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May 28, 1997

Re: Comments on Mineral Management Service's proposal, Establishing Oil Value for Royalty Due on Federal Leases, and on Sale of Federal Royalty Oil, 62 Fed. Reg. 3742 (1997) (to be codified at 30 C.F.R. pts. 206 and 208) (proposed Jan. 24, 1997)

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

By Telecopy (303) 231-3194 and Mail

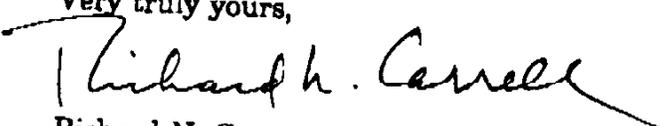
Dear Mr. Guzy:

Our client, Phillips Petroleum Company, endorses the American Petroleum Institute's Comments On Minerals Management Service Proposal for Valuation of Crude Oil and Sale of Federal Royalty Oil. The costs for Phillips to implement the changes contemplated by the Proposal, which would require revamping accounting and record keeping procedures (and retraining personnel) solely for MMS leases, would be very substantial. Phillips estimates that costs for reprogramming its systems alone would be in excess of \$400,000. Phillips also reiterates the API's Comments that the premise of the Proposal is fundamentally flawed. In particular,

- NYMEX is a futures market, which is an economically distinct and different market from the lease crude market; and
- NYMEX-based valuation fails to account for the value-added benefits of downstream aggregation, marketing, risk-taking, and entrepreneurial activity.

Phillips strongly urges that MMS maintain the existing regulations.

Very truly yours,


Richard N. Carrell

Mr. David S. Guzy, Chief
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cc: **Mr. Stephen R. Johnson, Senior Counsel**
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