

Shell Offshore Inc.

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Exploration and Production
Shelf Division
Regulatory Affairs Department

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VIA AIRBORNE EXPRESS

Mr. David S. Guzy
Chief, Rules and Publications Staff
Royalty Management Program
Minerals Management Service
Building 85 - Denver Federal Center
P. O. Box 25165 - MS 3101
Denver, CO 80225

Dear Mr. Guzy:

RE: SHELL COMMENTS ON MMS NOTICE
"AMENDMENTS TO GAS VALUATION REGULATIONS FOR
FEDERAL LESSEES" 30 CFR §202, 206 and 211
62 FR 19536 (APRIL 22, 1997)

These comments are submitted on behalf of Shell Offshore Inc., a wholly owned subsidiary of Shell Oil Company and its affiliates, Shell Deepwater Development Inc., Shell Deepwater Production Inc., and Shell Western E&P Inc. Shell has participated in preparation of the comments of the American Petroleum Institute and hereby adopts those comments. Shell was also a participant in the gas negotiated rulemaking, both individually as Shell, as well as through the American Petroleum Institute. Shell is extremely disappointed at the MMS's action withdrawing the proposed regulations. It is inconceivable that the MMS could have allowed this negotiated rulemaking process to progress as far as it did and to allow the investment of time, expense and resources only to summarily withdraw it on the grounds contained in the withdrawal notice. MMS representatives themselves have publicly stated that the current gas valuation regulations are inadequate to address valuation in today's changed marketplace. This was the original impetus for convening the negotiated rulemaking. To now claim the rules are not revenue neutral is equally disturbing. The decision by the consensus of participants at the negotiated rulemaking was achieved only after an approximate one year effort.

Certainly during that period of time MMS had more than adequate opportunity to examine the revenue neutrality position of the withdrawn regulations and to halt the proceeding earlier than this late date. Most of the reasons offered by MMS to support this withdrawal were discussed publicly by the MMS, state and industry representatives, and resolved on the exactly opposite basis. For example, there was almost uniform consensus that the current regulations were inadequate to address the realities of today's gas market place. Indices were regarded by the consensus of the group as a fair way to value the gas when viewed in conjunction with the proposed "true up" procedure. MMS was not trapped into making an immediate decision which it could not reconsider. This process evolved over an approximate one year time period with much opportunity to reconsider or correct any fatal errors or flaws on neutrality. By making this withdrawal, MMS's creditability in undertaking similar negotiated rulemakings in the future has been greatly undermined.

The two suggested proposals which for alternate valuation which are summarily sketched in the briefest outline in the withdrawal notice are unacceptable to Shell. Index plus some unknown X factor increase was discussed and rejected in the negotiated rulemaking process itself. The brief outline of the Norwegian proposal appears to be nothing more than a restatement of an already unworkable rule that value is what the Secretary says it will be. In any event, the sketchy summary outline provided in the notice for the two alternative methods barely rises to the minimum threshold of information needed to meet the Administrative Procedure Act requirements for comment.

Shell urges the MMS to reconsider its proposal to withdraw the previous proposed rule which was the result of much effort on the part of states, industry and the MMS. MMS is urged to come to grips with the inadequacies of the 1988 gas valuation process as it applies to the current gas marketplace and move towards republication of a gas rulemaking which adopts concepts reached in the consensus negotiated rulemaking. Shell appreciated the opportunity to make these comments.

Sincerely yours,



Peter K. Velez
Regulatory Affairs Manager