

EXXON COMPANY, U.S.A.
POST OFFICE BOX 2024 • HOUSTON, TEXAS 77252-2024

CONTROLLER'S DEPARTMENT
OWNERSHIP & ROYALTY

W. L. STONE
REGULATORY AFFAIRS ADVISOR

August 16, 1996

Mr. David S. Guzy
Chief, Rules and Procedures Staff
Minerals Management Service
Royalty Management Program
P. O. Box 25165, MS3101
Denver CO 80225-0165

Re: Comments on MMS Proposed Rule, "Amendments to Gas Valuation
Regulations for Federal Leases"
61 FR 25421 (May 21, 1996)

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 Consensus Rule. Exxon also participated in the development of the Unified Industry Proposal presented at the June 12-14 meeting in which the MMS reconvened the Committee to discuss additional options to the Consensus Rule.

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, the Rule 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. To deviate significantly from any industry supported option could discourage the use of an index alternative by a majority of the lessees and could compromise participation in future rulemaking.

The following comments summarize Exxon's position on the specific options presented at the June meeting.

MMS Options

Option No. 1

This option, which closely tracks the Consensus Rule, is the only viable option of the five MMS options. Exxon could support this option subject to revisions as suggested by industry at the June meeting and explained in forthcoming comments by API and NGSA.

Options 2-5

Exxon cannot support any of these options. These options do not (1) achieve simplification, (2) reduce administrative burden, (3) clarify valuation standards, or (4) support the negotiated rulemaking process. These options should be eliminated from consideration.

Industry Options

Prior to the June meeting representatives of gas industry segments met several times to discuss the MMS Options and determined that an additional option was necessary to address the outstanding concerns regarding the Consensus Rule. Certain "Basic Principles" were identified that should be incorporated into the final rule. These principles are summarized as follows:

- An index based alternative method must be preserved.
- Any valuation rule should continue to require that the royalty valuation point remain at the wellhead or on the lease consistent with statutory provisions and lease terms.
- A negotiation should not require that either party fully concede on a legal dispute, e.g., gas contract settlements, affiliated sales, definition of gross proceeds, and deductible transportation costs.
- Paying on entitlements versus takes should be consistent with the Consensus Rule along with a reasonable expansion of the parameters for small producers to pay on takes.
- The safety net must be based on the median value of the gross proceeds payors, but should not create an additional audit burden on them. Unaudited statements should be considered by the MMS.

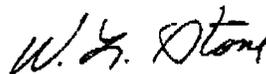
With the above principles as a guide, plus adherence to the original Committee objectives, industry developed a Unified Industry Proposal. This option was presented at the June meeting. Exxon supports the Unified Industry Proposal with or without the modifications proposed at the meeting by industry as long as each option is considered in its entirety.

Additional Options by States and MMS

Exxon cannot support these options for the reasons stated above for MMS Options 2-5. If those options were adopted, it is highly unlikely that any federal lessee would elect to use an alternative gas valuation methodology.

Conclusion

Exxon supports the Consensus Rule, MMS Option No. 1 (if modified as suggested) or the Unified Industry Proposal as presented or as modified and encourages the MMS to proceed as expeditiously as possible in publishing a final gas valuation rule consistent with these options.



W.L. Stone