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Mr. David S. Guzy
Minerals Management Service
Royalty Management Program
Rules and Publication Staff
Post Office Box 25165, MS 3021
Denver, Colorado 80225-0165

Re: Establishing Oil Value for Royalty Due on Indian Leases; Notice of Proposed Rule Making by the Minerals Management Service at 63 Fed. Reg. 7089 (February 12, 1998)

Dear Mr. Guzy:

Giant Industries Arizona, Inc. ("Giant") has reviewed the referenced Notice and is extremely concerned about the unfairness of the proposed valuation process and the additional burdens on royalty payors for oil produced on Indian leases. As a minimum, the proposed regulations would (i) unfairly increase the value of oil for royalty calculation purposes; (ii) greatly increase the complexity of the royalty payment process; and (iii) significantly increase the reporting and record keeping requirements.

Giant purchases crude oil from approximately 250 producers in the four corners area of Arizona, New Mexico, Colorado and Utah. As a service to these producers, Giant has made royalty payments, at their request, to the MMS. If these regulations are adopted, the increased burden may be too great to allow Giant to continue providing this service. Regardless of whether Giant is willing to continue providing this service, producers may choose to discontinue operations on Indian lands rather than comply with the proposed royalty requirements. Giant understands that many operations on Indian leases are only marginally profitable. The decreased revenues and increased compliance burdens caused by the proposed regulations would prompt producers to shut in wells and discontinue operations on these marginal leases. As a purchaser and refiner of crude oil, Giant is also concerned about this likely decrease in crude oil supply.

The MMS has already received extensive and detailed comments from lessees and royalty payors in response to proposed regulations for valuing crude oil for royalty purposes on federal leases. Giant urges the MMS to consider these comments as applicable to the proposed regulations on valuing crude oil on Indian leases as well. Both proposals are fundamentally unfair by requiring royalties to be paid on crude oil at values that are higher than producers are able to obtain for their oil production. The following is a summary of several of Giant's specific concerns.