



WALTER OIL & GAS CORPORATION

November 11, 2003

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Sharron L. Gebhardt
MMS, Minerals Revenue Management
Building 85, Room A-614
Denver Federal Center, MS 320B2
Denver, CO 80225-0165

**RE: Mineral Management Service Federal Oil Valuation Proposal,
30 CFR Parts 206 and 210, 68 FR 50087 (Aug. 20, 2003)**

Dear Ms. Gebhardt:

Walter Oil & Gas Corporation ("Walter"), an independent oil and gas producer and lessee of numerous Federal leases, offshore, the Gulf of Mexico respectfully submits the following comments on the Minerals Management Service ("MMS") August 20, 2003, Federal Oil Valuation proposal ("Proposal"). Walter is an active member of the Independent Petroleum Association of America and the U. S. Oil and Gas Association and a participant in the Royalty Strategy Task Force, a coalition of these two and other industry trade Associations. Walter fully supports the written comments, which the Royalty Strategy Task Force will be submitting. However, we wish to provide additional comments on certain specific parts of the Proposal.

Following the precedent established by the 2000 Oil Valuation Rule for non-arm's length and certain other specific transactions wherein the point of valuation was moved from the lease premises to a downstream trading ("Market Center") location, the Proposal moves the point of valuation further downstream to Cushing, Oklahoma ("Cushing") while continuing to employ the intermediary Market Center locations for grade, quality and locational price differentials. There should be no misunderstanding, the Proposal does not simplify but rather adds an additional layer of complexity to the valuation procedure. Walter can support this additional step provided it is able to physically transport and/or secure exchange arrangements that provide for its Gulf of Mexico oil production to be sold directly in Cushing and to deduct all transportation and related costs incurred that it does not incur when the oil production is sold and valued at or near the lease premises under arm's length transactions.

1. New York Mercantile Exchange ("NYMEX") light, sweet crude oil futures contract pricing.

The Proposal calls for the light, sweet crude oil futures prompt month contract traded on the NYMEX to be the basis for valuing oil royalty produced in the Gulf of Mexico for non-arm's length transactions. The Proposal provides that during a Calendar Month the

average of the NYMEX settlement prices for the prompt month contract for each trading day during that respective month will be the starting point for royalty valuation for oil produced that month.

A. Roll.

Since the particular prompt month NYMEX futures contracts traded during the respective production month (two sequential contracts during each calendar month) do not correspond to the month of production, a mechanism referred to by the industry as the "roll" is employed to account for this timing inconsistency. The roll is an arithmetic calculation which attempts to adjust for price differentials resulting from the timing differences between that respective month of production and the delivery months of the two prompt month futures contracts traded during the respective production month. Had the MMS chosen to utilize the respective prompt month futures contract that coincides with the respective production month no roll calculation would be necessary. The roll calculation is not directly influenced by the location and/or quality of lease oil production, which are typically accounted for by specific Market Center versus Cushing published value differentials and/or specific transportation and locational exchange transactions. Whenever Calendar month NYMEX pricing is utilized to value oil regardless of its domestic location, a roll calculation is employed. In calculating the roll, the Proposal utilizes a mathematical formula which uses two multipliers (.6667 and .3333), which have been widely used within the industry to approximate the number of days the first prompt month futures contract (month subsequent to the calendar month of production) and second prompt month futures contract (second month subsequent to the calendar month of production) trade during the calendar month of production. However, current trend within the industry is to move away from these fixed multipliers for every month and instead use a multiplier based upon the actual number of trading days that the first and second prompt month futures contracts respectively trade during the calendar month of production. Thus for example production during November 2003, the roll multipliers would be 14/18 and 4/18 respectively.

B. Holidays and Weekends

Although oil production typically occurs every day, the NYMEX trades Monday through Friday and does not trade on certain holidays. Prevailing industry practice is to utilize only the prices for actual trading days in the Calendar monthly average calculation. The Proposal should do the same.

2. Transportation Costs

A. Quality and Exchange differentials.

Where lessees and/or their affiliates have arm's length trade differentials between a Market Center and Cushing they should be afforded the option of using those transactions or an option to elect to utilize the published daily price assessments for the respective Market Center versus West Texas Intermediate ("WTI") Crude Oil at Cushing.

B. Specific Quality differentials – Sulfur.

The Proposal does not adequately compensate for different sulfur content when a pipeline and/or Market Center quality bank is not available. For those instances Walter recommends the Proposal use of a market based quality bank system similar to that utilized by Exxon Mobil Pipeline Company's Hoover Offshore Oil Pipeline System (HOOPS), which it believes to be the most representative assessment of spot market sulfur differentials.

C. Specific Transportation Costs.

As indicated in our opening comments the Proposal in moving the point of valuation from the lease premises to Cushing should be fair and equitable and allow for the deduction of all transportation and related costs incurred by the lessee in transporting and/or exchanging the oil production from the lease to Cushing that the lessee does not incur when oil production is sold at or near the lease under an arm's length transaction. If the Proposal does not allow for the deduction of these additional incurred costs, the lessee will be harmed by incurring additional costs required by the Proposal resulting in a higher royalty value paid to the MMS.

While the Proposal enumerates several "acceptable" costs it eliminates several costs incurred by Walter. When Walter and/or its affiliate transports and sells oil production at Cushing it must employ a "scheduler" whose function is to schedule and monitor all pipeline and/or barge movements, evaluate and manage all required pipeline and terminal inventory balances and exchange balances/imbances. When Walter sells production at or near the lease under an arm's length transaction this function is not required. All respective scheduling costs incurred downstream of the lease should be deductible including directly allocable personnel costs. In affecting transactions at Market Centers and Cushing, these Market Centers and/or their contracted agent (ODS, etc.) assess a fee for the physical movement of oil through the respective facility. These fees are likewise not incurred when oil is sold at or near the lease and therefore should be fully deductible.

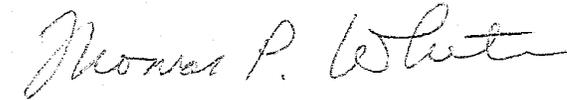
As a privately owned company operating in the Gulf of Mexico, Walter and its affiliates may be somewhat unique. Unfortunately, with our privately owned status, we are required in many instances to provide letters of credit and/or financial guarantees to pipeline companies and exchange partners in order to transport and exchange lease oil production to Market Centers and Cushing. These are very real and substantial costs incurred and believe they should be fully deductible.

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It should be apparent that the MMS in the development and presentation of the Proposal does not fully understand nor comprehend the basis for and mechanics of the roll calculation. Furthermore, this additional layer of complexity will, in our opinion, not result in fewer disagreements concerning oil royalty valuation between industry and the MMS. The continuing disharmony over valuation principles only adds additional support to the continuing need for an ongoing and permanent RIK program, especially in the Gulf of Mexico.

Regards,

WALTER OIL & GAS CORPORATION

A handwritten signature in cursive script that reads "Thomas P. White".

Thomas P. White
Director -- Oil Marketing