CONOCO

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MINERALS MANAGEMENT SERVICE
ROYALTY MANAGEMENT PROGRAM
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November 22, 1996

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

RE: Amendments to Gas Valuation Regulations for Indian Leases 61 FED.REG.49894 (September 23, 1996)

Dear Mr. Guzy:

Conoco Inc. ("Conoco") welcomes this opportunity to submit these comments to the Minerals Management Service ("MMS") with respect to the above referenced Notice of Proposed Rulemaking.

Conoco is a wholly-owned subsidiary of E.I. Dupont de Nemours and Company. In 1995, its worldwide production of crude oil, condensate, and natural gas liquids averaged 357,000 barrels per day; and its worldwide natural gas production averaged 1,351 million cubic feet per day. During the five-year period ending December 31, 1995, Conoco remitted royalty payments to the MMS in excess of $383 million.

Conoco and some of its employees are members of the American Petroleum Institute, Rocky Mountain Oil & Gas Association, and Council of Petroleum Accountants Societies -- some of which organizations are filing separate comments regarding this proposed MMS rulemaking. We adopt, and incorporate by reference, the comments as filed by these other organizations.

Conoco is also a producer on Indian Tribal and allotted lands and was also a member of the Indian Gas Valuation Negotiated Rulemaking Committee (Committee).

<u>Specific Comments</u>

206.172(b)(2)(ii) - The Committee did not agree to include gas contract settlement language. At worst, if MMS were to win the current litigation regarding gas contract settlements, this would be a safety net issue and not a monthly comparison. Because the gas contract settlement litigation is still pending, we recommend that this paragraph be deleted.

206.172(e) - While Conoco was the only industry member of the Committee to vote in favor of the safety net, we still are of the opinion that the safety net calculation reduces the certainty gained by using an index-based method. We also believe that this calculation will result in increased administrative burden to industry while the Indian lessor receives no additional royalty.

206.176(c) - The way this paragraph was written seems to indicate that producers in non-index areas must trace their gas to the burner tip. This is not what the Committee agreed to. The Committee agreed that the gas must be traced to the mainline. We recommend that what the Committee agreed be placed in the final rule.

MMS asked for specific comment on the following items:

MMS specifically would like comments on whether the Department should provide approval (royalty rate reduction) for allotted leases rather than seeking approval of the many individual allottees who may share in a single lease.

Conoco would agree that the Department should provide approval for allotted leases. We would also recommend that the Department inform the allottees of the actions taken and the reasoning for those actions.

On the minimum value for liquids proposal, MMS asked the following specific questions:

1. Is a minimum value needed when a lessee chooses the actual dual accounting method?

   Conoco does not believe that a minimum value is needed. It was demonstrated during the review of the percentage dual accounting alternative that liquid valuation was not a significant factor in the calculation.

2. Are there other methods to use?

   We do not believe a minimum value is necessary; therefore, we have no other recommendation.

3. Are Conway and Mount Belvieu the proper locations to look for prices for gas plant products?

   If you are looking for some form of gas plant liquid postings, then those are the locations to look at. Prices received for gas plant liquids in arm's length transactions in the field or area would be another measure of value for liquid products.

4. Are the 7.0 and 8.0 cents per gallon the right deductions for transportation and fractionation?

   If you are looking at price postings for Conway and Mount Belvieu, then those deductions appear reasonable.

5. Would a percentage of the price or actual rates paid be a better deduction?

   A percentage might provide more certainty but that may be difficult to develop because of price fluctuations.

Conclusion

Conoco supports the use of an index-based formula to determine royalty value. We have been using a formula method to value gas from leases on the Jicarilla Apache Reservation for approximately three years. The use of a formula method has solved a number of problems associated with gas valuation and has also improved our relationship with the Tribe.

While there are aspects of the rule we would like to see changed, we do believe the proposed rule provides the producer more certainty than the current rule.

Conoco appreciates the opportunity to comment on this proposed rule. If you have any questions or wish to discuss further, please contact me at (405) 767-5044.

Sincerely,

John E. Clark

John E. Clark

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cc:
Ray Fritz, Conoco
Darrell Gingerich, Conoco
Carol Harvey, Conoco