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January 31, 2000

Lucy Querques Dennett
Associate Director, Minerals Manager Service
United States Department of the Interior
1849 C Street, NW
Washington, DC 20240

Re: Minerals Management Service Crude Oil Valuation Rulemaking
64 FR 73820 dated December 30, 1999

Dear Associate Director Dennett:

These comments are submitted on behalf of Eighty-Eight Oil LLC. Eighty-Eight Oil LLC is not a producer of crude oil, but rather is engaged in marketing crude oil, principally engaging in purchases at the lease, selling the crude oil to refiners and other marketers. Its business is conducted principally in the Rocky Mountain Region as defined in the proposed Minerals Management Service Regulations. Eighty-Eight Oil LLC is affiliated by common ownership with an active oil and gas exploration and production company.

First, Eighty-Eight Oil LLC supports the comments submitted jointly by the American Petroleum Institute, the Domestic Petroleum Council, the Independent Petroleum Association of America, and the U.S. Oil & Gas Association. We do have one point regarding those comments, however, which is more fully addressed below.

The joint industry group comments note that industry accedes to the elimination of posted prices. We concur completely that posted prices should not be used exclusively to establish crude oil valuation for royalty purposes. Please understand, however, that posted prices remain a crucial component in establishing crude oil value in the Rocky Mountains. Posted prices play a significant role in handling gravity differences, and nothing suggests that any other tool will replace postings in crude oil transactions in the Rocky Mountains in the foreseeable future. In short, postings should not be used exclusively to value production, but they, along with any bonuses and adjustments that are paid, do establish the price paid for crude oil in the Rocky Mountains.

As far as the proposed regulations themselves are concerned, we have one area of interest, and one point of interest.

The area of interest involves the purchases of our affiliates' federal royalty oil which result in valuation issues. All of the oil involved is purchased in the Rocky Mountain area, and we believe Section 206.103(b)(2), as we understand it, will be workable. We do believe that a fifty percent threshold is too high, and the methodology utilized to arrive at that figure is unfounded. We also believe a figure more in the neighborhood of thirty percent would be appropriate and fair. Key to the workability of the proposal in Section 206.103(b)(2) for Eighty-Eight Oil LLC is the "area" definition which could be more prescisely defined. The concept used in the definition of area should be maintained

The point of interest is one area of the Summarized Discussion of the Proposed Rule, which deserves comment in our minds. It is contained in the discussion on page 73825 and covers situations where the operator sells production on behalf of non-operating working interest owners.

We often, as purchaser, see situations where the operator holds what we refer to as the "basic division order." In those situations, we pay the operator not only for their oil, but also for the oil of the other working interest owners who are selling to Eighty-Eight Oil LLC. Some operators insist on this arrangement, especially with working interest owners who have a small capital base, or with interest owners encountering financial problems. Our affiliate frequently does the same for leases it operates. The reason for this step is so that the operator can insure that it is paid joint interest billings which are owed by working interest owners. Simply put, the operator receives the gross proceeds, and deducts the operating costs. Then, if they have not been paid by the purchaser, the operator pays royalty burdens and taxes, and distributes the net to the working interest owners. The operator is not buying the oil. Royalties are based on the proceeds paid by the purchaser, in our case Eighty-Eight Oil LLC. A working interest owner can pull its oil at any time from this type of arrangement and sell it to some other purchaser as specifically provided in most, if not all, form joint operating agreements.

The key to this arrangement for the Minerals Management Service in our estimation is to look at who is buying the oil and who is ultimately being paid for the oil. If those entities are not affiliated, the transaction is arms' length. Do not be misled by situations where an operator appears in the middle and is paid by the purchaser, even if the operator is an affiliate of the purchaser. Strong business policies encourage that arrangement, and the purchase is still very much arms' length and valuation should be pursuant to Section 206.102 of the proposed regulations. In the case of much of the production in the Powder River Basin of Northeastern Wyoming, secondary recovery operations are in place which are very expensive. It is essential that an operator have the ability to ensure that it is paid for the work it undertakes on behalf of the other working

interest owners to produce the barrel of oil at the surface that Eighty-Eight Oil LLC will ultimately purchase. The described arrangement facilitates that objective, especially in an area where many of the interest owners are small, independent producers.

We acknowledge that our situation with regards to these proposed regulations is somewhat unique. We will not look to any other area besides the Rocky Mountain Region because of the nature of our business, for valuing federal royalty oil. In the case of non-arms' length purchases, we believe the second index feature of Section 206.103(b) is workable. Only time will tell. We appreciate this opportunity to comment. Thank you.

Respectfully,

/ sent via e-mail /

John J. Blomstrom
Eighty-Eight Oil LLC

JJB/seb