

# SPIRIT ENERGY 76

*New Name. Same Spirit.*  
A Business Unit of Unocal

November 4, 1997

**Via Airborne Express**

Mr. David S. Guzy  
Chief, Rules and Procedures Staff  
Minerals Management Service  
Royalty Management Program  
Building 85, Denver Federal Center, Rm. A-212  
Document Control Staff, Mail Stop 3021  
Denver, CO 80225

**Re: *Establishing Oil Value for Royalty Due on Federal Leases - 62FED.REG.49460***  
***(September 22, 1997)***

Dear Mr. Guzy:

Spirit Energy 76, a business unit of Union Oil Company of California d/b/a/ Unocal, is appreciative of the opportunity to comment on the MMS' proposed alternatives for proceeding with further rulemaking governing oil valuation for federal leases. Spirit Energy 76 ("Spirit") is a Federal lessee and because of the impact that the proposed alternatives for oil valuation would have on its royalty payments, Spirit is an interested party. As such, Spirit believes that the comments submitted herein will be beneficial to Spirit, the MMS and the industry.

**Alternative 1 - Bidout or Tendering**

Based on the information at hand, at this time Spirit does not oppose the MMS' proposed alternative of valuing production not sold arms-length based on prices that Spirit would receive for outright sales of crude oil in a particular market area or region.

**Alternative 2 - Benchmark**

Again, based on the information available, at this time Spirit does not oppose the use of a benchmark system to determine value with the particular benchmarks that are in place and included in your supplement. Spirit is not prepared to comment on whether the benchmarks should be considered in any particular order or whether the MMS should retain the gross proceeds minimum requirement of the existing regulations at this time.

**Alternative 3 - Value Based on Geographical Indexing**

Spirit is not prepared to comment on geographical indexing using the MMS' own system data or on how the MMS can verify that the values reported to its database are correct prior to publishing the information or on how the MMS can determine a value that non-arms-length producers can pay until the MMS publishes its database values.

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Based on the information available, Spirit does not believe that Alternatives 1 through 3 listed above should only apply to the Rocky Mountain Region and that "NYMEX" prices should be the basis for Mid-Continent and OCS leases and ANS prices for California and Alaska leases.

Alternative 4 - Determining Location and Quality Differentials

Spirit is opposed to the use of differentials to determine deductions. Spirit submits that proper deductions should be utilized to determine lease value if the MMS is going to use the net back method to determine value at the lease.

Alternative 5 - Spot Prices Instead of "NYMEX"

Spirit does not agree with the MMS' proposal of using published spot prices instead of the "NYMEX" to determine the value of oil. Spirit does not agree with this alternative as it employs standards not necessarily in the geographical area where the oil is produced; thereby, the prices may not reflect the actual lease value.

Spirit is in favor of the MMS taking its royalty in kind as an alternative to the proposed "NYNEX" method (or ANS in California and Alaska) and looks forward to receiving the MMS' results of its feasibility study into this type of program. Once again, Spirit appreciates and thanks the MMS for the opportunity to comment on the alternatives described above.

Should you have any questions or comments please do not hesitate to contact the undersigned at (281) 287-5087 or by facsimile (281) 287-7376.

Best regards,

Spirit Energy 76, a business unit of  
Union Oil Company of California

By: Veronica H. Roa

Veronica H. Roa

Its: Attorney

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