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W.L. STONE
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September 19, 1997

Mr. David S. Guzy
Chief, Rules and Procedures Staff
Minerals Management Service
Royalty Management Program
P. O. Box 25165, MS3101
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Re: Comments on "Amendments to Gas Valuation Regulations for Federal Leases -- Supplemental Options" 62 FR 19536 (April 22, 1997)

Dear Mr. Guzy:

Exxon Company, U.S.A., a division of Exxon Corporation (Exxon), is a major gas producer on federal leases and has been actively involved in the development of a simpler gas valuation methodology for paying Federal royalties. An Exxon representative attended all Federal Gas Valuation Negotiated Rulemaking Committee (Committee) meetings and provided input to Committee members for the proposed rule (Consensus Rule). Exxon participated in the development of the Unified Industry Proposal presented to the MMS in June, 1996 which included several industry "compromises" from the Consensus Rule but rejected by the MMS. Exxon also participated in the open discussion with the MMS in July, 1997 on the Supplemental Options addressed in this letter.

Exxon continues to support the Consensus Rule which established an index-based gas valuation option to improve the royalty process. Although certain aspects of the Consensus Rule were unfavorable to industry, it was the result of a negotiated effort between MMS, States and industry representatives. In considering other options to the Consensus Rule, it is critical that any option adopted must have the widespread acceptance of industry.

MMS' stated reason for withdrawing the proposed rule is that it would not achieve revenue neutrality. This conclusion was reached as a result of a MMS cost/benefit analysis dated February 6, 1997. Industry challenged the validity of the study at the July, 1997 meeting. Exxon also believes that the MMS analysis has a number of flaws in it which are causing the MMS to come to the wrong conclusion. Another study published in 1995 by an independent consultant, and submitted with the rulemaking comments of the NGSA, examined much of the same data included in the MMS cost/benefit analysis. This study concluded that published indices reflect market value and that the calculation of royalty payments for gas sold under non-dedicated contracts would not reduce royalty payments to MMS. As such, the MMS should give important consideration to these study results.

The two supplemental options now being suggested by the MMS cannot be supported by Exxon. Both options resemble royalty valuation options considered during the REGNEG Committee meetings which were soundly rejected. Further, these options were not developed enough by the MMS to demonstrate any possible workability or enable any extensive evaluation. It does appear, however, that these options would be administratively burdensome, would not be representative of current market value and could invite future litigation.

Exxon opposes the supplementary options proposed by the MMS and urges the MMS to reconsider its decision to withdraw the Consensus Rule.

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