EOTT ENERGY Partners, L.P.

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May 23, 1997

David S. Guzy
Chief, Rules and Procedures Staff
Minerals Management Service
P.O. Box 25165
MS 3101
Denver, CO 80225-0165

Re: Proposed Rules
Department of Interior
Minerals Management Service
30 CFR Parts 206 and 208
Establishing Oil Value For Royalty Due on Federal Leases, and on Sale of Federal Royalty Oil
Issued January 24, 1997

Dear Mr. Guzy:

EOTT Energy Partners, L.P. ("EOTT") appreciates the opportunity to comment on the proposed rule for establishing oil value for royalty due on federal leases, and on the sale of federal royalty oil. EOTT, through its affiliated limited partnerships, EOTT Energy Operating Limited Partnership, EOTT Energy Pipeline Limited Partnership, and EOTT Energy Canada Limited Partnership, is engaged in the purchasing, gathering, transporting, trading, storage and resale of crude oil and refined petroleum products.

EOTT purchases crude oil produced from approximately 25,000 leases in 17 states. EOTT purchases crude oil from many of the largest integrated and independent producers in the United States. During 1996, EOTT purchased approximately 303,000 barrels per day of lease crude oil. Pipeline systems and EOTT's trucking operations provide the vital link between EOTT's crude oil purchasing and marketing activities. Within the United States, EOTT transports most of the lease crude oil it purchases by means of a fleet of over 300 owned or leased trucks, and by pipeline, including approximately 1,700 miles of intrastate and interstate pipeline and gathering systems owned by EOTT as well as common carrier pipelines systems owned by third parties.

Approximately 91% of EOTT's lease crude oil is purchased from independent oil producers, and approximately 9% is purchased from major integrated oil companies. As an intermediary, EOTT seeks to earn profits by buying crude oil at competitive prices, efficiently transporting and handling the purchased crude oil and marketing the crude oil to refinery customers or other trade partners who can most benefit from the particular crude type at the specific location.

As an independent crude oil gatherer and marketer, EOTT does not own or lease crude oil producing properties. As a third party purchaser of crude oil, EOTT holds no federal lease interests and has no operating interest in any crude oil producing field. Rather, EOTT views itself as a value-added intermediary that seeks to create its profit margins from the services it provides to its customers. Therefore, EOTT will often pay federal royalties as payor on behalf of lessees or operators from whom we purchase crude oil. The collection and payment of federal royalties is merely an additional service EOTT provides as part of its purchase contract obligations. EOTT pays royalties based on the arm's-length negotiated price paid to the field production operator.

EOTT competes with many companies for the opportunity to purchase crude oil at the lease. In that regard, a major competitor of EOTT is Scurlock Permian Corporation ("SPC") which submitted comments on April 17, 1997, to the MMS regarding the proposed rule. Generally speaking, EOTT agrees with SPC's comments and will not attempt to restate those same concerns. However, it is important to understand that the negative ramifications noted by SPC will clearly be imposed with adverse effects on all first purchaser intermediaries such as EOTT and SPC. The proposed rules completely disregard the competitive, at-the-well lease crude market in which EOTT and SPC operate and unfairly ignores the downstream risks and value-added services borne by marketers such as EOTT and SPC.

One additional consideration is that the preparation of proposed Form MMS-4415 will obviously increase the costs of purchasing federal lease crude oil for companies such as EOTT. Given the razor thin margins EOTT and other first purchasers already operate under, any additional costs associated with reporting requirements will more than likely be funded by EOTT by lowering the price for which we offer to purchase the federal crude oil. While this may be irrelevant to the MMS given that it proposes to collect its royalties based on downstream aggregation point pricing, it is a real cost to EOTT which will need to be considered when bidding on future federal lease crude business. Alternatively, first purchasers such as EOTT may choose to refuse to make disbursements for the producer, and thus put new burdens on operators that are not administratively equipped or capable of performing this function on a timely or accurate basis. Finally, it should be noted that administratively burdensome rules such as the current proposal may, in fact, lessen true competition at the lease as companies such as EOTT may very well decide not to bid on certain federal leases solely because of the headaches and administrative nightmares likely to be encountered under the proposed rules. Given this possibility, it is not unreasonable to foresee that fewer competitors bidding on federal leases would create an environment whereby royalties to the federal government would actually decrease as the number of competitive lease bids shrink.

In summary, EOTT strongly opposes the proposed rule as an ill-founded and administratively burdensome attempt to abandon arm's-length negotiated prices at the lease as the best indicator of fair market value. The proposed rule substitutes an artificial and inflated index-related value on lease crude oil which unfairly ignores the added value a marketer such as EOTT contributes as crude oil moves downstream from the lease. If the proposed regulations are adopted, EOTT's administrative and recordkeeping costs will undoubtedly skyrocket in order to comply with the voluminous reporting requirements under the proposed regulations. As a first purchaser who negotiates arm's-length, fair market values for lease crude oil at every opportunity, the proposed regulations appear to have been drafted with indifference to the business practices of companies such as EOTT which serve a vital role in the domestic crude oil gathering and transportation markets. If adopted, these proposed rules can only serve to weaken and destabilize the presently-competitive lease-level gathering and purchasing environment. Finally, we wish to point out our strong support and endorsement of the comments previously submitted by the Independent Petroleum Association of America ("IPAA") regarding these proposed rules. IPAA's comments accurately reflect our concerns and the multitude of problems that companies such as EOTT will face if forced to comply with the proposed rules in their present state. If MMS truly feels that it is not receiving fair market value at the lease, it should take its oil in-kind and market the oil at the wellhead via arms-length transactions as suggested by IPAA.

Once again, EOTT thanks you for the opportunity to provide comments on the proposed oil valuation regulations. If you have any questions regarding our comments, please contact me at 303-629-5044.

Sincerely,

EOTT Energy Partners, L.P.

By: EOTT Energy Corp., its General Partner

By:

Kelly Clark

Kelly Clark
Vice President, Crude Oil Marketing and Lease Acquisition