



APRIL KANAK
SENIOR ATTORNEY

April 6, 1998

David S. Guzy, Chief
Minerals Management Service
Royalty Management Program
Rules and Procedures Staff
U. S. Department of the Interior
P. O. Box 25165
MS 3101
Denver, Colorado 80225-0165



Re: MMS Supplementary Proposal on Valuation of Crude Oil

Dear Mr. Guzy:

Anadarko Petroleum Corporation ("Anadarko") is one of this country's largest independent exploration and production companies with domestic operations in Kansas, Oklahoma, Texas, New Mexico, Alaska and the Gulf of Mexico. Anadarko appreciates this opportunity to comment on the MMS Supplementary Proposal on Valuation of Crude Oil Produced on Federal Leases ("Proposed Rule").

Anadarko is greatly distressed at the complexity and uncertainty in the Proposed Rule. We need not go into detail here about our concerns because they are addressed at length by the industry trade association comments of IPAA/DPC and API which we fully support.

In addition, we are concerned regarding the findings of Barents Group LLC which prepared an "Analysis of MMS' Economic Analysis of Proposed Federal Oil Valuation Rule Under Executive Order 12866." This report, which is being submitted as a comment to the rulemaking by the Rocky Mountain Oil & Gas Association, found that "the supplementary proposed rule will not achieve the benefits that MMS expects. Instead, the proposed rule will unnecessarily complicate the royalty process, will increase the volume of valuation determinations and litigation, will increase industry compliance costs, and will not result in the Federal government receiving market value at the lease." (Barents report, page 29)

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Anadarko believes that revising the existing benchmarks would be a better way to determine the value of production at the lease and eliminate the requirement for tracing which we believe would be unduly burdensome if not impossible. In addition, we believe that there is no "duty to market" as expressed in the Proposed Rule; therefore, MMS should allow reasonable deductions for marketing costs and services which add value downstream. If the MMS is not able to support these changes, it should take its oil in kind.

Very Truly Yours,

A handwritten signature in cursive script that reads "April Kanak".

April Kanak

AK/lb