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

Palo Alto, California
July 24, 1998

Re: Supplementary
Proposed Rule

JUL 1998
RECEIVED

Dear Mr. Guzy:

I wish to protest the further concessions to the large oil companies which are contained in the Supplementary Proposed Rule on Royalty Valuation, because they seem to further complicate and obscure what I and a number of individual royalty owners had hoped to see emerge from your deliberations, namely a national standard for fair royalty valuation.

Why has the oil industry tried every strategem, including most notably a substitution of "royalty-in-kind" valuation to erase, or dilute and pick apart piecemeal a rule which could be understood and applied throughout the United States?

The simple and direct answer to this was given by the Energy Policies editor of the Oil & Gas Journal at the beginning of public notice of this controversy when he stated with remarkable candor:

> Although the MMS rule would affect only 3% of U. S. production, producers fear it could become the standard for private royalty calculations, as well. (6-30-97).

I believe that the looming spectre of a fair royalty valuation in contrast to the outmoded and discredited posted prices has informed all the industry strategy of picking apart the proposed rule, and complicating it so that its value as a precedent is lessened.

The downgrading of the Nymex valuation has been a conspicuous example of targetting a nationally recognized standard, it being attacked as not consistent, and not truly reflective of market price. However it has been successfully used in many situations, which have not been studied, perhaps because pricing is a closely-held area of competition. Few individual royalty owners can tell you whether their royalty is posted plus bonus, or under an index valuation. I personally have received most of my royalty income based on a Nymex valuation for the past year. Far from being complicated this valuation has been praised by the producer as simplifying the contract process. The valuation covers an 18,000 barrel a month production. I believe the Nymex has been bad-mouthed as a New York vs. down-home oil patch method. Any distortion has been countenanced.

I urge the MMS to consider their final decision with added regard to its influence on the achievement of a national fair standard of royalty valuation. Retention of an index requirement whereever possible seems to be a very important element.

Very truly yours,

Preston C. Burchard

One page fax, and surface mail
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on Internet. Fax does not copy well.

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