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VIA E-MAIL: rules.comments@MMS.gov

January 9, 2001

RULES PROCESSING TEAM

JAN 1 1 2000

United States Department of the Interior
Minerals Management Service
Mail Stop 4024
381 Elden Street
Herndon, VA 20170-4814

Attention: Rules Processing Team

RE: PROPOSED RULE RIN 1010-AC71
ROYALTY OR REDUCTION IN ROYALTY RATES – DEEP WATER ROYALTY RELIEF FOR OCS OIL AND GAS LEASES ISSUED AFTER 2000

Gentlemen:

Chevron appreciates the opportunity to comment on the above captioned proposed rule. We have seen the comments forwarded by The National Ocean Industries Association, American Petroleum Institute, Domestic Petroleum Council, Independent Petroleum Producers Association, the US Oil & Gas Association, and the International Association of Geophysical Contractors and concur in the positions they have taken on the proposed rule, especially the comments made in regard to sunk costs. We will limit our comments to those items that we feel need to be stressed.

The MMS, for non producing leases, previously counted sunk costs of the discovery well and subsequent allowable costs incurred before a pre production field application in an evaluation for relief -and the MMS, for producing leases, previously did not consider any sunk costs in determining qualification for relief. The proposed rule now will count the costs of the discovery well (the well that penetrates the first reservoir targeted by the project that is a qualified well) as sunk costs to be considered in the evaluation of relief requests for development projects on post 2000 deep water leases and for expansion projects on pre-Act leases and on post 2000 deep water leases, but will not include as sunk costs pre application costs incurred after the drilling of the discovery well (e.g. costs for acquiring seismic data, engineering studies and drilling of additional wells). The MMS's position seems to be that these costs are being incurred even though royalty relief has not yet been applied for and therefor are discretionary expenditures that do not affect a decision to proceed with a project needing relief but are most likely to be expenditures used to attract other partners to the prospect or to help sell the prospect and/or to assist in the evaluation of projects other than the one relief is sought for. The MMS has indicated that this limitation on the definition of sunk costs will expedite the MMS's review of relief applications by reducing the need to assess the relevance of post discovery costs.

Chevron would ask the MMS to reconsider its position on excluding from sunk costs, those costs that were previously allowed to be included as sunk costs.

In regard to proposed 30 CFR 203.80 Chevron reiterates the position of the Industry Comments to delete the word "significant" from paragraph (a). Also in paragraph (b) we would like to remove the limitation of valuable facilities having to exist "on the lease". It is possible for such facilities to be located off lease and tied back to the producing lease in need of relief.

In regard to 30 CFR 203.76 Chevron is of the opinion that paragraph (c) should only provide for a retention of 50% of the original royalty suspension volume and not be a lesser of it or 50% of the most likely size of producible resources anticipated in an application.

~~Finally Chevron believes it to be relevant to not limit the application for relief to a period prior to the beginning of project Construction. Waiting 6-9 months for relief may make such relief when granted less than what was expected due to the time value of money factor.~~
Finally, it should be made clear that a company's sanctioning of a marginal project prior to application and/or approval of royalty relief will in no way prejudice the ability to obtain otherwise acceptable royalty relief. Quicker decisions on such projects are required because of the necessity to shorten cycle time. The MMS should recognize that a company may have to sanction a project prior to royalty relief being granted in order to preserve an economic project. A significant delay in sanctioning a marginal project will erode project economics.

Very truly yours,

Chevron U.S.A. Inc.

By____________________