ROCKY MOUNTAIN OIL AND GAS ASSOCIATION,
September 14, 1967.

SENATE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
Washington, D.C.

GENTLEMEN: The Rocky Mountain Oil and Gas Association would like to submit for inclusion in the record of the hearing commencing September 14, 1967, its views with respect to oil shale, and in particular the proposed leasing regulations published by Secretary Udall on May 10, 1967.

Our Association has a membership of 470 individual and company oil and gas operators of all sizes, ranging from small independents to major oil companies. Its region of industry representation includes the states of Colorado, Wyoming and Utah, in which oil shale is found, as well as the states of Montana, South Dakota, Nebraska and Idaho.

We are pleased that the Secretary of the Interior has recommended that private industry develop the oil shale resources located on Federal lands. We believe that this decision is in the best interests of the nation, because through competitive free enterprise our natural resources have been and are now being effectively developed at low cost to the consumer.

A key reason that the American consumer enjoys the cheapest energy in the world's history is that the United States Government policies have in general been quite stable, substantially assisting long range planning. The uncertainties and restrictions contained in the proposed regulations as discussed below may well defeat the development of this great oil shale resource by private enterprise.

1. We respectfully submit that we can see no persuasive reason why research effort should be restricted to a few applicants selected by the Secretary. Government owned acreage should be made available to all qualified applicants for the sole purpose of research. The acreage could be made available for research on a basis similar to a license or prospecting permit.

2. When a lease is granted under the regulations as presently proposed, the Lessee does not know if the lease will be extended for commercial production. Furthermore, if the lease is to be subsequently extended to commercial production he does not know the extent of acreage or reserves to be covered by the extended term lease. In effect, the Department of Interior proposes to require any oil shale lessee to expend very large sums of money on research without any assurance that he will have a production lease and no knowledge of what the production lease would cover if granted. This approach is entirely without precedent and will constitute a definite deterrent to research and production. Companies will be reluctant to make the sizeable investment in research without knowing in advance both the term of the lease and the acreage covered by the lease.

3. The royalty provisions of the proposed regulations would operate to discourage investment and thereby deter competition and development. The graduated royalty scheduled based on net income, in addition to income taxes, would make it most difficult, if not impossible, to compete with other sources of energy. It would be difficult to administer and it would also operate to penalize the more efficient operators. We recommend that the lease provide for a fixed royalty rate not to exceed 5% of the gross value of the product from the retort or at the in situ wellhead.

4. The proposed regulations will operate to curtail research by not allowing a research lessee to retain the benefits of his research discoveries and thereby have an opportunity to recover his large investment. Because of this, many companies or individuals may wait for someone else to do the research and use the results without cost in a commercial operation.

If our oil shale resources are to be effectively developed to meet the need of the nation, we believe that the proposed rules should be broadened and made more flexible so as not to discourage development of this resource by restricting the entry of a broad variety of companies and other groups into the research and development of oil shale.

Our recommendations are as follows:

1. We believe that the regulations as written are unworkable as discussed above because of the complexities introduced by tying the research and commercial phases together. Nevertheless, if they are modified to eliminate some of the problems discussed above, there may be some who would desire to proceed under such a program.

2. We recommend that tracts of public lands be made available solely for research purposes, limited in size, with the provision that once the research pro-