



**ENERGY PRODUCTION COMPANY, L.P.**

20 North Broadway, Suite 1500  
Oklahoma City, Oklahoma 73102-8260

Telephone: (405) 235-3611  
Fax: (405) 552-4667

4

October 16, 2000

**Via UPS Overnight**

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

**RULES PROCESSING TEAM**

**OCT 16 2000**

Attention: Rules Processing Team

RE: Minerals Management Service Proposed Rule, Outer Continental Shelf Oil and Gas Leasing. 65 FR 55476-55489, September 14, 2000.

Dear Sir or Madam:

Devon Energy Production Company, L.P. (Devon) appreciates the opportunity to provide comments on the proposed rule. Devon is pleased that MMS is willing to extend some form of royalty relief for leases in waters beyond 200 meters. It is important to implement the proposed regulations in a timely manner. Devon also endorses the comments jointly submitted by NOIA, IPAA, API, DPC and USOGA.

Devon concurs with MMS comments on the importance of royalty relief to expeditiously encourage more exploration and development that would not otherwise occur. However, Devon is concerned about MMS assumptions that future smaller royalty suspensions are adequate due to higher prices, increased leasing density and other factors. As a major player in the 200 – 800 meter water depths, Devon is very concerned that any lack of royalty relief in this area will serve as a disincentive for future activity. The MMS needs to consider the following circumstances:

- While high prices may justify many projects, thus increasing activity, they will also drive up costs due to increased rig utilization, labor and equipment.
- For the smaller, high risk fields that are left after discovery of the large fields, suspension volumes, as a percentage of reserves, may need to be greater than those for large fields, to make smaller fields economic to explore.
- The operators of existing facilities in the deepwater will be recovering their costly investments by charging high tariffs rather than discounting costs to operators of leases in mature areas.

Devon supports the ongoing efforts to improve and streamline the royalty relief program available for marginal producing fields and for marginal developments on pre-Act deepwater blocks. Furthermore, Devon encourages consideration of royalty relief for shelf leases in mature

areas with high geologic risks or unexpected poor reservoir performance. These leases may involve deep or subsalt drilling operations. In many cases, the risk is higher for these types of prospects than deepwater leases and well costs are often as great as deepwater. Royalty relief could incentivize more of this type of activity on the shelf and benefit both the MMS and industry.

The following comments are in response to the questions left open to individual companies in the jointly submitted comments from NOIA, IPAA, API, DPC, and USOGA:

- Which of the following leasing policies would encourage more domestic investment, given expected rates of return, and why would it do so? One offering a: (a) Substantial royalty suspension volume coupled with higher than normal royalty rates (e.g., 20 percent) for additional production between specified cumulative production volumes; or (b) Modest royalty suspension volume but with only normal lease royalty rates for production above the royalty suspension volume?

**It is difficult to answer this question due to ambiguity as to the royalty suspension volumes (RSV's) the MMS is considering. For the close-in, more mature Flex Trend (200 – 800 meters), the smaller, riskier prospects might benefit more from larger RSV's than a low royalty rate. For deeper water depths, it is not clear which would be better.**

- What effect, if any, would rental obligations during periods of royalty-free production have on the way firms plan and manage a project?

**This would probably have a minimal effect. The MMS may want to consider capping these extended royalties for leases with minimal production, so that they do not exceed the calculated royalty without royalty relief.**

Devon appreciates the MMS working with industry to discuss and explore the issues involved with deepwater leases and the need for royalty relief. Devon looks forward to working with the MMS on the successful completion of royalty relief rules that are in the best interests of all parties. If you have any questions, please contact me at 405-552-4723.

Sincerely,



Gary McGee  
Vice President Government Relations