

January 8, 2001

Department of Interior  
Minerals Management Service  
Mail Stop 4024  
381 Elden Street  
Herndon, VA 20170-4817

**RULES PROCESSING TEAM**

**JAN 9 2000**

Attention: Rules Processing Team

Re: Minerals Management Service Proposed Rule; Relief or Reduction in Royalty Rates --  
Deep Water Royalty Relief for OCS Oil and Gas Leases Issued After 2000; 65 FR Vol.  
65, No. 222, Pages 69259-69275, November 16, 2000

Proposed Notice of OCS Sale 178, including Proposed Royalty  
Suspension Provisions, November 29, 2000

Dear Sir or Madam:

Devon Energy Production Company, L.P. (Devon) appreciates the opportunity to provide the following comments on the proposed rule changes.

1. Devon supports the new incentives for deep gas drilling on new leases in water depths of 0 – 199 meters. Devon requests that the MMS strongly consider extending this incentive to existing primary term and producing leases on the GOM Shelf. We believe this would add additional strong stimulus to drill for natural gas on the Shelf, where new discoveries can be quickly hooked up to production.
2. Devon is very concerned about the discontinuance of automatic royalty relief for leases in 200 – 800 meter water depths and requests that the MMS reconsider extending the original 1995 Act suspension volumes. As the major oil companies are shifting toward the Ultra Deep Water, the independents would like to continue to actively explore in the 200-800 meter water depths. However, the proposed changes could significantly de-emphasize this area for future leasing and drilling.

Industry believes this area contains significant resources, but most prospects are either marginally economic at shallow depths, or structurally very deep and very risky. The presence of infrastructure is good in this area; however, fiscal terms do not currently favor the independents. To remain viable, this water depth is in need of continued royalty relief. In our view, continued royalty relief is necessary for industry to dedicate the manpower and

capital resources required to aggressively explore for oil and gas in the 200 – 800 meter water depths.

Although the MMS feels there are fewer remaining unleased, undiscovered fields in the 200 – 800 meter water depths than does industry, extending the 1995 suspension volumes will encourage continued leasing and drilling activity into the future as leases turn over and become available to industry. It seems the MMS has nothing to lose by continuing incentives and may in fact encourage industry to find significant resources that can be quickly developed and benefit the nation.

3. Devon believes the proposed reduced royalty suspensions for 800 meters and greater water depths are inadequate incentives and will act to discourage independents from exploring in this frontier area. We request that the MMS reconsider extending the original 1995 Act suspension volumes.
4. Devon applauds the MMS for going to a “lease basis” for administering royalty suspension volumes for future Deep Water lease sale blocks. We encourage the MMS to consider applying the “lease basis” for existing 1996-2000 lease sale blocks that are eligible for automatic royalty relief. This would end the serious problems with “field designation”, where leases have unexpectedly lost automatic royalty relief by being assigned to an old nearby field. In so doing, the field determination process would no longer jeopardize the automatic royalty relief the MMS offered with these leases.

In conclusion, the 1995 Act was a big success over the last five years in generating exploration and production activity in the Deep Water GOM. However, some of the proposed changes will serve to discourage industry, at a time when additional drilling should be encouraged to help meet the nation’s growing energy needs and reduce our reliance on imported crude. Devon respectfully requests that the MMS reconsider and extend the 1995 Act royalty suspension volumes for all water depths greater than 200 meters.

Thank you for your consideration.

Sincerely,

DEVON ENERGY CORPORATION



J. Larry Nichols  
Chairman, President & Chief Executive Officer