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**FILED ELECTRONICALLY**

Minerals Management Service  
Minerals Revenue Management  
Chief of Staff  
P.O. Box 25165  
MS 302B2  
Denver, CO 80225-0165

RE: AD-05 Proposed Revisions to Gas Valuation Rules

Dear Sir or Madam:

Pursuant to the procedural schedule established by the Minerals Management Service (“MMS”) Proposed Rule, published in the Federal Register on July 23, 2004, Cabot Oil & Gas Corporation (“COGC”) hereby submits these Comments on the MMS’ proposal to amend its existing regulations governing the valuation of gas for royalty purposes produced from Federal leases (the “Proposed Rule”).

In the Proposed Rule, the MMS stated that it was considering several proposed revisions to its gas valuation rules, including, among other things, permitting lessees to enter into written agreements with the MMS to establish alternate production valuation methods, establishing a separate definition of “affiliate,” and establishing a new definition of “transportation allowance.” The MMS requested that interested parties submit comments by September 21, 2004.

COGC generally is supportive of the Proposed Rule. In particular, COGC believes that it would be a positive development for the MMS to permit written agreements between a lessee and the MMS Director to establish alternate production valuation methods for Federal gas. COGC also supports the proposal that permits a lessee to deduct unused firm transportation demand charges for transportation allowance purposes.

COGC does have one specific concern with the Proposed Rule. Under the proposal, the definition of “transportation allowance” would be revised to read as follows:

“Transportation allowance means an allowance for the reasonable, actual costs of moving unprocessed gas, residue gas, or gas plant products to a point of sale or delivery off the lease, unit area, or communitized area, or away from a processing plant. The transportation allowance does not include gathering costs.”

COGC believes that the addition of the last sentence, expressly disallowing “gathering costs” is potentially overly restrictive under certain circumstances when one considers the present MMS definition of “gathering.”

At present, the term “gathering” is defined in 30 C.F.R. 206.151 as follows:

“Gathering means the movement of lease production to a central accumulation and/or treatment point on the lease unit or communitized area, or to a central accumulation or treatment point off the lease unit or communitized area as approved by BLM or MMS OCS operations personnel for onshore and OCS leases, respectively.”

Under the foregoing definition of “gathering,” it would appear that long-line, large-diameter pipelines moving gas many miles from “off the lease unit” to a market area could be considered by the MMS to be “gathering” lines, despite the fact that the lines physical characteristics and function more closely resemble transportation activities rather than gathering.

For example, while a two to four-inch diameter pipeline collecting gas production from numerous wells and moving it a quarter or half mile to a central point within a producing unit clearly performs a gathering function under the above definition, an eight to ten-inch diameter pipeline moving gas from a remote producing unit to an interstate pipeline ten, twenty, or thirty miles away performs a transportation, rather than gathering function. If the MMS were to consider this long-line, large-diameter line to perform a gathering function, the MMS would be ignoring the actual function of the pipeline, which is to **transport** gas many miles from a remote production area to the interstate market.

Accordingly, COGC believes that the MMS should, in tandem with the adoption of its proposed new definition of “transportation allowance,” revise its definition of “gathering” as follows:

“Gathering means the movement of lease production to a central accumulation and/or treatment point on the lease unit or communitized area, or to a central accumulation or treatment point adjacent to or in the general nearby vicinity of the lease unit or communitized area.”

COGC submits that the above revised definition of “gathering” makes it clear that “gathering facilities” shall only be those facilities in, adjacent to, or within the general vicinity of the lease unit or communitized area, and that longer-line, larger-diameter pipelines moving gas greater distances to the interstate markets are properly considered transportation lines for purposes of the MMS’ proposed definition of “transportation allowance.” Such a change more accurately reflects the fact that today gas production is more frequently discovered in remote regions far from existing pipeline infrastructure and markets. Pipelines being constructed to bring such remote gas to market perform a transportation, rather than gathering, function, and the costs associated with such transportation should be deductible under the MMS’ proposed definition of “transportation allowance.”

Very truly yours,  
CABOT OIL & GAS CORPORATION

                  /s/ Matthew M. Schreck  
Matthew M. Schreck  
Attorney for Cabot Oil & Gas Corporation