April 27, 1999

Mr. David S. Guzy
Chief, Rules and Regulation Staff
Minerals Management Service
U.S. Department of the Interior
P. O. Box 25165 - MS 3021
Denver, CO 80225-0165

VIA FAX: 303-231-3385 -- CONFIRM BY EMAIL AND FIRST CLASS MAIL

Re: Minerals Management Service Crude Oil Valuation Rulemaking, 64 FR 12267 (March 12, 1999)

Dear Mr. Guzy:

In response to the referenced notice, CNG Producing Company (CNG) files these comments as follow up to the three workshops held by the Minerals Management Service's (MMS) regarding the MMS' pending oil valuation rulemaking. CNG, an independent producer with substantial production and reserves in the Gulf of Mexico, attended two of the three workshops. Our representative participated in industry's transportation panel.

CNG endorses and adopts the joint comments being filed in this proceeding by the American Petroleum Institute, the Independent Petroleum Association of America, the Domestic Petroleum Council and the United States Oil & Gas Association ("Joint Comments").

Regarding transportation (which is a matter of significant interest to CNG and other independent producers, who are increasingly investing in pipelines and other off-lease facilities), CNG strongly supports scheduling an additional workshop on this topic to fully exchange ideas. We believe comparable arms-length transportation transactions should be the primary basis for setting non-arms-length transportation allowances, as explained in the Joint Comments. However, in cases where there are insufficient arms length transactions, a new methodology must be developed, because the MMS existing methodology is fatally flawed. As Appendix D to the Joint Comments explains, using the Standard & Poor's BBB rate to determine the allowed return on invested capital (debt and equity) is not compensatory and overstates royalty value. The distortion is magnified when income tax effects are taken into account. We are also concerned that the existing MMS methodology does not compensate a facility owner for the use of its capital expended during construction. It is our understanding that the FERC permits such a return to be recovered once the facility is placed into service through use of an "Allowance for Funds Used During Construction".

Moreover, it would be instructive to compare the returns available to regulated gas pipelines and oil/product pipelines under the FERC's cost of service methodology with the rates generated by the MMS methodology. Our informal discussions with the FERC Staff, combined with quick review of recent FERC decisions, indicate that after-tax returns on equity capital allowed by the FERC significantly exceed BBB rates (which are pretax rates). [1] We think this difference further demonstrates the unreasonably low returns on invested capital allowed under the current MMS methodology.

Unfortunately, the brief period allowed for additional comments did not permit the industry group to reach consensus on the precise methodology that should be adopted in cases where there are insufficient arms-length transportation transactions. However, we believe that such a consensus is achievable and could be presented at an additional workshop on transportation issues. We also believe including representatives of the FERC at the table at the workshop would be helpful in attempting to reach expeditious and satisfactory resolution of transportation issues.

CNG very much appreciates the significant resources MMS is committing to work with industry 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

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[1] *See* Transcontinental Gas Pipe Line Corporation, Opinion No. 414-A, 84 FERC §61,084 (1998); Transcontinental Gas Pipe Line Corporation, Opinion No. 414-B, 85 FERC §61,323 (1998), Mobil Oil v. SFPP, L.P.; Tosco Corp. v. SFPP, L.P., Opinion No. 435, 86 FERC 61,022 (1999).

cc: Lucy Querques Denett
Associate Director, Minerals Management Service