



CREEL & ASSOCIATES, INC.

OIL & GAS CONSULTING SERVICES

1400 Broadfield Boulevard, Suite 325

Houston, Texas 77084

(281) 752-4400 www.creelus.com Fax: (281) 589-6003

Armand Southall
Regulatory Specialist -- MS61030A
Office of Natural Resources Revenue
P.O. Box 25165
Denver, CO 80225-0165

Re: Comments on proposed rule for Takes vs Entitlements

Dear ONRR,

I appreciate the opportunity to comment on the ONRR Proposed Rule for payment of Federal Royalties.

My comments are specific to OCS-G leases, where Operators and Producers market their respective volumes of gas from a common sales meter, and where more than one lease is commingled with other leases.

Offshore Gulf of Mexico, most if not all Producers and Operators market their own gas (controlled working interest). This creates gas imbalances. The ONRR has repeatedly told Industry that ONRR does not want to become "entangled" in gas imbalances, so much so that when the R-I-K settled its gas imbalances, they settled on Entitlement basis.

When more than one lease gas is commingled and sold through one common gas sales meter, Entitlement basis is the only true way to pay the ONRR the correct lease royalty each month. Entitlement basis keeps ONRR whole each month, regardless of what Producer or what Operator's gas imbalance is. Not only does the Entitlement basis keep ONRR whole, the auditing process is greatly simplified.

ONRR audit group, on the basis of Entitlement, can take the Operators OGOR B gas sales volume, take each Producer/Operator's working interest and compute if any over or under payments/reporting were made. Simple, effective and accurate.

Takes basis for paying royalties will not always keep the ONRR whole. On some commingled leases where common ownership is shared, takes basis can keep the ONRR whole.

However, on the majority of OCS-G leases where more than one lease is commingled and non-common ownership among the leases, takes basis will not keep ONRR whole, period. It is mathematical impossible to keep ONRR whole on takes in this situation.

Therefore my comments to the ONRR is to accept and publish new rules that in offshore leases, with more than one commingled lease, entitlement basis is the basis to report and pay royalties to the ONRR.

As always, I will open my doors to meetings with ONRR staff to go over these comments, show you actual real commingling situations that are current that support the Entitlement basis per my comments.

Thank you in advance for your consideration of my comments.

Respectfully,



Barry L. Creel
President / CEO