



26 July 2011

Department of Interior
Office of Natural Resources Revenue
P.O. Box 25165
MS 61013C
Denver, Colorado 80225

RE: Advance Notice of Proposed Rulemaking on Federal and Indian Coal Valuation
RIN 1012-AA00
30 CFR Parts 1202 and 1206

Argus Media appreciates the opportunity to respond to the ONRR Federal and Indian Coal Valuation rulemaking and believes it can make a contribution to the Office's understanding of coal index pricing, benchmarks, and price reporting agencies in this early stage of the rule's development. ONRR has requested comment on

- New methodologies to establish the royalty value of coal produced on Federal and Indian leases
- Providing greater simplicity, certainty, clarity, and consistency in production valuation for mineral lessees and mineral revenue recipients

Argus will answer these two questions for coal royalty calculation for coal leases by explaining the basic nature of the price assessments used in indexation, the current use of indexation in each market, the standards applied by government entities in judging the reliability of price reporting agencies, and provide a regional review of the price indices available.

Argus Media and its role in energy market indexation

Argus is a leading provider of price assessments, business intelligence and market data for the global crude oil, petroleum products, gas, LPG, coal, electricity, biofuels, biomass, emissions and transportation industries. It is headquartered in London, and has offices in Washington, Houston, Calgary, Moscow, Singapore, Tokyo, Beijing, New York, Kiev, Sydney, Astana, Portland, Johannesburg and Dubai as well as employees in other key locations. Argus was founded in 1970 and is a privately held UK-registered company, owned by its employees and the family of its founder. Argus has operated in the US since 1986.

Argus publishes daily and weekly prices for physical coal spot markets. These spot markets represent the marginal clearing price in an open and arms-length market. These prices are used by energy companies, financial services and governments as price references or price benchmarks. The prices are used to index long term contracts, spot market contracts, derivatives transactions such as swaps, and are used in corporate internal transfer pricing, market analysis, performance measures, risk management analysis and capital investment decisions. Government entities also frequently use Argus spot market prices to determine taxation and royalty calculations.

Argus has an important role in the proper functioning of the energy markets. Confidence in the prices published by Argus creates confidence in the markets themselves, which in turn encourages liquidity, effective clearing of trades, accurate price discovery and overall market transparency.

Argus Media Inc.
3040 Post Oak Boulevard, Suite 550, Houston TX 77056
Tel: (1 713) 968-0000 Fax: (1 713) 622-2991

Argus recognizes that its clients and other industry stakeholders expect it to meet the highest standards in the field of price reporting, and to value principles that support its important role. Argus has a published ethics policy to ensure objectivity. Argus is an independent firm, with a clear corporate governance and compliance program. Argus also respects transparency and disclosure by making its processes public, and by providing market information openly. Argus ensures that it has the resources to achieve these values, by hiring and retaining qualified and experienced staff, and regularly training employees. Argus maintains its credibility as a price reporting agency by consistently applying its methodologies for price discovery, and thus maintaining its high and long standing reputation.

Argus uses a market-appropriate methodology to assess prices in the markets it covers. Argus consults with the range of participants involved in different markets and publishes methodologies for each price report on its website. Each methodology is reviewed regularly to ensure that it always meets the needs of market participants and is in line with industry practice. Argus seeks to reflect the way markets are traded, rather than impose its own view.

The prices reported by Argus and other price reporting agencies allow the energy sector to operate efficiently and effectively to the benefit of consumers and producers. Term contracts can be indexed to a transparent spot market price at an active market center and counterparties can be sure that they are receiving fair market value. This same system of indexation can be trusted by government entities as a robust representation of market value for coal. The sections below will outline why Argus feels these spot market prices accurately represent value in the coal markets.

Coal Indexation

The Argus methodology for US and world coal prices

Argus publishes coal prices in all world market centers, including in the Americas region Central Appalachia, Northern Appalachia/Pittsburgh Seam, Illinois Basin, Powder River Basin, Western Bituminous, US export prices, US import prices and Latin America.

Argus coal price assessments rely on a wide variety of sources for information including producers, generators, marketers, importers, exporters, traders, brokers and data from electronic trading platforms. Transactions done in the spot market are primarily received from principal firms or from the transacting brokerages, and Argus strives to verify all deal prices, counterparties, and volumes. For the most liquid markets, the Central Appalachian and Powder River Basin, these assessments are daily; others are assessed weekly, reflecting a full week of transactional and market intelligence. Argus seeks to be transparent, so we publish the details of deals reported in our daily market coverage, including specification, volume and delivery terms.

In illiquid markets, Argus pricing represents an intelligent assessment of the price at which the specified grade transacted or would have transacted in the assessment period. Such assessments are based on bids and offers through the trading period, price movements for similar grades and extensive polling of market participants.

The Argus methodology for price reporting is developed in consultation with industry, in order to provide a service that is useful to our clients and acceptable to other stakeholders like government and regulators. Argus seeks to report the market in the way that it is traded and to include as much liquidity as possible in the price assessments. We publish detailed methodology documents online at www.argusmedia.com/methodology, which provide the in-depth structure around each price assessment.

The use of Argus prices in indexation

Companies in the US actively use Argus coal prices for a variety of purposes to include indexation of long term contracts, spot market contracts, derivatives transactions such as swaps and exchange settlements, internal transfer pricing, market analysis, and performance measures. Companies in the US and international coal markets have adopted Argus prices as a means of indexing term coal contracts and for use in other benchmarking functions. Brokers and traders involved in world coal trading have estimated that more than one billion metric tons/year of coal trading is indexed to Argus-published indices internationally. And US domestic term physical coal transactions are extensively indexed to Argus indices. A few select examples of the use of Argus prices in indexation may provide the ONRR with evidence of how widespread the application of spot market prices is within the coal industry, and how much trust is placed in these prices by arms-length counterparties, state and national agencies, and foreign national governments.

Argus Coal Daily Price Indices

Argus prices within the US are used for spot price indexation of term contracts and hedging transactions by a variety of counterparties. Argus coal indices are also extensively used for price discovery for state regulatory actions; for management presentations to investors and regulators; and for other trading and corporate functions. Coal prices by Argus Media and its predecessors date from February, 1987.

API 2, API 4 and API 6

The API 2, API 4 and API 6 price indices were launched in 2001, and are published by Argus and McCloskey Coal. The indices measure coal prices for delivered coal in northwest Europe (API 2), coal loaded in South Africa at Richards Bay coal terminal (API 4) and coal loaded at Newcastle in Australia (API 6). These indices have been adopted by seaborne coal markets for trading settlement and for physical price indexation for term supply transactions. These assessments are widely used as proxy for a world price of coal and are used in more than one billion metric tonnes of financial and physical coal trading.

Argus Metallurgical Coal Indices

Argus also publishes spot price assessments for coking or metallurgical coal at a variety of world market centers. These prices date from April 2010 and include two indices for US coal supplies at the chief export hub for this coal, Hampton Roads terminals on the US east coast.

CME Nymex and ICE

Both the Intercontinental Exchange (ICE) and the Chicago Mercantile Exchange (CME) use Argus prices to settle swaps contracts, including coal prices. The detailed descriptions of these contracts are located at the CME and ICE websites.

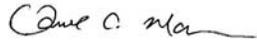
Global taxation/royalty authorities

ONRR should note that the use of spot market prices to index both royalties and other forms of taxation is both common and accepted practice. In many of these jurisdictions, the markets are far more opaque than in the US, so an added level of confidence can be placed in the use of US spot market prices in indexation.

- The Colombian government uses the API 2 index to calculate royalty payments for coal exports. Colombia has the world's fourth-biggest coal exports.
- Coal indices published by Argus, the Argus/Coalindo Indonesian Coal Indices, are used in royalty or tax calculations in Indonesia, the second-largest coal exporter globally.

In conclusion, Argus feels that the ONRR should feel confident in the use of published spot market prices as indices in the calculation of coal royalties. These spot market prices are an important element in ensuring that the agency receives fair value for the public's resources, and also provides an early certainty through the prompt daily dissemination of price data on market value.

Sincerely,

A handwritten signature in cursive script, appearing to read "Daniel C. Massey".

Daniel C. Massey
President
Argus Media Inc.