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November 4, 1997

David S. Guzy, Chief
Rules and Publication Staff
Royalty Management Program
Minerals Management Service
P.O. Box 25165
M/S 3101
Denver, Colorado 80225-0165

Re: **Mineral Management Service Establishing Oil Value for Royalty Due on Federal Leases - September 22, 1997 Federal Register**

Dear Mr. Guzy:

Amoco Production Company ("Amoco") appreciates the opportunity to comment on the MMS' September 22, 1997, Federal Register Notice concerning establishing oil value for royalty due on Federal leases. As a producer of significant quantities of onshore and offshore oil, Amoco has a significant stake in the outcome of this rulemaking.

Amoco has had representatives in attendance at your workshops in Denver on September 30 - October 1 and Houston on October 7 and 8. In addition, we have been involved in the preparation of several association comments. Amoco has, through this comment process, participated in the preparation of separate comments filed by the American Petroleum Institute ("API") and Council of Petroleum Accountants Society ("COPAS"). Amoco supports the comments of these associations.

While we are of the opinion that existing benchmark methodology is still appropriate to accomplish accurate oil valuation, both onshore and offshore, we understand the agency's need to review oil valuation methodology as a result of certain oil valuation issues being brought to the attention of the agency. Before Amoco comments on the five alternatives, one concern must be put on the record. Most of the published alternatives and discussions at the workshops did not contain specific details. Many potential alternatives were brought up for discussion but no firm cohesive proposals were offered for substantive comment. This procedure has made meaningful dialogue and comment very difficult and dangerous depending on your status. Thus, without significant detail to review, it is difficult to support the MMS' amorphous proposals any one of which may or may not be a better valuation methodology than the present benchmark system.

In its September 22, 1997, Federal Register Notice, the MMS requests comments on the following five (5) alternatives:

1. Using "tendering" or "bid out" to value non-arm's length production.

2. Using five (5) approaches to "benchmarking."

   a. Outright sales of like-quality crude in the field or area.
   b. The lessee's or its affiliate's arm-length purchases from producers at the lease in the field or area.
   c. Outright arm's-length sales by third parties.
   d. Prices published by MMS on its royalty in-kind sales.
   e. Netback methodology employing price information from the nearest market center or aggregation point.

3. MMS establishing value based on geographic indexing using its own data system.

4. "Differentials" much like the MMS valuation proposal issued in January with Form MMS 4415 being altered to be more acceptable.

5. Use of published prices at market centers and netbacking to the lease using "actual" transportation cost.

Our comments on the proposed alternatives are as follows:

1. Tendering: Although during these workshops Conoco described their tendering program, there was no specific proposal by the MMS on the table for comment. However, we do not completely dismiss a tendering program and feel it should be reviewed again with greater specificity, including a realistic share of the lessee's production to be tendered.

2. Benchmarks: Four (4) benchmarks were discussed.

   a. Posted Prices: If posted prices are to be abandoned as a valuation methodology, at least the concept of value of product at the lease must remain.
   b. Spot Prices: While spot prices may be appropriate for gas, the spot market price for oil is simply not accurate or appropriate. Thus, oil valuation based on the spot market as proposed leads to unfair valuation.

c. Tender, Bid Out: Discussed above.
d. Royalty In-Kind: We feel that royalty in-kind for Federal oil and gas, under proper circumstances, conditions and principles, would meet both the lessees and agencies needs.

3. Using MMS Data: This methodology is flawed because it does not give "real time" valuation information for royalty valuation purposes. This process would not allow a lessee to determine the value of oil and gas for royalty purposes at the time of production. The lessees are always subject to a different valuation as a result of audit.

4. Differentials: Again, not enough specifics have been suggested to make meaningful comments.

5. Netbacking: Amoco does not agree that a netbacking scheme for oil is appropriate. "At the lease" valuation should be the guiding principle.

Amoco also has the following comments in these other noted areas.

We can support the concept of different regulations for both the OCS and Rocky Mountain area for oil, however, specific details must be thoroughly studied and reviewed. Any regulation should permit the lessee and lessor to negotiate a method of valuation for a specific area/state.

Amoco can not support the idea of different regulations for lessees having refineries. A simplistic rule that would impose index-based valuation methodology on companies having refineries is arbitrary and discriminatory.

Finally, Amoco is still very concerned about the MMS' proposed expansion of the duty to market and its link to the indexing methodology. The law has not yet been expanded to include the concept that marketing activities have to be accomplished by the lessee free of charge. This additional value should not completely inure to the benefit of the lessor cost free.

Amoco looks forward to commenting on your next oil valuation proposals.

AMOCO PRODUCTION COMPANY

By: ______________________
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cc: Mary Stonecipher

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