



Chevron

May 28, 1997



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

Chevron U.S.A. Production Company
1301 McKinney Street
Houston, Texas 77010-3029
Mail Address: P. O. Box 3725
Houston, Texas 77253-3725

George W. Butler III
Senior Counsel
Law Department
(713) 754-7809
Fax (713) 754-3366

VIA E-MAIL: David_Guzy@smtp.mms.gov

Notice of Proposed Rulemaking on Establishing Oil Value for Royalty Purposes Due on Federal Leases on Sale of Federal Royalty Oil (62 FR 3742, January 24, 1997)

Dear Sir:

Chevron U.S.A. Production Company, a Division of Chevron U.S.A. Inc. ("Chevron"), one of the largest producers of oil from federal leases, offers the following comments on the subject proposed rule.

The proposed rule should not be implemented. It would establish a value of oil for royalty purposes which would, in the overwhelming majority of cases, not equal the market value of production at the lease, in violation of lease provisions and law.

In addition, the proposed rule's definition of arm's-length contracts is arbitrarily restrictive. Many transactions entered into by lessees, large and small, are arm's-length.

Further, lessees have no duty to market production away from the lease free of cost to the lessor, as the proposal would require.

The proposed rule has been promulgated under a shroud of secrecy, with vague references to expert advice. Yet MMS refuses to disclose to affected parties adequate information about these experts to permit a proper evaluation and rebuttal of their opinions and conclusions. In addition, MMS has failed to provide adequate time necessary to evaluate the proposal. Finally, the method of collection of information in order to establish location/quality differentials is so burdensome as to violate the *Paperwork Reduction Act*.

Chevron therefore urges MMS to withdraw the rule.

Respectfully submitted,

George W. Butler