Douglas B. Otten
President

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Received
8-22-97

CXY Energy Inc.
12790 Merit Drive
Suite 800 LB 94
Dallas TX 75251 1270
972 450 4600

August 22, 1997

Department of the Interior
Minerals Management Service, Mail Stop 4700
381 Elden Street
Herndon, Virginia 22070-4817

Attn.: Rules Processing Team

Re: Comments on "Oil Spill Financial Responsibility for Offshore Facilities"
62 Federal Register 14052 (March 25, 1997)

Gentlemen:

CXY Energy Offshore Inc. ("CXY") appreciates the opportunity to comment on the Minerals Management Service's proposed rule entitled "Oil Spill Financial Responsibility for Offshore Facilities," as described in 62 Fed. Reg. 14052, et seq. (March 25, 1997).

CXY is a wholly-owned subsidiary of Canadian Occidental Petroleum Ltd. and has conducted operations in the Gulf of Mexico for over 10 years. We are proud that during that period we have compiled an outstanding record of environmentally sound operating practices. As responsible operators, we certainly understand and support the role of the Minerals Management Service ("MMS") in formulating a regulatory scheme necessary to implement the financial responsibility requirements of the OPA. We are concerned, however, that the proposed OSFR amount of up to $150 million represents an increase of over 400% above the existing requirement of $35 million. In addition, we remain concerned about the other administrative and financial burdens these regulations put on small to medium size companies with operations in and around the Gulf of Mexico. It appears that, while the MMS has been very liberal with the time limits set to address this issue, even more time should be set aside to further study the impact that implementing these regulations might have in various instances. There are, after all, existing regulations in place that appear to be sufficient while the proposed rules are debated.

We have reviewed a draft of comments regarding the proposed rules issued by the Independent Petroleum Association of America ("IPAA") wherein they examine, in detail, each section of the proposed rules and suggest alternative regulations that might alleviate some of the hardship being placed on the industry, while at the same time accomplish the goals and spirit of the OPA. The IPAA has joined with the American Petroleum Institute ("API") and the Offshore Operators' Committee ("OOC") to submit these comments on behalf of the offshore industry. The CXY Energy companies endorse these comments and believe that the MMS should study these comments along with ours and others and consider re-proposing the rules. It appears that more time should be spent on the practical effects that these proposed rules might have on the day-to-day activity of the operators.

In addition to the formal comments submitted by the aforementioned group on behalf of the industry, CXY would like to emphasize a few special concerns that it has concerning the proposed rules:

- **Section 253.11 - Demonstration of financial responsibility; "Designated Applicant".**

Since other "responsible parties" continue to remain liable if the designated applicant does not satisfy the liability, it seems that this proposal would merely create an awkward administrative chore for the partners. CXY suggests that existing regulations designating the operator or lessee as the designated applicant be continued under the proposed rules.

- **Sections 253.13 and 253.14 - The amount of OSFR that must be demonstrated.**

The MMS proposes that a worst case spill be calculated in order to determine the amount that a company would have to demonstrate as financial responsibility. CXY would like to emphasize the comments submitted by the IPAA group that requests consideration be given by the MMS to include calculation examples in the final rules. Clear examples and a straight forward approach would help companies such as CXY comply with the rules with a minimum of staff requirements.

- **Section 253.20 through 253.29 - Methods for evidencing OSFR.**

CXY is pleased that the MMS continues to allow for a combination of various methods by which a company can offer evidence of financial responsibility. In the area of insurance, however, CXY would like to emphasize that the limits regarding the layering of insurance puts an additional burden on companies such as CXY who, as a result of size, do not have access to all available insurance markets. CXY would prefer that companies be allowed to obtain insurance in whatever layer scheme would be economically feasible to them at the time of purchase. Due to the high limit requirement imposed by the MMS, CXY believes that all but the largest companies operating in the Gulf of Mexico will be required to satisfy the OSFR requirements with means other than self-insurance. In addition, it is unlikely that traditional insurance companies will be willing to assume these potential liabilities without changing the insurance products offered. Layering, it seems, would allow the insurance industry to at least spread their risk somewhat.

- **Section 253.42 - COF additions or deletions.**

The MMS proposes that appropriate forms must be filed with the MMS within a specified time period of 30 days after COF's are added or deleted from existing lists. CXY feels that this requirement is much too burdensome, as notifications are already furnished to comply with existing leasing rules. CXY proposes that either the period be extended or consideration be given to the development of a "confirmation" statement that would be submitted to the MMS annually by the operator. This statement could be used to document all additions, transfers and deletions that occurred during the year and confirm year-end COF's.

In summary, CXY appreciates the opportunity to share our concerns and comments with the Minerals Management Service. We believe that progress has been made in the effort to aid the MMS in developing practical regulations but that more deliberations are needed prior to issuance of final regulations. We will continue to study these matters and will work with the IPAA and other industry organizations to assist in devising new rules.

Sincerely,

Douglas B. Otten

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