

Subject: RIN 1010-AD33

July 16, 2007

Department of the Interior
Minerals Management Service
Attn: Regulations and Standards Branch (RSB)
381 Elden Street
MS-4024
Herndon, VA 20170-4817

Re: Royalty Relief-Ultra Deep Gas Wells on OCS Oil and Gas Leases; Extension of Royalty Relief Provisions to OCS Leases Offshore Alaska, 1010-AD33

Dear Regulations and Standards Branch:

Thank you for the opportunity to provide these comments on your agency's May 18, 2007 Federal Register Notice soliciting comments on 30 CFR Parts 203 and 260, Oil and Gas and Sulfur Operations in the Outer Continental Shelf (OCS) - Royalty Relief, Proposed Rule, RIN 1010-AD33.

In response to the above-referenced proposed rule, we hereby submit the following comments:

- 1) Inappropriate expansion of OCS royalty relief program and inappropriate and premature timing of this rule: Since the enactment in 2005 of the Energy Policy Act, 119 Stat., 704, which called for the amendment of section 8(a)(3)(B) of the OCS Lands Act, a major national controversy has grown surrounding the practice of royalty relief and the role of this practice in denying the American taxpayer due compensation for oil and gas resources developed on federal lands. Major federal investigations of the practice of royalty relief have been underway for some time, and continue to the present day. Given that the US House of Representatives has duly adopted, during the first 100 hours of the present 2007 congressional session, a legislative provision that would address at least a portion of OCS revenues missing from the federal treasury due to poorly-applied royalty relief practices by MMS, and similar legislative measures remain pending and are being deliberated in the US Senate, it is clearly inappropriate for MMS to be expanding this same royalty relief program at this particular time. The apparent rush by MMS to publish this proposed rule, even as Congress now revisits the issue of royalty relief and its role in denying fair market value to the federal treasury, seems to fly in the face of legislative intent. It would be wholly consistent with present congressional deliberations to abate any final action on this proposed rule until new legislation, now pending, supercedes the 2005 Energy Policy Act and clarifies legislative intent on the issue of royalty relief.

- 2) Royalty relief is not appropriate for application in Alaskan waters, and the proposed rule provides no adequate description of the proposed scenario for the discretionary application of royalty relief within Alaska OCS Planning Areas: The Federal Register Notice for RIN 1010-AD33 contains extensive discussion of royalty relief scenarios and proposed practices for the Gulf of Mexico OCS Planning Areas, but includes virtually no detailed discussion of how, where, and under what circumstances Secretarial Discretion will be applied to expand royalty relief into Alaskan waters. It is therefore not rational to expect commenters on this notice to address the issue of Alaska OCS royalty relief, since the level of detail of the proposed rule in this regard is lacking. But suffice it to say that the Alaska OCS contains some of America's most sensitive biological resources and fisheries, some of the most extreme oceanographic and meteorological conditions in the world, and presents challenges to the OCS industry that go well beyond the economic feasibility of exploring and developing hydrocarbon resources in such conditions. It is therefore premature, before the pending Right whale studies are completed by MMS for the Bering Sea, before adequate environmental and oil spill response capability studies have been conducted for the Arctic, including in the Chukchi Sea and the Beaufort Sea, for MMS to be prescribing terms and conditions for royalty relief in these regions. We hereby formally request that MMS rescind and rewrite the sections of this proposed rule affecting Alaskan waters, as the discussion in this regard is premature and inadequate. On page 28412 of the Federal Register notice RIN 1010-AD33, the proposed rule discussion inaccurately implies that the rule "has no potential effects on federal recognized Indian tribes." This statement is untrue and must be corrected.

- 3) Lack of economic impact analysis: Given that the GAO has provided very substantial estimates of costs to the American Treasury of poorly-managed royalty relief practices at MMS in the recent past, it is incumbent on any proposed rule for expanding royalty relief to include a full and documented economic impact analysis of the expanded royalty relief program being proposed, both in the Gulf of Mexico as well as in Alaskan waters. This economic impact analysis must include a full delineation of the effects of market price on the application of royalty relief in any waters to which it may be applied. Past errors of management of the royalty relief program provide no basis for expanding the same program based upon the same categories of misassumptions and data gaps.

Thank you for this opportunity to provide comments on RIN 1010-AD33.

Sincerely,
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