2000 POST OAK BOULEVARD / SUITE 100 / HOUSTON, TEXAS 77056-4400

ENERGY RESOURCES CORPORATION

(713) 296-6000

November 21, 1996

Mr. David S. Guzy
Minerals Management Service
Chief, Rules and Procedures Staff
P. O. Box 25165 MS3101
Denver, CO 80225-0165

RE: Comments on Proposed Regulation - Amendments to Regulations Governing Valuation of Natural Gas Produced from Indian Leases

Dear Mr. Guzy:

Apache Corporation appreciates the opportunity to offer comments on the proposed Amendments to Gas Valuation for Indian Leases (30 CFR Parts 202 and 206) published in the Federal Register September 23, 1996.

In the introduction of the Proposed Amendments, " MMS commends the Committee's ability to compromise and develop a proposal that would simplify royalty payments on natural gas produced from Indian leases, provide lessees with the information to comply with the regulations at the time royalties are due, decrease administration costs, decrease litigation costs, and provide the Indian lessors with maximum revenue consistent with their lease terms." Apache agrees with this concept, and is in favor of revising the Regulations as to achieve these goals. Unfortunately, in our opinion, the Proposed Regulations do not achieve this purpose and, in fact set forth more confusing and nebulous rules which further complicate the royalty reporting requirements of Indian leases. Some of our concerns are detailed below.

Subsection 206.172 covers gas valuation for gas produced in an index zone, which is based on prices published in publications which must be MMS approved.

- How would a publication become approved?
- What kind of market conditions changes will be considered to require a Technical Conference for disqualifying an index zone ?
- How often will MMS publish the list of acceptable publications in the Federal Register?

- How will independent payors who do not receive the Federal Register be notified?
- Which tables within the publications will be used and can they vary from month to month?
- How will MMS determine that the price published does not reflect value accurately?
- Does this mean each payor will have to subscribe to all MMS approved publications?
- Why is a safety net price required if rates have been accepted by the MMS previously?

Subsection 206.174 covers Valuation of gas when an Index Method cannot be used.

- The MMS is going to calculate a major portion value within a 90 day period from the Report date, and send notice to lessee's to file amended MMS form-2014. The lessee would then have 30 days to file amended MMS Form-2014. As a result of this, the payor could possibly have to be continually filing amendments that would increase the accounting cost, and paperwork required. Why couldn't the MMS bill this value just as it does penalty and interest?

- The minimum pricing on gas plant products is, in our opinion, not required by lease terms.

- Prices published in "Platt's Oilgram Price Report"(one publication suggested by MMS as a pricing source for plant products) are not available until 90 days after production. This would mean timely reporting of royalties would be impossible, and would require continual adjustments of MMS Form-2014s.

- The MMS requested specific comments on the following:

  Is a minimum value needed when a lessee chooses the actual dual accounting methodology?
  No.
  Are there other better methods to use?
  No.
  Are Conway and Mont Belvieu the proper locations to look for prices for gas plant products?
  No, the price at the point of sale represents the fair market value.
  Are the 7.0 and 8.0 cents per gallon the right deduction for transportation and fractionation?
  No.

The Paperwork Reduction Act portion of the proposed rules estimates the additional annual reporting costs to be $935,000 as a result of these regulations. Apache believes that this amount is low, and that the cost of tracing gas, calculations of safety net prices and adding BTU's by well to Form -3160, will be significantly higher than the estimated amount. These costs will weigh heavily against the independent producers and make it less economical to have wells located on Indian leases.

Because the payment of Royalties on Indian leases is currently complex and time consuming, Apache supports the concept of revising the existing regulations to provide simplicity and clarification. Unfortunately, because the Proposed Regulations present even more complicated calculations than are now required, and would dramatically increase the administrative costs associated with Indian leases, we are unable to support the Proposed Regulations.

We appreciate the opportunity to comment on these proposed regulations. If you have any questions regarding these comments, please call Tammy Naron at (713) 296-6852.

Sincerely,

Tad Herz
Assistant Controller