

April 8, 1998

Via Electronic Mail to David_Guzy@mms.gov.

David S. Guzy
Minerals Management Service
Royalty Management Program
Rules and Procedures Staff
U. S. Department of the Interior
P. O. Box 25165
MS 3101
Denver, CO 80225-0165

RE: MMS Supplementary Proposal on Valuation of Crude Oil Produced on Federal Leases 30 CFR 206 63 FR 6113 (February 6, 1998) ("Proposed Rule")

Dear Mr. Guzy:

Union Pacific Resources Company ("URP") is a member company of the American Petroleum Institute ("API") and the Independent Producers Association of America ("IPAA"). UPR wholeheartedly supports the comments submitted by API (April 3, 1998) and IPAA (April 7, 1998) in response to the MMS Proposed Rule.

In particular, UPR directs your attention to a "decision tree" drafted by Gardere & Wynne, L.L.P., entitled "How Will Royalty Value Be Calculated Under MMS Proposed Rule?" and submitted by API as Attachment "F". This chart exposes the fallacy promulgated by MMS that its Proposed Rule provides simplicity or certainty. With respect to MMS' position that lessees have a duty to market free of charge, UPR reiterates the comments of both API and IPAA that the Proposed Rule is not a clarification of existing law but a substantial change -- a change that is unlawful.

Additionally, UPR strongly agrees that MMS continues its attempt to unlawfully move the point for valuing royalty downstream, away from the lease by expanding the definitions and the transactions subject to "gross proceeds" rules. With this Proposed Rule, it is now obvious that the intent of MMS and the motivation for this rulemaking has been to capture any "upside" which may be derived from downstream marketing activities without bearing any of the inherent costs and risks, e.g. the "downside". Certainly, it appears MMS has resorted to a rulemaking to obtain benefits and obligations from its lessees not bargained for in its leases, or to which MMS is legally entitled under the existing state of the law.

Very truly yours,

Regina Cooper Himelfarb
Union Pacific Resources

RCH:ba