QEP Resources, Inc.

180 East 100 South
P.O. Box 45601
Salt Lake City, UT 84145-0601

Douglas K. Pehrson
Direct Line: (801) 321-1350
E-Mail: doug.pehrson@qepres.com

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VIA FEDERAL EXPRESS

Hyla Hurst
MS61013C, Building 85,
Room A-614, Denver Federal Center
West 6th Avenue and Kipling Street
Denver, Colorado 80225

Re: Docket No. ONRR-2011-0005 – Advanced Notice of Proposed Rulemaking - Federal Oil and Gas Valuation – RIN 1012-AA01

Dear Ms. Hurst:

QEP Resources, Inc. submits the following comments regarding the Advanced Notice of Proposed Rulemaking for existing regulations governing the valuation of oil and gas from Federal oil and gas leases for royalty purposes published in the Federal Register on May 27, 2011.

A. Use of Index Prices to Value Oil and Gas

Question: The ONRR is seeking comment on the existing use of index pricing to determine the value of production for oil royalty purposes and whether the use of index pricing should be expanded or altered. Additionally, the ONRR is considering the use of index pricing in valuing Federal gas for royalty purposes.

Comment: Our view is that index prices fairly represent the value of oil and gas produced. This observation is made understanding that an index price is not indicative of the actual price each producer receives for its oil and gas. As a result, moving to an index price to value oil and gas for royalty purposes will result in a producer hypothetically underpaying or overpaying royalties relative to its actual sales price unless the producer sold its production for the index price (ignoring actual arms length sales).

Question: We also seek input on whether value should be based on first-of-month prices, daily spot prices, or some mixture of the two when considering the use of index prices.

Comment: In considering the use of index prices, we oppose using a daily price index given the variations that occur in daily prices compared to the monthly index price.

B. Transportation Allowances

Question: If ONRR employed index prices to value federal oil and gas for royalty purposes, what method should be considered that would adjust for location differences between the lease or unit and the index pricing and publication point?

Comment: Our view is that value is accurately reflected by using a location differential. Location differentials will need to be frequently updated by ONRR.

C. Processed Gas and Processing Allowances

Question: The ONRR is considering accounting for the value of liquid hydrocarbons contained in the gas stream by applying an adjustment or "bump" to the index price, applicable to residue gas when gas is processed, in lieu of valuing residue gas and extracted liquid products separately, calculating the actual processing costs, and deducting those costs from the value of the extracted liquids. This adjustment could be based on, or could incorporate, a number of components including the following:

- *Gas quality (either Btu content or gallons per Mcf (GPM)).*
- *The differential between the gas price and the oil and natural gas liquids (ngl) price similar to a "frac spread" or "processing margin."*
- *Certain plant operation factors, such as shrinkage, producer or processing costs, and plant operations costs.*

Comment: The situations and valuation regarding natural gas liquids (NGL) vary greatly and do not lend themselves to a standard valuation methodology. Valuation of NGLs should be based on actual NGL value received by a producer, if any, less an appropriate processing fee allowance. Any "adjustment" would have to take into account both processing fees and the plant fuel charges incurred. It is most important that the actual cost of processing necessary to create valuable liquid hydrocarbons be deducted before calculating royalty value. This factor raises a number of issues which will require more detailed case-by-case treatment in any rule-making including, without limitation, i) the individual producer's processing contract terms (if any), ii) whether an individual producer's gas is actually being processed, iii) whether an individual producer is entitled to receive liquids recovered in processing, iv) recognition of the reduced gas volume/btu value after processing, and v) the producer's gross proceeds on a btu-adjusted basis if it has no contractual right to share in liquids values. The ONRR must also maintain provisions for extraordinary processing allowances in the event this adjustment is used.

QEP Resources appreciates the opportunity to comment.

Sincerely,

Douglas K. Pehrson
Senior Corporate Counsel

cc: E. L. Dady
J. B. Neese
S. Schultz

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