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May 29, 2003

Minerals Management Service  
Attn: Mr. Paul Knueven  
P. O. Box 25165  
Mail Stop 320B2  
Denver, CO 80225

**RE: Proposed Revision of Gas  
Royalty Valuation Regulations**

Dear Mr. Knueven:

We recently attended an MMS workshop on the referenced topic in Houston, TX on April 29, 2003. Via this letter, we wish to submit Stone Energy's comments with respect to the proposal to allow lessees to apply natural gas index prices to wellhead gas volumes, thereby eliminating the current requirement of tracing gas which is processed to remove natural gas liquids.

In the current marketing environment, transporting pipeline companies require producers to process their gas. Producers receive most information regarding processing as much as three months after royalty on residue gas is due. This practice results in constant revision of royalty lines. The administrative burden associated with this requirement could be substantially reduced if MMS eliminates the requirement for tracking and reporting natural gas liquids.

However, one recommendation that we would like to make with respect to producers who sell under arm's length transactions, would be to allow the use of the gross proceeds method of reporting volumes and values rather than the proposed use of index prices. This would allow the aggregate of all proceeds (gas and liquids) and associated costs related to residue gas, liquids, and processing to be reported on one line with associated wellhead gas volumes. This would eliminate multiple line reporting and allow MMS to easily reconcile gas volumes to those reported on the OGOR reports.

We believe the gross proceeds method is the best reflection of value with respect to gas sold under arm's length transactions. MMS would receive its share of revenues based on what is received by the producer.

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We appreciate the opportunity to provide comments on this evolving topic. Please advise if we can provide additional information or assistance.

Sincerely,

A handwritten signature in cursive script, appearing to read "Santo Giordano".

Santo Giordano  
Assistant Controller

Attachment

