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May 13, 1998

David S. Guzy
Chief, rules and Publications Staff
Royalty Management Program
Minerals Management Service
P.O. Box 25165, MS 3021
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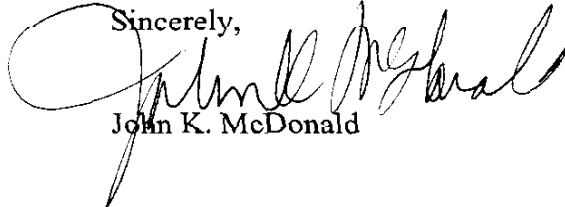
Re: Pennzoil Company Comments on Minerals Management Service Proposal for
Establishing Oil Value for Royalty Due on Indian Leases, 63 FR
7089(February 12, 1998).

Dear Mr. Guzy:

Attached please find the comments of Pennzoil Company to the Proposed Rule on
Crude Oil Valuation on Indian Leases.

If you have any questions, please do not hesitate to call me at (202) 973-0200.

Sincerely,



John K. McDonald

Before the United States
Department of the Interior
Minerals Management Service

Pennzoil Company
Comments on Minerals Management
Service Proposal for Establishing
Oil Value for Royalty Due on Indian Leases
63 FR 7089 (February 12, 1998)
30 CFR Part 206

Pennzoil Company ("Pennzoil") appreciates this opportunity to comment on the proposed rule for Establishing Oil Value for Royalty Due on Indian Leases proposed by the Minerals Management Service ("MMS"). Pennzoil produces crude oil from Indian leases and, as a consequence, has a direct interest in this proposal to alter the method for calculating the value upon which royalty is based. Pennzoil is a member of the American Petroleum Institute ("API") and has reviewed the comments that are being filed by API in this proceeding. In its comments, API incorporates by reference its April 3, 1998, comments on Establishing Oil Value for Royalty Due on Federal Leases (Federal Oil Proposal). Pennzoil has also had the opportunity to review the comments that were filed by the Independent Petroleum Association of America ("IPAA") and the Domestic Petroleum Council ("DPC") in the Federal Oil Proceeding, as well as the comments to be filed in this proceeding by the Council of Petroleum Accountant's Societies ("COPAS"). Pennzoil supports and generally agrees with the comments of API, IPAA, DPC and COPAS.

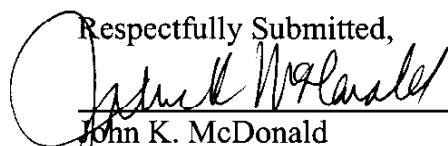
It is Pennzoil's position that the Indian leases to which it is a party, as well as the regulations that are applicable to those leases, provide that royalty is to be calculated based on the value of production at the wellhead. If there is no market at the wellhead, value is to be determined at the nearest market to the wellhead, minus the cost of moving production to that market. The proposal attacks this standard from both directions, by moving the point for royalty valuation away from the wellhead and by reducing the costs that can be deducted in arriving at royalty value. More specifically:

- The proposal rejects the use of transactions at the wellhead market or lease market benchmarks. Instead, lessees are required to begin the valuation process by tracing production to the first arm's-length sale and then work back to the lease or begin with the NYMEX price and work back to the lease. The basic problems with this approach are that it is difficult to accomplish, burdensome and it does not produce an accurate surrogate for value of production at the lease.

- If MMS believes that the existing benchmarks are no longer an accurate surrogate for value at the lease, they should be modified or replaced with benchmarks that do reflect value at the lease. The proposal to trace production to the first arm's-length sale (or begin with an index price) and work back to the lease, does not produce an accurate reflection of value at the lease because it does not reflect the cost of value adding activities downstream of the wellhead.
- The proposal's definition of "gross proceeds" would improperly allow MMS to collect royalties on value beyond the value of production at the wellhead, such as the value added downstream of the wellhead or contract settlement "buydowns."
- Pennzoil disagrees that the NYMEX price is an appropriate measure of value at the lease.
- Pennzoil objects to the replacement of the 50% plus 1 rule for determining major portion with a "top 25%" rule. There is no rational basis for deciding that 25% rather than more than 50% constitutes a "major portion" of the production sold from the lease.
- The "duty to market at no cost to the Indian lessor" contained in the proposal does not exist in the Indian leases to which Pennzoil is a party or the statutes and regulations that are applicable to those leases. This "duty" would have the impact of unlawfully moving the point of value determination from the lease to a downstream market without the lessor sharing post-production value-adding costs.
- To the extent that the MMS insists on determining value at a location away from the lease, Pennzoil believes that the MMS is obligated to share in the costs associated with marketing production.
- The proposal improperly eliminates the use of FERC-approved tariffs in calculating transportation allowances based on the misconception that FERC tariffs overstate allowable costs. This change places a substantial new burden on lessees.

In addition to these general comments, Pennzoil adopts the detailed analyses and discussions contained in the comments of API, IPAA, DPC and COPUS.

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Respectfully Submitted,


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