PHOENIX PRODUCTION COMPANY

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May 5, 1998

MAY 1998 RECEIVED

Mr. David S. Guzy
Chief, Rules and Publications Staff
Minerals Management Service
Royalty Management Program
P.O. Box 25165, MS 3021
Denver, Colorado 80225-0165

Re: Notice of Proposed Rulemaking for Royalty
Valuation of Oil from Federal and Indian Leases
63 Federal Register No.29 2/12/98

Dear Mr. Guzy:

This letter is written in response to the Minerals Management Service proposed rulemaking for changing the method of determining oil value for royalty due on Indian leases.

Phoenix Production Company is a small independent Company with significant oil and gas production on the Wind River Reservation in Wyoming. During March 1998, our Company produced 4951 barrels of oil from those tribal leases. This oil was purchased under an arms-length contract with one purchaser and federal royalty and state taxes were based on the *total value received at the wellhead* from that purchaser. In order to obtain the highest possible price for our Company, our working interest owners, and our royalty owners, Phoenix has historically aggregated our oil production volumes from all of our properties, and we have solicited annual price bids on this oil from all of the area purchasers. Through our competitive bidding process, Phoenix Production Company is confident that we are receiving the highest possible wellhead price.

As a measure of the potential financial burden of these proposed rules to our Company, we compared the royalty and taxes from the $8.22 per barrel actual oil price received with the $15.04 average Nymex spot futures price for March, 1998. The difference between the actual received price at the wellhead and the speculative Nymex price *was $6.82 per barrel.* Based on the actual price received at the wellhead, Phoenix paid royalties of $6134.75, Tribal severance taxes of $2860.64, and Wyoming Severance and conservation taxes of $1812.07. This was 27% of the proceeds Phoenix received, and it does not include an additional approximate 8 % Fremont County ad-valorem tax. Based on the $15.04 per barrel speculative price, Phoenix would have been required to pay royalties of $11,215.12, and assuming all other taxes remain constant, the total royalty and tax burden would increase to 63% of revenues actually received.

That potential size of the burden is excessive, and it does not allow Phoenix enough remaining percentage of the oil revenues to pay operating expenses, to receive a fair profit and return on investment, and to provide cash to develop additional reserves on these Tribal lands.

In summary, it is our strong belief that Phoenix is presently achieving the maximum possible royalty value on these Indian lands based on actual value received at the wellhead. These lands already have additional royalty and tax burdens when compared to normal Federal lands, and any additional royalty costs would make continued producing operations very unattractive. If the Minerals Management Service must institute change, then it is our recommendation that the MMS take these oil royalty barrels in-kind rather than place any more burdensome regulations on our Company and on our industry.

Very truly yours,

Robert McDougall

Robert E. McDougall, P. E.
President

cc: The Honorable Craig Thomas
United States Senator
109 Hart Senate Office Building
Washington, D. C., 20510

The Honorable Michael B. Enzi
United States Senator
Russell Senate Building
Washington, D. C. 20510

The Honorable Barbara Cubin
United States Representative
1114 Longworth House Office Building
Washington, D. C. 20515