BP

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Via Overnight Delivery
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Minerals Management Service
Royalty Management Program, Rules and Publications Staff
Building 85
Denver Federal Center
Denver, CO 80225

RE: Department of Interior, Minerals Management Service
Notice of Supplementary Proposed Rule (62 F.R. 36030, July 2, 1997)
Establishing Oil Value for Royalty due on Federal Leases, and on
Sale of Federal Royalty Oil

Gentlemen:

BP Exploration & Oil Inc., on behalf of itself and its BP Exploration (Alaska) Inc. and BP America Inc. affiliates (collectively "BP"), appreciates the opportunity to submit comments to the Minerals Management Service's ("MMS") July 3, 1997, Notice of Supplementary Proposed Rule Establishing Oil Value for Royalty due on Federal Leases, and on Sale of Federal Royalty Oil ("Notice").

BP's comments addressing a proposed new paragraph (a) (6) and specific inquiries made by MMS in the Notice appear below. These comments are in addition to those previously provided to MMS by BP as requested in 62 F.R. 3742, January 24, 1997.

(Please note: all references to Federal regulations, existing and proposed, unless otherwise noted, pertain to 30 C.F.R. Parts 206 and 208.)

- Section 206.102 (a) (6)

    (1) *MMS requests comments on whether it should require lessees who value their production using gross proceeds received under an arm's length contract to certify that they are not maintaining an "overall balance" with their purchaser.*

    Comment:
    BP believes it is reasonable for the MMS to require lessees using the gross proceeds method of valuation to value oil sold under an arm's length sales contract to certify that they are not maintaining an "overall balance" with the purchaser of their federal production.

(2) *MMS is proposing a new paragraph (a) (6) to address oil production disposed of under certain exchange agreements.*

Comment:

MMS is proposing that a lessee may value its production on a gross proceeds basis if the lessee disposes of its oil under an exchange agreement with a non-affiliated party, and if after the exchange the lessee sells the acquired oil under an arm's-length contract. Valuation would be based on the gross proceeds received from the arm's length sale of the oil after the exchange, adjusted for any location or quality differences paid or received under the arm's length exchange agreement. The gross proceeds method may not be used if any of the sales, purchase, or trading activities are done by an affiliate or if secondary exchanges are entered into with the crude oil received on the initial exchange.

BP believes the newly proposed valuation method for oil sold through exchanges would result in a market valuation that would be fair for both the Federal Government and the lessee.. The newly proposed valuation methodology would use the price of the return crude oil adjusted by a differential reflective of market conditions present at the time of the sale. This method, in BP's view, would be far superior to the index pricing methodology which could often value production using unrelated crude oil prices (NYMEX and ANS) and out-dated exchange differentials.

One concern BP has with the newly proposed valuation methodology is the ability of a lessee to segregate and trace the sales transaction related to the crude oil received in the initial exchange. For example, assume a lessee enters an exchange, delivering its federal production and receiving WTI at Cushing. The lessee has numerous other transactions in which it receives WTI at Cushing. Throughout the month, the lessee sells the WTI it has received from its federal oil exchange and other transactions. The problem is how does the lessee determine which WTI sale should be attributed to the federal production exchange. BP proposes that MMS not require the lessee to trace the return crude oil as we believe this would be a difficult and time consuming task both for the lessee to prepare and for the MMS to audit. As an alternative, BP proposes that, if the price of the return crude oil is commonly reported within MMS approved industry publications, the MMS accept as the value of the receipt oil for gross proceeds valuation the average published price of the return oil as quoted for the period when that oil is the prompt delivery month.

(3) *MMS seeks comment on how lessees would allocate to Federal leases differentials from aggregation points to market centers when non-Federal production is commingled with Federal production at aggregation points.*

Comments:

It is not apparent to BP how one could distinguish unique differentials when a lessee commingles Federal and non-Federal oil. When a lessee commingles Federal and non-Federal oil, it is appropriate for MMS to request data on all commingled oil;. however, BP believes that lessees should not be required to submit Form MS-4415 data on exchanges involving the delivery of oil produced on non-Federal leases or purchases from third-parties which the lessee has not commingled with production oil from its Federal leases.

While we are encouraged by this opportunity to provide further comment and feedback to the MMS, we would also note that a number of issues raised in public testimony and provided as written comments to MMS were not addressed in this most recent Notice. BP believes that these proposed regulations continue to require additional consideration by MMS and input from the public before a final rule is implemented.

BP's comments to the Notice are intended to be constructive and helpful to the MMS in developing a final rule that strikes an equitable balance among the interests of all parties, and we trust that this will be the spirit in which our comments are received and considered by the MMS. BP representatives are available to clarify or provide further elaboration with regard to any of our comments should the MMS so desire.

Respectfully submitted,

BP EXPLORATION & OIL INC.

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