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January 9, 2001

By Hand Delivery

RULES PROCESSING TEAM

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Walter C. Rosenbusch, Director
Minerals Management Service
U.S. Department of the Interior
1849 C Street, NW MS-4230
Washington, DC 20240

Re: Proposed Rule:
Royalty Relief for OCS Oil and Gas
Leases Issued After 2000;
30 CFR Part 203; RIN 1010-AC71;
November 16, 2000

Dear Mr. Rosenbusch:

As a participant in the Gulf of Mexico in both operating and non-operating capacities during the past two decades we have been very interested in the MMS's efforts to deal with the recent expiration of the royalty relief provisions of the 1995 Act. Well in advance of the expiration of the Act you asked for input from companies with experience in deep water. To that end, Occidental began a dialogue with you and members of your staff, in hopes of continuing a program in the Gulf of Mexico which would allow the agency to replicate the leasing and development successes of the past five years.

Initial comments by the agency indicated that little if any consideration would be given to continuing the type of program contained in the 1995 Act. Although we have seen some improvements from the Agency's initial posture, I can only describe our reaction to the final suspension volumes and to the lack of attention to the 200 to 800 meter depths one of disappointment.

Our input during the past months was based upon years of experience in not only the Gulf of Mexico. but in other off shore oil and gas provinces around the world. As we explained, our company's annual capital budget, like many other companies, is limited, and decisions for leasing and or drilling projects face competition from the other provinces where we have the opportunity to operate. Our opinion for some time has been that while the Gulf is attractive geographically, overall program returns in deep water are not what we or most of the industry anticipated when we began in the deep water. The reasons for low returns in the deepwater Gulf are manifold but the primary reason is that the average reserve size per field in the Gulf has proven to be smaller than originally thought and smaller than deepwater provinces in other oil producing countries.

Behind our comments about the Gulf was our belief that the Agency honestly wanted to know what it would take to have the industry continue to invest in leases and exploration to an extent that could allow the Agency to replicate its leasing successes of the past 5 years. Contrary to the thoughts voiced by some in the Agency, we do not expect the Government to guarantee returns for us. Our answer, put simply, was that in order to attract the kind of capital necessary to justify continued exploration the Agency must recognize that the Gulf of Mexico is not the single most attractive field in the world. In order to become the major contributor to the country's energy supply that it must, the Gulf of Mexico must be competitive with other areas of the world.

The 1995 Act helped bring the deepwater Gulf to the forefront as an energy source by creating an incentive program that helped justify the risk. Because of this experience in the area we now know much more about the geologic characteristics of the Gulf. We know that average field size is smaller than originally thought and we know that many of these fields are in the 200 to 800 meter depths. Unfortunately, these fields marginally economic and certainly some form of economic incentives will be required to make them economically attractive. Your newest proposal as supplemented by the November 29, 2000 announcement, has removed incentives from leases in this water depth. As pointed out in the comments by the Domestic Petroleum Council this action has effectively raised the royalty rates in this water depth. This action is seemingly in contravention of what we thought was your stated intention, that of increasing production from the Gulf.

Perhaps equally important, is the fact that much of your program seems to be based upon the idea that discretionary royalty can be granted by the agency, if necessary, at some point after exploration and development has occurred. It may be appropriate in some cases to grant such "after the fact" royalty relief, however, it must be pointed out that if your intention is to have leasing and development occur, the concept of discretionary royalty relief does not matter for leasing decisions. Any company that is preparing for a lease sale will totally discount the possibility of obtaining any after the fact relief. This too is seemingly in contravention of your stated intention of increasing leasing and production in the Gulf.

We believe that the program that you have proposed will result in a reduction of the amount of leasing and, ultimately, the royalty revenues produced in the Gulf compared to the successes generated by the 1995 Act. This is extremely disappointing given the amount of time that Occidental and many other independents put into the discourse on this topic. More critically, however, it is unfortunate that, at a time when the country needs these resources to be leased and produced, many acres may never be leased and certainly many millions of barrels will not be economical to develop.

As in the past, I would call your attention to the Advanced Resources International study prepared as a part of our on going dialogue over this program. We believe that the study adequately demonstrates that the field size distribution used by the Agency as the basis for this proposal is inaccurate and will result in the reduction of leasing and exploration in the Gulf of Mexico. We believe that this issue is significant enough that it warrants a delay in the implementation of this program as it is proposed. We concur with suggestions made earlier by some industry representatives that the incentive provisions of the 1995 Act be continued while this is addressed fully by the Agency.

Other companies and trade association to which we belong will make more detailed comments and we urge you to take them seriously. Particularly, the Domestic Petroleum Council has commented on this program and we support those comments fully.

Sincerely,

Gerald T. McPhee

Gerald T. McPhee
Vice President, Federal Relations