

Shell Offshore Inc.

An affiliate of Shell Oil Company



PO Box 61933
New Orleans LA 70161-1933

One Shell Square
701 Poydras Street
New Orleans, LA 70139

Direct Number: (504) 588-6982
Direct FAX: (504) 588-4567

Exploration and Production
Shelf Division
Regulatory Affairs Department

August 16, 1996



Mr. David J. Guzy
Chief, Rules and Procedures Staff
Minerals Management Service
Royalty Management Program
P. O. Box 25165 - Mail Stop MMS-3101
Denver, CO 80225-0165

Dear Mr. Guzy:

RE: COMMENTS ON MMS PROPOSAL
"AMENDMENTS TO GAS VALUATION REGULATIONS
FOR FEDERAL LESSEES"
30 CFR PARTS 202, 206 AND 211;
60 FR 56007 (NOVEMBER 6, 1995)
AND 61 FR 25421(MAY 21, 1996)

These comments are submitted on behalf of Shell Oil Company and its subsidiaries, Shell Offshore Inc. and Shell Western E&P Inc. (hereinafter collectively referred to as "Shell"). Subsequent to the receipt of comments on its original publication of gas valuation regulations at 60 Federal Register 56007 (November 6, 1995), MMS republished several options for public comment and reconvened the negotiated rulemaking committee in June, 1996, to seek further input in an effort to apparently reconcile what MMS perceived as wide variety of opinion on the November, 1995, proposed rulemaking. Shell urges the MMS to retain the principles incorporated in the November, 1995, consensus which was published in the Federal Register. This proposal was crafted as a compromise among parties of competing and varying interests which included states, the MMS itself and various parts of the oil and gas industry. No one party participating in the November consensus provision, including Shell, was completely satisfied with the original proposal since it reflected negotiation and compromise on the various issues contained in the proposal. As such, it is and remains the most satisfactory resolution of the difficult problem of how to value gas for royalty proposed. Shell has read and contributed to the

comments of the American Petroleum Institute (API) on this original November, 1995, proposal referred to as "Option 1" in recent API comments and fully endorses these comments as they modify the original November consensus. Shell also adopts herein by reference its prior February 2, 1996 comments on the gas valuation regulations.

Since each party participating in the negotiated rulemaking process reserved the right to make comments independent of and irrespective of the consensus compromise which flowed from the negotiated rulemaking process, the MMS should not be surprised at the variety of opinion which was made after publication of the November consensus rule. However, the MMS must and should not ignore the consensus work created by the negotiated rulemaking process. Its value lies in setting forth the boundaries of compromise between competing interests which should be reflected in any agency rulemaking. Therefore, the consensus proposal stands as a compass and road map to assist the agency in exercising its authority and in fulfilling its duty to publish guidance on how to value gas under new gas market conditions.

All parties agree that the 1988 gas valuation regulations are inadequate to address conditions as they exist today. All parties are in agreement that the MMS needs to take action in order to clarify application of the existing 1988 valuation regulations to the present day gas market. This reflects the sense of urgency which requires the agency to move forward towards a decision even in the face of varying comments on its proposals. The consensus of the negotiated rulemaking stands as a guiding beacon in resolving conflicts since it reflects the fruit of compromise among the competing interests.

The MMS proposed various options in the May, 1996 Federal Register notice and solicited input on them. The options were very broadly based and worded but were discussed in some detail over a several day meeting in Denver in June, 1996. Although certain industry compromises were fashioned as set out in the API comments recently filed on the June Federal Register publication, the compromises were structured to be self-contained within each option. Therefore, the taking of any of the compromise positions from one option and mixing and matching them with compromises and positions contained in the other options would be totally inappropriate and would not be reflective of a position acceptable to Shell. Shell has reviewed the comments of the API of each of the options and incorporates them in these comments. Publication by MMS of any final rule which substantially deviates from the consensus of the negotiated rulemaking will require another full publication for public comment in order to meet Administrative Procedure Act requirements.

The most critical component of any form of index proposal is the use of the median value of gross proceeds payors in the true up process. This is the position negotiated by competing interest in the consensus negotiated rulemaking which was published in November, 1995. In Shell's opinion it is critical to the successful implementation of any proposal using index with true up.

The API comments also referenced the necessity to retain clarifications for deepwater which were included in the original November consensus proposal. Shell reurges the MMS to clearly provide for the use of index for deepwater leases by adopting language which makes it clear that the deepwater leases will be tied into a shelf lease in a zone which meets the criteria for application of index. Because of their remote location in order to fairly utilize a shelf index and the true up process the deepwater leases must be entitled to use safety net median value of the shelf tie-in point to which the production from the deepwater lease flows. Under this process, any additional royalty due on a deepwater OCS lease would be calculated only after deducting from the applicable safety net median value the appropriate transportation allowance from the deepwater lease to the shelf tie-in point to which the production flows. Deepwater leases also present a special problem for compression allowances. The distance, temperature and friction of movement of deepwater production creates a situation in which compression is needed not to meet pipeline specifications, but to actually transport or move the gas to shore. To deny this compression which by purpose is related to transportation would be arbitrary and capricious.

The MMS has been aware for an extended period of time of the confusion over the "takes" versus "entitlements" conflict which continues to exist on the Outer Continental Shelf for Gulf of Mexico leases. OCS gas production makes up the largest percentage of MMS gas production from federal leases. Shell believes that it is critically important for the MMS to clearly confirm in the gas valuation regulations that the payment on a "takes" basis on OCS leases with similar royalty schemes is acceptable and, in fact, a great simplification for reporting purposes.

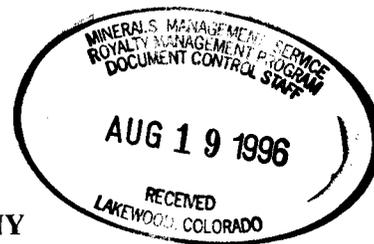
Conclusion

Shell believes that it is critically important for the MMS to promptly act in issuing the long overdue clarification of gas valuation regulations. The gas market is and has been changed for a number of years and federal lessees have been struggling to achieve the right interpretations of MMS gas valuation regulations. Shell endorses the comments submitted by the American Petroleum Institute and urges the MMS to act to resolve confusion over gas valuation by adopting the consensus approach reflected as the fruit of the negotiated rulemaking as described in "Option 1" of the API comments and as further described in these comments. We appreciate the opportunity to submit these comments.

Sincerely yours,



Peter K. Velez
Regulatory Affairs Manager



**COMMENTS OF
CHEVRON U.S.A. PRODUCTION COMPANY
MINERALS MANAGEMENT SERVICE PROPOSED RULE
“AMENDMENTS TO GAS VALUATION REGULATIONS FOR FEDERAL LEASES”
30 CFR 202, 206, and 211
61 FR 25421 (May 21, 1996)**

Chevron U.S.A. Production Company, a Division of Chevron U.S.A. Inc. (“Chevron”), one of the largest payors and reporters of royalty on gas production from federal leases, offers these comments on the Minerals Management Service’s (MMS) May 21, 1996, notice of proposed rulemaking.

Chevron endorses and adopts in full the separate comments of the American Petroleum Institute (API), the Rocky Mountain Oil and Gas Association (RMOGA), the Natural Gas Supply Association (NGSA), and the Council of Petroleum Accountants Societies (COPAS).

Chevron strongly endorses the consensus of the Federal Gas Valuation Negotiated Rulemaking Committee (“Committee”) and the recommendations appearing in the March 1995, *Final Report, Federal Gas Valuation Negotiated Rulemaking Committee* (“Final Report”). Chevron also endorses the Unified Industry Proposal set forth at the June 12-14, 1996, meeting of the Negotiated Rulemaking Committee. Chevron endorses MMS Option No. 1 set forth in the May 21, 1996, notice of proposed rulemaking provided Option No. 1 is modified as suggested by API, RMOGA, and NGSA.

Chevron strongly opposes all other options proposed in the May 21, 1996, notice of proposed rulemaking as well as the other options proposed at the June 12-14, 1996, Committee meeting. Each such proposal is not only of questionable legality, but departs so radically from the Consensus Rule that implementation would violate the spirit and integrity of the negotiated rulemaking process.

Respectfully submitted,

George W. Butler, III
Chevron U.S.A. Production Company

Submitted on Friday, August 16, 1996