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**James M. Davis**  
President



July 30, 1997

**Mr. David S. Guzy**  
Chief, Rules and Procedures Staff  
Minerals Management Service  
Royalty Management Program  
Rules and Procedures Staff  
P.O. Box 25165, MS 3101  
Denver, Colorado 80255-0165

Re: MMS Proposed Rulemaking - Crude Oil Royalty Valuation

Dear Mr. Guzy:

ARCO Western Energy (AWE) is an oil and gas production company located in the state of California. We produce crude oil from three Federal leases located in Kern County and two Federal leases located in Los Angeles County, California. We have reviewed the supplementary proposed rulemaking published in the Federal Register on July 3, 1997 and welcome the opportunity to provide comments.

We support the changes to the original proposed rule as small steps in the right direction. These changes will probably allow more small independents to continue to use the gross proceeds methods for paying royalties. However, the changes do not appear to address any of the concerns expressed in our letter of April 10, 1997.

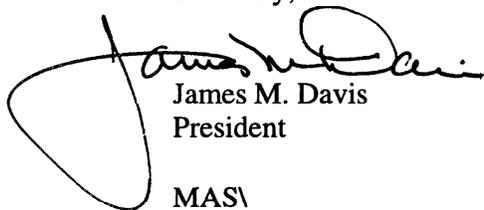
Rather than reiterate the details our previous comments; we would like to emphasize that the proposed rulemaking will require us to pay royalties based on a price far in excess of that actually received by ARCO Western Energy. We remain very concerned about valuing California crude using the index pricing methodology as it has been shown to **not** be an accurate indicator, especially for San Joaquin Valley crudes. Previous written comments by ARCO and WSPA provided details on the problem of using ANS as an indicator for California crudes. We continue to believe that the current posting system in California accurately reflects the value of crude oil produced in California.

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We believe that MMS should drop the proposed rulemaking in its entirety because it has failed to demonstrate that there is a problem with valuing crude oil on gross proceeds or that the proposed methodology better represents the value of the crude. We question whether MMS fully understands our previous comments and the affects of the proposed rulemaking. As such, we would encourage MMS to seriously consider a pilot program of royalty in kind to allow the agency to determine for itself the value of crude and the affects of market conditions. We believe the knowledge obtained through a pilot program would help MMS in its evaluation of comments and the further development of the proposed rule. In the meantime, MMS should cease development on the rule and allow producers to continue to value crude on a gross proceeds methodology.

If you have any questions or need additional information, please don't hesitate to contact me at (805) 321-4000.

Sincerely,



James M. Davis  
President  
MAS\