



February 10, 1997

Minerals Management Service
Royalty Management Program
Rules and Procedures Staff
P.O. Box 25165, MS 3101
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In response to your recent proposed rule, amending 30 CFR Parts 206 and 208, I offer the following comments.

1. Page 3,745 in example concerning the determination of the average daily NYMEX futures settle price for the prompt month of October 1996. The trading days of August 21 through September 20 were used to determine the price to be paid for September production. In the wet barrel market, the NYMEX settles price for the prompt month from September 1 through September 30 is the most common basis for determining price for September production, unless, of course, sales are made on the NYMEX for September delivery. While the MMS does not trust the various fluctuations the posting bears to the NYMEX close, the posting is based on the NYMEX close for the prompt month, whatever it is, from the first to the last day of each month. Most companies are dependent in great part on this time period. The record keeping alone for the proposed time period calculation would be onerous to all producers.

Mention was made in the proposal that an index based on the P plus market was considered. Even oil sold in the P plus market would use a different time frame than that in the proposed rule. For pricing production in September, the "plus" portion of P plus would be determined through sales July 19 through August 20 for the prompt month of September. However the P portion (the Posting) is determined through the average of the NYMEX close from September 1 through September 30.

Another common method used to arrive at a price for September production is through selling into the NYMEX futures market anytime up to and including August 20. Again, using the trading days of August 21 through September 20 for a determination of the price to be paid for September production bears no relationship to the great majority of marketing programs.

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Please amend the proposed rule to use the NYMEX market on close (MOC) for the prompt month, whatever it is, from September 1 through September 30 to determine the price to be paid for September production. This is the true reflection of the value of the oil at the time of production.

2. In the proposed index method for valuing oil, exchange differential deductions are allowed. These differentials are different from producer to producer. They are also different from month to month. For Wyoming Sweet oil at Guernsey, Wyoming, there is no published differential which bears a relationship to the actual market. Finding a differential number to fairly apply across the board for Guernsey, Wyoming oil will be next to impossible at this time. I suggest that you use the actual numbers incurred by each producer for its particular oil.

3. Page 3750 the RIK program is outlined. At issue are the excessive administration requirements of the current method. It is considered time-consuming and burdensome for all involved. Chief complaints are reconciling what volumes the small refiner actually took, what value to assign the small refiner volumes, who is to pay for what volumes, and who owes for what volumes. The procedure as contemplated in the immediate proposed rule will involve tremendous paperwork for all involved. A detailed monthly accounting, if only internally, for the MMS' portion of each individual lease's production will be required in order to determine the correct price. If the RIK program was too burdensome to administrate, the rule amending 30 CFR Parts 206 and 208 will be overwhelming to administrate.

4. Section 206.105 regards determination of transportation allowances. Transportation allowance is defined as a deduction from royalty value for the reasonable, actual costs of moving oil to a point of sale or delivery off the lease, unit area, or communitized area. The transportation allowance does not include gathering costs. This definition is not encompassing the full costs of transportation. Included in the costs to move oil should be the costs of a line fill. Every party who desires to transport oil through a pipeline is required to "donate" its proportionate share of a line fill. This would be the proportion the proposed transported volume bears to the total amount of volume required to fill the line before any oil may be delivered at the other end of the pipe line. In many cases, this is a significant cost. This line fill is not recoverable until the shipping party ceases shipping oil on that particular line. In most cases, this is enough years away that the present value of the recoverable oil is zero. Accordingly, the costs of a line fill should be included in the transportation costs deducted from the value.

Additionally, gathering costs should be allowed. Gathering costs are a portion of the total cost of moving oil and/or gas to the market. Gathering bears no relationship to treating or preparing the commodity for market; a procedure, the cost of which, is not included in transportation allowances. It is simply another aspect of transporting the commodity to market. Most purchasers of oil and/or gas decrease the price they will pay the producer by an amount necessary to recover the cost of building the gathering line. Gathering costs should be included in the transportation allowance.

5. Page 3755 section (3)(g) provides that no cost will be allowed for oil transportation which results from payments (either volumetric or for value) for actual or theoretical losses. This

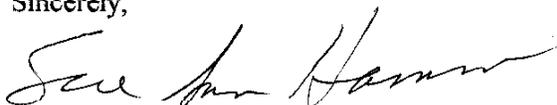
subsection should be deleted. In all tariffs for transportation of oil or gas there exists a line loss deduction. This is a real charge to the transporter. The MMS should bear its proportionate share of this cost.

6. Considering the large volume of oil owned by the MMS, and the immense amount of administration requirements for a rule such as that proposed, it is suggested herein that the MMS research the possibility of taking its oil in kind and marketing it.

In Canada, the Crown takes its oil in kind, and then takes bids from other producers to market its oil. The producers chosen have their own production in the same area as the Crown oil which they contract to market. They then market the Crown oil along with their own oil. In effect, the two ownerships are commingled as far as marketing goes. In this way, the MMS could take advantage of the various special arrangements producers are able to secure for their own oil. Additionally, if the MMS were marketing its own oil, or contracting with another company to market its oil, it would be assured of receiving market price.

I recently spoke with Don Olyneck of the Department of Energy for Canada and he advised me he had discussed with members of the MMS Canada's program for sale of the Crown's oil. I would be more than willing to locate additional information regarding Canada's program. This program has considerable merit and could very well be implemented in the United States. Please let me know if I may be of additional assistance in this manner.

Sincerely,



Sue Ann Hamm
Vice-President, Crude Oil Marketing