



NUEVO ENERGY COMPANY

By Federal Express

May 27, 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:

Nuevo Energy appreciates the opportunity to comment on the notice of proposed rulemaking that the Minerals Management Service (MMS) has issued regarding the value of the federal royalty on crude oil. Nuevo is a growing independent producer with total production exceeding 63,000 barrels of oil equivalent per day. The majority of production is located on and offshore California, with other production east of the Rockies and West Africa. Nuevo is a member of the Independent Petroleum Association of America (IPAA).

I want to emphasize Nuevo's support for the MMS to receive market value on federal royalty crude oil in an efficient manner. The proposed rulemaking will not accomplish this objective. The industry has responded to the MMS with significant response and comments during the period provided. Our comments are summarized below:

1. Nuevo supports a federal royalty regulation on crude oil that would:
 - Achieve accurate market value on royalty crude oil for the MMS
 - Provide efficient revenue collections and verification
 - Minimize burden on both MMS and lessee (producers)
 - Significantly reduce probability of audit risk
 - Create little, if any, future potential price liabilities on producers
 - Generate well defined incentives for government and industry to pursue, develop and produce crude oil.

2. The proposed rulemaking does not accomplish the above objectives nor does it improve the existing regulations due to the following primary reasons:
 - Creates significant financial uncertainty for producers
 - Is inaccurate, uncertain and vague revision to the existing regulations
 - Very expensive to implement for both MMS and industry
 - Generates uncertainty which will change some producer investment decisions regarding both deferrals on marginal wells and shifting from domestic to international opportunities
 - Is a costly regulation for all parties to manage, monitor and audit

3. Nuevo respectfully submits the following recommendations to the MMS:
 - A royalty in kind program should be developed and implemented. This is the only way the MMS can be assured of always achieving the crude oil market price. As you know, the MMS currently sells about 40% of its royalty oil. We encourage continued discussions with the Province of Alberta regarding their successful royalty in kind program.
 - Form a joint government and industry task force to develop a royalty in kind program on a tight, but realistic schedule.
 - Do not implement this rulemaking or a subsequent rulemaking that is a radical departure from the existing regulations, unless it is a royalty in kind program. Implementation of an interim or similar proposed rulemaking would have a significant impact on the industry. The “ripple effect” would impact all existing crude oil royalty audits, claims and lawsuits at the federal, state and private royalty owner levels. The time and expense to settle these would absolutely soar.

Nuevo remains very concerned about the proposed rulemaking, as it would require royalties to be paid on revenues not received and potentially affect the future development of federal properties.

We are very hopeful the MMS will continue use of the existing rules and agree to join with industry in a task force to evaluate and develop a royalty in kind program. A well administrated and efficient leasing program provides the climate for a healthy and growing industry and accurate market price for federal royalty on crude oil production.

Nuevo is grateful for the opportunity to provide our comments and should you like to discuss them or have any questions please do not hesitate to contact me.

Sincerely,



Michael D. Watford
President and Chief Executive Officer