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Luis Aguilar
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Building 53, Entrance E-20
Denver Federal Center
West 6th Ave. and Kipling St.
Denver, CO 80225

Attn: Regulation Identifier Number (RIN) 1012-AA21

Re: Comments on Office of Natural Resources Revenue (ONRR) Advance Notice of Proposed Rulemaking (ANPRM) for Federal Oil and Gas and Federal and Indian Coal Valuation, 82 Fed. Reg. 16325 (April 4, 2017)

Submitted via: Email and Regulations.gov

Dear Mr. Aguilar

Chevron U.S.A. Inc. (Chevron) appreciates the opportunity to comment on the Office of Natural Resources Revenue (ONRR) Advance Notice of Proposed Rulemaking on Federal oil and gas valuation. Chevron is one of the largest federal leaseholders in the Gulf of Mexico, and holds a substantial number of onshore federal leases. As a federal leaseholder and operator, Chevron has a strong interest in the scope and content of any revisions to the federal oil and gas valuation regulations. Chevron concurs in ONRR's stated goals that any such revisions should provide clarity and ease of understanding, efficiency, certainty, and consistency in royalty valuation. Chevron shares ONRR's commitment to ensure a fair return to the public, but a fair return must be balanced with the legal rights and obligations of federal lessees and the benefit must be greater than the cost of such changes.

Chevron is a member company of the American Petroleum Institute (API) and the Council of Petroleum Accountants Societies (COPAS). Accordingly, in addition to these comments, Chevron supports and has participated in the development of the comments submitted separately by API and COPAS, and incorporates those comments by reference.

ONRR requests comments on two possible scenarios pending the outcome of the proposed rule to repeal the 2017 Valuation Rule:

1. If the 2017 Valuation Rule is not repealed, ONRR requests comments regarding whether potential changes to the 2017 Valuation Rule are needed. Chevron's position is that changes are needed. (See Attachment A – Chevron's May 8, 2015 comments on the proposed 2017 Valuation Rule.)

2. If the 2017 Valuation Rule is repealed, ONRR requests comments regarding whether a new rulemaking would be beneficial or is necessary. Chevron's position is that a new rulemaking is needed to resolve uncertainty, vagueness and inefficiencies in certain sections of the regulations that existed before the 2017 Valuation Rule. Any new rulemaking should incorporate long-standing policies or guidance. The framework of a new rulemaking should be to simplify and clarify the regulations and promote certainty for lessees that royalties are correctly reported and paid and provide lessors with confidence that they are being paid correctly. Any rulemaking effort should be a collaborative effort with stakeholders, including industry.

Index Pricing Options.

Chevron strongly urges ONRR to develop an index pricing option as an alternative to gross proceeds for both non-arm's-length and arm's-length dispositions of oil, gas, and gas plant products. The option to use an index to value oil and gas furthers ONRR's stated goals to offer greater "simplicity, certainty, clarity and consistency."

Index Prices to Value Oil

Because markets evolve, the ONRR should also provide the ability for lessees to propose additional market centers for approval so that the list of approved market centers remains current. For example, SGC at Nederland, Texas has become an active market with a valid index, but is not currently an approved market center. We also suggest that the use of a published differential to adjust value from the market center to Cushing should always be an available alternative even when an actual exchange differential is available, as the published differential affords simplicity in reporting and reduces the audit burden for both the lessee and the ONRR.

Index Prices to Value Gas

The true benefit to gas indexing is not the price itself, but the opportunity to achieve clarity, transparency and certainty on allowable deductions, thereby reducing the administrative burdens in reporting and auditing for both the lessee and the ONRR. An index-based approach can eliminate pricing adjustments, non-arm's-length transportation and processing calculations and true-ups, unbundling of arm's-length transportation and processing agreements and related true-ups, and special keepwhole accounting reporting requirements. Thus, an index price methodology should not include any safety net calculations, dual accounting, true-up requirements or special keepwhole accounting requirements, all of which increase reporting and auditing burdens.

Index Prices to Value Gas Plant Products

Due to the complexity of tracing gas plant products after they are fractionated into purity components for sale, index pricing should be allowed as an alternative to value NGLs, utilizing OPIS published prices for Mt. Belvieu, and other reported locations.

Gross Proceeds for Arms-Length Sales of Gas Plant Products

The new rule should clarify that gross proceeds for gas plant product sold arm's-length at the plant is the price received by lessee and the costs incurred downstream of the sales point do not need to be unbundled, especially as they are not to place the gas plant product in marketable condition.

Unbundling of costs

Unbundling costs has proven to be extremely burdensome for lessees and is often unworkable leaving the lessee without access to third party data needed to calculate these rates. ONRR should further develop and provide standardized transportation and processing unbundling cost allocations for onshore regions and plant type. These standardized rates would eliminate the need for unbundling and prior period adjustments.

Transportation & Processing Allowances

To best achieve revenue neutrality, transparency, efficiency, and certainty, alternatively a fixed percentage deduction from the index value of gas and NGLs should be used. A percentage of the index value of the gas tracks the commodity value of the fuel component of the transportation cost, and thus is the best means to achieve revenue neutrality. Because a percentage is necessary for the fuel component, in the interest of simplicity it would be acceptable to use a percentage approach to the entire transportation allowance (*i.e.*, a percentage that covers both the transportation fee and the fuel). If a cap is utilized, then a floor would also be appropriate. A differential would also eliminate some aspects of the current unbundling challenges, but to maintain revenue neutrality it would need to separately address the actual value of fuel via a percentage approach.

A fixed percentage could also be used for processing. A fixed processing allowance would eliminate some aspects of the current unbundling challenges, provide certainty and efficiency, and reduce the burden of federal reporting and audits. Under a fixed processing allowance approach, the fixed allowance should not be nationwide – a narrower basis is preferred because the narrower the basis, the more revenue-neutral the allowance will be. At a minimum, any fixed allowance should be on an offshore region and onshore basin basis, and on a plant type basis. The type of plant (*e.g.*, cryogenic, lean oil, adsorption, absorption) and the plant efficiency should also be considered.

Definition of Contract

ONRR recognize the reality of today's market that the sale of oil, gas and gas product are sold on a monthly or daily basis and can be done through electronic confirmation and email. ONRR has recognized that communication by email is sufficient to put a lessee on notice of ONRR action.

Marketable condition

Clarify that lessee must place the gas, residue gas or gas plant products into marketable condition "<u>only once</u>" at no cost to the lessor.

Accounting for Comparison

The requirement for Accounting for Comparison (Dual Accounting) for federal leases should be eliminated as it requires lessee to gather information that may not be at its disposal, and results in very little, if any, additional money to ONRR.

Conclusion

Royalty valuation is complex. Vague and overbroad rules will inevitably lead to more disputes and appeals. Chevron appreciates the opportunity to comment on ONRR's Advance Notice of Proposed Rulemaking. If you have any questions regarding our comments, please feel free to contact me.

Sincerely,

Greg C. Morby