

May 27, 1997

Mr. David S. Guzy
Chief, Rules and Procedures Staff
Minerals Management Service
Royalty Management Program
Building 85
Denver Federal Center
Denver, Colorado 80225



RE: Notice of Proposed Rulemaking, 62 Fed. Reg. 3742 (January 24, 1997)

Dear Mr. Guzy:

Thank you for the opportunity to comment on the Minerals Management Service's proposed rulemaking on crude oil royalties. Apache Corporation is a large independent oil and gas producer headquartered in Houston with operations throughout the United States, Canada, and abroad. In 1996, Apache's total crude oil production was almost 20 million barrels.

Apache supports and endorses the comments filed by the Domestic Petroleum Council (DPC) in opposition to the proposed valuation rule. In particular, Apache endorses DPC's positions that MMS should take its royalty in kind; that in the alternative, MMS should revise its benchmarks; and finally, that an interim rule would be bad public policy.

A universal royalty in-kind program would answer a number of questions and, frankly, solve a number of problems for both MMS and crude oil producers. Such a program would mean an end to valuation controversies between the MMS and its lessees. It would provide MMS with first-hand experience from which to determine if any future rulemaking proposals make business sense. And, it would put the MMS in a position to earn the same rewards by taking the same risks as everyone else in the marketplace.

Absent a commitment by MMS to an across-the-board royalty in-kind program, DPC's proposal that MMS modify its benchmark system in its current rules is a good one. The reordering of benchmarks proposed by DPC would provide MMS with the kind of information necessary to institute a fair system for testing the values received under non-arm's-length transactions.

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Finally, Apache Corporation opposes the adoption of this proposal as an interim rule. The purpose of the requirements of the federal regulatory process is to prevent agencies from imposing dramatic change without the benefit of comment and insight from those most directly affected. The public comment period affords the agency an opportunity to learn how its proposals may affect those who must comply and to avoid mistakes and lengthy court actions. To simply impose an interim rule in the name of expediency violates the intent and purpose of the entire process. It is our hope that based upon the input from Apache and other affected constituencies, the MMS will make appropriate changes to the proposed rulemaking now so that problems can be avoided in the future.

Again, Apache Corporation is grateful for the opportunity to provide comments on this important issue. We are in full support of the DPC's comments and suggestions and hope that MMS not only takes them under advisement but agrees to implement them for the benefit of all involved.

If you need further information or have questions, please do not hesitate to contact me.

Sincerely,

APACHE CORPORATION



Urban F. O'Brien, III
Director, Governmental Affairs

UFO:mh