

We wish to make it clear that Sinclair has need for federally held oil shale reserves. To meet refinery needs, Sinclair is a large purchaser of domestic crude oil. This situation prevails despite the expenditure of nearly one-half billion dollars in the last five years on exploration, drilling, and acquisition to obtain new reserves in the United States. Despite these expenditures our new domestic reserves have not been discovered in quantity equal to our domestic consumption. Consequently, it is obvious that new sources of supply must be developed to meet Sinclair's marketing requirements and protect the investment of Sinclair's stockholders.

Sinclair's present oil shale holdings represent a sizeable potential when compared to its present crude oil reserves, but they are not large enough to provide for significant improvement in our raw material position when planning for future increased population and for national security. Therefore, we are vitally interested in acquiring additional oil shale reserves in the Piceance Basin in Colorado. Development of these reserves by private industry is necessary to maintain healthy competition among oil companies. Assurances by Congress that these reserves can be developed privately and without discrimination will be more to encourage large-scale investment and process development than would any system of government-sponsored monopoly.

Large surface acreage will be needed for water storage, plant, and waste disposal. Leasing regulations should take into account that these needs may be greater than the surface of the reserves needed for commercial operation. Much of this surface may have to be used from the beginning of development work.

LEASES

The granting of leases is the major purpose of the proposed regulations, but the basis for granting contain a number of statements and approaches which Sinclair strongly believes are unfair and would discourage development and competition.

One important section, 3172.3(b), states that "Upon the issuance of any lease hereunder the Secretary shall designate the part of the leased lands upon which the lessee will be permitted to conduct operations during the research term." Another, 3172.3(c), states in part, "At the time for the grant of any extension of the term of lease as provided in Section 3172.2(b), the Secretary will determine the quantity of mineral deposits needed for commercial production, allowing reasonable reserves."

In order to encourage the very large-scale research expenditures needed to develop commercial production techniques, companies will need assurance that if they do spend large amounts of money on research they can obtain sufficient commercial reserves to make adequate profit on the overall expenditure. This assurance is not provided by the two-step award procedure implied by the Secretary's announcement. We recommend that, upon acceptance of research plans, each lessee be granted the right to use a development tract for research, and at the same time receive an option on a specified commercial tract of its selection. The option should be exercisable by the commencement of operations on the commercial project, with diligent pursuit of those operations being a condition for retention of the lease. The decision to go commercial should rest with the organization which has spent the money on research and development work! When the research and development have proceeded to the point that commercial profitability is indicated and the company is willing to risk the further tremendous investment needed to put up a commercial plant, the development phase is completed. There is no assurance that the development program will succeed; the company should not be exposed to the additional hazard that Interior will later apply some criterion of success different from industry in general and the needs of the lessee in particular, and cause loss of the expenditures for development by denying adequate reserves for commercialization. A company needing the oil for its refineries might consider the development successful if it indicated that a project would yield an estimated return somewhat lower than that which would be required by another company which simply wanted to diversify and produce oil.

Under proposed Section 3172.2, extension of the term of leases to permit commercial production would depend on the judgment of the Secretary on such matters as whether methods are commercially feasible, whether methods provide for optimum recovery, etc. All such matters are for the most part judgeable only on a highly subjective basis, susceptible to diverse opinions among even