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

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RECEIVED

Attention: Mr. David S. Guzy
Chief, Rules and Procedures Staff

Dear Mr. Guzy:

Texaco Inc. appreciates the opportunity to comment on the Minerals Management Service (MMS) Notice of Proposed Rulemaking entitled Amendments to Gas Valuation Regulations for Federal Leases (60 FR 56007, November 6, 1995). We have reviewed the proposed rule and offer the following comments.

Texaco agrees with, references, and hereby adopts as its own, the comments made by the American Petroleum Institute (API), the Council of Petroleum Accountants (COPAS), and the Rocky Mountain Oil and Gas Association (RMOGA) to this rulemaking. In addition, we would like to offer the following general comments.

Texaco commends both the process and the outcome of the Federal Gas Valuation Negotiated Rulemaking. The hard work, open discussion and good faith negotiation on the part of all members of the Committee resulted in compromises that should meet the needs of the MMS and its various constituents. Although Texaco does not support each and every feature of the Final Report, it supports the Final Report as a whole because it represents a fair compromise of very divergent points of view. Texaco supports the proposed rule to the degree it is consistent with the Final Report. However, we must object to the several departures and omissions from the Final Report named in the proposed rule.

Texaco further supports the MMS's openness to the use of published gas indices as a valid valuation methodology. Index prices provide an objective, readily available measure of value that is based on actual market activity.

The comments filed by API, COPAS, and RMOGA outline where the Proposed Rule deviates from the consensus reached by the Committee. Texaco emphasizes the following points which are more fully explained in the trade associations' comments.

- **Sec. 202.450(b) (1)** should be clarified to be consistent with current MMS policy. The free use of gas used for the benefit of the lease should continue even if the gas is returned from a point downstream of the facility measurement point.

- **Sec. 206.454(a) (2) (iii) and (iv)** should be clarified to specifically allow adjustments to value for the transportation of **all** royalty bearing products.

- Texaco opposes proposed **Sec. 206.454(a) (6)** regarding royalty on gas contract settlements because the consensus reached by the Committee on valuation contemplated royalty on index plus safety net, **not** index plus safety net **plus** gas contract settlement proceeds.

- **Sec. 454(e) (2)** of the proposed rule should be clarified to correctly state the intent of the Committee that only information relating to gross proceeds payors is to be used in calculating the final safety net median value, irrespective of the source of information. Therefore, only those unappealed orders, unappealed Director's decisions, and amounts pending in appeal of gross proceeds payors should be included.

- If the MMS fails to publish the final safety net within two years as required by **Sec. 206.454(e) (6)**, no additional royalty should be owed by index payors.

- **Sec. 206.454(e) (8), (e) (9), and (e) (10)** require the lessee to determine weighted average index-based values. API and COPAS disagree in their comments as to where this responsibility should properly fall. Texaco believes it should remain with the MMS to properly reflect the consensus of the Committee.

- Texaco urges the MMS to include the entire consensus of the Committee as reflected in the Final Report. Specifically, the final rule should include an exception for 100% Federal and non-agreement leases to pay on takes.

- The MMS valuation of coalbed methane should take into account the extraordinary costs associated with its production. Texaco urges the MMS to consider the unique characteristics of this production by allowing additional adjustments to the index for disposal of produced water and extraction of CO_2 in the final rule. Alternatively, Texaco suggests that this issue be considered at the technical conferences on final zone determination.

- MMS states that it will issue a separate rulemaking to improve the existing benchmarks for gas sold under non-arm's length contracts. Texaco suggests that any proposed rule should properly base valuation on data which reflects the value of gas at or near the point of production. Texaco will strongly oppose any rule that prioritizes downstream affiliate proceeds as a valuation methodology.

Texaco trusts the MMS will give our comments serious consideration prior to promulgating a final rule.

Sincerely,

James C. Pitt

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