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Hyla Hurst
MS61013C
Office of Natural Resources Revenue
U.S. Department of the Interior
P.O. Box 25165
Denver, Colorado 80225

SUBJECT: Docket Number ONRR-2-11-0005
RIN 1012-AA01
Advance Notice of Proposed Rulemaking (ANPR)
Federal Oil and Gas Valuation
Joint Industry Comments

Shell Oil Company, through its affiliates, is engaged in exploration and production of natural resources both onshore and offshore in the U.S. Shell is one the largest leaseholders on the U.S. Outer Continental Shelf (OCS), including the Gulf of Mexico and Alaska, and one of the largest producers of oil and natural gas on the OCS.

Shell supports the Office of Natural Resources Revenue (ONRR) efforts to simplify and clarify regulations relating to the payment of royalty on federal leases. Shell is a member of the American Petroleum Institute (API) and is aware that API is submitting comments to the proposed rulemaking. Shell supports and endorses API's comments, except to the extent Shell's comments herein are inconsistent with the comments submitted by API.

Shell appreciates ONRR's effort to create revenue neutral royalty valuation regulations that offer simplicity, certainty, clarity and consistency. Further, Shell is not generally opposed to the concepts raised in the ANPR and believes they can be fairly implemented in a revenue neutral manner. While Shell is conceptually aligned with the objectives and general approach, the implementation of these concepts will need to be carefully analyzed in order to validate that any new regulations are fairly implemented and are, in fact, revenue neutral. Accordingly, ONRR should further elaborate on "revenue neutral" so that lessees can fairly evaluate how the values and allowances being proposed compare with current valuation and allowances.

Shell also strongly recommends that any new regulations retain the ability of lessees to request value determinations, as is currently provided for in 30 CFR 1206.107, 1206.152(g) and 1206.153(g). Value determinations are of significant importance given the inherent complexity of royalty payments and marketing of production. Their importance will be increased subsequent to the introduction of new

regulations imposing a significant shift in valuation for royalty purposes. Value determinations also provide a formal mechanism for lessees to understand ONRR's position on royalty value issues, to resolve unanticipated situations, and to settle disagreements between lessees and ONRR on royalty matters.

We also offer the following comments to the specific questions raised in your May 27 advance notice of rulemaking.

Index Pricing- Oil

Shell would endorse the following for oil valuation (note that index prices should include any adjustments associated with pipeline quality banks):

1. Gulf of Mexico - NYMEX calendar month average, +/- Roll, +/- Argus grade differentials for LLS/St. James or HLS/Empire or Bonito/St. James or EI/St. James or Mars/Clovelly or Poseidon/Houma or SGC/Nederland or Thunder Horse/Clovelly adequately represents the value for Oil that flows to each of these assessment locations.

a) Texas – there are no published grade differentials for North Texas, East Texas, South Texas or Eagle Ford. Market participants in these areas use posted prices or negotiate fixed differentials to NYMEX CMA.

b) Mississippi - there are no published grade differentials for Mississippi. Market participants in these areas use posted prices or negotiate fixed differentials to NYMEX CMA.

c) Louisiana- there are no published grade differentials for Louisiana. Market participants in these areas use posted prices or negotiate fixed differentials to NYMEX CMA.

d) Alabama- there are no published grade differentials for Alabama. Market participants in these areas use posted prices or negotiate fixed differentials to NYMEX CMA.

2. Midwest

a) Oklahoma - NYMEX calendar month average, +/- Roll adequately represents the value for Oil in Oklahoma. There are no published grade differentials for Oklahoma Oil production.

b) North Dakota – NYMEX calendar month average, +/- Argus NDL/Clearbrook adequately represents the value for Oil in North Dakota. The Roll does not apply currently, but may apply in the future.

3. Southwest

- a) New Mexico - NYMEX calendar month average, +/- Roll, +/- WTI/Midland or WTS/Midland grade differential adequately represents the value for Oil in New Mexico (outside of San Juan Basin).
- b) Permian Basin - NYMEX calendar month average, +/- Roll, +/- WTI/Midland or WTS/Midland grade differential adequately represents the value for Oil in the Permian Basin.
- c) San Juan Basin – NYMEX calendar month average, +/- Roll,

4. Rocky Mountain

- a) Wyoming – NYMEX calendar month average, +/- The Roll (where applicable). There are no published grade differentials. Market participants in these areas use posted prices or negotiate fixed differentials to NYMEX CMA.
- b) Montana - NYMEX calendar month average, +/- The Roll (where applicable). There are no published grade differentials. Market participants in these areas use posted prices or negotiate fixed differentials to NYMEX CMA.
- c) Colorado - NYMEX calendar month average, +/- The Roll (where applicable). There are no published grade differentials. Market participants in these areas use posted prices or negotiate fixed differentials to NYMEX CMA.
- d) Utah (outside San Juan Basin) – NYMEX calendar month average- NYMEX calendar month average, +/- The Roll (where applicable). There are no published grade differentials. Market participants in these areas use posted prices or negotiate fixed differentials to NYMEX CMA.

5. West Coast

Primarily California – 26 API and above – Buena Vista CMA, for 19 API and below Midway Sunset CMA. For both of these, it's the average of the 4 postings from Chevron, ExxonMobil, Shell, ConocoPhillips. Both pricing basis are adjusted +/- for a negotiated differential (inconsistency in reporting to the market)

6. Alaska – Argus ANS West Coast

Index Pricing-Gas

For gas valuation, Shell supports the use of pipeline specific indexes using first of month values reported in dollars per MMBTU as per Platt's Inside FERC Gas Market Report.

Transportation Allowances

Shell agrees with the comments submitted by API with respect to Transportation Allowances.

Processed Gas and Processing Allowances

Shell agrees with the comments submitted by API with respect to Processed Gas and Processing Allowances.

We appreciate the opportunity to comment on this ANPR and your consideration of these comments.

Yours very truly,

A handwritten signature in black ink, appearing to read "Kent Satterlee III". The signature is fluid and cursive, with the first name "Kent" being particularly prominent.

Kent Satterlee, III, Manager
Regulatory Policy - Offshore