From: Danielle Stockton [petedan@earthlink.net]

Sent: Tuesday, September 21, 2004 4:21 PM

To: MRM Comments

Cc: pogo@pogo.org; Beth Daley

Subject: Comment on proposed rule

attn: RIN 1010-AD05

Sharron L. Gebhardt
Minerals Management Service
Minerals Revenue Management
Chief of Staff
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POGO OPPOSES THE PROPOSED CHANGES TO THE GAS VALUATION RULE

Dear Ms. Gebhardt,

The Project On Government Oversight (POGO) has worked for over a decade to make federal mineral royalty payments more accurate and transparent. The oil valuation rule, as implemented in 2000, went a long way to combat the rampant fraud perpetrated by the oil industry and allowed by a complacent Department of Interior (DOI). The result was an additional $72 million annually going to public school systems, the Land and Water Conservation Fund and the Historic Preservation Fund.

However, the DOI's dramatic increased reliance on Royalty - In - Kind (RIK) programs over the past few years, has significantly undercut the positive steps made through that rulemaking. In 2003, the DOI's Minerals Management Service (MMS) further watered down the oil rule by capitulating to industry's requests for more deductions to their royalty payments. Now industry, along with DOI, is turning to gas royalties. There is no justification for the currently proposed changes other than to yet again accede to industry's wishes to reduce royalty payments to taxpayers.
POGO objects to the proposed gas royalty rule changes. The impact of these changes will be an unnecessary and significant loss in revenue to the federal government. In the Federal Register notice itself, the Minerals Management Service (MMS) acknowledges a net loss of over $5 million annually to the federal government, and a total annual loss to federal and state governments and tribes of nearly $7 million. History has taught us that these are undoubtedly low estimates.

The bulk of these losses are caused by allowing the gas industry to deduct new transportation costs, including costs that are not directly related to operating and maintaining a pipeline. MMS argues in the notice that this new rule is being proposed in order to make the gas rule in keeping with the oil rule. In fact, however, these new deductions were rejected during the very public oil royalty rulemaking of 2000. It was only in the 2003 watering down of that rule that these deductions -- long advocated for by industry -- have been made allowable.

Finally, it does not escape notice that reducing the revenues derived through the gas valuation rule will make it easier for MMS to make it appear that its RIK program is revenue neutral. To the contrary, when compared to the revenues collected through the 2000 oil rule, the RIK oil program is losing money -- even in the "pilot" areas selected by MMS as most likely to be successful.

The Department of Interior should turn its attention to successfully collecting mineral royalty revenues rather than doling out more hand-outs to the oil and gas industry.

Sincerely,

Danielle Brian
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