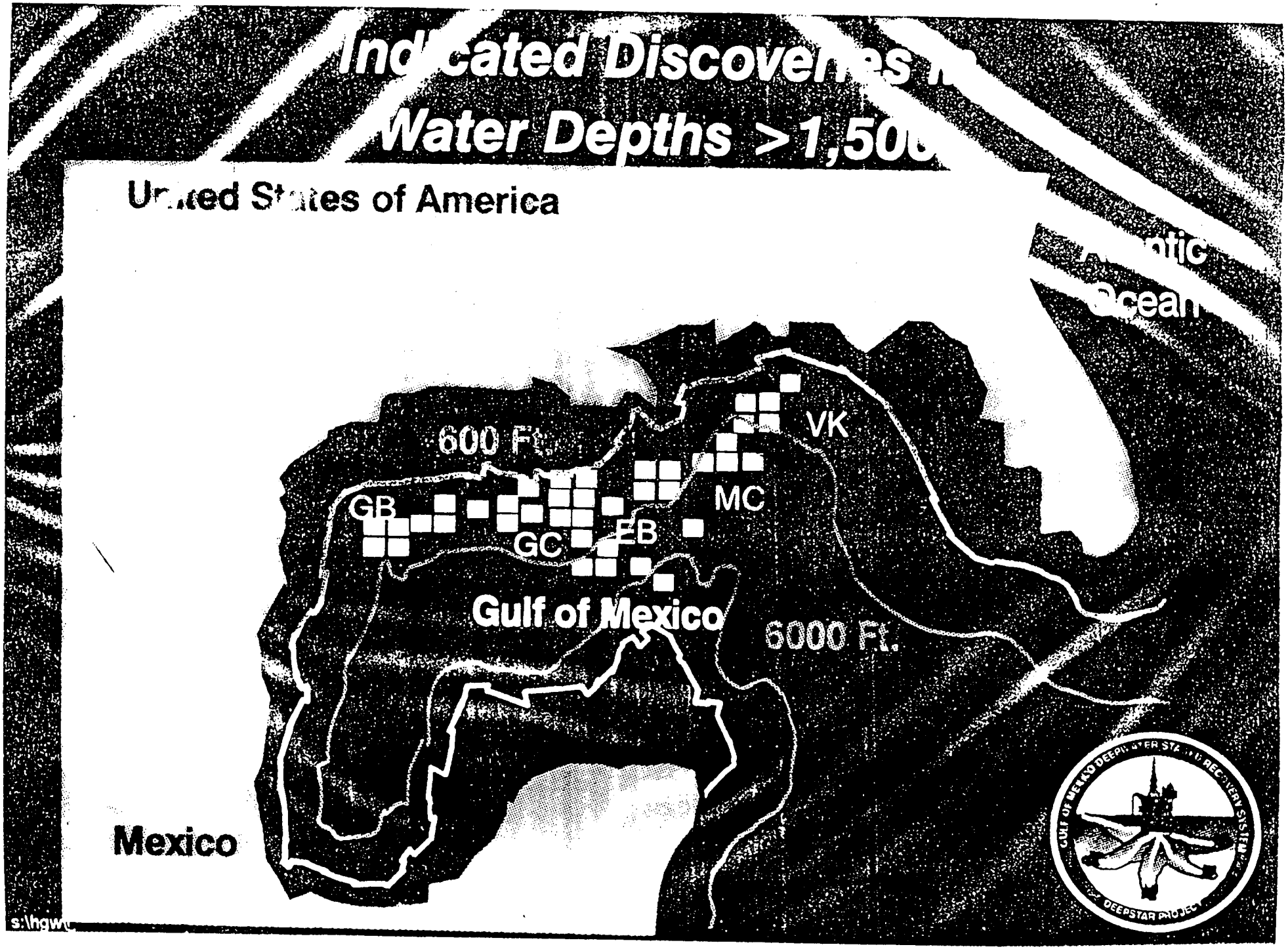
The DeepStar Project

Manufacturers & Service Companies



DEEPSTAR

- An Industry Wide Cooperative Effort
- Focused On Identification and Development of Economically Viable, Low Risk Methods to Produce Hydrocarbons from Deepwater Tracts in the Gulf of Mexico.


Indicated Discoveries
Water Depths >1,500
United States of America
600 Ft.
VK
MC
GB
GC
EB
Gulf of Mexico
6000 Ft.
Mexico
DEEPSTAR PROJECT

New Orleans

Why DeepStar?

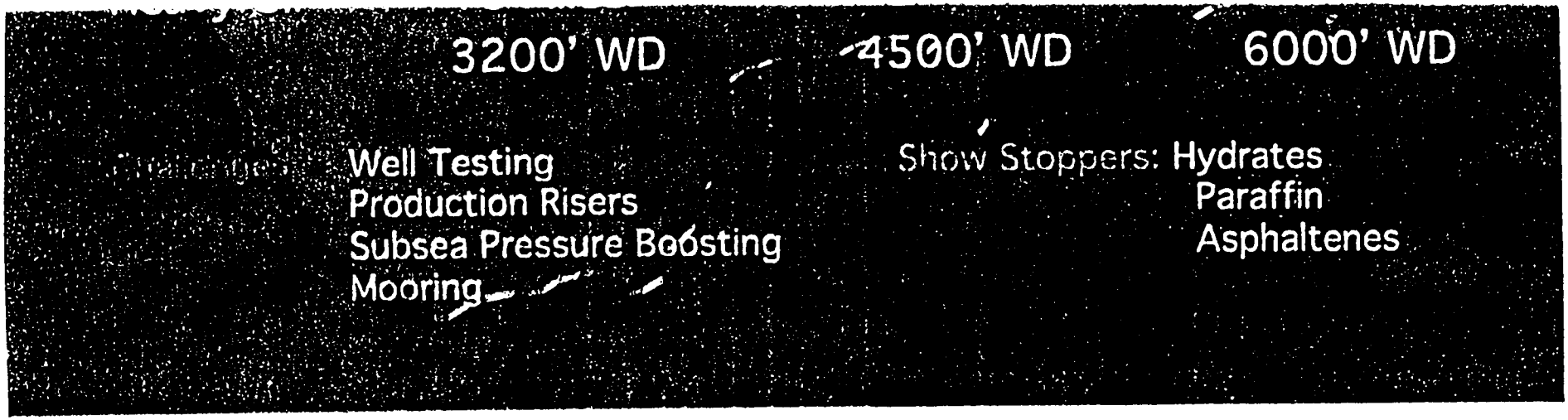
Offshore

- **Technology**
  - ➤Shared effort
  - ➤Cost effective
- **Business Synergy**
  - ➤F&D costs
  - ➤Lifting costs
  - ➤Cycle time

The DeepStar Concept

DeepStar Provides:

* A Development Strategy
* Risk Management
* Capital Cost Control
* Cooperative Working Relationship With Industry



- ... Regulatory Issues
  Exxon / Texaco
- CTR 200 ... Multiphase Flow
  Texaco
- CTR 300 ... Control Systems Issues
  Exxon
- CTR 400 ... Production Risers
  Mobil
- CTR 500 ... MODU & Mooring
  Elf / Texaco
- CTR 600 ... Flowlines & Umbilicals
  Shell
- CTR 700 ... Reservoir Performance & Engineering
  Texaco
- CTR 800 ... Manifold, Trees, & interconnectors
  ?
- CTR 900 ... Prodcution Fluids
  Exxon
- CTR 1000 ... Drilling, Completion
  Mobil

Baker Hughes
Bardex
Battelle
Cooper
Coflexip
CTC International
Diamond Offshore
DrilQuip
FMC
FSSL
GEC
Halliburton Enr. Svcs
HeerMac
Hydril
Imodco
Leistritz
Lockheed Marine
LTV Energy
National Oilwell
OPI
Ocean Design
Oceaneering
Pirelli Cable
Reading & Bates
Rockwater
Rotator
Schlumberger
Sonat
Sonsub
Southwest Research
Stena
Tronic
Wellstream
Westinghouse
X-L Systems

Attachment IX-17 (August, 1994)

Development Strategy

- Utilize existing infrastructure where possible for Deepwater field evaluation/development
- Extended reach subsea tie-back concept

Better reservoir performance [illegible]

[illegible]

Extended well testing

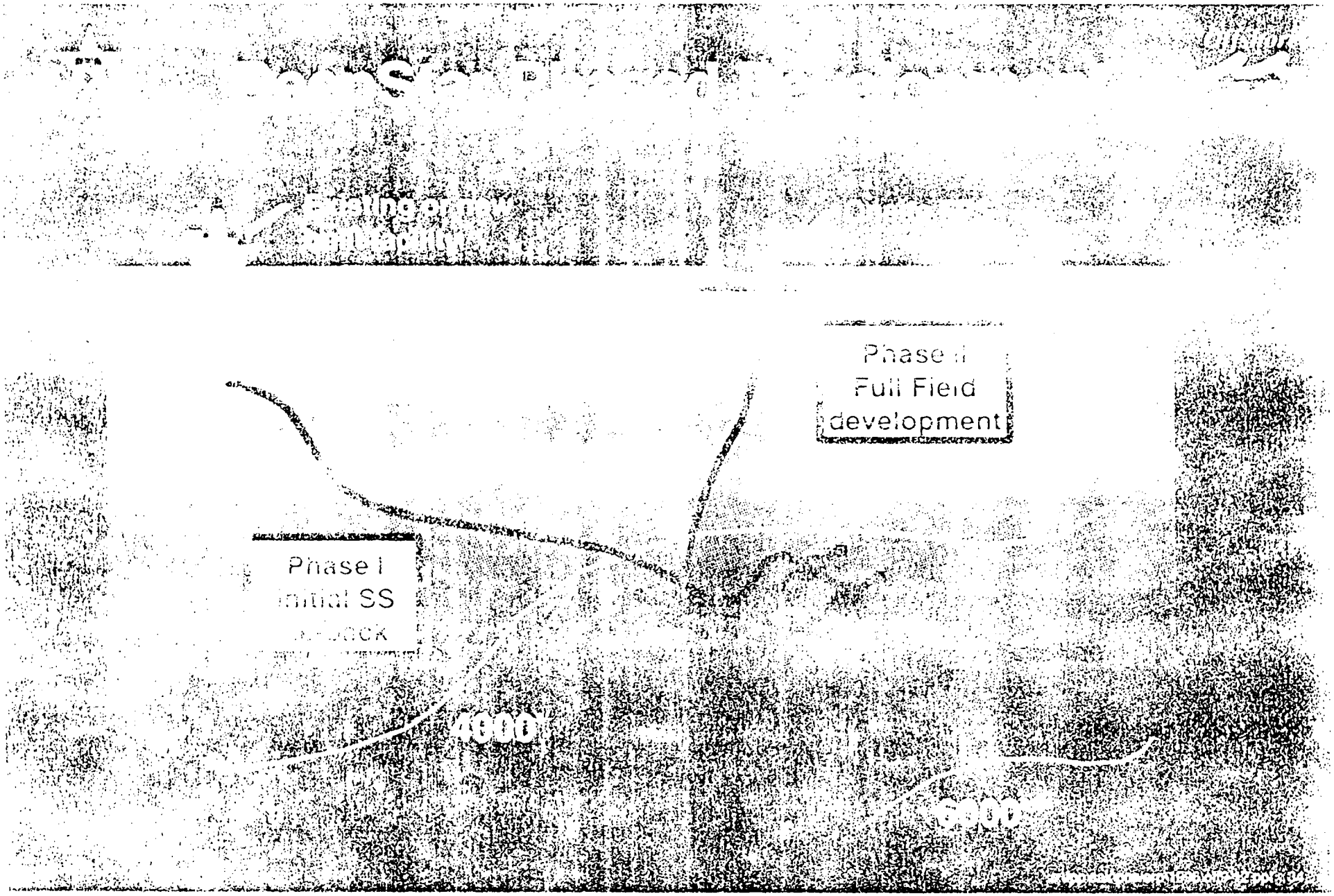
Early production systems

Staged development approach

Proves reservoir performance

Proves development concept/hardware

Allows system design optimization


Phase II
Full Field
development
Phase I
Initial SS

An Industry Solution To a Problem

Common Direction Among Oil Companies

- Focus Technology Development Costs
- Share Technology Development Costs

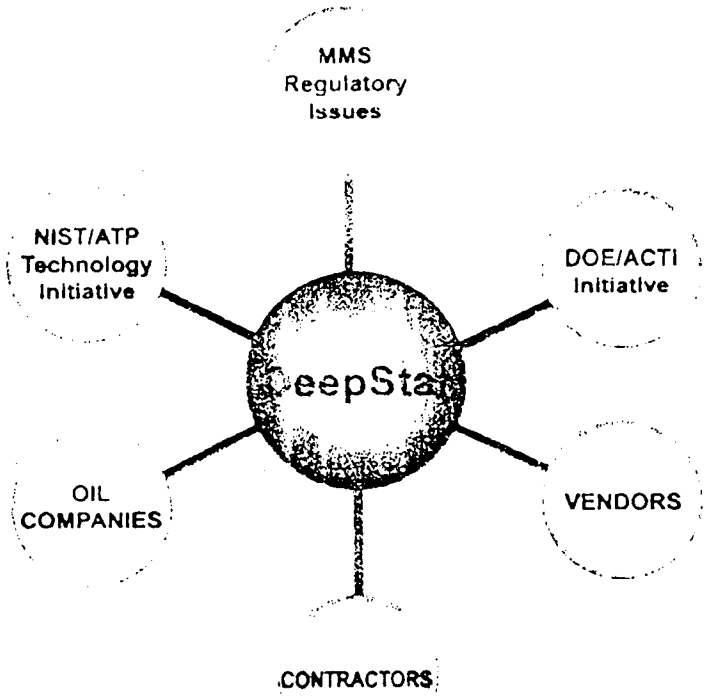
Feed Back Loop to Vendors

- Equipment Development

Standardized Interfaces

- Don't Re-invent the Wheel Every Time
- Reduces Development Costs/Schedule
- Potential for Equipment Sharing/Re

Industry ⇔ DeepStar ⇔ Government



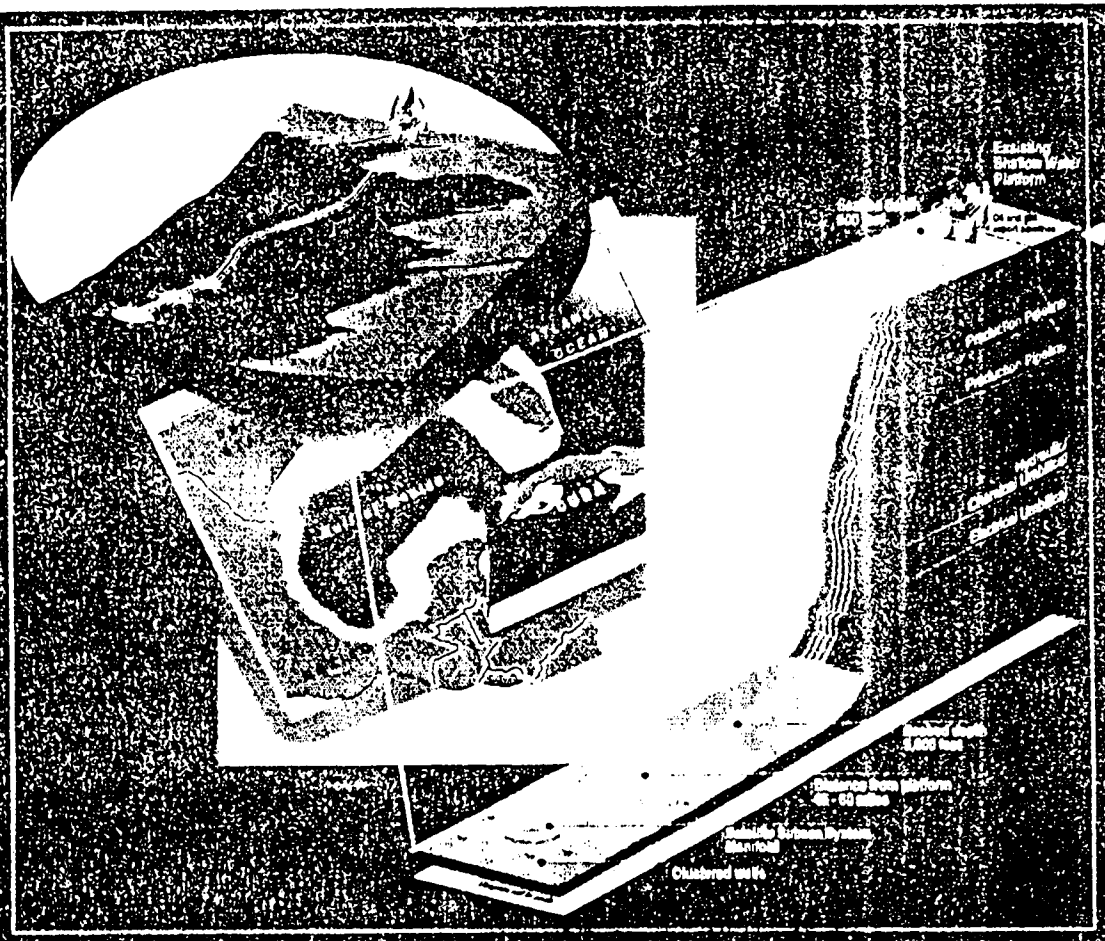
DeepStar provides a working interface between industry and government agencies to address regulatory issues and critical technology development issues.

Historical Progress

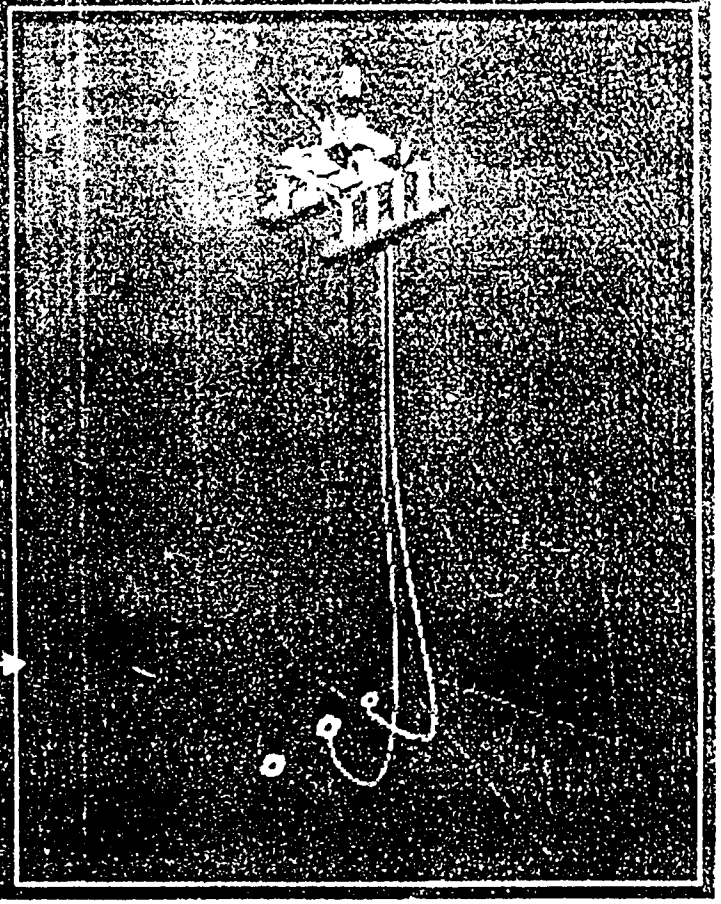
- Phase I - 1992-1994 - Scoping Phase and Project Identification
- Phase II - 1994-1995 - Establishing Technology Limits
- Phase IIA - 1995-1996 - Exploring New Processes and Hardware for Deepwater
- Phase III - 1996-1997 - Focusing on Lessons Learned and Systems Performance
- Phase IV - 1998-1999 - Systems Development and Deployment

Kick Off Held in January 1998

- $12 million, two year program
- 21 participants
  (Gas Authority of India and Unocal are promising prospects)
- continue involvement with vendor community



DeepStar Original Extended Reach Subsea Tieback Concept

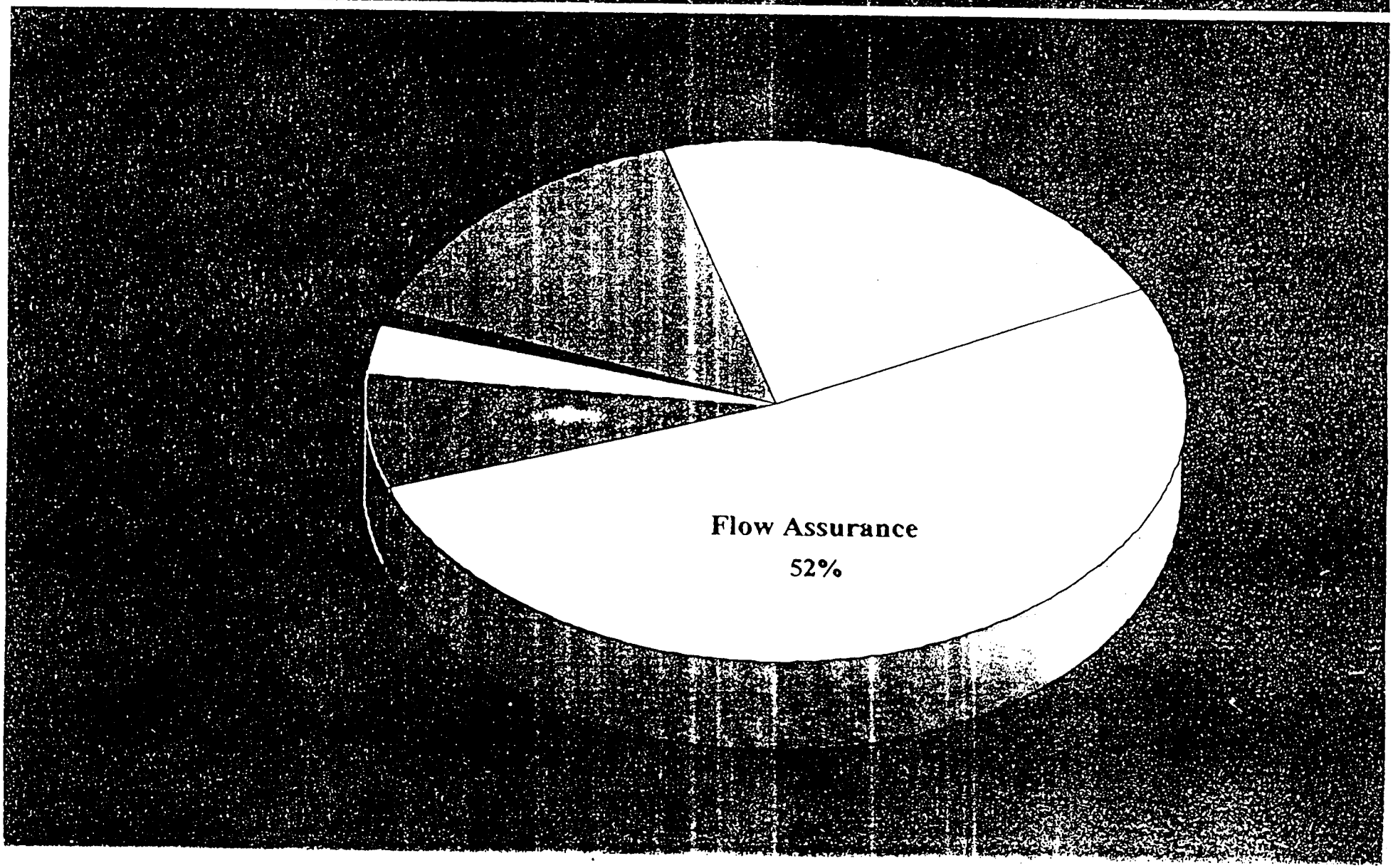


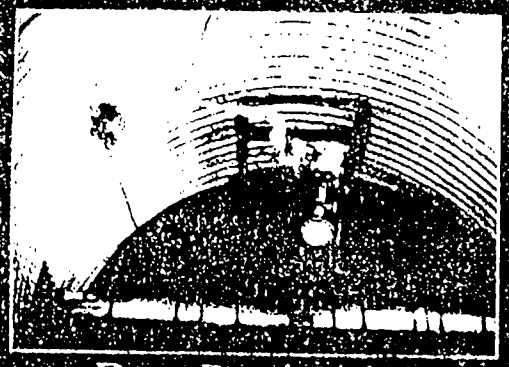
Our primary focus has evolved and broadened to "How to develop Deepwater Technology"

DEEPSTAR STRETCH GOALS

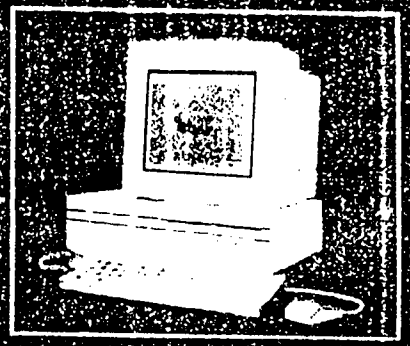
Regulatory:	Get FPSO's in the GOM
Flow Assurance:	Achieve bare pipe extended reach technology capability to: (1) Predict (2) Prevent (3) and Remediate long offset, deepwater tie-backs
Subsea:	Subsea facilities for 60 miles Tie-Back from 10,000 ft. of water
Vessel, Mooring &Risers:	Floating (moored) Drilling and Production in 10,000 ft. Water-depth
Drilling:	Ultra - reliable, ultra-deepwater well installations
Oceanography:	Provide full current data for the entire GOM

DEEPSTAR PHASE IV

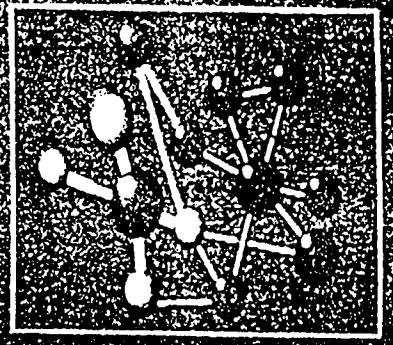




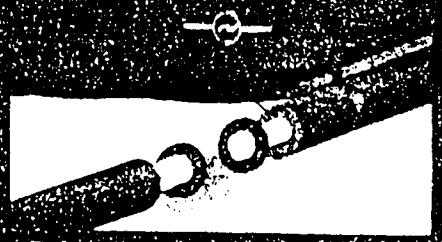
Data Retrieval &
Field Qualify Novel
Instrumentation



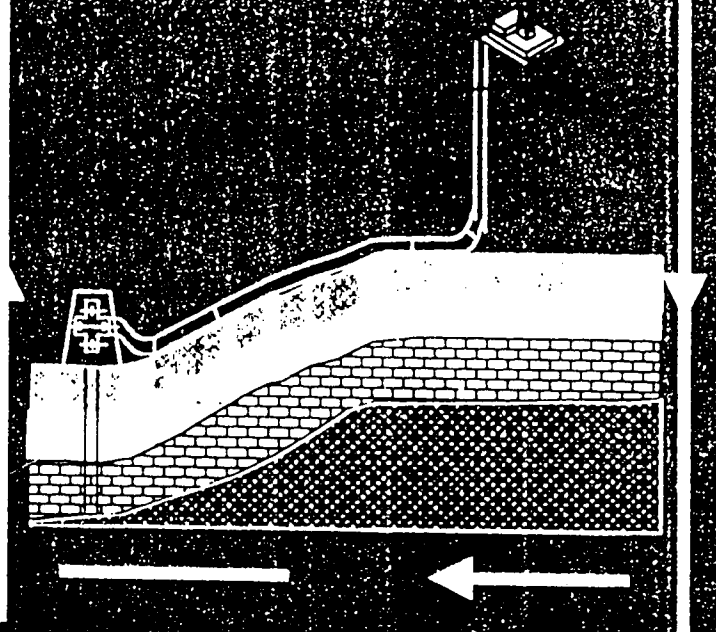
Validate Predictive
Software



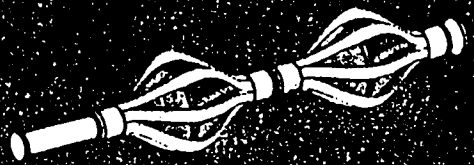
Test New Chemistries
& Novel Methods



Electrically Heated
Pipeline

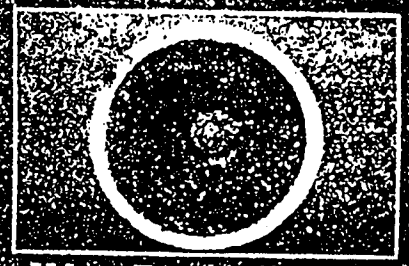


Hydrate Remediation



Aggressive & Multi
Diameter Pigging

DeepStar Phase IV
Flow Assurance Program



Wax Remediation