

From: Knueven, Paul
Sent: Monday, April 07, 2003 6:18 AM
To: Brozovich, Thomas; Hubbard, David A
Cc: Gebhardt, Sharron
Subject: FW: Comments to the public workshops regarding MMS oil rule.

fyi

-----Original Message-----

From: Mike Geesey
Sent: Friday, April 04, 2003 4:11 PM
To: Knueven, Paul
Cc: Chris Boswell; Pat Crank
Subject: Comments to the public workshops regarding MMS oil rule.

April 4, 2003

Mr. Paul Knueven
Minerals Management Service
Minerals Revenue Management Program
P.O. Box 25165, MS 320B2
Denver, CO 80225-0165

Via email: Paul.Knueven@mms.gov

Dear Mr. Knueven:

Thank you for the opportunity to supplement our comments to the public workshops discussing specific issues regarding the existing oil rule. We agree with the Mineral Management Service that "the oil rule is working well and accomplishing its objective." We see no need to revise the current rule, if it is working well and accomplishing its objective. Please find listed below our comments on each issue.

Timing /use of published indices

We would like to emphasize up front that if companies have affiliate sales, which lead to an arms-length down stream sale by their affiliate, then the arms-length down stream sales price should remain the basis for royalty payments.

NYMEX could be used for valuing all crude oil, where the use of an index is appropriate. Using the calendar month rather than the trading month would simplify its use. NYMEX is widely referenced by traders, and

representatives, and is more reflective of the market. NYMEX is less susceptible to manipulation in the same way price surveys have been manipulated, as we have seen recently in some well-published cases.

Calculating Location -Quality Differentials

Differentials should only be allowed if they are reasonable and actually incurred. No theoretical costs, and only actual reasonable cost should be allowed.

Wyoming southwestern sweet crude frequently have a NYMEX plus differential. The demand of the Salt Lake City refineries have a positive influence on that regional differential, such that the preference for southwestern sweet crude results in selling price greater than NYMEX (i.e. NYMEX P+). In these situations the differential will be positive.

Allowable Transportation Costs

The current regulations under C.F.R. 206.110 and 206.111 already determine the allowable transportation cost deductions. No changes to the CFR are needed for transportation cost. The CFR adequately defines such cost and covers all necessary cost deductions. MMS should not allow any indirect deductions for transportation. Most of the deductions being discussed appear to be relabeled marketing costs. MMS has a long-standing policy of not allowing either direct or indirect marketing costs. We see no reason to change current detailed transportation allowance.

Rate of Return

The Rate of Return was a well-litigated issue between industry and the MMS and we see no reason to make any modifications to the current rate, add any factor, or otherwise reopen this issue.

Joint Operating Agreements

MMS has stated that Joint Operating Agreements (JOA) are not a problem, and so no revision is necessary.

Michael Geesey
Director, Wyoming Department of Audit