May 23, 1997

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

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

Dear Mr. Guzy:

The following comments are submitted on behalf of Eighty-Eight Oil Company, a crude oil marketer involved in purchasing crude oil at the lease. Eighty-Eight Oil Company's predominant market area is the Northern Rocky Mountain states of the United States. We appreciate the opportunity to comment on the proposed regulations as referenced above. We are seriously troubled by the direction the proposed regulations are taking, and the significant consequences the proposed regulations, if adopted, will have on our business and the business of the independent oil producers from whom we purchase production in the Northern Rocky Mountain area.

First, Eighty-Eight Oil Company fully adopts and supports the comments of the Independent Petroleum Association of America which have been previously submitted to you. Those comments address the issues and propose the solutions which we feel are appropriate given the concerns previously expressed by the Minerals Management Service with the existing regulations.

There are several other points which we feel we need to address, and what follows are specific comments regarding certain problem areas with the proposed regulations. For example, an area of the proposed regulations which seriously concerns Eighty-Eight Oil Company is the virtual annihilation of the existing concept regarding arms-length sales at the lease. A significant percentage of our customers are independent oil producers. Most are not engaged in marketing their crude oil, but rather sell their crude oil production at the lease. Yet, because of MMS's attack on the arms-length transaction concept as it currently exists, it seems highly likely that virtually all of those arms-length sales to Eighty-Eight Oil Company will be denied that status by the Minerals Management Service in the future.

Who, then, is going to do the work, to handle the paper, to take the steps necessary to compute the royalty on federal production for those independent producers? A marketer such as Eighty-Eight Oil Company will have to seriously consider whether or not they will take on such a burden. It is very possible that marketers will simply say, "We will continue to purchase your crude oil, Mr. Independent Producer, but we will not accept the responsibility and duties of royalty payor for you." Why? Because the cost of being able to provide the service, and the complexity of meeting the proposed regulatory requirements, will simply be too great. There is too much left to be worked out, too little empirical information, supporting the proposed regulations. As a result, the producer may be left with the burden. You will have a situation where there are thousands of royalty payors, not the current situation where there are several hundred. How will such an increase be to the best interest of the United States of America?

Next, the proposed regulations completely ignore local market conditions. As was indicated above, Eighty-Eight Oil Company is primarily active in the Northern Rocky Mountain states. Recently, a new pipeline has been completed which terminates in Casper, Wyoming, and which transmits Canadian crude oil. Some reports from the pipeline operator indicate that when the Express Pipeline is fully operational, 175,000 barrels of Canadian crude oil will be coming into Casper, Wyoming, daily. In addition, 135,000 barrels will be transported on Platte Pipeline, east to Wood River, Illinois. That leaves approximately 40,000 barrels per day looking for a market. What will that do to prices in this area? No one knows for sure. What is sure is that the NYMEX doesn't know and doesn't care about such a potentially tremendous factor impacting a local market. Why? That amount of oil is not even a blip on the screen as far as the NYMEX is concerned, where three to four times the daily <u>world production</u> is traded every day. Yet, the proposed regulations require use of differentials adjusted annually to assist in establishing federal royalty. Such a dynamic market begs for a much more thoughtful approach than proposed by Minerals Management Service, because the market at the lease in Wyoming, Montana and North Dakota, which is alive and well, will certainly be impacted by a 40,000 barrels a day of Canadian crude which is looking for a market in this area.

The proposed regulations leave entirely too much open to question in valuing crude oil for federal royalty purposes. The proposed regulations are an ill-advise attempt to deal with problems that can be addressed more effectively and efficiently, as the Independent Petroleum Association of America has pointed out in their comments. The consultants used by the Minerals Management Service for this project have missed the mark. If they understand crude oil markets elsewhere, they certainly do not understand markets in the Rocky Mountains. The best example of that is set forth at 62 Fed. Reg. 3748, where Wyoming sour is specifically mentioned as being transported to Salt Lake City refiners. The simple truth is that no Wyoming general sour crude oil is shipped to Salt Lake City refiners. What or who was the source of that obvious blunder, and how many other areas of the proposed regulations are tainted with similar inaccuracies?

In simple terms, our suggestion is drop the proposed regulations entirely. Fix the problems which exist as IPAA proposes. Finally, take the steps necessary to make it so that the United States can take its oil in kind. Any other approach will not address the Minerals Management Service's underlying concern, which seems to be that <u>everyone</u> in the crude oil business in the United States is engaged in a massive conspiracy to cheat the government out of its rightful share of proceeds from the sale of crude oil produced from federal leases. Please drop the siege mentality which the consultants which have been utilized by the Minerals Management Service seem to have foisted on the Service, take the steps necessary to facilitate the federal government selling its own oil on the market.

Very truly yours,

EIGHTY-EIGHT OIL COMPANY

John J. Blomstrom, Attorney

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