ConocoPhillips

July 25, 2011

Hyla Hurst
Regulatory Specialist – MS61013C
Office of Natural Resources Revenue
P.O. Box 25165
Denver, Colorado 80225

Re: Advance Notice of Proposed Rulemaking on Federal Oil and Gas Valuation (Federal Register – May 27, 2011, pages 30878-30881)

ConocoPhillips appreciates the opportunity to comment on the ANPR on Federal oil and gas valuation. ConocoPhillips is an international, integrated energy company with interests around the world. Headquartered in Houston, the company had operations in more than 30 countries, approximately 29,700 employees, $156 billion of assets and $189 billion of revenues as of December 31, 2010. We are also one of the top three companies in the number of royalty lines reported to the Federal government each year.

ConocoPhillips and some of its employees are members of the American Petroleum Institute and the Council of Petroleum Accountants Societies which are organizations that are filing separate comments regarding this Advance Notice of Proposed Rulemaking.

Specific Comments

ConocoPhillips supports the continued review in the use of indices for the valuation of oil and gas for both non-arms-length and arms-length contracts as long as the result of the overall change is revenue neutral. Additionally, the use of index pricing should be optional for oil and/or gas, and for non-arms-length and/or arms-length transactions

We also believe the use of index pricing to determine oil royalty could be expanded and altered by reviewing the current market place and by adding additional market centers.

ConocoPhillips also supports the calculation and use of location differentials/adjustments/liquid bumps to address transportation costs and the processing uplift and processing costs. Once again, these calculations need to be revenue neutral. Additionally, to address the unique situations that do not appropriately fit these situations, the ONRR needs to retain the provisions for extraordinary transportation costs (30 CFR 1206.156(c)(3)), and extraordinary processing costs (30 CFR 1206.158(d)(2)(i) & (ii)).

If the ONRR does move forward with the use of index pricing for oil and gas royalties, we recommend they first host a workshop to address marketable condition issues as it appears not all transportation and processing costs are being appropriately allowed in the current audits. To ensure revenue neutrality with the ANPR, these issues need to be addressed prior to the transportation and processing factors being calculated.

To ensure the change to index pricing simplifies the overall royalty reporting burden, we do not support additional Safety Net calculations (30 CFR 1206.172(e)), Accounting for Comparison or Dual Accounting requirements (30 CFR 1206.155 or 1206.173 or 1206.176), special keepwhole accounting requirements (Oil & Gas Payor Handbook Volume III--Product Valuation 4.3.5), or accounting true-ups (as required for non-arms-length transportation and processing costs). Should index pricing be adopted and corrections and/or adjustments identified for the ONRR postings, the net difference should be rolled forward into the following month or year versus having to require prior period adjustments be filed for all impacted properties.

Finally, should index pricing for Federal royalties be adopted, we would need at the very minimum 12 months from the time the final rule is published to implement a change to index pricing. This would enable us to do all the system programming, accounting set-up changes, and system testing.

Conclusion

ConocoPhillips supports the continued review in the use of index pricing as identified in the ANPR as long as it is optional and done in an overall revenue neutral manner. Once the proposed rule is published, we will be able to provide more specific comments.

If you have any questions regarding our comments, please contact Bob Wilkinson at (918) 661-4381.

Sincerely,

Maritta Perkins

Maritta Perkins
Supervisor, Compliance Services