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FEB 1996
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February 5, 1996

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Comments on Proposed Regulations
Amendments to Gas Valuation Regulations for Federal leases

I am writing on behalf of Meridian Oil Inc. to offer our comments on the Amendments to Federal Gas Valuation Regulations, published in the *Federal Register* on November 6, 1995 at page 56007. Meridian is one of the largest producers of natural gas from federal lands in the continental United States and also operates a number of blocks on the Outer Continental Shelf.

We appreciate this opportunity to offer our comments on the proposed rule, and also want to take this opportunity to thank the Minerals Management Service for its willingness to participate in this and other negotiated rulemakings. Having personally attended most of the Negotiated Rulemaking Committee's meetings, I know that this was a very long and difficult process requiring a great deal of personal sacrifice on the part of its members. All of those who served on the Committee are to be commended for their efforts.

In general, Meridian believes that the proposed rule, as agreed to by the Committee, achieved many of the Committee's initial objectives. The option for a lessee to value royalties for natural gas using published index prices holds the potential of significantly simplifying the royalty reporting function and expediting the auditing process, benefiting not only industry but the states and MMS as well.

However, Meridian has concerns about some parts of the rule as it is published, and offers the following specific comments on those issues:

- **Section 206.456(a)(2) -** We like the idea of drawing a "bright line" regarding the deductibility of compression costs in order to simplify the rule and reduce the number of future disputes. However, we feel drawing the line at the facility measurement point (FMP) unfairly disadvantages some producers who have a substantial amount of compression which is clearly used for transportation but resides upstream of the FMP. We ask MMS to consider moving the line of definition to the point of first separation, which would conform to MMS's own definition of transportation.

- **Section 206.454(a)(6)** - The issue of contract settlements was not addressed in the Committee's report; thus, the language contained in this section of the proposed rule should be deleted.

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- **Section 206.454(e) Additional Royalty Obligations** - Meridian urges the MMS to closely monitor the necessity for the "safety net" and "true-up" procedure described in this subsection. We believe it to be self-evident that the published index prices are indicative of the market value for gas in a given area and that this procedure will only serve to confirm that to be the case. Thus, we question the wisdom of requiring MMS to dedicate the extremely large amount of resources and money that will undoubtedly be necessary to perform this exercise.

  Meridian also believes that this subsection is one of the major complicating factors which prevents the proposed rule from achieving the Committee's stated goal of simplicity. Meridian suggests MMS review the results of the process at the end of the first cycle, and each subsequent cycle thereafter, to determine whether the benefits received from the exercise outweigh the costs of performing it.

- **Section 206.454(e)(6)** - MMS requests comments on the appropriate consequences should MMS fail to publish the final safety net value within the two-year time frame specified in this paragraph. The rule as published in the *Federal Register* does not appear to be optional: "MMS will publish in the *Federal Register* the final safety net value within two years following the end of the calendar year." Thus, Meridian's comment is that if MMS fails to meet this deadline it is in non-compliance with its own regulation. The obvious consequence is that there is no safety net value under this circumstance, and the payor's index valuation becomes final.

- **Section 206.454(g) Zone Determination** - Meridian believes it is short-sighted for the rule to make no attempt to consider unconventional, non-standard or unique production in its criteria for determining the zones for index valuation. We also feel it is unfortunate that the Committee was not even allowed to hold a full, rational discussion of the issue during its deliberations.

  The failure to deal with this issue will reduce the rule's effectiveness, because it will lessen the number of payors who select the index option in areas that have a high percentage of unconventional production, such as the San Juan Basin. It seems to us that MMS's goal should be to have a rule which would encourage, not discourage, the use of the simpler index option.

Again, we thank you for the opportunity to offer these comments. If you have any questions, please call me at (817)347-2354.

Sincerely,

David Blackmon
Coordinator, Regulatory Compliance