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Manager, Revenue Accounting

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

Dear Mr. Guzy:

The following comments are in response to the MMS's November 6, 1995 proposal on "Amendments to Gas Valuation Regulations for Federal Leases", 60 FR 56007.

On the surface, the proposed rule has attempted to provide certainty and simplicity to the enormous task of establishing value for production saved, removed and/or sold from the lease, in accordance with the lease terms. However, as is evident from the proposed rule's establishment of a safety net based on an affiliates gross proceeds, the problem with the valuation regulations is the requirement to place the product in marketable condition at no cost to the Federal Government. As MMS is aware, value is added to the production at each exchange downstream. However, MMS will not accept that a marketing affiliate is adding value to the product and not just placing it in marketable condition. For instance, dehydration, desulphurization and the removal of other non-hydrocarbons enhance the value of the gas, as well as, economies of scale that make greater volumes of gas available for purchase. The value of these services are not deductible for royalty purposes because of MMS's continued reliance on the marketable condition rule. At what point, however, is marketable condition achieved. The current definition of marketable condition needs to be reconsidered. At some point this question must be addressed given that the answer will affect the "true-up" to gross proceeds under the proposed rule.

Thank you for the opportunity to participate in the decision making process.

Sincerely,

Ron L. Spratt  
Manager, Revenue Accounting

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