



July 31, 1997



SUPPLEMENTAL COMMENTS

**Department of the Interior
Minerals Management Service**

**Supplementary Proposed Rule
for Establishing Oil Value
for Royalty Due on Federal Leases
and on Sale of Federal Royalty Oil**

**July 3, 1997
62 Federal Register 36030**

Minerals Management Service
Royalty Management Program
Rules and Procedure Staff
Building 85, Denver Federal Center
Denver, Colorado 80225

VIA OVERNIGHT COURIER

Attn: David Guzy, Chief
Rules and Procedure Staff

Dear Mr. Guzy:

In response to the subject notice of Supplementary Proposed Rule, Coastal Oil & Gas Corporation, ANR Production Company, CIG Exploration, Inc., and Coastal States Trading, Inc. (collectively **Coastal**) offer the following Supplemental Comments:

I. COASTAL

The Coastal Corporation is a diversified energy company with consolidated assets of over \$11 Billion. The Coastal Corporation has operations in oil and gas exploration and production, natural gas transmission and storage, natural gas marketing, crude oil refining and marketing, coal, chemicals, trucking, and power generation.

The Coastal Corporation

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II. BACKGROUND

The Minerals Management Service (**MMS**) published a Notice of Proposed Rulemaking on January 24, 1997 (62 *Fed Reg* 3741) to amend the current Federal royalty crude oil valuation regulations (30 *CFR* Part 206) (the **Proposed Rules**). The period for filing written comments (originally only 30 days) was finally extended to April 28, 1997.

Numerous petroleum industry groups, representing thousands of Federal lessees, including, but not limited to, the American Petroleum Institute (API), the Domestic Petroleum Counsel (DPC), the Independent Petroleum Association of America (IPAA), the Council of Petroleum Accountant's Societies (COPAS), the Independent Petroleum Association of Mountain States (IPAMS), and the Rocky Mountain Oil & Gas Association (RMOGA), filed written comments on the Proposed Rules. In addition, over 35 individual oil and gas exploration and development companies and crude oil trading companies, including Coastal, also filed written comments on the Proposed Rules (**Comments**).

In summary, the Comments requested the MMS to withdraw the Proposed Rules on the grounds that: (i) the NYMEX price was not a valid indicator of value at the lease; (ii) the Proposed Rules were a radical departure from present lease terms and past practices; (iii) there was no legal or factual support for the radical changes; (iv) it unlawfully moved the valuation point to a place far removed from the lease; and (v) it was overly complex and would be expensive and burdensome to administer. As a permanent solution for Federal royalty oil valuation, the Comments suggested that the MMS take Federal royalty oil in-kind instead of in-value. While the MMS prepared to take its royalty oil in-kind, it could make minor changes to the present valuation rules, as outlined in the Comments, which would address its concerns over posted prices without changing the whole valuation system.

On July 3, 1997, apparently without reading any of the Comments, and certainly without addressing any of the major problems with the Proposed Rules pointed out in the Comments, the MMS published the subject notice of Supplementary Proposed Rule (**Supplementary Rule**) based only upon selected statements made at two public hearings. The period for filing written comments on the Supplementary Rule is only 30 days (until August 4, 1997).

III. COASTAL'S POSITION

- A. For the reasons stated in its original written comments, filed on May 27, 1997, Coastal remains opposed to the Proposed Rules, even as amended by the Supplementary Rule.
- B. Coastal is an active member of the IPAA, and Coastal endorses and adopts, in addition to its own Supplemental Comments, the joint Supplemental Comments of the IPAA and the DPC, which have been, or will be, filed in this matter.
- C. Further, Coastal endorses and adopts, in addition to its own original written comments and its Supplemental Comments, the Comments of:
 - 1) The API, and in particular, the report of the Barents Group, attached thereto
 - 2) RMOGA
 - 3) IPAMS, and
 - 4) COPAS

IV. CONCLUSION

Based upon the many reasons stated so clearly and eloquently in the Comments, Coastal again urges the MMS:

- A. To withdraw the current Proposed Rules and Supplementary Rule.
- B. As a permanent solution to Federal royalty oil valuation, to adopt a fair and realistic royalty in-kind program that will eventually eliminate the necessity for all such rules (and all the interpretation, application, compliance, and enforcement problems associated therewith); and
- C. As an interim solution, to work with the various Petroleum Industry groups mentioned above to develop lawful, realistic, workable, and fair valuation rules that (i) address the real or perceived problems with the present Federal royalty

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oil valuation rules, and (ii) truly bring more certainty and less complexity to the valuation process for both Industry and the MMS. The MMS should begin this process by reading and analyzing the Comments and supplemental comments filed in this matter by the people who are acknowledged to have the most experience and knowledge in the crude oil market - the Petroleum Industry, various individual oil and gas companies, and crude oil traders.

Sincerely,



Robert G. Teeter
Senior Staff Attorney
Natural Resources Law Department