Coastal
The Energy People

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VICE PRESIDENT & DIRECTOR OF
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Via E-Mail
(David_Guzy@mms.gov)
and
Via Federal Express
Mr. David S. Guzy, Chief
Rules and Publications Staff
Royalty Management Program
Minerals Management Service
U.S. Department of the Interior
Building 85, Room A613
Denver, Colorado 80225

RE: Proposal Rule Published in the Federal Register of January 5, 2000 (65 FR 403) Valuation of Crude Oil Produced on Indian Lands

Dear Mr. Guzy:

On behalf of Coastal Oil & Gas Corporation, ANR Production Company, CIG Exploration, Inc., Coastal Oil & Gas USA, L.P. (hereinafter "Coastal"), I am writing to offer comments to the proposal on valuation of crude oil produced on Indian lands, published in the Federal Register on January 5, 2000, beginning at page 403. Coastal is a medium sized oil and gas producer with a portion of its production located on Indian Leases. I would like to express Coastal's appreciation for our opportunity to comment on the proposed rule.

This Indian Oil Valuation Proposal parallels, to a great extent, the December 30, 1999 Crude Oil Valuation Proposal on Federal lands. It also contains many aspects of the February 12, 1998 MMS Notice of Proposed Rulemaking to amend the current Federal regulations concerning valuation of crude oil for royalty calculation purposes on Indian Leases. Even with these similarities, the proposed rule for Indian oil royalty valuation is more complicated and more difficult to administer than the proposed rules for royalty valuation on Federal Leases.

With this in mind, these comments incorporate, by reference: (i) the January 30, 2000 joint association comments and the January 28, 2000 Coastal comments on the Federal lands crude oil valuation proposal; and (ii) API's May 11, 1998 comments and Coastal's May 12, 1998 comments on the MMS' prior Indian lands oil valuation proposal.

As reflected in prior API and Coastal comments, the following is of continuing concern:

1. Coastal strongly objects to the proposal that there exists a duty to market free of charge.

2. Coastal objects to the reliance of crude oil spot prices. Coastal believes that comparable sales, tendering, or other measures of value are better suited to arriving at the value of production than the use of a downstream index.

3. Coastal opposes the proposed use of the 75th percentile as the gauge for major portion analyses. Using 75th percentile as the gauge for major portion in itself leads to an inflated royalty obligation on the producer.

4. To require comparisons for royalty computation is administratively exceedingly burdensome. Furthermore, a three-tiered approach to valuation which requires a measurement of the highest of gross proceeds, the average daily high spot prices or the major portion analysis necessarily leads to an inflated royalty obligation.

5. Although the proposed amendment of Form MMS-4416 limited reporting to Indian Leases, the form would still require all purchasers (not just lessees) to report the required data even though they may never have any direct contact with a tribe.

For these enumerated reasons and those other reasons contained in the comments which have been adopted herein, Coastal urges the MMS to conduct an analysis of the effects, impacts and economic consequences of the proposed rule. In addition, Coastal requests that the MMS alter the rule so as to adequately remedy industry's concerns as enumerated herein and as referred to in the referenced comments.

Respectfully submitted,

COASTAL OIL & GAS CORPORATION
ANR PRODUCTION COMPANY
CIG EXPLORATION, INC.
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By William G. Laughlin

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